



Finance Department Performance Audit and Financial Expenditure Review by Matrix Consulting Group

Internal Audit Division

City Council
July 26, 2016

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BACKGROUND

1. On July 28, 2015, the City Council endorsed the City Manager's Performance and Financial Expenditure Audit Program.
2. The Program provides for rotating (every five years) comprehensive performance and financial expenditure audits of all departments, by independent experts.
3. Riverside Public Utilities, the Finance Department and the Human Resources Department were selected for FY 2015/16.



2

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BACKGROUND

1. On August 11, 2015, the City Council approved the scope of services for the audit contracts.
2. On December 1, 2015, the City Council approved the agreement with Matrix Consulting Group to conduct the performance audit and financial expenditure review of the Finance Department.



3

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Presentation of Final Report of the Finance Department by

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4

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***Financial and Performance Audit –
Finance Department***

5

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Project Overview

- ◆ **Performance of a financial and operational audit** of the Finance Department.
- ◆ **Operational audit** focused on evaluating efficiency and effectiveness of all operations of the Finance Department including:
 - Administration
 - Accounting Division
 - Financial Resources Division (Budget, Business Tax, Debt)
 - Purchasing & Risk Management
- ◆ **Financial audit** included a three year (FY2013, FY2014, FY2105) look back at financial transactions for accuracy, consistency with City policy, and appropriate supporting documentation.

6

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Project Methodologies

- ◆ **Profile development** through staff interviews and data collection document existing staffing levels, operational practices, and use of technology.
- ◆ **Best Practices Assessment** evaluated the current operations against recognized best practices from the Financial industry and high-performing organizations.
- ◆ **Stakeholder Input** through personal interviews with employees, department heads, and executive management to understand the customer's perspective on service delivery.
- ◆ **Financial audit** including conducting a high level risk assessment to identify key financial transactions, sampling from those transactions, and reviewing and evaluating individual transactions.
- ◆ **Draft documents** were reviewed with staff during the project for input.

7



Recent Improvements in Service Delivery

- ◆ Updating and tightening of the request for payment policy to increase accountability and enhance fiscal controls.
- ◆ Implementation of a two-year budget process, enhancing transparency and increasing involvement by City Departments.
- ◆ Identification of a need for a performance management program.
- ◆ Implementation of a more robust budget function incorporating enhanced revenue analysis.
- ◆ Implementation of a long-range financial planning approach.
- ◆ Modifications to the contracting process to prevent payments that exceed original contract amounts.
- ◆ Reducing the number of interfund loans and transfers.

8



Key Themes

- ◆ Lack of ownership / leadership in implementing and overseeing new financial initiatives.
- ◆ Inconsistent service levels to other City Departments.
- ◆ Information developed and provided by staff not always viewed as credible or accurate.
- ◆ Not all staff within the Finance Department were historically required to perform all duties of their positions. Many tasks handled too high in the department structure.
- ◆ Reactionary versus proactive approach to fiscal operations and new programs.

9

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Best Practices Assessment

- ◆ As part of the assessment, the Finance Department's operations were assessed to identify strengths and improvement opportunities.
- ◆ Key Strengths noted include:
 - Five-year financial plan,
 - Development of a fund reserve policy,
 - Quarterly financial report to Council and the public,
 - Two-year budgeting and planned implementation of performance measures,
 - Centralized procurement and payables functions,
 - Recent modifications to reduce use of request for payments and increase use of purchase orders / contracts to manage payment amounts.

10

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Best Practices Assessment

◆ Key Opportunities for Improvement noted include:

- Need to strengthen leadership within the department to proactively implement and oversee financial practices throughout the organization.
- Need to more effectively utilize technology to effectively and efficiently manage work activities. Multiple systems are utilized to handle different financial activities with varying levels of integration to the main financial system (IFAS).
- Need to develop a more robust and active budget function to provide needed support and services to the City organization. Revenue estimation should be reallocated to this unit. Accomplishing this will require additional staff resources.
- Need to enhance internal controls through use of purchase orders for all purchases (unless exempted by the request for payment policy) and contracts.
- Purchasing thresholds should be increased to match levels more typically seen in comparable municipal organizations.
- Position control needs to be fully implemented.

11

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Key Recommendations:

- ◆ Evaluation includes over 25 recommendations related to service delivery / operational practices, staffing, and technology.
- ◆ The following chart provides a visual of the relative strengths of different aspects of the Department:

	Budget	Business Tax	Payroll	Accounts Payable	Accounts Receivable	Treasury	Purchasing	Risk Management
Service Level	Red	Green	Red	Yellow	Yellow	Green	Yellow	Red
Workload/Staffing	Yellow	Green	Red	Green	Yellow	Green	Yellow	Green
Technology	Yellow	Green	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow

12

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Key Recommendations:

◆ Finance Administration:

- An improved forecasting model is needed for revenues and expenditures to provide robust multi-year projections for planning efforts.
- Improve strategic support to operating departments through budget monitoring ongoing reporting, and communication of City fiscal condition on a quarterly basis.
- Coordinate performance measurement development and program implementation.

13

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Key Recommendations:

◆ Financial Resources:

- An enhanced budget staff, with a complement of five positions, will be needed to provide the level of service and analysis needed for the City of Riverside including taking over revenue projections.
- Greater analysis of City department budget requests and revenue projections for reasonableness.
- Assist in the development of the performance measures for each City department.
- Prepare and discuss with City departments on a quarterly basis the status of their budget.
- Fully implement position control.

14

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Key Recommendations:

◆ Payroll:

- Track requests for time corrections and retroactive payments to enable proactive efforts, including training, for repeat violators.
- Consider options to provide a more confidential work area for dealing with employees.

◆ Accounts Payable / Receivable:

- Periodic review of request for payment policy and modify as appropriate to maintain strict fiscal controls over direct payments.
- Develop program to increase vendor utilization of electronic payments including policy changes to require use where appropriate.

◆ Treasury:

- Reduce opening balances of register draws, restrict petty cash transactions, and implement formal policy prohibiting shared cash drawers.

15



Key Recommendations:

◆ Purchasing:

- Require use of purchase orders for most items, including all contracts, to limit the use of request for payments.
- Update and increase procurement thresholds.
- Increase the review of bid specifications to provide support to operating departments and ensure appropriate specifications are utilized.
- Review all contracts for compliance with insurance requirements prior to final execution.
- Implement a formal vendor performance evaluation process.
- One additional position may be required to fully implement all recommended changes.

◆ Risk Management:

- Implement software for tracking and managing claims.

16



Key Recommendations:

◆ Financial Compliance:

- Most issues identified in the financial compliance review have been addressed by the City and related to policies existing at the time that enable inappropriate use of requests for payments, didn't require a robust review and approval process of contracts prior to issuance, and didn't effectively utilize purchase orders to encumber funds and limit payments to contract amounts.
- Minor issues identified regarding insufficient documentation to support requests for payments made.
- Recommendations to further strengthen internal controls and policies were previously outlined.

17

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Next Steps / Questions

◆ Initial assessment by Finance staff of the 28 recommendations:

- Agree 24
- Evaluating 3
- Disagree 2

- ◆ Staff will be developing an implementation plan based upon the findings and recommendations.

◆ Questions?

18

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RECOMMENDATION

That the City Council:

1. Review the findings and recommendations of the external auditor for the Performance Audit and Financial Expenditure Review of the Finance Department;
2. Receive and file the initial assessment of the findings and recommendations prepared by the Finance Department; and
3. Direct the Finance Department's staff to return in September 2016 with an Action Plan.



19

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