CITY OF MILPITAS

MEMORANDUM ON INTERNAL CONTROL

FOR THE YEAR ENDED
JUNE 30, 2019

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CITY OF MILPITAS
MEMORANDUM ON INTERNAL CONTROL

For the Year Ended June 30, 2019

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MAZE & ASSOCIATES

MEMORANDUM ON INTERNAL CONTROL

To the City Council of
the City of Milpitas, California

We have audited the basic financial statements of the City of Milpitas, California, for the year ended June 30, 2019, and have issued our report thereon dated November 18, 2019. Our opinions on the basic financial statements and this report, insofar as they relate to Terrace Gardens, Inc., are based solely on the report of other auditors. In planning and performing our audit of the basic financial statements of the City, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control included as item 2015-02 on the Status of Prior Year Significant Deficiencies to be a significant deficiency.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

Management responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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This communication is intended solely for the information and use of management, City Council, others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
November 18, 2019

CITY OF MILPITAS
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SCHEDULE OF OTHER MATTERS

2019-01 <u>Reconciliation of Parking Citations to Collections</u>

The City's Police Department contracts with Phoenix, a third-party administrator, to process and collect fees associated with parking citations. The City mails out the original parking citations to Phoenix for the processing of collections and delinquencies. On a monthly basis, the third-party will send a report along with the collected fees to the Finance Department. The parking citations provided to Phoenix should be reconciled to the collection fees remitted to the City on a monthly, or at least quarterly, basis.

Per inquiry with Police department and Finance department personnel, it appears the City does not perform a reconciliation between citations sent to Phoenix and citation fees remitted to the City from Phoenix.

Without a reconciliation and review process, there is an increased risk of cash receipt interception and uncollectible receivables.

The Police Department and the Finance Department should develop a reconciliation process to ensure all citation collections are properly captured and recorded by the City.

Management's Response:
Finance has worked with the Police Department to develop a monthly reconciliation process. Once Police sends the citation tickets to a third party for processing, a listing of citations will then be submitted to Finance and Finance will compare the information to the remittances in the Phoenix software. This process was effective April 2019.

2019-02 <u>Compliance with CAL-Card Manual and Procedures over Review and Approval of Monthly Statements</u>

The City's CAL-Card Manual dated August 25, 2017 requires that monthly Statement of Accounts must be reviewed, reconciled, and approved by the Cardholder and Approving Official within a maximum of 10 working days from the Cardholder's receipt of the Statement of Account.

We reviewed the Statements of Accounts for the City Manager and two Department Heads for two billing cycles each, for a total of six Statements, and noted that although the Statements did include documentation that they had been reviewed, five out of the six were not reviewed within the 10 working day requirement as follows:

- City Manager: the periods ending 9/24/18 and 10/22/18 were not signed and reviewed until 2/7/19 and 2/6/19, respectively.

- Building and Housing Director: the period ending 9/24/18 was not signed until 12/4/18.

- Planning Director: the periods ending 12/24/18 and 2/22/19 were not reviewed until 1/17/19 and 4/2/19, respectively.

SCHEDULE OF OTHER MATTERS

2019-02 Compliance with CAL-Card Manual and Procedures over Review and Approval of Monthly Statements (Continued)

In addition, for the City Manager's two statements we understand the Finance Department was initially provided with photocopies of the statements so payment could be processed, but the approved statements were not remitted until February 2019.

Delays in reviewing and approving Statements results in a delay in Accounts Payable processing the Statements for payment to the U.S. Bank, and potential fraudulent charges not being reported timely.

The City should ensure all employees with CAL-Cards submit their Statement of Accounts and supporting documents to within 10 working days of receipt of the statement. In addition, follow-ups and reminders must be made to applicable employees to ensure compliance is maintained.

Management's Response:
The City is developing a process to improve timely submittal of approved monthly statements.

NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

The following comment represents new pronouncements taking affect in the next few years. We cite them here to keep you informed of developments:

EFFECTIVE FISCAL YEAR 2019/20:

GASB 84 – *Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

SCHEDULE OF OTHER MATTERS

GASB 84 – *Fiduciary Activities (Continued)*

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

GASB 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61)*

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

SCHEDULE OF OTHER MATTERS

EFFECTIVE FISCAL YEAR 2020/21:

GASB 87 – *Leases*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

GASB 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*

The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

SCHEDULE OF OTHER MATTERS

EFFECTIVE FISCAL YEAR 2021/22:

GASB 91 – *Conduit Debt Obligations*

The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having *all* of the following characteristics:

- There are at least three parties involved:
  - (1) an issuer
  - (2) a third-party obligor, and
  - (3) a debt holder or a debt trustee.

- The issuer and the third-party obligor are not within the same financial reporting entity.

- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.

- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.

- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

GASB 91 – *Conduit Debt Obligations (Continued)*

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.

- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.

- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

How the Changes in this Statement will Improve Financial Reporting

The requirements of this Statement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognize assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby improving comparability in reporting by issuers. Revised disclosure requirements will provide financial statement users with better information regarding the commitments issuers extend and the likelihood that they will fulfill those commitments. That information will inform users of the potential impact of such commitments on the financial resources of issuers and help users assess issuers' roles in conduit debt obligations.

STATUS OF PRIOR YEAR SIGNIFICANT DEFICIENCIES

2015-02 Vendor Database Review

Good internal controls require that employees with access to the City's assets not have access to the City's accounting records for the same assets. As an example, employees with access to the vendor database should not also have access to processing accounts payable. If segregation of those duties is not possible, changes to the vendor database should be reviewed and approved by another employee who does not process accounts payable.

During our review of the Accounts Payable process, we noted the Accounts Payable clerks who process disbursements also have access to makes changes to the vendor database, but the changes are not reviewed and approved by a second appropriate employee.

We understand that the City has not designated staff to review the vendor database changes. Without an independent review, the City is exposed to the risk of ghost vendors and/or unauthorized changes to vendor accounts.

The City should remove the access to the vendor database from the Accounts Payable clerks. In the event this segregation of duties is not feasible, then changes to the vendor database should be reviewed and approved by an employee who does not have access to the database on a regular basis, such as prior to each check run.

Current Status:
The City worked with the Financial system Vendor to create a new vendor log so that the Senior Accountant in charge of Accounts Payable was able to develop a process to review the new vendor log on a weekly basis. This new process was implemented effective June 2019.

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STATUS OF PRIOR YEAR
OTHER MATTERS

2018-01 Timely Review of Monthly Treasurer's Reports

Timely review and approval is an important element of the City's internal control structure. In order to be an effective control, the Treasurer's Report should be prepared and subsequently reviewed for accuracy in within 30-45 days after month-end.

We reviewed the October 2017 and January 2018 Treasurer's Reports and noted that they were not reviewed until January 26, 2018 and April 9, 2018, respectively, which is more than 45 days after month-end. And, the date of preparation was not documented, so we were unable to determine if they were prepared timely.

Update for June 30, 2019 Audit:

We reviewed the July 2018 and January 2019 Treasurer's Reports and noted that they were prepared timely, but not reviewed until October 18, 2018 and March 2, 2019, respectively, which is more than 45 days after month-end.

A delay in the review and approval of investment reconciliations increases the risk of errors and other misstatements not being detected and corrected in a timely manner. The City should develop procedures to ensure investment reconciliations are reviewed in a timely manner, and the date of preparation should be documented.

Current Status:
Currently, the monthly Treasurer's Report is prepared and reviewed by City staff. Finance has transitioned the review of the monthly Treasurer's Report from one Senior Accountant to another Senior Accountant to align with staff capacity. Further, as approved in the FY 2019-20 Adopted Operating Budget, Finance issued a Request for Proposal to outsource Investment Services which includes the preparation of the monthly Treasurer's Report. If the contract for outsourcing the investment function is approved by Council, then Finance staff will only have to review the monthly report.

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STATUS OF PRIOR YEAR
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2018-02 Quarterly Review of Investment Securities and Documentation of the Review

The Safekeeping of Securities Section of the City's Investment Policy adopted on August 1, 2017 requires that securities held in custody for the City be reviewed and verified quarterly by Finance staff that has not been assigned to the investment function.

We understand that the monthly investment reports are reviewed by a Senior Accountant that is not involved with the investment function for 8 months of the year; however, we also understand approval of the reports is made verbally and no written documentation is provided to support the review and approval. And, the four quarter-end reports are not reviewed by the Senior Accountant due to the short amount of time between completion of the investment report and inclusion of the report on the City Council agenda.

Finance staff indicated that the time constraints to present the quarterly Treasurer's Reports to Council prevent the review of those reports by a staff member that is not assigned to the investment function. In addition, formal documentation of the review of the reports throughout the year by that staff member is not in place.

The City is not in compliance with the Safekeeping of Securities review provision of the Investment Policy. The City should develop procedures to ensure the investments held in custody for the City are reviewed and verified quarterly by a staff member that is not involved with the investment function, and that evidence of the review is documented in a formal manner.

> ***Current Status:***
> Currently, the monthly Treasurer's Report is prepared and reviewed by City staff. Finance has transitioned the review of the monthly Treasurer's Report from one Senior Accountant to another Senior Account to align with staff capacity. Further, as approved in the FY 2019-20 Adopted Operating Budget, Finance issued a Request for Proposal to outsource Investment Services which includes the preparation of the monthly Treasurer's Report. If the contract for outsourcing the investment function is approved by Council, then Finance staff will only have to review the monthly report.

STATUS OF PRIOR YEAR
OTHER MATTERS

2018-03 Compliance with CAL-Card Manual – Periodic Audits of Credit Card Statements

The City has a Manual and a number of Standard Operating Procedures (SOPs) that govern the use of City-issued credit cards. In response to the prior year issues related to the City's CAL-Card program, the City adopted a new CAL-Card Manual dated August 25, 2017. The new Manual requires that the Finance Department periodically perform audits on all credit card statements to determine compliance with City of Milpitas policies and procedures

We inquired about whether City staff is performing the periodic audits on credit card statements and we understand that outside of the monthly review completed by the Approving Officials and Accounts Payable staff, no such audits are being performed. However, we also understand that the Accounts Payable staff were unaware that the review of each credit card statement was supposed to serve as the audit required by the Manual.

Without a periodic audit of the credit card statements, there is an increased risk that prohibited purchases may be made and not caught in a timely manner, and the City is not in compliance with the provisions of its CAL-Card Manual.

The City should develop procedures to ensure the periodic audits of all credit card statements are completed and documented, or revise the CAL-Card Manual to reflect current procedures in place.

Current Status:
The City is developing a process to improve timely submittal of approved monthly statements.

2018-04 Retention of Retiree Personnel Files to Support Pension and Other Post-Employment Benefits (OPEB) Census Data File

The City must maintain personnel records to ensure the accuracy of pension and OPEB census data files.

We selected fifty-three active personnel for the pension plans and twenty-five active and retiree personnel for testing of eligibility to receive benefits and inclusion in the census data files based on various criteria, including newly eligible employees during the period to the census data, active employees and retirees in the census data and active employees in the payroll register to trace to census data.

During our testing, we noted that 21 former employee personnel files could not be located.

The 21 missing personnel files could not be located by the Human Resources Department, because the files were beyond the records retention policy. However, City staff located information to support that the retiree or separated employee had been previously employed by the City.

STATUS OF PRIOR YEAR
OTHER MATTERS

2018-04 Retention of Retiree Personnel Files to Support Pension and Other Post-Employment Benefits (OPEB) Census Data File (Continued)

The City must develop record keeping, review and reconciliation procedures to ensure the pension and OPEB census data is supported, up to date and accurate. In the event the City records retention policy does not provide for retention of personnel files for retirees still receiving benefits, at a minimum, the policy should be revised to require the retention of personnel data to support the documentation of eligibility to receive the benefits.

Current Status:
The City will develop procedures to ensure the pension and OPEB census data is supported, up to date and accurate. All personnel who were separated from the City after January 1999 will be kept in the City's Enterprise Resource Planning (ERP) system.

2016-05 Information Systems Best Practices

We conducted an Information Systems Review with our audit which encompassed the City's financial information system and the network environment that houses it. We expanded our work in previous years beyond simply looking at financial information systems as a result of greater risks of unauthorized access caused by overall industry growth of web-based commerce and internet based financial systems. Internal controls that are present in the overall network environment have become more important and relevant to understanding the internal controls over the financial system. We believe Information System controls must be continuously improved and enhanced to stay ahead of the ever increasing sophistication of hackers and criminals.

Currently, there are no Information Systems standards to which local governments are required to conform. Indeed there are a wide variety of informal guidelines and suggested controls from many different organizations which local governments can use to implement appropriate controls to ensure adequate security over information technology. A voluntary risk-based Cybersecurity Framework has been developed by the National Institute of Standards and Technology (NIST) per Presidential Executive Order 13636 (12 FEB 2013). The *Framework for Improving Critical Infrastructure Cybersecurity* version 1.0 (12 FEB 2014) offers a number of appropriate standards. Our Information Systems auditors have reviewed the voluntary framework and concluded that the risk management framework developed by NIST for the Federal Information Security Management Act (FISMA) is the most appropriate for local governments[1]. The NIST risk management framework represents the minimum security requirements for federal government agencies and recommends these controls for private industry and state and local governments.

While the results of our work did not indicate material weaknesses, we noted a few areas which could be improved. A summary of these recommendations which we believe are "best practices" are as follows:

[1] "State, local, and tribal governments, as well as private sector organizations are encouraged to consider using these guidelines, as appropriate." NIST SP 800-37 Rev 1 pg 11

STATUS OF PRIOR YEAR
OTHER MATTERS

2016-05 **Information Systems Best Practices (Continued)**

Payment Card Industry Compliance
The City is not in compliance with the Payment Card Industry Data Security Standard (PCI-DSS). Any organization that processes credit cards is required to comply with PCI-DSS, even if the processing is outsourced. Failure to meet compliance requirements results in higher transaction fees and liability if a security breach is found. Because the City accepts credit cards as a form of payment, the City must be compliant with the applicable controls.

Business Continuity Planning with Regards to Information Technology
The City does not have a formal written information technology business continuity policy. As organizations rely more and more on information technology and electronic data storage for an increasingly wider scope of processes, it becomes more and more important to develop a plan to make those resources available during and after some form of disaster. A formal disaster recovery business continuity policy serves to show management's intent and due diligence for the continuity of operations. A disaster recovery policy or contingency plan should address what to do in case of a disaster and how to prepare for a disaster that cripples or closes the computer center such as a fire, flood, natural or manmade disaster. The City should consider developing and implementing an IT contingency plan which would include procedures for periodic information backup and offsite storage, along with an alternative processing site that would allow the City to continue to operate in the event of a disaster.[2]

> ***Current Status:***
> *Payment Card Industry Compliance* – Implemented.
>
> *Business Continuity Planning with Regards to Information Technology* – The City implemented its Business Continuity Plan in December 2018. But since then, the City implemented some major changes to its infrastructure, like moving Exchange and Office applications to Office 365. The City is currently working on moving servers and data services to virtualization and to the Cloud. Due to these changes, the City will be working with Mission Critical Partners on developing and implementing new Disaster Recovery and Business Continuity Plan.

2015-05 **Finance Personnel Super-User Rights**

Good internal controls are based a segregation of duties, and no one finance employee should have access to an asset and the controlling documentation that supports that asset. Ideally, one employee should retain authorization to use an asset and another employee should maintain the records over that asset. Super-user rights give an individual the potential to obtain both of these functions. Due to the reasons mentioned above, Finance staff should not normally be allowed to have super-user rights in the City's general ledger system.

We understand that the City is in the process of upgrading the Cayenta general ledger system and the Accounting Manager was granted with Super-User rights for the convenience of system implementation. However, we recommend the City remove the Super-User login access to Finance staff immediately upon completion of the upgrade. And, additional review/approval procedures may be necessary to mitigate any potential control risks during the time those staff have such rights.

[2] For more information see "Contingency Planning Guide for Information Technology Systems" NIST SP 800-34.

STATUS OF PRIOR YEAR OTHER MATTERS

2015-05 Finance Personnel Super-User Rights (Continued)

In the future, City should review the necessity of granting any employee the super-user rights to the financial system. For any module within the financial system that these employees do not need to edit, their access should be limited to read-only.

Current Status:
City reviews on a regular basis a few processes in order to make sure that staff with super-user rights are unable to create new vendors or increase their own pay rate.

2015-06 Periodic Review of the General Ledger Access Log

Employee access to the various modules of the General Ledger must be monitored periodically to ensure that the access of each individual is appropriate according to their specific job duties.

As we recommended in 2011 and 2013, due to the new system implementation in 2011, City staff found that the Access Log was not readily available in one document in the system. A document as important as this should be readily available to City staff throughout the year. The Access Log is an important tool for the City to monitor employee access to the financial system.

We understand that the City has worked with the software provider, Cayenta, to provide an Access Log from the financial system and it was expected to be available as of May 2013. However, the Log is still in the testing phase and the City is still working with Cayenta to determine how a concise report of employee access to the key financial functions and duties can be produced.

A designated managerial staff should review the system access periodically to ensure that access to the various system modules is authorized and appropriate.

Current Status:
The City has dedicated a staff member to work with the financial system vendor to provide a security access report.