

REPORT TO CITY COUNCIL

DATE: JANUARY 13, 2010

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

FROM: GREG RAMIREZ, CITY MANAGER

BY: CHRISTY PINUELAS, DIRECTOR OF FINANCE

SUBJECT: RESOLUTION NO. 10-1570; AMENDING SECTIONS II AND IV OF THE CAL-CARD PROGRAM AND SECTION I AND VI OF THE PROCEDURES FOR THE INDIVIDUAL CARDHOLDER

The purpose of this report is to receive approval to amend Sections II and IV of the Cal-Card Program and Sections I and VI of the Procedures for the Individual Cardholder of the Cal-Card Program in order to better comply with the management letter comments given to the City during the 2008/09 audit.

Although there were no findings of misuse of any City credit cards, in order to limit our exposure to the possibility of misuse, the City auditors made a recommendation that we implement several changes to our credit card use.

The City received a management letter, from Macias, Gini & O'Connell, LLP, which has previously been distributed to the City Council (see attached). As a part of that letter, it was recommended that the number of credit cards issued be limited to certain key employees in order to minimize the risk of potential fraud or misuse of City funds. In a meeting with the Finance Committee, it was decided that in order to comply with that recommendation, staff will be eliminating/canceling 35% of City issued credit cards and reducing the limits on the majority of those left open. In addition, all cards that are not used frequently are now kept in the vault in the Finance Department.

In addition, the Finance Committee reviewed the Cal-Card Program and determined that several sections needed to be amended. Section II of the Cal-Card Program currently does not include examples of allowable expenditures for the Cal-Card. The Finance Committee recommended language to include the following allowable examples of expenditures: Vehicle fuel; City supplies; Food for City events; Approved subscriptions; Approved memberships and dues; and approved travel/conferences/meetings. Additionally, under procedures for the individual cardholder, currently, the City Manager and Finance Director's limits of \$15,000 per 30-day period are not listed. These limits, which are greater than others allowed, are set to account for emergency situations. Finally, the old procedures reference our previous card issuer and the new procedures have been updated to include the new contact information for our current credit card issuer, U.S. Bank.

RECOMMENDATION

It is respectfully recommended the City Council approve Resolution No. 10-1570, amending Sections II and IV of the Cal-Card Program, and Sections I and VI of the Procedures for the Individual Cardholder of the Cal-Card Program.

Attachments: Management Letter, Cal-Card Program Policy, Resolution No. 10-1570



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The Honorable City Council of
the City of Agoura Hills, California

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Agoura Hills (City), California as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 1, 2009. In planning and performing our audit, we considered the City of Agoura Hills' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. In connection with our audit, we noted the following items relating to internal control over financial reporting which are discussed below.

YEAR-END CLOSING PROCEDURES

Comment/Recommendation:

During our documentation of year-end closing process, we noted that the City does not have a written documentation of the year-end close process or procedures. We recommend the City develop a formal year-end closing schedule that assigns responsibilities and timing requirements for all the major tasks required at the end of each fiscal year in connection with preparation for the annual audit.

Management Response:

Although the City's software includes instructions that are utilized for year-end closing procedures the City does not maintain its own written documentation. The City will, however, agree to this recommendation and develop written instructions for the process of year-end closing within the 09/10 fiscal year.

CREDIT CARDS

Comment/Recommendation:

During our documentation of the credit card policy, we noted that the City issues a credit card to all full time employees. Although the City has proper policies and procedures in place to ensure controls over the credit card usage, we recommend the City limit the use of credit cards to certain key employees in order to minimize the risk of potential fraud or misuse of City funds.

Management Response:

The City has agreed to take the auditor's recommendations and has submitted a revised policy that will eliminate/cancel 35% of City issued credit cards and reduce the limits on the majority of those left open. In

addition, all cards that are not used frequently (daily or weekly) are now kept in the vault in the Finance department.

RISK ASSESSMENT AND MONITORING OVER FINANCIAL REPORTING

Comment/Recommendation:

In our management letter for the June 30, 2008 audit, we noted the following comment, which we are repeating in the current year.

The City has a fiduciary responsibility as a steward of public funds. In order to fulfill this responsibility, the City has implemented internal controls that serve as the first line of defense in safeguarding assets. Additionally, these controls are designed to ensure: (1) effective and efficient operations, (2) reliable financial reporting and (3) compliance with applicable laws and regulations.

The Committee on Sponsoring Organizations of the Treadway Commission (COSO) has established a nationally recognized framework for internal control in its *Internal Control – Integrated Framework* and its related *Guidance for Smaller Public Companies: Reporting on Internal Controls over Financial Reporting*. The COSO framework establishes five elements of internal control: (1) Control Environment; (2) Risk Assessment; (3) Control Activities; (4) Information and Communication; and (5) Monitoring. Risk assessment and monitoring are integral parts of internal control and management should periodically evaluate the risks and monitor the changes facing the City. This process involves evaluating both previously identified risks and potential new risks and providing assurance that (1) controls are designed properly to address significant risks and (2) controls are operating effectively.

Effective for the 2008 audit, the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) adopted a set of eight Statements of Auditing Standards (SAS No. 104 through 111), which, among other things, require auditors to assess an organization's design of controls and determine whether the controls have been placed in operation for all elements of internal control over financial reporting. If controls do not exist, are poorly designed or not operating effectively, the auditor must evaluate the control deficiency and report the deficiency to management, including whether the control deficiency is a significant deficiency or material weaknesses.

In response to these new standards, for our 2008 audit we recommended that the City's management document its internal controls over significant accounting areas (e.g. cash receipts and cash disbursements), review and expand its existing internal control assessment process, and formalize a comprehensive risk assessment plan, which would include monitoring the adequacy and effectiveness of internal control procedures. The City is in process of documenting its internal control surrounding its major processes; however, it is not complete.

We recommended the City continue to build on its initial assessment and evaluate the risks of the City's operating environment and develop a written contingency plan relating to the City's Information Technologies (IT) processes. In the event of loss of City staff or ability to process IT normally, the City should have a written plan to ensure that IT functions are not interrupted.

Management Response:

The City will evaluate the risks of the City's operating environment and continue to develop a written contingency plan relating to the City's Information Technologies processes.

INFORMATIONAL

New Government Auditing Standard (GASB) Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*

In February 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 significantly changes the accounting and financial reporting for the City's fund balance classifications and categorization of individual funds. This standard requires the City to evaluate and recast its fund balance classification based on a hierarchy weighed on the extent to which the City is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This standard also provides guidance for classifying stabilization ("rainy day") amounts on the face of the balance sheet and would require disclosure of certain information about stabilization arrangements in the notes to the financial statements. In addition, the definitions of individual governmental fund types have been clarified whereby the City's use of special revenue funds and capital project funds could be recast. It is possible that this standard will change the City's current fund structure and this standard should be reflected in the City's June 30, 2011 operating budget. The requirements of this standard are effective for the fiscal year ending June 30, 2011.

Investment Policy

The City's investment policy indicates that deposits in Certificates of Deposits are insured up to \$100,000 by the Federal Deposit Insurance Corporation. Effective in November 2008 (after the approval of the City's fiscal year 2009 investment policy), the standard insurance amount for governmental accounts was increased to \$250,000 per official custodian. The City should update their future investment policies accordingly. The \$250,000 limit is temporary for all governmental accounts through December 31, 2013. On January 1, 2014, the standard insurance amount will return to \$100,000 per official custodian for governmental accounts.

The American Recovery and Reinvestment Act of 2009 (ARRA Funds)

The American Recovery and Reinvestment Act of 2009 (the Recovery Act) provides approximately \$300 billion dollars in additional federal funds which will be passed down from federal agencies to state and local governments and institutions of higher education. These federal funds are intended to either supplement existing federal programs, create new programs, or to provide more broad fiscal relief.

The Recovery Act mandates that there be an unprecedented amount of oversight and transparency over the spending of all funds associated with it. The Office of Management and Budget (OMB) set up a web site to be the central point for the transparency part of the mandate. Also, the OMB issued guidance to the federal agencies regarding how they should carry out programs and activities relating to the Recovery Act that promotes timeliness and accountability. The OMB guidance addresses many issues and responsibilities including the following:

- Recipients are generally required to clearly distinguish Recovery Act funds from non-Recovery Act funds.

- Federal agencies designated Recovery Act programs as high-risk for single audit purposes.
- There is extensive quarterly reporting to federal agencies required from recipients of Recovery Act funding, which will be due within 10 days of each calendar quarter-end.
- Federal agencies are required to initiate additional oversight to address the unique implementation risks of the Recovery Act. The expectation in this area is that federal agencies will establish defined strategies to prevent or timely detect waste, fraud, or abuse.
- Federal agencies will also use the single audit process as a means of promoting accountability for Recovery funds.
- The Federal Audit Clearinghouse (FAC) is also required to make publicly available on the internet all single audit reports filed with the FAC for fiscal years ending September 30, 2009, and later.

Based on the information above, it is clear the Recovery Act funds will have a significant impact on your single audit. While the Recovery Act may not have an immediate impact on your June 30, 2009 single audit, it is likely that it will have a significant impact over the following two fiscal years. Therefore, the City should begin planning and assessing risks associated with the receipt, spending and reporting of Recovery Act funds. Specifically, you should consider the following:

- Whether control procedures in place over federal expenditures are appropriate, operating effectively, designed to detect and prevent unallowable expenditures, and designed to detect or prevent fraud and abuse.
- Whether the existing staffing resources are adequate to address the increased reporting and monitoring requirements as a result of the Recovery Act. Also, the Entity (name of organization) should identify individual(s) who will monitor requirements and provide consistent guidance to the organization.
- Whether additional controls and system requirements will be needed to ensure that Recovery Act funds can be separately identified and tracked.
- Whether new controls will need to be established to meet the stringent reporting requirements to federal agencies.

If Recovery Act funds will be passed down to subrecipients, that controls are in place to ensure appropriate subrecipient monitoring and also whether any new controls will need to be established related to new subrecipient reporting responsibilities.

This report is intended solely for the information and use of the City Council, management of the City of Agoura Hills and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We would like to express our appreciation for the courtesy and assistance extended to us during our audit by all of your staff.

The Honorable City Council of
the City of Agoura Hills, California
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We would be pleased to discuss with you at your convenience the matters contained in this letter or any other matters which you would like to discuss.

Macias Jini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

December 1, 2009



CAL-CARD PROGRAM

I. GENERAL INFORMATION

The City of Agoura Hills uses various methods to procure goods and services. These methods, such as petty cash, travel advances, requisitions, meet most needs. To further improve purchasing options, the City has started a bank card project with US Bank through a contract with the State of California Cal-Card Program. **THE CARD IS FOR OFFICIAL CITY OF AGOURA HILLS BUSINESS ONLY. NO PERSONAL EXPENSES MAY BE CHARGED TO THE CARD. THERE ARE NO CHANGES IN PURCHASING POLICY AS A RESULT OF THE PROGRAM.**

A number of unique controls have been developed for this program which does not exist in a traditional credit card environment. These controls ensure that the card be used only for specific purchases and within specific dollar limits. In addition, certification of all purchases is required by each cardholder, with verification performed by the approving official before payment is made to the bank.

II. RESTRICTED OR PROHIBITED USES

The following items are the types of items **not authorized** under this program:

Alcoholic Beverages	Wire transfers, Money Orders	Insurance Services
Cash Advance	Foreign Currency	Security Brokers
Airphone	Betting, Casino Gaming Chips	Timeshares
Religious Organizations	Political Organizations	Tax Payments
Court Costs	Alimony, Child Support	Fines
Bail and Bond Payments	Government Loan Payments	Savings Bonds

Splitting of purchases to circumvent the individual purchase limitation.

The following are examples of allowable expenditures:

Vehicle fuel	Approved subscriptions
City supplies	Approved membership and dues
Food for City events	Approved travel/conferences/meetings

III. DEFINITIONS

- A. **CARDHOLDER:** The Cardholder is the person whose name is on the bank card. The Cardholder is authorized to make purchases of authorized commodities and obtain services on behalf of the Department. Cardholders shall be familiar with

City of Agoura Hills procurement policies and restricted uses of this card. The bank will have no individual Cardholder information other than the Cardholder's work address. No credit records, social security numbers, etc., are maintained.

- B. DEPARTMENTAL APPROVING OFFICIAL: The Departmental Approving Official is the person assigned by the individual departments who will review the monthly statement of account of their subordinates prior to authorizing payment by Finance. The Approving Official is required to verify that each purchase complied with the program requirements and balances with the documentation submitted to them by the Cardholder. The Approving Official must have the working knowledge of the various items purchased.

IV. ISSUANCE OF BANK CARDS

US Bank is the bank card contractor selected by the State of California who will be issuing the bank cards to the selected employees. All Cardholders, prior to receiving their cards, will be required to sign acknowledging their understanding of the policy they are to follow with the receipt of the bank card.

V. PROGRAM AUDIT

The Finance Department will perform an audit of documentation submitted under this program. The audit will be performed monthly upon receipt of all documentation at the time monthly payment is made to US Bank to continually monitor the effectiveness of the program.

PROCEDURES FOR THE INDIVIDUAL CARDHOLDER

I. RESPONSIBILITY

The Cardholder is personally responsible for ensuring that the bank card is used appropriately and that all purchases of commodities and services are within their individual authority. Cardholder must follow the City of Agoura Hills procurement and contracting procedures and policies. The Maximum limits are as follows:

Maximum of \$3,000.00 per transaction.

Maximum of \$5,000.00 per 30-day period per card.

City Manager and Finance Director carry a maximum of \$15,000 per 30-day period.

II. OBTAINING GOODS OR SERVICES

Cardholder uses the purchase card to purchase goods or services in person or by telephone.

III. SECURITY OF BANK CARD

Cardholder is responsible for the security of the bank card.

IV. BANK CARD INVOICE

- A. Whether the purchasing transaction is by telephone or in person, the Cardholder shall require the vendor to **itemize the receipt or invoice**. If the receipt or invoice is not itemized, write in the quantity and price of each item or type of service and total dollar amount and have the sales person sign it. (**NOTE: The merchant should put something other than “miscellaneous” for description**). If an order is made through the mail or by telephone, maintain a copy of the order form when a receipt is not available.
- B. Upon receipt of the bank card receipt/invoice, Cardholder is responsible for recording the budget account number on the receipt/invoice as a reference.
- C. Cardholder maintains the **original receipt/invoice** for attachment to the monthly statement of account.
- D. Individual receipts/invoices smaller than 4 ¼” x 5 1/2” must be taped on an 8 ½” x 11” sheet of paper.
- E. If the Cardholder has lost a receipt/invoice, it is their responsibility to contact the vendor and request a duplicate copy.

- F. If the Cardholder is unable to determine they have all of the required vendor receipts/invoices, then the Cardholder must write the name of item(s) purchased, quantity and unit price of the items purchased or type of service on a separate memo indicating no receipt was issued and attach this memo to their monthly statement of account.

V. BANK STATEMENT

- A. Each Cardholder will receive an individual monthly statement of account.
- B. Cardholder is required to reconcile the monthly statement of account with their receipts/invoices.
- C. The Cardholder is responsible for attaching the **original receipts/invoices** to the monthly statement of account. The receipt/invoices will be in the order they are listed on the monthly statement of account.
- D. The Cardholder is personally responsible for contacting the Bank Contractor on questionable items billed or disputed items which appear as a transaction on the bank statement. Contact the 24-hour Customer Service Support Center at (800) 344-5696 “*”, or (701) 461-2042 “*” (collect).

It will be the Cardholder’s responsibility to follow up on all of their questionable or disputed items.

- E. Chargeback (or credit) receipts should be kept by the Cardholder until the credit transaction shows up on their monthly statement of account. Chargeback (or credit) receipts then should be attached to that monthly statement of account.
- F. Cardholder will enter the proper budget account and purchase description on the face of the statement on the lines provided. Receipts should be attached to the statement in the same order as they appear on the statement.
- G. Cardholder shall approve/sign/date the monthly statement of account. On the statement, there is a signature and date line for the cardholder on the back of the statement.
- H. Within three (3) working days after receipt of the statement from the bank, Cardholder is to attach receipts/invoices and other documentation to the statement and forward it to their approving official for review and approval. Cardholder shall make sure all receipts, etc. are attached and forwarded.

VI. REPORTING OF LOST BANK CARD

Cardholder will immediately make three contacts. These are the Bank Contractor, your Approving Official and the Finance Department. Provide the complete Cardholder name (as was shown on the bankcard), the card number, and date Bank Contractor was notified.

- A. Contact the Bank Contractor.
24 hours a day/7 days a week access: (800) 344-5696 “*”, or (701) 461-2041 “*” (collect). Provide the following information: the complete Cardholder name, the date reported to the police (if applicable), and any purchases made on the day the card was lost or stolen. Replacement cards will be mailed within one week of such notice.

- B. Notify your Approving Official and the Finance Department designated person. Provide the same information as designated above.

PROCEDURES FOR APPROVING AUTHORITY

I. RECONCILE BANK STATEMENTS

- A. The Approving Official will be sent Business Account Summary (R090). This is a composite statement of all the individual Cardholders the Approving Official is responsible for who have used their credit cards in the last billing period.
- B. Upon receipt of the individual cardholder's monthly statement(s) and attached documentation, the Approving Official will be responsible for the following:
 - 1. Reconcile the statements and documentation received from each Cardholder with the Approving Official's R090 Business Account Summary.
 - 2. Reviewing charges to ensure that purchases or services are appropriate and not on the prohibited lists and proper documentation (invoices/receipts) is included.
 - 3. Review the budget coding of each transaction on the Cardholder's bank statement to insure that the expense is charged under the appropriate budget expense account.
 - 4. Approving, signing, and dating the Cardholder's statements (a line for the Approving Official's signature is provided on the back of the statement).
 - 5. The Approving Official will be responsible for any Cardholder on leave or travel to ensure that their statement is reviewed and all appropriate receipts affixed.

II. DISPUTED ITEMS

All items which are disputed will not be deleted by Finance from the Cardholder's account. The Approving Official will be responsible for insuring that each Cardholder has resolved any disputed items and received credits, etc. which will appear on a future statement.

PROCEDURES FOR FINANCE DEPARTMENT

I. ACCOUNTING

The City of Agoura Hills Finance Department will be responsible for the payments to the credit card company for all of the statements of accounts received from the various approving officials for each month.

II. PURCHASING

Finance will periodically review the records for the individual types of purchases made by cardholders. Requests for changes in the allowable purchase options or procedures will be reviewed annually to provide maximum benefit to the departments and maintain necessary budgetary controls.

RESOLUTION NO. 10-1570

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF AGOURA HILLS, CALIFORNIA AMENDING SECTIONS II AND IV OF THE CAL-CARD PROGRAM AND SECTION I AND VI OF THE PROCEDURES FOR THE INDIVIDUAL CARDHOLDER

THE CITY COUNCIL OF THE CITY OF AGOURA HILLS, CALIFORNIA, HEREBY FINDS, RESOLVES, AND ORDERS AS FOLLOWS:

SECTION 1. Cal-Card Program, Section II, be amended to add: “The following are examples of allowable expenditures: Vehicle fuel; City supplies; Food for City events; Approved subscriptions; Approved memberships and dues; Approved travel/conferences/meetings.”

SECTION 2. Cal-Card Program, Section IV, be amended to replace the “Rocky Mountain Bank Card System” with “U.S. Bank”.

SECTION 3. Procedures for the Individual Cardholder, Section I, be amended to add: “City Manager and Finance Director carry a maximum of \$15,000 per 30-day period.”

SECTION 4. Procedures for the Individual Cardholder, Section VI, be amended to update the contact phone number for the bank contractor listed in section A.

PASSED, APPROVED, and ADOPTED this 13th day of January, 2010, by the following vote to wit:

AYES: (0)
NOES: (0)
ABSENT: (0)
ABSTAIN: (0)

William D. Koehler, Mayor

ATTEST:

Kimberly M. Rodrigues, City Clerk