

FINANCE DEPARTMENT
OPERATIONAL REVIEW

CONFIDENTIAL
DRAFT REPORT
UNDER ATTORNEY-CLIENT
PRIVILEGE

SOUTH PASADENA, CA

AUGUST 16, 2018



This page was intentionally left blank

TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
Executive Summary	1
Financial Information – Current and Prior Fiscal Years	3
South Pasadena General Fund	3
General Observations of Finance Department Operations	4
Leadership	7
Adequacy of Existing Staff	8
Potential Department Reorganization	9
Supplemental Staffing	9
Morale	9
Productivity	10
Customer Service	10
Future Finance Department Challenges	10
Revenue Challenges	11
Rising CalPERS Costs	11
Process Improvement Development and Implementation	11
Section 1—Introduction	13
1.1 Purpose of Study	13
1.2 Project Approach and Research Methodology	14
1.3 General City Overview	16
1.3.1 Financial Information – Current and Prior Fiscal Years	17
1.4 Finance Department Best Practice and Performance Measures	22
Section 2—Finance Department Operational Review	27
2.1 Background	27
2.1.1 Finance Department Organization and Functional Responsibilities	27
2.1.2 Finance Department Past Financial Activity	31
2.1.3 Staffing Strengths and Weaknesses	32
2.1.4 Perception of Finance Department by Other Departments	34
2.2 Management Level Review of Finance Department Functions and Performance	35
2.2.1 Budget	35
2.2.2 Audit and Internal Control	37
2.2.3 Payroll	40
2.2.4 Accounts Payable	44
2.2.5 Business Licensing, Accounts Receivable, and Cash Receipts	49
2.2.6 Grants, Utilities, and Special Projects	56
2.2.7 Treasury/Investments	57
2.2.8 Filming	59
2.3 General Department-Wide Issues and Observations	60
2.3.1 Staff	60
2.3.2 Financial Management Software and Equipment	65
2.3.3 Fiscal Policies	66
Section 3—Benchmarking Information	69
3.1 Comparative City Selection Approach	69

3.2	Results of Benchmarking	70
3.2.1	Population Based Benchmarks	70
3.2.2	Neighboring Cities Benchmarks	70
3.2.3	Previously Used Comparator Agency Benchmark	71
Section 4—Future Financial Management Challenges		73
4.1	Future Finance Department Challenges	73
4.1.1	Revenue Challenges.....	73
4.1.2	Rising CalPERS Costs	73
4.1.3	Process Improvement Development and Implementation	74
Section 5—Summary of Findings / Recommendations / Next Steps		75

Table of Tables

Table 1—FY 16/17 and FY 17/18 Unassigned General Fund Balance	4
Table 2—FY 16/17 and FY 17/18 Unassigned General Fund Balance	19
Table 3—Five-Year Comparison of Components of General Fund Balance	20
Table 4—Five-Year General Fund Revenue and Expenditure – Budget versus Actual	21
Table 5—Five-Year Finance Department Expenditures (Budget versus Actual)	32
Table 6—Population Based Benchmarks	70
Table 7—Neighboring Cities Benchmarks.....	71
Table 8—Previously Used Comparator Agency Benchmarks.....	72
Table 9—Findings and Recommendations with Priority Ranking	76

Table of Figures

Figure 1—City of South Pasadena Organizational Chart	17
Figure 2—General Fund Revenue versus Expenditure Actual – Five-Year Comparison.....	22
Figure 3—Finance Department Organizational Chart	27

Appendices

Appendix 1	Multi-Year Budget Versus Actual – General Fund – Expenditures by Department
Appendix 2	Multi-Year Budget Versus Actual – General Fund – Expenditures by Category
Appendix 3	Benchmark Agency Comparisons – Population-Based
Appendix 4	Benchmark Agency Comparisons – Neighboring Cities
Appendix 5	Benchmark Agency Comparisons – Previously Used Comparator Agencies

EXECUTIVE SUMMARY

The City of South Pasadena (City) contracted with Citygate Associates, LLC (Citygate) to provide a review of the City's Finance Department (Department) operations to identify potential improvements and to provide mentoring services due to recent key staff turnover. Citygate spent time on site to conduct interviews, interface with staff, observe organizational processes and procedures, and research and access Department documents and information. The scope of this independent, third-party organizational review includes the following elements:

- ◆ Examination of the Finance Department's organizational structure and assessment of key management staff, administrative strengths, and areas in need of improvement.
- ◆ Review of the Finance Department's operational functions and workflow processes to identify overall strengths and weaknesses to provide recommendations for streamlining procedures and processes.
- ◆ Interviews with applicable City personnel to determine the effectiveness of the Finance Department's workflow processes and adherence to financial and operational policies and procedures.
- ◆ Review of pertinent Department-driven documents and reports to determine adequacy, necessity, and timeliness.
- ◆ Identification of best practices and performance measures for the Department (i.e., long-range fiscal planning, training, and succession planning).
- ◆ Provision of professional guidance and mentoring to key management staff as needed during the engagement.
- ◆ Provision of status updates every other week to the Project Manager and City Manager outlining progress and potential issues during the engagement.
- ◆ Development and presentation of a Draft Report of all findings and recommendations for review by the City.
- ◆ Delivery of the Final Report to the City.

The approach used to complete this review consisted of a combination of on-site analysis (an average of three days per week) and off-site analysis, which included the following tasks:

- ◆ Document Review – An extensive number of documents relating to the Department were reviewed to help gain an understanding of the formal written operational policies and procedures currently in place at the City.

- ◆ Interviews – In addition to reviewing documents, various interviews were conducted with key City staff to gain an understanding of how processes are carried out from the perspectives of the individuals within the Department who are responsible for providing services, as well as the various external departments that receive services. The interviews helped to identify strengths and weaknesses of the Department and/or finance-related Citywide processes and procedures.
 - The positions of Finance Director and Assistant Finance Director were not interviewed because they were no longer with the City at the start of this engagement. Due to the extenuating circumstances relayed by City management, it was determined that interviewing these individuals would not change the findings and recommendations of the report.
- ◆ Job Shadowing – As a secondary method to validate the procedures shared during the various interviews of Department staff, job shadowing was conducted with some of the Department positions, including Accounts Payable, Payroll, and Cash Receipts.
- ◆ Mentoring and Guidance – Professional guidance, mentoring, and feedback were provided to Department staff and other key City staff relating to various City finance issues, such as budget preparation, auditing, state reports, operational processes, and training.

The research methodology also included review of various municipal finance organizational websites, including the California Society of Municipal Finance Officers, Government Finance Officers Association (GFOA), International City/County Management Association, Governmental Accounting Standards Board, and Los Angeles County Economic Development Corporation, as well as State and Federal organizational websites, including the California State Controller, California Department of Finance, California Public Employees' Retirement System (CalPERS), and US Census Bureau. Additionally, various comparable city websites were reviewed to provide comparative data for this report.

South Pasadena is located approximately six miles northeast of downtown Los Angeles on the west side of the San Gabriel Valley between the Cities of Pasadena, San Marino, Los Angeles, and Alhambra, and it has a population of 25,992. Founded in 1874 by the Indiana Colony, the City encompasses 3.44 square miles and was incorporated as a general law City of the State of California on March 2, 1888. South Pasadena is noted for its beautiful, historically significant homes on tree-lined streets, for its excellent public schools, and for a small-town atmosphere in the midst of greater Los Angeles.

The City is a full-service general law City that operates under the Council-Manager form of government. The City Council consists of five members elected to four-year staggered terms of

office. The Mayor is selected from the City Council members and serves a one-year term. The City's other elected officials are the City Treasurer and City Clerk, each of whom serve a four-year term of office.

The City provides a full range of services, including police and fire protection; the construction and maintenance of streets and other infrastructure; sewer services; water utility; refuse collection; public improvements; planning and zoning; recreational activities and cultural events; library operations; and general administrative and support services.¹

FINANCIAL INFORMATION – CURRENT AND PRIOR FISCAL YEARS

The City's fiscal year (FY) 17/18 budgeted expenditures total approximately \$59 million, including budgeted General Fund expenditures of approximately \$27.4 million. The City has 147 authorized full-time employees and 92 part-time employees whose maximum work hours range between 18 and 28 hours per week. As of the time of this report, the City had 14 vacancies.

South Pasadena General Fund

For FY 17/18, budgeted General Fund expenditures of approximately \$27.4 million are supported by anticipated revenues of approximately \$26.7, resulting in an anticipated operating deficit of approximately \$700,000. It is anticipated that this deficit, if it materializes, will be addressed with available fund balance.

The following table represents the anticipated unassigned fund balance at the end of FY 17/18 based on the FY 16/17 Comprehensive Annual Financial Report (CAFR) and the FY 17/18 Adopted Budget.

¹ City of South Pasadena FY 16/17 Comprehensive Annual Financial Report

Table 1—FY 16/17 and FY 17/18 Unassigned General Fund Balance

Budget Component	Value
FY 16/17 Ending Total General Fund Balance ¹	\$16.6 million
Less: FY 16/17 Reservations of Ending General Fund Balance ¹	\$6.9 million
FY 16/17 Ending Unassigned General Fund Balance ¹	\$9.7 million
Budget Component	Value
FY 17/18 Beginning Total General Fund Balance	\$16.6 million
Less: FY 17/18 Budgeted Reservations of General Fund Balance ²	\$5.4 million
Less: FY 17/18 Anticipated Operating Deficit ²	\$0.7 million
FY 17/18 Anticipated Ending Unassigned General Fund Balance	\$10.5 million

¹ Per Comprehensive Annual Financial Report.

² Per budget document.

The anticipated ending FY 17/18 Unassigned General Fund balance reflected in the table above is supported based on the FY 16/17 CAFR and City FY 17/18 unaudited year-end reports. Based on discussions with City staff, it appears that the lower amount reflected in the FY 17/18 budget document was meant to represent the amount required per the City’s reserve policy.

The anticipated FY 17/18 unassigned General Fund balance amount listed in the previous table would be approximately 40 percent of anticipated revenues, which meets the GFOA’s best practice recommendation and the City’s reserve policy of at least 30 percent of General Fund revenues.

Although the City’s unassigned fund balance is relatively healthy, potential major impacts must be considered, such as the rising costs of CalPERS and other cost increases and revenue loss caused by voter action and/or economic downturns. CalPERS has adopted a plan that would lower the earnings rate (discount rate) assumption used to develop city contribution rates over the next couple of years from 7.375 percent to 7 percent. This will increase future CalPERS costs to the City. This impact is discussed in more detail later in this report. Additionally, a measure that would repeal the City’s Utility Users Tax (UUT) has qualified for the November ballot. The City’s UUT represents approximately 13 percent of General Fund revenues. Losing this revenue without a replacement source will require significant services reductions. This item is also discussed in more detail later in this report.

GENERAL OBSERVATIONS OF FINANCE DEPARTMENT OPERATIONS

The following is a summary of some of Citygate’s general observations of the Department. Specific discussions of the results of the review, in addition to specific findings and

recommendations, are reflected in the body of the report. A summary of the specific findings and recommendations can be found in **Section 5** of this report.

- ◆ Staff feels that the prior Department leadership was not supportive or helpful to them in the performance of daily duties.
- ◆ External training and internal cross-training was, for the most part, discouraged by the prior Department head if there was any cost involved with the training. This has resulted in a lack of sophistication concerning financial operations of a municipal finance department and a reluctance to implement new ideas.
- ◆ The prior Department head tended not to share operational information with Department staff or other departments, causing Department staff to feel they were on their own and should not push for changes, and causing other departments to feel financially uninformed.
- ◆ Some of the Department employees seemed to have used this situation as an excuse for poor customer service, a lack of initiative to improve processes and/or procedures in their respective areas, and a lack of accountability.
- ◆ The upgrade of the Springbrook financial system was poorly implemented. Too few staff were trained on the system, and those who were trained either were not trained on all of the applications and capabilities of the system or have forgotten their training. This has resulted in an inefficient use of the system and a barrier to determining if the system has the capabilities needed to improve operational productivity.
- ◆ Although Citygate found several written policies and procedures, they are incomplete, outdated, or ineffective, and are not located in a central place that would make them easy to find. They are scattered in various electronic and hard-copy forms and are not enforced or understood by City departments.
- ◆ Improvement of the knowledge of the financial system coupled with a revamping of various policies and procedures will help to make large improvements in productivity and reduce the need to add staff.
- ◆ There are some potentially major internal control issues due to a combination of the number of staff, a lack of adequate leadership and training, weak or non-existent written policies and procedures, and a lack of consistent application and adherence to rules. Examples include daily cash receipting not being performed consistently, resulting in a large backlog of unprocessed checks, consistently delayed bank reconciliations, and delayed journal vouchers to reflect wires and

other direct deposits, as well as repeating CAFR management letter comments with no resolution.

- ◆ The Department should be restructured to revise positions to help the Department operate more efficiently. The details of the proposed restructure are included in **Section 2** of this report.
- ◆ An externally facilitated team-building program is needed to help acclimate the new Finance Director and current staff and create an efficient team.

The Finance Department accounts for all City expenditures, administers business licensing, manages several competitive grants in collaboration with other departments, prepares the biweekly payroll, prepares payment of all obligations for review and approval by the City Council, and sends out approved check warrants. In conjunction with, and subject to, the independent certification of the City independent audit firm, the Department prepares the City's Comprehensive Annual Financial Report. The Department also prepares annual reports for the State Controller and other State and Federal agencies. Under the direction of the City Manager, the Department prepares the City's annual budget. The Department oversees the utility billing function for the City's approximately 7,000 accounts for all water, refuse, and sewer fees. The Department works with the City Treasurer and the Finance Committee regarding the various financial issues the City must consider. As required by the Government Code, monthly investment reports are provided to the City Council and Finance Commission summarizing investment holdings and rates of return on investments. The Department also manages the film permitting process. Per the FY 17/18 budget, the Department consists of the following divisions:

- ◆ Filming
- ◆ Payroll
- ◆ Accounts Payable
- ◆ Business Licensing and Accounts Receivable
- ◆ Grants, Utilities, and Special Projects

These five divisions are staffed by the following nine full-time positions:

- ◆ Finance Director
- ◆ Assistant Finance Director
- ◆ Film Liaison
- ◆ Account Technician
- ◆ Payroll Coordinator

- ◆ Two Senior Account Clerks
- ◆ Management Analyst
- ◆ Management Assistant

The Department also assists in budget creation and monitoring and the coordination of the various audits of the City, and it performs the City's treasury function in conjunction with the City Treasurer.

The Department's operating budget for FY 17/18 totaled approximately \$2.8 million. Included in the budget is approximately \$918,000 for non-departmental costs, which represent costs that are not dedicated to a particular department and approximately \$1.15 million for the utility billing function, which is reported in another fund. The remaining approximately \$700,000 is the net General Fund operating cost for the Finance Department per the FY 17/18 budget document. Placing non-departmental costs in the Finance Department is not unusual in City government due to the Finance Department being the primary Department responsible for formulating the budget.

Leadership

Citygate interviewed all Department staff and City department heads regarding the prior leadership of the Finance Department. Due to the current lack of a Finance Director or Assistant Finance Director, Citygate ask the interviewees to discuss the previous leadership, as well as the current leadership, which consists of an acting Finance Director, who is also the Human Resources Director, and a Management Analyst, who is in the City Manager's office but formerly worked in the Finance Department handling grants and assisting with budget preparation. Based on the interviews of all Department staff, department heads, the City Manager, and other pertinent City staff, the following major common themes regarding the previous leadership of the Department were identified:

- ◆ Inadequate employee support
- ◆ Insufficient knowledge sharing with employees and other departments
- ◆ Lack of employee encouragement
- ◆ Lack of succession planning for employees
- ◆ Reluctance to approve training or allow implementation of process improvements
- ◆ Inconsistent application of rules and procedures
- ◆ Reluctance to take disciplinary action when necessary to correct inappropriate employee behavior

These themes created a general feeling of isolation on the part of Department employees. This atmosphere could also encourage non-productive employees to be even more non-productive because of the belief that they will not be confronted by leadership. The lack of clear and enforced financial policies and procedures has exacerbated an already unproductive situation.

The comments regarding the current interim leadership staff were somewhat subdued, but mostly positive and considered an improvement over the previous leadership.

Based on the comments received, it is crucial that the new Finance Director have strong leadership characteristics. The individual should be knowledgeable and have the willingness to share that knowledge and mentor employees. Another key characteristic would be the ability to clearly and understandably convey information to Department staff, other City departments, the City Council, and the public. The new director should encourage well-thought-out continuous improvement ideas and not be afraid to take appropriate disciplinary measures when appropriate.

Adequacy of Existing Staff

After numerous staff interviews, a review of Department operations, and staffing comparisons to other comparable agencies, the number of staff currently authorized for the Department seems appropriate, although it is on the higher end of the range. However, the positions should be restructured to improve Department effectiveness. Additionally, the numerous manual processes currently used by Department staff unnecessarily increase the workload burden. Citygate believes that reducing the manual processes through the increased use of the Springbrook financial system modules will increase overall staff productivity. A key first step is that the City understands the capabilities of the financial system and revise and document the applicable financial operating policies and procedures.

Additionally, the City should review its current policy of a 9/80 work schedule while remaining open all business days, at least in the Finance Department. This policy creates a “skeleton crew” in the Department on Fridays. If someone is out sick, is on vacation, or has an emergency, staff coverage can be severely diminished, especially at the counter. Another issue created by the inefficiencies caused by the numerous manual processes is the potential need for employees to work overtime to accomplish their duties. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Some options to consider include remaining open longer during the week and closing on Fridays, or eliminating the 9/80 schedule for the staff members responsible for counter service. Of course, these types of changes would require meetings to confer with the applicable labor groups.

Potential Department Reorganization

Although the number of staff seems to be adequate for the Department, a restructuring of the Department and appropriate job descriptions should be considered. A review of various comparable cities reflects various departmental structures for the Department, but very few with a staff size and General Fund budget of the City retain the position of Deputy or Assistant Finance Director. The job description for the Assistant Finance Director for the City contains the duties typical of that of an accounting manager or fiscal services manager in other comparable cities. Other staff changes are also recommended to help increase overall efficiency of the Department. Additionally, the current divisions or functional areas of the Department could be revised to be more descriptive and more effective. The detail of the restructure recommendations is discussed later in this report.

Supplemental Staffing

A staff revision suggestion which does not involve staffing levels within the Department, but would indirectly assist the operations of the Department, is to create a position whose responsibilities would include special projects, such as assisting with the budget preparation, reviewing organizational effectiveness throughout the City, administrating and coordinating grants acquired by the various departments, and creating a Citywide grant policy or other policies/procedures determined to be needed as a result of periodic operational reviews within City departments. It is recommended that this position be a part of the City Manager's office, with sufficient authority through the City Manager to ensure the position is part of the City's management team. Making this position part of the City Manager's office will allow for easy rotation among departments when completing various Citywide or department-specific projects. This will assist the Finance Department with ensuring policies are being followed in the departments, share the burden of budget development, assist with surprise audits that Department staff could not complete, and provide an opinion that is external to the Finance Department on operational issues.

Morale

Interviews with Department staff revealed relatively low morale. Numerous factors contribute to this situation. Some of the key factors included lack of support from the former Finance Director; inadequate or lack of training, both external training and internal cross-training; uncertainty due to the departure of the Finance Director and Assistant Finance Director; and the lack of consistent procedures. One observation made by Citygate was that the staff felt they were in a situation where they had to make it on their own without help from anyone. Citygate suggested to City management that Finance staff, as frequently as possible, be updated on plans that would affect them during this transition period and be invited to share their opinion as to what the staff believes is needed to help them through the transition. City management staff quickly acted on the suggestion, and it seemed to have made a positive change in overall morale.

Productivity

Citygate has observed that staff productivity is reduced due to the lack of training, inconsistent or non-existent written policies and procedures, and the ineffective use of the Springbrook financial system, which results in the use of inefficient manual processes. Another area that has an adverse impact on productivity is outdated and very general job descriptions. Job descriptions should be in sufficient specificity to ensure each employee understands the general responsibilities and duties for which he/she will be held accountable. Vague or outdated job descriptions, at a minimum, lead to staff confusion regarding their respective responsibilities but can also lead to manipulation by staff to avoid accountability by granting them an excuse for abstaining from a specific task because it is not part of the job description. To maintain confidentiality, Citygate did not review evaluation documentation of the Department staff; however, Citygate was informed by City staff that the City began using the NeoGov evaluation program to have employee evaluations include goals and objectives. Changes relating to this area will require the City to meet and confer with labor groups.

Customer Service

Customer service should be a very high priority for municipal finance departments as it is one of its main functions. Although “Outstanding customer-friendly service” is a core value of the City, none of the departments have established and documented goals and objectives regarding how they are achieving this or any of the core City values. Some of the operational issues adversely affecting customer service observed by Citygate include cumbersome manual operational procedures, untimely production of financial reports for City departments and residents, and inconsistent application of rules. These issues are all contrary to meeting the City’s customer service core value.

FUTURE FINANCE DEPARTMENT CHALLENGES

There is always a learning curve for a new finance director of a city. The City of South Pasadena hired Citygate to provide an analysis to help shorten that learning curve by providing a basic overview and review of the Finance Department to assist the new director in acclimating to the Department more quickly. This report will also help the new director identify and prioritize issues to develop action plans. What follows are some of the management challenges. This list is by no means intended to be all inclusive. There are numerous challenges looming for finance departments in the upcoming years, including infrastructure backlogs and funding, state and federal laws, economic downturns, potential labor issues, etc. The following items are some of the more obvious.

Revenue Challenges

General Fund revenues have an average annual growth of approximately \$850,000, or 3.4 percent, over the last five fiscal years. However, a Utility Users Tax (UUT) repeal ballot measure has qualified for the November 2018 ballot. The UUT is based on a tax on utilities of 7.5 percent and brings in approximately \$3.4 million, or 13 percent, of General Fund revenues. If the measure were to pass, services would need to be significantly reduced to maintain a healthy General Fund with appropriate reserves.

Rising CalPERS Costs

In an effort to maintain the fiscal health of the CalPERS retirement system, CalPERS has implemented several changes that have increased pension costs and, in some cases, reduced future benefits. Each member of CalPERS contracts with the system to provide a level of benefits. For the City, as with most CalPERS member agencies, the level of benefits is developed through labor negotiations with the agency's various labor groups. Using various actuarial assumptions and methodologies, CalPERS develops the cost to provide the benefit level desired by the City. Adverse changes to these actuarial assumptions and methodologies implemented by CalPERS over the past few years will significantly impact pension costs for all CalPERS member agencies. One of the significant adverse assumption changes is the CalPERS board's decision to lower its assumed discount rate. The discount rate represents the rate CalPERS assumes it will earn on its investments. The lower the assumed earnings rate, the lower the assumed asset growth available to cover anticipated pension costs. In December 2016, the CalPERS board voted to lower the assumed discount rate from 7.5 percent to 7 percent using a three-year phase-in beginning with the June 30, 2016 actuarial valuations. Based on the rates provided by CalPERS, for FY 18/19 alone, this phased-in assumptions change will increase pension cost for the City by approximately \$550,000 in the General Fund.

Process Improvement Development and Implementation

In reviewing the Department information for prior fiscal years, Citygate found that several of the operational issues identified in this report, such as policies and procedures, had been addressed in past years. Unfortunately, the information and previous procedures are scattered through numerous folders throughout the Finance system and had not been updated in several years. They are also not always in a format that is currently used. Although this is not ideal, it at least provides some basis on which to build and update to address some of the issues identified by the Finance Department review. Benefiting from this information, however, will require extensive review, research, and consolidation to create a useful manual that can be adopted by the City.

Citygate identified 36 findings and 44 recommendations as a result of the review of the City's Finance Department. Findings and recommendations are itemized throughout this report and summarized with suggested implementation priority timelines in **Section 5** of this report.

This page was intentionally left blank

SECTION 1—INTRODUCTION

1.1 PURPOSE OF STUDY

The City of South Pasadena (City) contracted with Citygate Associates, LLC (Citygate) to provide a review of the City's Finance Department (Department) operations to identify potential improvements and to provide mentoring services due to recent key staff turnover. Citygate spent time on site to conduct interviews, interface with staff, observe organizational processes and procedures, and research and access Department documents and information. The scope of this independent, third-party organizational review includes the following elements:

- ◆ Examination of the Finance Department's organizational structure and assessment of key management staff, administrative strengths, and areas in need of improvement. Findings and recommendations concerning personnel were confidentially provided to the City Manager and Human Resources Director.
- ◆ Review of the Finance Department's operational functions and workflow processes to identify overall strengths and weaknesses to provide recommendations for streamlining procedures and processes.
- ◆ Interviews with applicable City personnel to determine the effectiveness of the Finance Department's workflow processes and adherence to financial and operational policies and procedures.
- ◆ Review of pertinent Department-driven documents and reports to determine adequacy, necessity, and timeliness.
- ◆ Identification of best practices and performance measures for the Department (i.e., long-range fiscal planning, training, and succession planning).
- ◆ Provision of professional guidance and mentoring to key management staff as needed during the engagement.
- ◆ Provision of status updates every other week to the Project Manager and City Manager outlining progress and potential issues during the engagement.
- ◆ Development and presentation of a Draft Report of all findings and recommendations for review by the City.
- ◆ Delivery of the Final Report to the City.

The report is structured to provide the incoming Finance Director with a working document that can be used to shorten the new Director's learning curve related to the operations of the Finance Department to expedite productivity.

1.2 PROJECT APPROACH AND RESEARCH METHODOLOGY

The approach used to complete this review consisted of a combination of on-site analysis (an average of three days per week) and off-site analysis, which included the following tasks:

- ◆ Document Review – An extensive number of documents relating to the Department were reviewed to help gain an understanding of the formal written operational policies and procedures currently in place at the City.
 - The budgets from the past five fiscal years
 - The Comprehensive Annual Financial Reports (CAFRs) and management letters from the past three fiscal years
 - Documents included on the Finance Department shared drive
 - Hard copy fiscal policies and/or written procedures relating to financial operations (e.g., internal controls)
 - Job descriptions of all Finance Department employees
 - Financial reports developed by the Finance Department, including mid-year updates, from the past three fiscal years and the current fiscal year to date
 - City and Departmental organizational chart and responsibilities
 - Labor agreements relating to Department personnel
 - Workers' compensation and other risk management claims activity related to the Department
 - Various external economic and financial documents (California Public Employees' Retirement System reports, LA County Economic Development Commission, etc.)
 - Various City Council and Finance Commission meetings/agenda
 - Sections of the City's Municipal Code related to the Department
 - Other items necessary to develop an understanding of City and Finance Department operations
- ◆ Interviews – In addition to reviewing documents, various interviews were conducted with key City staff to gain an understanding of how processes are carried out from the perspectives of the individuals within the Department who are responsible for providing services, as well as the various external departments

that receive services. The interviews helped to identify strengths and weaknesses of the Department and/or finance-related Citywide processes and procedures. The interviews conducted included:

- City Manager
- Assistant to the City Manager
- Management Analyst (Budget Officer)
- All current Finance Department staff
 - Account Payable
 - Payroll
 - General Accounting (including temp agency employee)
 - Business License
 - Utility Billing
 - Film Coordination
- Human Resources Director
- Police Chief
- Fire Chief
- Public Works Director
- Planning / Community Development Director
- External Auditor
- City Treasurer
- Community Services Director
- Other external City personnel

The positions of Finance Director and Assistant Finance Director were not interviewed because they were no longer with the City at the start of this engagement. Due to the extenuating circumstances relayed by City management, it was determined that interviewing these individuals would not change the findings and recommendations of the report.

- ◆ Job Shadowing – As a secondary method to validate the procedures shared during the various interviews of Department staff, job shadowing was conducted with

some of the Department positions, including Accounts Payable, Payroll, and Cash Receipts.

- ◆ Mentoring and Guidance – Professional guidance, mentoring, and feedback were provided to Department staff and other key City staff relating to various City finance issues, such as budget preparation, auditing, state reports, operational processes, and training.

The research methodology also included review of various municipal finance organizational websites, including the California Society of Municipal Finance Officers, Government Finance Officers Association (GFOA), International City/County Management Association, Governmental Accounting Standards Board, and Los Angeles County Economic Development Corporation, as well as State and Federal organizational websites, including the California State Controller, California Department of Finance, California Public Employees’ Retirement System (CalPERS), and US Census Bureau. Additionally, various comparable city websites were reviewed to provide comparative data for this report.

1.3 GENERAL CITY OVERVIEW

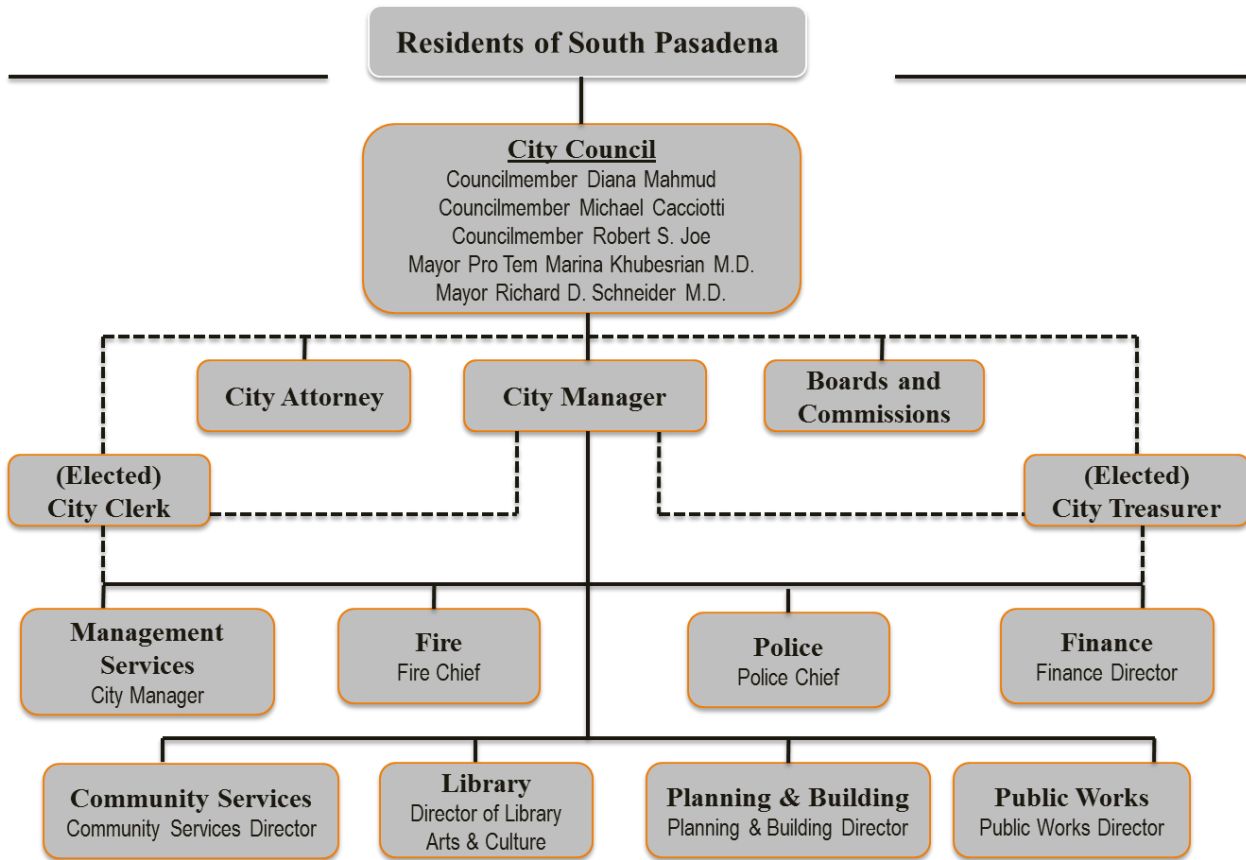
South Pasadena is located approximately six miles northeast of downtown Los Angeles on the west side of the San Gabriel Valley between the Cities of Pasadena, San Marino, Los Angeles, and Alhambra, and it has a population of 25,992. Founded in 1874 by the Indiana Colony, the City encompasses 3.44 square miles and was incorporated as a general law City of the State of California on March 2, 1888. South Pasadena is noted for its beautiful, historically significant homes on tree-lined streets, for its excellent public schools, and for a small-town atmosphere in the midst of greater Los Angeles.

The City is a full-service general law City that operates under the Council-Manager form of government. The City Council consists of five members elected to four-year staggered terms of office. The Mayor is selected from the City Council members and serves a one-year term. The City’s other elected officials are the City Treasurer and City Clerk, each of whom serve a four-year term of office.

The City provides a full range of services, including police and fire protection; the construction and maintenance of streets and other infrastructure; sewer services; water utility; refuse collection; public improvements; planning and zoning; recreational activities and cultural events; library operations; and general administrative and support services.²

² City of South Pasadena FY 16/17 CAFR

Figure 1—City of South Pasadena Organizational Chart



1.3.1 Financial Information – Current and Prior Fiscal Years

The City’s fiscal year (FY) 17/18 budgeted expenditures total approximately \$59 million, including budgeted General Fund expenditures of approximately \$27.4 million. The City has 147 authorized full-time employees and 92 part-time employees whose maximum work hours range between 18 and 28 hours per week. As of the time of this report, the City had 14 vacancies.

South Pasadena General Fund

For FY 17/18, budgeted General Fund expenditures of approximately \$27.4 million are supported by anticipated revenues of approximately \$26.7, resulting in an anticipated operating deficit of approximately \$700,000. It is anticipated that this deficit, if it materializes, will be addressed with available fund balance.

Fund balance represents reserves that have accumulated and can be used for specific expenses where revenues are insufficient. Per standards established by the Government Accounting Standards Board, which sets national governmental accounting standards, fund balance should be segregated into the following five classifications:

- ◆ Non-spendable – includes amounts that cannot be spent because the amount supports other entity assets, such as inventories.
- ◆ Restricted – includes amounts that can be spent only for the specific purposes stipulated by constitution, by external resource providers, or through enabling legislation.
- ◆ Committed – includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority.
- ◆ Assigned – includes amounts for government-specific purposes but do not meet the criteria to be classified as restricted or committed.
- ◆ Unassigned – includes all residual spendable amounts not contained in the other classifications.

The GFOA is a nationally recognized organization that identifies and provides best financial practice recommendations to municipal organizations. The GFOA recommends that unassigned fund balance in the General Fund be maintained at a level that is at least two months, or approximately 17 percent, of General Fund revenues or expenditures. As of FY 16/17’s Comprehensive Annual Financial Report (CAFR), the City’s unassigned General Fund balance totals approximately \$9.7 million. This equates to approximately 37 percent of revenues. This is in line with GFOA best practice recommendations and the City’s policy of an unassigned fund balance of 30 percent of revenues.

The following table represents the anticipated unassigned fund balance at the end of FY 17/18 based on the FY 16/17 CAFR and the FY 17/18 Adopted Budget.

Table 2—FY 16/17 and FY 17/18 Unassigned General Fund Balance

Budget Component	Value
FY 16/17 Ending Total General Fund Balance ¹	\$16.6 million
Less: FY 16/17 Reservations of Ending General Fund Balance ¹	\$6.9 million
FY 16/17 Ending Unassigned General Fund Balance ¹	\$9.7 million
Budget Component	Value
FY 17/18 Beginning Total General Fund Balance	\$16.6 million
Less: FY 17/18 Budgeted Reservations of General Fund Balance ²	\$5.4 million
Less: FY 17/18 Anticipated Operating Deficit ²	\$0.7 million
FY 17/18 Anticipated Ending Unassigned General Fund Balance	\$10.5 million

¹ Per Comprehensive Annual Financial Report.

² Per budget document.

The anticipated ending FY 17/18 Unassigned General Fund balance reflected in the table above is supported based on the FY 16/17 CAFR and City FY 17/18 unaudited year-end reports. Based on discussions with City staff, it appears that the lower amount reflected in the FY 17/18 budget document was meant to represent the amount required per the City’s reserve policy.

The anticipated FY 17/18 unassigned General Fund balance amount listed in the previous table would be approximately 40 percent of anticipated revenues, which meets the GFOA’s best practice recommendation and the City’s reserve policy of at least 30 percent of General Fund revenues.

Although the City’s unassigned fund balance is relatively healthy, potential major impacts must be considered, such as the rising costs of CalPERS and other cost increases and revenue loss caused by voter action and/or economic downturns. CalPERS has adopted a plan that would lower the earnings rate (discount rate) assumption used to develop city contribution rates over the next couple of years from 7.375 percent to 7 percent. This will increase future CalPERS costs to the City. This impact is discussed in more detail later in this report. Additionally, a measure that would repeal the City’s Utility Users Tax (UUT) has qualified for the November ballot. The City’s UUT represents approximately 13 percent of General Fund revenues. Losing this revenue without a replacement source will require significant services reductions.

The following table contains a five-year comparison of the components of fund balance in the General Fund.

Table 3—Five-Year Comparison of Components of General Fund Balance¹

Component	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17
Non-spendable	\$1,199,091	\$1,207,961	\$1,022,841	\$1,035,224	\$1,044,519
Restricted	\$0	\$0	\$0	\$0	\$0
Committed	\$2,141,481	\$2,650,000	\$3,500,000	\$5,635,000	\$5,899,130
Assigned	\$0	\$0	\$0	\$0	\$0
Unassigned	\$11,727,832	\$12,788,280	\$13,124,419	\$12,724,205	\$9,681,531
Total Fund Balance	\$15,068,404	\$16,646,241	\$17,647,260	\$19,394,429	\$16,625,180

¹ Source: City CAFRs

As reflected in the previous table, the City's General Fund balance has grown an average of approximately 7 percent per year from FY 12/13 through FY 15/16. However, in FY 15/16, the committed component was increased by approximately \$1.1 million and the unassigned component decreased by approximately \$400,000. In FY 15/16, there was sufficient operating income to allow for the \$1.1 million increase in committed fund balance, with only a \$400,000 decrease in the unassigned fund balance. In FY 16/17, however, significant transfer out (approximately \$5.4 million) was made to the Facilities and Replacement Fund, Street Improvement Fund, and Street Lighting Fund, and the committed fund balance and non-spendable components were increased by approximately \$254,000 and \$10,000, respectively. The operating surplus was able to cover all but approximately \$2.8 million of these actions, resulting in a decrease in unassigned and total fund balance in the General Fund. The FY 16/17 unassigned fund balance was approximately 33 percent of FY 16/17 expenditures, including transfers out. This remains within the City's policy and GFOA best practice recommendations; however, future ongoing financial impacts will require action to maintain a healthy fund balance.

When comparing budget to actual for revenue and expenditures, the City's General Fund activity in prior fiscal years has reflected large positive variances regarding revenues and relatively small negative variances where expenditures are concerned. Revenues have exceeded expectations by an average of approximately \$1.2 million, or 5.5 percent, over the past five years, whereas expenditures overruns have averaged approximately \$122,000, or 0.5 percent, for the same period. This has resulted in a steady increase in fund balance. Although development of conservative revenue estimates is a best practice, consistently large budget to actual variances indicate a lack of effective budget practices. Intentionally under-estimating revenues can cause unnecessary service level reductions or prevent desired service level increases. Based on a sample review of prior year factors pertinent to revenue estimate development, it seems that prior year estimates were too conservative and without a clear rationale. The following table summarizes the budget versus actual activity for General Fund revenues and expenditures for the past five years.

Table 4—Five-Year General Fund Revenue and Expenditure – Budget versus Actual¹

Revenue/Expenditure Component	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17
Revenue Budget	21,732,459	22,731,872	24,124,778	24,729,917	25,622,021
Revenue Actual	23,078,114	24,345,766	25,188,532	26,490,054	26,356,182
Variance	852,104	1,613,894	1,063,754	1,760,137	734,161
Expenditure Budget	22,377,963	24,868,925	23,781,508	24,664,134	27,045,695
Expenditure Actual	22,764,173	22,767,927	23,946,308	24,742,891	29,126,093
Variance	(386,210)	2,100,998	(164,800)	(78,757)	(2,080,398)
Budgeted Surplus/(Loss)	(645,504)	(2,137,053)	343,270	65,783	(1,423,674)
Actual Surplus/(Loss)	313,941	1,577,839	1,242,224	1,747,163	(2,769,911)*
Variance	959,445	3,714,892	898,954	1,681,380	(1,346,237)

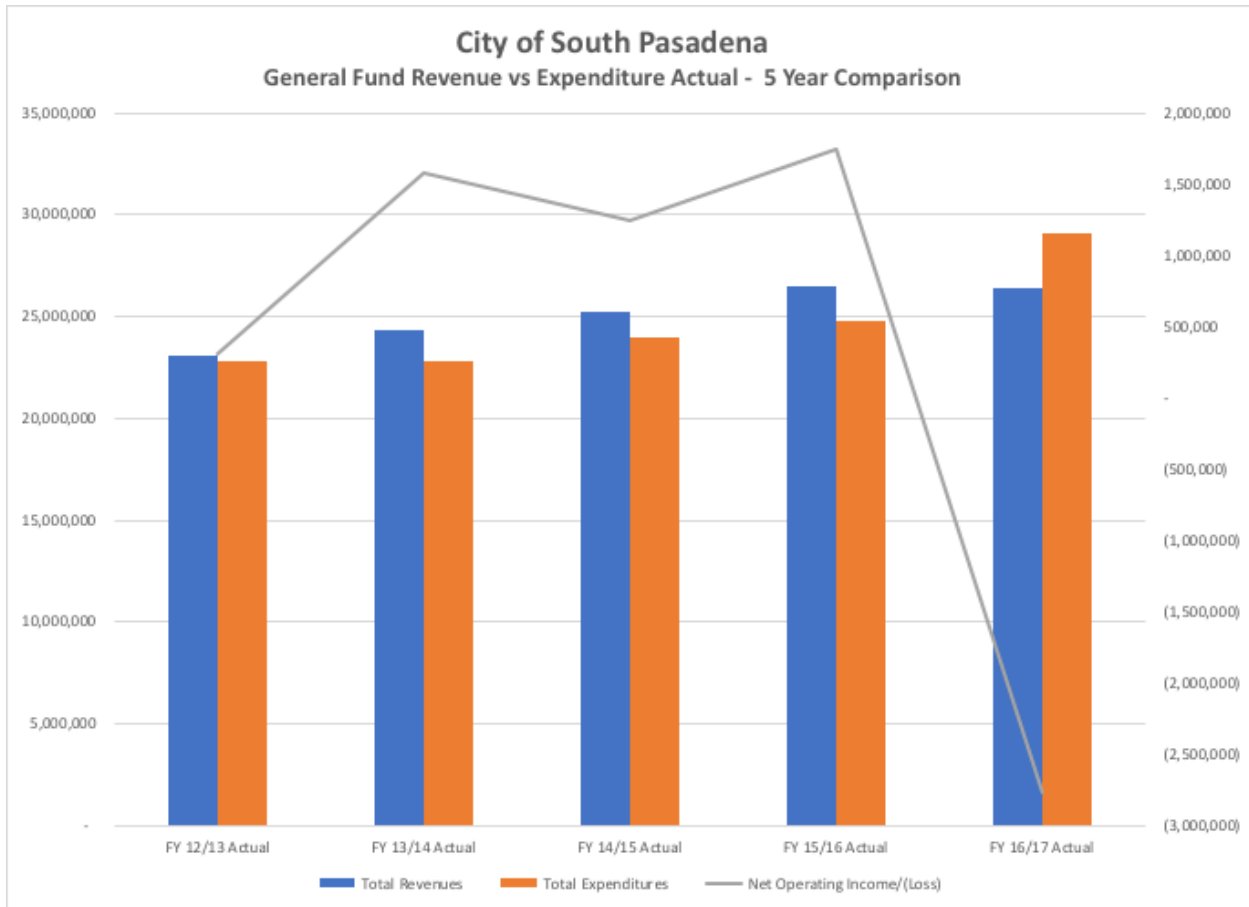
¹ Source: City budgets

* The approximately \$2.8 million operating loss in FY 16/17 was due to the transfer of approximately \$5.5 million into capital projects funds. Absent the transfer, the FY 16/17 would have had an operating surplus of approximately \$2.6 million.

Appendix 1 reflects the details of the revenue and expenditure budget to actual comparison for the past five fiscal years.

The following graph reflects a comparison of actual revenues to actual expenditures in the General Fund and the resulting operational surplus or loss for the past five fiscal years.

Figure 2—General Fund Revenue versus Expenditure Actual – Five-Year Comparison



1.4 FINANCE DEPARTMENT BEST PRACTICE AND PERFORMANCE MEASURES

The GFOA has developed approximately 200 best practice recommendations related to municipal financial operations.³ The Department staff should review this list and use it as a guide when developing written policies for the City. One specific area identified in the City’s Finance Department review proposal was the development of performance measures. The following is the GFOA’s best practice recommendation for performance measures:

Background:

Performance measures are used by governments to collect information about operational activities, achievement of goals, community conditions, or other environmental factors to better understand a situation and make informed decisions. Regardless if an organization has a centralized collection system for performance measures, the use of performance

³ The list and the detailed recommendations can be viewed on the GFOA website at <http://www.gfoa.org/best-practices-z>.

data should be integral to an organization's decision-making processes and leaders within an organization should set expectations that key decisions are supported by evidence. For optimal use, performance measures need to be developed considering the potential audience for the information. As a result, organizations need to identify and track measures at an operational, managerial, policy making, and community level.

GFOA Recommendation:

GFOA recommends all organizations identify, track, and communicate performance measures to monitor financial and budgetary status, service delivery, program outcomes, and community conditions.

When identifying performance measurements, governments should focus on making sure that measures meet the following conditions:

Useful – measures should provide information that is helpful to decision making, understanding, or accountability efforts.

Relevant – measures can be clearly linked to the service delivery/program outcomes that they are intended to measure, appropriate for the outcome being measured, and are readily understandable

Reliable – collection methods and measure definitions need to be understood so stakeholders can rely on the information.

Adequate – ensure enough and also an appropriate variety of measures are used to measure performance and that measures do not incentivize behavior that adversely impacts the measures – such as a quantity versus quality scenario. There is often not a single measure that can provide sufficient context and understanding

Collectible – measures are readily available and do not involve excessive time/effort to collect

Consistent – measures can be regularly collected to track outcomes over time and avoid need to continuously identify new measures

Environment – measures includes variables related to externalities that impact service delivery and program performance

Responsibility – clearly identify responsibilities for collection, storage and dissemination of the data

Systems – existing data collection capacities are leveraged appropriately, or new systems are identified in order to ease the burden of data collection

Further, when identifying and using performance measures, organizations may find it helpful for comparison purposes or a recognized standard to assess current outcomes, facilitate discussion or share ideas that lead to improvement efforts. However, governments must recognize the challenges and potential misrepresentations that can occur without careful considerations. For example, most governments exist in a unique environment and performance data is subject to a variety of contributing factors that may or may not be present in comparison data. In addition, many measures may seem similar, but have a different definition of how the measure is calculated making a true comparison impossible. Once collected, governments should ensure that measures are communicated and well understood. This includes communication both internally and externally.

When communicating performance measures internally ensure the following:

Expectations – clearly communicate how performance measures will be utilized in decision-making and across all levels of the organization

Purpose – emphasize that performance measures are used to inform decisions and facilitate improvement and understanding. Governments should be careful to avoid performance measures that are collected to simply show achievement for the purpose of soliciting recognition or rewards. Similarly, less than favorable outcomes should be evaluated to understand the root cause of the issue and avoid quick punitive actions as this will make accurate data collection efforts more difficult in the future

Clarity – clearly articulate the performance measures, including both expected results/targets and actual results

Data Integrity – the source of the data and how the data is interpreted or used to draw conclusions should be clearly and articulated.

Context – provide background on why these particular performance measures were chosen, such as cost, timeliness, availability, etc.

Production – reference sources of performance measures and how the measures were collected

Dissemination – ensure performance measures are distributed throughout all levels of the organization and are made readily available

When communicating performance measures externally the following should items should be addressed to ensure measures are readily available and accessible:

Delivery – how and where will the performance measures be communicated

Audience – identify who the primary audience of the information will be

Format – what is the best way to present the information

Frequency – how often will the performance measures be communicated/updated

Clarity – explain the exact source of the data, how the calculations were conducted and why, what the performance measures show, both expected results/targets and actual results

Context – provide background on why these particular performance measures were chosen, why, if any target measures were set and why, and what the results mean to operations, service levels, or community outcomes.⁴

The following are sample Finance Department performance measures from another agency. This sample provides typical performance measures that are generally relevant to city finance departments. The City of South Pasadena, however, should develop measures that meet specific needs of the City based on the best practice guidelines listed previously.

City of Glendale, CA

Accounts Payable/Purchasing

- ◆ Number of employees with open procurement cards
- ◆ Average procurement card purchase amount
- ◆ Total dollar value of purchasing conducted with procurement cards
- ◆ Total number of invoices processed for payment
- ◆ Average number of invoices processed for payment
- ◆ Average calendar days from approved requisition to purchase order issued

Budget

- ◆ Ratio of General Fund Administrative Services budget to total General Fund budget
- ◆ Ratio of General Fund budget to the overall City budget
- ◆ Number of residents per authorized salaried positions
- ◆ Percent accuracy in budget revenue to actual in General Fund (Annually)

⁴ <http://www.gfoa.org/performance-measures>

Internal Audit

- ◆ Audits completed
- ◆ Audit close-out rate
- ◆ Average number of open audit issues

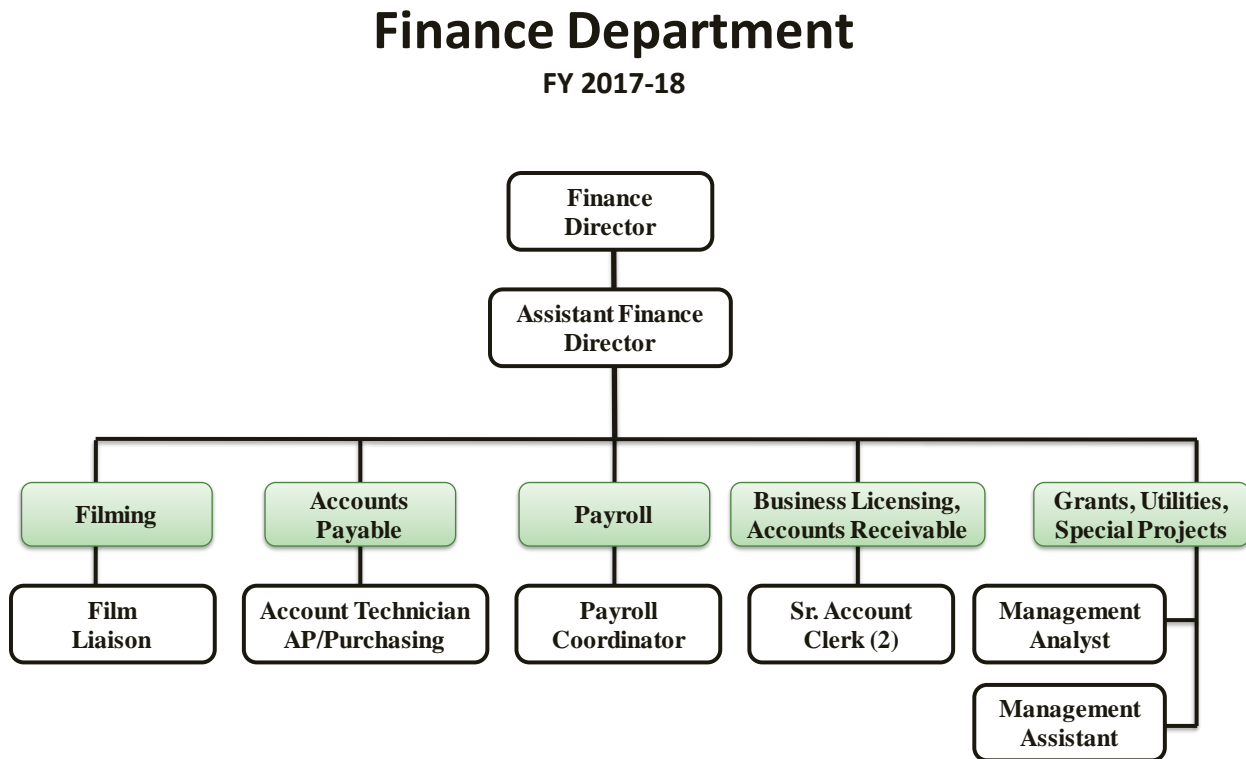
SECTION 2—FINANCE DEPARTMENT OPERATIONAL REVIEW

2.1 BACKGROUND

2.1.1 Finance Department Organization and Functional Responsibilities

The following figure shows the Finance Department’s organizational chart.

Figure 3—Finance Department Organizational Chart



Full Time Employees: 9

The Finance Department accounts for all City expenditures, administers business licensing, manages several competitive grants in collaboration with other departments, prepares the biweekly payroll, prepares payment of all obligations for review and approval by the City Council, and sends out approved check warrants. In conjunction with, and subject to, the independent certification of the City independent audit firm, the Department prepares the City’s Comprehensive Annual Financial Report. The Department also prepares annual reports for the State Controller and other State and Federal agencies. Under the direction of the City Manager, the Department prepares the City’s annual budget. The Department oversees the utility billing function for the City’s approximately 7,000 accounts for all water, refuse, and sewer fees. The

Department works with the City Treasurer and the Finance Committee regarding the various financial issues the City must consider. As required by the Government Code, monthly investment reports are provided to the City Council and Finance Commission summarizing investment holdings and rates of return on investments. The Department also manages the film permitting process. Per the FY 17/18 budget, the Department consists of the following divisions:

- ◆ Filming
- ◆ Payroll
- ◆ Accounts Payable
- ◆ Business Licensing and Accounts Receivable
- ◆ Grants, Utilities, and Special Projects

These five divisions are staffed by the following nine full-time positions:

- ◆ Finance Director
- ◆ Assistant Finance Director
- ◆ Film Liaison
- ◆ Account Technician
- ◆ Payroll Coordinator
- ◆ Two Senior Account Clerks
- ◆ Management Analyst
- ◆ Management Assistant

The Department also assists in budget creation and monitoring and the coordination of the various audits of the City, and it performs the City's treasury function in conjunction with the City Treasurer.

The Department's operating budget for FY 17/18 totaled approximately \$2.8 million. Included in the budget is approximately \$918,000 for non-departmental costs, which represent costs that are not dedicated to a particular department and approximately \$1.15 million for the utility billing function, which is reported in another fund. The remaining approximately \$700,000 is the net General Fund operating cost for the Finance Department per the FY 17/18 budget document. Placing non-departmental costs in the Finance Department is not unusual in City government due to the Finance Department being the primary Department responsible for formulating the budget.

Function Responsibilities

The following is a summary of the various Department functions.

Finance Director position funding is allocated mostly to the General Fund (43 percent), the Sewer Fund (12 percent), and the Water Fund (40 percent). The Assistant Finance Director is allocated mostly to the General Fund (43 percent), the Sewer Fund (16 percent), and the Water Fund (41 percent). The remaining allocation for each of these positions is in various support functions.

In addition to the listed functions to follow, the Department is responsible for the coordination of the development of the budget document for the City Manager in conjunction with all other departments; the development of the City's CAFR, and numerous other City, State, and Federal financial reports in conjunction with various external auditors and the elected City Treasurer's administration of the City's Treasury/Investment function.

Filming

The Filming function is responsible for administration and coordination of all filming permit activity. The division includes one full-time employee, the Film Coordinator. The filming division processes approximately 180 to 200 film-related permits on average per year and generates approximately \$100,000 in annual revenue. The fee for the filming permits ranges from \$105 to \$530, depending on the film project, which addresses the cost of police- and fire-related activities necessary to maintain a safe operation of the project. Other fees, such as the business improvement district fees, are also collected as a part of the filming function process. The business improvement tax associated with film permits totals approximately \$40,000 annually.

Accounts

The Accounts Payable function is responsible for processing all vendor payments. The function also administers the distribution and coordination of the Citywide purchasing card program and the processing of applicable 1099s. The function includes one full-time employee, the Accounting Technician. The Accounts Payable division processes approximately 300 Accounts Payable checks twice per month. As of June 2018, the City had approximately 11,500 vendors in the vendor master file. The average dollar total per semi-monthly Accounts Payable check register is approximately \$1.4 million. This equates to approximately 4,600 checks totaling approximately \$35.4 million annually, on average.

Payroll

The Payroll function is responsible for the processing of all payroll-related payments to employees of the City, in addition to deduction processing and City paid benefits processing. The Payroll function also process various reports required by the State and Federal governments,

such as W2s and quarter reports. The function includes one full-time employee, the Payroll Coordinator. The Payroll function processes approximately 207 payroll checks every two weeks and administers approximately 239 full-time and part-time employees. The average dollar total per biweekly gross payroll check register is approximately \$560,000. This equates to approximately 5,400 checks totaling approximately \$15 million annually. These amounts are based on calendar year 2017 activity.

Business Licensing

The Business Licensing function is responsible for collection of business license tax and the administration of the business licensing program. The function includes two full-time employees, two Senior Account Clerks who also assist with the utility billing and cash receipting functions. The business licensing operation administers approximately 2,400 businesses throughout the City. The average dollar total collected for business licenses is approximately \$400,000 per year. Additionally, the City charges a business improvement tax to improve the City's business district, which generates approximately \$115,000 annually.

Accounts Receivable

The Accounts Receivable function is responsible for coordination of the City's accounts receivable miscellaneous billing program. The miscellaneous accounts receivable billings consist of approximately 40 to 45 invoices annually, representing approximately \$202,241 in billings. The cash receipting program is also performed within the Accounts Receivable function.

Grants

The Grants function is responsible for administration of the City's grants. Applicable departments are the liaisons for grants, but once the grants are received, the Finance Department assists with the administration of the grant. The Grants function processed six grants during FY 16/17. The purpose of the grants ranged from Public Works Department to Police Department operations and provided over \$1 million for services and capital.

Utilities

The Utilities function is responsible for administration of the billing for water, sewer, and trash. The City has contracted a third-party company that provides billing and receipting services for these utility operations, with the Finance Department Utilities revenue for FY 16/17 for water total \$8,316,711, for sewer total \$1,763,435, and for trash total \$3,881,731. The utilities function generates approximately \$13,961,878 in revenues annually.

Special Projects

The Special Projects function is responsible for other finance-related operations not specifically mentioned, such as logging and fuel usage information. During FY 17/18, the Management

Analyst position was reassigned to the City Manager's office but retained duties that included budget and capital improvement program preparation and grant administration.

General Ledger / Accounting Activity

The General Ledger Activities function is addressed by employees already included in other functional activities of the Finance Department. General Ledger Activities include creation and posting of journal vouchers to reflect accounting activity not posted automatically through the various financial modules of the Springbrook financial system. The City's General Ledger consists of approximately 43 funds and thousands of accounts.

A fund is defined by the Governmental Accounting Standards Board as a legal and accounting entity with a self-balancing set of accounts to record revenues and expenditures per legal and regulatory requirements.

2.1.2 Finance Department Past Financial Activity

Over the past five fiscal years, the General Fund portion of the Finance Department's cumulative expenditure budget to actual activity is approximately \$30,000, or one percent over-spent. Utility Billing activity is reflected in Fund 500 and had a cumulative budget to actual variance of approximately \$498,748, or 13 percent over-spent.

The non-departmental five-year cumulative budget to actual activity was approximately \$730,000, or 13 percent overspent. However, the non-department function is not totally within the control of the Finance Department. For example, a major cost of the non-department function is the cost for retiree health insurance.

The majority of General Fund revenue estimates are developed by the Finance Director. Reviewing the five-year cumulative budget to actual activity for revenues reflected a surplus of approximately \$6.5 million, or 6 percent. This variance indicates a very conservative revenue budget estimation process. Typically a variance within 1 to 2 percent represents an acceptable range. This very conservative model has helped to build up the fund balance in the General Fund over the years, which is a good thing if it is known and accepted by everyone. If it was not understood, it may have unnecessarily caused unnecessary service level reductions or delay of services or equipment. The following table reflects the five-year budget versus actual expenditure activity for the Finance Department.

Table 5—Five-Year Finance Department Expenditures (Budget versus Actual)

Expenditure Component	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17
Expenditure Budget	630,439	505,065	538,039	653,370	724,891
Expenditure Actual	646,666	519,087	653,960	619,109	643,951
Variance	(16,227)	(14,022)	(115,921)	34,261	80,940

2.1.3 Staffing Strengths and Weaknesses

As is the case with other agencies, Finance Department staff have both operational strengths and weaknesses. South Pasadena’s Finance Department has needed to deal with the loss of its Finance Director and Assistant Finance Director within a 60-day period. The loss of these two key leadership positions has created a significant void in the normal operations of the Department. Compounding this adverse situation is the fact that the Department lacked an effective cross-training program. Based on staff interviews, the Finance Director was reluctant to share knowledge and information with other staff members, including his assistant.

The following are some of the strengths and weaknesses reported by Finance Department staff and other department staff during the interviews:

Strengths: Unity, pride of work, “Get the job done” attitude, helpful

Weaknesses: Lack of support/recognition from management, no formal consistent process/procedure for operations, lack of training and the opportunity/encouragement to go to training, lack of staff, lack of technology and antiquated equipment, too many manual process, lack of initiative to implement new things

One of the strengths noted by Citygate was the willingness of the staff to pitch in and help fill the operational gaps that resulted from the loss of the Department head and his assistant. Another strength was the longevity and institutional knowledge of several of the staff. This institutional knowledge helps to maintain some of the primary finance functions, such as payroll, accounts payable, and general cash depositing. Yet another strength is the eagerness of some of the less senior staff to learn and accept additional responsibilities to help maintain operational continuity as much as possible. As observed by Citygate, most of the staff perform duties in addition to their main duties because of the needs of the Department. This could be enhanced by formal internal cross-training and external training. Another strength is the staff’s overall loyalty to the Department and to the City.

Staff weaknesses observed by Citygate include the lack of training, internal cross-training, and information sharing. This has created a general atmosphere of diminished understanding and

confidence on the part of staff. An example of this is the fact that only one person knows how to process an entire payroll and only one person knows how to process an entire accounts payable cycle. For the applicable staff, this can create a burden that they cannot be away from the office for legitimate reasons, such as sick time or family emergencies, and it can lead to low morale. Additionally, if something unfortunate happens or if the applicable individual is dissatisfied and quits, the City would find itself in a very difficult situation. Another example is the uncertainty of the capabilities of the Springbrook financial software system. Consequently, staff is manually performing some financial functions that are more time-consuming and can lead to increased calculation errors. Per staff interviews, minimal staff was trained on the Springbrook system and those who were trained were only trained on the basics of their respective function.

The lack of training and cross-training has led to a reluctance to follow up on some duties and activities, resulting in operational delays of some of the Finance Department functions. Examples include a five-month delay in bank reconciliations; a five-month delay in the input of business licensing and utility bill receipts; a four to five-month delay in journal voucher input for cash wires; delayed response to a CalPERS audit, requiring a change in how time was categorized, which could have resulted in a fine; and delayed financial reports to other departments for over a year. These delays are serious internal control problems that can lead to others making operational decisions using inaccurate financial reporting, dissatisfaction with Finance Department staff, and, in a worst-case, fraud. Another troubling result of the current atmosphere in the Department is the general belief of Finance Department staff that they must carry out directions from the Department head or even other departments even if they believe that it is contrary to policy. An example of this is the practice in at least one department to cash their petty cash replenishment check by taking cash received from general activities. This is an internal control weakness that must be corrected. Another example is a situation where at least one department reimburses petty cash expenditures in excess of \$300 when the generally used procedure used by the Finance Department is that petty cash should be used for expenditures that are \$50 or less. Finance staff knew of these issues but processed the transactions anyway believing that they could not reject the transaction. These financial internal control issues need to be addressed immediately.

Finding #1: Department staff lack continued and effective training and internal cross-training to help ensure operational consistency in emergency circumstances, as well as the confidence to reject transactions that they believe are contrary to policy/procedure.

Recommendation #1: Establish a formal training program that requires staff to participate in regular training and internal cross-training. This should be mandatory training and should be included in the various employee evaluation goals. A mechanism (e.g., short quiz) should be developed and taken by the employee after the training to help ensure that the training was understood. As a part of the internal cross-training, employees should be instructed regarding how to report concerns of potential violation of policy/procedures direction without fear of retaliation.

Finding #2: City staff has not been adequately trained on the capabilities of the City's financial software system to determine if it meets the needs of the City.

Recommendation #2: Retrain and/or train all applicable employees who will benefit from the use of Springbrook to determine if the system is adequate for the needs of the Finance Department and other City departments. This training should be mandatory for all applicable employees.

2.1.4 Perception of Finance Department by Other Departments

The general perception of the Finance Department by other departments is that most of the staff attempt to be helpful and supportive, but this is not always the case. Some of those interviewed voiced concerns that their staffs had to contact some Finance Department staff for assistance. There were also comments relating to how it was believed that most of the Finance Department staff attempted to be helpful, but that the lack of Department leadership, lack of training, and cumbersome manual processes provided more of a hindrance than a help to the departments. Departments feel that they are not receiving accurate or timely financial information from the Finance Department to make effective operational decisions. The departments would like to see more participation and accessibility from the next Finance Director. A reduction of cumbersome manual processes, such as with payroll and accounts payable; an increase in finance staff cross-training; and formal policies that are understandable, somewhat flexible, and consistently applied are the main desires of the other departments regarding Finance Department services.

Finding #3: The Department is not providing consistent helpful service to other departments.

Recommendation #3: A policy and procedures manual should be developed and/or updated.

Recommendation #4: All departments should provide input on the policy and procedures manual; however, the manual should be developed based on best practice standards.

Recommendation #5: The completed policy and procedures manual should be presented to the City Council and all City employees so that everyone is aware that adherence to the new policies and procedures is mandatory.

2.2 MANAGEMENT LEVEL REVIEW OF FINANCE DEPARTMENT FUNCTIONS AND PERFORMANCE

2.2.1 Budget

The following is a description of the City’s FY 17/18 budget process per the City’s website:

The budget process is based upon in-depth analysis of actual and projected fund balances, revenues, and expenditures. Each City department prepared line item details for the department’s activities and recommended certain service levels and activity goals for the 2017/18 budget year. The Finance Department prepared revenue projections with input from other departments. The City Manager then reviewed individual departmental requests, prioritized activities based upon City Council policy, and made certain adjustments. At the conclusion of this process, the Proposed Budget was prepared and presented for a public hearing, then submitted to the City Council for final review and adoption.

The process for the 2017/18 budget year began in February 2017, with the department heads working on their requests for the upcoming fiscal year. Aside from City staff, there were several opportunities for the public to get involved in the process in order to make their interests and concerns known to the management and the City Council. The first opportunity this year was on March 11, 2017 at the Community Forum on Budget Priorities, where there was a discussion of which projects the City should focus its resources on for the next fiscal year. On March 21, 2017 a Special City Council meeting to discuss budget priorities was held, and again the public was invited to give their input. By the middle of May, the budget was substantially complete from the staff perspective, and was brought to the City Council meeting of May 17, 2017 for a Draft Budget Presentation to receive further direction from the City Council, again with public

input. The final step in the adoption of the budget was the conducting of a formal Public Hearing scheduled for the City Council meeting of June 7, 2017. The City Council approved the budget that evening, and the budget became effective July 1, 2017.

There are almost 60 budget best practice recommendations endorsed by the GFOA. The process outlined conforms to some of them, but Citygate's review has identified some budget best practices with which the City's operation does not conform. The following is a discussion of those budget best practices with which the City is not in conformance and which Citygate believes are the most pertinent to this review:

1. Development and adoption of financial policies that can be used to achieve the overall operational goals of the agency. Examples of these policies include:
 - Stabilization (reserve) funds
 - Fees and charges
 - Debt issuance and management
 - Budget development (samples not all inclusive)
 - Revenue/expenditure projections
 - Capital needs
 - Performance measures and benchmarks
 - Use of one-time or unexpected revenues
 - Long-term fiscal planning

Although the City includes fiscal policy statements listed in the budget document, the statements should be expanded to include more specific information to assist with the understanding of the purpose, objectives, and goals of the policy.

2. Maximize coordination and understanding of numbers between budget staff and respective department staff.
 - Per interviews Citygate conducted with the departments, some concern was voiced relating to the lack of understanding of the budget amounts that were presented to the City Council. The comments were made concerning the previous fiscal year budget process, but it was believed pertinent enough to be mentioned in this report.
3. The budget should be reviewed regularly throughout the year, with a more formal and detailed review completed at least semi-annually. This middle-year review should include review and update regarding budget objectives/performance measures and adjustments made accordingly.

Finding #4: The City has not processed a formal month-end or quarter-end close in several years, and no formal period-closing written procedures were found.

Recommendation #6: A formal written set of procedures should be developed and a formal month-end review for all funds, or at least a mid-year budget review, should be completed every fiscal year. This will help identify potential issues in time to develop strategies to address these issues. This procedure will also help when performing budget projections for current and future budget years.

4. Develop and consistently utilize a financial system that provides information required to make sound operational decisions.

Finding #5: The City uses Microsoft Excel spreadsheets to develop the budget and the Springbrook financial system for other financial activity, which increases the amount of time required to develop the budget.

Recommendation #7: A formal budget module should be utilized to follow best practices and minimize manual processes and the time required to develop the budget, in addition to reducing the potential for human error. The Springbrook system has a formal budget model that is compatible with its other financial modules that would substantially reduce the amount of time required and the chance of human error when developing the budget.

2.2.2 Audit and Internal Control

The Department is responsible for the coordination and interaction with the external auditors hired to audit the City’s annual financial information and the production of the City’s CAFR. The City has consistently won the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association, which is an achievement for the highest standards in government accounting and financial reporting.

The CAFR is the audited annual financial report of City operations, including assets, liabilities, equity, revenues, and expenditures. The FY 16/17 CAFR was audited by external auditors, who opined that the CAFR “presented fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate

remaining fund information of the City, as of June 30, 2017, and the respective changes in financial position, and where applicable, cash flows thereof, for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.”

This opinion is referred to as an unqualified (clean) audit opinion. The opinion, however, is not based on a 100 percent audit of all City transactions. It is based on generally accepted auditing standards, which include statistical sampling of transactions. This is the reason the auditors require the City to sign a representation letter that contains several qualifiers that emphasize this fact. An excerpt of the representation letter states that “management assumes full responsibility for the completeness and reliability of all of the information presented in the report. The data presented is complete and reliable in all material respects, it is presented in a manner designed to fairly set forth the financial activity of the City’s various funds, and all disclosures necessary to enable the reader to gain a good understanding of the City’s financial activity have been included.”

Additionally, auditors will produce a management letter that lists recommendations for improvement to issues discovered during the audit but were not significant enough, at the time, to warrant a formal audit qualification. It is best practice for an entity to provide responses to these auditor recommendations and, where necessary, an action plan that can be reviewed by the auditors on future audits to assist in rendering an audit opinion. Repeat management letter comments for multiple years, without improvement, is an indication of a systemic problem and should be elevated by the auditors to the City Manager and City Council.

As a result of its review and interviews, Citygate identified several internal control weaknesses that should be addressed. The more significant issues were:

- ◆ Delayed bank reconciliations that could result in a misstatement of the cash and revenue and expenditure activity of the City. This internal control weakness could also hinder fraud detection relating to City operations.
- ◆ Delayed administrative functions, such as journal vouchers posting to reflect cash receipts and other adjustment that are not posted through the other Springbrook financial system modules.
- ◆ Cash being counted in the open view of counter traffic, which increases the potential of theft or processing errors due to the staff being distracted by the front counter traffic.
- ◆ Delayed processing of checks for months after receipt.
- ◆ Lack of formal financial policies and procedures, which resulted in operational inconsistencies.
- ◆ Lack of separation of duties of the payroll and human resources functions.

- ◆ Lack of cross-training in crucial functions, such as payroll and accounts payable.
- ◆ Lack of a fraud policy establishing process for reporting fraud.

Some of these weaknesses were included in the external auditor's management letter comments for at least three consecutive fiscal years. Citygate found that, per interviews with City staff and the external auditors, these issues were presented to the previous Finance Director, who chose not to share them with the City Manager's office or the City Council. Although the CAFR documents were presented to the City's Finance Commission and City Council, it appears that the management letter comments and plan to address the issues were not presented.

The auditors should have ensured this information, once finalized, was sent directly to the City Manager and ultimately reported to the City Council in a formal presentation.

Finding #6: Repeat management letter recommendations over multiple fiscal years were not addressed, and no written response or plan of action was completed and reviewed by the City Manager.

Finding #7: There is no formal written fraud policy to report potential fraud.

Recommendation #8: The Comprehensive Annual Financial Report (CAFR), management letter, and all other reports generated from the annual audit, once finalized, should be reviewed by the City Manager and presented to the City Council. This will ensure that the City is aware of potential financial issues and that a plan has been developed to address the issues.

Recommendation #9: Discuss the audit expectations with the external auditor during an entrance conference before the audit field work begins. One of the expectations should be that the CAFR, management letter, and all other reports associated with the audit, once finalized, are sent directly to the City Manager in addition to the Finance Director. The final documents should be presented to the City Council after final review by the City Manager.

Recommendation #10: A formal written response and plan of action to address the FY 16/17 management letter comments should be produced and presented with the FY 17/18 audit.

Recommendation #11: Auditor should complete a formal internal control questionnaire each year of the engagement to help identify potential weaknesses and areas on which to concentrate during the audit.

Recommendation #12: Future audits should include a more in-depth review of the City's golf course and stable operations to identify any operational issues.

Recommendation #13: Develop a formal written fraud policy that identifies the process to report fraud. The policy should include the creation of a website for individuals, including City staff, to anonymously report fraud or potential fraud and the steps in place to ensure the reports are investigated.

2.2.3 Payroll

The payroll function is performed by one individual, the Payroll Coordinator. The Finance Director was directed by the City Manager to cross-train someone on payroll, but due to some reluctance on the part of the Finance Director and/or the Payroll Coordinator, the cross-training has not been completed. Citygate observed that the cross-training has continued, but it is still uncertain whether the cross-training includes the production of an entire payroll as opposed to just pieces of the process. Payroll is a critical process in any organization, and although South Pasadena is a relatively small city with a small Finance Department, steps must be taken to ensure continuity in the case of emergencies.

Payroll is processed biweekly for a total of 26 payrolls per year. Two of the payrolls are considered free payrolls, where only the regular pay less taxes is processed.

New employees are processed in Human Resources, and payroll is provided an Employee Action Form to create the employee in the system. Once created in the system, Payroll manually types a Pay Record Card for the employee with all pertinent information and sends the card to both Human Resources and the applicable department. This would be adequate internal control; however, Human Resources does not verify that the information typed on the Pay Record Card matches the Employee Action Form or what was input into the payroll system. This is a weakness in internal controls and separation of duties that should be addressed. Automation of this process is also needed to reduce Payroll employee time requirements. Benefit changes for employee in the system is requested manually through Payroll and not Human Resources. No one from Payroll approves or verifies the accuracy of benefit changes requested by the employee. This is another internal control weakness.

Time sheets are prepared manually, except for the Police Department, and must be received by payroll no later than the Tuesday before the payday. The Payroll Coordinator processes all payrolls with some assistance from the Management Assistant. The Management Assistant cannot process a full payroll. Members of the Police Department process their time sheets on an automated system called InTime, which contains an electronic signature feature, so time sheets are not manually signed. A printout from the Police time-keeping system is attached to each time sheet to validate that they were all electronically signed. The Springbrook payroll module is exception based, so only variations to a standard regular work schedule need to be entered by Payroll.

Once time sheets are entered, a time sheet proof list is generated. This list reflects all hours and other time sheet information entered. The Payroll Coordinator validates and compares the actual time sheet to the proof list and makes any required changes. Once verified, the Payroll Coordinator sends the proof list and time sheets to the Finance Director or Assistant Finance Director for approval. This approval step is currently being performed by the Human Resources Director / Acting Finance Director.

Payroll deductions are calculated automatically by the payroll module in Springbrook and manually processed by the Payroll Coordinator for any Accounts Payable checks and supporting documentation for a journal voucher required to post the Automated Clearing House (ACH) direct payments for large deductions, such as Federal and State income taxes and CalPERS to the General Ledger.

The payroll check process is then initiated, and a payroll register is produced for direct deposit employee pay (about 185 employees) and non-direct deposit checks (about 14 employees). The registers have all pertinent pay and deduction information for each paid employee, including check numbers that are generated through the system via the check generation process.

Blank checks are maintained in the Finance Director's office in a locked cabinet. Two keys are required to open the cabinet. The Finance Director has one key, currently the Human Resources / Acting Finance Director, and the Payroll Coordinator has the other key. The Payroll Coordinator obtains required checks for non-direct deposit employees based on the non-direct deposit check register. The Payroll Coordinator logs check numbers used in log book.

The Finance Director is given the payroll registers to review and approve. Once they are approved, the Finance Director processes a signature program to sign the checks, send ACH payments to the bank for the entire payroll, and posts the payroll into the General Ledger. Payroll is sent to the bank on the Wednesday of the pay week for a payday on Friday.

The Payroll Coordinator manually folds checks and stubs and places them in envelopes for delivery to the respective departments. Although there are only about 200 paystubs and checks per pay period, employee time could be saved through the purchase of a check folding and

stuffing machine. This piece of equipment could also be used in other areas where manual folding and envelop stuffing is occurring, such as Accounts Payable and Business Licensing and Accounts Receivable.

Monthly, quarterly, and year-end reports are produced automatically by the Springbrook system.

Finding #8: Due to lack of cross-training, only one employee knows how to process a full City payroll.

Finding #9: Separation of duties between Payroll and Human Resources responsibilities is lacking, which weakens internal control.

Finding #10: There are too many manual processes in the payroll process, which increases the time required to complete a payroll and the chance of human error. This is partially due to the uncertainty concerning the capabilities of the Springbrook payroll module.

Finding #11: Adequate equipment to fully automate the payroll process is lacking.

Finding #12: Payroll employee(s) are not consistently obtaining payroll-related training to keep up with changing payroll-related laws, rules, and regulations.

Recommendation #14: The full cross-training of the Management Assistant should be completed more quickly. Planned overtime should be considered to expedite completion of the training. Additionally, the Management Assistant should periodically complete an increasing portion of an actual full payroll after the training to ensure it has been effective. Implementation of this recommendation will help to minimize loss of process continuity in the case of emergencies, as well as relieve some of the burden felt by the Payroll Coordinator that limits earned time off.

Recommendation #15: The Payroll staff should be retrained on the capabilities of the existing Springbrook payroll module. The training should be mandatory and part of the annual evaluation goals, which will help minimize the potential of employees continuing to use the old, ineffective processes without consequences. Implementation of this recommendation will help to identify current manual processes that may be automated in the payroll module, thus reducing processing time and manual calculation errors. This recommendation could also delay the need for additional employees because of the increased productivity.

Recommendation #16: A schedule of responsibilities should be developed for the Payroll and Human Resources functions of the City. This schedule of responsibilities should follow best practices, including a clear delineation. Human Resources is responsible for employee creation, benefits, and changes relating to pay; Payroll is responsible for creation of the employee check and all other processes relating to the check process, including deductions, payroll tax and retirement processing, report processing relating to employees checks, etc. Implementation of this recommendation will improve internal control and comply with best practice by minimizing the risk of the accidental or fraudulent creation and payment of fictitious employees.

Recommendation #17: The City should invest in the purchase of a folder/stuffer machine to reduce the time spent on folding checks and paystubs and inserting them into envelopes for distribution. Implementation of this recommendation will not only reduce the time required by the Payroll Coordinator but also the time spent by other employees who perform similar duties.

Recommendation #18: Payroll employees should be encouraged to attend payroll-related training to remain knowledgeable concerning payroll laws. Implementation of this recommendation will improve employee productivity through the reduction of errors caused by lack of knowledge regarding payroll matters. Another benefit is the potential improvement in confidence and morale of the employee due to reduced frustration of feeling uninformed.

2.2.4 Accounts Payable

The Accounts Payable function is performed by one individual, the Accounting Technician. This staff member also is responsible for creating the daily cash/check/coin deposit for the City to create a separation of duties between staff collecting receipts and the staff creating the actual deposit.

The City Municipal Code Chapter 2, Article XI, Section 2.99-29 establishes the City's purchasing system procedures. The purchasing system establishes a centralized purchasing system, with the Finance Director acting as a purchasing agent. However, the Municipal Code authorizes an exemption to centralized purchasing per Subsection 6, which reads, "The purchasing agent may, in writing and with the approval of the city manager, authorize any city department to purchase or contract for specified supplies, services and equipment independently of the purchasing department, but the purchasing agent shall require that such purchases or contract be made in conformity with the procedures established by this section, and shall further require periodic reports from the department on the purchases and contracts made under such written authorization."

Although Citygate was unable to locate a written authorization as required by Subsection 6, the City operates its purchasing process using this exemption. The departments perform their own purchases as directed by a purchasing procedures sheet, which summarizes the purchasing requirements outlined in the municipal code. The basic procurement guidelines are:

- ◆ Requests for payment (up to \$500) – no purchase order required, department head approval only.
- ◆ Open Market (\$501–10,000) – purchase order required, three informal quotes required, and department head authorizes the purchase order requisition.
- ◆ Open Market (\$10,001–25,000) – purchase order required, three written quotes required, Finance Director authorizes purchase order requisition. The City Manager may authorize purchase of supplies, equipment, and services of a value

greater than \$10,000 but less than \$25,000 without complying with the listed procedures when, in the opinion of the City Manager, compliance with the procedure is not in the best interest of the City.

- ◆ Formal contract (above \$25,000) – purchase order required, formal bidding process required as outlined in Subsection 11 of the purchasing system article, City Council approval required.

Purchase requisitions and purchase orders are typed on a typewriter or created using a separate Word or Excel program; they are not produced through a uniform system. Staff shared that the Springbrook system has a purchasing module but is uncertain as to its capabilities. The procurement and the payment approval processes are also manual, requiring pieces of paper to be routed throughout the City and which are frequently lost or misplaced, requiring extra time to process. City staff lack the knowledge of what capabilities the Springbrook financial system has to help improve productivity. The City also has a purchasing card program that allows purchases via a City credit card. The City currently has six purchasing cards, which are assigned as follows:

- ◆ City Manager
- ◆ Finance Director – Backup to general City card
- ◆ General City
- ◆ Fire Department – Strike team
- ◆ Police Department – one for motorcycle fuel and one for stakeouts

There is no formal written purchasing card policy at the City. In review of the program, Citygate has found, absent a formal written policy, there is no effective monitoring mechanism of the uses within the Finance Department. The Finance Department assumes the departments are monitoring the purchasing card use within their departments to address accidental or potentially fraudulent errors. When used in adherence to a written policy that is strictly monitored and enforced, use of purchasing cards can increase productivity by reducing procurement time.

Accounts Payable processes all vendor payments and requires applicable purchase order reference, original invoices and receipts, and appropriate authorization signatures. Although Accounts Payable requires authorized signatures, according to staff there is no signature authorization log with formal validation of the authorized signatures that could be cross-checked to help identify unauthorized payment requests. This signature log would be updated periodically to reflect staff changes or authorization changes within a department and kept on file in the Finance Department.

Vendors are created by the Accounting Technician. As of this report, the City had approximately 11,500 vendors on file. The establishment of vendors requires the submission of a completed W9

form before the vendor can be paid. The current payment process used with the departure of the prior Finance Director and Assistant Finance Director includes the Acting Finance Director, or someone designated by the Acting Finance Director, reviewing the vendors paid with each Accounts Payable register and supporting documentation. This process currently employed should be continued with the hiring of the new Finance Director.

On average, the City processes approximately 150 to 200 checks semi-monthly. Per staff, checks are not mailed until the registers containing the payment information are approved by the City Council. Once approved, the Finance Director runs a signature program to sign the checks, which are mailed if the vendor has completed the W9 form. Blank check stock is kept in the Finance Director's office in a double-locked cabinet. The Finance Director has one key, and accounts payable staff has the second key. Each lock is different, and both keys must be used to unlock the cabinet. Accounts Payable staff pull the appropriate number of checks identified in the processed register and log in the check number range. The range is verified and approved by the Finance Director via an initial or signature on the log entry line. If check(s) are destroyed during the printing process, Accounts Payable staff notify the Finance Director and note the reason and the check number voided on the original entry line on the log before pulling another check and entering in the log which again is approved by the Finance Director. This is a common method used by municipalities to minimize errors and fraud. As an additional check and balance, the City should consider including a step in the Accounts Payable process that contains a sampling of vendors from each Accounts Payable register to compare authorized signatures, W9 information, and purchase order reference, if applicable. It is understood that given the size of the Finance Department staff this extra step may not be feasible, but implementation of this extra random review step could help to minimize both accidental and intentional errors.

The Springbrook system accounts payable module is used to process payments. The module has a budget check component that flags payment attempts that exceed available budget authority. Per staff, authorization was given by the prior Finance Director to allow the Accounting Technician to override these flags if the over-budget amount is less than \$200. This was a verbal authorization. There is not a formal written budget override authorization policy.

There is no back-up for the current Accounts Payable staff. If an individual is out for an extended period, the Accounts Payable process stops, per the staff interviewed. As a result, similar to the case of the Payroll staff, Accounts Payable staff are burdened with the inability to take earned time off. Cross-training and increased automation is also needed in the Accounts Payable function to improve productivity and morale.

Emergency or prepay checks that cannot wait for the formal process must be presented to the Department via an emergency check form. These emergency requests must have a reason for the emergency included on the form and must be approved by the Finance Director before Accounts

Payable processing. The emergency check information is then included with the next Accounts Payable register information presented to the City Council.

Per Accounts Payable staff, the direction of the Finance Director is not questioned, even if staff know that the direction is a violation of policy. Although Accounts Payable staff should not be insubordinate, they should be encouraged to ask questions if they believe a direction is contrary to the City policy as they know it. A policy should be developed to address this potential, with language that protects staff if they refuse to process something they know is against policy.

Once approved by the City Council, the Finance Director posts Accounts Payable activity to the General Ledger.

Year-end 1099s are produced automatically if the appropriate box is checked when the vendor is created in the system. In some cases, it is unknown whether the amount paid to the vendor will exceed the reporting limits when the vendor is created. Currently, there is not a process for double-checking 1099 production to ensure all required 1099s are produced. One way to minimize the issue of omitting the creation of a 1099 erroneously is to run an Accounts Payable payment report by vendor and compare to the 1099 report generated by the financial system.

Purchase order carry-overs, which are purchase orders that have funds remaining, are processed by the Finance Director and presented to the City Council for approval. Once approved, additional budget appropriations are added to the next fiscal year to cover the use of the remaining funds on the purchase order.

Finding #13: No written authorization was located that authorized the City to operate a decentralized purchasing process.

Finding #14: The procurement and payment approval process is manual, requiring pieces of paper to be routed throughout the City, and they are frequently lost or misplaced, requiring extra time to process.

Finding #15: City staff lack the knowledge of what capabilities the Springbrook financial system has to help improve productivity.

Finding #16: There is no signature authorization log with formal validation of the authorized signatures that could be cross-checked to help identify unauthorized payment requests.

Finding #17: There is no formal written budget override authorization policy.

Finding #18: There is no back-up for the current Accounts Payable staff.

Finding #19: Per Accounts Payable staff, the direction of the Finance Director is not questioned, even if staff knows that the direction is a violation of policy.

Finding #20: There is not a process in place for double-checking 1099 production to ensure all required 1099s are produced.

Finding #21: There is no formal written purchasing card policy.

Recommendation #19: As an additional check and balance, the City should consider including a step in the Accounts Payable process that contains a sampling of vendors from each Accounts Payable register to compare authorized signatures, W9 information, and purchase order reference, if applicable.

Recommendation #20: Cross-training, external training, and increased automation is also needed in the Accounts Payable function to improve productivity and morale.

Recommendation #21: A policy should be developed to encourage Accounts Payable staff to ask questions if they believe a direction from the Finance Director is contrary to City policy as they know it. This policy should include language that protects staff if they refuse to process something that they know is against policy.

Recommendation #22: One way to minimize the issue of omitting the creation of a 1099 erroneously is to run an Accounts Payable payment report by vendor and compare to the 1099 report generated by the financial system.

Recommendation #23: A formal written purchasing card policy should be developed that includes allowable uses of the card and penalties for misuse. All users and potential users of purchasing cards should be required to attend training on the purchasing card policy and be made aware of consequences of not adhering to the policy. The Finance Department should establish a monitoring process to ensure policy compliance.

2.2.5 Business Licensing, Accounts Receivable, and Cash Receipts

Business Licensing

The business license function is performed by two individuals, both Senior Account Clerks. Per the City's business license ordinance, licensing fees are charged using a variety of methods. Businesses classified as general retail, such as professional, wholesale, manufacturing, or service-related pay a fee based on the number of employees. Businesses classified as contractors or building trades are charged a fee based upon gross receipts. Businesses which conduct business by vehicle are charged a flat rate. Business licenses are issued for annual, quarterly, monthly, and daily periods. In addition to the business license fee, businesses must pay a business improvement tax. The business improvement tax is charged to the various businesses per the City of South Pasadena Municipal Code as follows:

- ◆ Manufacturers must pay 25 percent of the business license tax otherwise payable up to a maximum of thirty employees. Any such businesses employing more than thirty employees shall not be required to pay the additional tax on such additional employees.
- ◆ Apartments must pay 25 percent of the business license tax otherwise payable.
- ◆ All other businesses licensed by the City of South Pasadena must pay 37.5 percent of the business license tax otherwise payable. Home occupations of any type shall be excluded.

The City pays \$135,500 per year of the amount collected from the business improvement tax to the Chamber of Commerce to provide business improvements relating to decoration of any public place in the area, promotion of public events which are to take place on or in public places in the area, furnishing of music in any public place in the area, and the general promotion of retail trade activities in the area. Other one-time payments for specialty projects are also paid to the Chamber of Commerce from business improvement tax funds as authorized by the City Council.

The City uses HDL software system for administration of the business license program. The system used for in-house business license processing is an older HDL system with limited capabilities. As a result of a staff-related backlog issue, the City moved to HDL's updated system and contracted with HDL to provide business license administration services on a temporary basis. This arrangement allows for increased functionality and customer service (i.e., ability for businesses to complete more of the process online and increase staff to prevent backlog issues). This seems to be a good arrangement that should be made permanent to increase service levels for customers and assist in restructuring the Finance Department to improve efficiency.

The business license ordinance, although not unique, should be revised to make business licensing calculations less complicated. Revisions would need to be completed in accordance with State laws regarding taxes and fees, such as Proposition 218, which dictate steps needed.

At the beginning of the review, the procedure used allowed businesses to fill out applications online, but they could not pay online. However, due to temporary staff reductions that affected the business licensing function during this review, the City changed the procedure to allow HDL to manage and process business licenses using an upgraded HDL company system remotely. The upgraded system allows both applications and payments to be processed online. However, due to the business licensing fee intricacies outlined, staff must assist the business to determine the correct fee that should be paid.

Once the business application is reviewed and funds are collected, the application is forwarded to the Planning Department, Fire Department, and Water Department for applicable approvals. The Planning Department also notifies the Finance Department of potential subcontractors so they can be cross-checked for business license compliance. Once approved by all applicable departments, the Finance Department notifies the business and mails the business license. Per staff, this process could take two to six weeks depending on business complexity or other factors. Businesses cannot open until a business license is received. During the Citygate review, the City discovered that several checks relating primarily to business licensing had not been processed for approximately four to five months. This indicates that the process outlined by staff associated with the business licensing function was not truthful regarding the business license receipting process. Citygate is uncertain whether this procedural breakdown is due to inefficiency. There are no formal business licensing inspectors assigned to the Finance Department that are responsible for ensuring that businesses are complying with the business licensing ordinance. There is a process, however, where the fire inspectors ask to see the business license when a fire inspection is conducted. Given the timing of the fire inspections, businesses could be operating without a license for an extended period of time without detection. Citygate was told by several Finance Department staff that a business licensing amnesty program was attempted, but it was poorly implemented and caused great dissatisfaction among businesses and staff.

The City has approximately 2,400 businesses that are licensed and active as of April 2018. A log of business license applications is created for application submissions to Planning, Fire, and Water Departments, and is maintained by Finance for tracking purposes. Business licenses are renewed based on the original period of the license. Renewals are processed monthly using the HDL system.

Finding #22: Staff are using an outdated business license system which prohibits the provision of the most efficient service to businesses.

Finding #23: The City does not have business licensing inspectors assigned to the Finance Department and relies on the fire inspection process to identify unlicensed businesses.

Finding #24: The City's business licensing ordinance, although not unique, is overly complicated for business licensing calculation.

Recommendation #24: City should update to the new HDL system and contract with HDL to use its remote business licensing program permanently. This will significantly reduce the workload of the two Senior Account Clerks, allowing the positions to be repurposed or eliminated to generate funding for other positions discussed in the restructuring recommendations in this report.

Recommendation #25: The City should contract with a company such as HDL or MuniServices to provide a business canvassing program to detect unlicensed businesses. The benefits of this recommendation are the identification of unlicensed business which are receiving an unfair advantage over compliant businesses, an increase in City revenue, and an increase in the accuracy of the business database.

Recommendation #26: The business license ordinance should be reviewed and revised to reduce complexities of business license fee calculation and business categorization. This will benefit the City by potentially allowing businesses to calculate their fees themselves to speed up receipt of payment and reduce administration time.

Accounts Receivable

The billing portion of the accounts receivable function is performed by one person, the Management Assistant. The City does not use a formal billing advice form to develop accounts receivable billings. The Finance Department produces billings based on emails from departments. There is no policy that establishes who is authorized to request a billing and no formal tracking mechanism to determine when a bill is paid to prevent reflecting a receivable on the books that has already been paid, causing an overstatement of fund balance. The accounts receivable process is all manual via Excel spreadsheets and not a formal module that automatically posts into the general ledger. As a result, accounts receivables are not always

created in the general ledger system. So potential revenue recognition is delayed. The City as with most municipal jurisdictions, operates, per generally accepted accounting principles (GAAP), using a modified accrual basis of accounting for its governmental fund activities. Modified accrual basis recognizes revenues when they are available and measurable and recognizes expenditures when the liability is incurred. Billings that are due to be received in a short amount of time technically meet the recognized definition of the modified accrual basis of accounting and should be recorded.

The City does not have a formal collection policy for accounts receivables that detail the requirements of the accounts receivable billing process. Per City staff, the City does not even have an outside collection agency under contract to manage delinquent receivables. Additionally, there is no authorization process in the Finance Department to minimize fraudulent or erroneous billings being mailed.

Although not specifically mentioned as a function of the Finance Department, the general ledger function accumulates and categorizes all financial activity for operational reports for the City. Coordination of this function is the responsibility of the Finance Director and the Assistant Finance Director. The Management Assistant also assists with this function. All financial activity not automatically posted to the general ledger via the other functions of the Finance Department are posted to the general ledger via the journal voucher mechanism. Once the journal voucher is input, the Finance Director or Assistant Finance Director are provided with the journal voucher with the supporting documentation to approve posting into the general ledger system. This process is typical for Finance Departments. However, Citygate could not find evidence of a formal month-end or quarter-end close. The month-end or quarter-end close of the general ledger provides the results of an accounting period to help gauge the direction of operational results in advance of the year-end and allows emerging operational issues to be addressed quickly. In researching prior fiscal year activity, month-end and other formal closes were found, but staff did not know why the formal process ceased.

A crucial part to the general ledger function is bank reconciliations. Current reconciliations of the banking activity to the activity reflected in the general ledger helps to identify errors and potential fraudulent activity. Bank reconciliations should be completed on a monthly basis per best practices. Citygate discovered that the City was at least five months behind in bank reconciliations. A temporary agency employee was hired by the City prior to Citygate beginning this engagement, but the bank reconciliations are still five months behind. Bank reconciliation tardiness has been a consistent issue and has been noted by the City's external auditors in the last three management letter comments in audits. It is unusual for this issue to remain unaddressed due to potential of accidental or fraudulent errors that could misstate the City's financial position. When Citygate inquired as to why correcting this issue was not a high priority of the City, Citygate was informed that neither the Finance Director nor the auditors shared the audit or the management letter comments with the City Manager's Office or the City Council. This is

very disturbing and needs to be researched in more depth to determine if other problems exist with the audit.

Finding #25: There is no formal automated accounts receivable process.

Finding #26: No evidence was found of a formal month-end or quarter-end accounting period closing in recent fiscal years.

Finding #27: The City does not have a formal written debt collection policy.

Finding #28: Monthly bank reconciliations have been consistently behind for the past three fiscal years. Although this fact has been commented on in management letters for the past fiscal years' audits, the management letters and audits were not made available by the Finance Director or the auditors to the City Manager's Office or the City Council prior to being included on the City's website.

Recommendation #27: Development of a formal automated accounts receivable process should be completed. The process should contain an authorization form (billing advice) that must be approved before a bill is generated. Also, the process should include an approval procedure in the Finance Department to minimize erroneous or fraudulent billings. Additionally, the accounts receivable process should be automated using the current accounts receivable module in the Springbrook financial system, if available, or some other automated system. The City should also contract with an external collection agency to assist in collection of seriously delinquent receivables. This recommendation will formalize the accounts receivable system and improve timeliness of revenue recognition and minimize billing errors.

Recommendation #28: Reestablish a formal process for accounting period closing on at least a monthly basis. This recommendation will help gauge where operations are heading and allow for the development of strategies to address issues before the end of the fiscal year. It will also provide a consistent tool to help with operational projections.

Recommendation #29: A formal debt collection policy should be developed. The policy should include the internal steps the City will take before delinquency is sent to a collection agency, which charges a fee. Also, the City should enforce the contract requirement that the collection agency submit monthly activity reports to the City so that the collection agency effectiveness can be monitored.

Recommendation #30: As a policy, final audits should be reviewed by the City Manager and presented to the City Council. Also, the City Council should be presented with responses and a plan to address the management letter comments of the audit. This will ensure that the City is aware of potential issues and current finances, which will allow the City to make more informed decisions. The City should review its current contract with the external auditor to ensure that the information of the audit is disseminated correctly.

Cash Receipts

The cash/checks/coin/credit cards (cash) receipts and depositing function is performed by three staff: two Senior Account Clerks and the Accounting Technician. The two Senior Account Clerks are also responsible for the utilities billing function. Cash is received via walk-in customers, deposits from other City departments, or the mail. All cash is processed by the two Senior Account Clerks who reconcile receipts and log the cash into the financial system on a daily basis. During Citygate's review, however, it was discovered by the City that this process was not occurring on a daily basis as required. Several checks were discovered in the vault room that were many months old that had not been processed. Cash received from other departments, except for the Police Department, is received by armored car. The Police Department hand delivers its deposit due to its proximity to the Finance Department, but does not receive a validation receipt/signature from the Finance Department acknowledging the deposit. All department deposits are completed on a daily basis and a manual log is kept of the departmental deposits; only the Police Department staff do not receive some sort of deposit receipt. The accuracy of daily deposits from departments was not verified by Citygate as this verification is outside the scope of this engagement.

Under normal circumstances, once cash has been processed into the financial system by the Senior Account Clerks, a proof list which summarizes and categorizes the processed cash is printed from the system. This proof list and the applicable cash is placed in the vault room.

Citygate observed that the vault room and the safe remains open during the day. This is a cash security issue that needs to be addressed. Upon inquiry, staff reported to Citygate that due to a faulty safe combination mechanism, the safe, once opened, would be left open because only one person understood how to overcome the faulty safe combination mechanism and that person was not always available.

The Accounting Technician, on a daily basis, retrieves the proof list and supporting cash and recounts to verify that the cash reconciles the proof list. The Accounting Technician then develops the daily bank deposit which is transported to the bank via armored car.

Petty cash administration is also managed by this staff person. There is no formal written petty cash policy. As a result, the amount of cash in petty cash varies. The amounts range from \$100 to \$1000 and, although the general rule relayed by staff is to only reimburse via petty cash for purchases \$50 or less, this is not always followed. The staff person interviewed by Citygate that is responsible for auditing petty cash boxes for the applicable departments stated that she was directed by management to provide warnings to departments that have petty cash boxes regarding when she will be auditing boxes. If this is true, it is contrary to auditing best practice.

Finding #29: The City does not have a formal cash receipting/handling policy.

Finding #30: The City does not prepare a cash flow analysis on an on-going basis.

Finding #31: Staff leaves the safe open during the day due to a faulty safe combination mechanism.

Finding #32: The City does not have a formal petty cash policy that is enforced.

Recommendation #31: A formal cash receipting/handling policy needs to be developed. The policy should include procedures that all City departments must follow if cash is handled and the way cash shortages/overages and petty cash are managed. Numerous municipal finance organizations, such as the GFOA and CSMFO, have sample policies which the City could adopt.

Recommendation #32: A cash flow analysis should be prepared monthly to assist in maximizing investment return and to ensure liquidity.

Recommendation #33: The City should invest in repairing the safe in the Finance Department vault room. This will allow the safe to be closed and locked when not in use during the day and increase cash security.

2.2.6 Grants, Utilities, and Special Projects

Grants

The City has obtained numerous grants and currently has six grants totaling approximately \$1 million for FY 17/18. Although the budget reflects grants management as a Finance Department function, no one in the Department is specifically assigned to administer grants at this time. The Management Analyst included in the Finance Department in the FY 17/18 budget was reassigned to the City Manager's office during FY 17/18 and retained grant coordination duties. Each applicable department is tasked with monitoring its specific grants in conjunction with the Management Analyst to prevent the inconsistent and error-prone administration that previously existed. A formal, written grant policy which outlines requirements to seek and obtain grants, as well as administrative duties and responsibilities, is needed for City departments. Although grants can be positive and beneficial, if they are not obtained with understanding and foresight, grants can result in cumbersome administrative responsibilities and/or may require withdrawal from the General Fund or service reduction when the grant ends. A formal policy which establishes a grant review process before grants are sought will help to minimize these pitfalls.

Utilities

City operated utilities include, water, sewer, and refuse services. Water and sewer services are provided by City staff and the City contracts for refuse service to the Athens Company. The Finance Department is responsible for administrative billing for these services. The Department contracts the billing function for water and sewer to Global DBA Fathom and, as of January 1, 2018, all refuse billing to Athens. The Athens contract language contains a clause that is problematic regarding remittance payments are determined between the City and Athens. The language is vague as to the process for remittance given that language specify the payment calculation based on prior month services rendered in the prior month when the City is on a bi-monthly billing cycle. The water and sewer operations have approximately 6200 customers and eight billing cycles billed in alternating bimonthly billing periods. Refuse operations have approximately 5900 customers, which are all billed monthly. The revenue generated for water/sewer and refuse for FY 16/17 was approximately \$10 million and \$3.9 million, respectively, for FY 17/18. The two Senior Account Clerks are the primary responders for phone, mail, and walk-in service. They follow through on customer questions, act as a liaison to the contracted billing companies, process utility payments, and perform any other function necessary to administer the utility billing function. Billing payments that are received by the

billing companies are received on a daily basis as a direct deposit into the City's bank account and posted to the general ledger via a journal voucher produced by the Management Assistant, Assistant Finance Director, or Finance Director. All payments received via mail or walk-in are processed per the cash receipt process outlined in this report. As a backup, the Film Coordinator assists when necessary in the utility billing function.

Finding #33: Athens contract language for refuse calculation and remittance is vague.

Recommendation #34: Amend the Athens contract language to clearly state how payments due to the City will be calculated and remitted.

Recommendation #35: Consider placing a kiosk in the lobby through which customers can perform simple transactions instead of waiting in line. This would provide some relief to staff and allow them to work on other back-logged areas.

Special Projects

Some of the special projects managed by the Finance Department include fuel log administration, liaising with the Whitman Company contracted to manage paramedic billing, auditing Citywide petty cash boxes, and uploading financial information into the OpenGov transparency portal. Various Finance Department staff are responsible for performing these functions.

2.2.7 Treasury/Investments

The Treasury function is managed by the Finance Director and elected City Treasurer. The City has a written investment policy which follows the investing requirements of the California Government Code Government Code section 53600.3, which obligates a fiduciary to ensure that:

“When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

In summary, the City's investment policy outlines the amount, type, and duration of investment that the City can use to invest its idle cash.

The City's investment portfolio as of March 2018 was approximately \$33.1 million consisting of \$16.7 million in the State Local Agency Investment Fund (LAIF) and approximately \$16.4 million actively invested with Morgan Stanley Smith Barney.

The City Treasurer administers the City's active investments, which is managed by Morgan Stanley Smith Barney with advice from Western Asset Management. The investment categories include government securities and corporate bonds. The Finance Director administers the passive investments in LAIF. LAIF is a voluntary program created by statute in 1977 as an investment alternative for California's local governments and special districts administered by the State Treasurer. This program offers local agencies the opportunity to participate in a major portfolio which invests hundreds of millions of dollars using the investment expertise of the State Treasurer's Office investment staff at no additional cost to the taxpayer.

The City Treasurer is an ex-officio non-voting member of the City's Finance Commission and the Finance Director acts as staff support to the Finance Commission. Per the City's municipal code, the Finance Commission is a five-member body that is advisory to the City Council, City Treasurer, and the City's Finance Department in matters of financial, budgetary, banking, accounting, licensing, and treasury management, and meets the fourth Thursday of even numbered months. Per staff, only the active investments are presented to the Finance Commission and City Council quarterly.

Wires coming to the City outside of the active investment are managed by the Finance Director without input from the City Treasurer.

Per the City Treasurer, no withdrawal from the active investment portfolio has been required in the past seven fiscal years.

Finding #34: The investment policy meets GFOA best practice.

Recommendation #36: Review and revise applicable policies/procedures to ensure that they are in compliance with the City's investment policy.

Recommendation #37: City should develop a formal cash flow analysis process to ensure that investment of idle cash is maximized.

2.2.8 Filming

The Filming function is managed by one staff member, the Film Coordinator. Approximately 180 to 200 film permits are issued annually by the City and all requests are coordinated through the Filming function. Filming in the City has several requirements, which include inspection and monitoring by police and fire to address safety and authorized location issues. Police and fire services fees are established via the applicable labor agreements and are paid through payroll. A debriefing report is provided to the Film Coordinator for the completed project.

The Film Coordinator is responsible for the billing and receipt of payments to and from the film crew companies for City services provided. An end of project report is also maintained to assist in the review of future film permit requests. The filming function is not typically found in the Finance Department. It is usually found in economic development or community development related departments due to its similarity with working with developers.

The process for obtaining a filming permit includes completion of an application and other requirements, which are online in the City film permit policy. The application can be completed online; however, payment for the permit is not allowed online due to the complexity of the approval process. All paperwork, approvals, and payments must be complete before a permit is released. The last fee study relating to filming fees was completed approximately four years ago.

The Film Coordinator also manages other duties in the Department as needed, such as water billing receipts, postage, and taking calls.

Recommendation #38: The filming function should remain in the Finance Department unless the FTE is replaced in the Finance Department. Although this arrangement is unusual, the backup responsibilities managed by the FTE including phones, counter work, and other coverage duties is very helpful in addressing operational and customer service needs. However, the title of Film Coordinator should be change to Management Assistant to incorporate the other duties being performed in the Finance Department.

Recommendation #39: Update the City's Master Fee Schedule for all fees, including filming permit fees to ensure that the City is charging appropriately for all applicable services.

2.3. GENERAL DEPARTMENT-WIDE ISSUES AND OBSERVATIONS

2.3.1 Staff

Leadership

Citygate interviewed all Department staff and City department heads regarding the prior leadership of the Finance Department. Due to the current lack of a Finance Director or Assistant Finance Director, Citygate ask the interviewees to discuss the previous leadership, as well as the current leadership, which consists of an acting Finance Director, who is also the Human Resources Director, and a Management Analyst, who is in the City Manager's office but formerly worked in the Finance Department handling grants and assisting with budget preparation. Based on the interviews of all Department staff, department heads, the City Manager, and other pertinent City staff, the following major common themes regarding the previous leadership of the Department were identified:

- ◆ Inadequate employee support
- ◆ Insufficient knowledge sharing with employees and other departments
- ◆ Lack of employee encouragement
- ◆ Lack of succession planning for employees
- ◆ Reluctance to approve training or allow implementation of process improvements
- ◆ Inconsistent application of rules and procedures
- ◆ Reluctance to take disciplinary action when necessary to correct inappropriate employee behavior

These traits exhibited by the previous Finance Director created a general feeling of isolation on the part of Department employees. This atmosphere could also encourage non-productive employees to be even more non-productive because of the belief that they will not be confronted by leadership. The lack of clear and enforced financial policies and procedures has exacerbated an already unproductive situation.

The comments regarding the current interim leadership staff were somewhat subdued, but mostly positive and considered an improvement over the previous leadership.

Based on the comments received, it is crucial that the new Finance Director have strong leadership characteristics. The individual should be knowledgeable and have the willingness to share that knowledge and mentor employees. Another key characteristic would be the ability to clearly and understandably convey information to Department staff, other City departments, the City Council, and the public. The new director should encourage well-thought-out continuous improvement ideas and not be afraid to take appropriate disciplinary measures when appropriate.

Adequacy of Existing Staff

After numerous staff interviews, a review of Department operations, and staffing comparisons to other comparable agencies, the number of staff currently authorized for the Department seems appropriate, although it is on the higher end of the range. However, the positions should be restructured to improve Department effectiveness. Additionally, the numerous manual processes currently used by Department staff unnecessarily increase the workload burden. Citygate believes that reducing the manual processes through the increased use of the Springbrook financial system modules will increase overall staff productivity. A key first step is that the City understands the capabilities of the financial system and revise and document the applicable financial operating policies and procedures.

Additionally, the City should review its current policy of a 9/80 work schedule while remaining open all business days, at least in the Finance Department. This policy creates a “skeleton crew” in the Department on Fridays. If someone is out sick, is on vacation, or has an emergency, staff coverage can be severely diminished, especially at the counter. Another issue created by the inefficiencies caused by the numerous manual processes is the potential need for employees to work overtime to accomplish their duties. Per interview comments, some staff are working overtime and not reporting it to keep up with their workload. Although these staff seem to be doing this with good intentions, this violates Federal law, specifically the Fair Labor Standards Act, and can lead to additional cost to the City due to penalties and potential labor grievances.

Some options to consider include remaining open longer during the week and closing on Fridays, or eliminating the 9/80 schedule for the staff members responsible for counter service. Of course, these types of changes would require meetings to confer with the applicable labor groups.

Morale

Interviews with Department staff revealed relatively low morale. Numerous factors contribute to this situation. Some of the key factors included lack of support from the former Finance Director; inadequate or lack of training, both external training and internal cross-training; uncertainty due to the departure of the Finance Director and Assistant Finance Director; and the lack of consistent procedures. One observation made by Citygate was that the staff felt they were in a situation where they had to make it on their own without help from anyone. Citygate suggested to City management that Finance staff, as frequently as possible, be updated on plans that would affect them during this transition period and be invited to share their opinion as to what the staff believes is needed to help them through the transition. City management staff quickly acted on the suggestion, and it seemed to have made a positive change in overall morale.

Productivity

Citygate has observed that staff productivity is reduced due to the lack of training, inconsistent or non-existent written policies and procedures, and the ineffective use of the Springbrook financial

system, which results in the use of inefficient manual processes. Another area that has an adverse impact on productivity is outdated and very general job descriptions. Job descriptions should be in sufficient specificity to ensure each employee understands the general responsibilities and duties for which he/she will be held accountable. Vague or outdated job descriptions, at a minimum, lead to staff confusion regarding their respective responsibilities but can also lead to manipulation by staff to avoid accountability by granting them an excuse for abstaining from a specific task because it is not part of the job description. To maintain confidentiality, Citygate did not review evaluation documentation of the Department staff; however, Citygate was informed by City staff that the City began using the NeoGov evaluation program to have employee evaluations include goals and objectives. Changes relating to this area will require the City to meet and confer with labor groups.

Customer Service

Customer service should be a very high priority for municipal finance departments as it is one of its main functions. Although “Outstanding customer-friendly service” is a core value of the City, none of the departments have established and documented goals and objectives regarding how they are achieving this or any of the core City values. Some of the operational issues adversely affecting customer service observed by Citygate include cumbersome manual operational procedures, untimely production of financial reports for City departments and residents, and inconsistent application of rules. These issues are all contrary to meeting the City’s customer service core value.

Finding #35: The City does not have a process for departments to develop goals and objectives to support the City’s mission statement and core values.

Recommendation #40: Develop a process that requires departments to develop goals and objectives that support the City’s mission statement and core values. The will help the Finance Department and other departments demonstrate their individual plan to meet the City’s direction.

Potential Department Reorganization

Although the number of staff seems to be adequate for the Department, a restructuring of the Department and appropriate job descriptions should be considered. A review of various comparable cities reflects various departmental structures for the Department, but very few with a staff size and General Fund budget of the City retain the position of Deputy or Assistant Finance Director. The job description for the Assistant Finance Director for the City contains the duties typical of that of an accounting manager or fiscal services manager in other comparable

cities. Other staff changes are also recommended to help increase overall efficiency of the Department. Additionally, the current divisions or functional areas of the Department could be revised to be more descriptive and more effective.

Recommendation #41: The City should consider restructuring the divisions and some of the positions in the Finance Department. The following is a list of suggested division and position restructures. Implementation of this recommendation will bring the City of South Pasadena in-line with comparable cities, which could help in recruitment and internal cross-training.

41.1 Change Assistant Finance Director position to Fiscal Services Manager. The duties would be pretty much the same as those in the current job description with the additional of contract monitoring on a Citywide basis to help adherence to contracting policies.

41.2 Change unique positions such as Film Liaison and Payroll Coordinator to more generally title positions where the duties can be customized as needed. An example would be to identify Account Technicians in a series (i.e., Account Technician I, Account Technician II, etc.). The current Account Technician handling accounts payable would also be included in this Account Technician series. This would assist in recruitment and encourage cross-training and sharing of ideas between like positions.

41.3 If the City decides to contract with HDL to permanently administer the business license program approximately 50 percent of the workload for each of the Senior Account Clerk positions would be eliminated. The City should consider eliminating the Senior Account Clerk positions and creating position of Customer Service Representatives. Duties would include primary counter support and administration support of the contracted billing functions; including water and sewer, refuse, cash receipting. The savings from the elimination of two Senior Account Clerks and the creation of a Customer Services Representative could pay for the majority of an Accountant position to help maintain up to date bank reconciliations journal vouchers, month-end, quarter-end, and year-end general ledger closing procedures, the CAFR, etc. to ensure that the other departments and City Council have current and accurate financial information on which to base decisions.

41.4 Since there are currently other Management Assistants within the City and the job descriptions contain clerical and counter-related duties, it is recommended that this position remain as is.

The division restructure would consist of the following:

Administration: Finance Director, Fiscal Services Manager, Management Assistant

Accounting: Account Technician II-Payroll, Account Technician I – Accounts Payable, (2) Accountant I

Revenue Management: Customer Service Representative, Account Technician II

Supplemental Staffing

A staff revision suggestion which does not involve staffing levels within the Department, but would indirectly assist the operations of the Department, is to create a position whose responsibilities would include special projects, such as assisting with the budget preparation, reviewing organizational effectiveness throughout the City, administrating and coordinating

grants acquired by the various departments, and creating a Citywide grant policy or other policies/procedures determined to be needed as a result of periodic operational reviews within City departments. It is recommended that this position be a part of the City Manager's office, with sufficient authority through the City Manager to ensure the position is part of the City's management team. Making this position part of the City Manager's office will allow for easy rotation among departments when completing various Citywide or department-specific projects. This will assist the Finance Department with ensuring policies are being followed in the departments, share the burden of budget development, assist with surprise audits that Department staff could not complete, and provide an opinion that is external to the Finance Department on operational issues.

Recommendation #42: Create a position within the City Manager's office that would oversee special Citywide operational improvement projects. This would benefit the City by providing resources that could be dedicated to various special projects as necessary to improve Citywide organizational effectiveness. This position could also assist the Finance Department with periodic finance-related projects and help to monitor Departmental adherence to the City's financial policies. Potential titles for this position include Organizational Effectiveness Manager or Operational Improvement Manager. The position should be at a City management team level to interact with department heads as necessary.

2.3.2 Financial Management Software and Equipment

The Finance Department utilizes several different financial management software packages. The different packages are Springbrook for general finance, HDL for business licenses, Global for water and sewer utility billing, U2U for water and sewer payments, Zendesk for water sewer adjustments, CIS for water sewer payment activity lookup, CityWorks for work orders relating to water and sewer projects, and OpenGov for Department transparency information for the public.

Springbrook

The Springbrook company was acquired in 2015 by Accela. The Springbrook financial system in South Pasadena includes

- ◆ General ledger
- ◆ Payroll

- ◆ Accounts Payable
- ◆ Cash Receipts
- ◆ Purchasing

The budget and CAFR is developed using a combination of Microsoft Excel and Word. The Springbrook financial system does offer modules that would manage budget and CAFR production which would help provide consistency and operational efficiencies resulting from the elimination of manual processes that increase the potential for human error. The City updated the Springbrook software two years ago but not all potential users were trained to use the upgraded system. Additionally, per various discussion, it seems even the individuals trained on the upgraded system were not trained on all of the capabilities of the system. Consequently, staff used the upgraded system as they did with the old system without taking advantage of the new system capabilities. Springbrook should be brought back to the City to provide training on all the modules and capabilities available on the upgraded system sold to the City. Additionally, all potential users should be trained—not just Finance Department staff. This will help to maximize efficiencies from the use of the system as well as help to determine if a different financial software system is needed.

Other Financial Software

The HDL, Global, U2U, Zendesk, CIS, and CityWorks systems are required to be used per the third-party company that the City contracts with to provide water and sewer billing and receipting services. The City should determine if there are any software updates for Global that would provide increased capabilities and efficiency.

The OpenGov system is a software package that is used by several cities to provide financial city information in a uniform format for the public.

2.3.3 Fiscal Policies

Citygate identified several written fiscal policies while reviewing various City documents. For the most part, however, the City severely lacks comprehensive, formal, written fiscal and other policies. The budget document, for example, contains fiscal policies that consist primarily of policy statements, such as balanced budget requirement, General Fund reserves, debt, and financial management. Citygate also found an outdated and incomplete Administrative Policy Manual (APM). This APM is in a format that is more in-line with what Citygate has seen and believes is more informative and useful. The format typically includes:

- ◆ The policy title
- ◆ The policy purpose
- ◆ The names of applicable forms

- ◆ The policy authorization
- ◆ The policy description
- ◆ The policy details who, what, when, how

The establishment of an accounting manual is a GFOA best practice. The recommendation from the GFOA website follows.

GFOA Best Practice Recommendation:

Every government should document its accounting policies and procedures. Traditionally, such documentation has taken the form of an accounting policies and procedures manual. Thanks to advances in technology, even more effective methods are now also available for this purpose.

An appropriate level of management to emphasize their importance and authority should promulgate accounting policies and procedures. The documentation of accounting policies and procedures should be evaluated annually and updated periodically, no less than once every three years, according to a predetermined schedule. Changes in policies and procedures that occur between these periodic reviews should be updated in the documentation promptly as they occur. A specific employee should be assigned the duty of overseeing this process. Management is responsible for ensuring that this duty is performed consistently.

The documentation of accounting policies and procedures should be readily available to all employees who need it. It should delineate the authority and responsibility of all employees, especially the authority to authorize transactions and the responsibility for the safekeeping of assets and records. Likewise, the documentation of accounting policies and procedures should indicate which employees are to perform which procedures. Procedures should be described as they are actually intended to be performed rather than in some idealized form. Also, the documentation of accounting policies and procedures should explain the design and purpose of control related procedures to increase employee understanding of and support for controls.⁵

⁵ <http://www.gfoa.org/best-practices>

This page was intentionally left blank

SECTION 3—BENCHMARKING INFORMATION

3.1 COMPARATIVE CITY SELECTION APPROACH

Citygate identified 15 common data points that are easily accessible from the websites of the various comparison agencies. The data points were as follows:

- ◆ Population (State Department of Finance E-1)
- ◆ Total Budget (Rounded) (Excludes Successor Agencies)
- ◆ General Fund Budget (Rounded)
- ◆ Projected General Fund Balance (Rounded)
- ◆ Finance Department Budget (All Funds Excluding Debt and Non-Departmental)
- ◆ Finance Department Staff # (All Funds)
- ◆ Finance Department Positions Titles (Full-Time – All Funds)
- ◆ Total Agency Full-Time Staff
- ◆ Total Agency Personnel Cost (Rounded)
- ◆ Finance Department Personnel Cost (Rounded)
- ◆ Finance Department Span of Control (Maximum Supervisor to Subordinate Ratio)
- ◆ Average Annual Personnel Cost per Employee in Finance Department
- ◆ Budgeted General Fund Operating Deficit (Yes or No)
- ◆ Agency Square Mileage
- ◆ Agency Median Household Income

The comparable cities were selected based on three criteria: cities throughout California with comparable populations, cities that are neighbors to the City of South Pasadena, and cities used by the City of South Pasadena in other comparison studies for areas such as employee compensation. Based on these criteria, the following 17 cities were selected.

- ◆ **Population Based:** Norco, Paradise, Lemon Grove, Twenty-Nine Palms
- ◆ **Neighboring Cities:** San Marino, Alhambra, San Gabriel, Pasadena, Monterey Park, Rosemead
- ◆ **Previously Used for Other Comparisons:** El Monte, Arcadia, Burbank, Covina, LaVerne, Monrovia, West Covina

3.2 RESULTS OF BENCHMARKING

3.2.1 Population Based Benchmarks

Norco, Paradise, Lemon Grove, Twenty-Nine Palms

The following table shows a comparison of the key data points for the City of South Pasadena and the average of the comparable population cities selected.

Table 6—Population Based Benchmarks

FY 17/18 Data Point	South Pasadena	Comparable Cities Average
Population (State Department of Finance E-1)	25,992	26,609
Total Budget (Rounded) (Excludes Successor Agencies)	58,700,000	26,525,000
General Fund Budget (Rounded)	27,400,000	13,903,724
Projected General Fund Balance (Rounded)	11,100,000	7,195,000
Finance Department Budget (All Funds Excluding Debt and Non-Departmental)	1,840,000	701,278
Finance Department Staff # (All Funds)	9	6
Total Agency Full-Time Staff	147	53
Total Agency Personnel Cost (Rounded)	21,200,000	7,866,667
Finance Department Personnel Cost (Rounded)	990,000	447,226
Finance Department Span of Control (Maximum Supervisor to Subordinate Ratio)	1 to 6	1 to 5
Average Annual Personnel Cost per Employee in Finance Department	110,000	65,309
Budgeted General Fund Operating Deficit (Yes or No)	No	Mixed
Agency Square Mileage	3.41	23.82
Agency Median Household Income	80,479	54,963

3.2.2 Neighboring Cities Benchmarks

San Marino, Alhambra, San Gabriel, Pasadena, Monterey Park, Rosemead

The following table shows a comparison of the key data points for the City of South Pasadena and the average of the neighboring cities selected.

Table 7—Neighboring Cities Benchmarks

FY 17/18 Data Point	South Pasadena	Comparable Cities Average (Excluding Pasadena)
Population (State Department of Finance E-1)	25,992	51,636
Total Budget (Rounded) (Excludes Successor Agencies)	58,700,000	70,260,000
General Fund Budget (Rounded)	27,400,000	37,640,000
Projected General Fund Balance (Rounded)	11,100,000	14,740,000
Finance Department Budget (All Funds Excluding Debt and Non-Departmental)	1,840,000	1,772,175
Finance Department Staff # (All Funds)	9	11
Total Agency Full-Time Staff	147	198
Total Agency Personnel Cost (Rounded)	21,200,000	32,447,040
Finance Department Personnel Cost (Rounded)	990,000	1,238,250
Finance Department Span of Control (Maximum Supervisor to Subordinate Ratio)	1 to 6	1 to 3
Average Annual Personnel Cost per Employee in Finance Department	110,000	109,919
Budgeted General Fund Operating Deficit (Yes or No)	No	No
Agency Square Mileage	3.41	6
Agency Median Household Income	80,479	65,616

3.2.3 Previously Used Comparator Agency Benchmark

El Monte, Arcadia, Burbank, Covina, LaVerne, Monrovia, West Covina

The following table shows a comparison of the key data points for the City of South Pasadena and the average of the comparable cities used by the City for past comparisons.

Table 8—Previously Used Comparator Agency Benchmarks

FY 17/18 Data Point	South Pasadena	Comparable Cities Average (Excluding Burbank & El Monte)
Population (State Department of Finance E-1)	25,992	57,400
Total Budget (Rounded) (Excludes Successor Agencies)	58,700,000	91,774,600
General Fund Budget (Rounded)	27,400,000	46,472,120
Projected General Fund Balance (Rounded)	11,100,000	9,471,800
Finance Department Budget (All Funds Excluding Debt and Non-Departmental)	1,840,000	3,461,920
Finance Department Staff # (All Funds)	9	12
Total Agency Full-Time Staff	147	247
Total Agency Personnel Cost (Rounded)	21,200,000	40,911,646
Finance Department Personnel Cost (Rounded)	990,000	1,562,240
Finance Department Span of Control (Maximum Supervisor to Subordinate Ratio)	1 to 6	1 to 5
Average Annual Personnel Cost per Employee in Finance Department	110,000	117,865
Budgeted General Fund Operating Deficit (Yes or No)	No	Mixed
Agency Square Mileage	3.41	11
Agency Median Household Income	80,479	71,882

Additional detail from the previous three tables is provided in **Appendices 3, 4, and 5**, respectively.

SECTION 4—FUTURE FINANCIAL MANAGEMENT CHALLENGES

4.1 FUTURE FINANCE DEPARTMENT CHALLENGES

There is always a learning curve for a new finance director of a city. The City of South Pasadena hired Citygate to provide an analysis to help shorten that learning curve by providing a basic overview and review of the Finance Department to assist the new director in acclimating to the Department more quickly. This report will also help the new director identify and prioritize issues to develop action plans. What follows are some of the management challenges. This list is by no means intended to be all inclusive. There are numerous challenges looming for finance departments in the upcoming years, including infrastructure backlogs and funding, state and federal laws, economic downturns, potential labor issues, etc. The following items are some of the more obvious.

4.1.1 Revenue Challenges

General Fund revenues have an average annual growth of approximately \$850,000, or 3.4 percent, over the last five fiscal years. However, a Utility Users Tax (UUT) repeal ballot measure has qualified for the November 2018 ballot. The UUT is based on a tax on utilities of 7.5 percent and brings in approximately \$3.4 million, or 13 percent, of General Fund revenues. If the measure were to pass, services would need to be significantly reduced to maintain a healthy General Fund with appropriate reserves.

4.1.2 Rising CalPERS Costs

In an effort to maintain the fiscal health of the CalPERS retirement system, CalPERS has implemented several changes that have increased pension costs and, in some cases, reduced future benefits. Each member of CalPERS contracts with the system to provide a level of benefits. For the City, as with most CalPERS member agencies, the level of benefits is developed through labor negotiations with the agency's various labor groups. Using various actuarial assumptions and methodologies, CalPERS develops the cost to provide the benefit level desired by the City. Adverse changes to these actuarial assumptions and methodologies implemented by CalPERS over the past few years will significantly impact pension costs for all CalPERS member agencies. One of the significant adverse assumption changes is the CalPERS board's decision to lower its assumed discount rate. The discount rate represents the rate CalPERS assumes it will earn on its investments. The lower the assumed earnings rate, the lower the assumed asset growth available to cover anticipated pension costs. In December 2016, the CalPERS board voted to lower the assumed discount rate from 7.5 percent to 7 percent using a three-year phase-in beginning with the June 30, 2016 actuarial valuations.

Based on the rates provided by CalPERS, for FY 18/19 alone, this phased-in assumptions change will increase pension cost for the City by approximately \$550,000 in the General Fund.

4.1.3 Process Improvement Development and Implementation

In reviewing the Department information for prior fiscal years, Citygate found that several of the operational issues identified in this report, such as policies and procedures, had been addressed in past years. Unfortunately, the information and previous procedures are scattered through numerous folders throughout the Finance system and had not been updated in several years. They are also not always in a format that is currently used. Although this is not ideal, it at least provides some basis on which to build and update to address some of the issues identified by the Finance Department review. Benefiting from this information, however, will require extensive review, research, and consolidation to create a useful manual that can be adopted by the City.

Finding #36: An extensive amount of information addressing policies and procedures are included in the Finance Department file on the financial system which could be used as a basis to address current operational issues. The information, however, is in various forms and locations and in some cases in a format not currently used.

Recommendation #43: Given the current staffing level and workload, the City should hire a third party to develop a comprehensive policies and procedures accounting manual. This will provide a solid basis from which to minimize operational inefficiencies, enhance internal control, and reduce confusion throughout the City.

Recommendation #44: An external team-building consultant should be hired by the City once the new Finance Director is hired to help identify and address issues and expectations in advance and develop action plans to help maximize the morale and productivity of the Department.

SECTION 5—SUMMARY OF FINDINGS / RECOMMENDATIONS / NEXT STEPS

The following matrix contains the findings and recommendations identified during this engagement. The matrix also provides priority levels which suggest implementation timeframes.

The priorities are coded as follows:

- ◆ A – Should be implemented within 90 days
- ◆ B – Should be implemented within 6 months
- ◆ C – Should be implemented within 1 year
- ◆ D – Should be explored within 1 year to determine appropriate implementation due to cost determination, funding, expertise, or other factors not readily available

Table 9—Findings and Recommendations with Priority Ranking

Findings	Finding Description	Recommendations	Recommendation Description	Priority
Finding #1:	Department staff lack continued and effective training and internal cross-training to help ensure operational consistency in emergency circumstances, as well as the confidence to reject transactions that they believe are contrary to policy/procedure.	Recommendation #1:	Establish a formal training program that requires staff to participate in regular training and internal cross-training. This should be mandatory training and should be included in the various employee evaluation goals. A mechanism (e.g., short quiz) should be developed and taken by the employee after the training to help ensure that the training was understood. As a part of the internal cross-training, employees should be instructed regarding how to report concerns of potential violation of policy/procedures direction without fear of retaliation.	C
Finding #2:	City staff has not been adequately trained on the capabilities of the City's financial software system to determine if it meets the needs of the City.	Recommendation #2:	Retrain and/or train all applicable employees who will benefit from the use of Springbrook to determine if the system is adequate for the needs of the Finance Department and other City departments. This training should be mandatory for all applicable employees.	C
Finding #3:	The Department is not providing consistent helpful service to other departments.	Recommendation #3:	A policy and procedures manual should be developed and/or updated.	C
		Recommendation #4:	All departments should provide input on the policy and procedures manual; however, the manual should be developed based on best practice standards.	C
		Recommendation #5:	The completed policy and procedures manual should be presented to the City Council and all City employees so that everyone is aware that adherence to the new policies and procedures is mandatory.	C
Finding #4:	The City has not processed a formal month-end or quarter-end close in several years, and no formal period-closing written procedures were found.	Recommendation #6:	A formal written set of procedures should be developed and a formal month-end review for all funds, or at least a mid-year budget review, should be completed every fiscal year. This will help identify potential issues in time to develop strategies to address these issues. This procedure will also help when performing budget projections for current and future budget years.	B
Finding #5:	The City uses Microsoft Excel spreadsheets to develop the budget and the Springbrook financial system for other financial activity, which increases the amount of time required to develop the budget.	Recommendation #7:	A formal budget module should be utilized to follow best practices and minimize manual processes and the time required to develop the budget, in addition to reducing the potential for human error. The Springbrook system has a formal budget model that is compatible with its other financial modules that would substantially reduce the amount of time required and the chance of human error when developing the budget.	B

City of South Pasadena

Finance Department Operational Review (CONFIDENTIAL DRAFT REPORT) (UNDER ATTORNEY-CLIENT PRIVILEGE)

Findings	Finding Description	Recommendations	Recommendation Description	Priority
Finding #6:	Repeat management letter recommendations over multiple fiscal years were not addressed, and no written response or plan of action was completed and reviewed by the City Manager.	Recommendation #8:	The Comprehensive Annual Financial Report (CAFR), management letter, and all other reports generated from the annual audit, once finalized, should be reviewed by the City Manager and presented to the City Council. This will ensure that the City is aware of potential financial issues and that a plan has been developed to address the issues.	B
		Recommendation #9:	Discuss the audit expectations with the external auditor during an entrance conference before the audit field work begins. One of the expectations should be that the CAFR, management letter, and all other reports associated with the audit, once finalized, are sent directly to the City Manager in addition to the Finance Director. The final documents should be presented to the City Council after final review by the City Manager.	A
		Recommendation #10:	A formal written response and plan of action to address the FY 16/17 management letter comments should be produced and presented with the FY 17/18 audit.	B
		Recommendation #11:	Auditor should complete a formal internal control questionnaire each year of the engagement to help identify potential weaknesses and areas on which to concentrate during the audit.	B
		Recommendation #12:	Future audits should include a more in-depth review of the City's golf course and stable operations to identify any operational issues.	B
Finding #7:	There is no formal written fraud policy to report potential fraud.	Recommendation #13:	Develop a formal written fraud policy that identifies the process to report fraud. The policy should include the creation of a website for individuals, including City staff, to anonymously report fraud or potential fraud and the steps in place to ensure the reports are investigated.	A
Finding #8:	Due to lack of cross-training, only one employee knows how to process a full City payroll.	Recommendation #14:	The full cross-training of the Management Assistant should be completed more quickly. Planned overtime should be considered to expedite completion of the training. Additionally, the Management Assistant should periodically complete an increasing portion of an actual full payroll after the training to ensure it has been effective. Implementation of this recommendation will help to minimize loss of process continuity in the case of emergencies, as well as relieve some of the burden felt by the Payroll Coordinator that limits earned time off.	A

Findings	Finding Description	Recommendations	Recommendation Description	Priority
Finding #9:	Separation of duties between Payroll and Human Resources responsibilities is lacking, which weakens internal control.	Recommendation #15:	The Payroll staff should be retrained on the capabilities of the existing Springbrook payroll module. The training should be mandatory and part of the annual evaluation goals, which will help minimize the potential of employees continuing to use the old, ineffective processes without consequences. Implementation of this recommendation will help to identify current manual processes that may be automated in the payroll module, thus reducing processing time and manual calculation errors. This recommendation could also delay the need for additional employees because of the increased productivity.	A
Finding #10:	There are too many manual processes in the payroll process, which increases the time required to complete a payroll and the chance of human error. This is partially due to the uncertainty concerning the capabilities of the Springbrook payroll module.	Recommendation #16:	A schedule of responsibilities should be developed for the Payroll and Human Resources functions of the City. This schedule of responsibilities should follow best practices, including a clear delineation. Human Resources is responsible for employee creation, benefits, and changes relating to pay; Payroll is responsible for creation of the employee check and all other processes relating to the check process, including deductions, payroll tax and retirement processing, report processing relating to employees checks, etc. Implementation of this recommendation will improve internal control and comply with best practice by minimizing the risk of the accidental or fraudulent creation and payment of fictitious employees.	A
Finding #11:	Adequate equipment to fully automate the payroll process is lacking.	Recommendation #17:	The City should invest in the purchase of a folder/stuffer machine to reduce the time spent on folding checks and paystubs and inserting them into envelopes for distribution. Implementation of this recommendation will not only reduce the time required by the Payroll Coordinator but also the time spent by other employees who perform similar duties.	A
Finding #12:	Payroll employee(s) are not consistently obtaining payroll-related training to keep up with changing payroll-related laws, rules, and regulations.	Recommendation #18:	Payroll employees should be encouraged to attend payroll-related training to remain knowledgeable concerning payroll laws. Implementation of this recommendation will improve employee productivity through the reduction of errors caused by lack of knowledge regarding payroll matters. Another benefit is the potential improvement in confidence and morale of the employee due to reduced frustration of feeling uninformed.	A
Finding #13:	No written authorization was located that authorized the City to operate a decentralized purchasing process.	Recommendation #19:	As an additional check and balance, the City should consider including a step in the Accounts Payable process that contains a sampling of vendors from each Accounts Payable register to compare authorized signatures, W9 information, and purchase order reference, if applicable.	A

Findings	Finding Description	Recommendations	Recommendation Description	Priority
Finding #14:	The procurement and payment approval process is manual, requiring pieces of paper to be routed throughout the City, and they are frequently lost or misplaced, requiring extra time to process.	Recommendation #20:	Cross-training, external training, and increased automation is also needed in the Accounts Payable function to improve productivity and morale.	A
Finding #15:	City staff lack the knowledge of what capabilities the Springbrook financial system has to help improve productivity.	Recommendation #21:	A policy should be developed to encourage Accounts Payable staff to ask questions if they believe a direction from the Finance Director is contrary to City policy as they know it. This policy should include language that protects staff if they refuse to process something that they know is against policy.	A
Finding #16:	There is no signature authorization log with formal validation of the authorized signatures that could be cross-checked to help identify unauthorized payment requests.	Recommendation #22:	One way to minimize the issue of omitting the creation of a 1099 erroneously is to run an Accounts Payable payment report by vendor and compare to the 1099 report generated by the financial system.	B
Finding #17:	There is no formal written budget override authorization policy.	Recommendation #23:	A formal written purchasing card policy should be developed that includes allowable uses of the card and penalties for misuse. All users and potential users of purchasing cards should be required to attend training on the purchasing card policy and be made aware of consequences of not adhering to the policy. The Finance Department should establish a monitoring process to ensure policy compliance.	A
Finding #18:	There is no back-up for the current Accounts Payable staff.			
Finding #19:	Per Accounts Payable staff, the direction of the Finance Director is not questioned, even if staff knows that the direction is a violation of policy.			
Finding #20:	There is not a process in place for double-checking 1099 production to ensure all required 1099s are produced.			
Finding #21:	There is no formal written purchasing card policy.			
Finding #22:	Staff are using an outdated business license system which prohibits the provision of the most efficient service to businesses.	Recommendation #24:	City should update to the new HDL system and contract with HDL to use its remote business licensing program permanently. This will significantly reduce the workload of the two Senior Account Clerks, allowing the positions to be repurposed or eliminated to generate funding for other positions discussed in the restructuring recommendations in this report.	A
Finding #23:	The City does not have business licensing inspectors assigned to the Finance Department and relies on the fire inspection process to identify unlicensed businesses.	Recommendation #25:	The City should contract with a company such as HDL or MuniServices to provide a business canvassing program to detect unlicensed businesses. The benefits of this recommendation are the identification of unlicensed business which are receiving an unfair advantage over compliant businesses, an increase in City revenue, and an increase in the accuracy of the business database.	B

Findings	Finding Description	Recommendations	Recommendation Description	Priority
Finding #24:	The City's business licensing ordinance, although not unique, is overly complicated for business licensing calculation.	Recommendation #26:	The business license ordinance should be reviewed and revised to reduce complexities of business license fee calculation and business categorization. This will benefit the City by potentially allowing businesses to calculate their fees themselves to speed up receipt of payment and reduce administration time.	C
Finding #25:	There is no formal automated accounts receivable process.	Recommendation #27:	Development of a formal automated accounts receivable process should be completed. The process should contain an authorization form (billing advice) that must be approved before a bill is generated. Also, the process should include an approval procedure in the Finance Department to minimize erroneous or fraudulent billings. Additionally, the accounts receivable process should be automated using the current accounts receivable module in the Springbrook financial system, if available, or some other automated system. The City should also contract with an external collection agency to assist in collection of seriously delinquent receivables. This recommendation will formalize the accounts receivable system and improve timeliness of revenue recognition and minimize billing errors.	B
Finding #26:	No evidence was found of a formal month-end or quarter-end accounting period closing in recent fiscal years.	Recommendation #28:	Reestablish a formal process for accounting period closing on at least a monthly basis. This recommendation will help gauge where operations are heading and allow for the development of strategies to address issues before the end of the fiscal year. It will also provide a consistent tool to help with operational projections.	A
Finding #27:	The City does not have a formal written debt collection policy.	Recommendation #29:	A formal debt collection policy should be developed. The policy should include the internal steps the City will take before delinquency is sent to a collection agency, which charges a fee. Also, the City should enforce the contract requirement that the collection agency submit monthly activity reports to the City so that the collection agency effectiveness can be monitored.	B
Finding #28:	Monthly bank reconciliations have been consistently behind for the past three fiscal years. Although this fact has been commented on in management letters for the past fiscal years' audits, the management letters and audits were not made available by the Finance Director or the auditors to the City Manager's Office or the City Council prior to being included on the City's website.	Recommendation #30:	As a policy, final audits should be reviewed by the City Manager and presented to the City Council. Also, the City Council should be presented with responses and a plan to address the management letter comments of the audit. This will ensure that the City is aware of potential issues and current finances, which will allow the City to make more informed decisions. The City should review its current contract with the external auditor to ensure that the information of the audit is disseminated correctly.	B

City of South Pasadena

Finance Department Operational Review (CONFIDENTIAL DRAFT REPORT) (UNDER ATTORNEY-CLIENT PRIVILEGE)

Findings	Finding Description	Recommendations	Recommendation Description	Priority
Finding #29:	The City does not have a formal cash receipting/handling policy.	Recommendation #31:	A formal cash receipting/handling policy needs to be developed. The policy should include procedures that all City departments must follow if cash is handled and the way cash shortages/overages and petty cash are managed. Numerous municipal finance organizations, such as the GFOA and CSMFO, have sample policies which the City could adopt.	A
Finding #30:	The City does not prepare a cash flow analysis on an on-going basis.	Recommendation #32:	A cash flow analysis should be prepared monthly to assist in maximizing investment return and to ensure liquidity.	A
Finding #31:	Staff leaves the safe open during the day due to a faulty safe combination mechanism.	Recommendation #33:	The City should invest in repairing the safe in the Finance Department vault room. This will allow the safe to be closed and locked when not in use during the day and increase cash security.	A
Finding #32:	The City does not have a formal petty cash policy that is enforced.		**** See Recommendation #31	A
Finding #33:	Athens contract language for refuse calculation and remittance is vague.	Recommendation #34:	Amend the Athens contract language to clearly state how payments due to the City will be calculated and remitted.	B
		Recommendation #35:	Consider placing a kiosk in the lobby through which customers can perform simple transactions instead of waiting in line. This would provide some relief to staff and allow them to work on other back-logged areas.	D
Finding #34:	The investment policy meets GFOA best practice.	Recommendation #36:	Review and revise applicable policies/procedures to ensure that they are in compliance with the City's investment policy.	A
		Recommendation #37:	City should develop a formal cash flow analysis process to ensure that investment of idle cash is maximized.	B
		Recommendation #38:	The filming function should remain in the Finance Department unless the FTE is replaced in the Finance Department. Although this arrangement is unusual, the backup responsibilities managed by the FTE including phones, counter work, and other coverage duties is very helpful in addressing operational and customer service needs. However, the title of Film Coordinator should be change to Management Assistant to incorporate the other duties being performed in the Finance Department.	C
		Recommendation #39:	Update the City's Master Fee Schedule for all fees, including filming permit fees to ensure that the City is charging appropriately for all applicable services.	C
Finding #35:	The City does not have a process for departments to develop goals and objectives to support the City's mission statement and core values.	Recommendation #40:	Develop a process that requires departments to develop goals and objectives that support the City's mission statement and core values. The will help the Finance Department and other departments demonstrate their individual plan to meet the City's direction.	C

Findings	Finding Description	Recommendations	Recommendation Description	Priority
		<p>Recommendation #41:</p>	<p>The City should consider restructuring the divisions and some of the positions in the Finance Department. The following is a list of suggested division and position restructures. Implementation of this recommendation will bring the City of South Pasadena in-line with comparable cities, which could help in recruitment and internal cross-training.</p> <p>41.1 Change Assistant Finance Director position to Fiscal Services Manager. The duties would be pretty much the same as those in the current job description with the additional of contract monitoring on a Citywide basis to help adherence to contracting policies.</p> <p>41.2 Change unique positions such as Film Liaison and Payroll Coordinator to more generally title positions where the duties can be customized as needed. An example would be to identify Account Technicians in a series (i.e., Account Technician I, Account Technician II, etc.). The current Account Technician handling accounts payable would also be included in this Account Technician series. This would assist in recruitment and encourage cross-training and sharing of ideas between like positions.</p> <p>41.3 If the City decides to contract with HDL to permanently administer the business license program approximately 50 percent of the workload for each of the Senior Account Clerk positions would be eliminated. The City should consider eliminating the Senior Account Clerk positions and creating position of Customer Service Representatives. Duties would include primary counter support and administration support of the contracted billing functions; including water and sewer, refuse, cash receipting. The savings from the elimination of two Senior Account Clerks and the creation of a Customer Services Representative could pay for the majority of an Accountant position to help maintain up to date bank reconciliations journal vouchers, month-end, quarter-end, and year-end general ledger closing procedures, the CAFR, etc. to ensure that the other departments and City Council have current and accurate financial information on which to base decisions.</p> <p>41.4 Since there are currently other Management Assistants within the City and the job descriptions contain clerical and counter-related duties, it is recommended that this position remain as is.</p> <p>The division restructure would consist of the following:</p> <p>Administration: Finance Director, Fiscal Services Manager, Management Assistant</p> <p>Accounting: Account Technician II-Payroll, Account Technician I – Accounts Payable, (2) Accountant I,</p> <p>Revenue Management: Customer Service Representative, Account Technician II</p>	<p>C</p>

Findings	Finding Description	Recommendations	Recommendation Description	Priority
		Recommendation #42:	Create a position within the City Manager's office that would oversee special Citywide operational improvement projects. This would benefit the City by providing resources that could be dedicated to various special projects as necessary to improve Citywide organizational effectiveness. This position could also assist the Finance Department with periodic finance-related projects and help to monitor Departmental adherence to the City's financial policies. Potential titles for this position include Organizational Effectiveness Manager or Operational Improvement Manager. The position should be at a City management team level to interact with department heads as necessary.	B
Finding #36:	An extensive amount of information addressing policies and procedures are included in the Finance Department file on the financial system which could be used as a basis to address current operational issues. The information, however, is in various forms and locations and in some cases in a format not currently used.	Recommendation #43:	Given the current staffing level and workload, the City should hire a third party to develop a comprehensive policies and procedures accounting manual. This will provide a solid basis from which to minimize operational inefficiencies, enhance internal control, and reduce confusion throughout the City.	C
		Recommendation #44:	An external team-building consultant should be hired by the City once the new Finance Director is hired to help identify and address issues and expectations in advance and develop action plans to help maximize the morale and productivity of the Department.	C

This page was intentionally left blank

APPENDICES 1–5

- Appendix 1** Multi-Year Budget Versus Actual – General Fund – Expenditures by Department
- Appendix 2** Multi-Year Budget Versus Actual – General Fund – Expenditures by Category
- Appendix 3** Benchmark Agency Comparisons – Population-Based
- Appendix 4** Benchmark Agency Comparisons – Neighboring Cities
- Appendix 5** Benchmark Agency Comparisons – Previously Used Comparator Agencies

This page was intentionally left blank

Appendix # 2 (CONFIDENTIAL DRAFT REPORT) (UNDER ATTORNEY-CLIENT PRIVILEGE)

Multi-Year Budget versus Actual - General Fund

Expenditures by Category

Revenue Categories	FY 12/13 Budget	FY 12/13 Actual	Variance	FY 13/14 Budget	FY 13/14 Actual	Variance	FY 14/15 Budget	FY 14/15 Actual	Variance	FY 15/16 Budget	FY 15/16 Actual	Variance	FY 16/17 Budget	FY 16/17 Actual	Variance
Taxes															
Property Taxes	10,222,500	11,074,604	852,104	10,968,710	11,462,586	493,876	11,915,770	11,990,074	74,304	12,425,748	12,632,984	207,236	13,196,987	13,236,832	39,845
Library Special Tax	-	231,880	231,880	-	231,667	231,667	230,000	232,388	2,388	230,000	231,645	1,645	306,000	309,886	3,886
Sales Tax	2,006,000	2,207,696	201,696	2,180,410	2,350,781	170,371	2,277,240	2,414,498	137,258	2,531,000	2,635,968	104,968	2,525,667	2,456,666	(69,001)
Utility Users Taxes	3,499,900	3,562,216	62,316	3,661,040	3,486,776	(174,264)	3,719,000	3,423,217	(295,783)	3,660,000	3,414,827	(245,173)	3,500,000	3,381,948	(118,052)
Franchise Fees / Other Taxes	758,500	941,358	182,858	760,519	932,740	172,221	883,100	1,024,898	141,798	919,000	1,000,664	81,664	1,004,000	1,019,207	15,207
Total Taxes	16,486,900	18,017,754	1,530,854	17,570,679	18,464,550	893,871	19,025,110	19,085,075	59,965	19,765,748	19,916,088	150,340	20,532,654	20,404,539	(128,115)
Licenses and Permits	915,200	950,256	35,056	1,035,200	933,816	(101,384)	985,820	1,010,779	24,959	985,820	1,028,583	42,763	1,004,900	1,056,357	51,457
Fines and Forfeitures	505,000	523,629	18,629	530,000	412,748	(117,252)	530,000	347,585	(182,415)	332,000	444,556	112,556	366,000	397,738	31,738
Use of Money and Property	401,120	456,581	55,461	379,420	483,839	104,419	386,070	520,879	134,809	488,384	681,073	192,689	580,585	541,749	(38,836)
Other Agencies	45,000	60,893	15,893	35,000	290,596	255,596	34,000	439,733	405,733	17,000	136,328	119,328	15,000	76,386	61,386
Current Services	2,044,450	2,208,447	163,997	2,090,625	2,629,229	538,604	2,415,000	2,974,124	559,124	2,398,810	2,805,481	406,671	2,413,500	2,913,908	500,408
All Other Revenues / Transfers In	1,334,789	860,554	(474,235)	1,090,948	1,130,988	40,040	748,778	810,357	61,579	742,155	1,477,945	735,790	709,382	965,505	256,123
Total Revenues	21,732,459	23,078,114	1,345,655	22,731,872	24,345,766	1,613,894	24,124,778	25,188,532	1,063,754	24,729,917	26,490,054	1,760,137	25,622,021	26,356,182	734,161
Expenditure Categories	FY 12/13 Budget	FY 12/13 Actual	Variance	FY 13/14 Budget	FY 13/14 Actual	Variance	FY 14/15 Budget	FY 14/15 Actual	Variance	FY 15/16 Budget	FY 15/16 Actual	Variance	FY 16/17 Budget	FY 16/17 Actual	Variance
Wages and Benefits	14,727,550	14,192,163	535,387	14,636,899	14,176,094	460,805	14,831,712	15,193,994	(362,282)	16,053,582	15,672,149	381,433	17,543,464	17,463,445	80,019
Operations and Maintenance	5,375,413	6,502,646	(1,127,233)	5,581,407	5,155,137	426,270	5,498,699	5,632,485	(133,786)	5,668,220	5,564,847	103,373	5,924,567	5,542,055	382,512
Capital Outlay	98,000	143,112	(45,112)	147,000	188,551	(41,551)	13,600	50,422	(36,822)	112,293	101,252	11,041	166,600	163,570	3,030
Transfers Out	622,000	984,062	(362,062)	168,371	406,598	(238,227)	582,497	596,137	(13,640)	640,539	676,460	(35,921)	3,311,061	5,473,409	(2,162,348)
CIP	1,555,000	942,191	612,809	4,335,248	2,841,547	1,493,701	2,855,000	2,473,270	381,730	2,189,500	2,728,182	(538,682)	100,000	483,614	(383,614)
Total Expenditures	22,377,963	22,764,174	(386,211)	24,868,925	22,767,927	2,100,998	23,781,508	23,946,308	(164,800)	24,664,134	24,742,890	(78,756)	27,045,692	29,126,093	(2,080,401)
Net Operating Income/(Loss)	(645,504)	313,940	959,444	(2,137,053)	1,577,839	3,714,892	343,270	1,242,224	898,954	65,783	1,747,164	1,681,381	(1,423,671)	(2,769,911)	(1,346,240)

FY 13 through FY 17 Cumulative Total		
Budget	Actual	Variance
58,729,715	60,397,080	1,667,365
766,000	1,237,466	471,466
11,520,317	12,065,609	545,292
18,039,940	17,268,984	(770,956)
4,325,119	4,918,867	593,748
93,381,091	95,888,006	2,506,915
4,926,940	4,979,791	52,851
2,263,000	2,126,256	(136,744)
2,235,579	2,684,121	448,542
146,000	1,003,936	857,936
11,362,385	13,531,189	2,168,804
4,626,052	5,245,349	619,297
118,941,047	125,458,648	6,517,601
5-Year Total Budget	5-Year Total Actual	Variance
77,793,207	76,697,845	1,095,362
28,048,306	28,397,170	(348,864)
537,493	646,907	(109,414)
5,324,468	8,136,666	(2,812,198)
11,034,748	9,468,804	1,565,944
122,738,222	123,347,392	(609,170)
(3,797,175)	2,111,256	5,908,431

Appendix # 3 (CONFIDENTIAL DRAFT REPORT) (UNDER ATTORNEY-CLIENT PRIVILEGE)
Benchmark Agency Comparisons - Population-Based

FY 2017/18	South Pasadena	Four-City Average	Norco	Paradise	Lemon Grove	Twenty Nine Palms
Population (State Department of Finance E-1)	25,992	26,609	26,882	25,841	26,795	26,919
Total Budget (Rounded) (Excludes Successor Agencies)	58,700,000	26,525,000 *	38,200,000	28,300,000	25,200,000	14,400,000
General Fund Budget (Rounded)	27,400,000	13,903,724	20,400,000	12,614,895	13,200,000	9,400,000
Projected General Fund Balance (Rounded)	10,500,000	7,195,000 **	8,900,000	3,780,000	4,600,000	11,500,000
Finance Department Budget (All Funds Excluding Debt and Non-Departmental)	1,840,000	701,278	1,385,050	958,473	276,590	185,000
Finance Department Staff # (All Funds)	9	6	10	6	5	3
	Finance Director	-	Finance Officer	Administrative Services / Finance Directory / Treasurer	Finance Manager	Finance Director
	Assistant Finance Director		Administrative Analyst	Financial Services Analyst	Account Analyst	Assistant Finance Director
	Management Analyst		Account Manager	Senior Accountant	Associate Accountant	Financial Technician
	Payroll Coordinator		Senior Accountant	Housing Program Supervisor	Licensed Clerk	
Finance Department Staff Titles (Full-Time - All Funds)	Filing Liaison		(6) Account Clerks	Human Resources / Risk Management Manager	Office Aid	
	Account Technician			Information Technology Manager		
	Management Assistant					
	(2) Senior Account Clerks					
Total Agency Full-Time Staff	147	53	56	59	58	39
Total Agency Personnel Cost (Rounded)	21,200,000	7,866,667	7,000,000	10,200,000	6,400,000	
Finance Department Personnel Cost (Rounded)	990,000	447,226	1,005,104	461,000	177,800	145,000
Finance Department Span of Control (Maximum Supervisor to Subordinate Ratio)	1 to 6	1 to 5	1 to 7	1 to 5	1 to 4	1 to 2
Average Annual Personnel Cost per Employee in Finance Department	110,000	65,309	100,510	76,833	35,560	48,333
Budgeted General Fund Operating Deficit (Yes or No)	No	-	Yes	No	No	No
Agency Square Mileage	3	24	14	18	4	59
Agency Median Household Income	80,479	54,963	85,142	41,482	52,339	40,890

* Operating budget only

** Estimated

Appendix # 4 (CONFIDENTIAL DRAFT REPORT) (UNDER ATTORNEY-CLIENT PRIVILEGE)

Benchmark Agency Comparisons - Neighboring Cities

FY 2017/18	Five-City Average (Excludes Pasadena)									
	South Pasadena	Six-City Average	Pasadena	San Marino	Alhambra	San Gabriel	Pasadena	Monterey Park	Rosemead	
Population (State Department of Finance E-1)	25,992	66,919	51,636	13,647	86,922	41,020	143,333	61,606	54,984	
Total Budget (Rounded) (Excludes Successor Agencies)	58,700,000	187,800,000	70,260,000	29,300,000	140,400,000	54,800,000	775,500,000	94,400,000	32,400,000	
General Fund Budget (Rounded)	27,400,000	72,066,667	37,640,000	21,800,000	66,100,000	37,200,000	244,200,000	40,700,000	22,400,000	
Projected General Fund Balance (Rounded)	10,500,000	20,166,667	14,740,000	20,500,000	16,400,000	3,400,000	47,300,000	15,500,000	17,900,000	
Finance Department Budget (All Funds Excluding Debt and Non-Departmental)	1,840,000	3,857,740	1,772,175	** Included in City Manager's Office	1,900,000	2,200,000	12,200,000	2,600,000	388,700	
Finance Department Staff # (All Funds)	9	22	11	**	-	15	9	68	15	4
	Finance Director	-	-	-	Finance Director	Finance Director	Finance Director	Finance Director	Director of Management Services	Finance Director
	Assistant Finance Director				Executive Assistant	Management Analyst	Management Analyst	Management Analyst	(2) Account Clerk	Finance Services Supervisor
	Management Analyst				Assistant Finance Director	(2) Fiscal Services Manager	Deputy Director / Treasurer	Accountant	Accountant	Senior Account Specialist
	Payroll coordinator				Account Manager	Accountant	(3) Senior Executive Assistant	Controller	Account Specialist	
	Filing Liaison				Purchasing Technician	Revenue Collections Administrator	(19) Account and Financial Analyst Div.	Payroll Technician		
	Account Technician				Revenue Supervisor	Payroll Specialist	(10) Fiscal Services Div.	(6) Senior Account Clerk		
Finance Department Staff Titles (Full-Time - All Funds)	Management Assistant				Senior Account Clerk	(2) Finance Clerk II	(13) Purchasing & Printing Div.	Senior Accountant		
	(2) Senior Account Clerks				(5) Account Clerks		(20) Treasury and Cash Management Div.	Support Services Manager		
					(2) Cashiers			Support Services Supervisor		
					Information Services Manager					
Total Agency Full-Time Staff	147	527	198	102	335	194	2172	302	56	
Total Agency Personnel Cost (Rounded)	21,200,000	72,322,533	32,447,040	17,500,000	61,900,000	30,400,000	271,700,000	44,316,200	8,119,000	
Finance Department Personnel Cost (Rounded)	990,000	2,630,600	1,238,250	**	1,700,000	1,300,000	8,200,000	1,671,000	282,000	
Finance Department Span of Control (Maximum Supervisor to Subordinate Ratio)	1 to 6		1 to 3	-	1 to 6	1 to 2	1 to 19	1 to 6	1 to 3	
Average Annual Personnel Cost per Employee in Finance Department	110,000	112,053	109,919	**	113,333	144,444	120,588	111,400	70,500	
Budgeted General Fund Operating Deficit (Yes or No)	No	-	-	No	No	No	No	No	No	
Agency Square Mileage	3	9	6	4	8	4	23	8	5	
Agency Median Household Income	80,479	66,487	65,616	119,300	53,195	56,238	70,845	54,821	44,524	

** Four-city average (Excludes San Marino and Pasadena)

Appendix # 5 (CONFIDENTIAL DRAFT REPORT) (UNDER ATTORNEY-CLIENT PRIVILEGE)
Benchmark Agency Comparisons - Previously Used Comparator Agencies

FY 2017/18	Five-City Average (Excludes Burbank and El Monte)					Burbank	Covina	LaVerne	Monrovia	West Covina
	South Pasadena	Seven-City Average	El Monte	Arcadia	El Monte					
Population (State Department of Finance E-1)	25,992	59,452	57,400	22,013	57,704	107,149	49,006	33,260	38,787	108,245
Total Budget (Rounded) (Excludes Successor Agencies)	58,700,000	183,799,743	91,774,600	167,025,200	110,400,000	660,700,000	89,120,000	55,250,000	97,100,000	107,003,000
General Fund Budget (Rounded)	27,400,000	67,713,443	46,472,120	74,533,500	61,300,000	167,100,000	34,000,000	32,500,000	41,650,000	62,910,600
Projected General Fund Balance (Rounded)	10,500,000	8,850,000	9,471,800	2,921,000	7,407,000	11,670,000	5,000,000	11,300,000	6,200,000	17,452,000
Finance Department Budget (All Funds Excluding Debt and Non-Departmental)	1,840,000	3,535,057	3,461,920	2,582,800	6,930,000	4,853,000	877,600	539,000	1,357,000	7,606,000
Finance Department Staff # (All Funds)	9	16	12	18	15	32	8	5	15	18
	Finance Director	-	-	Finance Director	Administrative Services Director	Financial Services Director	Finance Director	Finance Director / Treasurer	Administrative Services Director / Assistant City Manager	Finance Director
	Assistant Finance Director			Finance Manager	Information Technology Manager	(5) Account Clerk	Account Supervisor	Senior Management Analyst	Deputy Administrative Services Director	Senior Administrative Assistant
	Management Analyst			Account Manager	Financial Services Manager / Treasurer	(3) Accountant	Senior Accountant	Account/Payroll Technician	Financial Operations Manager	Management Analyst II / Budget
	Payroll Coordinator			(2) Principle Accountant	Account Supervisor	Account/Audit Manager	Accountant	Administrative Analyst	Management Analyst / Senior Management Analyst	Account Manager
	Filing Liaison			Accountant	Account Specialist	(2) Administrative Analyst	Management Analyst	Account Clerk	(3) Accountant	(3) Accountant
	Account Technician			Senior Management Analyst	(3) Senior Account Technician	Budget Manager	Payroll Technician		Senior Payroll Technician	(3) Account Technician
	Management Assistant			Payroll Clerk	Revenue Collection Specialist	(2) Buyer I	Senior Administrative		Senior Financial Systems Technician	Account Clerk
	(2) Senior Account Clerks			(2) Account Technician	(2) Account Technician I	Buyer II	Technician		(3) Senior Account Assistant	Information Technology Manager
				(4) Account Clerk	Accountant	(2) Deputy Financial Services Director	Account Clerk II		(2) Account Assistant	Information Technology Analyst
				Purchasing Clerk	Buyer	Executive Assistant			Information Technology Systems Analyst	Communication Services Technician
				Cashier Clerk	Human Resources Administrator	Financial Services Manager				Communication Technician
Finance Department Staff Titles (Full-Time - All Funds)				(2) Customer Services Representative	Senior Human Resources Analyst	Grant/Revenue Manager				Purchasing Manager
					Human Resources Analyst	(2) Interim Clerk				Management Analyst I
					Human Resources Technician	Payroll Technician II				Senior Account Clerk
						Principle Accountant				
						Purchasing Manager				
						Senior Accountant				
						(2) Senior Administrative Analyst				
						Senior Clerk				
						Senior Collections Specialist				
						Supervisor Account Clerk				
Total Agency Full-Time Staff	147	424	247	319	304	1419	162	170	251	346
Total Agency Personnel Cost (Rounded)	21,200,000	67,259,504	40,911,646	64,058,300	50,001,000	202,200,000	33,371,230	26,300,000	36,617,000	58,269,000
Finance Department Personnel Cost (Rounded)	990,000	1,947,886	1,562,240	1,488,000	3,800,000	4,336,000	446,600	488,600	1,040,000	2,036,000
Finance Department Span of Control (Maximum Supervisor to Subordinate Ratio)	1 to 6		1 to 5	-	1 to 3	1 to 10?	1 to 6?	1 to 4	1 to 6?	1 to 7
Average Annual Personnel Cost per Employee in Finance Department	110,000	115,356	117,865	82,667	253,333	135,500	55,825	97,720	69,333	113,111
Budgeted General Fund Operating Deficit (Yes or No)	No	-	-	Yes	No	Yes	No	Yes	No	Yes
Agency Square Mileage	3.41	12	11	9.56	10.93	17.34	7.03	8.43	13.6	16.04
Agency Median Household Income	80,479	66,346	71,882	38,906	80,147	66,111	64,496	75,662	72,034	67,069