

City of Fresno, California

Management Report

June 30, 2006

McGladrey & Pullen

Certified Public Accountants

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Section I
Accountant's Letter

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To the Honorable Mayor Alan Autry
and Members of the City Council
City of Fresno, California

This report includes comments and suggestions with respect to matters that came to our attention during our audit of the basic financial statements of the City of Fresno, California (the City), for the year ended June 30, 2006. These items are offered as constructive suggestions to be considered as part of the ongoing process of modifying and improving the City's practices and procedures.

The following sections are included in this report:

Reportable Condition—We noted a certain matter involving internal control and its operations that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Included in this section is a description of the condition and our recommendation for improvement.

Future Opportunities—Included in this section are general items offered as constructive management policy recommendations to be considered as part of the ongoing process of modifying and improving the City's procedures.

Information System Opportunities—The items in this section result from our review of the City's information systems performed in conjunction with our audit of the City's financial statements. These comments are offered as constructive recommendations to be considered in improving the City's existing Information Services Department procedures.

This report is intended solely for the information and use of the Mayor, City Council and management of the City. However, this report is a matter of public record and its distribution is not limited.

We appreciate serving the City of Fresno and would be happy to assist you in addressing and implementing any of the recommendations in this report.

McGladrey & Pullen, LLP

Riverside, California
December 22, 2006

Section II

Reportable Condition

In planning and performing our audit of the basic financial statements of the City of Fresno, California, (the City) for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted a certain matter involving internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention related to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. *However, the reportable condition described below is considered to be a material weakness.*

Because of the inherent limitation of internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control to future periods is subject to the risk that internal control may become inadequate because of changes in conditions or that the degree of compliance may deteriorate.

Inventory and Valuation of Capital Assets

Condition: In our letter to management for the fiscal years ended June 30, 2004 and 2005, we reported that the City does not consistently perform an inventory of all capital assets owned. Per review of Administrative Order 1-3, each City department is responsible for coordinating a physical inventory of capital assets every four years. With the advent of Governmental Accounting Standards Board (GASB) Statement No. 34, there is an increased emphasis on capital asset accounting and the need to verify asset existence through periodic inventory.

As a result of our previous letter, and at the request of the Finance Department's CAFR team, the City's Internal Audit function conducted a comprehensive assessment of the City's capital asset processes and compliance with Administrative Order 1-3. This assessment consisted of evaluating the effectiveness and efficiency of the current capital assets processes, the reliability of the information provided by the City's various departments to the Finance Department, and the City's compliance with applicable policies, procedures, laws and regulations. The Internal Audit function released its report in July 2006 and identified numerous findings along with recommendations to remedy these findings. City management responded to each of the findings and recommendations and these responses are incorporated in the Internal Audit report.

In addition, the Fresno Yosemite International Airport, an enterprise fund of the City, in preparation for extensive expansion projects and upcoming bonding requests, performed a comprehensive valuation and completeness analysis of all capital assets owned that took almost three years to complete. This analysis revealed that there had been errors in past reporting of Airport capital assets resulting in an adjustment (addition) to the financial statements of approximately \$5.8 million for capital assets and a corresponding \$2.1 million adjustment (addition) to related accumulated depreciation for a net adjustment or increase of \$3.7 million. This adjustment is reflected as a correction of an error in previously reported financial information and is an addition to beginning net assets of the Airport Enterprise Fund in the City's June 30, 2006 Comprehensive Annual Financial Report.

Recommendation: We recommend that City management work as expeditiously as possible to continue to implement the recommendations in the Internal Audit report of July 2006. Implementation of these recommendations should not be a multiyear task. A timeline for implementation with specified key milestones or benchmarks for measuring progress should be established. This timeline, including key milestones, should be communicated to and frequently updated with the Mayor and City Council. The City's internal audit function should monitor implementation.

City Response: Since fiscal year 2002 and the implementation of GASB 34, the City of Fresno has worked diligently and has made great strides toward not only identifying areas of weakness with respect to internal controls surrounding fixed assets, but also minimizing these risks and taking corrective actions to tighten weak controls. Subsequent to the June 2004 audit, Finance engaged the services of Internal Audit to perform a citywide analysis of fixed asset processes in order to determine the areas of greatest risk and identify those departments with the greatest exposure. This was done so that areas with the greatest risk could be targeted first and limited resources could be concentrated in areas where exposure was the greatest.

Finance has worked tirelessly not only on an extensive plan of corrective action, but has also implemented many of the recommendations suggested by Internal Audit.

One of the recommendations made by Internal Audit was that fixed asset information gathered citywide be more consistent and more uniform in nature. This is certainly a goal of the Finance Department on a go forward basis, and where possible will be addressed retroactively as well.

In preparation for the close of fiscal year 2006, Finance conducted numerous meetings with all City Departments and Divisions regarding their fixed assets. These meetings were also conducted to communicate to departments the adoption of Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Each department was asked to provide input as to issues they have encountered and how the Fixed Asset Administrative Order can be improved to enable better compliance.

At the conclusion of each meeting, a current listing of fixed assets as of June 30, 2006 was provided to all departments and divisions. They were asked to review these and notate necessary changes. The procedures for retiring assets and the requirements for completing a revised more user-friendly Fixed Asset 91 Form (F/A 91) were discussed in detail. Finance requested that all departments reviewed and returned the list with a completed F/A 91 Form for disposal of fixed assets which are no longer in service.

The Finance Department (CAFR Team) has prepared an accounting manual for impaired assets and a form has been developed to facilitate the reporting of impaired assets. Subsequent to the completion of the FY 2006 CAFR, and prior to the upcoming 2007 CAFR season, Finance, along with the Internal Audit Division, will be conducting physical site inspections to verify major assets listed on the fixed asset listings. In addition, Finance is working with each department to incorporate appropriate updates, changes and modifications to the currently existing Administrative Order (AO) in order to make it more responsive to GASB 34, 42 and other such related GASB's.

To address issues with Public Work's infrastructure and right of way reporting, the Finance Department implemented a new system in which Public Works, at the time construction is commenced, provides specific required information related to cost and square footage data on a Finance Department designed form. When the housing tracts are subsequently completed and the infrastructure is approved and accepted by the City, all necessary data is available and ready for inclusion in the Asset Management System. This greatly enhances and provides for more complete reporting on infrastructure and easements.

While much of the ongoing analysis and determination of fixed assets on hand must be made by individual departments, Finance continues to work closely with the City Managers' Office and department directors and solicits their support and assistance in the tracking of assets.

Starting in June 2007, Finance will assign staff to assist and train departments in better identifying their assets, developing better and more explanatory descriptions; identify assets that should be retired, do not belong to the City, are impaired, etc. The goal is to bring the City into immediate compliance with the current AO by performing a complete inventory over the next two fiscal years. The current AO dictates a complete fixed assets inventory every four years. Further, by June 30, 2008, each department will be responsible for completing a fixed asset "audit" of all of its fixed assets. Department directors will be required to "certify" by signing an asset audit certification letter that they have accounted for their assets and that they have met the requirements of the Fixed Asset AO.

Each department is working diligently to ascertain the completeness of their fixed asset listings and Finance will continue to engage with each department to ensure that the momentum continues.

Section III

Future Opportunities

Annual Appropriations Limit

Condition: In preparing the annual Appropriations Limit calculation, the City has two options to consider for each annual adjustment factor used in determining the Limit. Effective with the 1990/1991 fiscal year, cities have the option of using either the growth in the California Per Capita Income (CPI) or the growth in the nonresidential assessed valuation due to new construction within the City for the inflation adjustment factor. This is an annual election. The City also has the option of using the City population growth or the County population growth for the population adjustments factor. This is also an annual election. The City has historically only considered the growth in the California CPI and the City population growth factors in determining its annual Limit. These elections were made as a result of the City keeping two separate annual Limit calculation schedules based on different adjustment factor criteria. By not exploring all available options to determine the Limit calculation, the City may not be maximizing its Limit to the fullest extent.

Recommendation: We recommend that the City consider all available options each year in determining its annual Limit, including the nonresidential assessed valuation due to new construction that can be attained from the County of Fresno Assessor's Office. After a careful examination of each option, the City should adopt those option factors that would provide the best total annual adjustment factor. The decision as to which of the options to select must be done by a recorded vote of the City Council. This would maximize the City's Appropriations Limit.

City Response: In November 1979, the voters of the State of California approved Proposition 4, commonly known as the Gann Initiative. The Proposition created Article XIII B of the State Constitution placing limits on the amount of revenue, which can be spent by all entities of government. In June of 1990, voters approved Proposition 111. Proposition 111 provided new adjustment formulas which make the Appropriations Limit more responsive to local growth issues. It also requires an annual review of Limit calculations.

Each year, when the City of Fresno prepares its Gann Appropriations Limit calculation, it gives consideration to the two options that are available for determining the Limit. The City calculates the Limit using both the growth in the California Per Capita Income (CPI) and the growth in the nonresidential assessed valuation due to new construction within the City for the inflation adjustment factor. Although the method actually decided upon is an annual election, the City is so far below the limits that using either methodology results in no change for the City. As such, the City indeed has historically adopted the growth in the California CPI and the City population growth factors as a part of the calculation of the Limit. The City strongly disagrees with this recommendation and feels that it does indeed explore all available options in determining the Limit calculation. The City is taking advantage of maximizing its Limit to the fullest extent possible. If and when the City is close to the Limit, other methodologies may be taken to Council when it is prudent to do so.

Condition: The City maintains two separate Appropriations Limit calculation schedules when determining the annual adjustment factor. One schedule calculates the annual Appropriations Limit using the City population growth factor and the CPI factor, and the other schedule calculates the annual Appropriations Limit using the County of Fresno population growth factor and the CPI factor. In determining which annual factors to consider, the City bases its decision on the effect of each total adjustment factor to the prior year's annual Appropriations Limit. By not considering each year's total adjustment factor to the prior year-end City Council-approved Appropriations Limit, the City may have understated its annual Appropriations Limit through FY 2006/2007.

Recommendation: We recommend the City revise its methodology in calculating its annual Appropriations Limit to consider each annual total adjustment factor in relation to the prior year-end City Council-approved Appropriations Limit. We also recommended that the City reevaluate its prior years' Appropriations Limit calculations to correctly apply the total adjustment factors back to FY 1990/1991. It should be noted that, if the City revises the Limits of prior years, adequate notice must be given and the City may be challenged on the entire methodology used to compute the revised Appropriations Limit.

City Response: The City strongly disagrees with this finding and suggests that McGladrey revisit the methodology being used by the City in order to fully understand the calculation process. The City calculates the limit using both the growth in the California Per Capita Income (CPI) and the growth in the nonresidential assessed valuation due to new construction within the City for the inflation adjustment factor. The City believes that the calculations that are made are correct and appropriate and that no corrective action is necessary.

Parking Enterprise Fund—Revenue Recognition

Condition: The parking enterprise fund is currently accounting for parking fines and tickets under the cash basis of accounting, recording revenue when the cash is received. Under GAAP, parking fines are considered to be imposed non-exchange revenues resulting from assessments imposed on nongovernmental entities, including individuals. Assets should be recognized from imposed non-exchange revenue transactions in the period when an enforceable legal claim to the asset arises or when resources are received, whichever occurs first. Undisputed fines should be recognized when payments are made or when the statutory time allowed for disputes lapses, whichever comes first. Disputed fines should be recognized when the appropriate legal authority rules that the fine is valid (legally enforceable) and should be net of estimated refunds from rulings overturned on appeal. The City's policy allows disputes to be made up to 21 days after the issuance of the parking citation. After that dispute period lapses, the City has an enforceable legal claim to this revenue and should recognize revenue.

Recommendation: We recommend that the parking enterprise fund recognize parking fines and tickets revenue consistent with GAAP.

City Response: Although the parking fund is indeed an Enterprise Fund and, simply stated, should be recognizing revenue on the full accrual basis, until just recently, the City did not have the capability or the systems in place to properly track and monitor when the fines became legally enforceable. Systems in place were outdated and cumbersome and staffing to monitor such items manually were not sufficient.

The City has taken major steps to properly track, monitor and enforce parking fines and tickets. With a backlog of outstanding tickets to wade through, Parking and Finance worked together to institute, for the first time in the City's history, a Parking amnesty program. In September 2005, a one-time amnesty program was offered to holders of unpaid parking tickets, affording them the opportunity to pay outstanding tickets with a waiver of additional interest and penalties. Those choosing not to take advantage of this program were informed that failure to pay would result in their being enrolled in the state's tax intercept program which entails the parking fines being withheld from any tax refunds or lottery winnings.

The amnesty program grossed the City \$208,000 and the City continues to use the intercept program but only as one tool in its collection arsenal. The City also takes advantage of the Department of Motor Vehicles Hold Program which suspends a vehicle owner's ability to register their vehicle until delinquent parking citations are paid. The City continues, through the California Vehicle Code, to have the ability to physically tow a vehicle off the street at any time if the vehicle has five or more unpaid citations. This process, however, is time consuming for the City and results in additional penalties for the vehicle owner. An option that staff just recently brought before the City Council, which was adopted, is a Vehicle Immobilization Program. This program allows for staff to "boot" a vehicle with a device that is placed on a driver's left front tire, making it impossible for the vehicle to be moved until citations, penalties and the boot administration fee is paid. If the vehicle owner does not notify Parking Services within 24 hours of the immobilization and their interest in paying past citations, then the vehicle may be towed.

Parking also partnered with a third-party collection agency in 2006 that offers the options of paying tickets online or via phone, in addition to paying in person. TurboData also processes citation payments by mail and generates reminder notices and collection letters.

Currently, the City only collects approximately 20% of all parking tickets issued; as a result, the accrual of potential fines that could result from tickets issued would have grossly overstated parking revenues. Until such time as the collation of fines can be increased dramatically, it has and will continue to be more conservative to only recognize those fines actually collected. However, as all of these system improvements come online and collection results improve, the City will be better enabled to properly recognize Parking Enterprise revenue consistent with GAAP.

Property/Parcel Listings

Condition: In our letter to management for the fiscal year ended June 30, 2005 & 2004, we understand that the City's Internal Audit Section performed a limited analysis of property (parcels) owned by the City, to the extent possible, by researching the County of Fresno Assessor's Office database and utilizing City departmental listings. This analysis resulted in discrepancies among City records including City-owned parcels that have either been sold or are not City property at all, as noted by Internal Audit.

Recommendation: We concur with Internal Audit's recommendation that discrepancies resulting from its limited analysis should be addressed as soon as possible and that the City's recordkeeping function be accurate and complete. Although the Finance Department has begun to address this issue, we believe this comment bears repeating for the fiscal year ended June 30, 2006.

City Response: As discussed above, much of the ongoing analysis and determination of fixed assets on hand, including land, must be made by individual departments as it is impossible for a City the size and complexity of Fresno to assign this process to one Citywide Fixed Asset Monitor to oversee and physically inspect and account for the entire pool of assets for the City. Finance continues to engage and seek the support of the City Manager's Office and Department Directors to cooperate and assist in the tracking of assets. Management feels the steps we will be employing to bring the City into immediate compliance with the Fixed Assets Administrative Order will include addressing this specific issue. Please refer to our response above relative to bringing the City into compliance with the current Fixed Assets Administrative Order. Finance is and will continue to work closely with each Department to coordinate and direct the efforts of their staff to enhance existing asset data as well as improve data on a go-forward basis.

One pervasive problem for the City is the County changing the Assessors Parcel Number (APN) on pieces of property such that the APN numbers at the time of purchase and recording in the City's Asset Management System may not be the current APN assigned to the property and on file with the County. Unless the Property Monitor is notified that the APN number has changed, it makes it difficult to verify and match the assets owned. Arrangements have been made for the Property Monitor to receive information from the County regarding changes in APN numbers which will facilitate future audits and matching of owned property on the fixed asset listings.

Deposit Liabilities—General Fund

Condition: As previously communicated in our letter to management for the fiscal year ended June 30, 2005, the City's General Fund receives business license deposits from various sources that are either refunded or applied (converted) as a fee for service. These deposits are initially recorded as a deposit liability within the General Fund and total approximately \$748,000 and \$600,000 as of June 30, 2006 and 2005, respectively. We noted that the City has not conducted a thorough review of these deposits to determine the existence or validity of the deposit.

Recommendation: We recommend that the City conduct a review of these liabilities, emphasizing the age of the deposits and the systems or means to support the recorded amounts. If deposits have aged significantly, it may require further investigation to determine if the deposits have previously been refunded or applied.

City Response: Ninety-eight percent of these “deposits” represent unapplied Business License Revenue. During the data entry process, an input error or processing error occurs that results in business license revenue not being properly applied to a customer’s account. Rather than researching why the transaction was not applied and recognized as revenue, staff has been simply allowing the unapplied receipts to remain in the suspense account. Procedures are being instituted along with appropriate training to require staff to reconcile all unapplied funds by researching the “errors” on a daily basis and to properly apply the funds. In addition, a team will be researching prior years’ unapplied monies and proposing corrective entries. Due to the size of these unapplied payments, staff will do the necessary research and attempt to apply all respective payments by the end of fiscal year 2008.

In addition, Finance is in the process of performing an in-depth analysis of the entire Utilities, Billing and Collection function as it relates to utility billings and business licenses. These deposits are just a small part of the overall project. The process began by identifying specific formal business processes in all sections of UB&C with the goal of reengineering processes, improving mission delivery systems, maximizing and enhancing customer service efforts, and developing performance measures that are viewed as enabling growth and development vs. controlling and limiting. Finance management is looking to change the scope of business operations, decision making authority and responsibility where necessary to enhance customer service and employee satisfaction. The plan is to seek, alter or do away with old or outdated business practices which are holding staff back and keeping them from achieving their full potential as well as preventing the optimization of customer satisfaction. This process includes the evaluation of each of the following:

- Roles and responsibilities
- Work climate
- Group dynamics
- Training needs
- Culture and norms in need of revision
- Team behavior
- Communications
- Work processes

Throughout this process, staff coaching is playing an integral role in identifying processes that employees feel are detrimental to employee satisfaction and customer service. In addition, staff is being encouraged to contribute to the development of more effective and efficient processes. When staff is engaged in the creation process, they tend to feel more empowered and aware of expectations, trusting and respectful of systems and understanding of why accountability is so important.

This is a multi-phased process. The initial phase consists of documenting the existing system for Business Tax, Business License and other functions within Utilities Billing and Collection which in and of itself consists of several distinct processes. A timeline is being developed in which various project phases and benchmarks are being identified.

Establishing an Audit Committee

Condition: In 1999 the Blue Ribbon Committee on Improving the Effectiveness of the Corporate Audit Committee issued its recommendations to empower the Audit Committee to function as the guardian of investor interest and corporate accountability. The Sarbanes-Oxley Act of 2002 codified several of these recommendations and added some stringent new guidelines aimed at protecting the public. The Sarbanes-Oxley Act also provided a new framework aimed at strengthening corporate governance and restoring public confidence. Although this framework was not specifically designed for state and local governments, it is frequently being cited and applied.

Audit committees play an important role in the governance of public sector entities in the United States. The public, as well as oversight agencies and funding sources, continue to place greater importance on the integrity of financial and compliance reporting by the public sector. Governing Board members typically possess neither the expertise nor the time to function as an effective alternative to an Audit Committee.

The role of the Audit Committee is one of proactive oversight of the financial and compliance reporting and disclosure process and the results of that process. Management has the responsibility to ensure the accuracy of the financial statements and compliance with laws, regulations and agreements. It is the Audit Committee's function to carry out due diligence by evaluating information from the Chief Financial Officer, City Manager, the internal audit function and the external auditors and to form conclusions. The Audit Committee discharges its responsibilities for the benefit of funding sources, bondholders, oversight agencies and the public at large, as all these parties have a common interest in and dedication to the quality of the City's financial and compliance reporting. Duties of the Audit Committee may differ based on the type of public sector entity.

Recommendation: We recommend the City establish and maintain an effective Audit Committee that serves to implement the governance practices best suited for the City of Fresno.

City Response: The City concurs with this recommendation and, in fact, on March 20, 2007, at the direction of Council, the City Attorney introduced a Resolution establishing a permanent Finance and Audit Committee. The Committee is made up of three voting Council members. The Council President appoints the Committee Chair who then appoints the other two Council members, all of whom serve two-year terms. The City Controller serves in a non-voting advisory/support/secretary role. The Resolution further clarified that the Committee would act consistent with the City Charter and could not interfere with the execution of the duties of the City Manager in overseeing the administrative service. In addition, the Committee must comply with the Brown Act in conducting its meeting.

The Finance and Audit Committee will act in an advisory capacity to the Council relating to the financial affairs of the City. The duties of the Committee may include, but are not limited to, the reviewing and providing analysis of City audits, revenues, investments, debts and bonds; and reviewing and making recommendations to the Council relating to City policies, procedures, management and control of City finances.

Uncollected Utilities Fees

Condition: We ascertained that the accounts receivable in the City's water, sewer, community sanitation and solid waste enterprise funds greater than 120 days as of June 30, 2006 is approximately \$3.5 million. This represents approximately 26.5% of these enterprise funds' total accounts receivable. Within this amount are accounts receivable of approximately \$3.0 million that are over one year due as of June 30, 2006 which represents approximately 22.8% of these funds' total accounts receivable.

Recommendation: Although the City has reserved 81% of these funds' accounts receivable balance over 120 days in the allowance for doubtful accounts, a thorough analysis of these receivables needs to be conducted to determine their immediate collectibility. If these accounts are determined to be uncollectible, the City should write them off.

City Response: As discussed above and as part of the detailed analysis of the City's Utility, Billing and Collection Division, this too is being looked at and addressed as part of the system revamp. Finance also intends to expand and merge its "Housing" collection team with those handling collection for UB&C. In addition, Finance continues to move forward on key collection objectives that were established as a result of the success of the "Collection Pilot Team." Several of these objections are outlined below:

- Creation of a credit/collections team consisting of representatives from Finance, City Attorney's Office, Risk Management and Information Services Department to coordinate all phases of credit extension, credit risk analysis, skip tracing, liens, small claims actions, data mining using the Internet, etc. (In early stages of development and should be fully in place by the end of fiscal year ending 2008.)
- Engage in necessary process to obtain the specialized collection administration software (Nortridge) needed to replace the current system. (Software being purchased and should be installed and functional by June 30, 2007.)
- Fast track the full implementation of the PeopleSoft Accounts Receivable and Billing Modules with emphases on citywide usage and/or integration with existing stand-alone systems currently being used. (In progress.)
- Study to assess the benefits that may result from centralizing the payment/receipt of cash throughout the City. (Under evaluation as part of the UB&C work.)
- Coordination with Information Services Department (ISD) of utilizing more electronic banking services:

UB&C recently added "Paymode Concentrator" to its banking tools. This process allows the Department to receive and post consumer payments using a streamlined and cost-effective method. Consumer payments (checks) are consolidated from all online bill payment providers and sent to a single file for electronic posting. The file updates the accounts receivables automatically through a direct integration with the City's HTE accounts receivable system. UBC has over 3,000 accounts per month that utilize this type of payment method, all of which previously had to be entered manually prior to Paymode being implemented.

UB&C also recently implemented an IVR (Interactive Voice Response) system which is a technology that automates interaction with telephone callers. IVR solutions use prerecorded voice prompts and menus to present information and options to callers, and touch-tone telephone keypad entry to gather responses, pay bills, make account inquires and offer service twenty-four hours a day, seven days a week. IVR solutions also enable input and responses to be gathered via spoken words with voice recognition. IVR has greatly enabled customers to pay bills without the need to do so in person and has had the added benefit of reducing payment processing staff time and hold time on phones.

Section IV

Information Systems Opportunities

Formal IT Policies & Procedures

Relative Risk: Medium

Resolution Level of Difficulty: Medium

Condition: There is no formal IT Security Policy. Lack of formally documented policies and procedures may lead to inconsistent interpretation and application of the City of Fresno's rules and standards and potentially compromises other security and controls in place.

Recommendation: We recommend that management should consider developing and/or formalizing an IT Security Policy. The policies and procedures should be reviewed and updated at least annually to reflect changes in the City of Fresno. Requiring the acknowledgement of the IT Security Policy will provide assurance that personnel are aware of and have committed to following the policy. The Policy should be available as a reference for new and existing users and should include, but not be limited to the following:

- Information Security Responsibilities
- Information Sensitivity Classification
- Access Control
- Password Management
- Privacy
- Third-party Disclosures
- Acceptable Use of the Internet
- Establishing Network Connections
- Dial-up Access
- Third-party Access
- Encryption
- Electronic Mail
- Printing, Copying and Fax Transmission
- Mobile Computing and Work at Home
- Viruses, Malicious Software and Change Control
- Personal Use of Information Systems
- Intellectual Property Rights
- Systems Development
- Reporting Problems and Noncompliance Situations

City Response: The Information Services Department within the City of Fresno is currently reviewing an Electronic Systems and Use Policy. Its ultimate approval will signify a first step toward formal written policies related to IT Security within the City of Fresno. A thorough systems security analysis was conducted upon the arrival of our Systems Security Administrator in the fall of 2005. This document contained provisions for the above-referenced items; however, it was never finalized and approval by the chief information officer (CIO) in place at that time. The City is in the process of recruiting for a new CIO; however, the interim director and ISD staff have already begun the process of addressing the lack of a formal IT Security policy. One of the initial projects for a new CIO will be to review the plan and take it forward.

IT Management

Relative Risk: Low

Resolution Level of Difficulty: Medium

Condition: The CIO Advisory Committee meets intermittently and on an as-needed basis. Minutes are not kept due to the informal nature of the meetings. The Committee functions as an advisory only. There is no IT Steering Committee and IT group meetings are not held. Lack of an IT Steering Committee may cause planning to not be consistent and projects not sufficiently defined.

Recommendation: We recommend that an IT Steering Committee should be in place to provide IT project planning and communications of IT projects to departments and senior management. The Committee should meet regularly and meeting minutes should be kept. The Committee should minimally include department representatives, select users and IT management. Major IT project statuses, plans and issues should be communicated to senior management and when appropriate to the Council.

City Response: Prior to the loss of the CIO, there was a Technology Facilitation Committee that met frequently and, in particular, weekly at key milestones during the course of major IT projects. These committee meetings were generally memorialized with written summarized minutes and included team members from Finance, Budget, Purchasing, ISD, Human Resources and the City Manager's Office. With the loss of the CIO, these meetings were taken on by the Resource Management Cabinet. Brief minutes generally are maintained by the cabinet as well. Upon the start of a new CIO, the Technology Facilitation Committee, a CIO Advisory Committee or something similar will once again begin meeting. The new CIO will have the opportunity to evaluate whether the current structure of utilizing the Resource Management Cabinet is meeting the needs of ISD, IT projects and end users. If need be, some other form of advisory committee can be created.

Passwords

Relative Risk: Low

Resolution Level of Difficulty: Low

Condition: Password changes and complexities such as alphanumeric passwords are not currently enforced for the systems requiring passwords. Each user is assigned a password. Password complexity for Novell and PeopleSoft are not implemented. Extensive HTE password complexity exists and many password settings for HTE are available through the IBM AS/400. The absence of password complexity may enable unauthorized access to systems.

Recommendation: We recommend password changes and complexities should be enforced for all systems requiring passwords to ensure user accountability and security to data. If applications do not provide for password maintenance, then controls should be place, such as password requirements set by management and enforcement of the requirements.

City Response: The Information Systems Department agrees with this recommendation and under the direction of the Interim Director has begun the process of addressing this issue.

Systems Development Life Cycle (SDLC)

Relative Risk: Medium

Resolution Level of Difficulty: Medium

Condition: Formal project management procedures for system selection, development and implementation do not exist. The process is informal, but plans are in place to utilize a project manager to assist with formalizing project management. Best practice for project management includes following a Systems Development Life Cycle (SDLC). An SDLC is necessary to provide consistent steps that are required for IT projects.

Recommendation: We recommend that an SDLC should be developed. An SDLC is a methodology meant to serve as a guide for projects involving development and acquisition of City of Fresno software or services. The level of adherence to this methodology is proportional to the scope of the project; i.e., the greater the project scope, the higher the level of adherence. The steps in an SDLC should minimally include the following:

- Project Initiation
- Business Needs Analysis
- Preliminary Systems Analysis
- Testing Criteria
- Specifications
- Project Development
- Program Testing
- User Documentation
- Training
- Implementation
- Project Review

City Response: The Project Management Office (PMO) is a fairly recent addition to the Information Services Department. The PMO consists of a project manager reporting to the CIO and one project lead reporting to the project manager. Previously, there were no formal criteria directing IT projects to the PMO. In general, Citywide or Enterprise IT projects are automatically considered to fall within the purview of the PMO. For those City departments with specialized needs and internal expertise in their own technology, ISD serves more of a supporting and advising role rather than in a leadership role in the selection and implementation of new applications. As a division of an Internal Service Department, the PMO contributes to specialized client department projects by advising on and demonstrating industry-standard project management methodologies such as System Development Life Cycle, including Work Breakdown Structure models, and Delivery Strategies.

PMO personnel employ industry-accepted project management practices and standards as defined by the Project Management Body of Knowledge, where practical. They regularly attend applicable training courses so as to expand and pass on to the City a better understanding of successful project management principles. The goal under a new CIO is to take a more active role in the demonstration and avocation for consistent, methodical project planning and to advance the understanding of the value of life-cycle development for technology applications.

User Management

Relative Risk: Medium

Resolution Level of Difficulty: Medium

Condition: Access rights are set by the administrators of the applications and their backups. Access rights are not regularly reviewed.

The customer services manager receives termination notifications from department managers. The notification method is inconsistent and may include written, verbal, email or phone notifications. The customer services manager contacts his employees to disable access of terminated employees. There are no formal termination procedures or tracking procedures for disabling user access.

There is a dial-up user group and separate VPN users. Dial-up and VPN users are setup as needs arise and are informally requested and approved.

Lack of formal user management including access rights reviews, termination procedures and remote user maintenance may enable undetected unauthorized access to systems.

Recommendation: We recommend that access controls should be defined and followed to ensure users have appropriate rights, are managed effectively and are reviewed regularly. Access forms should be developed and be standardized for all departments to simplify the process of managing user accounts and avoid confusion by all parties, especially those required to use the information to add, change or delete accounts.

City Response: Although the City does not currently have formal processes, procedures and policies in place, it does have an informal process. There is also an online security form that is available for use. Once again, under the direction of the interim director and upon the arrival of a new CIO, ISD will address the above issues and will continue to work towards the implementation of a formalized plan to manage user access and security.

One recent development is the involvement of ISD in the "New Hire Orientation" process. During this training, ISD describes roles and responsibilities with respect to end users having access to information technology tools. ISD also describes their roles and responsibilities with respect to IT equipment so that end users are familiar with who to contact should they have technology issues. Upon the arrival of a new CIO, Information Services will work closely with Personnel and Finance to expand upon controls surrounding access to applications.

Disaster Recovery Plan

Relative Risk: Medium

Resolution Level of Difficulty: Medium

Condition: A Disaster Recovery Plan does not exist. To ensure systems, data and infrastructure can be recovered due to disaster incidents, a plan should be developed and distributed to staff chiefly responsible for disaster recovery. Lack of a plan may cause the City of Fresno to not continue business as quickly when disasters occur.

Recommendation: We recommend management develop a Disaster Recovery Plan to provide guidance and procedures to follow during a time of disaster. The plan should include, but not be limited to, names/phone numbers of staff delegated to participate in disaster recovery, manual processes to follow in case of temporary non-functionality of systems, descriptions of the modules or functions of systems and who is responsible for the systems, data and infrastructure.

City Response: While there is an overall citywide Disaster Recovery Plan for City officials and frequent and regular training exercises are performed, at least every other year, it is true that a formalized written IT plan does not currently exist. ISD has requested an initial budget in fiscal year 2008 to commence the beginning stages of overhauling the City's Disaster Recovery Plan. The budget will cover primary equipment needs as well as consulting dollars to enable a more in-depth evaluation and planning for the City's true disaster recovery needs.