



To the Management and Audit Committee
of the City of Fresno

Members of the Audit Committee:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fresno, California (City) as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the following deficiency to be a significant deficiency in internal control.

UTILITY BILLING RECEIPTS

Comment

As part of the information gathering process and understanding of the utility billing system, we noted that the general ledger software used by the City is PeopleSoft, while the utility billing software is H.T.E. (SunGard). Currently, H.T.E. does not automatically interface with PeopleSoft and in order to post utility billing revenue a manual journal entry is required. The posting of this journal entry is a multi-step process: daily revenue is posted to a "suspense" account in PeopleSoft, while a monthly revenue report is generated by H.T.E. and, based on this report; "actual" revenue is transferred from the suspense account to the revenue accounts. No reconciliation is performed between the suspense account revenue accounts to ensure proper recognition of utility revenue.

Recommendation

We recommend that the City create an automatic interface between the H.T.E. System and PeopleSoft. Until that time, we recommend that the City establish a procedure to reconcile the amount posted to the suspense account with the amount posted to the revenue accounts to ensure utility revenue is properly recognized and recorded in the general ledger.

Response

The H.T.E. (Sungard) system creates 40 nightly reports, some for information only, others detailing various activities (Refund process, reverse payments...) from the previous day. The Utility Billing Balancing Worksheet shows various reports (14 of 40) of activities that may or may not occur on a daily basis. The Cash Update Listing report (1 of 14) details the collection of payments received from various sources (IVR, C2G, Point of Sale...) at the customer level. The Cash Update report summarizes the receipting of those revenues based on the receivable codes identified by the various divisions (Water, Sewer...). The revenues identified in H.T.E. are verified in PeopleSoft (through a manual process). The reconciling process basically involves the use of the Cash Update Listing less any transactions not considered revenue. These are then compared to entries made in PeopleSoft and with credit card transactions, including timing differences. The City is actively working toward developing an interface between H.T.E. and the PeopleSoft System such that manual adjustments and the labor intensive manual reconciliation process could be expedited or automated entirely. Due to the complexity of the H.T.E. system and the numerous codes utilized, the system must be analyzed in its entirety prior to any system changes being proposed. The total reconciliation of the two systems between one another is certainly a top priority for the Finance Department with dedicated resources being assigned to this project. During the course of revising the H.T.E. system, so as to facilitate the processing and billing of actual water usage based upon newly installed water meters, the City will work closely with both the internal Information Services Department staff and outside consultants to develop the much need interface between H.T.E. and PeopleSoft. Until such time, the City will continue with the manual reconciliation processes.

We consider the following to be control deficiencies;

INVESTMENTS

Comment

During our review of the investment process we noted that per the Investment Policy, "The City Controller serves as the City's Treasurer and establishes overall policy, direction, and strategy for the City's investment program." In addition, per Council Resolution 2007-316, the City Treasurer is delegated the authority to make investment decisions on behalf of the City. We noted that all investment purchases and sales from July 1, 2007 through March 31, 2008 were approved by the Treasury Officer, not the Treasurer. As part of our review, we also noted that the Treasury Officer instructs his assistant to set up wire transfers for the purchase and sale of investments and these transfers are approved by the Treasury Officer.

Recommendation

In order to comply with the City's Investment Policy, we recommend that the Treasurer (City Controller) approve all investment decisions and wire transfers.

Response

Although current procedures do not leave a sufficiently “well documented audit trail”, City investment decisions are indeed discussed with the Treasurer (Interim City Controller) and reviewed on a monthly basis. The only step that is really missing is the explicit segregation of duties with respect to the approval process which would be for the Treasurer to actually physically approve the wire transfers via a notation on the wire transfer paper work. This step can be added immediately. The Treasurer (currently the Interim Controller) and in the Treasurer’s absence the Department’s Management Analyst (currently functioning as the Interim Assistant Controller) can and will on a go forward basis approve all wire transfers related to the Investment Pool. The Treasury Officer will continue to instruct his assistant to set up wire transfers. All wire transfer paper work along with supporting documents will then be provided to the Treasurer or Management Analyst for review and approval. Upon approval the Treasurer or Management Analyst will initial and date the wire transfer instructions before release.

BANK RECONCILIATIONS

Comment

During the bank reconciliation review process, we noted that bank statements for July and August 2007 were not reconciled to the general ledger until October 2007. In addition, the bank reconciliations from July 2007 through January 2008 were not reviewed and approved until March 2008.

Recommendation

We recommend that the bank account be reconciled each month within 45 days of month end so that errors or other reconciling matters may be recognized and resolved in a timely manner. In addition, we recommend the reconciliations be reviewed and approved on a timely basis.

Response

The delay in approving the reconciliations resulted from a change in personnel and errors that were noted in the actual preparation of the reconciliations during this transition process. Corrections were made to the reconciliations and upon final review they were signed off. In addition, all reconciliations were brought current. Reconciliations are now reviewed and approved within 45 days of the close of each month.

PAYROLL

Comment

As part of the information gathering process and understanding of the internal controls surrounding payroll, we learned employees within the Fire Department, Parks Department and Payroll Department have access and the ability to change pay rates. These employees have access and the ability to change pay rates due to the unique schedules within the Fire and Parks Department and the need to process payroll in a short period of time. We also noted in our payroll testwork that one employee did not show hours on the Time & Labor Approval Report for the Wastewater Department; however, this employee was paid for the full 80 hours during that period.

Recommendation

We recommend that the Human Resource Department be the only department with access and the ability to make pay rate changes. By limiting the employees with access and ability to make personnel changes, it helps the City to ensure that employees are paid accurately. We further recommend that the City comply with its policy and obtain the proper approvals prior to preparing payroll for each department.

Response

Due to the unique nature of certain positions within the City and the numerous payroll systems that are utilized, on rare occasions, and payroll cutoff due to holidays requires that cutoff on some systems take place prior to the completion of the work week. This necessitates the payroll section working with the department to ensure that the total hours worked are fully captured and in some instances, the proper pay rate be reflected. With Fire and Parks this may require a manual change in the pay rate due to the changes in work schedules and/or assigned duties. The payroll clerks in the assigned departments generally make these adjustments, but in rare instances, in particular when a holiday schedule necessitates an extremely early cutoff of payroll, two individuals within the payroll section of Finance have the authority to make these corrections if necessary. Human Resources is not involved in these corrections and as such the recommendation as written is not appropriate nor would it resolve the issue. What can be done however is that reports can be run and reviewed by the Controller for sign-off when rates or hours have been modified by payroll staff.

CAPITAL ASSETS

Comment

During our capital asset testwork, we noted that the capital asset records maintained by the Finance Department did not reconcile to the capital asset records and detail of the applicable department (Airport). The difference between the two schedules was approximately \$200,000. We further noted that the Subdivisions Donated Infrastructure assets were overstated by approximately \$700,000. The overstatement was due to sewer assets being mistakenly recorded at \$672 per unit, while the actual donated cost was \$45 per unit.

Recommendation

We recommend that the City continue to diligently work to improve the controls surrounding capital assets to ensure information recorded by the Finance Department agrees with the information of the various departments. We also recommend that the City establish data entry procedures or review procedures to ensure that assets are recorded correctly.

Response

As recommended, Finance continues to work closely with departments to improve controls surrounding capital assets. With respect to the \$200,000 difference, the error occurred when there was a change in Finance personnel in the middle of the year end close. The individual taking over the work was misinformed that the work on Airports had been completed in full when in fact Airports had provided one addition adjustment for \$200,000 that had not been posted to the Finance schedules. It has now been corrected. With respect to the overstatement of the sewer assets, the incorrect information was provided by the Sewer Department. It was later discovered by Sewer and communicated to the Finance Department. The error has since been corrected.

INFORMATION TECHNOLOGY

Policies and Procedures

We recommend that management consider developing formal policies and procedures within the Information Technologies Department. The policies should be reviewed and updated on a semi-annual basis or as required to ensure policies adapt to changes in operation. While many of the policies are in the informal stages a concerted effort should be made to formalize these policies and such policies should be expanded to cover all major functional areas within the Information Technologies Department.

Response

Proposed Policy	Status
Password Policy	Completed – Complex Passwords in Place
Backup and Recovery Procedure	Completed
User Account Creation	Completed – User Account Policy
Third Party Access	Completed
Remote Access	Completed – VPN Policy
Change Control	Completed
Security and Encryption	Need further Clarification.
Software/Application Change Control	Completed
Virus and Malware	Completed
Reporting Noncompliance Issues	In Progress
System Development	In Progress
Asset Control	In Progress
Technology Procurement	Need further Clarification
Intellectual Property	We are currently reviewing the U.S. Government's position: http://www.uspto.gov/web/offices/com/doc/ipnii/ipnii.doc
Data Retention	Completed – Using City Resolution No. 2008-243
Key Control	In Progress
Application Management and Development	In Progress
Mobile Electronic Communications Devices (** Not part of Auditor request.)	Completed

Disaster Recovery Plan

We recommend management develop and test a formalized disaster recovery plan (DRP). During times of disaster a well documented plan should include but not be limited to the following key fundamentals.

- Understanding an organization's activities \ operations and how all of its resources are interconnected
- Assessing an organization's vulnerability in all areas, including operating procedures, physical space and equipment, data integrity and contingency planning
- Understanding how all levels of the organization would be affected in the event of a disaster
- Developing a short-term recovery plan

- Developing a long-term recovery plan, including how to return to normal business operations and prioritizing the order of functions that are resumed
- Testing and consistently maintaining and updating the plan as the business changes
- Annual testing of the disaster recovery plan is also recommended

Response

The City is in the early stages of developing a data disaster recovery plan. We are in the process of performing an assessment and needs review in order to determine the critical needs ranking of all systems and applications in the event of a crisis or disaster; the risk factor to each of these systems and applications, and the cost and/or ease of preventing a system shut down along with the need to or the ability to quickly recover.

The City has recently entered into an Application Service Provider (ASP) solution for our HTE enterprise application. This is the system that processes all billings and payments related to our Utility Enterprise. In addition it currently processes Business License/Taxes and Dog Licenses. This arrangement assists the City in accomplishing a significant piece of its disaster recovery plan. The ASP solution is a hosted solution that also provides for a redundant hot site. This would provide the City with “business continuity” as it relates to the Utilities which are an immense improvement over what was our current disaster recovery plan.

All hardware systems have redundancy in place and backups of all systems are performed nightly and sent to an offsite location. Data restorations are performed as needed as well as on a test basis to ensure the integrity of the backups.

User Account Management

We recommend management establish formal policies and procedures for user account management. This includes the creation of user accounts as well as the removal of accounts upon separation from the City. This is a process which needs to be coordinated with Human Resources as well as Information Technologies and the other departments which control application access.

Response

Formal policies and procedures are in the process of being created for user account management. Currently, we have the User Account Policy which discusses user accounts in general. This is referred to as “Administrative Order 8-11 for Electronic System Usage and the Password Policy”. These policies are new and are in place to handle most of the needs of User Account Management. It will be reviewed on a regular basis and updated as needed.

In collaboration with Personnel Services an “Account Creation” process has been developed that utilizes PeopleSoft as the authoritative source for the creation of a unique user id. When a person is entered into the PeopleSoft HRMS system as an employee or a person of interest, a new user id is created in the person’s user profile. The user id is also created in Active Directory with an inactive status. An e-mail alert is sent to Active Directory administrators. At termination or separation from the City, an e-mail alert is sent to key personnel in Personnel Services and ISD for further action.

Data Center Access Control

We recommend management establish procedures for securing the main data center, which should include the securing of the data center from unauthorized access as well as policies and procedures for logging access and egress. The access control system should have a reporting and logging algorithm. A formal list of authorized users should be maintained and should be reviewed on a semi-annual basis. Manual keys which override the access control system should have tight controls and should only be provided to a limited base.

Response

Data Center access is restricted to server administrators. We have implemented an Access Control System (access card reader) in which we can program access and restrict access based on role and hours of operations. This system is tied to the computer room doors as well as the doors entering the Computer Services Division and along with one of the doors to the Systems and Applications Division. To gain access to the computer room, a person will need to first enter the doors into the Computer Services Division and then enter another door into the computer room. The card for entry must be programmed to allow access to both doors. The system also allows for the printing of reports reflecting system activity. At this time, we are only monitoring incoming traffic as the process has not yet been fully implemented.

Backup \ Recovery & Retention

We recommend management establish procedures which include documenting the backup and recovery process, including a data retention policy. The policy and procedure should formalize the current informal process and should include a full schedule of the backups performed, how long they are retained and how they are tested. The recovery process should be tested on a monthly basis for file restoration and semi-annually or annually for complete application recovery.

Response

This has been completed in draft form and has been provided to the City Manager for his review and approval. The draft version has been provided as Attachment A to this document.

Passwords

We recommend password changes be set on all users to be changed on regular intervals and password complexities should be enforced on all application systems which have the capability. The complexity should be set to a minimum of 8 characters and include mixed case. The addition of a numeric character in addition to 8 characters mixed case should be considered. As the City of Fresno moves toward the deployment of Windows Active Directory, enabling complex passwords across all functional domains is recommended.

Response

Complex passwords have been implemented. The use of complex passwords is subject to the Password Policy as well as Administrative Order #8-11 -- Use of Electronic Systems & Tools.

Complex passwords as defined by the City of Fresno have the following requirements:

- Minimum of 6 characters in length.
- Must meet 3 of the 4 requirements:
 - Lowercase characters (abcd...z)
 - Uppercase characters (ABCD...Z)
 - Numbers (0123...9)
 - Special characters (!@#)\$)
- Your username, first/last name, or both, are not allowed as part of your password.
- Will be required to be changed every 120 days.
- Cannot be changed more than once every 5 days, unless changed by an Administrator.

It is the responsibility of each employee to remember and safeguard his/her system passwords. Personal account passwords are not to be shared. The Information Services Department may require verification of identification before issuing a new password in the event that a password is forgotten or ceases to function.

Passwords are not to be written down on paper and placed in areas that can be discovered such as:

- Sticky notes placed on monitors.
- Paper notes under keyboards.
- Any paper in a non-locked drawer.

Application Management & Development

We recommend that policies and procedures regarding technology projects be established and also include application development. The System Development Life Cycle (SDLC) should be considered as a mythology for guiding the majority of technology projects and for the development or alteration of current applications. The general steps in the SDLC process should minimally include the following:

- Project planning, feasibility study
- Systems analysis, requirements definition
- Systems design
- Implementation
- Integration and testing
- Acceptance, installation, deployment
- Maintenance

Response

SDLC is already in use and followed according to the magnitude of the project. Larger projects closely follow the SDLC methodology, smaller projects or minor programming changes follow the methodology in a more informal manner.

The PeopleSoft application/environment closely follows SDLC. Various environments are used when implementing new systems, program and system changes. The City has the following environments for PeopleSoft: Demo, Development, QA, Production, and "Sandbox". The environments have the following functions: Demo – "clean" version of software; Development – developers do testing and verify modifications; QA – functional staff performs testing and verification – acceptance, installation and

deployment is performed from this environment; Production – live/production environment; Sandbox – training area for staff, it is a copy of production. PeopleSoft also utilizes an “issue tracker” to track any programming change or modification. The issue tracker is updated as the change progresses through SDLC steps. Regular meetings are held with end users to discuss the issue tracker items and their update their current status.

HTE projects/tasks tend to be smaller in nature. Due to this factor, SDLC is followed in a more informal fashion. HTE does have multiple environments as well however. There is a production environment for the live/production data; test environments for upgrades, modifications, testing and training. HTE also tracks issues and has regular meetings with end users and ISD staff. End users in the test environments test modifications, changes, and upgrades and sign off on them prior to deploying to the production environment.

GIS projects/tasks tend to focus more on the data itself versus development of applications. The City has a standard set of GIS “data viewers” that are fairly static in nature. Any proposed modification or change to the viewers is tested in a test environment, signed off/approved, and then deployed in the production environment. As new GIS layers become available, they are approved then moved from the test environment into production for the GIS viewers.

This communication is intended solely for the information and use of the Audit Committee of the City of Fresno and the management of the City of Fresno and others within the organization and should not be used by anyone other than these specified parties.

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


We would be pleased to discuss with you at your convenience the matters contained in this letter or any other matters which you would like to discuss.



Certified Public Accountants
Newport Beach, California

February 25, 2009

ATTACHMENT A

Backup and Recovery Procedure	Number:
 Information Services Department	Date Issued/Revised: 00/00/00
	Approved:

Overview

Backup is the process of copying a collection of data, the object, from “primary” to “secondary” storage for the purpose of recovery in the event of failure. Its complement is Recovery, the process invoked on failure or other requirement to return the contents of the collection to primary storage. To be useful for recovery, the source data image needs to be in a consistent state during the backup. The copy should provide a non-volatile point of retrieval. In addition, a data object may have multiple copies or recovery points. Disk/tape combinations and remote disks may serve as secondary storage in addition to other media forms. An alternate location or site is recommended in the event of primary site destruction or that the site becomes unavailable. In most cases, the legal or insurance test of backup "validity" requires a combination of the ability to recover from the media and physical storage of the media at a specified minimum distance from the primary site.

1.0 Purpose

Systems do not always run as smoothly as you would like. Hardware failures, software failures, human error, hacker attacks, and sometimes even natural disasters can disrupt your electronic mail (e-mail) environment. Routine hardware maintenance, disciplined system management, and educated users can reduce risk, but the potential for failures can never be eliminated completely. Disasters will happen, and the City of Fresno must be prepared to respond quickly. Regular backups are a key part of disciplined system management, and they protect data from accidental loss, hardware failures, and other disasters.

2.0 Scope

This procedure defines the backup and recovery processes used by the City of Fresno.

3.0 Procedure

Any production server (unless otherwise specified) is backed up. Incremental backup are done Monday through Thursday, from 1730 to 0000 hours, and Full backups are staged from Friday through Sunday. Exceptions are the e-mail archives, which are fully backed up on Tuesday due to its size. Also, HTE is backed up daily. HTE backup are taken off site and stored with the vendor Data Vault. Automated process for monthly process has been set up and will run on the last Wednesday of every month.

Recovery of data is done on an ‘as need basis’, with the request submitted through ISD’s Help Desk ticketing system (HEAT). Recovered/Missing data is restored to its original location, unless the data is corrupt, then it will be re-named and placed in a ‘restore’ sub-directory of the original location.

City of Fresno backup and recovery procedures are for disaster recovery and not archive, as there is minimal long term retention. Therefore daily backup are kept for one (1) month, weekly back up are kept for one (1) year and monthly backup are kept forever with the exception of Microsoft Exchange data is kept for six (6) months, and database backup are kept for six (6) months. Electronic mail is archived after 90 days for City Hall and the Police Departments and after 180 days for Water and Waster water (DPU).

5.0 Violation/Enforcement

This section intentionally left blank.

5.0 Definitions

Full backup: **Full backup** is the starting point for all other backups and contains all the data in the folders and files that are selected to be backed up.

Incremental backup: A "normal" incremental backup will only back up files that have been changed since the last backup of any type.

6.0 Revision History

Date	Action	Authority
4/27/09	Draft 1.0	Patty Chicoine Robin Small