

**CITY OF FRESNO**

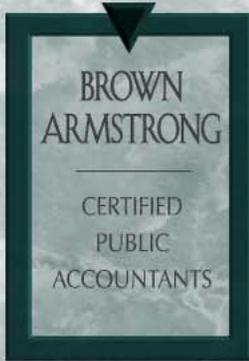
**REPORT TO THE HONORABLE MAYOR  
AND MEMBERS OF THE CITY COUNCIL**

**FOR THE YEAR ENDED JUNE 30, 2015**

**CITY OF FRESNO  
REPORT TO THE HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL  
FOR THE YEAR ENDED JUNE 30, 2015**

**Table of Contents**

	<u>Page</u>
I. Required Communication to the Honorable Mayor and Members of the City Council in Accordance with Professional Standards .....	1
II. Agreed Upon Conditions Report Designed to Increase Efficiency, Internal Controls, and/or Financial Reporting .....	4



BROWN ARMSTRONG  
Certified Public Accountants

**REQUIRED COMMUNICATION TO THE HONORABLE MAYOR AND MEMBERS  
FO THE CITY COUNCIL IN ACCORDANCE WITH PROFESSIONAL STANDARDS**

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

**BAKERSFIELD OFFICE  
(MAIN OFFICE)**

4200 TRUXTUN AVENUE  
SUITE 300  
BAKERSFIELD, CA 93309  
TEL 661.324.4971  
FAX 661.324.4997  
EMAIL info@bacpas.com

**FRESNO OFFICE**

7673 N. INGRAM AVENUE  
SUITE 101  
FRESNO, CA 93711  
TEL 559.476.3592  
FAX 559.476.3593

**PASADENA OFFICE**

260 S. LOS ROBLES AVENUE  
SUITE 310  
PASADENA, CA 91101  
TEL 626.204.6542  
FAX 626.204.6547

**STOCKTON OFFICE**

5250 CLAREMONT AVENUE  
SUITE 237  
STOCKTON, CA 95207  
TEL 209.451.4833

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Fresno (the City) for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 13, 2015. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Findings**

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As described in Note 1(e) of the financial statements, the City adopted the following provisions of Governmental Accounting Standards Board (GASB) Statements: No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and No. 71, *Pension Transition for Contributions Made Subsequent to Measurement Date – an amendment of GASB Statement No. 68*. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City’s financial statements were:

- Management’s estimate of the Other Postemployment Benefits Plan (OPEB) and net pension liability (NPL) for the City’s single-employer plans are based on actuarial evaluations. We evaluated the key factors and assumptions used to develop the OPEB obligation and NPL in determining that they reasonable in relation to the financial statements taken as a whole.

- Estimated Useful Lives of Capital Assets – Management estimates the lives of capital assets for purposes of calculating annual depreciation expense to be reported in the City’s Statement of Activities and in the Statement of Revenues, Expenses, and Changes in Net Position, which were determined by management based on the nature of the capital assets.
- Risk Management Liabilities – Accrual and disclosure of risk management liabilities which includes workers’ compensation and general liabilities which were based on actuarial studies performed by an independent actuary.
- Central Valley Project (CVP) Water Litigation Settlement – Accrual and disclosure of the CVP water litigation, which is based on present value estimates and amortized annually.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were as follows:

- OPEB obligation (Note 10(f) – Employee Benefit Programs – OPEB) and the NPL (Note 10(a) – Employee Benefit Programs – Retirement Plans) as described above.
- Property, Plant, and Equipment – Capital Assets (Note 5).
- Risk Management Fund (Note 9).

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no such misstatements.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 11, 2016, and amended March 25, 2016.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the City’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Other Matters**

We applied certain limited procedures to management’s discussion and analysis, the budgetary comparison schedules for the General Fund and the Grants Special Revenue Fund, the schedules of funding progress, schedules of investment returns, schedule of changes in net pension liability and

schedules of employer contributions for both the Employees and Fire and Police Retirement Systems, and the schedule of funding progress for the OPEB Plan, which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for

consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

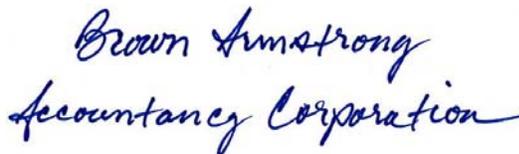
We were engaged to report on the combining financial statements, schedule of expenditures of federal awards, and schedule of passenger facility charge collections and expenditures, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on introductory section and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

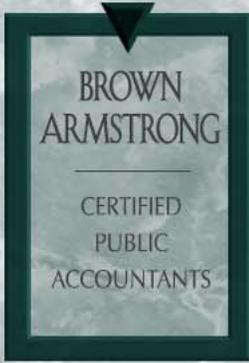
**Restriction on Use**

This information is intended solely for the use of Honorable Mayor, Members of the City Council, and management of the City of Fresno and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California  
March 25, 2016



# BROWN ARMSTRONG

*Certified Public Accountants*

## **AGREED UPON CONDITIONS REPORT DESIGNED TO INCREASE EFFICIENCY, INTERNAL CONTROLS, AND/OR FINANCIAL REPORTING**

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

### **BAKERSFIELD OFFICE (MAIN OFFICE)**

4200 TRUXTUN AVENUE  
SUITE 300  
BAKERSFIELD, CA 93309  
TEL 661.324.4971  
FAX 661.324.4997  
EMAIL [info@bacpas.com](mailto:info@bacpas.com)

### **FRESNO OFFICE**

7673 N. INGRAM AVENUE  
SUITE 101  
FRESNO, CA 93711  
TEL 559.476.3592  
FAX 559.476.3593

### **PASADENA OFFICE**

260 S. LOS ROBLES AVENUE  
SUITE 310  
PASADENA, CA 91101  
TEL 626.204.6542  
FAX 626.204.6547

### **STOCKTON OFFICE**

5250 CLAREMONT AVENUE  
SUITE 237  
STOCKTON, CA 95207  
TEL 209.451.4833

In planning and performing our audit of the financial statements of the City of Fresno, California (the City) for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control structure over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiencies. The recommendation listed in this report summarizes our comments and suggestion regarding these matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City personnel, and we will be pleased to discuss these matters in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

## I. CURRENT YEAR CONDITIONS AND RECOMMENDATIONS

### **Condition Number 1 - Information Technology (IT) - Procedures for Documenting, Authorizing, and Managing User Account Access**

The City has implemented a procedure where department heads are required to submit a request to the ISD Help Desk to request and authorize access to PeopleSoft and SunGard/utility billing system. However, there are several instances where this procedure is not consistently being followed and functional leads responsible for setting up and maintaining user account permissions are not enforcing the procedure. During our examination, we noted the City is not consistently following this process as during our testing, we noted the following:

- 1 instance where the access request and authorization to modify user access permissions for an existing PeopleSoft user account was not available.
- 2 instances where the receipt notification for terminated employees and evidence that the significant financial applications were examined and active user accounts were disabled in a timely manner were not available. Additionally, 1 instance where the user account in PeopleSoft Human Resources Management System (HRMS) for a terminated employee was still active.
- The process of reviewing the biweekly report sent to ISD by Payroll to verify that all user accounts belonging to employees terminated within the prior pay period have been disabled or removed is not documented.

Failure to properly track and document the user account administration processes noted above increases the risk that the appropriate procedures are not adequately and consistently followed, and prevents the City from verifying that these procedures have taken place within the appropriate timeframe and with proper authorization. This risk is evident in a second related observation during the course of our audit: during our sample testing of the processes used to remove terminated employees' access to City systems, we noted that an active PeopleSoft HRMS user account was still in place for the terminated employee sample.

#### Recommendation

We recommend the City begin tracking and documenting the request process for creating, removing, and modifying user accounts and their permissions within the PeopleSoft and SunGard/utility billing systems in order to ensure that these processes are taking place with proper approval and within appropriate timeframes. Documentation for access requests and termination notifications should include the date and requestor for the original request, management approval (access requests only), and completion date of the activity at a minimum. It is further recommended that the City's ISD department document its review of the biweekly Payroll report of employees terminated within the previous pay period to confirm that all user accounts belonging to terminated employees were in fact disabled or removed.

#### Management Response and Planned Corrective Action

The City will review its procedures and policies for creating, modifying and removing access within the PeopleSoft and SunGard systems. The City will incorporate the auditor's recommendations into any changes to those policies and procedures that are made as a result of the review.

### **Condition Number 2 - Information Technology (IT) - Password Requirements for PeopleSoft Oracle Databases and Sun Solaris Operating Systems**

During our examination of the password requirement settings within the significant financial applications and their supporting databases and server operating systems, it was noted that password requirements have not been implemented in the PeopleSoft Oracle databases or the Sun Solaris operating system for Financials and HRMS and they are not configured to match the City's Password Policy (2015). While access to these systems are more difficult to obtain, critical underlying support systems that contain system configuration and business data should be appropriately secured with robust password requirements.

### Recommendation

We recommend the City examine the password requirements for supporting systems and implement appropriate password configurations for its critical financial applications to ensure that strong password requirements have been implemented as stated in the City's Password Policy.

### Management Response and Planned Corrective Action

As a result of PeopleSoft database version upgrades, the City now has the ability to add password controls to be in line with other systems. We will add and test the password control changes for these accounts. It is important to note that these are application or service accounts and not end user accounts.

### **Condition Number 3 - Information Technology (IT) - Third-Party Vulnerability Assessments Inclusive of External Penetration Testing**

Although a security assessment was conducted at the City by a third-party vendor during the audit period, this assessment did not include an external penetration test. This increases the risk that unauthorized access to the City network could be obtained due to undetected network vulnerabilities, which results in an increased security risk of data loss or theft. We noted the external penetration testing are not conducted on an annual basis.

### Recommendation

We recommend the City contract with a third party to perform vulnerability assessments inclusive of external penetration testing, as an independent review will provide an objective and unbiased security assessment of the City's systems. Such tests should take place on an annual basis at a minimum, though additional tests may be warranted if large-scale changes are made to the network or security infrastructure, and should include an assessment of both internal and external vulnerabilities. In the event that vulnerabilities are identified, the City should implement appropriate procedures to ensure that the vulnerabilities have been mitigated to the extent that they are determined by City management to be at acceptable levels.

### Management Response and Planned Corrective Action

An external security assessment was completed in 2015. The assessment noted several ways which could increase the safeguards of the City's information systems. These recommendations are being implemented as budget allows. One such recommendation that is being acted upon is an external vulnerability/penetration test. The City's next external vulnerability/penetration test is budgeted for Fiscal Year 2017. ISD intends upon keeping it in the budget in order to perform annual assessments.

### **Condition Number 4 - Information Technology (IT) - IT Strategic Plan**

Although an IT Strategic Plan was developed for the years of 2012 – 2014, the Plan was not updated and a new Plan was not developed for the audit period. Failure to develop an IT strategic plan increases the risk that the City's IT initiatives do not align with the City's strategic goals.

We noted that an effort is currently underway to develop a new Plan and an outside vendor has been selected to assist with the process, which is expected to be completed for fiscal year 2017.

### Recommendation

We recommended the City Manager, work in conjunction with the Chief Information Officer, Controller, and other major users of IT services, and develop an IT strategic plan. The City Manager should ensure that the plan, at a minimum, includes the following: 1) Identification and prioritization of IT initiatives; 2) Alignment with the goals and objectives of the City as a whole; 3) Provisions for the periodic review by the City-wide IT Steering Committee and periodic updates for continued relevance to strategic initiatives; and 4) Provisions for periodic reporting to City Council and the City Manager on progress made towards the initiatives.

### Management Response and Planned Corrective Action

The City of Fresno is currently in the process of compiling a strategic plan. The kickoff for the plan is slated for February 22, 2016, with the process expected to take 22-24 weeks to complete.

### **Condition Number 5 - Information Technology (IT) - IT policies**

During our review, we noted that IT policies and procedures were last updated in 2012. In addition, although new employees are briefed on IT-related policies at the time of their hire, there is no process in place by which these employees confirm that they have received, reviewed, and agreed to the City's IT policies, including Administrative Order 8-11. The lack of current, documented policies and procedures increase the risk that employees are either unaware of requirements or following obsolete procedures, which may result in unauthorized or inaccurate processing of financial transactions. It was noted in correspondence with the City that the new employee orientation process has been amended to include distribution of the City's main IT-related Administrative Order 8-11 as well as an acknowledgement of receipt.

### Recommendation

It is recommended that the City review all IT-related policies and procedures on an annual basis at a minimum, and that this process is fully documented to ensure that it is completed as scheduled. All relevant IT policies should be distributed to new hired employees including acknowledgement from the new hires of receipt. The review process should include procedures for notifying all employees of update policy documents and where appropriate, seek acknowledgement of receipt of the updated policy from the employee.

### Management Response and Planned Corrective Action

This process is currently underway. At the time of this report, several policies had been reviewed and updated. The City should have the rest of them completed by end of the fiscal year. ISD will implement a process where policies are reviewed each year.

Administrative Order 8-11, which is the City's version of an acceptable use policy, is one of the policies under review. When Administrative Orders are updated, there is a City Wide email that is sent out notifying all users of the update. ISD will examine this process with the goal of creating a notification process by which an update of an acceptable use policy is acknowledged by the end users.

### **Condition Number 6 - Health and Welfare Plan Employee Contributions**

We tested as sample of 60 members of the Health and Welfare Plan and noted 1 instance in which the employee contribution amount that was deducted from the member's paycheck did not agree to the contribution schedule. The member should have been contributing \$325.20 per month. However the payroll records indicated the member was only contributing \$216.80 during Fiscal Year 2015. Management indicated the oversight occurred due to the member's union was moved to the 75/25 contribution plan on July 1, 2015, instead of April 2015. As a result of the error, the member owes the City the difference between the two rates from April through June.

### Recommendation

We recommend the City consider periodic reviews of contribution rates entered into the system and contact the member and set up a repayment plan for the error.

### Management Response and Planned Corrective Action

Management has contacted the member and entered into a written agreement for the employee to reimburse the City over a period of time. Human Resources, Payroll, and Information Services are working on a joint process to automate changes in PeopleSoft categories like bargaining unit or job classification, which occur in an employee's status. The intent is to eliminate the need for multiple data entry changes to an employee's record, thereby reducing errors like the one made in the instance documented by the auditors. It is anticipated that this automated process will be in place prior to the end of Fiscal Year June 30, 2016.

## II. DISPOSITION OF PRIOR YEAR CONDITION

### **Condition Number 1 - Information Systems Management**

During our review and evaluation of the general controls over information systems, we noted the following:

- ***IT Governance***

The City does not have a current IT Strategic Plan. While the Information Services Department has defined general strategic IT objectives, the City has only recently created an IT Steering Committee to create such a plan. The high interdependency of most departments on common IT infrastructure and core applications merits a Citywide IT strategic plan. The absence of a current IT strategic plan could place the City at increased risk of misalignment between IT projects and the goals and objectives of the City as a whole.

- ***System Acquisition, Development and Program Change Management***

The City does not have formal policies and procedures for managing new system development or acquisition. New system development and acquisition are formal processes used to ensure that new products or systems are introduced in a controlled and coordinated manner. Today's computer applications and network infrastructure are extremely complex, and require careful control and testing in order not to assure proper stewardship of public funds and fit-for-use within an organization's operations. The City, however, has no formal control documentation for how to develop or implement new systems or applications. Implementation, including testing, is currently only based on the institutional knowledge of those involved. This increases the risk of system development and implementation failures or that systems are developed and acquired that do not meet the overall strategic goals of the City.

- ***Computer Operations***

The City has not recently tested its Disaster Recovery Plan. Computer operations controls require that an entity has developed, documented, and implemented a disaster recovery/business continuity plan to provide contingency for unforeseeable events and assure that system and financial data can be recovered in a timely manner. The City created its Disaster Recovery plan in 2010, but it has not tested the plan since 2012. Without a fully-tested Disaster Recovery plan, the City cannot be fully assured that IT systems and data can be fully restored within a reasonable time after a disaster.

### **Recommendation**

We recommend the following:

- The City Manager, working in conjunction with the Chief Information Officer, Controller, and other major users of IT services, should develop an IT strategic plan. The City Manager should ensure that the plan, at a minimum, include the following:
  - Identification and prioritization of IT initiatives.
  - Alignment with the goals and objectives of the City as a whole.
  - Provisions for the periodic review by the City-wide IT Steering Committee and periodic updates for continued relevance to strategic initiatives.
  - Provisions for periodic reporting to City Council and the City Manager on progress made towards the initiatives.
- The Chief Information Officer, along with the Controller and key IT staff and key functional stakeholders, should formally document new system development and acquisition processes. This process should include roles, ownership, and responsibility for providing overall leadership, requirements, testing, and approvals within key user groups and within the IT organization.

- The City should test its disaster recovery plan to assure that financial systems and data can be recovered. Findings from periodic testing should be incorporated into updates to the plan.

Management's Response and Planned Corrective Action

**IT Governance** - The City has an IT Strategic Plan that is dated 2012-2014. It was last accessed in calendar year 2014, however, most of the provisions within it are still valid. The plan itself was put together by internal staff when funds were not available for an external party to evaluate the operations and goals of the IT Department as well as the alignment with the Mayor's initiatives. The City of Fresno has been economically and financially challenged over the past few years and has just recently been allowing departments to invest in projects that revolve around IT needs. In essence, the plan needs to be reviewed and rewritten to reflect the onslaught of new programs that are being implemented. ISD is seeking third party review to rewrite and revise the current plan into a proper plan for the City of our size. There is a budget request for such a review for Fiscal Year 16. Depending upon the approval of funds, ISD will either contract a third party for the review or it will be revisited by internal staff. This plan shall also address Governance issues as they have been problematic over the past few years.

**System Acquisition, Development and Change Management** - As to new systems, any purchased new system that does not require development will follow the City's proper purchasing ordinances. There is a policy being created in the Fresno Innovative IT (FIIT) Advisory Committee that is to deal with City Wide implementations. As of now, the City does not develop its own software on an enterprise level, so there hasn't been a policy created for SDLC or programming procedures. The City does, however, have a proper Change Control Process/Policy for any system changes. It has been in place for several years.

**Operations/Disaster Recovery** - While the City has a Disaster Recovery Plan, it is tested on a limited basis. Most of the verifications of the plan have been with backup restoration and with power outages with the most recent unplanned test being February 14, 2014. A formal annual plan for testing has not been created as we take advantage of unplanned outages to test our disaster recovery process; however, the plan is updated with new contact information as vendor roles change. An update was completed this fiscal year.

Current Year Status

Refer to the current year similar finding Condition Number 4.

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This information is intended solely for the use of Honorable Mayor, Members of the City Council, and management of the City of Fresno and is not intended to be, and should not be, used by anyone other than these specified parties

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION



*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
March 25, 2016