

STAFF REPORT*CITY OF OCEANSIDE*

DATE: October 20, 2010

TO: Honorable Mayor and City Councilmembers

FROM: Financial Services Department

SUBJECT: **NEW CITY COUNCIL POLICY 200-12, INTERNAL CONTROL POLICY**

SYNOPSIS

Staff recommends that the City Council adopt new City Council Policy 200-12, Internal Control Policy, establishing proper financial internal control procedures to safeguard the City of Oceanside's financial assets.

BACKGROUND

The 2009/2010 San Diego County Grand Jury filed a report on "Ethics in Government, Codes of Ethics, Internal Controls, Fraud Hotlines" on May 27, 2010, to which the City responded on August 24, 2010.

Recommendation No. 10-71 states: "Bring before the legislative body of each entity listed above for its consideration in a public meeting a proposal to adopt and apply internal controls compliant with Generally Accepted Government Auditing Standards and/or Generally Accepted Accounting Principles as applicable."

The City responded: "The City of Oceanside has implemented and continues to implement financial and internal controls based on Generally Accepted Accounting Principles and follows Generally Accepted Government Auditing Standards. Each year, the Oceanside City Council receives a comprehensive audit of the City's finances and a 'management letter' that outlines recommendations to improve and strengthen internal controls."

In August 2010 the City was audited by Department of Housing and Urban Development (HUD). Their audit disclosed the lack of a comprehensive, agency-wide internal control policy, and recommended that a policy be adopted by the City Council. They referenced OMB Circulars A-87 and A-123, the Consolidated Annual Contributions Contract, and The Federal Managers Integrity Act for guidance on financial management standards.

The City responded: "During the 2010-11 fiscal year, we are planning to develop a comprehensive, agency-wide internal control policy. Currently, we do have internal control policies for our accounting and finance areas. While there is not one 'Internal

Control Policy' for the City, we do have Administrative Directives and Standard Operating Procedures that provide guidance, standards and controls for recording and processing transactions.”

ANALYSIS

Council Policy 200-12 will formalize the testimony that the City's elected officials, directors, and managers believe that internal controls are important. Auditors call this the “Tone at the Top” and it is something they look for to meet auditing standards (Statement on Auditing Standard No. 99).

While the City's independent auditors and similar outside parties can provide valuable assistance to management in meeting its internal control related responsibilities, their contribution can never be a substitute for management's direct and informed involvement with internal control. Ultimately it is the responsibility of the City Council to ensure that management staff fulfills their responsibilities in implementing and maintaining a sound and comprehensive framework of internal control.

Internal controls have long been regarded as the basis to ensure that assets are accounted for and used properly. Internal controls generally address proper authorization of transactions, segregation of duties, documents and records, safeguards over access to and use of assets, and independent checks on performance. The City of Oceanside has adopted Administrative Directives that address purchasing, budgeting, revenue, grants, and fixed assets. Upon adoption of this Council Policy, a more-detailed Administrative Directive will be implemented to further define internal control requirements. The Financial Services Department has adopted numerous Standard Operating Procedures (SOP) that document accounting policies and procedures, and continually adds to this list.

As stated in Council Policy 200-12, “an important fact to remember is that the cost of internal controls should never exceed the financial and nonfinancial benefits.” Consequently, the Financial Services Department will be working within the framework of existing staff and budgets to evaluate and test internal controls and make recommended adjustments as necessary.

FISCAL IMPACT

Does not apply.

CITY ATTORNEY ANALYSIS

The referenced documents have been reviewed by the City Attorney and approved as to form.

RECOMMENDATION

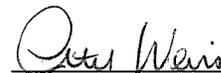
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SUBMITTED BY:



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DRAFT

INTERNAL CONTROL POLICY

POLICY NUMBER 200-12
ADOPTED 10-20-10

The purpose of this policy is to establish proper financial internal control procedures and to safeguard the City of Oceanside's financial assets. This policy applies to all assets whether they are monetary or physical.

The City Council, City Manager, Financial Services Director and Department Heads must use resources efficiently. By optimal use of those resources placed under our control, and effective management of the resources, the City can achieve its goals, ensure compliance with all applicable laws and regulations, and ensure reliability in financial reporting.

As the City designs and implements internal controls in compliance with Generally Accepted Government Auditing Standards and/or Generally Accepted Accounting Principles, an important fact to remember is that the cost of internal controls should never exceed the financial and nonfinancial benefits.