



Office of the City Manager

INFORMATION CALENDAR
May 7, 2013

To: Honorable Mayor and Members of the City Council
From:  Christine Daniel, City Manager
Submitted by: Robert Hicks, Director of Finance
Subject: Lack of Support for Payroll Adjusting Journal Entries: Grant Revenue at Risk?

INTRODUCTION

The City Auditor’s Office conducted an audit of payroll adjusting journal entries (AJEs) prepared by the Department of Health, Housing, and Community Services, (formerly the Department of Health Services (DHS)), and concluded that DHS did not attach sufficient support for the journal entries sent to Accounting.

The Auditor’s report was submitted to Council on October 26, 2010. The report consisted of two findings and three audit recommendations. On January 31, 2012, the Finance Department provided a status report, with two recommendations implemented (# 2.1 and 2.2) and one recommendation partially implemented (# 1.1). This is Finance’s final status report and provides a current update on the single outstanding item (#1.1).

The complete report and previous status report on the Lack of Support for Payroll Adjusting Journal Entries Audit can be found on the City’s website at:

- http://www.ci.berkeley.ca.us/uploadedFiles/Auditor/Level_3_-_General/2010-10-26_Item_14_Audit_Lack_of_Support_for_Payroll_Adjusting_Journal_Entries.pdf
- http://www.ci.berkeley.ca.us/uploadedFiles/Clerk/Level_3_-_City_Council/2012/01Jan/2012-01-31_Item_27_Status_of_Audit_Recommendations.pdf

CURRENT SITUATION AND ITS EFFECTS

On January 31, 2012, the Finance Department reported that recommendation 1.1 was partially implemented with a draft of the A.R. prepared. The A.R. has since been finalized and published on April 1, 2013.

Finding 1: Provide Guidance for Adjusting Journal Entries

Auditor’s Recommendation (1.1): Include in the new Administrative Regulation on journal entries a requirement to support each entry. Provide guidance on documentation to include with an AJE to support its necessity, and the amount(s). The supporting

documentation should be sufficient to enable an auditor or other qualified reviewer to reasonably determine that the entry was necessary, and the amounts accurate.

City Manager Response: Implemented. On April 1, 2013, the new Administrative Regulation (3.24) - Requirements for Preparing, Reviewing, and Approving Adjusting Journal Entries was completed, approved and published.

BACKGROUND

Finance is responsible for providing guidance about adjusting journal entries in order to accurately determine the City's account balances, the financial performance of each fund and the City's overall financial performance. Adjusting journal entries play an important role in the accounting process because they change account balances.

This Administrative Regulation establishes requirements for preparing, reviewing and approving adjusting journal entries (AJs). Each Department Director is responsible for implementing a process for reviewing AJs to prevent fraud and ensure appropriate fiscal management.

The Finance Department is responsible for establishing procedures, training and internal controls for all City employees to follow in preparing, reviewing and approving AJs. Finance/Accounting reviews Citywide AJs to ensure that appropriate procedures are followed and to provide written notification to the City Manager, Budget Manager and Department Directors when departmental employees fail to follow appropriate procedures.

CONTACT PERSON

Robert Hicks, Director of Finance, Finance Department, 981-7300