

December 6, 2016

City Council  
City of Moreno Valley  
14177 Frederick Street  
Moreno Valley, CA 92553

Honorable Mayor Yxstian Gutierrez and Members of the City Council:

Enclosed please find our status report on the engagement to review the financial practices of the City of Moreno Valley. Our review has encompassed areas generally relevant to the financial management policies and procedures of the City, as well as certain areas specifically requested by members of the City Council. The primary areas of focus were:

- Procurement
- Contracting
- Financial Management
  - Financial policies
  - Budget administration
  - Interim financial reporting
  - Debt management
  - Grants compliance monitoring
  - Electric Utility financial planning and monitoring
- Cashiering and departmental cash controls
- Treasury management
- Cost allocation
- Developer impact fee accounting
- Administration of the permitting function
- Information Technology general controls
- Payroll processing
- Human resources administration.

We were asked to help the City identify and mitigate the risks of financial mismanagement, fraud or abuse. We did not identify any instances of fraud, abuse or illegal acts. However, we have identified certain internal control processes which should be strengthened in order to provide the Council continuing assurance of proper financial management. We also believe there are opportunities for the City to realize cost savings through certain procurement strategies. And finally, the City has experienced growth in operations and complexity, generally without a corresponding evaluation of the adequacy of City staff levels to manage new and expanded areas of responsibility. We suggest the City review its staffing levels to ensure personnel resources are adequate to manage the risks associated with changing functions. A summary of our comments and recommendations resulting from the review procedures performed to date is attached.



Areas which have been suggested for further study and to which we have not devoted substantial time are:

- Employee accrual of PTO, and monitoring of PTO usage and other absences
- Overtime usage and monitoring
- Benchmarking of selected City fees with other cities
- Americans with Disabilities Act (ADA) risk mitigation.

We understand that the City has retained a firm to study the ADA matter and accordingly our participation may not be required. We request guidance as to whether the City Council wishes us to continue with these additional areas of study.

We will be pleased to discuss the findings and our recommendations resulting from the review of financial practices upon request.

Very truly yours,

A handwritten signature in cursive script that reads "Margaret J. McBride".

Margaret J. McBride, Principal

cc: Martin D. Koczanowicz, City Attorney

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COMMENT	RECOMMENDATION
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**PROCUREMENT**

Note that the comments pertain to the Procurement function and not necessarily to the Purchasing Division; much of procurement occurs at the departmental level.

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| <p>1. Preferred vendors are those for which discounts have been negotiated. The City has not identified vendors willing to grant discounts from retail prices. Negotiated discounts may provide savings of 5% to 10% or more to the City.</p>  | <p>1. Solicit "best pricing" from vendors frequently used by the City, including particularly those likely to be used by employees with Cal-Cards.</p>  |
| <p>2. There are 127 Cal-Cards in use including 40 cards with limits greater than \$10,000 and up to \$100,000. Approximately \$2.6 million in payments were made with Cal-Cards in fiscal year 2016. In one month, 287 charges were made to a single vendor. There is no control to ensure lowest price vendors or local vendors are used. All purchases are coded to "Supplies" unless departments elect to re-code to a more accurate account within ten days of receiving the bank statement.</p> | <p>2. Develop a plan to transition to lowest-price vendors using negotiated blanket purchase orders with discount pricing. Limit use of Cal-Cards to emergency or minor purchases, or those for which procurement from preferred vendors is not available.</p>                    |
| <p>3. After an exhaustive review of procurement documentation, two instances were identified from prior years (2011 and 2012) in which the basis for decisions to rank bidders as "not pass" or "bottom ranked" was not available. Such documentation is particularly important when a vendor other than the low bidder is selected. (Reference Merchants Landscape and Proactive Engineering contracts)</p>   | <p>3. Documentation as to the rationale for ranking low bidders who are not recommended for hire should be consistently included on the bid summary documentation. We understand that the new LOGOS system will facilitate electronic retention of procurement documentation.</p> |
| <p>4. One instance was noted in which a Council Report and change order were not prepared with due care, and contained calculation errors and inaccurate statements regarding external funding sources. [REDACTED]</p>   | <p>4. Establish a practice requiring that change orders be reviewed by a party independent of the requesting department, perhaps a Contracts Administrator, trained to evaluate the document for accuracy and compliance with relevant City policies.</p>                         |
| <p>5. Numerous procurements were made with the same vendor for amounts less than the threshold requiring written quotations (\$45,000). We were advised that this practice occurred to expedite services from a vendor whose abilities were known. (Total purchases approximating \$227,000 – reference [REDACTED])</p>  | <p>5. Consider establishing a bench of contractors with negotiated rates and a cap on annual purchases. Monitor repetitive procurements from a single vendor for amounts approaching the written bid threshold.</p>   |
| <p>6. Per City Policy #3.18, non-public works change orders are not required to be presented to the City Council for approval, regardless of the cumulative</p>  | <p>6. The City Council is active in the review and approval of the operating budget, contracts and purchases exceeding \$100,000. The Council</p>   |

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amount.	should determine whether it wishes to also approve material changes to approved non-public works contracts.
7. Departments have, in prior years, retained and contracted with law firms directly, without consulting with or informing the City Attorney. We are not aware of a policy prohibiting this practice.	7. A formal policy should be adopted requiring that all procurements of legal services be coordinated with the City Attorney to allow for evaluation of prospective legal service providers by a qualified lawyer, and to ensure the identify of "the client" is clearly set forth in the agreement.
8. The City does not require use of receiving reports to document receipt of goods or services prior to approving payment. This practice is acceptable in certain circumstances; however, we noted that the Process Manager Listing dated August 31, 2016 reports that one individual has access to initiate purchase requisitions, approve purchase requisitions as division manager, and also signify receipt of items purchased.	8. The City should review its Process Manager Listing and ensure that no access is granted to individuals who have not been approved for the specific role. It is critical that those who can initiate purchases are not also able to approve them and confirm receipt of goods or services, thus authorizing payment to the vendor. We were advised that access has been reviewed and appropriately restricted for the identified individual.
9. The Purchasing Division is responsible for centralized purchasing through the use of requisitions, requests for proposals and invitations to bid for all City operations. The Division is also responsible for City-wide maintenance, modification, modernization, repair and revitalization of City-controlled facilities and buildings. The division provides management of in-house and contract services to meet emergency, routine and long-term facility maintenance and operations. In addition to the day-to-day maintenance operations, the division oversees a preventive maintenance program; procurement and installation of office furnishings; custodial, pest control and locksmith services; and fire and security systems. This division is also responsible for providing City-wide mail services. Staff for this division consists of a Purchasing Manager, a warehouse/mail clerk, and 2 assistant buyers.	9. The City is experiencing growth in operations, facilities and services. The roles of purchasing and facilities management will become increasingly critical to achieving economies and ensuring timely maintenance and appropriate physical security. Additional attention to obtaining discounted vendor agreements and monitoring purchases to encourage centralized volume purchases can provide significant financial savings but require the time and attention of experienced procurement staff. We recommend the City evaluate the duties presently being performed by members of this division, consider additional duties which may enhance the financial contribution of this division, benchmark staffing levels to similarly-sized cities, and augment staffing as determined to be appropriate.
CONTRACTING	
1. Departments may create their own contracts and not use a standard template(s) to ensure inclusion of required language such as indemnification, insurance, prevailing wages,	1. Require that City staff use contract templates approved by the City Attorney unless an exception to the standard templates is agreed to by the City Attorney. Any and all changes to approved

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<p>subcontracting provisions, and the like. The City Attorney is not involved on a proactive basis to ensure contract terms clearly state the City's and vendor's responsibilities and minimize risk to the City; review by the City Attorney occurs late in the contracting process and is limited to form and legality of document.</p>	<p>contractual terms should be provided to the City Attorney prior to initiating the contracting process. Staff should be encouraged to consult with legal counsel (City Attorney) concerning risk mitigation techniques.</p>
<p>2. The City has not had a central oversight function for contract management nor is there a consolidated listing of open contracts and contractual commitments. By City policy, contract change orders (other than those for Public Works projects) do not require approval of the City Council. Departments do not consistently use contract templates approved by the City Attorney's Office, and therefore may omit important protective terms and conditions. Departments retain responsibility for contract management, including obtaining certificates of insurance as they expire, ensuring retainages are withheld, and approving release of retainages, posted bonds or other security.</p> <p>We were informed that the City has begun using the contract module available with its accounting software, and that the new process will allow Purchasing to provide a greater level of centralized contract administration and oversight of insurance requirements.</p>	<p>2. As noted previously, the Purchasing Division is already challenged to meet its responsibilities with existing staff. The City should ensure that responsibility for central contract oversight is assigned to trained, experienced professionals who are knowledgeable of relevant Federal, State and City regulations, policies and procedures, including grantor program terms and competitive procurement policies, <u>and who have the capacity to devote the time and attention this high risk area requires.</u></p> <p>Because contracts, including contractual liabilities, retainages, commitments, and related expenditures and assets, must be recorded in the accounting records and disclosed in the financial statements, oversight within the FMS Department is a reasonable placement. Contract monitoring by the Procurement Division is also acceptable if training in Federal, State and grantor-specific regulations is provided, and additional staff capacity is available. Oversight should include monitoring contracts for compliance with approved City policies and Federal and State regulations, when applicable.</p>

**FINANCIAL MANAGEMENT (BUDGETING AND FINANCIAL REPORTING)**

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| <p>1. City Resolution No. 2008-88 states that, for new or increased appropriations with offsetting revenues (no net budgetary impact), the City Manager is authorized to approve such appropriations. We were advised that the City is not using this authority except for the appropriation of new grants or other unanticipated restricted funds. However, as drafted, the wording grants the City Manager authority to appropriate, without Council approval, revenues which exceed anticipated and budgeted amounts.</p> | <p>1. The City Council should evaluate the language of City Resolution No. 2008-88 and determine whether revisions are necessary to reflect the level of authority the Council wishes to grant with respect to the appropriation of unanticipated and unbudgeted revenues.</p> |
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<p>2. Per City policy, interfund transfers do not require City Council authorization. City Manager approval is sufficient to authorize a transfer from one fund to another fund.</p>	<p>2. While interfund transfers are monitored as part of the budget monitoring process, the City Council may wish to ensure that City policies reflect the intent of the Council.</p>
<p>3. Some departmental directors stated that they do not review interim financial statements as they view this task as the responsibility of Financial and Management Services. The City does not provide to the City Council nor post on its web site monthly reports comparing budgeted revenues and expenditures to actual amounts, or monthly reports demonstrating financial results of MV Utility operations compared to budget and prior year. Quarterly fiscal updates provide useful analyses at a high level; however, they occur more than 60 days after the end of the quarter. We understand the City is evaluating optimal reporting practices.</p>	<p>3. The City has made significant progress in demonstrating financial transparency by publishing monthly payment registers, the annual Comprehensive Annual Financial Report, an annual Popular Report, and quarterly fiscal updates. However, to further provide full disclosure of the City's financial condition, summarized monthly financial information for each major fund should be published on the City's web site. Further, Departments should be instructed to monitor monthly financial reports for their operations, and provided training if necessary to promote understanding of the information.</p>
<p>4. The City does not have a Compliance Program or a Compliance Officer. The Department of Financial and Management Services (FMS) is evaluating options for reporting of fraudulent behavior or other suspected unethical or unlawful conduct. Whistleblower hotlines are by far the most frequent method used for the reporting of such matters. The Department has also initiated a Fraud Risk Assessment process using the services of an Intern; however, a City-wide Fraud Risk Assessment process will require participation by and a time commitment from the highest levels of management. The Department has conducted limited internal audits of high risk areas; however, staffing to perform these audits is extremely limited. Finally, the City has experienced significant noncompliance with grantor terms. The conditions allowing for such noncompliance are being remedied by transferring the involved grantor-funded activities to the Department where improved oversight is now in place.</p>	<p>4. The City should consider establishing a compliance program which could offer the following benefits:</p> <ul style="list-style-type: none"> <li>a. Provide the resources necessary to ensure the adoption and implementation of a Whistleblower Hotline to facilitate the timely reporting of known or suspected fraudulent, unethical or unlawful conduct.</li> <li>b. Provide the resources to complete the City-wide fraud risk assessment, including spending the time to understand the risks in each department, controls to mitigate those risks, and gaps in internal control coverage.</li> <li>c. Allow a trained, experienced professional, with knowledge of Federal and State program requirements, to mitigate the risk of noncompliance and related penalties or grant forfeitures associated with such programs. While compliance requirements continue to expand and increase in complexity, many of them, such as those set forth in the Uniform Guidance, apply to all Federal programs and therefore oversight by a single, trained individual can be cost-effective.</li> <li>d. Perform limited internal auditing of high risk programs. As the City's growth and complexity continues, consider implementing an internal audit function, which can be</li> </ul>

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<p>5. The City has not developed projections or a funding plan for its liabilities associated with pension, retiree medical, health insurance or workers compensation costs. Also, at the time of our review, the City had not developed policies for targeted levels of reserves, fund balances or working capital within the Electric Utility. We were advised that the City intends to develop such policies.</p>	<p>staffed internally or via external contracts.</p> <p>5. As employee-related costs are expected to increase at significant rates in the future, steps should be taken to manage these costs through long-term projections and identification of available or needed funding sources. Further, to ensure ongoing prudent fiscal management, the City should determine appropriate levels of financial resources (reserves) and consider these parameters during the budgeting process.</p>

**UTILITIES**

<p>1. The Electric Utility is realizing a healthy net profit exceeding 25% of revenues, which should allow it to build an appropriate level of reserves. The City contracts with ENCO to operate the utility, and has experienced a high level of service reliability and low levels of customer complaints, as reported by the Utility's manager. City staff focuses on special programs such as solar energy and subsidized rate programs, as well as regulatory reporting, large account management, financial management, strategy, and oversight, all of which are growing areas demanding increased staff time.</p>	<p>1. The increasing demand for alternative energy sources and the related administrative requirements, coupled with the ongoing efforts to promote the utility as a key component of the City's attractiveness to potential new businesses, and the steadily increasing regulatory requirements, all point to a need for additional staff resources. Adequate mid-level support, such as management analysts, will free up senior level engineering and management time for program initiatives, promotion, evaluation, and monitoring of utility operations in relation to the strategic guidance provided by the Council and Utility Commission. We recommend the City evaluate the existing and projected workloads of staff and proposed modified staffing levels as appropriate.</p>
<p>2. There is presently no long-term strategic plan for the Electric Utility. Policies have not been established regarding appropriate levels of reserves or approved financing vehicles and strategies. The Utility has opted to finance long-lived assets with existing cash resources, and thus has minimal cash reserves. The contract with ENCO as operator of the Electric Utility ends in 2020.</p>	<p>2. The City should develop and formalize a long-term strategy for management of the Electric Utility. Key components of a long-term plan should include a five-year business plan with projected financial results, mandated reserves, and targeted financial ratios (working capital, debt/assets, days cash on hand), future sources of supply, infrastructure planning, and anticipated customer base.</p>

**THE COMMUNITY AND ECONOMIC DEVELOPMENT DEPARTMENT**

<p>1. The Community and Economic Development Department is critical to the City's efforts to provide opportunities and improve the quality of life for its residents. The Department promotes the City and works to create jobs</p>	<p>1. A review of the Community and Economic Development Department's responsibilities and a comparison to other cities which are actively seeking to attract desirable businesses and investment suggests that the staffing level</p>
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and strengthen economic conditions by attracting new businesses and facilitating the expansion of existing businesses, promoting workforce development, providing site selection assistance and ombudsman services, and building relationships with other governmental agencies to leverage available resources. Staffing of the Department consists of a Director, Manager, Management Analyst and Executive Assistant, supplemented by interns where appropriate.	should be thoroughly studied and potentially augmented. The opportunities to market the City and successfully attract, retain and grow existing businesses are virtually endless when sufficient personnel resources are available. Enhancing the effectiveness of this department through additional investment can provide growth in the City's tax base, additional revenues to the City and new jobs for its residents.

**INFORMATION TECHNOLOGY**

1. The City's Information Technology function does not have a consolidated set of written policies and procedures.	1. Comprehensive, current and documented policies and procedures are important to promote understanding and compliance with approved rules and guidelines.
2. The periodic review of network user access is not documented and therefore we cannot verify whether this control procedure is being performed on a regular basis. We noted that one individual had the ability to perform incompatible functions due to improper access to functions within the IT system.	2. We recommend that management periodically review access controls and such controls should be certified as appropriate by all departmental managers on a yearly basis. This certification should be a formal exercise lead by the Information Technology Division acting as the information security function within the City. Departmental managers should sign an access control listing for each of their employees.
3. An employee information security awareness training program is not deemed mandatory for employee participation. Currently, the security awareness training program is provided to City employees on a voluntary basis, with approximately 30% of system users participating.	3. We recommend that City Management instill knowledge of information security practices and responsibilities across the organization by requiring mandatory annual information security awareness training for all employees that utilize any type of computer system, regardless of usage levels. As a part of the training, employees should confirm acceptance of terms and conditions of using the City network.

**ANIMAL SERVICES DIVISION**

1. The Animal Services Division takes in a significant amount of money each day, much of it in cash. They also deal with irate residents when enforcing the animal control regulations. The employee parking area	1. The City should consider increasing the security over the cashiering area, and providing a restricted area that employees can access in the event of an altercation or other need for a safe location. Further, the City should evaluate
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<p>behind the building is dark during the winter months. There is no security guard posted at the shelter, nor are there partitions of any kind between the public and those accepting cash and handling customer relation matters.</p>	<p>the need for additional lighting and perhaps a police presence during dark closing hours. If comment number 2 below is implemented, additional lighting could be incorporated into a developed exercise park.</p>
<p>2. The Animal Services Division has approximately 100 kennels and takes in more than 8,000 animals per year. There is a large unimproved vacant lot behind the building. Presently, there is no area for exercising the animals housed in the kennels.</p>	<p>2. The City has provided significant business opportunities to many vendors, including construction and landscaping companies. It is reasonable to expect that these companies may appreciate an opportunity to assist in or undertake the creation of an area usable as an exercise area, perhaps in exchange for signage on the building or at the entrance to the exercise yard. Promotional opportunities are widely used by other governments and serve to augment scarce resources.</p>
<p>3. Animal Services staffing does not enjoy significant volunteer labor. The existing staff is challenged to properly administer the program, host special adoption events, arrange required veterinary care, and respond to resident requests. In addition, an inordinate amount of time is expended responding to inquiries from social media.</p>	<p>3. The City's staff must prioritize the needs of its residents over those of nonresidents making requests or demands over social media. The City should consider a policy clearly stating that staff will reply to inquiries from nonresidents as time permits.</p>

**POLICE**

<p>1. The cashiers at the Police Department collect revenues in the form of various fees and charges. [REDACTED] [REDACTED] Police officers are not located in close proximity to the counter, and we were informed that staff would summon help via telephone if necessary.</p>	<p>1. Notwithstanding the location of the Police cashiering function in the Police Department building, we recommend [REDACTED] [REDACTED] in the event of a threat to security.</p>
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**FACILITIES**

<p>1. The Facilities function provides preventive maintenance, repair, and modernization of City facilities; manages contract services and security systems; custodial, pest control, and locksmith services; fire and security systems; and installations of office furnishings. These</p>	<p>1. The City should consider the expectations of the Facilities function in relation to staffing needs and deferred maintenance requirements. An investment in additional personnel may be economically wise in order to maintain facilities in good condition, thus avoid costly repairs and</p>
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<p>tasks are provided with a staff of four. Approximately 500 service requests are presently outstanding and little if any time is available to address deferred maintenance needs.</p>	<p>replacements in the future, as well as potential down time in the event equipment and facilities cease to function.</p>
<p>2. The City expended in excess of \$3.1 million in the form of payments to Southern California Edison (SCE). We have been informed that the City has not had an energy audit although efforts were made to obtain such an audit through a special program at Los Angeles County. Unfortunately this effort was terminated due to a decision by SCE to reject the City's application.</p>	<p>2. We recommend the City explore options for an energy audit and an audit of electric billings from SCE. An energy audit may identify ways in which energy usage can be decreased, thus reducing electric bills. An Electric billing audit may identify errors in the SCE billings to the City which can result in lower billings in the future and potentially recovery of previous excessive billings. There are a number of private firms that offer these services with costs that vary from fixed fees to a share of cost savings.</p>

**TREASURY**

<p>1. We reviewed the procedures used by departments collecting significant portions of the City's revenues, including the central cashing area, and found the controls over cash collections to be effectively designed. We noted, however, that the cashiers do not request identification from individuals paying with personal checks and personnel were unaware of any requirement to do so.</p>	<p>1. The City has developed and documented clear and generally comprehensive procedures to guide staff in the processing and accounting for cash collections. We suggest that the documentation and related training be expanded to provide for identify checks when accepting personal checks as a form of payment.</p>
<p>2. Departments collecting cash remit cash collections and a daily cash report to the central cashing area and are provided a receipt evidencing the amount of cash/checks transmitted. However, departmental personnel generally do not receive any report of cash collections from central cashing, and stated that they rely on "accounting" to review revenue collection reports.</p>	<p>2. While the internal controls at the operating departments and the central cashing area are effectively designed, it is prudent to have those responsible for collecting and sometimes billing revenues also review the related accounting records. Such a review helps to ensure that daily cash reports are correctly coded and entered into the accounting system, and cash is properly deposited into the City treasury. We recommend that reports of departmental cash collections are entered into the accounting system be provided to the operating departments on a regular basis, and that the departments compare these reports to their internal records of cash collections.</p>

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**COMMENT** **RECOMMENDATION**

**HUMAN RESOURCES**

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| <p>1. The Human Resources (HR) Division handles recruitment, selection, retention, training and development of employees, employee benefits, Workers Compensation, interpretation and application of Personnel Rules and Regulations, Equal Employment Opportunity regulations, and related support services. There are approximately 450 employees at the City, while HR staffing has decreased from 5 to 3. The City has been experiencing significant employee turnover recently. Recruitment is up 42%, while the policy of promoting from within results in additional vacancies within the City for which recruitment must occur.</p> | <p>1. The City should consider a staffing study, or at least benchmark its HR staffing levels against cities of similar size. In addition to the responsibilities associated with recruitment, interviewing, performance evaluations, and compensation administration, implementation of the new ERP consumes staff time.</p> <p>It should also be noted that HR administers Workers Compensation with a cost of \$500,000 per year plus the costs of the third party administrator and City administrative costs. These serious responsibilities and the potential for significant cost savings warrant an investment in personnel possessing the skills and experience to evaluate and investigate workers compensation claims. Provision should also be made for cross-training and back-up to personnel when needed.</p> |
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| <p>2. Personnel files contain sensitive information that must remain confidential. We noted that files are properly secured and the importance of confidentiality has been communicated to the HR employees. [REDACTED]</p> | <p>2. [REDACTED]</p> |
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| <p>3. The City has experienced steady growth throughout its existence, with its population increasing approximately 400% in the past 30 years, and new governmental services offered such as the Moreno Valley Electric Utility in 2004, additional parks, expanded recreational and senior activities, and City-owned or sponsored housing developments. New technology applications have also impacted operations. City management and staff have attempted to meet the administrative and operational demands of changing functions and activities; however, neither a staffing study nor a compensation study has been conducted in recent years. The actual number of staff has decreased from 411 in 2011 to 354 in FY 2017.</p> | <p>3. We recommend the City consider conducting, using internal resources or a qualified external consultant, a compensation study to evaluate its compensation policies in relation to peer and competing agencies. We also suggest the City evaluate its staffing levels as part of its long-term planning initiative. As noted throughout this report, certain divisions and departments are charged with responsibility to mitigate risks, manage costs, recruit and maintain personnel, safeguard assets and provide high levels of customer service. These essential functions require qualified staff at appropriate levels to effectively meet the demands of their positions.</p> |
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<b>GENERAL GOVERNMENT</b>	
<p>1. The City has adopted many policies to guide decisions concerning a variety of areas including governance, fiscal matters, workplace issues, managerial and administrative challenges. These policies have not been organized, categorized and consolidated to facilitate dissemination to all City employees, posting on the City's web site, and use as a training tool for new employees.</p>	<p>1. We recommend the City endeavor to identify all policies, update those which are no longer appropriate for the City's current structure and operations, codify the updated policies and provide easy access to the policies including web site posting.</p>