

CITY OF SAN DIEGO
ADMINISTRATIVE REGULATION

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MANAGEMENT RESPONSIBILITIES FOR INTERNAL FINANCIAL CONTROLS	Effective Date December 8, 2017		

1. PURPOSE

- 1.1. Define management responsibilities related to establishing, maintaining, monitoring and complying with a system of *Internal Financial Controls* to minimize risk of asset loss and ensure reliability of financial information and compliance with financial laws, rules and regulations.

2. SCOPE

- 2.1. This Administrative Regulation applies to all City Departments.

3. DEFINITIONS

- 3.1. Approval - A process that encompasses reviewing and/or testing up to a level of effort that allows the approver to become confident that the data and/or information presented is in proper form, appropriate and compliant with City policies and procedures.
- 3.2. Authorization - Power granted by the City Charter, San Diego Municipal Code, or through delegation of authority from Mayor, Council or other City Official.
- 3.3. City Management - Unclassified staff charged with planning, organizing, staffing, leading and directing the City in order to meet the organization's objectives.
- 3.4. Executive Management Team - Senior leadership team for City operations, including the Chief Operating Officer, Assistant Chief Operating Officer, Chief Financial Officer, Deputy Chief Operating Officers, Chief of Police, Chief of Fire and Life Safety, Communications Director and Human Resources Director.
- 3.5. Fraud - Act or omission designed to deceive others, intended to result in financial or personal gain.

(New Administrative Regulation 95.39, Issue 1, effective December 8, 2017)

Authorized

(Signature on File)

CHIEF OPERATING OFFICER

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- 3.6. Internal Financial Controls - Systematic measures (such as reviews, checks and balances, methods and procedures) instituted by an organization to (1) conduct its business in an orderly and efficient manner, (2) safeguard its assets and resources, (3) deter and detect financial errors, *Fraud*, and theft, (4) ensure accuracy and completeness of its accounting data, (5) produce reliable and timely financial and management information, (6) ensure adherence to its policies, plans, and (7) comply with financial laws, provisions of contracts, grant agreements, rules and regulations.
- 3.7. Materiality - *Materiality* is the threshold above which missing or incorrect financial information is considered to have an impact on the decision making of users of such information.
- 3.8. Production Environment - A term used to describe the setting where software and other products are actually put into operation for their intended uses by end users.
- 3.9. SAP - An Enterprise Resource Planning platform for the City's core Financial, Procurement, Human Resources and Payroll processes in a single integrated environment.

4. POLICY

4.1. GENERAL

- 4.1.1. *City Management* shall demonstrate through their directives, actions and behavior the importance of integrity and ethical values to support an effective system of internal controls.
- 4.1.2. The development and implementation of internal controls shall be prioritized based on management's assessment of those areas or processes that pose the highest risk of asset loss, misstatement of financial information and non-compliance with financial laws, rules and regulations.
- 4.1.3. Costs associated with internal controls shall not exceed their benefit. All levels of management must assess the costs, benefits, and risks when designing controls.
- 4.1.4. All transactions, activities and *Approvals* shall be carried out by employees acting within their range of knowledge and authority.
- 4.1.5. Policies and procedures within the City should clearly identify which individuals have authority to initiate, submit, reconcile, view or approve different types of transactions.

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5. RESPONSIBILITY

5.1. *Executive Management Team*

Under the direction and supervision of the Chief Operating Officer, the *Executive Management Team* is responsible for setting the institutional expectation for internal controls, ensuring management is aware of those expectations and establishing an environment that supports the functioning of the system of internal controls including:

- 5.1.1. Establishing structures, reporting lines and appropriate authorities and responsibilities to accomplish City objectives.
- 5.1.2. Establishing effective communication channels through all levels of management.
- 5.1.3. Attracting, developing and retaining competent employees in alignment with City objectives.
- 5.1.4. Establishing an environment in which individuals are held accountable for their internal control responsibilities.
- 5.1.5. Continuously evaluating the overall effectiveness of the system of internal controls and taking timely and appropriate action to remediate any deficiency identified.

5.2. Chief Financial Officer

- 5.2.1. Subject to the direction and supervision of the Chief Operating Officer, the Chief Financial Officer shall have oversight over financial transactions of the City.
- 5.2.2. The Chief Financial Officer shall establish *Internal Financial Controls* through citywide policies and procedures regarding accounting, financial reporting, treasury, debt management, budget development, budget monitoring, and compliance with financial laws, rules and regulations.
- 5.2.3. The Chief Financial Officer shall continuously evaluate the risks of material financial misstatement and material non-compliance with financial laws and regulations and shall prioritize the development, documentation and monitoring of controls based on those areas that pose the highest risk to reliable financial reporting and compliance.
- 5.2.4. The Chief Financial Officer may delegate development and monitoring of financial

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policies and procedures pertaining to functions and responsibilities of each department.

5.2.5. The Chief Financial Officer or designee shall ensure that financial policies and procedures are appropriately documented and disseminated and shall provide training to relevant staff as appropriate.

5.3. Department Directors

5.3.1. Department Directors shall be responsible for establishing an environment that supports the functioning of the system of *Internal Financial Controls* within the department they oversee.

5.3.2. Responsibility over internal controls within each department will reside at the Department Director level. Department Directors may delegate specific duties to staff in order to effectively manage risk and monitor adherence to policies and procedures. However, delegation of these duties does not relieve the Department Director of ultimate responsibility over internal controls for their respective department.

5.3.3. Department Directors shall have oversight responsibility for their department's compliance with citywide financial policies and procedures.

5.3.4. Department Directors shall be responsible for establishing and maintaining effective financial controls that are specific to the business transactions carried out within the department's area of responsibility.

5.3.5. Department level financial controls shall be subject to review by the Chief Financial Officer or designee. Department Directors shall timely remediate any *Internal Financial Control* weakness identified by the review of the Chief Financial Officer, or designee.

5.3.6. Internal Control responsibilities for Department Directors shall include the following:

- a. Appropriately approve financial transactions as delegated by the Mayor and in accordance with City Charter, San Diego Municipal Code and City policies.
- b. Safeguard City assets from risks such as waste, abuse, loss, *Fraud* and mismanagement.
- c. Comply with restrictions on funding sources used to implement programs

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- and projects of the department.
- d. Establish, maintain and monitor effective internal control over compliance with requirements of federal awards managed by the department.
 - e. Maintain financial records in accordance with record retention policies.
 - f. Comply with cash handling policies and procedures.
 - g. Comply with procurement policies, rules and regulations.
 - h. Oversee vendor compliance with contract terms and conditions.
 - i. Monitor revenues and expenditures against department budget.
 - j. Timely communicate material financial matters to Chief Financial Officer as appropriate.
 - k. Comply with Disclosure Controls and Procedures as established by the Disclosure Practices Working Group.
 - l. Comply with employee time entry and *Approval* policies.
 - m. Invoice timely and accurately for goods and services provided by the department to residents, businesses, agencies and other outside parties.
 - n. Invoice timely and accurately for goods and services provided to other City departments. If applicable, allocate costs to other departments using a reasonable and consistent basis.
 - o. Take timely corrective action on internal and external auditor findings for which management agrees.
 - p. Ensure employees within the department are properly trained and informed of relevant financial policies and procedures.
 - q. Take timely and appropriate personnel action when financial policies and procedures are not followed.

5.4. Chief Information Officer

- 5.4.1. The Chief Information Officer shall have oversight over the software development process related to enhancements and additions to the City's *Enterprise Resource Planning system (SAP)*.
- 5.4.2. The Chief Information Officer shall collaborate with the Chief Financial Officer or designee to timely address any significant financial system control weaknesses that could result in *Material* financial misstatements or *Fraud*.
- 5.4.3. The Chief Information Officer, in collaboration with the Chief Financial Officer or designee, shall establish processes that allow for proper review and testing of enhancements or additions to *SAP*. No enhancement or addition shall go into production until such review and testing indicates financial transactions are recorded accurately.
- 5.4.4. The Chief Financial Officer or designee shall approve all system additions or

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enhancements to *SAP*, or other application, that generate financial transactions through an interface with *SAP* prior to such addition or enhancement going into *SAP's Production Environment*.

APPENDIX

Legal References

City Charter, Section 39 – (Chief Financial Officer)

San Diego Municipal Code, Section 22.0706 – (Annual Report on Internal Controls)

San Diego Municipal Code, Section 22.4101 – (Disclosure Practices Working Group Purpose and Intent)

Forms

N/A

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Office of the City Comptroller