

Finance and Purchasing Audit
May 17, 2007
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Introduction

Mr. Don Ray leads the Finance Department for the City of Jonesboro. The City hired Mr. Ray in September on a part-time basis, as he finished his contract with an area community college. He started his full time position on December 18, 2006. City Accountant, David Eagle, Purchasing Agent Steve Kent, Accounts Payable staff of Brenda Sharp and Teresa Shaver assist Mr. Ray with daily operations. Also assisting are Payroll Clerk Christy Wall and Accounting Technician Rebekka Roddy. Mr. Ray additionally oversees the Collectors office. Kenneth Saddler and Becky Sharp assist him with these duties. All staff are capable of performing their assigned duties and represent well over 75 years of combined service to the city.

The following list outlines the areas reviewed for this audit:

- 1.) Purchasing and Accounts Payable Processing
- 2.) Vendor Setup, Maintenance and Validation
- 3.) Maintenance and Security of Blank Accounts Payable Warrants
- 4.) Bank Reconciliations
- 5.) Data and Document Security
- 6.) Policies and Procedures
- 7.) Payroll

Purchasing and Accounts Payable Processing

A sample of purchases from 26 vendors from the Accounts Payable system was selected and original payment documents were requested and obtained.

The following list was conducted for all sample transactions:

- a.) Verification of system information reconciled with source documentation
- b.) Determine if original payment request was authorized by management
- c.) Determine if sales tax was paid accurately
- d.) Review recent vendor activity to determine if the sample payment represents a duplicate payment
- e.) Determine if a discount was noted on the invoice, entered into the system and taken in a timely manner.
- f.) Determine if the original source document was maintained in the AP department according to policy

The volume of accounts payables invoiced as of March 16, 2007 was \$2,624,633.70. The sample reviewed totaled \$296,652.38 or 11.30% of the amount invoiced. Accounts Payable sample amounts ranged from \$39.76 to \$32,604.77 in dollar size, while many came with multiple requisitions for same pay date from differing departments. No missing documentation was noted in the AP, however some of the invoices for larger construction contracts had not be signed off by the department head for payment amounts. Item (b) above was the only discrepancies noted among the sample set.

Purchase Orders

Purchase orders were a subset of the AP sample examined. PO's are issued for amounts over \$500.00. Verification of purchase orders differing no more than 15% plus or minus from issued amount was made. Only one large construction contract had such an issue. This contract was issued for \$198,230 and final payments totaled \$252,125 or 19.50% over issued Purchase Order, however, the department head provided written explanation for difference and approved overage.

No sample transaction requiring a purchase order was completed without the proper purchase order issued as per Purchasing Policy Manual.

Many issues regarding contract payments for large construction contracts were noted, however they will be addressed under a separate cover regarding Contracting for the City of Jonesboro.

Vendor Setup, Maintenance and Validation

The process for adding, changing and deleting vendors from the vendor master file were evaluated. At present no formal or informal process exists for vendor master file. No checks can be issued without a vendor being in the Springbrook system. Also no documentation is required to add a vendor to the file. However, at present most vendors are repetitive providers and are sufficiently know by AP and Finance staff. However, as city grows and utilizes more and more out of area suppliers a due diligence review for vendor/suppliers should be implemented.

A list of vendors with and without tax-identification numbers was pulled. A copy of the without report was given to Ms. Brenda Sharp and she stated her group would take steps to remedy the missing information.

Maintenance and Security of Blank AP Warrants

Procedures in AP provide sufficient security and internal control for the working supply of blank check stock. At present only completely blank stock is received and stored. The entire check face is printed by the laser/MICR printer, with the Springbrook system keeping track of next check numbers. Check logs are kept and verified after each bill

payment cycle. Only the AP personnel have the authority to print checks and the printer for the checks is kept under watchful eye of the AP and Purchasing department.

Bank Reconciliations

Lack of Bank Reconciliations in excess of a year was one of the findings of the Arkansas Division of Legislative Audit for December 31, 2005. Bank reconciliations were conducted by Internal Auditor Misty Micenhamer for the months of March and April 2007. All the accounts listed within the Springbrook system were reconciled. Nonetheless, three accounts retained very large reconciling entries. It appears these three accounts maintain correct balances at the bank but the Springbrook system needs journal entries to clear up the accounts. The largest items regards a \$3MM check actually lost for 3 months by the Federal Reserve system. The deposit was made and received at the new bank, however the check never cleared the account. David Eagle called the bank regarding this item, they informed him that the Federal Reserve processing center had lost the check and was in the process of looking for and correcting the problem. The check/debit appears to have cleared the bank in February of 2007, but has not been reflected on Springbrook.

Three accounts were missing in the Springbrook system at time of evaluation. Missing accounts were Insurance Account, Alberto Culver Grant Account and the Cafeteria Plan Account. Reconciliations have been completed but accounts have not been placed on system due to illness of Mr. Eagle.

One area of concern with ADLA has been cleared with the hiring of Mr. Ray. City Accountant David Eagle no longer signs checks and reconciles the bank statements. Now Mayor Formon and Don Ray sign checks for city. Additionally the ordinance requiring City Accountant to review/ approve every check over \$500 has been repealed with new year end budget clean up ordinance. This ordinance supersedes the line item transfer controls which imposed a very restrictive but needed limit when enacted.

Data and Document Security

A list of current users of the AP system and their level of access was obtained. All users listed were still employed by city and were in the finance department. Access levels were excessive with some staff and at appropriate levels for others. A comprehensive review of access levels for employees was recommended in the prior Information Technology audit. As of May 10, 2007 this recommendation does not appear to have been completed.

Separation of duties is a serious concern within Purchasing and somewhat a concern within AP/Finance. Steve Kent is the sole purchasing agent. He is responsible for all bidding and purchasing etc. Conflicts with his jobs include that he is solely responsible for the following:

- 1.) Development of bids with department head input
- 2.) Advertises the bids
- 3.) Receives the tenders/ bids
- 4.) Retains Custody of tenders/ bids
- 5.) Opening of tender/bids
- 6.) Recording the tender/ bids
- 7.) Acceptance of tenders/ bids – late, incomplete, changed etc.
- 8.) Purchasing agent – all equipment/ fixed assets etc
- 9.) Fixed asset ledger control for add/deletion

Additionally Mr. Kent's is one of excessive access computer levels mentioned above. No reportable items were noticed during the audit however, for protection of the City of Jonesboro coupled with increased efficiency additional purchasing staff is needed. Given Mr. Kent's current illness the need has been more acutely felt.

Policies and Procedures

The Finance and Purchasing department follow the City of Jonesboro Employee handbook for general personnel questions. The department has formal Springbrook manuals for entering data on the financial system. Nonetheless a formal written guide for preparation, retention and payment processing outside of Springbrook does not exist. However, this deficiency is greatly mitigated due to the fact that four of six staff have been cross trained on these procedures and can complete work in timely manner in the event of Brenda's absence.

The City of Jonesboro travel policy changed in 2007. The new policy adopts the State of Arkansas' payment policy of per diem, with set amounts for each meal on travel days. Receipts are still required for hotel, schooling and travel arrangements. The AP staff is to be commended for their review diligence before paying all billings submitted.

Payroll

All departments were covered in the payroll audit. Departments were reviewed on different dates covering from April 2006 until January 2007. Knowledgeleader.com a professional audit website list 16 items as best practices for payroll systems. At present City of Jonesboro's payroll practices cover 10 of 16 items. The six items not practiced generally relate to corporate payrolls but could be adapted for government entities also. Performance goals, quality, productivity and cost are some of the issues in the six items. Outsourcing of payroll and payroll tax options are also covered.

One key issue mentioned was automated time/attendance system linked to payroll system to minimize the risk of data entry errors. This would help correct the numerous deficiencies with timesheet reporting, employee signature, supervisor review and time

issues. Of the 17 departments only five had no errors from my sample. Four of the five with no errors had five employees or less. The remaining had issues with lack of employee signature, another employee signing for actual employee, department head not signing, and hours worked not properly calculated. Finance Director Don Ray and Payroll Clerk Christy Wall were made aware and are in the process of not correcting the errors in hours etc and sending correction back to department head/employee where it should be. Department Heads are admonished to review and correct any person/timesheet which is incorrect. Details are a key component of proper oversight for governmental functionality.

All personnel are reminded that their timesheets are legal documents and would be the basis for any legal action in the event of disputes over work, pay, termination, rehire, employment etc. Employee MUST sign their own time sheets no exceptions.

Recommendations

- 1.) Employees must sign their own timesheets
- 2.) Additional staff needed in Purchasing
- 3.) Computer access levels reviewed and adjusted for actual job duties
- 4.) Adjustments to Bank accounts needed corrected/made
- 5.) Update Vendor Tax- ID listing