



Finance Department Memorandum

Date: January 8, 2010
To: Jim Eagan, Assistant Finance Director
From: Mayor Harold Perrin
Subject: Internal Control Weaknesses Identified in the 2008 Legislative Audit

INTRODUCTION

The report issued by the Division of Legislative Audit for the year ending December 31, 2008 was approved today. In the report, legislative auditors cited four internal control deficiencies of a significant nature. This memorandum will address these four deficiencies and the current methods to avoid further mention.

DEFICIENCY 2008-1 SEGREGATION OF DUTIES

This item addressed the lack of sufficient personnel to distribute financial transaction duties. The addition of personnel to the Collections Department and separation of the receipting and depositing of funds have addressed the major concerns in this area. It should also be noted that reviews are conducted, on a daily basis, of all cash transactions. Other transactions are reviewed through the use of daily audit reports available in Springbrook. In addition, timely bank reconciliations allow a review of all cash transactions for the previous month.

DEFICIENCY 2008-2 APPLICATION SECURITY

Concerns were raised by legislative auditors due to the lack of security protocols for data access. Information Systems has determined what applications are necessary for the completion of duties and restricted access accordingly. Also, access to financial information, records, and reports are also limited and changes require the approval of department heads. With regard to the Finance Department, access to information and computer applications is reviewed and limited to the employees specific duties. The ability to access data and reports stored in other programs is also restricted.

DEFICIENCY 2008-3 MONTHLY BANK RECONCILIATIONS

Arkansas state law, specifically A.C.A. 14-59-115(a), requires that the City Treasurer complete monthly bank reconciliations and submit them to the City Council. Beginning in July, 2009 monthly bank reconciliations were initiated. A file was constructed which contains all reconciliations for each month and automatically prepares a summary report for presentation to Council, for compliance with state law.

During the past three months, resources were allocated to the reconciliation of the Consolidated and Operating accounts. In November the combined reconciliation of the Consolidated and General Fund accounts was completed. The Operating account required extensive work and was completed December 30, 2009.

Reconciliations are in process for December 2009 and will include a review of all transactions for 2009. Any necessary adjusting entries are being prepared. Before the end of this month, all bank accounts will be reconciled to both the bank balance and to our general ledger.

DEFICIENCY 2008-4 MAINTAINING ACCURATE FINANCIAL RECORDS

Legislative auditors criticized the City for lack of review and approval of financial entries. Systems and processes, such as journal entry templates, have been introduced to minimize the possibility of errors. Further, all journal entries require the approval of the City Accountant and Finance Director.

SUMMARY

The Finance Department is committed to ensuring that City's financial resources are properly safeguarded and recognized. When improvements are needed to avoid issues such as those found in the legislative audit report, we will implement them.