

# Crowe

**Crowe Chizek and Company LLC**  
Member Parwath International

70 West Madison Street, Suite 700  
Chicago, Illinois 60602 4903  
Tel 312.899.7000  
Fax 312.899.5300  
www.crowechizek.com

March 4, 2008

Mayor and Members of the City Council of Jonesboro  
City of Jonesboro  
PO Box 1845  
Jonesboro, Arkansas 72401

Re: Procedures Relating to Specific Expenditures in Compliance with State and Local Laws.

Dear Mayor and City Council Members:

Attached is the draft report of our findings and recommendations with respect to the Specific Expenditures as noted in City of Jonesboro Resolution number RES-07: 2377. The procedures we performed do not constitute an audit, examination, review, or compilation of financial statements in accordance with generally accepted auditing standards, and accordingly, we are unable to express an opinion or any other form of assurance with respect to the information contained in the report.

These services were performed in accordance with the Standards for Consulting Services established by the American Institute of Certified Public Accountants. The extent and sufficiency of the services performed are solely the responsibility of the management of the City, the Mayor and the City Council. Our services and work product are intended for the benefit and use of the City. This engagement was not planned or conducted in contemplation of reliance by any other party or with respect to any specific matter and is not intended to benefit or influence any other party. Therefore, items of possible interest to a third party may not be specifically addressed or matters may exist that could be assessed differently by a third party.

The report attached includes an Executive Summary followed by the body of the report and appendices which includes: 1) discussion of items specific to the areas of focus noted in the City of Jonesboro Resolution number RES-07: 2377; 2) analysis of the Springbrook Software system conversion process; 3) other matters noted; and 4) recommendations to address issues noted during our work.

This report is prepared solely to assist you in addressing issues noted and to determine action items and is not to be used or distributed for any other purpose. None of the contents of this report are intended to provide legal advice or conclusions.

*Crowe Chizek and Company LLC*  
Crowe Chizek and Company LLC

**Procedures Relating to Specific Expenditures in Compliance with State and Local Laws**  
**March 4, 2008**

**EXECUTIVE SUMMARY**

We have performed certain procedures with respect to the financial and business records of the City of Jonesboro ("City"). The purpose of our assignment was to analyze and evaluate financial transactions and business processes at the City and to make recommendations regarding potential action items for the consideration of the City Council ("Council"). The report contains:

1. A discussion of items specific to the areas of focus noted in the City of Jonesboro Resolution number RES-07: 2377 ("Resolution");
2. A section addressing the Springbrook Software system conversion process;
3. A general overview of financial reporting requirements;
4. Other matters noted during the course of our work; and
5. Recommendations to address issues noted during our work.

In gaining our understanding of the various software systems and the processes and procedures followed by City staff we performed interviews of current and former officials and employees of software vendor, Springbrook. We also read City procedural manuals and other supporting documentation made available to us. Our work was performed over the course of two weeks on site in Jonesboro with follow-up documentation being received from the City.

This Executive Summary is meant to provide an overview of the report included subsequently within this document. The main report is meant to provide the City with information necessary for future decision making and should be read in conjunction with this Executive Summary.

**City of Jonesboro Resolution number RES-07: 2377 Specific Items**

The first section of the report contains more specific information related to the areas of focus set forth by the City Council. We interviewed current and former employees and obtained limited supporting documentation during this initial work. In general we noted that documentation is available to further evaluate five of the six of the areas of focus. The documentation analyzed and results of that analysis are detailed in the report.

However, for the Street department, we were not able to attain specific information on a project basis because of limitations of the City's software. The Street department utilizes the CarteGraph software system. CarteGraph is not a project management software program and therefore tracks information only on a work order basis. In order to convert the work order information to a project basis further analysis of the data is needed. With the Council's further definition of the scope we may be able to provide further clarification for each of the items noted in the resolution.

**Springbrook Software system conversion process**

On June 15, 2005, the City converted to new accounting software, Springbrook. This new software was implemented to replace the internally developed accounting system, NUMBERS. In order to perform our analysis, we needed to gain a basic understanding of both systems, since the focus areas included transactions from both the SpringBrook and NUMBERS systems.

Our analysis was hampered by the manner in which the City performed and documented the system conversion.

When organizations perform system conversions there are industry best practices that should be followed to ensure data is accurately and completely migrated to the new system. This includes performing a system wide reconciliation, the evaluation of user access rights and needs and constructing a formal implementation plan. Based on our interviews and observations we noted no system wide reconciliation, nor evaluation of user rights and user needs was performed, and no formal conversion plan was utilized. These issues have the potential to greatly impact the integrity and functionality of the Springbrook system and we recommend these issues be specifically addressed by the City.

### **Financial Reporting**

The Resolution notes that the Council had not received financial information for the prior 18 months. This severely limits the Council's ability to monitor and govern the activities of the City. We determined that the Springbrook system is capable of producing many standard financial reports as well as tailored financial reports for management and reporting purposes. We did not however, validate the accuracy of the accounting data contained in Springbrook. At this time, no reports are being produced on a regular and consistent basis. As required by Arkansas state law the City must produce, at a minimum, semi-annual financial statements.

In order to accomplish its necessary duties we recommend the City work with the Springbrook software, or develop a set of standard financial reports that meet the needs of the Council and which allow the City to comply with appropriate state law.

### **Other Matters**

In the course of the work noted above we observed items that could pose potential risk to the City's financial resources. These items include the lack of segregation of duties over financial transaction authorization and initiation, incomplete bank reconciliations, untimely and inconsistent financial reporting and significant operational knowledge held by former City employees.

The lack of internal controls and monitoring is significant and has occurred under both the current and former accounting software systems. We recommend the Council authorize testing specific to the detection of potential improprieties in the accounting records

### **Recommendations**

The recommendations in the report are designed to address weaknesses and issues noted during the performance of the project fieldwork. The recommendations have been categorized as immediate issues, less immediate issues and items for the City to consider. Immediate concerns were noted with the conversion process, user access rights, and policies and procedures at the City in relation to the accounting software systems. We have recommended that the City consider the performance of a complete reconciliation of the NUMBERS and

Springbrook systems at the point of conversion; as well as evaluating user access to the systems and documenting current policies and procedures in order to allow for continuity and accuracy of financial data being input to the systems.

Less immediate issues, yet important, include the need for training of employees in the capabilities of the Springbrook system, the cross training of Information Technology staff to ensure adequate knowledge exists within members of the staff in case of emergency or unexpected absences and for the City to implement modules of the Springbrook system that were purchased and activated and could be utilized to provide greater accountability for City resources.

Recommendations for further consideration include those items which pose minimal risk and are more administrative in nature. We noted the City may want to assess its bank account structure once Springbrook has been fully utilized to determine if the City's needs are still being met. Additionally, we made recommendations to evaluate various position descriptions for educational and experience requirements and to develop a conflict of interest policy to further improve City monitoring of risk.

We appreciate the opportunity to be of service to the City. The pages that follow represent the main report providing more details than those described in this Executive Summary. In addition, further schedules related to the information contained in the report can be found as Appendices to this document.

## Report

At the request of the Council, we have performed certain procedures with respect to the financial and business records of the City. The purpose of our assignment was to analyze and evaluate financial transactions and business processes at the City and to make recommendations regarding potential action items for the consideration of the Council. The accounts and financial information analyzed relates specifically to the six items noted in City of Jonesboro Resolution number RES-07: 2377. These items are referred to as the areas of focus in this report. In addition, we were asked by the Council to analyze the Springbrook system conversion and software capabilities and to make recommendations accordingly.

The following report provides the observations and recommendations based on the work performed at the City of Jonesboro. The recommendations are based on financial data and reports generated from the Springbrook, NUMBERS, and CarteGraph systems as well as supporting documentation provided by City staff. Interviews were conducted with former and current employees and were used as a basis for understanding the processes and procedures currently followed as well as those processes in place during the operation of the NUMBERS accounting system. Each section below, where applicable, provides further explanation of the documents analyzed and the individuals interviewed.

The sections of the report include:

1. A discussion of items specific to the areas of focus noted in the City of Jonesboro Resolution number RES-07: 2377 (Resolution);
2. A section addressing the Springbrook Software system conversion process;
3. A general overview of financial reporting and requirements;
4. Other matters noted during the course of our work; and
5. Recommendations to address issues noted during our work.

## 1) AREAS OF FOCUS

The financial areas of primary focus in Res -07:2377 include the following specific activities defined by the Council:

- A. expenditures from the capital improvements fund since October 1, 2001,
- B. fees owed by the City to the Craighead County Jail,
- C. to provide a listing of the job location and dollar amounts regarding the number of employee and equipment hours of the street department since January 1, 2007,
- D. to provide a listing of all advertising expenditures under the Jonesboro Economic Transportation System since January 1, 2005,
- E. a listing and the amounts of all furniture and accessories purchased by the city since January 1, 2005,
- F. a listing of all city funds used to promote convention center proposal since January 1, 2006.

### Items related specifically to financial areas noted in RES-07: 2377

#### A. Expenditures from the Capital Improvements Fund since October 31, 2001.

We obtained the City of Jonesboro's records of expenditures from the Capital Improvement fund for the period October 1, 2001 through December 31, 2007. To test the validity of the expenditures detailed in the accounting records, we performed testing of expenditures in excess of \$100,000. For each expenditure selected, those expenditures greater than \$100,000, we obtained and analyzed the associated purchase requisition, purchase order and associated invoice(s) for compliance with the City's formal bidding process which is required by law for purchases of \$10,000 or greater. A listing of capital expenditures by project is included in Appendix A. We have no further analysis or recommendations at this time; however, continued analysis could be performed if given additional direction from the Council.

#### 2007

The City expended \$12,731,245 on capital improvements in 2007. The largest expenditures related to City Drainage Projects (\$2,391,367 or 19%), A.C.A. 26-75-203 (\$1,672,352 or 13%), Old Landfill Closure (\$1,075,036 or 8%) and Fire Station #3 (\$1,009,566 or 8%).

#### 2006

In 2006, the City expended a total of \$7,592,341 on capital expenditures. The balance is primarily related to the following expenditures; Fox Meadows Project (\$1,486,035 or 20%), A.C.A 26-75-203 (\$1,193,470 or 16%), and City Drainage Projects (\$1,070,058 or 14%).

#### 2005

---

The city expended approximately \$4,793,598 on capital improvements during 2005. This balance is primarily comprised of the following expenditures; A.C.A. 26-75-203 (\$1,437,000 or 30%), Class IV Landfill (\$1,000,000 or 21%), and City Drainage Projects (\$529,190 or 11%).

#### 2004

In 2004, the City expended approximately \$1,226,646 on capital improvement expenditures. The balance is primarily related to City Drainage Projects (\$409,242 or 33%), A.D.A. ST. Specification (\$216,433 or 18%), and Mayor's Emergency/ Discretionary Fund (\$131,381 or 11%).

#### 2003

During 2003, the City of Jonesboro expended approximately \$667,011 on capital improvements. The balance is primarily comprised of the following expenditures; Allen Park Tennis Courts (\$381,632 or 57%), St. Arkansas outdoor recreation (\$185,000 or 28%), and Playground at JMC Park (\$39,999 or 6%).

#### 2002

The City of Jonesboro expended approximately \$402,434 on capital improvements during 2002. The Allen Park (City matching) comprised (\$255,366 or 63%) of the balance. Parks Development accounted for approximately (\$80,507 or 20%).

#### 2001

Due to system limitations, we were unable to isolate the capital improvement expenditures for the period from October 1 through December 31, 2001. As a result, our reported results are based on 2001 year to date totals. During 2001, the City expended approximately \$2,287,748 on capital improvements.

#### **B. Fees owed by the City to the Craighead County Jail.**

Billings for November 2007 have been received by the City from Craighead County Sheriff's Department and analyzed by City Police personnel, but have not been paid by the City as of the end of our on-site work. Billings for the period from December 2007 through January 2008 have not been received by the City Police from Craighead County Sheriff's Department; however, we did not contact Craighead County Sheriff's Department to confirm the billings had been produced.

City Police Chief Yates provided numerous examples of errors that continue to exist in the billings received from the Craighead County Sheriff's Department. Amounts related to discrepancies in billings based on research completed by City Police Department personnel have been deducted from the total amount of the County's monthly billing statement and only payment for services verified by the City is remitted. The practice of remitting less than the amount billed began in approximately January 2007. ]

---

City Accounts Payable staff and City Police Chief Yates have not been contacted by County officials questioning the amounts remitted by the City or requesting additional explanations as to why the bill was not paid in full. It was noted that Ordinance No. 2006-13 states that fees charged by Craighead County Sheriff's Department would be \$45 per day per inmate; however, as represented on the October 2007 billing statement from Craighead County Sheriff's Department, this fee has been prorated to an hourly rate based on the inmates' starting billing date and time and ending billing date and time. The minimum rate billed, according to the October 2007 billing, appears to be \$45 dollars (the daily rate) regardless of the number of hours at the jail; calculation of prorated per-hour fees appears to begin with day two.

A reconciliation of fees charged by the Craighead County Sheriff's Department and subsequently paid on behalf of the City would require substantial effort to analyze arrest and court records, and billings as the process involves many different venues and records. In addition, interpretation of Ordinance No. 2006-13 regarding various billings scenarios, such as payment procedures for prisoners with both city and county outstanding warrants, would need to be determined. We recommend that the City Police Department continue to review bills submitted by the County Sheriff and remit payment only for accurate and agreed billings.

#### **C. Street Department expenditures based on job location**

The City Street Department utilizes CarteGraph software for scheduling day to day work activity and recordkeeping of labor, equipment and materials. CarteGraph generates work orders and work requests but is not utilized as a project management tool. Based on the work orders numbered with the prefix ST-2007, the street department issued just under 1,400 work orders for 2007 with total costs per work order ranging from \$5.25 to \$203,040.21. In an effort to identify costs by project, a number of reports were generated in CarteGraph. The system was only able to be generate reports by work order and not by project.

The Information Technology department was able to generate a special report that did capture equipment, labor, and material costs, but only at the work order level. Upon further analysis of the information housed in CarteGraph, a description field was identified for each work order. Information was generally entered in this field, but the level of detail varied.

Based on the information available in CarteGraph and the availability of source documentation, it was determined that it would be possible to reclassify work order costs to project costs for work performed by the Street Department during 2007. However, due to the volume of work orders generated by the Street Department during the year of 2007, a large number of man hours would be needed to reclassify the entire year on a manual basis. It is recommended that the Council further define this request to identify specific projects that they are interested in capturing costs for labor, equipment, and materials (i.e., by threshold amount or type of project).

#### **D. Advertising expenditures under the Jonesboro Economic Transportation System since January 1, 2005**



---

We analyzed the City of Jonesboro's records of expenditures for account number 13-100-0220-00 -Transit Advertising for the period January 1, 2006 through December 31, 2007. Note that JETS was not in operation during 2005. To test the validity of the expenditures detailed in the accounting records, we analyzed supporting documentation for each year for the Transit Advertising account. A schedule of advertising expenditures is included in Appendix A. We have no further analysis or recommendations at this time; however, continued analysis could be performed if given additional direction from the Council.

2007

The City expended \$6,672.15 for advertising. Expenditures were related to employment advertising and JETS advertising.

2006

The City expended \$7,752.72 for advertising. Expenditures were related to employment advertising and JETS advertising.

We also noted that the Transit Department budgeted and expended funds for account number 13-1000-0247-00 - Transit Promotional Expense. During the period of January 1, 2006 through December 31, 2007 the following amounts were expended by the City from the Transit Promotional Expense account: 2006 - \$130,000; 2007 - \$1,047.59. We have no further analysis or recommendations at this time; however, continued analysis could be performed if given additional direction from the Council.

Advertising was also sold by JETS for available advertising space on busses and shelters. We were provided with executed Advertisement Agreements which evidenced a formal agreement between various advertisers and the City. It was noted that the same procedures utilized to purchase advertising by the City were utilized in the selling of advertising by the City. Current City policies require bidding for purchasing but not for selling. However, it is a good business practice to follow similar bidding requirements. We have no further analysis or recommendations at this time; however, continued analysis could be performed if given additional direction from the Council.

**E. Furniture and accessories purchased by the city since January 1, 2005.**

The City of Jonesboro has a fixed asset capitalization threshold as any expenditure greater than \$1,000. In 2007, the capitalization threshold was increased to \$1,500. Expenditures less than \$1,000, historically, have been classified as supplies. Most furniture expenditures are classified as supplies as they do not meet the City's capitalization threshold. However, during our analysis, we noted some furniture expenditures that exceeded the capitalization threshold and therefore, were classified as fixed assets in the financial records. As a result, we obtained detailed listings of both fixed assets & supplies. We analyzed the data by purchase price and category. A listing of the furniture and accessory purchases is included at Appendix A. We

have no further analysis or recommendations at this time. Continuing analysis could be performed if given additional direction from the Council.

We have summarized the Furniture and Accessory expenditures for the period January 1, 2005 through December 31, 2007 below:

	2007	2006	2005
Furniture and accessories	\$ 71,743	\$ 291,009	\$ 252,580

**F. City funds used to promote convention center proposal since January 1, 2006.**

Accounts Payable staff indicated that to their knowledge no payments were made related to the promotion of the convention center. A Springbrook General Ledger report was generated which listed expenses for professional services for 2006 and 2007. Accounts Payable staff addressed each transaction listed, again resulting in no identification of payments related to the convention center. No source documentation related to professional services was requested or reviewed. We have no further analysis or recommendations at this time; however, continuing analysis could be performed if given additional direction from the Council.

## 2) SPRINGBROOK SOFTWARE

During our analysis of the various accounting processes and procedures used, and interviews with City Information Technology staff we had the following observations as they relate to user access and implementation and conversion from NUMBERS to Springbrook.

1. No formal process exists to determine user access rights. This would require a person with knowledge of the software, from a user perspective and that of the Finance Department's roles and responsibilities, in order to guarantee segregation of duties. The information technology group could then implement the determined access rights in Springbrook.
2. Users should not be given access to Springbrook until the appropriate training has been completed. The ability to create records without formal training on the software creates risk to the City's ability to provide accurate financial information.
3. A formal process of notification should be in place and enforced to ensure that on the day that a user's employment is terminated with the City or access to Springbrook is no longer required, their user access rights are terminated in the system as well.
4. Based on procedures performed and discussions held with Springbrook and City employees, several generally regarded implementation best practices were not followed during the City's conversion to Springbrook. Some examples include the following:
  - a. Formal Project Plan/Timeline
  - b. Formal Project Sponsor within the City
  - c. Designated Subject Matter Experts
  - d. Pre-Implementation Business Process Documentation
  - e. Post-Implementation Technical and Business Process Documentation
  - f. User Acceptance Testing
  - g. Training Records
  - h. Change Control Process
  - i. Cutover Documentation
  - j. Cutover Date on the beginning of a Calendar Month
  - k. In the absence of User Acceptance Testing prior to conversion, a full parallel operation of both systems should be conducted until assurance of the output from the new system is achieved.

### 3) FINANCIAL REPORTING

In the typical structure of separation of powers in the Mayor-Council form of government, the Mayor is responsible for day to day operations of the City, including financial operations (Executive or Administrative Powers) and the Council is responsible for setting overarching policy and financial control through its Legislative and Fiscal (budgetary) Powers.

In order to implement these powers, each branch of government must have managerial information that allows them to perform the functions that the citizens of the community have entrusted to them. Both the Mayor and the Council need periodic financial information to allow them to perform their duties.

In most governmental systems, strong emphasis is placed on purchasing compliance and operating within the legally adopted budget. In addition, in order to appropriately monitor and regulate operations, larger funds, such as the General Fund, are typically broken down into departmental delineations in order to allow better financial monitoring. Therefore, budgetary reporting by department is typically the level of financial reporting expected by governmental managers to allow them to monitor and manage the government as a whole. The General Fund departments currently used for budgetary purposes by the City of Jonesboro are:

- Mayor's Office
- Police
- Fire
- City Council
- Finance
- Animal Control
- City Clerk
- City Attorney
- Planning
- Information Systems
- Human Resources
- Building Maintenance
- Inspections/Code Enforcement
- Outside Agencies
- General Administration

In government systems, budgetary financial statements are typically broken down first by fund, then by department, then by object (personal services, operating, etc.) and sub-object (personal services may be broken down into salary and wages, benefits, etc.). Depending on the community, monthly financial reporting can be set at the department level or at the object or sub-object level depending upon the level of detail that the governing body wishes. However, no matter what level of detail is used, the typical report received by most governing boards is a comparison of budgeted expenditures to actual expenditures by month and year to date. This allows the governing body to determine whether the various departments are operating within the limits set in the budget and provides a monitoring mechanism to determine when or whether budgetary changes need to be made.

In typical governmental annual financial reports, the departmental style of reporting used for budget tracking is not followed. Annual financial reporting is geared toward the financial position and results of operations of the government as a whole and is not directed toward management by department. In annual financial reporting, expenditures are reported by function of government rather than by department or object. The functions of government used for financial reporting (regulatory basis) are:

- General Government
- Law Enforcement
- Highways and Streets
- Public Safety
- Sanitation
- Health
- Recreation and Culture
- Social Services
- Airport
- Debt Service (Lease Principal and Interest)

Cities in Arkansas must publish a six month and annual financial report each year. In analyzing the published financial reports we found that the expenditures in the reports for 1998 through 2005 were published on the departmental budgetary basis. For the first six month report for 2007 the expenditures in the report were filed based on an annual financial reporting format (by function of government). The year-end report for 2007 is not due until March 1, 2008, and had not been published by the time of our fieldwork. We were informed that no financial statements were published for 2006. We recommend that the City develop and adopt policies and procedures governing the production of financial statements in accordance with applicable state statutes.

Governmental financial reporting formats also typically provide explanatory narratives and charts that highlight the method of presentation and the functions and policies represented in the financial presentation. In addition, notes to the financial statements provide disclosures required for fair presentation. Since governmental financial reporting can contain immense detail due to the various individual funds reported and departments within funds, narrative explanations help the reader in understanding the basis for the financial statements and major changes between periods.

Most governments present a formal budget document for adoption by the governing body, the format of which is typically regulated by state law or local ordinance. We analyzed the budget presentations to the council and found that, through 2006, the budget presentation included charts, graphs and informative narrative explanations that outlined the major changes in the budget. The budget presentations for 2007 and 2008 were numeric presentations only that did not include any management information or explanatory narrative that would allow the governing body to be more informed about departmental or total budgetary changes. While more detailed information and explanations can be presented orally to the council, having the information in the formal budget document is considered a "best practice" among government

finance officers. The Government Finance Officers Association has a national awards program for governmental entities that prepare an informative, usable and complete budget document.

In order for the Mayor and Council to function appropriately as effective managers of the public trust, they must have informative and helpful financial information. We recommend that at least a monthly financial report showing a budget to actual comparison of revenues and expenditures for each month and year to date, by department for each major fund be prepared and submitted to the Council.

#### 4) OTHER MATTERS

It should be noted that while analyzing the financial reporting process, related source documentation, and interviewing various past and current City personnel and other related sources, a number of indicators were identified that have the potential to affect the integrity of the financial information that has been reported to date. These indicators warrant further discussion and consideration by the Council. We have identified risks that are present within the financial process that could allow financial loss, error or misappropriation to occur or simply need to be addressed to ensure that the associated risks have been mitigated. We noted the following issues:

- Personnel responsible for receiving monies on behalf of the City were also making the bank deposits of these receipts.
- Bank reconciliations were completed by the same individual making decisions to transfer funds between various accounts.
- Bank reconciliations were not timely and were not reviewed or approved by personnel independent of processing of financial transactions.
- Lack of knowledge of the current financial software, Springbrook, by key financial personnel during implementation and continuing through to the current processing of financial information.
- Financial statements were untimely, nonexistent, or incomplete and multiple versions exist for the same period.
- Computer access was not terminated timely when employees separated from employment with the City.
- Accounts Payable Vendor Summary Report is unmanageable and includes all individuals or companies that have received a check from the City since the installation of Springbrook. Multiple vendor numbers have been assigned to the same company and many individuals appear on the Report with incomplete information.
- Significant amounts of knowledge are held by a single City employee in various departments, or by employees that are no longer employed by the City.

The Arkansas State Legislative Auditor has the authority to provide guidelines to municipalities and require each municipality to obtain audit reports. The office does not explicitly require that each municipality implement a sound internal control structure. However, given that each municipality must obtain an annual audit and the auditors must evaluate internal controls surrounding critical processes (i.e. cash receipts, disbursements), the municipality should implicitly maintain a sound internal control structure. Furthermore, if the municipality were to receive federal funds, either as a pass-thru entity or directly, OMB Circular A-133 requires the municipality to maintain controls over the receipt and disbursement of federal funds.

All areas of an accounting structure contain some control weaknesses; however, some significant control deficiencies are present which amplify key risks, specifically the misappropriation of assets or a material misstatement of financial results. These weaknesses have existed and continue to exist in the City's accounting functions. We recommend the City

---

perform testing specific to the detection of potential improprieties in the accounting records. Datamining is an efficient way to detect abnormalities and/or missing information in transactions, fictitious or duplicative vendors, or potential ghost employees added to the payroll. The use of this technique by an internal auditor or consultant could benefit the City in the potential detection and resolution of accounting errors, omissions or illegal acts.



## 5) RECOMMENDATIONS

Based on inquiries and testing performed surrounding the accounting processes as they pertain to the items delineated above, we have developed a categorized approach for recommendations to the City. These recommendations are designed to assist the City with the preparation of timely and accurate financial reporting and to provide areas of improved internal controls over the financial processes used by the City. These recommendations are categorized into three subsets based on the degree of risk posed to the City's ability to provide accurate and timely financial reporting. The categories include: immediate action items, items which pose some risk to the financial information but are less immediate, and actions that the Council and Mayor may want to consider on a future basis to address.

**Immediate Action Items** - Recommendations that address items which have an immediate or a high potential to affect the City's ability to provide accurate and timely financial reporting.

1. Perform a total reconciliation between the NUMBERS financial accounting system and Springbrook. A complete reconciliation between the NUMBERS and Springbrook systems was not performed at conversion. Additionally, the systems were not run in parallel (with the exception of the Accounts Payable and Payroll modules), and source financial and accounting data was not retained for some transactions resulting in a lack of transparency. By performing the conversion in this manner there is a greater risk of misstatement of the financial data and potential undetected configuration errors in the current system of record. It is recommended that a full reconciliation of financial and accounting data be performed to ensure accuracy of the initial data used to initialize the Springbrook system. As an alternative to a complete reconciliation of the conversion, the City could choose to reconcile back to the last audited financial statements from the Legislative Auditor. This would be less costly to perform and would allow future audits to build off of existing audited data.
2. Complete the bank reconciliations for the Operating Fund and the Consolidated Fund accounts. The engagement team noted both the Operating and the Consolidated bank accounts have not been reconciled to the general ledger as of January 31, 2008. As a result, the City is unable to provide accurate financial data pertaining to its current cash position. Bank reconciliations should be performed monthly to compare bank balances to cash balances in the general ledger. This is done to ensure accuracy and accountability for all cash transactions. Preparing timely bank reconciliations will allow the City to find and investigate any errors that may have occurred in either the financial records or the bank accounts or both.
3. Develop a comprehensive written position description for the Finance Director outlining departments to be supervised and specific financial reporting responsibilities. Without proper guidance and clear lines of responsibility the Financial Director does not have the ability or the authority to maintain appropriate control over the financial activities of the City. Additionally, without a clear position description the City Council and the Mayor have no basis on which to assess the performance of the Financial Director.

4. User Access protocols for all financial software packages should be established which support a system of dual control or separation of duties. For example, each position within the accounting function should have an established computer access description which restricts access to appropriate levels. Currently, the information technology department does not have a procedure for determining what the appropriate level of access to the various systems should be.
5. Reevaluate and update position descriptions and assigned duties originally authorized in 1999 for all accounting functions involved in the administration of the City's financial activities. This process should include an evaluation of the current job titles and activities being performed and the development of an organizational chart that is consistent with the Financial Director position, as suggested above. Some positions may perform incompatible duties or duties that are not consistent with the current position description, therefore, the risk that critical activities may not be performed in the event of illness or job separation greatly increases the risk that financial activity could go unrecorded or be recorded incorrectly.
6. Prepare process and procedural documentation for key financial activities. Informal processes encourage deviations from accounting and financial standards, which can result in a lack of accuracy, validity, and completeness in individual transactions which increases the risk of misstatements. It is recommended that formal procedures be documented for key financial and operational processes and these procedures be reviewed on an annual basis and updated as appropriate. In addition, cross training of staff and scheduled rotation of duties should be considered to supplement dual control based on the minimal number of employees with financial reporting responsibilities.
7. We recommend that the Council and City administration meet and determine the format and form of financial reports to be provided to the Council for review and monitoring.
8. We recommend that at least a monthly financial report showing a budget to actual comparison of revenues and expenditures for each month and year to date, by department for each major fund be prepared and submitted to the Council for review.
9. We recommend that the City develop and adopt policies and procedures governing the production of financial statements in accordance with applicable state statutes.
10. We recommend the City perform testing specific to the detection of potential improprieties in the accounting records. Datamining is an efficient way to detect abnormalities and/or missing information in transactions, fictitious or duplicative vendors, or potential ghost employees added to the payroll. The use of this technique by an internal auditor or consultant could benefit the City in the potential detection and resolution of accounting errors, omissions or illegal acts.

**Non-Immediate Actions Items** - Recommendations that address items which do not have an immediate or a high potential to affect the City's ability to provide accurate and timely financial information.

1. Schedule initial training and further training of all staff that utilize Springbrook to record the financial activities of the City. This should include both those employees who utilize Springbrook on a daily basis and also those employees designated to be cross-trained in a financial administration and monitoring areas. We noted that some of the issues that had arisen were based on employees' lack of knowledge of the Springbrook system and its capabilities. Through discussion with Springbrook personnel, they indicated that they will provide further training at no additional cost to the City.
2. Information Technology Staff should be cross trained to avoid all technical knowledge residing with one staff member. In addition, system controls, such as user access or data management and reporting, should not be managed by a single employee. Documentation of system and specific configuration used by the City should be developed.
3. A Project Management system should be considered for implementation in areas such as the Street Department. This could be implemented by increasing the capabilities of the currently CarteGraph system or by using the Springbrook Project Management module. It is our understanding that this module has been purchased and is activated but has not been utilized by the City. By implementing this module the City would be able to perform a more comprehensive review and analysis of expenditures within the departments. This could include the establishment of project budgets within any department in the city thus allowing the projects to be monitored, managed and reported at either the project or work order level. Additionally, by utilizing the capabilities of the Springbrook project management module this would allow for a more complete picture of total costs for projects staffed by City employees.
4. We recommend the Council request the City seek clarification of Ordinance No. 2006-13 in regard to the prorating of charges for inmate's incarceration on a per hour basis. Additionally, we recommend the City continue the reconciliation of Craigshhead County Sheriff's billing for inmate incarceration to City police records to ensure the appropriate amounts have been billed.

**Recommendations for Further Consideration** - Recommendations that address items which do not have an immediate or a high potential to affect the City's ability to provide accurate and timely financial information, but which may be in the future interest of the City to implement.

1. Perform an analysis of the bank account structure. As discussed above, the Operating and Consolidated bank accounts have not been reconciled to the general ledger for several accounting periods. One of the contributing factors to the difficulty of the reconciliation process is the number of funds accounted for in a single bank account. For example, the Consolidated account includes eight different funds within the City's financial structure. Given the significant balance of this single bank account, the City can command a favorable interest rate on the funds on deposit; however, the number of accounts involved lends itself to a difficult monthly reconciliation. We recommend the City evaluate if a single bank account is still the best option for the City once new policies and procedures have been implemented.
2. Once new policies and procedures have been developed by the City, we recommend the educational and experience requirements used in the selection process of new employees be analyzed and reevaluated.
3. We recommend the City develop a conflict of interest policy for City government employees. This policy should include criteria for reporting employment outside of City government, ownership or performance of businesses external to that of City government, and disclosure of familial relationships which may constitute a conflict of interest. In addition, this policy should include a clear mechanism allowing employees to report in accordance with the policy.

Mayor and Member of the City Council

March 4, 2008

Appendix A

## Capital Expenditures

The Capital Improvement Expenditures for the period January 1, 2005 through December 31, 2007 are summarized below:

2007 Capital Improvement Expenditures		
Description	Expenditures	%
City Drainage Projects	\$ 2,391,367	18.78%
A C A 26-75-203	1,672,352	13.14%
Old Landfill - Closure	1,075,036	8.44%
Fire Station #3	1,009,566	7.93%
Lawson Road Extension Project	898,881	7.06%
Fire Station #7	883,883	6.98%
Street Contracts	687,450	5.24%
Old Landfill - Melhane	580,897	4.58%
AHTD Drainage Contract	479,747	3.77%
Street Materials	465,148	3.65%
Class IV Landfill	400,000	3.14%
A D A St. Specifications	308,315	2.42%
Animal Control Construction	306,930	2.41%
Detention Pond-Valley Drive	298,901	2.35%
Industrial Park Expansion	210,000	1.65%
Raise Transformer at JMC Park	195,194	1.53%
Drainage Study Part 2	144,839	1.14%
Alberto-Culver Site Prep	114,886	0.90%
Washington Street/FIS#2	85,386	0.67%
Transfer To Other Funds	83,848	0.66%
Monroe/Chestnut/Huntington	64,823	0.51%
Fire Station Construction	83,017	0.49%
CTP Project Carter Burgess	62,988	0.49%
Lease- 107 Flint	62,500	0.49%
Greenway Park for Mall	41,998	0.33%
Center Grove Project	38,244	0.30%
Street Signalization	27,158	0.21%
2400 E Nettleton Flood Abate	24,255	0.19%
Pines Apt. Project	20,659	0.16%
Old Landfill Closure	12,655	0.10%
1700 Block West Warner	12,646	0.10%
Detention Pond-East Nettleton	10,560	0.08%
Fleming Road	10,000	0.08%
Mayor's Emergency /Discretion	7,450	0.06%
Farm Creek Detention	7,188	0.06%
Miscellaneous	5,500	0.04%
Spatial Analysis of Facilities	2,536	0.02%
Lawson Rd./V V Drive	1,695	0.01%
Road Paving,Bridge Replace	1,560	0.01%
Railroad Crossing Main	644	0.01%
Fox Meadows Project	469	0.00%
AS Overpass	65	0.00%
James & Frierson Str Imp/OR#3651	11	0.00%
	<u>\$ 12,731,245</u>	<u>100%</u>

Mayor and Member of the City Council  
 March 4, 2008  
 Appendix A

2006 Capital Improvement Expenditures		
Description	Expenditures	%
Fox Meadows Project	\$ 1,486,035	19.57%
A C A 26-75-203	1,193,470	15.72%
City Drainage Projects	1,070,058	14.09%
Street Contracts	817,380	10.77%
Street Materials	677,595	8.92%
A D A St Specifications	401,665	5.29%
Class IV Landfill	400,000	5.27%
Renovate Justice Complex	173,322	2.28%
Road Paving/Bridge Replace	152,185	2.14%
CTP Project Carter Burgess	147,153	1.94%
Old Landfill Closure	142,506	1.88%
AHTD Drainage Contract	128,114	1.69%
Matt Briar & Alex Street Imp	119,173	1.57%
Drainage Study Part 2	94,649	1.25%
James & Frierson Street Impr	78,178	1.04%
Lease- 107 Flint	60,000	0.79%
Miles Park Parking	59,810	0.79%
Lawson Rd V.V Drive	42,407	0.56%
Monroe/Chestnut/Huntington	41,375	0.54%
Center Grove Project	38,976	0.48%
Spatial Analysis of Facilities	36,913	0.49%
Lawson Road Extension Project	35,000	0.46%
1700 Block West Warner	30,578	0.40%
Street Signalization	27,797	0.37%
Detention Pond-East Nettleton	22,440	0.30%
Detention Pond-Valley Drive	14,960	0.20%
Replace Fencing on Youth Softbal	11,807	0.16%
Wilkins/Neil E of Franklin	9,580	0.13%
Maintenance Huntington Building	9,143	0.12%
Mayor's Emergency/Discretion	8,592	0.11%
Washington Street/FS#2	8,048	0.11%
Tree Forestry Grant - 2004	7,688	0.10%
Oak, Haltom & Kitchen	6,800	0.09%
2400 E Nettleton Flood Abate	6,735	0.09%
Roof Replacement/Station #3	5,640	0.07%
Railroad Crossing Maintenance	4,157	0.05%
Farm Creek Detention	4,000	0.05%
Miscellaneous	3,735	0.05%
Fence/JMC Shop	3,440	0.05%
Rines Apt Project	3,000	0.04%
Maintenance City Hall	(859)	-0.01%
<b>Capital expenditure totals</b>	<b>\$ 7,592,341</b>	<b>100.00%</b>

As discussed above, the City converted to Springbrook in 2005. As a result, similar expenditure reports could not be reproduced through NUMBERS, the old accounting system. Consequently, we are unable to provide the same detail for years prior to 2005.

Mayor and Member of the City Council

March 4, 2008

Appendix A

2005 Capital Improvement Expenditures		
Description	Expenditures	%
A C A 26-75-203	\$ 1,437,000	29.98%
Class IV Landfill	1,000,000	20.86%
City Drainage Projects	529,190	11.04%
Street Contracts	375,369	7.85%
A D A St Specifications	335,752	7.00%
Street Materials	329,342	6.87%
New Animal Shelter	152,421	3.18%
C Forest Improvement	115,000	2.40%
Lawson Rd / V Drive	113,380	2.37%
Fox Meadows Project	66,501	1.39%
Maintenance Huntington Building	56,630	1.18%
Mayor's Emerg /Discretion	54,760	1.14%
E Matthews/Nettleton	50,000	1.04%
Maintenance City Hall	45,117	0.94%
Street Signalization	34,974	0.73%
Roof Replacement/Station #3	24,975	0.52%
Miscellaneous	23,741	0.50%
Tennis Courts/JMC	22,350	0.47%
Concrete/JMC Shop	12,723	0.27%
Renovate Justice Complex	5,888	0.12%
Allen Park Improvement	4,498	0.09%
ADA Expenses	2,437	0.05%
Tree Forestry Grant - 2004	551	0.01%
<b>Capital expenditure totals</b>	<b>\$ 4,793,598</b>	<b>100.00%</b>

**Furniture and Accessories**

Furniture and accessory expenditures for the period January 1, 2005 through December 31, 2007 are summarized below:

2007 Furniture and Accessories				
	\$	\$	%	%
	Furniture & Accessories	Fixed Assets	Furniture & Accessories	Fixed Assets
Police	71,743	1,031,279	100%	30.26%
Sanitation	-	1,026,579	-	30.12%
Street	-	640,421	-	17.91%
Information Systems	-	254,454	-	7.47%
Transit	-	208,403	-	6.11%
Fire	-	101,498	-	2.98%
Parks Department	-	53,179	-	1.56%
Planning	-	35,232	-	1.03%
Engineering	-	33,843	-	0.99%
Inspection	-	30,152	-	0.88%
Mayor's office	-	23,136	-	0.68%
	<u>71,743</u>	<u>3,408,175</u>	<u>100%</u>	<u>100%</u>

2006 Furniture and Accessories

	\$ Furniture & Accessories	\$ Fixed Assets	% Furniture & Accessories	% Fixed Assets
Administration	3,839	-	1.32%	0.00%
Police	150,885	1,417,946	51.85%	18.75%
Fire	30,466	2,474,473	10.47%	32.73%
Inspection	2,069	17,938	0.71%	0.24%
Animal Control	1,769	45,957	0.61%	0.61%
City Attorney	259	-	0.09%	0.00%
Planning	5,913	-	2.03%	0.00%
Information Systems	41,981	59,836	14.43%	0.79%
Human Resources	2,694	-	0.93%	0.00%
Building Maintenance	1,559	39,207	0.54%	0.52%
Alderman	2,122	-	0.73%	0.00%
Street	919	1,549,988	0.32%	20.50%
Engineering	747	29,442	0.28%	0.39%
Transit	18,709	500,511	6.43%	6.62%
Sanitation	4,962	1,346,860	1.71%	17.81%
Parks Department	20,523	72,734	7.05%	0.98%
Mayor's Office	1,583	6,322	0.54%	0.08%
	<u>291,009</u>	<u>7,561,213</u>	<u>100.00%</u>	<u>100.00%</u>

2005 Furniture and Accessories Expenditures

	\$ Furniture & Accessories	\$ Fixed Assets	% Furniture & Accessories	% Fixed Assets
Fire	\$ 27,120	\$ 718,364	10.74%	26.94%
Street	14,680	472,807	5.81%	17.71%
Sanitation	23,085	428,701	9.14%	16.00%
Police	101,322	359,919	40.11%	13.47%
Transit	-	209,230	0.00%	7.81%
Parks Department	14,215	178,735	5.83%	6.70%
E-911	2,302	124,137	0.81%	4.65%
Information Systems	27,546	94,785	10.91%	3.55%
City Clerk	17,347	21,764	6.87%	0.82%
Engineering	3,128	21,007	1.24%	0.79%
Building Maintenance	2,517	18,590	1.00%	0.70%
Fire Aid	867	10,399	0.38%	0.39%
MOP	5,758	5,885	2.28%	0.22%
Human Resources	4,258	1,237	1.69%	0.12%
Economic Development	3,790	2,300	1.50%	0.09%
Animal Control	-	957	0.00%	0.04%
Administration	3,951	-	1.56%	0.00%
Inspection	119	-	0.05%	0.00%
City Attorney	474	-	0.19%	0.00%
	<u>\$ 252,580</u>	<u>\$ 2,866,808</u>	<u>100.00%</u>	<u>100.00%</u>



**Advertising Expenditures**

Advertising Expenditures listed below are based on information from the Springbrook General ledger for fiscal years 2006 and 2007.

**2006 Advertising Expenditures**

Transfer to Federal Funds Fund	04/17/06	\$ 1,495.08
Jonesboro Sun	06/09/06	153.40
Supertints	06/09/06	756.00
Graphic Design	06/23/06	520.00
Supertints	07/25/06	1,362.96
Productivity Card/GECF	08/03/06	419.88
JHS Cheerleading	08/10/06	110.00
Jonesboro Sun	08/10/06	54.00
Jonesboro Sun	08/10/06	159.60
N.E.A. Health	08/10/06	1,700.00
Jonesboro Sun	08/10/06	65.70
NEA Clinic Charitable Foundation	11/10/06	1,200.00
Jonesboro Sun	11/27/06	56.10
TOTAL		\$ 7,752.72

**2007 Advertising Expenditures**

African America Perspectives	01/25/07	\$ 2,400.00
Jonesboro Sun	01/25/07	214.10
The Times Dispatch	02/09/07	50.24
Jonesboro Sun	02/23/07	264.60
Jonesboro Sun	04/10/07	74.70
Jonesboro Sun	04/10/07	160.20
Chamber of Commerce	04/25/07	900.00
Menu Manager	04/25/07	300.00
Jonesboro Sun	07/25/07	141.60
St John's Missionary Baptist	07/25/07	200.00
Chamber of Commerce	08/24/07	407.50
Jonesboro Sun	09/10/07	55.20
University Directories	09/10/07	1,300.00
Jonesboro Sun	09/25/07	65.10
Jonesboro Sun	11/26/07	54.00
Jonesboro Sun	12/27/07	84.90
TOTAL		\$ 6,672.14