

Internal Audit of the Finance Department December 5, 2023

Presented by: Donna L. McGinnis, CPA, CFE- Internal Auditor/Compliance Officer

Audit Authorization

- ▶ The audit was authorized by City Council on July 25,2023.

Audit Process

- ▶ Authorization of Audit
- ▶ Development of Audit Program
- ▶ Entrance Conference With Auditee
- ▶ Conduct of Fieldwork

Audit Process (Continued)

- ▶ Preparation of Draft Audit Report
- ▶ Exit Conference with Auditee
- ▶ Auditee Response
- ▶ Preparation of Final Audit Report
- ▶ Presentation to City Council

Audit Scope

- ▶ Organizational Structure of the Finance Department
- ▶ Operations
- ▶ Financial Position
- ▶ Employee Verification & Position Description Review
- ▶ Administrative & Financial Operations

Audit Activity and Observations

- ▶ Payroll testing occurred, with no discrepancies noted.
- ▶ Advantage Budgetary reporting was reviewed for the most recently completed 3 fiscal years, with overruns associated with Software Leases, Membership Dues & Fees, Office Supplies, Publications/Subscriptions, Operating Materials, Mobile Phones, Contractual Services, Postage & Copier Charges.
- ▶ Site visits provided an opportunity to observe the customer service activity in the Revenue Division. Delinquency reporting, Accounts Receivable and Lockbox reporting were also obtained.
- ▶ As the department was busy with external audit activities, we conducted brief interviews with full-time departmental employees, as an alternative to a department-wide SWOT exercise. We sought input on proud achievements, strengths in their work area, wishes for the workplace in the year ahead, as well as any known concerns. The team provided a lot of meaningful input.

Audit Findings

- ▶ Trained departmental financial continue to frequently turn in items to Purchasing for further action that are missing key approvals, bogging down activity, with a reckoning at fiscal year-end.
- ▶ The issuance of 1098 forms to vendors at calendar year-end diverts activity for 2 Buyers from the Purchasing Team annually for several months-this is a process that can be complicated by voided vs. cancelled checks, or credit issuance.
- ▶ The volume of business activity in the Purchasing Division has dramatically increased in recent years, without an adjustment to the staffing roster. Statistical review and comparison to similar sister cities supports an adjustment.

Audit Findings (Continued)

- ▶ Unprocessed transactional activity in the Revenue Division totaling \$45.1 million has been identified at the account level (as of 10/28/23). Backlogged activity has been catalogued in excel records known as the CCG Lockbox, with related checks and credit card authorizations unbanked. Dollars represent an unrealized revenue liability in the year received. We do not have an allowance for these transactions.
- ▶ The Revenue Division handles a wide variety of taxes and permit fees. In years past, renewal notices were routinely sent. More recently, such mailings no longer occur.
- ▶ Write-offs of old aged EMS Receivables , along with two legally deficient loans have not been permitted for years. There is an allowance established in the General Fund, though Accounts Receivable remains overstated, and the Allowance may not currently be at an adequate level.

Audit Findings (Continued)

- ▶ Several months ago, the Collections Team within the Revenue Division had been addressing a backlog in EMS Billing-it's terrific to find them caught up to current workflow.
- ▶ Within the Revenue Division, truly delinquent business accounts are currently difficult to identify, thus citation enforcement via Inspections & Codes has been largely discontinued.
- ▶ Within the Accounting Division, both CGI (Payroll) and the Advantage systems go through 3-4 "mini-conversions" annually that effectively turn the workplace into a test site , where our team is identifying system glitches for the software manufacturer, which disrupts routine work flow.

Audit Findings (Continued)

- ▶ Within the Accounting Division, trained departmental financial managers continue to frequently turn in items for Accounts Payable or Payroll action that are incomplete or missing key approvals, bogging down activity. Every effort is made to produce completely accurate payroll results regardless of the timeliness or quality of the submissions.
- ▶ Within the Accounting Division, fixed asset reporting may not always be current as new acquisitions and auctioned disposals may not be recorded for several months in the run up to the year-end external audit process.

Audit Findings (Continued)

- ▶ Within the Accounting Division, adjusting entries are posted to revenue accounts at fiscal year-end before the external auditor arrival to sweep liability balances associated with the unprocessed licensing backlog for the fiscal year.
- ▶ Within the Administration, there is inconsistent policy enforcement of a “5-consecutive day leave” rule for Finance employees, with some complying and others not required.
- ▶ Within the Administration, there are several key employees who are likely to retire in the coming months and years, and there is a need for a developed succession plan.

Audit Recommendations

- ▶ Recommend the addition of one full-time Buyer Technician in the Purchasing Division to address increased volume of activity, as well as 1098 production.
- ▶ Recommend Accounts Payable participation in the 1098 process, ensuring a smoother processing cycle annually.
- ▶ Recommend researching public-sector ERP systems, seeking providers that are not constantly in development.

Audit Recommendations (Continued)

- ▶ Recommend amending W-2 document format to include all frequently sought information, thus eliminating the need for customized payroll letters for employees.
- ▶ Recommend that Revenue Division results stand at fiscal year-end, and if a liability exists, report it, resulting in accurate financial reporting.
- ▶ Recommend the development of an action plan to address backlogged transactions re: Occupational Taxes and Other Fees.

Audit Recommendations (Continued)

- Recommend that renewal notices be sent out to licensed businesses annually.
- Recommend that Inspections & Codes resume citation enforcement as appropriate for known delinquent accounts.
- Recommend that write-offs of aged EMS Receivables and other uncollectables take place, ensuring more accurate financial reporting.

Auditee Response

- ▶ Angelica Alexander, Finance Director has provided an auditee's response on November 29, 2023. Her response is provided with your audit report material.

Questions

- ▶ Are there any questions from City Council or Executive Management regarding this report?