Finance Department Internal Audit Response
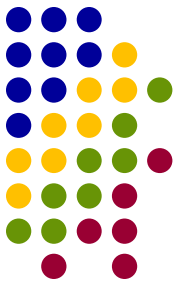
Presented: December 5, 2023

COLUMBUS
GEORGIA

We do amazing.
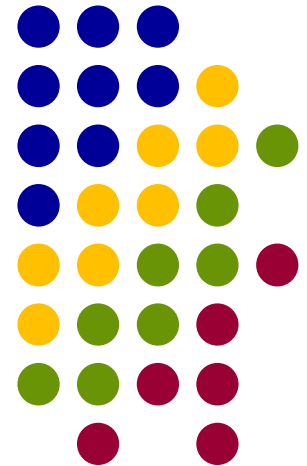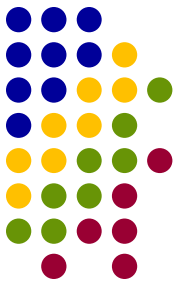
Internal Audit Finding - Purchasing

- The issuance of IRS Form 1099 is a function of the Purchasing Division as Purchasing is responsible for vendor maintenance and management within the financial software system.

- Per IRS guidelines, 1099 forms are required to be mailed no later than January 31 each year. Purchasing staff works with a third-party vendor to process and mail 1099 forms before the annual deadline.

- After the forms are mailed, the staff handles any returned mail or corrections if applicable.

- Purchasing has facilitated the issuance of 240, 308, and 477 1099 forms for tax years 2020, 2021, and 2022 respectively.
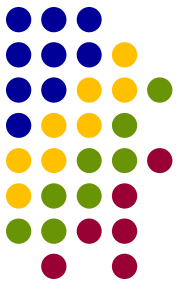
<u>Internal Audit Finding - Purchasing</u>

- While the number of issued 1099 forms have increased in recent years due to City administered ARP grant programs, the number of returned mail and/or corrections averages to be less than 20 items annually.

- With that, the level of effort involved with 1099 form issuance/processing does not directly support additional staffing in Purchasing.

- However, the Finance Department's approved staffing level has always been considerably lean, and any additional positions would allow for viable backups when tenured and experienced employees resign or retire.
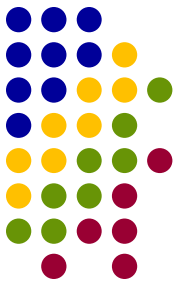
Internal Audit Finding - Revenue

- It is inaccurately stated that there is $45.1 million of unprocessed transactions catalogued as CCG lockbox.

- It is inaccurately stated that lockbox activity has not been deposited into the city's bank account. All transactions catalogued in excel spreadsheets referred to as "lockbox" only accounts for cash that has been deposited in the bank.

- As of today, there are about 500+ accounts currently pending processing valued at approximately $2.5 million.

- The purpose of the lockbox spreadsheet is for staff to track payments remitted and deposited into the city's bank account by customer account number.
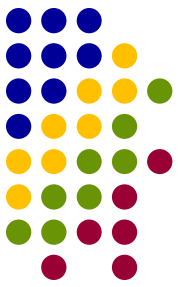
Internal Audit Finding - Revenue

- This allows staff to process licenses over a period of time as all cannot be processed when initially received in the mail because in-person interactions are handled as a priority.

- Our external auditors, Mauldin & Jenkins, provide audit/financial services to 650+ government clients throughout the southeast.

- The lockbox process has been discussed with the external auditors and they have reaffirmed that revenue is being properly recorded through our lockbox process.

Internal Audit Finding - Revenue

- It would also be inaccurate to record an allowance for doubtful accounts for any amounts listed on any "lockbox" spreadsheet as these amounts represent cash that has already been deposited into the city's bank account.

- Renewal notices are mailed annually. As part of annual processes, the Revenue Division typically sends a courtesy delinquent letter to businesses who have failed to submit license renewals for the current year. This did not occur in 2020,2021, and 2022.

- Once it was discovered that courtesy letters were not sent for 2020, 2021, and 2022, they were mailed out with the courtesy notices for 2023 in August 2023.
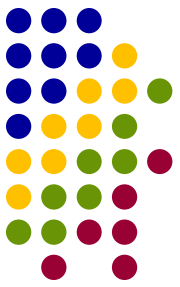
Internal Audit Finding - Revenue

- Ambulance write-offs occur monthly for various reasons including contractual insurance adjustments as well as adjustments for deceased, incarcerated or indigent persons.

- It is a policy decision to physically close out ambulance receivables in the financial system because once a receivable is closed, it cannot be re-opened, and payment cannot be posted after closure.

- Ambulance receivables are not overstated as approximately 70% of the ambulance receivable balance has been written off as bad debt and is reflected in the figure reported as allowance for doubtful accounts in the financial statements.
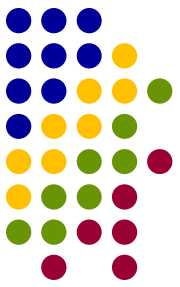
Internal Audit Finding - Revenue

- Closing the receivable in the financial system would not impact the financial statements as the allowance currently reduces the receivable to a net amount.

- That net amount would still be reflected in the financial statements because once the receivable is closed, the allowance would be removed.

- Citation enforcement has not been discontinued as the enforcement of delinquent business licenses is the responsibility of the Inspection & Codes Department. The delinquent business license list was turned over to Inspections & Codes on September 13, 2023, for code enforcement.
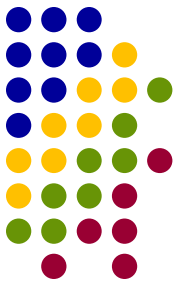
Internal Audit Finding - Accounting

- Interval software updates are standard practices for most software systems. Oftentimes, these updates enhance security and implement new features that may contribute to process improvements within the software system.

- To help mitigate frustrations surrounding testing requirements for new feature sets, Finance, HR, and I.T. staff are currently engaged in discussions with the financial/payroll/budget software vendor regarding the implementation of a third (non-production) database.

- A third environment allows the current production and non-production databases to remain on the same version of the software to quickly remediate issues that may arise while simultaneously testing any impending software updates.
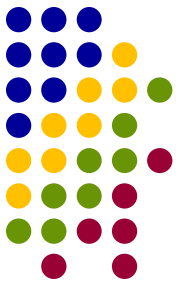
Internal Audit Finding - Accounting

- Fixed Assets are identified and reviewed on a monthly basis. However, they are not recorded until the completion of the prior year audit because our available reporting is not fiscal year specific. Unfortunately, we cannot post new assets in the new fiscal year until the prior fiscal year audit is complete.

- Once the audit is complete and the prior fiscal year is closed, all assets are recorded and are continuously recorded on a monthly basis up to year end.

- As stated previously, the lockbox process has been discussed with our external auditors, Mauldin & Jenkins, and they have reaffirmed that revenue is being properly recorded by the Accounting Division through this process.

Internal Audit Finding - Administration

- Finance department employees do adhere to the 5-day mandatory leave policy.

- Due to staffing challenges in the Revenue Division, it was the decision of management to allow an employee to forego the 5-day leave requirement during the pandemic.

- However, all employees will resume their mandatory leave now that additional staffing has been temporarily approved to assist with the backlog in the Revenue Division.

Internal Audit Finding - Administration

- While the Finance department has succession plans in place for certain positions, other positions may not have viable backups. This issue is not unique to Finance as this is likely the case for key positions in most departments throughout the city government.

- To properly develop talent requires time and resources that most departments cannot afford to expend since succession planning is so much more than simply picking replacements. Although the city recently implemented a new pay plan, pay is still a determining factor when it comes to talent pool selections.

- Attracting and retaining individuals with the key competencies and skills necessary for business continuity is sometimes challenging when coupled with other limitations such as budget constraints.

Internal Audit Recommendation #1

Recommend the addition of one full-time Buyer Technician in the Purchasing Division to address increased volume of activity, as well as 1098 production.
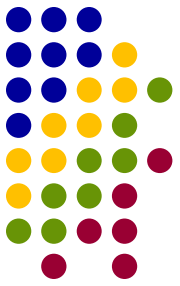
- The level of effort involved with 1099 form issuance/processing does not directly support additional staffing in Purchasing. However, additional staffing is needed to implement process improvements for other functions to include full implementation of online payment processing for vendors managed by the Purchasing Division and for taxpayers regulated by the Revenue Division.

Internal Audit Recommendation #2

Recommend Accounts Payable participation in the 1098 process, ensuring a smoother processing cycle annually.

- The issuance of IRS Form 1099 is a function of the Purchasing Division as Purchasing is responsible for vendor maintenance and management within the financial software system.

- In addition to Purchasing, the Accounting Division must also ensure the issuance of thousands of mandated payroll tax forms before January 31 each year as well. While there is some collaboration among divisions to meet the annual deadlines, any additional responsibilities for vendor tax forms may be burdensome for accounting staff

Internal Audit Recommendation #3

Recommend researching public-sector ERP systems, seeking providers that are not constantly in development.

- Interval software updates are standard industry practices for most software systems. Oftentimes, these updates enhance security and implement new features that may contribute to process improvements within the software system.

- The city has approximately 2 years left in the current contract with the HR/financial/budget software vendor. Additional options may be explored close to that time.
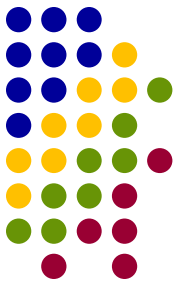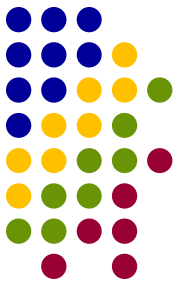
Internal Audit Recommendation #4

Recommend amending W-2 document format to include all frequently sought information, thus eliminating the need for customized payroll letters for employees.

- The W-2 document is a standard IRS form which can only be amended by the IRS.

- It is my understanding that staff were expressing a desire to update employee paycheck stubs to include gross year to date totals thus eliminating the need for letters from payroll that contain this information.

- However, this would be a significant change to the current format and there would be an associated cost to facilitate such a change.
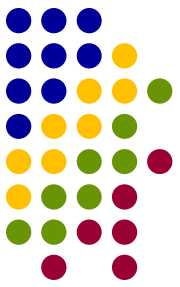
Internal Audit Recommendation #5

Recommend that Revenue Division results stand at fiscal year-end, and if a liability exists, report it, resulting in accurate financial reporting.

- It is inaccurately stated that there is $45.1 million of unprocessed transactions catalogued as CCG lockbox.

- As of 11/28/23, there are about 500+ accounts currently pending processing valued at approximately $2.5 million.

- Our external auditors, Mauldin & Jenkins, provide audit/financial services to 650+ government clients throughout the southeast. The lockbox process has been discussed with the external auditors and they have reaffirmed that revenue is being properly recorded through our lockbox process.

Internal Audit Recommendation #5 cont'd

Recommend that Revenue Division results stand at fiscal year-end, and if a liability exists, report it, resulting in accurate financial reporting.

- The city uses the current financial resources measurement focus and the modified accrual basis of accounting.

- This means that revenues are recognized as soon as they are both measurable and available.

- Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.
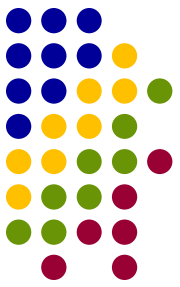
Internal Audit Recommendation #5 cont'd

Recommend that Revenue Division results stand at fiscal year-end, and if a liability exists, report it, resulting in accurate financial reporting.

- For this purpose, the Consolidated Government considers taxes as available in the period for which they were levied if they are collected within 60 days of the end of the current fiscal period.

- A 90-day availability period is used for revenue recognition for all other governmental revenues. Certain revenues such as property taxes, sales taxes, licenses, interest revenue, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and thus are recognized as revenues of the current fiscal period, if available criteria are met.
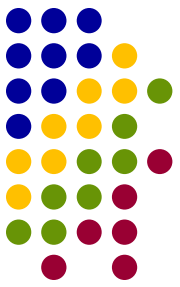
Internal Audit Recommendation #5 cont'd

Recommend that Revenue Division results stand at fiscal year-end, and if a liability exists, report it, resulting in accurate financial reporting.

- In addition, accrued revenue would be recorded as a receivable which is an asset, not a liability on the financial statements.

- The purpose of the lockbox spreadsheet is for staff to track payments remitted and deposited into the city's bank account by customer account number.

- This allows staff to process licenses over a period of time as all cannot be processed when received initially received in the mail because in-person interactions are handled as a priority.
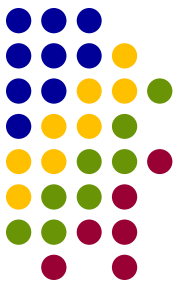
Internal Audit Recommendation #6

Recommend the development of an action plan to address backlogged transactions re: Occupational Taxes and Other Fees.
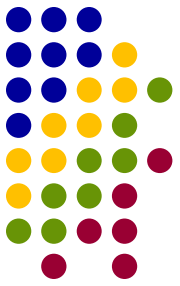
- An action plan was provided in the executive summary report provided on October 30, 2023. However, staff are continuing to work through the license renewal and delinquent license processes.

- Temporary staffing has been authorized by the City Manager to assist with the backlog of license processing.

- Staff will continue to work overtime to complete pending license renewals.

- Information Technology and Finance will continue engagement with the software vendor to address system performance issues in order to move forward with automation efficiencies to include online processing.
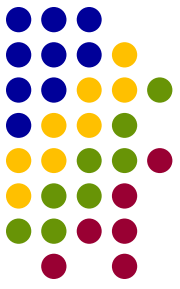
Internal Audit Recommendation #7

Recommend that renewal notices be sent out to licensed businesses annually.

- Renewal notices are mailed annually.
- As part of annual processes, the Revenue Division typically sends a courtesy delinquent letter to businesses who have failed to submit license renewals for the current year.
- This includes those businesses that did not respond to a "problem letter". If a business does not come into compliance, a delinquent list is generated for Code Enforcement to compel compliance.

Internal Audit Recommendation #8

Recommend that Inspection & Codes resume citation enforcement as appropriate for known delinquent accounts.

- Citation enforcement has not been discontinued as the enforcement of delinquent business licenses is the responsibility of the Inspection & Codes Department.

- The delinquent business license list was turned over to Inspections & Codes on September 13, 2023, for license years 2020, 2021, 2022, and 2023.
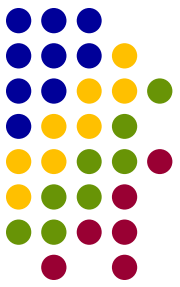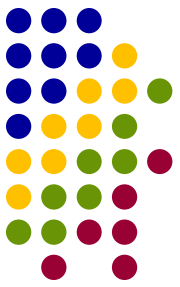
Internal Audit Recommendation #9

Recommend that write-offs of aged EMS Receivables and other uncollectibles take place, ensuring more accurate financial reporting.

- Ambulance write-offs occur monthly for various reasons including contractual insurance adjustments as well as adjustments for deceased, incarcerated or indigent persons.

- It is a policy decision to physically close out ambulance receivables in the financial system because once a receivable is closed, it cannot be re-opened, and payment cannot be posted if received after closure.

- Ambulance receivables are not overstated as approximately 70% of the ambulance receivable balance has been written off as bad debt and is reflected in the figure reported as allowance for doubtful accounts in the financial statements.
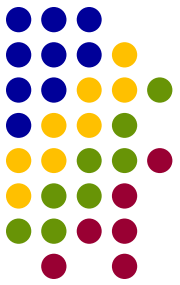
Internal Audit Recommendation #9 cont'd

Recommend that write-offs of aged EMS Receivables and other uncollectibles take place, ensuring more accurate financial reporting.

- Closing the receivable in the financial system would not impact the financial statements as the allowance currently reduces the receivable to a net amount. That net amount would still be reflected in the financial statements because once the receivable is closed, the allowance would be removed.

- Nevertheless, a policy revision regarding closing receivables will be reviewed for consideration.

Questions?