



GARLAND

INTERNAL AUDIT

Audit Committee

Meeting Minutes

Monday, March 19, 2012, 3:00 p.m.

1. Opening Remarks/Roll Call –

Chairman Williams called the meeting to order at 3:01 p.m.

Present:

Rick Williams, Audit Committee Chairman

Preston Edwards

Lori Barnett Dodson

Staff:

Bill Dollar

Chief Bates

Joe Beauchamp

Brad Neighbor

Asst. Chief Ray

Judy Hearn

Bryan Bradford

Asst. Chief Conley

Craig Hametner

David Schuler

Elisa Morales

Jed Johnson

Jim Stone

Steve Niekamp

Elizabeth Morales

Patty Granville

Gary Holcomb

Christian Thony

Debbie McAnally

Don Daugherty

Marla Hamilton

2. Approval of the minutes from the meeting of November 21, 2011 –

Upon motion made by Lori Barnett Dodson and seconded by Preston Edwards, the minutes of November 21, 2011 were approved.

3. Garland Cultural Arts Commission, Inc. (GCACI) Audit –

Craig opened discussions with the findings regarding grant amounts given and documentation received as well as uncleared checks discovered in the audit. He reported that follow-up items from the previous audit were implemented.

In addition, Craig mentioned that GCACI will revise the next contract to the following:

- Remit payment of the program funds once annually versus twice a year.
- An operational audit to be performed every two years.

The Chairman commented on the efficiency of moving to a biennial audit versus an annual audit. He also agreed with the changes and asked the reason for moving to one single payment versus twice a year. Craig responded that this change would be easier for GCACI.

4. Police Peripheral Inventory Audit Follow-up –

Craig started discussions on this audit by mentioning that the original audit had eight recommendations. Management either partially concurred or concurred with four. The follow-up was completed on these four items and includes committee comments as follows:

- Inventory tracking system – Although the system did accurately track police peripherals, this was listed as partially implemented because one item was not listed.
- Inventory destruction policy – This is still in process and not yet implemented because the department is waiting to procure equipment.
- Missing laptops - Two laptops in storage were unaccountable in the follow-up. Chairman Williams asked about these laptops and Chief Bates provided an explanation by letting the committee know that the procedures were in place yet not appropriately followed in these instances. Chief Bates assured the committee they have the laptops and the individuals involved were counseled accordingly.

- Fixed Asset Capitalization – This item was not implemented. Chairman Williams asked David Schuler if they were working on this and Mr. Schuler responded affirmatively.

5. Financial Management Interfaces Audit –

Craig started discussions on this audit by providing some background regarding interfaces that feed into the Financial Management System (FMS).

A summary of the findings is as follows:

- HouseProAp interface – On one occasion, information was inaccurately imported into FMS. The mitigating controls took over and reconciliation identified the mistake immediately.
- User access levels were not reviewed – Management agreed to review user access levels with the annual User Entitlement Review.
- Lack of evidence of testing for changes implemented in production – Craig discussed the effect of improper changes impacting the production environment.
- Segregation of duties and numerous inappropriate accesses – Craig discussed the list of violations regarding this finding.

Management concurred and implemented all changes recommended.

Chairman Williams provided positive comments on the language used in the overall conclusion of the report.

6. P-Card/Expense Report Audit –

Craig discussed the fact that this audit was a recurring audit and that this was one of the most comprehensive P-Card audits since he has been with the City. He also mentioned that memos were written to Managing Directors regarding items found and data mining techniques were used during the audit process. Highlights of the audit are as follows:

- The City currently has 1,000 active P-Cards with 61 Department Purchasing Coordinators (DPCs) who play a vital role in the monitoring and control over the P-Card program.

- P-Card transactions are cheaper at \$10 each versus \$150 for generating a purchase order and \$75 for printing a check.
- The rebate doubled due to an inter-local agreement with the City of Ft. Worth executed in January 2011.
- The audit examined 5 P-card transactions from each of the City's 51 departments and 35 expense reports.
- KPMG's SAS70 audit of Chase was reviewed and determined to be satisfactory.

A summary of the findings including committee comments is as follows:

- Updating the P-Card policy – The P-card policy was not updated and one of the links in the P-Card directive was inoperable. Management assured us that once directive was updated, the link will be updated also.
- Three excluded Merchant Category Codes (MCC) were used – The City cannot purchase items from a particular MCC if not listed unless the exclusion is lifted. The suggestion was to include in the policy a procedure to put the exclusion back on once it was lifted. Chairman Williams asked for clarification on this point regarding an MCC's exclusion. Craig clarified by stating that once the exclusion is lifted, it is opened for the entire City to use. Chairman Williams asked questions regarding the monitoring by the DPCs and Craig mentioned that monitoring was very important in these cases.
- Terminated employees and deactivating cards – The audit found issues with P-Cards of terminated employees remaining active. Chairman Williams asked about the recommended procedure in the destruction process stating that two witnesses would be too much and Craig agreed that one witness would be sufficient. (Subsequent discussions with the Chairman clarified the report noting two signatures: one from the DPC and one from a witness.)
- Split purchases – Management stated that immediate action will be taken to correct these.

- Duplicate transactions – Two were found where payment was made with P-Card and a check. The manual was revised to accommodate the recommendations.

Management concurred with the findings and implemented the changes recommended.

A summary of the follow-up items is as follows:

- P-Card transaction limits are \$2,999 per transaction and \$5,000 per month. Follow-up showed issues with the transaction limits, therefore Craig stated that this was only partially implemented.
- Destruction of P-Cards was previously discussed in finding number four in the audit.
- The audit found issues regarding documentation on terminated employees and listed this as partially implemented.
- Cardholder status reports are reviewed and this was listed as fully implemented.
- Verifying employee identification before issuing a P-Card was fully implemented.
- Information regarding outside departmental transaction receipts such as items purchased through IT should be obtained. Craig noted that information was provided at quarterly refresher course however the directive was not updated. This was partially implemented.
- DPC training agreements were fully implemented.
- Proper P-Card documentation was either partially or fully implemented.
- Departmental Expense report improvements were partially implemented.

Craig provided an additional consideration for management regarding using the P-Card for any purchase under \$3,000. He discussed an analysis showing that there was \$5 million in payments that fell under the \$3,000 limit where the City could use the P-Card. The additional use of the P-Card would increase the rebate and lower the cost to processing checks.

Management agreed to look into using P-Card as a method of payment versus checks.

7. Safelight Program Audit –

Craig discussed changes with regard to who is administering the Safelight program. Due to these changes, Craig noted possible risks. Craig also noted that this was a management requested audit.

A summary of the findings including committee comments is as follows:

- Three cameras were relocated – TXDOT delayed relocation of the cameras for 19 months. The City continued to pay \$4,950 per month for each of those cameras while they were inoperable. Relocation costs subsequently increased to \$6,214 per month. We paid \$282,000 with no return on the investment. Management concurred and has been waiting for the finalization of the audit to finalize the modifications in the contract. Chairman Williams asked Brad Neighbor about renegotiating the contract to which he responded that we were waiting for the Audit Committee's approval. Mr. Neighbor mentioned that the contract will include a wind-down provision to address the current situation. Chairman Williams asked about the \$4,950 per month to be on-going monitoring maintenance and the capital cost and installation to be removed. Mr. Neighbor mentioned the City is currently paying for three components now (1) a debt resulting from fluctuating violations, which will be leveled off with the monthly fee, (2) monthly operational costs and (3) capital costs. Once the other two components are eliminated and we are paying the monthly fee, the City's per camera costs will decrease.
- Finding involved three parts as follows:
 - Debt amount was not reconciled or tracked to ACS – the debt amount as of 2011 totaled \$480,000; \$335,000 in monthly fees and \$145,000 in capital costs.
 - Several months where the revenue exceeded the program costs of which the excess was to be paid to ACS.
 - Debt liability owed to ACS was not listed in the CAFR.

- Reports given to the Comptroller could not be reconciled – The audit found instances where expenses were duplicated from one year to the next, accounting methods were commingled and the report showed zero net revenue for one year. Craig noted that these are red flags. Chairman Williams questioned whether subtracting the gross revenue minus expenses minus debt showed a profit. Chairman Williams also wanted to know what accounting period would show the profit. Mr. Neighbor stated that the statute does speak to net revenue however determining the amount was never drafted in terms of accounting procedures. Until the debt is fully discharged, we will not have revenue to share. Mr. Neighbor commented that the problem is that the form did not specify the accounting methodology to use therefore the solution was to notate the methodology used in the report. Chairman Williams then asked Chief Bates if he is involved in oversight of the program. Chief Bates stated that he coordinates with the rest of the departments to reconcile the report. Chief Bates cited violation fluctuations in citations due to the locations of the cameras and the weather and mentioned that it is month-to-month on whether revenue exceeded the expenses. Chairman Williams summarized his appreciation for the extra efforts on this audit.
- Duplicate credit card processing fees were noted – Chairman Williams requested clarification on credit card fees and asked if they charge an additional fee. Craig responded affirmatively.
- Credit card fees could not be reconciled – Management is working with ACS to develop a report so that we can reconcile these fees regularly.
- Internal costs can be deducted from the payment to ACS according to the agreement – The recommendation was to include the updated monthly cost allotment in the amount of \$11,500 in the contract.
- We could not find a SAS70 report on ACS or its third parties – We recommended that we request and review ACS and its third parties for a SSAE 16 Audit. The specific report needed is the SOC-2 Type 2 which would provide the most assurance of appropriate internal controls for ACS.

Management concurred with all recommendations in this audit.

There being no further business to discuss, the meeting was adjourned at 3:46 p.m.