



February 8, 2018

To: Emory Roberts, Director of Finance and Customer Service

Re: Financial Statement Audit Assistance - Project No. 2017-08

We have completed our financial statement audit assistance testing as scheduled per the FY 2018 Internal Audit Plan. The objective of the audit work was to provide internal control narratives and test transactions related to City operations. The audit work was conducted by Alice Garner and Randall Bridgeman.

To accomplish our objective, we inquired with City staff, documented internal control processes, selected samples of transactions, inspected supporting documentation and tested transactions for attributes.

Our audit work included such tests of records and other auditing procedures, as we considered necessary in the circumstances. Our audit period was October 1, 2016 through September 30, 2017. However, transactions, processes and situations reviewed were not limited by the audit period.

During our transaction testing, we found some minor exceptions that in our opinion do not reflect on the adequacy of the internal controls in place.

We appreciate the cooperation and assistance provided by the City department staff contacted during the course of our work.

A handwritten signature in black ink that reads "Alice Garner".

Alice Garner, CPA, CGAP, CIGA  
Internal City Auditor

Cc: Ocala City Council Members  
John Zabler, City Manager  
Bill Kauffman, Assistant City Manager  
Ken Whitehead, Assistant City Manager  
Sandra Wilson, Deputy City Manager

## **BACKGROUND:**

As a part of the City's FY 2017 financial statement audit, the Internal Audit department provides assistance to the external auditors, Purvis Gray & Company. This assistance includes documenting the internal controls in place for a variety of financial areas, as well as, testing transactions and documentation for exceptions to specific attributes. This year we applied 397 hours to complete the project.

## **RESULTS OF TESTING:**

Our audit work was neither designed nor intended to be a detailed study of every relevant system, procedure or transaction. Accordingly, the Results of Testing presented in this report may not be all-inclusive of areas where improvement may be needed.

### **1. Accounts Payable**

We selected a random sample of 60 checks and tested the transactions to determine whether accounts payable are adequately supported, properly approved, and are coded to the proper account in the financial system.

As a result of our testing, we found the following:

- a. There was one check where the address on the supporting invoice did not match the address on the check.
- b. There was one instance where an invoice less than \$5,000 was charged to account 64010 Machinery and Equipment > \$5,000.
- c. There was one instance where the address on the purchase order does not match the address on the invoice and check.

### **2. Construction-in-Progress**

We selected a sample of nine Construction-in-Progress (CIP) projects based on materiality thresholds established by the external auditors. We tested each project's related transactions to determine whether additions are adequately supported, are coded to the proper accounts in the financial system and are posted in the proper period.

As a result of our testing, we found the following:

- a. Three transactions totaling \$5,068.00 were recorded in FY 2017 but were for expenses incurred in FY 2016.
- b. One transaction totaling \$1,360.72 was recorded in FY 2018 but was for expenses incurred in FY 2017.

### **3. Electronic Fund Transfers**

We selected a random sample of 25 electronic fund transfers (EFT) and tested the transactions to determine whether EFTs are adequately controlled and properly supported, approved and recorded.

As a result of our testing, we found that for one transaction, the system's transaction requestor is the same as the approver. Level two review is missing.

#### **4. Inventory Observations**

We observed the inventory process related to the physical inventory counts in the wire sheds, the warehouse, and the Ocala Golf Club pro shop. Based on our observations, the physical inventory counts were complete.

However, we found the following opportunities for improvement with respect to the counts at the wire sheds and the warehouse:

- a. Management should supervise the third-party vendor performing the counts and ensure a clear line of communication.
- b. Management should create and implement written instructions for all parties involved in the process.
- c. Management should ensure that the reconciliation of the physical counts with the data in the financial system are reconciled in a timely manner.

#### **5. Payroll**

We selected a random sample of 50 bi-weekly payroll payments and tested the transactions to determine whether the payments were properly approved, accurately calculated, for time the employee worked, and coded to the proper accounts in the financial system.

No exceptions were noted.

#### **6. Pensions**

We selected a random sample of 60 pension payments and tested the transactions to determine whether the payments are properly approved, adequately supported and are coded to the proper accounts in the financial system.

No exceptions were noted.

#### **7. Procurement Cards**

We selected a random sample of 40 procurement card (p-card) payments and tested the transactions to determine whether the p-cards are properly authorized, transactions are adequately supported and are for a valid business purpose, and are coded to the proper accounts in the financial system.

As a result of our testing, we found the following:

- a. In one transaction, the P-card Request Form did not include an agreement to abide by p-card rules.
- b. In one transaction, the P-card Request Form was not approved by the ACM or a designee.
- c. One transaction was not for a business purpose and included Florida sales tax.
- d. One transaction was approved after the 10th of the following month.

**8. Unrecorded Liabilities**

We selected a sample of 244 invoice payments based on materiality thresholds established by the external auditors. We tested the invoices to determine whether the payments were posted in the proper fiscal year.

No exceptions were noted.

**9. Travel Reimbursements**

We selected a random sample of 25 travel reimbursements and tested the transactions to determine whether the reimbursements were properly approved, adequately supported and coded to the proper accounts in the financial system.

As a result of our testing, we found the following:

- a. Two out of 25 forms were not approved prior to travel occurring.
- b. One travel reimbursement was incorrectly coded in the GL.
- c. Two travel reimbursements include charges that are not documented with support.
- d. In one reimbursement, airline fare was charged for trip; backup is included but is not on the expense report. Hotel documentation is for a reservation for an amount that is different from the p-card charge in the amount of a one night's stay.
- e. In one reimbursement, the employee was reimbursed at the wrong mileage rate and was not reimbursed for tolls.

**10. Utility Billing**

We selected a sample of 40 utility bills and tested them to determine whether the billings were properly calculated, reflect proper services provided to the customer type, are adequately supported and are coded to the proper accounts in the financial system.

No exceptions were noted.