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Date: January 24, 2014

To: The Honorable John McLeod, President of the Council
The Honorable Jay Musleh, President Pro Tem
The Honorable James P. Hilty, Sr.
The Honorable Brent Malever
The Honorable Mary Sue Rich
The Honorable Kent Guinn, Mayor
Matthew Brower, City Manager

Re: FY2013 External Audit Assistance – Capital Improvement Project Additions
Cogsdale Work Order Management System

Internal Audit assists the external financial auditors, Purvis Gray and Company, LLP, with specific audit procedures for the Financial Statement Audit. We completed procedures for Capital Improvement Project Additions (CIP) in conjunction with the review of the Cogsdale Work Order Management System. The objectives were to ensure additions to CIP were accurately recorded to the appropriate project and accurately recorded in the City's financial records at September 30, 2013.

We selected 34 projects totaling \$9 million which represented 64% of the total CIP additions of \$14 million for the fiscal year. Our procedures included a detail review of the invoices and other supporting documentation to determine appropriate classification and status of the project at year end.

We also reviewed the Cogsdale Work Order Management System which was implemented April 2012. The system tracks materials and calculates the labor efforts for capital projects completed by the City's Electric Utility personnel. We observed and reviewed procedures with Utilities Services Resource Management and Finance. We validated the cost of materials and recalculated the labor costs generated by the system for two capital improvement projects completed during the fiscal year. We assured that the costs were properly reflected in the City's fixed asset system and financial records.

During the fiscal year, Finance and Utility Services Resource Management coordinated efforts to automate the transfer of data from the Cogsdale Work Order Management System to the City's fixed asset system. The automated import process increases asset recording, tracking, and disposal capabilities, reduces the need for manual entry and eliminates the risk of inaccuracies inherent with manual entry. Management is developing policies and procedures for the acquisition and disposal of fixed assets to augment the City's capitalization policy. This includes changes to the departmental capital budgeting process and assist with city-wide compliance to the policies. These process changes should bring efficiencies to the reclassification of capital improvement projects to fixed assets during the year, lessen year end procedures, and allow Audit to review completed projects prior to the end of the fiscal year.

Based upon our procedures, we conclude that CIP additions were appropriately supported, classified and recorded in the City's financial records. We appreciate the assistance of all personnel involved in the review, especially Lisa Mauldin, Accountant. We look forward to working closely with Finance over the next several months as process enhancements occur.

Generally Accepted Government Auditing Standards and the Institute of Internal Auditors Standards require that we plan and perform our audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The evidence obtained provides a reasonable basis for our observations and conclusions.

S. KaRhonda Leslie, Audit Specialist

Jeanne Covington, Internal City Auditor

c: Diane Reichard, CFO and Assistant City Manager, Finance
Larry Novak, Assistant City Manager, Utility Services
Mary Ann Davis, Finance Director
Joe Noel, Utility Services Resource Management