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To: The Honorable Mary Sue Rich, President of the Council
The Honorable John McLeod, President Pro Tem
The Honorable Suzy Heinbockel
The Honorable Jay Musleh
The Honorable Daniel Owen
The Honorable R. Kent Guinn, Mayor
Matthew Brower, City Manager

Date: March 20, 2013

Re: External Audit Assistance – Capital Improvement Project Additions

Internal Audit assists the external financial auditors, Purvis Gray and Company, LLP, with specific audit procedures for the Financial Statement Audit for the Fiscal Year Ending September 30, 2012. We have completed procedures for Capital Improvement Project Additions (CIP). 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, 2012.

Our review was limited to CIP additions selected by the external auditors at the start of the audit process. We tested 31 projects with additions in FY 2012 of \$12.1M, which represented 85.6% of the total CIP additions of \$14.1M 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.

Based upon our procedures, we conclude that CIP additions were appropriately supported, classified and recorded in the City's financial records.

Management is exploring the opportunities to strengthen internal controls over the capital project completion process to include a formalized notification to Finance from the appropriate project lead at the time the project is complete. This will assist with timelier reclassification of CIP projects to fixed assets during the year and lessen year end procedures.

We appreciate the assistance of all personnel involved in the review, especially Olga Rabel, 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.

A handwritten signature in blue ink that reads "SKARHONDA LESLIE".

S. KaRhonda Leslie, Audit Specialist

A handwritten signature in blue ink that reads "JEANNE COVINGTON".

Jeanne Covington, Internal City Auditor

c: Cindy Kelley, Interim Chief Financial Officer and Assistant City Manager
Mary Ann Davis, Controller