

Meeting Minutes

Audit Committee

Monday, March 1, 2010

3:00 p.m.

1. Opening Remarks/Roll Call

Chairman Williams called the meeting to order at 3:03p.m.

Present:

Rick Williams, Chairman
Barbara Chick

Preston Edwards

Staff:

Bill Dollar
George Kauffman
Craig Hametner
Jed Johnson
Paige Bobbitt

Bryan Bradford
Elizabeth Romero
Michelle Taylor
David Schuler

Visitors:

Kati George – Accounting Principals

Chairman Williams discussed the Engagement Letter emailed to all city council members from Craig explaining the forthcoming waste hauler audit. This letter to the council at the beginning of each audit was a recommendation from the Peer Review.

2. Consider approval of the minutes from the meeting of October 12, 2009.

Motion was made to approve the October 12, 2009 minutes by Preston Edwards
Motion seconded by Barbara Chick
Motion was approved

3. Sarbanes-Oxley (SOX) Review Presentation

Craig stated the SOX review was city-wide, but it did not include the GP&L. That is being done by another consultant. Craig explained how everybody benefits from a SOX review including Internal Audit. The SOX Review was performed by Kati George with assistance from Internal Audit in Phase 2. Craig introduced Kati George with Accounting Principles.

Kati thanked staff and Internal Audit for all their help to get the project completed. She stated the benefit to the City will be long lasting and hopes the City will follow the methodology presented in the report in years to come.

Kati discussed ten Key Risks that were identified. She explained that these are areas where vulnerability exists if they are not addressed. The ten key risks are:

- The person who signs off as receiving products, goods or services is different than the person who placed the order. Approval of invoice is noted by initialing.
- Before each new vendor is approved, each Tax Identification number is verified on-line and/or by a confirming phone call, and Social Security #'s are verified through Social Security website.
- A franchise matrix details compliance requirements with ordinances which can be monitored and any gaps reported.

Chairman Williams stated that two franchise audits were going to be discussed in the meeting and questioned if that was as a result of the study. Craig stated it was not as the two audits to be discussed were part of the Annual Audit Plan.

- Payroll changes/edits are reported off the payroll system, and verified against written support by Payroll Supervisor.
- The IT back-up and recovery process is tested periodically.
- When a person is no longer a City of Garland employee, their access to all applications and the network is to be terminated within 48 hours.
- All reports requested by the Granting Agency are filed by the due date.
- All City contracts with outside vendors in excess of \$100K must be approved by Council.
- Automated – Only authorized persons have access to patient information for City Care clinic.
- Fire drills are held on a regular basis in all City facilities.

Kati explained that all risks have been addressed or currently are being addressed by the City.

Councilmember Chick commented on how she liked the way the report was presented. She stated it was easy to read. She was very pleased with the report.

Chairman Williams noted that the listed areas of Critical potential risk were (1) financial risk, (2) operational and compliance risk, and (3) systemic risk, but on Key Controls, only financial, operational and compliance were looked at--not systemic. He asked if that was something that could be tested. Kati stated it is

mostly subjective and can't really be tested. She stated that for the areas that she reviewed, the City's systemic risk is low.

4. Follow-up Municipal Court Audit

Craig presented the first recommendation on Citation Reconciliation where the City Manager should ensure that all departments reconcile citations on a monthly basis, a policy/procedure manual be developed, and the citation process be automated. This recommendation was "Partially Implemented."

Chairman Williams wanted an explanation on the general concept of why citations should be accounted for since code or a police officer cannot take money when issuing a citation. Craig stated that all tickets have to be accounted for and accounting is all about accountability. Things that could happen include a Police Officer might have to go to court, but the citation could not be accounted for because it was never turned in. Jed stated another problem is that if you do not turn in your citation book, you cannot collect revenue either. Chairman Williams also questioned why the amount of \$895,670.90 in the Technology Fund was mentioned in the audit report. Craig explained it was mentioned since it could be used for an automated citation writing system. Bill stated the problem is not so much in the Police Department but the other departments that don't issue citations on a frequent basis.

Jed covered recommendation #2 in regards to Warrant Collection and Issuance. The recommendation was "Fully Implemented." The committee had no questions about this recommendation.

Recommendation #3 – Warrant Collection Services Provided by a Private Vendor. The recommendation was "Not Implemented." Paige stated that her concern is in trying to mandate that the collection agency collect a specific percentage. Because the courts have a lot of very difficult cases, vendors would be concerned about signing a contract in which they are held to a specific percentage. She does not believe the City would get a lot of vendor bids if they tried to get a "fixed rate." She has no knowledge of other cities doing this.

Craig and Jed stated it should be part of the evaluation when looking for a collection agency. Chairman Williams stated it sounded reasonable and you could always ask.

Recommendation #4 – Operating Procedures, "Not Implemented." The committee had no questions about this recommendation.

Recommendation #5 – Performance Reports, "Partially Implemented." Paige stated to get the data is easy, but without a purge policy in place, cases go back to 1970. This would provide management with misleading information. Paige stated their new system should be implemented in a couple of weeks, and by the

end of this year, the system should be able to cover the purging issue and other issues as well.

Recommendation #6 – Defensive Driving Course, “Fully Implemented.” The committee had no questions about this recommendation.

Recommendation #7 – Inaccurate Charge Code Data, “Partially Implemented.” Two charge codes were inaccurate but have since been corrected.

Chairman Williams asked if the statute codes change. Craig stated it does, because the statute code comes from legislation. Paige said the new codes are received from the State and their system updated.

The committee did not have any additional questions on this follow-up.

5. Wire Transfer Audit

Craig stated that Wire Transfers have risks involved with them because of their speed and the amounts transferred. He introduced Jed and Michelle to discuss their findings.

Jed showed the committee the “token” that is used by David Schuler to do wire transfers which provides a very good security control. You have to have a user I.D., password and the token in order to do a wire transfer. The token has a six digit number which changes every sixty seconds. This provides a multi-layer authentication. In addition, Jed stated that a hacker could possibly get a user I.D. and password, but the individual would need the six digit number in order to continue with the process of doing a wire transfer. He explained that even if someone had the user I.D., password, and stole the “token,” the security control in place would look at the computer registration. The computer has to be registered with Chase and if the “token” is used from another computer, the user is notified by e-mail that a wire transfer was being processed from another computer.

Michelle went into the first finding which dealt with the Cash Manager entering, approving and releasing all wire transfers with the exception of GP&L. Finance concurred with the recommendation and would get additional staff to ensure proper segregation of duties.

Jed discussed finding #2 which dealt with (A) Finance not having a departmental approval list and (B) Transactions not properly approved according to the Administration Signature Authority for Expenditures Directive #1. Finance concurred with finding (A) and will develop a departmental wire transfer approval list. They also concurred with finding (B) and will coordinate a review and possible revision to Administration Signature Authority for Expenditures Directive #1.

Michelle discussed finding #3 in regards to gaps. The Finance System does not keep track of the check number when a wire transfer is deleted. Therefore, Finance agreed to manually keep track of all deleted check numbers with the reason.

Finding #4 was discussed by Jed. This regarded no documents or standard forms found on identifying the vendor's banking information. Finance concurred and will maintain vendor wire transfer information.

Finding #5 was discussed by Michelle. Finance does not have policies or procedures for wire transfers. Finance concurred and will develop policies and procedures for wire transfers. However, George explained that they do keep a lot of information regarding wire transfers in a binder, so effectively this serves as their policy manual.

Councilmember Chick asked if all department policies and procedures are on the network, and Craig explained that some are on the City shared drive.

George stated that David Shuler has a notebook where he has a lot of information on wire transfers and banking information. It is not organized specifically as a policy manual, as it is very difficult to create an up-to-date policy manual when the wire transfer function is done by one person. George said that processes and procedures are changing on a frequent basis which makes keeping a current manual is difficult. He did agree that they need to have something in place and that Steve Anderson is David's backup.

Finding #6 was discussed by Jed. The Chase system has limitations and only allows Finance access to the last two months of transaction detail reports. Finance concurred and will periodically download transaction detail data from the depository bank to ensure transaction history is readily available.

The committee did not have any additional questions.

Bryan stated he liked the new format of how the audits are being presented.

6. Verizon Franchise Fee Audit

Liz presented the Verizon Franchise Fee Audit. It only had one recommendation which was that Verizon was not complying with Utilities Code Chapter 66 when reporting "gross revenues." Their reporting method is on the accrual basis and not the cash basis.

Chairman Williams asked what the net effect of the accrual methodology vs. the cash basis was. Craig stated they use what was billed not what was received.

They subtract bad debt expense which is an estimate and can be manipulated. Cash is easier to audit.

There were no additional questions from the committee.

7. Time Warner Franchise Fee Audit

Liz presented the Time Warner Franchise Fee Audit. Liz stated that finding #2 was the same as Verizon and had the same outcome. She then presented finding #1 which dealt with Time Warner not submitting a summary explaining the basis of the calculation of franchise fees as it is stipulated in "Chapter 66." Financial Services explained they will verify that the reported gross revenues are in compliance with Utilities Code Chapter 66 Sec. 66.002 (B) (i) and will request detailed gross revenue data from Time Warner.

Finding #3 – Time Warner is not complying with Utilities Code Chapter 66 Sec. 66.002 (6) (A) when reporting franchise fees as part of their gross revenues. Liz explained to the committee how Time Warner reports their "gross revenues" which does not include the Franchise Fees that are billed to the customers. They use an estimate instead. This affects the final amount due to the City. Financial Services will determine appropriate actions in seeking Time Warner's compliance with Utilities Code Chapter 66 Sec. 66.002 (6) (A).

The committee did not have any questions on this audit.

8. Adjournment

The meeting was adjourned at 4:12 p.m.