

Root Cause & Corrective Action Analysis: #1 Auditor's Finding – Inadequate internal controls in place to ensure accurate reporting of its financial statements

Issue:

Deficiencies in internal controls over financial reporting.

Team:

Michelle Hughes, Tim Dunivant, Crystal Marchand, Penny Brown, Sally Stopher

Problem identified:

The City did not have a process to properly research and implement new Governmental Accounting Standards Board (GASB) accounting standards or properly report financial statement balances per existing standards. The City also did not implement a system of controls that would provide assurance the financial statements were prepared in accordance with generally accepted accounting principles. The City neglected to provide adequate review to detect and correct errors prior to submitting our financial statements for audit.

Gather and Confirm Data/Diagnose:

Working with the State Auditor's Office to thoroughly review the Audit, as well as steps taken to correct all items noted in the audit report, helped us develop additional review procedures to improve our control processes in order to identify and correct potential errors going forward. The Audit and subsequent review process also identified the need for additional research and training in order to ensure a more thorough and comprehensive review of our financial statements.

Determine root cause:

Lack of a centralized process, inadequate research, training deficiencies, and insufficient time allocated to review the draft statements were significant root causes for the City's financial statement errors. Financial statements were turned over to the auditors two months earlier than required thereby eliminating the opportunity to conduct adequate research, analysis, and overall review of the financial statements.

Determine corrective action:

Continue to develop documented preparation and review procedures. Establish a schedule that allows sufficient time for required research, analytical procedures, and a comprehensive review of our draft statements. Ensure that staff are adequately trained and have documented their review of applicable accounting standards.

Implement corrective action:

- October 2017 – City utilizing the new State Auditor's "Checklist for Accounting Standards Changes" to help identify new or updated accounting standards that may impact our financial reporting.
- Year-end procedures now require review of all prior year findings and recommendations to minimize chances or reoccurring issues.
- Beginning in fall 2017, Chief Accountant participating in trainings to identify accounting standard changes and other training specific to financial statement preparation.
- 2018 – Identify subject matter experts for various components of financial statements and provide training to support proper reporting.
- Maintain consistent deadlines to allow adequate review of financial statements before submitting to the State Auditor.

Evaluate corrective action:

Facilitated and reported by:

Michelle Hughes, Chief Accountant

Root Cause & Corrective Action Analysis: #2 Auditors Finding – Inadequate internal controls in place to ensure accurate reporting on the Schedule of Federal Awards

Issue:

Grant/Loan Expenditures not reported on the Schedule of Federal Awards; Expenditures reported as Federal Expenses that should not have been reported as such.

Team:

Michelle Hughes, Skyler Brown, Sally Stopher, Angela Cline, Program Managers

Problem identified:

Lack of controls, checklist or process to ensure that all expenditures that are or could be federal grant/ loan expenditures are reported. This process would also help identify all nonfederal grant/loan expenditures that should not be reported on the Schedule of Federal awards.

Gather and Confirm Data/Diagnose:

It was found that non-federal grant/loan expenditures were reported on the Schedule of Federal Awards and inversely Federal grant/loan expenditure were omitted from the Schedule of Federal Awards.

Determine root cause:

There was no process to ensure expenditures were not reported as federal after they were identified to be non-federal due to not meeting a grant requirement. Loan draws were not done timely and expenses went unrecognized as federal grant/loan expenditures.

Determine corrective action:

Additional measures of internal controls have been put into place including the development of master files accessible by both programmatic and accounting staff. Additional measures have also been implemented to ensure that loan payment requests are completed in a timely manner to ensure all federal loan costs are properly recognized and reported on the SEFA appropriately.

Implement corrective action:

December of 2017 development of a new grant accountability worksheet and improve the process in which it will be reconciled the information back to the general ledger. Improvement in coding expenditures to easily identify and expenditure that is grant/loan related. In late February if 2018 having managers compile the information and one central location for the preparation of the Schedule of Federal Awards will maintain consistency in reporting as well.

Evaluate corrective action:

Facilitated and reported by:

Michelle Hughes, Chief Accountant

Root Cause & Corrective Action Analysis: #3 Auditors Finding – Inadequate internal control to ensure compliance with federal suspension and debarment requirements

Issue:

The City entered into contracts without documenting that selected contractors were not suspended or debarred from federally funded work.

Team:

Michelle Hughes, Sally Stopher, Skyler Brown, Dan Buller, Program Managers

Problem identified:

Lack of controls to ensure that suspension and debarment status was either, verified and documented or contract language included to certify compliance prior to contract completion.

Gather and Confirm Data/Diagnose:

It was found that while the contractors used for City work were neither debarred nor suspended by the federal government, the contracts reviewed did not contain the necessary debarment and suspension language and did not include suspension and debarment verification as required.

Determine root cause:

There was not an adequate process to ensure required suspension and debarment processes were followed.

Determine corrective action:

Suspension and debarment language, including required lower tier transaction verification requirements shall be added to all City contracts regardless of contract funding.

Implement corrective action:

Corrective action was implemented for all contracts initiated after the completion of the 2016 audit.

Evaluate corrective action:

Facilitated and reported by:

Sally Stopher, Director of Grants, Contracts and Purchasing