



CITY OF COOS BAY CITY COUNCIL
Agenda Staff Report

MEETING DATE August 20, 2013	AGENDA ITEM NUMBER
--	---------------------------

TO: Mayor Shoji and City Councilors

FROM: Susanne Baker, Finance Director 

Through: Rodger Craddock, City Manager 

ISSUE: **Statement of Auditing Standards 112 Update**

BACKGROUND:

In 2008 the City Council adopted new Generally Accepted Accounting Principles (GAAP) which required implementation of the Statement of Auditing Standards No. 112 (SAS 112). The SAS 112 required the City of Coos Bay to implement a comprehensive written document which communicated to management the use of internal controls in the financial management of the City. The document outlines the necessity of internal controls to protect assets, ensure accurate financial reporting, and safeguard against fraud. This is achieved through the development of policies and procedures for the use and access to the accounting software; access to banking, checks, purchase authority, and credit cards; and the segregation of duties.

The SAS 112 document is referred to during the course of daily business activity to remain GAAP compliant. As the use of technology changes, the use of technology increases, and when efficiencies in the use of staff time occur, the document is updated. The current document was last updated August 16, 2011 and is being presented at this time for Council consideration of new updates to comply with GAAP and in preparation of the audit in September. The changes are highlighted in the attached document and include:

- Update of the weekly collection locations.
- Update of the issuance of credit cards.
- Update on the process of processing checks received in the mail for segregation of duties.
- Update of departments to include Community Development.
- Segregation of duties in the maintaining of accounts payable vendor records.
- Technology changes to allow more segregation of duties regarding online banking payroll payables approval using a tier system.
- Segregation of duties in the reconciliation of accounts receivable monthly reports and updating the general ledger.

ADVANTAGES:

Updating the Council on changes to the internal controls complies with the Statement of Auditing Standards No. 112. Additionally, these changes allow for further segregation of duties

DISADVANTAGES:

None

BUDGET:

No budgetary impact.

RECOMMENDATION:

If it pleases the Council, accept the updated Statement of Auditing Standards 112 document.

Attachment:

Updated Statement of Auditing Standards 112 Document



City of Coos Bay

SAS 112

**Presented to Council August 5, 2008
Updated to Council August 16, 2011, August 20, 2013**

BACKGROUND

In May 2006, the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) issued Statement of Auditing Standards No. 112 (SAS112), *Communicating Internal Control Related Matters Identified in an Audit*. This new pronouncement significantly increased the likelihood that a government's independent auditors would be required to report a significant deficiency or material weakness in conjunction with the financial statement audit.

(GFOA Recommended Practice- Mitigating the Negative Effects of Statement on Auditing Standards No. 112 (2007) (CAAFR))

AUDIT LETTER TO COOS BAY CITY COUNCIL 12/27/2007

In conjunction with the City of Coos Bay's Financial Report for the Year Ended June 30, 2007 Pauly, Rogers and Co. P.C. wrote an Audit Letter to the Coos Bay City Council which addressed the new SAS112 pronouncement and also listed recommended areas for the City to document. In order to explain "why" and "how" the City can comply with the auditor's recommendations as regards SAS112 in this current year ending June 30, 2008 significant portions of the Audit Letter are included below followed by the City's response.

WHY

"In planning and performing our audit of the financial statements of City of Coos Bay as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered City of Coos Bay's internal control over financial reporting (internal controls) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal controls.

Our consideration of internal controls was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal controls that might be significant deficiencies or material weaknesses...However, as we discussed below, we identified certain deficiencies in internal controls that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably and in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls."

“SAS No. 112 specifically identifies a few common control deficiencies which must be addressed in each audit to determine if a significant deficiency exists, and based on our evaluation we have identified a significant deficiency in the design or implementation of internal controls, which is noted below.

We consider the following deficiency to be a significant deficiency in internal control:

1) Internal controls have always been a critical management function; however changes in audit reporting requirements now emphasize the importance management should place on the design and implementation of effective internal controls. A control system should not only include (among other things) a properly designed accounting system, source document retention, anti-fraud controls, safeguards over assets, and controls to ensure accurate financial reporting, but also documentation of internal controls within a well-maintained policies and procedures manual. We noted that the City has policies in place documenting certain internal controls. However, in applying SAS 112 we believe that the City could expand formal policies to document internal controls for certain accounting areas...”

HOW (see City's Organizational Charts and Narrative)

- “Consideration of what amount and type of documentation is necessary in order to monitor internal controls, by both management and the governing body, to ensure that controls are functioning properly and are evaluated when systems, the environment, and employees change.”
 - Charter
 - Mission (March 19, 1996)
 - Ordinances
 - Resolution
 - Banking Authorization/Limits/Authority
- “Information regarding computer security (i.e. what employees have access to the accounting system, and documentation of employee permission levels in the system) should be documented.”
 - Caselle Accounting Software Module Design and User Security
- “Controls over expenditures to assist prevent fraudulent checks or checks written in error (i.e. who tracks the check sequence, who reviews canceled checks from the bank, who has access to checks, who is authorized to approve disbursements.”
 - Resolutions
 - Purchase Authorization
 - Credit Card Authorization/Limit
 - Segregation of Duties
 - Mail/Invoice Handling

- Accounts Payable Module - Preparation/Processing
- Verification
- Close to General Ledger
- Reconciliation

- Detailed explanation of the controls over cash accounts, including how many people it takes to open/close an account, controls over wire transfers, and review of bank reconciliations.
 - Resolutions
 - Authorized Signatures
 - Authority to Open/Close Accounts
 - Segregation of Duties
 - Bank Reconciliation/Review
 - Authorization to make transfers
 - Limitations on Transfers
 - Dual facsimile signatures

- “Detailed explanation of the controls over the general journal entry process (i.e. procedures to assist in ensuring no journal entries go unreviewed or undocumented)”
 - See Subsystem Modules
 - Segregation of Duties
 - Cash Receipting
 - Improvement District
 - Accounts Payable
 - Payroll
 - Accounts Receivable
 - Fixed Assets
 - General Ledger Module
 - Bank Reconciliation/Journal Entries
 - Other Monthly Journal Entries
 - Bank Transfers

- “Controls over cash receipting (i.e. controls to assist in ensuring all receipts are recorded in the general ledger, how often are deposits taken to the bank, etc.”
 - Segregation of Duties
 - Cash Receipting Module - Preparation/Processing
 - Cash Handling
 - Verification/Close to General Ledger
 - Re-check/Cash Deposit
 - Accounts Receivable Module - Preparation/Processing
 - Verification
 - Close to General Ledger
 - Improvement District Module – Preparation/Processing
 - Verification

- Close to General Ledger
- “Documentation of internal controls and monitoring procedures used for reviewing and ensuring that financial statements are accurate and in conformance with GAAP (i.e. control procedure here could be sending staff to training on new pronouncements, hiring professional staff, etc.)”
 - Finance Director
- “Any internal audit functions, antifraud programs, etc.”
 - Locked Files
 - Password Policy implements change in passwords semi-annually (Administrative Directive)
- “Other areas that could be discussed: capital asset accounting, employee dishonesty insurance, physical security of documents, payroll processing/timesheets, and any other applicable financial areas.”
 - Council Action – Adopted Budget/Union Contracts
 - City Organizational Chart
 - Segregation of Duties
 - Personnel
 - Payroll Module – Preparation/Processing
 - Benefits
 - Verification
 - Close to General Ledger
 - Reconciliation
 - Fixed Asset Module – Preparation/Processing
 - Verification
 - Close to General Ledger

“We recommend the City review ordinances to assess if they require updating, and also review the planning department’s procedures regarding the extension of permits.”

- Net Assets (building permits in-line organizational chart to do)
- Planning Department

I) Council Resolution 07-18

Council Resolution (Control), Rights & Obligations (Assertion)

The Finance Director and the City Manager (or their designees) are authorized to deposit funds in any institution covered by the Federal Deposit Insurance Corporation (FDIC) and the Oregon Local Government Investment Pool. The Mayor, Council President, City Manager, and Finance Director are authorized signers on all accounts. They are authorized to sign on behalf of the City for payment to withdraw funds with two signatures required.

Banks/Accounts/Transfers:

- 1) Umpqua Bank (Participates in the public depository)
100% Collateralization
\$250,000 Federal Deposit Insurance
State Pool Account
Payroll Checking Account
General Checking Account

Policy (Control), Valuation & Allocation (Assertion)

There are two authorized signers (four available) required to sign each check written through Umpqua Bank. Normally checks are signed by facsimile by the Finance Director and the City Manager. Deposits are made by the Intermediate Accountant and verified by Deputy Finance Director, both of whom are authorized depositors. Disbursements and Deposits are recorded through the Caselle Accounting Software System with manual transactions being recorded by the Intermediate Accountant with verification and review by the Deputy Finance Director and Finance Director.

- a) Transfers, sweeps, and journal entries between the Umpqua State Pool Account and the Payroll Checking Account are signed off (reviewed and verified) by the Finance Director; journal entries written by the Finance Assistant or Deputy Finance Director; **on-line bank transfers completed entered by the Deputy Finance Director Finance Assistant and require a second online approval by the Deputy Finance Director or Finance Director;** and the Intermediate Accountant enters the journal entries into the Caselle Accounting Software to the General Ledger. The Intermediate Accountant enters the sweep journal entries which are verified by the Finance Director and Deputy Finance Director.
- b) Transfers, sweeps, and journal entries between the Umpqua State Pool Account and the General Checking Account (AP) are signed off (reviewed and verified) by the Finance Director; journal entries written by the Accounting Technician 1 or Deputy Finance Director; **on-line bank transfers completed by the Deputy Finance Director;** and the Intermediate Accountant enters the journal entries into the Caselle Accounting Software to the General Ledger. The Intermediate Accountant enters the sweep journal entries which are verified by the Finance Director and Deputy Finance Director.
- c) The Accounting Technician I initiates the regular weekly (and occasional “manual” check run) prior to mailing the checks (one day lead time).
- d) The Finance Director receives copies of all journal entries and transfer confirmations to review and verify. *Procedures/Segregation of Duties (Control), Occurrence (Assertion)*

- 2) Local Government Investment Pool
Oregon State Treasury
ORS 293.701 & ORS 295.701
Investment Account

- e) Transfers between the Umpqua State Pool Account and the Local Government Investment Pool are initiated by the Deputy Finance Director and signed off (reviewed and verified) by the

Finance Director **and City Manager**. The Finance Director and Deputy Finance Director (both authorized users) track the LGIP transactions. The Intermediate Accountant enters the journal entries into the Caselle Accounting Software to the General Ledger.

- f) The Finance Director receives copies of all journal entries and transfer confirmations to review and verify. *Procedures & Process/Segregation of Duties (Controls), Accuracy & Completeness (Assertions)*

II) Caselle Accounting Software: *Software Security/System Management (control), Occurrence & Rights & Obligations (Assertions)*

Cash Receipt Module

a) Cash Receipts are entered into Caselle by the Accounting Technician I or Intermediate Accountant using the steps checklist and the procedures manual. The deposit is prepared by the Finance Assistant, verified by the Deputy Finance Director, and deposited daily by the Intermediate Accountant. The Daily Cash Procedure outlines these activities. The Intermediate Accountant attaches the bank receipt to the Daily Cash Balancing Form and Payment Type Report. The Finance Assistant files the other daily reports including the General Ledger Update. The Finance Assistant updates and reconciles the Cash Receipts Module daily to the General Ledger and allocates the credit card charges and the Deputy Finance Director reviews and verifies. The Intermediate Accountant records the allocation to the General Ledger, and the Finance Director reviews and verifies. *Procedures & Process/Segregation of Duties (Controls), Accuracy & Completeness (Assertions)*

b) There are three workspaces (Front, Office and LID). Only one workspace can be used at a time and Improvement District receipts can only be entered into the LID workspace (the Front and Office workspaces lock out Improvement District entries). *Module Management (Control, Classification & Understandability (Assertion))*

c) Credit Card charges and **EPermitting online transactions** are entered into Caselle by the Accounting Technician I or Intermediate Accountant using the steps checklist and the procedures manual. The charges are tracked by the Finance Assistant on a spreadsheet and checked against the Umpqua Bank statement. The Finance Director receives copies of all transfer confirmations, reviews, verifies and records the transactions in the General Ledger. *Preparation/Segregation of Duties (Control), Occurrence (Assertion)*

d) There are four (4) Petty Cash funds (Finance, Police, Fire, Library) totaling \$1,000. Department Heads set their department policies and procedures and delegate authority to staff to manage these funds. They are reconciled monthly, quarterly, or depending on activity. All are reconciled at the close of the fiscal year, reviewed and verified by the Accounting Technician I, Deputy Finance Director, and Finance Director. Changes in Petty Cash fund balances are submitted by the Department Head to the Finance Director. The Intermediate Accountant is then directed to enter the appropriate journal entry in the General Ledger.

e) There are three (3) Collection **Boxes stops** which the Finance Assistant picks up weekly and **one (1)** picked up monthly accompanied by a second staff member as available; **weekly stops are: City Hall Lobby, RV Dump, and the Visitors Information Center (VIC); and monthly moorage.** The Accounting Technician I-AP counts and enters the cash in the Cash Receipts Module and files the reports for review and verification by the Deputy Finance Director. *Procedures & Process/Segregation of Duties (Controls), Accuracy & Completeness (Assertions)*

General Ledger Module

a) The Finance Director manages the General Ledger and directs the Intermediate Accountant or Deputy Finance Director to enter manual entries to the Cash Receipts Journal as needed. Types of manual entries are as follows: automatic bank deposits (Cash Receipts Journal), automatic bank disbursements (Cash Disbursements Journal), and adjusting entries (General Journal) to properly state the City's financial records. In the process of managing the General Ledger the Finance Director reviews and verifies sub-systems, performs automatic cash allocations, records reclassifications, records contractual obligations, closes the General Ledger, records and oversees the budget, prints the financial statements and distributes the revenue and expense reports to the Council and Department Heads monthly as well as generating other financial reports from the General Ledger as needed among other things. The Finance Director also directs the Intermediate Accountant and Deputy Finance Director to perform automatic cash allocations, print financial statements, and distribute the revenue and expense reports to as needed. *Module Management (Control), Accuracy & Valuation (Assertion)*

b) The Finance Assistant reconciles all portions except the Payroll module wherein the Intermediate Accountant reconciles that module; the Deputy Finance Director and the Finance Director individually review and verify the Bank Reconciliations in the General ledger monthly. *Procedures & Process/Segregation of Duties (Controls), Accuracy & Completeness (Assertions)*

III) Council Resolution 08-02

Council Resolution (Control), Rights & Obligations (Assertion)

The Finance Director summarized the Purchase Authorization as outlined in this Resolution. In brief, all purchases must be made by authorized employees and in accordance with Department policies and procedures. With this as a base, purchases of varying amounts are handled differently per the above resolution as follows: items under \$2,000 can be purchased per Department Policy only; items over \$2,000 require three (3) phone quotes plus the Department Head's approval; items over \$5,000 require (3) written quotes plus the Department Head's approval; items over \$10,000 additionally require the City Manager's approval; and lastly items over \$25,000 further require Council approval. *Procedures & Authorization (Controls), Accuracy & Existence (Assertions)*

IV) Council Resolution 08-04

The Council authorized an aggregate credit card limit of \$30,000 and established the City Manager and the Finance Director as the official representatives in matters regarding the credit card. *Council Resolution (Control), Rights & Obligations (Assertion)*

a) The Finance Director is the Authorizing Officer who manages the individual credit card limits and authorizes the issuance of new credit cards. Credit cards are issued to management personnel in each department ~~Presently there are 22 (twenty two) credit cards issued to City Departments as follows:~~ Finance Department (2), City Manager (3), Fire Department (4), Public Works and Development Department (3), Community Development (1), Library (2), Police Department (4), and Coos Bay North Bend Visitors and Conventions Bureau (1).

b) The Accounting Technician I, Deputy Finance Director, and Intermediate Accountant are Authorizing Representatives who have the authority to verify invoices as needed. Also under the direction and with the signed approval of the Finance Director they can modify existing cardholder limits and add new credit card holders as directed. *Preparation/Segregation of Duties (Control), Occurrence (Assertion)*

Accounts Payable Module

a) Invoices are received through the mail or directly from the different departments. The mail is delivered to the Finance Department and then distributed by the Intermediate Accountant. After sorting

the mail is placed in the City Hall copy room inter-office mail boxes. The Intermediate Accountant pulls the window envelopes to check for checks (other than Business License application checks and Police Department accident report requests which are delivered to the Public Works and Police Department, respectively), opens, endorse the checks “For Deposit Only”, date-stamps them and gives them to the Accounting Technician I-AP. Each department also has a stamp to endorse a check received in error “For Deposit Only”. Any billings or invoices are sent directly to the responsible department for coding. *Preparation/Segregation of Duties (Control), Occurrence (Assertion)*

b) The Accounting Technician I-AP takes the date-stamped and stamp-coded invoices and matches them to stamp-coded packing slips. Departments return the properly coded and initialed invoices to the Accounting Technician I- AP who checks their authorization, writes the vendor number on the invoice and sorts them by date to be paid. The Deputy Finance Director or Finance Director enter new vendors into the Caselle financial software. Evidence of the update is printed and included with the check run for verification and accuracy. *Procedures & Signatures (Controls), Accuracy & Classification (Assertions)*

c) Invoices are entered into Caselle by the Accounting Technician I-AP using the steps checklist and the procedures manual. When the Invoice Register is reviewed, corrected and balanced the Accounting Technician I-AP is ready to print the checks and asks the Deputy Finance Director, Intermediate Accountant, or Finance Director to unlock the check file cabinet in the vault. *Process & Limits (Controls), Completeness & Cutoff (Assertions)*

d) Once the checks are printed, the Accounting Technician I-AP attaches the check stubs to the invoices (invoice packet) and gives them and the system reports to the Deputy Finance Director to check for sequence, correctness, and authorization as well as flagging entry questions. The checks are printed with a facsimile signature of the Finance Director and City Manager. The checks are reviewed and verified (initialed) invoices are turned over to the Finance Director who does a second review, verification, approval of signature, and asking and resolving questions. *Authorization & Approval (Controls), Existence & Completeness (Assertions)*

e) The City Manager does the third review, verification, and approval of signature. The City Manager turns the signed checks back to the Accounting Technician I-AP. ~~for mailing.~~ The Accounting Technician I updates the Accounts Payable Module, uploads positive pay, reviews, and provides the documentation to the Deputy Finance Director to review and verify. The Intermediate Accountant completes the sweep journal entry and the Deputy Finance Director and Finance Director reviews and verifies the journal entries. *Module Management (Control), Classification & Understandability (Assertion)*

f) The Accounting Technician I-AP does the fourth Invoice review and verification checking that the invoices are properly initialed before filing. *Procedures/Segregation of Duties (Control, Accuracy/Efficiency & Timeliness (Assertion)*

Accounts Receivable Module

a) Accounts Receivables monies are entered into Caselle by the Accounting Technician I-AP or the Intermediate Accountant through the Cash Receipting Module. The Accounting Technician I-AP maintains the Accounts Receivable Module and prepares the monthly invoices using the steps checklist and the procedures manual. The Deputy Finance Director reviews and verifies the invoices and the Accounting Technician I-AP mails them. ~~The Accounting Technician I-AP~~ Intermediate Accountant reconciles the Accounts Receivable Module and the Accounting Technician I updates to the General Ledger monthly. The Finance Director reviews and verifies the reconciliation the Accounts Receivable Module and the General Ledger monthly.

b) The Accounting Technician I-AP sends Quarterly letters to Transient Occupancy Renters along with the Transient Occupancy Report. Transient Occupancy Tax is calculated on this report and paid when due: April 30, July 30, October 30, and January 30; when paid the Accounting Technician I-AP or Intermediate Accountant enters the Transient Tax through cash receipting and reconciles the transient monies monthly. The Deputy Finance Director reviews and verifies with the Finance Director periodically conducting an audit of the Transient Rents. *Preparation/Segregation of Duties (Control), Occurrence (Assertion)*

c) The Accounting Technician I-AR does an aging report which is reviewed and verified by the Deputy Finance Director. The Accounting Technician I-AR gives a copy to the Finance Director. *Procedures (Control), Limits (Assertion)*

Payroll Module

The Council adopts the budget by June 30 of each fiscal year and the collective bargaining agreements as negotiated. There are three (3) unions: American Federation of State, County, and Municipal Employees (AFSCME), the IAFF Local #2935, and the Coos Bay Police Association whose personnel issues are covered by their contracts. There are Non-Represented employees whose personnel issues are covered by the City's Personnel and Administrative Directives which also apply to the unions if the issue is not specified in their contracts. *Council Resolution (Control), Rights & Obligations (Assertion)*

a) Personnel Action Forms are generated by the Department Head for job related changes. This form is signed by the Department Head, the Employee, the City Manager and the Finance Assistant who enters the information in the Employee's Payroll Record.

b) Annual evaluations are generated by the Department Head per contract or directive. Annual evaluations are signed by the Department Head and Employee with the City Manager initialing his comments.

c) Employees notify the Finance Assistant in writing of employee-generated payroll changes such as the W-4, the draw amount, voluntary payments and deferred compensation. *Preparation/Segregation of Duties (Control), Occurrence (Assertion)*

d) Payroll entries are entered into Caselle through the Payroll Module. The Finance Assistant maintains the Module and prepares the monthly payroll (with a draw that includes the appropriate tax withholding) using the steps checklist and the procedures manual. The Finance Assistant distributes the accrual reports to the Department Heads (or their designees). The Deputy Finance Director reviews and verifies the payroll. *Module Management (Control), Classification & Understandability (Assertion)*

e) Draw checks are on the 15th and monthly checks are on the last day of the month. Should either of those dates fall on a non-workday checks will be cut on the Friday preceding (and if Friday is a non-work day on the Thursday preceding). Direct deposit is available. The Finance Assistant processes the payroll and the Deputy Finance Director reviews and verifies first, then the Finance Director reviews and verifies second. The Finance Assistant uploads the positive pay file. The Deputy Finance Director uploads the direct deposit file to Umpqua Bank two (2) days before the check date. The Finance Director reviews and verifies the total of direct deposit and manual checks. *Procedures/Segregation of Duties (Control, Accuracy/Efficiency & Timeliness (Assertion)*

f) The Finance Director and City Manager utilize facsimile signatures on the checks, which provides the first of as the two required authorized signatures. The City Manager does the third review, verification, and approval of his signature thus providing the second required authorized signature. The

City Manager gives the verified payroll records and signed checks back to the Finance Assistant for **filing, distribution,**

Authorization & Approval (Control), Existence & Completeness (Assertion)

g) The Intermediate Accountant enters the sweep transfers in the General Ledger. The Finance Assistant completes the benefits reports (such as health/life/disability and retirement) and then updates the Payroll Module. *Periodic Reports (Control), Completeness (Assertion)*

Fixed Asset Module

a) Fixed Assets are entered into Caselle through the Asset Management Module by the Intermediate Accountant using the steps checklist and procedures manual. Fixed Assets greater than \$5,000 and having a life greater than five (5) years are entered as Fixed Assets. Fixed Assets less than \$5,000 but greater than \$500 are entered as inventory. The entries are numbered sequentially by department. *Policy (Control), Valuation & Allocation (Assertion)*

b) The Accounting Technician I identifies purchases to be recorded as either a fixed asset or an inventory item and copies the invoice packet (invoice & check stub) for the fixed asset or inventory file, then fills out the Fixed Asset Acquisition Report (Capital Items \$500 or Over) for entry into the Asset Management System.

c) Department Heads notify the Intermediate Accountant when assets or inventory are transferred or disposed of by filling out the Fixed Asset Disposition Report/Transfer form. The Intermediate Accountant enters the fixed assets/inventory information into the Module assigning new/deleting disposed/reassigning transferred assets as needed. *Preparation/Segregation of Duties (Control), Occurrence (Assertion)*

d) New asset numbers are distributed to Department Heads to physically tag items that can be tagged. Tags for disposed asset numbers are returned to the Intermediate Accountant and attached to the Fixed Asset Disposition Report. *Procedures (Control), Accuracy (Assertion)*

e) The Intermediate Accountant maintains a spreadsheet tracking Construction in Progress and as CIP projects are completed, works with the Deputy Finance Director and Finance Director to properly record the Fixed Asset. *Module Management (Control), Classification & Understandability (Assertion)*

f) The Intermediate Accountant prints and reviews the acquisition reports and when completed calculates Depreciation. The Deputy Finance Director works with the Intermediate Accountant reviewing and verifying reports. The Intermediate Accountant updates the Fixed Assets Module and records the Capital Assets in the General Ledger. The Deputy Finance Director reviews and verifies changes to the Fixed Asset Module and General Ledger. The Finance Director reviews and verifies the changes to the Fixed Assets Module and General Ledger. *Financial Statements (Control), Accuracy & Valuation (Assertion)*

Improvement District Module

Payments for the Improvement District are entered into Caselle into the LID Workspace by the Intermediate Accountant and the Accounting Technician I through the Cash Receipting Module. The Intermediate Accountant maintains the Module and prepares the monthly billings by District using the steps checklist and the procedures manual. The Deputy Finance Director reviews and verifies the billings and the Intermediate Accountant mails them. The Intermediate Accountant updates the Improvement District Module. The Deputy Finance Director reviews and reconciles Assessments Receivable in the General Ledger. The Finance Director reviews and verifies the Assessments Receivable and the General Ledger. *Module Management (Control), Classification & Understandability (Assertion)*

Internal Controls

Segregation Of Duties

Efficiency & Timeliness

- Preparation
- Procedures
- Signatures
- Process
- Limits

Organization Structure

Risk Management

- Authorization
- Approval
- Council resolution
- Policy

System Management

Posting & Summarization

- Software security
- Module management
- Periodic reports
- Financial statements

Financial Statement Assertions

Transactions (For Period)

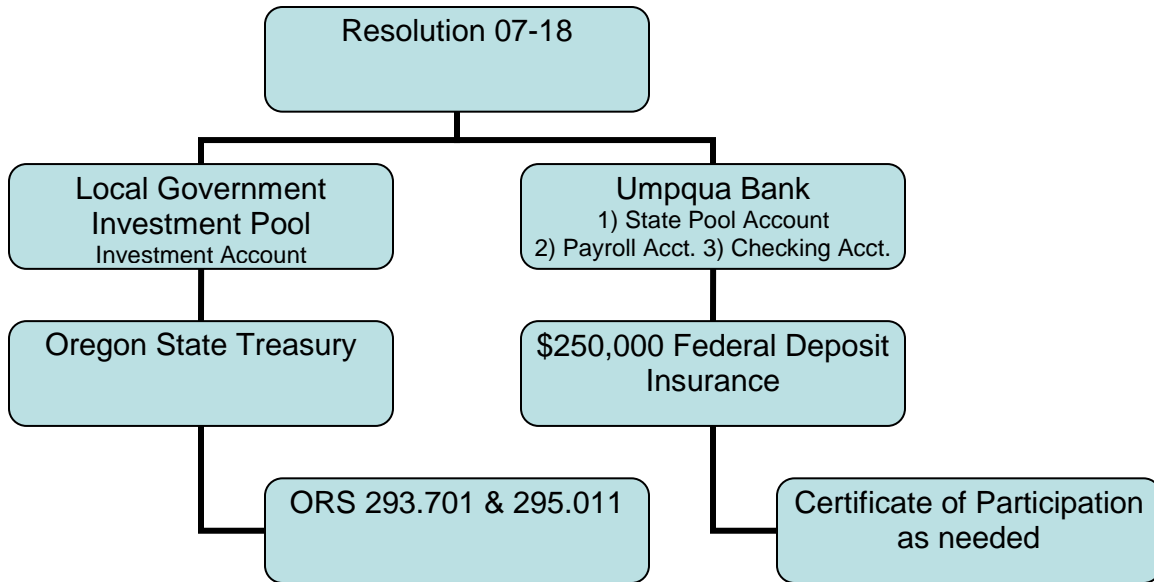
- Occurrence
- Accuracy
- Classification
- Completeness
- Cutoff

Account Balances (Period End)

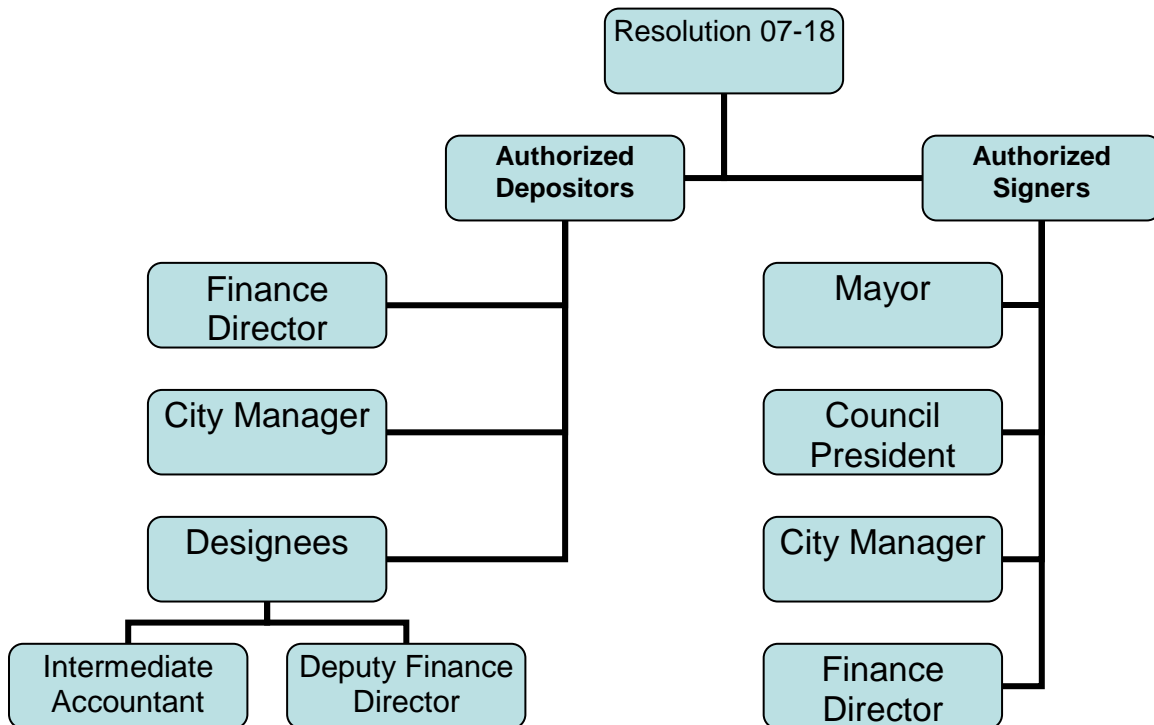
- Existence
- Completeness
- Rights and obligations
- Valuation and allocation

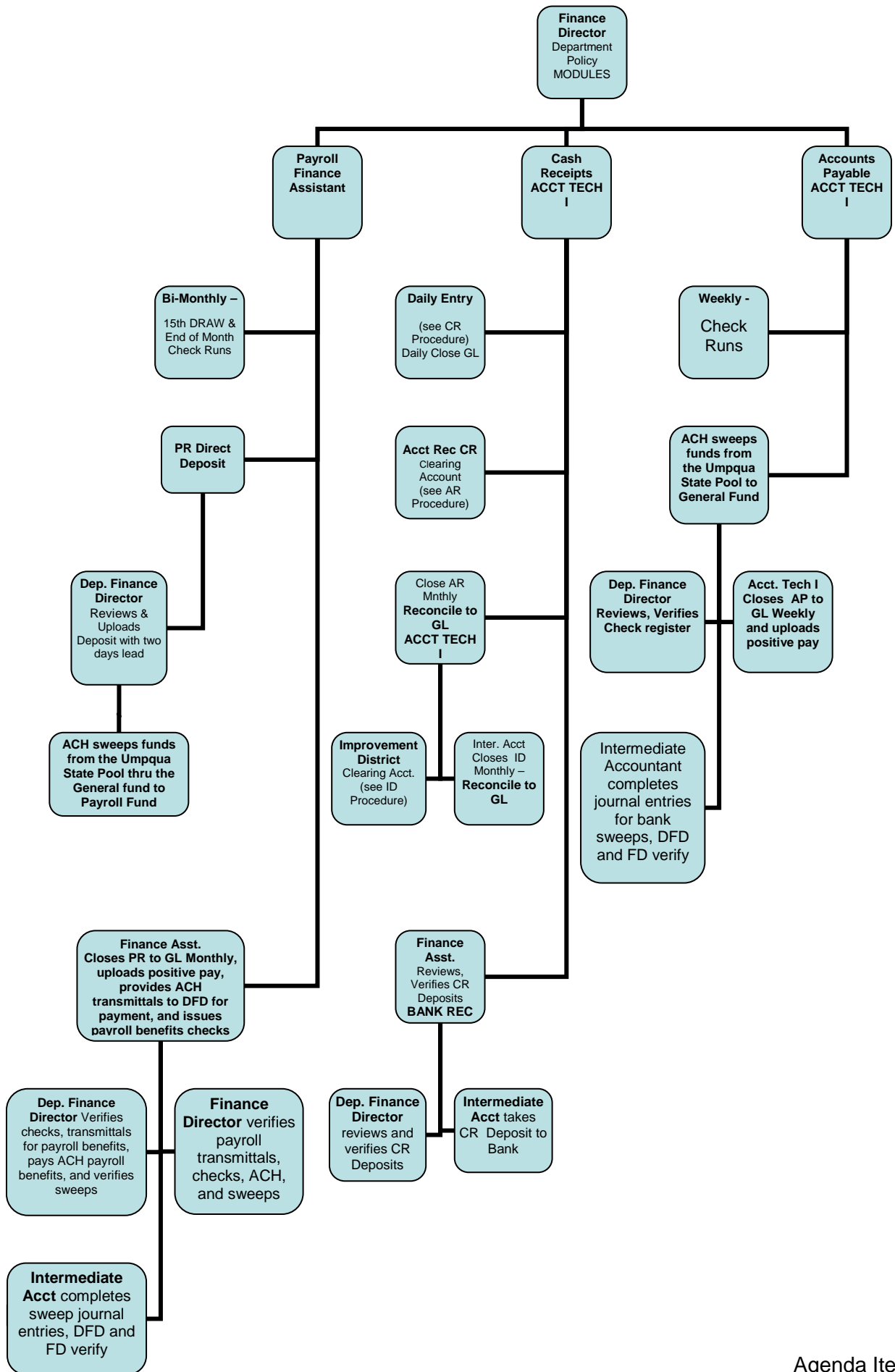
Presentation & Disclosure

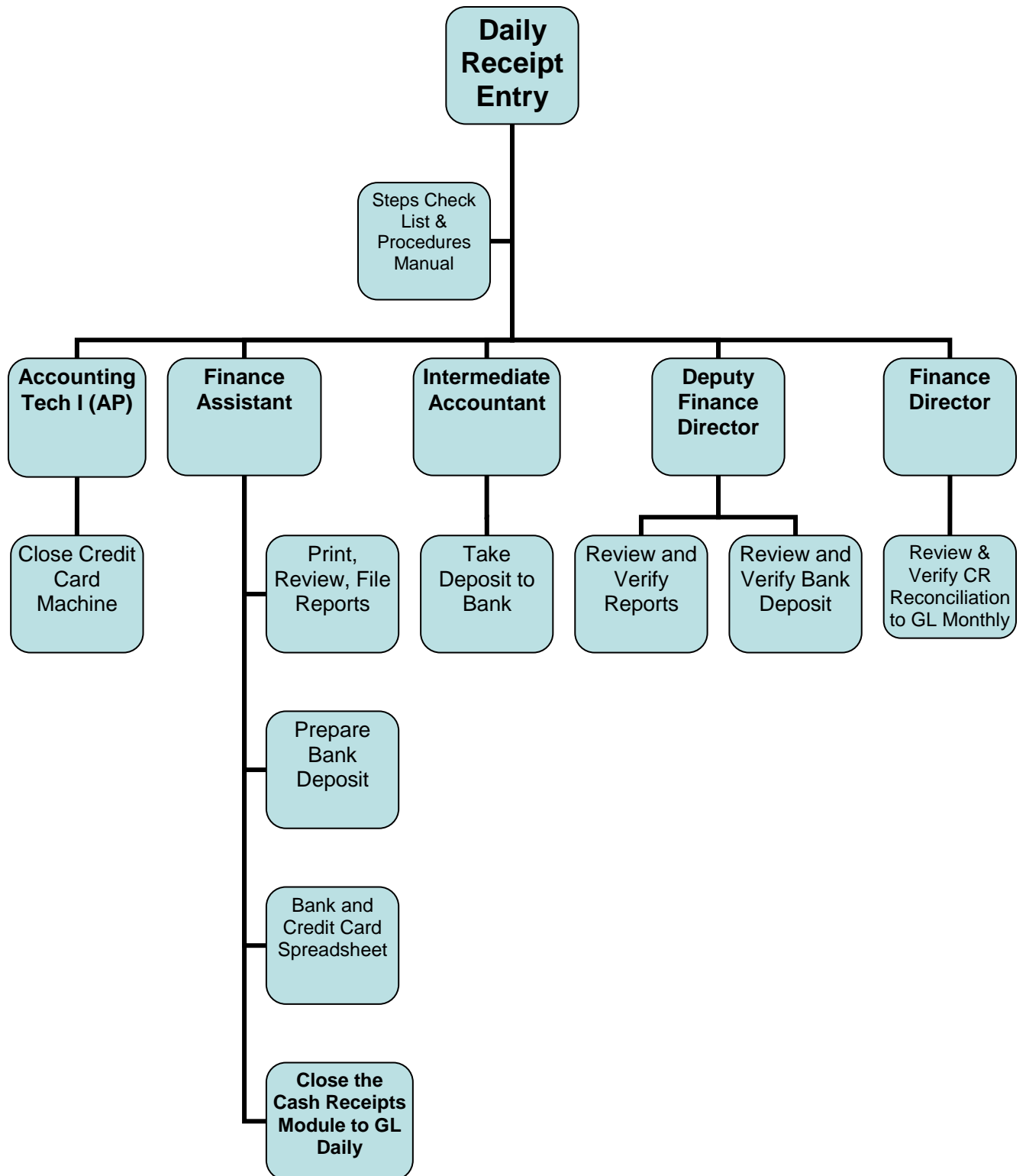
- Occurrence, rights, obligations
- Classification and understandability
- Completeness
- Accuracy and valuation

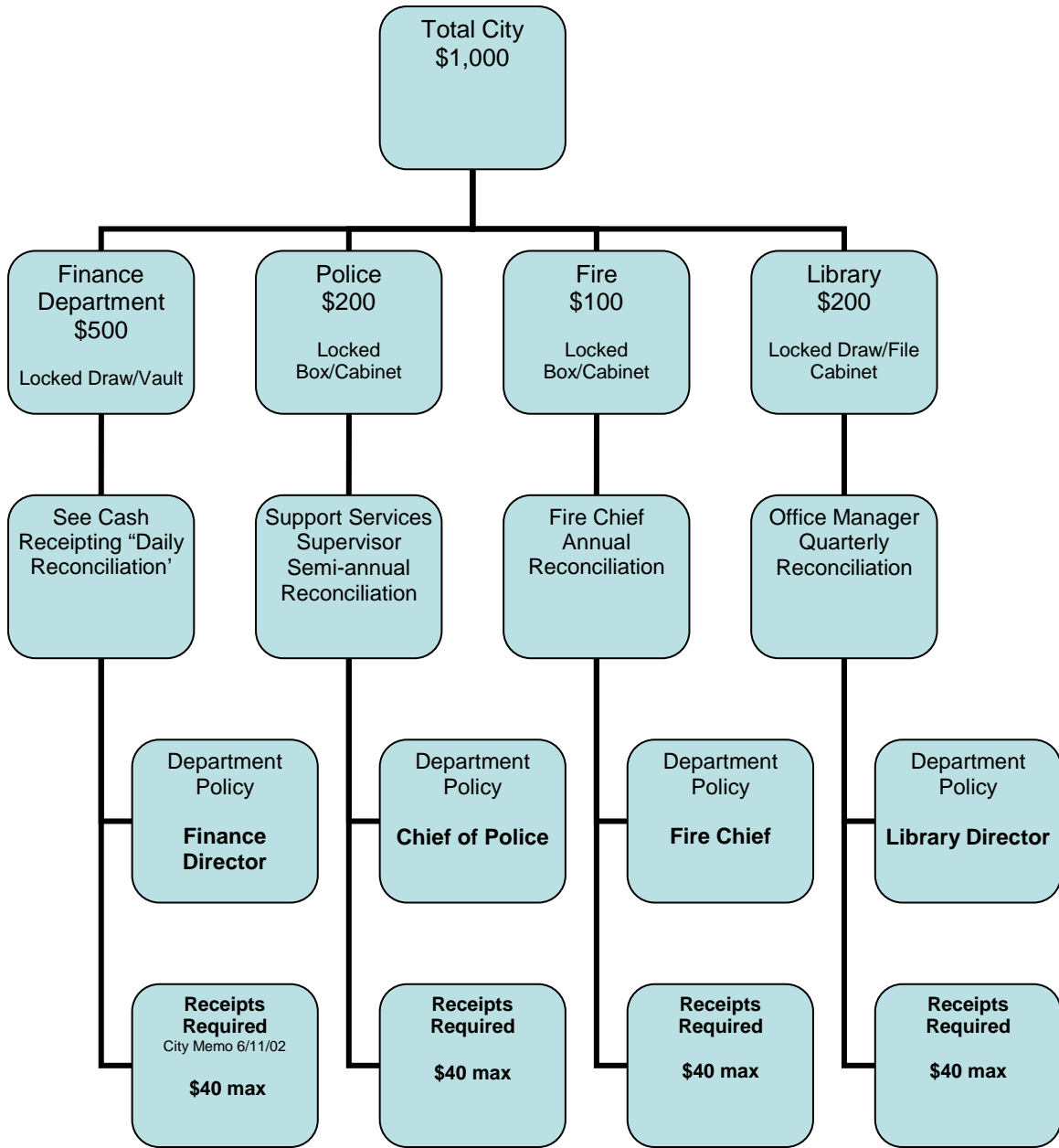


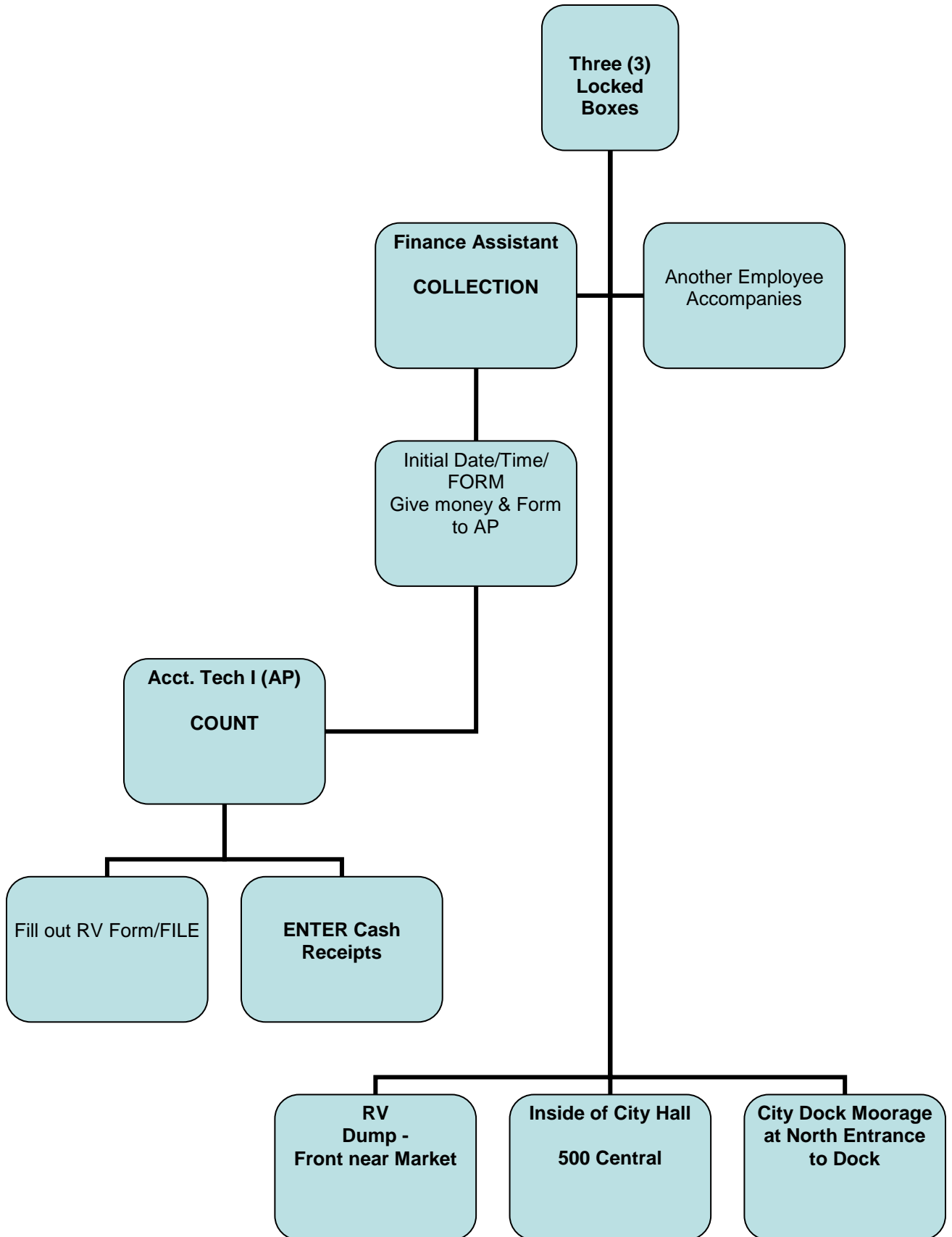
Banking – Authorization/Authority

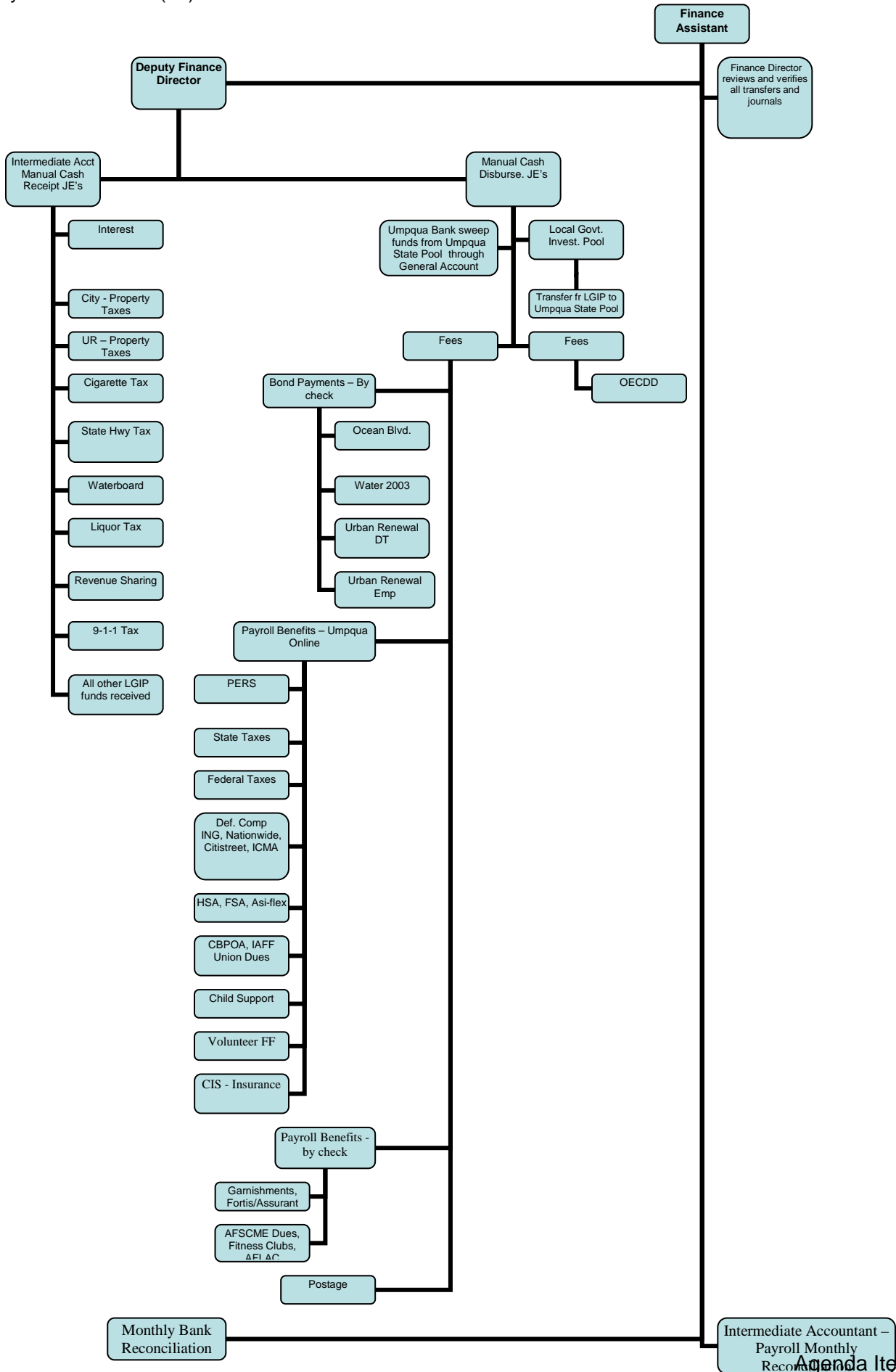


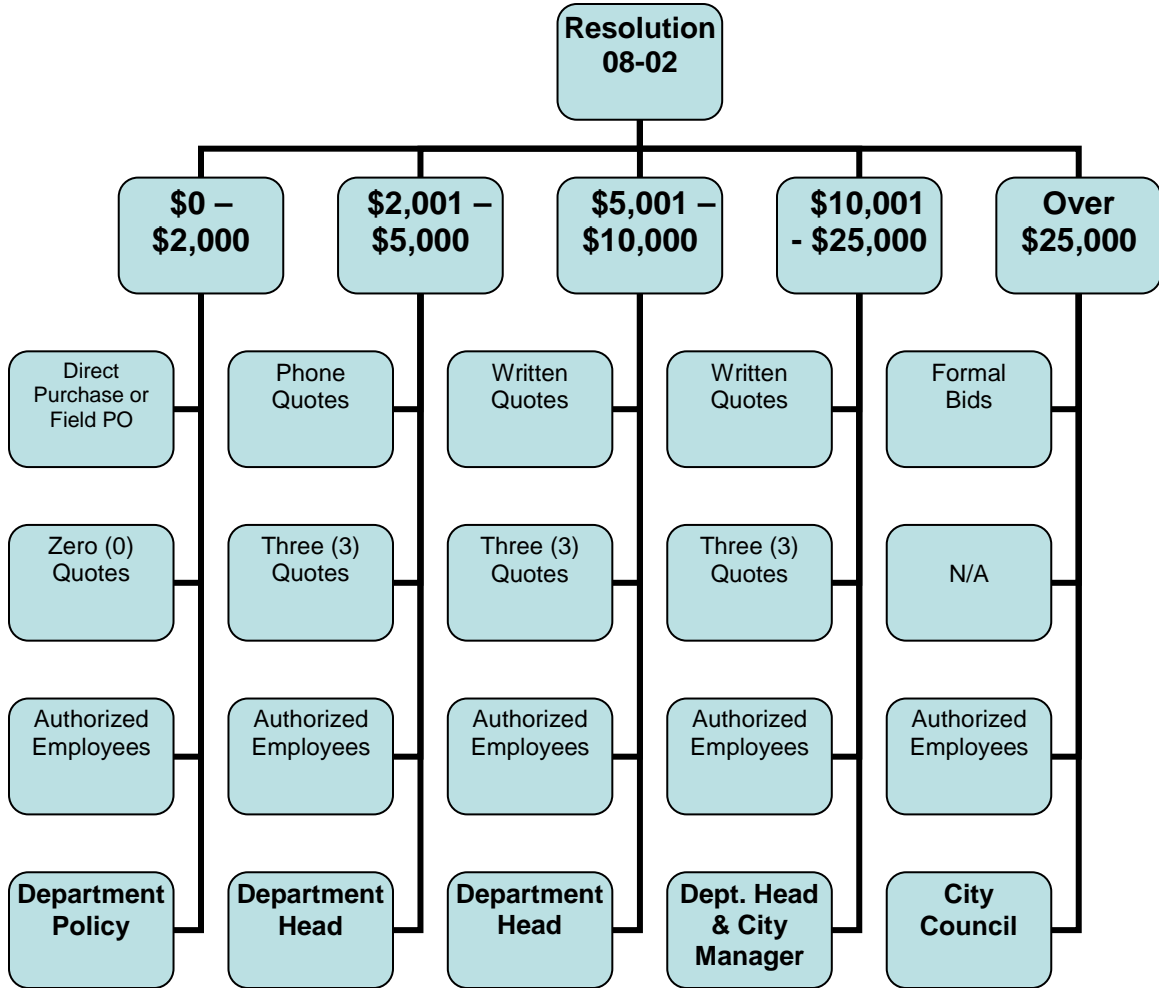


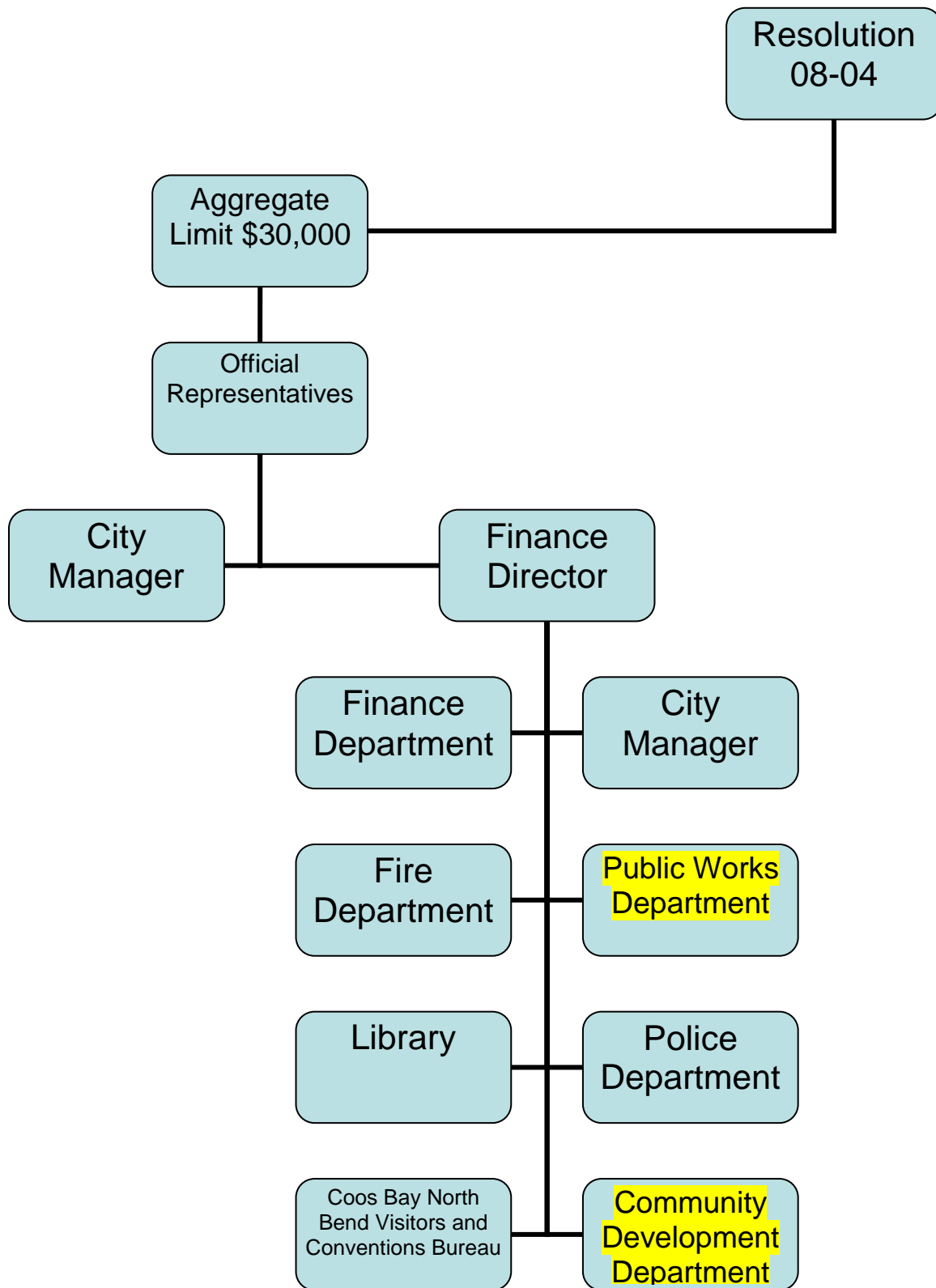


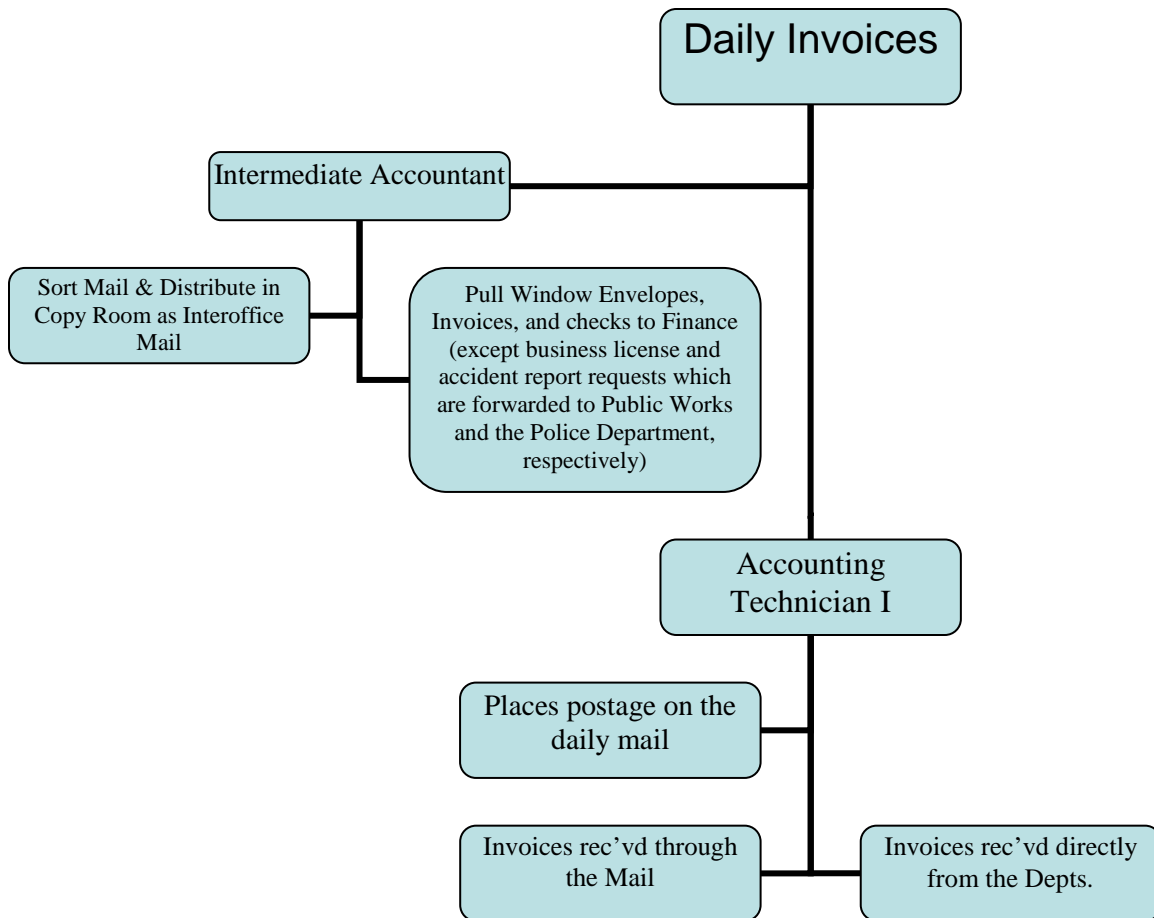


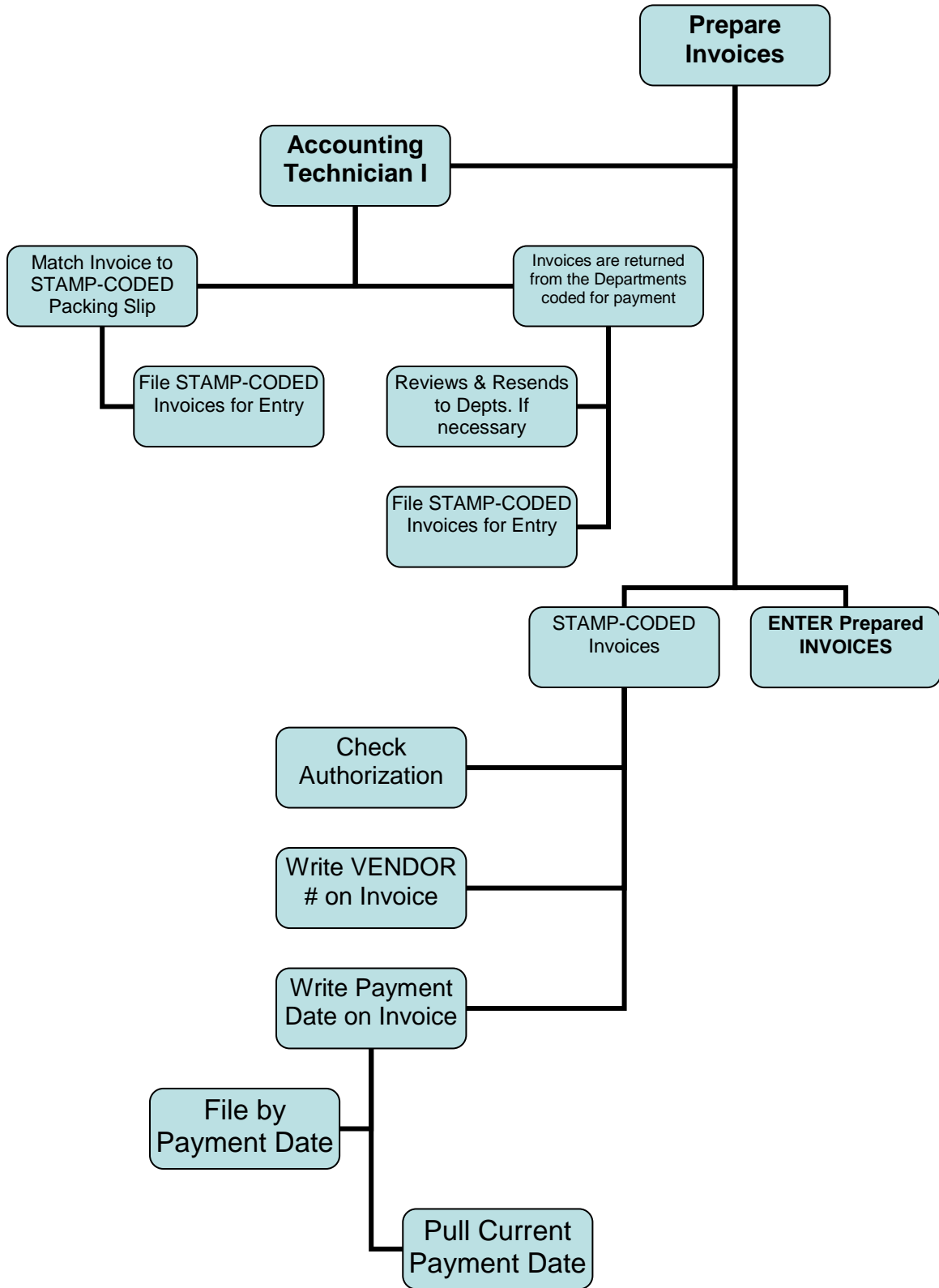


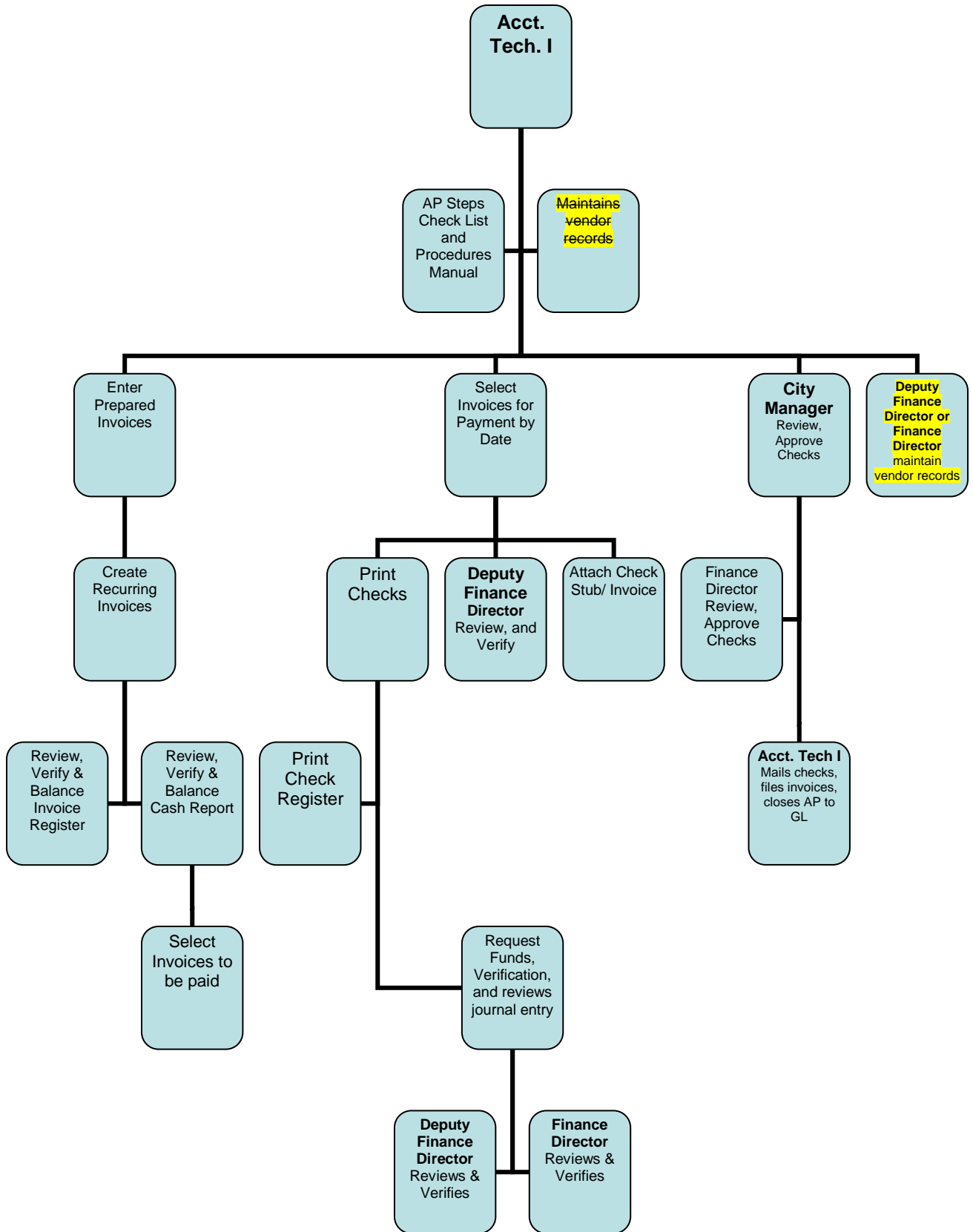


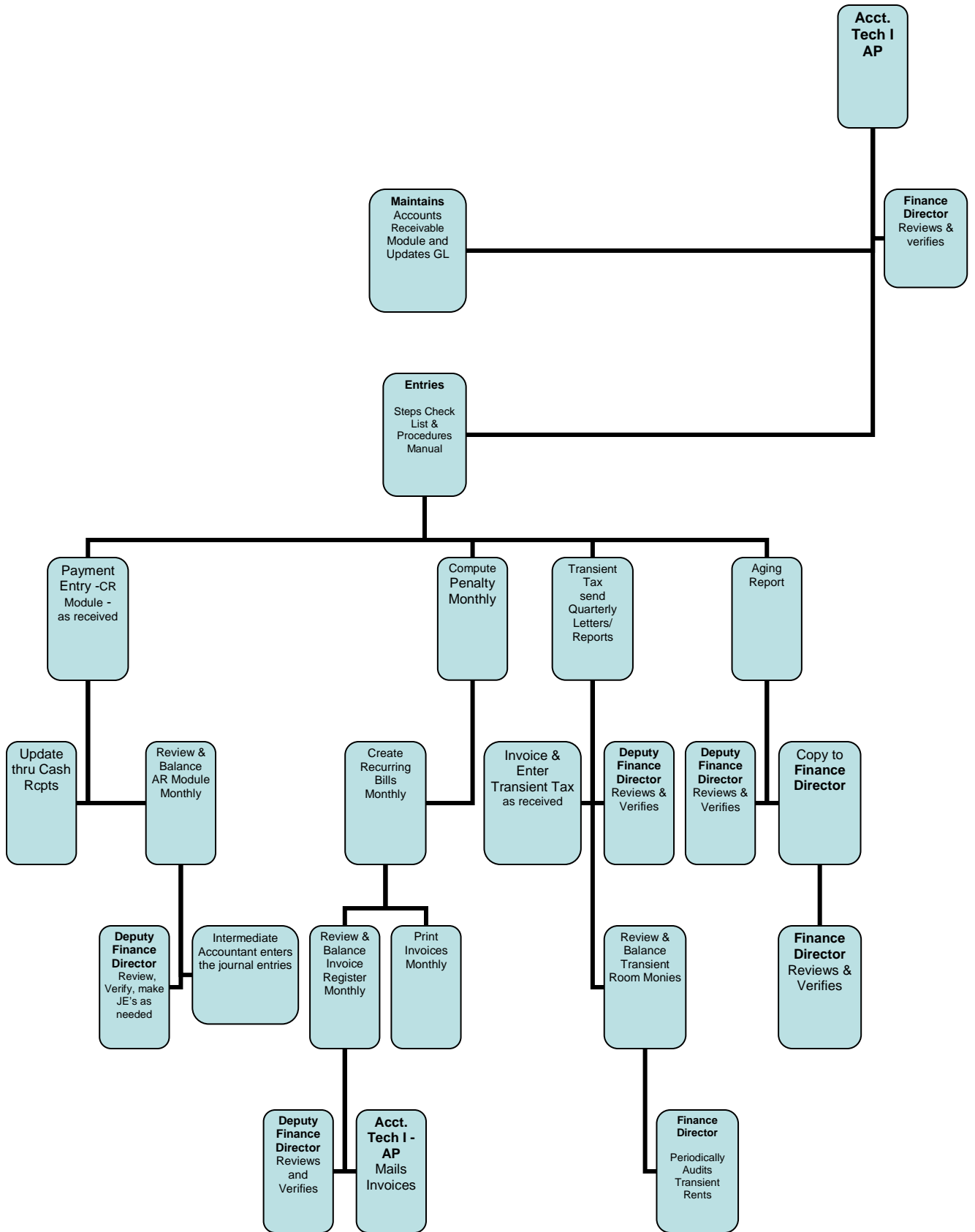


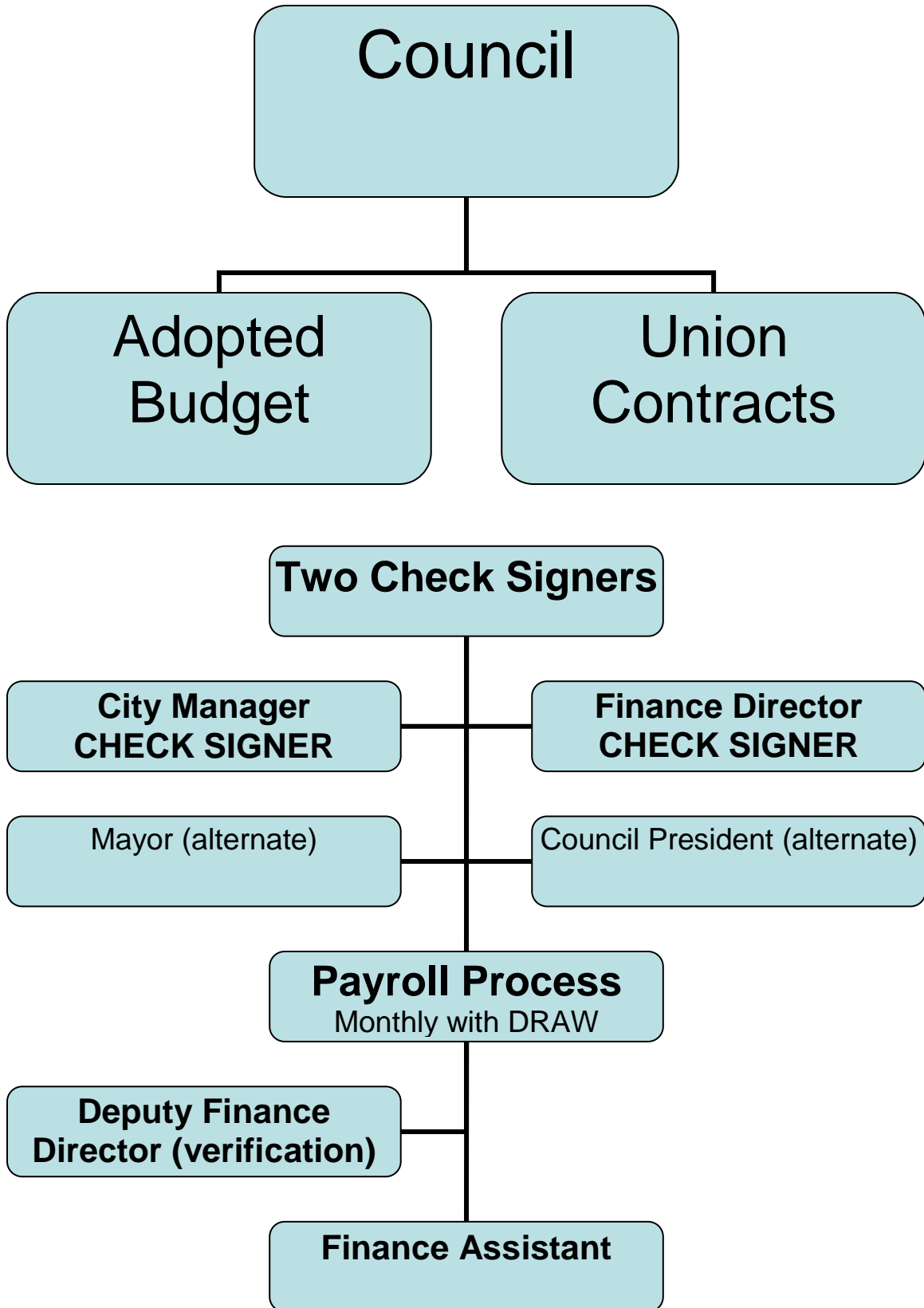


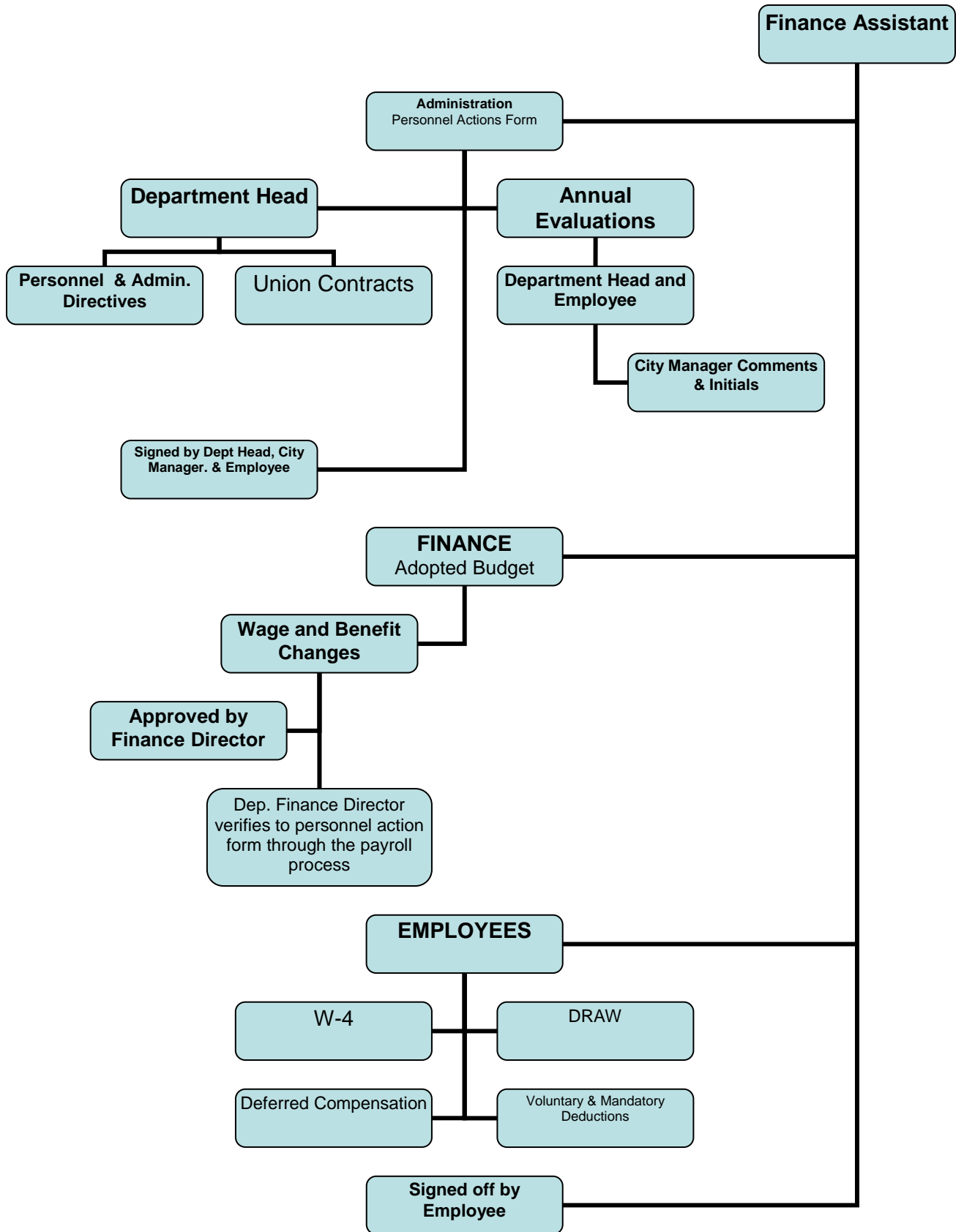


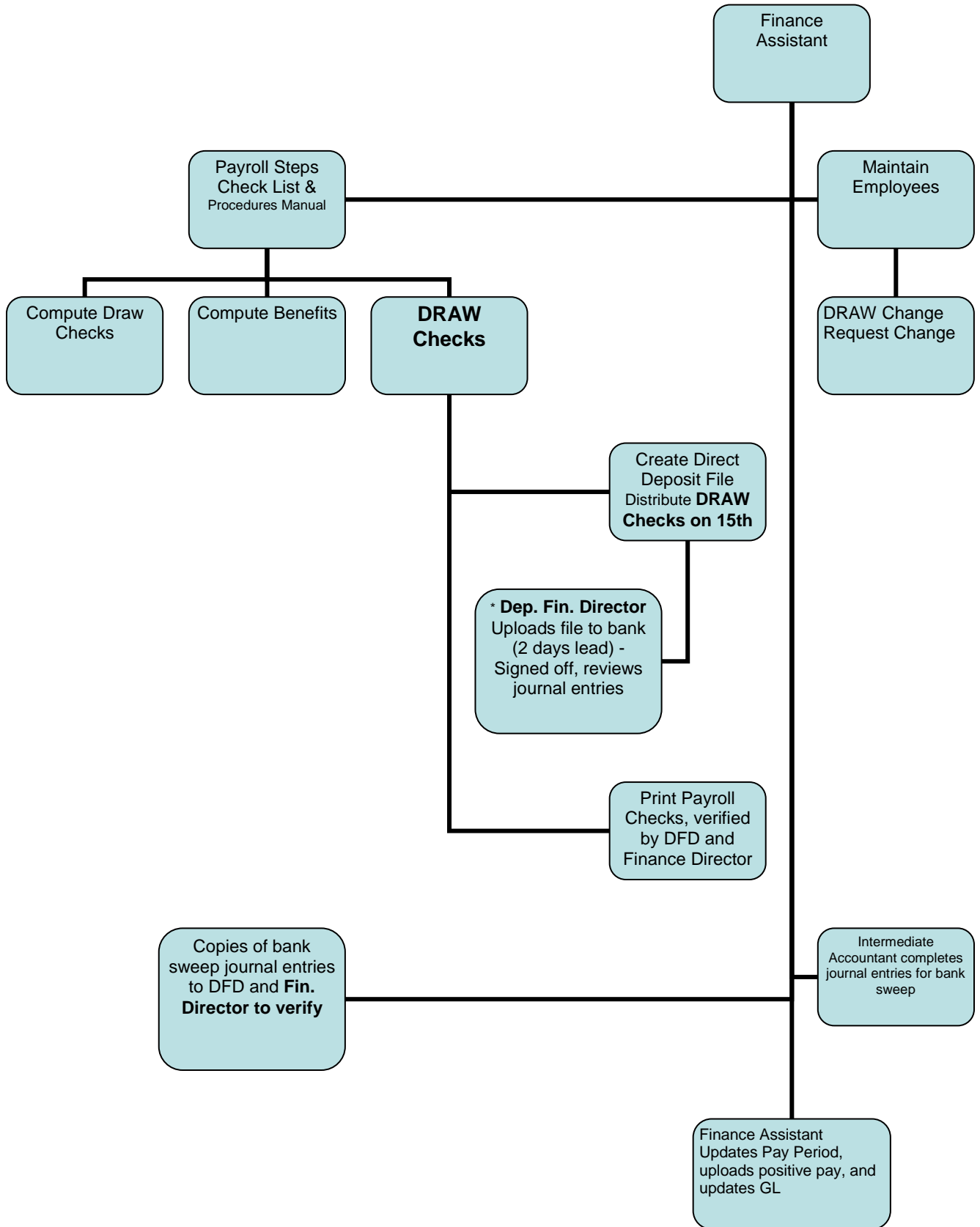




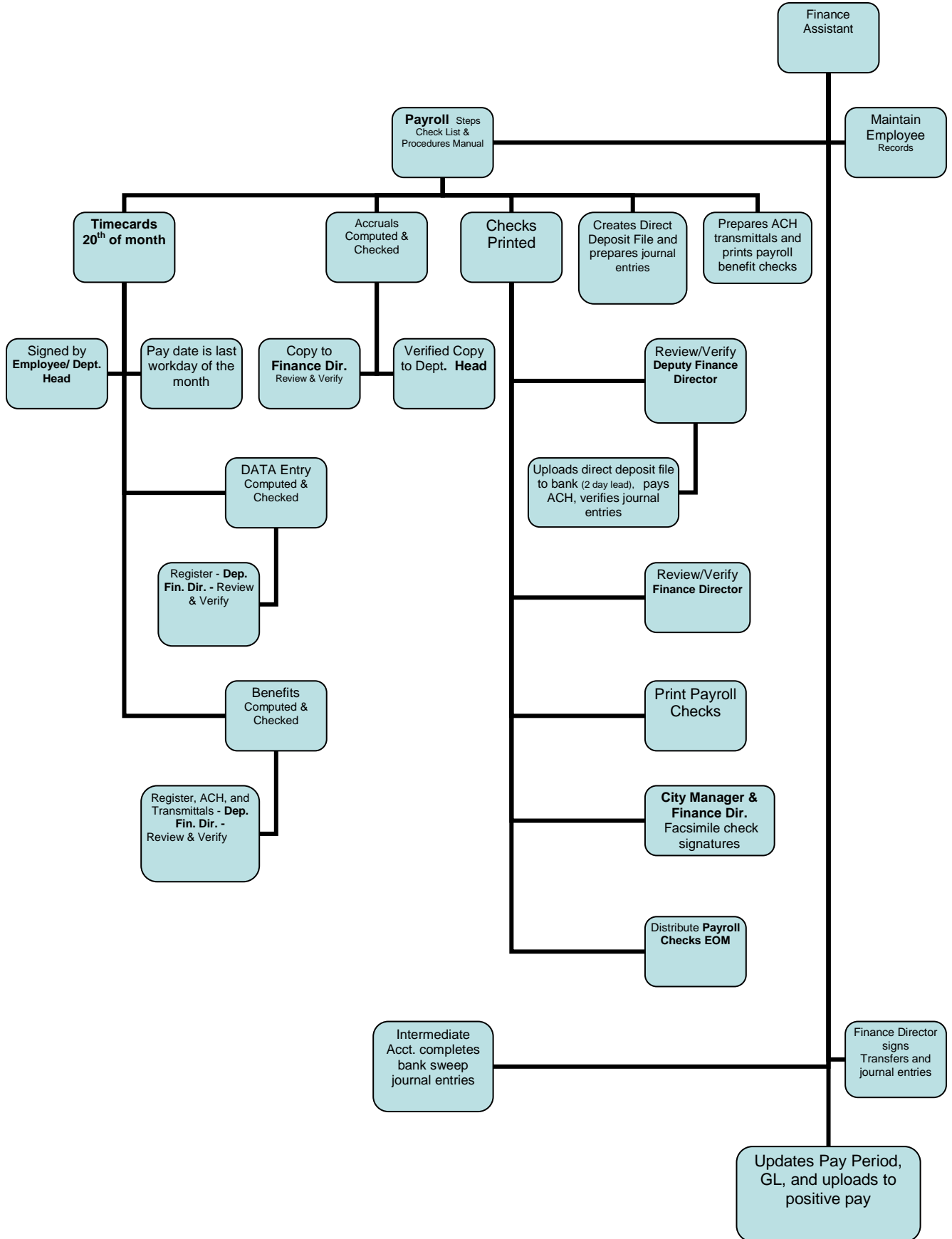


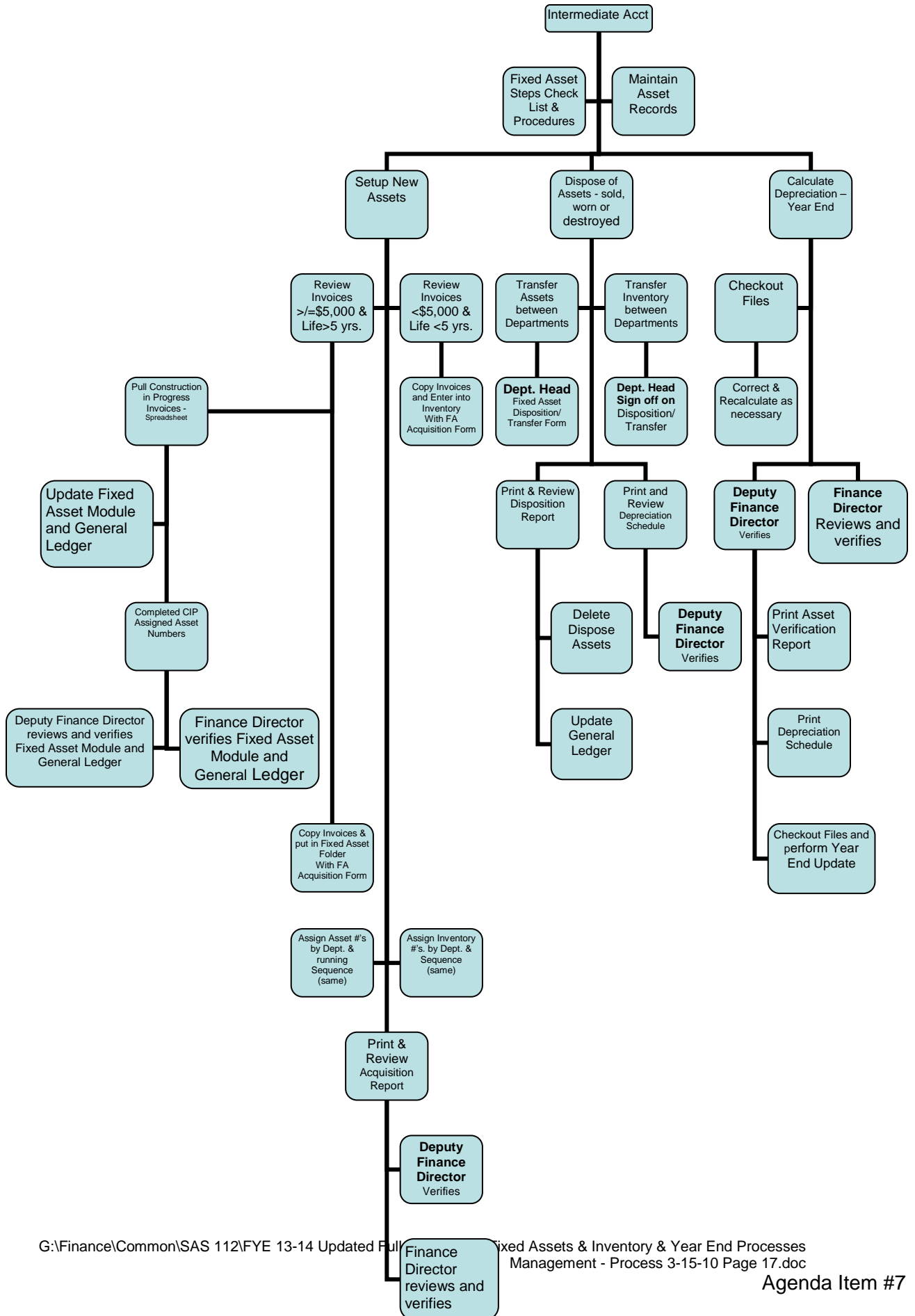


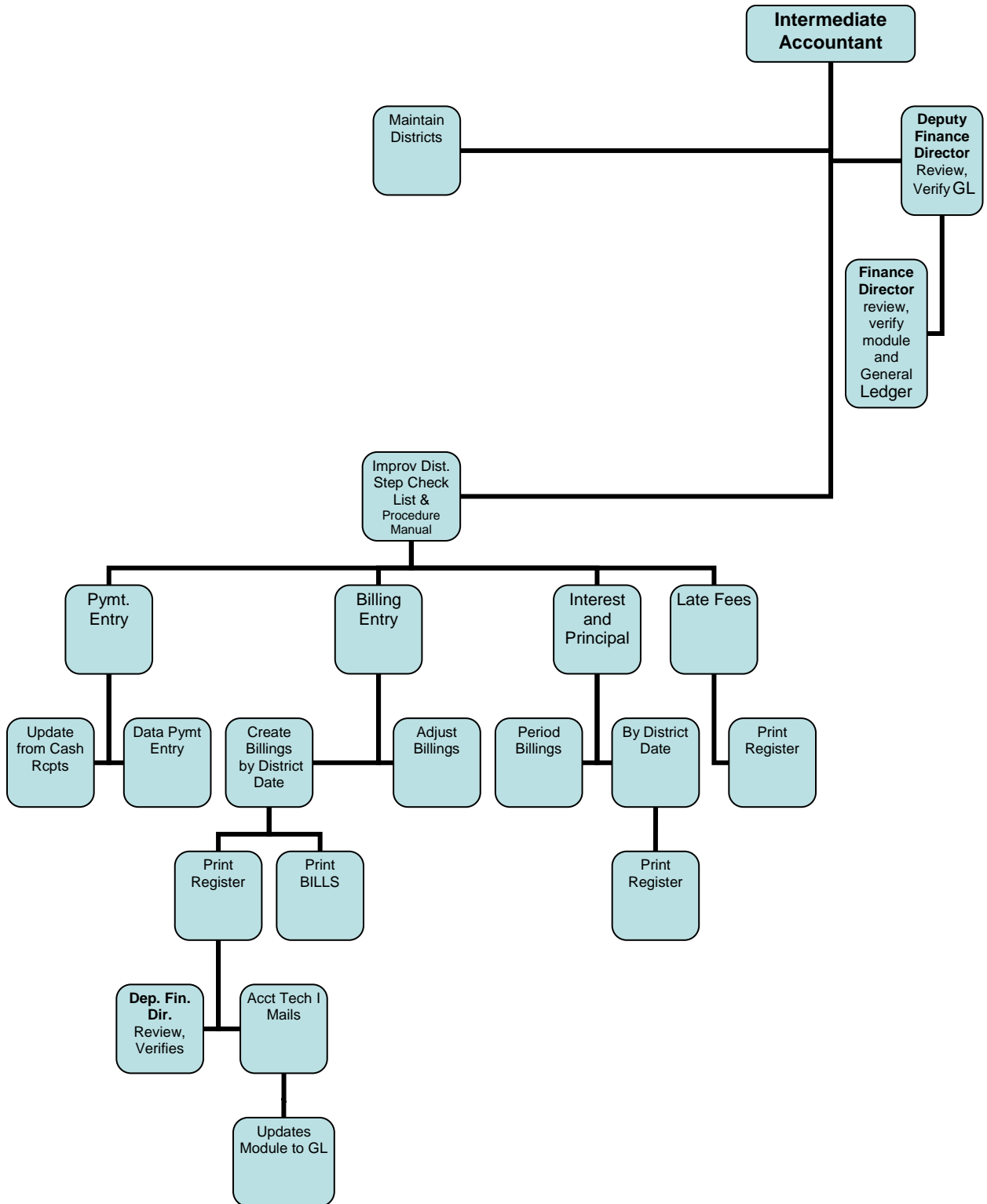


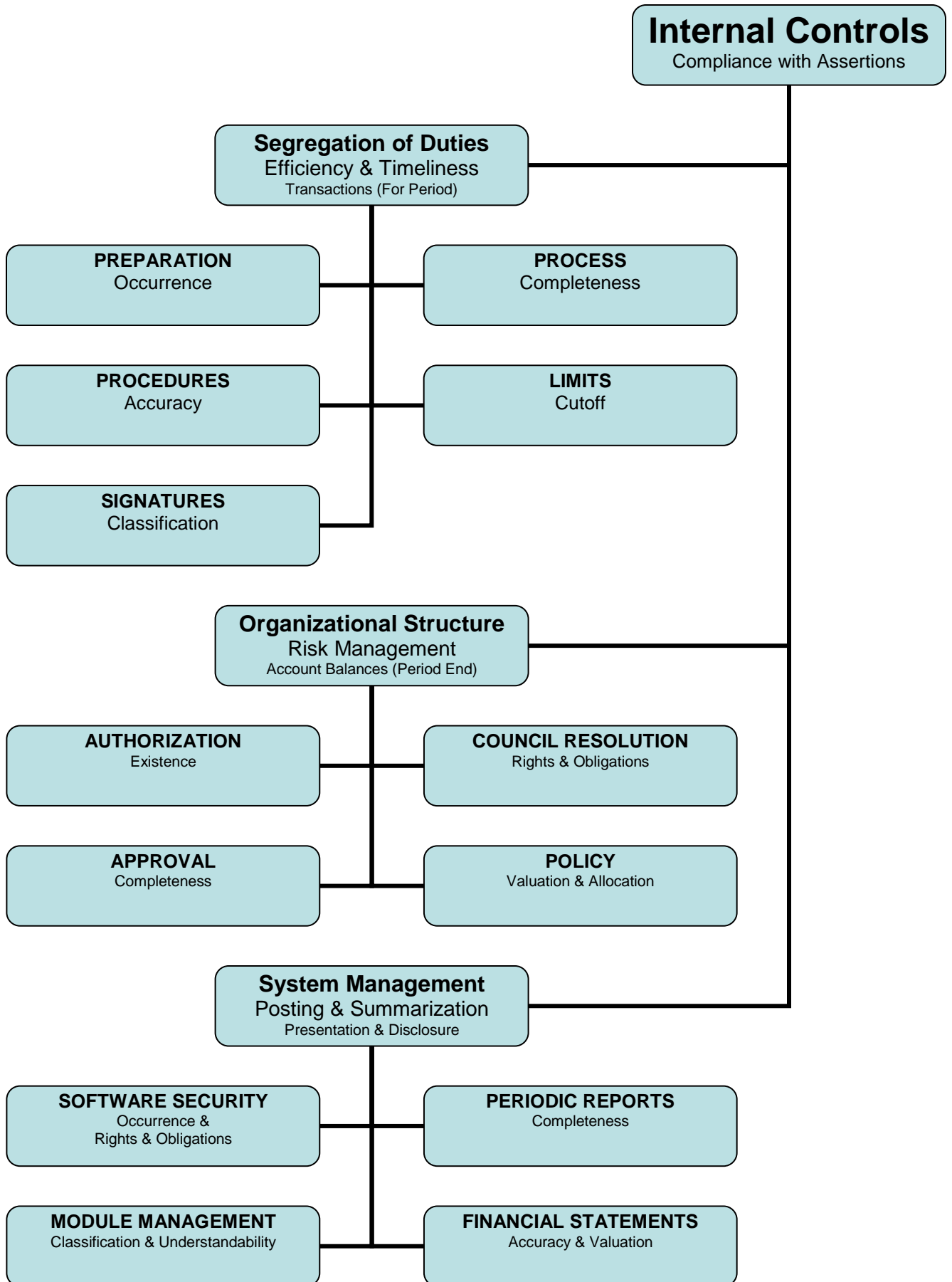


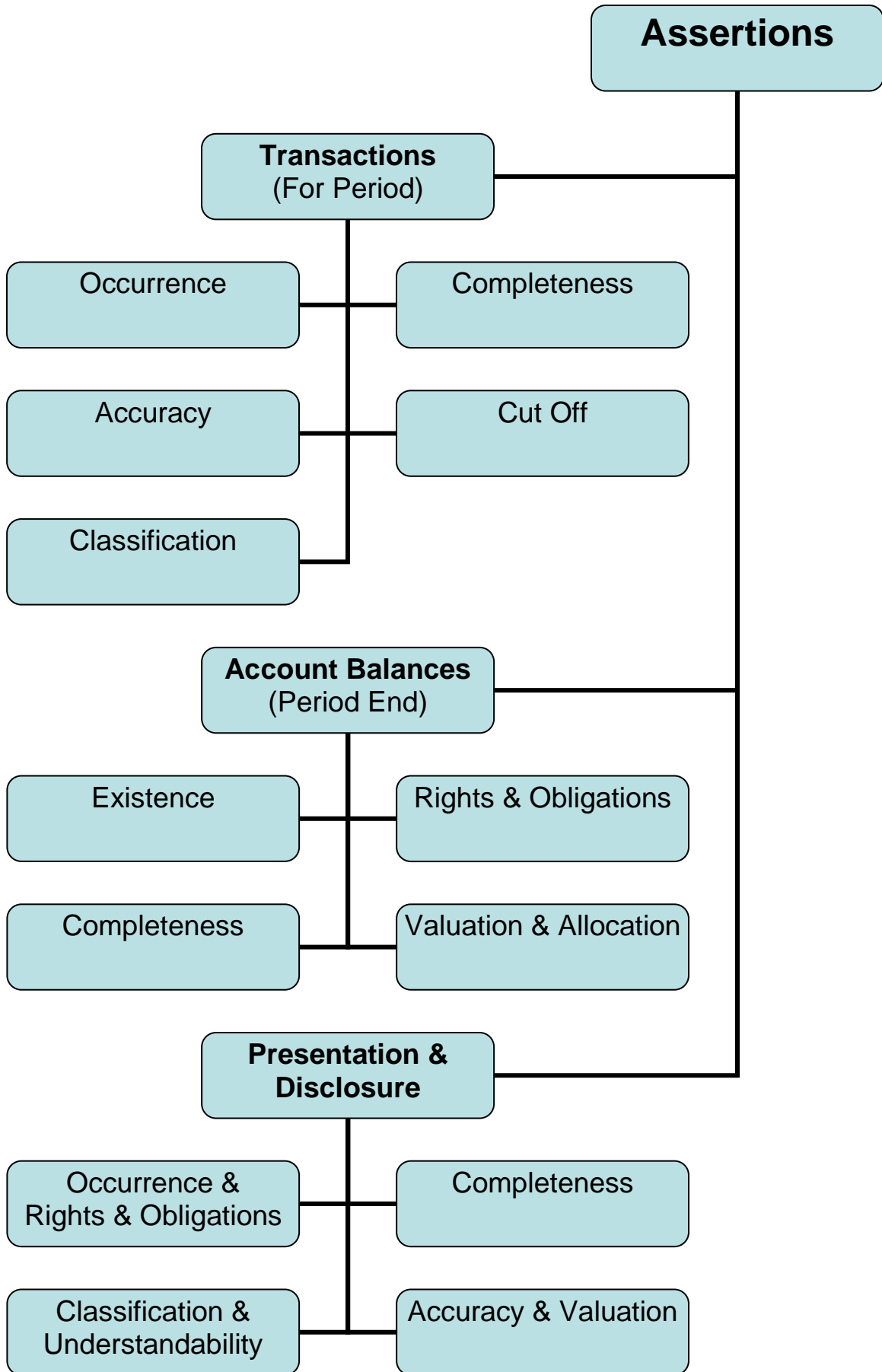
*signed off (reviewed and verified) F:\SAS112 7-2-08\Organizational Charts\Payroll Draw Process.doc











Narrative Summary*

	CONTROL (specific)	CONTROL (general)	ASSERTION	RISK
I)	Council Resolution	Organizational Structure/Risk Management	Rights & Obligations	Unauthorized Bank Accounts/Transactions
I-1	Policy	Organizational Structure	Valuation & Allocation	Unsecured Bank Balances
I-1a,b,c	Preparation/Segregation of Duties		Occurrence	Unauthorized Bank Transfers
I-2 a,b	Procedures & Process/Segregation of Duties		Accuracy & Completeness	Unsubstantiated and/or Unrecorded Bank Transfers
II)	Software Security/ System Management		Occurrence & Rights & Obligations	Unrecorded Financial Activity
II-1a	Procedures & Process/Segregation of Duties	System Management	Accuracy & Completeness	Incorrect/Unrecorded Cash Receipts
II-1b	Module Management		Classification & Understandability	Incorrectly Recorded/Misclassified Cash Receipts
II-1c	Preparation/Segregation of Duties		Occurrence	Unrecorded Bank Charges
II-1d,e	Procedures & Process/Segregation of Duties		Accuracy & Completeness	Uncollected/Unrecorded Cash Receipts
II-2a	Module Management	System Management	Accuracy & Valuation	Unrecorded Manual Journal Entries/Unrecorded Financial Activities
II-2b	Procedures & Process/Segregation of Duties		Accuracy & Completeness	Unrecorded/Unleaded Payroll Checks
III)	Council Resolution	Organizational Structure/Risk Management	Rights & Obligations	Unauthorized Purchases/ Unauthorized Contractual Obligations
III (cont)	Procedures & Authorization	Segregation of Duties/Organizational Structure	Accuracy & Existence	Unauthorized Purchases over established Limits
IV)	Council Resolution	Organizational Structure/Risk Management	Rights & Obligations	Unauthorized Credit Card obligations beyond established limits
IV-a,b	Preparation/Segregation of Duties		Occurrence	Unauthorized Credit Card Transactions
IV-3a	Preparation/Segregation of Duties		Occurrence	Late charges/Unpaid Invoices/Unapproved Invoices paid in error
IV-3b	Procedures & Signatures		Accuracy & Classification	Misclassified Invoices/Unapproved Purchases over established Limits
IV-3c	Process & Limits	Segregation of Duties	Completeness & Cutoff	Invoices entered in the wrong period/Checks cut for non-existent Invoices
IV-3d	Authorization & Approval	Organizational Structure	Existence & Completeness	Invoices/Register and Check/Register do not Match/Equal, Missing/Non-Sequential Checks
IV-3e	Module Management	System Management	Classification & Understandability	Invoices not authorized/not properly classified/not within contracted price/insufficient funds transfer
IV-3f	Procedures/Segregation of Duties		Accuracy/Efficiency & Timeliness	Invoices/AP Registers are not completely approved or correctly filed for easy access
IV-4a,b	Preparation/Segregation of Duties		Occurrence	Unrecorded/Unsubstantiated Receivables
IV-4c	Procedures & Limits	Segregation of Duties	Accuracy & Cutoff	Receivables entered in the wrong period/Uncollectables not followed through on
IV-5	Council Resolution	Organizational Structure/Risk Management	Rights & Obligations	Unapproved Budgeted Contractual Activity/Personnel Litigation
IV-5a,b,c	Preparation/Segregation of Duties		Occurrence	Unauthorized Payroll Changes/Non-Budgeted/Non-Contracted Activity
IV-5d	Module Management	System Management	Classification & Understandability	Employee Wages, Taxes, Benefits & Accruals are incorrect/Penalties & Liabilities Imposed
IV-5e	Procedures/Segregation of Duties		Accuracy/Efficiency & Timeliness	Employees not paid on time/insufficient or Late Transfer of Funds to Payroll Account
IV-5f	Authorization & Approval	Organizational Structure	Existence & Completeness	Payroll/Benefit/Check/Registers not Matched/Equal/not substantiated/Missing/Non-sequential Checks
IV-5g	Periodic Reports	System Management	Completeness	Payroll Records not current/Benefits and Taxes not paid on time/Fees & Penalties Imposed
IV-6a	Policy (Control)	Organizational Structure	Valuation & Allocation (Assertion)	Qualifying Inventory & Fixed Assets not identified/ Missing/Non-numbered Assets
IV-6b,c	Preparation/Segregation of Duties		Occurrence	Qualifying Inventory & Fixed Assets not approved by department head as FA when purchased
IV-6d	Procedures	Segregation of Duties	Accuracy	Qualifying Inventory & Fixed Assets not tagged, managed (acquired/disclosed), safeguarded
IV-6e	Module Management	System Management	Classification & Understandability	Qualifying Fixed Assets not properly tracked as Construction in Progress then FA at completion
IV-6f	Financial Statements	System Management	Accuracy & Valuation	Qualifying Fixed Assets not properly valued in the Financial Statements
IV-7	Module Management	System Management	Classification & Understandability	Assessments receivable not properly stated in the Financial Statements

* Relevant ASSERTIONS are determined by identifying the RISK of potential mis-statements in each significant class of transactions, account balances and presentation & disclosure. Internal CONTROLS mitigate this risk.

Organizational Charts List

Software Security Module Management	Segregation of Duties Efficiency & Timeliness	Organizational Structure Risk Management	System Management Posting & Summarization
1 Banking (GL)	Authorization	Council	Resolution
2 Banking (GL)	Transfers	Signatures	Policy
3 Cash Receipting	Process	Signatures	Procedures
4 Cash Receipting	Petty	Signatures	Procedures
5 Cash Receipting	Collection	Signatures	Procedures
6 Bank Reconciliation (GL)	ACH	Signatures	Procedures
7 Purchases (AP)	Authorization	Council	Resolution
8 Credit Card (AP)	Authorization	Council	Resolution
9 Accounts Payable	Mail		Procedures
10 Accounts Payable	Preparation	Signatures	Procedures
11 Accounts Payable	Process	Signatures	Procedures
12 Accounts Receivable	Process	Signatures	Procedures
13 Payroll	Authorization	Council	Resolution
14 Payroll	Preparation	Signatures	Policy
15 Payroll	Draw	Signatures	Procedures
16 Payroll	Monthly	Signatures	Procedures
17 Fixed Assets	Process	Signatures	Procedures
18 Improvement District	Process	Signatures	Procedures
19 Internal Controls	Compliance with Assertions		
20 Assertions	(see Narrative - Communicating Internal Control)		

Internal Controls Compliance with Assertions Summary

Internal Controls	Assertions
Authorization	Existence
Approval	Completeness
Software Security	Occurrence & Rights & Obligations
Module Management	Classification & Understandability
Segregation of Duties	Accuracy, Classification, Completeness
Efficiency & Timeliness	Occurrence, Cutoff
Organizational Structure	Existence, Completeness
Risk Management	Rights & Obligations, Valuation & Allocation
System Management	Occurrence & Rights & Obligations, Accuracy & Valuation
Posting & Summarization	Classification & Understandability, Completeness