



September 11, 2017

Memo from: Brian Carlson, Finance Director
To: City Manager, City Council, Finance Staff, BDO Audit Team
Re: **2016 Audit Findings; Corrective Action Plan**

The final 2016 financial audit contains the following findings:

Material Weakness	The City double posted a prior year transaction in 2016 to record the purchase of a firetruck. Result was an overstatement of capital outlay expense, overstatement of construction in progress, and an understatement of prepaid expenses.
Significant Deficiency	Invoices received and paid after year-end for 2016 expenditures were not properly recorded as accounts payable in 2016.

So as to eliminate the possibility of recurrence of these specific findings, the following procedures will be immediately and formally incorporated into finance department policies and procedures:

Review of Quarterly Internal Financial Statements:

The City's accounting records are reconciled and closed each month. Internal quarterly financial statements are prepared following the process for the months of March, June, September, and December. These statements are prepared by the Comptroller and Director, and are submitted to City Council.

Quarterly financial statement review emphasizes budget-to-actual figures, and serves primarily as a budgetary control and an operational summary for both Council and management. The material weakness referenced in the 2016 audit reflects this budgetary and operational emphasis, as it resulted from insufficient review of the balance sheet.

To address this shortcoming, Finance Director and Comptroller will ensure that a detailed review of balance sheets is performed each quarter. This will be implemented via printing and review of detailed ledgers of all balance sheet items, reconciliation of same. Detailed ledgers and summaries will be signed by both parties, and retained according to the City's adopted records retention schedule.

Review of Year-End Payables and Expenditures:

Upon conclusion of the calendar year, finance staff continues to receive invoices for goods and services procured for the concluded year. With each bi-weekly bill-payment cycle, these invoices are isolated from current-year invoices by the accounting staff for additional review and scrutiny by the Comptroller and Finance Director, so as to ensure correct posting. This process continues through the month of February, after which time all prior-year invoices are received, paid, and booked, and the concluded year is closed.

Explanations of this process and its deadlines are disseminated to all departments by the accounting staff each year, beginning in November. The *significant deficiency* noted in the 2016 audit is the result of invoices being submitted to Finance Department after the February deadline, despite notice being given to departments. This coincided with the hiring of a new department director.

To mitigate this shortcoming, the Finance Director will increase the regularity of communications to the City Manager, department directors and administrative staff by issuing memos via email reminding departments of the deadlines pertaining to year-end procurement, and the invoicing requirements for same. These will be issued with each bi-weekly accounts payable processing beginning in November, and extending through February.

In addition, invoices received after the February deadline will be forwarded to the City Manager for review and approval prior to payment, thereby enabling the City Manager to impose additional corrective action upon department directors who fail to meet this deadline.