

## **OTHER REPORTS**



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JAMES MOORE & CO., P.L.  
CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor, City Council, and City Manager,  
City of Palm Coast, Florida:

We have audited the financial statements of City of Palm Coast, Florida (the City), as of and for the year ended September 30, 2004, and have issued our report thereon dated December 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered City of Palm Coast, Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Palm Coast, Florida's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described below.

**1) Bank Account Reconciliations**

At present, the Director of Finance is responsible for monthly reconciliations of the City's bank accounts. However, during the year under audit, we noted the City's operating bank account had not been fully reconciled since May 2004. The majority of problems with the bank reconciliation process appear to have commenced when the City began processing accounting transactions (billings and cash receipts) for the Utility system. During the performance of our year-end auditing procedures, the operating bank account was reconciled as of September 30, 2004, which resulted in significant correcting entries to cash.

Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over both cash receipts and disbursements. An unreconciled difference that appears immaterial can obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were apparent. We recommend bank reconciliations be prepared timely, and then reviewed for accuracy and completeness by someone independent of the reconciliation process. The review should include tests of mechanical accuracy and tracing of items on the reconciliation to the relevant source documents. The composition of unreconciled differences should be determined and followed up on, and any journal entries deemed necessary as a result be recorded.

## **2) Utility Department**

### **Inventory Management**

At present, there are no perpetual inventory records available. We believe that maintenance of perpetual inventory records would serve as a check on the storekeepers, provide information essential to adequate purchasing control, and be particularly useful in taking of physical inventories and implementing a cycle inventory program. Sound procedures for the taking of physical inventories are important in assuring that inventory reflected in the financial records does physically exist. We recommend that perpetual inventory records be established for the utility system inventories. Once established, perpetual records would:

- Provide better accounting control over the flow of goods and increase the possibility of detecting theft or unrecorded shipments.
- Provide more reliable cost and accounting data as a basis for determining the costs associated with certain projects.

Further, one person in the Utility Department is responsible for ordering new materials, stocking the warehouse, maintaining security and control over inventory, and performing the inventory counts. We recommend the City modify their use of prenumbered purchase orders and prenumbered service orders so that the inflow and outflow of inventory can be accounted for. Those purchase orders and service orders should be reviewed and signed off by an employee independent of inventory control. Inventory counts should also be supervised by an employee independent of inventory control. These controls will help reduce the City's susceptibility to theft and misstatement of inventory.

### **Lack of Segregation of Duties in Utility Billing**

At present, two employees in the Utility Department are responsible for reviewing uploaded meter readings into the billing system, correcting any errors, generating monthly bills, posting daily batch reports to the general ledger, reviewing daily reconciliations, and making bank deposits. The present environment allows the two employees unlimited access to adjust customer accounts prior to generating monthly bills. (For instance, upon uploading meter readings, individual accounts can be changed to show lower or zero consumption, which could result in smaller or zero bills being generated for the accounts chosen by staff.) The ability to make corrections or adjustments to the Consumption Report (generated after uploading meter readings) should not be performed by the same person responsible for generating monthly bills. Adjustment reports should also be generated to document all adjustments to meter readings and approved by an individual independent of the billing process.

### **Reconciliation Process**

At present, the City does not have a formal policy addressing how to handle discrepancies in the daily cash drawer reconciliations. We recommend the City implement a policy that addresses proper procedures to be followed to resolve discrepancies in the daily reconciliations. This will help the Customer Service Supervisor know how discrepancies need to be handled.

Further, the City has not been issuing and accounting for the sequence of prenumbered receipts to City residents who come to the Utility Department to pay their utility bills. This allows a cashier the opportunity to issue a fake receipt to the resident and pocket the cash received. We recommend the City use prenumbered receipts to be issued to the residents as proof of payment. The City can use manual receipts or can have the utility billing computer system issue prenumbered receipts. The numerical sequence of those receipts should be accounted for daily by an employee independent of cash duties.

After discussions with the Accounting Department, it was noted that monthly reconciliations of utility billings, cash receipts, adjustments and accounts receivable had not been done by Accounting personnel since the first utility bills generated by the City in April 2004. This caused several large adjustments to be made at year-end to adjust balances to actual. This lack of a reconciliation process exposes the City to potential misappropriation of City assets and misstatement of the financial statements. We recommend that as part of the monthly reconciliation process, all billings, cash receipts, adjustments, and accounts receivable be reconciled to the general ledger by the Accounting Department, and any discrepancies should be investigated immediately. This will provide the City an oversight of the Utility Department and ensure that the general ledger agrees to the subsidiary ledger reports produced by the Utility Department.

### **3) Miscellaneous Cash Receipts and Building Permits**

We understand that during the year under audit, the City did not have an employee independent of cash receipt duties for the Community Center or City Hall reconcile log reports or receipts issued to residents. We recommend that someone independent of cash receipts review the log reports issued by the Community Center. The Community Center should also use prenumbered receipts when deposits are received so that the sequence of receipts can be accounted for. We also recommend that when collecting cash receipts at City Hall, the cashiers should be required to issue prenumbered receipts with 3 carbon copies (one given to customer, one filed numerically in City's files, and one filed with the daily deposit). Additionally, a visible sign should be posted at City Hall informing the residents that the cashier should always produce a receipt.

We also understand that the City's PERCONTI software, which is used to issue building permits, prints out prenumbered building permits. However, the City has not been accounting for the sequence in those building permits to ensure that all permits issued in PERCONTI have been paid for. It is also our understanding that the PERCONTI software can be directly linked to the City's Accounting System, which would alleviate the manual inputting of those permits into the City's accounting system. We recommend that the PERCONTI software be linked to the City's accounting package to reduce the risk of inputting errors and unapproved corrections to permit fees, and to assist the City's Building Department in accounting for all building permits.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above we consider the Bank Account Reconciliation and Utility Department comments to be material weaknesses.

## **Management Comments and Recommendations**

Our report on the internal control structure has been presented in the previous section of this report. The purpose of this section is to disclose conditions, which do not materially affect the financial statements of City of Palm Coast, Florida. The following comments and recommendations are made to assist the City Council and management in administering future operations.

### **4) Disaster Recovery Plan and Information Technology**

The City does not have well-defined, written disaster recovery procedures. The time to make contingency plans is before disaster strikes so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing IT

facilities. We recommend that management develop a disaster recovery plan in writing that includes, but is not limited to, the following matters:

- Location of, and access to, off-site storage.
- A listing of all data files that would have to be obtained from the off-site storage location.
- Identification of a backup location (name and telephone number) with similar or compatible equipment for emergency processing. (Management should make arrangements for such backup with another organization, a computer vendor, or a service center. The agreement should be in writing.)
- Responsibilities of various personnel in an emergency.
- Priority of critical applications and reporting requirements during the emergency period.

#### 5) **Payroll Processing**

The City's Payroll Department consists of a Human Resources Director and an Accounting Specialist. We believe that the Accounting Specialist who processes the biweekly payroll should not have rights to change employee pay rates. This function should be limited to the Human Resources Director. We recommend that a control be put in place in the City's accounting system to restrict the Accounting Specialist's access to pay rates. This control will ensure that duties are properly segregated between pay rate approvals, payroll processing and payroll approval. It will also ensure that corrections to pay rates cannot be made by the employee responsible for inputting payroll entries into the City's accounting system.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Palm Coast, Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

This report is intended solely for the information and use of management, the City Council, and Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*James Moore & Co.*

Daytona Beach, Florida  
December 22, 2004

**CITY OF PALM COAST, FLORIDA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

<u>Federal Agency/Pass-Through Entity/Federal Program</u>	<u>CFDA Number</u>	<u>Contract/ Grant Number</u>	<u>Program Award Amount</u>	<u>Program Expenditures</u>
<b>U.S. Department of Transportation Federal Highway Administration</b>				
Passed Through Florida Department of Transportation:				
Federal Aid Highway Program	20.205	FR-FL-04-02	\$ 40,000	\$ 40,000
<b>Department of Homeland Security</b>				
Passed Through Florida Department of Community Affairs:				
Citizen Corps/CERT	83.564	03CT-95-04-28-02-407	4,000	3,979
Public Assistance Grant-Hurricane Charley	97.036	N/A	184,262	184,262
Public Assistance Grant-Hurricane Frances	97.036	N/A	599,063	379,472
Public Assistance Grant-Hurricane Jeanne	97.036	N/A	85,900	85,900
<b>Total Expenditures of Federal Awards</b>				<u><u>\$ 693,613</u></u>

**CITY OF PALM COAST, FLORIDA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

(1) **Basis of Presentation:**

The accompanying Schedule of Expenditures of Federal Awards includes federal awards activity of City of Palm Coast, Florida and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.



**CITY OF PALM COAST, FLORIDA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

**A. Summary of Auditors' Results:**

**Financial Statements:**

- Type of audit report issued on the basic financial statements: Unqualified.
- There were three reportable conditions related to internal control, two of which are reported as material weaknesses, disclosed by the audit of the basic financial.
- The audit did not disclose any noncompliance, which was material to the basic financial statements.

**Federal Awards:**

- There were no reportable conditions related to internal control over major programs disclosed by the audit.
- Type of report issued on compliance for each major program: Unqualified.
- The audit disclosed one audit finding required to be reported in accordance with Section 510(a) of Circular A-133, which is reported in this schedule.
- Major program identification:  
CFDA Number 97.036 – Department of Homeland Security, Public Assistance Grants.
- Dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- The auditee did not qualify as a low-risk auditee.

**B. Financial Statement Findings:**

**1) Bank Account Reconciliations**

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## **2) Utility Department**

### **Inventory Management**

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### **Lack of Segregation of Duties in Utility Billing**

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## **Reconciliation Process**

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After discussions with the Accounting Department, it was noted that monthly reconciliations of utility billings, cash receipts, adjustments and accounts receivable had not been done by Accounting personnel since the first utility bills generated by the City in April 2004. This caused several large adjustments to be made at year-end to adjust balances to actual. This lack of a reconciliation process exposes the City to potential misappropriation of City assets and misstatement of the financial statements. We recommend that as part of the monthly reconciliation process, all billings, cash receipts, adjustments, and accounts receivable be reconciled to the general ledger by the Accounting Department, and any discrepancies should be investigated immediately. This will provide the City an oversight of the Utility Department and ensure that the general ledger agrees to the subsidiary ledger reports produced by the Utility Department.

### **3) Miscellaneous Cash Receipts and Building Permits**

We understand that during the year under audit, the City did not have an employee independent of cash receipt duties for the Community Center or City Hall reconcile log reports or receipts issued to residents. We recommend that someone independent of cash receipts review the log reports issued by the Community Center. The Community Center should also use prenumbered receipts when deposits are received so that the sequence of receipts can be accounted for. We also recommend that when collecting cash receipts at City Hall, the cashiers should be required to issue prenumbered receipts with 3 carbon copies (one given to customer, one filed numerically in City's files, and one filed with the daily deposit). Additionally, a visible sign should be posted at City Hall informing the residents that the cashier should always produce a receipt.

We also understand that the City's PERCONTI software, which is used to issue building permits, prints out prenumbered building permits. However, the City has not been accounting for the sequence in those building permits to ensure that all permits issued in PERCONTI have been paid for. It is also our understanding that the PERCONTI software can be directly linked to the City's Accounting System, which would alleviate the manual inputting of those permits into the City's accounting system. We recommend that the PERCONTI software be linked to the City's accounting package to reduce the risk of inputting errors and unapproved corrections to permit fees, and to assist the City's Building Department in accounting for all building permits.

C. **Federal Award Findings and Questioned Costs:**

**Questioned  
Costs**

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DEPARTMENT OF HOMELAND SECURITY

Public Assistance Grants – CFDA Number 97.036

2004-1 *Condition and Criteria:* Two invoices were submitted twice to the Department of Homeland Security for reimbursement.

*Effect:* The costs eligible for reimbursement submitted by the City to the Department of Homeland Security were overstated by the sum of those two invoices submitted twice.

*Cause:* Due to the high volume of invoices submitted for reimbursement, duplicate invoices were submitted.

*Population and Items Tested:* A sample of 32 invoices totaling \$43,257 was selected for audit testing from a population totaling \$230,351. Two invoices with questioned costs totaling \$2,314 were found in noncompliance. \$2,314

*Auditors' Recommendation:* The City should test for duplicate invoices by looking at all vendors with duplicate invoice numbers or invoice dates.

*Grantee Response:* The City agrees with finding. Future requests will be tested for duplicate invoices.

D. **Prior Audit Findings:**

- There were no audit findings for the year ended September 30, 2003 relative to federal programs requiring action on the part of the auditee for that fiscal year.

E. **Corrective Action Plan:**

- See City of Palm Coast, Florida's management responses to reportable conditions, management comments, and findings and questioned costs plan starting on page 107.

# JAMES MOORE & CO., P.L.

CERTIFIED PUBLIC ACCOUNTANTS

AND CONSULTANTS

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor, City Council, and City Manager,  
City of Palm Coast, Florida:

### **Compliance**

We have audited the compliance of City of Palm Coast, Florida, (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. The City's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Palm Coast, Florida complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs under section C Federal Award Findings and Questioned Costs.

### **Internal Control Over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, City Council, and Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*James Moore & Co.*

Daytona Beach, Florida  
December 22, 2004

JAMES MOORE & CO., P.L.  
CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**MANAGEMENT LETTER OF INDEPENDENT AUDITORS  
REQUIRED BY CHAPTER 10.550 RULES OF THE AUDITOR GENERAL**

To the Honorable Mayor, City Council, and City Manager,  
City of Palm Coast, Florida:

We have audited the basic financial statements of City of Palm Coast, Florida, as of and for the fiscal year ended September 30, 2004, and have issued our report thereon dated December 22, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have also issued our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedules, which are dated December 22, 2004, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter. Those rules (Section 10.554(1)(h) 1.) require that we address in the management letter, if not already addressed in the auditors' report on internal control and on compliance and other matters, whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations in the preceding annual financial report.

As required by the Rules of the Auditor General (Section 10.554(1)(h) 2.), City of Palm Coast, Florida, has complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

The Rules of the Auditor General (Sections 10.554(1)(h) 3. and 4.) require disclosure in the management letter of the following matters if not already addressed in the auditors' reports on internal control or compliance and other matters: (1) recommendations to improve financial management, accounting procedures, and internal controls; (2) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and were discovered within the scope of the audit; (3) improper or illegal expenditures discovered within the scope of the audit that may or may not materially affect the financial statements; (4) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements); failures to properly record financial transactions; and other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that came to the attention of, the auditor. Our audit disclosed none of these matters not already addressed in our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

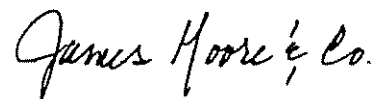
The Rules of the Auditor General (Section 10.554(1)(h) 5.) also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. City of Palm Coast, Florida, was incorporated on December 31, 1999 under Chapter 99-448, Laws of the State of Florida. There are no component units related to City of Palm Coast, Florida as of September 30, 2004.

The Rules of the Auditor General (Section 10.554(1)(h) 6.a.), require that we comment as to whether or not one or more of the conditions described in Section 218.503(1), Florida Statutes, regarding determination of financial emergency have been met. In connection with our audit, we determined that City of Palm Coast, Florida, has not met one or more of the conditions described in Section 218.503(1), Florida Statutes, regarding determination of financial emergency.

The Rules of the Auditor General (Section 10.554(1)(h) 6.b.), require that we comment as to whether or not the financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the current audit period. The financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report.

As required by the Rules of the Auditor General (Section 10.554(1)(h) 6.c.), the scope of our audit included application of financial condition assessment procedures pursuant to Rule 10.556(8) of the Auditor General. It is Management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

This report is intended solely for the information and use of the Auditor General of the State of Florida, management, others within the City, City Council, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "James Moore & Co.".

Daytona Beach, Florida  
December 22, 2004





## **FINANCIAL SERVICES DEPARTMENT**

### **RESPONSE TO MANAGEMENT COMMENTS**

Honorable Mayor and City Council Members:

The Financial Services Department would like to provide a response to the management comments and recommendations submitted by the audit firm of James Moore & Co., P.L. for the current year.

#### **1. Bank Account Reconciliations**

The Finance Director has been doing the monthly reconciliations, since this is the only position that is not directly involved in cash receipts, payroll processing, or accounts payable. Several factors contributed to the reconciliation problems. One issue that remains a problem is the ability to match daily reports to bank deposits when there have been payments made by credit card. All of the credit card deposits do not go into the bank account on the same day, creating a timing issue. We have instituted additional procedures and while the new procedures have improved the reconciliation process they have not completely corrected the problem. Two new positions are being added in Finance. An Accountant will be placed at the Utility Department to handle all of the financial records related to the Customer Service Division. This will allow us to correct the remaining reconciliation problems and also address some comments that follow. It will also take financial responsibility off of the customer service personnel so that they can focus on their primary tasks. The addition of a Chief Accountant will provide someone to prepare the reconciliations which can then be reviewed by the Finance Director.

#### **2. Utility Department**

##### **Inventory Management**

The City currently owns the inventory module to the MUNIS financial system. It has not been used previously because there was very little inventory maintained by City departments. The Utility had an inventory system in place when it was purchased. That system could not be linked to the City's financial system. One of the priorities of the new Accountant II position will be to get the inventory module operational. This will allow for a perpetual inventory and will be linked to purchase orders which are reviewed and approved by department heads or their designee. A work order system is also being implemented which will address the issuance of inventory items.

**Lack of Segregation of Duties in Utility Billing**

As mention earlier, the addition of an Accountant at Utility will address this comment. The Accountant will be responsible for reviewing all corrections, daily reports, deposits, and posting to the general ledger.

**Reconciliation Process**

Cash drawer discrepancies generally have been small when they have occurred. Even though there has not been a written policy, cashiers have been reimbursing from their own pockets for shortages. We will prepare a policy to address this comment.

We will provide some prenumbered receipts that can be used if computers are down. As long as the computers are functioning, receipts are electronically generated.

Because of the initial billing problems that occurred, the reconciliation of accounts receivable could not be accomplished in the appropriate manner. Again, the addition of the Accountant at Utility will help insure that all reports are posted in a timely manner so that an accurate reconciliation can be done.

**3. Miscellaneous Cash Receipts and Building Permits**

Recreation deposits have always been verified by the cashier at City Hall. The Recreation Department is being set up to input cash receipts directly into the system. The deposit will then be verified against the daily report at City Hall and the daily report will be posted by Finance. Prenumbered receipts will be provided to Recreation for use when the computers are unavailable.

We were told by PERCONTI that their system could be linked to MUNIS for the purpose of recording payments for permits. They have never been able to make the link work. This has created extra work by requiring double keying to issue a permit. We can continue to try to link the two systems, but PERCONTI has not been helpful in this process. We are also analyzing the Permit and Code module that MUNIS offers to see if it is feasible for the City to purchase. If these two options are not feasible, we will consider other options that would provide the City with an integrated software package.

**4. Disaster Recovery Plan and Information Technology**

A written disaster recovery plan is in process. We currently backup data and have an off-site storage location. We can contract with MUNIS for processing services should our system be disabled. This may be the best solution in the short-term since they already back up our data on a nightly basis.

## **5. Payroll Processing**

Because of a limited number of personnel, it has been necessary from time to time for the payroll technician to be able to make changes to pay rates to get payroll done in a timely manner. Payroll reports are reviewed by Human Resources which would find any discrepancies. Sufficient personnel are now available and we will take steps to change the current procedures.

Ray W. Britt, Jr.  
Finance Director

April 27, 2005



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