

M E M O R A N D U M

TO: Audit Committee

THROUGH: Matthew Dent
Audit Committee Chair

FROM: Paul Navazio
Director of Finance

Martin Williams
Controller

SUBJECT: Informational Update on Internal Controls Project

STRATEGIC

PLAN REFERENCE(S): Long Range Principle #2

DATE: April 29, 2021

I. RECOMMENDATION

Receive an informational update on management's ongoing review and update of District-wide internal controls.

II. BACKGROUND

The Board of Trustees and Audit Committee have identified the need to review and, where appropriate, strengthen internal control policies, procedures and practices consistent with financial management and accountability best practices.

Management has previously presented to the Audit Committee a framework for strengthening the District's system of internal controls, to include a process for review, update, and oversight over applicable policies and procedures. In addition, the District's Independent Auditor identified material weakness in internal controls over financial reporting that contributed to a significant number of adjusting journal entries.

This agenda item has been prepared to provide the Audit Committee with an information update on management's ongoing efforts related to strengthening the District's internal control policies and procedures. Consistent with the discussion at the last Audit Committee meeting, Committee member Aaron has agreed to serve as the liaison and has met with management to review, in more detail, the overall project work plan as well as timelines for completion of specific tasks/deliverables

III. Discussion

Framework of System of Internal Controls

- Attachment 1 provides an overview of the overall system of internal controls to include elements, responsibility and updated timeline(s)

Review of Board Policies and Practices

- Management is currently in the process of updating selected Board Policies and Procedures (see *Board Agenda 4/29/21*)
 - Capitalization
 - Capital Planning, Budgeting and Capital Expenses
 - Fund Balance and Working Capital
 - Central Services Overhead Allocations

Review of Internal Accounting and Financial Procedures

- Attachment 2 provides an update schedule and responsibilities for updating internal accounting and financial procedures
- Priority focus is on Procurement and Accounts Payable procedures (6.3.10), Property and Equipment procedures (6.3.9), Cash Management (6.3.4) and General Ledger and Journal Entries (6.3.3)
- Human Resources and Payroll procedures are currently under review in conjunction with project to transition to Tyler Munis HRMS/Payroll system

Procurement Policy and Related Procedures related to Purchasing and Account Payables

- Earlier this year, the District General Manager updated district-wide delegated spending authority levels for upper management and venue managers.
- Monthly spending limits applicable to the District's procurement card program have also been updated
- Accounting and Financial procedure 6.3.10 (Purchasing and Accounts Payable) has been updated by the Controller and is currently under review by the Director of Finance
- Management is also reviewing the District's Purchasing Policy to ensure consistency with Board Policy 3.1.0.

Independent Auditor's Findings of Material Weaknesses over Financial Reporting

- Adjusting Journal Entries and Adjustments - now that our accounting department is fully staffed, we have assigned reconciliations, and reviews to various staff to ensure any issues are investigated and handled timely. Additionally we reconciling accounts and having them reviewed and approved monthly. Staff is also in the process of adjusting the Central Service Cost Allocation offset to be reported net of the expenses, instead of as a revenue item in the General Fund. This adjustment will be reflected starting with the third quarter budget update.

These internal control improvements, we believe, will prepare IVGID for a more streamlined year-end close and audit.

- Capitalization – staff has reviewed the existing policies and procedures, and is in the process of reviewing with Board prior to formally updating policies. Additionally staff is reviewing options for modifications to chart of accounts for tracking of capital maintenance expenditures to ensure repair and maintenance items that do not meet capital criteria are excluded from capitalization and depreciation of fixed assets.

IV. ATTACHMENTS

- 1) Framework for Internal Controls –Tasks
- 2) Framework for Internal Controls – Implementation Plan

DRAFT - APRIL 2021
FRAMEWORK FOR REVIEW AND IMPLEMENTATION OF INTERNAL CONTROLS

PHASE	TASKS	RESPONSIBILITY					Schedule				
		Board	Audit Committee	Staff	Consultant	External Auditor	Q4 A M J	Q1 J A S	Q2 O N D	Q3 J F M	Q4 A M J
Part 1 - Comprehensive Assessment of IVGID Internal Controls / PROJECT											
	<input type="checkbox"/> Review all relevant Board Policies and Procedures	Lead		X				Ongoing			
	<input type="checkbox"/> Review all Administrative Policies and Procedures		x	Lead	x	x		Ongoing			
	<input type="checkbox"/> Evaluate "gaps" in internal controls		x	Lead	x	x		Ongoing			
	Absence										
	Oversight/compliance										
	Separation of duties										
	<input type="checkbox"/> Develop formal recommendations for Updating Internal Controls		x	Lead	x	x		Ongoing			
	Update existing policies			Lead	x	x					
	Establish new policies			x	Lead	x					
	Formalize Accountability			Lead	x						
	Staff Training			Lead	x						
Part 2 - Regular and Continual Review of Internal Controls											
	<input type="checkbox"/> Establish regular "cycle" of review / update / continuous improvements		x	Lead					Annually		
	Example: All administrative policies and procedures will be reviewed on a 3-year cycle (1/3 per year).										
Part 3 - Internal Audit(s)											
a)	<input type="checkbox"/> Concurrent with tasks identified in Part 1, develop comprehensive list of "areas" for internal controls			Lead	x						
	Primary focus on areas with greatest "risk" to District related to liability, fraud, misappropriation of public funds and/or assets										
	<input type="checkbox"/> On an annual basis, TWO (2) areas will be candidates for a formal Internal Audit		x	Lead	x		Report		Annually	Report	Annually
	Assess adequacy of internal controls										
	Evaluate compliance with existing policies										
	Report on "Findings and Recommendations"										
b)	<input type="checkbox"/> Implement / Formalize periodic "impromptu" internal audits of operations and administrative practices and procedures			Lead							
	Random, unscheduled, unannounced										
Part 4 - External Independent Auditor											
	<input type="checkbox"/> SAS Requirements - Elected Officials and Executive Management	X	X	X		Lead					
	Identify areas of concern re risk/liability/fraud							Annually			
	<input type="checkbox"/> Memorandum of Internal Controls	X	X	X		Lead					
	Review of Internal Controls related to Financial Management based on review of policies, procedures and roles								Annually		
	Random sampling of transaction records (payroll, accounts payable, revenue, expenditures, fixed assets, debt).										

Update of Accounting and Finance Procedures
April 2021

Accounting and Financial Procedures			Review					Revisions				Staff Responsibility			
Old Section	New Section		Date	Current	Update	Obsolete	New	Draft	Review	Final	Date	Initial	Policy	Admin	Compliance
I	6.3.1	Internal Controls Effective Internal Controls	30-Apr		x										
II	6.3.2	Controls in a Computer Environment Application Controls Program Maintenance Computer Operations Security	31-May												
			31-May												
			31-May												
III	6.3.3	General Ledger and Journal Entries Maintaining an Effective Accounting System General Ledger Activity Adequate General Ledger Maintenance	30-Apr		x										
			30-Apr		x										
			30-Apr		x										
IV	6.3.4	Cash Cash Management Cash Receipts Disbursements from Bank Accounts Imprest and Similar Funds Bank Reconciliations	30-Apr												
			30-Apr												
			30-Apr												
			30-Apr												
			30-Apr												
V	6.3.5	Revenue Cycle Revenue Recognition Accounts Receivable Customer Returns and Allowances Other Revenues	31-May												
			31-May												
			31-May												
			31-May												
VI	6.3.6	Production Cycle Sales and Product Forecasts Cost-Flow Methods Inventory Control Periodic Physical Inventory Inventory Obsolescence	31-May												
			31-May												
			31-May												
			31-May												
			31-May												
VII	6.3.7	Pre-paid Expenses Monitoring and Accounting for Prepaid Expenses Controlling Asset Balances	30-Jun		x										
			30-Jun												
VIII	6.3.8	Investments Investment of Idle Funds Safeguarding of Investments Return of Investment	30-Jun												
			30-Jun												
			30-Jun												
IX	6.3.9	Property and Equipment Additions to Property and Equipment Accurate Records of Property and Equipment Depreciation of Property and Equipment Existence of Capital Assets Disposal of Capital Assets	4-Mar		X			MW	PN						
			4-Mar		X			MW	PN						
			4-Mar		X			MW	PN						
			4-Mar		X			MW	PN						
			4-Mar		X			MW	PN						

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Old Section	New Section	Date	Current	Update	Obsolete	New	Draft	Review	Final	Date	Initial	Policy	Admin.	Compliance	
X	6.3.10 Purchasing and Accounts Payable			X			MW	PN							
				X				MW	PN						
				X				MW	PN						
				X				MW	PN						
				X				MW	PN						
				X				MW	PN						
				X				MW	PN						
				X				MW	PN						
				X				MW	PN						
				X				MW	PN						
				X				MW	PN						
				X				MW	PN						
				X				MW	PN						
XI	6.3.11 Notes Payable / Long-Term Debt														
XII	6.3.12 Accrued Liabilities														
XIII	6.3.13 Human Resources and Payroll														
XIV	6.3.14 Budget Cycle														
	6.3.15	Electronic Payment Systems	9-Mar		X		MW	PN							
	6.3.18	Central Services Cost Allocation	31-May		X		PN								
		Procurement Cards Program	31-May		X		MW								