

## 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

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

**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	31-May												
		Program Maintenance	31-May												
		Computer Operations	31-May												
		Security	31-May												
III	6.3.3	General Ledger and Journal Entries													
		Maintaining an Effective Accounting System	30-Apr		x										
		General Ledger Activity	30-Apr		x										
		Adequate General Ledger Maintenance	30-Apr		x										
IV	6.3.4	Cash													
		Cash Management	30-Apr												
		Cash Receipts	30-Apr												
		Disbursements from Bank Accounts	30-Apr												
		Imprest and Similar Funds	30-Apr												
		Bank Reconciliations	30-Apr												
V	6.3.5	Revenue Cycle													
		Revenue Recognition	31-May												
		Accounts Receivable	31-May												
		Customer Returns and Allowances	31-May												
		Other Revenues	31-May												
VI	6.3.6	Production Cycle													
		Sales and Product Forecasts	31-May												
		Cost-Flow Methods	31-May												
		Inventory Control	31-May												
		Periodic Physical Inventory	31-May												
		Inventory Obsolescence	31-May												
VII	6.3.7	Pre-paid Expenses													
		Monitoring and Accounting for Prepaid Expenses	30-Jun		x										
		Controlling Asset Balances	30-Jun												
VIII	6.3.8	Investments													
		Investment of Idle Funds	30-Jun												
		Safeguarding of Investments	30-Jun												
		Return of Investment	30-Jun												
IX	6.3.9	Property and Equipment													
		Additions to Property and Equipment	4-Mar		X			MW	PN						
		Accurate Records of Property and Equipment	4-Mar		X			MW	PN						
		Depreciation of Property and Equipment	4-Mar		X			MW	PN						
		Existence of Capital Assets	4-Mar		X			MW	PN						
		Disposal of Capital Assets	4-Mar		X			MW	PN						

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X	6.3.10	Purchasing and Accounts Payable														
		Determination of Needs	9-Mar		X				MW	PN						
		Placement of Orders	9-Mar		X				MW	PN						
		Cellular Telephone Use	9-Mar		X				MW	PN						
		Receipt and Acceptance	9-Mar		X				MW	PN						
		Establishment of Accounts Payable	9-Mar		X				MW	PN						
		Return of Goods to Suppliers	9-Mar		X				MW	PN						
		Purchase Cut-Off	9-Mar		X				MW	PN						
		Procurement Card Program	9-Mar		X				MW	PN						
		Advertising	9-Mar		X				MW	PN						
		Tipping	9-Mar		X				MW	PN						
		Bulk Purchases	9-Mar		X				MW	PN						
XI	6.3.11	Notes Payable / Long-Term Debt														
		Financial Resource Requirements	30-Jun													
		Assumption and Authorization of Debt	30-Jun													
		Safekeeping of Debt Agreements	30-Jun													
		Record of Debt	30-Jun													
		Timely Interest Expense Accruals	30-Jun													
		Debt Payments	30-Jun													
		Bond Discounts and Premiums	30-Jun													
		Current and Long-Term Debt Summary	30-Jun													
Debt Covenants	30-Jun															
XII	6.3.12	Accrued Liabilities														
		Monitoring of Accrued Liabilities Reconciliations and Accuracy	31-Jul 31-Jul													
XIII	6.3.13	Human Resources and Payroll														
		Payroll and Personnel/Human Resources	31-Jul													
		Wages and Salaries	31-Jul													
		Timekeeping	31-Jul		x											
		Payment to IVGID Employees	31-Jul													
		Payroll Deductions Quarterly and Year-End Reports	31-Jul 31-Jul			x										
XIV	6.3.14	Budget Cycle	31-Jul													
	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								