<u>MEMORANDUM</u>

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)
 - o Capitalization
 - o 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.

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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

			RES	SPONSIBIL	ITY	Schedule					
PHASE	TASKS	Board	Audit Committee	Staff	Consultant	External Auditor	Q4 AMJ	ID JAS	Q2 OND	Q3 JFM	Q4 A M
art 1 - Cor	nprehensive Assessment of IVGID Internal Controls / PROJECT										
		l		İ				going			
	Review all relevant Board Policies and Procedures Review all Administrative Policies and Procedures	Lead	×	X Lead	×	×	- Control On	going Ongoing	Strong-barrough		
	Evaluate "gaps" in internal controls		, x	Lead	×	×	38550000	Ongoing	Generalisa Generalisa		l
	Absence		<u> </u>	1		"	1			1	
	Oversight/compliance							1			
	Separation of duties	ļ									
	Develop formal recommendations for Updating Internal Controls		x	Lead	x	×	100000	Ongoing	amarko		
	Update existing policies			Lead	×	×			Fallence St.		1
	Establish new policies			x	Lead	x		<u> </u>	Walk State	HERMAN	<u> </u>
	Formalize Accountability	}		Lead	×		2,550,550,550				6500
	Staff Training	İ		Lead	×		C00000000000	0425,050,042	Ongoing		25,010,00
art 2 - Reg	ular and Continual Review of Internal Controls										
	_		1								
	Establish regular "cycle" of review / update / continuous improvements		×	Lead				Ann	usliy		l
	Example: All administrative policies and procedures will be reviewed on a 3-year cycle (1/3 per year).										
art 3 - Inte	mal Audit(s)										
a)	Concurent with tasks identified in Part 1, develop comprehensive list of "areas" for internal controls	İ		Lead	x			15-10-10-0 <u>4-3</u>			
٠,	Primary focus on areas with greatest "risk" to District related to liability, fraud, missapprotion of pubic funds and/or assets								ĺ		
	On an annual basis, TWO (?) areas will be candidates for a formal Internal Audit	1	×	Lead	×		Report	1	Annually	Report	Ann
	Assess adequacy of internal controls	İ									
	Evaluate compliance with existing policies								i i		İ
	Report on "Findings and Recommendations"							l			
	_										
b)	mplement / Formalize periodic "impromptu" internal audits of operations and administrative practices and procedures			Lead			3.30.30.81A	757 650 146	Ongpoing	2461.000	
	Random, unscheduled, unannounced										
art 4 - Exte	rnal independent Auditor										
								L			
	SAS Requirements - Elected Officials and Executive Management	×	x	X		Lead	Ann	ually			
	Identify areas of concern re risk/liability/fraud					i		-			
	Memorandum of Internal Controls	×	×	х		Lead		Annually			1
	Review of Internal Controls related to Financial Management based on review of politicies, procedurs and roles	ļ							l		ĺ
	Random sampling of transaction records (payroll, accounts payable, revenue, expoenditures, fixed assets, debt).						1]			1

Update of Accounting and Finance Procedures April 2021

Oid	New		Review					Revisions						Staff Responsit	bility																
Section	Section		Date	Current	Update	Obsolete	New	Draft	Review	Final	Date	Initial	Policy	Admin.	Complian																
1	6.3.1	Internal Controls																													
		Effective Internal Controls	30-Apr		×																										
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II	6.3.2	Controls in a Computer Environment																													
		Application Controls	31-May																												
		Program Maintenance	31-May																												
		Computer Operations	31-May																												
		Security	31-May																												
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111	6.3.3	General Ledger and Journal Entries																													
		Maintaining an Effective Accounting System	30-Apr		x																										
		General Ledger Activity	30-Apr		×																										
		Adequate General Ledger Maintenance	30-Apr		×																										
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IV	6.3.4	Cash					-																								
		Cash Management	30-Apr				-		T				-																		
		Cash Receipts	30-Apr																												
		Disbursements from Bank Accounts	30-Apr											_	1																
		Imprest and Similar Funds	30-Apr											_	_																
		Bank Reconciliations	30-Apr												_																
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V	6.3.5	Revenue Cycle		THE PERSON NAMED IN	197 605000000			21.00		MAN AND THE OWNER OF THE OWNER OWNER OF THE OWNER																					
200	01010	Revenue Recognition	31-May											7	T																
		Accounts Receivable	31-May												_																
		Customer Returns and Allowances	31-May												_																
		Other Revenues	31-May		-				_					_	_																
		otter nevertues	Salvan Charles	March Const	District Co.	WHAT CHEET AND ED	Y-LOSE THESE	permitted by	ACCORDING TO	ESSENCE CONTRACTOR	Constitute i	MERCANDON.	FERCIONAL SECTION	100 TO 10	5500074854555																
VI	6.3.6	Production Cycle	CHINDRED		AND THE REAL PROPERTY.	and the second		Annual State of State	POSTURE CHANGE	THE PROPERTY.	ALCOHOLD COMPANY	OTHER DESIGNATION OF		THE RESERVE OF THE PARTY OF THE																	
	0.5.0	Sales and Product Forecasts	31-May																												
		Cost-Flow Methods	31-May	-				-	_						+																
		Inventory Control	31-May						-					_	+																
		Periodic Physical Inventory	31-May						-					+	+																
		Inventory Obsolescence	31-May						-	-	-			+	+																
		inventory obsolescence	51-May	PROFESSION AND ADDRESS OF THE PARTY OF THE P	S LEWIS CO. CO. CO.	CONTRACTOR AND	Contract Contract	EVENIE STEERS	Marino Strain	STATE OF THE PARTY OF	1000 Sept. 10.5	DISTRIBUTION OF	AND THE PARTY	Deniestropolitics	ACCUSATION OF STREET																
VII	6.3.7	Pre-paid Expenses	AND COMPANY OF STREET	2002	SCHOOL STORY	S. A. S. Contract of the	CHARLES	BED/SATASSES	M-14,07,50 PS		NAME OF STREET	ML/MEANANTHY	CONTRACTOR OF THE PARTY OF THE	THE STREET	See Kinds Serve																
VII	6.5.7	Monitoring and Accounting for Prepaid Expenses	30-Jun		x									_	T																
		Controlling Asset Balances	30-Jun		X									+	+																
		Controlling Asset balances	30-Juni	C1671 VIOL TABLE TO	A SHALLES	Chia Company	W /0.3 (0.00)	SA CONTRACTOR	of the state of th	ur constraint and	California (California)	AND THE RESERVE THE PERSON NAMED IN	MONTH ALL DAY	THE RESERVE OF THE PARTY OF THE	The state of the s																
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IX	6.3.9	Property and Equipment	44.1																												
		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		Х			MW	PN					+	-																
		Existence of Capital Assets	4-Mar		X			MW	PN						_																
		Disposal of Capital Assets	4-Mar		X			MW	PN																						

Update of Accounting and Finance Procedures April 2021

Old	New	Accounting and Financial Procedures	HE STATE	Review						Revisions	S 25 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3	STATE OF THE PARTY.	Staff Responsibility			
ection	Section		Date	Current	Update	Obsolete	New	Draft	Review	Final	Date	Initial	Policy.	Admin.	Complian	
X	6.3.10	Purchasing and Accounts Payable														
		Determination of Needs	9-Mar		Х			MW	PN							
		Placement of Orders	9-Mar		Х			MW	PN							
		Cellular Telephone Use	9-Mar		Х			MW	PN							
		Receipt and Acceptance	9-Mar		Х			MW	PN							
		Establishment of Accounts Payable	9-Mar		Х			MW	PN							
		Return of Goods to Suppliers	9-Mar		X			MW	PN						1	
		Purchase Cut-Off	9-Mar		Х			MW	PN							
		Procurement Card Program	9-Mar		X			MW	PN							
		Advertising	9-Mar		X			MW	PN							
		Tipping	9-Mar		Х			MW	PN							
		Bulk Purchases	9-Mar		X			MW	PN						San Land	
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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													
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XII	6.3.12	Accrued Liabilities														
		Monitoring of Accrued Liabilities	31-Jul													
		Reconciliations and Accuracy	31-Jul													
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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	31-Jul													
		Quarterly and Year-End Reports	31-Jul		х											
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XIV	6.3.14	Budget Cycle	31-Jul													
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	6.3.15	Electronic Payment Systems	9-Mar		Х			MW	PN							
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	6.3.18	Central Services Cost Allocation	21 140	SENSONAL OF	ENGLES OF STREET	STOLD HE GOLD	REGISSION.	PN	00700044	SUPPLIES.	Market Mark	and the latest	MENERSKIN.		ENGINE PRINCIPAL	
	0.5.10	Central Services Cost Allocation	31-May		х			PN								
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	-	Procurement Cards Program	31-May		Y			MW							_	