### <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)
  - Capitalization
  - o Capital Planning, Budgeting and Capital Expenses
  - o 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

		RE	SPONSIBIL	LITY	Schedule					
PHASE TASKS	Board	Audit Committee	Staff	Consultant	External Auditor	Q4 AMJ	Q1 JAS	Q2 OND	Q3 JFM	Q4 A M
Part 1 - Comprehensive Assessment of IVGID Internal Controls / PROJECT										
Review all relevant Soard Policies and Procedures Review all Administrative Policies and Procedures	Lead	×	X Lead	×		-	going going Ongoing			
Evaluate "gaps" in internal controls  Absence		×	Lead	×	x x	Valents	Ongoing			
Oversight/compliance Separation of duties Develop formal recommendations for Updating Internal Controls		×	Lead	x	×		Ongoing	24 C001 1 1 5 C 2 1		
Update existing policies  Establish new policies			Lead X	x Lead	x x	3,7,007	Ungoing	\$295.50 \$308.50		
Formalize Accountability Staff Training			Lead Lead	x x		2016 2812 1 1 1 2 4 2 1		Ongoing		98616.1 231-232.
art 2 - Regular and Continual Review of Internal Controls										
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).		×	Lead				Anr	nually		
ort 3 - Internal Audif(s)										
a) Concurent 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, missapprotion of public funds and/or assets			Lead	x			V			
On an annual basis, TWO (?) 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	×		Report		Annually	Report	Annu
b) Implement / Formalize periodic "impromptu" internal audits of operations and administrative practices and procedures Random, unscheduled, unannounced			Lead				1	Ongpoing	<u> </u>	
art 4 - External Independent Auditor										
SAS Requirements - Elected Officials and Executive Management Identify areas of concern re rist/liability/fraud	x	x	x		Lead	Ann	ually .			
Memorandum of Internal Controls  Review of Internal Controls related to Financial Management based on review of politicies, procedurs and roles  Random sampling of transaction records (payroll, accounts payable, revenue, expoenditures, fixed assets, debt).	×	×	х		Lead		Annually			

# Update of Accounting and Finance Procedures April 2021

Old	New	Accounting and Financial Procedures	Review					No. of the		Revisions	VIII COLUMN	Staff Responsibility			
Section	Section		Date	Current	Update	Obsolete	New	Draft	Review	Final	Date	Initial	Policy	Admin.	Complianc
I	6.3.1	Internal Controls	-											-	
		Effective Internal Controls	30-Apr		X		and the secondary								
11	6.3.2	Controls in a Computer Environment	-			*		A Real	Contractor (	1000		7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7	STATE OF THE STATE OF	A Committee of the Comm	ACCOUNT OF THE
38.	0.5.2	Application Controls	31-May						T			T			
		Program Maintenance	31-May									-		1	+
		Computer Operations	31-May							-		-		-	-
		Security	31-May	2								77		-	+
			efetore west	N	De vicini	No. of the Paris	and the second	- C - C - C - C - C - C - C - C - C - C	to make t		AND DESCRIPTION	51-86 N.	1941-9-11-196	A PROPERTY OF	A 100 PM 1
III	6.3.3	General Ledger and Journal Entries													
		Maintaining an Effective Accounting System	30-Apr		х										
		General Ledger Activity	30-Apr		х										
		Adequate General Ledger Maintenance	30-Apr		х										
			INCOME TO B	144 75 75	3000	Bucklin &	B ACCUSE	Const.	n tachth	ALC: NOW		wan.	SER OF STORY		Mary Carlo
IV	6.3.4	Cash					20 00 00 00 00 00 00 00 00 00 00 00 00 0		,	-					
		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	- AUGUSTICATION						J. 6129-No.				JA Maria		
	0.5.5	Revenue Recognition	31-May												
		Accounts Receivable	31-May						<del> </del>	_	-				+
		Customer Returns and Allowances	31-May									-			+
		Other Revenues	31-May												+
		other neverses	130 BON P.SE	DOMESTIC CO.	ett a stitla t	ST WEST	Marketter:	gran and	CONTRACTOR	2,42,574,96	Salas N	Jets 13	G-49-150-	Pierra de la	300
VI	6.3.6	Production Cycle													2000
		Sales and Product Forecasts	31-May					Halles C.							T
		Cost-Flow Methods	31-May												
		Inventory Control	31-May												
		Periodic Physical Inventory	31-May												
		Inventory Obsolescence	31-May												
			KING SHIPS W		Mark to the	A SECTION	100	44.5	100	Graduit vi	di li de	A 20 WALL	Colored by	The state of the	ALL ALL
VII	6.3.7	Pre-paid Expenses					0.000								
		Monitoring and Accounting for Prepaid Expenses	30-Jun		х										
		Controlling Asset Balances	30-Jun						L						
	C 2 0 30	N	120000000	W. W. W.		3	PALSA AND	100	A Company	1000	4 4 5 5	2000	Se in the sales	Control Control	V - 82
VIII	6.3.8	Investments Investment of Idle Funds	30-Jun												Т
		Safeguarding of Investments	30-Jun			-									
		Return of Investment	30-Jun	_											
		Neturi of investment	30-3011		1200 12					3.00	1.636.645	dalasi		-	
IX	6.3.9	Property and Equipment	1		-									-	
	_1010	Additions to Property and Equipment	4-Mar		Х			MW	PN						T
		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					1333	1

#### Update of Accounting and Finance Procedures April 2021

ld	New		HAT MADE IN	11/1/1/14/19	Review					Revisions	INSTALL.	FELDE		Staff Responsibil	lity
tion	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		X			MW	PN						
		Placement of Orders	9-Mar		X			MW	PN						
		Cellular Telephone Use	9-Mar		х			MW	PN						
		Receipt and Acceptance	9-Mar		х			MW	PN						
		Establishment of Accounts Payable	9-Mar		X			MW	PN						
		Return of Goods to Suppliers	9-Mar		х			MW	PN						
		Purchase Cut-Off	9-Mar		х			MW	PN						
		Procurement Card Program	9-Mar		х			MW	PN						
		Advertising	9-Mar		X			MW	PN						
		Tipping	9-Mar		Х			MW	PN						
		Bulk Purchases	9-Mar		Х			MW	PN						-
		July a dialog	Name of Parties and Parties an	fe- of the s	130	of Controlleday	and the same of the	C23005000	25.3 3.500	No. and Co.	45 NH X	CONTR.	VERSEL PRINTERS	1511017A-107	1000
ď	6.3.11	Notes Pavable / Long-Term Debt									-	7.79			
	0.5.11	Financial Resource Requirements	30-Jun											Γ	T
		Assumption and Authorization of Debt	30-Jun												
		Safekeeping of Debt Agreements	30-Jun							-					-
		Record of Debt	30-Jun			-									
												-			-
		Timely Interest Expense Accruals	30-Jun												17.14
		Debt Payments													-
		Bond Discounts and Premiums	30-Jun							-					-
		Current and Long-Term Debt Summary	30-Jun												
		Debt Covenants	30-Jun												
PROTECTION OF THE PROTECTION O											7 34 34	100	A. D. J. C. A.	15 A 4 5 5	1
II	6.3.12	Accrued Liabilities													
		Monitoring of Accrued Liabilities	31-Jul												
		Reconciliations and Accuracy	31-Jul												
			451 574 8	Carried Annual Control	a facility and	The second	Service Control		0.000	Children and	Sale V	A SOUNT	the Same	STATE OF THE PARTY.	me that I had to
H	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		×										
		A00 17	34-699397	THE STATE	RANGE THE PARTY	MENTER IN		O PETALATII	895-1-1		LIBERTON,	1/2/2019	THE PARTY	SE PROPERTY.	De Diener
/	6.3.14	Budget Cycle	31-Jul												
6															
			1. 7. 7.	200	- 10 m 1 F	and the state of	40.51	G. Crin	103 11 38	Para.			Difference of		
	6.3.15	Electronic Payment Systems	9-Mar		x			MW	PN						
											***************************************		,		
			合になる場合				3.77%					DET TO			
	6.3.18	Central Services Cost Allocation	31-May		x			PN							
	-														
			1,100,000	A 455 V	31.71 A ST	ALM STATE	ST ROWN	WEW and	WELFER	\$13.55°	1000	THE STATE OF	E SPATISTICS	- NOW 1.7	1000
										000000			6- 10000-00		