

# **General Government Internal Control over Financial Reporting Audit**

**January 11, 2022**





# City of Gainesville Office of the City Auditor

## GAINESVILLE CITY COMMISSION

Lauren Poe, Mayor  
David Arreola, Mayor-Commissioner Pro Tem  
Desmon Duncan-Walker  
Adrian Hayes-Santos  
Reina Saco  
Harvey Ward  
Commissioner At-large [Vacant]

## AUDIT COMMITTEE MEMBERS

Lauren Poe, Mayor  
David Arreola, Mayor-Commissioner Pro Tem  
Harold Monk, CPA, CFE (Appointed)

## TABLE OF CONTENTS

EXECUTIVE SUMMARY .....	3
INTRODUCTION .....	4
SCOPE AND METHODOLOGY .....	4
RESULTS AND CONCLUSION .....	5
GOVERNMENT AUDITING STANDARDS COMPLIANCE.....	5
INTERNAL AUDIT TEAM .....	5
BACKGROUND .....	6
ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR).....	6
EXTERNAL AUDITOR FINDINGS AND RECOMMENDATIONS.....	7
POLICIES AND PROCEDURES.....	8
CLOSING SCHEDULES/CHECKLIST .....	9
GENERAL LEDGER ACCOUNT MAPPING .....	9
ACCOUNT RECONCILIATIONS .....	9
CENTRALIZED GRANT MANAGEMENT OVERSIGHT .....	10
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA) .....	10
PREPARATION FOR IMPLEMENTATION OF GASB 87 (LEASES) .....	11
AUDIT ISSUES AND MANAGEMENT ACTION PLANS .....	12
APPENDIX I - TIMELINE .....	18





## City of Gainesville Office of the City Auditor

### General Government Internal Control Over Financial Reporting Audit

# Executive Summary

#### What We Did

The objective of this engagement was to assess the design and effectiveness of General Government internal controls over financial reporting processes to ensure the risk of error, financial reporting misstatement, and fraud are sufficiently mitigated. This audit was added to the City Auditor's 2021 Audit Plan in March of 2021 as a result of insufficient progress being made toward high risk areas identified in prior financial statement audits.

Through inquiries, observations, and substantive testing, we assessed the adequacy of the design and operating effectiveness of controls related to reporting of General Government financial information. Specifically:

- We assessed the adequacy of compliance of general ledger account mapping to the Uniform Accounting System (UAS) manual.
- We reviewed the effectiveness of management processes to identify and reconcile key balance sheet accounts, and resolve variances in a timely manner.
- We reviewed oversight of grants management processes and the preparation and reporting on the Schedule of Expenditures of Federal Awards (SEFA).
- We reviewed the adequacy of management's preparations and procedures to comply with Government Accounting Standards Board (GASB) 87 Lease Accounting.

#### What We Found

As a result of our review, we determined that General Government internal controls over financial reporting are not designed adequately and/or operating effectively, which places the City at a **high risk** of presenting misstated and untimely financial reports.

- Written procedures were inadequate and do not provide for the consistent and timely reporting of financial activity.
- Key balance sheet account reconciliations are incomplete and are not being prepared or reviewed in a timely manner.

Less significant issues in the following areas were discussed with management for their consideration:

- Account codes utilized in the new accounting system were not in strict compliance with the Uniform Accounting System (UAS) Manual.
- The FY22 budget includes the addition of a Grant Accountant position to assist in centralized grant management oversight, but the position has not been filled. The auditors also identified minor discrepancies in the draft Schedule of Expenditures of Federal Awards.
- Due to the complexity of GASB 87 (Leases), the Accounting division should enhance their preparation efforts to identify and properly account for leases for financial reporting in FY22.

*We would like to thank General Government Budget & Finance personnel, and the Interim City Manager leadership team, for their cooperation and professionalism throughout this audit.*



## INTRODUCTION

---

Effective internal control over financial reporting (ICFR) provides reasonable assurance that the General Government financial reports are reliable, clear and accurate for internal and external stakeholders. Budget & Finance management are responsible for ensuring the effective design, implementation and monitoring of ICFR.

The City's external auditors noted recurring material weaknesses and significant deficiencies in internal controls over financial reporting on the Annual Consolidated Financial Reports (ACFR) for the prior three years (Fiscal Years 2018, 2019 and 2020) as well as other recommendations to improve financial management. The City Auditor's Office has been monitoring the City's response to these findings and issued a report on December 9, 2020 indicating the Budget & Finance department was making progress with six of eight risk areas considered "on-track" for being resolved.

Subsequent to the City Auditor's report, continuous monitoring efforts indicated the Budget & Finance Department was still experiencing staffing shortfalls and had shown insufficient progress in high risk areas previously identified. This ICFR audit was added to the Audit Plan on March 22, 2021 based on those results.

The objective of this engagement was to assess the design and effectiveness of internal controls over financial reporting processes to ensure the risks of error, financial reporting misstatement, and fraud are sufficiently mitigated.

## SCOPE AND METHODOLOGY

---

The scope of this engagement included an assessment of the design and operating effectiveness of controls related to reporting of General Government financial information from October 1, 2020 through September 30, 2021. We performed the audit through inquiry, observation, and substantive testing for processes in scope. Specifically, the audit team:

### Month/Quarterly Financial Closing Process

- Reviewed the adequacy and completeness of policies and procedures for General Government Internal Controls over Financial Reporting.
- Reviewed and assessed the adequacy and effectiveness of management's monitoring of the periodic closing schedule/checklist.
- Assessed the adequacy of compliance of general ledger account mapping to the Uniform Accounting System (UAS) manual.

### Account Reconciliations

- Reviewed the effectiveness of management processes to identify and reconcile key balance sheet accounts.
- Assessed the adequacy and effectiveness of the monthly or quarterly reconciliations of select accounts.

### Grants Management

- Reviewed the effectiveness of current grant management processes, including utilization of Workday capabilities.



- Assessed the adequacy and effectiveness of controls around the preparation and reporting on the Schedule of Expenditures of Federal Awards (SEFA).

#### Government Accounting Standards Board (GASB) 87 - Leases

- Reviewed the adequacy of management's preparations and procedures to comply with Government Accounting Standards Board (GASB) 87 Lease Accounting effective for the FY22 reporting period.

## RESULTS AND CONCLUSION

As a result of our review, we determined that General Government internal controls over financial reporting are not designed adequately and/or operating effectively, which places the City at a *high risk* of presenting misstated and untimely financial reports.

The Audit Issue details and management action plans are included within the *Audit Issues and Management Action Plans* section beginning on page 12.

- **High Risk:** Key controls do not exist or are not effective, resulting in an impaired control environment. High Risk control weaknesses require immediate corrective action detailed in the management action plan.
- **Moderate Risk:** Adequate control environment exists for most processes. Moderate risk control weaknesses require corrective action detailed in the management action plan.
- **Low Risk:** Satisfactory overall control environment with a small number of low risk control improvement opportunities that do not require corrective action or a management action plan.

We would like to thank Budget & Finance personnel for their professionalism and cooperation during this engagement.

## GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this audit engagement in accordance with *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. Those standards require that we plan and perform the engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

## INTERNAL AUDIT TEAM

Ginger Bigbie, CPA, CFE, City Auditor  
 Brecka Anderson, CIA, CFE, CGAP, Assistant City Auditor  
 Gregory Robeson, CPA, CIA, CFE, Internal Audit Manager (Lead Auditor for this engagement)  
 Diana Ferguson-Satterthwaite, FCCA, CIA, Senior Internal Auditor



## BACKGROUND

Local government must serve the public good and uphold the principles of good governance: (1) accountability for funds collected from the public and (2) efficiency, effectiveness, and equity in the delivery of public goods and services. Transparency and integrity in governance support these ethical principles of democratic political systems.<sup>1</sup> Internal control over financial reporting (ICFR) relates to controls specially designed to mitigate risks associated with financial reporting.

Management of the General Government (GG) Budget & Finance Department (Finance) is responsible for ICFR and ensuring the financial reports are timely, complete and accurate, conform to accounting principles generally accepted in the United States of America (GAAP), and comply with laws and regulations.

### ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR)

Section 218.39, Florida Statutes, requires the City of Gainesville (City) to publish within nine months of the close of the fiscal year a complete set of financial statements (the Annual Comprehensive Financial Report) presented in conformity with GAAP.

As a consequence of being understaffed and inadequate skill sets with current employees, the City has had to outsource the compilation of financial statements to be audited. This resulted in \$123,735.41<sup>2</sup> of additional fees paid to the external auditor, which were funded through salary savings over the past 3 years (See Table 1).

**Table 1**

Annual Cost of Financial Statement Preparation	
Year	Expenditure Above Cost of Annual Financial Statement Audit
2018	\$28,500.00
2019	\$20,000.00
2020	\$75,235.41
Total	\$123,735.41 <sup>2</sup>

The ability of GG Finance to produce audited financial statements in a timely manner has posed problems for the City in recent years (see Table 2). A new Finance Director was hired in July of 2020; however, Finance continues to struggle with the financial reporting process.

<sup>1</sup> International Professional Practices Framework Supplemental Guidance Practice Guide, 2021, Unique Aspects of Internal Auditing in the Public Sector, <https://global.theiia.org/standards-guidance/recommended-guidance/practice-guides/Pages/Practice-Guides.aspx>



**Table 2**

Financial Year End	Annual Audit Report Completion Date	Completion Days after Year End	Date of Filing with the FL Auditor General	Number of Findings
September 30, 2016	March 24, 2017	175	April 26, 2017	0
September 30, 2017	June 5, 2018	248	June 28, 2018	0
September 30, 2018	June 17, 2019	260	August 5, 2019	3
September 30, 2019	June 29, 2020	273	June 30, 2020	3
September 30, 2020	April 15, 2021	197	June 30, 2021	6
September 30, 2021	Target Date – June 10, 2022	253	Audit in Progress	Audit in Progress

## EXTERNAL AUDITOR FINDINGS AND RECOMMENDATIONS

The City's external auditor has reported recurring material weaknesses and significant deficiencies in internal controls over financial reporting and recommendations for improving financial management for the last three external financial statement audits (FY18-FY20) summarized in Table 3, below. Section 10.554(1)(i)1, Rules of the Auditor General, requires the external auditor determined whether or not corrective actions have been taken to address findings and recommendations made in the preceding financial audit report. Some of the repeat findings also were not corrected for the 4<sup>th</sup> year, the FY21 external audit now in progress and noted in the findings of this internal audit report.

**Table 3**

Material Weakness, Significant Deficiencies and Recommendations Identified By External Auditors			
Fiscal Year External Auditor Report	Internal Control Findings	Control Activity	Details
2018- 2020	Bank Reconciliations	Material Weakness	Bank reconciliations were not completed on a timely basis during the year, and included unreconciled differences.
2018- 2020	Financial Close and Reporting	Material Weakness	Several accounts which were materially misstated, including revenue, accounts receivable, expenditures/expenses, accounts payable, debt, capital assets, and equity, resulting in many material audit adjustments.
2020	Schedule of Expenditures of Federal Awards and State Financial Assistance	Significant Deficiency	Near completion of the audit, management identified \$4,266,520 of federal and state grant expenditures that had been inadvertently left off the Expenditures of Federal Awards and State Financial Assistance (SEFA) and \$612,489 incorrectly included on the SEFA.
2020	Accounting for Grant Activity	Significant Deficiency	City had not accrued revenues for certain expenditure driven grants, resulting in an understatement of \$1,853,148 in grants receivables and revenues in the government-wide financial statements, and grants receivables and deferred inflows of resources in the governmental fund financial statements





Material Weakness, Significant Deficiencies and Recommendations Identified By External Auditors			
Fiscal Year External Auditor Report	Internal Control Findings	Control Activity	Details
2018- 2020	Segregation of Duties	Recommendation to Improve Financial Management	<p>The financial reporting processes lacked adequate segregation of incompatible duties relating to payroll and journal entries. Controls were insufficient to prevent:</p> <ul style="list-style-type: none"> <li>- Payroll employees from adjusting their own time in the system.</li> <li>- Timekeepers from changing pay rates in the system within their department.</li> <li>- Staff from posting a journal entry that had not been reviewed and approved.</li> </ul> <p>The new ERP system has improved system controls that separate some key accounting and finance duties. These systems controls are subject to an IT audit in progress at this time.</p>
2020	Building Permit Revenue Reconciliation	Recommendation to Improve Financial Management	<p>The City's building permit collections are processed through a point-of-sale system that does not interface with the accounting ERP system. The External auditors were unable to obtain a report of building permits issued during the year that agreed to the revenues recorded in the general ledger.</p>

## POLICIES AND PROCEDURES

According to Government Finance Officers Association (GFOA) best practices Policies and Procedures Documentation, "Communication is one of the elements of, and an essential component of, a comprehensive framework of internal control. One method of communication that is particularly effective for controls over accounting and financial reporting is the formal documentation of financial and accounting policies and procedures. A well-designed and properly maintained system of documenting financial and accounting policies and procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff. GFOA recommends that every government should document its financial and accounting policies and procedures."<sup>3</sup> The document also provides information that policies and procedures should contain including identifying key control activities to be performed, a practical step-by-step explanation of how each task should be performed and which employees are assigned to perform each identified task.

As the City transitioned to a new accounting system during the past fiscal year, it was imperative that procedures be updated to reflect current processes and internal controls over accounting functions including those related to financial reporting. We understand the difficulty management faced with the mid-year transition and staffing issues.

The Internal Controls Manager, hired in February of 2021, began a process of reviewing and updating the procedures and developed a list of those requiring action along with assigning responsible parties and establishing due dates. The Internal Control Manager resigned in October of 2021 and combined with

<sup>3</sup>: Governmental Accounting Standards Board (GASB) Concepts Statement No. 1 Objectives of Financial Reporting, <https://www.gasb.org/cs/ContentServer?c=Page&cid=1176160042391&d=&pagename=GASB%2FPAGE%2FGASBSectionPage#gasbcs6>





other staffing issues, follow-up on this item has not been performed and the procedures have not been updated.

### **CLOSING SCHEDULES/CHECKLIST**

Between July and October of 2020, the Finance Director provided samples of reconciliation documents and a financial closing checklist to the Assistant Finance Director and Accounting Manager with directions to develop similar processes and standard operating procedures. In January 2021 Internal Audit provided additional government accounting best practices around bank reconciliations and timely financial reporting. On March 25, 2021, a draft checklist, including a list of accounts to be reconciled prior to closing a financial period, was presented to the Finance Director, but was incomplete and indicated that only the October 2020 thru February 2021 bank reconciliations had been completed. Insufficient staffing and extended absences of the Assistant Finance Director and Accounting Manager contributed to the checklist and other closing financial reporting schedules from being implemented or used in a consistent manner.

### **GENERAL LEDGER ACCOUNT MAPPING**

The City implemented a new Enterprise Resource Planning System (ERP) in 2021. The ERP was designed in such a way that the implementation team was not able to complete an exact match of fund codes and general ledger accounts from the financial legacy system to the new ERP.

Section 218.33, Florida Statutes (F.S.), states “Each local governmental entity shall follow uniform accounting practices and procedures as promulgated by rule of the department to assure the use of proper accounting and fiscal management by such units. Such rule shall include a uniform classification of accounts.” The Department of Financial Services developed the Uniform Accounting System (UAS)<sup>4</sup> Chart of Accounts to be used as the standard for recording and reporting financial information to the State of Florida.

While management’s accounting system includes a uniform classification of accounts, we identified some fund codes and general ledger account codes that were not in strict adherence with the UAS which the State of Florida designed for local governments to follow. We deemed this to be low risk and have discussed this with management for their consideration.

### **ACCOUNT RECONCILIATIONS**

As noted in the timeline included as an appendix to this report, the Finance Director has repeatedly requested that accounting personnel prepare a list of accounts to be reconciled; however, there wasn’t any concerted effort to reconcile key balance sheet accounts other than the master bank statement to the cash accounts through February 2021. The auditee failed to provide eight of ten monthly balance sheet account reconciliations requested during the audit and there is no evidence that the reconciliations were completed.

---

<sup>4</sup> Uniform Accounting System Manual, 2021

<https://www.myfloridacfo.com/Division/AA/Manuals/documents/2020-2021UASManualREVISED.pdf>



## CENTRALIZED GRANT MANAGEMENT OVERSIGHT

A prior Internal Audit grant management advisory engagement completed by the City Auditor's office in March of 2021 identified considerations for grant administration process improvement, including the need for a centralized grant oversight role in the Budget & Finance Department. The report also included a recommendation to fully utilize the Grants Module included in the new ERP.

During this audit we reviewed the status of the grant management risks addressed in the earlier advisory engagement and determined that while the city has budgeted for a centralized Grants Accountant to provide assistance to the various departments who administer grants, the position has not been filled. A new position was added to the FY 2022 budget and became available to fill on October 1, 2022. Additionally, while detailed information is being entered into the Grants Module for all new grants, information was incomplete for all grants transferred to the new ERP from the financial legacy system. All grant work is now being assigned to one accountant and the Accounting Division is making progress, but understaffing and a lack of expertise in this area impacts the support it can provide.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

Code of Federal Regulations Title 2, Subtitle A, Chapter II, Part 200, Subpart F (200.501 Audit Requirements),<sup>5</sup> requires "a non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal Awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part." The Schedule of Expenditures of Federal Awards (SEFA) is a supplemental schedule to the audited financial statements.

A federal award is financial assistance or a cost reimbursement contract that a non-federal entity receives directly or indirectly from a pass-through entity. Management is responsible for identifying federal awards and ensuring compliance with laws, regulations, contracts and grants. The City of Gainesville expends over \$16,000,000 in federal and state assistance annually, see Table 4 below:

Table 4: EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE				
Awards	FY 21- Unaudited	FY 20	FY 19	FY 18
Federal	15,311,279	14,186,021	11,722,979	15,692,921
State	1,345,799	3,745,222	4,627,188	3,849,440
Total	16,657,078	17,931,243	16,350,167	19,542,361

In reviewing the current draft SEFA prepared during the FY21 General Government external financial statement audit, we identified minor errors that were brought to the attention of accounting personnel. Two awards were classified as expenditures for state funded grants, but should have been listed as federally funded awards and a review of accounting records identified two awards with a combined total of \$28,615 that were not listed in the draft SEFA.

<sup>5</sup> eCFR:: 2 CFR 200.501 – Audit Requirements, <https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-F/subject-group-ECFRfd0932e473d10ba/section-200.501>



## PREPARATION FOR IMPLEMENTATION OF GASB 87 (LEASES)

The Government Accounting Standards Board (GASB) released Statement 87 (Leases) with an effective date for reporting periods of fiscal years beginning June 15, 2021 and all periods thereafter. GASB Statement 87 revisits the way in which a government entity is required to account for leases in the financial record. As the City is involved with a large number of leases, it is essential that accounting personnel begin early preparations to adjust their processes to comply with the statement. Accounting Division personnel have not begun preparation identifying all existing leases and activities that may be considered leases under GASB Statement 87.

An article from the CPA Journal explains, “Prior to the issuance of GASB Statement 87, the accounting of leases in governmental accounting followed FASB Statement of Financial Accounting Standards (SFAS) 13, Accounting for Leases, which centered on the classification of the nature of the lease as either operating or capital.” “Under GASB Statement 87, a lease is a “contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) as specified in the contract for the period of time in an exchange or exchange-like transaction.” It is based on the principle that “all leases are financings of the right to use a capital asset.” Therefore, all leases are accounted for as financing leases unless they fit into one of the provided exceptions.”

“The biggest change in the new leasing standard with respect to state and local governments is that retroactive application to existing leases is now required. In contrast to the prospective approach for tax abatements taken by GASB Statement 77, governments will have to consider all leasing arrangements as of the date of implementation for GASB Statement 87 and not at the inception of the lease.”<sup>6</sup>

---

<sup>6</sup> CPA Journal April 2020 – The Implications of GASB Statement 87 on Lease Accounting,  
<https://www.cpajournal.com/2020/04/29/the-implications-of-gasb-statement-87-on-lease-accounting/>



## AUDIT ISSUES AND MANAGEMENT ACTION PLANS

### ISSUE #1 Inadequate Internal Controls Over Financial Reporting

Risk rating: [High]

**Observation:**

Internal controls over financial reporting are inadequate and do not provide for the accurate and timely reporting of the City's financial activity and position. Control deficiencies around General Government financial reporting standard operating procedures and key balance sheet account reconciliations are detailed below.

1. **Written procedures and narratives** related to the financial close process are inadequate and do not provide for the consistent and timely reporting of General Government financial activity. While several narratives outlining transactional control activities were developed and provided to the external auditors, the narratives do not adequately address the steps and processes necessary to reliably close the financial period, reconcile key accounts and report on the City's financial activity and status for the period. Narratives or procedures regarding Accounts Receivable and SEFA preparation were not provided to the auditors.

The list of available narratives that were reviewed are summarized below in Table 5.

**Table 5**

Narrative	Detail or Area of Insufficient Information
Cash FY21	Process for review of the Daily Cash Report including proper segregation of duties and management oversight.
Cash Receipts - Revenues Governmental Funds FY21	Process for reconciliation of cash accounts to bank statements, including timeframe for completion and responsible party.  Process for preparing and posting required adjustments identified during the reconciliation process, including timeframe and responsible party. <sup>7</sup>
Cash Receipts - Building & Planning Revenues FY21	Process for completing daily treasury functions such as reconciling vendor management payments and chargebacks, including timeframe and responsible party.
Inventory FY21	Process for review of inventory count variances, including management oversight and approval prior to preparing or entering adjustments.  Process for reconciling physical inventory totals to General Ledger accounts and posting of required adjustments, including timeframe and responsible party.



Narrative	Detail or Area of Insufficient Information
Accounts Payable FY21	<p>Process for completing the 3-way match (Purchase Order Quantity = System Receipt Quantity = Invoice Quantity) was incomplete as the system receipt process was not defined.</p> <p>Process for reconciling Accounts Payable transactional activity to payments and general ledger. High level procedures should describe expectations for performing the monthly reconciliation.<sup>7</sup></p>
Financial Close and Reporting	<p>Process for producing and reviewing the trial balance including frequency, identification of areas of concern and reporting to senior management.</p> <p>Process for identifying and posting required accrual transactions.</p> <p>Process for establishing, monitoring and updating relevant accounting estimates used by the City.</p> <p>Expectations for reconciling key balance sheet accounts, including identification of key accounts to be reconciled, frequency of reconciliation, assignment of preparation, review and approval responsibilities, expectations for timely research and resolution of variances, and expectations to govern appropriate separation of duties.</p> <p>Process for preparing internal month/quarter financial reports and the draft financial statements for the external auditors, including any required schedules such as (SEFA).</p> <p>Timeframes, schedules, responsible parties and checklist for completing financial close and reporting process.<sup>7</sup></p>

Expectations for standard operating procedures and internal controls for financial reporting close processes were clearly communicated by the Finance Director to accounting staff in 2020 and 2021 but follow through was not sufficient to ensure implementation; therefore, significant control deficiencies continued despite three years of external auditor material weaknesses and significant deficiencies findings.

In addition, the Office of the City Auditor provided a verbal update on the existing risk around the financial reporting internal controls to the Audit and Finance Committee on September 23, 2020 and a written memo distributed to the Mayor and City Commissioners on December 9, 2020. Balance sheet account reconciliations were noted as at risk and monthly/quarterly financial close processes had not yet begun. The following controls were noted as started in the memo but during this engagement the auditor noted progress had stalled: financial reporting close checklist and year-end ACFR checklist (this is not the external auditor request list); bank account reconciliations; staffing resources; revenue and expense account management, including capital projects.

<sup>7</sup> GFOA best practices Timely Financial Reporting, <https://www.gfoa.org/materials/timely-financial-reporting>



2. **Key balance sheet account reconciliations** are incomplete and are not being prepared or reviewed in a timely manner. The auditors requested two reconciliations for each of five general ledger balance sheet accounts and received the two reconciliations for one account only – the Master Treasury account, where the most recent reconciliation was performed for the month of February 2021. Reconciliations for the Unapplied Recorded Deposits, Unbilled Receivables, Accounts Receivable and Grants Receivable accounts were not completed. Accounts receivable aging is not performed to help collect aging accounts and identify bad debt write off. In fiscal year 2021 the Internal Control Manager at the time noted an unusual liability account balance that had not been reconciled for years. Upon review with staff and Internal Audit, a resolution was put in place and a majority of the \$733,000 balance was paid in June 2021. At the time of this engagement, the remaining balance had not been paid and the account had not been reconciled in several months, increasing the risk of violating State reporting laws, rules and regulations.

The master treasury bank account reconciliations were not reviewed and approved by the Accounting Manager until more than eight months after the end of the period. Both reconciliations included general ledger adjustments (first identified in the October 2020 reconciliation) and carried over from month to month, including a credit of \$204,901,267 to move the proceeds from the pension obligation bond to the investments account. This adjustment was not posted to the general ledger until June 30, 2021, eight months later.

#### **Criteria:**

The Government Accounting Standards Board (GASB) is the independent, not-for-profit organization formed in 1984 that establishes and improves financial accounting and reporting standards for state and local governments. According to GASB *Objectives of Financial Reporting*, “State and local governmental financial reports should possess these basic characteristics: understandability, reliability, relevance, timeliness, consistency, and comparability.”<sup>8</sup>

According to Government Finance Officers Association (GFOA) best practices *Policies and Procedures Documentation*, “Communication is one of the elements of, and an essential component of, a comprehensive framework of internal control. One method of communication that is particularly effective for controls over accounting and financial reporting is the formal documentation of financial and accounting policies and procedures. A well-designed and properly maintained system of documenting financial and accounting policies and standard operating procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff. GFOA recommends that every government should document its financial and accounting policies and procedures.”<sup>9</sup> The document also provides information that policies and procedures should contain including identifying key control activities to be performed, a practical step-by-step explanation of how each task should be performed and which employees are assigned to perform each identified task.

---

<sup>8</sup> Governmental Accounting Standards Board (GASB) Concepts Statement No. 1 Objectives of Financial Reporting, <https://www.gasb.org/cs/ContentServer?c=Page&cid=1176160042391&d=&pagename=GASB%2FPAGE%2FGASBSectionPage#gasbcs6>

<sup>9</sup> Government Finance Officers Association (GFOA) best practices Policies and Procedures Documentation, <https://www.gfoa.org/materials/policies-and-procedures-documentation>



Furthermore, GFOA best practices, *Timely Financial Reporting*, states, “Governments should use a period-end closing checklist to ensure that all the necessary steps to perform the close are completed and assigned to an individual. The checklist should encompass the journal entries required to close each period, the reconciliations and account analysis to be performed”. The document also mentions, “A government should undertake a process of monthly, quarterly, and annual reviews to ensure the ongoing completeness and accuracy of the data it collects. This process should include appropriate reconciliations to identify adjustments, as well as financial analysis of interim management reports to identify anomalous or incomplete data to be corrected.”

Account reconciliations help to ensure the accuracy and reliability of financial reporting. Balance sheet reconciliations are a comparison of the amounts that appear on your balance sheet general ledger accounts to the details that make up those balances, while also ensuring that any differences between the two are adequately and reasonably explained.

The Committee of Sponsoring Organizations (COSO) Internal Control – Integrated Framework establishes that Monitoring Activities are one of the five essential components of the internal control framework. Included in Monitoring Activities is Principle 16 which states, “The organization selects, develops and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.”<sup>10</sup>

#### **Cause:**

For at least the prior three years, the General Government Budget & Finance Department has struggled to maintain sufficient staffing levels and subject matter expertise in accounting areas and has three unfilled accountant positions in the department as of December 2021. Despite numerous efforts by leadership, including Internal Control Manager assistance, most financial reporting control improvements were never implemented or discontinued by Accounting Division personnel. Three staffing sources (two external consultants and one internal source) interviewed for this engagement stated that they could not perform control process improvements over recent years due to lack of access to necessary accounting information.

Furthermore, there is a lack of government accounting subject matter expertise among some General Government accounting and finance personnel and an unexpected level of trained staff to design and implement sufficient key financial reporting controls. Specific examples include the lack of emphasis on reconciling balance sheet accounts in a timely manner and errors in recording General Fund Transfer transactions when funds are received. An Internal Control team was added to the department in recent years but with staff departures, control improvements were stalled or not implemented.

#### **Risk:**

Inadequate internal controls over financial reporting increase the risk of inaccurate and/or untimely reporting of the City’s financial condition and financial operations. “Financial reports are used primarily to compare actual financial results with the legally adopted budget; to assess

---

<sup>10</sup> The Committee of Sponsoring Organizations (COSO) Internal Control – Integrated Framework, <https://www.coso.org/Documents/COSO-ICIF-11x17-Cube-Graphic.pdf>





financial condition and results of operations; to assist in determining compliance with finance-related laws, rules, and regulations; and to assist in evaluating efficiency and effectiveness.”<sup>1</sup>

In addition, inadequate financial reporting internal controls can negatively impact the City’s utility financial reporting process as the utility issues its own financial statements and relies on certain citywide information, such as general pension fund reporting, to complete its utility financial statements each year.

### **Recommendation:**

The City Auditor recommends and agrees with the following management action plan.

#### **Management Action Plan**

*Management agrees with the City Auditor’s findings regarding General Government’s internal controls over financial reporting not designed adequately and/or operating effectively. We have hired an external CPA firm Carr, Riggs, & Ingram, LLC, to provide immediate support with day to day operations, reconciliations, fiscal year closeout entries, and external audit preparation. On an on-going basis, we will continue to work with Collaborative Solutions, the Workday implementer, City staff and the external CPA firm to revise existing processes where necessary to best utilize the functionality of the new system for both efficiency and internal controls. Additionally, we will implement the following action items to correct the issues:*

1. *Create a new staffing structure within Budget & Finance as follows:*
  - *Revising job description to include a CPA requirement for the Senior Accountant prior to filling vacant position.*
  - *Revising job description for the Accounting Manager to include a CPA requirement.*
  - *Creating a Controller position to provide supplemental technical oversight over the Accounting Division.*
  - *Reviewing overall Department and Accounting Division structure including analyzing staff capacity and capability to perform job functions and make adjustments as needed based on recommendations provided by the Finance Director and external CPA firm, including assessing staff levels and reviewing need for additional positions in the Accounting Division.*
  - *The Interim City Manager and General Manager for the Utility are in the initial phase of discussions regarding shared functions in the financial services area. Recommendations will be shared with the City Commission when ready.*
  - *The Finance Director is the responsible party for this action item with an expected due date between January 31, 2022 and March 31, 2022.*
2. *Actively review policies and standard operating procedures for revisions and updates to include clear reporting requirements such as quarterly financial reporting and a debt manual. The Finance Director is the responsible party for this action item with an expected due date of September 30, 2022.*
3. *Implement immediate training and cross-training across the Accounting Division with the assistance of Collaborative Solutions, the Workday implementer and external CPA firm. The*



*Finance Director is the responsible party for this action item. The process is ongoing and training sessions began on December 21, 2021.*

4. *Implement recommendations for internal control improvements such as proper segregation of duties, performing significant account reconciliations on a monthly basis, closing and reconciling the general ledger on a monthly basis, year-end reconciliations and closing processes, and financial statement preparation. The Internal Control Manager will test these functions quarterly, in not more frequently. The Finance Director and Internal Control Manager are responsible for this item with an expected due date of September 30, 2022.*

**Due date:** January 31, 2022 thru September 30, 2022

**Responsible Parties:** Cintya Ramos, Finance Director  
Jane Brockes, Internal Control Manager

**Accountable Party:** Cintya Ramos, Finance Director

**Consulted Party:** Fred Murray, Assistant City Manager

**Informed Party:** Cynthia Curry, Interim City Manager



## APPENDIX I - TIMELINE

The following timeline highlights auditor concerns related to ICFR and management's actions which were initially identified by the external auditors when auditing the in FY 2018 financial statements:

March 24, 2017: FY 2016 Comprehensive Annual Financial Report issued by Carr, Riggs & Ingram, LLC with no reported significant deficiencies or disclosed material weaknesses in internal control over financial reporting.

July 6, 2017: General Government Finance Director resigned. Current Assistant Finance Director fulfills the role until a new Finance Director is hired.

October 9, 2017: New General Government Finance Director hired.

June 5, 2018: FY 2017 Comprehensive Annual Financial Report issued by Carr, Riggs & Ingram, LLC with no reported significant deficiencies or disclosed material weaknesses in internal control over financial reporting. Delays in reporting on financial statements begin, with the FY 2017 report issued 73 days later than FY 2016 report.

December 1, 2018: General Government Finance Director resigned. Current Assistant Finance Director fulfills the role until a new Finance Director is hired.

June 17, 2019: FY 2018 Comprehensive Annual Financial Report issued by Purvis, Gray & Company, LLP with three reported findings (Bank Reconciliations, Financial Close and Reporting, and Capital Outlay Reconciliation). Delay in reporting increase by 12 days (85 days later than FY 2016 report).

June 29, 2020: FY 2019 Comprehensive Annual Financial Report issued by Purvis Gray with three reported findings and recommendations (Bank Reconciliations, Financial Close and Reporting, and Segregation of Duties) of which two were recurring from the FY 2018 report. Delay in reporting increase by 12 more days (97 days later than FY 2016 report).

July 13, 2020: Current Finance Director hired.

October 5, 2020: Finance Director requests the Assistant Finance Director and the Accounting Manager for policies and checklists to assist in the financial closing process. The Finance Director provided examples.

November 18, 2020: Finance Director asks for update on the preparation of policies and checklists.

December 9, 2020: City Auditor issues Internal Audit Reporting Process Review memorandum providing a status update to the City Commission regarding General Government financial process control improvements to ensure timely completion of the external financial statement audit processes and to improve the financial process control environment. Auditors begin continuous monitoring of the department's progress, providing assistance when requested and attending periodic meetings with the Finance Director and accounting personnel.

January 7, 2021: Finance Director requests an update on the preparation of procedures and checklists, including due dates.



January thru March, 2021: Budget & Finance Department hires a Certified Public Accountant (CPA) on a part time basis to help perform bank reconciliations. CPA is able to perform the initial steps of reconciliations for the period of October 2020 thru February 2021. However, the reconciliations are not completed as the CPA was not provided with the information required to resolve significant variances.

February 15, 2021: Internal Controls Manager hired and begins identifying key controls and assisting with the development and update of policies and procedures.

March 3, 2021: Finance Director requests an update on the preparation of procedures and checklists, emphasizing that the documents need to include specific tasks with names of personnel assigned, due dates and actual completed dates.

March 21, 2021: The General Government Accounting Manager provides a list of accounts to be reconciled as part of the financial closing process which includes assignments, target dates and completion dates. The only items on the list that were identified as completed were bank reconciliations through February 2021.

April 15, 2021: FY 2020 Annual Comprehensive Financial Report issued by Purvis Gray with 6 reported findings and recommendations (Bank Reconciliations, Financial Close and Reporting, and Segregation of Duties) of which two were recurring from the FY 2018 report and one was recurring from the FY 2019 report. The delay in reporting was reduced significantly to a level near the FY 2016 report (22 days later than FY 2016 report).

May, 2021: Internal Control Manager notices an unreconciled balance in Surcharge payable account. Subsequent reconciliation identifies \$732,587.46 in delinquent payments required to be remitted to the State of Florida. City personnel met with representatives of the Florida Department of Business and Professional Regulations and agreed to make payment. A partial payment in the amount of \$623,780.00 was remitted as of September 30, 2021.

May 25, 2021: City Auditor begins discussions with Finance Director on early FY 2021 financial statement audit planning and preparing pension data to be provided timely to GRU, ensuring FY2021 financial statement audit deadlines are met.

September 15, 2021: City Auditor inquires about the status of pension data being provided to GRU. GRU Chief Financial Officer (GRU CFO) responds that they have discontinued the meeting series regarding the pension data and other year-end information and defaulted to a schedule of items needed. The schedule includes the requirement to provide the pension data by November 15, 2021. The GRU CFO cautions that missing the deliverable dates can result in bond rating downgrades and resulting increased borrowing costs.

October 29, 2021: Internal Control Manager resigns. Progress on the development of policies and procedures and testing of internal controls stops.

November 16, 2021: GRU Controller requests a status update as the pension data had not been received. General Government Accounting Manager replies on November 18, 2021 indicating the General Pension financial statements would be provided to the General Government Investments Manager on November 22, 2021 for an initial review.



November 23, 2021: GRU CFO and Controller request status update as the documents have not been received by GRU. The Assistant Finance Director replies on November 24 that the financial will be provided to the Investments Manager and the Actuary on November 29, 2021.

November 30, 2021: GRU CFO requests status update. The Finance Director responds that she would provide an update on December 1, 2021.

December 2, 2021: The Finance Director communicates with the GRU CFO and indicates that the financial statements have not been completed and that a CPA firm will need to be hired to complete the accounting entries and financial statements.

December 3, 2021: GRU CFO emails the status of the financials and includes the City Auditor. The email also conveys that the pension information from the actuary is necessary for GRU to issue their financial statements.

