

CITY OF FAIRBURN, GEORGIA
Professional Multifaceted Forensic Services
For Fiscal Years 2016, 2015 and 2014
Except for the General Obligation Bond Fund Extended Back to 2011.

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

To the Mayor and Members of the City Council
Fairburn, Georgia

We have performed the procedures enumerated herein for the City of Fairburn, Georgia (the "City"), which were agreed to by the Mayor and members of City Council, pursuant to the Agreement for Professional Services entered with the City on October 10, 2016. The scope of services included the review of the identified City financial practices and related internal controls to assess and report on noncompliance with policies and procedures of the City and, if any, deficiencies in the City's internal controls and to assess the probability that fraudulent activities may have occurred in the prescribed areas.

Management of the City is responsible for the establishing and maintaining of internal controls including fraud processes and controls and the City internal control over compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the management of the City. Consequently, we make no representation regarding the sufficiency of the procedures described and reviewed herein, either for the purpose for which this report has been requested or for any other purpose.

Background –

The change in management close to the end of fiscal year 2016 brought on a serious and persistent wave of concerns and suspicions of wrongdoing and misrepresentation within certain financial aspects of the City expressed by members of the City Council. The concerns were regarding the City's compliance with its contracting and procurement functions in general and specifically related to:

- selection and use of vendors and the resultant propriety of costs in the procurement process;
- the sufficiency of controls over the Purchase-Card program;
- the proper expending, recording and reporting of the 2011 Series General Obligation Bonds proceeds; and,
- the existence of sources and uses of funds outside the City's finance department.

At question is the adequacy and effectiveness of the City's internal controls which is essential for detection and deterrence of fraud within the contracting and procurement process; cardholder misuse and/or abuse of the Purchase-Card; misapplied and/ or misuse of 2011 General Obligation Bond proceeds and the proper handling of funds outside the City's finance department.



There is suspicion that the contract and procurement process may have been compromised in allowing for manipulation by vendors to gain an unfair advantage. The possible existence of these inadequacies combined with the possibility of management override of the internal controls could provide opportunities for fraudulent activities.

Discussions with various management personnel and other staff members of the City and elected officials also revealed concerns regarding contractors being provided information on a preferential basis, the lack of enforcement and/or internal control procedures requiring the City Engineer to sign off on contractors' payment certificates upon verifying the project completion percentage and, if applicable, task orders related invoices, unexplained inordinate use of some vendors and frequent change orders to contracts, the suspicion that costs were extremely high for certain contracts and poor and infrequent communication and lack of transparency with the City Council. In addition, the following were mentioned in interviews: that there were minimum checks and reviews in the accounting area; the City's internal control system was inadequate, and its weak implementation and lack of proper monitoring encouraged management decisions that can likely be controlled and driven by an individual with the appropriate ability, the financial know-how and the access to override financial and other relevant internal controls without checks on the possibility of fraudulent activities. While none of these red flags intends to convey that any employee has actually committed fraud, a combination of these factors do seriously indicate an urgent need for considered and thoughtful inquiries and heightened audit attention.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the City's financial practices and internal financial controls. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Mayor, members of City Council and the Interim City Administrator and is not intended to be and should not be used by anyone other than those specified parties.

Ranks, Finley, White & Co.

April 28, 2017

Summary of Procedures Performed

Pursuant to the Agreement for Professional Services, the Scope of Work section of the Agreement set forth the following specific tasks to review, research, examine and investigate in order to assess the City's adherence to sound policies and procedures -

Task:

Contracting and Procurement Process –

1. Review and analyze vendor files to determine if the selection and use of vendors is consistent with City policies and procedures as well as sound business practices and determine that payments to reviewed vendors are appropriate.
2. Review practices used in the selection of contractors under request for proposals and the execution and approval of related change order to determine adherence to City procurement policies and procedures as well as sound business practices.
3. In connection with the related contracts under item 2 above, review the propriety of costs charged under the contracts in relation to the specified scope of the contract.

Purchase Cards Activities –

4. Review use of purchase cards of selected City employees for propriety of purchases to determine adherence to City policies and procedures.

2011 General Obligation Bond Activities –

5. Review use of funds from the 2011 Series General Obligation Bonds to determine whether funds were used only for projects designated within the provisions of the bond documents and whether expenditures were properly recorded and reported.

Sources and Uses of Funds Outside the Finance Department –

6. Review and analyze controls over and the source and use of funds for any and all City bank accounts outside the control of the City's finance department, to include but not limited to the following account –
 - a. Confiscated Assets Account
 - b. Human Resources Account

General Overview

We interviewed various personnel from the City's Administration and Clerk's Offices; Finance, General Accounting and Reporting Department; and, the senior management and various staff members within most of the City's departments. From these interviews and a stream of phone discussions and e-mail exchanges, a multitude of documents were obtained and reviewed to gain an understanding of processes, transactions and events pertaining to and impacting the City's adherence to its policies and procedures within the specified areas. During this assessment phase the following documents were obtained and reviewed relative to the City:

- The Organization Chart of the City and its various departments
- Job profile and descriptions for all management positions
- Procurement Policies and Procedures Manual
- Purchase Card Manual
- Summary of Monthly Purchase Card purchases and related reconciliation logs
- Human Resource Personnel Policy
- Roster of employees for fiscal years 2016, 2015 and 2014.
- Summary of W-2 information for fiscal years 2016, 2015 and 2014.
- 2011 General Obligation Bond Official Statement
- Information on collections and expenditures of Hotel/Motel taxes from inception to September 30, 2016
- Listing of all vendors with relevant statistics
- Roster of employees with relevant demographics
- Various City ordinances and resolutions including fiscal year 2015 Budget adjustment
- Selected vendor files and all supporting documentation
- Contractors' Certificates of Payments
- Copies of Task Orders and related invoices
- Bank Statements and related bank reconciliations
- General Ledger account summaries
- Check register data files
- Accounts payable payment packages for selected payouts
- Copies of issued checks for selected vendors
- Copies of Budgets for fiscal years 2016, 2015 and 2014
- Copies of CAFR for fiscal years 2016, 2015 and 2007 through 2014

Procedures Performed, Results and Observations

Task Numbers 1 through 3 – Contracting and Procurement Process

Overview –

Determine if the selection and use of vendors is consistent with City policies and procedures as well as sound business practices and determine that payments to reviewed vendors are appropriate

Determine if practices used in the selection of contractors under request for proposals (RFPs) and the execution and approval of related change order to determine adherence to City procurement policies and procedures as well as sound business practices.

Determine the propriety of costs charged under selected contracts in relation to the specified scope of the contract.

Procedures Performed –

We obtained and reviewed the City's organizational information including organization charts, number and names of employees and job descriptions and gathered information about the activities of key employees; read details about recent changes in management; various minutes of City Council; Public documents such as the Comprehensive Annual Financial Report (CAFR) for the fiscal years 2016, 2015, 2014 and 2007 to 2013; and, the City's Purchasing Procedure Manual, dated July 28, 2003 to gain an understanding of the Purchase Department Mission Statement, its Code of Ethics and the methodology in relation to the selection and use of vendors. Various personnel responsible for the purchasing activities were interviewed.

Various vendors were selected from the consolidated vendor accounts payable disbursement report covering fiscal years 2016, 2015 and 2014 to review for propriety of selection practice and payment. Several of the selected vendors were non-construction vendors and eight (8) construction vendors (including project and management service providers) which were tested for compliance with the RFPs process. The supporting documents reviewed included purchase requisitions, purchase orders, invoices, service contracts, task orders, change orders documentation, receiving reports, quotation forms, check requests, copies of checks and the City Council approvals in the appropriate minutes, if applicable.

To gain an understanding of the RFPs process, we obtained and read the City's Purchasing Procedure Manual, dated July 28, 2003 relative to the selection of contractors and the execution and approval of related change orders. This process is also referred to as the City's comprehensive Bidding Process.

The supporting documents for the construction vendors included bid opening forms, technical specifications, bid tabulation and supporting scoring tables, bid award letter, purchase orders,

Certificate of Payments, review letters by project construction and management service provider, notices to proceed and expected completion date letters, Task Orders and related invoices, service contracts, change orders documentation, City Council approvals in minutes, and other bid package documentation, check requests and copies of check.

We compared the addresses of employees on the employee master file (287 records) to the addresses on the vendor master files (8,885 records) extracting records with matched addresses for fiscal years 2016, 2015 and 2014.

A more detailed screening and scrubbing of two specific vendors were performed. One of the selected vendors was a construction contractor representing hard construction costs with payments evidenced by summary and analysis of each Certificate of Payment. The other vendor selected was a professional service contractor providing soft cost in the areas of project and construction management evidenced by summary and analysis of numerous individual Task Orders supported by a multitude of specific vendor invoices.

We obtained and summarized the thirteen (13) Application and Certification of Payments accounting for approximately \$1.6 million of project costs for a specific hard cost construction provider. We traced each payment to the related Application and Certification of Payment forms and its supporting schedule of work; listing and copies of check disbursements; and, to the appropriate general ledger accounts.

We obtained and summarized approximately two dozen Task Orders supported by over 100 related invoices accounting for approximately \$350,000 paid for soft costs (construction and project management services) provided by a certain vendor during fiscal years 2016, 2015 and 2014 related to numerous construction projects . We traced the payments made to the vendor to the general ledger and copies of checks.

Results and Observations - Selection and use of vendors

In discussions and observations, the City's staff expressed their general understanding of the City's purchasing procedures and valued the importance of selecting appropriate, well established and competent providers of goods and services to the City.

The sample items selected for review and the supporting documents examined showed that vendors were generally selected in compliance with the City's Purchasing Policy and Procedures. Cost incurred were paid to the appropriate vendors at the contracted amount including change orders and properly approved by management, Mayor and City Council, if required, in accordance with project agreements and based on information provided to the Council by management, except for the noted discrepancies in the selection of provider of construction and project management services. Various severe structural inadequacies and many internal control weaknesses were noted as discussed below in the section- *Results and Observations - Selection of Contractors under RFP Process*.

There were four matched addresses in comparing the employee master file to the vendor master file. Three of the payments were to vendors who were the principals of the enterprises before being hired by the City. The other was a refund check to a former Council member.

Results and Observations - Selection of Contractors under RFPs Process–

In the review of the selected contractors, we noted the following.

Noncompliance with Purchase Policy Provisions

- Missing written certification in writing by purchasing department employees that they had read and understood the City's purchasing policy.
- The issuance of contract awards and task orders did not result in the generation of purchase orders. Purchase orders were generated after receipt of vendor invoices.
- Vendors were not indicating purchase order number on their invoices and purchase orders were consistently dated after the invoice dates.
- In many instances the purchase requisitioner's name was not indicated on purchase orders, only a City department name and the City Administrator. There was no evidence of sign off by the City Engineer.

Procurement Contract Template Regarding Liquidated Damages

Penalty provisions in the contract template used by the City's in its procurement process was not precise enough for proper execution. Missing elements included the following.

- The criteria used to determine when a project is substantially completed was not clearly indicated.
- There was no mention of time-lines regarding the review of contractors' payment certificates and their relevant support by third-party project construction and management service providers.
- Nothing is stated regarding the impact and time-line of final adjustments to the construction schedule of work.
- There was no adherence to internal control on the calculation and retrieving of fees for liquidation damage. The following is an example

The Mayor and Council approved the Fairburn Downtown Plaza, Stage & Restroom Building project on 2/24/14 for \$1,596,000 to be completed in 180 days. Based on the Notice to Proceed (NTP) dated March 31, 2014, the contract was to be substantially complete on August 27, 2014 and the date of completion was September 26, 2014. As of September 25, 2014, the amount paid to date by the City for work performed was 54% of the contract amount plus a small change order per Certificate of Payment No.7. This date was one day before required completion date with the status of the project on a very late completion

projectory. It was 94 % completed as of December 25, 2014. There was no document to support the revision to the project completion date.

Task Orders Inadequacies

The Task Order process requires adequate summarization and timely reviews and sign offs by the City's Engineer and review by the Finance Director or designee. The noted the following exceptions in this process.

- The issuance of Task Orders are not resulting in the generation of purchase orders. Purchase orders are created after receipt of invoices which indicated that vendors are not given the purchase order number to place on invoices.
- Task Order numbers were not noted on purchase order and vendor invoices.
- There was an absence of summaries of expenditures under task orders to verify that accumulated total of invoices did not surpass the approved Task Order total. As a result, we noted instances where invoices paid under Task Orders surpassed approved Task Order totals without proof of adjustments to the Task Order total.
- There were paid invoices dated after end of Task Order period without adjustment to Task Order applicable period.
- There was an inordinate amount of purchasing done through one vendor that was also "on-call" and whose projects were task order driven.
- Invoices of the provider of soft cost was controlled by the City Administrator without proof of sign off by the City Engineer and the Finance Director or his designee.
 - The detail scoring sheets to support the final score tabulation for the bidding documents (RFP – 14-003 dated 11/27/2013) and the summary of Task Orders for that Vendor No. 01-064120, the soft cost provider for professional project construction and project management services, for the contract dated March 4, 2014 and terminated February 28, 2017 were not located.
 - It was observed that the same final score tabulation for the winning bidder for the construction and project management services presented to the City Council appeared to have been used in another project bided out by the City in 2013.
 - The City Administrator was a selector on the bid evaluation and selection team.
- Some scoring sheets were not signed and dated.

Finance Department Involvement in Review of Transactions

The Finance Department was not fully utilized in the City's over construction projects.

- The execution of monthly reviews was not instituted and standardized.
- The reviews with date and initial signoffs by personnel in this position were not performed.
- Management Annual performance review did not hold the managers in the Finance Department accountable for the appropriate execution and oversight of the City's internal control for all financial transactions.
- Feed-back for internal control enhancement purposes were not required and obtained in finance personnel departure exit interviews.

Recommendations –

Based on our review of selected contracts awarded under the RFPs process, we offer the following recommendations to improve and enhance internal controls.

- Within the Bidding Process one senior management personnel appeared to have overridden internal controls. Policies relating to the bidding, selection and award of contracts should be strictly adhered to with appropriate reviews and approvals.
- The filing system for storage of bid documentation needs to be upgraded.
- The Purchasing Procedure Manual was last updated 14 years ago. The City should update its Purchasing Procedures Manual and require mandatory training by affected personnel relative to its provisions . All participants who are required to comply with the purchasing procedures must certify in writing of their reading, understanding and compliance of City's Purchase Procedures Manual. The Manual should include rewrite and updates of the following:
 - Penalty provisions related to liquidated damages and requirements for execution of these provisions
 - Requirement that the City's Engineer reviews of task order authorization should be mandatory and documented on monthly summary and analyses periodically presented to the City Council.
 - A detail checklist for filing bid tabulation and bid support documents for all vendors bidding for the construction project.
- A comprehensive Citywide strategic plan for capital projects should be initiated within the Capital Project Fund with precise project numbering, with high and consistent level of City engineer oversight and sign off and supported by sound financing.
- The City should have someone independent of the procurement process review related documentation to ensure compliance with policies and procedures.

Task number 4 - Purchase Card Activities

Overview –

Determine the propriety of use of purchase cards of selected City employees to determine adherence to City policies and procedures.

Procedures Performed –

We selected and reviewed the following months Purchase Card Reconciliation Summaries and the related supporting documentation including invoices, receipts and other verifying documents:

- | | |
|---|---|
| <ol style="list-style-type: none">1. Fiscal Year 2016<ol style="list-style-type: none">a. January 21, 2016b. May 20, 2016c. August 22, 2016
2. Fiscal year 2014<ol style="list-style-type: none">a. October 21, 2013b. December 20, 2013c. June 21, 2014 | <ol style="list-style-type: none">2. Fiscal Year 2015<ol style="list-style-type: none">a. January 21, 2015b. February 20, 2015c. April 21, 2015d. May 21, 2015 |
|---|---|

Results and Observations - Purchase Card Activities

Our review indicated that overall the supporting documents examined showed that cost incurred were accurate and reasonable, paid to the appropriate parties and in accordance with City policies and procedures except for noted structural inadequacies and internal control weaknesses as discussed below.

The following were inadequacies noted in internal controls related to Purchase Card Activities

- The Finance Director did not administer, review or monitor the activities of the purchase cards as directed by the City's Policy. There was no evidence of a second review by Finance over purchase card activities indicated by signing and dating of monthly log reconciliations. The Director of Finance played no part in approving or reconciling purchase cards usage.
- Purchasing Card Policies and Procedures Manual is outdated (last update was performed 8 years ago). Steps should to taken to update the Manual.
- Cardholders paid taxes on products and services even though the City is tax-exempt.
- Purchasing Card Cardholder agreements for employees were not located

- Except for the City Administrator there was no proof that other cardholders (Managers, Directors, Council Member) have Travel Insurance
- There was no indication that management or supervisor approval of all cardholders applications were performed
- There was no indication that background and credit checks for all cardholders were performed
- Files were misplaced and misfiled indicating file retrieval system needs to be enhanced
- Administrative assistants are not aware of their responsibilities concerning the purchasing cards process
- Proper support was not always provided for meals taken as business expense on purchase cards
- Documentation stating the need for related card purchases are not consistently presented on the reconciliation
- There is lack of documentation of proper training for cardholders on purchase card procedures with only minimum signed training documents provided.
- The use of signature stamp on the monthly purchase card reconciliation log without second review signature.

Recommendations –

- The City's Finance Director should be responsible for administering, reviewing and monitoring the activities of the purchase cards as required by the City's Purchase Card Policy.
- The purchase card policy of the City should be updated reflective of State of Georgia policies.
- Vendors should be immediately informed about exempt tax status by delivery copy of the City's Exemption Certificate with a follow up training meeting with all personnel responsible for purchasing. Consideration should be given to developing and implementing procedures to obtain refunds from vendors to which sales taxes were paid.
- The use of signature stamps should be discouraged and used in rare occasions and if used, second reviews should be performed.
- The City's filing system should be reviewed for adequacy and proper storage.
- Emphasis should be placed on training as to the use of purchase cards relative to adequate documentation and support, and proper completion of Monthly Purchase Reconciliation Log.

Task Number 5 – 2011 General Obligation Bond (GOB) Activities

Overview –

Determine whether funds from the 2011 Series General Obligation Bonds were used only for projects designated within the provisions of the bond documents and whether expenditures were properly captured, recorded, summarized and reported.

Procedures Performed –

We obtained and reviewed the 2011 General Obligation Official Bond Document issued on March 3, 2011, noting the various sources of funds including transfers from other funds and the specific projects for which the bond proceeds placed in a Project Fund were to be expended on. There were no specific identifying elements by projects for which non-bond funds were to be used to construct the various projects.

We summarized, reviewed and analyzed the activities recorded in Fund No. 351 that was established in the general ledger to capture, record and summarize all GOB bond activities from inception to September 30, 2016. We obtained, reviewed and analyzed the combined fiscal years 2016, 2015 and 2014 disbursement reports for the two used bank codes consisting of code 999 of the Cash Pool vendors (General Fund) and code 351 for the GOB vendors. Fifteen (15) vendors were haphazardly selected based on dollar magnitude, assessed potential risk factors and in comparison, to the capital project listing provided by City Engineer. Eight (8) major vendors were chosen for detail procedural work. These procedures were concentrated on the City’s Request for Proposal contract and procurement process.

The sources and uses of funds were summarized as follows:

Sources of Funds

Bond Fund:

Duncan Park	\$ 4,886,528
Downtown Improvements	1,377,410
Road Resurfacing	1,072,881
Fire Station purchase	<u>2,422,181</u>
Total Bond funding	9,759,000

Transfers from General Fund	2,100,000
Transfers from Hotel/Motel Tax Fund	1,145,000
Interest income	131,527
Other miscellaneous contributions	359,550
Road Improvements fees	<u>75,154</u>

Total Source of Funds \$ 13,570,231 A

Uses of Funds

Duncan Park	\$ 7,686,630
Downtown Improvements	1,942,323
Road Resurfacing	2,465,338
Fire Station purchase	220,289
Other miscellaneous fees	<u>68,065</u>
Total Uses of funds	<u>\$ 12,382,645 B</u>
Remaining Funds as of September 30, 2016 (A – B)	<u>\$ 1,187,586</u>

The following table provides a reconciliation of amounts in the City's general ledger as of September 30, 2016 to the Summary of Resolution to Adjust FY 2015 Final Budget approved by the Council at its meeting on March 14, 2016 as a required resolution to officially change use of bond proceeds pursuant to Section 36-82-4.2 of the Official Code of Georgia Annotated:

	BFW Recalculation - Cumulative Activities as of 9/30/2016	Less FY 2016 Activities	BFW Rollback - Cumulative Activities as of 9/30/2015	Cumulative Activities Per City as of 9/30/2015	City Balances Over (Under) BFW Rollback
Source of Funds					
Bond Fund:					
Duncan Park	\$ 4,886,528	\$ -	\$ 4,886,528	\$ 4,886,528	\$ -
Downtown Improvements	1,377,410	-	1,377,410	1,377,410	-
Road Resurfacing	1,072,881	-	1,072,881	1,072,881	-
Fire Station purchase	2,422,181	-	2,422,181	2,422,181	-
Total Bond funding	9,759,000	-	9,759,000	9,759,000	-
Transfers:					
Proposed from General Fund	-	-	-	1,200,000	(1,200,000)
Actual from General Fund	2,100,000	-	2,100,000	1,800,000	300,000
From Hotel/Motel Fund	1,145,000	190,000	955,000	955,000	-
Interest income	131,527	5,938	125,589	125,032	557
Other miscellaneous fees	359,550	-	359,550	359,550	-
Road Improvements fees	75,154	75,154	-	243,547	(243,547)
Total Source of Funds	\$ 13,570,231	\$ 271,092	\$ 13,299,139	\$ 14,442,129	\$ (1,142,990)
Uses of Funds					
Duncan Park	\$7,686,630	\$ 2,106,987	\$5,579,643	\$ 4,866,469	\$ 713,174
Downtown Improvements	1,942,323	6,225	1,936,098	2,800,850	(864,752)
Road Resurfacing	2,465,338	1,651,617	813,721	805,293	8,428
Fire Station purchase	220,289	2,447	217,842	217,841	1
Other miscellaneous fees	68,065	-	68,065	-	68,065
Total Uses of funds	\$ 12,382,645	\$ 3,767,276	\$ 8,615,369	\$ 8,690,453	\$ (75,084)
Remaining Funds	\$ 1,187,586	\$ (3,496,184)	\$ 4,683,770	\$ 5,751,676	\$ (1,067,906)

	BFW Recalculation - Cumulative Activities as of 9/30/2016	Less FY 2016 Activities	BFW Rollback - Cumulative Activities as of 9/30/2015	Cumulative Activities Per City as of 9/30/2015	City Balances Over (Under) BFW Rollback
Remaining Funds	\$ 1,187,586	\$ (3,496,184)	\$ 4,683,770	\$ 5,751,676	\$ (1,067,906)
Cash per CAFR at 9/30/2015				\$ 4,537,651	
<i>Difference - Cash per CAFR to Source/Use Remaining Funds</i>				<u>\$ (1,214,025)</u>	
Estimated Cost to Complete					
Bohannon Road - estimated minus right-of-way				\$ 2,358,064	
Aquatics Facility - under contact				2,004,000	
Fire station				<u>1,475,000</u>	
Total estimates to complete				<u>5,837,064</u>	
<i>Remaining Funds short of Estimates to complete per Resolution</i>				<u>\$ (85,388)</u>	
<i>Difference in cash after estimates to complete</i>				<u>\$ (1,299,413)</u>	

Results and Observations - 2011 GOB Bond Activities

Based on the transactions selected and reviewed in the 2011 Series General Obligation Bonds fund expenditures were properly captured, recorded, summarized and reported. The non-bond funds were commingled within the 2011 GOB Bond Fund without a proper allocation methodology that identified capital projects the non-bond funds are to be expended on.

The following were inadequacies noted in the internal control structure regarding the 2011 GOB Bond Activities

- Single management personnel exercised control over GOB projects from cradle to grave without the required exercise of reviews and monitoring consistent with proper internal control system.
- Input from the City Engineers appeared to be at minimal with limited sign off on construction contractors' payment certificates and construction and project management service invoices related to task order projects.
- The City's Capital Project Fund was not used for GOB Projects. The GOB Fund operated as its own capital project fund. The City operated with checks issued from three different bank codes resulting in three different check sequences.
- Funds transferred from the General Fund and the Hotel/Motel Tax Fund to the GOB were not appropriately identified and assigned as funding for specific identifiable capital projects.

- Required resolution to officially change use of bond proceeds as allowed by Section 36-82-4.2 of the Official Code of Georgia Annotated presented transfers that did not occur, resulting in overstating available remaining funds by approximately a million dollars. This resolution to adopt fiscal year 2015 final budget adjustment was presented and approved on March 14, 2016 by City Council and within the document it was stated that the General Fund transferred in FY 2013 and FY 2014 \$1,800,000 to the GOB capital project Fund. The only transfer that occurred was \$900,000 in FY 2014 and there was no actual transfer of the remaining \$900,000 in FY 2013. It was also noted that the funds available on the resolution was \$5.8 million while the actual cash balance in the GOB reconciled bank account and FY 2015 CAFR was \$4.5 million, a shortfall variance of over \$1 million.
- Authorized transfers to GOB fund were not performed, resulting in net assets, net position and fund balance of some funds to be overstated and others to be understated.
- It was observed that original cost of the Fire Station was \$2.4 million on the Official Bond Document dated March 2011 but decreased to \$1.5 million as of September 30, 2016.
- Duncan Park initial planned expenditures were approximately \$5 million and as of the end of FY 2016 it was close to \$7 million, an increase of approximately 40%.
- The cost of road resurfacing easily doubled from \$1 million to over \$2 million.

Recommendations –

- A comprehensive Citywide strategic budget for capital projects should be initiated within the Capital Project Fund with precise project numbering, with high and consistent level of oversight by the City Engineer.
- The City’s Engineer’s reviews should be mandatory especially in Task Order project completion and monthly Task Order summarization and analysis

Also, see **Other Observations** section of this report.

Task number 6 – Sources and Uses of Funds Outside the Finance Department

Overview –

Review and analyze controls over the source and use of funds for any and all City bank accounts outside the control of the City's finance department, to include but not limited to the following account –

- *Confiscated Assets Account*
- *Tree Revenue Account*
- *Human Resources Account*

Procedures Performed –

We met with Human Resource (HR) personnel, the Chief of Police and his staff and Engineering personnel to discuss the status of the handling of any bank accounts outside the Finance Department.

Based on our review of the controls and use of the Confiscated Assets and Tree Revenue accounts, we did not note any deficiencies in the operation of these accounts.

Results and Observations - Sources and Uses of Funds Outside the Finance Department - Human Resources Account

The following were inadequacies noted in the internal control structure concerning sources and uses of Funds outside the Finance Department:

- The Finance Department represented that it was not aware of or did nothing regarding bank accounts maintained in other departments.
- There were payroll checks kept in the HR department and not in the Finance Department which were used for approved emergency adjustments.
- Procedures were not written and established for payroll checks used for emergency adjustments.
- Due to lack of communication within the HR department, City senior management was not made aware of the existence of payroll checks residing in the HR department.
- There was a lack of understanding that “Void” checks were not to be destroyed and to be filed with sequence of issued checks

Recommendations –

- The Finance Department should execute its monthly reviews and required to be involved with and be a decisive leader in all financial phases of all activities regarding the City.
- Control of all bank accounts and bank checks should reside inside the Finance Department.

- Proper procedures should be written and established for handling the payroll checks used occasionally for irregular and unplanned adjustments with proper controls established and implemented by the Finance Department.
- Regular training and communication channels should be established between the Payroll Department and the Finance Department

OTHER OBSERVATIONS

In connection with our performing the specified tasks detailed above, through our interviews with City personnel and review of City operations, we made other observations and accordingly offer corresponding recommendations that the City should consider enhancing its overall internal controls.

General Findings

- Conflict of interest existed when the City Administrator also performed in the capacity of the City Chief Financial Officer (CFO) as written into official job duties for the City Administrator kept on file by Human Resources (HR).
- The City Council removed all treasurer duties from the Interim City Clerk responsibility but these revisions were not changed in documentation recorded in HR.
- Governance oversight needs to be improved and on-going monitoring established.
- Terminated employees were able to access the premise after termination enabling them to erase computer files and the opportunity to possibly remove hard copy documents.

Recommendation

- All management job descriptions should be reviewed and updated. The City Administrator should not jointly serve in the capacity as City Chief Financial Officer and should not be on selection committees to grade vendors in the bidding process without further governance oversight. These situations result in conflict of interest where internal controls can be overridden.
- The procedures upon terminating employees should be revised to prevent terminated employees from accessing the premises and having access to computer files and other documentations.

Risk management

- Management should be trained in the basic tenets of identifying, quantifying, managing, controlling and monitoring risk. The objective is to keep the City's risk appetite to a minimum with risk tolerance keep within an accepted range to accomplish its strategic, financial, operational, information technology (IT), legal and compliance objectives.
- Policies and procedures should encourage high communication among all City's departments exercising collaboration and avoiding the "silo" approach.

Internal controls

- Segregation of duties to be institutionalized as far as body counts allow and reviewed occasionally for performance through annual employee evaluation and written into HR processes and strengthen the City's enforcement mechanism.
- The City should designate a specific individual to be responsible for the daily operations of the Purchasing Process. Some of the primary duties would include the following:
 - Keep purchasing procedures manual in an updated condition
 - Constantly assess the risk of potential fraudulent activities
 - Making sure all purchasing provision are complied with
 - Develop and present to Council for approval applicable Enforcement Guidelines and not to be dependent on the discretion of senior management.
- The installation of cameras at cash locations would afford protection to the employees and at the same time enhance controls of that inherently risky asset.
- Many interviewees observed the presence of various red flags indicating *potential* for fraudulent activities and other concerns expressed but there was no vehicle to report these situations without the concern of retribution. These incidents validate the need to implement a fraud hotline.

Governance

- City Clerk responsibility to be realigned with the changes approved by City Council, removing all treasurer duties.
- There should be consideration of the establishment of a Finance and/or Budget committee to enhance oversight responsibilities of the governance body.
- The City should contemplate the addition of a service vehicle to provide on, at least a periodic basis, assistance in monitoring internal controls and decide on the appropriate reporting structure. Some of the following tasks can be performed:
 - Monitoring of internal control for efficiency and effectiveness and promote continuous improvement of the control environment
 - Assisting Governance Body with oversight responsibilities
 - Coaching management in identifying red flags that indicate opportunity for fraud and recommend program to prevent fraudulent activities from occurring.

- Assisting management in identifying and evaluate significant risk including performing risk assessment by major processes and transactions to identify and measure risk and establish a process of prioritizing risk
- Exposing the City and its management to the Committee of Sponsoring Organizations (COSO)'s enterprise risk management framework model including event identification, risk assessment, risk response strategies, control activities and monitoring.
- Providing introduction and training to Council and management in COSO integrated Internal Control framework and its seventeen principles.
- Participate in assisting in managing a whistleblower program including fraud hotline, if a system is established.
- Performing periodic cycle audit of the Hotel/Motel tax collections
- Introducing the use of analytics and expectation in sorting information to identify potential fraud activities.