

CITY OF LAS VEGAS AUDIT OVERSIGHT COMMITTEE
City Hall, 400 Stewart Avenue
Las Vegas, Nevada 89101
City Manager Conference Room, Eighth Floor
City of Las Vegas Internet Address: <http://www.lasvegasnevada.gov>

AGENDA

April 22, 2010
10:00 AM

ALL ITEMS ON THIS AGENDA ARE SCHEDULED FOR ACTION UNLESS SPECIFICALLY NOTED OTHERWISE. UNLESS OTHERWISE STATED, ITEMS MAY BE TAKEN OUT OF THE ORDER PRESENTED AT THE DISCRETION OF THE CHAIRPERSON.

DUPLICATE AUDIO CDS MAY BE AVAILABLE AT A COST OF \$5.00 PER CD THROUGH THE CITY CLERK'S OFFICE.

1. CALL TO ORDER
2. ANNOUNCEMENT RE: COMPLIANCE WITH OPEN MEETING LAW
3. Approval of the Final Minutes by reference of the Audit Oversight Committee Meeting of January 21, 2010
4. General Report by the City Auditor
5. Discussion and possible action on the Audit of Purchasing and Contracts Division – Central Stores (0608-0910-08)
6. Discussion and possible action on Procedures Performed – Minimum Accounting Standards Checklist For Nevada Courts (1103-0910-09)
7. Discussion and possible action on Internal Control Review Activity Report December 31, 2009 (2900-0910-10)
8. Discussion and possible action on the Audit of Management Controls over Purchasing and Inventory at Darling Tennis Center (2900-0910-11)
9. CITIZENS PARTICIPATION: Public comment during this portion of the agenda must be limited to matters within the jurisdiction of the Committee. No subject may be acted upon by the Committee unless that subject is on the agenda and is scheduled for action. If you wish to be heard, come to the podium and give your name for the record. The amount of discussion on any single subject, as well as the amount of time any single speaker is allowed, may be limited
10. ADJOURNMENT

Facilities are provided throughout City Hall for the convenience of disabled persons. Special equipment for the hearing impaired is available for use at meetings. If you need an accommodation to attend and participate in this meeting, please call the City Clerk's office at 229-6311 and advise of your need at least 48 hours in advance of the meeting. The City's TDD number is 386-9108.

THIS MEETING HAS BEEN PROPERLY NOTICED AND POSTED AT THE FOLLOWING LOCATIONS:

City Clerk's Bulletin Board, City Hall Plaza, 2nd Floor Skybridge
Bulletin Board, City Hall Plaza (next door to Metro Records)
Las Vegas Library, 833 Las Vegas Boulevard North
Clark County Government Center, 500 S. Grand Central Parkway
Grant Sawyer Building, 555 E. Washington Avenue

AGENDA SUMMARY PAGE
AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 22, 2010

DEPARTMENT: CITY AUDITOR
DIRECTOR: RADFORD SNELDING

SUBJECT:
CALL TO ORDER



AGENDA SUMMARY PAGE
AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 22, 2010

DEPARTMENT: CITY AUDITOR
DIRECTOR: RADFORD SNELDING

SUBJECT:
ANNOUNCEMENT RE: COMPLIANCE WITH OPEN MEETING LAW



AGENDA SUMMARY PAGE
AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 22, 2010

DEPARTMENT: CITY AUDITOR
DIRECTOR: RADFORD SNELDING

SUBJECT:

Approval of the Final Minutes by reference of the Audit Oversight Committee Meeting of January 21, 2010



AGENDA SUMMARY PAGE
AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 22, 2010

DEPARTMENT: CITY AUDITOR'S OFFICE
DIRECTOR: RADFORD SNELDING

Consent Discussion

SUBJECT:

General Report by the City Auditor

Fiscal Impact

No Impact

Augmentation Required

Budget Funds Available

Amount:

Funding Source:

Dept./Division:

PURPOSE/BACKGROUND:

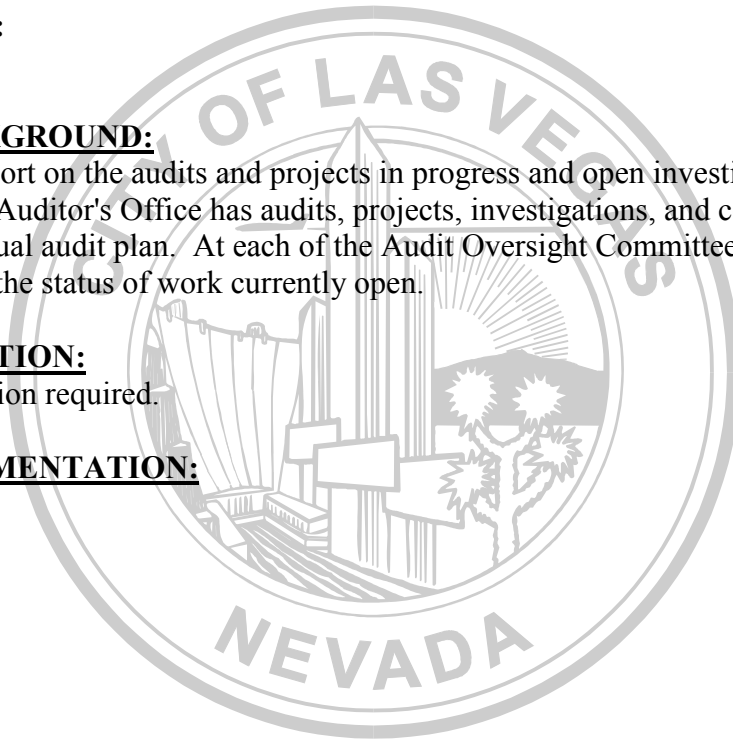
To give a status report on the audits and projects in progress and open investigations and control reviews. The City Auditor's Office has audits, projects, investigations, and control reviews as assigned in the annual audit plan. At each of the Audit Oversight Committee Meetings the City Auditor reports on the status of work currently open.

RECOMMENDATION:

Report only; no action required.

BACKUP DOCUMENTATION:

None



AGENDA SUMMARY PAGE
AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 22, 2010

DEPARTMENT: CITY AUDITOR'S OFFICE
DIRECTOR: RADFORD SNELDING

Consent Discussion

SUBJECT:

Discussion and possible action on the Audit of Purchasing and Contracts Division – Central Stores (0608-0910-08)

Fiscal Impact

No Impact

Augmentation Required

Budget Funds Available

Amount:

Funding Source:

Dept./Division:

PURPOSE/BACKGROUND:

To review the audit report Audit of Purchasing and Contracts Division – Central Stores (0608-0910-08).

This audit was part of the authorized Audit Plan FY 2009-2010.

RECOMMENDATION:

Approval

BACKUP DOCUMENTATION:

Audit of Purchasing and Contracts Division – Central Stores (0608-0910-08)



CITY AUDITOR'S OFFICE



AUDIT OF PURCHASING AND CONTRACTS DIVISION — CENTRAL STORES

Report No. CAO 0608-0910-08

January 28, 2010

RADFORD K. SNELDING, CPA, CIA, CFE

CITY AUDITOR

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**AUDIT OF
PURCHASING AND CONTRACTS DIVISION -
CENTRAL STORES
CAO 0608-0910-08**

BACKGROUND

Central Stores is a section in the Purchasing and Contracts Division (Purchasing) of the Department of Finance and Business Services (Finance). Central Stores is manned by a supervisor and three inventory control clerks.

Central Stores is responsible for the receipt, storage, and delivery of selected supplies used by City of Las Vegas (City) departments. Central Stores currently carries approximately 770 inventory items in their warehouse. The inventory includes items for which price breaks are obtained for large quantity purchases (e.g., batteries), items of a critical nature for City operations (e.g., Fire and Rescue equipment), and items that need close monitoring of usage (e.g., medical supplies).

The following is a summary of some of the primary functions of Central Stores:

Inventory Purchases - Central Stores uses the warehousing module of the Oracle computer system (Oracle). Inventory levels in the Central Stores warehouse are maintained at optimal levels through an automated process using Oracle. On a daily basis, Oracle calculates what inventory purchases are necessary using established minimum and maximum inventory levels and pending department order requests within the system. Central Stores reviews and confirms the purchase requisition from Oracle and forwards it to Purchasing who then processes the purchase order.

Department Supply Orders - Department representatives order items from Central Stores using what is known as the move order process in Oracle. After the order has been authorized by the department representative, Move Order Pickup Slips are generated from Oracle and Central Stores staff members fill these orders and provide the supplies to the respective department.

Inventory Controls - Central Stores staff members monitor the accuracy of the inventory records through daily cycle counts and an annual physical inventory each June.

Surplus Property - Central Stores also oversees the disposition of City surplus property by picking up surplus items from City departments and submitting them to an auction company.

OBJECTIVES

The audit objectives were to:

- Evaluate the adequacy of controls over the receipt of inventory from vendors.
- Evaluate the adequacy of the department ordering process.
- Evaluate the adequacy of the surplus property disposition process.
- Evaluate the adequacy of the physical inventory process.
- Evaluate the adequacy of monitoring obsolete and slow moving inventory.
- Determine whether Oracle warehousing access groups include only current City employees.

SCOPE AND METHODOLOGY

The scope of our audit was limited to fiscal year 2009 transactions. The last date of fieldwork for this audit was October 8, 2009.

The scope of our work on internal control was limited to the controls within the context of the audit objectives and the scope of the audit.

Our audit methodology included:

- Research of applicable guidelines,
- Interviews of City employees,
- Observations of work processes, and
- Analysis and detail testing of available data.

We conducted this performance audit in accordance with generally accepted government auditing standards except for the requirement for an external peer review every three years. Those standards require that we plan and perform the audit 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 findings and conclusions based on our audit objectives.

The exception to full compliance is because the City Auditor's Office has not yet undergone an external peer review. However, this exception has no affect on the audit or the assurances provided.

CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

The following conclusions were noted:

Evaluate the adequacy of controls over the receipt of inventory from vendors:

- No issues were noted during detail testing of the receipt of inventory from vendors.

Evaluate the adequacy of the department ordering process:

- Department representatives do not sign documentation confirming that they verified the receipt of their supply orders. (Finding #1)
- Central Stores monitoring procedures failed to detect department orders that were not processed. (Finding #2)

Evaluate the adequacy of the surplus property disposition process:

- We identified inconsistencies with the information recorded on the documents used in the surplus property disposition process. Procedures are not in place to account for surplus property sold at auction. (Finding # 3)

Evaluate the adequacy of the physical inventory process:

- We identified that the cycle count historical information was deleted from Oracle. (Finding # 4)
- We determined that reports used to track the accuracy of inventory records did not include all cycle count variances because of how the tolerance indicators were established in Oracle. (Finding # 5)
- We identified needed improvements to the annual physical inventory process. (Finding # 6)

Evaluate the adequacy of monitoring obsolete and slow moving inventory:

- We identified erroneous information on the Inactive Items Report that impacts the effectiveness in monitoring obsolete and slow moving inventory. (Finding # 7)

Determine whether Oracle warehousing access groups include only current City employees:

- We determined that as of July 15, 2009, the Oracle warehousing access groups only included current City employees.

Further information is contained in the sections below.

1. Department Receipt of Supplies

Criteria

The segregation of key duties and responsibilities in authorizing, processing, recording, and reviewing transactions is a method used to reduce the risk of error or inappropriate actions relating to inventory transactions. Proper segregation of duties includes ensuring that employees independent of the inventory function verify and confirm the delivery of their supplies.

Condition

Central Stores either delivers supply orders to departments or distributes orders to department representatives at the warehouse. Central Stores gives the department a copy of the Move Order Pickup Slip upon transfer of the supplies, however, department representatives do not sign the slip as evidence they verified the receipt of their supplies.

Audit fieldwork procedures included randomly selecting 48 department move orders from fiscal year 2009 and requesting that department representatives confirm that they received their supplies. It was not possible to confirm the delivery of all the supply items listed on the Move Order Pickup Slips, as follows:

- One department representative indicated she did not receive the item listed on the Move Order Pickup Slip.
- One department representative indicated a smaller quantity was received for two items than what was represented on the Move Order Pickup Slip.
- Several department representatives indicated they could not confirm that they received the supplies listed on a particular Move Order Pickup Slip.

Central Store staff members have keys to access fire stations to deliver supplies when fire personnel are out on calls and the facility is locked. The supplies are delivered to a designated location within the facility and may include medications such as lidocaine, narcon, nitrolingual, albuterol, and gulagon.

Cause

- Current policy does not require department representatives to sign for the receipt of their supply deliveries.
- Departments have turnover in staff and different employees are assigned the function of ordering supplies from Central Stores.
- Not all department representatives maintain adequate documentation relating to their supply deliveries.
- Deficient security precautions over delivery of medications.

Effect

- Inadequate documentation supporting the movement of supplies from Central Stores to departments.
- Medications are not adequately secured.

Recommendation

Central Stores management should document and implement procedures that require department representatives sign documentation confirming they have verified the receipt of their supply orders.

2. Incomplete Move Orders

Criteria

Proper oversight of pending supply requests ensure that orders are correctly and timely processed or canceled.

Condition

Department representatives order supplies from Central Stores by processing move orders in the warehousing module of Oracle. A query of pending department orders for fiscal year 2009 was completed. It was determined that four move orders dated March 5, 2009, June 1, 2009, June 9, 2009, and June 19, 2009 had a status of incomplete and had not been processed as of October 1, 2009. Move orders that are not timely processed and closed could impact inventory levels since Oracle includes pending department order amounts when calculating required inventory purchases.

Cause

- Department representatives prepared but did not approve their move orders. Without approval, move orders are not printed or processed by Central Stores.
- Procedures performed by Central Stores failed to timely identify move orders with a status of incomplete.

Effect

- Inventory levels may not be at the optimal level.
- Departments may not timely receive their supply orders.

Recommendation

Central Stores management should implement more timely monitoring procedures and follow-up on incomplete move orders.

3. Surplus Property

Criteria

Management controls over surplus property ensure that property items are adequately secured until taken to auction and that the City is paid for all property sold at auction.

Condition

Central Stores is responsible for the control and disposal of surplus property items. The process is as follows:

- Department representatives complete the Property Disposition forms and notify Central Stores that they have surplus property items.
- Central Stores picks up and secures the property items.
- Central Stores completes an Excel spreadsheet listing the property they pick up.
- Central Stores delivers the property items to the auction location and gives a copy of the Excel spreadsheet to the auction company.
- After the completion of the auction, the auction company forwards a check and itemized listing of the items sold (auction list) to Finance.

A comparison of the documentation for the May 28, 2009, February 28, 2009, and November 17, 2008 auctions was completed. The comparison showed the following inconsistencies:

Comparison of the Property Disposition forms to Central Stores Excel spreadsheets:

- Certain items identified on the Property Disposition forms were missing on the Central Stores Excel spreadsheet.
- No Property Disposition forms were available for certain property items included on the Central Stores Excel spreadsheet.

Comparison of Central Stores Excel Spreadsheets to the auction list:

- Certain items included on the Central Stores Excel spreadsheet were missing on the auction list.

- The auction list did not indicate the number of items sold but rather just “radios” or “TVs”.
- The auction list used generic terms such as “office equipment” or “misc”.
- Certain items identified on the Property Disposition forms that were missing on the Central Stores Excel spreadsheet were also missing on the auction list.

Discussions with City employees involved with the auction process indicated that procedures are not completed to ensure that all property items that are turned in to Central Stores as represented on the Property Disposition forms are included on the their Excel spreadsheet. In addition, when Central Stores delivers property to the auction location, the auction company directs Central Stores where to place the property in their warehouse. Neither Central Stores personnel nor a representative of the auction company confirm what property is dropped off. At the completion of the auction, City personnel do not ensure that property listed on that Central Stores Excel spreadsheet are included on the auction listing and if sold are paid for.

Cause

Lack of adequate oversight of surplus property.

Effect

The City may not be accurately compensated by the auction company for the sale of surplus property.

Recommendation

Central Stores management should further evaluate the surplus property disposition process and implement increased oversight procedures to ensure that the City is being compensated for all property sold at auction.

4. Cycle Count Historical Information

Criteria

Properly retained historical data allows for research of past transactions and the evaluation of the effectiveness of an organization.

Condition

Daily counts of randomly selected inventory items are completed to evaluate the accuracy of the Central Stores inventory records. The Cycle Count Hit/Miss Analysis report

summarizes the daily results. Audit procedures included requesting randomly selected Cycle Count Hit/Miss Analysis reports from fiscal year 2009 to be used for fieldwork procedures. Historical Cycle Count Hit/Miss Analysis reports could not be retrieved. It was determined that the cycle count history was inadvertently deleted by the Central Stores supervisor. Attempts to reinstate the historical data were unsuccessful.

The Purchasing Initiative Officer represented that access to the purge cycle count function has been eliminated and it will not longer be possible to delete historical cycle count data.

Cause

The Central Stores supervisor was given access to an Oracle function that allowed him to purge historical cycle count data.

Effect

Historical cycle count information can no longer be retrieved from Oracle.

Recommendation

Purchasing and Contracts management should complete an analysis of all Oracle warehousing access functions to determine who has the ability to delete historical data. Oracle system access functions that enable staff to delete historical information should be disabled.

5. Cycle Count Tolerance Indicators

Criteria

Useful inventory reports identify all differences between actual quantities on hand versus quantities indicated in the computer records.

Condition

Central Stores performs daily counts of randomly selected inventory items and compares them to Oracle inventory amounts to maintain the accuracy of their inventory records. These variances are documented in a report called the Cycle Count Hit/Miss Analysis. Oracle enables users to decide whether to include or exclude variances in this report by establishing the cycle count tolerance indicators from zero percent to one hundred percent. Variances are included the report when the indicator is set to zero percent and excluded when the indicator is set to one hundred percent.

A review of the cycle count tolerance indicators showed that the positive tolerance indicator was set to zero percent and the negative tolerance indicator was set to 100 percent.

Cause

The cycle count tolerance indicators in Oracle were incorrectly established.

Effect

When tolerance indicators are incorrectly established certain variances are not identified on the Cycle Count Hit/Miss Analysis report. Excluding variances causes inaccurate reporting of the results of the inventory accuracy testing.

Recommendation

Purchasing and Contracts management should evaluate the variance tolerance indicator process to ensure that all variances are included in the daily cycle count results as indicated in the Cycle Count Hit/Miss Analysis report.

6. Annual Physical Inventory

Criteria

Annual physical inventories when properly completed provide for confirmation of the accuracy of fiscal year end inventory totals.

Condition

Central Stores performed their annual physical inventory of the warehouse on June 23 2009. Internal Audit performed an observation of the physical inventory and observed the following procedural inefficiencies:

- Although department representatives were notified by e-mail on June 1, 2009 that Central Stores would be closed on June 23, 2009 for the annual physical inventory, a follow-up e-mail reminder was not sent. As a result, during the physical inventory, Central Stores staff members were sidetracked by department representatives who had questions and requests.
- The count team members recorded the physical counts of inventory on the Physical Inventory Tag Listing. This listing did not include the unit of measure of inventory items. Count team members not familiar with the inventory items needed to determine unit of measures for their counts. Two of

the initial inventory variances were due to an incorrect unit of measure being used for the physical count.

- Central Stores did not complete procedures to ensure that all department orders had been processed in Oracle prior to the physical inventory count. Two of the initial inventory variances were due to the department receiving their supply orders without the move orders being processed in Oracle.
- Central Stores prints out the Physical Inventory Tag Listing and uses it to document the actual count for each inventory item. Each inventory item is assigned a physical location in the warehouse that is cross referenced to the inventory item in Oracle. The Physical Inventory Tag Listing excludes inventory items that have zero balances in Oracle. At the completion of the physical inventory, Central Stores staff walked through the warehouse looking for inventory locations that had not been tagged. Their procedures did not include confirming that the Oracle inventory items with zero balances had no actual counts and the warehouse locations are still current.
- A financial analyst performs independent test counts of randomly selected inventory items and compares his results to the counts written on the Physical Inventory Tag Listing. The Physical Inventory Tag Listing inventory counts are actual counts which have not yet been verified against Oracle figures.

Cause

Inadequate documented inventory procedures.

Effect

Potential for inaccuracies in inventory item counts.

Recommendation

Central Stores management should document and implement procedures to improve the effectiveness of the annual physical inventory as follows:

- E-mail department users the day before the physical inventory and remind them that the warehouse will be closed and that Central Stores staff members will not be available to process orders or answer questions.
- Modify the Physical Inventory Tag Listing to include a column for unit of measurement to ensure accurate counts.
- Confirm that all department deliveries are processed as move orders and included in the Oracle inventory balances prior to the physical inventory.
- Confirm that inventory items in Oracle that have zero balances do not have actual counts and the identified warehouse locations are still current.
- Ensure that the financial analyst receives verified inventory amounts.

7. Obsolete and Slow Moving Inventory Monitoring

Criteria

Properly implemented warehouse inventory monitoring procedures help ensure that obsolete and slow moving inventory items are removed from inventory and are no longer available for department ordering.

Condition

The Inactive Items Report is used by Central Stores to evaluate whether inventory items are obsolete or slow moving. Audit fieldwork procedures included reviewing the June 30, 2009 Inactive Items Report. The report included 11 pages and 179 specific inventory items. The review showed that the report includes erroneous information, as follows:

- Nine inventory items were categorized as “Obsolete” with no quantity on hand. The vendor has discontinued these items and they are no longer available for purchase.
- Forty-three inventory items were categorized as “Inactive” with no quantity on hand. The City no longer uses these items and they are no longer available for department ordering.
- Fifty inventory items were categorized as “Active” with a last transaction date of November 5, 2007 with no quantity on hand.
- Two inventory items were categorized as “Active” with no quantity on hand. These items are listed with last transaction dates of July 9, 2005 and March 15, 2007, respectively. A review of the transaction histories showed that the inventory items are assigned different warehouse locations and continue to be ordered by and given to departments.
- One inventory item was categorized as “Active” with no quantity on hand with a last transaction date of September 16, 2008. A review of the transaction history showed that the item is still assigned to this warehouse location and continues to be ordered by and given to departments.
- The above inventory items represent 105 of 179 or 59 percent of the inventory items included on the June 30, 2009 Inactive Items Report.

As a result of audit fieldwork procedures, the status of four inventory items were changed from “Active” to “Inactive” and two inventory items were identified for research to determine whether they should continue to be carried and categorized as “Active”.

Cause

- Ineffective Inactive Items Report.
- The Inactive Items Report is not being adequately reviewed for obsolete and slow moving inventory items.

Effect

- Additional time is required to research whether inventory items should continue to be stocked and made available for department ordering.
- Inventory items that are incorrectly categorized with an “Active” status remain available for department ordering and could be selected by Oracle for the daily cycle count.

Recommendation

Central Stores management should evaluate and identify better information/reports that would improve the effectiveness of the review of obsolete and slow moving inventory items.

MANAGEMENT RESPONSE

1. Department Receipt of Supplies

Recommendation

Central Stores management should document and implement procedures that require department representatives sign documentation confirming they have verified the receipt of their supply orders.

Management Plan of Action

Central Stores implemented a process of requiring department representatives to confirm receipts of supplies received in the City Hall Tower and for picked-up items from Central Stores and also with the cooperation of Chief Gammon, Chief Washington and Chief Miramontes has implemented a process for signing for receipt of deliveries at Fire Stations and other Fire locations, including having the Captains fax the receipt if the delivery is made when no Fire personnel is present at the time of delivery. These changes were implemented on November 3.

Estimated Date of Completion

Completed on November 3, 2009

2. Incomplete Move Orders

Recommendation

Central Stores management should implement more timely monitoring procedures and follow-up on incomplete move orders.

Management Plan of Action

Central Stores management will request the IT Department create an Oracle report to enable an efficient method of reporting incomplete move orders. In the meantime, the Central Stores Supervisor will run a weekly query to identify incomplete move orders and ensure follow-up action is made to the appropriate move-order initiator to finalize the transaction.

Estimated Date of Completion

Weekly queries were initiated effective November 2, 2009.

3. Surplus Property

Recommendation

Central Stores management should further evaluate the surplus property disposition process and implement increased oversight procedures to ensure that the City is being compensated for all property sold at auction.

Management Plan of Action

P&C Management began reviewing an alternative surplus disposition process prior to this audit which would implement the use of an on-line auction similar to e-Bay rather than the current use of an auctioneer. The use of the on-line process would eliminate the physical transport and change of custody of material with the auctioneer and enable on-line tracking of surplus material by identification number, tracking of sales, and records retention. Based on inquiries made to date it appears the on-line auction solution may increase proceeds from surplus auctions, which will be most beneficial to vehicle sales coordinated by Field Operations, but also helpful to Central Stores whose FY09 surplus proceeds were minimal at \$4764. This also appears to be a better option since our the current auctioneer indicates he does not have the resources to track and report the receipt and disposition/sales of the surplus material in the manner recommended in this audit report.

Estimated Date of Completion

March 2010

4. Cycle Count Historical Information

Recommendation

Purchasing and Contracts management should complete an analysis of all Oracle warehousing access functions to determine who has the ability to delete historical data. Oracle system access functions that enable staff to delete historical information should be disabled.

Management Plan of Action

The "Purge" option has been eliminated from the Central Stores Responsibility in Oracle

Estimated Date of Completion

November 3, 2009

5. Cycle Count Tolerance Indicators

Recommendation

Purchasing and Contracts management should evaluate the variance tolerance indicator process to ensure that all variances are included in the daily cycle count results as indicated in the Cycle Count Hit/Miss Analysis report.

Management Plan of Action

The tolerance setting was corrected.

Estimated Date of Completion

November 3, 2009

6. Annual Physical Inventory

Recommendation

Central Stores management should document and implement procedures to improve the effectiveness of the annual physical inventory as follows:

- E-mail department users the day before the physical inventory and remind them that the warehouse will be closed and that Central Stores staff members will not be available to process orders or answer questions.
- Modify the Physical Inventory Tag Listing to include a column for unit of measurement to ensure accurate counts.
- Confirm that all department deliveries are processed as move orders and included in the Oracle inventory balances prior to the physical inventory.
- Confirm that inventory items in Oracle that have zero balances do not have actual counts and the identified warehouse locations are still current.
- Ensure that the financial analyst receives verified inventory amounts.

Management Plan of Action

- 1) P&C Management will ensure that multiple notices of Central Stores closure for physical inventory will be sent prior to department users.
- 2) P&C Management will request IT modify the Physical Inventory Tag Listing to include a column for UOM
- 3) Central Stores Supervisor will ensure final processing of all move orders are processed to ensure Oracle inventory balances prior to the physical inventory

Audit of Purchasing and Contracts Division -
Central Stores
CAO 0608-0910-08
January 28, 2010

- 4) Since Oracle does not report on physical locations with a quantity of zero, Central Stores staff will continue to perform physical checks of locations not listed on the physical inventory report to verify no inventory is located in that location.
- 5) The Financial Analysis will be provided as requested for audit purposes.

Estimated Date of Completion

June 2010

7. Obsolete and Slow Moving Inventory Monitoring

Recommendation

Central Stores management should evaluate and identify better information/reports that would improve the effectiveness of the review of obsolete and slow moving inventory items.

Management Plan of Action

P&C Management will request that IT create a more effective Oracle report for identifying obsolete and slow moving inventory. In the meantime the last page of the current report is utilized to identify these items and will be reviewed at least monthly.

Estimated Date of Completion

Bi-monthly review was implemented November 3, 2009

AGENDA SUMMARY PAGE
AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 22, 2010

DEPARTMENT: CITY AUDITOR'S OFFICE
DIRECTOR: RADFORD SNELDING

Consent Discussion

SUBJECT:

Discussion and possible action on Procedures Performed – Minimum Accounting Standards Checklist For Nevada Courts (1103-0910-09)

Fiscal Impact

No Impact Augmentation Required
 Budget Funds Available

Amount:
Funding Source:
Dept./Division:

PURPOSE/BACKGROUND:

Procedures Performed – Minimum Accounting Standards Checklist For Nevada Courts (1103-0910-09).

RECOMMENDATION:

Approval

BACKUP DOCUMENTATION:

Procedures Performed – Minimum Accounting Standards Checklist For Nevada Courts (1103-0910-09)



CITY AUDITOR'S OFFICE



PROCEDURES PERFORMED -- MINIMUM ACCOUNTING STANDARDS CHECKLIST FOR NEVADA COURTS

Report No. CAO 1103-0910-09

January 28, 2010

RADFORD K. SNELDING, CPA, CIA, CFE

CITY AUDITOR

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3. COLLECTION OF DROP BOX PAYMENTS 6

**PROCEDURES PERFORMED –
MINIMUM ACCOUNTING STANDARDS CHECKLIST
FOR NEVADA COURTS
CAO 1103-0910-09**

BACKGROUND

Once every three years, the Municipal Court (Court) is required by the State of Nevada Administrative Office of the Courts (AOC) to have an outside CPA firm or an internal audit agency complete what is known as the Minimum Accounting Standards Checklist (MAS Checklist). The Court requested our assistance in completing the checklist for the fiscal year 2008-09 to comply with this requirement.

According to the instructions to the MAS Checklist, “the MAS is not intended to be an edict to courts on the exact manner in which their internal control and financial operations must be carried out. However, the MAS is provided to give guidance for implementing generally accepted financial principles.” The purpose of having an auditor complete the checklist is “to verify that courts are maintaining consistent and effective financial policies and procedures and that generally accepted accounting principles such as segregation of responsibilities, internal controls, and audit trails are in place.”

OBJECTIVES

Our objective was to complete the MAS Checklist in accordance with the instructions provided by the State of Nevada AOC and submit the checklist to the AOC prior to the established deadline.

SCOPE AND METHODOLOGY

We completed the MAS Checklist for the fiscal year ended June 30, 2009. Our procedures included:

- discussions with Court Management and employees
- observation of operations
- review of various operational documents
- documenting responses to the questions within the MAS Checklist

Our procedures did not include detailed transaction or system testing.

The Court will soon be implementing a new case management system that has been in development over the past few years. Our procedures did not include a review of this new system.

CONCLUSIONS, FINDINGS, AND RECOMMENDATIONS

In completing the MAS Checklist, we identified areas of non-compliance. These areas are summarized in Finding #1. In addition, we identified other internal control issues that management should address. These are found in Findings #2 and #3.

Further information is contained in the sections below. While other issues were identified and discussed with management, they were deemed less significant for reporting purposes.

1. AREAS OF NON-COMPLIANCE WITH MAS

Criteria

Compliance by the Court with the MAS Checklist standards contributes to creating a strong internal control environment.

Condition

The following areas of non-compliance were identified during our completion of the MAS Checklist. The corresponding question number and page reference from the MAS Checklist are provided for each item.

1.1 Written Policy and Procedure Deficiencies

The Court's written policies and procedures do not include in detail the following information:

- a. "the security measures taken concerning the transport of deposits to the bank(s) or other government entity." (#2j, p. 16)
- b. "when and how transactions recorded in the court management ledger are transferred to the general ledger." (#129a, p. 64)
- c. "the circumstances in which the distribution breakout table can be overridden and by whom." (#129b, p. 64)
- d. "how the court performs the reconciliation process between cash receipts and disbursements to the court management ledger and the general ledger accounts." (#129c, p. 64)

1.2 Documentation on Distribution of Policies and Procedures to Court Employees

The Court does not maintain documentation indicating the current policies and procedures are distributed to all persons involved in:

- a. Cash receipts (#3, p. 17)
- b. Generation and authorization of disbursement transactions (#68, p. 38)

- c. Accounts receivable processing (#101, p. 54)
- d. Posting and recording to the court management ledger and the general ledger (#130, p. 65)

1.3 Limitations on Amount of Cash in Cash Drawers

While cash reductions from cash drawers are completed at the discretion of the Court supervisors, the amount of cash kept in each cash drawer is not limited. (#18c, p. 21)

The current case management system does not facilitate regular cash reductions as it does not provide a cashier with the total amount of cash collected until end-of-day reconciliation procedures are completed.

1.4 Safe Combination Change Policy

The MAS Checklist requests that the Court have written policies and procedures that address when locks and/or combinations to safes are to be changed. (#2i, p. 16)

While the Court's written policy states that safe combinations are to be changed every 6 months or when there is a change in staff, this is not currently the Court's practice as safe combinations are not being changed every 6 months. While division managers and supervisors are aware of who has been provided safe combinations, the Accounting Unit does not maintain a master listing of Court employees who have been provided the safe combinations so they can properly evaluate when a safe combination change is needed. While the safe combinations are secured by the Court's Accounting Unit and the dates of the changes are documented on envelopes containing the combinations, there is no formal document maintained with the history of the combination changes and the purpose of the changes (e.g., employee turnover, routine change).

1.5 Implementation of Procedures to Comply with IRS Reporting Requirements

The Court has not implemented policies and procedures for following IRS reporting requirements using Form 8300 when more than \$10,000 in cash is received for bail for certain offenses. Considering the nature of the offenses handled by the Municipal Court and the established bail amounts, this would be a rare occurrence. While the Court has drafted a policy to comply with this requirement, the policy has not been approved or implemented and has not been shared with the Department of Detention & Enforcement who receives bail payments on behalf of the Court. (#29, p. 23)

1.6 Monitoring of Manual Receipts

While the Municipal Court's manual receipts are properly secured and accounted for as they are used, manual receipts used by Detention & Enforcement who accepts bail on behalf of the Court are not adequately accounted for. These manual receipts are appropriately secured; however, the sequential numbers of the manual receipts are not

recorded as they are used. Note: Manual receipts are only used when the system is down which is a rare occurrence. (#44a, p. 29)

1.7 Accounts Receivable

Aging reports on accounts receivable are not produced at least monthly. (#105a, p. 56)

The Court does not produce reports indicating current collection rates. (#106, p. 56)

The Court does not maintain an accounts receivable ledger (#110, p. 57)

The Court does not differentiate between actual amounts owed the Court and potential amounts owed. (#112, p. 57)

Once an arrest warrant is issued pursuant to a failure to pay or appear, the Court does not place outstanding bail, fines and/or fees into a suspense account within the court management ledger. (#120, p. 60)

1.8 Bond Tracking

A bond tracking register is not used by the Court to reconcile bonds received with those recorded in the case management system. In addition, no reconciliation is completed between bonds accepted by the Department of Detention & Enforcement and bonds transferred to the Court. (#127a, p. 63)

1.9 Bail Reconciliation

The Bail Register generated from the Legacy System is no longer being reconciled to the general ledger on a monthly basis as there are concerns with the accuracy of the information within the Bail Register. This has been an on-going system issue for the Court and was identified during our completion of the MAS Checklist in 1999. (#134, p. 66)

1.10 Legacy System Issue

Cash receipt transactions can be altered and reversed by Court employees with the appropriate security level. While a documented audit trail is created when this occurs, this capability is an inherent system weakness that should be addressed. (#49 and #51, p. 30)

Cause

- Certain MAS Checklist standards have not yet been implemented by the Court.

Effect

- Non-compliance with certain MAS Checklist standards.

Recommendation

Court Management should address the identified areas of non-compliance with the MAS Checklist standards.

- 1.1 Written Policy and Procedure Deficiencies (#2j p. 16, #129a, b, and c p. 64)
- 1.2 Documentation on Distribution of Policies and Procedures to Court Employees (#3 p. 17, #68 p. 38, #101 p. 54, #130 p. 65)
- 1.3 Limitations on Amount of Cash in Cash Drawers (#18c, p. 21)
- 1.4 Safe Combination Change Policy (#2i, p. 16)
- 1.5 Implementation of Procedures to Comply with IRS Reporting Requirements (#29, p. 23)
- 1.6 Monitoring of Manual Receipts (#44a, p. 29)
- 1.7 Accounts Receivable (#105a p. 56, #106 p. 56, #110 p. 57, #112 p. 57, #120 p. 60)
- 1.8 Bond Tracking (#127a, p. 63)
- 1.9 Bail Reconciliation (#134, p. 66)
- 1.10 Legacy System Issue (#49 and #51, p. 30)

2. MAS POLICY AND PROCEDURES

Criteria

Policies and procedures should regularly be reviewed and updated so they accurately reflect current practices.

Condition

The Court's document titled "Minimum Accounting Standards, System of Internal Controls" has not been revised since July 9, 2002 according to the title page. This document was initially prepared to document the Court's procedures required by the MAS Checklist. Subsequent to the creation of these policies, a new version of the MAS Checklist was released. The cross references to the MAS Checklist are no longer valid. In addition, verbiage from the prior version of the MAS Checklist is included in the document.

Considering the Court will soon be implementing a new case management system, this is an ideal time to review and update this document.

Cause

- Documented “MAS System of Internal Controls” has not recently been reviewed and updated by Accounting Unit staff members.

Effect

- Invalid cross references to MAS Checklist are included in the Court’s policies and procedures.
- Verbiage from old version of MAS Checklist is included in the Court’s policies and procedures.

Recommendation

Court Management should review and update the MAS System of Internal Controls document.

3. COLLECTION OF DROP BOX PAYMENTS

Criteria

When an agency is relying on the services of another agency for collecting their payments, the procedures followed should be documented and evaluated by management from both agencies to ensure the procedures meet their expectations and standards.

Condition

Court customers can deposit payments using green envelopes into either of two drop boxes located in the front lobby of the Regional Justice Center. These envelopes are collected daily by employees of the Clark County Justice Court (Justice Court) and subsequently remitted to the Municipal Court. The Municipal Court does not have a formal document outlining the procedures followed by the Justice Court in collecting the Municipal Court’s payments from the drop boxes.

Cause

- Procedures established without a formal document.

Effect

- Potential for differences in understanding of the procedures being performed by the Justice Court and the expectations of the Municipal Court.

Procedures Performed –
MAS Checklist for Nevada Courts
CAO 1103-0910-09
January 28, 2010

Recommendation

Court Management should document the procedures being followed by the Justice Court personnel in collecting the Municipal Court's payments from the drop boxes and evaluate the adequacy of these procedures in relation to the Court's internal control standards.

MANAGEMENT RESPONSE

1. AREAS OF NON-COMPLIANCE WITH MAS

Recommendation: Court Management should address the identified areas of non-compliance with the MAS Checklist standards.

- 1.1 Written Policy and Procedure Deficiencies (#2j p. 16, #129a, b, and c p. 64)
- 1.2 Documentation on Distribution of Policies and Procedures to Court Employees (#3 p.17, #68 p. 38, #101 p. 54, #130 p. 65)
- 1.3 Limitations on Amount of Cash in Cash Drawers (#18c, p. 21)
- 1.4 Safe Combination Change Policy (#2i, p. 16)
- 1.5 Implementation of Procedures to Comply with IRS Reporting Requirements (#29, p. 23)
- 1.6 Monitoring of Manual Receipts (#44a, p. 29)
- 1.7 Accounts Receivable (#105a p. 56, #106 p. 56, #110 p. 57, #112 p. 57, #120 p. 60)
- 1.8 Bond Tracking (#127a, p. 63)
- 1.9 Bail Reconciliation (#134, p. 66)
- 1.10 Legacy System Issue (#49 and #51, p. 30)

Management Action Plan: Our Management Action Plan is to review all policies and procedures as they relate to our new case management system (CMOR) that went live in November. The areas identified as non-compliant by the audit staff will receive additional scrutiny to ensure compliance with the MAS Checklist standards. The Court will also coordinate the applicable policies and procedures with the Detention & Enforcement Department (D&E) ensuring that the procedures used by D&E on behalf of the Court comply with the MAS Checklist standards as well.

Estimated Date of Completion: September 30, 2010

2. MAS POLICY AND PROCEDURES

Recommendation: Court Management should review and update the MAS System of Internal Controls document.

Management Action Plan: Our Management Action Plan is to begin a five-stage review of all policies and procedures upon the implementation of the new case management system (CMOR). The initial stage of the review is to identify and correct programming issues that may arise. The second stage of the review is to ensure all reports are created and have been validated for accuracy. The third stage is to develop procedures that are compliant with MAS Checklist standards and City Policy. The fourth stage of the review is to document the policies and procedures and obtain Court approval. The final stage of the review is to issue the policies and procedures to Court personnel.

Procedures Performed –
MAS Checklist for Nevada Courts
CAO 1103-0910-09
January 28, 2010

Estimated Date of Completion: December 1, 2010

3. COLLECTION OF DROP BOX PAYMENTS

Recommendation: Court Management should document the procedures being followed by the Justice Court personnel in collecting the Municipal Court's payments from the drop boxes and evaluate the adequacy of these procedures in relation to the Court's internal control standards.

Management Action Plan: We completely agree and our Management Action Plan is to meet with personnel from the Justice Court to discuss the policies and procedures used by the Justice Court regarding the drop box, unopened mail, and returning opened mail to the Municipal Court. The Municipal Court is reviewing the policies and procedures to ensure compliance with the MAS Checklist and City of Las Vegas policy. The Municipal Court will notify the Justice Court regarding any discrepancies and work a resolution.

Estimated Date of Completion: January 31, 2010

AGENDA SUMMARY PAGE
AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 22, 2010

DEPARTMENT: CITY AUDITOR'S OFFICE
DIRECTOR: RADFORD SNELDING

Consent Discussion

SUBJECT:

Discussion and possible action on Internal Control Review Activity Report December 31, 2009 (2900-0910-10)

Fiscal Impact

No Impact

Augmentation Required

Budget Funds Available

Amount:

Funding Source:

Dept./Division:

PURPOSE/BACKGROUND:

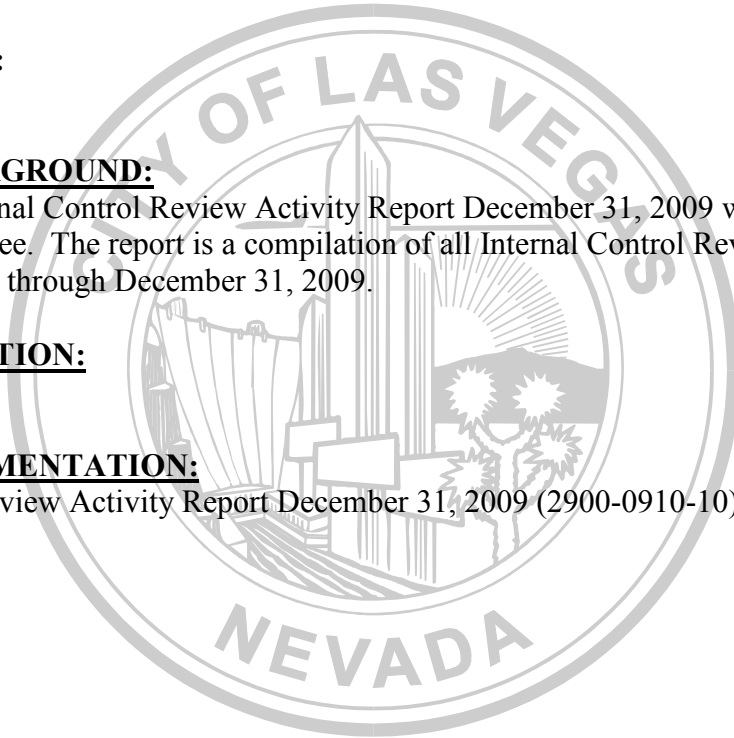
To review the Internal Control Review Activity Report December 31, 2009 with the Audit Oversight Committee. The report is a compilation of all Internal Control Reviews performed from June 30, 2009 through December 31, 2009.

RECOMMENDATION:

Approval

BACKUP DOCUMENTATION:

Internal Control Review Activity Report December 31, 2009 (2900-0910-10)



CITY AUDITOR'S OFFICE



INTERNAL CONTROL REVIEW ACTIVITY REPORT DECEMBER 31, 2009

Report No. CAO 2900-0910-10

January 28, 2010

RADFORD K. SNELDING, CPA, CIA, CFE

CITY AUDITOR

INTERNAL CONTROL REVIEW ACTIVITY REPORT DECEMBER 31, 2009

CAO 2900-0910-10

BACKGROUND

The City Auditor's Office has the responsibility to Evaluate, Enhance, Educate, and Enforce internal control issues that come to the Office's attention.

- **Evaluate** - The Office independently and objectively performs Internal Control Reviews to evaluate applicable internal controls through professional expertise and judgment.
- **Enhance** - After evaluation, the Office makes recommendations to enhance the adequacy and effectiveness of existing controls and further recommends additional controls as appropriate.
- **Educate** - Through the Internal Control Review Memorandums to management and the periodic Internal Control Review Activity Reports, the Office educates management and others of appropriate internal controls.
- **Enforce** - Enforcement is limited to supplying data to management to help them enforce the policies and procedures of the City.

The results of the Internal Control Reviews are reported in two steps:

- An Internal Control Review Memorandum is released to the appropriate levels of management and the Mayor and City Council. This Memorandum assists management in the timely correction of control deficiencies.
- Semiannually, a summary report is made of all findings and recommendations from the Internal Control Review Memorandums and released in a *formal Internal Control Review Activity Report*.

This report summarizes the Internal Control Review Memorandums issued since the last Internal Control Review Activity Report (June 30, 2009), including findings, recommendations, and management responses. The recommendations are included in the follow-up system for tracking purposes.

**INTERNAL CONTROL REVIEW
ACTIVITY REPORT
DECEMBER 31, 2009
CAO 2900-0910-10
January 28, 2010**

OBJECTIVES

Our objectives in completing the *Internal Control Review Activity Report* are to:

- Review all activity for the period noted relative to internal control reviews;
- Document for tracking purposes findings and recommendations noted in Internal Control Review Memorandums; and
- Report to the public the results of activities of the City Auditor's Office.

The objectives of each of the Internal Control Reviews were to:

- Determine the adequacy of existing internal controls;
- Determine the reason(s) for any control failure;
- Recommend corrective action; and
- Report the results of our review.

SCOPE AND METHODOLOGY

The scope of the audit was limited to Internal Control Review Memorandums issued from June 30, 2009 through December 31, 2009.

The scope of our work on internal control was limited to the controls within the context of the objectives and the scope of each Internal Control Review.

Our audit methodology during each of the Internal Control Reviews included:

- Observing operations.
- Interviewing personnel.
- Reviewing records, reports, and other applicable documentation.

We conducted this performance audit in accordance with generally accepted government auditing standards except for the requirement for an external peer review every three years. Those standards require that we plan and perform the audit 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 findings and conclusions based on our audit objectives.

**INTERNAL CONTROL REVIEW
ACTIVITY REPORT
DECEMBER 31, 2009
CAO 2900-0910-10
January 28, 2010**

INTERNAL CONTROL MEMORANDUMS ISSUED

1. ICR-051 - Internal Control Review: Municipal Court – ASED Fraud

Background

On June 27, 2008 Detention and Enforcement (D&E) responded to a report of a theft by an ASED court clerk of \$462. The following information was gathered:

- ASED oversees a program where defendants can satisfy court fines through payments or community work hours.
- On June 25, 2008, a customer paid court fines of \$462 using a credit card.
- The court clerk who processed this transaction knowingly failed to write the corresponding case number on the credit card receipt.
- The court clerk subsequently stole \$462 in cash from the day's deposit.
- In order for the court clerk's deposit to balance in total at the end of the day, rather than identifying that this customer had paid off the fines by payment, the court clerk made it appear that the customer had worked off his fines by reducing the required work hours.
- The customer was unaware of the court clerk's actions.

D&E is proceeding with the District Attorney's office in the prosecution of the court clerk.

Findings and Conclusions:

The ASED court clerks collect payments and process court ordered work hours as a part of their daily tasks. ASED is currently using several disconnected systems for these tasks that do not allow for easy reconciliation of the different transaction types. With the use of these multiple systems, an opportunity currently exists for schemes such as this one to go undetected.

Recommendation:

The following recommendations are made:

1. Municipal Court management should conduct random surprise audits of each clerk's daily deposits.
2. Municipal Court management should request that work hours documentation be included with the daily cash receipts to account for all hours either being paid or reduced through the work program.
3. Municipal Court management should request that the CMS developer accelerate the completion of the module to correct the possible flaws in the current method of balancing daily deposits.

Recommendation 1:

Municipal Court management should conduct random surprise audits of each clerk's daily deposits.

**INTERNAL CONTROL REVIEW
ACTIVITY REPORT
DECEMBER 31, 2009
CAO 2900-0910-10
January 28, 2010**

Recommendation 2:

Municipal Court management should request that work hours documentation be included with the daily cash receipts to account for all hours either being paid or reduced through the work program.

Recommendation 3:

Municipal Court management should request that the CMS developer accelerate the completion of the module to correct the possible flaws in the current method of balancing daily deposits.

2. ICR-052 - Internal Control Review: Credit Card Fraud at Bryan Safekey

Background

A Safekey employee who was a cashier at the Richard Bryan Elementary School Safekey site was arrested by Detention and Enforcement (D&E) for credit card fraud. This employee allegedly used personal credit card information of a Safekey customer to purchase pizza, pay cell phone and dental bills, and make various online purchases. The Safekey employee made a voluntary statement admitting to the fraudulent use of several Safekey customers' credit cards. D&E is pursuing prosecution of the suspect on violations of NRS #205.463 (identity theft) and NRS #205.690 (possession of credit card without owner's consent).

Findings and Conclusions:

Safekey uses a form known as the *City of Las Vegas Safekey Manual Credit Card Authorization Form* to manually record customer credit card information (i.e., type of card, credit card number, and amount charged, card security code, expiration date, printed name on card) and to obtain the customer's signature. A pencil tracing of the credit card is made on this form. Safekey cashiers at sites with laptops input the credit card number into the Class System.

The manual forms are submitted weekly to the Safekey administration offices where the Safekey supervisors process the credit card charges on credit card machines. The manual credit card form is retained at the Safekey administration offices. Personal information on the manual credit card form is not currently redacted after processing the transaction.

While it is challenging to protect the City and customers against the acts of dishonest employees, the security and safeguards over credit card processing must continually be evaluated to minimize the risk of this type of fraud and deter employees from misusing the personal information they obtain in the course of their duties.

**INTERNAL CONTROL REVIEW
ACTIVITY REPORT
DECEMBER 31, 2009
CAO 2900-0910-10
January 28, 2010**

Recommendations:

Safekey management should implement the following measures to improve the security over credit card payments:

1. After processing the credit card payments, personal information on manual credit card forms should be redacted (i.e., the security code, the expiration date, and all but the last four digits of the credit card number).
2. Personal information on manual credit card forms currently being stored should be redacted (i.e., the security code, the expiration date, and all but the last four digits of the credit card number).
3. Safekey employees should sign a confidentiality agreement indicating they will safeguard all personal data obtained in the course of their duties.
4. Credit card documentation should always be stored in a secure location.
5. The adequacy of the security over personal information contained in the Class electronic files should be evaluated.
6. Increased automation should be used in processing credit card payments and personal credit card information should no longer be recorded on manual forms. The credit card information stored electronically should be protected with access controls and encryption.

**INTERNAL CONTROL REVIEW
ACTIVITY REPORT
DECEMBER 31, 2009
CAO 2900-0910-10
January 28, 2010**

**MANAGEMENT RESPONSES
TO
INTERNAL CONTROL REVIEW ACTIVITY REPORT**

1. ICR-051 - Internal Control Review: Municipal Court – ASED Fraud

Recommendation 1:

Municipal Court management should conduct random surprise audits of each clerk's daily deposits.

Management Response

In September 2008, the accounting unit implemented a random/targeted audit program. All administrative errors, omissions, as well as any cash discrepancies are tracked and reported to ASED management. The unit went back to the beginning of the fiscal year and the goal is to complete roughly one every two working days or 150 audits per year. Additionally, we have added this to our internal performance plus measures and we are on track to meeting our goal for this fiscal year. All documentation is currently filed in the Budget Analyst's office at Municipal Court. This is an additional but necessary task that has been added to the amount and complexity of the unit's responsibilities.

Estimated Date of Completion: Completed

Recommendation 2:

Municipal Court management should request that work hours documentation be included with the daily cash receipts to account for all hours either being paid or reduced through the work program.

Management Response

In September 2008, the accounting unit changed the daily deposit form to include "work program hours worked" and started to collect all work program timesheets. An automated report was created to track total work hours rung by clerk and that report is reconciled to the work program timesheets by the accounting unit daily. All administrative errors, timesheet omissions, as well as any cash calculation discrepancies are tracked and reported to ASED management on a daily basis. All documentation is currently filed in the Budget Analyst's office at Municipal Court. This is an additional but necessary task that has been added to the amount and complexity of the unit's responsibilities.

Estimated Date of Completion: Completed

**INTERNAL CONTROL REVIEW
ACTIVITY REPORT
DECEMBER 31, 2009
CAO 2900-0910-10
January 28, 2010**

Recommendation 3:

Municipal Court management should request that the CMS developer accelerate the completion of the module to correct the possible flaws in the current method of balancing daily deposits.

Management Response

IT management met with the CMS developer and they have established a timeline of which we are scheduled to train court staff in April 2009. We are expected to implement the new CMS in August 2009.

Estimated Date of Completion: August 2009

2. ICR-052 - Internal Control Review: Credit Card Fraud at Bryan Safekey

Recommendation 1: After processing the credit card payments, personal information on manual credit card forms should be redacted (i.e., the security code, the expiration date, and all but the last four digits of the credit card number).

Management Response:

Management will redact all personal information on manual credit cards forms processed in our program.

Estimated Date of Completion: January 5, 2009

Recommendation 2: Personal information on manual credit card forms currently being stored should be redacted (i.e., the security code, the expiration date, and all but the last four digits of the credit card number).

Management Response:

Management will have staff redact all existing manual credit card forms that are currently being stored.

Estimated Date of Completion: January 5, 2009

Recommendation 3: Safekey employees should sign a confidentiality agreement indicating they will safeguard all personal data obtained in the course of their duties.

Management Response:

Management will have all current and future Safekey staff members sign a confidentiality agreement form stating that they will safeguard all personal data obtained.

Estimated Date of Completion: January 5, 2009

**INTERNAL CONTROL REVIEW
ACTIVITY REPORT
DECEMBER 31, 2009
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January 28, 2010**

Recommendation 4: Credit card documentation should always be stored in a secure location.

Management Response:

Management will take steps to make sure that all credit card documents are stored in a safe locked location.

Estimated Date of Completion: January 5, 2009

Recommendation 5: The adequacy of the security over personal information contained in the Class electronic files should be evaluated.

Management Response:

Management will have periodic meetings with the Class systems administrator to evaluate the adequacy of the security of information in the system.

Estimated Date of Completion: January 5, 2009

Recommendation 6: Increased automation should be used in processing credit card payments and personal credit card information should no longer be recorded on manual forms. The credit card information stored electronically should be protected with access controls and encryption.

Management Response:

Management plans to purchase electronic credit card machines that will encrypt the card information thus making it safer to use our program.

Estimated Date of Completion: January 5, 2009

AGENDA SUMMARY PAGE
AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 22, 2010

DEPARTMENT: CITY AUDITOR'S OFFICE
DIRECTOR: RADFORD SNELDING

Consent Discussion

SUBJECT:

Discussion and possible action on the Audit of Management Controls over Purchasing and Inventory at Darling Tennis Center (2900-0910-11)

Fiscal Impact

No Impact

Augmentation Required

Budget Funds Available

Amount:

Funding Source:

Dept./Division:

PURPOSE/BACKGROUND:

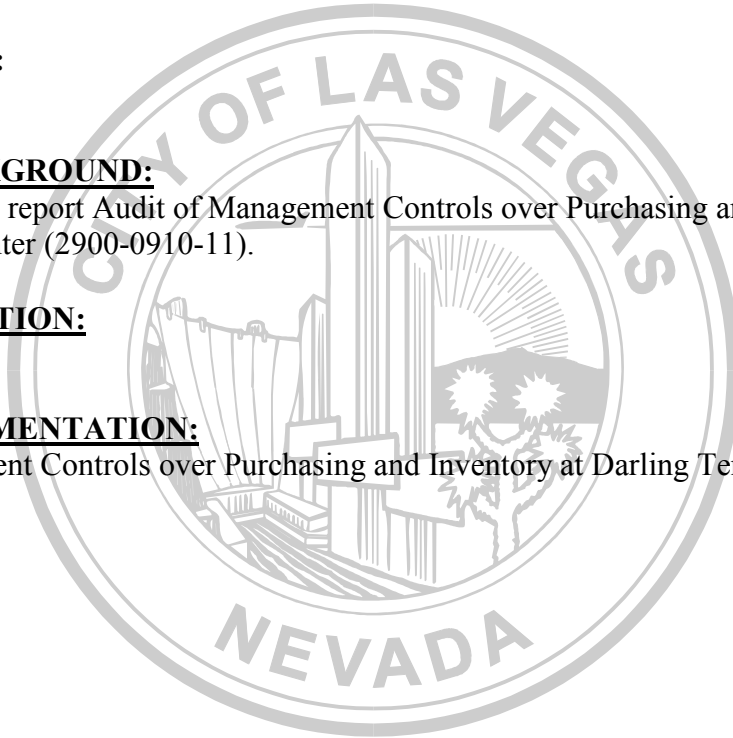
To review the audit report Audit of Management Controls over Purchasing and Inventory at Darling Tennis Center (2900-0910-11).

RECOMMENDATION:

Approval

BACKUP DOCUMENTATION:

Audit of Management Controls over Purchasing and Inventory at Darling Tennis Center (2900-0910-11)



CITY AUDITOR'S OFFICE



Audit of Management Controls over Purchasing and Inventory at Darling Tennis Center

Report No. CAO 2900-0910-11

January 28, 2010

RADFORD K. SNELDING, CPA, CIA, CFE

CITY AUDITOR

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Audit of Management Controls over Purchasing and Inventory at Darling Tennis Center CAO 2900-0910-11

BACKGROUND

The City's Department of Leisure Services (Leisure Services) operates the Darling Tennis Center (DTC) located in the Charlie Kellogg and Joe Zaher Sports Complex. The DTC has a pro shop with various tennis related items (e.g., tennis racquets, clothing, balls) for sale to the public. This is the only City facility that sells retail merchandise to the public.

OBJECTIVES

The audit objective was to evaluate the adequacy and effectiveness of management controls over purchasing and inventory at the DTC.

SCOPE AND METHODOLOGY

The scope of this audit was limited to the review of management controls over purchasing and inventory at Darling Tennis Center. The scope of our work on internal control was limited to the controls within the context of the audit objectives and the scope of the audit.

Our audit methodology included:

- Research of policy and procedures and applicable guidelines,
- Interviews of City personnel,
- Observing the operation of the Darling Tennis Center,
- Observations of work processes, and
- Analysis and detail testing of available data.

We conducted this audit in accordance with generally accepted government auditing standards except for the requirement for an external peer review every three years. Those standards require that we plan and perform the audit 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 findings and conclusions based on our audit objectives.

The exception to full compliance is because the City Auditor's Office has not yet undergone an external peer review. However, this exception has no affect on the audit or the assurances provided.

CONCLUSIONS, FINDINGS, AND RECOMMENDATIONS

The following conclusions were noted:

- The Darling Tennis Center staff should follow the City's Procure to Pay process in purchasing inventory. (Finding 1)
- Improved management controls are needed over the inventory at the Darling Tennis Center. (Finding 2)

Further information is contained in the sections below. While other issues were identified and discussed with management, they were deemed less significant for reporting purposes.

1. Inventory Purchasing Procedures

Criteria

City departments are to use Purchasing's Procure to Pay process to expedite the processing of invoices by Accounts Payable and the researching of purchase transactions by Purchasing & Contracts. Procurement Card Purchase Procedure and Policy (FN605a.11 and FN605.11) states that any items currently covered under a contract should not be purchased using a PCard.

Condition

The DTC uses both a Purchase Card (PCard) and Purchase Orders for purchasing inventory for resale and supplies inventory for programming activities. No differentiation is made between the two types of inventory by the DTC when making purchases. These practices are an obstacle to the timely processing of invoices by Accounts Payable and the researching of purchase transactions by Purchasing & Contracts.

The DTC completes special orders for customers upon request. While this practice is offered as a convenience to customers, it is an inefficient use of the City's resources.

During the audit, we identified that the DTC Staff inappropriately used the City's account to order \$1,205.73 worth of tennis goods for a non-City entity, the David Pate Junior Tennis Fund in Henderson. While the City inappropriately purchased these items, they were paid for directly by the David Pate Junior Tennis Fund.

Cause

The Darling Tennis Center is not appropriately following the Purchasing Procure to Pay guidelines.

Effect

- Invoices may not be timely processed by Accounts Payable and researching purchasing transactions is more challenging.
- Inefficient use of City resources.

Recommendations

- 1.1 Leisure Services management should require that DTC staff use purchase orders for all retail inventory and supplies inventory purchases, per the Procure to pay process.
- 1.2 Leisure Services management should evaluate whether the DTC should continue to provide special orders for customers, eliminating CLV as the middleman.
- 1.3 Leisure Services management should communicate to DTC staff that only goods and services for the benefit of the city are to be ordered using city accounts.
- 1.4 Leisure Services management should request that Purchasing & Contracts provide additional training on Procure to pay purchasing procedures for all DTC employees with responsibilities for ordering inventory.

2. Inventory Controls

Criteria

The risk of loss of inventory is minimized with the implementation of proper inventory controls.

Condition

The DTC has a pro shop with various tennis related items (e.g., tennis racquets, clothing, balls) for sale to the public. In addition, the DTC uses various inventory items for use in tennis clinics, camps, rentals, and tournaments.

The following deficiencies in management controls over inventory were identified:

- The Class system that is used for tracking inventory does not allow for differentiation between the two types of inventory (i.e., resale and internally used items).
- The DTC's retail inventory is stored in unlocked drawers in the pro shop and in an electrical utility room unsuitable for inventory storage. The electrical utility room has a skylight entrance that was found to be unlocked.

Audit of Management Controls over Purchasing
and Inventory at Darling Tennis Center
CAO 2900-0910-11
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- Leisure Services management has concerns that the DTC has unsalable retail inventory and recently requested that the DTC stop ordering certain merchandise. We observed that the DTC may have an overstock of tennis racquet string.
- The DTC does not have a video surveillance system.
- The DTC staff are not always appropriately verifying the receipt of inventory by matching inventory received against the corresponding purchase order. They often inappropriately use the express function in Oracle (acknowledgement that everything ordered has been received) upon receipt of partial inventory shipments.
- The DTC sells snacks and drinks as a convenience to customers. This is a violation of the City's vending agreement with the Bureau of Services to the Blind and Visually Impaired.

Cause

- Class system limitations.
- Lack of implementation of proper inventory controls.
- Lack of adherence to vending agreement.

Effect

- Potential for misstated inventory records.
- Increased risk of loss of inventory.

Recommendations

- 2.1 Leisure Services management should work with the CLASS System Administrator to make system changes to allow the DTC to track retail inventory separately from program supplies inventory.
- 2.2 Leisure Services management should evaluate the adequacy of the storage and security of inventory at the DTC and address the identified inventory deficiencies.
- 2.3 Leisure Services management should evaluate the appropriateness of the type of retail inventory and supplies inventory being ordered by the DTC and identify appropriate inventory levels to be maintained.
- 2.4 Leisure Services management should evaluate installing a video surveillance system to monitor the cash register and inventory at the DTC. The City's Safety/Loss Control Officer is available upon request to perform a site visit to assist management as needed.

Audit of Management Controls over Purchasing
and Inventory at Darling Tennis Center
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- 2.5 Leisure Services management should require that DTC employees verify the receipt of inventory items individually against purchase orders. Any discrepancies should be reported to Purchasing & Contracts for resolution.
- 2.6 Leisure Services management should work with Purchasing & Contracts in resolving the DTC's violation of the vending agreement with the Bureau of Services to the Blind and Visually Impaired.

MANAGEMENT RESPONSE

1. Inventory Purchasing Procedures

Recommendation 1.1: Leisure Services management should require that DTC staff use purchase orders for all retail inventory and supplies inventory purchases, per the Procure to pay process.

Management Response: Agree with this recommendation, staff at DTC will be directed to secure all inventory items through the Procure to Pay Process. Staff will be offered additional training to assist in breaking down any communication issues regarding the process. Management will be responsible to Audit P-card Purchase to ensure this directive is not deviated from. Deviation from the process will lead to staff being addressed through the “Positive Progressive Discipline Process”.

Estimated Date of Completion: July 1, 2009

Recommendation 1.2: Leisure Services management should evaluate whether the DTC should continue to provide special orders for customers, eliminating CLV as the middleman.

Management Response: Agree with this recommendation, staff will be directed to cease special orders for customers. PO’s will not be electronically approved for individual items that are special orders for individuals.

Estimated Date of Completion: July 1, 2009

Recommendation 1.3: Leisure Services management should communicate to DTC staff that only goods and services for the benefit of the city are to be ordered using city accounts.

Management Response: Agree with this recommendation, staff will be directed to not place orders on city accounts for outside users of the facility for tournaments or events. Tracking may be difficult but management will again review and question all purchases on PO’s at the DTC. Management will explore opportunities to track this.

Estimated Date of Completion: July 1, 2009

Recommendation 1.4: Leisure Services management should request that Purchasing & Contracts provide additional training on Procure to pay purchasing procedures for all DTC employees with responsibilities for ordering inventory.

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Management Response: Agree with this recommendation, a training is tentatively being set up for mid July, to include DTC Staff, Ed O'Neil, Dan Dixon, and a representative from Accounts Payable. An agenda and sign in sheet will be provided to Auditor's Office for back up of completion.

Estimated Date of Completion: August 1, 2009

2. Inventory Controls

Recommendation 2.1: Leisure Services management should work with the CLASS System Administrator to make system changes to allow the DTC to track retail inventory separately from program supplies inventory.

Management Response: Agree with this recommendation, management will set up a meeting with Class Administrator and Finance to devise a system in Class and also an expense coding option so that inventory is not comingled. Class Administrator will be ask to provide a written document outlining the process that is put into place, a copy will be provided to City Auditor's Office for back up of the completion of this recommendation.

Estimated Date of Completion: August 1, 2009

Recommendation 2.2: Leisure Services management should evaluate the adequacy of the storage and security of inventory at the DTC and address the identified inventory deficiencies.

Management Response: Agree with this recommendation, the security system that will be pursued will assist greatly in the matter if installed. Staff will be directed to perform a physical inventory at the end of each month, staff must provide a copy of this inventory to management and highlight and discrepancies for review. Items identified as missing on regular bases or in high volume will be eliminated from the Pro Shop and any future ordering. Also staff will be directed to not receive or store any equipment or supplies of outside users. In the future outside users must order, secure, and receive all their own goods; DTC is willing to allow temporary Pods for storage to be dropped at the facility for this process. Monthly Inventory reports will be sent to City Auditor's Office for record and tracking of the completion of this recommendation.

Estimated Date of Completion: July 1, 2009

Recommendation 2.3: Leisure Services management should evaluate the appropriateness of the type of retail inventory and supplies inventory being ordered by the DTC and identify appropriate inventory levels to be maintained.

Management Response: Agree with this recommendation, management will explore with staff the purchasing of individual “Tennis String” and look at the option of purchasing in bulk rolls. Additionally DTC will be directed to not carry and sell court shoes. Clothing items will be purchased “on a limited bases”, to have items on the rack, perhaps DTC logo’d apparel for quick sale. A meeting will take place with Management and DTC staff to set “limits of appropriate Pro Shop Items”, notes will be summarizing this meeting and business direction will be sent to the City Auditor’s Office for backup documentation that the recommendation has been met.

Estimated Date of Completion: July 1, 2009

Recommendation 2.4: Leisure Services management should evaluate installing a video surveillance system to monitor the cash register and inventory at the DTC. The City’s Safety/Loss Control Officer is available upon request to perform a site visit to assist management as needed.

Management Response: Agree with this recommendation, staff will set up a meeting with Facilities Management and City’s Safety/Loss Control Officer to asses and get a bid for video surveillance. Costs are however the issue, if funding can be established outside the department, DTC will progress to completing this recommendation as soon as possible. Backup documentation from Facilities and Safety/Loss Control Officer will be sent to City Auditor’s Office for backup of completion of this recommendation.

Estimated Date of Completion: Evaluation and bid complete by August 1, 2009

Recommendation 2.5: Leisure Services management should require that DTC employees verify the receipt of inventory items individually against purchase orders. Any discrepancies should be reported to Purchasing & Contracts for resolution.

Management Response: Agree with this recommendation, a directive to staff will go to staff to perform a detailed verification of orders. Comparing the invoice to what is actually received on the order. Staff will also be directed to only “receipt” in Oracle the goods that were received and not “receipt” any items that are back ordered.

Estimated Date of Completion: July 1, 2009

Recommendation 2.6: Leisure Services management should work with Purchasing & Contracts in resolving the DTC’s violation of the vending agreement with the Bureau of Services to the Blind and Visually Impaired.

Management Response: Agree with this recommendation, Sky Top Vending has been contacted and a site for the vending machines has been established. If Sky Top agrees to the designated vending area staff will work with Facilities Management to ensure proper

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electrical needs are met. Once completed an E-mail will be sent to City Auditor's Office for backup documentation that the recommendation has been resolved.

Estimated Date of Completion: July 1, 2009 (Vending Machines are now on the property)

AGENDA SUMMARY PAGE
AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 22, 2010

DEPARTMENT: CITY AUDITOR
DIRECTOR: RADFORD SNELDING

SUBJECT:

CITIZENS PARTICIPATION: Public comment during this portion of the agenda must be limited to matters within the jurisdiction of the Committee. No subject may be acted upon by the Committee unless that subject is on the agenda and is scheduled for action. If you wish to be heard, come to the podium and give your name for the record. The amount of discussion on any single subject, as well as the amount of time any single speaker is allowed, may be limited



AGENDA SUMMARY PAGE

AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 22, 2010

DEPARTMENT: CITY AUDITOR

DIRECTOR: RADFORD SNELDING

Consent Discussion

SUBJECT:

ADJOURNMENT

