

CITY OF COVINGTON, KENTUCKY, MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN FOR STATE AUDITOR'S EXAMINATION OF CERTAIN POLICIES, PROCEDURES, CONTROLS AND FINANCIAL ACTIVITY OF CITY OF COVINGTON
(FEBRUARY 13, 2014)

| | | TASK LIST | | | STATUS | | | | |
|---------|---|---|---|-----------------|---|---|--|---|---|
| Finding | | Recommendations | City's Response and Corrective Action Plan | Lead Department | March 24, 2014 | April 30, 2014 | May 31, 2014 | June 30, 2014 | July 31 2014 |
| 1 | <i>The former Finance Director wrote 68 checks to himself, his spouse, his aunt, and a vendor under his control totaling \$793,127.</i> | <i>We recommend the City attempt to recoup the funds that were identified in checks written to the former Finance Director and affiliated parties for fictitious transactions. We further recommend the City strengthen internal controls and accounting processes in the Finance Department to deter and reduce the risk of waste, fraud, and abuse as discussed in findings throughout this report.</i> | | | | | | | |
| | | <i>A. The APA recommends that the City attempt to recoup the funds that were identified in checks written to the former Finance Director and affiliated parties for fictitious transactions</i> | | | | | | | |
| | | Process to recoup funds: | On the evening of August 22, 2013, the City Administration was advised by Finance Department employees that they discovered improprieties related to the use of City funds. Within 24 hours the former Finance Director was placed under arrest on the basis of the documentation organized by City Management and the Finance Department staff, which was promptly provided to the Commonwealth Attorney's office. The former Finance Director's access to all City accounts and assets, computers, records and communications was immediately disabled. Minutes after Mr. Due's arrest, the City conducted a press conference to inform the public. | Legal | Completed. All lawsuits to recover embezzled funds have been filed. | Completed. All lawsuits to recover embezzled funds have been filed. | Discovery pending. Offers made and being considered. Counter-offers to be made. Moving towards liquidating Due assets. | Partial Recovery is imminent. Foreclosure on Due property is pending. Lawsuit against Bob Due and various entities continues. | Partial recovery achieved. Discovery pending in civil suit. Foreclosure suit ongoing. More recovery will be achieved. |

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| | | <p>On August 30, 2013, a civil lawsuit to recover the City's funds was filed against Bob Due, Janet H. Patterson (spouse of Bob Due), Joseph DeCosimo and Company, LLC, Von Lehman & Company, Inc., U.S. Bankcorp Investments, Inc., Fifth Third Bank, Inc., KVS Information Systems, Inc., Chas H. Bilz Insurance Agency, Inc., Kentucky Retirement Systems, Kentucky County Employment Systems (CERS), Kentucky Retirement Systems, Estate of Virginia Molique, John Does 1-3 and Jane Does 1-3 (Bob Due's children) and Unidentified Financial Institutions 1-2. The case is styled City of Covington, Kentucky vs. Robert James Due, Third Div., Kenton Cir. Ct., Case No. 13-CI-1846. The lawsuit is pending.</p> | | | | | | |
| | | <p>On August 30, 2013, an Order Granting Plaintiff's Motion for Temporary Restraining Order Against Defendants Robert J. Due, Janet H. Patterson, John Does 1-3, Jane Does 1-3, and the Estate of Virginia Molique was entered of record in the above case restraining the named parties from alienating any person property, cash, investment securities, business entity interests, or real estate assets without permission of the Court for good cause shown.</p> | | | | | | |
| | | <p>Proof of Loss Fidelity Bond claims have been filed with the Ohio Casualty Insurance Company, the City's fidelity bond insurer, seeking recovery of the misappropriated funds.</p> | | | | | | |

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| | Check Writing Process: | The City has implemented an improved approval, review and release policy for all checks printed. The City Manager and Finance Director are and will continue to review all requisition reports before these are converted into a purchase order. This review process is in line with the expenditure approval process that is currently in place citywide. As was stated above, all check registers are and will be reviewed by the City Manager, and all check registers and supporting documents are subject to the Finance Director's oversight prior to the issuance of any check. Lastly, all checks are and will be initialed by the Finance Director. | Finance | Completed | Completed and Ongoing | Completed and Ongoing | Completed and Ongoing | Completed and Ongoing |
| | | The City, in conjunction with the current accounting software provider, has begun to implement risk-reducing measures that include restricting the ability to change the vendor payee after a check has been printed. As a preliminary stopgap measure, the City has investigated the possibility of working with banking institutions to implement additional fraud protection measures that would be managed by third parties. Under these processes, cancelled checks would be reviewed and subject to payee verification pursuant to the bank's external reconciliation processes. | Finance | Additional Fraud Protection Measures through Banks - In Process; Everything Else - Completed | Assistant Finance Director is reviewing cancelled checks as timely as possible via bank images on CD | Assistant Finance Director is reviewing cancelled checks as timely as possible via bank images on CD | Assistant Finance Director is reviewing cancelled checks as timely as possible via bank images on CD | Assistant Finance Director is reviewing cancelled checks as timely as possible via bank images on CD |
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| | | <p>Only two individuals have the ability to print checks in the Finance Department, the Accounts Payable Manager and the Payroll Specialist. This feature was changed by Management immediately after it discovered the former Finance Director's fraud. Since that time, the check stock is guarded, password protection is required, and the Accounts Payable Manager and Payroll Specialist are the only individuals who can print checks. For their part, passwords must be changed every 90 days, approved check registers are scanned and saved, and the check number sequence is monitored. As an additional safeguard, the software warns of repeat check numbers and ensures that check numbers are kept in sequential order.</p> | Finance | Completed | Completed and Ongoing | Completed and Ongoing | Completed and Ongoing | Completed and Ongoing |
| | | | | | | | | |
| | | <p>The New Vendor setup function has been restricted to select individuals and preapproval processes are being developed to help reduce the risk of fraudulent vendor setup. Importantly, the Finance Director no longer has full access to the financial accounting software, and sharing of passwords among Finance Department staff members is strictly prohibited.</p> | Finance | New Vendor Setup Restriction and Preapproval Processes - In Process; Eliminating the Finance Director's Full Access to the Software and Sharing of Passwords - Completed | Ongoing | Ongoing | Ongoing | Ongoing |
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| 2 | <i>The Finance Department had lax internal controls, which increased opportunities for misappropriation of assets.</i> | <i>Because the Finance Department has such significant internal control weaknesses, the City should implement improvements as soon as possible. These include: develop policies and procedures to address all significant functions of the Finance Department: segregate duties; create job descriptions for Finance Department staff; train employees adequately; implement sufficient supervisory review of key functions accounting and budgetary activities.</i> | | | | | | | |
| | | A. <i>The APA recommends developing policies and procedures to address all significant functions of the Finance Department and to update these policies and procedures regularly:</i> | | | | | | | |
| | | Department Policies and Procedures: | The City is in the process of developing a new updated accounting procedure manual. This document will be a living document that reflects the changes that are currently taking place and that accounts for the evolution that the Department will experience. | Finance Staff | In Process | In process. Will take years to complete. This is a living document. | In process. Will take years to complete. This is a living document. | In process. Will take years to complete. This is a living document. | In process. Will take years to complete. This is a living document. |
| | | Segregation of Duties: | Management, in conjunction with the Finance Department, has begun segregating duties so that no one person can both create and coceal fraudulent activity or commit a material error that would go undetected. Access to specific functions will have restrictions. | City Manager/Finance Director | In Process | In Process | In Process | In Process | In Process |
| | | Staff and Accounting Professionals: | In order to implement the above changes, the City has created new positions, and has hired, or is the process of hiring qualified individuals to fill those positions as follows: | | | | | | |

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| | Finance Department Job Descriptions: | The City did have job descriptions for Finance Department positions, and all staff members have a copy of his or her applicable job description. Each employee was directed to write a list of his or her job tasks by the new Finance Director for further assessment. Job descriptions will be reviewed and maintained as necessary. | H/R/City Manager/Finance Director | Completed | | | | |
| | Employee Training: | The City is committed to providing current and future staff with the tools and support that are necessary for employees to effectively perform their newly defined duties. As a priority measure, the Finance Director has scheduled an on-site accounting software demonstration. | Finance | Completed | | | | |
| | Supervisory Review: | As part of the implementation of the new accounting manual and the revisions to the organizational chart, the Finance Director is committed to training and educating managers on the importance of segregating duties, and the necessity for maintaining of internal controls. | Finance | In Process | In Process | In Process | In Process | In Process |
| | Reorganization of the Finance Department: | Management in conjunction with the Director of Finance has undertaken the reorganization of the Finance Department paying specific attention to the implementation of an effective chain of command and supervisory processes. | City Manager/Finance Director | Completed | | | | |
| | City Manager Oversight: | For its part, the City Manager's Office has increased its oversight of the Finance Department's accounting and budgetary activities, since the breach of confidence by the former Finance Director in the following notable ways: | | | | | | |
| | | a. The City Manager is now reviewing all purchase requisition reports and all check registers. | City Manager/Finance Director | Completed | | | | |

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| | | b. No checks are released without the approval of both the City Manager and Finance Director. | City Manager/Finance Director | Completed | | | | |
| | | c. The City Manager is also involved in all budgetary meetings and planning sessions with all Department heads. The City's budget process and format is going through a complete overhaul that will provide much more transparency and accountability. | City Manager/Finance Director | In Process | In Process | In Process | In Process | 2014/2015 completed - continual improvement pending |
| | | Transparency: The City holds monthly Finance Committee meetings open to the public, Commission, and Department directors. | Finance | Completed | | | | Finance meetings moved to quarterly reporting to City Commission will be monthly |
| 3 | <i>The former Finance Director also acted as IT Administrator.</i> | <i>The City should consider hiring a separate IT Administrator that reports directly to the City Manager. This function should not be under the control of the City's Finance Director. The City should also consider hiring a consultant to help evaluate the appropriate level of access for each employee within the City. Within the Finance Department, key functions, such as vendor creation/update duties, check processing, et cet. should be properly segregated and protected so employees with non-compatible job duties do not have unauthorized access. The Finance Department should also implement procedures for documenting and maintaining information related to all vendor file changes.</i> | | | | | | |

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| | A. <i>The APA recommends that the City should consider hiring a separate IT Administrator who reports directly to the City Manager. This function should not be under the control of the City's Finance Director.</i> | | | | | | | |
| | Actions taken concerning IT Administration: | The City has identified this deficiency as well, and on February 4, 2014, the City Commission approved a Job Description for an Information Technology and Data Manager who will report directly to the City Manager. The new position is being advertised regionally and some interviews have already been scheduled with prospective candidates. | City Manager/Finance Director | Completed. IT and Data Manager began work with the City in March, 2014. | | | | |
| | B. <i>The APA recommends that the City should consider hiring a consultant to evaluate the appropriate level of access for each employee within the city.</i> | | | | | | | |
| | Hire a Consultant to Evaluate Access Levels: | The City will assess this need, along with the Information Technology and Data Manager, once the position is filled. | City Manager | In Process | In Process | In Process | In Process | In Process |
| | C. <i>The APA recommends that the Finance Department segregate duties so that employees with non-compatible job duties do not have unauthorized access to key accounting functions.</i> | | | | | | | |
| | Segregation of Duties: | This segregation of duties will be better assessed and implemented with new key staff in place. See Finding 2 above. | City Manager/Finance Director | In Process | In Process | In Process | In Process | In Process |
| | D. <i>The APA recommends that the Finance Department implement procedures for documenting and maintaining information related to all vendor file changes.</i> | | | | | | | |

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| | | Implement Procedures for Vendor File Changes: | The Finance Department has started to work on upgrading its software. In addition to the new features that are mentioned throughout this Response, the accounting software will be programmed to provide a transaction history for records and any events including changes that occur in vendor files. | Finance | In Process | In Process | In Process | In Process | Initial meetings have started |
| 4 | Numerous Weaknesses Related to Purchasing and Payables were Identified. | <i>We recommend the City: update purchasing policies and procedures manual; develop a policy to address checks processed between check runs and determine what circumstances would necessitate a special check run; reevaluate the dual signature system for checks, and implement policies and procedures to insure the control is working as intended; account for all checks in numerical sequence by maintaining a check register or other check log system; limit vendor creation and vendor file changes to authorized personnel; improve system security to prevent users from accessing another user's identification; segregate the IT Administrator from the Finance Department; ensure procedures exist to maintain sufficient, accurate, supporting, approved documentation.</i> | | | | | | | |
| | | A. The City should update purchasing and policies and procedures manual. | | | | | | | |
| | | Policies and Procedures Manual: | The Finance Director has begun the process of drafting a manual of purchasing policies and procedures for the Department. | Finance | In Process | In Process | In Process | In Process | In Process |

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| | <i>B. The APA recommends that the City should develop a policy to address checks processed between check runs and determine what circumstances would necessitate a special check run.</i> | | | | | | | |
| | Check Run Process: | As the current policy states, checks are run once a week. Special check runs would be rare and necessary in only emergency situations. | Finance | In Process | In Process | In Process | In Process | In Process |
| | <i>C. The APA recommends that the City should reevaluate the dual signature system for checks, and implement policies and procedures to insure the control is working as intended.</i> | | | | | | | |
| | Reevaluate the Dual Signature System for Checks: | The Finance Director reviews all supporting documentation for all check runs and initials all original checks. The City Manager reviews all check registers prior to release of checks. No checks are released from the Finance Department, unless they are approved by both the Finance Director and City Manager. | Finance | Completed | Completed and Ongoing | Completed and Ongoing | Completed and Ongoing | Completed and Ongoing |
| | <i>D. The APA recommends that the City should account for all checks in numerical sequence by maintaining a check register or other check log system.</i> | | | | | | | |

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| | Reevaluate the Check Register: | The Finance Department has already implemented steps to account for all checks. Before a check is printed, the number of the first check to be printed is reconciled with the last number of the previous check run to ensure that the check sequence is maintained. The check register accounts for each series of checks that are printed is then recorded on the paper and scanned as a "check log." The Finance Director maintains an independent check log detailing the number of the checks used for each check run. | Finance | Completed | Completed and Ongoing | Completed and Ongoing | Completed and Ongoing | Completed and Ongoing |
| | <i>E. The APA recommends that the City should limit vendor creation and vendor file changes to authorized personnel.</i> | | | | | | | |
| | Vendor Creation and File Changes: | Under the current policy, Purchasing is the only division of the Finance Department that can create new vendors. | Finance | Completed | Completed and Ongoing | Completed and Ongoing | Completed and Ongoing | Completed and Ongoing |
| | <i>F. The APA recommends that the City should improve system security to prevent users from accessing another user's ID. All City staff members have been advised not to share user ID's or passwords.</i> | | | | | | | |
| | User ID's & Passwords: | Passwords are required to be changed every ninety (90) days. | Finance | Completed | Completed and Ongoing | Completed and Ongoing | Completed and Ongoing | Completed and Ongoing |
| | <i>G. The APA recommends that the City should segregate the IT Administrator from the Finance Department.</i> | | | | | | | |

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| | Segregate IT Administrator from the Finance Department: | The City has developed a job description for an Information Technology and Data Manager who reports directly to the City Manager. At the February 4, 2014 Commission meeting, the Mayor and Commission approved this position. Interviews are scheduled for the placement of this individual. | City Manager | Completed. IT and Data Manager began work with the City in March, 2014. | | | | |
| | <i>H. The APA recommends that the City should ensure procedures exist to maintain sufficient, accurate, supporting, approved documentation.</i> | | | | | | | |
| | Documentation Procedures: | The Interim Finance Director issued a Procurement Memo on October 16, 2013, establishing the following process for procurement policies: a. All purchases over \$100 must be entered and approved by the Finance Department before anything is purchased over \$100. b. All requisitions approved over \$5,000 but less than \$20,000. Any department originating a transaction over \$5,000 but less than \$20,000 must attach three written quotes to the voucher/invoice that must submitted to Finance before payment will be issued. c. Departments cannot enter into a legal contract without approval by the Legal Department or without sending a copy of the contract to Finance. d. Requisitions entered over \$20,000 must have the Order/Resolution number on the requisition denoting approval by the City Commission e. All items entered on a requisition must be detailed on the detail screen. | Finance | Completed | | | | |
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| 5 | <p><i>The City should improve revenue and collections procedures.</i></p> | <p><i>We recommend: all mail addressed to the City should be opened by designated staff in each Department, with all checks removed and processed in the regular daily deposit process; the Revenue/Collections Manager should determine the source of unknown revenue and provide accurate accounting coding to staff to ensure that all revenue received by the City is properly recorded and deposited; all revenue should be processed by designated revenue/receipts staff and be included in the daily deposit. All revenue should be posted to consistent account codes approved by the Revenue/Collections Manager; all checks should be stamped with a restrictive endorsement as soon as they are processed; appropriate segregation of duties should be implemented in regards to bank receipts and deposits; the City should develop a formal process for any Department that collects funds from the public; the City should determine whether the accounting system can be modified to include the needed components to identify and track delinquent taxpayers, or if a stand-alone system to</i></p> | | | | | | |
| | | <p>A. <i>The APA recommends that all mail addressed to the City should be opened by designated staff in each Department with all checks removed and processed in the regular daily deposit process.</i></p> | | | | | | |
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| | | <p>Mail Procedures: The Finance Director, within the first several days of her employment, distributed a memo to all departments stating in relevant part that: "All checks received by any Department will be stamped for restrictive endorsement for deposit only and logged. They should then be immediately transferred to the Finance Department in a clearly marked inter-office mail envelope." A check logging system has been established that accounts for any and all monies that do not go through the Collections window in the Finance Department. Finance Department staff that is responsible for opening mail must log checks the same day in a check log against which deposits are cross-referenced. As an added safeguard, the person logging the checks is separate from the person preparing and making deposits. The log is then included with all deposit details to ensure that all checks received in the Finance Department are deposited timely.</p> | Finance | Completed | Completed and Ongoing | Completed and Ongoing | Completed and Ongoing | Completed and Ongoing |
| | <p><i>B. The APA recommends that the Revenue/Collections Manger should determine the source of unknown revenue and provide accurate accounting coding to staff to ensure that all revenue received by the City is properly recorded and deposited.</i></p> | | | | | | | |
| | | <p>Recording and Depositing of Revenue: The City is implementing a new Finance Department staffing structure that accounts for a Revenue Manager who will be responsible for and in charge of all accounting coding and for providing guidance to all Finance Department staff regarding the appropriate code to use when recording transactions. The Finance Department will also develop a revenue manual for staff to reference.</p> | Finance | Completed | Completed and Ongoing | Completed and Ongoing | Completed and Ongoing | |

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| | <p><i>C. The APA recommends that all revenue should be processed by designated revenue/receipts staff and be included in the daily deposit. All revenue should be posted to consistent account codes approved by the Revenue/Collections Manager. All checks should be stamped with a restrictive endorsement as soon as they are processed. Appropriate segregation of duties should be implemented in regards to bank receipts and deposits.</i></p> | | | | | | | |
| | Revenue/Collections Manager: | <p>As described in Finding 5, (a) above, the City has implemented measures to improve the revenue collection and daily deposit processes. The individual preparing the deposit slip is cross checked by a separate individual and total receipts are included with deposit support. Moreover, all receipts for the Finance Department are processed in the same batch. Separate trips to the bank with deposits should be rare, at best.</p> | Finance | Completed | Completed and Ongoing | Completed and Ongoing | Completed and Ongoing | Completed and Ongoing |
| | <p><i>D. The APA recommends that the City develop a formal process for any Department that collects funds from the public.</i></p> | | | | | | | |
| | Funds Collected from the Public: | <p>The Memo described in Finding 5 (a) above states that all receipts from the public need to be directed to Finance immediately. Staff should not be collecting cash from the public. All cash should run through the Finance Department. If the occasion arises for staff to collect funds from the public, then pre-numbered receipts will be made available for staff to use. The individual will receive a receipt for the money they remitted to the City.</p> | Finance | Completed | Completed and Ongoing | Completed and Ongoing | Completed and Ongoing | Completed and Ongoing |

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| | | <p><i>E. The APA recommends that the City determine whether the accounting system can be modified to include the needed components to identify and track delinquent taxpayers, or if a stand-alone system to handle the process is feasible. Efforts should be made to get delinquent tax collections up-to-date.</i></p> | | | | | | |
| | | <p>Delinquent Tax Collection: As part of the City's plans for the overhaul of the Finance Department, the City intends to implement industry standard tax tracking technologies to facilitate the timely collection of delinquent accounts. The City Finance Director is in the process of obtaining quotes from providers of specialized tax collection modules, which could be integrated into and facilitate the operations of the Finance Department. The City plans to modernize and reorganize the Tax Department. The plan will utilize more efficient technologies, and the use of a lock box for depositing revenue. The Legal Department is working with the Finance Department to implement modernized collection procedures. An additional Assistant City Solicitor position has been created in part to assist both departments with collections generally, including the collection of delinquent tax accounts.</p> | Finance | In Process | In Process | In Process | In Process | In Process |
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| 6 | <p>Internal Controls over bank accounts, bank reconciliations, and adjusting journal entries need improvement.</p> | <p>We recommend: an accurate list of bank accounts be maintained; bank reconciliations should be prepared for all accounts on a monthly basis upon receiving the bank statements, and should be reviewed for completeness and accuracy by a supervisor. Procedures should exist to properly investigate and correct reconciling differences; adjustments that result from bank reconciliations should be posted by someone other than the person performing bank reconciliations, and should be reviewed and approved by a supervisor before they are posted. Journal entries should be prepared promptly and accurately, and they should have accurate descriptions and sufficient reporting documentation to justify the entry.</p> | | | | | | |
| | | <p>A. The APA recommends that an accurate list of bank accounts should be maintained.</p> | | | | | | |
| | <p>Accurate List of Bank Accounts:</p> | <p>The City has a complete list of all bank accounts. All bank accounts with the City's primary bank are listed and accessed online and monitored on a daily basis by the Finance Director. The City Manager also has online access for only reviewing the bank accounts.</p> | <p>Finance</p> | <p>Completed</p> | | | | |
| | | <p>B. The APA recommends that bank reconciliations should be prepared for all accounts on a monthly basis upon receiving the bank statements, and should be reviewed for completeness and accuracy by a supervisor. Procedures should exist to properly investigate and correct reconciling differences.</p> | | | | | | |
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| | | Bank Reconciliations: | Online banking allows for bank statements to be available within a day of month's end. Procedures will be implemented to ensure that all account activity is recorded daily by either receipt module procedures or disbursement modules. Journalizing bank activity will be limited. A separate bank account already has been established for emergency ambulance services' billing receipts. This activity will then be removed from the main general account to further limit the number of transactions needed to be accounted for daily in the main checking account. Bank reconciliations are currently reconciled within the month. | Finance | Completed | | | | |
| | <i>C. The APA recommends that adjustments which result from bank reconciliations should be posted by someone other than the person performing the bank reconciliations, and should be reviewed and approved by a supervisor before they are posted. Journal entries should be prepared promptly and accurately and should have accurate descriptions and sufficient supporting documentation to justify the entry.</i> | | | | | | | | |
| | | Journal Entries: | Steps are being taken to ensure that all journal entries will be posted in a timely manner and reviewed by the Finance Director. In the future, they will also be reviewed by the Assistant Finance Director. | Finance | In Process | Completed | | | |

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| 7 | <i>The City should improve internal controls and oversight for pension funds.</i> | <i>We recommend the City review the Actuarial Valuation Report provided by Fund Evaluation Group and implement the board's recommended annual contributions for each fund. When funding is not sufficient to meet its annual required contributions, the minutes of the City Commission should clearly identify its funding decision. Also, the Finance Department should ensure accurate financial reports are provided to the pension board of trustees and City Commission. In addition, the City should establish procedures for sound internal controls and sufficient oversight to ensure the accounts are being managed as intended.</i> | | | | | | | |
| | | The information in this finding is inaccurate and not a reflection of the real and statutory requirement for operations of the Pension Plans. The Pension Plans are operated by a board of Trustees, not the City Commission, nor the City Manager. | The City Commission has not made contributions to the Pension Plan in recent years by choice. In the FY 13/14 budget proposed by the City Manager and adopted by the City Commission, an annual contribution as calculated by the Fund Evaluation Group to satisfy the current unfunded liability in twenty years was included. While not a required contribution, the City approved \$384,806 for the Police and Fireman's Pension Fund and \$148,843 for the City Employees' Pension Fund. The City Manager will continue to propose an appropriate level of annual contributions in future City budgets. | Finance | Completed | | | | |

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| 8 | <i>The City should improve accounting and accountability for the Devou Park Funds</i> | <i>We recommend the City should implement policies and procedures to ensure that all revenue and expenditures related to projects at Devou Park are coded accurately; the new Finance Director should meet regularly with the Programs and Strategic Projects Division Manager to compare actual expenditures to budgeted expenditures. Because the funds are received from a third party and are restricted for a specific use, an effort should be made to ensure the funds are only expended on approved projects; when reimbursement or fund distribution requests are made, the City should provide a report of expenditures and progress on approved projects to the oversight boards; the City should ensure that control of these funds is not limited to a single person without oversight or review.</i> | | | | | | |
| | | A. <i>The APA recommends that the City should implement policies and procedures to ensure that all revenue and expenditures related to projects at Devou Park are coded accurately.</i> | | | | | | |
| | Devou Park Funds: | The City's new Finance Director and City Manager will work with the Devou Properties, Inc. Board to determine policies and procedures for these funds. | Finance | In Process | Procedures have been developed | Completed. Procedures have been developed | | |
| | | B. <i>The APA recommends that the new Finance Director should meet regularly with the Programs and Strategic Projects Division Manager to compare actual expenditures to budgeted expenditures. Because the funds are received from a third-party and are restricted for a specific use, an effort should be made to ensure the funds are only expended on approved projects.</i> | | | | | | |

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| | Programs and Strategic Projects Division: | The City's new Finance Director and City Manager have already scheduled meetings with this Division Manager and members of the Devou Properties, Inc. Board. | Finance | Completed | | | | |
| | <i>C. The APA recommends when reimbursement or fund distributions requests are made, the City should provide a report of expenditures and progress on approved projects to the oversight boards.</i> | | | | | | | |
| | Devou Properties Inc. Board | The Finance Director and City Manager will work with the Devou Properties Inc. Board in the future to determine current report processes and delegation of tasks. | Finance | Completed. The Devou Properties Inc Board voted to require that all requests for distribution of funds to City be approved by Board and documentation/i nvoices provided with the request. | | | | |
| | <i>D. The APA recommends the City should ensure that control of these funds is not limited to a single person without oversight or review.</i> | | | | | | | |
| | Control over Devou Park Funds: | The City's Finance Department is currently implementing staff reorganization in order to establish a better segregation of duties that will be realized over time with the addition of new key staff. No one person will have full control over any aspect of Devou Park funds. | Finance | In Process | In Process | In Process | In Process | In Process |

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| 9 | <p><i>The City did not have a credit card policy and did not properly track issued cards.</i></p> | <p><i>We recommend the City adopt a credit card policy that includes specific identification of unallowable expenses, detailed listing of any expenses requiring management approval prior to use, requirements that the credit card receipt be signed and reviewed by the employee's supervisor, requirement for Finance staff to reconcile credit card receipts to the statements, and requirements that employees are responsible for reimbursing the City for any unsupported expenditures; we also recommend the City implement procedures to obtain and maintain a list of all credit cards issued to employees, and also identify and maintain a list of all approved users and supervisors.</i></p> | | | | | | |
| | | <p><i>A. The APA recommends that the City adopt a credit card policy that includes specific identification of unallowable expenses, detailed listing of any expenses requiring management approval prior to use, requirements that the credit card receipt be signed and reviewed by the employee's supervisor, requirement for Finance staff to reconcile credit card receipts to the statements, and requirements that employees are responsible for reimbursing the City for any unsupported expenditures.</i></p> | | | | | | |
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| | | Credit Card Policy: | The City has a master list of all credit cards, credit limits and authorized users. There are five credit cards issued to the City of Covington. Elected officials and City management do not have credit cards. Credit cards are issued to certain staff for the purpose of ordering departmental supplies and booking of travel. Credit card purchases follow the policies of the Procurement Memo outlined in Finding 4 (h). All transactions are supported by the original, itemized receipt. The Finance Director and the City Manager review all transactions before a check is issued paying off the credit card balance at the end of every month. The City does not have any credit card debt extending beyond the applicable month of the transactions. | Finance | Completed | | | | |
| | <i>B. The APA also recommends that the City implement procedures to obtain and maintain a list of all credit cards issued to employees, and also identify and maintain a list of all approved users and supervisors.</i> | | | | | | | | |
| | | Master List of Credit Cards: | The City retains a master list of all credit cards, approved users and limits. | Finance | Completed | | | | |

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| 10 | <p><i>Payroll duties were not adequately segregated and personal information related to payroll was not maintained in a secure manner.</i></p> | <p><i>We recommend the City take the following actions: Duties should be segregated so that payroll employees do not have the ability to add new employees to the payroll module or change pay rates. Also, adequate supervisory review should be implemented, and the review should be documented and maintained. Computer access should be restricted so that only necessary personnel can add new employees and change pay rates; payroll reports and personnel files contain secure information that should be restricted to only those involved in the payroll and human resources process. Personnel files should be maintained by Human Resources, but access should also be restricted to only those who work in that area.</i></p> | | | | | | |
| | | <p><i>A. The APA recommends that duties should be segregated so that payroll employees do not have the ability to add new employees to the payroll module or change pay rates. Also, adequate supervisory review should be implemented, and the review should be documented and maintained. Computer access should be restricted so that only necessary personnel can add new employees and change pay rates.</i></p> | | | | | | |
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| | Segregation of Duties for Payroll Employees: | The new Finance Director is developing alternative solutions for payroll processing for the City. Quotes are being obtained for outside payroll processing service companies. If software is utilized from a third party it is planned that the Human Resources Department would enter new employee information upon hire as approved by Commission or City Ordinance. Human Resources would enter all payroll pay rate increases. The bi-weekly adjustments will be supported by approval documentation from the City Manager, entered by the Finance Department payroll specialist and submitted to the Finance Director for review and approval before processing. The Accounting Manager uploads the files for distribution to the banking solution, and the Finance Director approves the Automatic Clearing House transfers. If payroll stays in house processed by the Finance Department, new software will be utilized that will allow for Human Resources to enter new employee data and track and setup all human resource data electronically. Decisions regarding this move | Finance & HR | Review of Payroll Staff - Completed; Determining Alternative Solutions for Payroll Processing, Payroll Software Decisions, and future Budgetary Needs - In Process | Request for Proposals sent for external payroll service; reviewed responses, interviewed respondents, contract process is beginning | Payroll Service Procured. Implementation is in Progress. | Implementation is in Progress. | First payroll completed |
| | | | | | | | | |
| | Review of Payroll Records: | In addition, the new Finance Director immediately after hired conducted a cross check of payroll records with Human Resources Department records. | Finance | Completed | | | | |
| | | | | | | | | |
| | <i>B. Payroll reports and personnel files contain secure information that should be restricted to only those involved in the payroll and human resources process. Personnel files should be maintained by Human Resources Department but access should also be restricted to only those who work in that area.</i> | | | | | | | |
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| | | Restriction of Payroll and Personnel Files: The City moved into the new City Hall in November of 2013. The electronic security of the new building allows for only approved access into the Finance Department and also records the names, dates and times of all who enter. Very few individuals are given access to the Finance Department. "Employee Only" signs have been installed on all entrances to the Department. All payroll registers are filed in lockable file cabinets in an office that has a lockable door. All old payroll data is filed in lockable cabinets or boxes in a Finance Department storage room with limited access. At previous City Hall, non-employee access to Finance Department offices was eliminated by order of the City Manager the next business day after arrest of the former Finance Director. | Finance | Completed | Completed and Ongoing | Completed and Ongoing | Completed and Ongoing | Completed and Ongoing |
| 11 | Accounting Procedures are unclear, increasing the risk of undetected errors. | <i>We recommend the City update accounting policies and procedures to address these weaknesses, including the following: the use of "Due to/Due from" entries should be eliminated as routine transactions in favor of a more direct, transparent approach to posting cash deposits. "Due to/Due from" entries should be used sparingly, and transfers should be documented and reviewed/approved by a supervisor before the entry is made; checks should only be written from disbursement accounts, with the exception of instances permitted by accounting principles; policies and procedures should identify the circumstances that would necessitate the use of adjusting journal entries. Entries should only be created and posted by authorized personnel, only after supervisory review and approval.</i> | | | | | | |

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| | <p>A. The APA recommends that the use of "Due to/Due from" entries should be eliminated as routine transactions in favor of a more direct, transparent approach to posting cash deposits. "Due to/Due from" entries should be used sparingly, and transfers should be documented and reviewed/approved by a supervisor before the entry is made.</p> | | | | | | | |
| | <p>"Due to/Due from" Entries:</p> | <p>The City's use of "Due to/Due from" entries has been the complexity of many issues in the Finance Department. The new Finance Director will find ways to minimize the use of these transfer entries. If an entry is made, it will be based on review and approval by the Finance Director.</p> | <p>Finance</p> | <p>In Process</p> |
| | <p>B. The APA recommends that checks should only be written from disbursement accounts, with the exception of instances permitted by accounting principles.</p> | | | | | | | |
| | <p>Disbursement Accounts:</p> | <p>The City should only write checks from disbursement accounts. The new Finance Director will review past practice and make sure that the exceptions are only as permitted by accounting principles.</p> | <p>Finance</p> | <p>In Process</p> |
| | <p>C. Policies and Procedures should identify the circumstances that would necessitate the use of adjusting journal entries. Entries should only be created and posted by authorized personnel, only after supervisory review and approval.</p> | | | | | | | |

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| | | Adjusting Journal Entries: | As the City develops its new accounting manual, the policies and procedures surrounding the necessity for the use of adjusting journal entries will be clarified. Journal entries will only be created and posted by authorized personnel after supervisory review and approval. | Finance | In Process | In Process | In Process | In Process | In Process |
| 12 | <i>The City should improve oversight of processes outsourced to third party organizations.</i> | <i>We recommend the City improve oversight of third party organizations by implementing internal controls to ensure a sufficient review of documentation and reconciliation to actual cash received or paid.</i> | | | | | | | |
| | | A. <i>APA recommends the City improve oversight of third party organizations by implementing internal controls to ensure a sufficient review of documentation and reconciliation to actual cash received or paid.</i> | | | | | | | |
| | | Parking Management: | The City requires its parking management contractor to report all revenues and expenditures. The City plans to utilize the newly established position of Internal Auditor to assess the procedures that the City's parking management contractor is using by including it in the current citywide risk management analysis being performed by the Internal Auditor. | Finance | In Process | In Process | In Process | In Process and included in FY 15 Citywide Risk Assessment Plan by Internal Auditor and approved by City Commission. | In Process and included in FY 15 Citywide Risk Assessment Plan by Internal Auditor and approved by City Commission. |

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| | Emergency Ambulance Services: | The City utilizes Intermedix for emergency ambulance services' billing and collections. The City will request an independent auditor's report for review. The monthly transactions will all go through one newly created depository account for easier accounting and review practices. | Finance | In Process | In Process | In Process | In Process and included in FY 15 Citywide Risk Assessment Plan by Internal Auditor and approved by City Commission. | In Process and included in FY 15 Citywide Risk Assessment Plan by Internal Auditor and approved by City Commission. |
| | Health Insurance: | The City utilizes MedBen for its self-insured health insurance claims processing. The Finance Director meets with representatives and Human Resources on a quarterly basis to help monitor the City's claim history and risk assessments. Every draw on the City's medical benefits account for claims is supportable by MedBen. | Finance | In Process | In Process | In Process | In Process | In Process |