

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	August 31 2014	September 30 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>								
	A. <i>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.	Partial recovery achieved. All settlement agreements subject to approval of City Commission. Discovery pending in civil suit. Foreclosure suit ongoing. More recovery will be achieved.	Partial recovery achieved. Due CERS retirement account will yield \$22,000 per year for life, plus 15 years after death, effective 4-1-15. Actuarial value is \$668,800. Other claims are pending. Present value of "hard dollars recovered" total \$702,500.







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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.	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 coequal 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	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:							
		a.	An Internal Auditor position was created in the City Manager's recommended FY 14 budget, which was adopted by the City in June of 2013, two months before the embezzlement was detected.	City Manager	Completed					
		b.	An Interim Finance Director was hired effective September 3, 2013, with 34 years of County Finance experience and of impeccable character;	City Manager	Completed					



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	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						
		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	2014/2015 completed - continual improvement pending	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	Finance meetings moved to quarterly reporting to City Commission will be monthly	Finance meetings moved to quarterly reporting to City Commission will be monthly









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		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					
5	<i>The City should improve revenue and collections procedures.</i>	<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>								







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	Accurate List of Bank Accounts:	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.	Finance	Completed						
	<i>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.</i>									
	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>								
	<b>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.</b>	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						
		The composition and operation of the Police and Fire Board is defined by KRS Chapter 95, which also designates the Finance Director as the custodian of all cash and securities of the fund. The composition and operation of the City Employee (non-uniformed) is defined in Chapter 34 of the City Code of Ordinances and mirrors that of the Police and Fire Board except for a difference in board trustees.	Finance	Completed						
		Monthly benefits are paid from the City General Fund and repaid by the Pension Funds with periodic withdrawals from the Pension Fund investments.	Finance	Completed						

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		While not individually responsible for the management of the Pension Plans, the Mayor and City Manager attend all meetings of the two Boards and were instrumental in gaining approval of the additional funding for the Pension Plans by the City Commission in the current year budget adopted June, 2013.	Mayor	Completed						
		Monthly reports are provided to the Pension Board of Trustees on payment of benefits, investment earnings and fund totals as well as minutes of the prior month minutes. The Board is also provided copies of the investment report	Finance	Completed						
8	<b>The City should improve accounting and accountability for the Devou Park Funds</b>	<b>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.</b>								
		A. 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.								
		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				



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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>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.</p>								
		<p>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.</p>	Finance	Completed						





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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					
11	<b>Accounting Procedures are unclear, increasing the risk of undetected errors.</b>	<b><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></b>								
		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.								



