

CITY OF COOS BAY CITY COUNCIL
Agenda Staff Report

MEETING DATE May 17, 2016	AGENDA ITEM NUMBER
--	---------------------------

TO: Mayor Shoji and City Councilors

FROM: Susanne Baker, Finance Director

Through: Rodger Craddock, City Manager

ISSUE: **Internal Controls Update**

BACKGROUND:

This fiscal year governmental accounting best practices for internal controls and auditing standards require the City of Coos Bay to implement additional accounting internal controls to set a reasonable basis to measure how the City is meeting operational effectiveness, efficiency, safeguarding of assets, reporting, and compliance objectives.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO), a joint initiative of five organizations [American Accounting Association (AAA), American Institute of Certified Public Accountants (AICPA), Financial Executives International (FEI), Institute of Internal Auditors (IIA), and Institute of Management Accountants (IMA)] dedicated to the develop of frameworks and guidance on internal control and fraud deterrence, provides the basis for private and governmental auditing standards for assertions on internal controls. If the City's internal controls do not include this framework within this fiscal year, the result would be an audit finding and write-up in the audit. Oregon Revised Statutes require audit findings to be remedied and a resolution enacted by the governing body for the remediation.

This additional guidance, which is the first seven pages of the City's internal control document, adds value to the accounting system. The guidance provides written expectations for governance oversight, increased operational and regulatory complexity, reliance on evolving technologies, and higher expectations relating to the prevention and detection of fraud. The expanded internal controls identify five essential components of a comprehensive framework of internal controls which are reviewed to ensure functionality in a manner consistent with the 17 principles developed by COSO to assess effectiveness.

The five essential components and condensed version of the corresponding principles are as noted:

- 1) Control Environment – Demonstration to a commitment to integrity and ethical values.
- 2) Risk Assessment – Consideration for potential fraud and assessing risks.
- 3) Control Activities – Development of control activities over technology.
- 4) Information and Communication – Communication of relevant, high-quality information.
- 5) Monitoring – Evaluations of internal control are performed for effectiveness.

ADVANTAGES:

Staff's updating of the internal control policies and communicating the changes with the City Council provides the opportunity for City Council to monitor changes in significant practices and to record in the minutes the governing body's concurrence.

DISADVANTAGES:

None

BUDGET:

No budgetary impact.

RECOMMENDATION:

If it pleases the Council, accept the updated Internal Controls: SAS 112 and COSO Integrated Framework 2013 document.

Attachment:

Updated Internal Controls: SAS 112 and COSO Integrated Framework 2013



City of Coos Bay

Internal Controls: SAS 112 and COSO Integrated Framework 2013

**Presented to Council August 5, 2008
Revised: August 16, 2011, August 20, 2013, May 17, 2016**

**City of Coos Bay Internal Controls:
SAS 112 and COSO Integrated Framework 2013**

In its *Establishing a Comprehensive Framework for Internal Control (Framework)* best practice, GFOA recommended that state, provincial, and local governments adopt the Committee of Sponsoring Organizations' (COSO) *Internal Control—Integrated Framework* (2013) as their conceptual basis for designing, implementing, operating, and evaluating internal control so as to provide reasonable assurance that they are achieving their operational, reporting, and compliance objectives. This framework consists of five components (Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities). These five components define a set of standards, processes, and structures that provide the basis for carrying out internal control.

Control Environment

The operation of internal control depends on an infrastructure of standards, processes, and structures known as the control environment. A favorable control environment must possess:

- **Commitment to integrity and ethical values.** The City of Coos Bay (City Council) and management set an appropriate “tone at the top” regarding integrity and ethical values; establish standards of conduct; evaluate adherence to those standards; and address deviations in a timely manner;
 - **Independent oversight.** The City Council is truly independent of management and actively oversees management’s design, implementation, and operation of internal controls;
 - **Assignment of authority and responsibility.** Management establishes clear structures and lines of reporting across the City and appropriately assigns authority and responsibility;
 - **Competent staff.** The City of Coos Bay is committed to attracting, developing, and retaining competent staff and prepares for orderly succession;
 - **Accountability.** The City of Coos Bay holds individuals accountable for their performance without placing excessive pressure on them.
1. The City Council, management, and all levels of staff throughout the City of Coos Bay should demonstrate a commitment to the framework, as follows:
- a. The City Council officially adopt the COSO framework into the SAS 112 policy;
 - b. The adopted internal control policies incorporate the implementation, maintenance, and updating of the COSO framework into the government’s strategic goal;
 - c. Through the City of Coos Bay’s Personnel Policies, a standard of conduct has been developed for employees and employees are provided training on those standards;
 - d. Through the City of Coos Bay’s Personnel Policies management requires each employee to sign a statement that they have received, will review, and follow the policies, and are accountable to ask questions. Management reviews City policies and that commitment periodically on a case by case basis;

City of Coos Bay Internal Controls

- e. Compliance with standards of conduct are part of employee performance evaluations to ensure accountability.
2. The City Council assumes responsibility for overseeing internal controls by:
 - a. Actively overseeing management's development and implementation of the framework through the adoption of policies;
 - b. Actively monitoring the performance of the framework through the annual audit, approval of purchasing and contracts;
 - c. Obtaining training about the nature and purpose of internal control sufficient to allow members of the governing body to meaningfully perform their oversight function with the assistance the external auditor, staff, and by receiving policies to adopt;
 - d. Obtaining expert advice, independent of management, to help perform its oversight function through the external auditor;
 - e. Documenting the City Council has reviewed the framework and updates through the adoption of the policies and notation into the official minutes of City Council meetings;
 - f. Approving significant changes and additions to control-related policies.
 3. Management has developed organizational structures to ensure staff accountability by:
 - a. Creating a formal organizational chart for both the City as a whole and for each department;
 - b. Developing and adopting written procedures for important processes (for example, payroll, personnel, and purchasing);
 - c. Developing flowcharts of each significant process;
 - d. Maintaining electronic copies of process flowcharts to facilitate updating;
 - e. Identifying responsibilities for workflow approvals in their systems;
 - f. Making sure systems incorporate compensating controls.
 4. The City of Coos Bay has committed to attracting and retaining competent employees by:
 - a. Developing comprehensive job descriptions;
 - b. Ensuring that hiring panels include experts in the desired skill sets;
 - c. Providing opportunities for employees to gain continuing professional education to stay current in their field;
 - d. Encouraging membership in professional organizations to develop networking;
 - e. Supporting the development of succession planning;
 - f. Cross-training staff;
 - g. Thoroughly documenting the responsibilities of each position and appropriate processes for succession planning;
 - h. Providing managerial training, in addition to technical training, for staff members;
 - i. Requiring that supervisors give staff members hands-on training on key responsibilities;
 - j. Developing an ongoing mentoring program to enhance employees' skills.

5. The City of Coos Bay holds individuals accountable for their internal control responsibilities by:
 - a. Preparing comprehensive, fact-based performance appraisals;
 - b. Providing performance appraisals on a timely basis;
 - c. Taking disciplinary action if conduct is not consistent with expected performance;
 - d. Including internal control goals as part of employee performance reviews;
 - e. Identifying zero-tolerance policies (e.g., theft) and adhering to them;
 - f. Ensuring union agreements clearly delineate responsibilities up front.

Risk Assessment

The appropriate degree to risk to retain will depend on both the nature of the City and the type of activity in which the City is engaged. The first step is to assess the level of risk appropriate to a given activity from a strategic vantage point (risk appetite) and then apply that assessment to determine the level of effectiveness needed for specific control-related policies and procedures (risk tolerance). The City of Coos Bay assesses risk tolerance inherent to grant management, investments, daily operations, capital purchasing, and other activities:

- **Specific identification of objectives.** Management must articulate its objectives with sufficient clarity to permit the identification of related risks; and
 - **Identification of risks.** Management must identify both internal and external risks throughout the organization, estimate their significance, and determine how to respond;
 - **Alertness to fraud.** Management must specifically consider the possibility of fraud;
 - **Identification and assessment of changes.** Management must identify and consider the potential risk from changes in the external environment, changes in internal operations, and personnel changes.
- a. Perform and document risk assessment of the City's federal grants management processes through appropriate budgeting and hiring personnel for administration;
 - b. Utilize the management team to comprehensively facilitate the work load and demands of significant dollar grants for analyzing inherent risks;
 - c. Considers the level of program risk (e.g., high, medium, low) when establishing control activities. Job duties have been defined and communicated with staff to ensure who is responsible for an activity, what is their job function in the process, and how the activity fits within the segregation of duties and hierarchy of internal controls;
 - d. Perform a cost/benefit analysis prior to installing a new control activity. Personnel have been assigned/hired to reduce the risk.
 - e. Control-activities have been reviewed and increased by adopting federal financial management award policies;
 - f. Considers the possibility and likelihood of fraud in the City's grants management and daily operations both internal, external, and the magnitude of the impact if it did happen;
 - g. Identifies and assess changes in the regulatory, technology, personnel and operating environment under daily operations and grant management to reduce risk

and ensure segregation of duties and continued multi-level reviews of processes both in the near-term and long-term.

Control Activities

As a result of conducting risk assessment, the City of Coos Bay selects control activities which will integrate with the risk assessment. Control activities are designed to provide reasonable assurance the information generated is valid and complete. As a major control activity, the segregation of duties is used to the greatest extent possible considering the result of a cost-benefit analysis.

- **Selection and development.** Control activities must be appropriately selected and developed;
 - **General controls over technology.** Control activities must incorporate general controls over technology;
 - **Policies and procedures.** Control activities must be effectively implemented through policies and procedures.
- a. Both government-wide and individual grant procedures and policies are documented within the City's internal controls, administration policies, union contracts, grant contracts, and through resolutions to acknowledge their acceptance;
 - b. On an ongoing basis through training, Council direction, technological changes, or regulatory changes the City's policies and procedures are reviewed and updated;
 - c. City staff become knowledgeable of and adhere to federal, state, and local laws and regulations through annual and bi-annual training and conferences on legislative changes and external policy mandates which require updates to internal policies;
 - d. Control activities have been established to ensure the reliability of information obtained from third parties (e.g., vendors) by checking W-9's against invoices and requiring corroborating reports, receipts, invoices, quotes/bids, contracts, and other documentation;
 - e. Comprehensive information technology policies and procedures have been developed to ensure segregation of departmental access to other departments, user rights within the technology system, user rights within software programs, compliance with public records retention schedules, and an active IT Committee;
 - f. Information technology issues, plans, policies, and procedures are reviewed by the IT Committee on a monthly basis during meetings and are current for compliance with federal, state, and Red Flag policies;
 - g. Adoption of a federal financial management policy at the City Council level demonstrates the culture from top management to support its implementation for compliance with federal and state standards and systems;
 - h. Utilization of financial management systems to support compliance with legal and regulatory requirements as well as grant related programs;
 - i. The City of Coos Bay is knowledgeable of and has implemented purchasing and contracting rules at a higher, more conservative level than federal and state standards for procurement;
 - j. The City of Coos Bay utilizes federal and state official debarment lists to check vendors for compliance.

Information and Communication

Reliable and relevant information regarding internal controls need to be communicated in a timely manner to those who need it to ensure the effectiveness of internal controls. Information and communication are integral to the other four elements stated. To be effective in monitoring the effectiveness of internal controls for their operation requires:

- **Availability of relevant, high-quality information.** The City of Coos Bay must ensure that relevant, high-quality information is available for internal control purposes;
 - **Internal communication.** Information must be communicated in relevant ways within the City of Coos Bay and there must be separate lines of communication for confidential or sensitive information when normal means of communication become inoperative or ineffective;
 - **External communication.** Information must be communicated between external parties and the City of Coos Bay and there must be separate lines of communication for confidential or sensitive information when normal means of communication become inoperative or ineffective.
- a. Through the City Council's acceptance of grants and the public budgeting process; with the public's access to City Council minutes on the City's webpage, the purpose and responsibilities for each grant is documented in a format accessible to stakeholders;
 - b. Revenue and expenses are distinguished by source and type (federal, state, local, and private entity) through the cash receipting and accounts payable process through the use of standardized general ledger revenue accounts;
 - k. Grant files within each department as managed by their respective project manager provide a manner in which to identify the time periods required by the grants. The financial audit files in Finance provide a copy of the grant agreement;
 - l. Grant reporting requirements are monitored by the respective department's project manager with copies of grant contracts and reimbursement requests provided to the Finance Department to reconcile to incoming revenue and audit requirements;
 - m. The identification of grants that require specialized administration is determined within the department upon assignment to a project manager and separately by the Finance department upon review of financial audit requirements;
 - n. The respective department's project manager ensures that grant requirements are documented in vendor communication as part of their responsibility for managing the grant. The Finance department reconciles vendor invoices with the City's purchasing and contracting rules;
 - o. The Finance Department typically closes each month's financial statements within the first week of the month and provides reports to department heads with a pdf copy of the report placed on a citywide network drive for access by all employees. The department's project manager and Finance Department work closely together to ensure that project and grant information are available to internal stakeholders. Internal communication is multidirectional and made to all levels of staff;
 - p. The City of Coos Bay develops relationships to encourage ongoing communication and knowledge of grantors and pass-through organizations;
 - q. The City of Coos Bay develops an ongoing dialogue with financial statement, single audit, and program auditors to ensure accurate and timely reporting and compliance;

City of Coos Bay Internal Controls

- r. The department respective project manager develops processes to ensure that quality, supportable information is utilized in decision making. Project and grant decision making is subject to an approval process (Department Head, City Manager, and/or City Council) as applicable;
- s. The City of Coos Bay provides a venue of open communication for those inside and outside of the entity to communicate “around management” any information they may have concerning the circumvention of internal controls, fraud, abuse, or illegal acts.

Monitoring

The City of Coos Bay monitors internal controls for effectiveness on an ongoing basis to determine whether each of the five elements of a comprehensive framework continues to be present and functioning in accordance with all of the principles relevant to that component. To be effective, monitoring must possess and follow:

- **Evaluations of internal control are performed.** Evaluations of internal control are in fact performed periodically;
 - **The effectiveness of internal control is evaluated and communicated.** The City of Coos Bay uses those evaluations to determine whether controls are functioning, communicates weaknesses to appropriate parties, and follows through on corrective action.
- a. Internal controls establish a “baseline” of effectiveness which are initially established and subsequently reevaluated with the passing of time and whenever significant changes in internal or external circumstances occur;
 - b. Management’s promptness and effectiveness in responding to an identified potential problem is integral to the effectiveness of the control being monitored and assessed;
 - c. The City of Coos Bay has developed processes of ongoing (daily/weekly) and periodic (annual) programmatic control activities that ensures compliance with laws and regulations;
 - d. Through preparation for the annual audit process, staff monitors the effectiveness on an at least annual basis, conducting a periodic review of the risk assessment process;
 - e. Identified deficiencies in internal control need to be communicated to all responsible parties for ensuring the deficiency is corrected and to others who have a right to be informed (e.g., grantor, management, and elected officials);
 - f. The City of Coos Bay ensures corrective action plans are taking place, addressing the underlying control deficiencies and responding to the deficiencies and its potential significance in a timely manner, rather than just on the details of a specific item.

BACKGROUND

In May 2006, the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) issued Statement of Auditing Standards No. 112 (SAS112), *Communicating Internal Control Related Matters Identified in an Audit*. This new pronouncement significantly increased the likelihood that a government's independent auditors would be required to report a significant deficiency or material weakness in conjunction with the financial statement audit.

(GFOA Recommended Practice- Mitigating the Negative Effects of Statement on Auditing Standards No. 112 (2007) (CAAFR))

AUDIT LETTER TO COOS BAY CITY COUNCIL 12/27/2007

In conjunction with the City of Coos Bay's Financial Report for the Year Ended June 30, 2007 Pauly, Rogers and Co. P.C. wrote an Audit Letter to the Coos Bay City Council which addressed the new SAS112 pronouncement and also listed recommended areas for the City to document. In order to explain "why" and "how" the City can comply with the auditor's recommendations as regards SAS112 in this current year ending June 30, 2008 significant portions of the Audit Letter are included below followed by the City's response.

WHY

"In planning and performing our audit of the financial statements of City of Coos Bay as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered City of Coos Bay's internal control over financial reporting (internal controls) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal controls.

Our consideration of internal controls was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal controls that might be significant deficiencies or material weaknesses...However, as we discussed below, we identified certain deficiencies in internal controls that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably and in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls."

"SAS No. 112 specifically identifies a few common control deficiencies which must be addressed in each audit to determine if a significant deficiency exists, and based on our evaluation we have identified a significant deficiency in the design or implementation of internal controls, which is noted below.

We consider the following deficiency to be a significant deficiency in internal control:

City of Coos Bay Internal Controls

1) Internal controls have always been a critical management function; however changes in audit reporting requirements now emphasize the importance management should place on the design and implementation of effective internal controls. A control system should not only include (among other things) a properly designed accounting system, source document retention, anti-fraud controls, safeguards over assets, and controls to ensure accurate financial reporting, but also documentation of internal controls within a well-maintained policies and procedures manual. We noted that the City has policies in place documenting certain internal controls. However, in applying SAS 112 we believe that the City could expand formal policies to document internal controls for certain accounting areas...”

HOW (see City's Organizational Charts and Narrative)

- “Consideration of what amount and type of documentation is necessary in order to monitor internal controls, by both management and the governing body, to ensure that controls are functioning properly and are evaluated when systems, the environment, and employees change.”
 - Charter
 - Mission (March 19, 1996)
 - Ordinances
 - Resolution
 - Banking Authorization/Limits/Authority
- “Information regarding computer security (i.e. what employees have access to the accounting system, and documentation of employee permission levels in the system) should be documented.”
 - Caselle Accounting Software Module Design and User Security
- “Controls over expenditures to assist prevent fraudulent checks or checks written in error (i.e. who tracks the check sequence, who reviews canceled checks from the bank, who has access to checks, who is authorized to approve disbursements.”
 - Resolutions
 - Purchase Authorization
 - Credit Card Authorization/Limit
 - Segregation of Duties
 - Mail/Invoice Handling
 - Accounts Payable Module - Preparation/Processing
 - Verification
 - Close to General Ledger
 - Reconciliation
- Detailed explanation of the controls over cash accounts, including how many people it takes to open/close an account, controls over wire transfers, and review of bank reconciliations.
 - Resolutions
 - Authorized Signatures
 - Authority to Open/Close Accounts
 - Segregation of Duties

City of Coos Bay Internal Controls

- Bank Reconciliation/Review
- Authorization to make transfers
- Limitations on Transfers
- Dual facsimile signatures

- “Detailed explanation of the controls over the general journal entry process (i.e. procedures to assist in ensuring no journal entries go unreviewed or undocumented)”
 - See Subsystem Modules
 - Segregation of Duties
 - Cash Receipting
 - Improvement District
 - Accounts Payable
 - Payroll
 - Accounts Receivable
 - Fixed Assets
 - General Ledger Module
 - Bank Reconciliation/Journal Entries
 - Other Monthly Journal Entries
 - Bank Transfers

- “Controls over cash receipting (i.e. controls to assist in ensuring all receipts are recorded in the general ledger, how often are deposits taken to the bank, etc.”
 - Segregation of Duties
 - Cash Receipting Module - Preparation/Processing
 - Cash Handling
 - Verification/Close to General Ledger
 - Re-check/Cash Deposit
 - Accounts Receivable Module - Preparation/Processing
 - Verification
 - Close to General Ledger
 - Improvement District Module – Preparation/Processing
 - Verification
 - Close to General Ledger

- “Documentation of internal controls and monitoring procedures used for reviewing and ensuring that financial statements are accurate and in conformance with GAAP (i.e. control procedure here could be sending staff to training on new pronouncements, hiring professional staff, etc.)”
 - Finance Director

- “Any internal audit functions, antifraud programs, etc.”
 - Locked Files
 - Password Policy implements change in passwords semi-annually (Administrative Directive)

- “Other areas that could be discussed: capital asset accounting, employee dishonesty insurance, physical security of documents, payroll processing/timesheets, and any other applicable financial areas.”
 - Council Action – Adopted Budget/Union Contracts

City of Coos Bay Internal Controls

- City Organizational Chart
- Segregation of Duties
 - Personnel
 - Payroll Module – Preparation/Processing
 - Benefits
 - Verification
 - Close to General Ledger
 - Reconciliation
 - Fixed Asset Module – Preparation/Processing
 - Verification
 - Close to General Ledger

“We recommend the City review ordinances to assess if they require updating, and also review the planning department’s procedures regarding the extension of permits.”

- Net Assets (building permits in-line organizational chart to do)
- Planning Department

City of Coos Bay Internal Controls

D) Council Resolution 07-18

Council Resolution (Control), Rights & Obligations (Assertion)

The Finance Director and the City Manager (or their designees) are authorized to deposit funds in any institution covered by the Federal Deposit Insurance Corporation (FDIC) and the Oregon Local Government Investment Pool. The Mayor, Council President, City Manager, and Finance Director are authorized signers on all accounts. They are authorized to sign on behalf of the City for payment to withdraw funds with two signatures required.

Banks/Accounts/Transfers:

- 1) Umpqua Bank (Participates in the public depository)
100% Collateralization
\$250,000 Federal Deposit Insurance
State Pool Account
Payroll Checking Account
General Checking Account

Policy (Control), Valuation & Allocation (Assertion)

There are two authorized signers (four available) required to sign each check written through Umpqua Bank. Normally checks are signed by facsimile by the Finance Director and the City Manager. Deposits are made by the Intermediate Accountant and verified by Deputy Finance Director, both of whom are authorized depositors. Disbursements and Deposits are recorded through the Caselle Accounting Software System with manual transactions being recorded by the Intermediate Accountant with verification and review by the Deputy Finance Director and Finance Director.

- a) Transfers, sweeps, and journal entries between the Umpqua State Pool Account and the Payroll Checking Account are signed off (reviewed and verified) by the Finance Director; journal entries written by the Finance Assistant or Deputy Finance Director; on-line bank transfers entered by the Finance Assistant and require a second online approval by the Deputy Finance Director or Finance Director; and the Intermediate Accountant enters the journal entries into the Caselle Accounting Software to the General Ledger. The Intermediate Accountant enters the sweep journal entries which are verified by the Finance Director and Deputy Finance Director.
- b) Transfers, sweeps, and journal entries between the Umpqua State Pool Account and the General Checking Account (AP) are signed off (reviewed and verified) by the Finance Director; journal entries written by the Accounting Technician 1 or Deputy Finance Director; and the Intermediate Accountant enters the journal entries into the Caselle Accounting Software to the General Ledger. The Intermediate Accountant enters the sweep journal entries which are verified by the Finance Director and Deputy Finance Director.
- c) The Accounting Technician I initiates the regular weekly (and occasional “manual” check run) prior to mailing the checks (one day lead time).
- d) The Finance Director receives copies of all journal entries and transfer confirmations to review and verify. *Procedures/Segregation of Duties (Control), Occurrence (Assertion)*

- 2) Local Government Investment Pool
Oregon State Treasury
ORS 293.701 & ORS 295.701
Investment Account

City of Coos Bay Internal Controls

- e) Transfers between the Umpqua State Pool Account and the Local Government Investment Pool are initiated by the Deputy Finance Director and signed off (reviewed and verified) by the Finance Director and City Manager. The Finance Director and Deputy Finance Director (both authorized users) track the LGIP transactions. The Intermediate Accountant enters the journal entries into the Caselle Accounting Software to the General Ledger.
- f) The Finance Director receives copies of all journal entries and transfer confirmations to review and verify. *Procedures & Process/Segregation of Duties (Controls), Accuracy & Completeness (Assertions)*

II) Caselle Accounting Software: *Software Security/System Management (control), Occurrence & Rights & Obligations (Assertions)*

Cash Receipt Module

a) Cash Receipts are entered into Caselle by the Accounting Technician I or Intermediate Accountant using the steps checklist and the procedures manual. The deposit is prepared by the Finance Assistant, verified by the Deputy Finance Director, and deposited daily by the Intermediate Accountant. The Daily Cash Procedure outlines these activities. The Intermediate Accountant attaches the bank receipt to the Daily Cash Balancing Form and Payment Type Report. The Finance Assistant files the other daily reports including the General Ledger Update. The Finance Assistant updates and reconciles the Cash Receipts Module daily to the General Ledger and allocates the credit card charges and the Deputy Finance Director reviews and verifies. The Intermediate Accountant records the allocation to the General Ledger, and the Finance Director reviews and verifies. *Procedures & Process/Segregation of Duties (Controls), Accuracy & Completeness (Assertions)*

b) There are three workspaces (Front, Office and LID). Only one workspace can be used at a time and Improvement District receipts can only be entered into the LID workspace (the Front and Office workspaces lock out Improvement District entries). *Module Management (Control, Classification & Understandability (Assertion))*

c) Credit Card charges and EPermitting online transactions are entered into Caselle by the Accounting Technician I or Intermediate Accountant using the steps checklist and the procedures manual. The charges are tracked by the Finance Assistant on a spreadsheet and checked against the Umpqua Bank statement. The Finance Director receives copies of all transfer confirmations, reviews, verifies and records the transactions in the General Ledger. *Preparation/Segregation of Duties (Control), Occurrence (Assertion)*

d) There are four (4) Petty Cash funds (Finance, Police, Fire, Library) totaling \$1,000. Department Heads set their department policies and procedures and delegate authority to staff to manage these funds. They are reconciled monthly, quarterly, or depending on activity. All are reconciled at the close of the fiscal year, reviewed and verified by the Accounting Technician 1, Deputy Finance Director, and Finance Director. Changes in Petty Cash fund balances are submitted by the Department Head to the Finance Director. The Intermediate Accountant is then directed to enter the appropriate journal entry in the General Ledger.

e) There are three (3) Collection stops which the Finance Assistant picks up weekly and one (1) picked up monthly accompanied by a second staff member as available; weekly stops are: City Hall Lobby, RV Dump, and the Visitors Information Center (VIC); and monthly moorage. The Accounting Technician I-AP counts and enters the cash in the Cash Receipts Module and

City of Coos Bay Internal Controls

files the reports for review and verification by the Deputy Finance Director. *Procedures & Process/Segregation of Duties (Controls), Accuracy & Completeness (Assertions)*

General Ledger Module

a) The Finance Director manages the General Ledger and directs the Intermediate Accountant or Deputy Finance Director to enter manual entries to the Cash Receipts Journal as needed. Types of manual entries are as follows: automatic bank deposits (Cash Receipts Journal), automatic bank disbursements (Cash Disbursements Journal), and adjusting entries (General Journal) to properly state the City's financial records. In the process of managing the General Ledger the Finance Director reviews and verifies sub-systems, performs automatic cash allocations, records reclassifications, records contractual obligations, closes the General Ledger, records and oversees the budget, prints the financial statements and distributes the revenue and expense reports to the Council and Department Heads monthly as well as generating other financial reports from the General Ledger as needed among other things. The Finance Director also directs the Intermediate Accountant and Deputy Finance Director to perform automatic cash allocations, print financial statements, and distribute the revenue and expense reports to as needed. *Module Management (Control), Accuracy & Valuation (Assertion)*

b) The Finance Assistant reconciles all portions except the Payroll module wherein the Intermediate Accountant reconciles that module; the Deputy Finance Director and the Finance Director individually review and verify the Bank Reconciliations in the General ledger monthly. *Procedures & Process/Segregation of Duties (Controls), Accuracy & Completeness (Assertions)*

III) Council Resolution 08-02

Council Resolution (Control), Rights & Obligations (Assertion)

The Finance Director summarized the Purchase Authorization as outlined in this Resolution. In brief, all purchases must be made by authorized employees and in accordance with Department policies and procedures. With this as a base, purchases of varying amounts are handled differently per the above resolution as follows: items under \$2,000 can be purchased per Department Policy only; items over \$2,000 require three (3) phone quotes plus the Department Head's approval; items over \$5,000 require (3) written quotes plus the Department Head's approval; items over \$10,000 additionally require the City Manager's approval; and lastly items over \$25,000 further require Council approval. *Procedures & Authorization (Controls), Accuracy & Existence (Assertions)*

IV) Council Resolution 08-04

The Council authorized an initial aggregate credit card limit of \$30,000 and established the City Manager and the Finance Director as the official representatives in matters regarding the credit card. *Council Resolution (Control), Rights & Obligations (Assertion)*

a) The Finance Director is the Authorizing Officer who manages the individual credit card limits and authorizes the issuance of new credit cards. Credit cards are issued to primarily management personnel in each department.

b) The Accounting Technician I, Deputy Finance Director, and Intermediate Accountant are Authorizing Representatives who have the authority to verify invoices as needed. Also under the direction and with the signed approval of the Finance Director they can modify existing cardholder limits and add new credit card holders as directed. *Preparation/Segregation of Duties (Control), Occurrence (Assertion)*

City of Coos Bay Internal Controls

Accounts Payable Module

a) Invoices are received through the mail or directly from the different departments. The mail is delivered to the Finance Department and then distributed by the Intermediate Accountant. After sorting the mail is placed in the City Hall copy room inter-office mail boxes. The Intermediate Accountant pulls the window envelopes to check for checks (other than Police Department accident report requests which are delivered to the Police Department), opens, endorse the checks "For Deposit Only", date-stamps them and gives them to the Accounting Technician I-AP. Each department also has a stamp to endorse a check received in error "For Deposit Only". Any billings or invoices are sent directly to the responsible department for coding. *Preparation/Segregation of Duties (Control), Occurrence (Assertion)*

b) The Accounting Technician I-AP takes the date-stamped and stamp-coded invoices and matches them to stamp-coded packing slips. Departments return the properly coded and initialed invoices to the Accounting Technician I- AP who checks their authorization, writes the vendor number on the invoice and sorts them by date to be paid. The Deputy Finance Director or Finance Director enters new vendors into the Caselle financial software. Evidence of the update is printed and included with the check run for verification and accuracy. *Procedures & Signatures (Controls), Accuracy & Classification (Assertions)*

c) Invoices are entered into Caselle by the Accounting Technician I-AP using the steps checklist and the procedures manual. When the Invoice Register is reviewed, corrected and balanced the Accounting Technician I-AP is ready to print the checks and asks the Deputy Finance Director, Intermediate Accountant, or Finance Director to unlock the check file cabinet in the vault. *Process & Limits (Controls), Completeness & Cutoff (Assertions)*

d) Once the checks are printed, the Accounting Technician I-AP attaches the check stubs to the invoices (invoice packet) and gives them and the system reports to the Deputy Finance Director to check for sequence, correctness, and authorization as well as flagging entry questions. The checks are printed with a facsimile signature of the Finance Director and City Manager. The checks are reviewed and verified (initialed) invoices are turned over to the Finance Director who does a second review, verification, approval of signature, and asking and resolving questions. *Authorization & Approval (Controls), Existence & Completeness (Assertions)*

e) The City Manager does the third review, verification, and approval of signature. The City Manager turns the signed checks back to the Accounting Technician I-AP. The Accounting Technician I updates the Accounts Payable Module, uploads positive pay, reviews, and provides the documentation to the Deputy Finance Director to review and verify. The Intermediate Accountant completes the sweep journal entry and the Deputy Finance Director and Finance Director review and verify the journal entries. *Module Management (Control), Classification & Understandability (Assertion)*

f) The Accounting Technician I-AP does the fourth Invoice review and verification checking that the invoices are properly initialed before filing. *Procedures/Segregation of Duties (Control, Accuracy/Efficiency & Timeliness (Assertion)*

Accounts Receivable Module

a) Accounts Receivables monies are entered into Caselle by the Accounting Technician I-AP or the Intermediate Accountant through the Cash Receipting Module. The Accounting Technician I-AP maintains the Accounts Receivable Module and prepares the monthly invoices

City of Coos Bay Internal Controls

using the steps checklist and the procedures manual. The Deputy Finance Director reviews and verifies the invoices and the Accounting Technician I-AP mails them. The Intermediate Accountant reconciles the Accounts Receivable Module and the Accounting Technician I updates to the General Ledger monthly. The Finance Director reviews and verifies the reconciliation the Accounts Receivable Module and the General Ledger monthly.

b) The Accounting Technician I-AP sends Quarterly letters to Transient Occupancy Renters along with the Transient Occupancy Report. Transient Occupancy Tax is calculated on this report and paid when due: April 30, July 30, October 30, and January 30; when paid the Accounting Technician I-AP or Intermediate Accountant enters the Transient Tax through cash receipting and reconciles the transient monies monthly. The Deputy Finance Director reviews and verifies with the Finance Director periodically conducting an audit of the Transient Rents. *Preparation/Segregation of Duties (Control), Occurrence (Assertion)*

c) The Accounting Technician I-AR does an aging report which is reviewed and verified by the Deputy Finance Director. The Accounting Technician I-AR gives a copy to the Finance Director. *Procedures (Control), Limits (Assertion)*

Payroll Module

The Council adopts the budget by June 30 of each fiscal year and the collective bargaining agreements as negotiated. There are three (3) unions: American Federation of State, County, and Municipal Employees (AFSCME), the IAFF Local #2935, and the Coos Bay Police Association whose personnel issues are covered by their contracts. There are Non-Represented employees whose personnel issues are covered by the City's Personnel and Administrative Directives which also apply to the unions if the issue is not specified in their contracts. *Council Resolution (Control), Rights & Obligations (Assertion)*

a) Personnel Action Forms are generated by the Department Head for job related changes. This form is signed by the Department Head, the Employee, the City Manager and the Finance Assistant who enters the information in the Employee's Payroll Record.

b) Annual evaluations are generated by the Department Head per contract or directive. Annual evaluations are signed by the Department Head and Employee with the City Manager initialing his comments.

c) Employees notify the Finance Assistant in writing of employee-generated payroll changes such as the W-4, the draw amount, voluntary payments and deferred compensation. *Preparation/Segregation of Duties (Control), Occurrence (Assertion)*

d) Payroll entries are entered into Caselle through the Payroll Module. The Finance Assistant maintains the Module and prepares the monthly payroll (with a draw that includes the appropriate tax withholding) using the steps checklist and the procedures manual. The Finance Assistant distributes the accrual reports to the Department Heads (or their designees). The Deputy Finance Director reviews and verifies the payroll. *Module Management (Control), Classification & Understandability (Assertion)*

e) Draw checks are on the 15th and monthly checks are on the last day of the month. Should either of those dates fall on a non-workday checks will be cut on the Friday preceding (and if Friday is a non-work day on the Thursday preceding). Direct deposit is available. The Finance Assistant processes the payroll and the Deputy Finance Director reviews and verifies

City of Coos Bay Internal Controls

first, then the Finance Director reviews and verifies second. The Finance Assistant uploads the positive pay file. The Deputy Finance Director uploads the direct deposit file to Umpqua Bank two (2) days before the check date. The Finance Director reviews and verifies the total of direct deposit and manual checks. *Procedures/Segregation of Duties (Control, Accuracy/Efficiency & Timeliness (Assertion)*

f) The Finance Director and City Manager utilize facsimile signatures on the checks, as the two required authorized signatures. The City Manager does the third review, verification, and approval of his signature. The City Manager gives the verified payroll records and signed checks back to the Finance Assistant for filing. *Authorization & Approval (Control), Existence & Completeness (Assertion)*

g) The Intermediate Accountant enters the sweep transfers in the General Ledger. The Finance Assistant completes the benefits reports (such as health/life/disability and retirement) and then updates the Payroll Module. *Periodic Reports (Control), Completeness (Assertion)*

Fixed Asset Module

a) Fixed Assets are entered into Caselle through the Asset Management Module by the Intermediate Accountant using the steps checklist and procedures manual. Fixed Assets greater than \$5,000 and having a life greater than five (5) years are entered as Fixed Assets. Fixed Assets less than \$5,000 but greater than \$500 are entered as inventory. The entries are numbered sequentially by department. *Policy (Control), Valuation & Allocation (Assertion)*

b) The Accounting Technician I identifies purchases to be recorded as either a fixed asset or an inventory item and copies the invoice packet (invoice & check stub) for the fixed asset or inventory file, then fills out the Fixed Asset Acquisition Report (Capital Items \$500 or Over) for entry into the Asset Management System.

c) Department Heads notify the Intermediate Accountant when assets or inventory are transferred or disposed of by filling out the Fixed Asset Disposition Report/Transfer form. The Intermediate Accountant enters the fixed assets/inventory information into the Module assigning new/deleting disposed/reassigning transferred assets as needed. *Preparation/Segregation of Duties (Control), Occurrence (Assertion)*

d) New asset numbers are distributed to Department Heads to physically tag items that can be tagged. Tags for disposed asset numbers are returned to the Intermediate Accountant and attached to the Fixed Asset Disposition Report. *Procedures (Control), Accuracy (Assertion)*

e) The Intermediate Accountant maintains a spreadsheet tracking Construction in Progress and as CIP projects are completed, works with the Deputy Finance Director and Finance Director to properly record the Fixed Asset. *Module Management (Control), Classification & Understandability (Assertion)*

f) The Intermediate Accountant prints and reviews the acquisition reports and when completed calculates Depreciation. The Deputy Finance Director works with the Intermediate Accountant reviewing and verifying reports. The Intermediate Accountant updates the Fixed Assets Module and records the Capital Assets in the General Ledger. The Deputy Finance Director reviews and verifies changes to the Fixed Asset Module and General Ledger. The Finance Director reviews and verifies the changes to the Fixed Assets Module and General Ledger. *Financial Statements (Control), Accuracy & Valuation (Assertion)*

City of Coos Bay Internal Controls

Improvement District Module

Payments for the Improvement District are entered into Caselle into the LID Workspace by the Intermediate Accountant and the Accounting Technician I through the Cash Receipting Module. The Intermediate Accountant maintains the Module and prepares the monthly billings by District using the steps checklist and the procedures manual. The Deputy Finance Director reviews and verifies the billings and the Intermediate Accountant mails them. The Intermediate Accountant updates the Improvement District Module. The Deputy Finance Director reviews and reconciles Assessments Receivable in the General Ledger. The Finance Director reviews and verifies the Assessments Receivable and the General Ledger. *Module Management (Control), Classification & Understandability (Assertion)*

Internal Controls

Segregation Of Duties

Efficiency & Timeliness

Preparation

Procedures

Signatures

Process

Limits

Organization Structure

Risk Management

Authorization

Approval

Council resolution

Policy

System Management

Posting & Summarization

Software security

Module management

Periodic reports

Financial statements

Financial Statement Assertions

Transactions (For Period)

Occurrence

Accuracy

Classification

Completeness

Cutoff

Account Balances (Period End)

Existence

Completeness

Rights and obligations

Valuation and allocation

Presentation & Disclosure

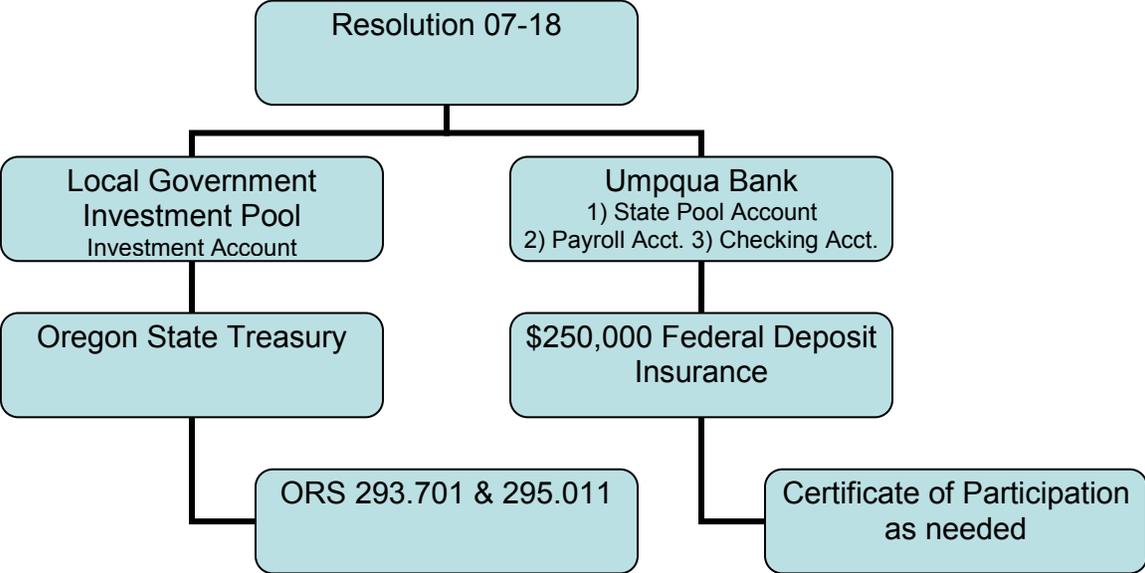
Occurrence, rights, obligations

Classification and understandability

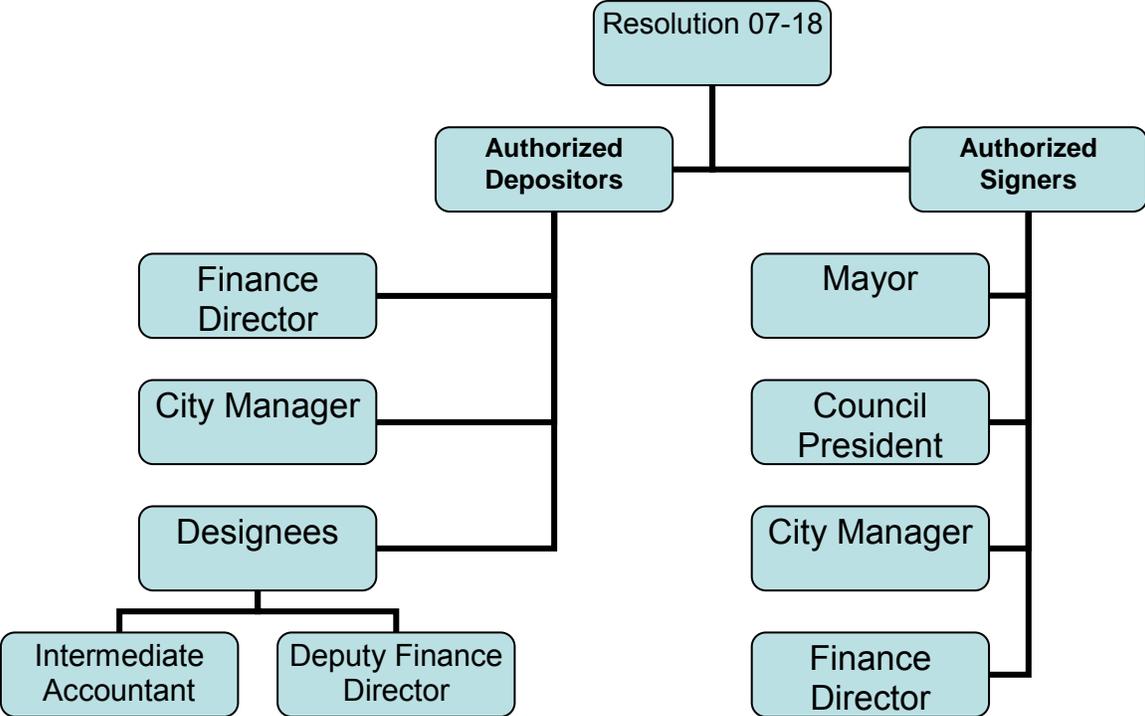
Completeness

Accuracy and valuation

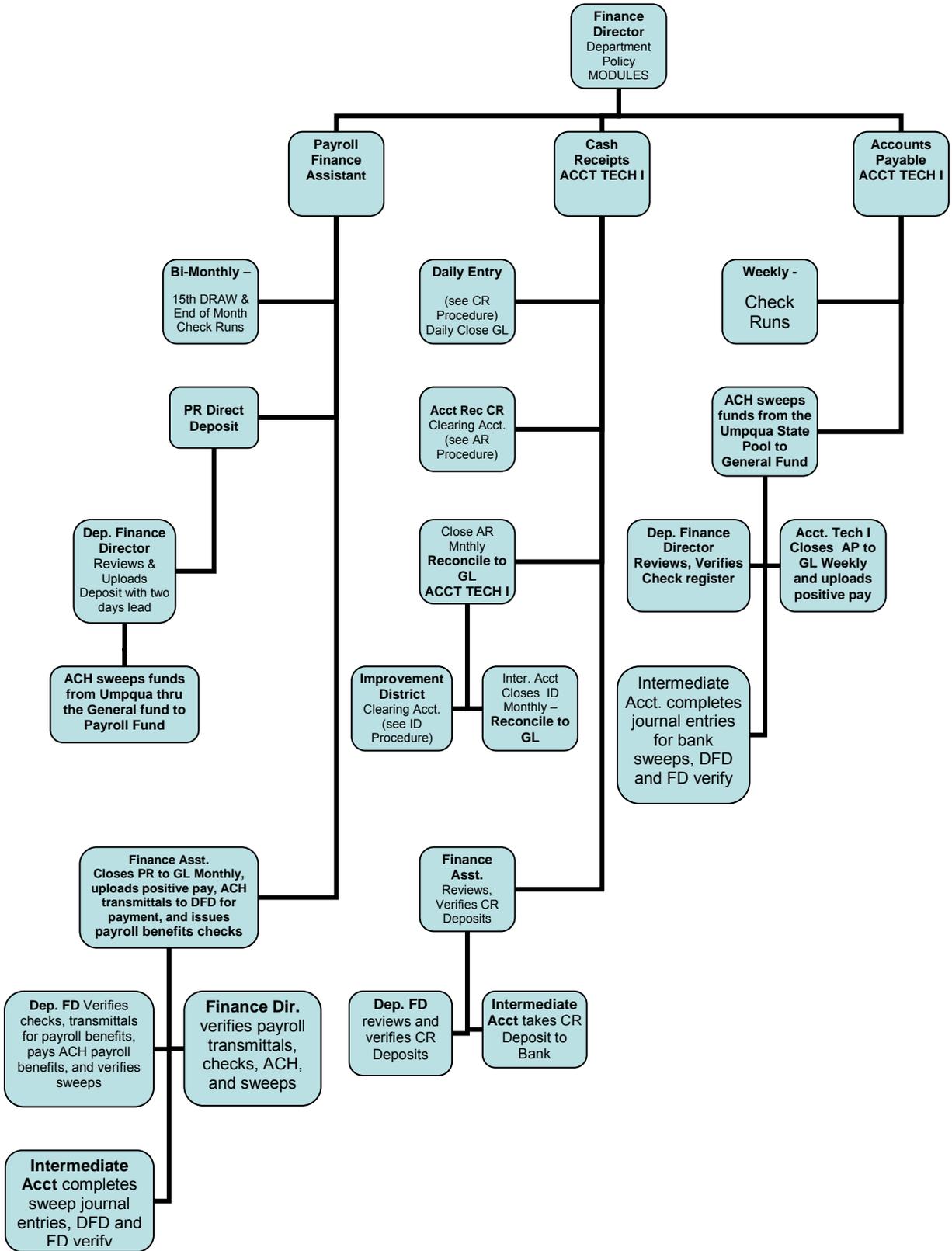
Banking – Authorization/Limits



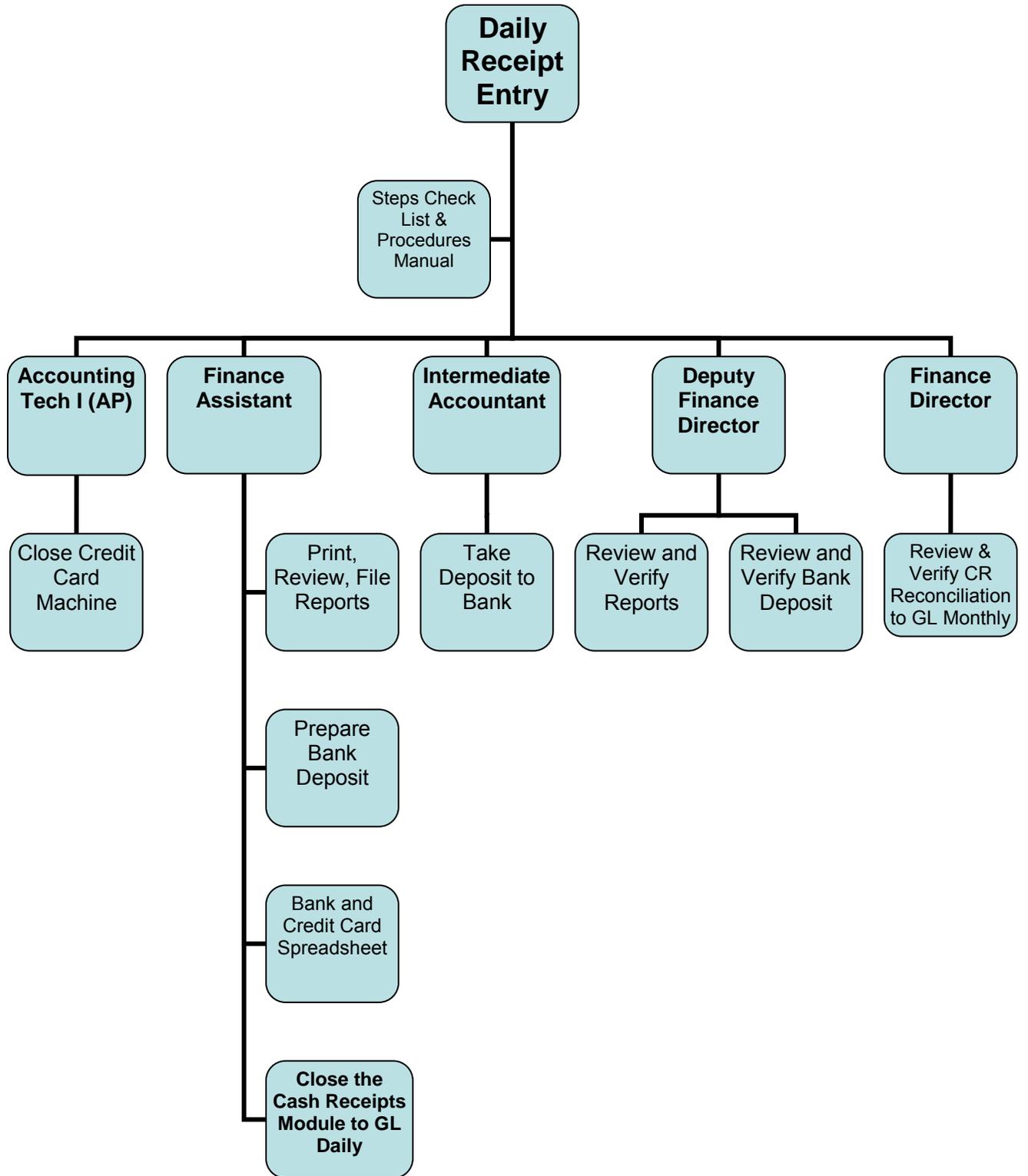
Banking – Authorization/Authority



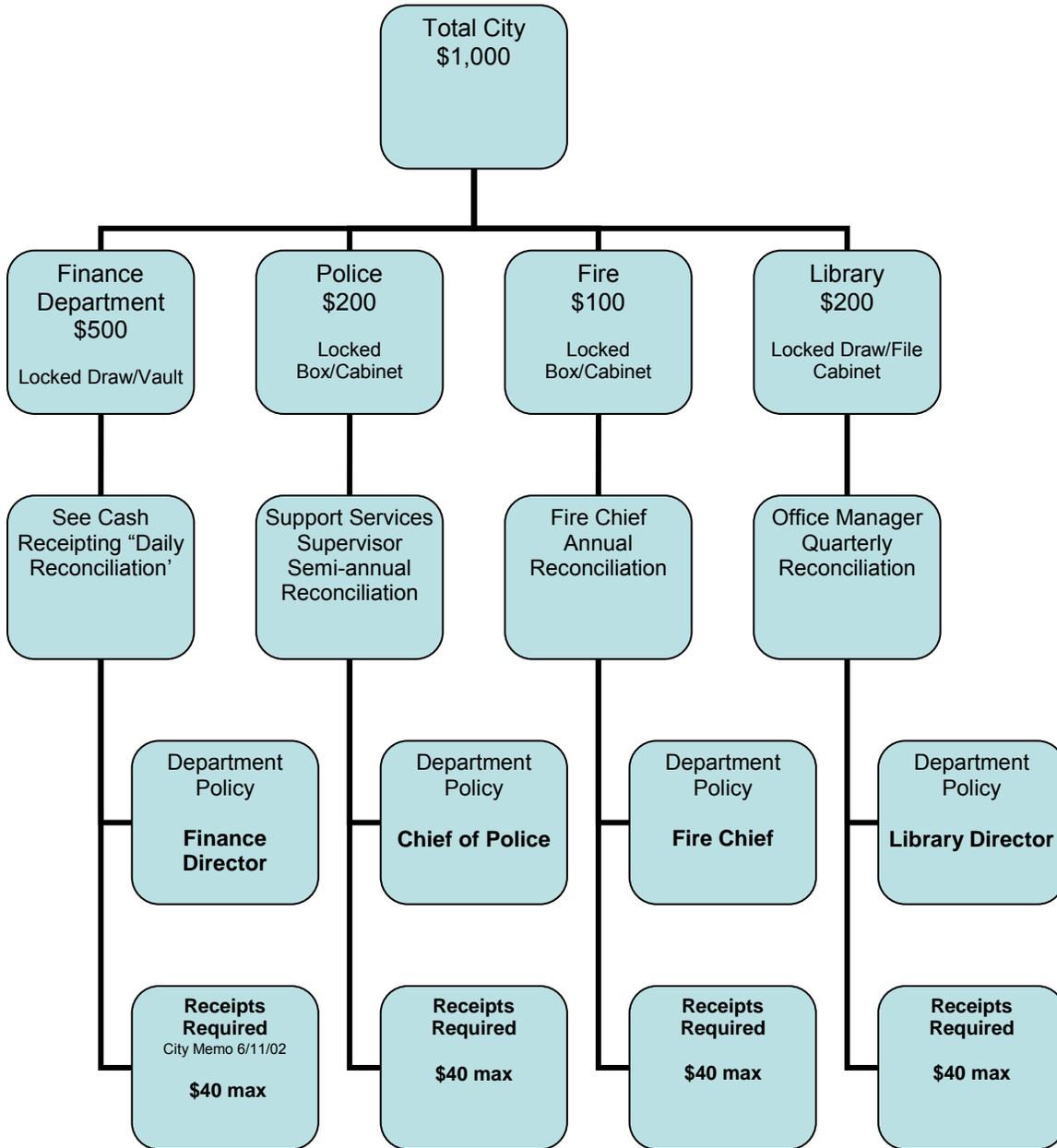
Bank Transfer Funds



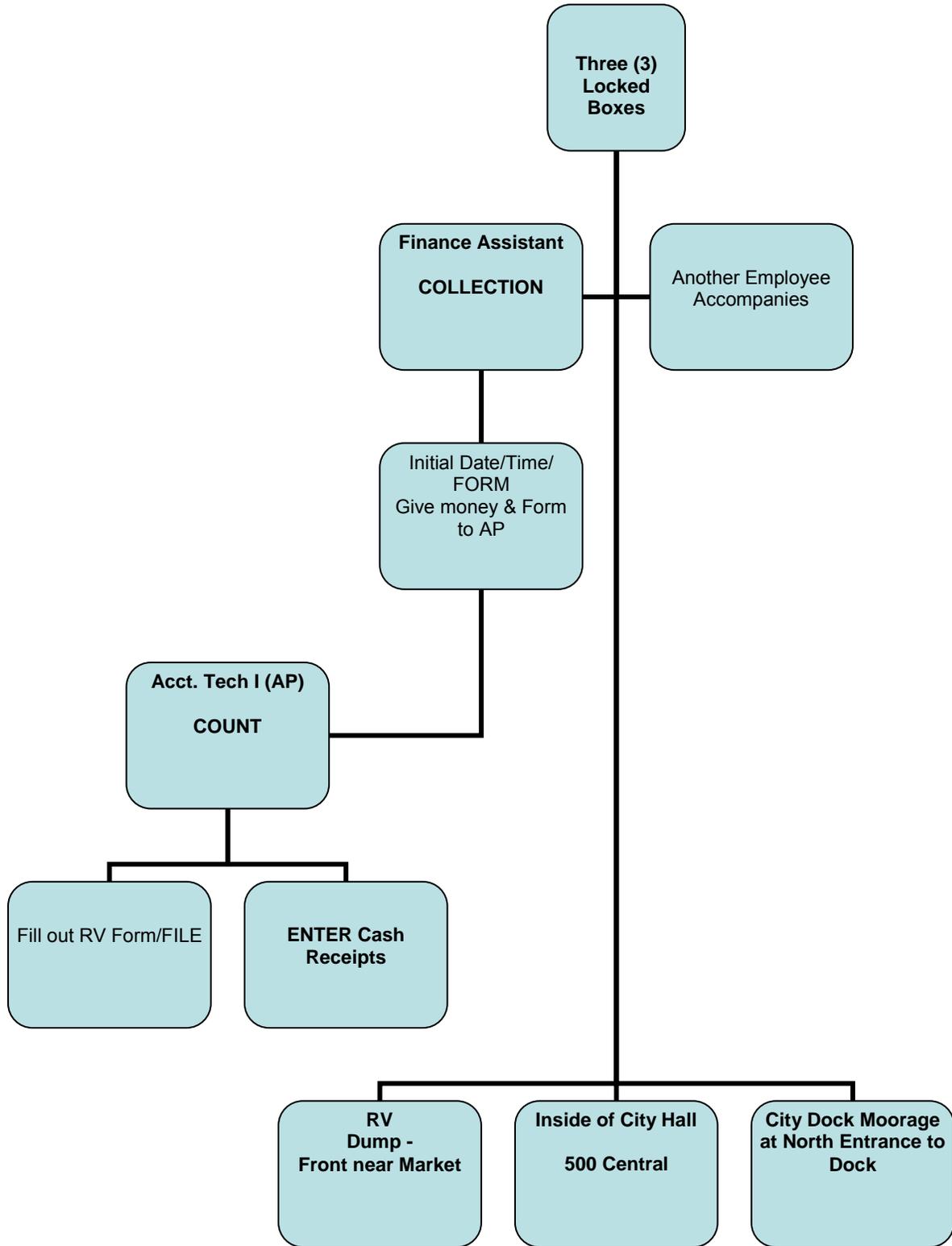
Cash Receipting Module



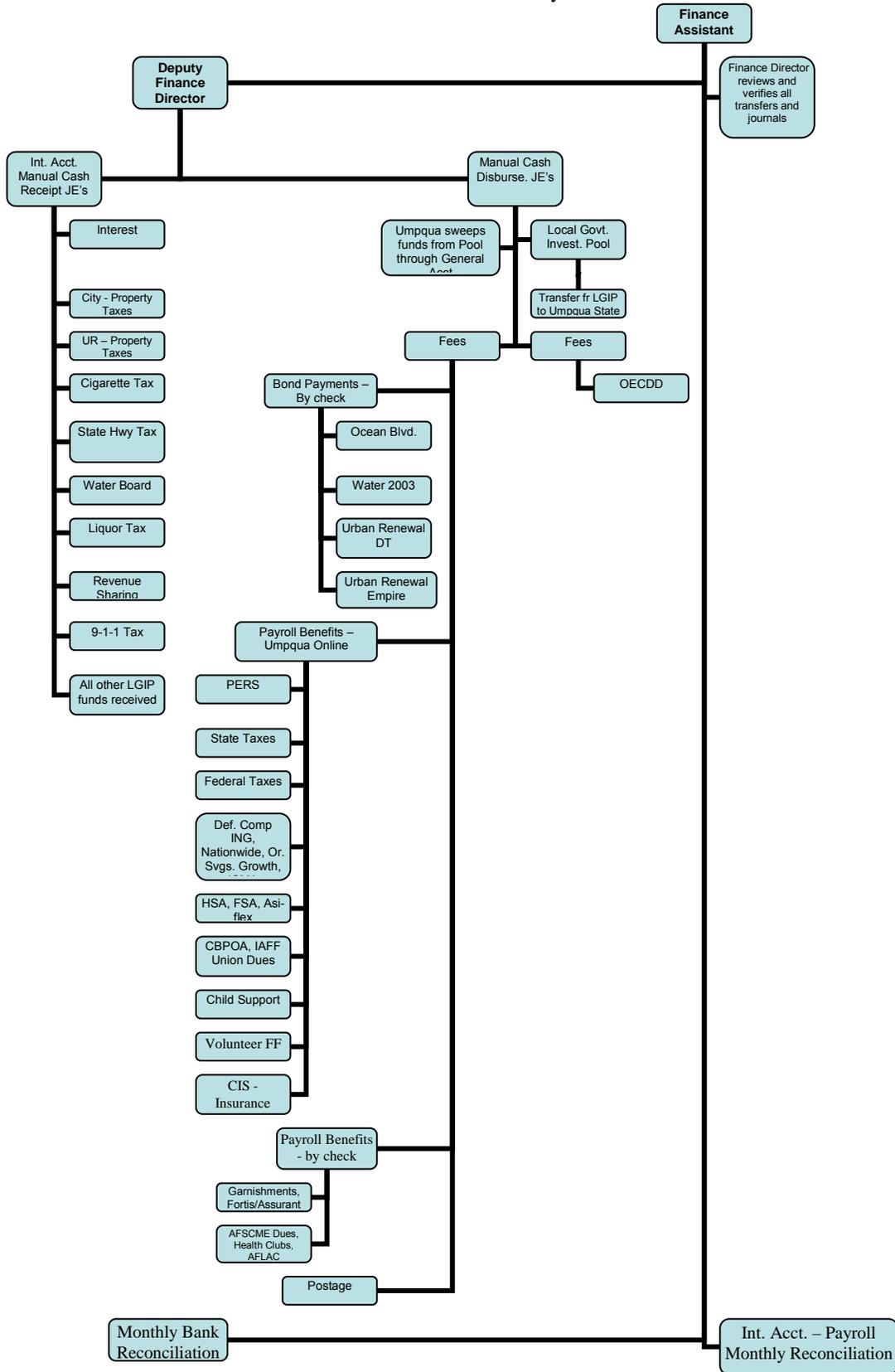
Petty Cash



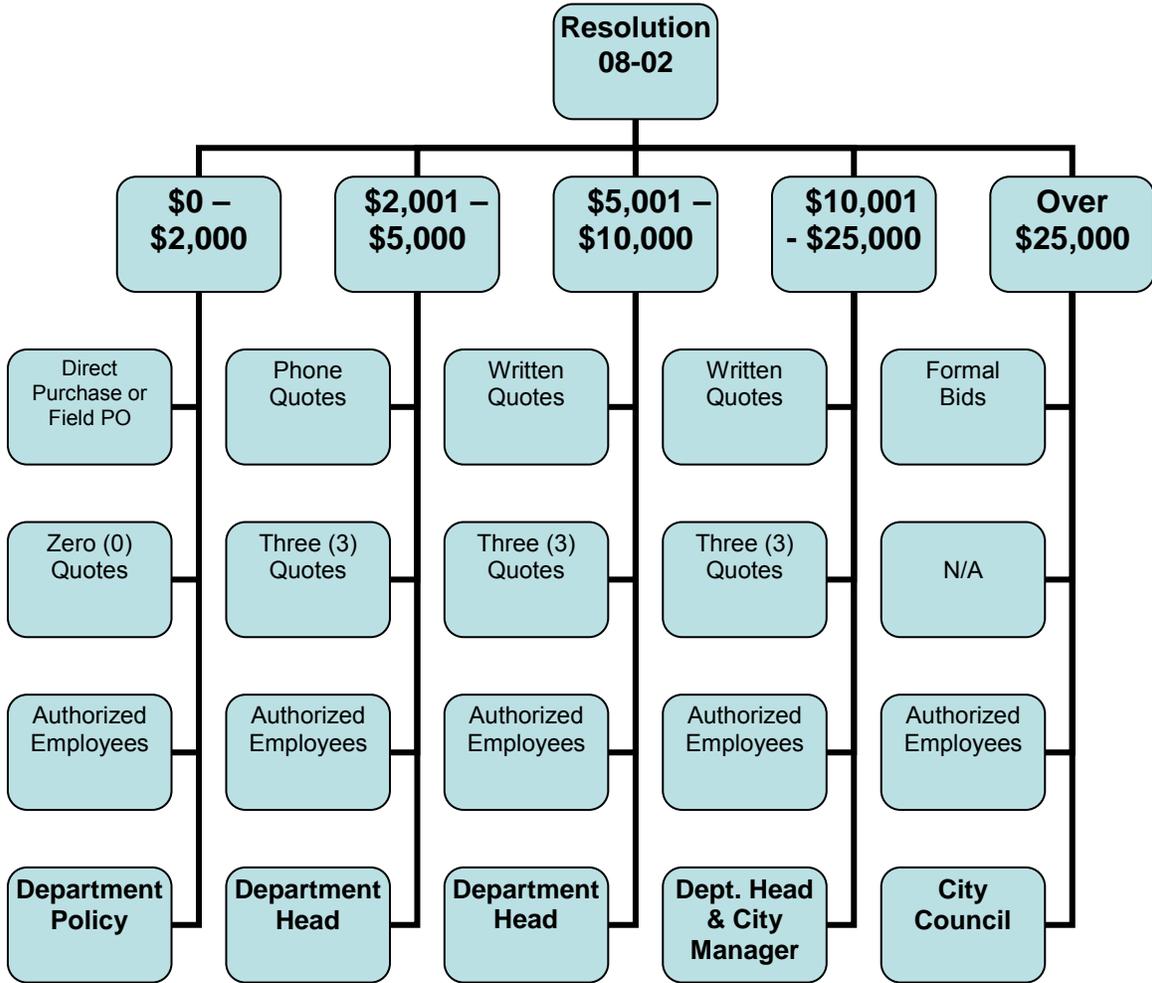
Collection Boxes



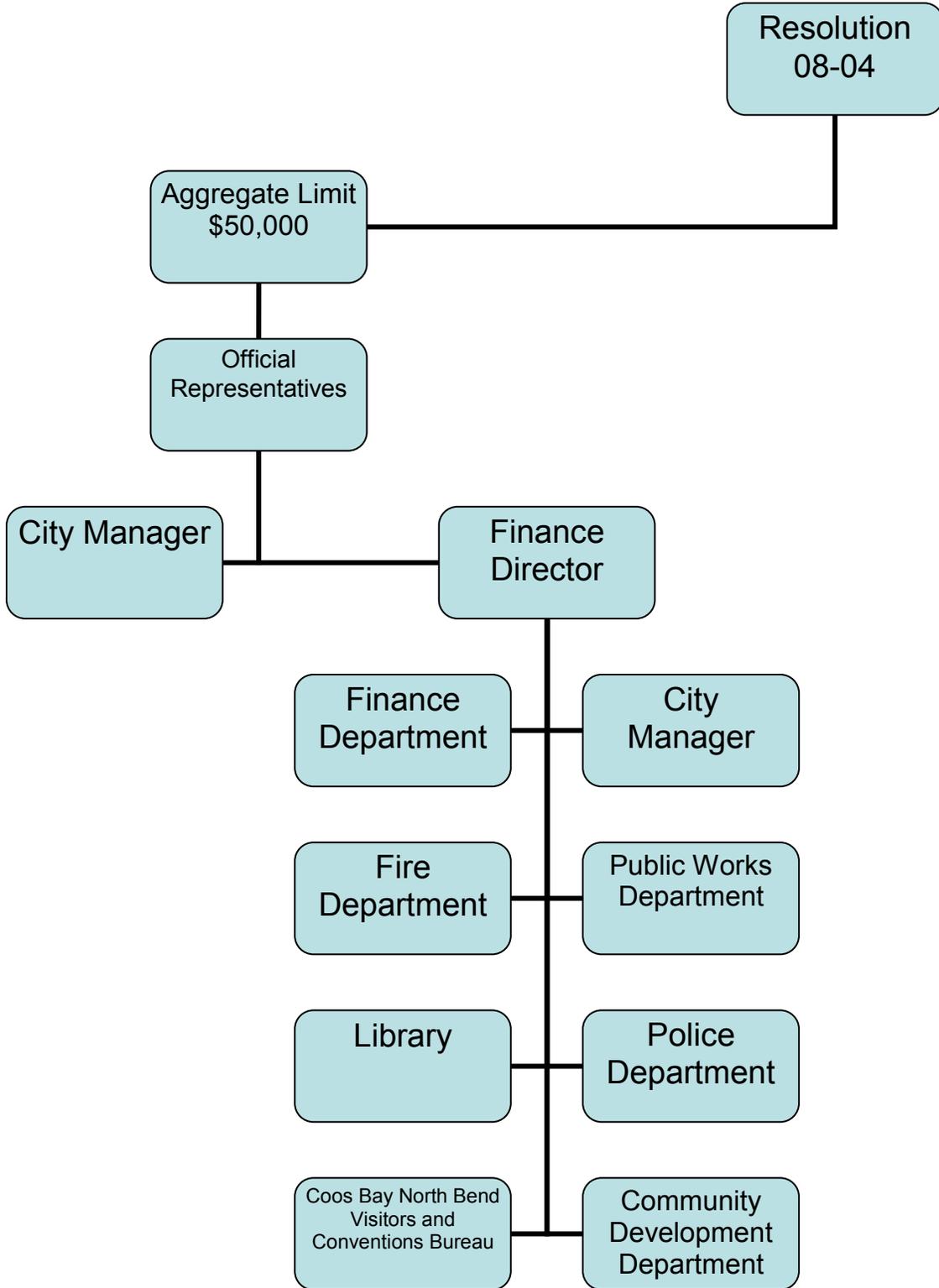
Bank Reconciliation & Related Monthly Journal Entries



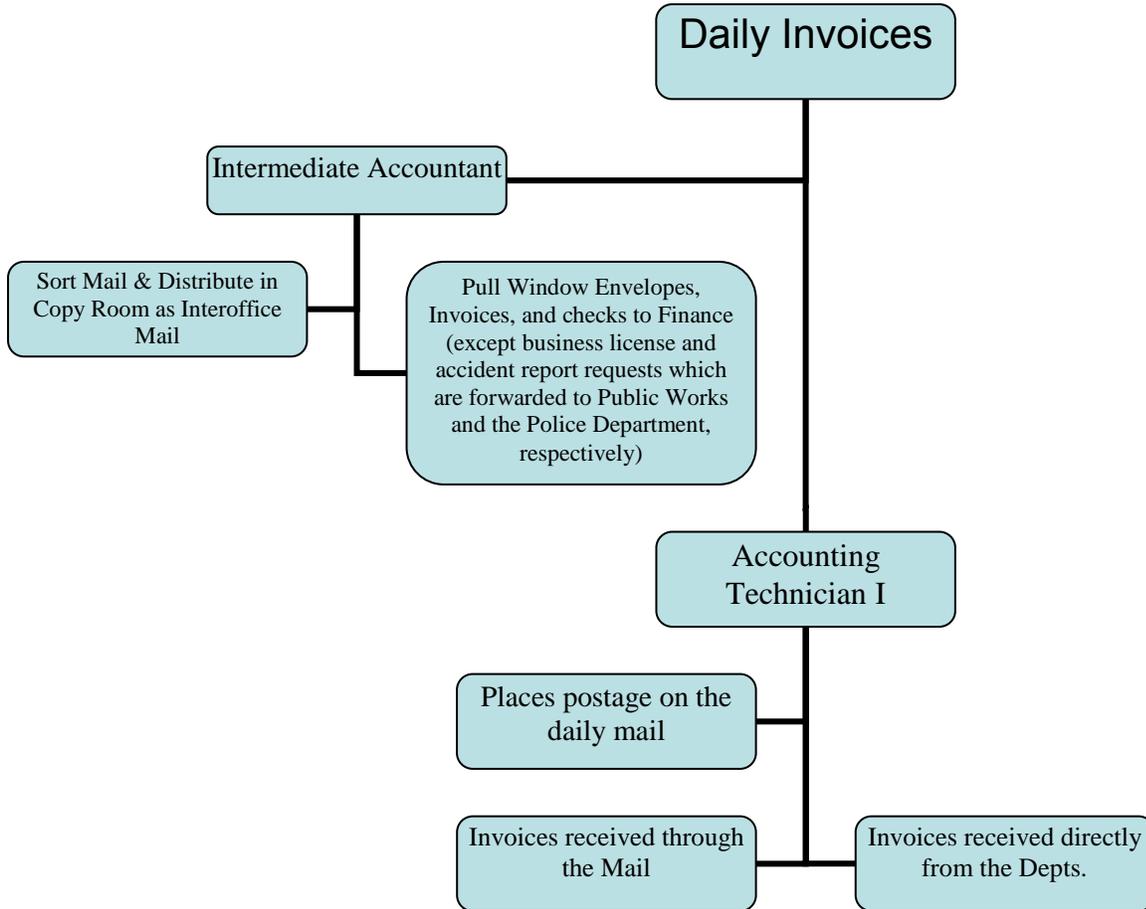
Accounts Payable – Purchase Authorization



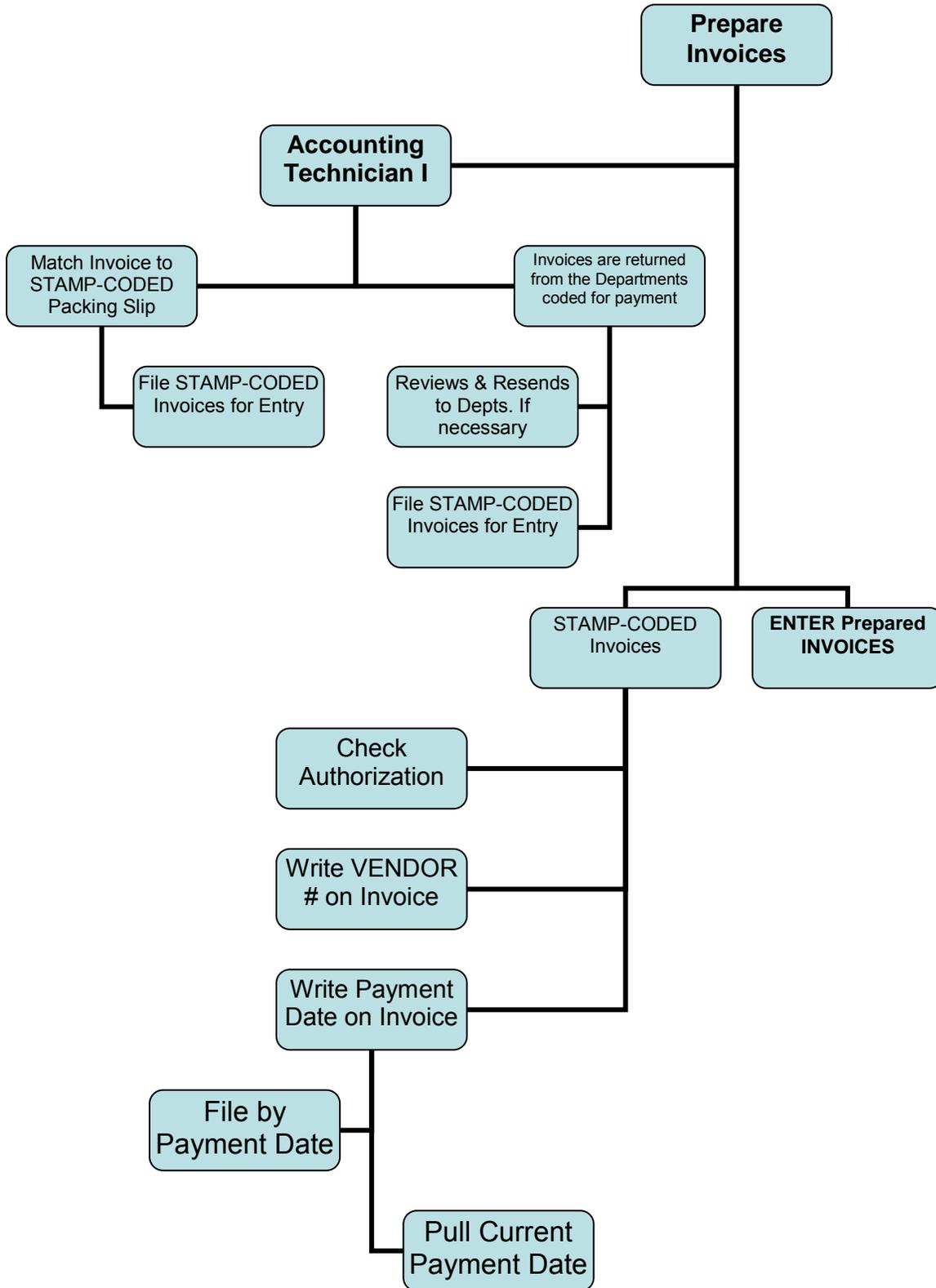
Credit Card – Authorizations/Limit



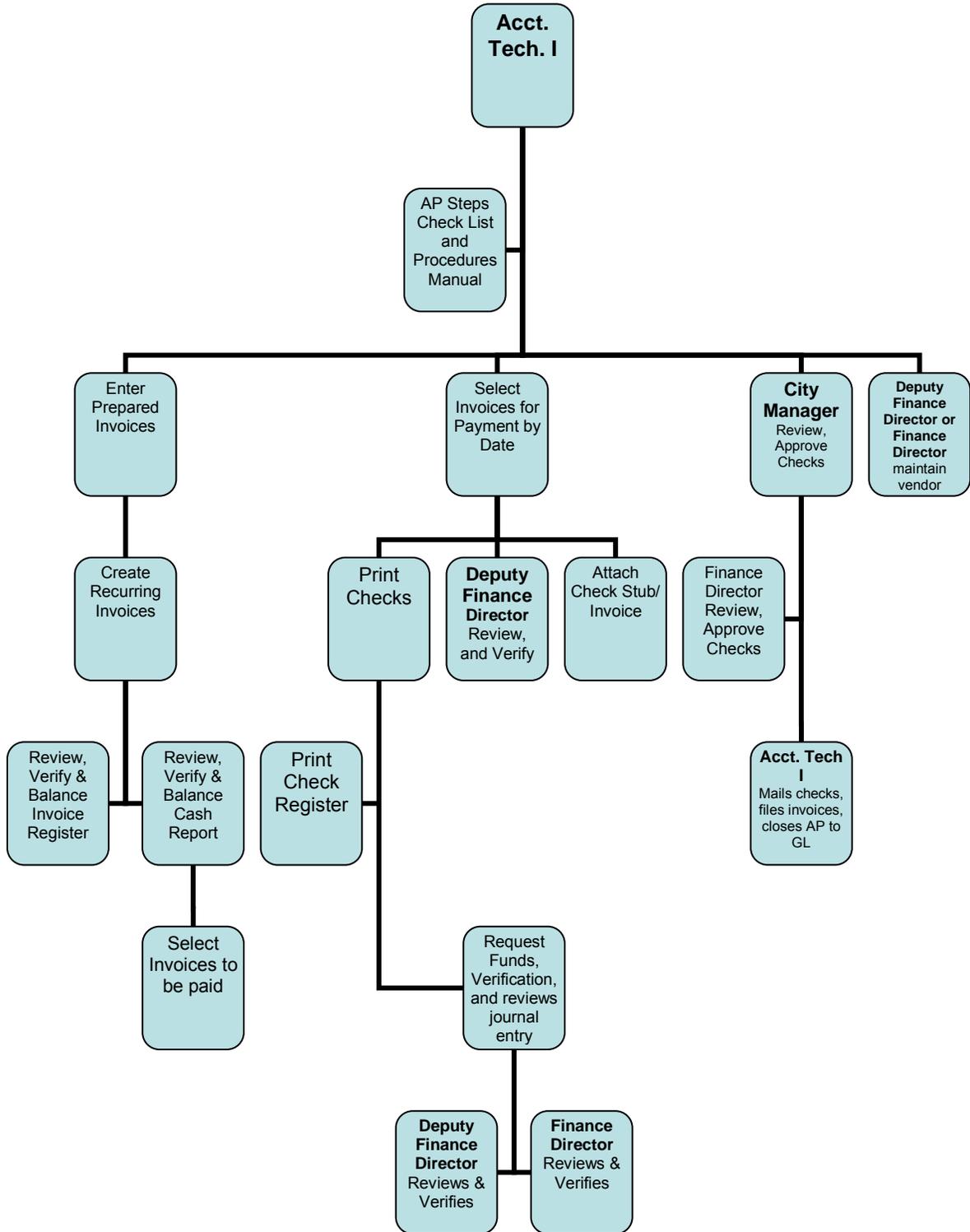
Accounts Payable – Mail



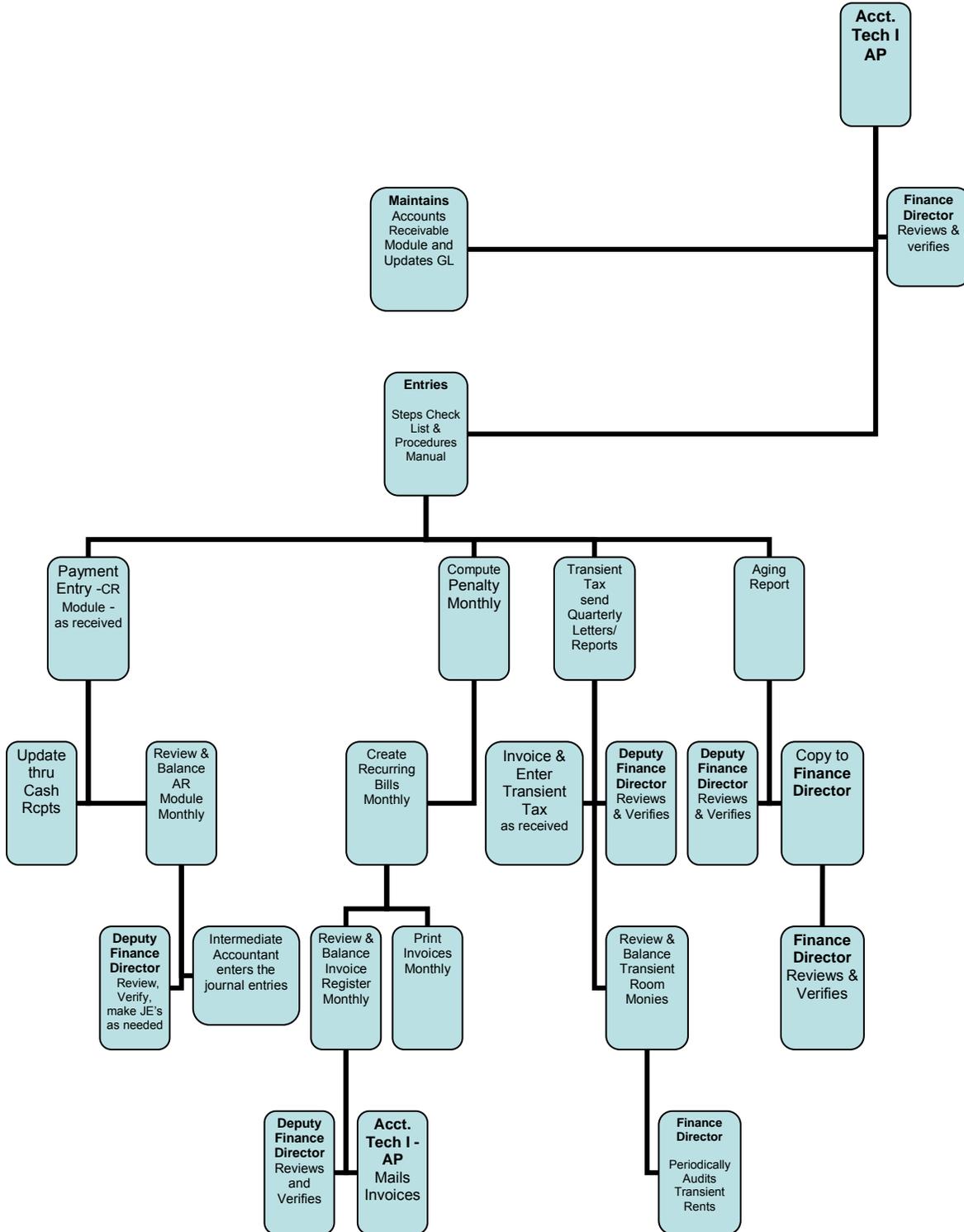
Accounts Payable Module – Invoice Preparation



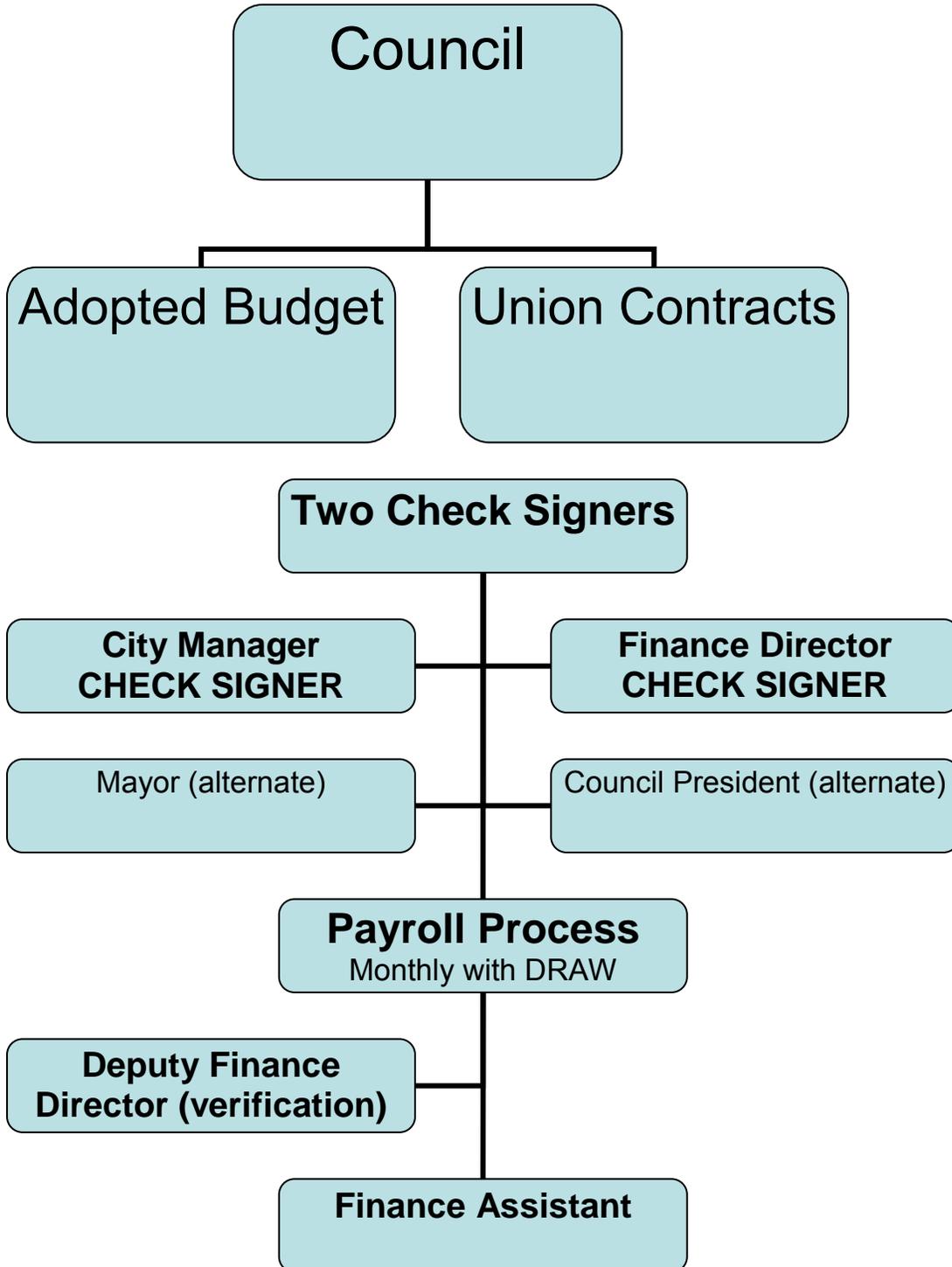
Accounts Payable – Monthly Process



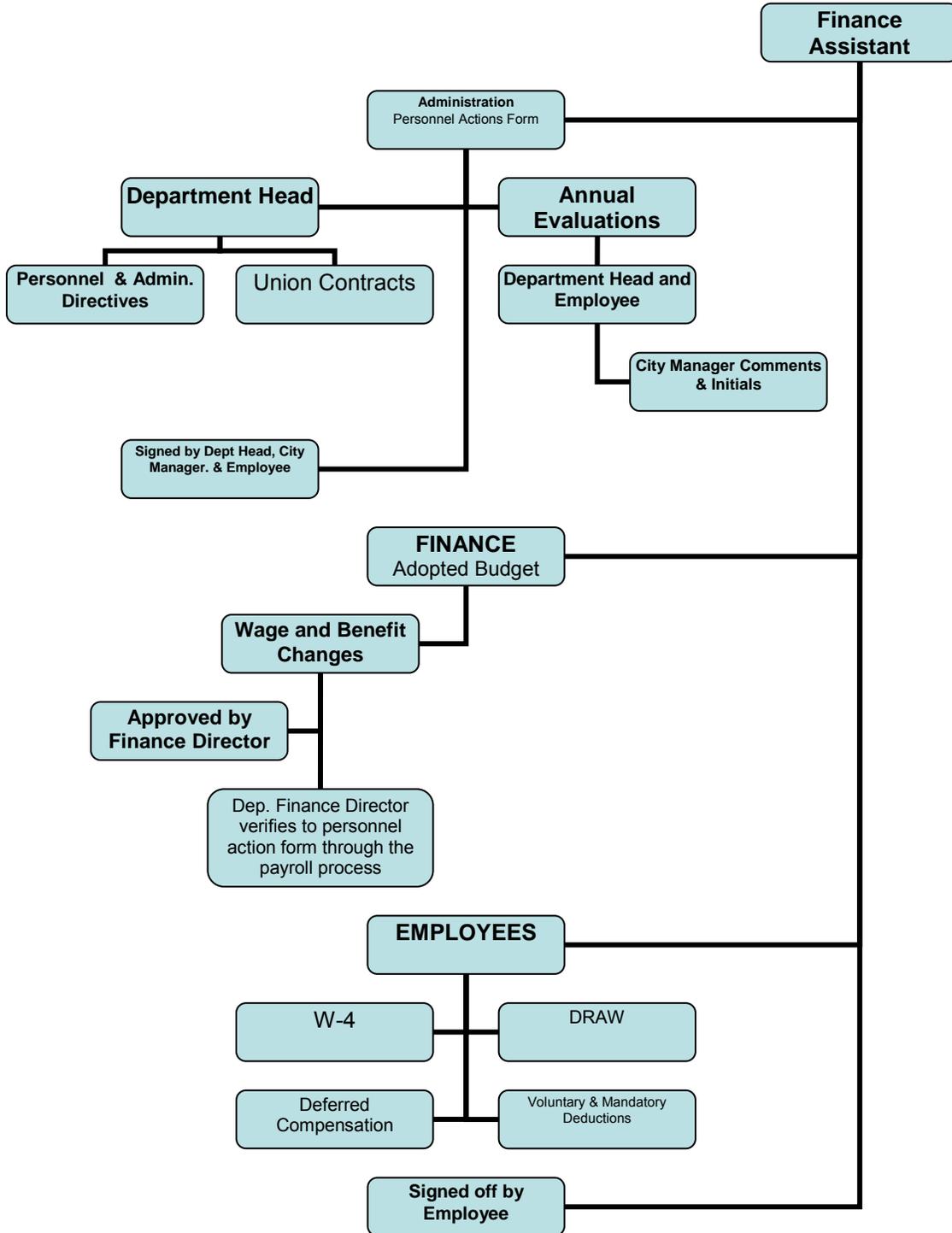
Accounts Receivable – Process



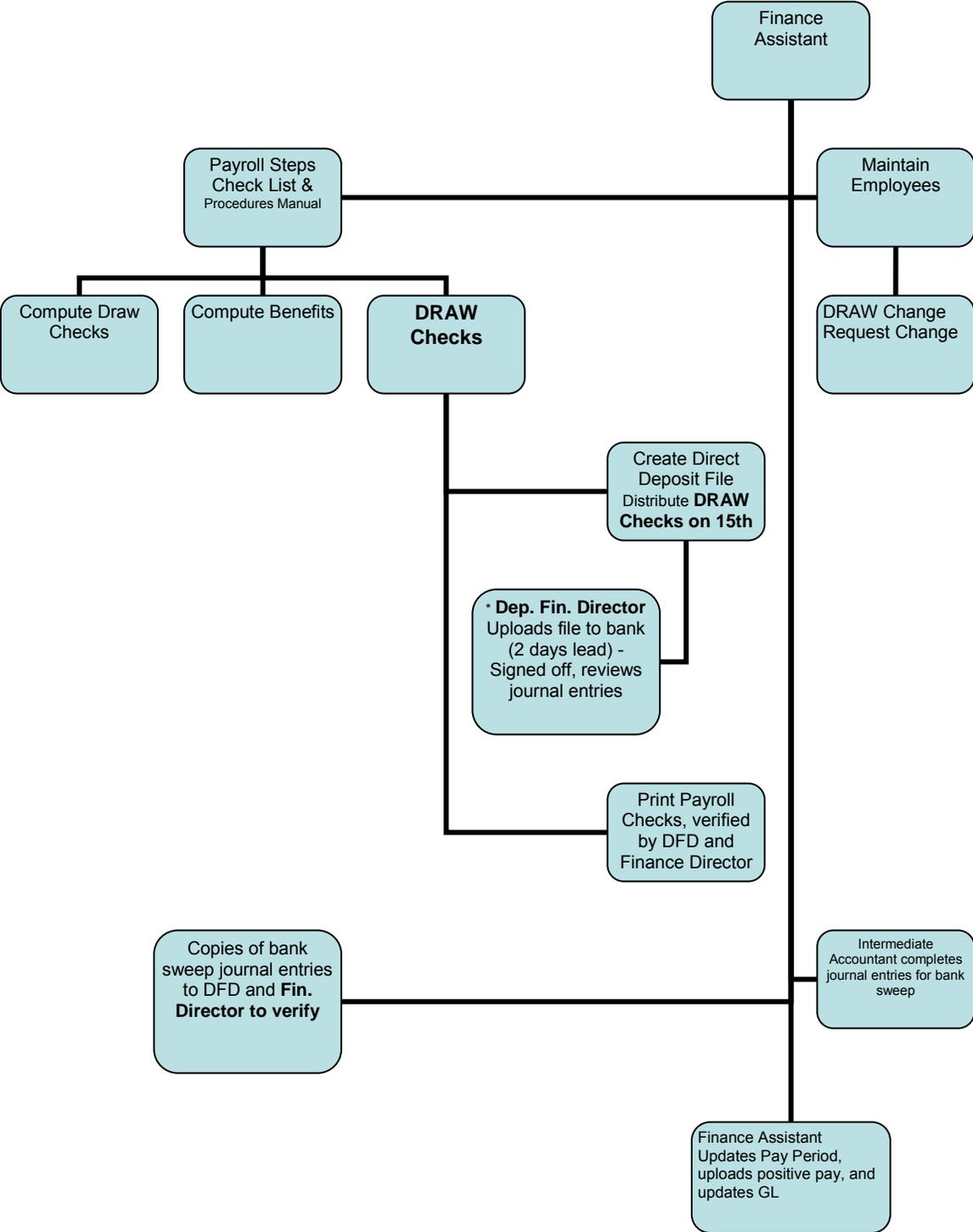
Payroll – Authority/Authorizations



Payroll – Changes/Authorizations

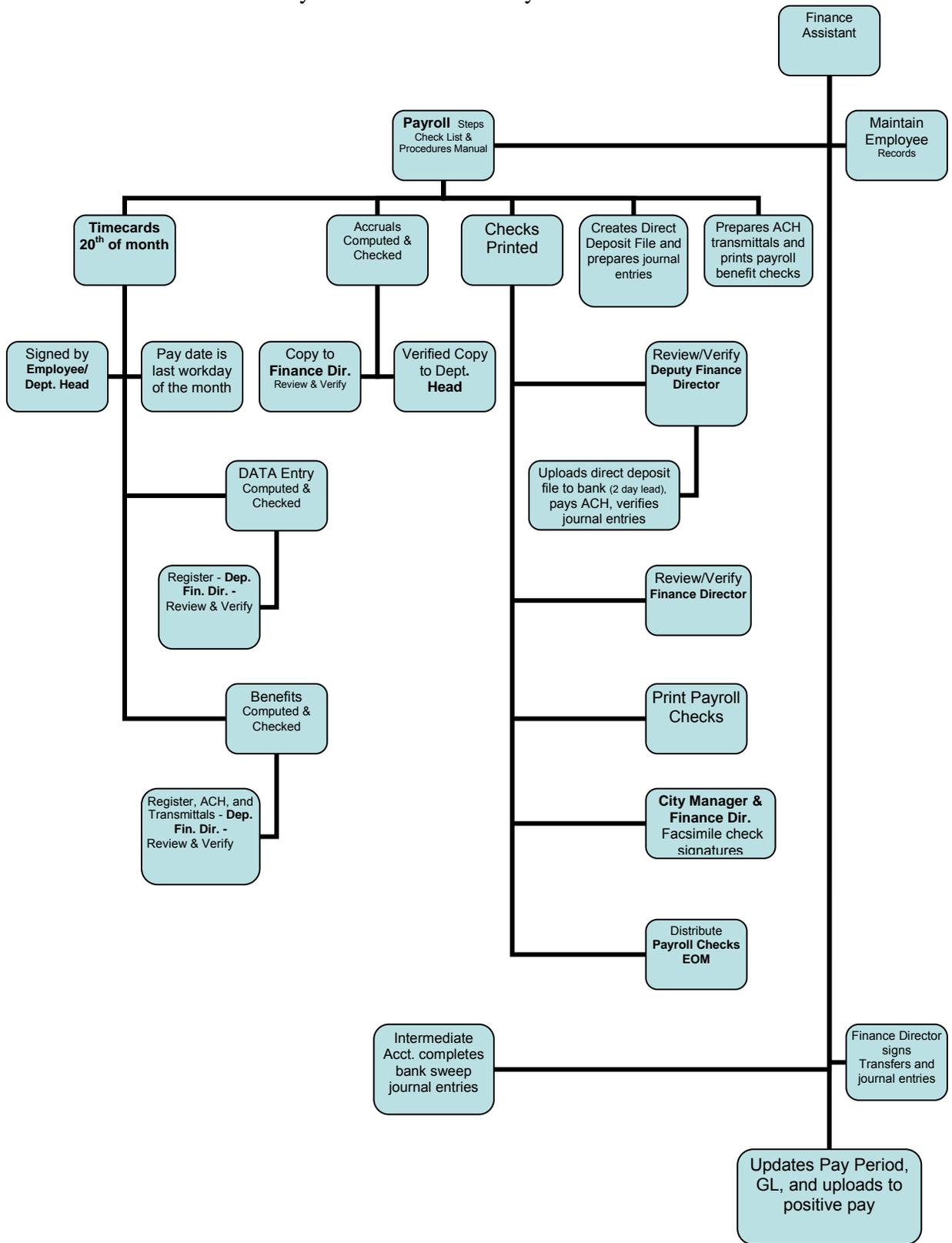


Payroll Module – Draw Process

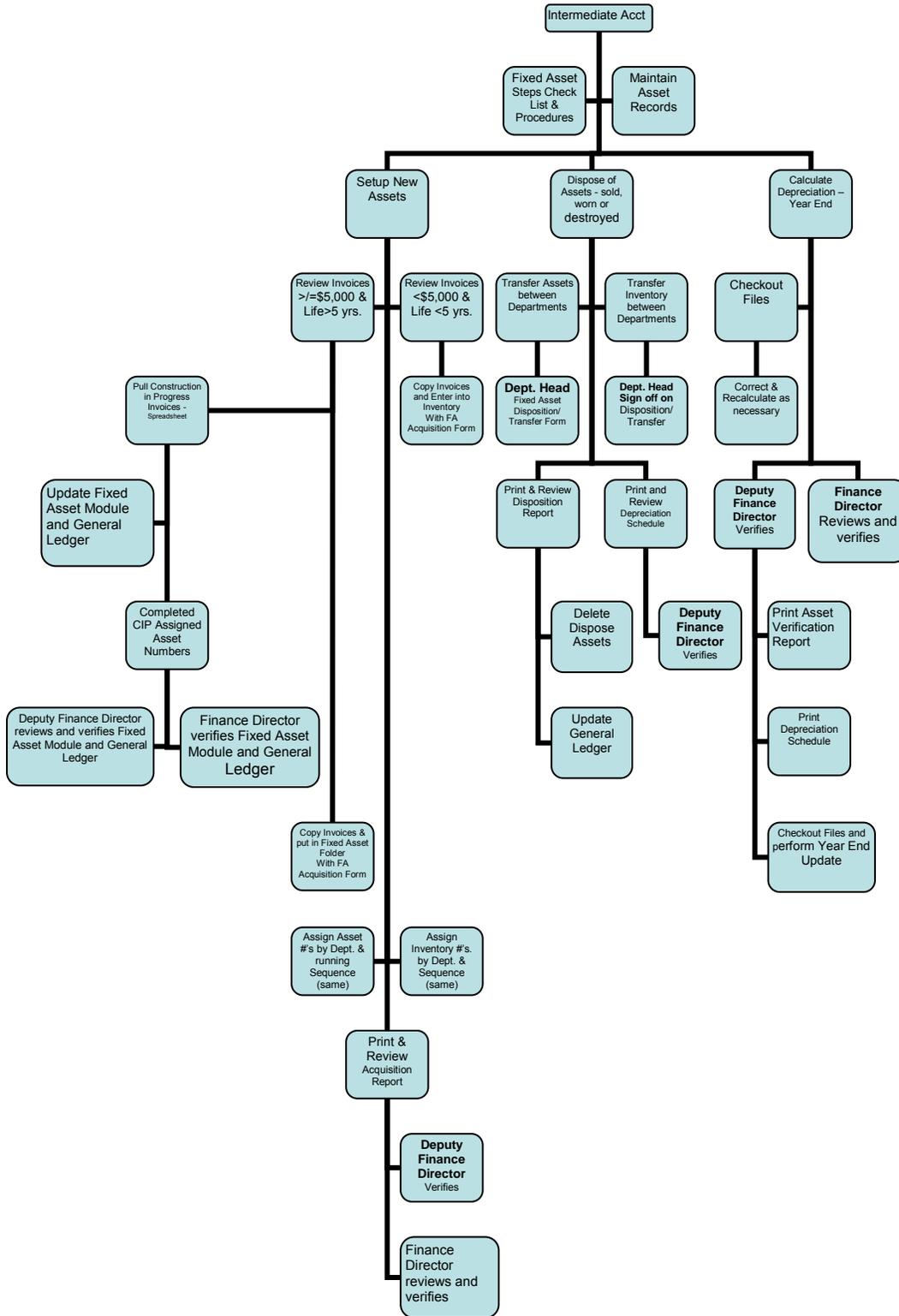


*signed off (reviewed and verified)

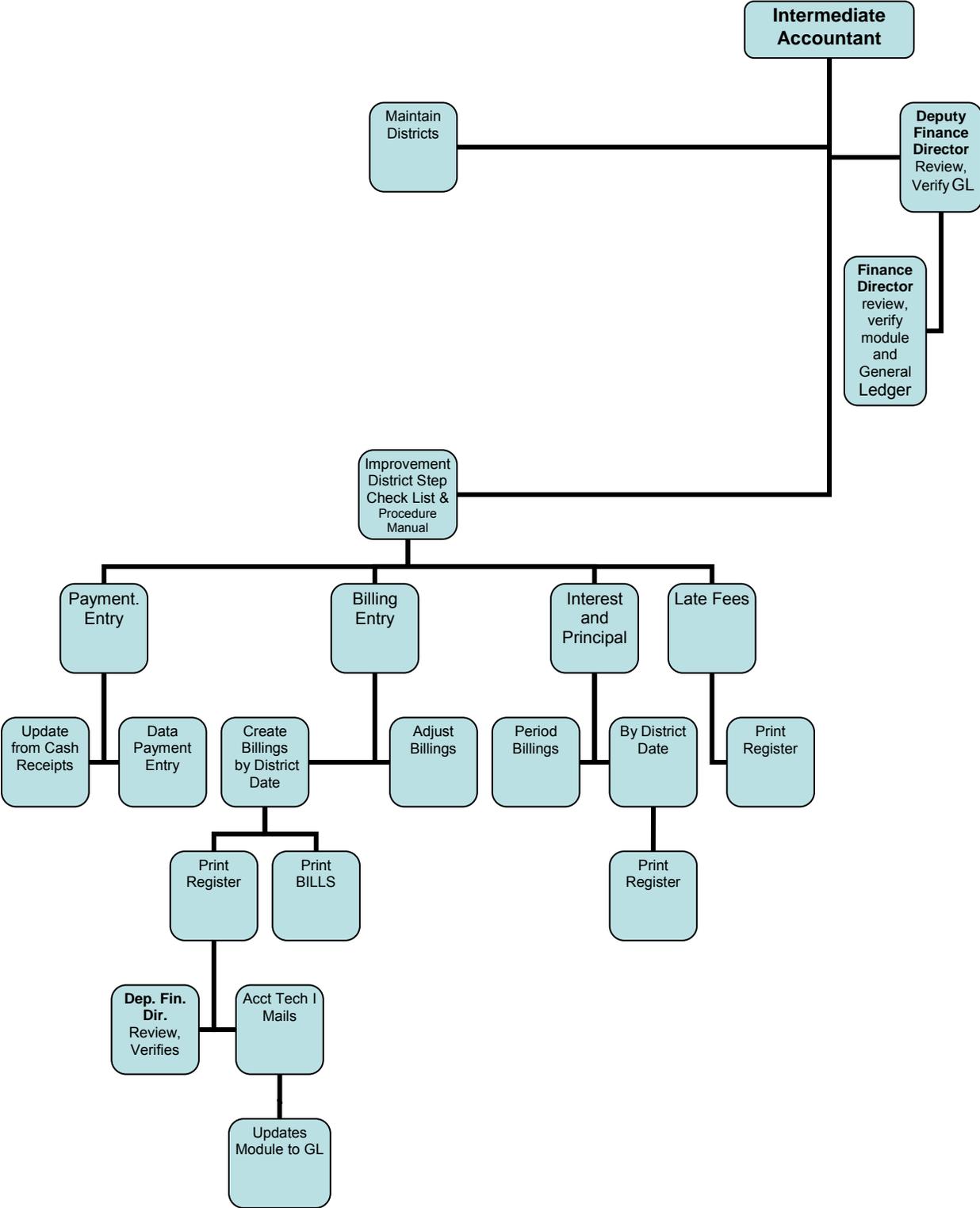
Payroll Module – Monthly Process



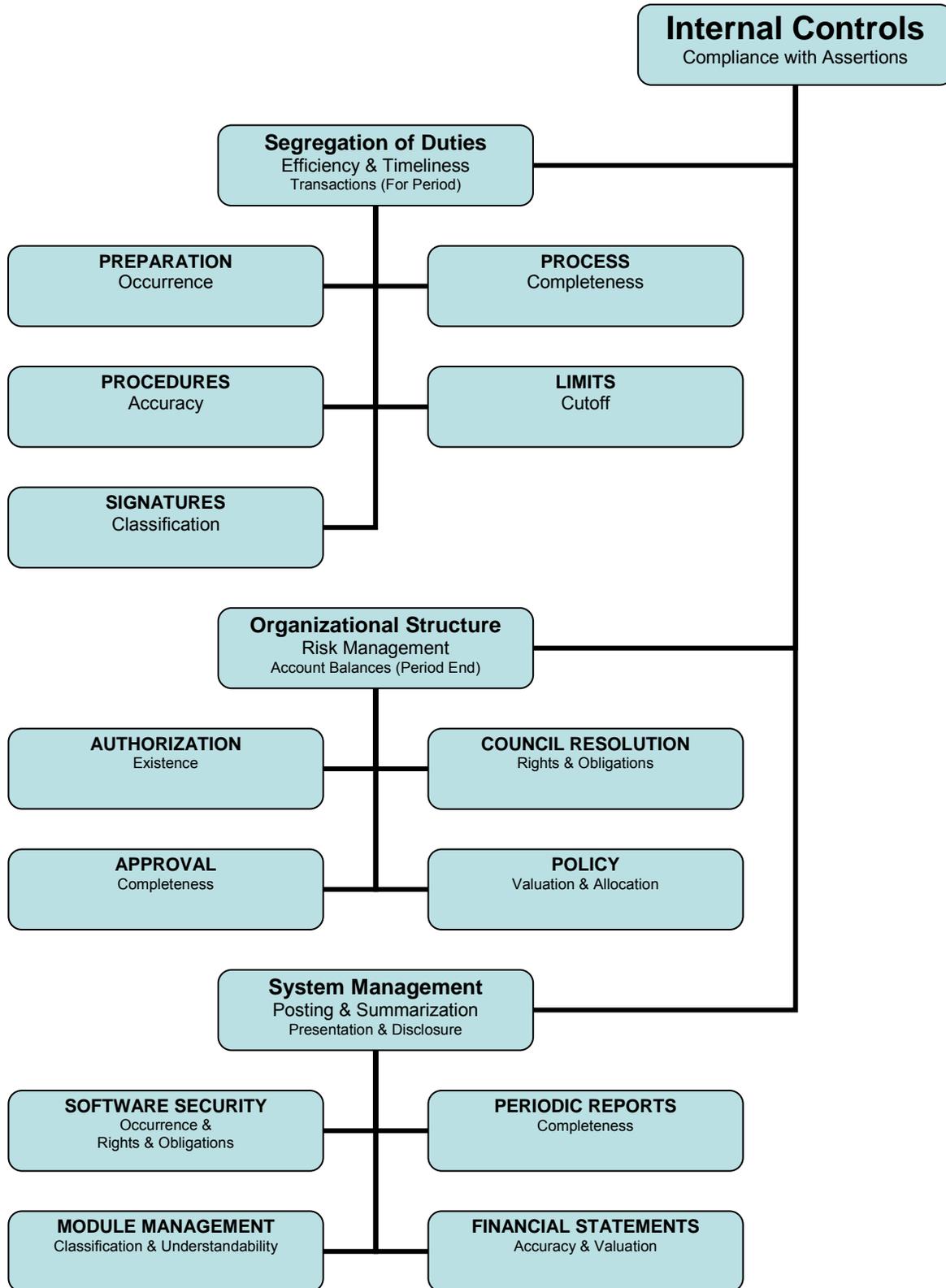
Fixed Assets & Inventory, Monthly & Year-End Process



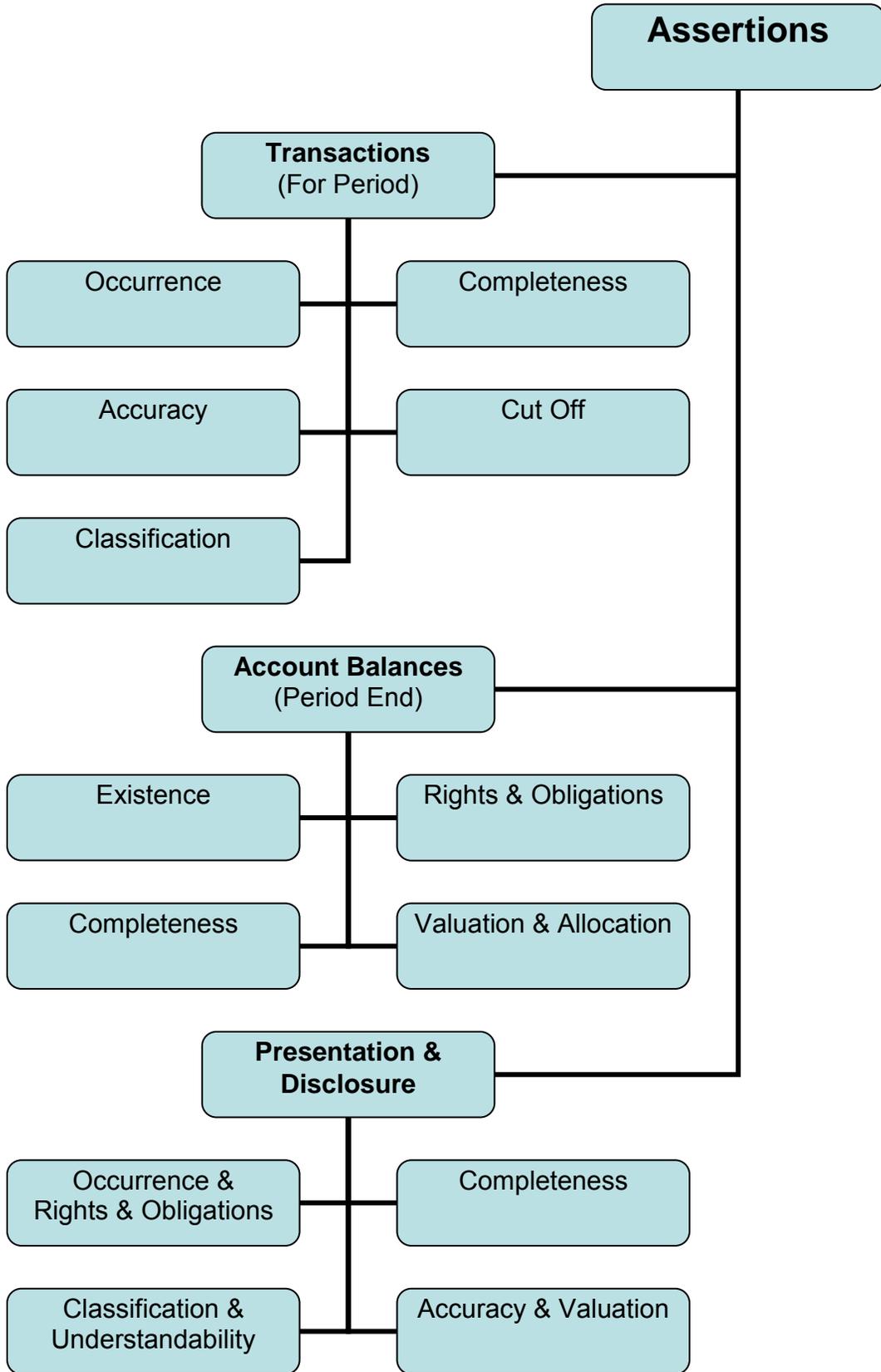
Improvement District – Process



Internal Controls



Assertions



Narrative Summary*				
	CONTROL (specific)	CONTROL (general)	ASSERTION	RISK
I)	Council Resolution	Organizational Structure/Risk Management	Rights & Obligations	Unauthorized Bank Accounts/Transactions
I-1	Policy	Organizational Structure	Valuation& Allocation	Unsecured Bank Balances
I-1a,b,c	Preparation/Segregation of Duties		Occurrence	Unauthorized Bank Transfers
I-2 a,b	Procedures & Process/Segregation of Duties		Accuracy & Completeness	Unsubstantiated and/or Unrecorded Bank Transfers
II)	Software Security/ System Management		Occurrence & Rights & Obligations	Unrecorded Financial Activity
II-1a	Procedures & Process/Segregation of Duties		Accuracy & Completeness	Incorrect/Unrecorded Cash Receipts
II-1b	Module Management	System Management	Classification & Understandability	Incorrectly Recorded/Misclassified Cash Receipts
II-1c	Preparation/Segregation of Duties		Occurrence	Unrecorded Bank Charges
II-1d,e	Procedures & Process/Segregation of Duties		Accuracy & Completeness	Uncollected/Unrecorded Cash Receipts
II-2a	Module Management	System Management	Accuracy & Valuation	Financial Activities
II-2b	Procedures & Process/Segregation of Duties		Accuracy & Completeness	Unrecorded/Uncleared Payroll Checks
III)	Council Resolution	Organizational Structure/Risk Management	Rights & Obligations	Unauthorized Purchases/ Unauthorized Contractual Obligations
III (cont)	Procedures & Authorization	Segregation of Duties/Organizational Structure	Accuracy & Existence	Unapproved Purchases over established Limits
IV)	Council Resolution	Organizational Structure/Risk Management	Rights & Obligations	Unauthorized Credit Card obligations beyond established limits
IV-a,b	Preparation/Segregation of Duties		Occurrence	Unauthorized Credit Card Transactions
IV-3a	Preparation/Segregation of Duties		Occurrence	Late charges/Unpaid Invoices/Unapproved Invoices paid in error
IV-3b	Procedures & Signatures	Segregation of Duties	Accuracy & Classification	established Limits
IV-3c	Process & Limits	Segregation of Duties	Completeness & Cutoff	non existent Invoices
IV-3d	Authorization & Approval	Organizational Structure	Existence & Completeness	Invoices/Register and Check/Register do not Match/Equal, Missing/Non-Sequential Checks
IV-3e	Module Management	System Management	Classification & Understandability	Invoices not authorized/not properly classified/not within contracted price/insufficient funds transfer
IV-3f	Procedures/Segregation of Duties		Accuracy/Efficiency & Timeliness	Invoices/AP Registers are not completely approved or correctly filed for easy access
IV-4a,b	Preparation/Segregation of Duties		Occurrence	Unrecorded/Unsubstantiated Receivables
IV-4c	Procedures & Limits	Segregation of Duties	Accuracy & Cutoff	period/Uncollectables not followed through on
IV-5	Council Resolution	Organizational Structure/Risk Management	Rights & Obligations	Unapproved Budgeted Contractual Activity/Personnel Litigation
IV-5a,b,c	Preparation/Segregation of Duties		Occurrence	Unauthorized Payroll Changes/Non-Budgeted/Non-Contracted Activity
IV-5d	Module Management	System Management	Classification & Understandability	Employee Wages, Taxes, Benefits & Accruals are incorrect/Penalties & Liabilities Imposed
IV-5e	Procedures/Segregation of Duties		Accuracy/Efficiency & Timeliness	Employees not paid on time/Insufficient or Late Transfer of Funds to Payroll Account
IV-5f	Authorization & Approval	Organizational Structure	Existence & Completeness	Matched/Equal/not substantiated/Missing/Non-sequential Checks
IV-5g	Periodic Reports	System Management	Completeness	Payroll Records not current/Benefits and Taxes not paid on time/Fees & Penalties Imposed
IV-6a	Policy (Control)	Organizational Structure	Valuation & Allocation (Assertion)	Qualifying Inventory & Fixed Assets not identified/ Missing/Non-numbered Assets
IV-6b,c	Preparation/Segregation of Duties		Occurrence	Qualifying Inventory & Fixed Assets not approved by department head as FA when purchased
IV-6d	Procedures	Segregation of Duties	Accuracy	Qualifying Inventory & Fixed Assets not tagged, managed (acquired/disposed), safeguarded
IV-6e	Module Management	System Management	Classification & Understandability	Qualifying Fixed Assets not properly tracked as Construction in Progress then FA at completion
IV-6f	Financial Statements	System Management	Accuracy & Valuation	Financial Statements
IV-7	Module Management	System Management	Classification & Understandability	Assessments receivable not properly stated in the Financial Statements

* Relevant ASSERTIONS are determined by identifying the RISK of potential mis-statements in each significant class of transactions, account balances and presentation & disclosure. Internal CONTROLS mitigate this risk.

Organizational Charts List

	Software Security Module Management	Segregation of Duties Efficiency & Timeliness	Organizational Structure Risk Management	System Management Posting & Summarization
1 Banking (GL)	Authorization	Limits	Council	Resolution
2 Banking (GL)	Transfers	Approval	Signatures	Policy Procedures
3 Cash Receipting	Process	Approval	Signatures	Policy Procedures
4 Cash Receipting	Petty	Approval	Signatures	Policy Procedures
5 Cash Receipting	Collection	Approval	Signatures	Policy Procedures
6 Bank Reconciliation (GL)	ACH	Approval	Signatures	Policy Procedures
7 Purchases (AP)	Authorization	Limits	Council	Resolution
8 Credit Card (AP)	Authorization	Limits	Council	Resolution
9 Accounts Payable	Mail			Policy Procedures
10 Accounts Payable	Preparation	Approval	Signatures	Policy Procedures
11 Accounts Payable	Process	Approval	Signatures	Policy Procedures
12 Accounts Receivable	Process	Approval	Signatures	Policy Procedures
13 Payroll	Authorization	Signatures	Council	Resolution
14 Payroll	Preparation	Approval	Signatures	Policy Procedures
15 Payroll	Draw	Approval	Signatures	Policy Procedures
16 Payroll	Monthly	Approval	Signatures	Policy Procedures
17 Fixed Assets	Process	Approval	Signatures	Policy Procedures
18 Improvement District	Process	Approval	Signatures	Policy Procedures
19 Internal Controls	Compliance with Assertions			
20 Assertions	(see Narrative - Communicating Internal Control)			

Internal Controls Compliance with Assertions Summary

<u>Internal Controls</u>	<u>Assertions</u>
Authorization	Existence
Approval	Completeness
Software Security	Occurrence & Rights & Obligations
Module Management	Classification & Understandability
Segregation of Duties	Accuracy, Classification, Completeness
Efficiency & Timeliness	Occurrence, Cutoff
Organizational Structure	Existence, Completeness
Risk Management	Rights & Obligations, Valuation & Allocation
System Management	Occurrence & Rights & Obligations, Accuracy & Valuation
Posting & Summarization	Classification & Understandability, Completeness