

March 30, 2018

Mr. Michael Spurgeon, City Manager
City of Broken Arrow, Oklahoma
210 N. Broadway
Broken Arrow, OK 74728-3936

Re: Report on Best Practices for Financial Operations

Dear Mr. Spurgeon:

The City of Broken Arrow (the City) engaged Crawford and Associates, P. C. to provide certain professional services as identified in the Scope and Objectives of Our Services section below. This report describes the scope and objectives of our services, the specific procedures we performed, and our findings and recommendations.

Scope and Objectives of Our Services

The scope of our professional services was limited to performing certain consulting services designed to assist the City Manager and the Finance Department in evaluating the City's financial management policies, processes, procedures, and practices. These services were performed in accordance with the standards applicable to consulting engagements of the American Institute of Certified Public Accountants. Our services are organized into the following major financial management categories

- Internal Control
- Accounting and Financial Reporting
- Budgeting and Financial Planning
- Finance Department Management

The objective of our services in this engagement were to develop a list of additional best practices for the City to add to their current, existing practices related to the financial management functions. To achieve that objective, we obtained information, interviewed personnel, evaluated procedures, and reviewed selected policies and contracts to determine whether any recommendations are warranted regarding financial management best practices of similar governmental entities. In determining the best practices of similar governmental entities, we used information gathered from our 33 years of experience in dealing with state and local governments and a review of the Government Finance Officers Association (GFOA) best practices documents. Our recommendations are based solely on our professional judgment and include items that came to our attention while performing the procedures listed above. It is not intended to be an all-inclusive financial management best practices list.

Recommendations

Our recommendations are listed below and organized by the major categories listed above. The recommendations have not been evaluated to determine if the cost to implement would outweigh the benefits provided. Management should use their judgment to determine if the recommendations are cost beneficial. Additionally, some recommendations could take substantial time to implement, while others should be fairly simple and quick. Management may want to consider prioritizing and developing an implementation timeline for those recommendations they determine to be the most cost beneficial or will have the most impact on financial management practices of the City.

I N T E R N A L C O N T R O L

1. **Internal Control Framework** – We recommend the City adopt one of the two internal control frameworks listed below as the conceptual basis for designing, implementing, operating, and evaluating internal control. This will provide reasonable assurance that the City is achieving its operational, reporting, and compliance objectives.

Council on Sponsoring Organization's (COSO) *Internal Control—Integrated Framework (2013)* (Preferred by Crawford & Associates)

OR

United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government (2014)* – The Green Book (While also considered an excellent framework, this framework was originally designed for use by Federal Agencies, Functions and Departments)

With the adoption and implementation of an internal control framework, we believe the following specific areas will be addressed. However, we are providing recommendations in these specific areas that were identified during the performance of the procedures listed above.

2. **Specific areas that could benefit from improved internal controls**

- a. *Purchasing* –

- i. We concur with purchasing department current plans to update security at the warehouse to include new cameras and electronic access.
 - ii. We also agree with the goal of obtaining a barcode inventory system to provide for a more efficient and effective inventory process.
 - iii. We suggest that the Finance Director approval of requisitions only be required for large dollar items (with the definition of “large” to be determined by the City).

- iv. Purchasing cards:
 - 1. We recommend the City obtain the capability to do Level 3 processing of credit card information. This will capture a greater detail of purchases made to include merchant name and address, invoice number and tax amount, in addition to line-item details such as item description, quantity and unit of measure. This greater detail will allow the City to better monitor the purchase activity and provide for a much-improved data analysis capability.
 - 2. We recommend the City consider adding purchasing limitations to cards based on a vendor's Merchant Category Code. This would prohibit purchases at certain types of businesses like liquor stores, for example.
- v. During our interviews with various department personnel, some complaints were noted regarding the purchasing process. The scope of this best practice review project did not allow us to determine the cause behind the complaints. However, the following complaints are listed to allow City personnel to investigate the reasons and then follow-up with the purchasing department:
 - 1. There are instances when a requisition is entered by the department, but the actual purchase isn't made. When the department contacts the Purchasing Department to get the status on a requisition, they learn that the actual purchase was never made.
 - 2. There are times when a purchased item is received by the Purchasing Department and the item(s) are placed on the inventory shelf rather than notifying the appropriate departmental person for pick up.
- b. *Capital Asset Inventory* – We recommend a representative from the Finance Department be present during each department's annual physical inventory of capital assets at least on a rotational basis. Additionally, the capital asset detail records should be updated for any unresolved discrepancies noted during the physical inventory. Also, the City should consider developing a "Form for Lost, Damaged, or Stolen Property" that would include the following information: department, date loss discovered, who discovered the loss, whether it was reported to the police, date of report to police, police report number, explanation of circumstances, and asset tag number, serial number, and description.
- c. *Cash Receipts/Revenues/Receivables* – We recommend the following as it relates to cash receipts, revenues, or receivables:
 - i. *Court receivables/revenues* – A Finance Department staff member should be responsible for reconciling the subsidiary court receivables records to general ledger court receivables on a monthly basis. Additionally, the City should consider having an individual independent of the court cash receipts and ticket issuance processes review all adjustments to tickets. This would include verifying appropriate documents are obtained for

routine adjustments not approved by a judge, such as proof of insurance. All other adjustments should be traced to approval by the judge in court proceedings records.

- ii. *Development Services* – The City should consider providing separate cash drawers for each person who accepts payments. In addition, the City should also consider having individual log-ins into the computer for each person who processes payments, billings, and/or adjustments. Since all 8 staff members in this department have the ability to bill, adjust, and collect, the City should consider having a individual independent of these processes review these transactions and perform a monthly reconciliation of the detail receivable and escrow liability amounts to their corresponding amounts in the general ledger.
 - iii. *Utility billing* – Consider providing separate cash drawers for each person who accepts payments, as well as individual log-ins into the computer for each person who processes payments and adjustments. Also consider installing cameras in the cash drawer area.
- d. *Cash Disbursements/Expenses/Payables*
 - i. We recommend the City clarify the division of responsibilities for new vendor setup and subsequent changes to vendor information. As it stands now, there are some of these responsibilities being performed by the outsourced payment processor, ACOM, and others being performed by City Accounts Payable staff. For those responsibilities performed by ACOM, the City should request a copy of ACOM's Service Organization Controls (SOC) report. If ACOM does not have a SOC report, then the City will need to seek assurances that ACOM is performing its responsibilities as intended in a different manner. For the responsibilities performed by City staff, we recommend obtaining a system change or audit log of changes made to vendor information on a quarterly basis. This system change or audit log should then be reviewed by someone independent of the vendor setup process.
 - ii. We recommend the City continue its efforts to limit the number of locally printed checks. For those checks that are printed locally, we recommend the City appoint a Finance Department staff member, one independent of the check preparation process, to review, obtain and document the appropriate reasons for the locally printed check.
- e. *Payroll* – The following items are recommended to strengthen internal controls related to payroll:
 - i. Consider having a sample of job classifications reviewed by department supervisors to ensure that the actual job duties are in agreement with the current job descriptions. The City should attempt to give more weight to the positions that have not been reviewed due to changes in employees or recent job postings.
 - ii. Consider contacting the City's software provider to inquire whether an

exception report can be run before finalizing a payroll. This exception report would include items like:

1. Employees added to the current payroll who were not on the previous payroll
2. Employees removed from the current payroll who were on the previous payroll
3. Changes to employee pay rates
4. Changes to bank routing information
5. Multiple employees who have the same address or bank routing numbers

Additionally, this exception report should be reviewed by someone independent of the payroll processing and employee setup functions. Ideally, that person would be a member of the Finance Department.

- iii. Consider performing a payroll audit for employees who still receive physical checks. This type of audit would periodically require each employee that still receives a physical check to personally pick up their check from someone independent of the payroll processing, employee setup, and hiring functions. Ideally, that person would be a member of the Finance Department.
 - iv. Consider additional training for new supervisors to cover various topics such as overtime provisions of FLSA.
 - v. Consider *requiring* all employees to have their payroll check automatically deposited into their personal bank account to eliminate completely the need for any physical paychecks for employees.
- f. *Grants* –
- i. Capital assets purchased with grant funds – We recommend the City consider adding information to its “New Fixed Assets Form” to identify if a grant was used to purchase the asset. Also, in the comments section, include the percentage of grant funds used to purchase the asset. Additionally, on the City’s “Surplus or Obsolete Items Form”, consider adding a line to note if disposition procedures have been received from the awarding agency for those assets purchased with grant funds.
- g. *Fraud Notification (Whistleblowing)* – We recommend the City establish a hot line (or other practical mechanism) to allow for confidential and anonymous reporting of possible fraud or abuse and questionable accounting or auditing practices to an appropriate responsible party.
- h. *Written Policies* – We recommend the City prepare formal written policies and procedures for all Finance Department activities. These activities could include (but not be limited to) long-term debt management, budgeting, payroll processing, revenues/receivables, cash handling, and grants. Written policies were provided for purchasing, reserves, swimming pool cash handling, capital assets, purchasing card, and investments. These were reviewed and determined to be adequate.

- i. *Reconciliations* - We recommend a required secondary review and sign-off by an upper-level Finance Department staff person of all reconciliations, whether they are bank reconciliations, receivables reconciliations, or other reconciliations.
- j. *Outsourced Services (Golf Course)* – We recommend the City obtain a copy of Greenway Golf Associates, Inc.'s (GGA) Service Organization Controls (SOC) report. If GGA does not have a SOC report, then the City will need to seek assurances that GGA is performing its responsibilities as intended in a different manner.
- k. *Information Technology* – We recommend:
 - i. The City consider requiring the IT department to approve all computer equipment prior to purchase to ensure the specifications are appropriate and is either supportable by the IT department or the third party support is adequate.
 - ii. While an electronic stamp report is available to track access or attempted access by individuals to the server room, it is only reviewed as needed. Consider reviewing this report on a more routine basis.
 - iii. Consider performing occasional tests of backups to ensure they are operational.
- l. *Auditing*
 - i. Audit Committee – We recommend the City formally establish an audit committee consisting of at least one Council member and other external individuals with finance-related backgrounds. For more information on audit committees and their function, please see <http://www.gfoa.org/audit-committees>
 - ii. Internal Audit Function – We recommend the City implement an internal audit function to monitor the design and proper functioning of the City's written policies and procedures and internal control system. For more information on implementing an internal audit function, please see <http://www.gfoa.org/internal-audit-function>.

FINANCIAL REPORTING

- 1. *Comprehensive Annual Financial Report (CAFR)* – We recommend the City begin preparing a CAFR which includes additional information helpful for lenders and other users. This additional information contains 10-year statistical tables of not only financial information but some non-financial data as well.

2. *Timeliness* – We recommend the City have their fiscal year-end financial audit report completed no later than December 31st. For financial information to be most useful, it should be timely. This will also allow the City to participate in GFOA's CAFR award program if they so desire.
3. *Staff Training* – We recommend the City provide specific, targeted additional training in governmental accounting and financial reporting to their accounting staff. This will help to achieve the first two financial reporting items listed above.

BUDGETING AND FINANCIAL PLANNING

1. *Fund Balance Required Reserve* - We recommend the City continue efforts to maintain their desired fund balance reserve as listed in Resolutions 421 and 422. In our opinion, the targeted reserve levels are the minimum a City should have. It is more desirable to have a reserve closer to 30% of operating revenues. We understand the City's bond rating was recently downgraded to Aa- by bond rating agencies due to the lack of adequate reserves.
2. *Budget Preparation Process* – Our recommendations regarding the budget preparation process are as follows:
 - a. Consider providing or enhancing budget process training for new department heads and supervisors.
 - b. We agree with current City efforts to obtain budget preparation software to streamline the preparation of the actual budget document. To further streamline the processing time and to allow for more accuracy, we recommend the budget document only contain expenditures by object category and revenues by source. With the current inclusion of *every* expenditure and revenue line item, errors are more likely to occur and makes the document excessively lengthy. Budgets can still be entered into the computer system at the detail line item level. We believe it is desirable to do that, but only *within* the computer system.
 - c. When deciding on which new accounting software to purchase, the City should consider the software's capability to produce budget worksheets for the budget preparation process. The accounting software would ideally have the capability to 1) produce budget worksheets with prior years' actual information for one or more years, 2) estimate actual amounts to the end of the fiscal year, 3) input department head requests, and 4) input final budgeted amounts which can then be automatically downloaded to the subsequent fiscal year.
3. *Budget Monitoring* – Our recommendations regarding budget monitoring are as follows:
 - a. Consider monitoring the budget at the legal level of control to reduce the time required to review and process line item budget transfers. This would only require budget transfers if the department as a whole was projected to exceed budgetary estimates.
 - b. Consider allowing department heads view-only access to their department expenditures and the ability to run departmental budgetary comparison reports from

the accounting software. Additionally, some departments will also have a need to view revenues in some funds to evaluate how much funding is available for certain restricted purposes.

FINANCE DEPARTMENT MANAGEMENT

1. *Grants Coordinator* - We recommend the City consider having one staff person in the Finance Department coordinate and track all City grants. Duties would include keeping files for each grant that contains the following information:
 - a. A worksheet tracking grant award, CFDA number, grant receipts, grant disbursements, grant budget, any matching funds, and balance of grant cash on hand and remaining funds to be drawn.
 - b. The grant contract,
 - c. Bidding documents, if applicable
 - d. Requests for reimbursement with supporting invoices and other documentation
 - e. Copies of grant receipts or automatic deposits
 - f. Closeout documents
 - g. Any required financial reports to granting agencies
2. *Payroll Staff* - We recommend the City consider moving the payroll processing function from the Human Resources department to the Finance Department.
3. *Accounts Payable (AP) Succession Planning* – We recommend the City accelerate its efforts to train other staff to perform the accounts payable function. This will allow for a smoother transition from current AP staff if turnover was to occur due to anticipated retirements.



We would like to express our appreciation for all the courtesy and assistance we received from management and staff during our work at the City and hope that this report will be of benefit.

Crawford & Associates, P.C.

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