



A & P
Audit Report

EXECUTIVE SUMMARY

BACKGROUND

The Fort Smith Advertising and Promotion (A&P) Department Director retired in mid-2020 and the employee named as the Interim Director retired in October 2020. During the Interim period the A&P Commissioners requested that the City Board of Directors allow the City Internal Audit Department to do an audit of A&P financial procedures and related internal controls before the new Department Director started in January 2021.

Audit findings identified in prior City audits that covered certain matters that involved A&P financial information included the following: A&P credit card statements with hotel charges that did not appear appropriate because the stay encompassed several days before/after the conference attended, travel agent charges, and airfare charge that did not appear appropriate due to not having proper support to show early/extra days outside of the conference. Conference information was not attached as support for charges and some charges did not have proper support due to the receipt not being itemized. Additionally, some charges did not appear appropriate because a personal food purchase was made as well as per diem received, there were charges for food and drinks where the names of those present were not provided, some charges had no receipt or support, and some charges that did not appear appropriate because fuel was purchased for a personal vehicle.

During Internal Audit's walkthrough of the process for invoices, payments, Great Plains accounting system, and interviews with employees in connection with the current audit, it was noted that donations are received from visitors including some tour groups. In the process of reviewing procedures and controls with respect to these donations, significant deficiencies in internal controls were identified. These deficiencies are described below along with recommendations for improvements in related internal controls

This report also describes other areas where A&P can improve procedures and controls.

AUDIT SCOPE AND OBJECTIVES

The scope considered activities and transactions related to invoices, payments, the Great Plains accounting system used by A&P, use of the City's general ledger accounting system by A&P, and cash donations from third parties. The audit objective was as follows:

1. To determine if controls and procedures related to accounting for receipts and disbursements, cash donations, and the usage of Great Plains software control processes are designed and operating effectively.

PROCEDURES PERFORMED

To obtain sufficient evidence to achieve the audit objective and support our conclusions, the following procedures were performed: **Planning**

- Conducted interviews and process walkthroughs with key individuals performing key control activities;
- Identified key risks and evaluated design of control; and
- Refined work plan based on risks, standards, and process, and developed test plans.

Fieldwork

IA performed the following procedures:

- Identified the deposits in the A&P cash ledger and traced the deposits to the City Trial Balance or the A&P bank account monthly bank statements not on the City books.
- Performed a walkthrough of the Great Plains software accounting system with the Administrative Coordinator.
- Performed a review of invoices submitted for payment from Miss Laura's store, Kristen Cothorn, Housecleaner, Debra Cossey, Housecleaner, and Bill Lawn Mowing Service in the City Munis Financial system.
- Performed a review of the cash ledger maintained by the A&P.

Reporting

- Prepared a draft report to include testing results and recommendations, and
- Discussed draft findings with management.

AUDIT METHODOLOGY

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and in conformance with the International Standards for the Practice of Internal Auditing as promulgated by the Institute of Internal Auditors. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of our work did not constitute an evaluation of the overall internal control structure of the A&P Department. A&P management is responsible for establishing and maintaining a system of internal controls to ensure that assets are safeguarded; financial activity is accurately reported and reliable; and management and employees are in compliance with laws, regulations, and policies and procedures. The objectives are to provide management with reasonable, but not absolute assurance that the controls are in place and effective.

CONCLUSIONS AND SIGNIFICANT ISSUES

We believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards.

Based on the results of the audit procedures performed, the control design is not effective. Specific issues are described below.

- A separate bank account was maintained outside of the A&P bank account recorded on the City's general ledger and the City was not aware of the account. Information provided to IA regarding the separate bank account was that the Director of A&P and the A&P Tours and Travel Sales Director had access to the account. (See [Exhibit A-1](#)).
- According to the cash ledger for this account maintained by an A&P employee, cash maintained on hand by A&P ranged between \$60 and \$1536 until October 2020 when the funds were deposited into the City A&P bank account. These funds were not reflected on the City's general ledger prior to the deposit. (See [Exhibit B-1](#)).
- It appears based on the cash ledger for this account maintained by A&P that cash donation money kept on hand was used for certain monthly expenditures. The total expenditure amount recorded in the cash ledger from January 1, 2017 through Oct 2020 was \$8,225.51. (See [Exhibit B-2](#)).
- Multiple payments from the cash on hand were recorded related to lawn service. Handwritten receipts with signatures that were unreadable relating to lawn service were maintained to document the cash payments. IA contacted Bills Lawn Service and the person was not very forthcoming with information. IA could not determine if the cash was actually paid to the Lawn Service because it was paid from the cash on hand and not from the City A&P bank account. There is no evidence that a required IRS Form 1099 was prepared or filed related to the lawn service. The total amount paid from 2017 through 2020 to the Lawn Service was \$4,420. (See [Exhibit C-1](#)).
- It appears based on the cash ledger maintained by A&P that cash donation money received from January 1, 2017 through Oct 2020 was \$22,658.62, however the proper controls were not in place to validate that all cash received from donations were properly accounted for or deposited. Specifically, some donations in the form of cash were deposited by visitors in a donation box located in the front foyer of Miss Laura's. Funds were removed from the box by a single employee not in the presence of a second employee. As a result, there was no control or accountability

over donated funds. The proper procedure would be for the donation box to be secured during non-business hours and that funds be removed and counted by two employees who would both count the funds, record the count on a count sheet which would be signed by both and maintained for comparison with deposit amounts. Without such a control process, it is impossible to determine whether all cash donations were deposited in a bank account or maintained as cash by A&P. (See Exhibit D-1).

- Receipts attached for expenditures from the cash donation money on hand were not all local area receipts (some receipts were from Tulsa, Mount Ida, etc...), there were no approvals for the purchases so that it could be validated that the purchases were for A&P. For example, some supply purchases were included but were not signed for by any employee or the purchaser of the items. (See Exhibit E-1).
- Cash and check donations were not deposited timely. In some cases, checks were held over 6 months before being deposited. (See Exhibit E-2).
- No support was attached with the Miss Laura's Gift Store invoices submitted to A&P to validate that items were purchased for the Gift Baskets that are used by A&P for promotional purposes. An invoice was submitted by the A&P employee overseeing the gift store for reimbursement that was paid out of the A&P account. There was no receipt signed by a separate A&P employee that the Gift Baskets were received and used for A&P purposes. The total invoice amount submitted from January 1, 2017 through October 23, 2020 was \$1255.50. (See Exhibit F-1).
- The A&P employee (who retired in October) overseeing the Miss Laura's Gift Store, did not report on the Conflict of Interest forms completed that the Gift Store was owned by a family member of the employee. (See Exhibit F-2).
- It appears one A&P bank account was closed in January 2019, however the money was not deposited into the City's A&P account at that time, instead it appears the money was logged in the cash ledger and maintained on hand. The remaining amount of cash left was later deposited into the City's A&P bank account when the employee retired in Oct 2020. (See Exhibit B-3).
- A tour company wrote a check to Miss Laura's Visitors Center that should have been written to the step-on guide. Step-on guides are individuals from 64.6 or A&P employees who will guide the tour bus throughout the City of Fort Smith with historical information. A note written by an A&P employee stated the money was intended for the step-on guide. Money was removed from the cash on hand to pay the step-on guide and the check was deposited into the City A&P bank account. However, IA noted on the receipt that it was signed by the A&P employee and not the step-on guide. Therefore, IA cannot validate that the step-on guide received the funds. (See Exhibit G-1).
- Checks deposited into the City A&P bank account did not contain documentation to identify the purpose. Check/donations could have a specific purpose or restriction and not identifying the purpose could violate the intention of the donation. (See Exhibit H-1).

- The A&P Administrative Coordinator received a total of \$200 in 2017 for housekeeping services that were documented in the cash ledger, attached were handwritten signed receipts. The employee did not notate on the Conflict of Interest form the housekeeping services for Miss Laura's. There is no evidence that this amount was included in the employee's W-2 for 2017. (See Exhibit K-1).

Upon review of the Great Plains system, it was noted that information entered was the same information entered into the City's general ledger ERP system. Therefore, it appears that the Admin Coordinator is duplicating work. While IA did not attempt to determine if there was an appropriate purpose for the duplication, the A&P commission should consider this question. IA did note that the reports used by A&P for financial reporting to the A&P Commissioners can be retrieved from the City's ERP system and appears to be the same type of report that the Finance Department sends to A&P for their meetings. (See Exhibit I-1).

During interviews with A&P employees regarding certain functions, it was brought to IA's attention that an employee would conduct private tours of Miss Laura's building and then charge a separate fee to the touring group. IA could not separately determine whether these payments were deposited in the A&P account. Tours of Miss Laura's are free and open to the public during the week and weekends. IA reached out to some of the tour companies and a few of the tour companies refused to provide the relevant information however, several tour companies did provide the invoices, contract and check copies. The contracts provided stated that payment should be made out to the employee and one of the Tour Companies provided the related check information to IA. (See Exhibit G-2).

It was also noted that in the A&P brochures the employee promoted their personal business. Each of the brochures had Miss Laura's Players listed in the tour options. The employee submitted an invoice to the Tour Company and the invoice indicated the check was to be made to the employee personally. (See Exhibit J-1).

The A&P employee who also handled the Gift Shop was named interim Director. As stated above, she retired abruptly in October and was observed by other A&P staff as removing items from the Miss Laura's Gift Shop which she stated to be inventory owned by the shop owner, her son. IA noted a number of items no longer in Miss Laura's that appears to have been removed that did not relate to the Gift Shop. When IA questioned the former employee, the employee stated that it was their personal property. IA asked the employee if they could produce the receipts or documentation to support that claim. The employee stated no but could possibly get the dress maker to write one if necessary. (See Exhibit J-2).

RECOMMENDATIONS:

IA has the following recommendations:

All disbursements should be made out of the City A&P bank account in order to provide the appropriate level of controls and an audit trail. Payments for expenses should not be made out of on-hand cash other than Petty Cash, if petty cash is maintained on-hand.

Cash and checks received, including donation cash, should be deposited on a timely basis, no less often than weekly, and for large amounts, daily.

As stated above, controls over the cash donation box should be established that will ensure that all donations are accounted for and deposited and an audit trail is created.

All disbursements should be approved by a member of A&P management with access to underlying supporting documents (invoices, notation of receipt by A&P) and approval should be noted by initialing supporting documents or check requests.

As stated above, the A&P commission should consider its policies related to payments for tours and use of personal property inside A&P facilities.

All A&P policies relating to financial matters, control of assets and conflicts of interest should be stated in writing and approved by the A&P commission.

IA understands that the Great Plains accounting system is no longer supported by Great Plains and the A&P commission should consider if an additional accounting system outside of the City's accounting system is necessary. Any financial or operating system which is not regularly updated for security and other issues creates a higher than acceptable risk of being hacked or otherwise manipulated by outside parties.

Policy and procedures should be written for when A&P employees are performing the step-on tour guide duties. The policies and procedures should also address any payments/compensation, tips, time, etc...