



MEMORANDUM

City of Fort Smith

Internal Audit

TO: Carl Geffken, City Administrator
Andy Richards, Finance Director

FROM: Tracey Shockley

DATE: September 2020

SUBJECT: City Disbursement Remediation Audit

Background

The City of Fort Smith allows authorized employees to make purchases on behalf of the City, or incur charges on behalf of the City.

A review of 2018 disbursements show \$84,138,029 disbursed and during 2019, \$94,548,303 was disbursed.

There are two general processes by which disbursements are requested and processed:

- Purchase Order payments- disbursement of funds to pay for items acquired pursuant to a properly authorized and approved City Purchase Order.
- Request for Check – disbursement of funds to pay for items that did not require a PO

Objective and Scope

The purpose of this remediation audit was a follow-up from the prior disbursement audit which identified a number of control deficiencies. The remediation audit was to review the department's current controls over expenditures and verify that control improvements to processes and procedures were implemented which were consistent with management's responses to the original audit. The audit objective for both audits was to determine whether disbursements were made within the parameters of the City of Fort Smith policies and procedures and that disbursements had the proper documentation support attached, were properly approved, and were paid timely.

Effective management of resources requires that reliable information be maintained, proper support detailing the expense be attached, expenditures are City related, and that any items purchased that would be considered an asset were communicated and documented to the necessary departments for appropriate record-keeping purposes.

Conclusion

During disbursement remediation testing, the following exceptions were identified:

- Purchasing Manual has not been updated as recommended in the prior audit.
- Purchases were made before a Purchase Order was obtained.
- Proper approval was not obtained for check request.
- Proper levels of approval were not set up in the system appropriately.
- Invoices were not sent to Accounts Payable timely for payment.
- Proper support was not attached in the system to support the purchase.
- Support was not attached in the system.
- Prior Finance Director entered and approved checks/payments without attaching proper support.
- Invoices were not coded properly and/or to the proper department.
- Quotes or bid information was not attached for purchases over \$1000 in the system.
- Checks were not mailed directly to the vendor/customer, but returned back to the department.
- Technology purchases were not approved by the ITS Department.
- Disbursement payments included late fees.
- Education reimbursements did not have proper support attached. Proof of grades received, tuition paid, and the initial education and tuition reimbursement application form with approvals were not attached.
- Expense appropriateness was hard to determine because invoice and/or support was difficult to read.
- Explanation of expenses were not provided.

Internal Audit met with the Finance Director and the Purchasing Manager on September 11, 2020 to discuss the number of exceptions identified during the initial part of the remediation testing. Due to the number of exceptions, the Finance Director agreed that the Purchasing Manager, with the help of the Finance Director, will send to all City Departments policies, procedures, training materials, and the updated Purchasing Manual. This communication and retraining should provide the department employee with knowledge and awareness of the necessary requirements for making purchases on behalf of the City. Internal Audit and the Finance Departments do recognize that some departments did follow City policies and procedures for disbursements and will not be required to make any significant changes in procedures. Internal Audit will perform remediation testing in 8 months to allow for corrective measures to be implemented.

cc: Audit Advisory Committee
Board of Directors

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