CITY OF BURTON

BURTON CITY COUNCIL MEETING

OCTOBER 2, 2018

AGENDA

Council Chambers	Workshop	7:00 PM

4303 S. CENTER ROAD
BURTON, MI 48519

A. CALL TO ORDER

B. STAFF PRESENT

C. ADMINISTRATIVE REPORT

D. PRESENTATION

1. Specialized Internal Control Review

E. COUNCIL DISCUSSION

1. Plante Moran will present the results of its Specialized Internal Control Review

Burton City Council
4303 S. Center Road
Burton, MI 48519

DRAFT

Meeting: 10/02/18 07:00 PM
Department: Clerk's Office
Category: Discussion
Prepared By: Bette Bigsby
Department Head: Bette Bigsby

INFORMATION ITEM (ID # 4113)

DOC ID: 4113

Specialized Internal Control Review

ATTACHMENTS:

- internal control review (PDF)

This presentation does NOT supersede our written deliverable. It is for visual assistance while we discuss additions to our draft report.

City of Burton:

Specialized Internal Control Review

performed by Plante Moran

October 2, 2018

The Purpose of Our Engagement

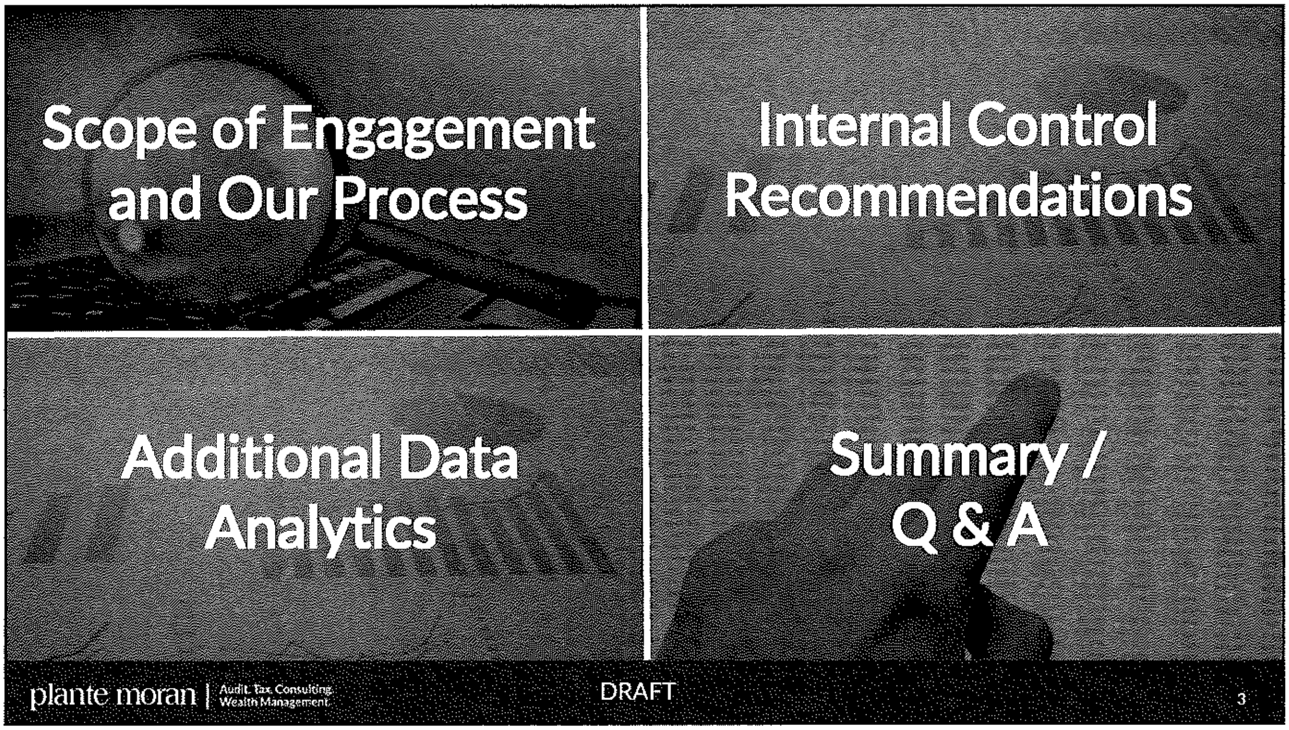
The purpose of our engagement was to help the City, by identifying areas for improvement and, if applicable, identifying transactions they should research further.

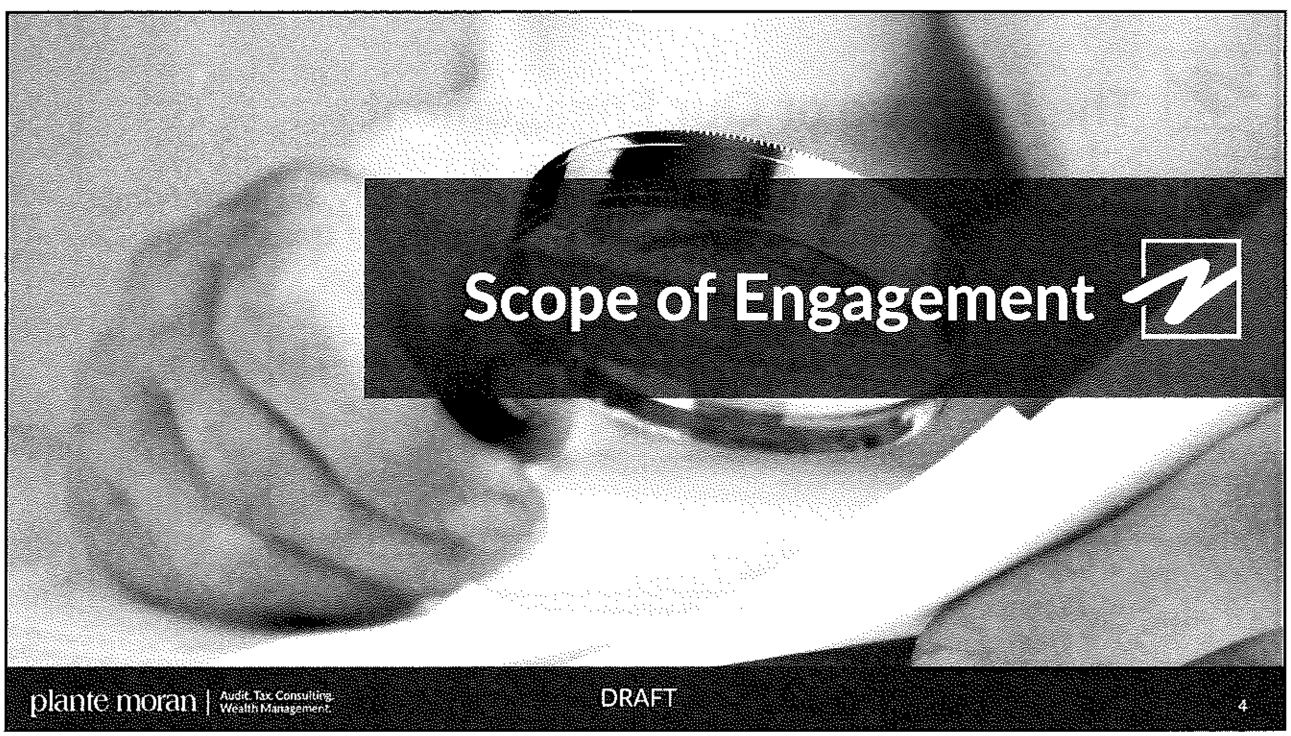
We will provide a specialized internal control review for the City. Our consulting services will include an assessment of the processes and transactions for fiscal years 2014, 2015 and 2016 in the following three areas:

- Department of Public Works
- Motor Pool
- Credit Cards/Expense Reports

More specifically, we will:

1) Review applicable policies and procedures.
2) Conduct interviews with key City employees to better understand the City's processes.
3) Obtain an electronic data export of the transactions within these three areas.
4) Perform data analytics.
5) Judgmentally select transactions and trace to supporting documentation.
6) Confirm the existence of assets purchased during the scope period.



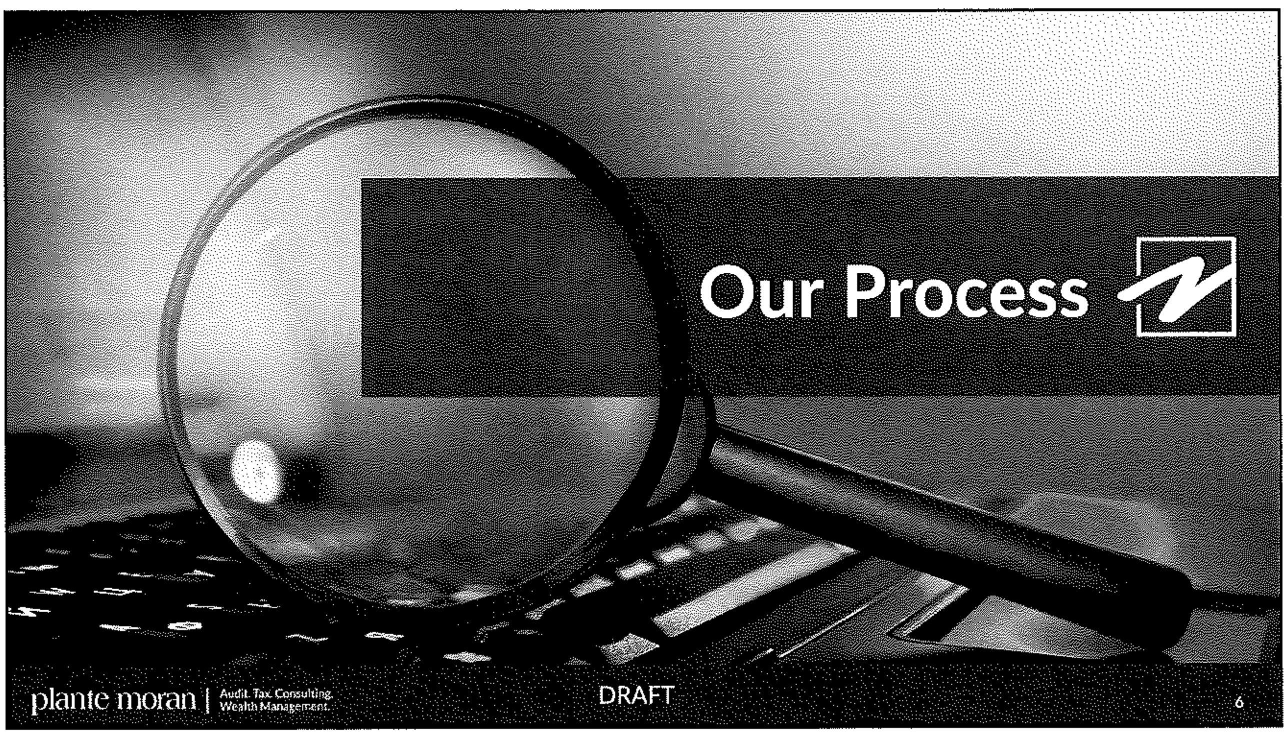


Attachment: internal control review (4113 : Specialized Internal Control Review)

Scope of Engagement

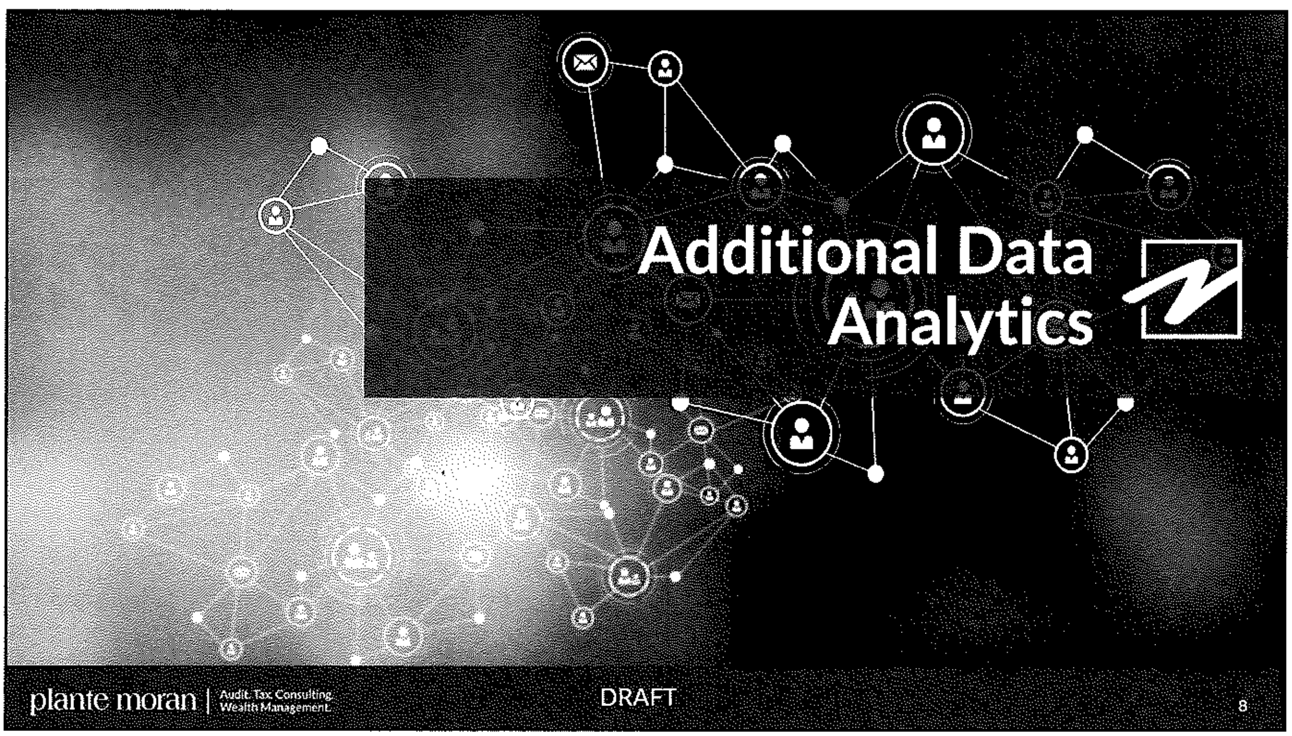
Limited to a very specific scope (as reinforced by City)

- Fiscal years 2014, 2015 and 2016
- Analysis of processes to identify internal control recommendations
  - NOT an internal audit or a forensic audit.
  - Select transactions on a sample basis to confirm/analyze representations made to us.
- Departments/Processes
  - Expense reports and credit cards.
  - DPW with an increased emphasis on Motor Pool.



Our Process

1) Interviews
2) Data Testing
3) Detailed Testing
4) Draft Report
5) Meeting with Administration
6) Updated Report with Collaborative Response
7) Additional Data Analytics



Additional Data Analytics

Initial data issues:

- Vendor and employee data initially provided did not contain banking information or SSN/Tax-ID numbers.

Analytics on new data, to include comparisons of:

- New master files to previously provided master files
- Employee social security numbers to vendor tax-ID numbers
- Employee direct deposit information to vendor ACH information
- Multiple employees with the same bank account

Additional Data Analytics

New master files to old master files

- Some variances.
- Additional testing:
  - We came onsite to the City and observed the Finance Director re-download the report directly from the system.
  - We searched for the missing vendor codes directly in BS&A and confirmed they did not exist (versus vendors being deleted from the Excel file).
  - We obtained a download from BS&A summarizing all activity, by vendor code, for the past few years to ensure these missing vendor codes had not been recently utilized and/or paid.

Additional Data Analytics

Employee social security numbers to vendor Tax-ID numbers

- Only 347 of the 2,180 vendors in the file had a Tax-ID number listed:
  - Confirmed this was a data input issue, not a data manipulation issue.
- 27 matches
  - Probable these were/are set up to pay employee expense reimbursements; however, the City can verify this by reviewing any disbursements to these vendors/employees.

Additional Data Analytics

Employee direct deposit to vendor ACH information

- No vendors in the master file provided had ACH information included. The City provided the following response:

> "No vendors are paid via ACH except for Consumers Power and the City of Burton. These ACH's have been set up at the vendor so we do not have the vendor ach information in our system."

Additional Data Analytics

Employees with the same bank account

- Three instances identified
  - Instance one and two: employees share the same last name (i.e., potentially related)
    - Takeaway: City to confirm these employees exist and work at the City.
  - Third instance: we have already confirmed both individuals are employees and therefore no risk exists.

Recommendations and Responses

#	Process	Observations	Recommendations	Administration Response, in Collaboration with Plante Moran*

- These responses were captured during a live, in-person collaboration session between Plante Moran, City Administration and DPW Management.
- The responses are the Administration's position on each of Plante Moran's observations and recommendations.
- Please note that Plante Moran made minor changes to select observations and recommendations based on this collaborative session for clarity.

Internal Control Recommendations

#	Process	Observations	Recommendations	Administration Response, in Collaboration with Plante Moran*
1	DPW Inventory/Asset Storage	Select assets have not been stored in secure locations.	DPW assets, especially those with resale value, should be maintained in the locked "cribs". Logs should be kept, whereby individuals are required to "sign out" assets when removing them from the cribs. These logs should record when they received possession and when they returned the asset(s). Assets can be assigned "asset tags" to facilitate tracking. These can be stickers or, if possible pending costs, RFID tags.	**1. & 2.** As documented in the report, prior to this SICR, the DPW re-implemented the policy of using material/asset sign-out log books. All employees checking out assets must sign them out from the Supervisor or mechanic in the garage. Returned assets will be checked for defects when signing them back in. All tools are engraved with COB on them and logged. Cameras for the garage have been approved by the City Council with pending budget amendments which, once installed, should aid in reducing theft opportunities. DPW is in the process of changing the locks on the crib/office area, and limiting the number of keys and who has control of them. Changes in keys and locks will be forwarded to the IT Director who maintains the master list of the City.
2	DPW Inventory/Asset Storage	Asset logs, whereby individuals record when they take and return assets, are not maintained to record who currently has custody of the assets.	Further, a list of individuals who have a key to the crib(s) should be maintained and periodically reviewed for reasonableness. The number of individuals with keys should be kept to the minimal amount possible without hindering efficiency.	
3	DPW Inventory/Asset Storage	Inventory/Assets on hand are not regularly reviewed as the asset count only occurs once per year. Further, it's likely these counts have not been performed with complete accuracy and/or information/communication between the accounting department and DPW was not proper, as several assets disposed of within the past 10 years were not recorded as such until 2014. Analysis of the general ledger identified the City consistently has to "write-off" inventory, indicating either the current processes in place to monitor the inflows and outflows of inventory are not accurate or there is inventory shrinkage (i.e., lost, misappropriated, etc.).	DPW should review, on a monthly basis, at least a portion of their assets and compare those assets to the capital asset listings. For example, one month the DPW could review the one of the secured cribs, the following month the DPW could review lawn maintenance equipment, the following month they could review motor pool parts, etc. Once the master list is established, the use of logs will help streamline this review process to lessen it's burden on employees' time. Inventory should be recorded/monitored in real-time, with similar periodic reconciliations.	**3.** The DPW is in the process of identifying all assets, as well as obtaining an inventory count of materials on hand. Random, periodic checks of assets, will be performed by the Administration to ensure a tone of monitoring and enforcement is established and maintained in the department.

Attachment: internal control review (4113 : Specialized Internal Control Review)

Internal Control Recommendations

#	Process	Observations	Recommendations	Administration Response, in Collaboration with Plante Moran*
4	Capital Assets	We identified multiple assets listed on the City's capital asset list which were no longer owned by the City (i.e., they were disposed of but never removed from the listing).	The City needs to implement improvements to their disposal process, holding Department Heads accountable when disposed assets are not properly communicated to the accounting department. A more timely reporting requirement (i.e., immediately upon disposal versus once per year) should help this process with accuracy.	**4.** The City now has a process in place, whereby asset disposals are required to be communicated to the Controller's office on a timely basis. Additionally, towards the end of the year, departments were given a copy of their capital asset listings to review and verify no disposals are missed. While the year-end process occurred, the Administration acknowledges the process of timely communication regarding disposals has not been consistently followed or enforced. Going forward, the Administration will ensure this process is followed and consequences will be enforced for non-compliance. Additionally, DPW personnel were given additional training on the disposal policy in last September 2017. Supervisors were reinstructed to follow the chain of command for disposal notification and sign-off. All asset disposals will be documented with a photo, a disposition form and signed by the supervisor. Two copies will be kept; one in the disposing department and the second in the Controller's office for their master records.
5	Capital Assets	We identified multiple assets disposed of with no recorded salvage value, despite the asset likely having a salvageable value. Further research indicated the salvage values were incorrectly recorded as "discounts" (i.e., net) on the price of new assets.	Asset disposals should be recorded as incurred instead of once per year. A formal document indicating the asset, the disposal method, and the amount of salvage value recovered should also be on this form. Information should be cross referenced/verified by someone independent from the disposal process.	**5. and 6.** These findings occurred prior to the hiring of a Deputy Controller four years ago or because the Deputy Controller was cleaning up and compiling an updated listing of capital assets. The "late" recording was due to the data entry transition into the new capital asset system. Administration represents that capital assets are now added to the capital asset system in the year purchased. The disposal process will be consistently followed, monitored and enforced, as stated in #4.
6	Capital Assets	We identified multiple assets which were not added to the capital asset listings until subsequent fiscal year(s) after the year of acquisition.	It appears a majority, if not all, of the assets recorded "late" were late because of the City's transition to a new software system; however, we recommend that the City implements our other recommendations related to the capital assets processes and, in turn, increases their accuracy with reporting.	

plante moran | Audit. Tax. Consulting. Wealth Management.

DRAFT

Internal Control Recommendations

#	Process	Observations	Recommendations	Administration Response, in Collaboration with Plante Moran*
7	DPW (W&S) Purchasing	The Director of the DPW has full discretion regarding what items to purchase and what vendors to purchase those items from, as long as the purchase is less than $10,000. No review for reasonableness and/or vendor legitimacy is performed. It is our understanding this was also true for the previous mechanic, but possibly with a smaller dollar "threshold" for secondary approval.	The City should implement a periodic review process whereby, on a ***sample basis***, purchases of less than $10,000 are reviewed for reasonableness (e.g., identify ownership of the vendor for potential relationships and compare the market rate paid to the prices paid by the City). This recommendation may also apply to departments other than DPW/W&S.	**7.** The Purchase Order ("PO") System that was implemented prior to the SICR has increased the number of individuals reviewing purchases. The Department Head or designee currently performs periodic reviews of transactions under $10,000. Further, the Mayor performs periodic reviews of transactions; however, the process has not been documented. Administration will ensure these reviews are documented going forward. In addition to periodically reviewing invoices, Administration reviews vendor prices by soliciting price reductions from long-term vendors and has been able to negotiate lower rates with some of the City's largest vendors.
8	DPW (W&S) Purchasing	Many times, the same individual who orders goods at the DPW is also the person who physically receives the goods and completes the receiving report.	They City should implement a periodic review process whereby, on a sample basis, purchases of less than $10,000 are reviewed for reasonableness (e.g., identify ownership of the vendor for potential relationships and compare the market rate to the prices items were procured at). This recommendation may also apply to departments other than DPW/W&S.	**8.** Limited resources (i.e., quantity of personnel) do not allow to have enough individuals staffed in the yard to ensure this control deficiency is always corrected. However, as noted in #7, the Administration periodically performs detective controls on purchases, which reduces/mitigates this risk.

plante moran | Audit. Tax. Consulting. Wealth Management.

DRAFT

Internal Control Recommendations

#	Process	Observations	Recommendations	Administration Response, in Collaboration with Plante Moran*
9	DPW Cash Receipting	It is our understanding that, historically, no cameras monitor the cash register at the DPW counter. Additionally, it is our understanding that, at some point in the past two years, monies were taken from the register.	The City should install cameras to monitor the cash register at the DPW counter.	9. Administration agrees this would be an effective fraud risk measure and look to City Council to amend the budget for the funds to purchase cameras and approve bids.
10	DPW Cash Receipting	It is our understanding that, historically, DPW cash register information was "printed" and physically provided to the Treasurer's Office with the cash purported as collected for the day. However, the information printed/provided was merely the "daily totals", and did not include the transaction level activity.	The City should ensure someone independent from the cash collection/deposit process reviews register transactions for unusual/excessive voids/reversals/etc. Anomalies should be further researched.	10. A process was in place, whereby cash register information was printed (Journal Posting Reports) containing detailed deposit information. This report was forwarded to the Treasurer's and/or Controller's office, along with the deposit slips. The Deputy Controller reviewed the report, tied the total cash amount to the deposit slips and then initialed the report. While no "formal" review of voids/returns/refunds occurred, it is likely that a pattern of problematic activity would have been identified during this review process. Administration acknowledges there was a short period of time recently whereby this review didn't occur due to vacancies and transition of positions in the Treasurer's and Controller's offices; however, this review process has been reinstated, with the addition of specifically looking at void activity.

Internal Control Recommendations

#	Process	Observations	Recommendations	Administration Response, in Collaboration with Plante Moran*
11	DPW Billing	Billing work orders ("Job Work Orders") are completed by one individual in the DPW Department. They alone, determine the amounts billed and minimal to no review of their work/bills is performed. Although information regarding work performed is recorded in employee time sheets, no reconciliation is performed between the employee's documentation and the work orders competed by the DPW Billing Clerk.	Work orders, which generate the invoices billed to citizens, should be reviewed by a Manager after being prepared by the DPW Clerk. The amounts charged should be reconciled to employee timesheets and logs of equipment used. Discrepancies should be further researched. This should be performed periodically on a sample basis, at a minimum.	11. After Plante Moran informed the City of this risk, Administration implemented a new process in November whereby a DPW supervisor or Department Head now signs off on all work orders generated in the DPW before they are sent to Treasury.
12	Salt	Historically, salt sold to Atherton Schools was "monitored" by the mechanic who, when Atherton would pick up the sale, made "checkmarks" on a piece paper hung on the wall. This manual process was not reviewed/monitored by anyone else. It is our understanding that, at times, the mechanic either lost the paperwork and/or once the mechanic left the City, nobody knew this process was supposed to happen. This resulted in the City under billing Atherton Schools for salt.	They City should implement a process whereby more than one individual is aware of and/or approving salt pickups. Ideally, the recording of this activity should be done electronically to reduce the City's exposure to losing documentation and subsequently losing funds. This recommendation also applies for salt used by the City for City purposes, as it's our understanding that process is also performed via manual paperwork susceptible to loss.	12. The Administration acknowledges there were positions in the DPW which did not have all of their key job functions formally documented, and the position responsible for salt billing was one of those. Further, the Administration acknowledges that during times when vacancies occur, better procedures are needed to ensure that duties of vacated positions are covered, such as the salt billing mishap. The Administration will work to review key responsibilities for the DPW positions, ensure this documentation is created and followed, and training staff regarding policies and procedures so that this gap in processes does not reoccur.

Internal Control Recommendations

#	Process	Observations	Recommendations	Administration Response, In Collaboration with Plante Moran*
13	Fuel	No review of fuel activity is performed. The use of pumps only requires a pin code, which is provided to multiple employees, including temporary summer employees.	The City should regularly perform data analytics on their fuel activity. Analytics on fuel activity can identify anomalies regarding gallons used per individual, gallons used per vehicle, the time of day individuals are using the pumps, etc. The minimal analytics we performed on historical activity identified several anomalies. Not only can analytics identify potential fraud, but they can also identify issues with the vehicles as they could indicate if a certain vehicle is getting poor miles per gallon from what would be anticipated, potentially from a mechanical defect.	**13.** Historically, the individual working as the City Maintenance person would periodically review gas pump readouts to the Controller's office for proper charging to respective departments although this review was not documented. However, the job tasks for the City Maintenance position were not formally documented and this particular task was lost in the transition of personnel. Administration will reinstate this review activity and ensure the review is documented.
14	Fuel	There are no cameras monitoring the fuel pumps	The City should install cameras to monitor pump activity. The cameras would not need to be "constantly viewed", but would assist with investigating discrepancies should the City implement the recommendation to perform analytics on their fuel data. The installation of cameras, even if they don't work, can discourage individuals from committing problematic behavior as cameras provide a perception that the activity is being monitored/recorded.	**14.** The PIN code is no longer being "shared" among employees. Further, security cameras for the DPW pumps have been approved by Council pending budget amendments.

plante moran | Audit. Tax. Consulting. Wealth Management.

DRAFT

Internal Control Recommendations

#	Process	Observations	Recommendations	Administration Response, In Collaboration with Plante Moran*
15	Disbursements	There are multiple vendors sharing employee addresses.	We have provided a list of the matches to the City within our report. We recommend the City researches the funds paid to these vendors and verifies services were performed and amounts charged were reasonable. Additionally, new vendors should be properly "vetted" by the City, to include research of ownership and review for relationships/conflict of interest.	**15.** Administration acknowledges this recommendation is not stating, "there is a problem," it is merely recommending the City to research the matched addresses to confirm no problems exist. Each match explicitly referenced in the report has been researched by Administration and confirmed by Administration as not problematic. For example, the highest paid matching vendor, Efficient Demolition, was selected by the Council via a competitive, public, sealed bid process (i.e., not Administration's decision) to demolish multiple homes. Additionally, the City's process for new vendors includes reviews for conflicts of interest. The majority of the same vendor and employee address matches were due to family members serving as election workers, board members, commission members, etc.
16	Disbursements	While infrequent, we identified select credit card purchases which were not supported with receipts. We identified that, when this occurred, the Purchasing Director followed up with the applicable employees; however, responses were not always received. These purchases appeared to just be "let go" (i.e., there were no second and third follow-ups, no consequences for not responding, etc.).	We recommend that receipts and/or supporting documentation is required for all transactions. We recommend the City implements performance based consequences should an employee not respond to requests for additional documentation (e.g., removing their use of the credit card, repayment of funds, etc.).	**16.** Original receipts and/or supporting documents are required for all transactions. Several attempts are usually made to obtain receipts although it may not always be documented. Receipts or affidavits not turned into the Controller's Department/Purchasing Director could result in the suspension of that employee's credit card privileges.
17	Disbursements	Credit card spending is not "approved" by superiors. While purchases must be supported by receipts, procedures are not in place to ensure supervisors review/approve purchases for reasonable "business purposes".	Credit card activity should be reviewed by supervisors for reasonableness as supervisors would be more likely to identify problematic activity compared to someone in Administration who has limited knowledge of the purchases job duties', task's, etc.	**17.** Going forward, Department Heads will review credit card activity for their respective departmental employees and forward to the Purchasing Director. The Mayor will review activity on Department Heads' cards. Administration represented the Purchasing Director and the Controller review the activity on the Mayor's card.

plante moran | Audit. Tax. Consulting. Wealth Management.

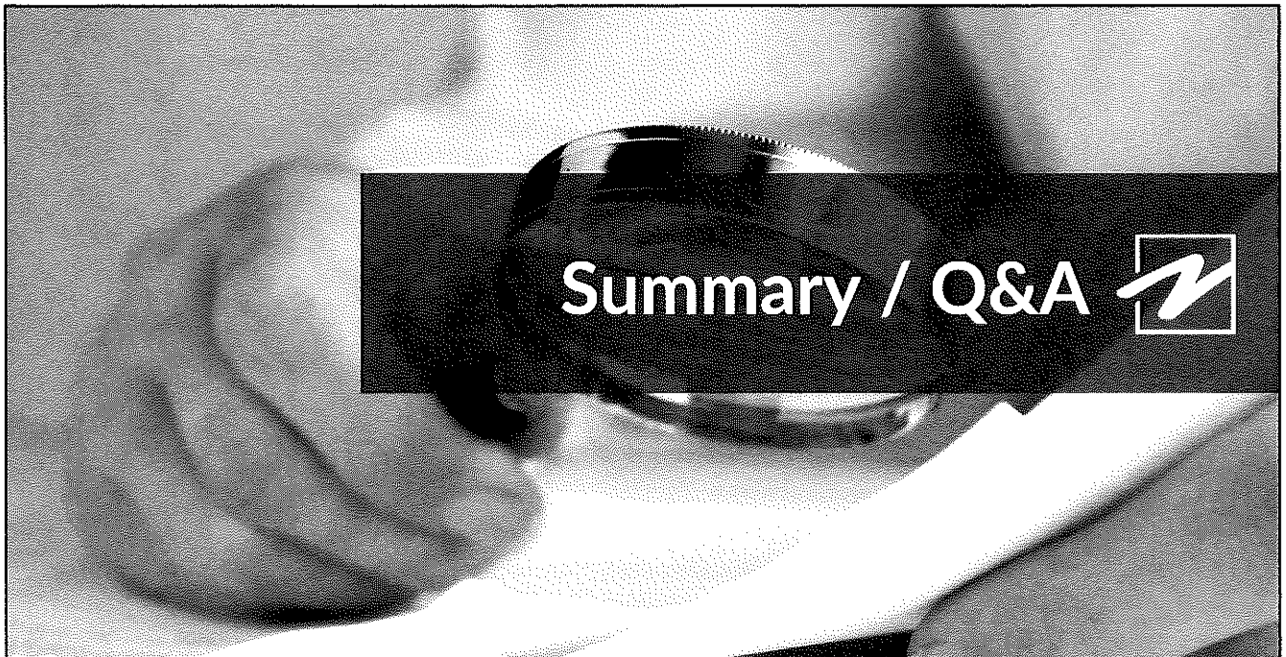
DRAFT

Internal Control Recommendations

#	Process	Observations	Recommendations	Administration Response, in Collaboration with Plante Moran*
18	Disbursements	When approving check registers, the approver does not review for numerical gaps (within the check register and/or from the previous check register) to ensure they're being provided information on <u>all disbursements.</u>	We recommend that the Finance Director reviews check registers for gaps in sequence and also monitors the sequence/gaps in check numbers from the previous register provided to them.	**18.** The Controller has since implemented this process into their check review after they were informed of the recommendation by Plante Moran in November.
19	Disbursements	The City utilizes a vendor in their system (Vendor ID #1) for payments to one-time vendors. While we understanding the efficiencies of this process (i.e., not having to create a new vendor profile for one-time vendors), this process increases the City's risk of fraud/abuse by eliminating a portion of the paper trail related to vendor payments. The vendor contact information, address, phone, tax-id, etc. is not captured and is not "exportable" in a manner that can be easily analyzed by a third party (i.e., it is nearly impossible to perform data analytics on these payments). This vendor code was used over 1,100 times during our scope period.	The City should limit the use of this vendor code as much as possible (to zero use if possible).	**19.** Vendor ID #1 is mostly used for refunds to community members for tax overpayments, water/sewer refunds, refunds of deposits on cancelled senior center trips, hall rental refunds and performance bond refunds. It would not be efficient to create a vendor for each of these payment and, therefore, Vendor #1 is appropriate in these circumstances. Detail can be run on Vendor ID #1 and can also be exported into Excel. Administration will begin to monitor this activity by exporting this information (periodically and at year end) and reviewing payments for reasonableness. This ID was used infrequently for vendors who the City will only pay once. The usage of this ID for one-time-only vendors has ceased.
20	Expense Reimbursements	It is our understanding that expense reimbursements are minimal. However, the City has created an expense report template, but it is not utilized by all employees when submitting for reimbursement.	We recommend the City requires all employees to use the "expense report" template created. Expenses not using this form should be rejected until re-submitted using the proper form.	**20.** The Administration is not aware of individuals submitting expenses for reimbursement without using one of the two allowable forms. It is policy not to reimburse any expense without the proper documentation.

Internal Control Recommendations

#	Process	Observations	Recommendations	Administration Response, in Collaboration with Plante Moran*
21	Policies and Procedures	There has been significant turnover within the DPW over the past few years. It is our understanding that job responsibilities (i.e., what tasks should be performed), for select positions, are not documented.	The DPW should ensure all positions have their primary tasks, responsibilities, and duties formally documented. Additionally, this documentation should be reviewed in times of turnover to ensure all necessary functions for that role are performed timely.	**21.** The Administration acknowledges there are a couple positions in the DPW which do/did not have ***all of*** their job functions formally documented and will work to review DPW position responsibilities to ensure this documentation is created and followed. Further, the Administration acknowledges that, during times when vacancies occur, better procedures are needed to ensure that the duties of former employees are covered. Training of staff regarding policies and procedures will be incorporated.
22	Policies and Procedures	The credit card policy has not been updated since December 1996.	The City should review this policy and update it for relevance, if applicable.	**22. and 23.** Although not documented, the Administration reviewed these policies in 2013 and 2017. Policies, on average, are reviewed at least every four years; however, this review has not been documented. The Administrative Policy Committee does exist, as well as several sub-committees, and has been restructured to reflect the latest change in administrative personnel in 2018. The Committee meets to ensure that operational policies remain relevant. Going forward, the Administration will document this review even if no changes are made to the policies.
23	Policies and Procedures	It is our understand the City's travel policy has not been updated since 1998.	The City should review this policy and update it for relevance, if applicable.	
24	Policies and Procedures	It is our understanding that City has moved to a Purchase Order ("PO") system for purchases moving forward, beginning in FY 2017. However, it was represented during interviews that not all employees are following this new process.	We recommend the City monitors and enforces the established PO system to ensure individuals are not able to submit invoices for payment without using the PO system.	**24.** Administration will implement a formal and documented review process to ensure PO's are utilized in accordance with the policy. The exception is emergency situations whereby the City has a process to ensure these situations are adequately documented/supported. Further, additional training will be provided to ensure employees are aware of this policy.



Summary

A collaborative session resulted in a productive conclusion to each finding of the internal control assessment.

The City's Administration is striving to continue improvements to the internal control environment.

Additional data analytics revealed several items the City *can* research, should they decide to do so.

Burton City Council
4303 S. Center Road
Burton, MI 48519

SCHEDULED

Meeting: 10/02/18 07:00 PM
Department: Clerk's Office
Category: Presentation
Prepared By: Bette Bigsby
Department Head: Bette Bigsby

INFORMATION ITEM (ID # 4049)

DOC ID: 4049

Plante Moran will present the results of its Specialized Internal Control Review