AGENDA

COMMITTEE ON ACCOUNTS, ENROLLMENT AND REVENUE ADMINISTRATION

March 16, 2009 | **6:30 PM**
Aldermen Sullivan, Lopez, | **Aldermanic Chambers**
DeVries, M. Roy, Ouellette | **City Hall (3rd Floor)**

1. Chairman Sullivan calls the meeting to order.

2. The Clerk calls the roll.

3. Department travel/conference summary reports submitted as follows:

   - Frederick McNeill, (EPD) NEWEA Annual Conference, Boston, MA, January 25, 2009 to January 28, 2009.
   - Mark Brewer and Tom Malafronte, (Airport) Southwest Airlines, Dallas, TX, February 17, 2009 to February 18, 2009.
   - Mark Brewer and Tom Malafronte, (Airport) Delta Airlines, Atlanta, GA, March 3, 2009 to March 4, 2009.

   Ladies and Gentlemen, what is your pleasure?

TABLED ITEMS

A motion is in order to remove any item from the table.

4. Communication from Kevin Buckley, Independent City Auditor, submitting an update of the current status of unresolved observations from prior audits.
   (Tabled 2/17/09. Auditee response submitted by the City Clerk.)

5. Update on the status of Policy and Procedure manuals for each department.
   (Tabled 1/06/09)

6. Communication from Kevin Buckley, Independent City Auditor, submitting the P-Card Program Performance Audit.
(Tabled 11/25/08)

7. Communication from Kevin Buckley, Independent City Auditor, submitting an audit of the Office of the City Clerk, Business License and Enforcement Division.
(Tabled 10/21/08)

8. Communication from Kevin Buckley, Independent City Auditor, submitting an audit of the VISTA program and updating the committee on the status of pending and future audits.
(Note: Tabled 2/4/08 Copies of the audit and supporting documentation previously sent to the BMA and Committee members; Remained tabled 3/4/08; Updated communication between Kevin Buckley, Internal Auditor, and Janice Lopilato, State Program Specialist of the Corporation for National & Community Services attach; Tabled 3/11/08; Internal Auditor to present the attached Business Expense Policy as amended.)

9. Communication from Kevin Buckley, Independent City Auditor, listing audit observations and recommendations from all internal audits since FY2000.
(Tabled 3/11/08; Retabled 7/07/08. Auditee response submitted by the City Clerk.)

10. Copy of a communication from Alderman Lopez to Committee on Community Improvement requesting the BMA to ask the Finance Officer, City Solicitor and Bond Counsel (if needed) to review the possibility of using Rooms and Meals Tax money in the future for Storm Water Utility/Sidewalks/Streets.
(Tabled 09/25/2007 pending further information from the Finance Department. Retabled 7/07/08.)

11. There being no further business, a motion is in order to adjourn.

Kevin A. Sheppard, P.E.
Public Works Director

Frederick J. McNeill, P.E.
Chief Engineer

Commissioners
William A. Varkas
Joan Flurey
William F. Houghton, Jr.
Robert R. Rivard
Henry Bourgeois

CITY OF MANCHESTER

Highway Department
Environmental Protection Division

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February 11, 2009
EPD No. 09-021

Alderman Peter Sullivan, Chairman
Committee on Accounts, Enrollment & Revenue Administration
C/O Matthew Normand, Acting City Clerk
One City Hall Plaza
Manchester, New Hampshire 03101

Subject: **NEWEA Annual Conference**
Trip Report

Dear Alderman Sullivan,

I recently attended the New England Water Environment Annual Conference in Boston, MA from January 25th to January 28, 2009. This annual conference of environmental professionals focused on current issues, technologies, legislation, best practices, and lessons learned in the wastewater, stormwater, and drinking water industry. This conference provides the perfect opportunity to learn about current industry issues, obtain continuing education credits (a professional requirement), and to network with regulators, peers, vendors, and consultants. This networking is especially important for the City of Manchester as communities jockey for position for the anticipated Economic Stimulus Package being negotiated in Washington, DC.

A sample of topics covered at the conference included:

- WWTP operations
- CSO wet weather planning
- Wastewater treatment technologies
- Collection system technologies
- Utility management
- Energy use
- Sustainable infrastructure
- Asset management and initiatives for the future
- Utility financial planning and pricing trends

In addition to attending several technical sessions at the conference, I also presented a technical paper on one of our ongoing projects for the City of Manchester. The presentation was well received and reinforced the City of Manchester's position as a leader in environmental management in Northern New England. Lastly, I also attended two professional committee meetings that I am involved with.

In closing, I wish to thank the City of Manchester for this educational and networking opportunity. If you have any questions regarding the conference, or require any additional information, please feel free to contact me at your convenience.

Very truly,

Frederick J. McNeill

Frederick J. McNeill, P.E.
Chief Engineer

FJM/djv

Attachments

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Manchester·Boston
REGIONAL AIRPORT

City of Manchester Department of Aviation
Manchester · Boston Regional Airport

Travel/Conference Summary Form

Name: Mark Brewer & Tom Malafronte
Purpose of Travel: Visit to Southwest Airlines
Conference Dates : 2/17/09 – 2/18/09
Location: Dallas, TX

Summary of meeting or conference agenda

The purpose of the trip was to meet with Southwest Airlines and their schedule planning team to discuss air service.

Information learned

Southwest business strategy for 2009 and implementation plans Boston/Logan and impact to Manchester-Boston Regional Airport.

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Manchester·Boston
REGIONAL AIRPORT

City of Manchester Department of Aviation
Manchester · Boston Regional Airport

Travel/Conference Summary Form

Name: Mark Brewer/Tom Malafronte
Purpose of Travel: Delta Airlines Visit
Conference Dates : March 3 – March 4, 2009
Location: Atlanta, Georgia

Summary of meeting or conference agenda

The purpose of the trip was to meet with Delta Airlines and their schedule planning team to discuss air service.

Information learned

Delta Airlines strategy for 2009.

A COPY OF THIS COMPLETED FORM WILL BE SUBMITTED TO THE CITY CLERK'S OFFICE FOR DISTRIBUTION TO BOARD OF MAYOR AND ALDERMEN

tabled 2/17/09

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CITY CLERK'S OFFICE

City of Manchester
Office of the Independent City Auditor

One City Hall Plaza, West Wing
Manchester, New Hampshire 03101
Phone: (603) 624-6523
Fax: (603) 624-6528

February 9, 2009

Committee on Accounts, Enrollment and Revenue Administration
C/o City Clerk
One City Hall Plaza
Manchester, NH 03101

Dear Committee Members,

Per your request attached is an update of the current status of unresolved observations from my prior audits. Testing was limited to inquiry of department personnel and where appropriate running reports from the HTE accounting system.

Of the 66 observations in my reports I believe that 59 (89%) are fully resolved and another 2 (3%) at least partially resolved leaving only 5 (8%) unresolved.

Sincerely,

Kevin Buckley

Audit Title Observation #	Resolved	Partially Resolved	Unresolved
General Fixed Asset Account Group			
Observation 1		X	
Observation 2	X		
Observation 3			X
Observation 4	X		
Community Improvement Program			
Observation 1	X		
Observation 2	X		
Observation 4	X		
Highway Department Consumable Inventory 6/30/02			
Observation 1			X
Building Permits – Assessment Cycle			
Observation 1	X		
Office of the Tax Collector			
Observation 2			X
Observation 3	X		
Tuition Reimbursement Program			
Observation 1	X		
Observation 4	X		
Observation 5	X		
Welfare Department			
Observation 4		X	
Observation 13	X		

Audit Title Observation #	**Resolved**	**Partially Resolved**	**Unresolved**
Office of the City Clerk			
Observation 2			X
Observation 6	X		
Fire Department Overtime			
Observation 1	X		
Observation 2	X		
Traffic Department			
Observation 1	X		
Observation 5	X		
Observation 8			X

GENERAL FIXED ASSET ACCOUNT GROUP
(EXCLUDES CONSTRUCTION WORK IN PROCESS)
JUNE 30, 2001

OBSERVATION 1: **LACK OF DOCUMENTATION AVAILABLE TO SUPPORT COSTS**

The third generally accepted standard of fieldwork, as promulgated by the AICPA, requires that "Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit". As part of the test work used to determine if the capital asset balance reported in the City's financial statements at June 30, 2001 was fairly stated, the following procedures were performed:

A sample of 120 items was selected for testing. The sample was selected by taking the ten largest dollar value items in each of the five asset classes and then randomly selecting the remainder of the items. To determine if the items existed, each item was physically identified. To determine if the reported cost was fairly stated the cost was traced back to the supporting documentation. Supporting documentation in this case means vendor invoice or contract remittance request. For some of the older buildings, land and improvements where early records were difficult to find old deeds, contracts and city reports were used.

Of the sample of 120 items the following observations were noted.

In the early 1990's the Finance Department undertook the massive project of obtaining historical costs for the City's fixed assets. Reporting fixed assets is required by Generally Accepted Accounting Principles. The Finance Department developed a manual for departmental use on the procedures for fixed asset identification and accounting. The manual did not address record retention. At the time the City was adhering to the State of NH record retention rules that required that records be maintained for seven years. Recently a capital assets manual has been posted to the shared drive for use by all departments however; most departments do not appear to be aware of its existence. The manual also does not emphasize the documentation that needs to be maintained at the department level and who is responsible for record keeping. Due to these problems the level of documentation maintained at each department varied from poor to excellent depending on the department and class of asset. When the City changed software from the LGFS accounting package to HTE in 1997 a cross-reference to the supporting documentation for cost was not available from the LGFS system. As a result for items entered prior to 1997 this field has been left blank in the HTE Continuing Property Records (CPR) module. Documentation for all items is possibly available in archives but due to poor cross-referencing to purchase orders of older assets in the CPR module this was not attempted. The test work revealed the following conditions, by class of asset.

Land, Buildings and Improvements

When the Finance Department undertook the fixed asset project to gather documentation to support the costs recorded for all land, buildings and improvements owned by the City this documentation was put into several three ring binders and placed into archives. Recent additions of these classes for schools and some City buildings are the responsibility of Public Building Services, which does an adequate job of compiling this information. It is not clear who is responsible for maintaining this information at other departments or the manner that it is to be kept. There also seems to be confusion on how long to hold on to this information.

Out of the sample of 20 land parcels selected for testing it was noted that 4 parcels lacked any documentation to support the amounts reported. The total dollar amount of the unsupported parcels was $1,619,734 or 25.3% of the sample.

Out of the sample of 20 buildings selected for testing it was noted that 2 buildings did not have adequate supporting documentation. The total dollar amount of the unsupported buildings was $38,308 or less than 1% of the sample.

Out of the sample of 20 improvements other than buildings selected for testing 3 lacked adequate supporting documentation. The total dollar amount of unsupported improvements was $202,476 or 5.3% of the sample.

Vehicles

Testing of general fund agencies' vehicles revealed that this class of assets had the widest range of documentation levels among departments. The Police Department maintenance garage maintained an excellent set of records for their vehicles. Each vehicle was assigned it own folder in a file cabinet that contained not only all costs associated with the purchase but also all related warranty and repair records. The Highway Department maintenance garage also had similar excellent records for vehicles purchased in the last eight years but limited records for vehicles older than that. All other departments that we tested did not maintain specific files on vehicles. IA did not test vehicles maintained by enterprise fund agencies. If the vehicle was less than five years old the supporting documentation was usually available in the vendor files but any records that are older than that are routinely sent to archives per the Finance Department record retention policy. Out of 30 vehicles tested 22 did not have adequate documentation available. The total dollar amount of vehicles with inadequate documentation available was $4,071,751 or 92.8% of the sample.

Equipment

The City does not have a specific requirement for departments to retain documentation on capital assets for any period of time. Departments generally follow the State of NH record retention policy for all documentation and only retain records for seven years. No department that was tested retained files specific to their capital assets. The only

department that maintained files in a manner sufficient to easily retrieve cost documentation for their equipment was the Police Department. All other departments retained cost documentation by vendor in the accounts payable files. Out of 30 equipment items tested 5 items had cost documentation readily available. It would be possible to retrieve these records from archives if the equipment record in the Continuing Property Records module contained the purchase order reference. Out of 30 items tested only one record contained this information. The total dollar amount of equipment with inadequate documentation available was $833,779 or 80% of the sample.

RECOMMENDATION:

The City should develop specific requirements regarding capital asset records retention.

The Finance Department should update the new Capital Assets Policy and Procedures Manual to reflect record keeping requirements and responsibilities and distribute it to all departments as soon as possible. The changes to the manual should reflect that:

One department should be designated to maintain documentation for all land, buildings and improvements for the City.

The individual departments responsible for each vehicle or piece of equipment with a value over $5,000 should maintain a file for each item that would include all cost documentation and other pertinent information, such as warranties, for the life of the asset. When an asset is transferred to another department the file should go with it to the receiving department. Only when an asset is disposed of should the records be archived.

AUDITEE RESPONSE:

No auditee response required. For Committee on Accounts, Enrollment and Revenue Administration consideration only.

Current Status: Documentation for land and buildings are currently sent to the Finance Department, including improvements and infrastructure. Vehicles and equipment documentation still is not maintained by most departments over the life of the asset.

OBSERVATION 2: **INADEQUATE SEGREGATION OF DUTIES - PERSONNEL WITH HTE INPUT ACCESS ALSO HAVE AUTHORITY TO APPROVE THE A900**

An incompatible duty is one that would put an individual in the position to both commit an error or irregularity and then conceal it. In practice, three types of functions are commonly considered to be mutually incompatible: authorization, record keeping and custody. Ideally no individual should be able to 1) authorize a transaction, 2) Record the transaction in the accounting records and 3) maintain custody of the assets resulting from

the transaction. From the review of procedures over the purchase, recording and authorization functions several individuals were noted to have incompatible duties or access to the HTE system that does not reduce to a relatively low level the risk that an error or irregularity can be committed and not discovered in the course of an employee's regular duties in a timely manner. These individuals had access to posting in HTE of purchasing transactions in the Purchasing and Inventory (P&I) module and property transactions in the Continuing Property Records (CPR) module as well as being an authorized signer to the A900. The A900 is the list of invoices and checks that are about to be printed.

Signing the A900 signifies that the invoices are correct and the checks can be printed and delivered. Following is a list of departments that have employees whose duties are incompatible.

DEPARTMENT	DUTIES	CPR ACCESS	P&I ACCESS
Building	Sign A900	Yes	Yes
Airport	Sign A900	Yes	Yes
Welfare	Sign A900	Yes	Yes
City Clerk	Sign A900	Yes	Yes
Police	Sign A900	Yes	Yes
Aggregation	Sign A900	Yes	Yes
Info Systems	Sign A900	Yes	Yes
MEDO	Sign A900	No	Yes
OYS	Sign A900	No	Yes

The authority to approve expenditures by signing the A900 is the key control to ensure that improper expenditures are not made by departments. Individuals who are authorized to sign the A900 should not have the ability to post purchase or property transactions to the HTE system. While employees at the Manchester Economic Development Office (MEDO) and Office of Youth Services (OYS) did not have CPR access, being an Authorized signor of the A900 and having access to P&I are incompatible duties of authorizing and posting financial transactions.

RECOMMENDATION:

Access to input functions for purchasing and CPR modules in HTE should not be allowed to the individuals who are responsible for approving the expenditures and purchase of equipment. Each department should have one person who normally signs the A900 who has no input authority in the HTE. In the case of a department with limited employees a second signor could be used in cases where the usual A900 signor is unavailable to assure that the individual's work has been checked.

AUDITEE RESPONSES:

Building (Administrative Services Manager)

I agree with the observation. I will withdraw my authorization to sign the A900. Instead they will be signed by either the Building Commissioner or Deputy Building Commissioner.

Airport (Business Services Officer)

We concur. We have removed my authority to sign the A900. Even though we are not the department responsible for setting up security access and although I have never entered a purchase order into the HTE system.

Welfare (Administrative Services Manager)

I agree with the observation, however Welfare is a relatively small department with a complement of eleven employees including the Welfare Commissioner. HTE update access was granted to only four of our employees. If the recommendation of limiting A900 approval is adopted, the Welfare Department would have only two options: (1) remove HTE access capability from one of the above positions, or (2) assign approval and verification of the A900 to a member of the casework staff

In regard to option 1, HTE update capability is required by each of the positions in order to provide backup in event of illness or vacation.

In regard to option 2, to the best of my knowledge, no member of the casework staff has an accounting background that would facilitate the review of the A900. Since approval of the A900 is time sensitive, I'm not sure who on the casework staff would have time to perform this function considering the caseload that exist within the department.

As I mentioned above I agree with this observation, but I feel implementing this procedure might present problems within the Welfare Department.

City Clerk (City Clerk)

The persons responsibility was for internal approve of the A900 for those individuals under her supervision and not for her own work. So that there is no misconception or any inappropriate authority in the future we have, effective today, assigned approval of the A900's to the Deputy City Clerk, the Deputy Clerk of Licensing and Facilities and the City Clerk.

Police (Business Services Officer)

I concur that there should be a segregation of duties and as BSO I need to access the P&I and CPR modules so I should not have the authority to sign the A900s.

Aggregation (MAAP Administrator)

Partially agree. This individual does not have access to create POs in P&I. In addition since July 1, 2001 there has been additional management approval on the A900.

Info Systems (Director of Information Services)

Info System agrees with the observation. This position will no longer have authority to approve expenditures by signing the A900.

MEDO (Assistant Economic Development Director)

I do not agree with the observation. I do not know how or why the Assistant Economic Development Director was granted the ability to record transactions in the P&I accounting records, but since that individual never accesses those records, we would agree to restrict access to P&I Inquiry-only access.

To correct this situation, we have sent a request to the Director of Information Systems to change the Assistant Economic Development Director's access to the P&I accounts to inquiry only.

OYS (Acting Director)

OYS agrees with the observation and will call Information Services to have the Acting Director's name removed from P&I access.

Current Status: Fully resolved.

OBSERVATION 3: **VEHICLE USAGE AND COST DOCUMENTATION**

As vehicles age and wear out they become more expensive to maintain and operate and less reliable and safe to operate. Vehicles should be replaced when the sum of their capital costs, which decline as they age and operating costs which rise as they age, are at a minimum. For passenger vehicles this can be expressed as the point where the total per mile operating cost (capital plus operating costs) exceeds the City per mile reimbursement rate for personal vehicle usage. The formula to calculate this is ((purchase costs-surplus value/estimated useful life)+operating costs) / City used miles in the preceding year. Operating costs = gas + oil + repairs + insurance and any other incidental expenses incurred to keep the vehicle on the road in the preceding year. When this rate exceeds the City reimbursement rate (currently 34.5 cents/mile) it should trigger an analysis to determine if the vehicle should be replaced. For special use vehicle such as large trucks or earth moving machines a similar calculation can be developed.

In order to perform this calculation careful record keeping is essential. The City does not have written policies and procedures that would require and instruct departments how to keep such records and who is responsible for the records.

RECOMMENDATION:

A written policy should be developed requiring all vehicles to track mileage and operating costs as they incur on a daily motor vehicle use form. At the end of the month this form would be submitted to the City maintenance garage responsible for the vehicle. At year-end a summary annual report should be prepared for each vehicle and filed in an equipment file maintained for each vehicle. This would allow maintenance personnel to have a vehicle cost history to help in determining which vehicles to surplus. Vehicles with excessive cost per mile should be submitted for surplus and possible replacement. As all vehicles do not age in the same manner this would help in determining replacement by the most costly vehicles first.

AUDITEE RESPONSE:

No auditee response required. For Committee on Accounts, Enrollment and Revenue Administration consideration only.

Current Status: The City is still does an inadequate job of tracking and reporting use and costs associated with each vehicle. The BMA should insist that departments justify vehicle use annually. Part of the justification should be an analysis of cost per mile of business usage of each vehicle. Policies should be developed on how usage records are to be maintained and how cost per mile is to be calculated.

OBSERVATION 4: **ITEMS WITH OTHER POSTING ERRORS**

The third generally accepted standard of fieldwork, as promulgated by the AICPA, requires that "Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit". As part of the test work used to determine if the capital assets reported in the City's financial statements existed at June 30, 2001, the following procedures were performed:

A sample of 120 items was selected for testing. The sample was selected by taking the ten largest dollar value items in each class and then randomly selecting the remainder of the items. To determine if the items existed, each item was physically identified.

Of the sample of 120 items the following observations were noted.

The June 30, 2001 capital asset balance reported a marked police cruiser as currently in use by the Pine Grove Cemetery. This cruiser had been declared surplus and replaced in the prior year. The result was to overstate the June 30, 2001 balance by $13,633.

The Highway Department listed a 1988 Ford Sedan GO3726 as equipment ID 235-000911. This ID number is actually assigned to a newer cruiser. When the 1988 ford was replaced the old description was inadvertently entered in the description field. All other information was correctly entered.

The Office of the Tax Collector has a Mail Processor listed as being located in the Hampshire Plaza Lobby. From a search of the Continuing Property Records (CPR) database we noted 5 other equipment items with a cost over $5,000 and with a location listed as being in Hampshire Plaza. All of these items have been moved to other locations since the new City Hall was renovated. In addition there were numerous items under $5,000 with a location of Hampshire Plaza that have been moved to other locations.

The sample contained five fire engines with a location of the Fire Maintenance Garage but they were assigned to other fire stations. One fire truck showed a location of Rimmon St Fire Station. The Rimmon St. Station burned down several years ago. The truck was actually located at the station that replaced Rimmon St.

RECOMMENDATION:

Any changes to the status of an asset should be noted in the CPR database in a timely manner. The location of an asset should be the location that the asset is permanently assigned. If the item is temporarily assigned or loaned to another area the records need not be changed.

AUDITEE RESPONSE:

There was general agreement by all departments on this observation and the departments are in process of fixing the errors.

Current Status: Several of the errors in location of items still exist in the HTE CPR module however the City has improved procedures when adding new items to the module.

COMMUNITY IMPROVEMENT PROGRAM
FISCAL YEAR ENDED JUNE 30, 2002

Observation No. 1 – Untimely Spend Down of Project Funds

Annually the Board of Mayor and Aldermen approves a budget to address the spending needs for the following fiscal year. It is assumed that the annual budget is to cover the current year obligations. The taxpayer assumes that the money they pay in taxes is going to be used in the current year and that the government entity is not holding excess funds.

CIP projects do not always follow a standard fiscal year. Construction projects must be done during the good weather months and large projects may take several years and are subject to delays making it difficult to accurately appropriate funds on an annual basis.

CIP projects are financed from a variety of funding sources such as grants, donations, bond proceeds and cash (taxes). All funding sources have time constraints attached to them. Grant funds need to be obligated during the period of the grant or they will be lost, bond funds must be spent timely in order to comply with federal arbitrage requirements and cash raised through annual taxes should be obligated in the year appropriated. The following observation relates to problems noted with the City's cash controls.

Observation:

CIP Cash Projects

At June 30, 2002 the City had balances in old cash projects of:

# of Projects	Year of Project	Amount
1	1997 Project	$ 18,585
5	1999 Projects	$ 75,525
9	2000 Projects	$ 265,136

In some cases projects have balances in more then one fiscal year. For example, School Capital Improvements has balances in 2000 $47,744, 2001 $36,186, and 2002 $100. In this case the School Capital improvement project for 2002 was appropriated $36,000 when there were balances from prior years far exceeding the appropriation.

Of the $1,527,200 cash projects appropriated for fiscal year 1999 81% was spent during fiscal year 1999. At the end of fiscal year 2000 91% had been spent and at the end of fiscal year 2001 92% had been spent. At June 30, 2002 $75,525 or 4.95% still had not been spent. Of that amount, $50,000 was from project 510799 Implementation of Visitor's Signage Program.

CIP Bonded Projects

IRS regulations require municipalities that have issued tax exempt bonds to fund capital projects are required to monitor the expenditures and of bond to ensure that all funds have been expended within three years of the date of issue. Failures to comply with the three-year expenditure rule may result in the bonds losing the tax-exempt status. In addition, any interest earned on the unspent proceeds in excess of the yield on the bonds (the arbitrage) must be paid back, or rebated, to the IRS. The rules and regulations that determine arbitrage and rebate are complicated and there are some safe harbor provisions that exempt some of the interest from rebate. In general, if 75% of the bond proceeds are spent for construction projects and the proceeds are spent according to the following schedule: 10% within six months, 45% within one year, 75% within eighteen months and 100% within two years the issue is exempt from rebate.

SOURCE: A Guide to Tax Compliance after Municipal Bond Issuance, Preston/Gates/Ellis LLP

As of June 30, 2002 the City had old bond project balances of:

# of Projects	Year of Project	Amount
5	1994 Projects	$ 287,755
5	1995 Projects	$ (750,952)
3	1996 Projects	$ 31,198
2	1997 Projects	$ 4,897
6	1998 Projects	$ 779,597
12	1999 Projects	$ 749,923
14	2000 Projects	$ 3,091,056

Arbitrage is calculated based on when the bond is issued not on the project date. Typically some projects will be expending funds for a year or two prior to the bond issuance so the project date is not a good indicator of potential arbitrage, however, projects prior to 1998 are most likely funded by a bond in an arbitrage situation. In order to test for arbitrage the General Obligation bond issued in August of 1993 was examined. Testing revealed that after six months 46% was expended, after 18 months 78% and after 30 months only 84% was expended. As of December 31, 2002 (114 months after issuance) $ 901,518 remained unspent or 4% of the original issue. Of the unspent proceeds $550,000 was from the FY 2000 project to renovate 1037 Elm Street. This money was transferred from the 1994 Sanitary Landfill Closure Project.

The old LGFS financial system was set up so that each bond issued was tracked separately as its own fund and you could easily see the cash balance at any time per each bond issue. This gave the Finance Department an easy tool to determine when the best time to issue a bond was and to track the bond spend down. When the City switched to the HTE financial system it was not set up to track each issue as its own fund. This may have contributed to the balances of the old bond issues not being spent timely. A recent

IRS audit however, has found that the City was sufficiently in compliance that no fines or interest were accrued.

Recommendation:

Cash Projects

The City needs to develop procedures to ensure that cash projects are spent in a reasonable period of time. Project stop dates should be enforced in order to ensure that cash projects are completed in a timely manner. If there is a continuing cash project such as School Capital Improvements that gets a new appropriation every year expenditures should get charged to the oldest project first until it is completely spent. If the unspent balance of the older project exceeds the current year project balance no new money should be appropriated until the balances are spent down.

Bond Projects

As part of the CIP process any request for funding should be accompanied by a schedule showing the anticipated dates that funds will be expended. The chart of accounts in the HTE system should be changed so that it would be easier to track the balances of bond projects by the issue date. In addition the Departments in charge of the projects should provide to the Finance Department schedules that show the timing that each project anticipates spending its funds. The Finance Department and the Departments should be constantly monitoring bonded projects to ensure that funds are spent timely. If a project is unable to spend the bond proceeds in a manner that will keep the City out of an arbitrage situation those funds should be transferred to a project that will be able to take advantage of the funding in a timely manner. A new appropriation could be made to complete the original project if necessary.

Auditee Response:

Highway Department

-I agree that it does make sense to spend old money first, but it has always been our understanding that bonded and cash monies are started up for specific items, CIP Comm. authorization would be needed to utilize older money for newer projects.

-At times, funding for a project comes over a period of two or more budget years, therefore none of the money can be committed until such time as all funds are available.

-Based on the current budget year, our CIP money is not available until May, June or July. This is the worst time to be bidding construction projects. We typically will complete our designs and bid the projects the following February/March. This would not fit in to your 10% within 6 months.

Parks and Recreation Department

Typically, our CIP Cash projects are spent within 12-18 months. The change in the City's fiscal year to July 1st, has required some adjustment in how we fund projects and programs. When a seasonal program runs from June - September, we need to use appropriations from two years.

We also use CIP Cash to provide a "City" match for certain grants. These grants and projects often extend beyond one year. If we need to obtain federal approvals and/or state permits, the projects can be delayed further.

Bond Projects, even those identified to be expedited in the CIP process, do not begin until May or June. Usually, a park rehabilitation project requires more than one year to complete. The time required to do an RFP for professional services, site survey, community meetings and design work will take at least 10 months. Then the projects are bid the following spring and construction is performed until winter conditions prevail. The project often needs to continue in the spring to address site issues and landscape requirements. This project scenario requires a 2-year time schedule.

Planning Department

CIP funds with minor exceptions, are allocated with the expectation that they will be spent in the fiscal year in which they are appropriated. The Planning Department recognizes that several factors may impact on the ability of the Departments to do so but nevertheless projects are monitored and all Departments are strongly encouraged to complete their projects in a timely manner. As such, each spring, the Departments are directed to review their CIP projects and identify those that are completed and able to be closed out as well as those that require additional time for completion. For those requiring time extensions the Departments must provide an explanation for the reason the project is not completed as well as a timetable for completion. The listing of projects to be extended is provided to the CIP Committee and ultimately the full Board for review and approval. Generally, as part of the CIP budget development process projects that have available balances that are not going to be extended are used to fund other projects within the CIP.

Relative to the School Capital Improvements Projects being allocated additional funds even though previous years balances remained, the previous years allocations were encumbered and committed to assigned projects. Despite this Departments' urging it has historically been the practice of the Building Maintenance Division of the Highway Department not to expend older CIP allocations first unless the expense was for the specific project for which the monies were originally encumbered. It is our understanding that this practice has been revised and older funds are expended first with an internal worksheet maintained to track all the departmental commitments ensuring sufficient funds are available for all of the projects.

In terms of the Planning Department Administered Visitors Signage Program, (510799), funding for this project had initially been requested and provided with the expectation that specific Planning Department staff would oversee its development and completion. Unfortunately the staff person assigned the responsibility for this project left the employ of the City and the person subsequently hired as a replacement resigned within a short period of time as well. Since the Department has not been able to hire a replacement these funds were ultimately transferred as part of the CIP budget process to another project.

Relative to Bonded Projects, the Planning Department reviews these projects as noted above, with the intent to ensure their timely expenditure. Due to their nature, bonded projects are complex and many variables may play a factor in completing the project within the estimated timeframe. The Planning Department with the assistance of the Finance Department staff and the cooperation of the City Departments administering these projects has significantly reduced the number of older bonds projects remaining open. Due to information provided this past Spring by the Finance Department, the other Departments now have a better understanding of their responsibilities to expend their funds in a timely manner and ensure arbitrage does not become an issue. As part of the training sessions conducted for City Departments charged with the responsibility to expend CIP funds the importance of a timely expenditure of bonded monies and the subsequent avoidance of arbitrage will be highlighted.

Current Status: Old Cash Project Balances as of September 30, 2008 were as follows:

# of Projects	Year of Project	Amount
1	2004 Project	$ 2,780
1	2005 Project	$ 8,259
4	2006 Projects	$ 22,571

It appears that cash projects are being used in a timely manner.

Bond Projects are now tracked by bond issue and a much greater emphasis is placed on completing projects prior to or shortly after bond issuance.

Observation No. 2 – Contract Monitoring Controls

Observation:

The City Procurement Code promulgates rules that dictate procedures over the bidding and awarding contracts to provide adequate controls to ensure that the City is getting the best price for the work performed and that the work performed is in accordance with the Board of Mayor and Alderman approval. These controls do not apply to change orders. Any change order to an existing contract only requires approval from the department head.

How each contract is handled upon completion of the bidding process is the responsibility of each department. Some departments have the Mayor sign approval and some bring the contract before the Board of Mayor and Alderman for approval. Other contracts are required by ordinance to be approved by the Finance Officer or Director of Information Systems. Each department monitors their own contracts.

Change orders should be used to modify contracts in terms of time, money, materials or construction methods. They are issued to authorize an addition, deletion or revision of the contract work. Change orders are very common on most construction contracts due to unforeseen circumstances that occur after construction work begins. Typically change orders add somewhere in the range of 10 to 15 percent to the value of the original contract amount. Contracts should contain a clause that explains how costs will be applied to a change order. In most cases the contractor is bound to pay for work under a change order in the same amounts as under the original contract. For example, if in the original contract the City paid $3 per square yard of loam the City should pay $3 per square yard of loam in the change order.

IA has noted the following conditions related to change orders and contract administration:

- There is no standardization among the departments in documentation for contracts and change orders. The forms used and criteria vary from department to department.
- There is an inadequate review of change orders, as only the department head needs to sign off on the form.
- One change order at the Parks and Recreation Department was used to pay for a project unrelated to the project as if it was originally bid. This was due to a contractor not being able to complete a project and management had determined that it would be more efficient to award it to an existing contractor. The new contractor agreed to abide by the original contract terms.

A similar comment was included in the FY 2001 Management Letter to the City CAFR.

Recommendation:

The City should develop standardized forms and procedures to use when issuing contracts and change orders including a higher level of approval for change orders and contracts. For example, if the change orders on a particular project go over a certain amount or percent of the original contract it would have to be approved by the CIP Committee of the Board of Mayor and Aldermen. These procedures should be included in the City's policy and procedures manual, which is currently in draft form.

Auditee Response:

Highway Department

-We have standardized our contracts for both highway and facility construction. Could there be a standardized form for contracts throughout the City, I am not sure. Good question for the Solicitor's Office or perhaps the major Departments could meet to discuss.

-Contracts funded through a Department's operating budget should be executed and monitored within the Department. Contacts funded with other funds, i.e. CIP funds should be executed by the Mayor, not the BM&A. The same goes with change orders, except I agree that only change orders over a certain amount or percentage should require the Mayor's signature.

-If the Mayor will be executing all of the contracts and certain change orders, a policy should be put in place to ensure a reasonable turn around time, i.e. if the Mayor is not available who can execute the document in his place.

Parks and Recreation Department

We use several different Bid/Contract forms depending on the type of project and scope of work. A small project, under $50,000, we often use the City's Standard Bid Form that was developed by the City Solicitor's office.

On park rehabilitation and construction projects we use a document that was developed by a consultant and approved by the City Solicitor's Office. This document is specific for park/site work. We also have a version that is used for federally funded projects and covers all the various federal labor, workplace and environmental laws.

To my knowledge, there is no standard Citywide Contract form. This would be helpful, since the rules and procedures change and the "boilerplate" document needs to be constantly reviewed. Perhaps the City Solicitor can maintain the original documents and provide it to the various departments for their use.

In regards to your comment on Change Orders, the one mentioned for Livingston Park was a unique situation. When the project was bid, we only had one bidder. After awarding a contract, we had difficulty in getting the contractor to proceed. They eventually defaulted on the contract.

At that time, we had another contractor, doing work at West High School. This was similar work, so we provided a blank bid form and asked for pricing on the Livingston project. After a review of the numbers, we determined this to be fair and we amended his contract to include the new work.

We use Change Orders to add or delete items from a contract. Some times it is due to budget constraints that we need to remove bid items. Other times we have enough funding to include additional items or work. At the close of a project we often need to delete some work items or allowances that were not used, so we have a correct final contract balance.

If the recommendation is to have contracts and change orders approved by the BMA, then everyone must be aware that this will add considerable delay in moving projects forward. For instance, during the course of construction if an unforeseen problem is discovered such as a failed drain or sewer pipe, we often need to review this issue immediately. We then need to make a determination on how to resolve it and see if we can afford to make the repair within our budget. A Change Order is then prepared to authorize the contractor to make the repair.

The procedures and policy for executing Change Orders should be developed to allow departments the ability to make professional judgements and recommendations that are in the City's best interest. It would be difficult to manage a project if departments are required to continually go through a timely process for approvals. This would ultimately cause more delays and drive up the price of the project.

Planning Department

The form and types of contracts vary from City Department to City Department and in fact also vary some of the Departments as well. Regardless of the form of contract it is the Planning Department's understanding of the City's Procurement Policies that the Departments need to submit their contracts prior to execution to the City Solicitor's Office for a review. An approval by the Solicitor's office indicates that the form of the document is proper but no assessment of the content of the document is given which is up to the expertise of the contracting Department. While the Planning Department does not believe it is its responsibility or charge (with the exception of HUD funded Projects) to dictate to the various Departments the form or type of document to use a standardized contract that could be "tweaked" to the specific needs of the contract administrator does appear to have merit. Should there be support by the Policymakers to go this route then the Parks Department's suggestion that the Solicitor's Office maintain the original and act as a "contractual clearinghouse" is a good one. This may or may not result in an additional workload upon that Office. As an example for consideration, the standardized AIA contract is utilized by a significant number of Departments including the Highway Department and Parks & Cemetery Departments although they also develop their own contracts as well for many of their projects. AIA contracts are available for a wide range of contractual obligations with the contracts allowing for specific conditions to be made part of the document.

For purposes of CIP Projects funded with HUD CDBG monies, certain requirements and conditions are standard and must be included in all contracts regardless of the administering department involved. In these instances CIP Staff provide technical

assistance and ongoing contractual over-sight to ensure the contracts are appropriately developed.

Relative to the concerns about change orders and the suggestion that contract change orders over a certain percentage be forwarded to the BMA, the Planning Department shares the views expressed by both the Highway and Parks, Recreation & Cemetery that this would most likely result in delays that would negatively impact on the progress of the project. Most change orders require quick and timely decisions that would not be possible were they to be made in accordance with the meeting schedule of the BMA. This Office has had several discussions in the past with various Departments over the use of change orders and it believes an improved knowledge of the City's procurement and contractual requirements by the staff responsible for the over sight of these projects would be quite beneficial. Their understanding of existing requirements might be augmented by training sessions conducted by the City Solicitor's and Finance Departments, similar to those now conducted by Planning Department staff on HUD CDBG requirements.

Rather than making policy revisions that would effectively take away decision making responsibilities from the City Departments charged with the carrying out of the projects, a continued reliance upon the expertise and integrity of those Administering Department appears to remain the best course of action. In lieu of involving the full Board in the process, the suggestion that the Mayor be required to review and approve change orders over a certain percentage of the contract has merit. This would provide additional project oversight and change orders could be executed in a reasonable time frame.

Current Status: It appears that most contract issues have been addressed. It was decided that the current system of not approving change orders allows department heads the flexibility needed to complete projects timely.

Observation No. 4 – Bonding of Annual Projects

Observation:

Internal Audit has noted that the City has used bond proceeds to finance annual maintenance projects such as the Annual Right of Way Maintenance project. It would seem that using bond proceeds to finance annual maintenance might not be appropriate. These projects do not appear to have a clear spend down plan or timetable for completion. This in part could account for some of the spend down problems noted in observation No. 1.

This also appears to be a problem with other generic projects that do not have a clear spending plan. School Capital Improvements, Parks Capital Improvements, and Annual Bridge Maintenance are examples of cash projects with unclear spending objectives that tend to be spent slowly.

Recommendation:

Recurring annual expenditures would more appropriately be financed as part of the operating budget. Projects should be specific in goals and objectives and have a definite schedule of when they plan to start and end all phases of activity. Only funds that can be obligated during the next year should be requested as a cash project in order to keep the amount of taxpayer funds held by the City to a minimum.

Auditee Response:

Highway Department

-Perhaps the name of the CIP projects is misleading. Annual Right of Way Maintenance is not really maintenance. These funds are typically utilized for re-constructing streets and constructing new sidewalks.

I believe that procedures need to be developed for City funding and contracts. Would it make sense to have a meeting with City Dept's who typically utilize contracts, i.e. Highway and Parks along with the Finance and Planning Departments to formalize the procedures. I guess what I am trying to say is that although it is appreciated that we have input in to your recommendations, I would hope that before anything is finalized, we sit down as a group to discuss.

Parks and Recreation Department

Our Bond projects are used for park rehabilitation work, school site improvements and recreation enterprise projects. We do not use these funds for annual maintenance.

There is mention in the "observation" section of this worksheet that cash projects such as the Parks Capital Improvements are used for annual maintenance. We do rely on this project appropriation to complete projects that fall in the "no-fund" zone. That is, they are too large to be funded in our operating budget and too small to be bonded.

The Parks Capital Improvement – Cash account was established to include projects $2,000 - $10,000 for the repair of fences, irrigation systems, graffiti removal, purchasing of park furnishings or recreational equipment. This fund has assisted our department to perform preventative maintenance within our parks and recreational facilities.

Planning Department

The Planning Department is acutely aware of the prohibition on the use of bond allocations to finance the maintenance requirements of the City. As such, it only recommends bond funding within the CIP for projects that meet the various requirements for bonding. We are unaware of any CIP project being improperly funded. Additionally,

CIP Staff submits the list of proposed bond projects to both the Deputy Finance Officer and the Second Deputy Finance Officer for review, comment and approval.

This report cites the Annual Right of Way Maintenance project as an example of improper use of bonds however in point of fact this program has been historically funded through an allocation of City Cash not bond allocations.

Current Status: Based on a review of current bonded projects it appears that this observation has been resolved.

Highway Department Consumable Inventory

June 30, 2002

OBSERVATION NO. 1 - RECONCILIATION OF GENERAL LEDGER TO SUBSIDIARY LEDGER:

Observation:

Inventory transactions are posted to the Purchase and Inventory module in HTE and the transactions are linked and posted to the INFISYS general ledger through updates between the module and the general ledger. In order to ensure that transactions are being posted to both accounts correctly and that entries are not being posted to the general ledger accounts in error occasionally a formal reconciliation should be performed between the two accounts. Internal Audit (IA) notes that no such formal reconciliation is being done on a regular basis. IA's own reconciliation noted small variances between the modules. Most of the variance could be explained due to timing differences between postings.

Recommendation:

Reconciliation between the general ledger and the Purchase and Inventory module should be done at least annually. It is recommended that the reconciliation be done monthly to make it easier to identify and correct any variances if necessary.

Current Status: This observation remains unresolved.

BUILDING PERMITS ASSESSMENT CYCLE

OBSERVATION 1 PROCEDURES OVER THE PROCESSING OF PERMITS AND ASSESSMENTS:

The Building Department records permits issued through the HTE Building Permits module. Upon issuance, a permit is printed. A copy of the permit is given to the applicant, one copy is placed in the property file, and one copy is held for the Office of the Assessors. Weekly the Building Department runs a Permits Issued Report and sends this report with the corresponding permits to the Office of Assessors. The clerk at the Office of Assessors who receives the batch is responsible for making sure that every permit contained in the report has a corresponding permit copy in the batch. The ending number from the previous batch is also compared to the beginning number of the current batch to ensure that all permit numbers are accounted for. If any permits are missing, the clerk at Office of the Assessors will call the Building Department to find the missing permits. Once the clerk is assured that all the permits are accounted for, the permits are given to the three assessors. Each assessor has a preset group of properties that they are in charge of. The assessors will then evaluate the permits as to whether or not they will affect the value of the property. If it is determined that a permit may affect the property's value the Assessor will print a copy of the property record card from the Vision Software System, the software used by the Office of Assessors to track property value. The copy is used by the assessor in the field evaluation. If a change to assessed value is required the change is noted on the copy. The assessment change is then entered into the Vision system by the assessor. The same assessor then must also enter any valuation changes generated in Vision into the HTE system. There is no automated link between the Permits module in HTE, the Vision system and the HTE tax module. Such a link would be useful to ensure that all permits have been evaluated and entered correctly into both systems without any manual intervention. The current manual double entry to the two systems increases the risk of errors and increases the risk that a permit could be misplaced or the change in assessed value not entered in the tax module of HTE. IA testing revealed the following two errors:

- One permit for an addition was brought to Internal Audit's attention before the audit. This property was issued a permit on 10/02/96 but not entered in the HTE module until 10/23/00. This permit caused an increase in assessed value of $30,000 that went unrecorded for three years. The Office of the Assessors has acknowledged that they have completed an internal review and have identified several permits that had not been properly recorded in fiscal year 1997 assessments.

- From a sample of forty-five permits issued in calendar year 1999, IA noted one permit for the construction of a garage that was received at the Office of the Assessors, evaluated, and the change in the assessed value was calculated and changed in the Vision system. The change in assessed value however, was not entered into the HTE system. An additional sample of fifteen permits tested revealed no other errors.

RECOMMENDATION:

Procedures should be improved in order to utilize the HTE system to help in tracking the permits through the assessing phase of the cycle. A link between the two subsystems in HTE should be established so that a report could be generated to show discrepancies between the two subsystems. The Building Department, Office of the Assessors and Information Systems should meet to discuss changes that could best track permits.

AUDITEE RESPONSE:

Board of Assessors

- There is presently work being done by HTE, Assessors and Information Systems to develop an interface between Vision Valuation system and HTE with an anticipated deadline of June 2001.

- The fact that a small number of permits were missed and then later discovered we believe is attributable to the move from City Hall to temporary quarters and then a return to the renovated City Hall. However, internal controls are now in place with the possibility of additional future controls being explored using HTE and a subsequent electronic reporting function.

- From the 45 permits reviewed the one permit identified by the audit was in fact acted on and resulted in a change in assessment. A copy of the work performed on the field card is attached and may be attested to by the print dates. However, as further identified by the audit, the resulting valuation change reflected in the City's assessment software was not updated correctly in the City's billing system (HTE). This shall be corrected as the interface between HTE and Vision Appraisal software is completed, anticipated in June 2001. Also, other departments may benefit from the Vision/HTE interface, as additional information besides assessment data shall be loaded into HTE LX module subsequently available in other modules.

Current Status: This observation has been resolved. The permit database now has an interface with Vision Appraisal Software.

OFFICE OF THE TAX COLLECTOR, FOR THE 6 MONTHS ENDED 12/31/04

OBSERVATION 2: NO WRITTEN PROCEDURES GOVERNING EMPLOYEE HIRING AND RETIREMENTS

The City should develop standard written procedures on how new employees and employees separating from service with the City are processed in and out of the system. The procedures should include checklists that will ensure that all necessary steps are taken in a timely manner when processing employees. Such checklists should include steps common to all departments and have sections available for the departments to customize the checklist for situations unique to that department. The checklist would remain at the department in the employee's file and updated periodically as necessary.

Current Status: This observation has NOT been resolved.

OBSERVATION 3: CONFLICTING CITY ORDINANCES, CUSTODIAN OF TAX DEEDED PROPERTY

The City of Manchester Code of Ordinances section 36.30 (B) states in part "The Tax Collector shall also be the custodian of tax deeded property for the city." The Tax Collector by the City Charter section 3.03 has a term of office until the Tax Collector decides to leave or is removed for cause by a vote of the Aldermen.

Section 36.50 through 36.53 discusses the rights and duties of the custodian of tax-deeded properties. Section 36.50 states that the Board of Mayor and Aldermen shall appoint an able and competent person to be titled "custodian of tax-deeded properties." And section 36.52 sets the term of office at two years.

These two ordinances appear to conflict with each other. If the Tax Collector is also the custodian of tax-deeded properties and has a term of office until removal by the Board or voluntarily leaves then the custodian of tax-deeded properties cannot be appointed to a two-year term.

The ordinances should be changed so they are no longer in conflict with each other.

Current Status: The City Solicitor has determined that the ordinances are not in conflict but the language in 36.52 is unnecessary. This observation has been resolved.

TUITION REIMBURSEMENT PROGRAM, FOR THE FISCAL YEAR ENDED JUNE 30, 2004

OBSERVATION 1: INTERNAL CONTROLS OVER TUITION REIMBURSEMENT DO NOT APPEAR TO BE WORKING AS DESIGNED

The current system of internal controls should have been sufficient to prevent all of the errors noted in this report. It appears that a general breakdown in the controls had occurred at both the Human Resources Department and the Finance Department. In order to improve the system the following steps should be taken.

- The Human Resource Department should develop written policies and procedures that clarify the rules governing the tuition reimbursement program. These written policies and procedures should include annual maximums allowed for non-affiliated employees and be approved by the Board of Mayor and Aldermen.

- The City Negotiator should correct all the labor contracts as soon as possible so that all references to calendar year are changed to fiscal year.

- The Finance Department should only process reimbursement requests that are presented on original pages of the tuition reimbursement request form. Consistency in the page of the form submitted should be used so that, for example, the pink copy is submitted with the first request and the yellow copy is submitted with the final requests. All sections should be completed and appropriate documentation attached to the final request to ensure that the course was completed in accordance with the policy. Any deficient requests should be returned.

- The spreadsheet used at the Human Resources Department to track each employee's payment history should be updated annually for any changes to the program. A second person should check to ensure that all the annual maximum allowances agree to the most recent contracts.

Current Status: This observation has been resolved.

OBSERVATION 4: INCORRECTLY CALCULATING MAXIMUM ALLOWABLE

- When negotiating the labor agreements references to calendar year should be avoided and all changes should be made to coincide with the City's fiscal year to help avoid any confusion.
- The Human Resources Department should take greater care in calculating the maximum amount of reimbursement allowed.
- The Finance Department accounts payable section should be familiar with the agreements and check the calculations prior to processing the payment.

Current Status: This observation has been resolved.

OBSERVATION 5: NON-AFFILIATED RULES CURRENTLY IN USE NOT APPROVED BY BOARD OF MAYOR AND ALDERMEN

The Human Resources Department should prepare written policies and procedures for the non-affiliated employees for submission to the Board of Mayor and Aldermen for approval. This would also be a good time to clarify the policy as to what type of courses would be allowed for reimbursement from the tuition reimbursement program and what should be charged to staff development. The HR Department also allows Departments to submit staff development expenditures for reimbursement from the tuition reimbursement program if the department is short on staff development funds. Procedures should be developed as to when and how this is allowed as part of the new policy that is submitted for approval.

Current Status: This observation has been resolved.

WELFARE DEPARTMENT, 16 MONTHS ENDED OCTOBER 31, 2001

OBSERVATION 4: COMMISSIONER'S LEAVE ACCRUAL

Observation:

Per the City Code of Ordinances Chapter 33.022 (A) "the provisions of 33.020 through 33.082 of this chapter shall not apply to elected officials..." These sections deal with the position classification and compensation plans and among other things dictates the classification, compensation and leave time of City employees. The Commissioner is an elected City official and, as such, is specifically exempt from these requirements. This would appear to exempt the Commissioner from submitting time sheets and leave slips, receiving evaluations or accruing leave. The HTE system tracks the time of the Commissioner as if the position followed the requirements of Chapter 33. This overstated the year-end vacation accrual balance by $4,620 in the City's FY 2001 CAFR. It was noted that other elected City officials do not have leave accruals in the system. The accrued balance of the former Commissioner that was paid out upon leaving office amounted to approximately $5,000. Per the current ordinances this may not have been an entitlement of the position. In addition, since February the former Commissioner had not been recording any leave time taken even though she rarely reported to the office. Because the former Commissioner was not required to submit timesheets it is impossible to determine if she was working at night, working from home, or on leave that is not being reported.

Recommendation:

The City should seek a legal opinion on the status of the Commissioner's position and the City Ordinances or charter should be changed to clarify the treatment of the position. If the position is subject to accrual of leave time it should also be subject to accounting for its time through the submission of time and leave sheets.

Auditee Response, Welfare:

Welfare Commissioner Martineau will get clarification from the City Solicitor.

CURRENT STATUS:

The Commissioner still accrues sick and vacation time in the payroll system but also submits time sheets and leave slips. This appears to be in violation of the City Code of Ordinances Chapter 33.022 (A). The City Solicitor should clarify the status of elected officials as far as leave time is concerned. If elected officials are to be charged with leave time and are able to cash out unused leave it should be clarified in the City Ordinances.

This observation remains unresolved and may require action by the BMA in order to clarify the ordinance.

OBSERVATION 13: COMPUTERIZED CASE MANAGEMENT SYSTEM

The type of information being collected is perfect for some form of database application. The Department should look into purchasing case management software to reduce some of this work. The software will have to be accessible to all users including the caseworkers. After the front desk worker enters the basic information and opens a case in the system then the caseworker would only have to call up the case and add their information. Reports could be designed that would take this information and create the daily, weekly and monthly reports that the Department requires. If a request were made for the information in a different format the Department would only have to design a query. The log could also be used to track vouchers. It is recommended that all potential users have input into what they need out of a case management system prior to its design.

CURRENT STATUS: Resolved, the Department has computerized much of its case management functions.

Office of the City Clerk
For the Fiscal Year Ended June 30, 2005

Observation No. 2 – HIGH VEHICLE COST PER MILE

Observation:

The City Clerk's office maintains two vehicles for its use, a 1999 Ford Taurus wagon and a 2001 GMC courier van. The wagon had approximately 26,600 miles as of June 30, 2005 and the van had approximately 37,800 at June 30, 2005. The Taurus was driven about 9 miles a business day during FY 2005 and the van about 52 miles a business day. The van is a special use vehicle and is needed to deliver mail between City Departments. The Taurus is used mainly for license enforcement activities. Both vehicles are garaged at employee's houses and used for commuting to and from work.

The Ford Taurus appears to be underutilized and not efficient to operate. The average cost per city mile used in FY 2005 was calculated to be approximately $1.00. The IRS rate currently in effect for personal vehicle use is $.405/mile. It would be more efficient to pay employees to use their own cars and reimburse them based on this calculation. The rate per mile is calculated by using the formula:

$$\frac{((\text{Purchase cost}-5\%)/10 \text{ years}) + \text{operating costs}}{\text{City used miles}}$$

- Purchase cost less 5% is the price paid for the vehicle less the residual value regained upon sale or trade-in.
- This is divided by 10 years, which is the average age of passenger vehicles when surplused by the City.
- City miles are total miles less commuting miles. Based on a two-mile round trip from home times 236 workdays per year.

My testing has also revealed that 15 employees received mileage reimbursement for business use of their personal vehicles. Total miles reimbursed was approximately 9,100 miles and cost $3,516. Seven of these employees received 89% of the mileage some getting reimbursed for over 1,000 miles in FY 2005.

Recommendation:

The City Clerk's Office should either eliminate the Ford Taurus and reimburse employees for the use of their cars for the small amount of City business they perform or use the Taurus as a pool car and gain some efficiencies by using the Taurus more and reimbursing employees less. If half of the miles reimbursed to employees in FY 2005 were instead used by the Taurus the cost per mile of the Taurus would drop to approximately the IRS rate of $.405. The net savings in FY 2005 would have been over $1,000.

Auditee Response:

- **The Ford Taurus (wagon) presently has 28,800 miles on it.** It is true that the GMC courier van is utilized more frequently than the wagon. The courier has a definitive route that the vehicle is utilized for except during vacations and breakdowns. During vacations/sick leave of the courier the wagon is used by other staff for mail delivery.

- **The primary purpose of the Ford Taurus wagon is for licensing inspections and enforcement.** Licensing enforcement and inspections are frequently in areas of the City that staff, for a variety of reasons, will not bring personal vehicles into and leave parked while conducting the City's business. Additionally, if a personal vehicle is utilized for a regular business function of the City it is not covered by the City's insurance and the employee is forced to pay additional premiums for that type of coverage which is not reimbursed by the City. Some insurance companies are very strict and do not cover the personal vehicle or liability of the insured if the car has been used for business purposes, particularly pick up and delivery. Employees carrying on city business should not have to take on this type of personal risk.

- **A secondary use of the Ford Taurus is for pick up and transport of election and archival supplies/equipment.** This was the reason for a wagon. The van is not conducive for this activity for two reasons. One, it is not available on a daily basis for instance to go to Concord and pick up archival boxes, or transport machines or other items from storage to City Hall. Secondly, the internal design of the van creates more trips than the wagon does.

- **While the vehicle is driven to and from work by an employee who pays under the IRS standards for use of the vehicle, the vehicle is taken to and from for safety and efficiency purposes.** If the vehicle were parked at MTA we would in essence be paying for a supervisory salary travel time from City Hall to MTA daily. I think we are well aware of the repercussions of vandalism to city vehicles parked in the downtown area if we were to leave it in this vicinity. It has not been vandalized or broken into while parked at the employee's home.

- **Mileage reimbursement is frequently used due to multiple employees traveling on city business to different locations.** Several employees have traveled to and from Concord, some daily, especially over the last year. Time conflicts with employees attending different training sessions and meetings in different locations in Concord renders it impossible to utilize one vehicle without an increased cost in manpower hours and lack of coverage in the office for the vital records area (public counter) as well as the administrative staffing areas. Alternatively, it would also leave employees, in essence, stranded at the conclusion of their training or meeting.

- **Multiple projects have created need for multiple options, and sometimes larger substantial travel by employees.** This office has been involved over the last year with several municipal/state issues and projects. Involvement has been diverse

resulting quite a bit from federal legislation that has had tremendous impacts on New Hampshire's state and local processes. The so-called 9-11 issues have resulted in some changes to vital records administration as well. Staff have attended and participated in planning, training, and legislative sessions at various levels relating to centralized voter registration systems, vendor selection processes for voting machines and voter systems, state planning to meet federal regulations, implementation of on line vital records, and substantial amounts of legislative hearings on numerous bills impacting the City. Employees must be reimbursed for use of their vehicles to attend. The results of attending the various meetings have resulted in great savings to the City.

- **It is the City Clerk's opinion that both vehicles need to remain with the department.**

Current Status: The Ford Taurus was only used for 640 miles during FY 2008 and remains underutilized and expensive to operate. Operating costs for the vehicle was $1,115 during the year, if personal cars were used the mileage reimbursement would have been $ 335 using the current rate. During the same time period the City Clerk's Office spent $1,789 in mileage reimbursements.

Observation No. 6 – INTERGOVERNMENTAL TRANSFERS

Observation:

My expenditure testing revealed two instances where the City Clerks Office was billed by another department for services rendered and payment was made by check to complete the transaction. Every time a check is written it costs the City money to print the check, process the payment and reconcile the account at month end. Employees at the sending department have to post the invoice as an account payable and the receiving department has to post the payment as revenue then prepares the deposit. Besides the cost of check stock and the labor involved, the city is also on positive pay and incurs a charge based on the amount of checks processed. It would seem to be more efficient to process these payments electronically rather then continually printing checks from and to the same account. During FY 2005 over 400 checks were printed for interdepartmental expenditures.

An informal poll of other governmental units revealed that 8 out of 10 governments responding processed intergovernmental billings using a Journal Voucher (JV) to electronically transfer the funds with no check being processed. About half of them had a mechanism where the Department to be billed had a paper invoice sent to them that needed approval prior to Central Accounting processing the JV. One jurisdiction processed checks and one had an interdepartmental billing module as part of their accounting package.

Recommendation:

The City Finance Department should develop procedures to process intergovernmental billings electronically and avoid the time and cost of processing checks. The process should incorporate an approval by the department prior to processing the transaction. It is possible to process these expenditures through the AP module without printing a check.

Auditee Response:

CITY CLERK

- **The City Clerk's office agrees with the recommendation set forth by the auditor.** The issue was brought up by Robin Descoteaux formerly of the Finance Department at a training session a few years ago but no other information has been received to date.

FINANCE DEPARTMENT

On numerous occasions the Finance Department has initiated discussions with various departments in an attempt to either eliminate or reduce the number of invoices and checks going between different departments. The attempts have never been successful for a number of reasons. First, by Charter, department heads are responsible for the expenditures from within their respective budgets and are adamant about not allowing another department to cross-charge. Second, some departments are responsible for certain types of purchases (Information Systems for computers), but the funds are located in the individual departmental budgets. Third, over the years all of the City's various external audit firms have adamantly agreed that journal entries (JE) weaken internal controls and therefore have recommended that JE should be limited to the Finance Department staff for control purposes. Fourth, and perhaps most important, the Board of Mayor and Aldermen (BMA) has not approved either of the central contract administration or central accounting initiatives proposed by the Finance Department and external auditors. In the absence of an efficient central accounting organization, city accounting resources remain inefficiently spread among departments. Consequently, periodically there is not sufficient staff within the Finance Department to monitor or process these transactions through an alternative means.

As has been frequently repeated, The Finance Department makes a very inefficient system work as efficiently as possible. Short of centralized accounting and resolving the other three barriers, the current arrangement, including the minimal banking fees incurred, is as efficient as possible and provides adequate but not always exceptional internal control.

Current Status: Recommendation has been determined to be unworkable with the current system.

Office of the City Clerk
For Fiscal Year Ended June 30, 2005

Observation #2 – High Vehicle Cost Per Mile

Auditee Response:

This response is intended to address the auditor's comments identified as the "Current Status" on page 30 of the audit. While the position of the department remains the same today with respect to the primary and secondary use of the 1999 Ford Taurus (page 29), the current status is much different in FY09. For the first time in nine years, the Licensing and Enforcement Division has a full complement of staff dedicated to this area of the department. The licensing vehicle is used each day and the City has borne the fruits of that effort with annual division revenues exceeding $550,000.00, up significantly over recent years (23.5% increase over FY08; 25.3% increase over FY07; 29.8% increase over FY06).

Compounding the demands on vehicle usage for the department is the fact that the Division continues to spearhead the extremely successful Neighborhood Enhancement Team (NET). This requires compliance staff to field complaints, investigate the authenticity of the complaints, and determine the necessity of activating the entire team.

It should also be noted that the office has heeded the observations of the auditor in the 2005 audit and made a conscious effort to minimize mileage reimbursement. The net effect of this policy change and an active licensing and compliance initiative is $339.00 in mileage reimbursement for FY09 ($1789.00 in FY08) compared to 2,608 additional miles on the Ford Taurus during the same time period (640 miles in FY08).

The auditor deemed in FY08 that the vehicle remained expensive to operate with costs reaching $1115.00 versus the mileage reimbursement of $335.00 for the same employees to utilize their personal vehicles. Beyond the fact that utilizing a personal vehicle to conduct City inspections is completely impractical, the current operating cost associated with the Taurus in FY09 is $705.22. If we were to reimburse employees for the city miles driven during the same period the cost to the City would be $1525.68, more than double the operating costs.

The department has also obtained a parking spot for the licensing vehicle in a secure municipal facility where it has been parked nightly for the past 18 months thus eliminating all commuting miles. Finally, though the vehicle has reached the age that the City typically surpluses vehicles (10 years), we believe that we can continue to utilize it efficiently for another year or two in light of this difficult economy.

CITY OF MANCHESTER, NEW HAMPSHIRE
REVIEW OF FIRE DEPARTMENT OVERTIME, FY 2003

Observation 1: The MFD should develop programs designed to reduce sick leave

IA compared the amount of sick leave earned during FY 2003 to the amount of sick leave used during the fiscal year. Sick leave used includes the one-day per year charged for employees who participate in the sick leave bank, FMLA leave and the pay out of retiring employees. Fire Line personnel used 2,984 days of sick leave, which includes 877 days of FMLA leave (FMLA includes workers' compensation injury leave) and 171 days of sick leave bank. There were 7 Fire fighters who retired in FY 2003 with an average of 26 years of service. These factors contributed to the MFD using 127% of earned sick time for the year (94% if sick leave bank and retirement payouts are excluded). The average "used-to-earned" ratio for the City was 95% during the same period. This also appears to be high compared to other large departments such as Police 93%, Highway 102%, and Parks 107%.

Recommendations:

The department should compile and review sick leave data in order to establish benchmarks and identify possible patterns of abuse or areas where reductions of time used can be achieved.

The department should consider taking a more proactive approach to sick leave reduction by emphasizing the benefits of saving leave balances and reducing injuries both at home and on the job. This could also include a comprehensive wellness-fitness program to reduce injuries. The International Association of Firefighters and the International Association of Fire Chiefs developed the Fire Service Joint Labor Management Wellness-Fitness Initiative to improve the wellness of fire personnel. Several U.S. and Canadian fire departments require the mandatory participation of all the uniformed personnel in this program. It has been reported that in City of Phoenix, Arizona, during the first eight years of their program, the number of job-related injuries decreased by 26 percent and the average number of days off due to on-the-job-injuries was reduced by 42 percent.

Auditee Response

The department currently monitors sick leave on a daily basis, addressing areas of possible abuse when appropriate.

Also, as of July 1, 2004, the Joint Wellness Initiative will be in effect as agreed to by both the department and the union (Local #856, IAFF).
In addition, the department recently completed a comprehensive risk analysis that was shared with our Risk Management office.

Current Status: Observation resolved

Observation 2: Vacation Scheduling Allows the Number of Firemen on Vacation to Exceed the Number of Relief Personnel

The Manchester Fire Department requires that firemen put in for vacation leave early in the year. Selections of vacation periods are done by seniority, by company. By the terms of the collective bargaining agreement only two members of a double company shall be allowed on vacation at the same time. This would imply that up to twenty line firemen could be on vacation at the same time. By not limiting the total number of employees allowed to take vacation during any given week the agreement allows the number of people on vacation to exceed the amount of the sixteen uncommitted employees available to cover them. The amount of firefighters on vacation varied from a high of twenty to a low of three for the twenty-seven weeks evaluated. After the Fire Department finished training replacement firefighters in October they had sixteen uncommitted firefighters available to cover shifts. If they had the sixteen uncommitted firefighters throughout the twenty-seven weeks that were analyzed, for nine of those weeks (33%) the number of firefighters on vacation would have exceeded the amount uncommitted. Due to the many vacancies occurring from July through August the number of weeks that firefighters on vacation exceeded uncommitted firefighters was sixteen out twenty-seven weeks (59%).

Recommendation:

As vacation time is the one part of the overtime commitment that the Department has control over, every effort should be made to ensure that the amount of scheduled time off does not exceed the amount of potentially available uncommitted firefighters.

A 1992 study by the City of San Jose, California reported that the most efficient and effective manner to meet minimum staffing was to staff 73 percent of absences with relief personnel and 27 percent with overtime. This study however is outdated and the parameters of the San Jose Fire Department may not apply to the Manchester Fire Department. The City Manchester should consider having a study done to determine the best mix of relief to overtime.

Auditee Response:

The department honors its contractual obligations by allowing 20 line employees per week to be on vacation.

A 1992 study of a department in California is not relevant to current conditions

Current Status: Due to Labor Contract agreement this recommendation has been determined to be unworkable.

CITY OF MANCHESTER, NEW HAMPSHIRE
TRAFFIC DEPARTMENT PERFORMANCE AUDIT
JUNE 2006

OBSERVATION 1: SNOW REMOVAL:

The department is responsible for snow removal from the City's parking lots and garages. It is important that snow be removed from the lots in a timely manner in order to maximize the number of spaces available for customers who lease spaces in the lots. The Department has elected to bid out the snow removal services to a private vendor. The contractor charges an hourly rate to remove the snow. The cost to the City was $61,633, $54,695 and $37,325 for fiscal years 2003, 2004 and 2005 respectively. The Traffic Department lacks the equipment to efficiently remove the snow in a timely manner however, it may be possible to have another department with equipment such as the Highway Department or Parks and Recreation Department remove the snow.

RECOMMENDATION:

The Department should explore the feasibility of using City labor to remove the snow thereby relieving the need to pay an outside vendor for the service.

AUDITEE RESPONSE:

Snow removal operations will be under the new Parking Division 7/1/06 and the new Parking Manager will determine this recommendation.

Current Status: It was determined that other departments lack the manpower and equipment to remove the snow in a timely manner.

OBSERVATION 5 GAS BOY CONTROLS NOT WORKING:

Out of the 12 vehicles in use during the audit period tested it was noted that 8 of the vehicles did not have odometer readings entered prior to fueling. Upon inquiry it was discovered that the control to require this information has never been used and that no one has been required to enter mileage in order to get fuel. The only vehicles that consistently entered mileage information correctly were the sedans used by the administrative office.

It was also noted that the personnel at the Victory garage have been entering the fuel used for equipment other than the garage truck on the truck's fuel card.

RECOMMENDATION:

The system should be set up to require that mileage be entered prior to dispensing fuel and that the mileage entered meets preset parameters. For example the entered mileage

has to be greater then the previous mileage and not any greater than an acceptable range for that vehicle.

All personnel who are authorized to use the system need to be properly trained in the use and importance of entering data correctly.

Separate cards should be issued for gas cans and small engine equipment and fuel for these items should never be entered using a vehicle's card. This card should be under the control of one assigned individual and kept in a secured area when not in use.

AUDITEE RESPONSE:

We have issued separate cards for gas cans and small engine equipment and fuel for these items. This card is under the control of one assigned individual and kept in a secured area when not in use.

We have instructed personnel to enter all data when filling up.

Current Status: Based on a review of reports from the Gas boy system it appears that employees are using the system correctly. Observation appears resolved.

OBSERVATION 8 STREET MARKING COSTS:

The City of Manchester maintains over 397 miles of class IV, V and VI roads throughout the City. The Traffic Department is responsible for maintaining the traffic markings on all these public roadways as well as parking lots and the remaining city owned garage. A crew of six employees maintains over two million linear feet of road striping, seventy-four islands, hundreds of parking stalls including 19 parking lots and one garage, 1,132 crosswalks, 1,216 Stop Lines and 1,837 stencils and other markings. Painting is done using a latex-based paint.

During calendar year 2005 the painting crew was painting from March 23 to December 5. During this period they painted a total of 132 days. During this time crews worked 8 Sundays, 10 Saturdays and 12 nights accumulating 212 hours of over time and 2,834 regular hours. The following table summarizes the activity for FY 2005.

MARKING	TOTAL	# PAINTED CY 05	% PAINTED CY 05
Islands	74	63	85%
Arrows	1231	300	24%
Stop Stencils	144	0	0%
Only Stencils	292	71	24%
School Stencils	96	96	100%
Crosswalks	1,132	1,090	96%
Stop Lines	1,216	1,151	95%

Long line painting is broken down into segments of roadway. Each segment is determined by breaks in the line and varies in length from a few feet to hundreds of feet. Of the 755 segments the Department was able to paint 68% in calendar year 2005. Those that were not painted in 2005 had been painted in calendar year 2004.

The Department also painted 90% of the street parking stalls but only 15% of parking lots. They have not painted the Victory Garage in several years.

Based on reimbursement requests to the State of NH it is estimate that the cost per linear foot to paint the lines in the road was $.068 per linear foot. The cost to paint crosswalks is estimated to be $.13 per linear foot and $.34 per linear foot for stencils.

The City of Concord in 2002 bid out the painting work and accepted a bid of .042 per linear foot for long lines and $30 to $45 per crosswalk. They were also given an alternative quote of $.015 per linear foot of long lines if the City supplied the paint. A recent bid from the City of Nashua came back with $.0315 per linear foot.

The Department seems to be having a problem painting all road markings in a timely manner. A visual inspection of road markings that have not been painted for over three years shows severely faded or non-existent markings.

RECOMMENDATION:

Because the per linear foot cost to privatize the long line marking is significantly less expensive then the in-house cost it is recommended that the department put this part of the job out to bid. This would free up the staff to concentrate on the area that they appear to be able to do less expensively then private companies. This would allow them to reduce the time between paintings for all markings.

AUDITEE RESPONSE:

Traffic Dept. concurs with recommendation so long as there is a provision to provide next day service to stripe newly paved roads.

Current Status: Unchanged, however the Highway Department is currently looking into this.

Committee on Accounts
Handout from Auditor
1/6/09 –
Tabled

Current Status of Policy and Procedure Manuals

Department	Current Status	Est Completion
City Clerk	In Process	January 2009
MEDO	In Process	January 2009
Parking	Draft by end of January	May 2009
OYS	Draft by February 2009	May 2009
Water	Draft by January 2009	May 2009
Asessors	In Process	June 2009
Building Dept	In Process pending consolidation	June 2009
City Solicitor	In Process	June 2009
Finance	In Process	June 2009
Info Systems	1/3 done	June 2009
Human Resources	In Process	June 2009
Planning	In Process pending consolidation	June 2009
Tax	In Process	June 2009
Fire	In Process	June 2009
Health	In Process	June 2009
Welfare	In Process	June 2009
Parks,Recreation & Cemetaries	In Process	June 2009
EPD	In Process	June 2009
Highway	In Process	June 2009
Police	Currently have P&P Manual	Complete
Library	Currently have P&P Manual	Complete
Elderly	Currently have P&P Manual	Complete
Aviation	Currently have P&P Manual	Complete
MTA	Currently have P&P Manual	Complete

Five Department have completed P&P Manuals
Two expect to have completed manuals by the end of January
Three expect to have manuals completed by the end of May
The remaining departments expect to have completed manuals prior to the end of the fiscal year.

tabled 11/25/08

City of Manchester
Office of the Independent City Auditor

One City Hall Plaza, West Wing
Manchester, New Hampshire 03101
Phone: (603) 624-6523
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RECEIVED
OCT 28 2008
CITY CLERK'S OFFICE

October 28, 2008

Committee on Accounts, Enrollment and Revenue Administration
C/o Ms. Carol Johnson
City Clerk
One City Hall Plaza
Manchester, NH 03101

Dear Honorable Committee Members,

Status of current audit projects

City Purchasing Card Audit

Presented tonight

Drop Off Center Fraud Audit

Field work is wrapping up. A report is expected to be ready by next meeting.

Future Audit Projects

Parks and Recreation Department, Audit of the Business Office
Building Maintenance Division, Performance Audit

Respectfully Submitted,

Kevin M. Buckley
Independent City Auditor

INTERNAL AUDIT REPORT

CITY OF MANCHESTER

NEW HAMPSHIRE

P-Card Program Performance Audit
December 2007

Prepared by
City of Manchester, NH
Office of the Independent City Auditor

INTERNAL AUDIT REPORT
CITY OF MANCHESTER, NEW HAMPSHIRE
P-CARD PROGRAM PERFORMANCE AUDIT
JUNE 2007

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City of Manchester
Office of the Independent City Auditor

One City Hall Plaza
Manchester, New Hampshire 03101
Phone: (603) 624-6460
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Committee on Accounts, Enrollment and Revenue Administration
City of Manchester, New Hampshire
Honorable Aldermen: Sullivan, Lopez, Devries, M.Roy, Ouellette

Dear Honorable Committee Members:

At the January of 2005 meeting of the Committee on Accounts, Enrollment and Revenue Administration, an audit plan was accepted by the Committee. The plan was based on risk of the auditees and is adjusted annually for changes happening at the Departments. The P-Card Program was selected for a performance audit due to the relatively high risk and that the program was new to the City and required an evaluation to see if internal controls were adequate and working as designed. A performance audit systematically examines evidence to independently assess the performance and management of a program against objective criteria. Performance audits provide information to improve program operations and facilitate decision-making.

The audit studied the controls in place and compliance with program goals of the City of Manchester P-Card Program and looked at information from January of 2007 to December of 2007.

The audit procedures began with a documentation and evaluation of the internal control structure in place during the audit period. The audit also looked at State and City laws and regulations in force during the audit period. Department Personnel were interviewed, as were personnel from other communities and departments. P-Card Programs from other jurisdictions were looked at and authoritative literature was obtained to determine best practices.

Conclusion

My testing revealed that the program is falling short of its stated goals and objectives and that in several cases internal controls were determined to be inadequate or could be improved. The program is the preferred method of payment to many vendors and several departments. A few departments had issues with the program and would like to see controls strengthened and enhancements to reporting and tracking of expenditures addressed. In general though the program looks promising and can be made to work more effectively and efficiently.

The draft audit report was sent to the Finance Department for review and comment. The observations generated and the auditee written responses are included on pages eight through twenty-two. The auditee responses indicate general agreement with the report recommendations and states that corrective action will or have been taken. I appreciate the courtesy and cooperation of the staff and administration of the Finance Department on this assignment. At all times they acted in the highest professional manner throughout the course of the audit.

Kevin M, Buckley
Independent City Auditor

April 9, 2008

INTRODUCTION

AUDIT BACKGROUND

During fiscal year 2006 the Finance Department proposed a plan for developing a central purchasing function. The top priority of the plan was to implement a purchasing card (P-Card) program. The plan noted that the following benefits would be obtained from going to a P-Card program:

Benefits to the City

- One monthly statement per card will be received for verification and reconciliation
- No need to prepare and obtain approval signatures in internal order forms
- Automated data entry
- Fewer accounts payable checks

Benefits to the Cardholder

- Obtain goods and services much faster and easier than before
- Significantly reduces workload related to the purchase of and payment for goods
- Allows the cardholder to be more efficient and to focus on the value added aspects of their job
- Significantly reduces clerical processing time and time associated with the approval process

As a further benefit there is a rebate program that was negotiated with the Bank of Montreal. The City will receive a rebate of .41% of purchases over $3,000,000, .7% over $4,000,000 and .91% over $5,000,000. It was originally estimated that the purchasing card would replace 28,000 purchase orders saving 4,500 man-hours of processing time and generate a rebate of $518,000.

During the audit of the 2007 financial statements the external auditors noted that the P-Cards program had several internal control weaknesses. FY 2007 was the first full year of the program and due to the noted deficiencies in internal controls I decided that an audit of the program was needed to determine the extent of the internal control deficiencies and if the program was working as designed.

My audit was conducted in accordance with standards applicable to performance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

AUDIT SCOPE AND OBJECTIVES

This audit was a performance audit designed to test the effectiveness and efficiency of the operation of the purchasing card program as well as compliance with City purchasing rules and regulations and internal controls.

I tested transactions posted to the program from January of 2007 through December of 2007 for compliance with the City Business Expense Policy and the City Purchasing Policy. I also tested and evaluated the system of internal controls in place during the audit period. In addition I interviewed cardholders, approving officials and the program administrator.

Audit Objectives:

The objectives of our audit was to determine whether internal controls over the issuance, use, and cancellation of procurement cards was adequate and whether procurement card purchases were in compliance with the Procurement Card Program Policy and Procedures. Specifically, to determine:

- Backup documentation (i.e., statements, original receipts) is received from the departments/divisions and reconciled to the monthly procurement charges.
- Procurement cards are cancelled timely (3-5 days of termination date) after employees terminate employment with the City.
- Procurement cards are not used for personal use.
- Purchase of capital assets ($5,000 or more) by cardholders with higher spending limit are tagged and recorded in Finance as fixed assets.
- Purchases made by the Procurement Card Program Administrator are independently monitored.
- Purchases are within cardholders' single and monthly limit.
- Split purchases are not made by cardholders to stay within their single purchase limit.
- Discount opportunities on high frequency purchases made from the same vendors are sought by the Procurement Card Administrator.
- Similar purchases that total more than $10,000 are going through quotes or greater than $25,000 competitive bid processes rather than procurement cards.
- Procurement cards are used for small purchases ($0 - $10,000) rather than using purchase orders.
- Training is given to new cardholders prior to using their procurement cards and annual refresher training is given to current cardholders.
- Savings in time and dollars as noted in the original proposal for the program are being realized.

The results of my testing and the related observations and recommendations are included in the report that follows.

BACKGROUND OF PROGRAM

Organization and Personnel

Control of the P-Card Program is a function of the Finance Department. The Finance Director is responsible for the implementation, maintenance, program compliance, payment processing, issuance of P-Cards and bank relations to resolve customer complaints. The P-Card Administrator has been delegated by the Finance Director to oversee the program. Currently the P-Card Administrator position is being held by a Financial Analyst I.

Every department participating in the program assigns an Approving Official whose function is to review and approve daily P-Card transactions in the HTE Procurement Card Module. Their duties include reviewing the transaction on-line and compare the amount to supporting documentation, entering the proper accounting information including work orders and/or project number and approve the transaction. As of December 31, 2007 there were 57 approving officials.

Monthly a statement of activity for the department is run, reconciled to the supporting documentation and approved by a department official. The reconciled and approved report is then forwarded to the Finance Department for processing.

Each Approving Official is responsible for ensuring compliance with program regulations of the several P-Card Holders assigned to them. Cardholders are responsible for adhering to the program's Code of Conduct and principles as set out in the User's Guide as well as all City rules and regulations governing the purchase of goods and services. As of December 31, 2007 there were 281 active cardholders in the system.

History

Purchasing cards were developed in the late 1980s as a way of helping federal government agencies to acquire small-dollar items without subjecting their vendors to the payment delays associated with bureaucratic procurement processes. In addition to expediting payment, purchasing cards have been found to have other benefits such as reducing paperwork associated with requisitions, purchase orders and invoices for thousands of small dollar items.

Based on a survey by Richard J Palmer, Mahendra Gupta, Antonio Davila and Tim Mills local governments report an average per transaction savings in administrative paperwork handling of $46 and an average reduction of 5.4 days in the time elapsed from need determination to receipt of the ordered goods.

During fiscal year 2006 the Finance Department proposed a plan for developing a central purchasing function. The top priority of the plan was to implement a purchasing card program.

An RFP was prepared and the Bank of Montreal was selected as the card vendor. A contract was executed on May 17, 2006. Vendors were notified that they would be required to accept the City purchasing cards no later then July 31, 2006. The Finance Department initially activated 122 cards and the City started using the cards in September of 2006.

At the beginning of implementation the Finance Director and Deputy Finance Director were assigned the position of P-Card Administrators and set up the program and its controls. After implementation the duties of P-Card Administrator were assigned to a temporary P-Card Administrator in the Finance Department. When the employee left their duties fell to the Office Administrator.

Since that time the number and dollar amount of transactions had quickly peaked in early to mid 2007 and has since leveled off.

PCARD ACTIVITY SEPT 2006 THROUGH DEC 2007					
MONTH	**ACTIVE CARDS**	**# OF TRANS**	**$ OF TRANS**	**AVE $ PER TRAN**	**AVE $ PER CARD**
SEPT 2006	122	62	$ 27,946	$ 451	$ 229
OCT 2006	148	251	113,720	453	768
NOV 2006	170	285	98,291	345	578
DEC 2006	216	426	246,143	578	1,140
JAN 2007	239	528	238,082	451	996
FEB 2007	239	615	312,677	508	1,308
MAR 2007	243	768	293,256	382	1,207
APR 2007	258	694	266,914	385	1,035
MAY 2007	267	741	222,062	300	832
JUNE 2007	279	692	268,575	388	963
JULY 2007	281	701	245,372	350	873
AUG 2007	286	879	340,598	387	1,191
SEPT 2007	286	684	265,203	388	927
OCT 2007	285	747	209,666	281	736
NOV 2007	284	737	227,786	309	802
DEC 2007	284	643	226,316	352	797
TOTAL		**9,453**	**$ 3,602,607**	**$ 381**	**$ 927**

SOURCE: BMO Online Monthly Activity Reports

If you use the average savings of $46 per transaction in administrative paper work cited in the survey by Palmer, Gupta, Davila and Mills the City has realized an average savings of over $27,000 per month in administrative paper work. These savings are of time that was able to be used in other areas. P-Card use has also resulted in an increase in efficiencies in paying vendors allowing the City to negotiate better prices for commodities such as office supplies for all City Departments and pharmacy purchases by the Welfare Department.

CUSTOMER SATISFACTION SURVEY

In order to gauge how satisfied users are with the program I used a combination of interviews and questionnaires to judge satisfaction and determine if users were properly trained in card usage procedures. I sampled ten approving officials and 28 cardholders in the survey. Following is a summary of the results.

Satisfaction with the program

In general most cardholders are very satisfied with the program and find it a big improvement over the purchase order system or the old credit cards. Vendors prefer it because they are able to get paid immediately although a very few vendors will not take a credit card due to the associated fees.

Approving Officials and BSOs have mixed feelings about the card. The Welfare Department prefers the card claiming that it saves them time and is more convenient. The police department also likes the program claiming it reduces mail and takes them no more time then the old system.

Of cardholders responding to the question 77% had a favorable opinion of the program, most citing the ease of use as the reason for satisfaction with the program.

Some departments did not like the program. Problems most often cited were:

- Problems with WB Mason posting expenditures but not sending invoices in a timely matter
- Poor reporting functions, no access to online reports
- Additional paperwork, takes more staff time
- Poor internal controls
- Payment occurs prior to getting all receipts
- Requisition/encumbrance process bypassed causing problems at year-end

Training

Approving Officials had the highest percentage of employees who indicated that they were trained by people from the Finance Department (60%) as opposed to 20% of cardholders surveyed. Forty-five percent of cardholders received their training from written material handed out to them as opposed to 20% for approving officials. The remainder indicated that they received no formal training at all (20% approving officials and 35% of cardholders).

When asked if they felt they had enough training and understood the program 75% of cardholders and 60% of approving officials indicated they had adequate training.

When asked questions about the program however 50% of approving officials did not know the spending limits of the cardholders that they approved and 30% of cardholders did not know their own spending limit.

On all questions concerning knowledge of City policies and procedures approving officials claimed they had a thorough knowledge. Several cardholders (30%) did not feel that they had an understanding of City purchasing rules or documentation requirements.

Card Security

When asked where P-cards are kept when not in use 75% of cardholders indicated that when not in use P-Cards are kept in a secured location such as a safe or locked file cabinet drawer. The remaining 25% of cardholders kept their card with them at all times. Some departments such as the police department and library had the cards locked and access to them controlled by a few employees who would check them out and in only when needed.

30 percent of cardholders surveyed are also approving officials who approve their own transactions in the system. Half of the approving officials surveyed are also cardholders and can approve their own transactions in the system. There were two cardholders that were also approving officials but had departmental policies in place against approving their own transactions.

An article in the June 2002 Acquisitions Directions Advisory discusses best practices for a successful purchase card program. Following is a discussion of best practices compared to practices at the City of Manchester.

BEST PRACTICE: MAKE TRAINING MANDATORY

The key to a successful program is educating all participants in the proper execution of the program. This means educating the cardholders on applicable procurement regulations, appropriations issues, and reconciliation of monthly purchase card statements. It means educating oversight officials on appropriate review of cardholders' purchases and reconciliations and appropriate use of oversight tools available to them.

OBSERVATION 1: INSUFFICIENT TRAINING PROGRAM

Observation:

Many of the card holders are outside of the procurement function and don't have a good knowledge of budgets or purchasing rules. Card holders need to know that purchasing a refrigerator for your office is generally not allowable and there is a fine line on whether food provided for training is allowable.

The P-Card program does not offer any organized and continuing training for card holders or approving officials and instead leaves it up to them to research purchasing rules and determine what is appropriate.

Recommendation:

The P-Card administrator should develop a training program that covers subjects such as:

- The City Business Expense Policy
- The City Procurement Code
- City Budgets
- Year end closing procedures
- Record keeping
- Proper documentation
- Duties of Approving Officials
- How to conduct a review of purchase card transactions

Training should be mandatory and refresher courses provided annually. Refresher courses do not have to be classroom classes but could be done on-line of by written materials that are updated annually for changes to the program or purchasing rules.

Auditee Response:

We agree with the auditor's recommendations however, we do not have the available resources to develop and implement these training programs. We intend to implement these recommendations when the Finance Department reaches full compliment in July, 2008.

INTERNAL CONTROLS

BEST PRACTICE: ENSURE STRONG MANAGEMENT, SUPPORT OF CONTROLS

The most successful government purchase card programs have a common characteristic: strong commitment and leadership by senior management. A positive control environment is the foundation for all other standards, as it provides discipline and structure.

The Program Administrator in the Finance Department was assigned the task of administering the program after the program was set up. The program is done in addition to her other duties as office administrator. Daily she performs the functions of the program assigned to her and appears to keep a close eye on the program. The Program Administrator does a good job of fostering a positive control environment based on the program given to her. As noted in the observations that follow the program has some internal control concerns that need to be addressed in order to make it more secure. The auditor has some additional concerns that the Program Administrator's other duties do not allow her the time necessary to make the function run as effectively as possible.

BEST PRACTICE: USE THE INFREQUENT BAD APPLES AS EXAMPLES

The consequences and penalties of inappropriate behavior should be clearly outlined Prior to issuing a purchase card. The organization should ensure that swift action is taken for those that improperly use the card and make the improper uses – and the consequential actions taken – known to all cardholders.

The City of Manchester program achieves this best practice by having a code of conduct that cardholders are required to abide by. This is a commendable practice; however, I feel that there are some areas of the Code of Conduct that could be improved.

OBSERVATION 2: CODE OF CONDUCT LACKING IMPORTANT ELEMENTS

Cardholders are required to sign a purchasing card agreement form prior to receiving their card. One of the elements they agree to is that they have read the Purchasing Card Program Cardholder Guide (the Guide) and will abide by the policies contained within. The final section of the Guide is a written code of conduct.

My review of the guide has noted that there are a couple of missing elements that should be in the code of conduct.

- The code of conduct does not have any reference to the City Procurement Code or the City Business Expense Policy. Both these documents are an integral element of control over expenditure of City funds. All cardholders should be familiar with the policies prior to being allowed to spend City funds.

- The Guide has some language in the Overview section and in the Audits section that deals with penalties or corrective action that will be taken if the cardholder does not adhere to the policy. This language is missing from the code of conduct. The language is also vague and does not spell out any steps that will be taken such as suspension of use, required additional training, revocation of use and dismissal.

Recommendation:

The code of conduct should be amended to include reference to the Procurement Code and Business Expense Policy as well as language that reflects the penalties for noncompliance.

Auditee Response:

We agree with the auditor's recommendation however, with our current compliment we do not have the available resources to dedicate the time and effort needed to implement changes. We intend to implement these recommendations when the Finance Department reaches full compliment in July, 2008.

As of August 2008, the recommended additions relating to policies and penalties were added throughout the Cardholder Guide as appropriate.

BEST PRACTICE: BE SELECTIVE IN ISSUING CARDS

Establish an effective approval process through which applicants must be approved prior to being issued a license to spend taxpayers' money.

The City of Manchester does have a policy of only issuing P-Cards after the prospective cardholder has signed the P-Card agreement. Written procedures are also in place that requires changes are done timely and only after a signed and approved change order form is presented to the P-Card Administrator. City policy is that cancelations are to be done immediately upon notice of termination. My testing of these controls revealed several errors as noted in observations 3 and 4.

BEST PRACTICE: TAKE ADVANTAGE OF PREVENTATIVE CONTROLS TO MINIMIZE RISK EXPOSURE

Use built in controls of the system to block certain spending categories or purchases from certain vendor categories.

While the BMO system has a number of controls available to the program, as noted in observations 3, 4 and 5, the City has not taken full advantage of them.

OBSERVATION 3: UNTIMELY CARD CANCELLATIONS AND ACTIVATIONS

Observation:

A P-Card Program best practice is that when a person leaves City service the employee's P-Card is immediately cancelled. The P-Card Administrator in the City of Manchester relies on the department to notify her of a P-Card holder change. I ran a report of all P-Cards and their status as of 1/10/08 and a Termination Report for the calendar year ended 12/31/07 from the HTE system. I then compared the termination date on the Termination Report to the termination date on the card holder report and termination dates in the BMO Online system. I noted of the twelve cardholders that were terminated during the year four had cards that were terminated up to seven days, and in one case, 125 days after the employee terminated their service with the City.

Cards that are active after an employee's termination date increases the risk that improper charges can be made after an employee leaves service.

It was also noted that of the 282 cards reported as active in the HTE module, 24 were cards that have yet to be activated in the banking system and are currently sitting in the Finance Department safe. These cards have been in the department's possession for over a year without being activated. This runs the risk, although a small one, that the cards could be activated and fraudulently used.

This is reflective of the Finance Department initially ordering cards prior to approving the employees for the P-Card Program. From our sample of 28 cardholders 25 were added to the system prior to being approved by the department head, and P-Card administrator. Because cardholders are not required to come to Finance in person and sign for their cards it cannot be determined if the card was held until all approvals were received.

Of our sample of 25 active cardholders 6 of 7 had per purchase limits noted on the application and in the HTE module but no per purchase limit set in the BMO banking system.

Recommendation:

When an employee terminates employment the P-Card should immediately be cancelled. For employees who voluntarily leave service the cancellation date should be the date the City is notified of the employee's intent to terminate. If the employee needs to make a purchase after that date they may use a purchase order.

Cards should not be ordered for employees who have not been approved for the program and the cards in the safe should be destroyed after determining that the listed card holder will not participate in the program.

Cardholders should be required to come to the Finance Department and sign that they have received their card.

The P-Card Administrator should ensure that any per purchase limits noted on the application are actually being used in the BMO banking system.

Auditee Response:

We agree with the auditor's recommendations and have taken measures to resolve some of the issues noted. The 24 cards that were in the Finance safe have been cancelled and destroyed. In three of the four circumstances noted in the auditor's observation, the departments had specifically requested that the cards remain open for billing reasons ie: update the credit card information with the vendor, and/or a pending credit that was due on the card. Currently, it is not Finance Department policy to order cards prior to approving the employee for P-Card Program. We do not order a card until an application is received by Finance and signed by the applicant, the department head and p-card administrator. We currently do not have the available resources to dedicate the time needed to research and institute the necessary changes to monitoring accounts, updating policies and changing procedures. We intend to implement these recommendations when the Finance Department reaches full compliment in July, 2008.

OBSERVATION 4: FINANCIAL EXPOSURE NOT ADEQUATELY CONTROLLED

Observation:

One of the goals of an effective internal control system of a purchase card program is to try and understand and reduce the City's financial exposure to loss. The total financial exposure of the P-Card Program is a function of the combined spending limits of the individual cards. Financial exposure is limited by controlling the number of cards allowed to only those necessary to carry out the City's functions and to set both daily and monthly limits to the minimum necessary to carry out each individual cardholders needs. The cards can also be restricted to only certain types of merchant category codes.

To understand the exposure the P-Card Administrator should be aware of the total spending limits and be constantly monitoring the spending habits of the individual cardholders to determine if the limits need to be adjusted. The BMO Online system and the HTE P-Card module provide many report functions that would be useful in an ongoing monitoring program.

The following issues were noted during my review of the P-Card program that affects the financial exposure of the City.

- The P-Card program does not appear to do an adequate job in controlling the issuance of new cards. As of January 10, 2008 the City had 282 active cards. There does not appear to be any written rule or procedures for determining who should be eligible to have a purchasing card. The thought appeared to be to get as many cards out there as possible in order to maximize the use of the program and achieve expenditure levels necessary to take advantage of the rebate program. This has caused a proliferation of cards that may be leading to span of control issues in some departments.

- There do not appear to be any written rules or procedures for setting spending limits. From a review of P-Card spending limits it appears that most cards are set at a default of $1,500 or $2,500 for both the monthly and per transaction limits. Even with cards that have high spending limits the per transaction limit defaults to the monthly spending limit. For example there are several cards with spending limits of $100,000 to $250,000 for both the monthly and per transaction limit. The rational is that occasionally that individual will have to purchase a single item such as a vehicle or piece of equipment that would be close to their limit. The program has the ability to temporarily change limits for occasional large purchases but they do not take advantage of this ability.
- The program lacks a written required monitoring program to review spending levels and spending patterns. Departments do not have to certify to the P-Card administrator that the cards under their control have been reviewed and the limits have been set correctly.
- The program lacks a written program to occasionally review spending reports by vendor in order to negotiate price discounts from frequent vendors and uncover cardholders who are not purchasing off of already established contracts.
- For cards that are used infrequently the program has the ability to quickly activate/deactivate cards so they can be used only when necessary. For example some card users only need the card when they travel. The card can be activated prior to their departure and deactivated upon their return. This program does not appear to be taking advantage of this ability.

Recommendations:

1. The P-Card administrator should develop criteria for the issuing of P-Cards and expand the application to include an explanation for the necessity of having a P-Card, expected highest monthly and per transaction level, and frequency of use.
2. Rules and procedures should be developed for the setting of P-Card spending limits. Per transaction level should be based on the usual highest expected transaction and not the occasional highest transaction. If a temporary increase in spending limit is required the reason for the increase and time period required should be documented.
3. The program should have an ongoing continuous monitoring program to determine if spending limits are set correctly. This can be done at the approving official level on an annual basis. The approving official will then certify to the P-Card Administrator that the levels are set correctly or that adjustments need to be made.
4. The program should have a vendor spending monitoring program to try and find opportunities for negotiating price breaks with vendors and discovering card holders who are not buying on pre-negotiated contracts unless they are able to purchase at a lower price for an equal or better commodity.
5. The P-Card administrator should take advantage of the ability to activate cards only when needed and deactivate when the activity is over or to temporarily raise the spending limits for the occasional large purchase.

Auditee Response:

We agree with the auditor's recommendations and are looking at current spending limits and spending. However, with our current compliment we do not have the available resources to dedicate the time and effort needed to continuously monitor department spending, credit limits and vendor relations. We intend to implement these recommendations when the Finance Department reaches full compliment in July, 2008.

OBSERVATION 5: CONTROLS OVER CHANGES NOT CONSISTENTLY APPLIED

Observation:

I selected all changes made to account limits during CY 2007 from BMO Details Online and traced the information to the P-Card Account Maintenance Form. Of the 31 changes that took place 14 (45%) had errors noted as noted below:

- Three changes had per purchase changes noted on the form that were not included in BMO Details Online.
- Three changes in BMO Details Online had no P-Card Maintenance Form on file.
- Two instances where the final approval was done subsequent to the change in BMO Details Online.
- Six instances where the P-Card Maintenance Form lacked the P-Card Administrator approval
- One P-Card had all limits removed from the card with no P-Card Maintenance Form on file.

Recommendation:

- The one card where the limit was removed should be changed to reflect a reasonable limit level.
- P-Card Maintenance forms should be maintained for all changes.
- All approvals should be obtained prior to making the change in BMO Details Online.
- As also noted in observation N-5 per purchase limits while noted on many of the card applications and change forms are rarely included in BMO Details Online. The program should take advantage of this feature to limit exposure to large expenditure errors or irregularities being charged to the card.

Auditee Response:

We agree with the auditor's recommendations and have are in the process of correcting any discrepancies. We are also carefully monitoring all requests and forms prior to making any changes on P-Card accounts.

BEST PRACTICE: ESTABLISH SPENDING LIMITS COMMENSURATE WITH NEEDS

Agencies should strive to align cardholder limits with actual needs and to establish a process by which spending limits are reviewed on a regular basis and cardholders can receive a one-time spending limit increase if the legitimate need to do so arises.

The City does have a process to set limits when a card is issued but as noted in the following observations does not have written rule or procedures to set the limits and does not have a program to review limits on a regular basis to ensure that they are set correctly. They do have a process to allow a one-time spending increase under certain circumstances that testing has shown appears to be working adequately.

OBSERVATION 6: SPENDING LIMITS SET EXCESSIVLY HIGH

Observation:

I selected 34 cardholders for testing to determine if the monthly and per purchase expenditure limits were set at a level that would minimize the exposure to the City for loss due to inappropriate card use. For the cardholders selected I obtained all expenditures charged to the card in calendar year 2007 and calculated the highest monthly and per purchase item charged during that time period.

Per-Purchase Limit Testing

In my sample of 34 cardholders the-per purchase limit appeared to be selected in only one card. As noted in Observation 4, the per-purchase limit option is rarely used as a control. When the-per purchase control is not selected it defaults to the monthly amount. From my sample only 2 cardholders demonstrated a need to have as high of a per purchase amount as was set in the BMO Banking system.

Monthly Purchase Limit Testing

For testing purposes a monthly purchase limit was determined to be unnecessarily high if the highest monthly balance during the year was less than 50% of the cardholder's monthly limit set in the system. Out of the 34 card selected for testing 27 (79%) had monthly limits that appear to be unnecessarily high. Eleven cards (32%) had no activity throughout the 12 months. As part of my sample I selected all cards with a per month limit of over $70,000. Of these six cards one had no activity for the year and three others had seven or less transactions during the year.

Three of these high limit cards belonged to department heads and had limits of $100,000 with almost no activity.

Recommendation:

The P-Card administrator should require that annually every approving official should review the activity and limits for all cardholders under their control and either adjust the limits or justify the reason for maintaining such a high limit.

Department heads should not have high limits set on their cards. Department heads should use their cards for travel related expenses only.

Auditee Response:

We agree with the auditor's recommendation. Currently, spending limits are set by the department head and changed (ie: limits are increased or decreased) as necessary. We are looking into current spending limits versus actual spending however we do not have the resources to dedicate the time and effort needed to monitor this control. We intend to implement the recommendation when the Finance Department reaches full compliment in July, 2008.

BEST PRACTICE: COMMIT THE RESOURCES NEEDED TO ACHIEVE SUCCESS

Allocate sufficient resources to effectively manage and perform oversight.

The City appears to have assigned sufficient numbers of approving officials to manage the oversight function. The federal GSA suggests that five to ten cardholders per approving official is an appropriate number. The City seems to be well within that range. From a survey of approving officials none indicated that they had too many cardholders assigned to them.

BEST PRACTICE: IDENTIFY APPROPRIATE OVERSIGHT OFFICIALS AND CLEARLY DELINEATE RESPONSIBILITIES

Agencies should establish and apply the same high standards of cardholder selection to the selection of approving officials. Approving officials should be sufficiently independent and of sufficient rank to question the cardholder when additional information is needed about specific transactions. Approving officials should be held accountable for performing adequate, timely reviews as part of their job performance review and should be held accountable for cardholder abuse when inadequate reviews were a contributing factor.

As noted in observation 7 the P-Card program does not always do an adequate job in assigning approving officials.

BEST PRACTICE: ENSURE SEPARATION OF DUTIES

Responsibilities of cardholders, reviewing officials, and reviewing and approving the A900 report should not overlap. Cardholders should not be approving their own transactions either at the approving official level or when signing off on the A900 report. In general, a single individual should not buy, receive and certify funds available for purchases. Key duties such as authorizing, approving, and recording transactions; issuing or receiving assets; making payments; preparing

checks and check signing; certification of funding; and reviewing or auditing should be assigned to separate individuals.

In general the program has adequate separation of duties but testing revealed certain instances where approving officials approved their own transactions and in some cases also signed the A900 as noted in observation 7.

BEST PRACTICE: ESTABLISH A MULTI-FACETED APPROACH TO MONITORING AND OVERSIGHT

A strategic multi-faceted approach to monitoring is warranted that addresses who conducts reviews and how they will be conducted. This includes the strategic use of automatic reporting tools, primary oversight at the department level and a higher level of oversight protection in the case that departmental oversight fails.

The P-Card program has both department level monitoring and monitoring at the Program Administrator/Finance Department A/P processing level. As noted in observation 7 the program does not make full use of available reports for program monitoring.

OBSERVATION 7: WEAK CONTROLS OVER APPROVING OFFICIALS

Observation:

The P-Card program consists of three layers of control agents.

- The P-Card Administrator in the Finance Department has overall control of the program. She controls access to the system by granting approval of P-Cards and setting dollar limits on card use by month and per transaction.
- The Approving Official is the first line of defense against waste, fraud and abuse. Their job is to review P-Card transactions in the system to ensure that the correct amount has been charged, that sufficient and proper documentation is available and that all charges are legitimate and follow all City procurement and expense policies.
- P-Card users are responsible for obtaining proper documentation for their transactions and following correct procurement and expense policies and procedures.

A best practice for P-Card programs is to clearly identify oversight officials and clearly delineate responsibilities. Agencies should establish and apply the same high standards of cardholder selection to selection of approving officials. Approving officials should be sufficiently independent and of sufficient rank to question the cardholder when additional information is needed about specific transactions. Approving officials should also be assigned only the number of cardholders to review that they can easily handle in conjunction with their regular duties (also know as Span of Control).

The City of Manchester P-Card Program does not follow this best practice in several important ways.

- Approving officials do not have to sign an agreement or be approved by the P-Card Administrator in order to be an approving official.
- The P-Card Administrator does not track approving officials. When asked for a list of approving officials it took a few days and the combined efforts of two people to put one together. The P-card administrator should be aware of who is an approving official and should be monitoring them.
- There is no written guidance or any policies and procedures for being an approving official.
- There is no training program for approving officials.
- There is no policy on the span of control that is appropriate for an approving official. The Department of Defense issued guidance that each approving official should be responsible for between five to ten cardholders. The federal General Services Administration cites that the most common ratios are between four and ten cardholders per approving official.
- Approving officials should not also be card holders as these are incompatible duties. From a review of approving officials it was noted that some were also card holders.
- From the review of approving officials and cardholders it was noted that several department and division heads had P-Cards and the approving officials were staff who worked for them. In some cases a card holder was also an approving official for their supervisor which poises an independence problem.

Recommendation:

1. The Finance Department should develop a written approving official guide and policy and procedures manual for approving officials that clearly spells out the duties and responsibilities of approving officials. The guide should also set a range for the span of control that any single approving official should have that would ensure that the official will have the time to adequately perform their crucial control functions.
2. The Finance Department should develop a training program for all approving officials. Training should be a required prerequisite to becoming an approving official. There should also be an annual refresher course that would discuss new policies and procedures or problems encountered with the program.
3. Approving officials should be required to submit a purchasing card approvers request form and a purchasing card approvers agreement much like the cardholders submit before they can use a card. This form would be evidence that only qualified employees who have been trained and understand their required duties are allowed to be approving agents.
4. The P-Card Administrator should monitor the activities of approving officials to ensure that they are attending annual training sessions and that they are performing their job functions adequately. The P-Card Administrator should be made aware of any problems with documentation or questioned expenses found by the Accounts Payable employee in the Finance Department. A pattern of rejected monthly invoices could indicate a problem that may be corrected with additional training.

5. Approving officials should not be cardholders who have the ability to approve their own transactions. This is extremely important in smaller agencies where the approver may also be the person who receives the goods or service and thereby controls the entire process.
6. Department head P-Cards should be limited to travel expenses only when the approving official is an employee reporting directly to them. No approving official should be in charge of approving expenses of an employee who is in a position that does not allow the approving official to question the cardholder for additional information.

Auditee Response:

We agree with the auditor's recommendations and have been updating the current p-card approver's guide. However, with our current compliment we do not have the available resources to dedicate the time and effort needed to research, develop and implement the recommended changes to training, policies and procedures. We intend to implement these recommendations when the Finance Department reaches full compliment in July, 2008.

PROGRAM GOALS AND OBJECTIVES

When the P-Card Program was proposed two important parts of the justification to start the program were:

1. Use of the card would save time and money by shifting time and costs away from the processing of purchase orders and reconciliation of checks.
2. The program would provide an additional revenue source from a rebate program offered by vendors.

Based on a study done by the National Association of Purchasing Card Professionals the average savings from using a purchase card was $60 per transaction compared to the traditional PO process. In July of 2006 the Finance Department presented the P-Card Program as part of an overall Central Purchasing Program. They identified over 28,000 purchase orders requiring 4,500 man-hours of processing time during calendar year 2005. They claimed that if the P-Card system was in place the City would have received $518,652 in rebates during that year.

OBSERVATION 8: PROGRAM NOT MEETING USAGE GOALS

During calendar year 2007, the first full year that the P-Card Program was in effect the program replaced approximately 8,200 transactions and returned rebates of $12,679.

There were several reasons for the low rate of use compared to the estimate.

1. Many of the vendors that it was assumed would accept the P-Cards with either would not accept or were unable to accept the cards for certain transactions.
2. Not all departments were willing to shift immediately to the program and only used the cards for part of the year or used them for only limited transactions until they figured out how to best use the cards and how to control their use. There were many unanswered questions about the card use that made some business officers uncomfortable with their use. They felt uncomfortable with the lack of an encumbrance at year end and also felt that several internal controls were weakened.
3. Several employees chose not to use the card because they felt that they would be exposed to personal risk from some of the requirements in the P-Card Agreement that they would have to sign.

Recommendation:

1. The City should continue to work with vendors to gain acceptance for the program.
2. Procedures should be developed in order to address the concerns of card users. More training and communication with departments is necessary in order to identify and solve card issues as they come up.

3. The card agreement should be modified to make it clear that employees could be held responsible for transactions only if they are in willful violation of the policy. It should be made clear that employees would not be held personally responsible to pay back the City for honest mistakes but only for willful violation of policy.

Auditee Response:

We agree with the auditor's recommendations. We have worked with our credit card provider as well as contacting our vendors directly and unfortunately the utility companies, which make up a significant amount of our spending, will not allow the City to use credit cards to pay bills. We intend to implement these recommendations when the Finance Department reaches full compliment in July, 2008.

11/25/08 Independent Auditor
Kevin Buckley
Handout
Committee on Accounts

City of Manchester
New Hampshire

Purchasing Card Program Guide

November 2008

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INTRODUCTION

Welcome to the City of Manchester Purchasing Card Program (P-Card)!

This guide is designed to acquaint you with information about the P-Card Program's policies and procedures. You should read, understand, and comply with all provisions of this Guide. It describes the responsibilities of the cardholders, approving officials, and program administrator. It also outlines the processes and procedures to facilitate secure, timely, and accurate purchasing transactions. The City's objective is to provide purchasing channels that empower the employees to assure resource needs are met to deliver quality services to the citizens of Manchester while at the same time providing the necessary financial controls to safeguard the City's assets.

The P-Card Guide cannot anticipate every circumstance or question. As the City's usage continues to grow, we may revise, supplement, or rescind any policies or portion of the Guide from time to time as deemed appropriate.

Again, welcome to the P-Card Program!

Sincerely,

Frank C. Guinta
Mayor

Purchase Cardholder Guidelines

1 CARDHOLDER SET-UP AND ACTIVATION

1.1 Overview

The Purchasing Card Program (P-Card) is designed to assist the City in reducing its reliance on requisitions, purchase orders, petty cash funds, employee advances and paper checks, and to reduce the need for employees to use personal funds for business purposes. The program should help increase the turn-around time in the fulfillment of orders, provide greater flexibility and reduce paperwork. Just as with all financial instruments, i.e. checks, direct deposit, ACH, and other forms of electronic or magnetic payments, the Finance Director as City Treasurer is responsible for the implementation, maintenance, program compliance, payment processing, issuance of the P-Card, and bank relations to resolve customer service issues. Just as with all other forms of payment, decisions about individual purchases remain the responsibility of the City's various departments in accordance with adopted policies and ordinances. Only employees of the City are allowed to participate in the program and only for City business purposes. Each cardholder has the responsibility to submit their monthly account statement with the appropriate receipts and signatures for processing and payment to their departmental administrator by the due date.

All policies outlined in this Guide shall be adhered to and any failure to comply can result in suspension from the P-Card Program and also include disciplinary actions that may include termination of employment. The P-Card issued to the cardholder is the property of the City and can be canceled at any time. Periodic audits will be performed to ensure the cardholder is in compliance with the policies and procedures.

1.2 Cardholder Setup

A new participant in the P-Card Program shall complete the P-Card Application and obtain the appropriate authorizations. The form shall be submitted to the P-Card Administrator by the applicant's department head. Once the application has been approved by the P-Card Administrator and the bank has processed the request, an account for the cardholder shall be established.

The new participant is also required to acknowledge that he/she has read the Code of Conduct (page 12) for the program and shall adhere to the principles in this Guide by signing the Agreement Form. These documents shall be completed and signed prior to the release of the P-Card to the cardholder.

- P-Card Application Form
- P-Card Agreement Form

1.3 Activation of Account

To activate your P-Card follow the instructions below.

1. Call the toll free card administrator phone number on the label affixed to the card.
2. You will either be prompted to enter your card number by an automated system or you will have to give your card number to a live person.
3. You will then either be prompted or asked for your activation password.

If you have problems activating your account, please call the P-Card Administrator at 624-6460 or via email at dfoster@manchesternh.gov.

2 PURCHASING GUIDELINES AND LIMITS

2.1 Overview

The City encourages purchases be made using the P-Card. All purchases shall be made in compliance with the City's ordinances, Procurement Code (May 2005), Business Expense Policy (October 2007), and the guidelines set forth in this Guide. Violations of the policies and procedures regarding the usage of purchasing cards may result in the following actions: temporary suspension of card usage, additional training on purchasing policies and procedures, permanent revocation of charging privileges, disciplinary action (i.e., repayment of charges, termination of employment), and criminal prosecution. Only authorized cardholders shall use the P-Card and no authority is permitted or conferred to the cardholder for the delegation of its use. Each cardholder has a designated credit limit for monthly purchases as well as single purchase transactions. Intentional circumvention of these limits is strictly prohibited, for example, splitting a transaction amount with the same vendor or multiple vendors for purchases that would otherwise exceed the cardholder's limits. The City will perform periodic audits electronically and manually to verify adherence to this policy.

2.2 Purchase Card Limits

The monthly purchase card limit for non-department heads will be $5000. For department heads, the monthly purchase card limit is $10,000. Any amounts over these limits must have a written justification on the P-Card request form and be submitted to the Purchase Card Administrator. This justification must clearly demonstrate why the higher limit is necessary and its impact on City business if not approved. The P-Card Administrator will forward the request to the Finance Officer for approval or disapproval. The Department head will determine the single limit transaction for each cardholder.

2.3 Examples of Prohibited Purchases with the P-Card include:

- Cash advances, wire transfers or money orders
- Personal purchases
- Donations

3 RECORDKEEPING AND RECONCILIATION

3.1 Overview

The cardholder is responsible for providing the AO with all adequate receipts or invoices for goods and services purchased with the P-Card. The Approving Official shall contact the vendor directly to resolve any discrepancies or incomplete orders. The documentation retained shall include original sales receipts, packing lists (if applicable) and credit card transaction receipts. Any incorrect charges, duplicate transactions or missing credits shall be addressed directly between the Approving Official and the vendor.

3.2 Reconciling

Month end account statements shall be reviewed by the approving officials. The AO shall verify amounts charged, and vendor information. If the cardholder is missing receipts, the cardholder or their Approving Official shall request a copy to provide the required substantiation.

3.3 Missing Receipts

All transactions must be reviewed and approved by the cardholder's supervisor and department head. The Approving Official shall request, thru the P-Card Administrator, the suspension of a cardholder's p-card until all missing receipts and other substantiating documents are provided.

3.4 Examples of Receipt Documentation

- Cash register receipt
- Car rental original receipt showing date in and out
- Airline itinerary and sales receipt (if an electronic "e-ticket" attach the boarding pass document)
- Itemized hotel bills
- Itemized invoices
- On-line order confirmations

4 DISPUTED TRANSACTIONS

4.1 Overview

The AO shall notify the P-Card provider immediately of any disputed charges. The approving official shall advise the PCA of any disputed items outstanding more than 30 days.

5 ACCOUNT MAINTENANCE

5.1 Overview

Cardholder information, such as credit limits, etc., may be changed periodically. Requests shall be forwarded to the P-Card Administrator for review, approval and processing (see "P-Card Account Maintenance Form" located on G drive).

5.2 Examples of Information Updates

- Cardholder address
- Credit limit
- Type of purchasing allowed by the cardholder
- Cancellation of the cardholder's account
- Suspension of the cardholder's account

5.3 Termination

Upon transfer or termination, the employee shall immediately surrender the P-Card to their supervisor or department head. The AO shall immediately notify the P-Card Administrator who shall notify the provider and cancel the card.

6 TRAVEL EXPENSES

6.1 Overview

A cardholder shall have the travel expense purchase option enabled in their account profile in order to use their P-Card for such expenses. The cardholder shall adhere to the City's Travel Policy.

6.2 Approved Travel Expenses

- The P-Card shall not be used for gasoline for personal vehicles when it is used for business purposes. Business travel incurred when using a personal vehicle shall be reimbursed by claiming mileage on an expense report. If traveling with a rental car, then gasoline shall be purchased using the P-Card.
- The P-Card shall be used to pay itemized hotel bills.
- The City does not provide ATM privileges with its P-Card Program. Any cash needed while traveling shall be from personal funds that are reimbursed in accordance with City ordinances and policies and upon submitting an expense report.

7 AUDITS

7.1 Overview

All cardholder accounts are subject to periodic audits to ensure compliance with the City's overall policies and the policies outlined in this guide. The P-Card Administrator and the Internal Auditor will review daily, monthly and annual transaction activity reports to ensure adherence to the P-Card policies.

7.2 Violations

Violations of P-Card use include:

- Intentional splitting of transactions to circumvent the credit limit including single day and single transaction limits.
- Allowing an unauthorized user to use the P-Card.
- Purchase of prohibited products, services or merchandise.
- Non-reimbursement of personal charges on the P-Card.
- Fraudulent transactions with a vendor.

8 LOST OR STOLEN CARDS

8.1 Overview

If a card is lost or stolen, the cardholder shall immediately inform the Approving Official who shall immediately notify the P-Card Administrator. Upon notification, the card shall be suspended immediately and any charges posted to the account after the "missing date" shall be denied. A new card shall be issued upon completion of an application stating that the card is a replacement. After the application is received by the P-Card Administrator it will take approximately ten (10) days to reissue a replacement card.

8.2 Card Security Rules

- The card shall be retained in a secure location at all times.
- All canceled card must be destroyed immediately.
- When presenting a card for purchases, provide your driver's license to identify you as the authorized user of the card.
- Sign the back of the card and also write "See ID" next to the signature to remind the vendor to look for your personal identification to authenticate the transaction.
- Do not provide your P-Card account number to unsolicited marketing calls.

8.3 Contact Information

Dana Foster
624-6460
DFoster@ManchesterNH.gov

CODE OF CONDUCT

The Code of Conduct for the City of Manchester Purchasing Card Program (P-Card) is designed to provide the participant with a set of guidelines and a philosophy to follow regarding the use of the card.

- **Business Practices**
  In all supplier relationships and purchasing, promote and cooperate with trade and professional associations and with state, federal, local and private agencies on encouraging fair, ethical and legal business practices.

- **Negotiations**
  Employees shall conduct themselves in accordance with the City's Procurement Code and in a good faith manner when negotiating with suppliers. Any intentional misrepresentation is strictly prohibited.

- **Organization Policies**
  All purchases shall be made in compliance with the City's ordinances, Procurement Code (May 2005), Business Expense Policy (April 2007), and the guidelines set forth in this Guide. All cardholders will be familiar with these polices and procedures prior to using purchasing cards.

- **Penalties for Misuse of Purchasing Card**
  Violations of the policies and procedures regarding the usage of purchasing cards may result in the following actions: temporary suspension of card usage, additional training on purchasing policies and procedures, permanent revocation of charging privileges, disciplinary action (i.e., repayment of charges, termination of employment), and criminal prosecution.

- **Personal Use of P-Card**
  Only authorized business purchases shall be initiated with the P-Card. Any personal purchases are strictly prohibited.

- **Purchase Restrictions**
  Employees shall check with the respective department manager or the P-Card Administrator if any questions arise concerning the validity of a particular charge under the P-Card program.

- **Purchases**
  P-Card purchases shall be made so that the City gains maximum value and quality for each purchase.

- **Security**
  Employees shall make every effort to insure that P-Cards are kept in a safe and secure place at all times.

- **Supplier Bids**
  Where required, all suppliers shall be offered an equal opportunity to participate in the City's purchase programs in accordance with federal and state statutory regulations and the City's ordinances and Procurement Code.

- **Supplier Disagreements**
  If a disagreement occurs with a supplier, the employee shall make every effort to reach a reasonable and equitable settlement to the dispute.

- **Supplier Gifts**
  Decline all personal gifts offered by a supplier. Acceptance of gifts is strictly prohibited.

Approving Official Guidelines

9 DUTIES AND RESPONSIBILITIES

9.1 Overview

An Approving Official (AO) is responsible for ensuring the department's p-card transactions are made in accordance with the City's ordinances, Procurement Code (May 2005), Business Expense Policy (April 2007), and the guidelines set forth in this Guide.

9.2 Who is Eligible to be an AO?

An AO should typically be a department head, appointed designee, or a supervisor who has sufficient authority to conduct inquiries into questionable transactions or cardholder conduct. An AO may be a cardholder, but their transactions must be approved by their supervisor, department head, or appointed designee.

9.3 Process to Become an AO

Prior to becoming an AO, an individual will submit an Approving Official Authorization signed by their department head along with an Approving Official Agreement signed by the employee. The authorization form will state who the approving official for purchase transactions will be for said AO.

9.4 Responsibilities

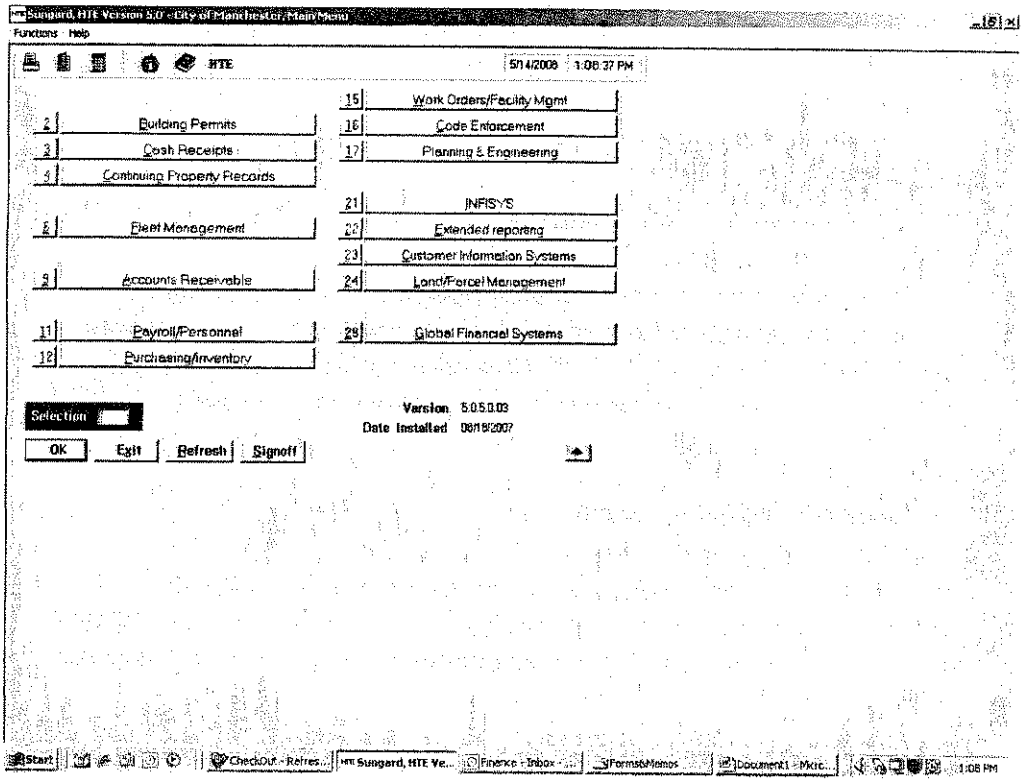
The following responsibilities are assigned to Approving Officials.

- Monitor compliance of their designated cardholders with the Purchase Card Program's guidelines and the city's policies and procedures.
- Approve cardholder transactions on a daily basis.
- Ensure that all statement reconciliation documentation (i.e. receipts, invoices) is received.
- Review monthly account statements and transaction documentation to see if it matches. Then forward entire package to the Finance Department for final disposition.
- Ensure that all expenditures are assigned to the correct account number.
- Monitor cardholder activity for unusual transactions or patterns of use.
- Document, investigate, and report to P-Card Administrator and department head cardholder violations.
- Notify P-Card Administrator, immediately, of changes in cardholders' status that results in cancellation of a purchase card.
- Notify P-Card Administrator if monthly review identifies active cards that should be cancelled.
- If AO is a cardholder, follow the guidelines set forth for purchase cardholders.

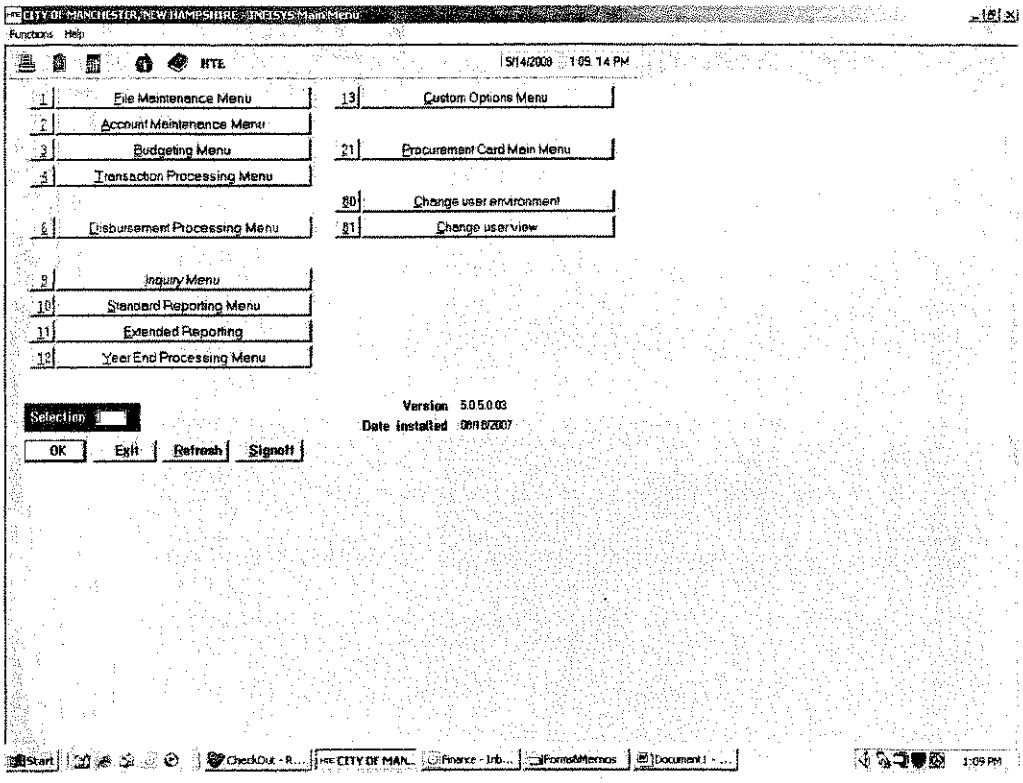
9.5 Steps to Approve a Transaction

The following steps should be used by an AO to approve transactions.

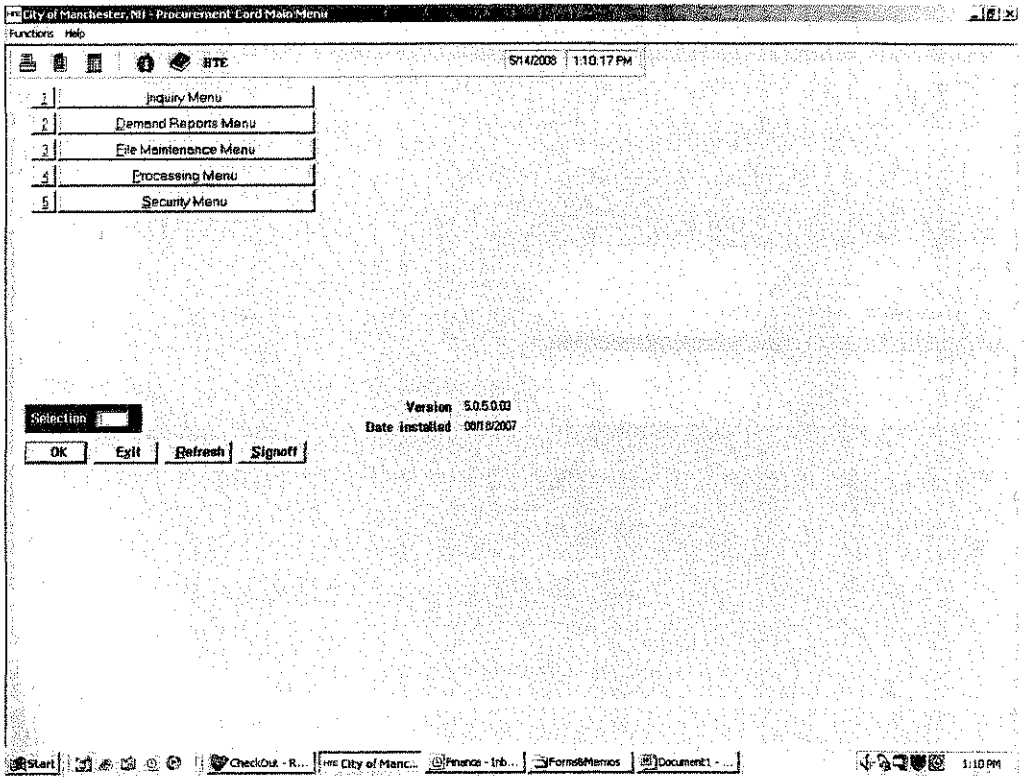
- ***Step 1***: Select 21 – INFISYS



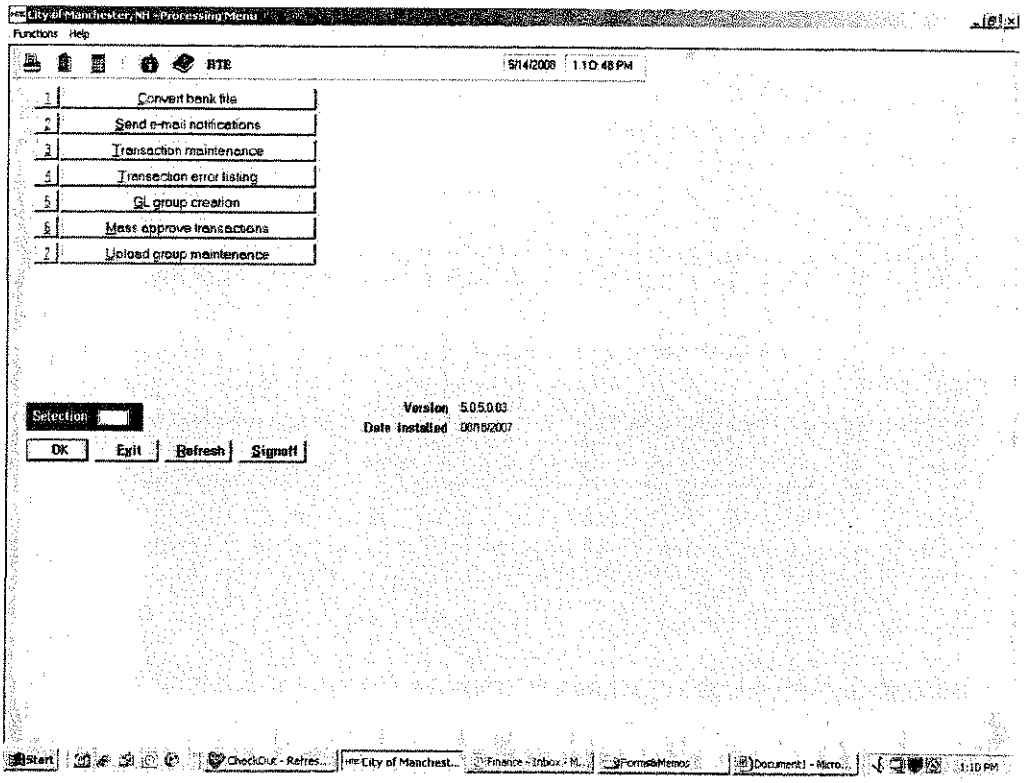
- ***Step 2***: Select 21- Procurement Card Main Menu



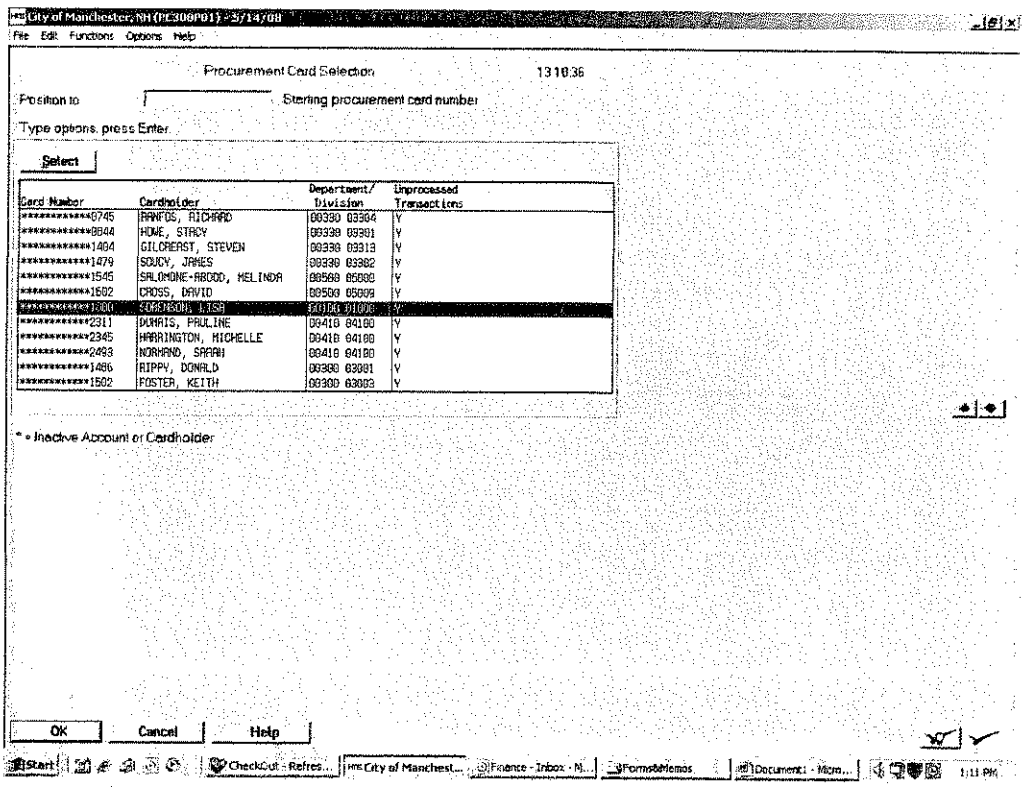
- ***Step 3***: Select 4 – Processing Menu



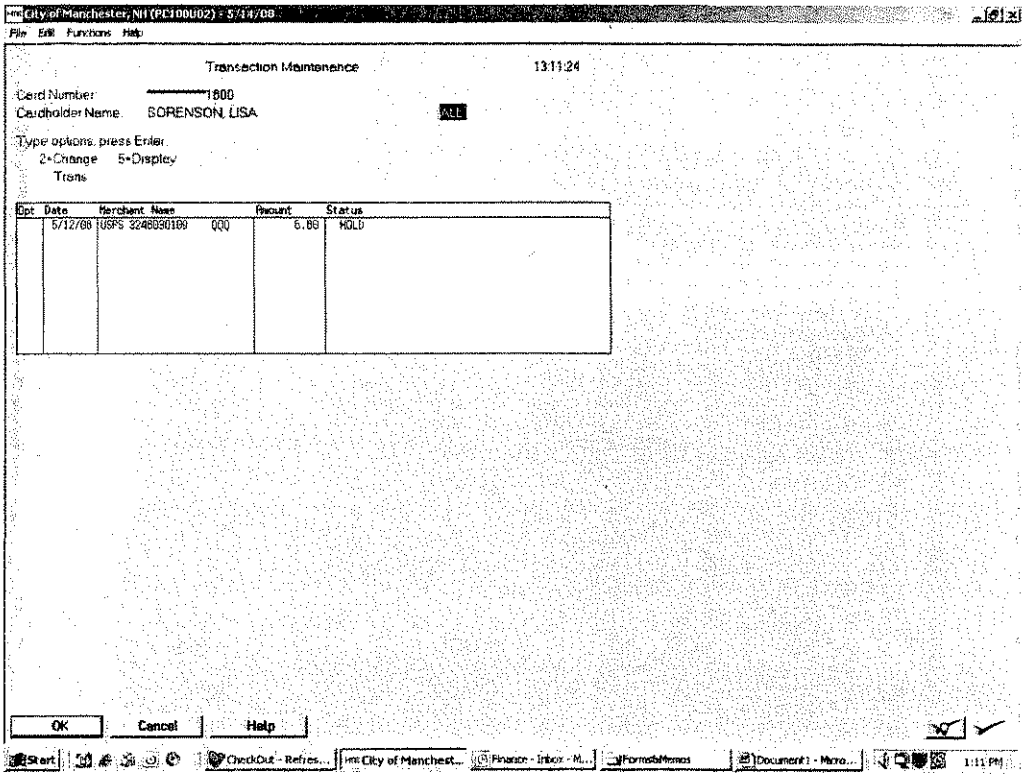
- ***Step 4***: Select 3 – Transaction Maintenance



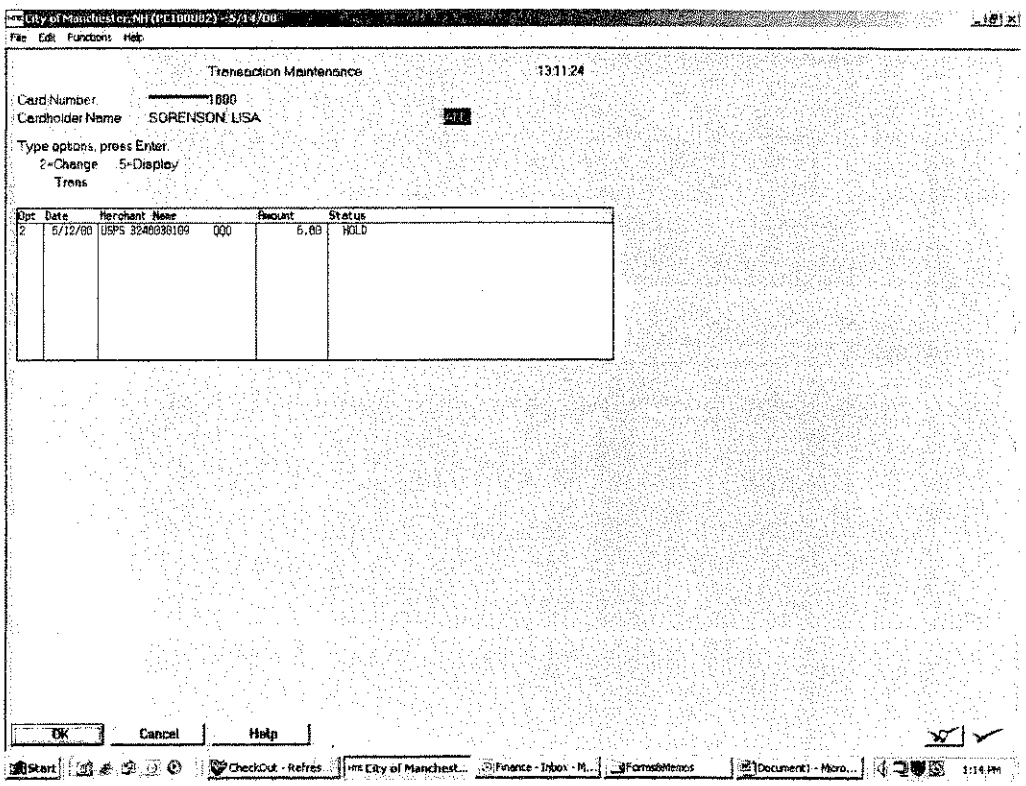
- ***Step 5***: Highlight and Select the card that requires approval.



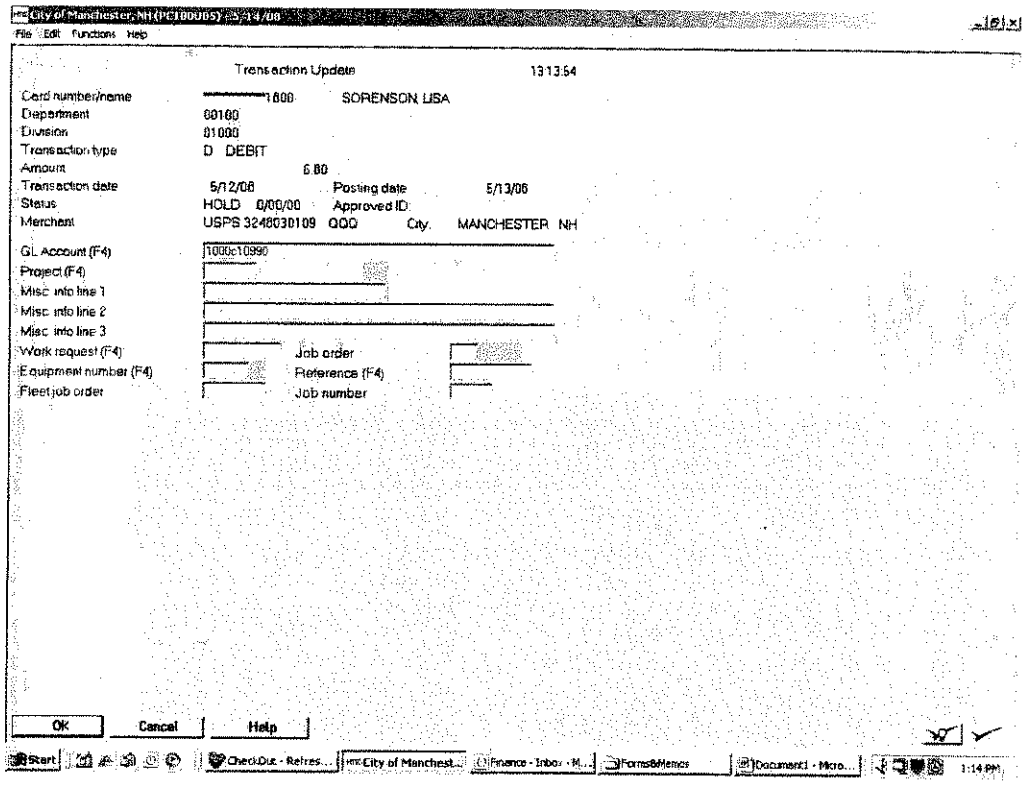
- ***Step 6:*** The next screen will bring you to the p-card transactions Please note that the status of the transaction is HOLD.



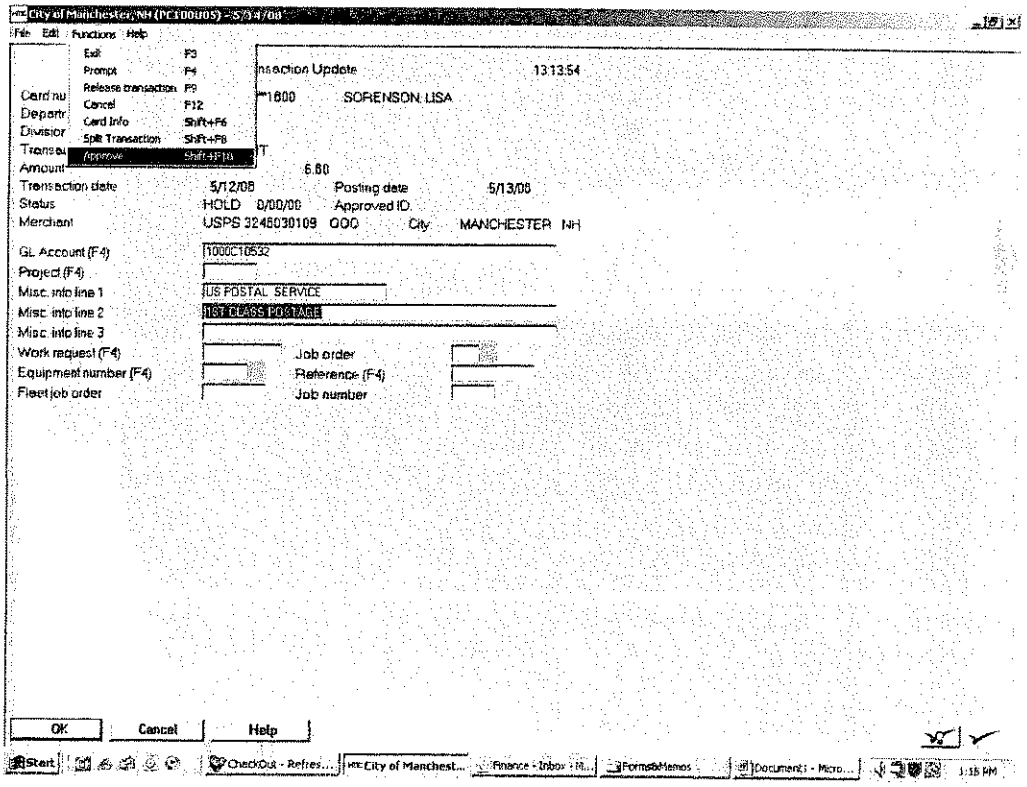
- ***Step 7***: Place a 2 (Change Transaction) in the Opt Column and hit enter or OK button.



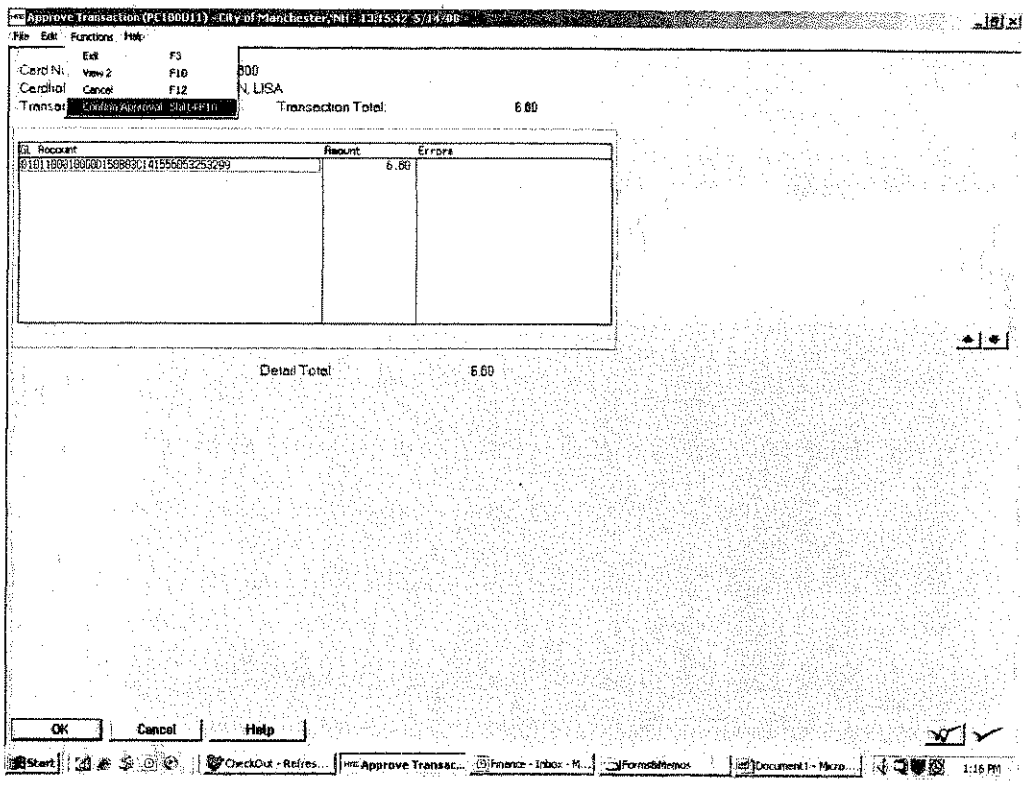
- ***Step 8***: The default screen appears (see below)



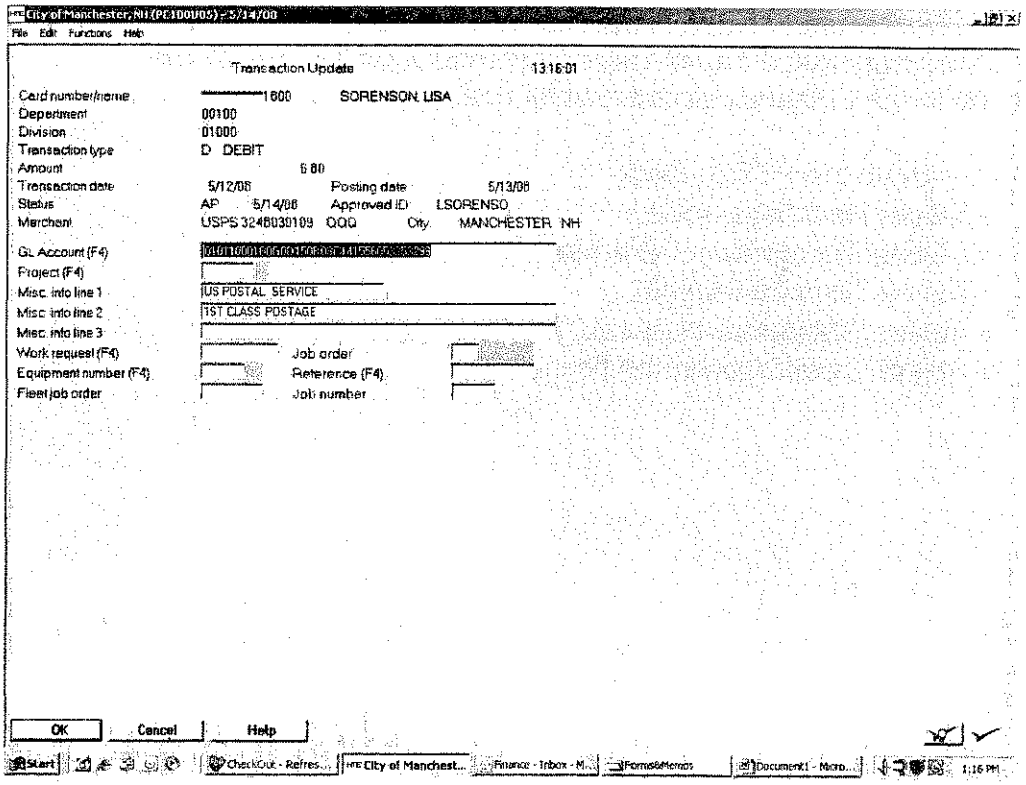
- ***Step 9***: Enter your account number and misc info (information placed in line 1 will appear on your reports, lines 2 & 3 ***do not***) Select functions from the menu bar and "Approve".



- ***Step 10***: Select Functions from the menu bar and "Confirm Approval"

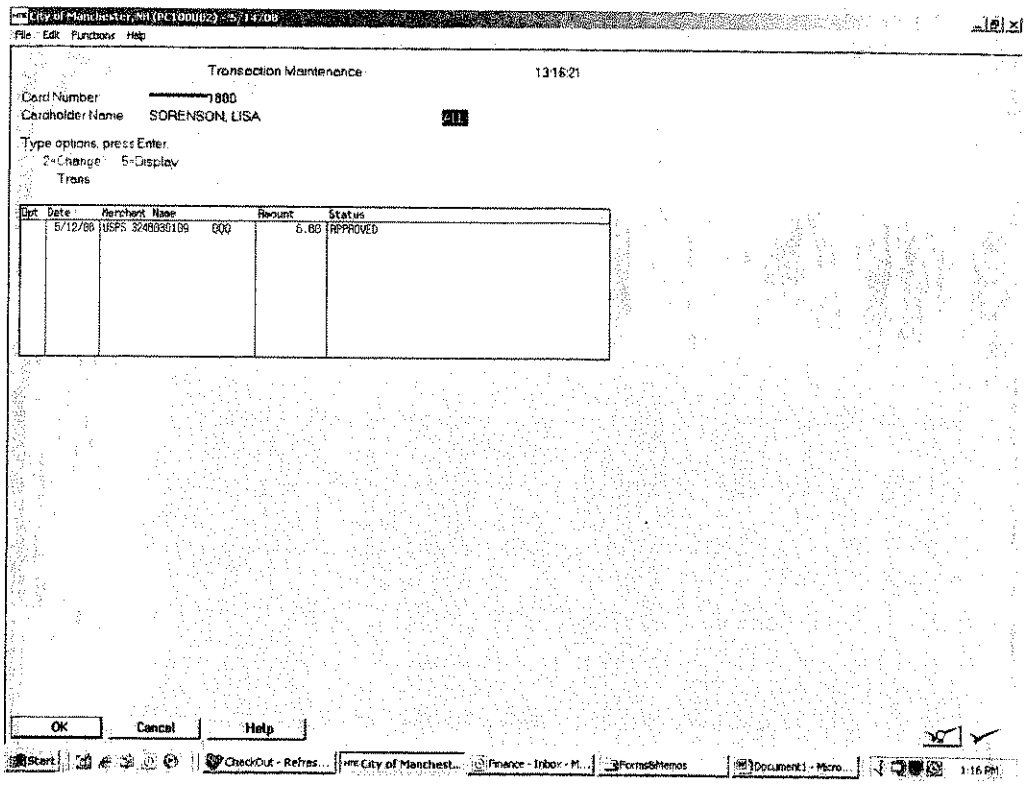


- ***Step 11***: Your transaction is now approved – hit OK or enter



6-46

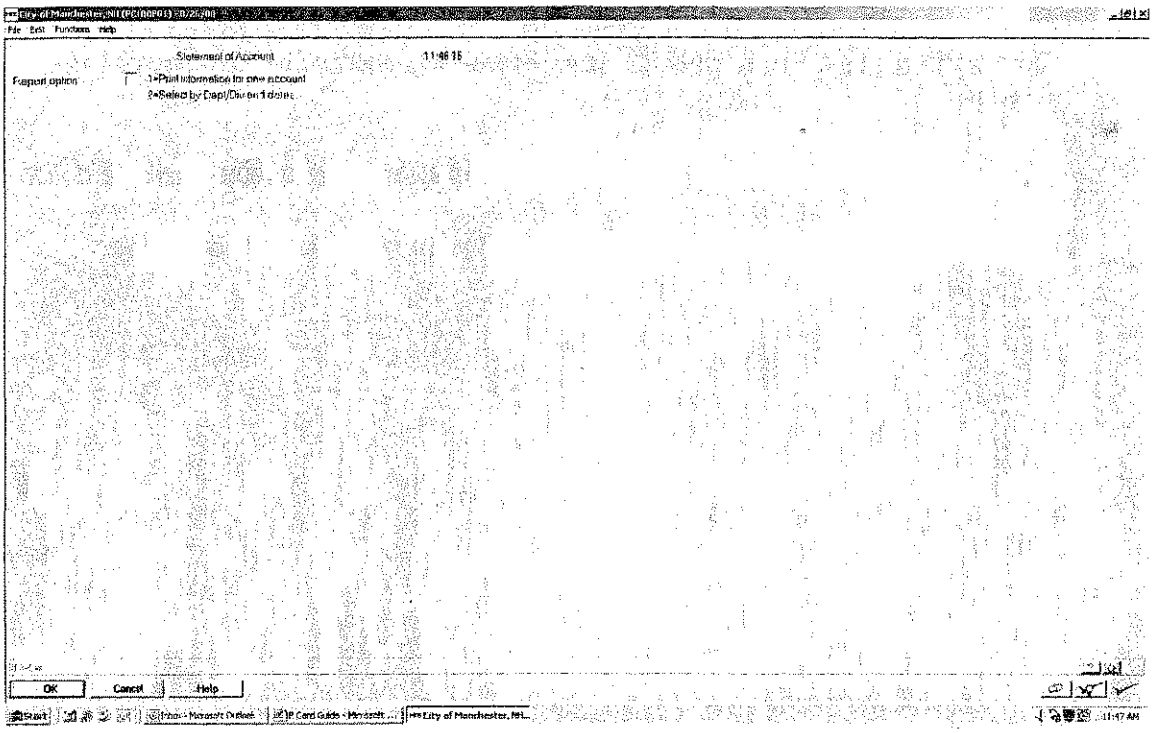
- ***Step 12***: Your transaction status is now "APPROVED"



9.6 Steps to Print Reconciliation Report (End of Month)

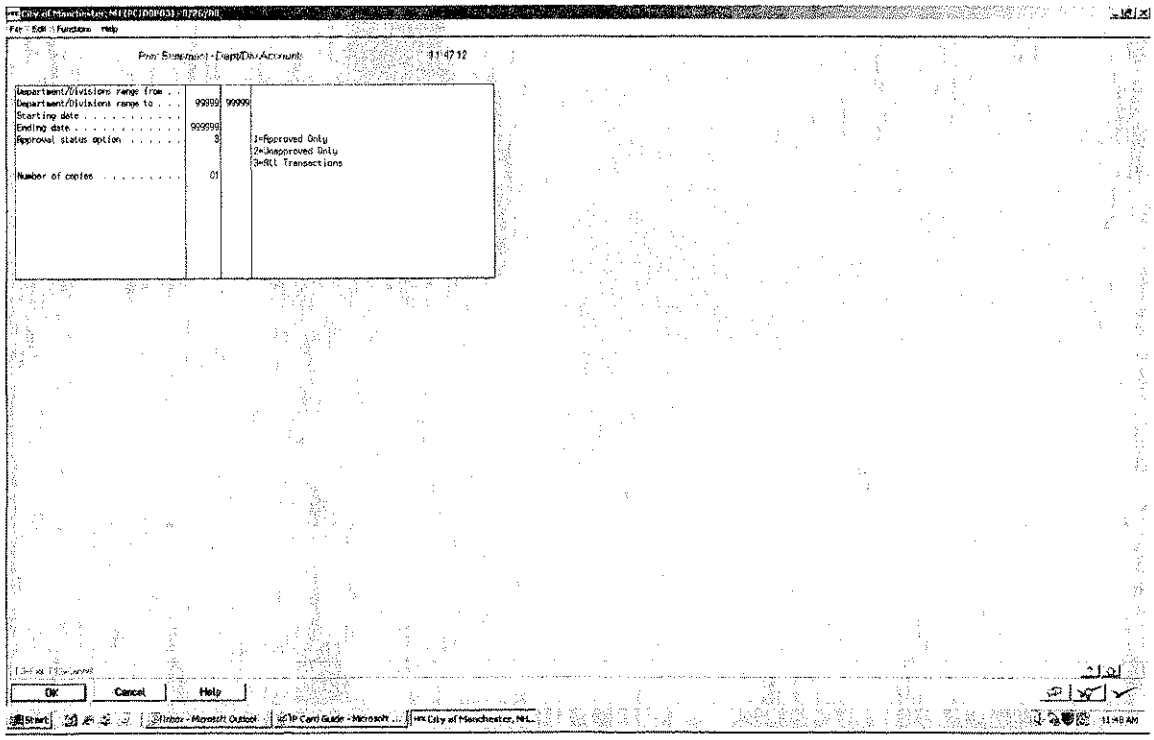
This report is used to compare the cardholder's transactions with the documentation presented. It also allows the AO to determine if the P-card is being used inappropriately. The AO will submit this report along with the documentation to the Finance Department for final review.

- Log into the HTE system
- Select the Infisys option
- Select Procurement Card Main Menu
- Select Demand reports
- Select "Statement of Account"
- Select "Dept/Division" by typing "2"



- Fill in the following data in fields shown below

		Finance Example
Dept/Division Range from	Dept # to 0	100 to 0
Dept/Division Range to	Dept # to 9999	100 to 9999
Starting Date	0?/28/200?	06/28/2008
Ending Date	0?/27/200?	07/27/2008
Approval status options	All	
Number of copies	1	



10-48

The date range is from the 28th day of previous month to 27th day of the month running report.
This report goes into your submitted jobs.
Print out report, attach all receipts and send to Finance Dept by the 5th of each month.
There will also be an A-900 that is sent to your printer to be signed.

Purchase Card Administrator Guidelines

10 DUTIES AND RESPONSIBILITIES

10.1 Overview

The Purchase Card Administrator (PCA) is responsible for administering the Purchase Card Program in accordance with the City's ordinances, Procurement Code (May 2005), Business Expense Policy (April 2007), and the guidelines set forth in this Guide.

10.2 Who is Eligible to be the PCA?

The PCA should typically be a member of the Finance Department with sufficient authority to initiate, review, and report on inquiries into questionable transactions or approving official and cardholder conduct. The PCA may be a cardholder, but their transactions must be approved by their supervisor, department head, or appointed designee.

10.3 Responsibilities

The following responsibilities are assigned the P-Card Administrator:

- Document, investigate, and report to the Finance Director violations by cardholders and approving officials.
- Ensure cancelled cards are entered in the HTE module and card provider is notified of cancellation. This should be accomplished with 48 hours of notice.
- Ensure that a P-Card maintenance form is on file for each account change.
- Periodically review cardholder activity monthly for unusual transactions or patterns of use.
- Periodically review the activities of approving officials monthly to ensure they are performing their duties adequately.
- If PCA is a cardholder and AO, provide the Finance Director with a monthly monitoring report of transactions and approvals for review.
- If PCA is a cardholder or approving official, follow the guidelines set forth for purchase cardholders and approving officials.

Tabled 10/21/10

INTERNAL AUDIT REPORT

CITY OF MANCHESTER

NEW HAMPSHIRE

Office of the City Clerk
Business License and Enforcement Division
Fraud Investigation

Prepared by
City of Manchester, NH
Office of the Independent Auditor

INTERNAL AUDIT REPORT
CITY OF MANCHESTER, NEW HAMPSHIRE
OFFICE OF THE CITY CLERK
BUSINESS LICENSE AND ENFORCEMENT DIVISION
FRAUD INVESTIGATION

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September 2, 2008

Committee on Accounts, Enrollment and Revenue Administration
City of Manchester, New Hampshire
Honorable Aldermen: Sullivan, Lopez, Devries, M.Roy, Ouellette

Dear Honorable Committee Members:

On June 26, 2008 this office met with the City Solicitor and the Mayor concerning a suspected fraud committed at the Office of the City Clerk. The Deputy City Clerk had discovered that the License Enforcement Officer was not depositing fees paid for alarm permits. He had admitted to the Deputy City Clerk that he had taken 3 alarm permit fees totaling $90. The criminal investigation was turned over to the Manchester Police Department and I started a fraud audit to determine the extent and causes of the fraudulent activity. The City Clerk was also put on paid leave due to allegations of improper actions for not immediately reporting the theft or firing the employee who is also her nephew.

It was quickly determined that the suspected fraudulent activity was limited to the Office of the City Clerk, Business License and Enforcement Division. The employee had been hired as a temporary employee doing data entry in the Licensing Enforcement Division on February 7, 2007 and promoted to a full time License Enforcement Inspector on April 23, 2007. The employee's last day of service was April 18, 2008. It was determined that the audit period would encompass his tenure as a full time permanent employee from April 2007 through April 2008.

The audit procedures involved:

- A review of internal control procedures in place during the audit period.
- Tracing every alarm permit application on file from the permit application through collection and deposit of the fees.
- Tracing every alarm permit fee and fine from the C-PLIMS/ILEADS system to deposit in the City bank account during the audit period.
- Tracing every payment for business license and permit in the Business License system to deposit in the City bank account during the audit period.
- An analytic review of all revenue collected by the former Business License Inspector during FYs 2006, 2007 and 2008.

Conclusion

My audit has determined that a few internal control practices allowed the former License Enforcement Inspector to have the ability to take fees he was collecting and cover up the theft. Because of the nature of cash collections and the poor conditions of financial records found I was unable to determine if any collections, other then the ones admitted to, were taken. Testing did reveal the following errors:

- Cash and checks not recorded upon receipt
- Untimely deposit of cash and checks
- Improper segregation of duties
- Lack of controls over database applications
- Employee suspected of theft allowed access to financial records
- Amounts paid per databases did not match the amounts deposited
- 67 paid permits not marked as paid in database
- 117 accounts marked as paid in the databases could not be traced to a deposit
- Problems with ILEADS implementation made it impossible for the department to bill accounts for 10 months causing revenues to be understated in FY 2008 by approximately $81,500.

The draft audit report was sent to The Manchester Police Department, The State of NH Department of Justice, and the Office of the City Clerk for comment. The findings, recommendations and responses by government officials are presented in the report that follows. We appreciate the courtesy and cooperation of the staff and administration of all the departments involved in this investigation.

Respectfully Submitted,

Kevin Buckley
Internal Audit Manager

INTRODUCTION

AUDIT BACKGROUND

On June 26, 2008 this office met with the City Solicitor and the Mayor concerning a suspected fraud committed at the Office of the City Clerk. The former License Enforcement Officer was observed by the Deputy City Clerk not depositing fees paid for alarm permits. He had admitted to the Deputy City Clerk that he had taken 3 alarm permit fees totaling $90. The criminal investigation was turned over to the Manchester Police Department and I started a fraud audit to determine the extent and causes of the fraudulent activity. The City Clerk was also put on paid leave due to allegations of improper actions for not immediately reporting the theft or firing the employee who was also her nephew.

My audit was conducted in accordance with standards applicable to financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

AUDIT SCOPE AND OBJECTIVES

Based on the preliminary investigation it was determined that the revenues collected at the Office of the City Clerk, Business License and Enforcement Division would be audited from April or 2007 when the License Enforcement Officer started as a full-time permanent employee until April of 2008 when he left service with the City. 100% of the revenue transactions recorded to the C-PLIMS/ILEADS alarm system and the Business License system would have to be traced to the daily deposit logs and the bank deposit.

BACKGROUND OF AUDITEES

The Office of the City Clerk was established under the current charter section 3.02 and Code of Ordinances section 30.18. The Office is headed by the City Clerk. Charter Section 3.07 provides that the City Clerk is an officer of the City and appointed by the Board of Aldermen. The City Clerk is nominated and confirmed by a majority vote of the Board of Aldermen. The City Clerk has no set term and can only be removed by a vote of nine Aldermen.

The Business License and Enforcement Division is charged with the responsibility to License and track the following:

- Dog Licenses
- Alarm Permits
- Taxi License
- Business Licenses

The office is also responsible for inspections and investigations of compliance with rules and regulations governing licensure in the City.

FINDINGS AND RECOMMENDATIONS

INTERNAL CONTROLS OVER REVENUE COLLECTIONS AT THE OFFICE OF THE CITY CLERK, BUSINESS LICENSE AND ENFORCEMENT DIVISION

Procedures for Revenue Collection During the Audit Period:

A customer either mails in applications for licenses and permits to the office or delivers them to the counter. If it is collected by a counter person in some instances the funds were accepted and entered on the daily cash log and the collection rung into the cash register. The application would then be delivered to the License Enforcement Officer for entry into the license/permit tracking software and a permit/license number assigned and the permit/license issued. Sometime the collection is for a fine and the fine collection is entered to the computer system to record that the account receivable is paid.

In other instances the cash or check is attached to the application and the package is given to the License Enforcement Officer for processing. After processing the License Enforcement Officer will batch all the collections and prepare a batch document for all the receipts collected. These are given to a counter person who will record the total of the batch on the daily cash log and enter the entire batch into the cash register.

At the end of each day the deposit is prepared and the cash drawer is reconciled to the register tape and the daily deposit. The deposit is then entered into the HTE financial accounting system and the posting is reconciled to the deposit to ensure that all deposits are posted to the correct account.

OBSERVATION 1: CASH HANDLING PROCEDURES

Best practices for handling cash include, but are not limited to, the following:

- The person who receives cash receipts should immediately record the transaction at the time of receipt.
- Segregation of duties should be incorporated so that one person is not responsible for the receipt, recording, deposit and reconciliation of receipts.
- All receipts should be deposited daily. City policy also requires that all receipts be deposited into the City bank account daily.

The following conditions were found to have occurred at the City Clerks Office during the audit period:

- **Cash and checks not recorded upon receipt.**

When receipts are collected for the payment of alarm permits and fines/penalties the receipts were attached to the invoice and sent back to the License Enforcement Inspector's office prior to recording on the daily cash log for processing. This included both cash and checks during the audit period.

- **Untimely deposit of cash and checks**

The License Enforcement Inspector would then post the payment to the alarm database, prepare an alarm tally sheet of all the payments collected, then hand the tally sheet and receipts to the cashiers for processing into the daily deposit. Because there was no initial recording of the receipt it was difficult to determine how long the receipts were held. I compared the date that the payment was recorded to the alarm database and compared it to the actual deposit date per the daily log.

Of the approximately 2,600 alarm transactions I examined 188 transactions were deposited greater than five days after they were posted as "paid" in the alarm database. Of the 188 transactions deposited greater then five days after posting in the database 23 were deposited greater then 20 days after posting. It should be noted that all cash payments were posted in the database on the same day or after the date of deposit on the daily cash logs. Held deposits appear to be limited to receipts collected by check.

The same condition was found during my testing of business licenses and permits.

- **Improper segregation of duties**

The License Enforcement Inspector was collecting receipts and was the first person to enter them into the City records. He also entered information into and maintained the alarm database. This gave him access to and the ability to change without approval the records in the database. This also allowed him to post all receipts into the database and because the database was never reconciled to the financial system he controlled which receipts he sent to the deposit. The database would show that the person paid even if the receipts were never deposited into the City accounts.

Recommendation:

All receipts should be recorded by the person who collects the money at the time of collection.

All receipts including both cash and checks should be handled by the cashiers and deposited into the City's bank account daily.

The database should have controls so that the License Enforcement Inspector cannot change records or void transactions without supervisory approval.

The License Enforcement Inspector should not be handling and retaining cash and checks at his desk.

Auditee Response:

The Office of the City Clerk was internally reorganized after the City Clerk was placed on Administrative Leave on June 27, 2008. Not only did many of the policies and procedures of the office need further review and subsequent revision and implementation, but several positions within the office had to be reassigned to allow for a more efficient and effective operation of the department. This ultimately allowed for a more appropriate segregation of duties and a more responsible handling of cash receipts.

The office currently has one (1) part-time (seasonal) and two (2) full-time Customer Service Representatives (CSR's) working the front counter as their primary function. One (1) CSR who was originally hired to work the front counter has been indefinitely assigned to the Election Division. Additionally, we have one (1) Board-approved vacant CSR position.

As the customer load increases throughout the day, an Administrative Assistant III (AAIII) serves as primary back-up to the counter. If a significant customer waiting time still persists, the Administrative Assistant II (AAII) serves as the secondary back-up to the counter. The License Enforcement Inspector and/or the Licensing & Compliance Coordinator typically do not work the front counter unless either all the staff identified above are committed with customers or a complex licensing issue arises.

In cases where either the Inspector or the Coordinator is assisting a customer at the front counter or handling a mailed request for any of the various licenses or permits issued by the office, the application is immediately processed using the appropriate database. The payment and relevant documentation is then handed to a CSR to be processed through the cash register since neither the Inspector nor the Coordinator has the means to access the cash register at any time.

If an application is received and processed, but cannot be entered into the cash register immediately, the check payment is restrictively endorsed and entered into register as soon as the customer load decreases and a CSR is available. All cash payments are now processed immediately by the department.

Any partially processed license or permit request and related check receipt is placed within a folder bearing the corresponding employee name, inside a locked safe at the end of the day. Additionally, any unprocessed mail for license or permit requests received during the day are likewise, locked in the department's safe for processing the following work day.

Multi-day batch processing has been eliminated in order to provide for more timely deposits. Single-day batch processing, however, still remains an efficient tool for managing large volumes of mail. This usually occurs following a monthly billing for dogs or alarms. Batch processing allows assigned staff to focus on processing rather than traveling back and forth from work station to cash register. Cash transactions are exempt from batch processing and as previously stated, require immediate processing.

A new policy for handling miscellaneous receipts and properly documenting transactions was implemented on July 15, 2008. All receipts, whether cash or check, are now accurately identified on the *Register Cash-Out Log* allowing for proper reconciliation by the AAII the following day. A new policy for handling interdepartmental transactions has also been implemented. Transactions are now correctly identified and recorded during the deposit process which protects both departments from revenues being applied to incorrect line items within departmental budgets.

Each year, nearly a half million dollars ($500,000) flows through the Business Licensing Division. Handling payments for countless license and permit applications is inherent to the position of the License Enforcement Inspector as well as the Licensing & Compliance Coordinator. What also must be inherent to the position, however, is honesty and integrity. While this audit identifies what is suggested to be an *Improper Segregation of Duties*, it must be noted that the true cause should be attributed to a combination of an individual intent on malfeasance and the inability of certain databases to provide adequate reporting and safeguards.

In May and again in July, the department filled the positions of Licensing & Compliance Coordinator and License Enforcement Inspector, respectively. Both individuals come to the department with a combined 45 years of law enforcement experience and a reputation of being beyond reproach.

Database Controls

The City Clerk's Office uses several stand alone databases to track licenses, permits and fines.

Alarm licenses and fines were tracked in the C-PLIMS database maintained by the City Police Department. In September of 2007 C-PLIMS was replaced by the ILEADS system. Both of these systems were/are used by the Police Department to track a variety of data. Alarm tracking is one of the minor modules of the system. The module contains all information on owners of alarms in the City. All alarms are required by law to be licensed by the City and a permit costs $30 for the initial permit and $20 for the annual renewal. Annually in April the system will generate billings for all existing alarms. In addition, if the Police or Fire Department is sent out on a false alarm the owner is fined. Fines are calculated based on the number of false alarms. Also unpermitted alarms are fined $100. The System also tracks the number of false alarms and calculates the fine as well as tracks unpermitted alarm fines.

Business licenses, amusement device permits and noise permits are tracked by a database application developed by the City's Information Systems Department. This system generates permits and licenses for several types of businesses and several types of mechanical devises in use throughout the City. It also tracks and produces bills for fines and late fees related to these permits and licenses.

Dog licenses are likewise tracked by a database application developed by the City's Information Systems Department.

OBSERVATION 2: CONTROLS OVER DATABASES

My testing has revealed conditions with the databases used at the City Clerk's Office that make it possible that fraud could be committed and not be detected in a timely manner by employees during the course of their usual duties.

The Office runs several databases used to issue license, permits and fines. None of these databases are integrated into the City's Financial System (HTE) and daily activity is batched and entered to the HTE system manually. All revenue is processed through the cash register system prior to deposit and cash deposited is reconciled to both the cash register and posting to the HTE financial system daily.

The individual databases are not reconciled to the deposit or the HTE system by someone independent of the revenue collection and recording process. This has allowed many posting errors to go undetected in both the databases as well as the HTE system. It also has allowed transactions to go un-posted to the database systems causing accounts receivable records to be incorrect.

There are also few controls in place to prevent the employee entering transactions to the databases from voiding, erasing or modifying transaction without supervisory approval. This allows the employee to change the transaction records and cover up fraudulent activity without being detected.

Recommendation:

The Office should develop procedures to reconcile all databases to the HTE system on at least a monthly basis by a person independent of the revenue collection and posting procedures.

The Office should also work with the City's Information System Department to add controls to all databases that will prevent the employee who processes revenue transactions from erasing, changing or voiding transactions in the system without supervisory approval.

Auditee Response:

The Deputy City Clerk has met several times with Information Systems, dating back to February 15, 2008, in a joint departmental effort to migrate Business Licensing into HTE. While funding remains an obstacle for this effort, a secondary plan has been implemented. In July, the Business and Dog Licensing Database was reprogrammed to prevent any user from creating and then erasing, altering, or voiding a record in the database.

Taxicab Driver and Vehicle Licenses are still processed manually. A Taxicab Database was created by the original License Enforcement Inspector in 1995 to provide for an effective way to reconcile license activity thus preventing fraudulent behavior. This database continues to serve as a vital tool for reconciling activity within the department.

The Alarm Permit Database (ILEADS) remains a weakness, however, of the Business Licensing Division. Proper reporting capabilities have been requested of the software provider (Intergraph) for over a month and a half yet the reports remain non-existent. The reports requested will allow a supervisor or senior administrative personnel within the department to adequately reconcile all alarm activity during a given month, week, or even daily. Meetings are ongoing with the Manchester Police Department, Information Systems, Intergraph, and City Clerk's Office in order to pass this hurdle. Since all other areas throughout the revenue processing chain are now properly segregated, this remains the final component for a complete segregation of duties and absolute control of databases used within the Business Licensing & Enforcement Division.

Chronology of Suspected Fraudulent Activity

On January 24, 2008 the Deputy City Clerk walked by the License Enforcement Officer's office and noticed an application for a new alarm permit with $30 of cash attached sitting on the desk. Occasionally the Deputy City Clerk will run a random check on items he finds. In this instance he recorded the information so he could check on it later.

On February 20, 2008 the Deputy City Clerk finds another alarm application on the License Enforcement Officer's desk with six five dollar bills attached. He copied the bills and the application to check on later.

On February 25, 2008 the Deputy City Clerk reviews the daily cash logs to try to find the deposits for the two transactions. He also asks another employee to check the logs to see if she can find the deposits of the two application fees. Neither can find any evidence that the two application fees have been deposited.

On February 28, 2008 the Deputy City Clerk confronts the License Enforcement Officer. Eventually he admits to taking the funds plus one other alarm fee for a total of $90. He is informed that he will be immediately fired. When the City Clerk is informed of the alleged theft she interviews the License Enforcement Officer and over rules the firing. She informs the employee that she will allow him to stay for thirty days and that he must pay back the money.

Testing reveals that the January 24th permit was entered to the ILEADS system on 2/4/2008 as paid but no deposit of the payment could be found. The February 20th alarm permit was entered in ILEADS as paid on 2/29/08 and in the 3/1/08 deposit. The other permit fee that the License Enforcement Officer admitted to taking was found to have been recorded in the system as paid on 3/3/08 and the payment deposited on 3/7/2008 but there was also a $30 deposit for that alarm on 1/11/2008. It is unclear what the first alarm fee was for as no payment or permit was made in ILEADS at that time.

On March 3, 2008 the City Clerk sent an email to all employees advising them that all "cash" payments must be processed at the counter and not brought back to anyone's desk. Payments made by check are not included in this email.

On April 4, 2008, the Deputy City Clerk went to the City Solicitor requesting legal advice concerning the continued employment of the License Enforcement Inspector in the City Clerk's Office, thirty-five (35) days after he admitted to the thefts.

On April 7, 2008 the License Enforcement Officer submits his resignation and leaves City service on April 23, 2008.

On June 21, 2008, the Mayor's Office contacted the Deputy City Clerk to inquire about numerous rumors circulating City Hall regarding the possible misconduct of the License Enforcement Inspector.

OBSERVATION 3: EMPLOYEE SUSPECTED OF THEFT ALLOWED ACCESS TO FINANCIAL RECORDS

On February 28, 2008 a License Enforcement Inspector admitted to stealing 3 alarm payments totaling $90. At that time his supervisor recommended immediate dismissal of the employee but the City Clerk overruled him and allowed the employee to remain employed with the City until April 23, 2008.

Upon learning of the theft the City Clerk issued an e-mail to all City Clerk employees that cash was not to be brought to any employee's desk but should be processed through the register immediately.

My testing has revealed that the License Enforcement Inspector continued to process revenue transactions through the system and prepared deposits up until April 17, 2008. The entire time he remained employed it appears that he had complete access to all records related to revenue transactions both paper and electronic. Furthermore the License Enforcement Inspector hired to replace the former employee reported that he found cash payments attached to paper work at his desk when he started working in April of 2008.

Recommendation:

The handling of cash is the highest risk area of any organization. It is very difficult to prevent the theft of cash payments and therefore the integrity of employees who handle cash must be above reproach. If an employee is suspected of stealing cash they should be immediately removed from any cash handling procedures.

An employee who is suspected of stealing should not be allowed access to any financial records either paper or electronic. This allows the employee to destroy or alter records of any transactions they may have taken.

Auditee Response:

There is no question that the Deputy City Clerk fired the License Enforcement Inspector immediately, when during a random audit, it was determined that at least two (2) separate thefts occurred totaling sixty dollars ($60.00). Since it was impossible to effectively remove the

Inspector from the Business Licensing Division and contain him elsewhere within the department while a proper internal audit could be conducted in order to determine the true magnitude of the theft, an immediate dismissal was required. The firing, which was substantiated by correspondence between the Deputy City Clerk and the City Clerk, was subsequently overruled by the City Clerk. The inspector remained within the Business Licensing Division with unfettered access to all programs, maintained his City-issued Purchasing Card (P-Card) and retained his master key for the entire City Hall complex, for forty-nine (49) days after the initial firing.

The department is in complete agreement with the recommendations identified in the audit under Observation #3. Retaining the employee in any capacity after his own admissions of fraudulent behavior left the City exposed to far greater damage for nearly two (2) months.

RESULTS OF REVENUE TESTING

Based on the preliminary investigation it was determined that the revenues collected at the Office of the City Clerk, Business License and Enforcement Division would have to be audited from April of 2007 when the License Enforcement Officer started as a full-time permanent employee until April of 2008 when he left service with the City. 100% of the revenue transactions recorded to the C-PLIMS/ILEADS alarm system and the Business License system would have to be traced to the daily deposit logs and the bank deposit.

My testing has revealed the following errors in the processing of license and permit related revenue at the City Clerk's Office.

OBSERVATION 4: ERRORS NOTED IN REVENUE PROCESSING

Alarm Permits

I attempted to trace all paper permits on file at the City Clerk's office into the CPLIMS system and the daily deposit logs. I was able to trace 1,799 permits into the CPLIMS system; however, I noted 44 permits that had the following errors:

- In two cases the same permit number was assigned to two different alarms.
- 5 permits noted as original permits ($30) were charged as a renewal ($20).
- 4 permits were marked as unpaid in CPLIMS.
- 24 permits could not be found in CPLIMS and could not be traced to a payment.
- 9 permits were not in CPLIMS but I traced the payment to the Daily Cash Logs.

I was unable to determine if the permits missing in CPLIMS were paid and the money not deposited or if they were issued a permit without payment.

There were approximately 800 alarms (28%) in CPLIMS that I could not find a paper copy of a permit in the files. It appeared that many files were missing from the filing cabinet. If the files were available the total of permits without payments in the system or other errors may have been greater.

As part of my testing for missing collections I traced every transaction in the C-PLIMS system to the daily deposit sheets from April 1, 2007 through the date when the Department switched to ILEADS, October 1, 2007. I also traced every deposit posted in the HTE module for Alarm Citations, False Alarms, Alarm Applications and Alarm Renewals to the daily deposit sheets and into C-PLIMS.

My testing revealed many errors and omissions between the two systems. Following is a summary of the problems encountered.

- Out of 2,565 transactions in the C-PLIMS database 10 were noted where the amount deposited per the Daily deposit sheet differed from the amount noted in the C-PLIMS database. The net amount of these errors was $281

- It was noted that 41 deposits could not be traced to a posting in the C-PLIMS database with a total amount of $4,435. Of particular concern was a payment of $3,450 from Bank of America that was never posted as paid in C-PLIMS.
- Four deposits posted in HTE could not be traced to the Daily Deposit sheets. As the Daily Deposit sheet is reconciled to cash deposited and the posting in HTE this most likely is from a posting error in HTE to the wrong account.
- Out of 2,565 transactions in the C-PLIMS database tested, 65 payments could not be traced to the daily deposit sheet. The total of these deposits was $1,715. Twenty-nine of the payments were cash and one was a $300 money order. At least some of these payments are most likely related to the 41 deposits that I could not trace into C-PLIMS as noted above. In many instances the name or account number noted on the Daily Deposit log did not match either the name or account number in C-PLIMS. In a several cases no name or number was written on the Daily Deposit Log or the name noted on the Daily Deposit Log was of the alarm company that was paying for the customer instead of the customer. This made it impossible to know which account was actually being paid.

I also traced every paid transaction in the ILEADS system to the daily deposit sheets from October 1, 2007 when the Department switched from C-PLIMS to ILEADS, until the end of my audit period April 30, 2008. I also traced every deposit posted in the HTE module for Alarm Citations, False Alarms, Alarm Applications and Alarm Renewals to the daily deposit sheets and into ILEADS.

My testing revealed many errors and omissions between the two systems. Following is a summary of the problems encountered.

- Of the 98 transactions traced through the two systems there were three posting errors in the ILEADS system understating the amount of revenue collected by $55.
- Twenty-six payments noted on the daily deposit sheets could not be traced to the ILEADS system. The total amount of payments collected and not posted was $1,590.
- Fourteen payments posted in ILEADS totaling $385 could not be traced to a payment deposited in the City's bank account.

As noted above, errors on the Daily Deposit Log make it impossible to determine which accounts are being paid in some instances.

Business License Related Revenue

From the business license database I analyzed the 1,445 transactions that were initiated by the License Enforcement Inspector suspected of fraud. I traced all transactions from the database to the daily cash deposit sheets. There were several minor posting errors to the database that amounted to a net variance of $192.

I also noted 38 transactions totaling $3,914 that could not be traced into the daily deposit. Two transactions of $100 each were determined to most likely be posting errors. The remainder was from unknown causes

Recommendation:

Greater care should be taken in the filing of alarm permits to ensure that the records are complete and accurate.

An employee accused of theft should not have had access to accounting records as noted in observation 3.

All the errors noted in the database systems could have been caught and corrected if the department had been conducting regular reconciliations between the databases and the HTE financial system by a person independent of cash handling or recording duties.

Auditee Response:

It should be noted that the missing paper copies of the eight hundred (800) alarms identified in the observation are all sequentially numbered thus suggesting that they were intentionally removed from the file cabinet. It was these hard copies of permit applications that led to the discovery of the theft in the first place. Every application for the four (4) previous years of permit history remains in archives and intact.

Again, the department is in complete agreement with the recommendations of the audit under this observation as well. The employee was not only accused of theft but *admitted* to theft, yet was allowed to remain within the department with complete and total access to all payments and financial, licensing, and personnel records and files.

Once the reporting deficiency noted in the response to Observation #2 is corrected, the department will have the ability to completely reconcile all aspects of revenue collection within the Business Licensing Division.

OTHER MANAGEMENT ISSUE

During my last audit of the Office of the City Clerk for the Eighteen Months Ended December 31, 2004 it was noted that the C-PLIMS system used to track alarm permits and fees had problems such as not interfacing with the City's HTE financial accounting system and lack of reporting accounts receivable at year end. The City Clerk's Office's access to meaningful report creation and database reconciliation was nonexistence. At the time it was noted that the system was in the process of being replaced.

On September 24, 2007 the City switched to the ILEADS system. ILEADS sits on the Police Departments server and provides a variety of functions for the Police and Fire Departments. As with C-PLIMS the module that tracks alarm permits is a minor module within the system. It has been reported that the majority of the system is working well.

OBSERVATION 5: ILEADS IMPLEMENTATION PROBLEMS

At the time of its implementation there was no parallel system running nor was it run in a test environment first to identify problems before going live. In addition the City Clerk's Office appears to have had almost no input into the selection or design of the system during its development.

Whenever a major computer system is changed there are always problems encountered. These problems can be lessened by proper planning including involving all users in the design and implementation of the system. It is not surprising then that problems were encountered during implementation of ILEADS.

Testing revealed some instances where data from the C-PLIMS system was not transferred correctly to the ILEADS system. This caused some payments in C-PLIMS not to be posted in ILEADS making accounts receivable balances to be off slightly for some accounts.

Problems with implementation also made it impossible for the department to produce any bills from September of 2007 through July of 2008. Calculation of fines for false alarms and the resultant billing was also hampered. The result was that revenues for alarm permits and fines were down for FY 2008 by more then $81,500. Most of the revenue will be collected and posted in FY 2009 causing revenues in that year to be overstated.

Recommendation:

Greater planning needs to be made when implementing any major software change. Planning should involve the input of all users of the system.

The City Clerk's Office should have booked an accounts receivable at year end for the alarm permits and fines so that the revenues would be posted to the correct year.

Auditee Response:

As noted within the audit, the department had little input on the selection and eventual implementation of ILEADS. While there is a recognition that the primary purpose of the software is not to perform the financial accounting of the intrusion alarm processing and permitting for the City of Manchester, the system has provided little more than a rudimentary tool in our permitting efforts. Even when it appeared in August, 2008 that Intergraph was very close to solving the existing shortfalls of software, eleven (11) months after the initial implementation, we still remain unable to perform even basic reporting and reconciliation.

Furthermore, the department remains unable to mail approximately four thousand (4000) alarm permit renewal notices that were due to be mailed in July. A final meeting with the Police Department, Information Systems Department, Intergraph, and the City Clerk's Office has been scheduled for Wednesday, September 17, 2008 to make a decision whether Intergraph can deliver what is needed for the proper administration of Alarm Permitting.

In the event it is determined that the current software cannot deliver, this department has already had preliminary discussions with the Information Systems Department about migrating alarm information out of ILEADS and into another database that can.

It should be clear, however, that the seventeen hundred fifteen dollars ($1715) in missing Alarm payments identified in CPLIMS; the three hundred eighty-five dollars ($385) in missing Alarm payments identified in ILEADS; and the three thousand nine hundred and fourteen dollars ($3914) in missing Business License payments identified in the Business and Dog Licensing Database, a total of six thousand and fourteen dollars ($6014) in missing payments, received by the City and ultimately not deposited in City bank accounts, is not solely a reflection of limitations or deficiencies found in the software used by the department. No amount of database safeguards or account reconciliations will prevent a motivated individual intent on theft and malfeasance from succeeding on some level. It is imperative that each individual involved in the revenue collections process be selected carefully and the policies and procedures now in place be followed without fail.

2-4-08
Tabled
3-4 remained tabled
3-10-08 Tabled

City of Manchester
Office of the Independent City Auditor

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January 24, 2008

Committee on Accounts, Enrollment and Revenue Administration
C/o Ms. Carol Johnson
City Clerk
One City Hall Plaza
Manchester, NH 03101

Dear Honorable Committee Members,

Status of current audit projects

VISTA Program Fraud Audit

Attached you will find my report of fraud that occurred in the VISTA program. The report outlines a severe breakdown in internal controls and deficiencies in the control environment. The report contains five observations and sixteen recommendations to strengthen controls in the City to reduce the risk that this type of fraud will reoccur.

EPD Audit

This audit is complete and the report is waiting on responses from EPD. It is anticipated that it will be presented at the next COA meeting.

City Purchasing Card Audit

Field work is in process on a review of the City's new P-Card program. Field work should be completed by the end of February with a report ready for the March meeting.

Future Audit Projects

Parks and Recreation Department, Audit of the Business Office
Building Maintenance Division, Performance Audit

Respectfully Submitted,

Kevin Buckley

Kevin M. Buckley CPA
Independent City Auditor

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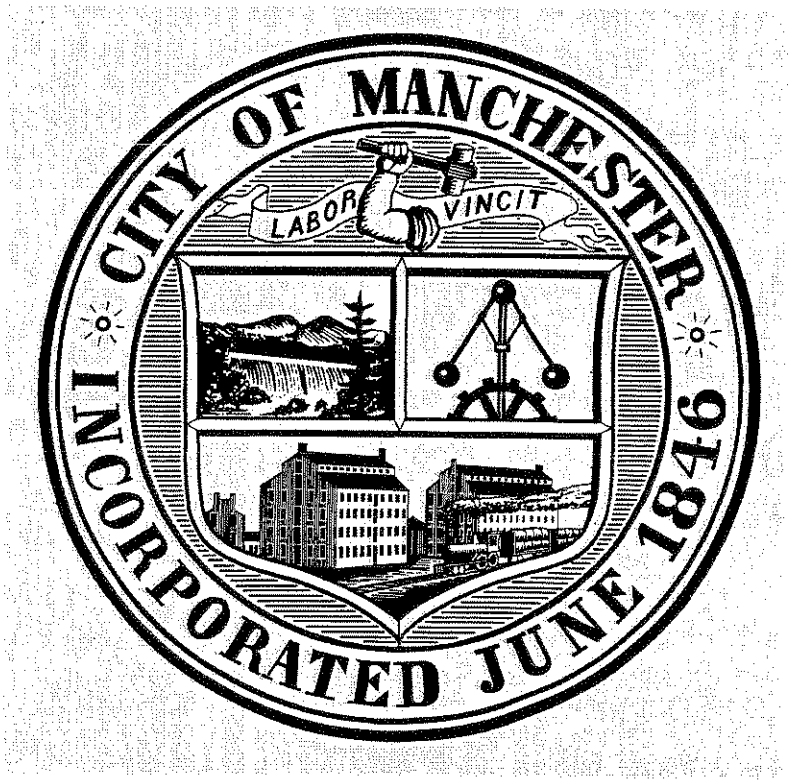
INTERNAL AUDIT REPORT

CITY OF MANCHESTER

NEW HAMPSHIRE



VISTA Program

Internal Control Structure Failure Leads to Fraud

Prepared by
City of Manchester, NH
Office of the Independent Auditor

INTERNAL AUDIT REPORT
CITY OF MANCHESTER, NEW HAMPSHIRE
VISTA PROGRAM
INTERNAL CONTROL STRUCTURE FAILURE LEADS TO FRAUD

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November 1, 2007

Committee on Accounts, Enrollment and Revenue Administration
City of Manchester, New Hampshire
Honorable Aldermen: Pinard, Osborne, Devries, Long and Thibault

Dear Honorable Committee Members:

On October 2, 2007 this office received a call from the Finance Department. They had found some payroll checks that appear to have been questionably endorsed. An initial investigation determined that the issued checks were most likely taken by the VISTA Grants Coordinator and fraudulently endorsed. The criminal investigation was turned over to the Manchester Police Department and I started a fraud audit to determine the extent and causes of the fraudulent activity. What followed turned out to be a text book study of how a complete breakdown in the internal control structure can lead to fraudulent activity within the City of Manchester government.

It was quickly determined that the suspected fraudulent activity was limited to the VISTA program from the beginning of the current year's federal grant on October 1, 2006 through October 5, 2007. It was noted that the Grants Coordinator also collected donations for the Senior Center construction project for a short period of time. Due to this testing was extended to collection and deposit of Senior Center donations from fiscal year 2003 through July of 2006.

The audit procedures involved:

- An examination of every VISTA volunteer payroll check and every account payable check issued during the audit period.
- Every accounts payable invoice was examined and attempts were made to determine if they were valid payables.
- A sample of mileage reimbursements were tested to determine if the travel actually took place.
- A reconciliation of Senior Center receipts was examined.

Conclusion

My audit has determined that a complete breakdown in the internal control structure in place at the office of the VISTA Coordinator took place and appears to have allowed fraudulent activity to take place unchecked. Testing revealed the following:

- Fifty-one VISTA issued payroll checks appear to have been fraudulently endorsed.
- Four VISTA volunteer reimbursement checks appear to have been stolen and fraudulently endorsed.
- Six invoices for conferences and supplies appear to be have been reimbursed based on forged documents.
- The VISTA Coordinator was reimbursed for 12,605 miles of travel even though he had no license or registered vehicle. A check of many of the destinations he collected mileage reimbursement for were contacted. I could find no evidence he was ever at those locations.
- The total amount of questioned costs associated with the suspected fraudulent activity and unallowable expenditures charged to the grant amounted to $22,824.
- In several instances there is evidence indicating that the few controls in place over the program detected the fraudulent activity but the controls were over ridden by management.

The draft audit report was sent to The Manchester Police Department, The Planning Department, the Finance Department, the Health Department, the Human Resources Department and the Office of the Mayor for review and comment. Additionally copies were sent to the Corporation for Community and National Service (CNCS) State Program Specialist and the CNCS Office of Inspector General. The findings, recommendations and responses by government officials are presented in the report that follows. We appreciate the courtesy and cooperation of the staff and administration of all the departments involved in this investigation. Special mention must be made to Dawna Rooks from Human Resources, Kim Leblanc from Finance and Sharon Wickens from Finance for discovering the fraud and bringing it to my attention. I would also like to commend the Manchester Police Department for their quick response and invaluable help during my investigation.

Respectfully Submitted,

Kevin Buckley, CPA
Internal Audit Manager

INTRODUCTION

AUDIT BACKGROUND

On October 2, 2007 I received a phone call from the Financial Analyst in the Finance Department, concerning problems with missing checks. Human resources received a phone call from a volunteer who works for the VISTA/Americorps program claiming she was missing a couple of pay checks. VISTA is a federal program administered by the City. The VISTA volunteers are federal employees who are paid a weekly stipend by the City through the payroll system. Checks are cut weekly based on approved time sheets. The checks are received in the Planning Department by the VISTA Coordinator. The VISTA Coordinator then passes the checks or pay remittances to the volunteers. The Financial Analyst was asked to look up the last 5 checks issued to the volunteer and give her a copy. Payroll checks are processed by Citizens Bank and transferred to electronic media. The paper check is then destroyed and Finance receives a CD of the monthly cashed checks.

When the checks were printed it was noticed that two of the five checks were endorsed with what appears to be the volunteer's signature and "for deposit to the account of Dennis Hebert" written under it. Dennis Hebert was the Grants Coordinator.

A meeting was arraigned with the volunteer to discuss this matter. The volunteer claimed that she had never seen either of the checks and it was not her signature on the back. The first check was from a week when the volunteer received two checks. When asked why she received two checks in one pay period she explained that the second check was for a week of training required prior to starting with the program. She claimed that due to a clerical error the members were not paid at the time of the training. The volunteer then told me that after her one year commitment was up she was not asked back. Her last day was on August 24, 2007. Her last check therefore should have been dated August 30, 2007. The last check issued was dated September 6, 2007. This would indicate that the check was issued for a week when she no longer was employed by VISTA.

Finance employees also advised that the VISTA Coordinator had tried to put through odd reimbursement request such as undocumented reimbursement for cash advances he claimed had given to VISTA members and reimbursement for a conference using a questionable invoice.

At this point it became clear that a fraud most likely had taken place and the matter was turned over to the Manchester Police Department for criminal investigation. I then started a fraud audit of the VISTA program.

My audit was conducted in accordance with standards applicable to financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

AUDIT SCOPE AND OBJECTIVES

Based on the preliminary investigation it was determined that the entire VISTA program would have to be audited from October of 2006 when the Volunteers were first paid by the City of Manchester until October 5, 2007 when the VISTA Coordinator was relieved of his duties. 100% of the VISTA payroll checks would be examined and 100% of the accounts payable invoices would be audited. It was also discovered that the VISTA Coordinator had collected and deposited donations for the construction of the Senior Center. This made it necessary to trace the amounts from the reconciliation at June 16, 2006 to the underlying financial records.

BACKGROUND OF AUDITEES

The Americorps/VISTA program helps impoverished individuals and communities attain self sufficiency. Members serve full-time for a year with non-profit groups, public agencies and faith-based organizations working to fight illiteracy, improve health services, create and expand businesses, increasing housing opportunities and bridge the digital divide. Members working out of the Manchester program serve full-time for a 12 month period. Upon successful completion of their service, members receive either an education award of $4,725 to pay for college, graduate school or to pay back student loans. Members may instead choose to receive a $1,200 cash stipend in lieu of the education award.

During their service, members receive health insurance, training, and student loan deferment. Members also receive a modest living allowance of $209.16 per week and $255.22 per week for VISTA Leaders.

Americorps is administered by the Corporation for National and Community Service (CNCS). The City of Manchester administers the local program in the City for CNCS and pays the members the living allowance and stipend. CNCS reimburses the City for member payments as well as the salary, benefits and most expenses directly related to administering the program. All other member benefits are paid directly by CNCS.

At the beginning of the program the City only paid the salary and benefits of the Grants Coordinator. Beginning in October of 2006 the City took over the direct payments to the members. The program is administered by the Grants Coordinator who is the sole City employee of the program. The program which formerly was an office of the Planning Department became a program of the Office of the Mayor in October of 2006 when the City took over the direct payment of member's living allowance and stipends. During the audit period the VISTA program was still physically located in the Planning Department even though it reported to the Office of the Mayor.

FINDINGS AND RECOMMENDATIONS

A GENERAL DISCUSSION OF FRAUD [1]

In order to understand how and why this instance of fraudulent activity occurred it is important to understand the nature of fraud and the people who commit them. Most people who commit fraud are not career criminals. The vast majority are trusted employees with no criminal history who consider themselves basically honest people.

Dr. Donald Cressey, a criminologist, developed a model that helps explain why otherwise honest employees will commit fraud. According to Cressey there are three factors that must be present for an ordinary person to commit fraud. The three factors are commonly referred to as the fraud triangle and all three must be present at the same time in order for this kind of fraud to occur. The three factors are:

- Pressure
- Opportunity
- Rationalization

Pressure

The first leg of the fraud triangle is that the employee must have a *perceived non-sharable* financial need. The employee must view the problem as non-sharable. The problem would be viewed as so embarrassing that they would feel ashamed to seek the help of others. Common problems include but are not limited to:

- Inability to pay one's bills
- Drug, alcohol or gambling problems
- Desire for status symbols

Opportunity

The person must see some way they can use (abuse) their position of trust to solve their financial problem with a low perceived risk of getting caught.

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[1] Understanding Why Employees Commit Fraud, Association of Certified Fraud Examiners

Rationalization

The vast majority of fraudsters are first-time offenders with no criminal past. Because they see themselves as basically honest people they must have some kind of rationalization to justify their actions. Common rationalizations include:

- I was only borrowing the money
- I was entitled to the money
- I had to steal to provide for my family
- I was under paid
- My employer is dishonest and deserves to be fleeced

The report that follows will show that all three factors were present and that they were know by City employees during the entire audit period. The many red flags that were present failed to trigger anyone to recognize that a fraud was being committed.

FRAUD PREVENTION PROGAMS [2]

In order to prevent fraud the three factors of the fraud triangle must be addressed. While there are some things an entity can do to address Pressure and Rationalization the one factor that is truly under our control is opportunity. If the perception that there is opportunity to fraud the City is removed the instances of fraud will decrease. It needs to be stressed to all employees that preventing fraud is a high priority.

In order to prevent fraud an entity must foster a culture of honesty and high ethics. Most important to this is setting the tone at the top. Employees must see that top management takes internal control seriously. Efforts by top management to skirt controls in order to streamline processes send a message that controls are not important. This is most important for offices that are not centrally located.

An entity must constantly be evaluating its existing antifraud processes and controls. Changing technologies may render controls useless and management should be actively involved with the design and implementation of internal controls. Management should also monitor compliance with the internal controls already in place.

An entity must also develop an appropriate oversight process to include regular audits from an independent audit firm and the use of an effective internal audit function.

The Achilles Heel of any internal control system is management over ride of internal controls. This audit will show how management's over ride of existing controls and a poor internal control structure in the VISTA program led to fraud and allowed it to continue.

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[2] FRAUD: What You Don't Know Will Hurt You!, Frank Crawford, Crawford & Associates PC and Dave Cotton, Cotton & Company LLP

INTERNAL CONTROL STRUCTURE OVER THE VISTA PROGRAM

On March 10, 2003 the City hired a Grants Coordinator whose job it was to research and find State and Federal grants for various City programs. This position was in the Planning Department and reported to the Director of Planning. The position's direct supervisor was the Planner IV who is also in charge of the CIP program. According to interviews of City employees and the federal VISTA State Program Specialist it appears that the Grants Coordinator was unhappy working for the Planning Department and wanted his to job report elsewhere. The management of the Planning Department did not find the Grants Coordinator a good fit for the department and "weren't sad to see him go" when he finally was reassigned.

The Grants Coordinator was put in charge of the VISTA program which initially only used City funds to pay for part of the salary and benefits of the Grants Coordinator. VISTA member checks were paid directly by the Corporation for National and Community Services (CNCS). The Grants Coordinator stopped functioning in the role he was hired for and spent most of his time managing the VISTA Program yet his job description or position was not changed or pay adjusted for his new position. According to various City employees the Grants Coordinator had been complaining that he was not being paid enough and thought the City was not providing enough benefits such as parking at City Hall.

Sometime around January of 2006 the Grants Coordinator approached the Mayor's Office about being moved out of the Planning Department. As early as March of 2006 the Grants Coordinator began using the Office of the Mayor in his letterhead. The Planning Department and Mayor's Office both indicated that they were aware of this. The Planning Department reported that they felt that they were being kept out of the loop on this action as they had no discussion with the Mayor's Office on moving the Grants Coordinator to the Mayor's Office.

During 2006 discussions began with the CNCS to change the VISTA program so that the City would pay the volunteers directly and then CNCS would reimburse the City. The volunteers would still be considered federal employees and the City would be acting as an agent of the CNCS. This change would take place with the acceptance of the new 2007 federal grant that started September 30, 2006, one day before the start of the federal fiscal year.

Originally the Grants Coordinator's pay was charged to the Planning Department and then transferred to the projects he was working on via work orders. When he took over the VISTA program his pay was charged exclusively to the grant.

At the September 5, 2006 meeting of the Board of Mayor and Aldermen (BMA) the CIP was amended to include the 2007 VISTA Grant with funds in the amount of $627,081 appropriated. The new program budget was set up under the administration of the Mayor's Office. The Mayor's Office did not feel that this action transferred the Grants Coordinator to the Mayor's Office only the budget. As of September 5, 2006 the Planning Department no longer considered the Grants Coordinator their employee and stopped signing off on any payroll or accounts payable associated with the VISTA program. These duties were transferred to the Mayor's Office.

In December of 2006 The Grants Coordinator brought in managers from CNCS to a meeting with the Mayor. The CNCS managers thought due to the perceived hostile work environment at the Planning Department it would be better to physically move the program out of Planning and into another Office. According to the CNCS Office they would have preferred to see him in the Manchester Economic Development Office however, they thought that the Mayor's Office would also be an appropriate place to move the program as other cities had the programs attached to the Mayor's Office.

In the Mayors 2007 Budget Address speech on March 27, 2007 he presented the idea of moving the VISTA program to the Mayor's Office. Upon passage of the budget the Mayor's Office considered the Grants Coordinator attached to the Mayor's Office on July 1, 2007 but not an employee per se.

During the months between October of 2006 and June 2007 neither the Mayor's Office nor the Planning Department considered the Grants Coordinator their employee and he essentially acted as a department of one in some regards.

VISTA payroll was controlled almost completely by the Grants Coordinator. He recruited, interviewed, hired and determined start and end dates for VISTA members. He also collected and approved their time cards, approved the payroll and collected the paychecks and pay remittances for disbursement to the members.

The Grants Coordinator also determined his own purchases, collected the invoices and sent them to the Finance Department for processing. It was not required that his invoices be approved by management prior to submittal.

The only controls in place were those at the level of the Human Resources Department and the Finance Department. The Grants Coordinator had no access to HTE so he relied of Human Resources to set up VISTA members in the payroll system and make changes to the payroll. He also had to have the Finance Department enter his invoices into the accounts payable module. He was the one to reconcile the accounts and keep track of his own budget. The Mayor's Office would approve his A900 payables report giving the approval to release the checks for payment.

The Grants Coordinator also prepared financial reports and drew down funds from the federal grants management system then reconciled the account. The CNCS had been actively trying to get the City to find someone else to drawdown federal funds as they thought he had too much control over the process. The Planning Department refused to drawdown funds for an employee they did not consider part of their department and the Finance Department did not have access to the Grants Management System and felt that it would be an internal control conflict of interest to start doing the drawdown of federal funds.

I was also informed by Planning Department personnel that the Grants Coordinator used to have a printer next to his office. Because he was constantly printing out racing forms the Printer was removed.

It appears that the three legs of the fraud triangle were present. The Grants Coordinator may have had a perceived non-sharable financial need, (gambling), a rationalization (low pay and lack of perks) and a control structure where he was given ample opportunity to commit fraud.

OBSERVATION 1: THE INTERNAL CONTROL ENVIRONMENT GOVERNING THE VISTA PROGRAM WAS INADEQUATE

The US Government Accountability Office issues standards for internal control in the federal government. According to the first internal control standard, which relates to control environment, management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management.

The standard then lists several key factors that affect the accomplishment of this goal. It appears that the City has violated the following factors.

1. An Ethical tone has been established at the top of the organization and has been communicated throughout the organization.

Top management in the City occasionally chooses to ignore policies or procedures when they become inconvenient. Recently when this office rewrote the City travel and entertainment policies several departments complained that certain procedures would be too time consuming or that their department should be exempted from a certain policy. On occasion the Board of Mayor and Aldermen grants exceptions from certain policies. This sends a message to all employees that policies can be changed or ignored.

2. Appropriate disciplinary action is taken in response to departures from approved policies and procedures or violations of the code of conduct.

The City has a policy that invoices will be paid only if the original invoice is sent to the Finance Department for payment. Reimbursement to employees should also be limited to situations where it is not possible to go through the normal purchasing procedures. Employees seeking reimbursement should also provide proof that they actually paid the vendor by showing an original receipt if paid by cash or a copy of the credit card statement if paid by credit card. The Grants Coordinator established a pattern of providing inadequate documentation for reimbursement. Each time he would be told the proper way to do it in the future but would never follow through. He never had to provide proof of payment and most invoices did not appear to be the original. Several times he was reimbursed for expenditures that could have easily gone through the normal accounts payable procedures.

3. Management appropriately addresses intervention or overriding internal control.

There is no policy of when management can over ride an internal control and how to document the over ride. As noted in the above comments the Grants Manager would provide inadequate documentation when seeking reimbursement. The accounts payable person in the Finance Department rejected some payments due to the lack of documentation or questionable

documentation. Initially she was over ridden by the acting Finance Officer and processed the claim. After the first couple of times the acting Finance Officer refused to put them through and the reimbursement was allowed by the Office of the Mayor. In all of the cases where this happened the invoices were forged.

4. Key areas of authority and responsibility are defined and communicated throughout the organization.

From October of 2006 through June of 2007 the VISTA program and the Grants Coordinator position were considered part of the Mayor's Office or part of the Planning Department depending on who you talked to. The Grants Coordinator considered himself part of the Mayor's Office as early as March of 2006. Even though it was known by employees in Planning Department that he was using the Office of the Mayor on his letter head no one attempted to correct him. For the entire audit period it appears that the Grants Coordinator was left on his own to act as a separate entity from any department.

5. Appropriate and clear internal reporting relationships have been established

As noted above it was not clear to whom the Grants Coordinator reported. At times he would claim authority he did not have and acted as if he did not have to report to anyone.

6. Employees are provided a proper amount of supervision.

The Grants Coordinator was for all practical purposes unsupervised during the entire audit period. Even when he was officially a part of the Mayor's Office he was still physically located in the Planning Department. Several of the problems may have been noticed if he had to report to a supervisor that had knowledge of his daily activities.

RECOMMENDATION:

An effective system of internal controls starts with an effective control environment. Management and employees should establish and maintain an environment throughout the organization that sets a positive supportive attitude toward internal control and conscientious management. To this end the following is recommended:

- Every department should be required to do an internal control self assessment on an annual basis. The GAO uses an Internal Control Management and Evaluation Tool towards this end. Other communities have adopted similar tools for use in their communities.
- Management needs to take internal control seriously and convey to employees that exceptions to established policy and procedures are only for limited, necessary and well documented reasons.
- Every Department should have its own set of written policies and procedures that incorporate general policy and procedures of the City into those procedures that are unique to the department. The procedures manual should be detailed enough so that in the event that key employees suddenly leave employment a new person can step in and handle the normal tasks associated with the position.

- Appropriate disciplinary action should be taken when policies and procedures are violated. In this case the first time the Grants Coordinator did not supply appropriate documentation it should have been made clear that no further reimbursements would be made without the proper documentation and then rejected all further claims. When an employee is misrepresenting himself to the public immediate action should be taken to correct the behavior.
- Over riding an established internal control should be done only in emergency situations and then only if properly documented and approved by supervisory personnel. In the case of the Office of the Mayor the over ride should be presented to the BMA.
- For ten months the Grants Coordinator was allowed to operate without clear lines of authority or supervision. When a position or program is moved from one office to another a written memorandum of understanding should be signed by both offices clearly defining the roles each office is assuming and the dates on which the changes will take effect.
- When behavior of an employee is affecting the department it is not appropriate to send the employee to a different department. This situation should have been handled in the Planning Department using the tools available through the Human Resources Department. Every year the Human Resources Department offers course on handling difficult employees and conflict resolution. These should be a requirement of all managerial employees.
- The City should establish a fraud, waste and abuse hotline. Reporting hotlines are a very effective means of uncovering occupational fraud. The 2006 Association of Certified Fraud Examiners report to the nation shows that 34.2% of occupational fraud schemes were uncovered by tips, the most common method of discovery. And, of those tips, nearly two out of three came from employees.

OBSERVATION 2: LACK OF SEGREGATION OF DUTIES

PAYROLL

The Grants Coordinator was allowed to do functions and procedures that were clearly incompatible. Following is a list of duties he was performing for most of the audit period.

The Grants Coordinator was in charge of advertising, accepting applications, interviewing and hiring VISTA members. When a new volunteer was hired he would have them fill out the necessary forms, collect them and send them to the Human Resources Department.

The form used to set up an employee in the Payroll System is the Employee Information Sheet (EIS). This form is used any time an employee's status is changed. The form has spaces for approval sign off by the initiating officer, department head, HR director, and the Mayor. Each one of these sign offs have an important internal control purpose. In most cases one person in the office is assigned the duties of payroll officer. This person prepares the EIS form and sends it to the department head for approval. This acts as a control so that the same person who initiates a transaction does not also approve the transaction (segregation of duties). The Grants Coordinator performed both of these functions thereby allowing him to change beginning and ending dates for employees without being detected. This allowed him have checks printed for weeks the employee did not work and so would not miss the check.

He also collected the time sheets and notified HR of any changes to payroll. He also received the checks and disbursed them to employees. A weekly payroll proof is sent to each department and approved by the department head so that HR can release the checks. Because he was considered a one person department he would not send back the signed payroll proof and the checks would be released. These functions are all designed so that one employee does not have the ability to have a check cut and then take it. If another employee received the checks and passed them out they would notice that VISTA members were not picking up all their checks.

ACCOUNTS PAYABLE

The Grants Coordinator was in a position that he would be able to order supplies and services, receive the invoice, approve the invoice and receive the goods or service and match to the paid invoice. This allowed him to create fake invoices and send them to the Finance Department for processing. The only real check was that the A900 proof was sent to the Mayor's Office for approval prior to the checks being released. Because the Grants Coordinator was in a separate building the Mayor's Office had no way of knowing that no goods or services were being received for these invoices.

FEDERAL DRAWDOWN

The Grants Coordinator handled the entire federal drawdown procedure. He prepared the drawdown documents and reports from the accounting records and transactions that he had complete control over as noted above. He would then sign on to the federal drawdown software program and initiate the drawdown. He also reconciled the drawdown to the accounting records. The segregation of duties problem was so severe that the federal VISTA State Program Specialist had been trying to get the City to have someone else do the drawdown.

RECOMMENDATION:

A proper system of internal controls segregate duties so that one person does not have the ability to initiate a transaction, approve the transaction, receive the goods or services and reconcile the books to original documents.

The smaller the department the harder it is to properly segregate duties. It makes it very difficult to approve transactions of an employee who is not physically located in the same office. When at all possible these very small offices should be combined with other offices to make segregation of duties possible within the same office.

RESULTS OF VISTA PAYROLL TESTING

From the period October 5, 2006 through October 5, 2007, the VISTA program had between seventeen to twenty-three members receiving a living stipend from the City of Manchester. A majority of members had their stipend paid through direct deposit. Every week five to seven employees would receive a paper check. Whenever an employee would start they would be given a paper check for the first week. From an examination of all 378 checks issued during that time period the audit revealed fifty-one checks that were endorsed "pay to the order of Dennis Hebert". Mr. Hebert was the Grants Coordinator in charge of the VISTA program. It has been determined that these checks are most likely fraudulently endorsed.

OBSERVATION 3: SUSPECTED PAYROLL FRAUD

An examination of the checks and interviews with VISTA members has determined that the Grants Coordinator used the following methods in order to obtain the checks and avoid detection.

All VISTA members must under go a week of Pre-Service Orientation (PSO) training prior to starting their job assignments. This training is non-paid except for travel expenses reimbursed directly from the Corporation for National & Community Service (CNCS).

On July 30, 2007 the Grants Coordinator sent an E-mail to the HR department informing them that he had heard from CNCS that several members had not received payment for PSO training and could they please cut paper checks so he could distribute them to the members. It appears that all of these checks were fraudulently endorsed. Never was confirmation of the PSO training received from the CNCS directly to the HR Department. In total 16 checks were paid for PSO training. Two of the checks were paid in error to the members the rest appear to have been deposited to the Grants Coordinator's account.

It appears that the Grants Coordinator also set members up in the payroll system a week prior to actually starting work or had them deleted from the system a week after they stopped working. On several occasions the HR Department would catch the discrepancy between the dates of the Employee Information Sheet and the request for payment. The Grants Coordinator would say that it was his mistake and he didn't catch the error on the EIS in time. It appears that at least 10 checks were obtained in this way. It also appears that at times members would not work for a week and the Grants coordinator would not inform the HR Department and allow a check to be printed.

In all it appears that fifty-one checks were obtained this way with a Gross value of $10,205.26. The net check amount was for $9,959.04. An additional two checks were cut for PSO training with a value of $ 418.32 and were cashed by the employee in error. One final check was allowed to go through by the police and was cashed by the member in with a value of $418.32. These were funds she was not entitled to.

Questioned costs $11,041.90

RECOMMENDATION:

It appears that the irregularities were caused by a breakdown in the internal controls in both the VISTA program (see observation 2) and the Human resources Department. The HR department should have asked for documentation from the CNCS for the PSO training. When the difference between the EIS date and check date were questioned confirmation from the VISTA member should have been obtained. The HR Department should revise their payroll procedures in order to require outside confirmation for these kinds of payroll changes. Due to the nature of the internal control problems at the VISTA program level, it would have been difficult for HR to detect the majority of the bad checks.

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ACCOUNT PAYABLE TESTING

During the audit period the VISTA program incurred $15,505.26 of "other project costs" paid through accounts payable. 100 % of the invoices and checks were examined to determine if all payments were proper and allowable under the federal program. The following errors and fraudulent activities were detected during out testing:

OBSERVATION 4: SUSPECTED FRAUDULENT ACCOUNTS PAYABLE

Fraudulently endorsed checks

Testing revealed four checks that were endorsed "pay to the order of Dennis Hebert". Dennis Hebert is the Grants Coordinator in charge of the VISTA program.

The first check was a reimbursement to an employee of the Corporation for National and Community Service (CNCS). The reimbursement was paid in two checks, one for $24 and one for $216. The $24 check was cashed by the CNCS employee and the larger check was endorsed "pay to the order of Dennis Hebert". Because she had not received full payment from the Grants Coordinator the bill was never paid. In the following month the vendor contacted the Grants Coordinator and the invoice was paid a second time to them.

The three other checks were reimbursement requests put in on behalf of VISTA members for mileage and supplies. They also appear to have been fraudulently endorsed.

Questioned costs $729.83

Lack of proper documentation and unallowable costs

Two invoices are being questioned as unallowable to the federal program.

The Grants Coordinator was billed by the Planning Department $800 for the program's share of office expenses such as paper, phone use, printer use, etc. The program has no approved cost allocation plan with the federal government for these expenses and they may not be allowable under the grant.

Also charged to the grant is $889.08 for the programs share of the Grants Coordinator's personal cell phone. The only documentation provided was the total pages for one year's billing with the details of phone calls omitted. This should not have been allowed for reimbursement due to inadequate documentation. Without the detail it is impossible to determine how many calls were personal and how many related to the program.

Questioned costs $1,689.08

Forged invoices/ lack of proper documentation

An invoice was paid for program guides and materials used by the volunteers and provided by the CNCS Resource Center. From looking at the CNCS website it was noted that the order form provided by the Grants Coordinator was not the official form from the website and that per the real order form there is no charge for any materials ordered. It would appear that the order form is fraudulent.

Questioned costs $390.00

An invoice was paid for a workshop put on by the CNCS Boston Region 1. Per the CNCS Atlantic Area Manager CNCS did not conduct any such workshop on that date or has ever conducted any such workshop.

Questioned costs $435.00

An invoice was paid for a workshop at Southern NH University on December 16, 2006. The invoice claims the Grants Coordinator and 4 VISTA volunteers attended the workshop. SNHU had no record of any workshop on campus on that date and one of the volunteers who was contacted by phone claimed he checked his date book and was out of town on that date. December 16, 2006 was a Saturday making it unlikely that a seminar was held then. Another volunteer remembers going to a workshop of that name in Concord but was not sure of the date.

Questioned costs $750.00

An invoice was paid for a seminar at Dartmouth College. Per the Director of Cultural Events he could find no evidence that this conference ever took place.

Questioned costs $ 375.00

An invoice was paid for a conference held at the University of NH. Per a representative at the College of Health and Human Services there was no evidence of the conference being held there.

Questioned costs $ 475.00

An invoice was paid for a workshop held at Boston University. Per the International Affairs Office of Boston University they could find no record of the workshop being held. They also noted that the date was the day before commencement when it was highly unlikely that any workshops would have been held.

Questioned costs $ 575.00

An invoice was paid for the AVRM 2007 National Conference in Burlington Vermont. This was a two day conference that the Grants Coordinator also charged round trip mileage for both days of the conference. Per the AVRM website this was an actual conference held in Vermont on that date but I was unable to get any answer from the organization of the Grant's Coordinator's attendance

or payment for the conference however, the State Program Manager from CNCS talked to people from her office who attended the Conference and knew the Grants Coordinator but did not see him at the conference. Because no backup documentation was presented to indicate that he actually paid or attended the conference the entire bill is questioned.

Questioned costs $ 395.00

All invoices noted above looked questionable. Some were print screens of an on-line registration prior to being sent to the organization. After printing it is possible it was never sent. Some invoices were said to have been paid in cash and some by credit card. The Finance Department did not require any proof such as an official cash receipt or credit card statement to prove that the invoice was actually paid. The woman in charge of processing accounts payable questioned several of these invoices for inadequate documentation and was over ruled initially by the acting Finance Director and later by the Mayor's Office. Seven invoices were reimbursements to the Grants Coordinator for items that should have gone through the normal accounts payable process which would have enabled payment to be sent directly to the vendor.

RECOMMENDATION:

- The Finance Department should follow long standing City policy and only pay on original invoices.
- When conference registration is made via the internet the confirmation of acceptance from the organization should be required as well as proof of actual attendance, such as a certificate of attendance. A print screen of the registration is not acceptable documentation
- When reimbursing an employee proof of actual payment such as an official cash receipt or credit card statement should be obtain prior to reimbursement.
- Whenever possible payment should be made directly from the City to the vendor. Reimbursement to employees for these types of expenditures should be strongly discouraged

OBSERVATION 5: SUSPECTED FORGED MILEAGE REIMBURSEMENT DOCUMENTS

During the audit period the Grants Coordinator submitted nine requests for mileage reimbursement. One additional mileage reimbursement request was discover from July 19, 2006 that was charged to the 2006 VISTA grant. Total mileage claimed was for 12,605 miles with a total reimbursed cost of $5,968.64. During interviews with Planning Department personnel it was revealed that the Grants Coordinator did not have a valid driver's license. It was confirmed by the Manchester Police Department that he had no license during the entire audit period. It was also noted that he did not have a vehicle registered in his name.

The Grants Coordinator claimed mileage from as far away as Albany NY for a conference. The majority of his trips were to Concord, NH for various meetings, conferences and workshops. In all he claimed 34 trips to the Concord area. Most meetings to Concord were to the Corporation for National and Community Service (CNCS). I spoke with the State Program Specialist at CNCS and

she informed me that there was no need for the Grants Coordinator to be traveling this much and she did not recall seeing him in her office that many times. She did recall that he went to the Tri-State meeting in Concord but she picked him up and drove him there. On April 5, 2007 the Grants Coordinator was reimbursed for mileage to the Tri-State meeting in Concord.

He also claimed reimbursement for trips to various college campuses for recruiting and seminars. Keene State College, Plymouth State College, University of NH and University of Maine officials were contacted to determine if there was recruiting done at the campuses on the dates noted on the travel reimbursement form. None of the campuses could find evidence that the Grants Coordinator conducted recruiting on the campuses on those dates nor were any seminars, conferences or meetings that would appear to meet the needs of the program offered on those days.

RECOMMENDATION:

The New City of Manchester Business Expense Policy requires that all City employees using City vehicles or personal vehicles must provide evidence to the department head of a valid driver's license annually. The mileage reimbursement form should be changed to provide a certification from the department head that the employee has shown such evidence. No reimbursement of mileage should be allowed with out the signed certification.

Department heads should be required to annually request the driver's records of all employees who use a vehicle when conducting City business. All drivers using personal vehicles to conduct city business should also provide proof of adequate insurance coverage.

CITY OF MANCHESTER VISTA PROGRAM

SUMMARY OF QUESTIONED COSTS BY TYPE OF ERROR FOUND

FRAUDULENTLY ENDORSED PAYROLL CHECKS	$ 10,205.26
FRAUDULENT CHECKS CASHED BY MEMBERS	$ 836.64
FRAUDULENTLY ENDORSED A/P CHECKS	$ 705.83
SUSPECTED FORGED INVOICES	$ 3,395.00
SUSPECTED FRAUDULENT MILEAGE REIMBURSEMENT	$ 5,968.64
DOUBLE PAYMENT	$ 24.00
UNALLOWABLE FEDERAL EXPENSE	$ 1,689.08
TOTAL QUESTIONED COSTS	$ 22,824.45

SUMMARY OF QUESTIONED COSTS BY PROGRAM

VISTA 2007 GRANT	$ 21,744.93
VISTA 2006 GRANT	$ 273.81
CDBG 2007 GRANT	$ 310.75
MOORE CENTER COST SHARE	$ 208.11
CITY CASH	$ 286.85
TOTAL QUESTIONED COSTS	$ 22,824.45

AUDITEE RESPONSES

8-23

City of Manchester

Office of the Mayor
Hon. Frank C. Guinta

December 13, 2007

Mr. Kevin Buckley
Office of the Independent Auditor
One City Hall Plaza
Manchester, NH 03101

Dear Mr. Buckley:

Having extensively reviewed the Internal Audit Report of the VISTA program and the series of events that lead to both fraud and scandal, I am generally in agreement with the majority of conclusions that your report has reached. As you and I have discussed previously, the actions of Mr. Hebert are personally painful to me and I feel betrayed by his actions which reflect poorly upon the government of the City of Manchester.

I do however disagree with some of the background information found within the report itself. On Page 4 of the document, the narrative states that the VISTA program was transferred to the Office of the Mayor in October of 2006, the reason of which is found on Page 7 of the document. This seems to imply that my office had either direct or indirect oversight of both Mr. Hebert and the VISTA program itself.

As you are aware, I disagree with this assessment for technical reasons. Although the Board of Aldermen did administratively assign the VISTA grant to the Office of the Mayor, it did not assign Mr. Hebert, the VISTA program itself, or any of the functions of the VISTA program. I contend that since Mr. Hebert remained an employee of the Planning Department until at least July 1, 2007, the VISTA program remained within that Department.

If the Board had taken action in 2006 to assign Mr. Hebert and/or the VISTA program to the Office of the Mayor, we would have worked with the Finance Department to ensure that the VISTA program and budget were properly managed. Regretfully, these actions did not occur, allowing Mr. Hebert the opportunity to commit grievous fraud upon the people of Manchester.

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Withstanding my concerns detailed above, I am confident that this report and its recommendations will begin the process of restoring the public trust and preventing future such incidents. You have the full support of the Office of the Mayor in whatever actions you believe need to be taken.

Sincerely,

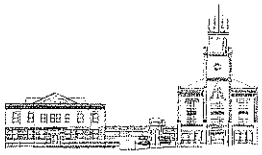
Frank C. Guinta
Mayor

Robert S. MacKenzie, AICP
Director

CITY OF MANCHESTER

Planning and Community Development

Planning
Community Improvement Program
Growth Management



Staff to:
Planning Board
Heritage Commision
Millyard Design Review Committee

Memo to: Committee on Accounts, Enrollment & Revenue Administration
From: Robert S MacKenzie PSM
Director of Planning & Community Development
Date: December 19, 2007
Subject: Comments on VISTA Fraud Audit

In general, I think that the Internal Auditor completed a thorough and detailed audit on the VISTA fraud investigation. I would, however, offer the following comments on specific portions of the report.

The report indicated that the Planning Department should have handled the "difficult" employee and not send the employee to another department. Generally, however, the individual's performance in many areas was positive during most of his tenure at the department. The individual was a good writer, found websites to search for grants and was responsive and helpful on requests by our staff and Aldermen for help on certain projects. Only in certain areas such as attendance had there been issues and his supervisor kept close scrutiny of those areas, but there were no fraudulent payroll or reimbursement issues prior to September 5, 2006 - the date the individual was transferred out of our office. Only in the last few months under supervision of our department did I lose faith in the individual due to his meetings with the State and with the Mayor's Office with the intent to separate from our office, which I felt was political maneuvering for his own purposes. This occurred, however, after the decision had apparently been made to have the individual transferred out of our office.

I would be happy to answer any questions that the Committee may have.

8-24

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Department of Finance

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MEMORANDUM

Date: December 28, 2007

To: All Department Heads

From: Kristy Blanchette

RE: **Accounts Payable Procedures**

This email serves to document the following procedures for processing accounts payable invoices by the Finance Department:

- Department heads must provide an approved list of employee(s) that have Department Head authorization to approve A900s and invoices needs to be sent to Finance by January 10, 2008. We would expect this list to be limited to Deputies and Department Business Services Officials.

- Finance will only pay from original invoices. If a copy is presented to Finance it must be signed by the department head or approved designee.

- All employee reimbursements must be approved by the department head before being sent to Finance and original receipts must be attached.

- Checks will not be mailed until all approved invoices associated with the check are received.

- Department Heads should strongly encourage employees to utilize the City's P-Card for seminars and travel costs in order to minimize reimbursement to employees. Meals must be supported by a detailed original receipt.

If you have any questions please do not hesitate contact Kristy Blanchette, Guy Beloin or Bill Sanders.

Cc: Bill Sanders
Guy Beloin
Kevin Buckley
Department Business Services Officials

8-27

Normand, Matthew

Subject: FW: VISTA Audit

In Response to Aldermen Rivers' question on Item #8 - Vista Audit

From: Lopilato, Janice
Sent: Tuesday, February 05, 2008 3:29 PM
To: 'Buckley, Kevin'
Subject: RE: VISTA Audit

There wasn't anyone in particular. I know Shireen had talked with someone from finance when she was in Dennis's office helping him with the renewal grant. But she doesn't remember the person's name. And, when I was putting together the grant and mentioned it amongst a number of people from finance, no one wanted anything to do with it or Dennis. They said they would train Dennis to do it. That's all I have, sorry.

Hang in there!

Janice

Janice Lopilato, State Program Specialist
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Concord, NH 03301

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From: Buckley, Kevin [mailto:KBUCKLEY@manchesternh.gov]
Sent: Tuesday, February 05, 2008 8:59 AM
To: Lopilato, Janice
Subject: VISTA Audit

Hi Janice,

How have you been? I presented the VISTA audit report to the Committee on Accounts last night and one of the Aldermen was asking me who your office spoke to with your concerns about Dennis doing the federal draw downs. As I remember it they talked to the Finance Department and possibly the Planning Department. Do you have any records that show who in your office spoke to who in the city concerning the drawn down of federal funds? We are having another meeting dedicated to the report sometime in the future. I'm getting the feeling that it will be sooner rather then later. Thanks for any help you can give me on this and thank you for all the assistance your office gave me during the audit.

Kevin

8-28

Timothy M. Soucy, REHS, MPH
Public Health Director

Anna J. Thomas, MPH
Deputy Public Health Director

BOARD OF HEALTH
M. Mary Mongan, RN, Chair
Carol Bednarowski, Clerk
Laura Smith Emmick, MD
William Mehan, DMD, MS
Kristin Schmidt, PA-C

CITY OF MANCHESTER
Health Department

March 26, 2008

Alderman Peter Sullivan, Chairman
Committee on Accounts, Enrollment & Revenue Administration
C/o Carol Johnson, City Clerk
One City Hall Plaza
Manchester, New Hampshire 03101

RE: Response to Federal Financial and Compliance Report Fiscal Year Ended June 30, 2007

Dear Alderman Sullivan,

Included in the above mentioned report are findings associated with the Volunteers in Service to America Program (VISTA). Specifically, page 10, Section III B discusses the Compliance Findings.

This letter is to verify that the Health Department, which now manages the VISTA program is complying with all recommendations and requirements. Specifically, as noted on Kevin Buckley, Internal City Auditor's response of March 24, 2008, "By moving the program under the control of the Health Department the deficiencies noted that directly affected the VISTA program have been addressed."

I hope this clarification is helpful to the Committee, and I can make myself available at any time should the Committee have any additional questions.

Sincerely,

Timothy M. Soucy, REHS, MPH
Public Health Director

Cc: Kevin Buckley, Internal City Auditor
William Sanders, Finance Officer
Gabriela Walder, BSO, Health Department
Janice Lopilato, Program Specialist, CNCS

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CITY CLERK'S OFFICE

8-29

1528 Elm Street • Manchester, New Hampshire 03101 • (603) 624-6466
Administrative & Environmental Health FAX: (603) 628-6004; Community Health FAX: (603) 665-6894 / (603) 624-6584
E-mail: health@manchesternh.gov • Website: www.manchesternh.gov/health

City of Manchester
Office of the Independent City Auditor

One City Hall Plaza, West Wing
Manchester, New Hampshire 03101
Phone: (603) 624-6523
Fax: (603) 624-6528

March 24, 2008

Committee on Accounts, Enrollment and Revenue Administration
C/o Ms. Carol Johnson
City Clerk
One City Hall Plaza
Manchester, NH 03101

Dear Honorable Committee Members,

Response to Audit Observation

Volunteers in Service to America (VISTA) - 94.013

Criteria:

The Grant Coordinator did not comply with the allowable cost requirements of the grant.

Condition:

The Grant Coordinator could not provide proper support for all expenditures.

Recommendation:

The City should reevaluate their internal control structure surrounding the grant and implement the various recommendations from the internal audit department.

Observation Response

I conducted an audit of the VISTA Program of all transactions from October 1, 2006 through October 5, 2007. I believe that this time period encompassed the entire suspected fraudulent activity. My audit had five observations and 17 recommendations and concluded that a complete breakdown in the internal control structure in the City led to the fraud occurring.

Since the audit was completed the VISTA program was moved from its former position as a unit attached to the Office of the Mayor to a subunit of the Health Department. The former program manager was dismissed from the City and a new VISTA Coordinator was hired. By moving the program under the control of the Health Department the deficiencies noted that directly affected the VISTA program have been addressed.

The City Business Expense Policy is being revised to address the city wide weakness noted in mileage reimbursement procedures.

The Finance Department has reinforced procedures over the processing of accounts payable to address the city wide deficiencies noted in the report.

The Human Resources Department is aware of the deficiencies in procedures that allowed false changes to payroll records to occur and is working to address these concerns.

I am currently in the process of developing an internal control questionnaire that all departments will complete in order to evaluate the controls in place over financial transactions. In conjunction with the questionnaire a template is being developed that will assist all departments in preparing policy and procedures manuals that will address the weaknesses in the city wide internal control structure that was noted in the report. It is the intent that this will not only address the problems associated with the VISTA Program but also with many of the management letter comments noted in the current and prior year CAFR audits.

Respectfully Submitted,

Kevin M. Buckley CPA
Independent City Auditor

3/11/08 tabled

City of Manchester
Office of the Independent City Auditor

One City Hall Plaza, West Wing
Manchester, New Hampshire 03101
Phone: (603) 624-6523
Fax: (603) 624-6528

March 4, 2008

Alderman Mike Lopez
C/o City Clerk
One City Hall Plaza
Manchester, NH 03101

Dear Alderman Lopez,

Per your request attached is a list of all audit observations and recommendations I have issued as a result of audits I performed from FY 2000 until the present. I have not included the current EPD audit or the VISTA Fraud audit as they have not yet been accepted by the COA. The first three pages is a summary of the current status as best I can determine based on responses to the observation. I have not re-audited most of the areas so the status is purely a guess on my part.

Of the 66 observations in my reports I believe that 43 (65%) are fully resolved and another 10 (15%) at least partially resolved leaving only 13 (20%) unresolved.

Should you require further assistance feel free to call me at 624-6523.

Sincerely,

Kevin Buckley

Kevin Buckley

Audit Title Observation #	Resolved	Partially Resolved	Unresolved
General Fixed Asset Account Group			
Observation 1		X	
Observation 2		X	
Observation 3			X
Observation 4			X
Observation 5	X		
Community Improvement Program			
Observation 1		X	
Observation 2			X
Observation 3	X		
Observation 4			X
Canal and Victory Garages			
Observation 1	X		
Observation 2	X		
Observation 3	X		
Observation 4	X		
Highway Department Consumable Inventory 6/30/01			
Observation 1	X		
Observation 2	X		
Observation 3	X		
Highway Department Consumable Inventory 6/30/02			
Observation 1			X
Building Permits – Assessment Cycle			
Observation 1		X	

Audit Title Observation #	Resolved	Partially Resolved	Unresolved
Office of the Tax Collector			
Observation 1	X		
Observation 2			X
Observation 3			X
Tuition Reimbursement Program			
Observation 1		X	
Observation 2	X		
Observation 3	X		
Observation 4		X	
Observation 5		X	
Observation 6	X		
Welfare Department			
Observation 1	X		
Observation 2	X		
Observation 3	X		
Observation 4		X	
Observation 5	X		
Observation 6	X		
Observation 7	X		
Observation 8	X		
Observation 9	X		
Observation 10	X		
Observation 11	X		
Observation 12	X		
Observation 13		X	
Observation 14	X		

Audit Title Observation #	**Resolved**	**Partially Resolved**	**Unresolved**
Office of the City Clerk			
Observation 1	X		
Observation 2			X
Observation 3	X		
Observation 4	X		
Observation 5	X		
Observation 6			X
Observation 7	X		
Department of Elderly Services Checking Account			
Observation 1	X		
Observation 2	X		
Observation 3	X		
Fire Department Overtime			
Observation 1		X	
Observation 2			X
Observation 3	X		
Office of Youth Services Checking Account			
Observation 1	X		
Observation 2	X		
Observation 3	X		
Observation 4	X		
Traffic Department			
Observation 1			X
Observation 2	X		
Observation 3	X		
Observation 4	X		
Observation 5			X
Observation 6	X		
Observation 7	X		
Observation 8			X

TAX ABATEMENTS, EIGHT MONTHS ENDED FEBRUARY 28, 2002

No Findings

GENERAL FIXED ASSET ACCOUNT GROUP BALANCE AT JUNE 30, 2001

OBSERVATION 1: LACK OF DOCUMENTATION AVAILABLE TO SUPPORT COST

The City should develop specific requirements regarding capital asset records retention.

The Finance Department should update the new Capital Assets Policy and Procedures Manual to reflect record keeping requirements and responsibilities and distribute it to all departments as soon as possible. The changes to the manual should reflect that:

One department should be designated to maintain documentation for all land, buildings and improvements for the City.

The individual departments responsible for each vehicle or piece of equipment with a value over $5,000 should maintain a file for each item that would include all cost documentation and other pertinent information, such as warranties, for the life of the asset. When an asset is transferred to another department the file should go with it to the receiving department. Only when an asset is disposed of should the records be archived.

OBSERVATION 2 : INADEQUATE SEGREGATION OF DUTIES – PERSONNEL WITH HTE INPUT ACCESS ALSO HAVE AUTHORITY TO APPROVE THE A900

Access to input functions for purchasing and CPR modules in HTE should not be allowed to the individuals who are responsible for approving the expenditures and purchase of equipment. Each department should have one person who normally signs the A900 who has no input authority in the HTE. In the case of a department with limited employees a second signor could be used in cases where the usual A900 signor is unavailable to assure that the individual's work has been checked.

OBSERVATION 3: VEHICLE USAGE AND COST DOCUMENTATION

A written policy should be developed requiring all vehicles to track mileage and operating costs as they incur on a daily motor vehicle use form. At the end of the month this form would be submitted to the City maintenance garage responsible for the vehicle. At year-end a summary annual report should be prepared for each vehicle and filed in an equipment file maintained for each vehicle. This would allow maintenance personnel to have a vehicle cost history to help in determining which vehicles to surplus. Vehicles with excessive cost per mile should be submitted for surplus and possible replacement. As all vehicles do not age in the same manner this would help in determining replacement by the most costly vehicles first.

OBSERVATION 4: ITEMS WITH OTHER POSTING ERRORS

Any changes to the status of an asset should be noted in the CPR database in a timely manner. The location of an asset should be the location that the asset is permanently assigned. If the item is temporarily assigned or loaned to another area the records need not be changed.

OBSERVATION 5: LAND AND BUILDINGS RECORDED AT LESS THEN COST OR MARKET

Most of the assets have been acquired by the City many years ago and in all probability cost records would be difficult if not impossible to find. It would therefore be necessary to estimate the original cost or market value at time of donation, construction or purchase. In addition most of the items would most likely fall below the $5,000 minimum City reporting requirement. If it is determined that an estimate should be done the estimate should be documented using a generally accepted method such as back trending using inflation tables or comparison to other similar purchases occurring during the same time period. The cost of the asset must then be adjusted in the Continuing Property Records module.

COMMUNITY IMPROVEMENT PROGRAM, FISCAL YEAR ENDED JUNE 30, 2002

OBSERVATION 1: UNTIMELY SPEND DOWN OF PROJECT FUNDS

Cash Projects

The City needs to develop procedures to ensure that cash projects are spent in a reasonable period of time. Project stop dates should be enforced in order to ensure that cash projects are completed in a timely manner. If there is a continuing cash project such as School Capital Improvements that gets a new appropriation every year expenditures should get charged to the oldest project first until it is completely spent. If the unspent balance of the older project exceeds the current year project balance no new money should be appropriated until the balances are spent down.

Bond Projects

As part of the CIP process any request for funding should be accompanied by a schedule showing the anticipated dates that funds will be expended. The chart of accounts in the HTE system should be changed so that it would be easier to track the balances of bond projects by the issue date. In addition the Departments in charge of the projects should provide to the Finance Department schedules that show the timing that each project anticipates spending its funds. The Finance Department and the Departments should be

constantly monitoring bonded projects to ensure that funds are spent timely. If a project is unable to spend the bond proceeds in a manner that will keep the City out of an arbitrage situation those funds should be transferred to a project that will be able to take advantage of the funding in a timely manner. A new appropriation could be made to complete the original project if necessary.

OBSERVATION 2: CONTRACT MONITORING CONTROLS

The City should develop standardized forms and procedures to use when issuing contracts and change orders including a higher level of approval for change orders and contracts. For example, if the change orders on a particular project go over a certain amount or percent of the original contract it would have to be approved by the CIP Committee of the Board of Mayor and Aldermen. These procedures should be included in the City's policy and procedures manual, which is currently in draft form.

OBSERVATION 3: MISSING CASH STARTUP

Currently upon adoption by the BMA all cash start-up forms are sent by the City Clerk to Finance. Only upon receipt of the BMA action from the City Clerk does the Finance Department enter a CIP project into the HTE system. A quarterly CIP project report is prepared by the Finance Department and distributed to department heads.

After the projects are entered in HTE a report should be run and reconciled to the original budget by the Planning Department to ensure that all projects were entered and entered correctly. A listing of projects from the budget that have not been entered in the system should be maintained and checked periodically to ensure that all projects eventually get entered.

OBSERVATION 4: ANNUAL PROJECTS

Recurring annual expenditures would more appropriately be financed as part of the operating budget. Projects should be specific in goals and objectives and have a definite schedule of when they plan to start and end all phases of activity. Only funds that can be obligated during the next year should be requested as a cash project in order to keep the amount of taxpayer funds held by the City to a minimum.

CANAL STREET AND VICTORY GARAGES, 16 MONTHS ENDED OCTOBER 31, 2001

OBSERVATION 1: EMPLOYEE BENEFIT REIMBURSEMENTS
OBSERVATION 2: SECURITY DEPOSIT BALANCES
OBSERVATION 3: MANAGEMENT REPORTS
OBSERVATION 4: CIVIC CENTER EVENT PAYROLL COSTS

HIGHWAY DEPARTMENT CONSUMABLE INVENTORY, JUNE 30, 2001

OBSERVATION 1 – INTERNAL CONTROLS OVER CONSUMABLE INVENTORIES

1. Until the City develops a policy and procedure manual of its own the Highway Department should develop an agency specific manual to cover how inventory transactions are to be handled and how the physical inventory is to be controlled.

2. Procedures over the physical inventory counts should be reviewed to determine how the items noted above remained undetected.

3. When making changes such as entering beginning balances to a new computer system only qualified and well-supervised employees should be used. All beginning balances entered in the inventory module should be reviewed to ensure that the inventory is fairly stated.

4. Inventory should be better organized particularly at the transfer station area.

OBSERVATION 2 – INVENTORY ORGANIZATION

The Highway Department should work to better organize its inventory in a manner that will make it easier to perform a physical inventory. Labels should be attached to the item or bin that contains the item to help with conducting an inventory.

Items at the transfer station should be segregated by item number and the yard cleaned and organized. If it becomes obvious that a balance is incorrect the records should be adjusted. All items should be clearly labeled.

The recycled asphalt and crushed bank run records should be adjusted to reflect that they have been combined. And the records should be adjusted to eliminate the compost loam mix.

Cycle counts should be performed more frequently at the transfer station by a person who does not work there or have control over the inventory.

OBSERVATION 3 – CAPITALIZED ITEMS THAT SHOULD HAVE BEEN EXPENSED

The computer records should be adjusted to eliminate the balances in the two tire chain accounts. A review of all items normally expensed should be conducted in order to determine if there are any other balances that are incorrectly in the system.

HIGHWAY DEPARTMENT CONSUMABLE INVENTORY, JUNE 30, 2002

OBSERVATION 1 – RECONCILIATION OF GENERAL LEDGER TO SUBSIDIARY

Reconciliation between the general ledger and the Purchase and Inventory module should be done at least annually. It is recommended that the reconciliation be done monthly to make it easier to identify and correct any variances if necessary.

BUILDING PERMITS ASSESSMENT CYCLE

OBSERVATION 1: PROCEDURES OVER THE PROCESSING OF PERMITS AND ASSESSMENTS

Procedures should be improved in order to utilize the HTE system to help in tracking the permits through the assessing phase of the cycle. A link between the two subsystems in HTE should be established so that a report could be generated to show discrepancies between the two subsystems. The Building Department, Office of the Assessors and Information Systems should meet to discuss changes that could best track permits.

OFFICE OF THE TAX COLLECTOR, FOR THE 6 MONTHS ENDED 12/31/04

OBSERVATION 1: CHECKS NOT DEPOSITED TIMELY

The Office of the Tax Collector should make every effort to deposit all mail receipts daily. The Tax Collector should look into the feasibility of using overtime, hiring an additional Customer Service Representative or adjusting one person's schedule so they can process mail when the counter is closed to ensure that the receipts are processed in a timely manner. Even though checks do not carry the same risk as cash they still are at a high risk of being misappropriated. All cash and checks should be locked in the safe at night.

OBSERVATION 2: NO WRITTEN PROCEDURES GOVERNING EMPLOYEE HIRING AND RETIREMENTS

The City should develop standard written procedures on how new employees and employees separating from service with the City are processed in and out of the system. The procedures should include checklists that will ensure that all necessary steps are taken in a timely manner when processing employees. Such checklists should include steps common to all departments and have sections available for the departments to customize the checklist for situations unique to that department. The checklist would remain at the department in the employee's file and updated periodically as necessary.

OBSERVATION 3: CONFLICTING CITY ORDINANCES, CUSTODIAN OF TAX DEEDED PROPERTY

The ordinances should be changed so they are no longer in conflict with each other.

TUITION REIMBURSEMENT PROGRAM, FOR THE FISCAL YEAR ENDED JUNE 30, 2004

OBSERVATION 1: INTERNAL CONTROLS OVER TUITION REIMBURSEMENT DO NOT APPEAR TO BE WORKING AS DESIGNED

The current system of internal controls should have been sufficient to prevent all of the errors noted in this report. It appears that a general breakdown in the controls had occurred at both the Human Resources Department and the Finance Department. In order to improve the system the following steps should be taken.

- The Human Resource Department should develop written policies and procedures that clarify the rules governing the tuition reimbursement program. These written policies and procedures should include annual maximums allowed for non-affiliated employees and be approved by the Board of Mayor and Aldermen.

- The City Negotiator should correct all the labor contracts as soon as possible so that all references to calendar year are changed to fiscal year.

- The Finance Department should only process reimbursement requests that are presented on original pages of the tuition reimbursement request form. Consistency in the page of the form submitted should be used so that, for example, the pink copy is submitted with the first request and the yellow copy is submitted with the final requests. All sections should be completed and appropriate documentation attached to the final request to ensure that the course was completed in accordance with the policy. Any deficient requests should be returned.

- The spreadsheet used at the Human Resources Department to track each employee's payment history should be updated annually for any changes to the program. A second person should check to ensure that all the annual maximum allowances agree to the most recent contracts.

OBSERVATION 2: CIRCUMVENTING TUITION REIMBURSEMENT RULES BY USING EMPLOYEE DEVELOPMENT FUNDS

The HR Department should develop a written policy that limits the amount of employee development activity that can be reimbursed from the tuition reimbursement line. If it is HR's intention to supplement the lack of employee development funds with tuition reimbursement funds then HR should ensure that departments are using all staff development money before charging staff development to tuition reimbursement.

The City should amend the existing policy that governs the tuition reimbursement program to make it clear that staff development is not to be used to circumvent the rules governing the tuition reimbursement program. The revised policy should also clarify what kinds of courses are eligible for the tuition reimbursement program and which

should be charged to staff development. Staff development funds should never be used to supplement an employee's tuition reimbursement.

OBSERVATION 3: DOUBLE PAYMENT OF TUITION REIMBURSEMENT

The Human Resources Department should take steps to strengthen its internal controls over the processing of tuition reimbursement requests. If they had looked at a vendor inquiry in HTE they would seen that they had an outstanding check for the Water Department employee in the system.

The Finance Department processed the second payment to the Water Department employee based on a photocopy of the reimbursement form. Checks should only be processed using original documentation.

Tuition reimbursement should not be charged to other object codes.

The Human Resources Department should process all tuition reimbursement payments so they can effectively track the payments.

The City should seek reimbursement for the overpayments. As of the report date the Water Works and Building Department employees have agreed to pay back the payments that were made in error.

OBSERVATION 4: INCORRECTLY CALCULATING MAXIMUM ALLOWABLE

When negotiating the labor agreements references to calendar year should be avoided and all changes should be made to coincide with the City's fiscal year to help avoid any confusion.

The Human Resources Department should take greater care in calculating the maximum amount of reimbursement allowed.

The Finance Department accounts payable section should be familiar with the agreements and check the calculations prior to processing the payment.

OBSERVATION 5: NON-AFFILIATED RULES CURRENTLY IN USE NOT APPROVED BY BOARD OF MAYOR AND ALDERMEN

The Human Resources Department should prepare written policies and procedures for the non-affiliated employees for submission to the Board of Mayor and Aldermen for approval. This would also be a good time to clarify the policy as to what type of courses would be allowed for reimbursement from the tuition reimbursement program and what should be charged to staff development. The HR Department also allows Departments to

submit staff development expenditures for reimbursement from the tuition reimbursement program if the department is short on staff development funds. Procedures should be developed as to when and how this is allowed as part of the new policy that is submitted for approval.

OBSERVATION 6: TUITION REIMBURSEMENT TAX REPORTING

It appears that this error was caused by posting tuition reimbursements to more than one object code, which makes it difficult to determine if an employee has been reimbursed over the maximum allowable. All tuition reimbursement should be processed through the HR Department and posted to the correct object code. The HR department can then run a report by vendor and object code each year to determine whom, if anyone has exceeded the limit.

WELFARE DEPARTMENT, 16 MONTHS ENDED OCTOBER 31, 2001

OBSERVATION 1: UNRECORDED CASH COLLECTIONS AND EXPENDITURES

- The status of this account should be determined and appropriate BMA action taken. If the Department intends to keep these funds as a trust fund BMA approval should be sought.

- All cash should be deposited into a bank account immediately.

- All transactions at the Department should be recorded in the accounting records.

- If these are considered to be reimbursements the funds should be deposited in the Department's reimbursement revenue account immediately and any further expenditure recorded in the City financial system.

OBSERVATION 2: CONTROLS OVER CASH RECEIPTS

- The duties of collecting cash receipts, preparing the deposit, making the deposit and recording the transaction should be segregated in such a way as to minimize the risk that receipts could be misappropriated.

- Caseworkers should not be allowed to make cash collections. One central location for the collection of cash receipts should be used and a daily log of collections maintained. Copies of checks and pre-numbered cash receipts could then be sent to the caseworker for inclusion into the case files. The caseworkers should not be holding cash or checks.

- The person making the cash collections should restrictively endorse all checks immediately upon receipt or opening the mail.

- The Department should follow the City revenue policy and deposit cash and checks daily unless the amount is less than $100.

OBSERVATION 3: PROCEDURES OVER CLIENT FRAUD DETECTION

The Department should establish formal fraud deterrence and detection programs and have a formal written fraud reporting policy included in its Welfare Guidelines. This policy should clearly be communicated to the client.

The attributes of an effective fraud reporting policy include:

- the policy is in writing
- the policy describes fraudulent activities and the actions required when fraud is suspected or detected
- the policy is communicated to all employees and
- management obtains assurance from each employee that the policy and related reporting mechanism is understood.

The Department should vigorously investigate all cases of suspected fraud. When fraud is proven, all assistance should be suspended and prosecution sought. The Department should seek restitution for any assistance given under fraudulent circumstances.

OBSERVATION 4: COMMISSIONER'S LEAVE ACCRUAL

The City should seek a legal opinion on the status of the Commissioner's position and the City Ordinances or charter should be changed to clarify the treatment of the position. If the position is subject to accrual of leave time it should also be subject to accounting for its time through the submission of time and leave sheets.

OBSERVATION 5: TIMELY DETERMINATION OF STATE AID

The Department should look into the feasibility of tracking the time it takes the State to process applications for aid. This would be difficult at the present time, as the Department does not have a case management system in place (see Observation No. 13) that would aid in the tracking of application processing. In addition the mandated $100,000 cap may make the effort not cost effective. If the Department determines that the effort is cost effective, they should incorporate a means of tracking and compiling the information into a case management system.

OBSERVATION 6: RECOVERY OF AID FROM WORKING CLIENTS

The Department should set up specific guidelines for when to seek reimbursement from a client. A follow up letter could be sent after the client has a few weeks of employment reminding them of their obligation.

OBSERVATION 7: REQUIRED WORK SEARCH AND WORK PROGRAM

The Department should institute the work program again and require all able-bodied clients who are not working or actively seeking employment to participate. The Department should also require that all able-bodied persons conduct a reasonable job search and document the search in the files. The Department should revise and use the existing job search form.

OBSERVATION 8: RECOVERY FROM OTHER TOWNS

The Department does not appear to be consistent in its treatment of clients that are moving into or out of the City and collecting benefits. There also appears to be some confusion over what is considered to be a person's residence and who is ultimately responsible for the assisted person. The Department should seek legal advice to determine whom they are responsible for and institute controls to ensure that all cases are treated the same. Reimbursement should be obtained from other towns in accordance with existing law.

OBSERVATION 9: SANCTIONS DUE TO VIOLATION OF REQUIREMENTS

The Department should follow State statutes and suspend benefits to clients who constantly ignore the rules of the Department. Reductions of State aid should be considered income to clients in determining the amount of aid if the reduction in aid can easily be cured or is the result of the client's actions.

OBSERVATION 10: REQUIRED AID FROM FAMILY MEMBERS

The family members of all people applying for aid should be informed of their obligation to assist and asked to help in any way they can. If it is evident that the family member is in a position to help but refuses the Department should seek legal action.

OBSERVATION 11: CITY WELFARE GUIDELINES

The Department should adopt these provisions into their guidelines and adopt a procedure for monitoring changes in relevant State laws so that the City guidelines are kept current.

OBSERVATION 12: MANAGEMENT OVERSIGHT AND CONTROL

All members of the management team should be put in place as soon as possible after a new Commissioner starts a term. It is important that a new Commissioner become actively involved with the Department on a regular basis.

OBSERVATION 13: COMPUTERIZED CASE MANAGEMENT SYSTEM

The type of information being collected is perfect for some form of database application. The Department should look into purchasing case management software to reduce some of this work. The software will have to be accessible to all users including the caseworkers. After the front desk worker enters the basic information and opens a case in the system then the caseworker would only have to call up the case and add their information. Reports could be designed that would take this information and create the daily, weekly and monthly reports that the Department requires. If a request were made for the information in a different format the Department would only have to design a query. The log could also be used to track vouchers. It is recommended that all potential users have input into what they need out of a case management system prior to its design.

OBSERVATION 14: HELD PRESCRIPTION VOUCHERS

The time lag for processing these vouchers is unacceptably long. The Department should work with the State Department of Health and Human Services to try and reduce the time lag between requesting reimbursement and receiving the funds.

Instead of making the pharmacy wait on payment, the City should consider paying all of the invoices in a timely manner and then seeking reimbursement from the State. This could be used as a negotiating tool in setting prices with the pharmacies.

OFFICE OF THE CITY CLERK, FOR THE FISCAL YEAR ENDED JUNE 30, 2005

OBSERVATION 1: EMPLOYEES CLASSIFIED AS INDEPENDENT CONTRACTORS

The Independent City Auditor has asked for a City Solicitor's opinion on the status of these employees. If it is determined that they are employees the City should contact the IRS, explain the situation and work out a plan to pay any taxes that may be owed. In addition any hours in excess of 40 hours per week should be paid at time and one half to the affected workers.

OBSERVATION 2: HIGH VEHICLE COST PER MILE

The City Clerk's Office should either eliminate the Ford Taurus or reimburse employees for the use of their cars for the small amount of City business they perform or use the Taurus as a pool car and gain some efficiency by using the Taurus more and reimbursing employees less. If half of the miles reimbursed to employees in FY 2005 were instead used by the Taurus the cost per mile of the Taurus would drop to approximately the IRS rate of $.405. The net savings in FY 2005 would have been over $1,000.

OBSERVATION 3: OVERSTATEMENT OF BUILDINGS AND EQUIPMENT

The records should be changed to reflect the current status of all capital assets. The City Clerk's Office should conduct a physical inventory of capital assets at year end and compare it to reports printed from the CPR module as part of their year-end procedures.

OBSERVATION 4: EXPENDITURES POSTED TO THE WRONG ACCOUNTING PERIOD

These errors should have been caught by the Finance Department and posted to the correct year. CGL Insurance payments originate in the Risk Manager's Office and the City Clerk's Office has very little control over the posting of the expenditure. The two overstatement errors were clearly FY 2004 expenditures and should have been picked up by the Finance Department during their year-end procedures.

OBSERVATION 5: BUSINESS LICENSE ISSUES

In addition to working on elections and various other duties there is one employee in the City Clerks Office responsible for tracking and inspecting businesses to ensure that they are operating in accordance with City regulations. The City issues thousands of licenses and permits annually for Sunday operations, amusement devices, taxi licenses, second hand stores, alarms, and peddlers. This one person is responsible for ensuring that these businesses are in compliance with all the regulations governing the permits and licenses. It appears that he has very little time to devote to inspecting businesses. The City Clerk's Office should consider the benefits of hiring another employee in the licensing division to ensure that all businesses are properly licensed to do business in the City. The City Clerks office should be notified of all new building permits for businesses so they can ensure that the proper permits are issued prior to the start of business.

OBSERVATION 6: INTERGOVERNMENTAL TRANSFERS

The City Finance Department should develop procedures to process intergovernmental billings electronically and avoid the time and cost of processing checks. The process should incorporate an approval by the department prior to processing the transaction. It is possible to process these expenditures through the AP module without printing a check.

OBSERVATION 7: ACCOUNTS RECEIVABLE ISSUES

At year-end the City Clerk's Office should run a report to show the amount of all outstanding alarm fees and fines as of June 30th and report the amount to the Finance Department.

All revenue collected on the last day of the fiscal year should be reported in the correct fiscal year regardless of when the revenue was deposited in the bank.

Office of the City Clerk
For Fiscal Year Ended June 30, 2005

Observation #2 – High Vehicle Cost Per Mile

Auditee Response:

This response is intended to address the auditor's comments identified as the "Current Status" on page 30 of the audit. While the position of the department remains the same today with respect to the primary and secondary use of the 1999 Ford Taurus (page 29), the current status is much different in FY09. For the first time in nine years, the Licensing and Enforcement Division has a full complement of staff dedicated to this area of the department. The licensing vehicle is used each day and the City has borne the fruits of that effort with annual division revenues exceeding $550,000.00, up significantly over recent years (23.5% increase over FY08; 25.3% increase over FY07; 29.8% increase over FY06).

Compounding the demands on vehicle usage for the department is the fact that the Division continues to spearhead the extremely successful Neighborhood Enhancement Team (NET). This requires compliance staff to field complaints, investigate the authenticity of the complaints, and determine the necessity of activating the entire team.

It should also be noted that the office has heeded the observations of the auditor in the 2005 audit and made a conscious effort to minimize mileage reimbursement. The net effect of this policy change and an active licensing and compliance initiative is $339.00 in mileage reimbursement for FY09 ($1789.00 in FY08) compared to 2,608 additional miles on the Ford Taurus during the same time period (640 miles in FY08).

The auditor deemed in FY08 that the vehicle remained expensive to operate with costs reaching $1115.00 versus the mileage reimbursement of $335.00 for the same employees to utilize their personal vehicles. Beyond the fact that utilizing a personal vehicle to conduct City inspections is completely impractical, the current operating cost associated with the Taurus in FY09 is $705.22. If we were to reimburse employees for the city miles driven during the same period the cost to the City would be $1525.68, more than double the operating costs.

The department has also obtained a parking spot for the licensing vehicle in a secure municipal facility where it has been parked nightly for the past 18 months thus eliminating all commuting miles. Finally, though the vehicle has reached the age that the City typically surpluses vehicles (10 years), we believe that we can continue to utilize it efficiently for another year or two in light of this difficult economy.

CITY TREASURY, FOR THE FISCAL YEAR ENDED JUNE 30, 2006

No Findings

DEPARTMENT OF ELDERLY SERVICES CHECKING ACCOUNT, FOR THE 17 MONTHS ENDED MAY 31, 2004

OBSERVATION 1: UNRECORDED CHECKING ACCOUNT

The Department of Elderly Services should work with the Finance Department to ensure that all accounts are fully accounted for in the City's accounting system and reported in the City's financial statements.

The Department should follow section 35.022 of the City of Manchester NH, Code of Ordinances and go through the normal budgetary process for expenditures that are a regular part of doing business.

OBSERVATION 2: LACK OF INTERNAL CONTROLS

At present one-person staffs the West Side Center and proper segregation may prove difficult. When the new West Side center is completed additional personnel will be available in the building to aid in proper segregation of duties.

The person who maintains the checkbook should not be an authorized signer on the account.

The same person who has custody of the checkbook should not do the monthly reconciliation.

The bank deposit should be prepared by someone not involved with the collection of the funds that can then compare amounts collected to the source documents such as pre-numbered receipts.

OBSERVATION 3: UNTIMELY CASH DEPOSITS

The Department should attempt to minimize the amount of cash on hand by following the City deposit policy and preparing deposits on a daily basis.

REVIEW OF FIRE DEPARTMENT OVERTIME, FY 2003

OBSERVATION 1: THE MFD SHOULD DEVELOP PROGRAMS DESIGNED TO REDUCE SICK LEAVE

The department should compile and review sick leave data in order to establish benchmarks and identify possible patterns of abuse or areas where reductions of time used can be achieved.

The department should consider taking a more proactive approach to sick leave reduction by emphasizing the benefits of saving leave balances and reducing injuries both at home and on the job. This could also include a comprehensive wellness-fitness program to reduce injuries. The International Association of Firefighters and the International Association of Fire Chiefs developed the Fire Service Joint Labor Management Wellness-Fitness Initiative to improve the wellness of fire personnel. Several U.S. and Canadian fire departments require the mandatory participation of all the uniformed personnel in this program. It has been reported that in City of Phoenix, Arizona, during the first eight years of their program, the number of job-related injuries decreased by 26 percent and the average number of days off due to on-the-job-injuries was reduced by 42 percent.

OBSERVATION 2: VACATION SCHEDULING ALLOWS THE NUMBER OF FIREMEN ON VACATION TO EXCEED THE NUMBER OF RELIEF PERSONNEL

As vacation time is the one part of the overtime commitment that the Department has control over, every effort should be made to ensure that the amount of scheduled time off does not exceed the amount of potentially available uncommitted firefighters.

A 1992 study by the City of San Jose, California reported that the most efficient and effective manner to meet minimum staffing was to staff 73 percent of absences with relief personnel and 27 percent with overtime. This study however is outdated and the parameters of the San Jose Fire Department may not apply to the Manchester Fire Department. The City Manchester should consider having a study done to determine the best mix of relief to overtime.

OBSERVATION 3: TRAINING CLASSES DO NOT APPEAR TO BE SCHEDULED TO MINIMIZE THE AMOUNT OF OVERTIME NEEDED TO COVER VACANCIES

The department should try to train replacements so they will be available during the periods of highest need. Because the training was split between two sessions the class that was available in October arrived in time to cover for the winter holiday period when many vacations are scheduled. The department should consider the feasibility of training smaller classes more often in order to ensure coverage during the periods when most vacations are scheduled.

OFFICE OF YOUTH SERVICES CHECKING ACCOUNT, FOR THE FISCAL YEAR ENDED JUNE 30, 2004

OBSERVATION 1: UNRECORDED CHECKING ACCOUNT

The OYS closed the checking account on July 23, 2004.

The OYS should work with the Finance Department to ensure that the proper revenue accounts are approved and are set up in HTE to accept these funds.

During the budget process OYS should ensure that the funds formerly paid out of the checking account for the necessary expenditures of the programs are included in their budget as well as the offsetting estimated revenues.

Restitution funds should be set up as a separate balance sheet account with the Finance Department.

OBSERVATION 2: ACCOUNTING FOR REVENUES

If a separate revenue account is set up in HTE for each program and subsidiary ledgers are maintained at the Office it can be determined that the revenue is properly posted and make meaningful financial analysis possible. It will be important to have this information when determining estimated revenues during the budget process.

OBSERVATION 3: WAIVER OF FEES AND SEGREGATION OF DUTIES

The duties of intake to the program, collection of fees and waiver of fees should be separated. The best way to do this is to have fees paid to someone not involved with the program who would be issued a receipt as proof to show the program manager that the fee was paid.

If a fee is to be waived the reason should be documented and approved by a person in a supervisory position.

OBSERVATION 4: UNTIMELY CASH DEPOSITS

The Office should attempt to minimize the amount of cash on hand by following the City deposit policy and preparing deposits on a daily basis.

TRAFFIC DEPARTMENT PERFORMANCE AUDIT, JUNE 2006

OBSERVATION 1: SNOW REMOVAL

The Department should explore the feasibility of using City labor to remove the snow thereby relieving the need to pay an outside vendor for the service.

OBSERVATION 2: CAPITAL ASSET RECORD KEEPING

The department should establish procedures to ensure that all additions and deletions of capital assets are entered correctly and in a timely manner to the CPR module. Even though entering information regarding vehicles is the responsibility of the Highway Department all departments upon receiving or disposing of vehicles should check the CPR module to ensure that the vehicle transaction had been entered correctly.

OBSERVATION 3: CONSUMABLE INVENTORY CONTROLS

The Department should formalize procedures for controlling its consumable inventory.

OBSERVATION 4: VEHICLE EFFICIENCY

The truck housed at the Victory Garage does not appear to be needed as it gets very little use except for the occasional snowstorm and should be declared surplus by the department.

It is questionable as to weather either of the cruisers is needed by the department but at the very least the older cruiser that has required excessive maintenance costs should be declared surplus. It does not appear that the department needs more than one vehicle for the office use.

OBSERVATION 5: GAS BOY CONTROLS NOT WORKING

The system should be set up to require that mileage be entered prior to dispensing fuel and that the mileage entered meets preset parameters. For example the entered mileage has to be greater then the previous mileage and not any greater than an acceptable range for that vehicle.

All personnel who are authorized to use the system need to be properly trained in the use and importance of entering data correctly.

Separate cards should be issued for gas cans and small engine equipment and fuel for these items should never be entered using a vehicle's card. This card should be under the control of one assigned individual and kept in a secured area when not in use.

OBSERVATION 6: HIGH RATIO OF SUPERVISORY EMPLOYEES

With the upcoming realignment of the Department it is recommended that the City look at the necessity of the number of supervisors used in the department. It does not appear to be necessary to have both a Director and Deputy Director in a department with so few employees and relative simplicity of operations. The supervisory function for the parking division should rest with the new head of the division who can manage both the parking garage and the meter technicians.

OBSERVATION 7: TRAFFIC SIGNAL TECHNICIANS

The department should consider hiring an additional technician to help perform the maintenance. They should also track the amount and type of trouble slips received to ensure that the added cost of adding a new position is resulting in a reduction in system failures.

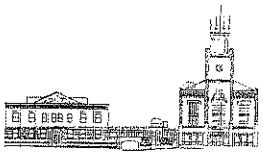
OBSERVATION 8: STREET MARKING COSTS

Because the per linear foot cost to privatize the long line marking is significantly less expensive then the in-house cost it is recommended that the department put this part of the job out to bid. This would free up the staff to concentrate on the area that they appear to be able to do less expensively then private companies. This would allow them to reduce the time between paintings for all markings.

7/7/08 Re-tabled

CITY OF MANCHESTER

Office of the City Clerk



Carol A. Johnson
City Clerk

Matthew Normand
Deputy City Clerk

MEMORANDUM

TO: Committee on Accounts, Enrollment & Revenue Administration
Ald. Sullivan, Lopez, DeVries, M. Roy, Ouellette

FROM: Matthew Normand
Deputy City Clerk

DATE: May 5, 2008

RE: Communication from Aldermen Lopez.

Please be advised that on March 4, 2008, the Committee voted to place the attached communication from Alderman Lopez on the table. The letter, which references the Revenue Stabilization Reserve Account, was omitted during preparation of subsequent agendas. A revised agenda properly displaying this communication has been sent to all aldermen and posted for the public.

One City Hall Plaza • Manchester, New Hampshire 03101 • (603) 624-6455 • FAX: (603) 624-6487
E-mail: CityClerk@ManchesterNH.gov • Website: www.manchesternh.gov

CITY OF MANCHESTER
Board of Aldermen

IN BOARD OF MAYOR & ALDERMEN

DATE: July 10, 2007

ON MOTION OF ALD. Lopez

SECONDED BY ALD. Shea

VOTED TO refer to Cmte. on Administration.

CITY CLERK

June 19, 2007

Committee on Community Improvement
One City Hall Plaza
Manchester, NH 03101

Chairman Garrity and Honorable Members:

As you meet and have discussions about using Rooms and Meals tax money in the future for Storm Water Utility/Sidewalks/Streets, please consider these comments.

First, let me say that money is needed now and in my point of view should be started with first addressing our reserve fund ordinances that are in place. I do believe that at some point we might look at the revenue that will be in the Rooms and Meals tax, but remember we do have a tax rate stabilization account that we should consider and put money into that account. After all, when we built the civic center we said money would go back to the taxpayer after.

Before we rush into starting another fund, I believe that we need to review some of our ordinances. So, before we make another policy effecting rooms and meals revenue, some of these special ordinances should be changed to start putting money into a special account for storm water/sidewalks/streets this year.

The Finance Officer should review the following to see if they apply today and make recommendations to the Board regarding what changes he would suggest. One area that we should talk about is how much percent of the surplus should go into these accounts, and what they should be used for. An example that I would like to see is instead of putting 50% of the surplus into the Revenue Stabilization Account, how about 25% into this account and 25% into special storm water/sidewalks/streets. That way we can start doing something this year after the audit takes place for the 2007 budget. That's just one ordinance that might be changed. The reserve ordinances are as follows:

- 35.032 Revenue Stabilization Reserve Account (Ordinance passed 5-6-97)
- 35.033 Special Revenue Reserve Account (Ordinance passed 11-6-02)
- 35.034 Tax Rate Stabilization Reserve Account (Ordinance passed 11-6-02)
- 35.035 Risk Retention Reserve Account (Ordinance Passed 11-6-02)

RECEIVED
JUN 19 2007
CITY CLERK'S OFFICE

10-2

I am asking the Board of Aldermen to have the Finance Officer, the City Solicitor and if needed our Bond Council for recommendation before we move forward to make sure that it would not hurt our bond rating to make some changes.

Sincerely,

Mike Lopez
Alderman-At-Large

C: Board of Mayor and Aldermen
Finance Officer
City Solicitor