



## MEMORANDUM

**To:** City Council

**From:** Michelle Tressler

**Date:** February 28, 2017

**Re:** FY16 Annual Report

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The following annual report is being submitted according to Ordinance 2013-51, Section 2-233(b)(10).

The mission of Internal Audit is as follows:

- Ensure the city is applying its resources effectively, efficiently, and economically
- Ensure the city is in compliance with laws, regulations, and policies and procedures
- Ensure the city has adequate safeguards over its assets
- Ensure the city has appropriate revenue management in place
- Ensure the city's financial and operational information is reliable

This department serves the public interest and honors the public trust. It promotes accountability throughout the City.

The following is a summary of the audits completed, the major findings, the corrective action taken by administration, and any significant issues not fully addressed by management for year-end FY16.

## Utility Billing System & Parks RecTrac System Access Control Audit

**Objective** – The objective of this audit was to determine if appropriate access controls are in place.

**Evaluation** – Focus on two of the City’s systems – Parks RecTrac (Vermont Systems) and Utility Billing (SunGard) regarding access control. Inquiry was made with both systems’ vendors as well as the staff that works with them. Access control lists were compared with the termination list from HR and audit logs were all examined for both systems.

### **Overall Conclusion –**

Six items came up during this audit. They are as follows: (follow-up results in red)

- Policies and Procedures Not in Place
  - Fully Implemented – An Activation Deactivation procedure has been created and is stored on the IT shared drive, Reference Number ITCJIS. HR is now submitting all new hires and terminations through the help desk software.
- Logs Not Enabled
  - Fully Implemented – Logs are now enabled for both Utility Billing (SunGard) and Parks RecTrac system. Parks runs the audit logs monthly and documents any findings. SunGard is being replaced with Tyler Systems and IT has made sure that the new system has the audit logs turned on.
- Data Owner Approvals Lacking
  - Fully Implemented – Four different levels of security have been created in the RecTrac system and all employees have been assigned a security level. IT meets with the department system data owners annually to review their staff’s access.
- Annual Reviews Not Performed
  - Fully Implemented – The automated schedule has been created and these User Entitlement Review/audits are scheduled to be performed every 6 months.
- No Non-Disclosure Agreement Found for the Parks RecTrac System
  - Fully Implemented – An NDA has been received from Vermont Systems and the signed agreement is in Laserfiche.
- Deactivation Procedures
  - Fully Implemented – An Activation Deactivation procedure has been created.

## Sales Tax Follow-Up Audit

**Objective** – The objective of this audit was to determine if previous audit concerns were addressed and if the city is receiving all the sales tax it should be receiving (11/14-5/16).

**Evaluation** – Using GIS as subject matter experts various business databases were compared to the Comptroller's database to determine any differences. The differences may indicate city miscoding on the part of the Comptroller or non-reporting on the part of the business owner.

### Overall Conclusion –

- All business addresses appear to be reporting sales tax to the correct jurisdiction.

### Previous Concerns –

- 17 addresses were sent to the Comptroller for their examination
  - All addresses are now correctly remitting sales tax to League City
- The city can assess a local Sales and Use Tax on Residential Use of Gas and Electricity and on Telecommunications Services.
  - As of January 1, 2017, local sales and use tax will be added to telecommunications services. The motion did not pass to add taxation to residential use of gas and electricity.
- Stop sending our own sales tax to the Comptroller. There is a 2% service fee on the amount sent back. This can save approximately **\$1,200** per year and allow us to maintain our cash flow of approximately \$62,000 per year.
  - The City no longer sends their local portion of the sales tax to the Comptroller.
- If a citizen is being charged the wrong sales tax percentage they need to contact the vendor. If the vendor does not cooperate than a complaint may be filed with the State Comptroller in Austin.
  - This concern was re-addressed by including a reminder to citizens of our 8.0% tax rate in City Manager's Update on 10/21/16.

## Capital Improvement Program – Project Delivery Follow-Up Audit

**Objective** – The objective was to determine if previous audit recommendations were implemented.

Follow-up Results from the Recommendations provided:

- The Project Delivery Manual does not address several important Project Management tasks. They are as follows:
  - Lessons Learned Section
  - History Kept on Contractors
  - Risk Assessment for each Project
  - Project Manager Performance Measures

- Linking of Budget with Schedule
- Project Management Thresholds
- 1. Partially Implemented – Many of these items are discussed on an informal basis, but are still not being formally documented. Three vendor report cards have been developed and staff is in the process of making sure that they have all been completed.
- The CIP Spreadsheet is not always kept up-to-date.
  - 2. Partially Implemented – An updated CIP Report is provided to Council monthly. Staff has informed vendors that updated project schedules are now required with each invoice submittal.
- Actual Time versus Budgeted Time and Variance Analysis needs to be improved.
  - 3. Partially Implemented – The development of an accurate schedule and budget is a priority. With the help of some additional resources more time will be spent on post-project comparison of costs and schedule.

Summary: 3 Partially Implemented

Action Taken: Revised Implementation Date of January 5, 2018. Follow-up will be completed in FY18.

#### Cash Processing and Handling Audit Report

**Objective** – The objective of this audit was to determine if controls are designed properly and operating effectively to safeguard the City's cash.

**Evaluation** – Reviewed 7 areas that handle cash: Helen Hall Library, Hometown Heroes Park, Records Management, League City Animal Services, Municipal Court, Finance (Utility Billing), and Building.

**Overall Conclusion** – Generally, City staff at the locations reviewed are appropriately accounting for and handling cash.

#### Recommendations:

- Improving controls at some locations could help prevent errors or irregularities or make their detection easier.
  - Library – Several minor issues were identified, such as more than one employee can access the same cash drawer and the key for the cash drawers is left unsecured.
  - Building – Non-cash payments collected throughout the day are kept unsecured in a desk drawer.

- Training should be provided on a recurring basis to ensure that all staff is aware of their cash handling role and can be held accountable.
- Jail and Animal Control lack the ability to take credit card payments.

**Action Taken** – 9 out of 9 recommendations were agreed to by management (one is restricted by system capabilities). Based on implementation dates this follow-up will be in FY17.

## Training

### Internal

- P-Card
- Tyler Technologies
- TOMA

### External

- Weaver's Public Sector CPE Day
- Webinars and quizzes regarding a variety of Audit/Finance topics mainly sponsored by Institute of Internal Auditors

## Statistics

Percent of Recommendations Agreed to by Management = 100%

Percent of Output for FY16 (Work Completed vs. Planned) = 100%

Cost per Billable Hour = \$89 Benchmark = \$95

Cost per Total Hours = \$57 Benchmark = \$57