



FINANCIAL MONTH END CLOSE
INTERNAL AUDIT

FIELDWORK MAY 2018





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February 21, 2019

Finance and Administration Committee
City of Springfield
840 Boonville Ave.
Springfield, Missouri 65802

Re: Month End Close Internal Audit

Dear Committee Members:

In conjunction with our overall engagement to provide internal audit services to the City of Springfield ("City"), we have completed our internal audit of the Financial Month End Close process and the associated internal controls. Our services were performed in accordance with the International Standards for the Professional Practice of Internal Auditing, as promulgated by the Institute of Internal Auditors (IIA).

The accompanying report includes an Executive Summary, our Observations and Recommendations, a Process Improvement Opportunity, and a supporting Appendix. Because the procedures performed in conjunction with the review are more limited than would be necessary to provide an opinion on the system of internal accounting controls taken as a whole, such an opinion is not expressed. In addition, the engagement did not include a detailed audit of transactions that would be required to discover fraud, defalcations or other irregularities.

This report is intended solely for the information and use of management and the City Council and is not intended to be, and should not be, used by anyone other than the specified parties. City of Springfield external auditors may be provided with a copy of this report in connection with fulfilling their responsibilities. In addition, we understand that the City may be required to make our report, once finalized, available under sunshine laws.

We would like to express our gratitude to all employees involved with this project. Each person involved was accessible and responsive to our requests for information.

Sincerely,

RUBINBROWN LLP

A handwritten signature in black ink that reads "Christina Solomon". The signature is written in a cursive, flowing style.

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Enclosures

cc: David Holtmann Jody Vernon

**CITY OF SPRINGFIELD
FINANCIAL MONTH END CLOSE INTERNAL AUDIT**

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CITY OF SPRINGFIELD
FINANCIAL MONTH END CLOSE INTERNAL AUDIT
EXECUTIVE SUMMARY

Project Overview and Scope

We completed our audit of the Financial Month End Close process and the associated internal controls. The objectives of our audit were to:

- Ensure adequate internal controls exist over the Financial Month End Close process and are operating effectively.
- Evaluate the Financial Month End Close process for operating efficiencies and applicability of best practices.

Our audit covered transactions from July 1, 2016 through December 31, 2017. In order to achieve the objectives above, we performed the following:

- Identified existing policies and practices in place for the Financial Month End Close process.
- Performed in-person interviews with the Accounting, Parks, and Workforce Development departments. The objective of these interviews was to gain an understanding of the Financial Month End Close processes.
- Performed testing over a sample of transactions:
 - Verified ten monthly Accounts Payable checklists from the Finance department were completed and properly approved;
 - Reviewed supporting documentation for ten fixed asset additions to ensure they were placed in service in the correct period;
 - Reviewed and reconciled support for miscellaneous receipts; and
 - Verified sales tax revenue transactions were properly supported and could be traced to the general ledger.
- Performed data analysis on:
 - The chart of accounts to identify duplicate and unused codes.

Background

The City performs financial month end closing procedures. These procedures aid in reporting and tracking the current financial position of the City. Oracle system functionality requires that the asset subledger for one month (for example, April) be closed before the next month (for example, May), can be opened. For other subledgers, such as Accounts Payable and Accounts Receivable, two months are open at a time so that one month can be closed while the other is open for current business. The closing process begins at the end of the calendar month, with some departments beginning their process on the 25th of the month. Closing the general ledger is the final step of the process and is completed with a deadline of the 15th of the following the month.

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Best Practices

Based on our review, the Financial Month End Close process has adequate internal controls, except as provided in our observations below. The following are some examples of the process's best practice internal controls:

- A monthly checklist for Accounts Payable is completed by the accountant that closes the subledger, and is reviewed and approved by the Assistant Finance Director.
- City departments complete close activities and submit supporting documentation timely each month.

Observations and Recommendations

We noted the following observations during our review:

- The Finance department follows an established timeline to close the general ledger each month. However, no formal close calendar or written monthly close procedures exist.
- Key person risk exists in the cash reconciliation process. There are no detailed instructions on how to reperform the process and one accountant is responsible for completing the complex reconciliation each month.

Additionally, we noted one process improvement opportunity related to the chart of accounts. All observations, recommendations, and the process improvement opportunity were discussed with management. Details are noted in the tables attached immediately hereafter.

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 OBSERVATIONS AND RECOMMENDATIONS



	Process/Procedure	Observation and Risk	Recommendation	Management Response
1	<p>The Finance department is responsible for closing the general ledger and coordinating financial month end close activities throughout the City.</p> <p>There are comprehensive year-end closing instructions provided to departments throughout the City.</p>	<p>Observation: The Finance department does not maintain a monthly close calendar or written month-end closing procedures for areas/items with required deadlines.</p> <p>Risk: Inaccurate financial statements due to an incorrect close process.</p>	<p>Adapt the current year-end instructions to provide guidance for each department/area for month-end close activities.</p> <p>This can be in the form of a monthly close calendar, a short procedural document, or a more formal policy document.</p>	<p>Assistant Director of Finance</p> <p>1) To help ensure there is clarity regarding the monthly close process, we will add language to our Financial Control Procedures document during its next update.</p> <p>2) Financial personnel in each department are aware of the monthly closing procedures and contact the Finance department with any issues that arise and necessitate pushing the standard closing date back.</p> <p>Target Date: May 31, 2019</p>

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 OBSERVATIONS AND RECOMMENDATIONS



	Process/Procedure	Observation and Risk	Recommendation	Management Response
2	<p>The Finance department performs a comprehensive cash reconciliation each month. An accountant reconciles the GL and bank accounts daily. At the end of the month, the accountant verifies the deposits in transit with multiple City departments, and outstanding checks with the Accounts Payable accountant and adjusts the bank balance. The accountant then verifies cleared deposits and checks and adjusts the GL balance. Any reconciling items, which would cause the bank and GL to be out of balance, are investigated and resolved.</p> <p>The accountant supplied us with a brief listing of what actions are performed in order to complete the reconciliation. We also received approximately 36 files that supported the bank reconciliation. No other procedural documentation was available.</p>	<p>Observation: We were unable to re-perform the reconciliation for one month without assistance due to the complexity of the process.</p> <p>Risk: Key person risk. The City may be unable to perform a critical reconciliation if the accountant is unavailable due to unforeseen reasons.</p>	<p>Create a detailed procedures document that shows how the cash reconciliation is performed each month. The document should provide detailed steps for the reconciliation. As part of the procedure guide, create an example of a reconciliation with cross-referenced support as an example.</p>	<p>Assistant Director of Finance</p> <p>The employee responsible for the reconciliation process discussed is preparing and updating a written manual detailing the daily, monthly, and yearly procedures for completing these tasks.</p> <p>Target Date: May 31, 2019</p>

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 PROCESS IMPROVEMENT OPPORTUNITY



We noted the following process improvement during our review. This observation is not considered an internal control weaknesses; however, we do recommend management consider the observation and take action where appropriate.

	Observation	Process Improvement	Management Response
1	<p>The chart of accounts is an organizational tool that provides a complete listing of every account in the general ledger of a company, broken down into subcategories. We performed data analysis on the chart of accounts to determine if there were unused or duplicate accounts.</p> <p>In order to determine if there were unused accounts we compared journal entries for six months (from July 1, 2017 to January 15, 2018) to the current chart of accounts. In order to determine if accounts were duplicates we compared the account description. We found potential duplicates and unused accounts for Projects & Grants, Organizations, and Funds. See our full results in the attached appendix.</p>	<p>Review the detailed results from the analysis and inactivate unused and duplicate accounts, where possible.</p> <p>Consider incorporating chart of accounts reviews as part of year end close activities.</p>	<p>Assistant Director of Finance</p> <p>Individual departments are responsible for reviewing the chart of account segment values and submitting change forms to the Finance Department as needed. We will implement an annual review process in conjunction with other departments to disable segment values no longer needed.</p>

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 APPENDIX – CHART OF ACCOUNTS DATA ANALYSIS RESULTS



The following chart shows the results of our data analysis on the chart of accounts. "Active Accounts" shows the total current active accounts for each category. The next two columns are results from the data analysis. We arrived at potential unused accounts by comparing six months of recent journal entries (from July 1, 2017 to January 15, 2018*) to the current chart of accounts file. We arrived at possible duplicate accounts by comparing the description of the accounts within the chart of accounts file.

Category	Active Accounts	Potential Unused Accounts	Possible Duplicate Accounts
Projects & Grants	2,375	1,976	6
Organizations	350	56	1
Funds	431	168	1
Locations	753	499	0

*We confirmed with the Finance department that there was no seasonality that would affect the accuracy of these results.

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 APPENDIX – CHART OF ACCOUNTS DATA ANALYSIS RESULTS



Below are graphs that illustrate the findings from the chart of accounts data analysis. Note the correlation between total active accounts (shown in the first graph) and the overall potential unused and duplicate accounts.

