



## MEMORANDUM

City of Fort Smith  
*Internal Audit*

**TO: Board of Directors, City of Fort Smith**

**FROM: Tracey Shockley**

**DATE: December 2, 2016**

**SUBJECT: Disbursement Audit – Executive Summary**

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### **Background:**

The purpose of this audit was to assess the City of Fort Smith Disbursements and to specifically review the controls over the expenditures, both financially and by department. The objective was to determine whether the disbursements were made within the parameters of the City of Fort Smith policies and procedures.

### **Scope of Work:**

The additional objectives were to ensure that the disbursements had the proper documentation support attached, were properly approved, and were paid timely. This analysis also provided an opportunity to determine whether any expenses were duplicate charges, the purchases were not split to avoid purchasing amount limits, and purchases were appropriate.

Interviews were conducted with the Finance Department personnel. A review of policies and procedures were performed to assess the overall procedures for adequacy and, where necessary, recommend improvements to avoid further reporting discrepancies when they are noticed during the review.

Additionally, testing was done to evaluate whether internal controls are in place to minimize the risk of loss due to waste, fraud and abuse.

These disbursements were reviewed for the following:

- The invoice was submitted timely to the Finance Department,
- The proper support and documentation was attached,
- The disbursement was approved properly by the Department Head/designee and Purchasing Department,
- The charges can be classified as a city expense and the purchase explained,
- The charges were coded to the correct department and account,
- The invoice was paid timely by the Finance Department,
- The invoice date was after the purchase order (PO) date, and
- The amount for the invoice matches the check amount

Approximately 719 disbursements and support (years 2015 and first five months of 2016) were reviewed, some included multiple exceptions. Based upon the areas tested above the following exceptions were noted:

- Of the disbursements that were not submitted in a timely manner, nine of them were submitted over one month late (sanitation and utilities were responsible for these late disbursements). Four disbursements were submitted up to three months late (sanitation and utilities were responsible for these disbursements). However, after receiving the late submitted invoices, the Finance Department did pay the invoice timely.
- Of the disbursements that did not provide proper support and documentation, thirty-two did not provide a request for payment document (utilities, police, and sanitation departments were responsible for these disbursements). Four disbursements had a handwritten invoice/receipts attached with no distinguishable business name or logo.
- Disbursements were not approved properly, this includes department head signature and/or purchasing department signature.
- Of the disbursements where expenses did not appear appropriate, six disbursements need additional information for the explanation of purchases. Additionally there were disbursements contained inappropriate purchases (i.e. engraved Leatherman tools, k-cups, Christmas lights, bracelets with logos, custom pens, internet, Toastmasters, etc.), and one disbursement needed an explanation as to how charges were allocated (there was work shown but no reason for how it was allocated with different percentages or how they came about with the allocations). Also, the other departments that it was allocated to did not have the proper approvals to say they agreed to the allocations.
- Disbursements were not coded to the proper department or were coded to the wrong account.
- Of the expenses that contained invoices dated before the purchase order date, one was dated two months prior to the purchase order date.
- Disbursements were paid after the Net 20/30/60/90.
- Three disbursements were split to avoid approval by the Board.

During the review, IA also observed the following:

- The Finance Department did not enter enough information regarding the disbursement.
- Some invoices had amounts that were different even though the items purchased were exactly the same. For example, Gelco Clothing charged different prices for boots that were the same size, same skew number, same brand of boot, etc... IA notified all departments to ensure that the invoices were reconciled to an employee and for any differences in boot prices.
- The prior Finance Director charged other departments for finance related charges. IA notified the new Finance Director of these discrepancies so it could be corrected.
- Multiple invoices were not reconciled by HR to ensure the charges were actual City employees. IA notified the new HR Director regarding this discrepancy and has since ensured that all medical invoices are reconciled.
- Invoices were split by one department to avoid board approval.
- Departments should attach a copy of the ordinance or the contract as support.
- If construction cost are to be paid, documentation should be attached identifying the specific amounts to be paid. It was noted that Engineering and Utilities attached the entire print out of all construction cost and therefore, IA and Finance could not determine exactly what amounts were to be included in the cost to be paid.

The City has entered into an agreement with Tyler Muniz to implement an Enterprise Resource Planning (ERP) software system. Once implemented, it will improve productivity, increase efficiencies, decrease costs and streamline processes. Additionally, it will improve reporting capabilities, easier to collect data, and the data will be up-to-date.

The ERP system should eliminate a number of exceptions listed above. For example, the departments will have notifications for invoices that need approvals, therefore eliminating the late approvals and sending it to the Finance Department.