



**Van Gorder, Walker & Co., Inc.**  
Certified Public Accountants

January 4, 2019

To the Mayor and City Administrator  
City of Ft. Wright, Kentucky  
409 Kyles Lane  
Ft. Wright, Kentucky 41011

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In planning and performing our audit of the financial statements of the City of Ft. Wright, Kentucky for the year ended June 30, 2018, we considered internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. However, as a result of observations made during our audit we offer the following:

### **Current Year Recommendations**

#### **1) *Lack of Segregation of Duties***

Condition: We noted that the City Clerk regularly performs the following three internal control procedures that are incompatible with appropriate segregation of duties:

- Control of cash receipts and disbursements
- Record keeping in Sage accounting software
- Reconciliation of cash, revenues, and disbursements between the accounting software and the bank statements

Criteria: The process of executing a transaction (custody of cash receipts and disbursements) should be segregated from the process of recording the transaction (record keeping) and reconciliation of the transaction.

Effect: Segregation of duties is a necessary part of any system of internal control. Lack of segregation of duties could allow for cash receipts to be diverted away from the City and expenses not attributed to the City could be paid for from the City's cash account.

We strongly recommend the following:

- The City should immediately review its internal control structure with guidance from its consultant accountant.
- Internal controls should be implemented to segregate the control of cash, record keeping, and reconciliation duties.
- Management should continue to monitor controls to ascertain that they are sufficient to reduce the risk of material misstatement to an acceptable level.

#### ***Management Comments:***

The COFW is in the process of evaluating all internal controls and making the appropriate segregation of duties. In an effort to accomplish this task successfully we will be hiring a full time Administrative Position, are implementing changes with the property tax software, and modifying and tightening user access to SAGE 50, our accounting system. Changes to internal controls are also at the recommendation of Von Lehman & Company, a special auditor hired by the organization to evaluate all internal control functions.

## **2) Lack of Control over Financial Reporting**

**Condition:** In the Funds, the City keeps its books on a cash basis. There are no accruals made in the funds for accounts receivables, prepaid expenses, accounts payable, payroll liabilities, and deferrals of revenue. In the Government-Wide Financial Statements, the City does not keep a fixed asset schedule, listing of assets purchased or disposed, depreciation schedule, compensated absence schedule, or pension and OPEB liability schedule. The City has relied upon the auditor to prepare the financial statements, make all accruals, and maintain the fixed asset, long-term debt, and pension schedules.

**Criteria:** The financial statements are the responsibility of the City. The City's auditor is prevented by Generally Accepted Governmental Auditing Standards from taking responsibility for the accrual and maintenance of City schedules, and the preparation of the financial statements from those schedules.

**Effect:** City management has relinquished control of their financial reporting to the auditor, who is prohibited from being responsible for it. The City cannot generate, internally, the schedules produced within the audit report.

**Recommendation:** The City should consider the use of a consultant accountant or professional accounting staff member to provide the following services:

- Make annual balance sheet accruals to accounts receivables, prepaid expenses, accounts payable, payroll liabilities, and deferrals of revenue.
- Maintain fixed asset listing, with annual additions and deletions
- Calculate the annual depreciation expense by governmental function (Administration, Police, Fire, etc.) for all assets.
- Maintain a compensated absences schedule for City employees, with vacation hours available and rates of pay.
- Maintain any long- term debt schedule for the City. (Currently not applicable).
- Maintain schedules of net pension liability and net OPEB liabilities for the City, by governmental function and by CERS classification (Hazardous and Non-Hazardous).

### ***Management Comments:***

The COFW has contracted with Harrison & Associates, CPA to serve as the COFW's bookkeeper and reconcile all monthly financial statements. Our new bookkeeper will also help prepare for the annual audit and suggest journal entries to enter, as well as, prepare and help maintain all the schedules and listings identified above. It is important to note this individual is a CPA and will work as a contractor on an as needed basis, generally once a month.

## **3) Recommend Use of Bank Lockbox for Revenues**

During routine audit procedures, we noted that a significant amount of revenue comes into the City in the form of checks, especially from insurance companies; and administrative staff have the ability to substitute these checks for cash in the cash drawer. To prevent potential check substitution schemes, we recommend the City investigate the use of a Lockbox at a local bank, especially for insurance premium revenues.

### ***Management Comments:***

The COFW plans to have Insurance Premium Receipts forwarded to the existing LockBox we use for property tax payments. The City is currently in the process of preparing bids for Bank Deposit Services. Once we determine the vendor of choice this will be implemented. Additionally, we will be installing a



cash drawer/cash register for the purpose of promptly recording and keeping safe the receipt of all other cash and check payments that are processed by the City.

#### **4) Civic Club Deposit Return Process**

Through routine investigation and inquiry, we noted that the City holds significant amounts of deposits from residents who rent the Civic Club. These deposits are returned to the resident, uncashed, upon completion of the event. We believe the City is incurring unnecessary risk in holding these sums in uncashed checks over periods of months. There is a risk of loss, theft, exchange with cash, refunding a check in error or intentionally when damage has occurred, or returning the check to the wrong/unapproved resident. We highly recommend depositing these checks, holding them as a "restricted" deposit on the balance sheet, and reimbursing with a check cut on City funds with all necessary approvals.

##### ***Management Comments:***

The COFW is in the process of revamping the rental policies associated with the South Hills Civic Center to include changes to the receipt of payments and deposits, in order to be in compliance with this recommendation.

#### **5) Reconciliation Process Review**

Through routine inquiry we noted that the Clerk has custody, record keeping, and reconciliation duties as mentioned in Comment #1 above. We recognize that record keeping and reconciliation are often duties that are better-suited for the finance officer of the organization as opposed to an outside consultant accountant or another member of City staff. If the City decides to allow these two duties to be performed by the Clerk, we would highly recommend instating a simple compensating control. We would recommend that either /both the City Administrator or the City's Finance Committee review either monthly or randomly, the bank statements and their reconciliations. The reviewer should review for appropriate signators, no significant deposits in transit or long-outstanding checks, no unreconciled items, no ATM withdraws, and no counter checks.

##### ***Management Comments:***

The COFW has contracted with Harrison & Associates, CPA to serve as the COFW's bookkeeper and reconcile all monthly financial statements. Our new bookkeeper will also help prepare for the annual audit and suggest journal entries to enter, as well as, prepare and help maintain all the schedules and listings identified above. It is important to note this individual is a CPA and will work as a contractor on an as needed basis, generally once a month. Other duties can be assigned as needed for full separation of responsibilities. Additionally, we are hiring a new full time administrative assistant to assist in the facilitation of some of the referenced work responsibilities.

#### **6) Check Packets for Check Signers**

During routine inquiry, we noted that the City Administrator and other check signers, are not provided with a "Check Packet" when signing checks. We highly recommend that each check is mated to the following items, as applicable, and provided to the signators for their review as they sign:

- Multiple Part Check
- Invoice
- Authorizations/Purchase Orders (as applicable)
- Computer Print Out for On-Line Purchases



- Receiving/Delivery Documentation
- Credit Card Statements with budget line items detailed
- Affidavit for payment

***Management Comments:***

The COFW is currently doing this and instituted it in FY 18-19. Additionally, we have changed the signatories at our banking institution to make sure that dual signers are reviewing checks, final payments, invoices, etc. We will also be instituting a purchase order system to streamline the purchasing process and to ensure that all purchases have the appropriate approvals.

**7) Control of Payroll**

During routine inquiry, we noted that the City Clerk position has unfettered access to the payroll system, without any second party control. While the City can manage payroll, to some degree, through comparison to budget, as the City grows and becomes more complex, the ability to perpetrate fraud through a change, without proper approval, in pay rates, vacation days, benefits, etc. for one or two individuals increases. We recommend a random (quarterly) check of payroll records, by someone other than the Clerk, to match expected and actual pay / benefit rates.

***Management Comments:***

The COFW is in the process of making these changes. One of the responsibilities of the new full-time administrative staff member will be to facilitate payroll. All payroll reports would then be verified by the individual handling the financial reporting and inputting this info into SAGE 50. We will also plan to set up a new checking account to automatically sweep payroll from the general fund without bank transfers having to be initiated.

This letter is solely for the use of the Mayor and the City Administrator of the City of Ft. Wright and should not be used for any other purpose. Thank you for allowing us to be of service to the City of Ft. Wright, Kentucky.

*Van Gorder, Walker & Co., Inc.*

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