

**Performance Audit
Financial Management System Controls**

December 1998

**City Auditor's Office
City of Kansas City, Missouri**



Office of the City Auditor

24th Floor, City Hall
414 East 12th Street
Kansas City, Missouri 64106-2715

(816) 274-1331
Fax: (816) 274-1911

December 7, 1998

Honorable Mayor and Members of the City Council:

This audit of the city's financial management system was initiated by the city auditor pursuant to Article II, Section 13 of the city charter. The audit focuses on the effectiveness of management controls and the system's usefulness to city departments.

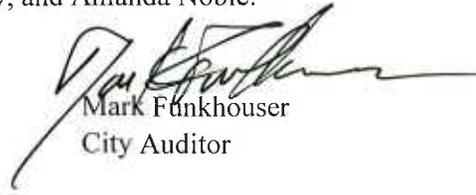
The lack of clearly defined responsibilities, procedures, and controls places the city's financial management system at risk of errors or irregularities occurring and not being detected in the normal course of business. Over the past several years the Finance Department has decentralized responsibility for entering data into the system and has changed how some transactions are approved. Previously, departments submitted financial documents to the Finance Department for review and processing. City departments are now responsible for reviewing and entering their own expenditures and maintaining documentation. Despite this change, the Finance Department has not provided city departments with updated instructions regarding the system. The lack of updated procedures and oversight by Finance has allowed some transactions to be processed in a manner that circumvents controls established to protect the city.

We identified several weaknesses in the security of the city's financial system. Access to the system is too broad; a number of employees have access to initiate or change transactions and provide all the approval levels required within their departments without additional review. Four employees have unrestricted access to all types of transactions and all system tables, with little or no review of their actions. Good management controls would provide that employees do not have access to the system beyond what they need to do their jobs and ensure that employees are not in a position to commit and conceal errors or irregularities. We also found that there was some confusion between the Finance and Information Technology departments regarding their respective roles within the system.

In order to safeguard the integrity of the city's financial system and protect city assets, clear procedures, strong oversight, and open communication between the Finance and Information Technology departments, and with the other city departments that use the system are essential. We make a number of recommendations to strengthen management controls and improve oversight.

We sent the draft report to the directors of finance and information technology, and the city manager on October 2, 1998, for review and comment. Their written responses are appended. We appreciate the cooperation extended to us during the audit by employees of the Finance and Information Technology

departments and by the other departments with whom we worked. The audit team for this project was Chanel Goodwin-Watkins, Sean Hennessy, and Amanda Noble.



Mark Funkhouser
City Auditor

Performance Audit: Financial Management System Controls

Table of Contents

Introduction	1
Audit Objectives	1
Scope and Methodology	1
Background	2
Legislative Authority	3
Findings and Recommendations	7
Summary	7
Unclear Procedures Reduce Control Effectiveness	8
The Manual of Instructions Does Not Reflect the New System	8
Finance Department Oversight Is Inadequate	8
Periodic Random Reviews Should Be Implemented	12
Access Controls Need Improvement	13
Roles of Finance, ITD Are Not Clear	15
Departments Would Benefit from Additional Instruction and Customized Reports	16
Finance Has Made Improvements	16
Customized Reports Would Be More Effective	16
Recommendations	17
Appendix A: City Manager's Response	19
Appendix B: Finance Director's Response	23

Introduction

Audit Objectives

This audit of the city's financial management system was conducted pursuant to Article II, Section 13 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the city auditor's primary duties.

A performance audit is an objective, systematic examination of evidence to independently assess the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making.¹ This audit was designed to answer the following questions:

- Are control responsibilities clearly defined and understood by management?
- Are controls in place to ensure that financial data are accurate, timely, and secure?
- Are departments' needs being met regarding accessibility of information and training to use the system?

Scope and Methodology

We reviewed American Management Systems, Inc.'s Government Financial System used by the city as its financial management system (GFS/FMS). We also examined the role of the Information Technology Department (ITD) as it relates to the city's financial management system.

Our review focused on the current financial management system. Our recommendations should, however, be applicable to the upgrade of GFS/FMS to Advantage 2000, which the Finance Department plans to implement in the current fiscal year.

¹ Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 1994), p. 14.

We conducted this audit in accordance with generally accepted government auditing standards with the exception of the completion of an external quality control review of the office within the last three years.² Audit methods included:

- Reviewing city regulations and policies regarding the financial management system.
- Reviewing system manuals and user guides.
- Reviewing literature and previous work related to financial management systems and accounting controls.
- Extracting and reviewing aggregate data from third quarter transactions occurring between November 1, 1997, through January 31, 1998.
- Reviewing supporting documents for a sample of 23 expenditure transactions from the third quarter fiscal year 1998.
- Interviewing city staff and financial management professionals.

No information was omitted from this report because it was deemed privileged or confidential.

Background

Since 1992, the city has managed its finances using a mainframe computer package called Government Financial System developed by American Management Systems, Inc.

Before the system's implementation, city departments submitted financial documents to the Finance Department, which reviewed the submissions before entering them into the accounting system. The Finance Department maintained the necessary documentation until they were sent to records management for long-term storage.

After implementing GFS/FMS, the Finance Department began decentralizing expenditure processing. This process, termed "roll-out," began in 1992 and is nearly complete. Departments now enter expenditures into the accounting system, provide preliminary approval and maintain supporting documentation, such as invoices and receiving

² The last review was performed in April 1995. A peer review is planned for the current fiscal year.

reports. These supporting documents are eventually sent to records management for long-term storage. The goal of the GFS/FMS system was to eliminate redundant, paper-intensive processes by having departments manage some of their own financial and accounting functions. The Finance Department is still responsible for entering budget and revenue transactions.

The base system includes accounting functions such as accounts payable, accounts receivable, and a general ledger; government-specific functions such as encumbrance control and fund accounting; and grants and project management. The city also uses the extended purchasing and fixed asset management subsystems, but does not use the advanced budget preparation module purchased with the system.

The financial management system consists of three basic components: master tables, ledgers, and a holding or “suspense” file. Master tables hold information necessary to validate transactions and serve as the system’s chart of accounts. Ledgers store accepted transactions in the system. The suspense file holds transactions until they are accepted by the system. Transactions are held in the suspense file for a variety of reasons, but do not become bookkeeping entries until completed.

The city is in the process of installing and implementing an upgrade to GFS, called Advantage 2000, that will allow for processing with the year 2000 date.

The Information Technology Department (ITD) maintains the computers and software used to run the GFS/FMS.

Legislative Authority

Regulations city departments must follow regarding financial management and reporting are found in the city charter, the Code of Ordinances, and the Finance Department’s *Manual of Instructions* (MIs). Relevant sections of each are described below.

Charter. Section 77 of the charter outlines the duties of the director of finance. The director is to administer the department of finance and the financial affairs of the city, including installing, maintaining, and supervising all accounts and financial records. Section 78 establishes the division of accounts and describes the duties of the commissioner of accounts and other employees working on the city’s accounting system. The commissioner is to install and maintain the financial accounts of the city as prescribed by the director of finance with the approval of the city manager. The charter states, “all employees engaged in keeping any accounting records shall keep such records in such form and in

accordance with such rules as may be prescribed by the director of finance, and all such employees shall be under the control and supervision of the commissioner of accounts.”³

City code. The Code of Ordinances assigns the finance director responsibility for maintaining accounting records and establishing necessary and appropriate ledger accounts. The code states that the city's general and budgetary accounting system “shall provide for the accurate recording and control of assets, liabilities, revenue and other receipts, and expenditures in accordance with accepted principles of municipal accounting. This system shall provide for budgetary control of revenue and expenditures. Budgetary control of expenditures shall be obtained by means of encumbrance accounting.”⁴

All purchases are to be made through competitive bid unless otherwise stated. One exception is for small amounts, defined by the code as “when the aggregate amount does not exceed \$1,000.” These small purchases may be made using informal bids.⁵

Finance Department *Manual of Instructions* (MIs). The instructions are a mechanism for the finance director to provide city personnel with specific directions, intended to aid the director of finance to fulfill her duties. The *Manual of Instructions* covers topics such as Accounts, Purchases and Supplies, Revenue, and Treasury. The instructions relating to the extended purchasing subsystem have been updated since the implementation of GFS/FMS, and the instructions for the division of accounts are currently in draft form. Finance Department staff plans to finalize the division of accounts MIs once the system upgrade is implemented.

³ Charter of Kansas City, Missouri, Art. IV, Section 78.

⁴ Code of Ordinances, Kansas City, Missouri, Section 2-1671.

⁵ Code of Ordinances, Kansas City, Missouri, Section 2-1753 (c).

Glossary of Accounting Terms

Fund Accounting System - A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

General Ledger - A ledger containing accounts in which all are classified in detail or summary form.

General Journal - A chronological listing of transactions and selected other events not provided for in specialized journals, expressed in terms of debits and credits to particular accounts.

General Fund - The assets and liabilities available for general purposes, as distinct from funds established for specific purposes.

Encumbrance - An anticipated expenditure, evidenced by a contract or purchase order, or determined by administrative action. Encumbrance control is used when strong emphasis is on controlling expenditures within appropriation limits.

Sources: Eric L. Kohler, *Kohler's Dictionary For Accountants*, (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1983) p. 195 & 233. Emerson O. Henke, *Accounting For Non-Profit Organizations*, (Boston, MA: PWS-Kent Publishing, 1986) p. 29. *Government Accounting, Auditing, and Financial Reporting* (Chicago: Municipal Finance Officers Association of the United States and Canada, 1980) p.9.

Findings and Recommendations

Summary

Clearly defined responsibilities, procedures and controls need to be established in the city's financial management system. The Finance Department has not updated formal policies and procedures to reflect GFS/FMS operations. Under the charter, the finance director is responsible for supervising all accounts and financial records. Although the *Manual of Instructions* (MIs) relating to purchasing activities have been updated, most MIs have not been officially updated since some aspects of the system were decentralized. Although the Finance Department has reported plans to check whether departments are keeping adequate documents to support transactions, this has not yet been done.

Without strong oversight from the Finance Department, some transactions have been processed in a manner that circumvents controls established to protect the city. For example, we found evidence that purchases were manipulated to avoid competitive bidding and many payments were made without first encumbering funds. We also found documentation was missing that could prove the city received the goods and services for which it paid.

We identified some security weaknesses in the system that could allow errors or illegal transactions to occur and be undetected. Finally, the system responsibilities of Finance and ITD have not been clearly defined. We saw evidence of some confusion between the departments about who was responsible for monitoring various system reports, with the result that the reports were not routinely reviewed.

Decentralizing responsibility for processing financial transactions increases the risk that errors, or inappropriate or illegal transactions could occur and be undetected. In order to reduce this risk, it is critical to have clear procedures, strong oversight and controls, and open communication between the Finance and Information Technology departments, and with the other city departments that use the system.

Unclear Procedures Reduce Control Effectiveness

Our interviews with staff and review of financial transactions indicated that uncertainty about policies, procedures, and standards regarding financial transactions has resulted in established controls being circumvented. Although we did not observe any circumstances in which we believe city funds were spent for any illegal purpose, the lack of clear procedures contributes to an environment in which the risk of loss or theft of city money is increased.

The Manual of Instructions Does Not Reflect the New System

The Finance Department has not adopted the Division of Accounts revised *Manual of Instructions* (MIs). The current MIs do not reflect changes resulting from the implementation and decentralization of the financial management system. The decentralization of the system, referred to as “roll-out,” was a significant change in the way the city’s transactions are processed. Prior to the change, departments submitted financial documents to Finance staff, who reviewed the paperwork, entered the transactions into the accounting system, maintained necessary documentation, and generated payments.

The current system requires departments to review paperwork, enter transactions into the system, provide preliminary approvals, and maintain necessary documentation. Finance provides the final approvals, generates the payments and either sends them to vendors or gives them to departments for distribution.

The only revised MIs that have been approved to date are those relating to the Purchases and Supplies Division. Department personnel told us that they did not follow any specific city or departmental guidelines for approving GFS transactions. A lack of formal policies may have contributed to transactions being approved without necessary supporting documentation, exposing the city to risk of theft or loss.

In order to protect the integrity of the city’s financial system, and provide departments with an appropriate basis for reviewing and approving transactions, the Finance Department needs to update its MIs to reflect changes resulting from the implementation and decentralization of the FMS system.

Finance Department Oversight Is Inadequate

The lack of policies and procedures has also resulted in controls that are insufficient to ensure that financial data are timely and secure. Although

the implementation of FMS transferred some accounting functions to departments, the Finance Department has not developed methods to ensure that controls at the department level are adequate. We found that some payments were made without funds being encumbered, purchases were split to avoid having to undertake a formal bid process, and invoices were paid without required documentation that the goods or services had been received. Finally, the lack of understanding on the part of departments could contribute to delays in processing transactions, and result in delays in receiving goods and paying vendors.

Some direct payments may violate the code. Because of inadequate procedures, departments have purchased goods and services without using an existing contract or going out for competitive bid, and without first encumbering the necessary funds. These so-called “direct payments” circumvent encumbrance controls, may violate purchase agreements, and are non-competitive payments that would seem to violate the principle of competition. Routine circumvention of encumbrance procedures appears to violate the city’s Code of Ordinances, which explicitly states, “Budgetary control of expenditures shall be obtained by means of encumbrance accounting.”⁶

Our aggregate review of expenditure transactions for the 3rd quarter of fiscal year 1998 found that 48 percent of the transactions and 28 percent of the disbursements were direct payments. Utility payments and insurance payments accounted for the largest disbursements.

If direct payments are made to vendors with whom the city has a contract, the amount may not agree with the contracted price and could result in the city paying too much.

The Finance Department should update its MIs to define when direct payments are appropriate.

Split payments circumvent intended controls. The city’s Code of Ordinances requires formal bids to be obtained for purchases over \$35,000, and informal bids for purchases less than \$35,000, but further allows simplified procedures for purchases less than \$1,000. Simplified procedures do not require multiple bid quotations. In order to stay within the code’s \$1,000 limit, departments have split purchases greater than \$1,000 into two or more separate purchases. Our review of transactions from the 3rd quarter of fiscal year 1998 identified 18 instances that appear to be split purchases. In one case, for example, a \$1,960 purchase was divided into two \$980 purchases.

⁶ Code of Ordinances, Kansas City, Missouri, Section 2-1671.

Although it does not appear to be a common problem, the instances suggest that further review by Finance is necessary. As part of its updated MIs, the Finance Department should emphasize prohibitions against splitting purchases. In addition, Finance should periodically review transactions to identify whether splitting has occurred.

Invoices paid without adequate receipt documentation. We found that departments approved transactions in cases where appropriate and necessary documentation was missing. We sampled 23 transactions occurring between November 1, 1997, through January 31, 1998.

More than a third of the transactions, either were missing a receiving report or the receiving report did not match either the payment amount or the invoice amount. Although both the individual departments and the Finance Department approved the transactions, these transactions did not have sufficient documentation to provide reasonable assurance that the goods or services paid for were in fact, received or that the correct amount was paid.

Receiving reports provide evidence that goods have been received and consequently serve as a control for determining whether invoices should be paid. Without appropriate documentation, irregularities could be covered up, payments could be made for goods and services not received, and errors could be made such as duplicate payments or payments to wrong vendors. The Finance Department told us they plan to check whether departments are keeping adequate documentation to support transactions, but this has not yet been done.

Decentralized receiving weakens controls. The missing receiving reports may be partly the result of the lack of a centralized receiving area. GFS indicates that the city has 60 delivery locations, 25 of which are in City Hall.

The Finance Department updated its MI on receiving in March 1997. The MI requires all City Hall office deliveries to be made at the central receiving dock so that "consistent receiving procedures can be followed and uniform delivery records can be kept."⁷ The MI does allow exceptions, including "1. Items ordered through a purchase order for delivery at City Hall are picked up by the affected department. 2. A vendor delivers goods directly to the department's City Hall office, bypassing central receiving. 3. A purchase order is issued in

⁷ Manual of Instructions, Kansas City, Missouri, MI 3-22. p.2.

confirmation of items a City Hall office has already received.”⁸ These exceptions reduce the effectiveness of a central receiving location.

In order to compensate for decentralized receiving, the Finance Department has considered implementing a procedure involving a three-way match between purchasing, receiving, and payment documents. The procedure, which would satisfy recommendations made by both the City Auditor’s Office in 1994 and the city’s outside auditors in 1996, would require the ordering department to match the receiving report to the invoice document and then to the purchase order.⁹

The three-way match works by electronically matching the receiving document to the invoice and to the purchase order. First the purchase order is entered and the goods are ordered. Then the receiving report number is entered along with the number and type of goods received; finally, the invoice is entered. If the three match, the system generates a payment. If partial items are matched then the system generates partial payments. Implementing this procedure would strengthen controls over payments. If invoices are entered as they are received by departments, Finance would be able to track whether vendors are paid in a timely fashion. Electronically recording a receiving report number would allow tracking of whether departments received necessary records, and whether goods are received before payments are processed.

Finance has tested the three-way match and is currently reluctant to implement the procedure due to department resistance. Finance is considering implementing a two-way match, in which the invoice and purchase order would be matched electronically. The two-way match would improve the current process by allowing Finance to track timeliness of payments for invoices and reduce the chance of duplicate payments. However, we feel that Finance should continue to work toward a full three-way match because it would help ensure that payments are made only for items that have been received. Finance should identify specific obstacles to implementing the three-way match and determine whether they can be corrected.

Unclear procedures may delay payments. The lack of clear procedures has resulted in delayed vendor payments. Department staff

⁸ Manual of Instructions, Kansas City, Missouri, MI 3-22, p.2.

⁹ In our 1994 follow-up audit of the Purchases and Supplies Division, we recommended that the director of finance develop procedures to ensure that vendors are paid promptly, including periodic monitoring of operating departments’ performance in submitting timely pay requests. The city’s 1996 management letter recommended developing a standardized receiving procedure, including use and retention of receiving reports. The three-way match would satisfy both of these recommendations.

told us that often they were not notified of system or procedural changes until after transactions were input into the system. This has caused payments to be held, which inevitably delayed some orders and payments. Although the Finance Department does hold monthly GFS user meetings, which are useful, more formal methods of communication are needed to clarify procedures.

The GFS system uses a suspense file to hold transactions after they have been entered into the system and before being processed (approved by the system). The FMS system reviews the suspense file nightly, and either accepts the transactions or rejects them based on some predefined criteria. If the document is rejected, the entering department must make some correction to the document before it will be processed. If the corrections are not made, either by Finance or the appropriate department, the document remains in the suspense file indefinitely. In the absence of clear procedures, user departments may not understand why documents are in the suspense file and thus may not know how to correct the problem. This delays payments to vendors, which may cause vendors to delay shipping additional purchases until prior shipments are paid.

We reviewed an aging report of the suspense file and found that one department had over 184 payment transactions at least 10 days old. Untimely payments to vendors could discourage vendors from doing business with the city and result in the city paying higher prices for goods and services. We also found 38 payment transactions were at least 120 days old. It is likely that many of these older transactions have been replaced with other transactions and do not necessarily indicate delayed payments. However, if these old transactions were made in error they should be purged from the system in order to simplify and clarify the reporting mechanisms and decrease the likelihood of paying a vendor twice for the same goods or services.

In addition to preparing clear direction for user departments on procedures to reduce the number of transactions that remain in the suspense file, the Finance Department should continue to review the file daily and take steps to correct any problems, including notifying departments and purging older documents.

Periodic Random Reviews Should Be Implemented

Because departments now are responsible for entering and approving their own payment transactions, the Finance Department approves most of these transactions without reviewing supporting documents. The documentation for transactions remains with departments until they are

sent to Records Management for storage. Because the supporting documents for transactions remain with the department, it seems unlikely that the final approvals completed by Finance have much meaning.

The lack of supporting documentation, along with the sheer number of payments Finance must approve, makes it likely that final approvals are applied without much scrutiny. For example, in 3rd quarter 1998 we found 22,295 vendor payments. The current procedure requires the Accounts Division to apply the final two approvals for each document. The volume of payments, however, makes it unlikely that approval by Accounts serves as an effective control.

The Finance Department should re-evaluate its approval process to determine whether approving payments without reviewing supporting documents provides an effective method to prevent or detect errors. As an alternative, the department could choose to review a random sample of transactions to ensure that proper procedures are being followed. Or, Finance could develop transaction "triggers," where transactions that meet some predefined criteria are subject to complete review. These types of reviews could identify errors or inappropriate transactions, and could help to indicate areas in which procedures should be clarified.

Access Controls Need Improvement

We observed several areas in which employees have access to the city's financial system beyond what they need to perform their jobs and identified other security weaknesses. In order to reduce the risk of loss or theft of city funds, the Finance Department should improve its oversight over access to the financial management system.

Access is too broad. Finance has not provided departments with guidelines concerning the proper level of user access. Users that have access beyond what is necessary to accomplish their jobs, including the ability to enter and approve transactions without review, subject the city to unnecessary risk. We found at least 37 individuals outside of the Finance Department who had the ability to initiate or change transactions and provide all department level approvals without any other departmental review. We also noted that at least four employees have unrestricted access to all financial transactions throughout the city and that their actions were not subject to periodic review. These individuals could change the system access security of other employees without the knowledge or approval of the system security administrator.

Although we did not see any evidence that these individuals had committed any irregularities, the weaknesses expose the city's

accounting function to unnecessary risk of loss or theft. Because they can enter and approve transactions without review, Finance should develop procedures to systematically and continually review transactions for any individual with sufficient access to initiate, process and complete transactions.

In order to ensure that the city's financial data are secure and to reduce the risk of theft, the Finance Department needs to strengthen input controls by providing user departments with guidelines on limiting access in its updated MIs.

Password security is weak. The GFS system allows an unlimited number of login attempts without locking the user ID out. The Finance Department has not determined an acceptable number of login attempts. Allowing unlimited login attempts increases the risk that individuals could attempt to gain unauthorized access by using someone else's user ID and repeatedly attempting to determine or "break" their password. This exposes the system to the risk of theft and loss.

In addition, until recently users had not been discouraged from sharing passwords and user IDs. A 1993 GFS newsletter suggested that it was appropriate for an employee to lend another employee his or her user ID and password while on vacation, with the password changed upon returning to work. When we asked Finance Department personnel about the newsletter, they contacted department representatives to direct users to not share passwords or user IDs.

Accountability is diluted if users share IDs and passwords. The Finance Department should work with departments to increase security over inputs. Appropriate user access should be defined, logon attempts should be limited, and restrictions on sharing passwords should be emphasized. As part of its updated MIs, Finance should require employees to sign user agreements. The user agreements should include specific warnings against sharing IDs or passwords. The agreement should define acceptable use and require employees to notify Finance of instances when they believe the agreement has been violated.

Automated process controls are effective. Process controls should ensure the accuracy and completeness of data. We reviewed the built in system assurance programs and found that they provided reasonable assurance that the system was processing input accurately. In addition, we found that the automated back-up procedures and job scheduling, along with selected security options should help detect and prevent errors in processing inputs.

Roles of Finance, ITD Are Not Clear

The relationship between the Finance and Information Technology departments as related to the city's financial management system is unclear. Prior to fiscal year 1997, ITD was a division of the Finance Department. Since ITD became independent of the Finance Department, the departments' responsibilities have not been defined and the lines of authority have not been delineated. As a result, some system controls have not been implemented and some system maintenance has not been properly performed.

In one instance, we tried to obtain a copy of a security exception report generated by GFS. The report lists security exceptions in GFS, including changes in user access, disabled user ids, and invalid user ids. We were told by Finance that ITD reviews the report. However, personnel at ITD said that application security was the responsibility of Finance, whereas physical security would be the responsibility of ITD. After notifying Finance of ITD's response, Finance stated that they would begin reviewing the security report.

In addition, Finance has not provided ITD with necessary system documentation and appropriate system guidelines. ITD personnel told us that they have relied on incomplete documentation that in at least one instance was described as a few handwritten notes. These notes were necessary to complete year-end closings. However, the notes were insufficient and consequently some summary data was lost from at least one table during the closing. Although the detail data could be found in other tables, the lack of clear and complete instructions posed a risk to the accuracy of the city's records.

In order that responsibilities are clear and city employees can be held accountable for their activities, the city manager needs to clearly define the roles and responsibilities of each department for each stage of the GFS/FMS. Once the roles have been defined, the Finance Department needs to provide ITD with clear, written system documentation, complete instructions and appropriate system guidelines.

We also found that ITD does not have a comprehensive disaster recovery plan. ITD has reported that they do have procedures for recovery of individual systems, but do not have a recovery plan for hardware in case of major disaster. ITD should develop a disaster plan that would protect the city against the loss of financial data in the case of a major disaster.

Departments Would Benefit from Additional Instruction and Customized Reports

Our interviews of staff in various departments indicated that, for the most part, the GFS system met their needs. However, our interviews with users turned up several areas in which they felt both Finance and ITD could be more responsive in providing feedback, especially about errors in documents. Another concern was a lack of clear instructions to effectively understand and use the system. In addition, we found that departments have had to rely on system designed reports that may not provide the detail or information in a format that they need.

Finance Has Made Improvements

A number of individuals expressed satisfaction with recent steps the Finance Department has taken to improve departments' understanding of the FMS system, including improvements in user training and assigning a departmental liaison to answer questions. These users said that the training being conducted for the upgrade has helped them to better understand the current system. Some users stated, however, that they did not have a training/user manual or that the manual they did have was insufficient.

Users also felt that both Finance and ITD could be more responsive in providing feedback on errors or other system problems that needed to be addressed. Users explained that they were not always notified in timely fashion about errors that needed to be corrected or new procedures that had been adopted by either Finance or ITD.

Many of these problems would be improved by updating the MIs to reflect GFS and communicating those changes to departments. Additional training could be beneficial in the areas of interpreting system reports, the availability of reports, and creating customized reports.

Customized Reports Would Be More Effective

We found a need for improvement in user departments' ability to review data processed by the system. Finance has taken steps to enable departments to more easily review system outputs through the purchase and installation of DS Designer, a data extraction program. However, currently there are only about 13 locations with the program, and its usefulness has been hampered because the current version does not recognize custom tables or fields within GFS. According to Finance Department personnel, these problems should be resolved with the upgrade.

The Finance Department should ensure that all departments using GFS/FMS have DS Designer installed and accessible for their use. This will enable user departments to create reports specific to their needs, in a more timely fashion. In addition, Finance should ensure that departments have users and supervisors who are trained to use the program, and ensure that users are provided with the necessary manuals.

Recommendations

1. The city manager should clearly define the roles and responsibilities of the Finance and Information Technology departments about the financial management system.
2. The director of finance should update the *Manual of Instructions* (MIs) to reflect the changes resulting from the implementation of the financial management system, as well as the Advantage 2000 upgrade.

The updated MIs should:

Provide for, at a minimum, periodic review of and limits to system access, frequent changing of user passwords, and restrictions against sharing passwords and IDs. These should be included in a user agreement that each employee must sign in order to receive access to the GFS system.

Include rules and procedures for receiving goods. These procedures should include limiting the number of receiving locations for goods ordered by city departments; prohibiting splitting purchases to avoid the \$1,000 limit; and instituting a two-way match for goods received (purchase order and invoice) until a three-way match can be established. The finance director should also develop methods to review compliance.

3. The director of finance should continue to investigate the feasibility of implementing a three-way match (purchase order, invoice and receiving report). This should include identifying possible obstacles and determining whether these can be overcome with procedural or other system changes.
4. The director of finance should provide ITD with clear, written system documentation and appropriate system guidelines.

5. The director of finance should consider discontinuing the practice of approving payment transactions without review of supporting documents and instead focus efforts on periodic and/or random review of transactions, including a review of the suspense file.
6. The director of finance should develop procedures to systematically and continually review transactions for any individual with sufficient access to initiate, process and complete transactions.
7. The director of finance should ensure that user departments have DS Designer available for their use and personnel are adequately trained and provided with user manuals.
8. The director of information technology should develop a disaster recovery plan, which should include any necessary software, hardware and personnel considerations to protect the city's financial data.

Appendix A

City Manager's Response



Office of the City Manager

RECEIVED
NOV 24 1998
CITY AUDITOR'S
OFFICE

DATE: November 24, 1998
TO: Mark Funkhouser, City Auditor
FROM: Robert L. Collins, City Manager
SUBJECT: Response to Draft Report of Review of the Financial Management System Controls

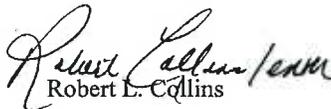
I appreciate this opportunity to respond to the draft report of the Financial Management System Controls. The Finance Department has provided, as requested, response to recommendation number one.

Recommendation 1: Agree

The City Manager should clearly define the roles and responsibilities of the Finance and Information Technology departments about maintenance of the financial management system.

After reviewing the first recommendation on the Audit of the Financial Management System Controls conducted by your office, we are in agreement with your recommendation.

We will keep you advised of our progress at the six month reporting period.


Robert L. Collins

RLC:emm

Appendix B

Finance Director's Response



Inter-departmental Communication



DATE: November 24, 1998

TO: Mark Funkhouser, City Auditor

FROM: Janice M. Reed, Chief Financial Officer and Director of Finance *JM Reed/wjg*

SUBJECT: Response to Draft Report of Review of the Financial Management System Controls

I appreciate this opportunity to respond to the draft report of the Financial Management System Controls. The Finance Department has provided, as requested, responses to recommendations two through seven of the report.

When reviewing audit reports, the Finance Department takes into consideration the level of controls needed, the effect that audit recommendations would have on processing times, and the impact that they will have on the level of service provided to our customers. The response to the recommendations is based on these overriding goals.

Recommendation 2: Agree

The Director of Finance should update the Manual of Instructions (MIs) to reflect the changes resulting from the implementation of the financial management system, as well as the Advantage 2000 upgrade.

The Department of Finance has issued updated MI's in draft form and will be issuing the final instructions by February, 1999. The MI's will be available for on-line viewing via a Lotus Notes database.

The updated MIs should:

Provide for, at a minimum, periodic review of and limits to system access, frequent changing of user passwords, and restrictions against sharing passwords and IDs. These should be included in a user agreement that each employee must sign in order to receive access to the GFS system.

One MI being written will define system access, inform users that passwords expire every 90 days, and that passwords and user IDs should not be shared. Restricting the number of login attempts has already been done and will continue in Advantage 2000. Additionally, it should be noted that before a user can get to the GFS system, they must first logon to CICS through a RACF security feature. There is a safeguard to disallow unlimited log on attempts to CICS, and after several attempts, the user's ID gets revoked, and signon is not allowed.

Include rules and procedures for receiving goods in the new MIs. These procedures should include limiting the number of receiving locations for goods ordered by city departments; prohibiting splitting purchases to avoid the \$1,000 limit; and instituting a two-way match for good received (purchase order and invoice) until a three-way match can be established. the finance director should also develop methods to review compliance.

The Finance Department will continue to investigate processes which will improve the efficiency of the City's accounting system in an economic and effective manner.

Recommendation 3: Agree in Part

The Director of Finance should continue to investigate the feasibility of implementing a three-way match (purchase order, invoice and receiving report). This should include identifying possible obstacles and determining whether these can be overcome with procedural or other system changes.

The Finance Department will continue to investigate processes which will improve the efficiency of the City's accounting system in an economic and effective manner. An electronic three-way match has been tested as part of the implementation of Advantage 2000. The tests revealed that it would not be practical to implement an electronic three-way match using the AMS software. However, it is the current policy of the Finance Department to require that user departments do a manual three-way match before initiating a payment for commodities received.

Recommendation 4: Agree

The Director of Finance should provide ITD with clear, written system documentation and appropriate system guidelines.

The Information Technology Department has been provided with a full and complete set of manuals associated with Advantage, including a second set of the System Administrators Guide. American Management Systems (AMS) will provide ITD with written documentation of all customizations that AMS makes to the system. ITD has also stated that they will retain written documentation of any customizations that ITD makes of the system.

Recommendation 5: Agree in Part

The director of finance should consider discontinuing the practice of approving payment transactions without review of supporting documents and instead focus efforts on periodic and/or random review of transactions, including a review of the suspense file.

The Finance Department agrees with a periodic and/or random review of documents and a daily review of the suspense file. The Finance Department believes that an on-line review and approval of payment transactions to ensure that departments are complying with policies and procedures is a valid internal control.

Recommendation 6: Agree

The Director of Finance should develop procedures to systematically and continually review transactions for any individual with sufficient access to initiate, process and complete transactions.

There are individuals at ITD in application support that have been given broad system-wide authority to enable them to resolve problems which may occur. Finance department will develop procedures to systematically and continually review transactions for these individuals. If such procedures cannot be developed, we will explore limiting the access of these individuals.

Recommendation 7: Agree

The Director of Finance should see that user departments have DS Designer available for their use and personnel are adequately trained and provided with user manuals.

DS Designer training will be offered to departments as part of training associated with the upgrade to Advantage 2000. Training manuals will be provided to individuals who attend the DS Designer training classes.

As noted in our response, the Finance Department agrees or agrees in part with all of the recommendations made in the audit, and has already begun implementing the suggestions.

cc: City Manager's Office