



**A Report to the Galveston
City Council**

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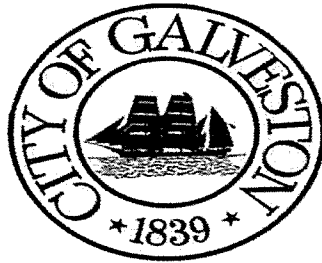
Carrie Sumrall

Audit Report

Systems of Bank Reconciliations



The City of Galveston's bank accounts had not been reconciled in ten months. However, the City contracted with an external accountant to address this deficiency. The City's bank accounts have now been reconciled to the general ledger and written policies and procedures are being followed.



SYSTEM OF BANK
RECONCILIATIONS REPORT

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**City of Galveston
System for Bank Reconciliations
City Auditor Executive Summary**

July 31, 2014

The objective of this report is to evaluate the City of Galveston's systems for bank reconciliations to determine:

1. Best Practices for Accurate Bank Reconciliations.
2. Best Practices for Timely Bank Reconciliations.

Scope

The scope of this audit was severely limited by the lack of current bank reconciliations. No overall bank account reconciliation had been completed since September 30, 2013. This limitation in scope caused the auditors to inspect and analyze certain internal source documentation and accounting reports to assess managerial oversight over internal controls and processes. This documentation and reports included:

1. General Ledger for September 2013 and October 2013.
2. Trial Balance for September 2013 and October 2013.
3. Bank Statements for September 2013 and October 2013.
4. Bank Reconciliations audited by external auditors for September 2013.
5. Cashier Daily Reports for September 2013 and October 2013.
6. Utility Billing Daily Reports for September 2013 and October 2013.
7. Municipal Court Daily Reports for September 2013 and October 2013.
8. Journal Entries for September 2013 and October 2013.
9. Non-Sufficient Funds Item Report for September 2013 and October 2013.
10. Finance Department's Bank Reconciliation Written Policies.

The scope of our procedures also included interviews of key staff within the City of Galveston. Interviews were conducted with:

1. Interim City Manager.
2. Finance Director.
3. Accounting Supervisor.
4. General Fund Accountant.
5. Cash Accountant.
6. Enterprise Accountant.

**City of Galveston
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Fieldwork Performed

1. The September 2013 bank reconciliations audited by the City's external auditors for the Demand Account held at Frost Bank and the Utility Billing Online Account held at Bank of America were reviewed. The Demand Account is the primary bank account used for all city cash transactions. The Utility Billing Online Account is used for receipts from customer's payments for utilities. No discrepancies to the city's general ledger at the month end of September 2013 were identified.

2. We reviewed and reconciled the October 2013 Demand Account held at Frost Bank. No bank reconciliation had been prepared by the Finance Department. We then compared that bank reconciliation to the City's General Ledger at the month end of October 2013 and noticed several discrepancies. These discrepancies are:
 - (2.1) A transfer in to the Demand Account on October 4, 2013 was not posted to the general ledger in the amount of \$1,009,317.02.

 - (2.2) A transfer out of the Demand Account on October 16, 2013 was not posted to the general ledger in the amount of \$8,847.58.

 - (2.3) A transfer in to the Demand Account on October 9, 2013 was not posted to the general ledger in the amount of \$200.00.

 - (2.4) A transfer out of the Demand Account on October 29, 2013 was not posted to the general ledger in the amount of \$500.00.

 - (2.5) A grant deposit was double posted on May 13, 2014 to the month of October 2013 to the Demand Account in the amount of \$3,132,118.06.

 - (2.6) A journal entry was posted on May 13, 2014 to the month of October 2013 to the Demand Account in the amount of \$1,015,548.37. The internal auditors have not received source documentation that validates the posting of this journal entry.

**City of Galveston
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3. We reviewed and reconciled the October 2013 Utility Billing Online Account held at Bank of America. No bank reconciliation had been prepared by the Finance Department. We then compared that bank reconciliation to the City's General Ledger at the month end of October 2013 and noticed several discrepancies. These discrepancies are:

(3.1) The Customer Utility Service (CUSI) receipts were not posted on October 31, 2013 to the Utility Billing Online Account in the amount of \$524,384.87.

(3.2) Three non sufficient fund checks received by the City in the month of October 2013 were not posted to the Utility Billing Online Account. The total of these three non sufficient fund checks received was \$711.00.

(3.3) A journal entry was posted on May 13, 2014 to the month of October 2013 to the Utility Billing Online Account in the amount of \$539,089.51. The internal auditors have not received source documentation that validates the posting of this journal entry.

Audit Findings

1. The Finance Department's operating procedures for accurate and timely monthly reconciliation of bank accounts to the general ledger are inconsistent with written policies and procedures.
2. The Finance Department's managerial oversight and reporting is ineffective in identifying and addressing failed processes.
3. The Finance Department does not have a system in place for the collection and safeguarding of internal source documentation.

Staff Conduct

All current staff acted in a professional and timely manner.

**City of Galveston
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City Manager's Response

The City Manager agrees with the findings of the Auditor as delineated within this report, and has made requisite changes in staffing, procedures, and practices to ensure the issues do not recur.

The audit findings led to a review of the Department's structure that resulted in the identification of management deficiencies that led to a breakdown of internal controls. Absent the focus brought to the bank reconciliation process by the Auditor identification of the deficiencies would have been delayed. Working jointly with the Auditor, the Manager dedicated resources both internal and external to the City on resolving this issue.

The internal audit process proved invaluable in identifying issues related to this critical function.

It has been and will continue to be a priority of my administration to make our city finances a top priority. Assembling a team that can solve these issues and setting policy to avoid future issues will be part and parcel of this and other solutions moving forward.

I also thank Glenn Bulgherini and his staff for their time and effort in not only assisting with projects but also for his efforts with the team to forward our financial wellbeing.

Team work....done well.

Follow Up

1. The Finance Department is now current and up to date with all bank reconciliations. Also, all bank reconciliations balance to the City's general ledger. The Finance Department consistently follows written policies and procedures.
2. The Finance Department now has daily managerial oversight over bank reconciliations. The Finance Department has also set up a system to report any failed processes that may occur in preparing the City's bank reconciliations.
3. The Finance Department has implemented a system for collecting and safeguarding internal source documentation.