

DEPARTMENT OF CITY CLERK

CITY HALL

APRIL 25, 1980

The Committee on Finance meets this evening at 7:30 o'clock P.M. in Committee Room "A", City Hall.

PRESENT: Chairwoman Brassil, and Councilmen Addison, Easton and Farmer.

Also present is City Treasurer Napolitano. (Rose M. Mendonca, Clerk.)

Chairwoman Brassil suggests the members review the management letter as submitted by the Auditors, Laventhol & Horwath.

Councilman Easton reviews what is stated in the letter relative to competitive bidding.

The members discuss the report of Laventhol & Horwath, auditors for the City of Providence for the fiscal year ended June 30, 1979, and the Management Letter at length.

It has been brought out that some of the banks the City does business with, still carry the names of the former City Treasurers instead of Mr. Napolitano's.

On motion of Councilman Easton, seconded by Councilman Addison, it is voted to direct the Clerk to transmit a communication to the various Banks the City of Providence does business with, informing them if they do not have the proper name of the City Treasurer to kindly straighten their records out.

The Management Letter states there are several tenants who are in arrears in rental payments to the City for more than one year.

It is recommended the City expend more effort in the col-

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lection of these delinquent accounts by reviewing the aging of these accounts and assigning personnel to their collection.

On motion of Councilman Easton, seconded by Councilman Addison, it is voted to direct the Clerk to transmit a memorandum to the City Collector informing him of the recommendation of the auditor and requesting he comply with same.

On motion of Councilman Easton, seconded by Councilman Addison, the Clerk is directed to draft an Ordinance to the effect that any lease to be renewed by the Committee on City Property or the City Council will have to be accompanied by a statement by the City Collector that all rents and taxes are cleared and up to date and all other property leased from the City from that lessee, and further that any leases approved in violation of this practice be considered null and void.

The auditors have reviewed the taxes receivable and informed of the improvements that could be made together with their recommendation.

On motion of Councilman Easton, seconded by Councilman Addison, the Clerk is directed to transmit a memo to the City Assessor and Acting City Controller informing them of their recommendation and requesting they comply.

The auditors outline their review of the expenditures, encumbrances, and these disbursements informing of their recommendations.

On motion of Councilman Easton, seconded by Councilman Addison, the Clerk is directed to transmit a memorandum to the Purchasing Agent and Acting City Controller informing them of the auditor's review and recommendations, and request their procedure be implemented.

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It is further voted on motion of Councilman Addison, seconded by Councilman Easton, that a memorandum be transmitted to the Finance Director and the Acting City Controller to determine how much money has been borrowed, how much has been depleted on the money borrowed and where has the money been going in the General Fund.

At this point, Donald Horowitz, John Ledeau, Robert Easton and West Gardner, representing the firm of Laventhol and Horwath, appear.

Mr. Ledeau states there is some cash flow basis on month to month and they recommend it be done yearly.

Mr. Gardner states it is one of the areas in the City where you can do a lot to increase the cash flow month to month on a percentage basis. Following the same pattern, it makes it easier to project.

Councilman Easton discusses anticipated revenues which he is of the opinion has been way off each year.

Considerable discussion ensues on the subject matter.

It is the concensus of the members that in the next budget to be submitted to the City Council that they insert a cash flow system of perhaps Fifteen Thousand Dollars (\$15,000.00).

The members review cash collections and cash receipts as incorporated in the Management Letter.

Mr. Gardner refers to the parking tickets, which are fourteen months behind in the Police Department. He informed them of the recommendation which has pleased them.

He explains the system to the members for which someone

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would have to work with the Police Department and I.S.I. to design a program. They need someone to work with the Police Department to get it going, and it would generate tremendous revenue.

It is the concensus of the members that they request personnel to implement this procedure be placed in the next budget to be submitted to the City Council.

Mr. Gardner informs the members they are designing a tax collection system for the City of Pawtucket. When a person goes there to pay their taxes, there is a list wherein it is known how many years they owe.

Councilman Farmer requests the auditing firm send a letter to the Committee to give the members a range to implement those three matters as suggested, as to the line items and the dollars.

On motion of Councilman Easton, seconded by Councilman Farmer, the Clerk is directed to transmit the review of the cash receipts and the recommendation of the auditors to the City Collector requesting he comply with said provisions.

On motion of Councilman Addison, seconded by Councilman Easton, it is voted to transmit the auditor's review of property tax exemptions and abatements to the City Assessor together with their recommendations requesting he comply.

The members review the Section relative to Purchasing wherein it is noted that personnel stamp the signature, which means in most cases the authorized person does not see the purchase orders.

The members review the statement in the Management Letter together with the recommendation.

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On motion of Councilman Easton, seconded by Councilman Farmer, the Clerk is directed to transmit the review and the recommendation relative to purchase orders as incorporated in the Management Letter to the Finance Director, Purchasing Agent, and Acting City Controller.

Councilman Easton questions the review of the auditor's relative to the bids submitted to the Board of Contract and Supply for purchases over One Thousand Five Hundred Dollars (\$1,500.00).

He questions as to whether or not they were satisfied with the way the Board of Contract and Supply is operating.

Mr. Easton states that is not within their scope.

The members review the Section pertaining to payroll.

Councilman Easton questions as to whether or not they found problems with positions not funded, such as temporary-permanent.

Mr. Easton states "yes". He further informs they did find that there is a rather lack of complete personnel records. They found it difficult to do a great deal of auditing in regards to personnel, especially in certain departments like the Police Department. They cannot come up with the documentation.

The auditors themselves distributed the checks personally to all personnel at one pay period, unless they were on vacation or out sick.

On motion of Councilman Easton, seconded by Councilman Addison, it is voted to transmit the review and recommendation of the auditors to the Personnel Director requesting he comply.

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Following a review of the revolving funds and fixed assets, it is voted on motion of Councilman Addison, seconded by Councilman Easton, to transmit the review and recommendation of the auditors to the Director of Public Property requesting he comply with the recommendation and that he have a complete inventory of the City of Providence including the Police Department.

The members review the auditors determination relative to stores and equipment funds.

It is the concensus of the members that the matter be continued at this time.

The members review the section of the Management Letter relative to the pension plan.

Councilman Farmer questions as to what it would take to bring the pension plan current.

Discussion ensues relative to the reports submitted from the actuary.

The Clerk informs the members that at the meeting of the City Council to be held May 1, 1980, the report of the Auditors for the fiscal year ended June 30, 1978 will be presented.

Chairwoman Brassil questions as to whether or not the Retirement System is shaky.

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Mr. Easton states it is approximately One Hundred Twenty Million Dollars unfunded.

Councilwoman Brassil states 2.6 Million Dollars was not turned over to the Retirement Fund in 1978 and it was budgeted.

She is of the opinion that 2.6 Million Dollars should be appropriated in this year's budget for the Retirement Fund.

Councilman Easton refers to accrued expenditures which have amounted to Seven Hundred Seventeen Thousand, Five Hundred Ninety Two Dollars (\$717,592.00) in excess, Eight Million Five Hundred Thousand Dollars and questions as to whether there are any controls to stop the expenditures of Bond monies that have not been granted.

Mr. Easton refers to his recommendation in the Management Letter.

Councilman Easton questions as to whether an auditor has to see that the expenditures of funds comply with State Laws and City Ordinances.

Mr. Easton states yes, and that there were several matters of legality for which they have been waiting for an opinion from the City Solicitor.

They had raised questions as to over-expenditures of monies, over budgets, etc. They have received a response from the City Solicitor.

Councilman Easton requests the auditors make the letter available, they submitted to the City Solicitor together with his response.

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On motion of Councilman Farmer, seconded by Councilman Addison, it is voted to transmit the report of Laventhol & Horwath for the year ended June 30, 1979, together with the Management Letter to the City Council with the recommendation they be received.

Councilman Easton desires to be recorded as voting "No", as the report does not contain or inform the members as to where payroll procedures are in compliance with the City Ordinances regarding illegal hiring nor that money is not being paid out unless authorized by Ordinance.

The Committee adjourns at 10:10 o'clock P.M.

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Rose M. Mendonca

Clerk

AUDITORS MANAGEMENT LETTER

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I. General

A. Method of Accounting

The presentation of the City's funds, and the accounting principles they employ, differ in certain respects from those accounting principles and fund presentations required by generally accepted accounting principles and the "Uniform Accounting and Reporting Standards for Rhode Island Municipalities" for reporting financial position and results of operations. The major differences can be identified as follows:

- (1) The City does not maintain a record of general fixed assets.
- (2) The Capital Fund is used to record the acquisition or construction of capital expenditures and the receipt of proceeds from bond and note obligations. Thus, this Fund combines many of the attributes of a Capital Projects Fund and a Long-Term Debt Group of Accounts. The carrying value of such assets is recorded at the unamortized value of the bonds or notes issued to finance their acquisition as opposed to recording such assets at cost.
- (3) The accounts and transactions of the Water Department are combined with those of the General Fund instead of being presented in a separate Enterprise Fund.
- (4) All General Fund and School Fund revenues are recognized when cash is received, as it is the City's policy to establish a reserve for all uncollected accounts. This method of revenue recognition differs from generally accepted accounting principles, which state that revenues considered to be both measurable and available to finance current year appropriations be recognized when earned.
- (5) The accounts and transactions of the Revenue Sharing and Antirecession Funds are combined with those of the General Fund instead of being presented in a separate Special Revenue Fund.
- (6) The fixed assets of the Revolving Funds are recorded at cost less periodic write-offs in lieu of depreciation. The amount of accumulated write-offs relating to these assets cannot be determined without reconstructing the records since inception.

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I. General (continued)

D. Budgeting Practices

As in prior years the City has overestimated revenues used in the City's budgeting process:

Fiscal Year Ended June 30,	Deficiency of Budgeted to Actual Revenues
1974	
1975	\$ 2,099,554
1976	3,883,725
1977	2,752,694
1978	10,576,145
1979	6,761,020
	895,360

We recommend that when the City Council sets the levy, they adopt more realistic revenue estimates. This will provide the City with a more effective budget and will assist greatly in guiding the operations of the City.

For the past several years, the City has not had an operating budget or a levy until well into the fiscal year. For example, the fiscal year ended June 30, 1979 budget was not approved until July 18, 1978 and the tax levy until August 28, 1978. We recommend that measures be taken to accelerate the budgeting process in order to have the budget and revenue estimates in place prior to the start of each fiscal year.

E. Electronic Data Processing

The City is currently using a service bureau for their computer applications. Expenditures for these services exceeded \$500,000 in 1979. Service bureaus in general are becoming an increasingly expensive processing alternative due to the fall in the cost of in-house computers and the increase in the number of vendors that can supply such computers and software support. It is recommended that the City investigate via a feasibility study the possibility of acquiring an in-house computer.

F. Bank Accounts

(1) Timely Reconciliations

While performing our auditing procedures on cash it was noted that several accounts were not being reconciled on a timely basis. Prompt reconciliations are essential to insure that any clerical errors relating to cash transactions and any misuse of funds are discovered and corrected as soon as possible. The reconciliations should be performed by personnel not directly associated with cash receipts or disbursements functions, and should be reviewed by the Treasurer.

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I. General (continued)

We recommend that the City conform its method of accounting to the system as outlined in the National Committee on Governmental Accounting manual, "Governmental Accounting, Auditing, and Financial Reporting"; the American Institute of Certified Public Accountants' Industry Audit Guide, "Audits of State and Local Governmental Units"; and the "Uniform Accounting and Reporting Standards for Rhode Island Municipalities", as promulgated by the State Auditor General effective for fiscal years beginning July 1, 1978. Such compliance would provide for more comparability of the City's financial operations with those of other municipalities. The principles contained in the above sources are fundamental and are generally recognized as being essential to a correct analysis of financial operations and to the proper preparation and presentation of required financial statements and reports.

B. Procedures Manual

The City has never prepared a manual defining accounting policies and procedures. We recommend that an accounting manual be prepared which would define accounting policies, procedures and internal controls. The lack of formal procedures results in inconsistencies and impairs the comparability of financial information.

C. Accounting Records

It was noted that the City maintains a supply of blank signed checks for each fund for direct payments that have to be issued immediately. We recommend that this procedure be discontinued as to insure proper control over cash and to prevent unauthorized preparation of checks.

The signature plate used to sign most City checks is always left in the check signing machine, which is accessible to anyone who has access to the payroll department office. We recommend that the signature plate should be removed and locked up when the check signing machine is not in use.

We noted that the cash disbursements journals, general ledgers, and City tax rolls are not secured at night. We further noted that the City Assessor's records are not adequately protected against the perils of fire. We recommend that these and all other important City records be adequately safeguarded in a locked and fireproof safe or cabinet. This practice would preclude the possibility of unauthorized access and the potential destruction by fire.

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I. General (continued)

(2) Authorized Signers

It was noted that many bank accounts contain authorized signers who are no longer in the City's employ. We recommend an updating of the authorized signers on each bank account involved.

(3) Old Outstanding Checks

During our review of the bank reconciliation process it was noted that there were many checks outstanding greater than one year and some dating back seven or eight years. We recommend reinstatement to cash of all checks outstanding greater than one year.

G. Rental Property Receivable

During our review of rental property receivables it was noted that there are several tenants who are in arrears in rental payments to the City for more than one year. The City is not collecting much needed revenues and not paying enough attention to collection procedures in this area. We recommend that the City expend more effort in the collections of these delinquent accounts by reviewing the aging of these accounts and assigning personnel to their collection.

H. Variances Between General Ledger Controls and Subsidiary Records

While analyzing tax reverted property, property taxes receivable, water accounts receivable, and various reconciliations, we noted discrepancies between the general ledger and subsidiary records. To prevent future errors of this type, we recommend monthly reconciliations be performed between all detailed subsidiary records and the general ledger in order to identify existing discrepancies on a timely basis.

I. Taxes Receivable

Our review of the City's taxes receivable indicated several conditions in the system that could be improved. The data processing printout of taxes owed at year end as prepared by the service bureau does not agree with the City Collector's Control Book. This is because there are several differences in treatment of activity relating to taxes receivable such as abatements, overpayments, property acquired at tax sale and the tax levy between the City Collector and the service bureau. In addition, errors in posting this activity have occurred frequently.

I. General (continued)

We recommend that the City make every effort to reconcile the detailed listings as prepared by the service bureau to the City Collector's Control Book. Control totals can be reconciled through the use of the weekly detailed receivable listings as received from the service bureau. Any differences should be investigated immediately to insure that errors are detected as soon as possible.

In addition, it was noted that many of our tax confirmation requests were returned "ADDRESSES UNKNOWN". A current, updated address file would facilitate collection of these taxes due.

J. Expenditures, Encumbrances, and Cash Disbursements

It was noted in several instances, especially in the Capital Fund, that commitments are not being properly encumbered, and that some items are treated as direct payments when it is not necessary to do so. In addition, it was noted in the Capital Fund that a few contracts were not properly encumbered. A portion of the contract was encumbered, instead of the entire contract. We recommend that the City utilize its encumbrance system as intended, making direct payments only when necessary. A written policy should be established as to what items can be paid via direct payments and under what conditions. We also recommend that the controls over direct payments be strengthened by not allowing any direct payments to be made unless a copy of the vendor's invoice on the vendor's stationery is attached and approved by the department head. In addition, the City should review the status of all projects under bond authorizations to determine their stage of completion and the adequacy of funds available under the original authorization as they relate to the purchasing power of the dollar in today's inflationary times.

K. Systems and Audit Committee

Due to the size and complexity of the City's organization, and the areas for improvement in internal control and the data processing system mentioned throughout this letter, we recommend a systems and audit committee be created to make recommendations as to improve current procedures and have the authority to implement these recommendations. This committee could be comprised of prominent individuals from the community, the business world and the Government.

L. Investments

During our review of investments it was noted that presently only one City official is required to be present to gain access to the City's safe deposit vault, and the majority of the City's investments are in the form of bearer paper. In addition, at present there are no procedures in force to verify that all dividend and interest income has been received by the City's investment trustees.

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I. General (continued)

We recommend that access to securities be limited to situations in which two or more City officials are present and formal procedures instituted to verify that all income is received from the trustees.

M. Water Maintenance Billings

It was noted during our audit that the Water Supply Board bills customers for water maintenance before the service is provided. This practice results in items being carried on the receivable listings for years when no service has ever been performed. We recommend that customers be billed only upon completion of services.

II. Cash Flow Planning and Management

Our review of the receipt, deposit, and investment of City funds highlighted the fact that although funds are usually deposited within one day, and some investment objectives are being accomplished, additional emphasis is required to improve control, increase cash collections, and earn additional investment income. We have found that many municipalities have discovered that the establishment of an annual cash flow projection can improve cash flow planning and management by:

- Developing an approximation of the availability of, and need for, cash during the entire year. This in turn permits an overall investment strategy to be devised that will ensure maximization of the City's earnings from investable cash.
- Signalling potential difficulties caused by cash receipt and disbursement timing differences so that early corrective actions can be taken, and
- Providing a framework from which monthly and/or quarterly cash forecasts can be formulated.

The annual cash flow projection is usually developed in terms of months, rather than exact dates, that receipts and disbursements will occur. The cash flow projection would be developed prior to the beginning of the year. It should include projections of cash receipts and disbursements for each month of the coming fiscal year. The projection should be developed from the information contained in the operating budget, tax schedules, capital budgets, and other pertinent data.

An analysis of the preceding year's monthly receipts and disbursements will provide useful information as a starting point. Department heads should be able to indicate new factors to be considered. The annual cash flow projection need not be constructed in great detail but can be limited to the major categories of receipts and disbursements.

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II. Cash Flow Planning and Management (continued)

In order to monitor the quality and accuracy of the cash flow projections, it is necessary to compare the monthly projections with the actual cash flow for the month. Monitoring also requires the monthly comparison of the actual bank balances with the projected balances. Major variances should be identified as to their cause, such as, a different than anticipated spending rate or unexpectedly slow cash collection. If significant variations occur, future monthly projections should be revised to reflect the new conditions.

In order to assist the Treasurer in scheduling outflows of cash and to avoid surprises of large payments due, department heads should be responsible for advising the Treasurer regularly as to the status of projects and the expected payment requirements.

Attention should also be given to construction, pension, and other large payments to:

- Know precisely when they must be made.
- Adjust the payments dates, if possible, to take better advantage of float.

Our review indicated the following approximate average monthly balance for the months tested of one checking account for each of the following funds:

	Capital Fund	General Fund	School Fund	Revolving Fund
August, 1978	\$ 787,000	\$ 2,203,000	\$ (488,000)	\$ 102,000
November, 1978	249,000	1,809,000	323,000	187,000
May, 1979	910,000	737,000	786,000	50,000
June, 1979	428,000	1,654,000	576,000	62,000

This test illustrates that checking account balances are large enough to warrant the preparation of monthly cash flow projections as a management tool to ensure that available cash is invested to its maximum potential and indicates that there are large amounts of cash uninvested which could provide additional City revenue.

During our audit of cash, we noted four checking accounts in the General Fund each containing a balance of \$15,000 to \$20,000 and one in the sinking fund containing a balance of approximately \$225,000 which have had no activity for the year and bear no interest. We recommend that these accounts be closed and the funds utilized for operations or investment purposes.

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III. Cash Collections and Cash Receipts

A. Cash Collections

Our review of the cash collection system indicated that a substantial amount of revenue is not being collected on a timely basis and that significant progress could be made by implementing additional procedures to insure the more timely collection of monies due. In addition, more effort is needed in actual collection efforts.

Although progress has been made in the collection of real estate taxes, we believe that there is still room for improvement and that additional emphasis should be given to this area to improve collections further. There are several other areas where increased attention is needed in collection efforts. These areas are as follows:

Collection procedures for tangible property and motor vehicle taxes are held off for several years after the tax becomes delinquent. In addition, the City has assigned only one lawyer to work on 1975 delinquent taxes and three to work on 1974 delinquent taxes.

We recommend that the City shorten the time in which it initiates collection procedures against delinquent taxpayers and assigns additional personnel to their collection.

Another area in which collection efforts need to be improved is the Municipal Court. The Municipal Court is responsible for issuing and collecting fines for parking violations. The manual and computerized processing system is not responsive to the needs of the Police Department resulting in a ten month backlog of unprocessed and unpaid parking fines. Some of the specific problems are as follows:

1. The Rhode Island list of delinquent parking violations is in order by date rather than vehicle registration number requiring excessive time to manually find total violations by vehicle.
2. The warrant process is manual and requires extensive manpower to complete the cycle.
3. The process of finding warrants for court appearances is backlogged and results in delays and extensive file searching.

We recommend that the City examine the possibility of arranging its list of delinquent parking violations by vehicle registration number rather than date to facilitate the compiling of total violations by vehicle which would enable the City to easily red-flag major problems. In addition, we recommend the computerization of the warrant process and the hiring of additional personnel to assist in cash collections and finding warrants for court appearances.

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III. Cash Collections and Cash Receipts (continued)

B. Cash Receipts

During our review of the cash receipts system it was noted that the incoming mail was delivered to the City Collector's Department and distributed to various people in the Department to open. The people opening the mail attach a receipt to the remittance advice and put in a box near the tellers. When a teller is free during the day, she will take some receipts and enter them into her register. In addition, checks received through the mail are not endorsed immediately.

In order to strengthen internal control, we recommend the incoming mail be opened by someone other than the cashier or accounts receivable bookkeeper and listed by a person having no access to cash receipts or accounts receivable records, or otherwise controlled to ensure proper recording in the cash receipts record. In addition, this listing of cash receipts should be subsequently compared to cash receipts records or authenticated copies of deposit slips by an employee having no access to cash. The employee responsible for entries in the cash receipts records should be independent of the mail opening and receipt listing function and the cashier or accounts receivable bookkeeper. Checks received through the mail should be endorsed for deposit only immediately.

IV. Assessor's Office

A. Property Tax Exemptions

During our review of property tax exemptions several conditions requiring improvement were noted. Presently, when a veteran requests an exemption he or she presents the Assessor's Office with the discharge papers and a 3 x 5 card is prepared containing the veteran's name, address, service, date enlisted and serial number. However, it was noted that there was no copy of the discharge paper attached to the 3 x 5 card. We suggest that a formal application be made out with necessary data including signature of the applicant, approval of the City Assessor his designee and a copy of the discharge papers attached to the application.

In addition, when an elderly person requests an exemption, it was noted that all the exemption applications were not approved by the City Assessor and many of the applications did not have a copy of the birth certificate attached. We suggest that all exemption applications be approved by the City Assessor or his designee and that proper supporting documentation be attached.

B. Abatements

It was noted that abatement forms for City council abatements are filled out by City personnel and the taxpayer does not sign any forms except for real estate valuations. In addition, there is usually no support documentation to the abatement forms. We recommend that the taxpayer be required to sign all abatement forms and proper support documentation be attached, to ensure proper control over abatements.

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V. Purchasing

During our review of the City's purchasing system several matters were noted which hamper internal control and audit verification. These are as follows:

A. Purchase Orders

It was noted in most cases that the specific people authorized to approve purchase orders, namely the Controller, Finance Director, and Purchasing Agent, do not review and approve the purchase order as this procedure is performed by department personnel other than those authorized to do so. These other personnel review and stamp the authorized person's approval on the purchase order. In many cases, the person doing the review does not sign or initial their work. In addition, the approval is stamped on the first copy of the purchase order which is the vendor copy making audit verification impossible.

The Controller and the Finance Director do not usually review and approve the invoices as this procedure is performed by personnel in their departments who use their stamp.

We recommend that only those specific persons authorized to approve invoices and purchase orders do so and the person preparing or checking the documents sign or initial their work. The approval should be included on all copies of the purchase order.

The City's Purchasing Department selects and notes the vendor on School Department purchase requisitions and the School Department prepares the purchase orders. At the present time the City's Purchasing Department is not comparing the purchase order to the requisition when the purchase order is returned.

We recommend that this comparison be made to ensure that the vendor the City selects is the one being used.

The departments who initiate the purchase via the requisition also receive the goods and indicate receipts via signing or initialing a part of the purchase order.

We recommend that this procedure be discontinued and a separate receiving report be prepared by an independent receiver.

The purchasing agent is not signing or stamping the purchase requisition. We recommend that all requisitions be signed by the purchasing agent and thereby noting approval.

It was noted that a number of purchase orders are issued after the invoice has been prepared and the goods or services are received in which case the purchase order is merely a confirmation of the invoice. We recommend that this procedure be discontinued and all purchase order is be prepared and approved prior to invoice preparation and receipt of goods to insure proper internal control.

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V. Purchasing (continued)

B. Competitive Bidding

The policy of preparing a purchase requisition worksheet for all purchases under \$1,500 and obtaining and noting three quotes is not being done on a consistent basis. A number of items tested had no worksheet, or if a worksheet was prepared, only one or two vendors' quotes were noted. We recommend that a worksheet be prepared for all purchases under \$1,500 and three quotes be obtained and noted. This will ensure the City's obtaining the lowest price possible for its purchases and strengthen its internal control over purchases.

C. Related Parties

In order to do business with the City an employee or related company must obtain permission from the City Council. The permission granted is filed with the other documents of the City Council meeting by meeting date; it is also noted in the minutes. However, the City Clerk does not maintain a separate file of related parties and does not forward a copy of the permission granted by the City Council to the purchasing department. Therefore, the City is not monitoring related party transactions and conflict of interest provisions.

We recommend that a separate file be maintained of all employees or related companies doing business with the City. In addition, a copy of the permission granted by the City Council should be forwarded to purchasing. This will ensure prevention of conflicts of interest and alert purchasing to any related party transactions.

VI. Payroll

Our examination revealed that the City does not maintain complete, up-to-date personnel files for all employees. We recommend a file be set up for each employee and it should include employment applications, authorizations for withholdings (W-4's), deductions, and current rates of pay.

It was noted that department heads perform several conflicting tasks which points out a lack of segregation of duties. The department heads process the preliminary payroll, approve and control the recording of time, and distribute the payroll checks for their employees. We recommend that certain of these duties be assigned to employees other than the department heads to eliminate the same person performing incompatible functions.

AUDITORS MANAGEMENT LETTER

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VII. Revolving Fund

A. Fixed Assets

The fixed asset detail is maintained by the Inventory Control Department. We noted several problem areas in the fixed asset record keeping and control. Our review disclosed a variance between the fixed asset balance per the General Ledger and the detail maintained by the Inventory Control Department. This variance arose because there are no effective procedures to notify the Inventory Control Department of changes involving fixed asset accounts. Some of the specific problems include:

- (1) No formal notification process has been set up to inform the Inventory Control Department of fixed asset additions or deletions, (2) No control over the metal plates used to tag the equipment, (3) Fixed Asset Tally Cards have not been updated for over a year and do not contain enough information to agree to the detail, (4) the Finance Director receives the figures for fixed assets at the beginning of July of each fiscal year but does not receive any supporting documentation, and (5) in the past two years only the Fire Department has been inventoried.

To provide effective accountability over equipment owned and ensure reliability of the records maintained, we recommend the Inventory Control Department receive a monthly statement of fixed asset purchases. This monthly statement would give the Department timely notification of additions and allow for the prompt preparation of perpetual inventory cards (tally cards). The Public Works Department should promptly notify the Inventory Control Department of all selected assets and submit monthly activities for reconciliation.

B. Inventories

The Public Works Department submits an inventory to the City Controller's Department at year end based upon quantities on perpetual inventory cards maintained at the Department. It was noted, however, that a physical inventory has not been taken for several years. We recommend that a physical inventory be performed as soon as possible to compare the actual count with the perpetual records and investigate and adjust for any discrepancies located. This procedure will result in a more accurate year-end inventory value.

VII. Revolving Fund (continued)

C. Stores and Equipment Funds

During our audit it was noted that there were no laws in effect governing the accounting use of these two funds. Consequently, these two funds are intermingled and used to account for various expenditures, related to the Public Works Department, that are overexpended or not chargeable against any specific expenditure item.

We recommended that the City prepare strict laws governing the use of these funds and that these laws be implemented immediately.

VIII. Pension Plan

It is the policy of the City to record as pension cost an amount which is sufficient to maintain funding at 70% of the actuarially determined liabilities of the plan; however the City's contribution for the year ended June 30, 1979 is less than the amount needed for 70% funding based on the June 30, 1977 valuation.

Although the valuation has been brought current through 1977, we recommend that the City prepare and submit current personnel data to their actuaries so that a liability for unfunded past service costs in terms of current operating levels and current dollars may be determined. We also recommend that the City sufficiently fund its pension plan at the amounts recommended by the actuaries.