



April 20, 2016

Honorable Mayor Todd Meier
and Members of the Town Council
Town of Addison, Texas
5300 Belt Line Road
Dallas, Texas 75254-7606

INTRODUCTION

Pursuant to our Engagement Letter(s), we are providing this Recommendation Status Memorandum. The information contained in this document was derived primarily through interviews of key personnel and, to a limited extent, the analysis of supporting documentation.

We are happy to discuss each individual recommendation in depth, answer any questions, address any concerns and, of course, stand ready to assist you and the Town's staff in any way we can.

EXECUTIVE SUMMARY

We were first engaged in April of 2014 and issued reports in July of 2014 and October 2014, containing various recommendations for improving the Town's accounting systems and internal controls. In the 24 months since our engagement began, we are pleased to report that Town management has made substantial progress toward improving the Town's accounting processes and internal controls. Among other things, the Town has (or is in the process of):

- ✓ Replaced its outdated Enterprise Resource Planning (ERP) software with a new, widely used system from Tyler Technologies known as Munis. ERP systems are the backbone of an entity's accounting and financial management function.
- ✓ Substantially increased the quality, experience and number of staff in the Finance Department.
- ✓ Modified the role of the Chief Financial Officer to allow him the ability to oversee all aspects of the finance and accounting function, regardless of

which Town department is actually performing that function.

- ✓ Replaced its outdated Municipal Court management software with a widely used product from Tyler Technologies known as Incode.
- ✓ Created an Office of Management and Budget (OMB) function that will, among other things, be tasked with the implementation of the COSO model. We understand that the OMB function will also be tasked with refining the internal control processes across all Town departments.

Although much hard work - particularly involving system implementation and hiring still remains, we believe that the Town is well positioned to provide a modern, well functioning accounting and finance function with excellent internal controls, to its citizens.

PURCHASING, PROCUREMENT & ACCOUNTS PAYABLE PROCESSING

Recommendation

Accounts Payable Processing – A new policy should be issued and enforced. Among other things, the policy should require that all invoices submitted for payment be accompanied by the following:

- a) A packing list from the vendor;
- b) A notation on the packing list by the receiving employee that includes the name of the employee receiving the goods or service, the date the good or service was received, a confirmation of the quantity received, a confirmation that the goods or services received matched what was ordered with any exceptions explicitly noted on the packing list;
- c) Alternatively, if the vendor did not provide a packing list, the Town should make available to all employees a receiving report form that can be used in lieu of a packing list;
- d) All invoices and receiving documents should be matched to the Purchase Order (“PO”) and verified as to price, quantity and product description, with any exceptions properly resolved prior to payment by accounts payable.

Status of Recommendation

We noted that significant progress has been made in this area. The new Munis ERP system contains a Purchase Order tracking system that has been partially implemented (full implementation is scheduled to occur by the fall of 2016). We noted that paid invoice files are now beginning to contain purchase orders and indications that the receiving employee is notating confirmation of quantity received and agreement with the purchase order. However, in analyzing select Accounts Payable (A/P) vendor files, it is apparent that there is still work to be done.

While we strongly believe that true emergency purchases should be exempted from the requirement that a Purchase Order be obtained prior to the purchase of a good or service, vendor invoices submitted for payment without a), b) and/or c) above should not be paid until proper documentation is supplied by the receiving department. It is apparent that the A/P clerk is paying many routine (non-emergency) vendor invoices that do not have a purchase order or are improperly documented. We believe that as the Munis ERP system is fully implemented and as the Finance Department reaches full staffing, the incidence of



improperly supported payments will become rare. However, that outcome will likely only be achieved when the A/P clerk (or his supervisor) stops the payment of improperly supported vendor invoices until such time as all the necessary information is obtained and documented.

Recommendation

Procurement – A new policy should be issued and enforced that requires all purchases be made on a PO (except for those ***specifically*** permitted on a procurement card). The use of Payment Authorization Memorandums (PAMs) should be restricted to cases of extreme emergency. This new policy should require:

- a) All vendors be vetted and pre-approved by the Purchasing Agent;
- b) One of the five permitted types of POs be completed at the beginning of the purchasing cycle (or at the beginning of the fiscal year);
- c) Amounts exceeding the original amount authorized on the PO be approved at the appropriate levels;
- d) Purchases made via Interlocal Agreement should be ***shopped*** by the Purchasing Agent to ensure that the Interlocal Agreement with the best pricing is being utilized.

This policy change will require that all known recurring vendors currently being paid with a PAM or a procurement card be set up on a PO, consequently a ramp-up period will be required. We believe that the necessary preliminary steps can be undertaken so that this policy can be implemented and enforced as of the beginning of the new fiscal year (October 1, 2014).

Status of Recommendation

See the section on Contracting below.

BANKING

Recommendation

Banking – The Town currently disburses funds through various account access points. We suggest that the Town inform the Bank to cancel, reassign and reauthorize all currently authorized account access points and streamline the access points into just two points of access. This entails cancelling the Human Resources (HR) Department's Payroll Account FTP access point and the call-in wire access point. The only two access points should be checks and the bank's electronic Cash Manager System. All other access points should be terminated.

In addition, we suggest that all privileges and tokens that currently exist in the bank's electronic Cash Manager System be revoked and reassigned based on authorities and permissions consistent with proper segregation of duties.

Status of Recommendation

We understand that the CFO has revoked all bank access points except for the Frost Bank Cash Manager system. The Cash Manager system has robust permission settings, which allow Town management to severely restrict access to the system. For example, those employees who only make deposits have profiles that allow the processing of deposits and no ability to move money, while those employees who pay invoices can do so only after proper approvals have been obtained. The CFO has established Frost Bank Cash Manager system profiles for only those employees whose duties require access. We recommend that these profiles be monitored and adjusted as employee job functions change or employees leave the employment of the Town.



PAYROLL

Recommendation

Payroll Processing – The town currently processes its payroll in the HR Department. We suggest that the Town engage a third party payroll vendor to process the Town's payroll. The marketplace currently has several highly qualified providers who can very efficiently perform all the functions required by the Town in a highly controlled and efficient manner.

Status of Recommendation

We understand that the Town has decided to keep the payroll function in house. The payroll module of the Munis system is scheduled to be fully implemented in January of 2017.

Recommendation

Payroll Administration – We understand that the Town will have to solicit bids for an outsourced payroll provider and the process will likely take some time to complete. As an interim step, we recommend that the payroll processing function currently performed and supervised in the HR Department be immediately moved to the Finance Department and supervised by the Chief Financial Officer.

Status of Recommendation

We understand that the payroll function has been moved to the Finance Department and reports to the Accounting Manager. Based on our follow-up interviews, we learned that Town employees continue to call the payroll clerk directly, asking that he make certain changes or error corrections. We recommend that all such requests from Town employees be routed through the HR Department's help desk. This will insure a proper separation of duties and moreover, insure that the HR Department and, if necessary the employee's supervisor are aware of all errors and changes that impact employees. We do not believe that Town employees should be dealing with the payroll clerk directly.

CASH RECEIPTS

Recommendation

Remittance Processing – Contract with a bank to provide lockbox services for the receipt of payments remitted to the Town by mail (similar to the system currently in place for the payment of water bills). This will require that payers mail all payments currently being mailed to the Finance Department directly to the bank for deposit. The bank will then electronically report details of each deposit to the Town for entry into the Town's accounting system.

Status of Recommendation

The Town has achieved this objective by effectively installing a bank teller terminal in the office of an accounting clerk. The Finance Department has created a position that effectively merges the duties of the payroll clerk and cash receipts clerk into a single position. In addition to performing the payroll duties, this employee manages all remittances using software and hardware provided by the Frost Bank Cash Manager system.

Recommendation



Cash Receipts – Contract with a bank or other provider to install electronic local cash receipts lockboxes at each of the Town’s sites that collect cash and checks at point of sale. These services are referred to by various proprietary names but generally, they provide for the cash and checks that are currently collected at the Town’s Courts Building, Conference Center, Athletic Facility and Service Center to be deposited at the end of each business day with the bank, off-site and with immediate account credit. The local cash receipts lockbox would then be serviced periodically by an armored car service.

Status of Recommendation

We understand that the Town now utilizes electronic lockboxes at virtually all points where cash and cash items are received. The service is provided and managed by Dunbar, a widely respected cash management and armored car services company.

FIXED ASSETS

Recommendation

Fixed Asset Accounting - the Town should activate the GEMS accounting system’s Fixed Asset Module. After activating the module, all purchases that are above a specified dollar amount or are sensitive in nature (such as weapons) would be **automatically** added to the GEMS Fixed Asset Module at the time of purchase. As soon as practicable, a vendor should be retained to perform a physical count of all fixed assets currently in the Town’s possession. The assets identified in the physical count (not previously recorded) should be recorded in the GEMS Fixed Asset module. The physical count of assets should also be compared to the various MS Excel and department level fixed asset spreadsheets currently in existence in an attempt to locate any missing assets. Going forward, as a matter of policy, fixed assets should be periodically counted and reconciled to the GEMS system.

Status of Recommendation

A vendor was retained to perform a physical count of the Town’s assets in early 2015. The physical count performed by the vendor was incomplete and did not meet the scope set forth in the contracting documents. For example, information technology and office equipment were not counted and tagged by the vendor. We found no documentation authorizing the scope reduction yet the contractor was paid the full price of the contract.

We attempted to reconcile the items found in the vendor’s physical count to data extracted from the Town’s A/P expenditure file dating back to 2011. We also attempted to locate items from the Town’s A/P expenditure file on the vendor’s inventory report. Our bi-directional analysis identified assets purchased and not on the vendor’s inventory report as well as items on the vendor’s inventory report that were not in the A/P expenditure file, thus providing a textbook example of why it is so important to properly record the asset at time of purchase.

We understand that the Munis ERP system has a fixed asset system that is integrated with the A/P system. The fixed asset module has not yet been implemented. However, when implemented, we understand that all fixed (and sensitive) asset purchases will be automatically added to the fixed asset system at time of purchase. In addition, we understand that the Finance Department plans to periodically visit each Town department to reconcile the fixed assets in the department to the fixed asset system.

FINANCE DEPARTMENT STAFFING AND SEGREGATION OF DUTIES

Recommendation

Finance Department Staffing – The staffing in the Finance Department is insufficient to provide for the current workload while maintaining an appropriate level of internal controls. We recommend the hiring of two experienced



persons who are Certified Public Accountants to augment the current staff. The two additional professionals will allow for the appropriate segregation of duties and implementation of needed internal controls.

Status of Recommendation

Town management has significantly improved the staffing levels of the Finance Department. When we began our work, the Finance Department was operating with a single CPA, the CFO. The Town has added two additional CPAs and additional accounting positions to support the work of the two additional CPAs. Proper separation of duties is now possible with the additional staffing.

Recommendation

Segregation of Duties – As soon as practicable, the duties of the current staff in the Finance and Courts Departments should be reassigned to assure that duties, permissions and responsibilities are properly segregated. The process of reassignment of duties is highly dependent on the implementation of the recommendations listed above.

Status of Recommendation

The new Munis ERP system provides the Town with the ability to set user permissions in a very detailed manner. The new Munis ERP system will, for all intents and purposes, be the foundation for the proper separation of duties. The Munis ERP system has multiple levels of security and access restrictions, all of which are required to be set by the system administrator. The setting, management and ongoing monitoring of these restrictions are absolutely critical to maintaining effective separation of duties. We recommend that user Permissions in The Munis ERP system be reviewed periodically to insure each employee has only those Permissions necessary to perform his or her duties and that duties are properly separated between individual staff members.

Recommendation

Review and re-assign permissions and authorizations to the finance, accounting and human resources related modules within the GEMS system.

Status of Recommendation

As discussed above, the Town has moved to a new ERP system known as Munis. We understand that the system requires that employee roles be assigned for every employee who is given access to The Munis ERP system. Within those employee **Roles**, the individual employees are then granted **Permissions**. The third element of the Munis ERP system's process is the creation of **Workflows**. Because the Munis ERP system is still in the implementation phase, the Roles, Permissions and Workflows are still evolving. The following represents our recommendations for the creation and management of these three critical elements of the Munis ERP system once it is fully implemented.

- **Roles** – In essence, roles provide a standard level of access based on an employee's job title. For example, there can be an Accounting Clerk role, an Accountant I role, a Senior Accountant role, an Accounting manager role and so on. Multiple people can have the same role. So the Deputy City Managers would all have the same role. We recommend that once the system is fully implemented, the access to each part of the system along with associated Permissions as set forth in each role should be carefully thought out and effectively unchangeable without proper oversight and authorization. The roles establish the maximum typical level of access, duties and authority allowed for each employee job title. For example there should be no way for an employee with the Role of Police Department Assistant to propose General Ledger Journal entries or for the City Manager's secretary to write-off fixed assets.

We suggest that the relevant department head, along with the Chief Financial Officer (CFO) and the IT Department Head be required to approve the system access and Permissions for each Role. No individual, regardless of position within the organization should be allowed to singlehandedly direct a modification to a



Role without the authorization of the CFO and IT Department Head.

- Permissions – Once an employee is hired, he/she is assigned a Role and within a Role various Permissions can be granted. These Permissions govern everything from transactions that can be viewed to those that can be edited or generated. For any position within the Finance Department, the Permissions within a Role for a particular individual should be established and/or approved by the CFO in writing and sent to the Munis ERP system administrator in the IT Department.
- Workflows – Among other things, Workflows establish the procedures and approvals of the Finance Department. For example, it is in the Munis ERP system's Workflows where the CFO determines who is able to generate a General Ledger entry and how many approvals are required for that entry to post to the General Ledger. We recommend that once the system is fully implemented, the CFO establish Workflows that are consistent with proper separation of duties, proper authorization of transactions and the levels of oversight that are set forth in the COSO Control Environment.

CONTRACTING

Introduction

The Town hired a new Purchasing Manager, Wil Newcomer since our last report. Mr. Newcomer is a Certified Professional Public Buyer (CPPB). The CPPB credential is awarded based upon training and work experience in the public sector. Mr. Newcomer has extensive prior purchasing experiences.

The Town has established many new processes and procedures including an updated purchasing manual, a training program for those employees who participate in the procurement process, the implementation of a new ERP System that carefully tracks Purchase Orders, a training seminar for PCard holders and a more robust purchasing review and approval process.

In addition, Mr. Newcomer reports that under his direction all routine purchases must be initiated with a Purchase Order that is entered into the Munis ERP system.

Recommendation

Purchasing Manual – In October 2013, the Town completed a new Purchasing Manual. For the most part, the Purchasing Manual is a well-written document. The Manual should be revised where needed to incorporate the changes related to purchasing/contracting/invoice payment processing contained in our First and Second Set of Recommendations. Most importantly, the Manual should be adopted and vigorously enforced.

Status of Recommendation

The purchasing manual has been revised to incorporate systemic changes and best practices.

Recommendation

Purchasing Manual Training - We recommend that as soon as practicable, each and every Town employee receive Purchasing Manual training that is appropriate for his or her position.

Status of Recommendation

We understand that each employee in a position that involves the purchasing function has received the Purchasing Manual and the requisite training. In addition, Mr. Newcomer reports that he works closely with the departments to assist them when needed and is personally involved in any transactions that require the solicitation and evaluation of



bids. However, since there is no internal audit function, it is currently difficult for the Purchasing Manager to insure that all purchases are being bid.

Recommendation

Purchasing Ethics - Accompanying the issuance of the Purchasing Manual was an "Acknowledgement Form" to be signed by each employee and placed in the employee's personnel file. The Acknowledgement includes, among other things, a representation by the employee that violations of Town purchasing policies and procedures subject the employee to disciplinary action. This is an important tool for setting management's expectations. An executed Acknowledgement Form (supported by relevant training and communications) should be obtained from each Town employee as soon as practicable.

Status of Recommendation

We understand that all employees involved in the purchasing process have signed a Purchasing Manual Acknowledgement Form.

Recommendation

Vendor Selection – The Purchasing Manual offers extensive guidance in the area of vendor selection and the criteria used to judge bids. We suggest that anyone on the vendor evaluation committee be required to read and re-familiarize him or herself with the guidance regarding vendor selection contained in the Purchasing Manual prior to each contract evaluation. In addition, the evaluation process itself should be carefully documented and properly maintained.

Status of Recommendation

We understand that a policy is being adopted that will require that each member of the evaluation committee execute a form that certifies that the committee member understands the policies, duties and obligations of an evaluation committee member. Further, we understand that this certification will be retained in the bid evaluation file.

Recommendation

Purchasing/Contracting Software – In our analysis of contract files, it appeared that the files were poorly organized. A variety of software tools are currently available that will automate the organization and management of vendor relationships. It is our understanding that Bid Sync has a module that assists with the organization and monitoring of vendor contracts and that Town staff is currently studying possible software tools for this function.

Status of Recommendation

The Munis ERP system has extensive capabilities related to contracting and bid administration. The Munis ERP modules are being implemented in a phased approach. The purchasing function is expected to be fully functional by the fall of 2016. Until the Munis ERP system is fully implemented, the Town is using the Bid Sync software package to manage the bidding process (when bids are required). We understand that once Munis is fully implemented, there will no longer be a need for the separate Bid Sync software package.

Recommendation

Vendor Invoicing – As discussed in detail below, the Town does not require vendors to provide invoices that match the cost categories contained in the vendor's contract. The Town should require vendors to invoice the Town in a manner that can be tied directly to the contract.



Status of Recommendation

We understand that the Munis ERP system has functionality that implements this recommendation and is scheduled to be implemented by the fall of 2016. At the point of implementation, the Finance Department will also enable functionality that will allow Town vendors to set-up online invoicing, which will further improve the Town's ability to match invoices to the terms of a given contract.

Recommendation

Vendor Oversight and Management – Invoices should be compared to vendor contracts prior to payment. Payment should not be authorized unless the invoice price, quantity and quality are in agreement with the contract. When authorized deviations occur, the reason for the deviation should be noted on the face of the invoice from the vendor (or in the vendor's file) so that a proper audit trail is maintained.

Status of Recommendation

As discussed above, the Town will be implementing the Munis ERP system's purchasing module in the fall of 2016. We understand that the implementation of this module will address this recommendation.

Recommendation

Compliance Monitoring – In order to be an effective policy, the directives found in the Purchasing Manual should be monitored and enforced. The Town should contract with a CPA firm to provide an outsourced Internal Audit Function to perform periodic compliance monitoring. This firm should report to the Finance Committee of the Town Council and include the Town Manager. Under no circumstances should the internal audit firm report directly to Town Management.

Status of Recommendation

We understand that Compliance Monitoring / Internal Audit is a work-in-process and that no final decisions have been made regarding the Internal Audit function. Since no Internal Audit function exists, it is important for there to be some retrospective analysis of procurement policy compliance. Periodically, we recommend that the Purchasing Manager randomly select certain procurement transactions for detailed review. A new position has been authorized (but not yet filled) whose duties will include purchasing compliance reviews.

OKTOBERFEST SPECIAL EVENT

Recommendation

Admission Tickets – all admission tickets (pre-sales, on-line, on-site and complementary) should be bar coded with a unique tracking number. Each and every admission ticket should be electronically scanned upon a guest's entrance into the event. Valid tickets that are not, for whatever reason, electronically scanned should be retained by the entrance gate staff and manually counted and reported on a form submitted to the Finance Department.

Status of Recommendation

We understand that the 2015 event used pre-numbered, bar coded admission tickets that are electronically scanned upon a guest's entry into the event. Further, we understand that the system used in 2015 will be refined for the 2016 event.



Recommendation

Admission Ticket Tracking – Admission ticket stock should be logged as to ticket number range and issued to ticket sellers by the Finance Department staff. This *Ticket Tracking* log should contain the Finance Department staffer's name and the name of ticket seller, the date and time of issuance and number range of the tickets issued (the ticket range logging could be accomplished by scanning a barcode on each box of tickets). Each ticket seller should then sign the log (in ink), accepting responsibility for the tickets received and confirm the range of ticket numbers received. These *Ticket Tracking* logs should be retained by the Finance Department staff in a secure location, inaccessible to ticket sellers. Upon the completion of each ticket seller's shift, unsold tickets and their corresponding number ranges should be returned to the Finance Department staff, recorded on the *Ticket Tracking* logs and signed as returned by both the ticket sellers and the Finance Department staff member receiving the tickets. Additional tickets issued to the ticket sellers during their shift should also be logged and signed for in the same manner as the original issuance of tickets.

Status of Recommendation

We understand that for the 2016 event, all admission tickets will be tracked in accordance with our recommendations.

Recommendation

Admission Ticket Reconciliation – Periodically throughout the event day, the report of tickets scanned should be matched to the *Ticket Tracking* log. To insure all processes are properly working, significant differences (such as gaps in ranges of tickets scanned versus the ranges of tickets issued to ticket sellers) should be investigated immediately and steps taken to correct errors in scanning or ticket sales practices. Each evening, tickets sold as reported on the Ticket Tracking log and scanning logs should be reconciled to the cash turned-in by the ticket seller. Significant discrepancies should be immediately investigated.

Status of Recommendation

We understand that an attempt was made to perform effective reconciliations for the 2015 event. However, the reconciliations were never completed for unknown reasons. Current Finance Department and Town management were not in place when the 2015 event occurred. Based on our discussions with current Town and Finance Department staff, we believe that effective internal controls will be in place and reconciliations will be performed for the 2016 event.

Recommendation

Admission Ticket Cash Management – As cash is periodically removed from the ticket seller's tills during the event day, the ticket seller should be temporarily taken off-line. A Finance Department staff member should count all cash being removed under the observation of the ticket seller. We recommend the use of a two-part form where the Finance Department staff member and the ticket seller notate the amount of cash and cash equivalents being removed. Once both parties are in agreement as to the amount being removed, they should both sign the form with the Finance Department staff member storing the signed original with the cash being removed and the ticket seller retaining a copy. The ticket seller's copy should be retained by the ticket seller and delivered directly to the Town Manager's office by the next business day. These control copies will then be available for review should any questions arise during the event reconciliation process. The Town Manager's office should retain the signed forms at least until all reconciliations are completed.

Status of Recommendation

Current Finance Department and Town management were not in place when the 2015 event occurred. Based on our discussions with current Town and Finance Department staff, we believe that effective internal controls and reconciliations will be performed for the 2016 event.



Recommendation

Complementary Tickets – we identified at least \$21,000 of TastyBuck tickets that were apparently given away. As of the date of this report, we have not received information that describes who received these tickets or the process by which they were distributed. In addition, an unknown number of free admission tickets were also identified. At this time, we are unable to quantify the total dollar impact of the complementary admission tickets. While a certain number of complementary admission tickets are to be expected, the \$21,000 in complementary TastyBucks are a direct out-of-pocket cost to the Town. Strict controls should be placed on complementary tickets.

Status of Recommendation

We understand that the Special Events Department has become much better versed in the functionality of the Showclix ticketing system since we performed our work at the 2014 event. Showclix reportedly supplies functionality that permits the establishment of various ticketing codes. The Special Events Department now assigns codes for the issuance of complementary admission tickets. The use of separate codes for complementary admission tickets will allow them to be tracked and accounted for separately from the revenue generating admission tickets.

We understand however, that Showclix is not used for the management of complementary TastyBuck tickets. Complementary TastyBuck tickets are managed and distributed by the Special Events Department. We recommend that prior to an event, the Special Events Department prepare a list of complementary admission and TastyBuck tickets that are to be distributed. This list should include the names of the people or organizations receiving the complementary tickets as well as the number of tickets authorized for each individual or organization. The proposed list should then be forwarded to the City Manager or his designated Deputy City Manager for approval. We do not believe that complementary tickets should be issued without proper authorization. Once the list is approved, the CFO should then issue a sufficient quantity of pre-numbered TastyBuck tickets (whose numerical range is recorded and maintained by the CFO or his designee) to the Special Events Director for distribution. All unclaimed TastyBuck tickets should be returned to the CFO (or his designee) at the end of the event. As the complementary TastyBuck tickets are distributed, the recipients should sign for them upon receipt and the number ranges should be recorded for use in the final event reconciliation.

Recommendation

TastyBuck Tickets – the Town should immediately begin investigating methods to improve the TastyBuck sales and vendor payment processes. Potential solutions include allowing pre-sales via the internet with or without slight price discounts for advance purchase, the use of ATM type machines, electronically scannable tickets, or some other system.

Status of Recommendation

We understand that the Town is exploring its options in this area.

Recommendation

TastyBuck Ticket Reconciliation – the TastyBuck ticket reconciliation process should be re-engineered, depending upon the revisions to the ticket sales process. The current reconciliation process is flawed in a number of ways and should be re-engineered before the next event.

Status of Recommendation

In prior years the Town was not capturing the information necessary to perform an accurate reconciliation of TastyBuck tickets. We understand that the Finance Department will be responsible for all ticket reconciliations to the Town's accounting records.



Recommendation

TastyBuck Ticket Redemption – TastyBuck tickets are presented for payment to the Town’s Special Events Director and Court Clerk by the vendors at the conclusion of the event. Redemption should be moved to the Finance Department to provide separation of duties between vendor contracting and vendor payment. In addition, The Court Clerk should also not be involved in the payment of vendors as she supervises the TastyBuck sales and cash collection function during the event.

Status of Recommendation

We understand that a Finance Department employee manages the weighing and vendor payment process. For proper separation of duties, the Special Events Department, which selects and contracts with the vendors, should not be the department that determines the weights and amounts due to the vendors.

Recommendation

Special Event Vendor Payment – Upon presentation of tickets by vendors, TastyBuck tickets are weighed. Ticket counts are determined by the weight of the tickets. After the amounts owed are calculated, checks are requested from the Finance Department. In the event that the Town decides to continue weighing tickets, we suggest that the ticket weighing and payment calculation process be more thoroughly documented. Currently, the Town is relying on the weight of a batch of 300 tickets to calibrate the ticket counts. This process is poorly documented. Going forward, we suggest that each sample weighed be logged as to weight, ticket count and ticket condition. The index weights used should then be logged as each vendor’s ticket batches are weighed. The condition of each ticket batch weighed should also be logged. Clear recording of vendor name, batch number, batch condition, index weight used, extrapolated ticket count, Addison commission percentage and final payment amount will provide transparency and an audit trail for the vendor payment process.

Status of Recommendation

The Town has reportedly re-engineered the process so that as tickets are sorted and weighed, a “standard weight” is created for each vendor’s tickets. This “standard weight” is based on a sample of between 100 and 200 tickets. We recommend that the sample size be the same for all vendors. Because vendors are paid on different days over the period of one week, it is critical that the standard weight used to pay each vendor be noted on the form that is sent to accounts payable for vendor payment. The form should also contain the weight of each batch as well as the count of any manually counted (not weighed) TastyBuck tickets.

Recommendation

Final Cash & Cash Equivalent Reconciliations – The quality of the final event reconciliation is directly proportional to the quality of the data that underlies the reconciliation. The quality of data used as a starting point for the reconciliations should be improved. Notwithstanding the enormous amount of time and effort that went into the preparation of the Oktoberfest reconciliations by the Finance Department staff, the reconciliations are based on flawed, incomplete and poorly collected data so they are therefore, unreliable.

Status of Recommendation

Based on our discussions with current Finance Department management, it is clear that they are aware of the point of sale, admission and redemption data that needs to be collected to achieve a proper reconciliation of event proceeds. We believe that the 2016 event will be more carefully managed to insure that the proper data is collected to permit the proper reconciliation of monies collected from patrons (and paid to vendors) to the monies deposited in (and disbursed from) the Town’s bank account.



Recommendation

Event Profit and Loss Statement – The Town should prepare a Profit and Loss statement for each special event. This analysis should contain 100% of the revenues and costs associated with the event. Although we understand that the profitability of each event is factored into the Town’s budget, we believe an accounting of revenues and expenses that capture all costs and expenses should be prepared at the conclusion of each special event. The information contained in such a report will be a valuable management tool.

Status of Recommendation

We understand that the CFO intends to prepare Financial Statements for each of Addison’s Special Events where all costs are captured and fully allocated to the event. In addition, the CFO will no longer permit costs associated with an event to be accounted for as contra (debits) revenues.

MUNICIPAL COURTS

Introduction

In late 2014 and early 2015, we began to perform our analysis of the Municipal Court’s accounting system. As previously reported in a presentation to Council, we were met with an intense lack of cooperation from prior Town management in connection with our work at the Courts. We began by selecting a sample of Court files and attempted to tie the financial transaction reflected in them in to the Infosol Court accounting system (going both from the paper based court files to the Infosol system and from the Infosol system to the paper court files). We attempted to tie the revenues and expenditures from the Infosol Court accounting system to the GEMS General Ledger and to the Town’s bank account. Additionally, we attempted to trace credit card transactions reflected in the Infosol to the reports from the Town’s credit card processor, First Data Systems. We attempted to trace the flow of funds from their origination (Court window, Jailer) to the Town’s bank account. Lastly, we attempted to perform an analysis of the quality and accuracy of the reconciliations that would typically be performed in a well functioning accounting system.

At each step, we were confronted with deficiencies in documentation, lack of internal controls, lack of separation of duties and a general lack of basic accounting procedures and controls. We verbally reported the deficiencies noted to the then CFO, the then Town Manager and the Finance Committee of the Town Council. By May of 2015, it became apparent that the Town would be re-engineering the court accounting system. Accordingly, we suspended our work as it related to the Courts.

Given that the Town would be re-engineering the Court accounting system, we, the Town Manager and the Finance Committee of the Town Council believed that it was a poor use of taxpayer funds for us to issue a report on the legacy Court accounting system. In February 2016, the Town installed a new Court accounting system, replacing the Infosol system with the Incode system from Tyler Technologies. The Incode system is owned and sold by the same vendor as the Munis ERP system. Although the systems are separate and distinct software packages, they are designed to communicate electronically with each other. The electronic link between the Munis ERP and Incode systems has the potential to significantly strengthen the Town’s ability to prevent, detect and correct errors and irregularities. While the Incode system is a management system for municipal courts, the system also serves as a critical accounting system – both for internal reporting and externally, on behalf of people who receive a variety of criminal and civil citations. **Even though the Incode system is separate from the Munis ERP system and is managed and operated by the Court Department, we believe that the Town’s CFO should have access to, oversight of, and accountability for all financial related operations of the Incode system.**

On February 24, 2016, the Town Council approved our issuance of a report on how the newly re-engineered Court accounting system addressed our previously observed deficiencies. The following reflects our observations.



Overview of the Re-engineered Court Accounting System

We spent most of two days meeting with the Court Administrator, Paula Dale, representatives of the IT Department including Hamid Khaleghipoura and Zeis Chen, Deputy City Manager Cheryl Delaney, Assistant Finance Director Olivia Riley, representatives of Tyler Technologies Konda Shelton and Ben Furth, and David Eisenlohr of the Azimuth Group. Various members of the group were available at various times. In addition, we met with Police Chief Paul Spencer on an as needed basis.

The new court accounting system is reported to be a state-of-the-art integrated court software system that has been installed in more than 800 municipalities and is reportedly used by most major Texas cities. Unlike the previous system in use in Addison, Incode is designed to be virtually paperless and integrates electronically from the point of citation in the field to the Town's general ledger. Also unlike the prior system, Incode is designed to integrate directly with a credit card processor so that payments can be tracked from point of acceptance to the Town's bank account. However, we understand that the integration of the credit card processing system is still a work in process.

We learned that the system went live on February 1, 2016 and certain aspects of the new system are not fully integrated as of yet. Accordingly, much of the information that follows was based on discussions and the observation of transactions in a "test" environment.

Except for the rare instance of a manually generated citation, data arrives in the Incode system via an electronic upload from the arresting officer's handheld ticket writer. We observed that all interactions from the point of upload to processing, adjudication and fine collection or dismissal, are tracked via user name. We observed that all of the information pertaining to a particular offense is stored electronically, virtually eliminating the need for paper files. We noted a robust system of permissions that provides highly customizable access control. If set up and maintained correctly, this will help ensure that duties are properly segregated and that all approvals are obtained prior to an offense moving through the adjudication and disposition process. We noted that once an offense is printed from the handheld ticket writer by the arresting officer, every adjustment, payment, dismissal or interaction by an Incode user is captured and cannot be deleted. This is an extremely important functionality and helps ensure that a proper audit trail is maintained.

Based on our analysis of the demonstrated capabilities of the system, we believe that the successful use of the Incode system is predicated on four key areas:

- Establishing and maintaining functioning and seamless interfaces with non-Incode systems;
- Establishing and updating proper user access permissions;
- Implementing and maintaining proper separation of duties;
- Performing proper reconciliations between Incode, bank, credit card processor and General Ledger data.

As discussed above, the Incode system went "live" on February 1st. Accordingly, the system, although functioning, is still being refined. The following is a list of observations regarding refinements that need to be made. Based on discussions with Town personnel and representatives of Tyler Technologies, we believe that all of the noted issues will be addressed as soon as practicable.

- We noted in our previous work that the Court and Finance Departments were not able to effectively reconcile credit card transactions "swiped" to the Town's bank account. The Incode system is designed to fully integrate credit card processing with the Incode system. Unfortunately, the credit card processor used by the Town is not providing the information that would allow for the smooth and uncomplicated integration and reconciliation of monies collected to monies received at the Town's bank. Accordingly, we understand that Town management has decided to move to one of the credit card processors that will seamlessly integrate with the Incode system. A further benefit of this move will likely be a much shorter lag between the date a credit card is "swiped" and the date the funds actually reach the Town's bank account.



- The proper separation of duties is one of the most important components of an effective system of internal controls. In our prior work, we noted that the judge, court clerks and the court administrator all had the ability (permission) to accept monies, adjust transactions, reverse transactions and approve transactions. In the Incode system, the system administrator manages the permissions for all users. Because the system has only recently gone “live”, we noted that the court administrator currently has the system administrator role, enabling her to set the permissions. Once the system reaches a stable state, we suggest that a member of the Town’s IT Department be given the system administrator role (and can only make permission adjustments with proper documented approvals) and the court administrator no longer have that role. Further, we recommend that the system permissions be set so that the court administrator can only adjust, reverse and approve transactions – she should not be able to accept monies from the public. Additionally, we believe that the judge should have no permissions that in any way involve financial transactions.

In the course of normal jail operations, the Town has historically accepted bond payments on behalf of other jurisdictions. This permits an Addison arrestee who owes money in other jurisdictions, to settle outstanding debts to the other jurisdiction prior to release from the Addison jail. In discussions with representatives of Tyler Technologies, we learned that Tyler views the acceptance of out-of jurisdiction bonds as a purely jail function. Accordingly, the Incode system has no functionality to post out of jurisdiction bond payments as an account payable to another jurisdiction. Since credit card terminals are integrated with the Incode system, out of jurisdiction bond payments would have to be handled manually – effectively outside of the internal controls established as part of the Incode system. We discussed this issue with the Court Administrator, Paula Dale, Hamid Khaleghipoura IT Director, Deputy City Manager Cheryl Delaney, Assistant Finance Director Olivia Riley, Konda Shelton of Tyler Technologies, David Eisenlohr of the Azimuth Group and Police Chief Paul Spencer. All agreed that this is an issue that should be resolved in a manner that maintains proper internal controls and that the manual processing of out of jurisdiction bonds introduces the potential for errors and increased accounting workloads. We understand that the Town will devise a short-term solution that will involve a separate credit card terminal linked to the Town’s ERP system. This solution will require that two credit card terminals be installed in the jail – one for out of jurisdiction transactions and one for Addison transactions. Further, we understand that the Town will study an acceptable permanent solution.

COMPLIANCE MONITORING

Recommendation

Adopt the COSO Framework – as discussed in our previous presentations to the Town Council, management should actively and enthusiastically adopt the COSO Framework, including a robust internal audit process. We recommend that the Town contract with a CPA firm to perform routine internal audit functions on the Town’s processes and to embrace and engrain the COSO Framework in the Town’s day-to-day operations and management. For the Town of Addison, we believe this to be a process as well as a cultural issue that can only be accomplished through strong Tone at the Top messaging and actions.

Status of Recommendation

We have observed that positive Tone at the Top messaging is taking shape. The direction of the City Manager to staff is one of continuous improvement. This, coupled with the Town’s Council providing the City Manager with the budget authority to fund the “tools” (in the form of new ERP and Court systems as well as appropriate staffing levels) will allow the Town to aggressively adopt the COSO model.

Once the Munis ERP and Court Systems are fully implemented and the newly approved Finance Department positions are filled, we understand that the OMB will be responsible for implementing the COSO model in earnest. The one component of the COSO model that appears to be as yet unresolved is the Internal Audit function (whether to outsource or internally staff the function). Internal Audit falls within the COSO monitoring activities section and is an integral part of an effective COSO adoption. We understand that until a final decision is made regarding the



structure of the Internal Audit function, the OMB will be tasked with an internal review role. It is important to note however, that the Manager of the OMB reports to the CFO. To insure that the Internal Audit function is an effective tool, free of conflicts of interest, we suggest that the Internal Audit function report directly to the Finance Committee of the Town Council. So until such time as a final decision is made as to the structure of the Internal Audit function, we suggest that for purposes of the OMB's internal review role, the Manager of OMB have the ability to meet with and consult with the Finance Committee of the Town Council at least on a quarterly basis.

Recommendation

Fraud or Whistleblower Hotline – the Town should establish a Fraud or Whistleblower Hotline to provide a mechanism for employees, contractors, residents or other interested parties to report instances of potential waste, fraud or abuse.

Status of Recommendation

We understand that this recommendation has been implemented.

SUMMARY COMMENTS

Our recommendations are based primarily on interviews of members of the Town's staff, limited analysis of documents, personal observations and best practices. Detailed testing of transactions was outside the scope of this engagement. Our engagement did not involve an audit, review, compilation, internal control review or attest service as those terms are defined by the American Institute of Certified Public Accountants. Further, our procedures were not designed to detect fraud or non-compliance with laws, contracts or regulations nor were they designed to detect the misapplication of assets.

KANTER FINANCIAL FORENSICS, LLC
Kanter Financial Forensics, LLC
April 20, 2016

