A REPORT FROM
THE OFFICE OF INTERNAL AUDIT

PRESENTED TO THE CITY COUNCIL
CITY OF BOISE, IDAHO

AUDIT / TASK: #11-01, Indirect Cost Allocation Audit
AUDIT CLIENT: DFA - Accounting
REPORT DATE: June 30, 2011
AUDIT GRADE: Low Satisfactory

REPORT AUTHOR: Jim McMahon  CPA, CIA
APPROVAL: Steven Rehn  CIA, CFSA
AUTHORITY: Boise City Code, 1-09-03
            FY2011 Work Plan
REPORT OF AUDIT ACTIVITIES

Task #11-01, Indirect Cost Allocation Audit
Date of Audit: October 28, 2010

INTRODUCTION

In response to the request of members of the City Council, the Office of Internal Audit undertook a review of the Indirect Cost Allocation processes that are utilized across the City to apportion centralized services costs to various departments that utilize those services. Indirect costs have averaged $3,520,362 annually across the City from FY08 to FY10. The need for this type of review was suggested by the materiality of indirect cost dollars that are incurred and assessed on an annual basis.

Direct costs are budgeted and accounted for within each department (or division); being readily identifiable with a specific cost objective or service. The City utilizes an Indirect Cost Allocation Plan (ICA) to provide departments with the full cost of delivering municipal services. Indirect costs represent that portion of a department’s business expense that is not readily identified or directly related to providing a particular service. However, indirectly a proportionate share of the cost burden for centralized services is necessary for the general operation of a department and the conduct of activities being performed.

Indirect costs are manifested in a number of internal central service departments and/or divisions that serve both internal, and in some cases, external customers. Examples of central service costs that must be allocated to user departments are as follows: Mayor, Council, Legal, Human Resources, Information Technology / Communications, and Department of Finance and Administration (DFA) costs (Accounting, Budget, City Clerk, Printing and Mailing Services, Purchasing, and Treasury). The overall administration, oversight, and management of the ICA business process is presently being handled by the Accounting function within DFA. However, ultimate responsibility for the accuracy and approval of statistical data utilized in the ICA process lies at the individual department level.

Eventually, a portion of the City’s central service costs are allocated into the City’s Federal Entitlement Programs (CDBG/HOME). These programs are managed by the Division of Housing and Community Development within the City’s Planning and Development Services Department. Consequently, the City must maintain compliance with a regulatory framework established by the Office of Management and Budget via OMB Circular A-87 – Cost Principals for State, Local, and Indian Tribal Governments. Under this Circular, a “cognizant” agency is identified that approves and monitors ICA plans of municipal governments. Since one of the City’s principal sources of Federal dollars involves the CDBG and Home program funds, our cognizant agency is the U.S. Department of Housing and Urban Development (HUD). All indirect cost plans (including changes to existing plans) and indirect cost rate proposals require HUD approval.

Because of the level of complexity, tools like cost allocation plans and/or indirect cost rates are used to distribute centralized service costs to benefiting departments and
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divisions. For some central service activities, a reasonable means to allocate cost is to simply apportion those costs in relation to each department’s total cost as a percentage (pro-rata) of City-wide total (labor and operations and maintenance) costs. Implicit in this proportionate allocation is the “benefits received” concept. The benefits received concept allows for accurate and fair indirect cost allocations to user departments. Departments should be allocated costs in direct proportion to the amount of centralized services consumed during a particular period. In some cases, allocating indirect costs by simply utilizing a pro-rata percentage of departmental expense in relation to total City-wide expense may not be the most effective method to equate usage with benefits received. In these cases, certain central service functions establish a superior allocation base or “cost driver” that equates usage with benefits received at the consuming departmental level. Often, these bases are non-financial in nature: # of computers deployed, checks issued, transactions processed, or labor hours worked.

Using these general principals listed above, and a commercially available software application (MaxCars) specifically designed to perform this task; costs associated with the City’s central service functions are allocated to user departments (and other central services functions) in relation to the amount of service consumed - using either a financial and / or other applicable series of cost drivers.

A number of steps must be successfully completed before indirect costs are ready to be recognized in the City’s financial statements. First, City departments are required to submit statistical data to DFA-Accounting for compilation. That information (along with associated central service costs) is loaded into the ICA software application. Mechanically, ICA processing occurs in two distinct steps. The first step involves having the software application allocate central service costs to other central service functions (allocation within). Once each central service is “fully loaded” with their respective costs, a second distinct processing step occurs that allocates each fully-loaded central service cost “bucket” to user departments. A sequencing methodology is established within the software (Order of Precedence) that dictates which central service functions are allocated and closed first. A closed central service cannot receive additional costs from a central service allocator that is still “open”. This process continues iteratively until all central service costs are allocated to each department based upon usage. Finally, the allocated cost outputs are adjusted for non-departmental usage factors and recognized in the financial statements for payor departments.

Indirect cost expense, with the associated movement of cash out of payor departments into central service functions, is only recognized from a financial standpoint for the City’s departments and divisions that maintain a proprietary basis of accounting (Airport, Public Works, and HCD). Consequently, central service departments do not receive cost reimbursement (movement of cash) from other central service departments or departments that maintain their financial records on a modified accrual (governmental) basis of accounting.
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SCOPE AND METHODOLOGIES

The overall purpose of this audit was to gain a reasonable degree of assurance that the allocation of indirect costs to departments is based upon sound business processes, objective standards, and accurate statistical data. The internal control environment that surrounds the allocation of indirect costs to departments should ensure that the overall process is conducted efficiently and effectively; utilizing the minimum amount of resources. The allocation of indirect costs should comply with applicable policy, law, and/or regulation, and ensure that the objectives of the overall process are being met. Based on discussions with staff / managers responsible for the allocation, and consistent with a focus on current operational and financial issues, Internal Audit defined the following specific objectives to be achieved for this audit while reviewing the Fiscal Year 2010 ICA transactions:

- Assess the overall accuracy and effectiveness of the ICA system currently employed by the City.

- Document the central services, functions, and activities that serve as a basis for the indirect cost allocation. Ensure that any exclusion of administrative or central services costs is supportable and based upon sound business logic.

- Review the departmental allocation bases utilized within the ICA process for reasonableness and relevance in relation to the operational mission of each department.

- Select samples of statistical data that originate at the departmental level. Agree each sample to the original source documents to assess accuracy.

- Review the allocation methodology utilized within the ICA software (MaxCars) for reasonableness and consistency with the ICA Plan adopted by the cognizant agency. Trace a sample of transactions into and thru the software to determine whether the application is performing the cost allocation in direct alignment with documentation contained within the approved Plan.

- Review a sample of journal entries to ensure that indirect costs are being correctly accounted for within the PeopleSoft financial application. Document the necessity and corresponding business logic behind any adjustments during Fiscal Year 2010.

- Determine whether adequate documentation and desk procedures exist to support the overall ICA process.
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EVALUATION AND COMMENTS

Based on the work performed, Internal Audit believes the grade that best represents the current status of the City’s Indirect Cost Allocation processes is a “Low Satisfactory” grade. Audit grades are formally established in the approved policies and procedures of the Office. Those aspects of a “Low Satisfactory” grade that appear to be most applicable to the conditions noted during this audit are:

“…Reportable issues exist within the audited area, and are encountered frequently enough to lose the appearance of “isolated… Systems of internal control appear to be marginal at best. Management oversight is not always effective to ensure the quality of operations.”

Based on a review of the overall Indirect Cost Allocation process, Internal Audit generally found no exceptions with respect to how the ICA software application mechanically apportions costs to user departments, or the relevance and reasonableness of the allocation drivers established to apportion costs based upon activity.

As stated previously, ultimate responsibility for the accuracy and approval of statistical data utilized in the ICA process lies at the individual department level. During audit testing, we did find significant weakness in adherence to the regulatory compliance framework, integrity of certain statistical data sets supplied by departments, the overall amount of documented written policy and procedures, and necessary cross-training that supports the ICA process. We also noted during audit fieldwork that some departments within the City did not understand exactly how the overall ICA system functioned and/or impacted the amount of indirect cost and/or revenue received from the process. These deficiencies factored greatly to the rating that was ultimately assigned to this Audit. A more structured and robust control environment would have resulted in a higher degree of regulatory compliance, greater source data accuracy, as well as a more complete and verifiable documentation trail to support of the overall ICA process. Internal Audit’s detailed findings and observations appear on the pages that follow.

(Refer to Appendix A for additional details concerning Internal Audit’s existing grading scale.)
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FINDINGS AND RECOMMENDATIONS

Our audit observations appear to naturally fall into two main areas of focus. The first area (Tier I) involves the overall ICA process and/or data integrity issues that are greater in terms of materiality, or ability to affect the accuracy of cost allocation output generated from the overall process. The second focal area (Tier II) identifies statistical data inaccuracy issues that are of a lower order of materiality in terms of impacting the overall process and/or allocated costs. Tier I Findings represent areas where management may wish to either install additional internal controls to ensure greater regulatory compliance, data accuracy; or change existing business processes to more accurately report statistical data sources. Tier II Findings, while not as material as Tier I Findings, serve in focusing management attention to areas within the existing overall business process that may require enhancement.

Tier I Findings

- The 2010 Indirect Cost Allocation Plan appears to depart from the established Plan methodology that was sanctioned by the cognizant federal agency - HUD. Prior to FY10, the City allocated indirect costs in arrears – FY07 indirect costs were recognized in FY09 (2-yr lag). For FY10, the City changed the Plan methodology to allocate actual indirect costs on a real-time (triannual) basis. No formal approval was obtained from HUD before implementing a change to the way in which indirect costs are allocated across the City. Listed below are two issues and management’s corrective actions that were undertaken in FY10:

  o While reviewing the indirect cost and revenue amounts recognized within the City’s financial statements for Triannual periods 1 to 3 during FY2010, Internal Audit noted material differences in the amount of indirect costs that were recognized during the three FY10 triannual periods; as compared to the triannual periods of Fiscal Years 2008 & 2009.

<table>
<thead>
<tr>
<th>Account Name</th>
<th>Indirect Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account</td>
<td>564105</td>
</tr>
<tr>
<td>Triannual Period</td>
<td>Total</td>
</tr>
<tr>
<td>TR1-FY08</td>
<td>1,133,961.32</td>
</tr>
<tr>
<td>TR2-FY08</td>
<td>1,147,965.96</td>
</tr>
<tr>
<td>TR3-FY08</td>
<td>1,140,963.64</td>
</tr>
<tr>
<td>TR1-FY09</td>
<td>1,209,018.32</td>
</tr>
<tr>
<td>TR2-FY09</td>
<td>1,209,018.32</td>
</tr>
<tr>
<td>TR3-FY09</td>
<td>1,100,975.32</td>
</tr>
<tr>
<td>TR1-FY10</td>
<td>2,020,163.95</td>
</tr>
<tr>
<td>TR2-FY10</td>
<td>1,636,943.32</td>
</tr>
<tr>
<td>TR3-FY10</td>
<td>(37,924.27)</td>
</tr>
<tr>
<td>Grand Total</td>
<td>10,561,085.88</td>
</tr>
</tbody>
</table>
REPORT OF AUDIT ACTIVITIES

- TR1 Equipment Depreciation amounts appearing in the MaxCars ICA software application varied significantly from fixed asset system reports; and from amounts utilized in previous fiscal periods. Audit projections suggested the TR1 Equipment Depreciation expense should have been $190,369. The export files of the MaxCars system reflected a total activity base of $1,173,334 – a variance of $982,965 for the four-month period under review.

It is important to note that by the end of FY10, DFA ensured that all amounts recognized within the financial statements for that year were in compliance with the original Plan approved by HUD.

Recommendation

Internal Audit recommends management reopen discussions with the cognizant agency; seeking approval for the new allocation methodology in order to determine the most efficient and effective method of allocating indirect costs to City departments and divisions. Internal Audit recommends that management perform a review over the existing internal control framework that surrounds the review process that supports the accounting for Indirect Cost amounts (and associated journal entries) before these amounts are recognized within the City’s financial statements to prevent or minimize material adjusting entries.

Management Response

The plan was to allocate indirect costs based on actual current fiscal year costs to paying departments as they were being incurred by allocating departments. The reason for doing so was due to the overwhelming complaints of paying departments regarding the 2-year lag time between the time the expense is incurred and when it is paid. We intended to seek HUD’s approval of this timing change before the end of the fiscal year. However, this process proved to be more problematic than anticipated for numerous other reasons and implementation was halted. By year’s end we reverted to the prior process.

One of the key reasons for abandonment of the plan for real-time charging was that if the allocation is to be based on actual costs then those actual costs must be audited. During these stressful financial times, paying departments wanted to pay based on actual costs instead of an estimation or budgeted cost amount, which they believed would be higher than the actual cost. However, our actual costs were not yet audited and would be subject to change. In which case, we would not being compliant with federal regulations if the amounts did not match.

Another key reason for abandonment of the plan was due to the fluctuation in costs that occurred during the fiscal year. By federal regulation, the indirect cost plan is viewed on an annual basis to help ensure a level cost during the year or level rates to be charged. The leveling of payments is done by using audited financial statements and lagging the time when they are paid – it changes the timing of the payment for the services rendered, but does not change the cost or the amount recovered unless modified from an audit finding.
REPORT OF AUDIT ACTIVITIES

The difference in Equipment Depreciation is due to change resulting from the impact of full cost accounting. The $190,369 amount Internal Audit identified is correct, if only the internal service departments are considered. Under full cost accounting, all the general fund departments are also brought into the formula, resulting in the $1,173,334 activity amount. This methodology was approved by the independent consultant from Maximus hired to review the indirect cost allocation program. It is approved under OMB Circular A-87 Appendix B to Part 225 – Selected Items of Cost (11).

Management is in the process of contracting with Maximus, Inc. to provide consulting on ways to improve the process and increase the understanding of the Plan. This will encompass a review of the cost drivers, the appropriateness of the selected cost drivers, functions being allocated, and assistance negotiating with the cognizant agency (HUD). The overall goal is to maintain a streamlined Plan that remains compliant with all federal regulations.

- Documentation (desk procedures) related to the detailed mechanical aspects of the overall ICA business process are not presently available or maintained within the DFA-Accounting. We believe that a current set of desk procedures is essential to document a complex business process such as this, but also to serve as an educational tool to detect any errors and omissions during the management review process that is required before ICA amounts are posted to the City’s financial statements. We noted the following with respect to the detailed procedural information that supports the ICA business process:
  - No intermediary documentation appears to exist that would allow an employee unfamiliar with the ICA process to successfully compile (front-end), perform (process), and adjust (back-end) allocation output without expending an extensive amount of time constructing an audit trail for the overall process. We noted that departmental contact lists that support the statistical data component of the overall business process were, in some cases, erroneous and/or outdated.
  - Detailed documentation is presently not available that describes how departmental statistical information is to be input into the MaxCars cost allocation application. Specifically, documentation was not available that: 1) described how to utilize the software to perform an allocation and; 2) how to utilize the information generated by the application (financial recognition) in the City’s financial statements; and 3) what amounts should be excluded from the ICA output due to adjustments for Mayoral, City Clerk, and Intergovernmental programs that do not benefit internal departments and divisions.
  - Presently, only one individual within DFA-Accounting has had the necessary cross-training and experience to perform an indirect cost allocation. We believe that having only one employee trained in the intricacies of the ICA process poses significant concentration risk to the Department from a business continuity standpoint.
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Recommendation

Internal Audit recommends that the DFA-Accounting establish a set of detailed “desk procedures” for the ICA process and provide for additional staff cross-training to support the overall ICA process.

Management Response

The indirect allocation plan process has changed over the years and the expertise currently resides with one individual. We agree this is a risk and will be working to document the process for the annual creation of the Indirect Allocation Plan. This is a key deliverable anticipated from our consultant, Maximus, Inc.

During the testing of statistical data input, we noted what appeared to be significant inaccuracy in certain IT Departmental computer and printer inventory counts. PC and printer counts are one of the principal drivers utilized to allocate Information Technology costs to user departments. The PC/Printer inventory manifest counts were compiled by IT during January 2010. Internal Audit tested these counts for general reasonableness on November 11, 2010 using IT’s Service Now application. Below is a listing of certain departments where the counts differed materially. These differences did not appear to be attributable exclusively to timing differences:

<table>
<thead>
<tr>
<th>Department</th>
<th>IT Inventory Listing</th>
<th>11/16/10 System Count</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airport (Note 1)</td>
<td>179</td>
<td>88</td>
<td>91</td>
</tr>
<tr>
<td>Parks</td>
<td>150</td>
<td>262</td>
<td>(112)</td>
</tr>
<tr>
<td>PDS</td>
<td>141</td>
<td>205</td>
<td>(64)</td>
</tr>
<tr>
<td>Public Works</td>
<td>272</td>
<td>389</td>
<td>(117)</td>
</tr>
</tbody>
</table>

Note 1: Difference in Airport counts result from Airline and vendor PC’s and Printers that are not incorporated into the City’s network systems but are supported by the City’s IT Department. This difference (91) is considered reasonable.

Recommendation

Internal Audit notes that PC’s and Printers are ultimately an asset of each department that purchased the good. As such, each individual department has a vested interest in ensuring that their PC and Printer counts are accurate in order to allocate certain Information Technology labor costs accurately. Internal Audit recommends that the DFA-Accounting work with City’s IT and other departments to establish greater accuracy in the Computer and Printer Inventory data that is submitted for ICA purposes.

Management Response - DFA

Division of Financial Services utilized the counts provided by IT in January 2010.
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Management Response - IT

During a review of the PC and Printer counts with the IT Department, the auditors found that the IT Department was in the process of finishing up a project for tracking IT Assets. Until that project was completed, there was no existing method to obtain an accurate snapshot of PC and Printer counts.

In examining the overall process, the IT Department believes it is important to note that the ultimate responsibility for tracking purchases lies within each individual department. However, being able to provide accurate numbers is a service that IT is willing and now able to provide to each department. A fair amount of time was expended to assemble the processes and program software to enable the IT Department to provide the service. While the responsibility for accurate computer and printer counts lies at the departmental level, we are happy to provide this service.

The IT Department now has in place a method for tracking the assets. The utilization of IT Service Management software combined with processes for both adding and removing assets will lead to a more accurate snapshot of the departments PC and Printer counts.

Tier II Findings

Based upon detailed audit testing related to the financial and statistical data that is utilized within the input segment of the City’s Indirect Cost Allocation (ICA) process for Triannual Period 1 of Fiscal Year 2010, we noted the following issues that should be brought to the attention of management. Internal Audit assessed the accuracy of financial and statistical data provided by specific departments and divisions across the City. In some cases, departments and divisions supplied statistical data to City Accounting. When and where it was expedient to do so, DFA-Accounting either generated or compiled the financial and/or departmental statistical data sets for use in the ICA process.

<table>
<thead>
<tr>
<th>Statistical Data Source</th>
<th>Department / Condition-Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury - Average Investment Balance</td>
<td>Internal Audit noted that January 2010 ending investment balances were utilized as one of the statistical data inputs for TR1-FY10 instead of the more accurate average investment balance across the triannual period. Using period ending balances only reports investment activity for a particular month; rather than reflecting activity over the entire period. Internal Audit recommends that average investment balances be used for future ICA reporting on a go-forward basis.</td>
</tr>
</tbody>
</table>
# REPORT OF AUDIT ACTIVITIES

<table>
<thead>
<tr>
<th>Treasury – Staff Time Percentages</th>
<th>The allocation of Divisional staff time in the areas of cash receipts, investment and debt management, and risk management were based upon estimates and/or the institutional knowledge of Treasury employees. Consequently, Internal Audit could not agree the time percentages utilized for TR1-FY10 ICA purposes to either a series of actual time sheets or detailed time keeping records. Discussions with Treasury staff indicated that the time allocated to Loan Servicing was approximately 60%, rather than the 50% - as listed on the Time Percentages Worksheet utilized for TR1-FY10 ICA purposes. Audit recommends that Treasury establish a process to verify and/or confirm existing labor time percentages for each ICA in order to ensure an accurate basis for the allocation of costs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>City Clerk – Storage Box Counts</td>
<td>Records Management: The 1/31/10 Storage Box counts could not be verified by Internal Audit. The legacy computer application that is utilized to account for the inventory of archival storage boxes does not allow for prior period inventory reporting. At the time audit field work commenced, a detailed listing of historical storage box counts was not being retained through either backup system documentation or reports. Audit recommends that some form of supporting documentation be retained for ICA verification purposes.</td>
</tr>
<tr>
<td>Human Resources</td>
<td>Internal Audit was informed by HR staff that department directors are not required to track hours on time sheets. Office of Management and Budget Circular A-87 requires that costs be adequately documented. Audit recommends that departmental directors keep track of hours spent performing labor relations on time sheets to comply with Circular A-87.</td>
</tr>
<tr>
<td>Labor Relations – Hours with Departments</td>
<td>A sample of hiring requisitions could not be agreed to supporting documentation for TR1- FY10. Tracing hiring requisitions to source documents consists of a multi-step process that proved to be exceedingly time intensive for HR staff to reperform. HR staff indicated that the department will be migrating to a new human capital management system that may better execute requisition requests. Consequently, we could not determine the level of accuracy for this statistical data set.</td>
</tr>
<tr>
<td>Recruitment – Number of Requisition Requests</td>
<td>• HR staff performed follow-up investigation as to the correct number of hiring requisition requests for TR1 and TR2 of Fiscal Year 2010. In reviewing the execution of requisition requests, HR discovered that requisition requests were not always properly executed. Deviations between the reported and actual number of requests arose when requisition requests were opened for one department but the employees hired into a different department. In light of these discoveries, Internal Audit recommends that the Department strengthen their controls and procedures for processing and documenting requisitions, and continue to monitor for ongoing accuracy.</td>
</tr>
<tr>
<td>Information Technology</td>
<td>The statistical phone count information that is used as a cost allocation driver for this Division was historical; being effective as of 10/1/09 for TR1-FY10 reporting purposes. Since this Triannual period ended on 1/31/10, the statistical data would have been approximately four months old. Statistical phone counts would become less accurate for TR2 and TR3 periods of FY10. Internal Audit recommends that the Division establish a methodology to report actual phone counts by department on a real-time basis.</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>The data for the unemployment compensation claims is stored on a quarterly basis. The TR1 (Oct thru Jan) amount in MaxCars included only Q1 (Oct thru Dec) data. As a result, TR1 data amounts are approximately 25% lower on an interim basis. Audit recommends the source data used for input to the system include the requisite number of months to ensure an accurate basis for allocation of costs.</td>
</tr>
</tbody>
</table>


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<table>
<thead>
<tr>
<th>Legal</th>
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<tbody>
<tr>
<td><strong>Labor Hour Activity Coding</strong></td>
</tr>
<tr>
<td><strong>Compensatory Time Earned Coding</strong></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Public Works</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Government Buildings - Building Square Footage Calculations</strong></td>
</tr>
<tr>
<td><strong>Security</strong></td>
</tr>
</tbody>
</table>

**General Recommendation:**

In addition to the individual recommendations listed above, and based upon the materiality and frequency of statistical data input errors discovered during testing, Internal Audit recommends that the Department of Finance and Administration, establish a data input validation process and/or procedures to ensure that ICA statistical data received from departments is reviewed in terms of accuracy and content before the ICA process is performed for each reporting period.
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Management Response

Management faces several issues with this finding and agrees the faith in the accuracy of some statistics is not as high as it should be.

1. The first issue is the complexity of tracking the costs of the functions to be allocated and the basis used to allocate those costs. Maximus, Inc will assist with the review of the City’s plan and provide recommendations.

2. The second issue is departments not taking responsibility for the numbers submitted. To address this issue, we will require that the department directors approve the statistics submitted.

3. The third issue is the timeliness of the statistical information submitted by departments. We will implement an escalation process for missed deadlines by department staff.

CONCLUSION

The City’s central service functions provide an important link in the overall departmental service delivery initiatives that serve the citizen base. Internal Audit’s review of ICA processes and practices that are administered by DFA-Accounting indicates that the function strives to provide for an accurate, objective, and reasonable allocation of indirect central service costs to the consumers of those services.

Internal Audit’s recommendation’s of increasing the accuracy of statistical data input, creating and/or updating ICA documentary policies and procedures, and providing for additional staff cross-training will strengthen and increase the accuracy of the overall ICA process utilized across the City.

Internal Audit would like to express its appreciation for the assistance provided by management and staff of the Department of Finance and Administration during the course of this audit engagement.

MANAGEMENT PARTICIPANTS

Debbie Broughton, Chief Financial Officer
Tonya Wallace, DFA Financial Services Manager
Mike Middleton, DFA Controller
APPENDIX A

Evaluation and Grading of Audits
Each audit will be evaluated or graded, and will receive one of the five following ratings. Grades will be assigned based on the perceived “best fit.” Thus, not all attributes associated with an assigned grade may be present within a given Department or Division.

- **High Satisfactory** – No significant weaknesses or deficiencies were noted during the audit. If any issues were noted, they were clearly insignificant or inconsequential. The audited area displays a high degree of control and management oversight is effective.

- **Satisfactory** – Reportable issues may exist within the audited area, but they are not deemed to be representative of pattern or practice within the area. Issues are typically of an isolated nature. Overall, systems of internal control are effective, and management oversight is adequate and supportive of the accomplishment of goals and objectives.

- **Low Satisfactory** – Reportable issues exist within the audited area, and are encountered frequently enough to lose the appearance of “isolated.” Systems of internal control appear to be marginally adequate at best. Management oversight is not always effective to ensure the quality of operations.

- **Needs Improvement** – Weaknesses or deficiencies are encountered on a relatively frequent basis within the audited entity or function. Issues noted, and their frequency, are suggestive of a pattern or practice of inadequate oversight. Internal control mechanisms may not be universally in place, implemented, or actively observed. Management oversight is weak, or is not always effective.

- **Unsatisfactory** – Material or significant deficiencies are noted within the operations under review. Issues may pose risks that are either mission-critical or mission-fatal. Management has failed to implement appropriate internal controls. Management oversight is ineffective, absent, or willfully avoided.