

**Bowling Green Audit Committee**  
***Regular Meeting***  
**July 12, 2010**

The Bowling Green Audit Committee convened in a regular meeting at 3:30 p.m. on July 12, 2010 in the City Hall Commission Chamber. The meeting was called to order by Vice Chair Jean Cherry. Members of the Committee present were: Audit Professionals Charles Hays and David McKillip, General Business members James Martens and Jean Cherry, Commissioner Bruce Wilkerson and Ex-Officio member City Manager Kevin DeFebbo. Absent: none. Also present were Human Resources Director Michael Grubbs, Police Deputy Chief John Stewart, Internal Auditor Deborah Jenkins and Assistant City Clerk Ashley Jackson. There was a full quorum of the board present.

**Approval of Minutes.**

Vice Chair Ms. Cherry announced that the first item of business was to approve the minutes of the May 26, 2010 special meeting, which were mailed with the agenda to the members for their review prior to the meeting. Motion was made by Mr. Wilkerson and seconded by Mr. Martens to accept the minutes as written. The minutes were approved as written by unanimous vote.

**FY2011 Chair and Vice-Chair nominations.**

Motion was made by Mr. Hays and seconded by Mr. Wilkerson to nominate Ms. Cherry to serve as Chair for Fiscal Year 2011. All ayes, motion carried.

Motion was made by Mr. Martens and seconded by Mr. Hays to nominate Mr. McKillip to serve as Vice Chair for Fiscal Year 2011. All ayes, motion carried.

**Presentation of FY2010/2011 Risk Assessment and resulting Audit Plan.**

Ms. Jenkins reported on the FY2010/2011 Risk Assessment and Annual Audit Plan. She explained that she used a combination of interviews with management, written policy and knowledge of the departments and chose the following risk factors and applicable weights for the risk assessment: Changes in Procedures/Personnel – 5%, Budget Expenditures – 17%, Liquidity and Negotiability of Assets – 15%, Management – 5%, External Influences – 3%, Nature of Transactions – 5%, Quality of Internal Controls – 15%, Composition of Personnel – 5%, Time Since Last Audit – 10% and Budget Revenues – 20%. Ms. Jenkins also reported that she had included the revenue expenditure as a new factor, as well as removed the Legal Department lien process from the audit plan. The next high risk area to be reviewed was the Bowling Green Fire Department payroll audit, followed by Atmos Energy Franchise Fee audit, Rental Property Income audit and Code Enforcement follow-up audit. In addition to the audits planned directly from the risk assessment, Ms. Jenkins scheduled time for the development of an Internal Audit Policy and Procedure Manual and applicable standardized documentation, perform unannounced cash counts, verify the Police Department's Narcotic Disposal Program and conduct the cell phone taxable benefits review.

Secondly, Ms. Jenkins reported on the available audit hours for Fiscal Year 2010/2011 and that 2,080 hours were available annually and she had 264 hours paid leave, 60 hours of professional development and 417 hours of administration. As a result, a total of 941 indirect hours and 1,139 direct audit hours were available, allowing for a balance of 1,384 direct audit hours which resulted in an overage of 245 auditing hours budgeted. Chair Ms. Cherry asked for the approval of the FY2010/2011 Annual Audit Plan. Motion was made by Mr. Hays and seconded by Mr. McKillip to approve the FY2010/2011 Annual Audit Plan as written. All ayes, motion carried.

**Discuss follow-up report on Petty Cash Audit.** Ms. Jenkins remarked that the follow-up to the Petty Cash Audit was very successful. She had originally made four recommendations and she reported that all recommendations had been fully implemented at the time of the follow-up.

**Discuss BGPD Payroll Audit.** The last item of discussion was the Bowling Green Police Department Payroll audit. Ms. Jenkins explained that she had five main objectives which included: 1.) personnel related actions; 2.) overtime, approved cash outs and pay premiums; 3.) administration of payroll related grants; 4.) state incentive pay administration; and 5.) special event costs including any reimbursement contracts and off duty employment contracts.

In addition, Ms. Jenkins made seven observations/recommendations to strengthen internal controls, accuracy and documentation of the payroll process. Her first recommendation was to standardize a special event system which should be implemented and include guidance for staff to decide when a cost recovery contract was appropriate. She further shared some examples in which other cities utilized, such as charging the full cost to for-profit organizations, a discounted percentage of the cost to approved non-profit organizations, free service to other governmental organizations or a standard permit fee regardless of the organization type.

Secondly, Ms. Jenkins next recommendation was that all off duty police or security related employment should be contracted directly with the City to properly follow employment regulations and limit liability to the City. She recommended that all outside organizations requesting Police officers for police or security related details should contract through the City with a cost recovery contract to address IRS and legal liability concerns. Also, it was recommended to analyze the pricing of the cost recovery contracts, and several options were made available to either lower the cost or increase the revenue such as creating a tier pricing structure or by capping the rank of officer's eligible for the work to a lower salary level within the Police Department.

Ms. Jenkins third recommendation was to restrict the sale of personal time to personnel assigned to a "shift" in accordance with the City's Administrative Personnel Policy and Procedures Manual. Ms. Jenkins recommendation was to establish a procedure to review each request annually as the personal time cash-in forms were returned to ensure that only "shift" personnel were allowed to cash-in per the administrative policy.

The next item of discussion was the fourth recommendation which was for the Police Department to implement a system of reporting leave time and overtime which was accountable and ensured all leave taken and overtime earned by employees was accurately and timely reflected in the payroll system. The recommendation was for all Police Department supervisors to verify that all leave and overtime cards are to be submitted and approved at the end of each shift. Also, she further indicated that current leave and overtime cards required two levels of supervisory signatures in an effort to increase controls, however the second approval signature was more traditional in nature and did not provide additional value since the second level approver often worked a different shift or in a different area and did not directly supervise the employee. Therefore, she further recommended the removal of the second signature, which would speed up the process and aid in preventing late forms. Chair Ms. Cherry and Mr. Hays expressed concerns regarding the manual entering into a payroll system and the likelihood of errors, and the exception based process and an issue with turning in leave forms days after taking time. Chair Ms. Cherry suggested that a more suitable solution be applied to the entry process as it was not satisfactory in her opinion.

The fifth recommendation was for the Human Resources Department to conduct a review of applicable supervisory employees to verify exempt vs. non-exempt status and overtime should be enforced to those status determinations. Ms. Jenkins recommended that the Human Resources Department review supervisory positions to verify which positions should be considered exempt and the Police Department should enforce the City’s Administrative Personnel Policy and Procedures Manual and not pay exempt employees overtime.

The sixth recommendation was for the Human Resources Department to update or create new standardized forms to detail each pay adjustment calculation and create written procedures which specify exactly how pay increases/adjustments should be calculated. Written calculation procedures should be established so that staff knows exactly how pay was to be calculated and which adjustment should be included or excluded from any increase calculation; each pay adjustment should be verified to ensure that the calculation was made correctly. Also, staff should be cross trained in all aspects of the payroll function, as well as a written procedural document should be created by the Human Resources Department which specifically details payroll entry.

The seventh and final recommendation was to clarify the use of flex vs. compensatory time to ensure the Police Department was following applicable labor laws. Ms. Jenkins recommendation was that the Police Department should utilize the newly created Request for Compensatory Hours Form to correctly track and record earned compensatory time each pay period. Supervisors should review the requests to use flex time to make certain that the extra time was actually worked in the same work week.

Chair Ms. Cherry asked if the Board had any further comments regarding the Police Department Payroll Audit and there were none.

**The next quarterly meeting is scheduled at 3:30 p.m. on October 11, 2010.**

Ms. Jenkins announced the next quarterly meeting date.

**Adjournment.**

There being no other business to be conducted, at 5:15 p.m. Chair Ms. Cherry declared the meeting adjourned.

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Date Approved

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David McKillip, Vice Chair

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Ashley Jackson, Assistant City Clerk