

Bowling Green Audit Committee
Special Meeting
December 15, 2008

The Bowling Green Audit Committee convened in a special meeting at 3:30 p.m. on December 15, 2008 in the City Hall Commission Chamber. The meeting was called to order by Chairman Charles Hays. Members of the Committee present were: Audit Professionals Charles Hays and Harold Wills, General Business members Jean Cherry and James Martens and Ex-Officio member City Manager Kevin DeFebbo. Absent: Commissioner Brian Strow. Also present were Mountjoy and Bressler, LLP representatives Debbie Smith and Randy Davis, Internal Auditor Deborah Jenkins, Chief Financial Officer Jeff Meisel, Comptroller Wilma Brown, Commissioner Bruce Wilkerson and Assistant City Clerk Ashley Jackson. There was a quorum of the board present.

Ms. Jenkins introduced Mountjoy and Bressler, LLP representatives and also explained that Commissioner Bruce Wilkerson was invited to attend the meeting because he would be taking the position of Commissioner Brian Strow on the Audit Committee beginning January 6, 2009.

Approval of Minutes.

Chairman Hays announced that the first item of business was to approve the minutes of the October 6, 2008 regular meeting, which were mailed with the agenda to the members for their review prior to the meeting. Motion was made by Mr. Martens and seconded by Mr. Wills to accept the minutes as written. The minutes were approved as written by unanimous vote.

Review and discuss the Comprehensive Annual Financial Report (CAFR) of the City of Bowling Green for the Fiscal Year Ending June 30, 2008 presented by Mountjoy and Bressler, LLP.

The Committee requested a brief overview of the audit from Mountjoy and Bressler, LLP. The representatives from the firm addressed three points in which they viewed were of high importance, including the Management Letter, Financial Statements and Auditor's Report. Mr. Davis indicated that Bowling Green Municipal Utilities and the Police and Firefighter Retirement Pension was included in the report, however another firm performed the audit.

Mountjoy and Bressler, LLP management response recommended improvement in the following areas:

Billing Statements. New World Software System was implemented during the Fiscal Year 2008 and the software allowed individuals with billing responsibilities the opportunity to make changes to invoices using Microsoft Word. Changes were not automatically reflected in the general ledger system. This would provide billers the opportunity to alter invoice amounts and other information without any paper trail. The recommendation was to change that feature to reduce the risk of unauthorized changes.

Security Cameras. There were several security cameras which recorded activity in the City Hall Annex, including recording of vault access. Viewing rights was not available to anyone because the camera software stopped working after an upgrade was made to the City's computer system. The City attempted to correct the problem and had contacted the vendor to resolve the issue. If the problem cannot be corrected, the Mountjoy and Bressler, LLP recommended that access be provided to both the Finance Department and the Internal Auditor as periodic monitoring of vault access would provide an additional control over the assets of the City.

Golf Fund Loan. In accordance with the governmental accounting standards, a receivable/payable should only be recorded in situations in which there was the intent and ability to repay the funds. The Golf Fund several years ago was \$200,000. The recommendation was for the City to determine whether the Golf Fund had the intent and ability to repay this money. If not, the fund should be treated as an interfund transfer.

In Lieu of Taxes. The City currently bills tax in lieu agreements annually based on the agreements maintained in a file in the Treasury Department. Mountjoy and Bressler, LLP recommend the City to explore the possibility of setting up the agreements in New World Software. The City should maintain a centralized list of all outstanding agreements and the major terms of each agreement. The agreements allow for companies to come off of property tax rolls but not begin paying the City until future years, so a list of agreements would provide additional assurance that billings on those agreements would begin when specified in the agreement.

The external auditors had the opportunity to review the Information Technology Department thoroughly and determined the following recommendations:

Information Technology Department-

1. *Segregation of Duties.* There was noticeable lack of segregation of duties between programmers, system administrators and users. The recommendation was that compensating controls be implemented to manage the risk from the lack of segregation of duties.
2. *Backup Restoration.* The backup restoration process was never tested on a regularly scheduled basis and it was recommended that the backup restoration be tested for all financial relevant systems on a periodic basis. Periodic restores help ensure the process would work as intended in the event of a catastrophic event.
3. *Contingency Plan.* A contingency plan was developed in 2005 and had not been updated to reflect current infrastructure, policies and procedures. Mountjoy and Bressler, LLP recommended that the contingency plans be reviewed, updated, tested and approved by management on an annual basis to ensure adequacy in the event of a disaster.
4. *Security Logs.* New World Systems security removes options from users' menus if they were not given access. This feature prevents users from the temptation of trying to access unauthorized areas. Security logs were setup to track security sign in attempts; however, no set procedure for their review exists. The recommendation was for the City to establish a procedure to periodically review security logs to be proactive in preventing unauthorized access and unauthorized changes. Reviews should be performed at a regular interval and results of review should be reported to management.
5. *Third Party Security.* A third party security assessment was recommended to be performed. By excluding assessment of internal activities there may be unmanaged risk. With the implementation of a new web based accounting system, the recommendation was for management to engage a third party independent provider to perform an internal assessment. Third party security assessments provide management and IT

personnel with an increased level of assurance that the informational assets were protected against outside threats.

- 6. *Passwords.* GPO, Computer Usage and Ethics Policy did not reflect the same password minimum length requirements. GPO showed passwords were to have a minimum length of 6 characters. The Computer Usage and Ethics Policy sated passwords were to have a minimum of 8 characters. The recommendation was for the City to create a plan with the password policy for minimum length and to periodically expire. Also, though passwords were required for both the domain and New World Systems, they were not required to be changed. In order to prevent unauthorized access and changes, passwords should be changed every 60 to 90 days.
- 7. *User Inventory.* An inventory of users was performed on a semi-annual basis to ensure software licenses. The inventory did not include a review of users for security privileges by system owners. The City should establish a periodic user access review performed by the system owners to establish all users were current employees and that all users had appropriate security access.
- 8. *Administrator Accounts.* Administrator accounts were not controlled and monitored for appropriateness of activity. The City would receive a recommendation to establish an independent monitoring process for all administrators and super users to prevent unauthorized access.

Mountjoy and Bressler, LLP asked if the Committee had any further comments and Ms. Cherry stated that she would recommend to the City before paying a hacker or a third party security administrator for security assessments, to research available free software that could perform the same duties. In addition, Mr. DeFebbo explained that the City Commissioners would soon be meeting for the 2009 Strategic Goal Planning Session and would be reviewing the idea of requiring all City agencies to have a professional audit and submit it to the City for review. He further commented on the level of detail Mountjoy and Bressler, LLP had put into the external audit and praised them for a job well done.

After discussion concluded, motion was made by Ms. Cherry, seconded by Mr. Martens to approve **Resolution No. 2008 - 1** of the City of Bowling Green Audit Committee approving the **Comprehensive Annual Financial Report for Fiscal Year Ending June 30, 2008, as prepared by Mountjoy and Bressler, LLP.** Resolution No. 2008 - 1 was approved by unanimous vote.

The next quarterly meeting is scheduled at 3:30 p.m. on January 5, 2009.

Chairman Hays announced the next quarterly meeting date.

Adjournment.

There being no other business to be conducted, at 4:45 p.m. Chairman Hays declared the meeting adjourned.

Date Approved

Charles Hays, Chairman

Ashley Jackson, Assistant City Clerk