

MEMORANDUM

Date: May 8, 2012
To: Council & Citizens
From: Scott Shumard & Cindy Von Holten
RE: Internal Controls

In light of the situation at the City of Dixon, we developed this outline of controls that are in place within the City of Sterling to help prevent such fraudulent activity from occurring here and reassure the citizens of Sterling that the actions that occurred in Dixon could not occur in Sterling.

It appears that the primary issue at the City of Dixon was the extreme lack of segregation of duties. Unlike the City of Dixon, which had only one person who performed all accounting duties, the City of Sterling has four employees within the Finance Department. With four employees performing accounting duties, we are able to segregate duties as follows:

Cash receipts: Cash within the Finance department is receipted by the Accounting Clerk (in Finance) and other departments, the Employee Benefits Coordinator prepares deposit slips, the Accounts Payable Clerk takes the deposit to the bank, and the Finance Director reviews receipt reports and deposit slip receipts and posts the payments into the accounting software. Dixon does not appear to have comparable accounting software.

Cash disbursements: Purchase orders are typically inputted by clerical staff members from the departments in which the purchase orders were generated. The purchase orders are first approved by the appropriate department head and the finance director provides a required second level of approval. Once a purchase order has two levels of approval, the Accounts Payable Clerk processes the invoices and prints checks through the accounting software. The Finance Director reviews each check and compares it to the attached invoice. The week prior to each Council meeting, the Accounts Payable Clerk prints the listing of all checks paid since the last Council meeting and the Finance Director reviews it. The Council approves the listing at the Council meeting. Because all of our reports are printed from the accounting software, they cannot be altered to hide checks or change check amounts from what was actually paid.

Payroll: Payroll is approved by department heads and given to the Employee Benefits Coordinator, who processes the payroll. The Accounting Clerk checks payroll prior to printing and deposit. The Employee Benefits Coordinator prints the payroll checks and sends the ACH (direct deposit) to the bank. The Finance Director reviews the payroll listing (by employee and amount) and the bank ACH.

Bank statements: City mail is delivered to the City Clerk's office, where it is sorted. The main bank statements of the City are opened and reviewed by the Accounting Clerk. The Finance Director reconciles the general checking account statement once the statement has been reviewed by the Accounting Clerk. This is the only bank statement that the Finance Director balances. All other bank statements are reconciled by the Accounts Payable Clerk and then reviewed by the Finance Director. Dixon's comptroller and her family were checking the mail before anyone else could see it and there were no other internal reviews.

Checks: The City uses blank check stock (which is in a locked cabinet). This means that a check must be run from the accounting software to have any information on it (including the City's name and address). Therefore, no one can simply take a blank check and forge the three signatures needed to get it cashed. The Dixon comptroller was writing checks out of a regular check book.

Audits: The City goes out for bids for audits every four years. We have had low bids from different firms in the last 3 bid cycles. As a result, in the last six years, we have had three different auditing firms conduct the City's annual audit. This not only keeps our costs lower, but also ensures that someone new looks over the City's books every several years. To our knowledge, the City of Dixon did not bid the work and did not change auditors regularly.

We believe the professional city manager form of government provides an important layer of secondary oversight and knowledge of the financial matters of the City, particularly in creating and implementing a budget as well as providing a second high level review of the audit. Our staff now includes 1 individual with a CPA and 2 individuals with MPA degrees to ensure professional management of the financial and day-to-day activities.

If you have any questions about any other areas of internal controls or operations, please contact the City Manager or Finance Director.

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