

Bowling Green Audit Committee
Regular Meeting
January 7, 2008

The Bowling Green Audit Committee convened in a regular meeting at 3:30 p.m. on January 7, 2008 in the City Hall Commission Chamber. The meeting was called to order by Chairman Charles Hays. Members of the Committee present were: Commissioner Brian Strow, Audit Professionals Charles Hays and Harold Wills, General Business members Jean Cherry and James Martens and Ex-Officio member City Manager Kevin DeFebbo. Absent: None. Also present were Parks and Recreation Golf Division employees and family members Ashley Jeffers, David Ennis, Tressa Vincent, Tony Whitmer, Ruby Lightfoot, Angie Taylor, Phil Jones, Cavin Jeffers, Bob Jeffers, Ernie Gouvas, Chuck Keown and Anna Jones, Daily News reporter Jim Gaines, Eastern Kentucky University Graduate Student Margaret Ridley, Internal Auditor Deborah Jenkins and Assistant City Clerk Ashley Watt. There was a full quorum of the board present.

Mr. DeFebbo introduced graduate student Margaret Ridley from Eastern Kentucky University. Ms. Ridley decided to visit Bowling Green and shadow Mr. DeFebbo as she would be working on her Masters Degree in Public Administration.

Approval of Minutes.

Chairman Hays announced that the first item of business was to approve the minutes of the October 1, 2007 regular meeting and December 12, 2007 special 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 Ms. Cherry to accept the minutes as written. The minutes were approved as written by unanimous vote.

Update on IRS Taxable Benefit implementation.

The next item of business was to discuss IRS Taxable Benefits. Ms. Jenkins explained that she had served on the Taxable Benefit Committee and as a result she learned that employers that provide vehicles, cell phones or pagers, uniforms meals and group life insurance were taxable benefits. These areas are not the only taxable benefits that were needed to be addressed, but they represent the most prominent. Ms. Jenkins provided possible solutions to the following taxable items: Cell Phone or Pager Policy - only reimburse for actual work-related calls which would not be considered taxable or review a one month bill per employee and determine on average personal use for the month and multiply that by 12 (months "1 year") and withhold that according to the portion of personal use for the year. If the City of Bowling Green reimbursed a certain amount each month for the use of a personal cell phone it would be considered a taxable benefit; Uniform Policy - an employee does not have to report the cost and upkeep of work clothes if the following two requirements are met: 1) employee must wear them as a condition of employment and 2) clothes are not suitable for everyday wear, for example blue jeans provided by the employer are taxable to the employee. However, the possible solutions were to provide a check once a year that would withhold taxes up front, but employees must provide receipts to back up all purchases made from the funds received or the City could provide reimbursement only, withholding per each total reimbursement; Employer provided Vehicles - when a government employer provided a vehicle for an employee's personal use, the value of that use was generally treated as a taxable benefit, but an employee's personal use of an employer provided vehicle must be treated as taxable wages using one of the four rules. The rule that was already in use for the City was the commuting valuation rule, which was generally \$1.50 per one-way commute; Meals Policy - reimbursement for an expense for business travel was to be excluded from income, including meals, and the employee must travel away from home. The statutory phrase "away from home" was

interpreted by the IRS to require the employee to travel overnight. The possible solution was to use a per diem for all non-overnight travel by an employee and withhold taxes up front; and, Group Life Insurance Policy - IRC Section 79 provided the exclusion for the first \$50,000 of group-term life insurance coverage provided under a policy carried directly or indirectly by an employer. There were no tax consequences if the total amount of such policies did not exceed \$50,000. The imputed cost of cover in excess of \$50,000 must be included in income, using the IRS Premium Table, were subject to social security and Medicare taxes. The solution was that the City currently provided an amount less than \$50,000. Ms. Jenkins further explained that Mr. James Driver, a consultant with the State, had been a liaison for the City in determining what areas posed a concern. Commissioner Strow questioned if the complimentary rounds of golf was considered taxable benefits and Ms. Jenkins commented that she believed it would be considered non-taxable, but she would research that information and have a report at the next meeting.

Present Annual Report.

An Annual Report prepared by Ms. Jenkins was discussed and briefly summarized. The report provided the Internal Auditor's activity summary for 2007. Ms. Jenkins explained that she had performed unannounced cash counts, advisory services including conducting a fraud awareness employee training class, served as a member of the Taxable Benefit Committee and software internal control practices, responded to special requests as necessary, calculated training hours, administration and other necessary controls such as: organized computer sale in January 2007, participated in the Citizens Police Academy, created the Purchasing Agent Training Manual, internet monitoring spot check and published 10 Cash Handling Principles in the Employee Newsletter. Furthermore, Ms. Jenkins described her time spent as the Purchasing Agent until a new position was created, filled and trained. Also, she created a visual pie graph of how many indirect and direct auditing hours were spent in the 4th quarter of 2007. The hours spent indirectly included 13% Holiday, 20% Vacation, 14% Sick, 2% Personal, 20% Training, 23% Administration and 8% Other. The hours spent directly included 23% Golf Operations Audit, 19% Audit of Housing Assistance, 10% Verification of Narcotics Disposal, 30% Advisory Services and 18% Special Requests.

Mr. Wills recognized Ms. Jenkins' hard work and dedication, but he recommended that additional assistance for Ms. Jenkins would be needed. Mr. DeFebbo acknowledged the possibility of an additional staff member in the future however the Internal Auditor's position remains new and was a fundamental change. The Committee members commended Ms. Jenkins for her excellence in retrieving data and tracking her hours spent on specific projects.

Lastly, Ms. Jenkins pointed out that she was involved in the process of the narcotics burn for a second year. Ms. Jenkins and Evidence Custodian for the Bowling Green Police Department examined all items marked for disposal and compared the case numbers to the ones provided on the Bowling Green Narcotics Disposal (BGND) form. All hazardous material was removed from the boxes and then sealed with tamper proof evidence tape, signed and dated and then taken for destruction. On Tuesday, December 11, 2007 Ms. Jenkins, Naomi Matthews and Lt. Colonel Joe Manning witnessed 339 units of narcotics related evidence being destructed at the Gallatin Steel Company in Gallatin, Kentucky.

Discuss Golf Operations Audit.

Lastly, Ms. Jenkins reported on her first departmental audit with the Golf Division and she made eight recommendations to the Golf Division and those included:

1. There is no management review of transactions.
2. Internal controls and accounting for rain checks are weak.
3. Internal controls and accounting for gift certificates are weak.
4. Employees should provide receipts to customers for all transactions.

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5. All inventory counts should be overseen and reviewed by the Golf Division Manager.
6. Internal controls and accounting for assets need strengthening.
7. Internal controls and accounting of complimentary rounds needs strengthening.
8. Division Policy and Procedure Manuals need to be consolidated and standardized.

Ms. Jenkins commented that transaction data was not kept up with properly and that the Golf Division had already implemented tracking reports appropriately. She also recommended that the Golf Division track reasons for issuing rain checks, as well as documenting the information. Also, golf would be required to use a gift card system which would be set-up through a software system, rather than issuing the current gift certificates. Furthermore, receipts were never a mandatory requirement, but after a surprise check at all the golf courses, Ms. Jenkins determined that receipts were not provided to the players and that it was necessary to have proper documentation as to what the players had purchased. Inventory was another area of concern because of an error that showed that for 2006 there was \$12,778 total inventory and for 2007 there was \$41,373 at Paul Walker Golf Course. The recommendation was to segregate duties amongst employees for inventory. Internal controls and accounting assets needed strengthening as well. Due to the lack of accounting for assets such as a vehicle that was left off of the inventory list, Ms. Jenkins suggested that keys to the golf carts be handed out as an individual rents one, rather than leaving the keys in the carts, and that cameras should be placed at all golf courses; accounting of complimentary rounds was another concern of internal controls. More documentation should be kept, complimentary cards should be filed, not destroyed, reconciliation was needed and managers approval would be required for each complimentary round. Lastly, Ms. Jenkins remarked that if the Golf Division should consolidate and strengthen their Division Policy and Procedures Manuals that the rules and regulations would become more standard and useful to the staff.

Commissioner Strow urged all golf courses to consider a mandatory policy for providing receipts to all customers. Bob Jeffers was present and stated that customer service was first priority and if a receipt was required, it would be difficult to keep individuals from throwing them away, but if proof of a receipt was required each time a rain check was needed, that may cause customers to not return. Mr. Jeffers commented that the staff should always be aware of who was on the golf courses and for that reason a receipt should not be mandatory. Mr. DeFebbo made the statement that as the new culture and definition of what was to be expected of golfers would eventually come into play and that as the internal controls would continue to change and develop, the Committee should re-discuss the golf audit again in a year to completely see the improvements rather than the negativity. He also stated that the main goal for auditing was to look for possibilities of fraud and to keep in mind that no department would be perfect and that there would always be ways to improve.

Commissioner Strow asked why Ms. Jenkins' recommendation was not equivalent to golf's management responses and Mr. DeFebbo remarked that he would take those recommendations from both Ms. Jenkins and management staff to establish the best solution. Additionally, Strow questioned if the volunteers time spent on the course and working were documented. Mr. Jeffers spoke on behalf of the management staff and stated that the volunteers working hours were tracked as well as volunteer rounds of golf, however he could not indicate the names of the volunteers that played, but the total amount of volunteer rounds of golf were documented.

Mr. Hays asked if the golf inventory had been calculated and Ms. Jenkins said that she had not specifically tested inventory, but Mr. DeFebbo stated that he and Mr. Ernie Gouvas had initiated examining the inventory issues and trying to determine whether or not the need for reconstruction was necessary.

In addition, according to the approved annual audit plan the next audits would consist of Section 8 Housing, Aquatics and the Treasury Division.

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The next quarterly meeting is scheduled at 3:30 p.m. on April 7, 2008.

Chairman Hays announced the next quarterly meeting date.

Adjournment.

There being no other business to be conducted, at 4:35 p.m. Chairman Hays declared the meeting adjourned.

Date Approved

Charles Hays, Chairman

Ashley Watt, Assistant City Clerk