



**Audit Report  
Balance Sheet Account Accuracy  
January 25, 2019**

**City Auditor's Office  
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# **Audit Report**

## **Balance Sheet Account Accuracy**

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#### **Purpose and Scope**

The purpose of this audit was to determine whether current controls and procedures involving balance sheet accounts align with industry best practices. Auditors reviewed account reconciliations and interviewed Finance and Aviation staff to obtain an understanding of controls in place.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This report is intended for the use of the City Manager's Office, City Council, and the Finance and Aviation departments.

#### **Summary and Conclusion**

Audit recommendations are being addressed, with the effect of improved internal controls. Finance and Aviation have assigned individuals to research the Aviation Customer Deposit Payable account and establish more thorough monitoring of account reconciliations in FY19. Internal Audit will utilize any future listing prepared by Finance to select balance sheet accounts for additional testing.

#### **Background**

During previous audits of Aviation parking and rental cars, auditors noted the following issues with two balance sheet account reconciliations:

- Aviation Customer Deposit Payable – the reconciliation for this account did not demonstrate that the balance agreed to a subsidiary ledger.
- Aviation Miscellaneous Accounts Receivable – a reconciliation hadn't been performed in several months and contained millions of dollars in reconciling items over three years old.

The Aviation department was not able to demonstrate that the Customer Deposit Payable account balance (approximately \$1 million) agreed to a subsidiary ledger. It is possible that the account balance includes transactions related to valet parking tips that were erroneously recorded in the account in prior years and addressed in our 2016 audit report.

### **Audit Finding and Recommendations**

While departments are responsible for preparing reconciliations, Finance is responsible for ensuring the accuracy and timeliness of those reconciliations. Finance does not maintain a comprehensive schedule of account reconciliations nor monitors they are performed timely.

According to the City's Chief Accountant, many of the reconciling items on Aviation's Miscellaneous Accounts Receivable account date back to the implementation of the City's financial system in 2014. The account had a balance at fiscal year-end 2018 of \$31 million. Per Finance staff, approximately \$27 million was not reported timely by the airlines. The account reconciliation details the need for net adjustments of \$883,751. Research is underway but it may take a substantial amount of time before a resolution is reached.

Maintaining a schedule of the status of balance sheet account reconciliations would help ensure the City's financial statements are accurate. The annual financial audit provides assurance that the City's statements are materially accurate, however, significant errors and misstatements can still occur if adequate controls are not in place to detect necessary adjustments. According to the Chief Accountant, the availability of additional staffing will allow the department to focus on balance sheet account reconciliations during the remainder of FY19.

**Recommendation 1:** Finance should coordinate with Aviation staff to research the balance in the Customer Deposit Payable account and ensure that the balance agrees to the appropriate subsidiary ledger.

**Finance Response:** Finance concurs with the recommendation and has assigned staff to research the Aviation Customer Deposit Payable account in conjunction with Aviation staff. Finance's goal is to make any necessary adjustments before the system is closed for FY19.

While not included as part of the recommendation, it is relevant to note that the \$31 million balance of the Miscellaneous Accounts Receivable account was mostly related to FY18 revenue of approximately \$27 million that was not timely reported by the airlines. This revenue is recognized in the correct accounting period by Finance entering journal entries in the general ledger. This ensures that the City's financial statements are prepared as accurately as possible at year-end using the required accrual method of accounting but also creates reconciling items between the subsidiary and the general ledger. Research on any other outstanding reconciling items is currently underway between Finance and Aviation with the goal to have a resolution before the end of FY19.

**Recommendation 2:** Finance should establish a method to monitor the status of material balance sheet account reconciliations, including whether the account balance agrees to subsidiary ledgers.

**Finance Response:** Finance concurs with the recommendation. Finance has begun a process to realign certain core finance functions across the city. As a part of this realignment, Finance will establish a standard method, where appropriate, to monitor and review balance sheet account reconciliations prepared by departments including, but not limited to, their timely completion and the verification of subsidiary ledger agreement.