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Date: May 2, 2013

To: Audit, Finance & Enterprise Committee

From: Jennifer Ruttman, City Auditor

Subject: Audit of the City of Mesa Cemetery – Final Report

cc: Kari Kent, Deputy City Manager
Marc Heirshberg, PRCF Department Director

Attached is the final report on our Audit of the City of Mesa Cemetery. The report includes 3 Corrective Action Plans (CAPs) with responses from management. We will perform a follow-up review in approximately 12 months to determine whether the action plans have been implemented. The report will be presented at the next scheduled meeting of the Audit, Finance and Enterprise Committee. If you have any questions, please feel free to contact me at x3767.



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AUDIT REPORT

CITY AUDITOR

Report Date: May 2, 2013
Department: Parks, Recreation & Commercial Facilities (PRCF)
Subject: City of Mesa Cemetery
Lead Auditor: Karen Newman

OBJECTIVES

The objective of this audit was to evaluate the adequacy of the Cemetery's internal controls related to revenues, inventory, and other resources.

SCOPE & METHODOLOGY

To accomplish our objective, we interviewed key personnel, observed Cemetery operations and related PRCF administrative processes, and reviewed financial data for fiscal years 2010 to 2013 YTD. We also evaluated internal controls related to the Christmas Wreath Program, the Agreement of Sale process, and the interment process.

BACKGROUND

The City of Mesa Cemetery is a 55 acre facility with annual revenues of approximately \$1.2 million. The Cemetery is staffed with an Operations Coordinator, five Groundskeepers, one full-time Customer Service Specialist and 1 part-time Customer Service Specialist. Together, these employees manage approximately 350-400 burials per year. Other activities include pre-need sales, which average about 100 per year, and wreath sales, which average about 125 per year.

Due to the small size of the Cemetery's office staff, maintaining adequate cash handling controls is a challenge. Therefore, they are only able to accept checks, money orders, or credit/debit cards on site. Customers who prefer to pay with cash may do so at the City's Business Office at 55 N. Center St. When a Cemetery plot is sold on a pre-need basis, there is also an option to finance the purchase for a maximum of 2 years at an interest rate of 6 percent. All revenues are reconciled by staff at PRCF Administration.

CONCLUSION

In our opinion, the Cemetery's internal controls related to revenues, inventory, and other resources are adequate; however, we did identify a few opportunities for improvement. A summary of key observations and recommendations is presented below. For additional details, please see the attached corrective action plans (CAPs).

SUMMARY OF OBSERVATIONS & RECOMMENDATIONS

1. Cemetery database needs improvement. Staff should work with the City's Information Technology Department to improve the security, accuracy and reliability of the database used by the Cemetery to record transactions. In addition, to the extent possible and practical, alternative options for recording transactions, maintaining customer accounts, and managing grave inventory should be explored.
2. Controls over voided invoices need improvement. Management should ensure that every voided invoice is properly approved, logged, and noted in the database. Each void should include a detailed explanation. In addition, PRCF Admin staff should periodically review the sequential numbering of invoices to ensure that all voided invoices have been properly recorded.
3. The billing process for sales agreements needs improvement. PRCF should work with the City's Accounting Division to ensure that all Cemetery customer balances are accurately recorded and managed in the Advantage financial system. Interest should be automatically calculated and applied to balances, billing should be automated, and payments should be accurately applied to customer accounts in a timely manner.

CAP#1: Cemetery database needs improvement.

Observations: Functional limitations and the lack of a more secure database system have resulted in errors in recording transactions and reporting financial information. For example:

1. Overpayment was accepted on an invoice, due to limitations on the tracking of financial transactions.
2. Monthly financial reports produced by the database are not always accurate.
3. Transactions have been overwritten when new invoices were generated.

Comments: Although the Cemetery's processes for collecting, recording and reporting revenue are adequate, there are weaknesses and vulnerabilities in the database used to record financial transactions. As a result, reports may not be accurate, accounts may not be properly managed, and there is an increased risk that errors or fraud could occur without being detected.

Recommendations: 1-1. Management should work with the City's Information Technology Department to improve the security, accuracy and reliability of the Cemetery's database. In addition, to the extent possible and practical, alternative options for recording transactions, maintaining customer accounts, and managing grave inventory should be explored.

Management Response: 1-1. Agree.
Implementation plan: PRCF has been actively working with ITD to determine a long-term solution for an improved cemetery management system. Previous evaluations of external software have been cost prohibitive but will continue to be evaluated as technology and systems continue to improve. In the interim basis ITD has moved the Cemetery database from an Access Program to a SQL Server based platform, this has resulted in improved security controls, the ability to backup data easily and on a more routine basis (nightly). ITD was able to make these changes without disturbing the user interface resulting in no additional training or increased opportunities for error by users. Testing is currently underway and anticipated to be finalized by 6/1/13. As stated earlier PRCF along with ITD will continue to

evaluate "off the shelf" software solutions vs. building a new web-based data system internally.

Implementation date: 6/1/2013

CAP#2: Controls over voided invoices need improvement.

Observations: The majority of voided invoices were appropriately documented and approved; however, we noted some cases in which required procedures were not followed. Examples include:

- Voided invoices not logged, logged without a detailed reason, or logged out of sequence.
- Comments not in the database indicating the invoice was voided.
- Invoices voided without approval.

Comments: Management Policy #210, Section VI.B3 states: "*VOIDS and refunds should be appropriately documented and approved*". In addition, the City of Mesa Cemetery Procedures Manual includes detailed procedures to be followed when voiding an invoice.

Voided invoices are commonly used to conceal fraudulent activity. Inadequate documentation/approval of a voided invoice increases the risk that such a fraud could occur without being detected.

Recommendations:

- 2-1. Management should ensure that every voided invoice is properly approved and listed on the voided invoice log, and that a detailed explanation is provided. The invoice should also be noted as voided in the database.
- 2-2. PRCF Admin staff should periodically review the sequential numbering of invoices to ensure that all voided invoices have been properly recorded and reported.

Management Response:

- 2-1. Agree.
Implementation plan: Cemetery staff has been reminded of and reviewed Management Policy #210, and the Cemetery Procedures Manual on how to properly void invoices and record them properly.

Implementation date: Ongoing.

- 2-2. Agree.
Implementation plan: PRCF Administrative staff will review this process as part of our internal audit procedures to ensure accuracy.

Implementation date: Ongoing.

CAP#3: Billing process for sales agreements needs improvement.

Observations: As of this writing, the process for billing Cemetery customers for sales agreements has not yet been fully integrated with the City's new financial system. For example:

- Existing customer balances were not completely converted into the new accounting system.
- Interest on customer balances is not automatically calculated and applied.
- Monthly invoices are not automatically generated based on a contract billing date.
- Payments have not been applied to customer accounts in a timely manner.

Comments: Agreement of Sale contracts should be automatically invoiced, monthly interest charges should be automatically calculated and applied, and payments should be applied in a timely manner.

Inaccurate and/or untimely billing and account management negatively impacts both customer satisfaction and revenue collection/recording.

Recommendations: 3-1. Management should ensure that all customer balances are accurately recorded and managed in the Advantage financial system. Interest should be automatically calculated and applied to balances, billing should be automated, and payments should be accurately applied to customer accounts in a timely manner.

Management Response: 3-1. Agree.
Implementation plan: PRCF continues to work with ITD and the CityEdge team to create an interface with Advantage that successfully and accurately records interests, generates invoices, etc. ITD has been made aware of this Audit Report and the need to address this interface.
Implementation date: 1/1/2014.