



**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

To the Mayor and City Council:

We have performed the procedures enumerated below, which were agreed to by the mayor and city council, solely to assist you with respect to the projects stated in the letter addressed to you and dated January 28, 2011, of the City of Lawrenceville, Georgia for the period of September 1, 2006 through December 31, 2010. The mayor and city council are responsible for the city's records and regulatory compliance. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures Performed

Our procedures were as follows:

General Procedures

- a) Obtain from the mayor, city council and the city attorney the governing documents including applicable provisions of the city charter, code of ordinances and minutes authorizing expenditures
- b) Obtain from the City of Lawrenceville attorney the statutory and regulatory requirements for bidding projects
- c) Obtain from the mayor and city council the policy of internal controls over expenditures
- d) Obtain from the city attorney the policy for conducting and accepting bids for projects
- e) Obtain from the mayor and city council a written understanding of the structure of responsibility within the city government
- f) Obtain from the mayor and city council the policy for controls over construction supplies and equipment use

Collins - Industrial Way Project

- a) Obtain from the mayor and city council the council meeting minutes evidencing the council's vote for accepting the project and bid contract
- b) Obtain from the mayor and city council the contract and all bids for the project and examine them for evidence that the policy for the bid process, as provided by the mayor and city council, was adhered and that state regulatory and statutory procedures provided by the city's legal counsel were adhered
- c) Obtain from the mayor and city council all documentation related to the project
- d) Obtain from the controller a complete list of all expenditures on the project
- e) From the list of expenditures provided by the controller for the project, examine the supporting documentation for a sample of individual disbursements selected by the mayor and city council for evidence that the disbursement was for work on the specified project
- f) If based on the supporting documentation obtained as stated above, the city's policies and the state's regulatory and statutory procedures were not followed for the project, we will document and report at the request of the mayor and city council the method in which the project was initiated on behalf of the city.
- g) Report the total cost of the project.

Hodge Construction Company Projects

- a) Obtain from the city council a list of expenditures on Hodge Construction Company projects for the below agreed-upon procedures. For all expenditures:
 - i) Obtain from the mayor and city council the council meeting minutes evidencing the council's vote for accepting the projects and bid contracts
 - ii) Obtain from the mayor and city council the contracts and all bids for the projects and examine them for evidence that the policy for the bid process as provided by the mayor and city council was adhered and that state regulatory and statutory procedures provided by the city's legal counsel were adhered
- b) If based on the supporting documentation obtained as stated above, the city's policies and the state's regulatory and statutory procedures were not followed for the project, we will document and report at the request of the mayor and city council the method in which the project was initiated on behalf of the city.
- c) For project expenditures less than \$40,000, document the employee approving the expenditure.

Police Department Construction

- a) Obtain from the mayor and city council the council meeting minutes evidencing the council's vote for accepting the project and bid contract
- b) Obtain from the mayor and city council the contract and all bids for the project and examine them for evidence that the policy for the bid process as provided by the mayor and city council was adhered and that state regulatory and statutory procedures provided by the city's legal counsel were adhered
- c) Obtain from the controller a complete list of all expenditures on the project, including but not limited to, expenditures for building constructions, low voltage wiring, furniture, decorating, all electronic equipment and any other personal property acquired for use in the building from the city's general ledger detail
- d) Report the total cost of the project including building constructions, low voltage wiring, furniture, decorating, all electronic equipment and any other personal property acquired for use in the building
- e) Report the amount paid to Precision Planning, Inc. as related to the project

Forest Hills Street Paving and Curb Improvement

- a) Obtain from the mayor and city council the council meeting minutes evidencing the council's vote for accepting the project and bid contract
- b) Obtain from the mayor and city council the contract and all bids for the project and examine them for evidence that the policy for the bid process as provided by the mayor and city council was adhered and that state regulatory and statutory procedures provided by the city's legal counsel were adhered
- c) Obtain from the city controller a complete list of all expenditures on the project and report the expenditures.
- d) If based on the supporting documentation obtained as stated above, the city's policies and the state's regulatory and statutory procedures were not followed for the project, we will document and report at the request of the mayor and city council the method in which the project was initiated on behalf of the city.
- e) Obtain from the mayor and city council all supporting documentation on the installation, removal, and reinstallation of the improvements
- f) At the request of the mayor and city council, we will use supporting documentation to document and report the method used to determine the necessity, removal, and reinstallation of the improvements.
- g) Obtain from the mayor and city council the original bid, contract documents and any authorized written change orders to determine how the scope of the project changed and how much the changes and any defective work cost the City.

Municipal Competitive Trust Fund

- a) Obtain from the Municipal Electric Authority of Georgia ("MEAG") the documentation evidencing the governing structure of the trust fund and its legal documents
- b) Obtain from the mayor and city council the council meeting minutes evidencing the council's vote to pledge the fund for the acquisition of a nuclear power plant
- c) Obtain from the mayor and city council the written pledge of the fund for the acquisition of a nuclear power plant

- d) Obtain supporting documentation from the mayor and city council evidencing the December 31, 2010 balance
- e) Obtain from MEAG a list of all disbursements from the fund since September 1, 2006
- f) From the fund's list of disbursements we will test a sample of disbursements, as selected by the mayor and city council, in the following way:
 - i) Obtain from the mayor and city council the city council meeting minutes evidencing the council's vote to disburse the funds for city projects
 - ii) Obtain from the controller the supporting documentation of the disbursement for evidence that the city policy over internal controls was adhered

Gas Department Violations and Penalties

- a) Obtain from the mayor and city council all council meeting minutes documenting discussions on Public Service Commission ("PSC") findings and penalties since September 1, 2006
- b) Obtain from legal counsel for the City all correspondence from the PSC and gas department relating to the PSC's findings of the gas department and penalties assessed in 2010.
- c) Confirm with the PSC the completeness of all correspondence obtained in the preceding step.
- d) From city council meeting minutes and PSC correspondence obtained in the above procedures we will:
 - i) Ascertain if all correspondence provided by the mayor and city council as being received from the gas department, is complete for all correspondence obtained from the PSC.
 - ii) Ascertain from the city council meeting minutes and PSC correspondence obtained from the city council, gas department, and the PSC, the dates that each written correspondence from the PSC, dated as drafted by the PSC, was made available to the mayor and city council by the gas department

Review General Ledger Expenditures

- a) Obtain from the controller a list of all general ledger expenditures from September 1, 2006 through December 31, 2010
- b) Obtain the supporting documentation from the controller of all expenditures greater than \$100,000 to a single creditor, consultant, supplier, etc., since September 1, 2006 and through December 31, 2010.
 - i) Obtain evidence that the disbursement was for work on the specified project
 - ii) Obtain evidence that the city policies over internal controls was adhered
 - iii) Obtain evidence in the minutes of the mayor and city council meetings that the payments identified were properly approved and authorized

Construction Material Inventory, Parts, and Equipment

- a) Read the internal control policies over safeguarding construction materials inventory, parts, and equipment, as provided by the mayor and city council, and communicate to the mayor and city council any observations we identify for improving control policies over safeguarding such assets. This does not constitute an examination of internal controls, but recommendations will be provided based on our incidental observations.
- b) Obtain a reconciliation from the controller of the inventory of construction materials, parts, and equipment from September 1, 2009 to August 31, 2010 and perform the following procedures:
 - i) Agree the beginning and ending balances to the ending balances on the August 31, 2010 and 2009 audited financial statements
 - ii) Test a sample of supporting documentation of inventory withdrawals, as selected by the mayor and city council, for the following attributes:
 - (1) Evidence that the disbursement was for work on the specified project
 - (2) Evidence that the city policy over internal controls over inventory was adhered
- c) For the Collins//Industrial Way, Hodge Construction, Police Department, and Forrest Hills Street Paving and Curb Improvement projects, obtain a copy of the records for equipment use on each project
- d) For a selection of the records obtained of equipment uses determined by the mayor and city council, we will test for the following items:
 - i) Evidence that the disbursement was for work on the specified project
 - ii) Evidence that the city policy and controls over equipment use was adhered

Findings

Our results of the procedures are as follows, including any recommendations of internal controls to address incidental internal control findings and recommendations:

General Procedures

We obtained all city council minutes from the Lawrenceville website for 2006 through 2010, and the ordinances and statutory and regulatory requirements for bidding contracts. We noted that there were no written controls over monitoring of city transactions, city assets, or city compliance; procedures for bidding contracts were noted in Chapter 43 of the city's General Code of Ordinances, "Procurement". We obtained from the city clerk a schematic of the city authority noting that city departments are directly responsible to the mayor for day-to-day operations. We noted that there are no written controls over supplies and equipment.

Internal Control Recommendations

We recommend that the city draft internal controls over city assets, transactions, and compliance. We recommend that these controls include procedural controls to be followed by city staff and monitoring controls to be performed by supervisors and ultimately the mayor. The completion of such controls should be documented so that evidence of the control being followed is noted. Such documentation could involve a summary sheet of controls required for significant items, as decided by the mayor and city council, noting when each control was completed and by whom.

Collins - Industrial Way Project

In September 2009, private property along Collins-Industrial Way became severely damaged during flooding from massive rains. This private property was repaired by the City of Lawrenceville.

We requested and obtained city council and storm water authority meeting minutes and all documentation related to the Collins/ Industrial Way project from the city clerk and city engineer. We were unable to identify evidence of the council's vote to accept the project and bid contract prior to, or subsequent to, the project in the documentation provided. We were unable to obtain a project contract. We examined minutes of the executive session dated December 7, 2009 discussing the project after it was completed. We were unable to identify evidence that a bid process was performed in the documentation provided. We examined section 43-109 of the city ordinances, which states that "the City Clerk, Director of Utilities, or Chief of Police may make or authorize others to make emergency procurements of supplies, services, or construction items when there exists a threat to public health, welfare, or safety; provided that such emergency procurements shall be made with such competition as is practicable under the circumstances. A written determination of the basis for the emergency and for the selection of the particular contractor shall be included in the contract file. As soon as is practicable, a record of each emergency procurement shall be made and shall set forth the contractor's name, the amount and type of the contract, a listing of the item(s) procured under the contract, and the identification number of the contract file." We examined photographic evidence of determination of the basis for the emergency. We were unable to obtain a written determination of the selection of the particular contractor in the documentation. We examined a non-executed easement dated September 21, 2009 granting right of way to the city to perform the repairs on the affected private property.

We obtained the meeting minutes of a special call meeting of the storm water authority dated September 25, 2009 evidencing that the repair project was authorized under emergency circumstances. The meeting minutes referenced city ordinance section 12-405, paragraphs 1, 3, and 4, as support to initiate the work performed without explicit city council approval. It was the belief of the storm water authority that the work performed on private property could be billed to the property owners. However, it appears from review of the ordinance that a quorum of the mayor and city council are still required before emergency work can be performed, and no such quorum was noted in our work. We examined minutes of the storm water authority dated October 7, 2009, evidencing that billing the owners was discussed but were unable to obtain any evidence to support that the owners of the property were subsequently billed for repairs. We identified that the storm water authority believed they had the

authority to authorize the repair project. The interpretation of the law and proper authorization of such decisions is the responsibility of the city council.

The total cost of the project appears to be approximately \$184,000.

We obtained a list of all expenditures on the project from the city's general ledger detail from the city controller. We examined supporting documentation for all expenditures for evidence that the disbursement was for work on the specified project. We noted no exceptions in this examination.

Internal Control Findings & Recommendations:

We noted that the project was undertaken under the provisions of sections 43-109 and 12-405 of the city ordinances; however, it appears the city council was not fully informed of the project until after it was completed. We recommend that even in emergency situations and when practicable, each member of council be notified and given the opportunity to vote or consent to the project.

We noted that private property owners were not properly billed for work performed by the city to repair damage. We recommend that the city attorney research the circumstances to determine if these monies can be billed in 2011, and if so, action be taken. We also recommend that the city council adopt written procedures for billing private property owners in the future for city expenditures in a timely manner, and that a form letter be drafted that is approved by the city council for delivery to private landowners in advance of any work performed.

Hodge Construction Company Projects

We obtained a list of expenditures on Hodge Construction Company projects dated from October 24, 2006 through August 27, 2009 from the city council. We obtained the list of all fiscal year 2010 expenditures from the city controller. For all expenditures, we examined supporting documentation evidencing the project for which the expenditures were paid. We identified three projects for which city council approval would be required due to its cost exceeding \$40,000: gas line relocation on State Route 20, gas line realignment on S.R.8/U.S. 29/Crogan Street project, and gas line relocation along Highway 81. We examined evidence in minutes dated September 20, 2006, August 6, 2007, and November 12, 2007 respectively, that a bid process was performed and the bid from C.J. Hodge Enterprises was accepted and approved according to city policy and state regulatory and statutory procedures. We noted in the July 9, 2007 city council meeting minutes that a change order was approved for the S.R. 20 project. The total of these city council approvals is approximately \$1,204,000. The expenditures with descriptions similar to these projects totaled approximately \$1,353,000. The expenditures for these projects appear to be greater than the approved amounts in the city council meeting minutes by approximately \$149,000; however, it is noted by us that there could be projects below the \$40,000 threshold for bidding that appear to be related in description to the projects approved by the city council, and we had no efficient means of addressing this issue.

All other expenditures were related to projects that would not require prior city council approval due to their cost being below \$40,000. These expenditures totaled approximately \$807,000. For these projects, we examined evidence of approval of the expenditure by a department head or the city clerk by reviewing invoices and payment request forms. Of these amounts, approximately \$791,000 was approved by the director of utilities, and \$16,000 was approved by the department head of information technology.

Police Department Construction

We requested and obtained meeting minutes evidencing the city council's vote for accepting the project and bid contract from the city clerk. We examined evidence of approval for the bid contract with Choate Construction in city council minutes dated March 18, 2009, approval for the bid contract with Video Insight for the construction of low voltage in the city council minutes dated November 18, 2009, approval of the contract and addendums with Precision Planning in the city council minutes dated February 6, 2006, April 7, 2008, August 4, 2008, November 10, 2008, and April 6, 2009. We also obtained the approval of quotes by various vendors that were approved in the following city council minutes: Spencer Bristol approval dated August 31, 2009, and Specialty Storage, Specialty 911, and Fitco Fitness dated December 7, 2009.

We obtained from the city attorney and city website the regulatory procedures for bidding contracts, and upon examining all noted contracts and bids, did not note any for which the procedures were not followed by the city.

We obtained from the city controller, a complete list of all expenditures on the project including but not limited to: expenditures for building construction, low voltage wiring, furniture, decorating, all electronic equipment and any other personal property acquired for use in the building.

From the list of expenditures and approvals obtained we noted the following totals: Approved contract and change orders with Choate Construction totaled \$7,758,413; total payments to Choate Construction totaled \$7,758,371; contractor appears to be under contract by \$42. Approved contract and addendums with Precision Planning totaled \$755,470; total payments to Precision Planning totaled \$683,243; service provider appears to have been under contract by \$72,227. Approved contract with Video Insight was for \$919,135; total payments were equal to the contract amount. The approved quote from DeKalb Office Environments was for \$414,186; total payments to supplier totaled \$408,771; supplier appears to be under contract by \$5,415. The approved quote from Spencer Bristol was for \$29,500; the total payments were equal to the quote. The approved quote from Specialty Storage was for \$103,301; total payments to the supplier \$105,960; supplier appears to be over budget by \$2,659. The approved quote from Specialty 911 was for \$33,497; total payments equal to the approved quote. The approved quote from Fitco Fitness totaled \$27,799; total payments equal the approved quote. Miscellaneous expenditures related to the police department for which there were no bids, contracts, and city council approvals in the minutes totaled \$80,728; per the city clerk these expenditures were made known to the city council and were within the purchasing limits of the city to not require approval in the city council minutes. These payments included \$21,089 to AT&T, \$350 to Piedmont Geotechnical, \$31,151 to Southeastern Excavator, \$1,229 to Pennington Fence, \$160, to Gray Publishing LLC, \$97 to Randy Johnson, \$23,390 to Charter Communications, and \$3,262 to Lowes Home Centers Inc.

Overall, the total expenditures for the police station construction, electrical, furniture and fixtures, and miscellaneous expenditures totaled \$10,047,004.

Internal Control Finding & Recommendation:

We noted while performing the procedures relating to the police department construction that support for the project was disorganized and difficult to locate. It is noted that as a policy, all approved contracts be maintained as exhibit files. We recommend that for significant projects, as determined by the city council, a summary or database of the supporting documents be maintained by city personnel that includes locations of all contracts and related city council meeting minutes, and that the database be reviewed by a supervisor for assurance that all support is in existence and that it is evident that all city policies and government agency regulations are adhered.

Forest Hills Street Paving and Curb Improvement

We requested and obtained city council minutes and all documentation related to the Forest Hills project. We obtained meeting minutes dated September 8, 2008 evidencing the council's vote to accept the project and begin the bid process. We obtained meeting minutes dated September 14, 2009 evidencing the council's vote to modify the scope of the project to include milling, paving, and curb & gutter, as well as a copy of the bid specs, and we examined the contract. However, we were unable to identify evidence that the project change orders, totaling approximately \$379,000, were approved by the city council. We did note in examination of the total payments of the project that \$490,000 was approved by the director of utilities, and the remaining \$26,000 was approved by the city engineer; the total of these payments to the contractor appear to be approximately \$516,000

We requested and obtained a list of all expenditures on the project from the city controller. We requested and obtained supporting documentation on the installation, removal, and reinstallation of the improvements. We identified evidence supporting that under the original scope of the project, curb & gutter were not included. We identified evidence supporting that the project was modified to include curb & gutter (as noted in the first paragraph above) due to complaints from residents of Forest Hills. We identified evidence supporting that the City paid the fees to obtain easements from the residents of Forest Hills at \$500 per residence. This amounted to approximately \$25,000. We identified evidence supporting that due to the residents' requests for curb & gutter,

some of the already completed project had to be removed to add curb & gutter, causing a significant increase in the project's cost.

We obtained the original contract with Gary's Grading evidencing a cost of approximately \$137,000. We identified evidence supporting 5 change orders for a total increase in cost of approximately \$379,000. We were unable to identify evidence of the council's vote to approve any change orders. We identified evidence of other various payments on the project totaling approximately \$41,000 for work such as landscaping and approximately \$25,000 for easements. We identified a total project cost, including the contract, change orders, easements and other payments, of approximately \$582,000.

Internal Control Findings & Recommendation:

We noted that the project was approved and bid out, but noted that approval of change orders by the city council were not made. We recommend that the approval of change orders be documented thoroughly in the minutes for all projects requiring the process due to city ordinances.

Municipal Competitive Trust Fund

We obtained from the MEAG the governing documents of the MEAG Competitive Trust Fund (Trust). We obtained from the mayor and city clerk's office the city council meeting minutes evidencing the council's vote to pledge the fund for the nuclear power plant acquisition. We obtained from the mayor and city clerk's office the written pledge of the fund for the acquisition of a nuclear power plant. We obtained from the mayor and city clerk's office the December 31, 2010 Trust statement reflecting a total balance of \$32,480,835. We obtained from the city clerk's office the Trust activity from September 2006 through December 31, 2010. For all transfers within the Trust we obtained from MEAG election forms signed by the city clerk and mayor. For all withdrawals from the Trust, totaling \$906,939, we obtained MEAG support for the authorization of the amounts to be applied to the MEAG utility statements dated January, February, and March 2009. We noted no other disbursement from the Trust to investigate for authorization, compliance, and internal control adherence.

Gas Department Violations and Penalties

We read the city council meeting minutes and noted that there were no discussions documented related to the PSC violations from September 1, 2006 through December 31, 2010. We were informed by the city clerk that the PSC violations were first discussed by the city council in executive session on July 21, 2010.

We obtained from the former city attorney all correspondence between the PSC and the City of Lawrenceville regarding the penalties of \$22,500, \$1,395,000, and \$1,770,000 assessed to the city in 2010. We were unable to efficiently obtain correspondence between the city gas department and PSC as there was a transition in department heads and according to the interim department head there was some doubt as to the completeness of such correspondence. We obtained a list of all cases since September 1, 2006 through December 31, 2010 from the PSC; the total in this period was 46 cases. We discussed with PSC personnel the correspondence we had obtained from the former city attorney, and obtained additional correspondence that influenced the 2010 penalties assessed; with this additional correspondence, it was the belief of the PSC personnel that we had obtained all correspondence relating to the 2010 assessed penalties. We read the correspondence and noted that the mayor's office was notified of violations by the PSC via a carbon copied email to the mayor and city clerk about the investigation. We also noted that the mayor was mailed a violation letter from the PSC which was dated June 24, 2010. From the dates mentioned here, it appears that the mayor was aware of the violations as early as May 24, 2010 and no later than June 24, 2010, and that the city council was notified no later than July 21, 2010. Per PSC personnel, it is the protocol of the PSC to send all correspondence to the utility department head, and they believe that there would have been no correspondence sent to the mayor prior to May 24, 2010. PSC personnel stated that beginning with the violation letter dated June 24, 2010; all official correspondence has been sent to the mayor.

Internal Control Findings & Recommendations:

We noted in our review of the circumstances surrounding the penalties with the PSC that there was a breakdown in controls over gas department duties. It appears that there was no oversight over an employee with the responsibility of reporting incidents to the PSC. There also appears to have been no accountability of the gas department head to the mayor and city council. We recommend that employees with responsibilities of compliance issues be monitored by department heads, and that department heads are held accountable to the mayor by a means that allows the mayor to monitor department responsibilities through oversight.

We also noted that the mayor and city council were unaware of the violations until the problems with the PSC had escalated to a point that inflated the penalties. We were informed by PSC personnel that the first penalty of \$22,500 was mitigated and reduced to \$4,500, and with that value, the former gas department head was able to pay the penalty out of his budgeted funds without the approval and explicit knowledge of the mayor, thus covering up the violations. We recommend that all payments to state and federal agencies, regardless of amount, be questioned, reviewed, and approved by the mayor so the office will have the knowledge of any penalties, and potential problems, arising from regulatory and compliance issues.

Review General Ledger Expenditures

We requested and obtained from the controller a list of all general ledger expenditures from September 1, 2006 to December 31, 2010. We obtained the supporting documentation for all expenditures greater than \$100,000 to a single creditor, consultant, supplier, etc and examined evidence that the disbursement was for work on the specified project, and city policies over internal controls were adhered. We obtained evidence in the minutes of the mayor and city council meetings that the payments identified were properly approved and authorized. We noted that three payments appeared to be greater than the approvals by the city council where expenditure was bid out and the lowest bid was accepted. Check number 181030 to Perimeter Sheet Metal Co. for \$114,325 appears to be \$20,675 greater than the approved amount in the August 7, 2006 city council meeting minutes for HVAC improvements; it was noted by the city clerk that the city council approved improvements to the 4th floor of city hall with some discretion allowed by the city clerk to move the project to completion in a quick manner. Check number 216340 to Hogan Construction Group appears to be approximately \$10,478 greater than the amount approved by the city council in the January 5, 2009 minutes. We also noted that check number 207132 to GS Construction appears to be \$4,718 greater than the amount approved in the May 5, 2008 city council meeting.

Internal Control Finding & Recommendation:

We noted that in many instances, a particular project is referenced in the supporting invoices or contracts by one name or description, but is referenced in a different way in the city council minutes. This creates confusion and makes it difficult to track what was discussed and approved on a particular project. We recommend that each project be assigned a unique project number or name, and any time it is referenced it can be referred to by this unique identifier.

Construction Material

Inventory Parts and Equipment

We noted that there were no written internal controls over materials, supplies, and equipment. We noted that there was no inventory on the city general ledger and no record of inventory activity. We noted that there was no log of equipment use for projects, and no department head knew of any equipment use by contractors on projects. Therefore, no agreed-upon procedures on inventory activity could be performed.

Internal Control Findings and Recommendations

On April 29, 2011, we discussed internal controls over supply inventory and equipment with the assistant manager of the Gas Department. Per the assistant manager, there are controls over inventory but they are not documented in a written policy. He also stated that all inventories for projects are recorded in the contracts. The required inventories are provided to the contractor by the coordinator. The coordinator separates out the items needed for the project and provides these items to the contractor as needed. Large items are shipped directly to the work site; the shipping document is obtained and filed with the contract. There is no sign off covering items picked up by contractors. Per the assistant manager, there is no reconciliation of inventory at month end as a

control for completeness. The superintendent also stated that inventory is locked up, but prior to calendar year 2011 it was not, and it was suspected that inventory was taken by non-city employees without authorization. It was also noted by other gas department personnel, who purchase the Gas Department inventory, that equipment purchased in 2005 (2 rock drills, 1 chord box, and 1 stopper) has disappeared from equipment inventory; these items were later found by city personnel. Per the assistant manager, contractors are not allowed use of Gas Department equipment. Per other gas department personnel, inventory purchases are in the proximity of a couple of thousand dollars per purchase. We obtained and reviewed the contract for the SR 20 project from Ozora Road to Brand Road. The work was performed by Steel & Associates (subcontractor is Hodge Construction). We noted shipping receipts for items delivered to the site and no sign-offs for materials picked up from the department.

On April 29, 2011, we discussed internal controls over supply inventory and equipment of the Electrical Department with the department head. Per the department head, there is no written internal control policy over inventory. The department head stated that his department determines the supplies needed for each project under contract, per the scope of the contract, and the materials are separated from all other inventory and labeled for the project. The materials required by city projects that are contracted out are provided to the contractor directly by electrical department personnel and contractors do not have access to any other materials. There is no documentation filed with the contract about the material provided to the contractor. There is no reconciliation of inventory to determine its completeness. Inventory is locked at night when there are no employees on the premises. To determine inventory purchase needs, the department head or an employee of the department scans the materials inventory and determines what is needed and it is ordered by him. The department head stated that the most expensive item they order is a \$35,000 transformer. Per the department head, contractors are not allowed use of equipment from the electrical department. We obtained the contract for the Hanary Estates North & Camden Square Subdivision and discussed it with the department head, verifying with the department head the procedures and controls noted above.

On May 2, 2011, we interviewed the Water Department Superintendent about the supplies inventory in the department. The superintendent stated that through 2010 he knew of no projects that were bid out to contractors for which the water department supplied the materials. He did state that bidding contracts have occurred twice in 2011. Per the superintendent, inventory records are not kept to determine the amount of supplies that should be on hand. Items are purchased by the Water Department assistant superintendent, on an as needed basis. The superintendent and assistant superintendent estimated that supply inventory on the date of the interview was close to \$200,000.

On May 2, 2011, we interviewed the Street/Sanitation Department superintendent about supplies inventory. Per the superintendent, the supply inventory is minimal and no materials are provided to contractors. The superintendent also stated that his department has no large need for a materials inventory.

We noted that there appeared to be no controls over materials, supplies, and equipment. We also noted that in some instances, specifically with the water department, that inventory values could be substantial. We recommend that to safe guard assets, the materials inventory should be tracked from a beginning balance to a current balance through additions that agree with purchase receipts and withdrawals, and that agree with supporting documentation for their approved use. We recommend that this current level is checked against the actual inventory, either as a whole or on a sample basis, to determine the completeness of inventory and detect inventory losses. Also, someone other than the person maintaining the inventory records should review the records for completeness and unusual items. These controls will help prevent and detect errors and fraud related to misappropriation of assets.

We recommend that for each use of supplies by city personnel and contractors, that the city personnel responsible document the items used and the purpose and project. This documentation would serve as the evidence and purpose of the withdrawal noted in the above recommendation. This documentation should be signed by the city personnel providing the materials for the project, and a copy should be maintained for inventory records noted in the above recommendation, and a copy attached to the project contract. The documentation should be reviewed

weekly by the department head for any unusual items/uses. These controls will help prevent and detect errors and fraud related to misappropriation of assets.

We noted in at least one instance that the front door to the water department was not locked and no water department personnel were in the vicinity. We recommend that all access to materials is locked up with access only by known and responsible city personnel so as to prevent misappropriation of assets.

It was noted during the agreed upon procedures that several equipment items had become temporarily misplaced from the Gas Department. We recommend that all equipment inventories are checked in after each use and equipment inventory is performed at least once each year. These controls will help to prevent and detect equipment losses due to error and misappropriation of assets.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the mayor and city council and is not intended to be and should not be used by anyone other than those specified parties.

Morse Stephen Miller 22C

September 20, 2011