



CITY OF WILMINGTON

Adjusting Journal Entries

Internal Audit Review

July 19, 2018

City Auditor's Office

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City Auditor
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Highlights

Why We Did This Audit

The Internal Audit Department (IA) performed a scheduled audit of Adjusting Journal Entries. The audit was in accordance with the 2017 Internal Audit Plan.

Methodology

The objectives were met by reviewing prior year audits, testing non-internal service fund, adjusting journal entries and their supporting documentation, reviewing the Accounting policy and procedure manual, reviewing government accounting best practices, and through discussions with Finance personnel.

Audit Review Committee:

Robert C. Johnson, Chair

Ciro Adams
Marchelle Basnight
Angelique Dennis
Bud Freel
Ronald Pinkett
Tanya Washington

Objective and Scope

As part of our audit plan, we conducted a Performance Audit of Adjusting Journal Entries for the period commencing July 1, 2015 and ending June 30, 2016. Our objective was to determine whether operating procedures and internal controls provide adequate assurance that authorized transactions are processed completely and accurately, to determine the computations for gross pay are accurate and based on authorized time and amounts, and to ensure pension distributions and records are properly reviewed, approved, processed, and documented. IA believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS"). These 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.

Background

Adjusting entries are accounting journal entries that convert the City's accounting records to the accrual basis of accounting. An adjusting journal entry is typically made just prior to issuing the City's financial statements. These entries involve an income statement account (revenue or expense) along with a balance sheet account (asset or liability) and relates to the general ledger accounts for accrued expenses, accrued revenue, prepaid expenses, and unearned revenue.

There are three scenarios where adjusting journal entries are needed before the City's financial statements are issued:

1. Nothing has been entered in the accounting records for certain expenses or revenues, but those expenses and/or revenues did occur and must be included in the current period's income statement and balance sheet.
2. Something has already been entered in the accounting records, but the amount needs to be divided up between two or more accounting periods.

The entry is correcting a mistake made in a previous accounting period. When this reason is used, there is typically a credit to one account and a debit to another account.

Current Practices

As of the date of the report, it is the City's practice to perform all necessary adjusting journal entries during the year-end financial close process. The financial close process includes a trial balance which is a snapshot of the City's income and expense statements as of September 30th. The trial balance is performed prior to the books being examined by the external auditors and serves to detect any mathematical errors that have occurred in the City's double-entry accounting system. Once the trial balance is run and the total debits equal the total credits, the external auditors examine the City's financial statements. However, transactions classified improperly, or those simply missing from the system {misstatements} could still be material accounting errors that would not be detected by the trial balance procedure. Any misstatements discovered by either the external auditors or the Department of Finance are counted as a finding as part of the annual audit of financial statements. Findings related to journal entries were noted in the FY 2016 single audit as well as the IAD's FY 2014 performance audit of journal entries (14-02).

Policies and Procedures that govern the adjusting journal entries process

The Accounting Division's Accounting Manual is current as of September 2015. The 40 page document provides an overview of the accounting policies and procedures applicable to the City of Wilmington. It also formalizes accounting policies and selected procedures for the accounting staff, and to document internal controls.

Key Statistics:

Description of Finding	# of journal entries	% of sample (30)
Internal Service Fund Journal entry lacked scanned documentation from 3 rd party source that supported the adjustments being made. *	9	30%
Journal entry had documentation attached that did not clearly support the adjustment being made. {Lack of logical sequence, amount of adjustment could not be traced to supporting documentation.}	2	6.67%
Journal entry cover sheet contained out-of-date account descriptions that were overlooked by Accounting's dual review.	2	6.67%
Total Findings	13	43.33%

*None of the entries contained supporting documentation that included a copy of the data that was calculated by the third party to arrive at the totals submitted to Finance.

What we found

Key Findings

Following are key issues that resulted in a process/area to be risk rated a three or four. See **Attachment A** for the detail of these and all comments identified during the review.

<i>Risk Ranking:</i>		(See Attachment B for full rating definitions)			
Process / Area	Process / Area Owner	1 Strong Controls	2 Controlled Effectively	3 Controlled - Improvement Required	4 Significant Improvement Required
Policies & Procedures	Patrick Carter				√
Review and approval	Patrick Carter				√

1. Policies and Procedures

Comprehensive procedures for adjusting journal entries were not sufficiently identified in the Accounting Manual because there is no process for periodically updating the manual. Lacking procedures identified include:

- An established criteria for “reasonable” supporting documentation
- Actions to be taken to acquire reasonable documentation
- Identifying sufficient documentation
- Review and approval of Journal entries

2. Review and Approval

There is no documented interdepartmental process that identifies and corrects journal entries with erroneous or missing account codes. Currently there is no interdepartmental communication and there is no management accountability.

Audit Team

Yvette R. Johnson, Senior Auditor

Tamara Thompson, Audit Manager

Management Responses to Audit Recommendations

Summary of Management Responses

Recommendation #1: The Accounting Procedure Manual should be updated to clearly define the criteria for "reasonable" supporting documentation. An established criterion should 1) create a consistent standard and 2) assist supervisors during the dual review process in determining if a journal entry is properly supported according to defined standards. The manual should also provide step-by-step procedures for the journal entry process (from the initial adjustment request to its entry to the general ledger). Journal entries containing details from a third party should also be supported by documentation provided by the third party.

Agree

Finance Management response & action plan: Management responses were not received at the time of audit publication but will be provided by management at a later date.

Completion Date: TBD.

Recommendation #2: The Departments of Finance and Office of Management and Budget (OMB) should work together to create an inter-departmental process that identifies and corrects journal entries with erroneous or missing information.

Agree

Finance Management response & action plan: Management responses were not received at the time of audit publication but will be provided by management at a later date.

Completion Date: TBD.
