

AUGUSTA-RICHMOND COUNTY, GEORGIA
OFFICE OF THE MAYOR
INTERNAL AUDIT

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Board of Commissioners
Augusta-Richmond County
Augusta, Georgia

We have performed consulting services for Augusta-Richmond County (the “City”) relating to the evaluation of certain internal controls and operating procedures of the Office of the Mayor of the City of Augusta’s expenditure of funds, and other general operating policies and procedures. Augusta-Richmond County’s management is responsible for its internal controls and operating procedures. The evaluation procedures were those approved by the City. Our analysis and report do not include evaluating all internal controls over the Office of the Mayor of the City of Augusta.

The sufficiency of these procedures is solely the responsibility of the Board of Commissioners and management of the City. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which this report has been requested or for any other purpose.

Our procedures, results and recommendations are outlined throughout this report.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the financial statements, or an element of a financial statement. 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 use of the Board of Commissioners and management of the City and should not be used by anyone other than the specified parties.

We would be pleased to review these and any other matters further with you.

Serotta Maddocks Evans & Co.
SEROTTA MADDOCKS EVANS & CO., CPAs

Augusta, Georgia
July 27, 2021

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

INTERNAL AUDIT OBJECTIVES

Our internal audit objectives were designed to:

- Obtain an understanding of the City's internal control system for the Office of the Mayor of the City of Augusta relating to the expenditure of funds, and the Office's adherence to internal policies and procedures.
- Design and execute tests of the policies and procedures for monitoring expenditure of funds.
- Determine if there are adequate controls to provide a reasonable assurance that the City's assets are being properly safeguarded and errors or irregularities can be prevented or can be detected in a timely manner.
- Make recommendations to the City based upon our understanding of the internal control system and as a result of our testing of those internal controls.

SCOPE

Our internal audit scope was limited to the Office of the Mayor of the City of Augusta and the evaluation of certain internal controls and operating procedures of the Office of the Mayor of the City of Augusta's expenditure of funds and other general operating policies and procedures. The internal audit focused primarily on the period January 1, 2020 through July 9, 2021; but certain analyses were performed outside of this time period. Specific scopes and time frames of testing are stated within the procedures and results section of this report, as identified in the table of contents.

METHODOLOGY

Our internal audit methodology included the identification, evaluation and testing of internal controls as they relate to the areas identified in the scope above. General internal audit procedures included:

- Interviewing personnel in the Finance Department and the Office of the Mayor.
- Observing operations and conducting walk-through interviews.
- Testing documentation for entering purchase requisitions, purchase card transactions, general ledger entries and data, general ledger reports, and other applicable data and documentation.

SUMMARY OF INTERNAL AUDIT RESULTS

SUMMARY OF INTERNAL AUDIT RESULTS

- **The Mayor's budget**
 - We noted the expenditures of the office of the Mayor were below budget for the year ending December 31, 2020.
- **Payroll and related expenditures**
 - We noted no exceptions in our analysis of payroll and related expenditures.
- **Credit card**
 - We recommend that the Board of Commissioners adopt a credit card usage policy in accordance with Georgia Code §36-80-24.
 - We recommend the Mayor's Office support all transactions with third-party invoices or receipts. We further recommend that the credit card transmittal form be used in all cases.
- **The City's procurement thresholds**
 - We noted that several of the individual invoices from LC Studios, LLC exceeded the \$5,000 threshold described in the City's procurement policy. In total (including invoices paid by both check and the credit card), expenditures with LC Studios, LLC were \$24,969 between December 2020 and March 2021. This amount exceeds the \$10,000 threshold described in the city's procurement policy. Before incurring expenditures of this magnitude, the City's procurement policy requires obtaining competitive bids. The City's procurement policy also includes a preference for local vendors. LC Studios, LLC is headquartered in Florida.
- **Benford's analysis**
 - We performed a Benford's first digit analysis on the expenditures of the office of the Mayor (and, separately, My Brother's Keeper expenditures). We noted certain "first digits" that occurred more or less frequently than expected. Those populations were subjected to sampling in the detailed expenditure section of this report.
- **Detail expense testing**
 - Supporting third-party agreements, invoices, or contracts were provided for all transactions. In three cases (one purchase from Best Buy, one airline ticket and one hotel stay) the original receipt was not available in the Finance Department. However, the Mayor's Office provided support (such as email confirmations) for these purchases. In each case, the expense coding appeared reasonable. We noted no indication that expenditures were for anything other than official City use. We did note instances when established procurement procedures were not observed, such as the matter discussed in the section of this report titled the City's procurement thresholds. As noted in the section of this report titled credit card, the City has not "promulgated specific policies", as required by Georgia State Code §36-80-24. Therefore, the use of this credit card by the Mayor's Office is not in compliance with the State code. However, we did not note any purchases that we determined to be prohibited by State code or County ordinance.

BACKGROUND AND PROCEDURES, TESTING, RESULTS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

THE MAYOR'S BUDGET

Background and Procedures

Per inquiry of the City's Budget Manager, the Mayor's Office makes budget requests at the beginning of the budgeting process, as any other department would. The Budget and Financial Services division analyzes these budget requests, makes inquiries concerning any requested increases, etcetera. The Budget and Financial Services division makes any necessary adjustments prior to presenting the budget to the Administrator. This includes correcting salary and benefit budgets and moving all new program or additional funding requests, which were entered by a department, out of the budget and to the New Program Requests list. The Budget and Financial Services division also proposes possible reductions based on historical data and requests justification and presents the requested budgets to the County Administrator, who may also make certain revisions. This becomes the proposed budget. The proposed budget is presented to the Board of Commissioners, who approve the budget. The Board of Commissioners adopted the 2020 budget on November 19, 2019 and adopted the 2021 budget on November 17, 2020. The Mayor's budget is a component of the General Fund.

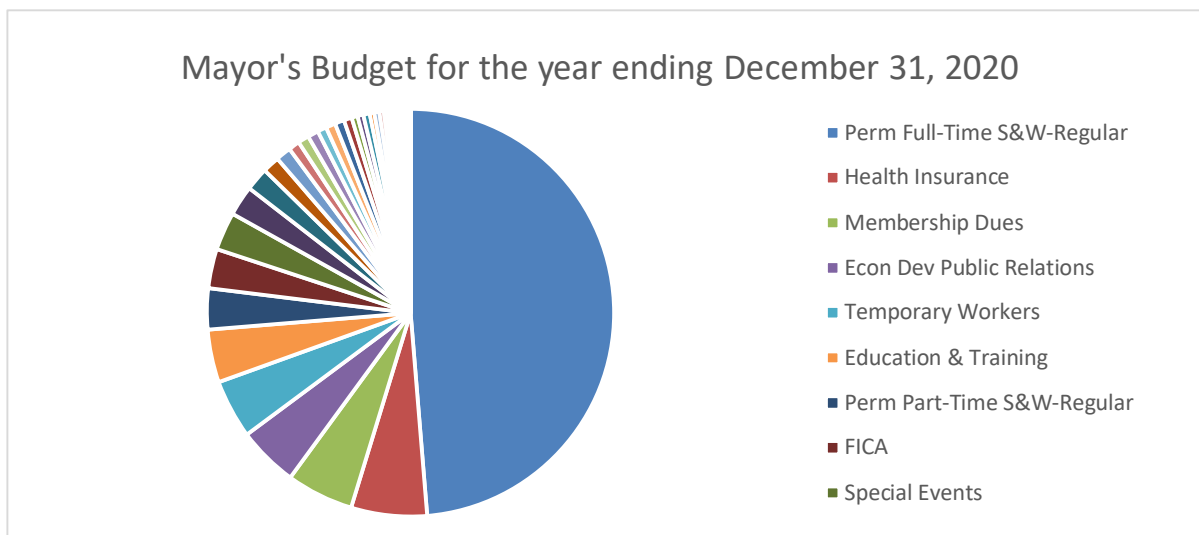
It is possible for the Mayor's Office (or any other department) to reallocate budgeted funds from one line item to another. However, this is done in coordination with the staff of the Finance Department. In no case can the total expenditures exceed the total allocation of funds to a given department.

Testing

We obtained the Mayor's budget submissions and budget-to-actual reports for the year ended December 31, 2020 and for the current fiscal year to date from the Finance Department. We performed various analyses, the results of which are below.

Results

For the year ended December 31, 2020, the Mayor's Office (including the My Brother's Keeper initiative) was under budget by \$64,629. The original budgeted expenditures were \$491,780. However, total actual expenditures were \$425,978. Considerably more than half of these expenditures were for payroll and payroll related costs. See chart below:

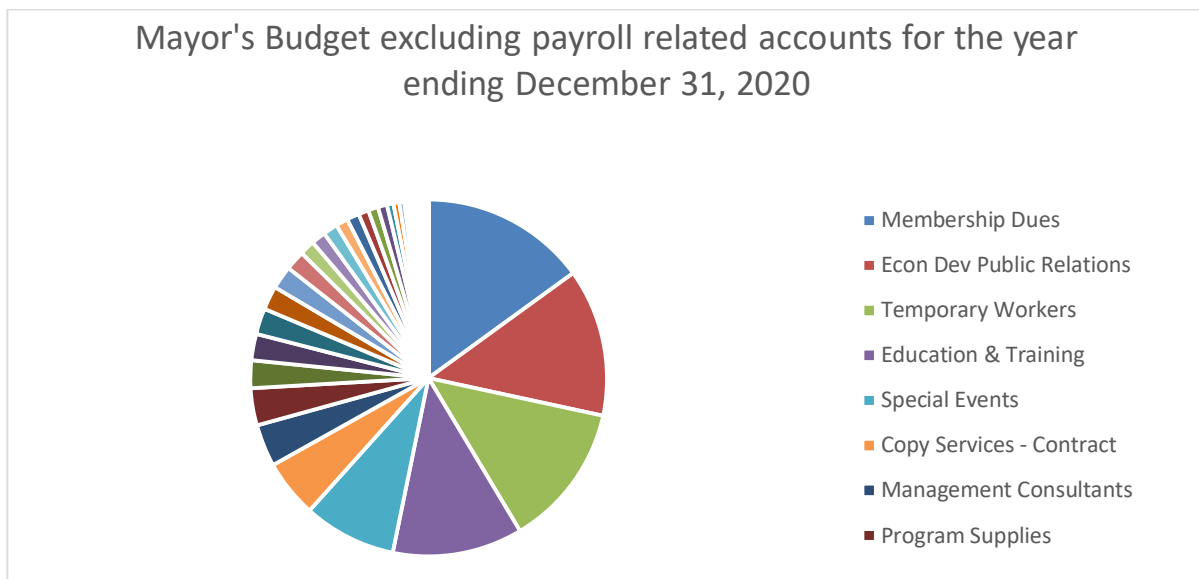


BACKGROUND AND PROCEDURES, TESTING, RESULTS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

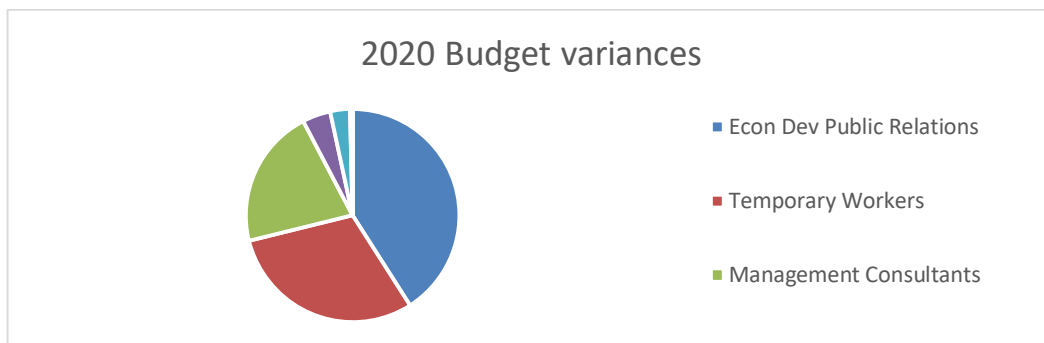
THE MAYOR'S BUDGET (continued)

Because the Mayor's staff is hired and paid through the City's Human Resources Department and Payroll Department, respectively, and those transactions are subject to the City's internal controls, we determined that payroll and related accounts could be tested analytically. See the results of these analytical procedures in the payroll and related expenditures section of this report.

After removing the payroll expense from the budget analysis, we noted the most significant areas of the Mayor's budget were membership dues, economic development and public relations, temporary workers and education and training. These four line-items comprise more than half of the non-payroll related expenditures. While making haphazard selections of expenditures for testing we were cognizant of this and made certain that we selected transactions from these accounts. See the results of detail testing in the detailed expenditure testing section of this report.



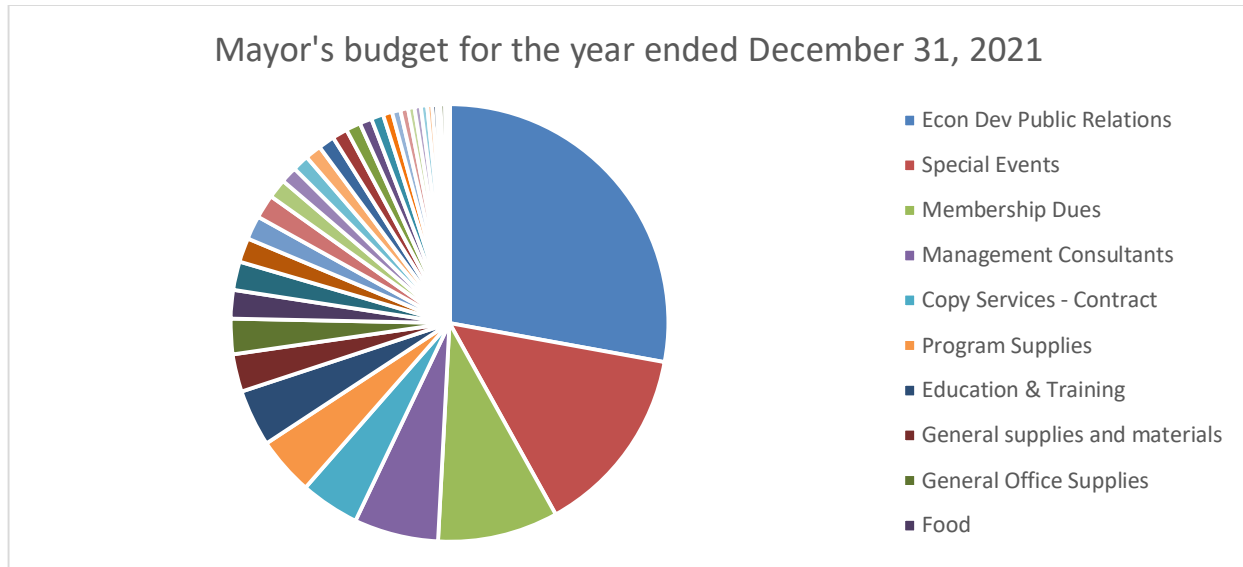
The Mayor's Office was under budget for the year ended December 31, 2020. However, we noted budget variances in certain line items, most notably economic development, public relations and temporary workers, see the chart below. As noted above, expenditures from these accounts were tested. Also, in My Brother's Keeper, there was a budget variance in the management consultant's line item. Transactions in this account were detail tested as well. See the results of detail testing in the detailed expenditure testing section of this report.



BACKGROUND AND PROCEDURES, TESTING, RESULTS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

THE MAYOR'S BUDGET (continued)

SME noted the budget priorities were similar for the 2021 budget year. The largest line items in the Mayor's adopted 2021 budget (excluding payroll and related expenditures) are economic development, special events, membership dues and management consultants. See below:



PAYROLL AND RELATED EXPENDITURES

Background and Procedures

As previously noted, more than half of the Mayor's budget is comprised of payroll and related expenditures. The Mayor's staff is hired and paid through the City's Human Resources Department and Payroll Department, respectively, and those transactions are subject to the City's internal controls. Therefore, we determined that payroll and related accounts could be tested analytically.

Testing

We obtained a listing of all the salaries of the Office of the Mayor's personnel. We compared those amounts to payroll records and agreed those payroll records to the general ledger. We also predicted the amount of FICA expense based on salaries and reviewed the City's pension and health care benefits.

Results

We noted no exceptions in our analysis of payroll and related expenditures.

BACKGROUND AND PROCEDURES, TESTING, RESULTS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

CREDIT CARD

Background and Procedures

The Mayor's Office has one credit card, in the Mayor's name, which is paid by the Augusta-Richmond County Finance Department. Georgia Code §36-80-24 states that "No... consolidated government shall issue government purchasing cards or government credit cards to elected officials on or after January 1, 2016, until the governing authority of such... consolidated government, by public vote, has authorized such issuance and has promulgated specific policies regarding the use of such government purchasing cards or government credit cards for elected officials of such."

Testing

We inquired of Finance Department staff and searched the City's website and other records in order to ascertain whether there is a credit card usage policy in effect in accordance with Georgia Code §36-80-24.

While examining the credit card statements and supporting documentation, in order to develop an understanding of the procedures, we obtained all of the credit card statements from January 1, 2021 through April 30, 2021. SME reviewed these statements in detail. We attempted to reconcile all transactions, regardless of amount, from the credit card statement to the receipts, which were attached to each statement.

Results

Upon inquiry of the Director of Finance and other employees of the Finance Department, the City has not "promulgated specific policies", as required by the code. In practice, the Mayor's office generally provides receipts for credit card expenditures to the Finance Department. The Finance Department enters those expenditures into the general ledger system based on the coding provided by the Mayor's Office. The Finance Department then pays the monthly statement and attaches a copy of the check to the statement and the supporting receipts or invoices. These receipts are retained along with credit card statements.

In the 2021 credit card receipts that we examined in detail, we noted supporting invoices attached to the credit card statements, as described above, for most charges. In some instances, those receipts were not attached to the credit card statement. However, it should be noted that most unsupported expenditures were small in nature, such as digital newspaper subscriptions. These transactions may be automated. We noted some, but not all, invoices were accompanied by a credit card transmittal form. When present, this form included helpful data, such as the purpose of the expenditure.

Recommendations

We recommend that the Board of Commissioners adopt a credit card usage policy in accordance with Georgia Code §36-80-24.

We recommend that the Mayor's Office support all transactions with third-party invoices or receipts. We further recommend that the credit card transmittal form be used in all cases. Automatic subscription payments often are accompanied by a confirmation email. This would be sufficient documentation for such small transactions. Multiple small transactions could be batched on the credit card transmittal form to further reduce the administrative burden.

BACKGROUND AND PROCEDURES, TESTING, RESULTS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

CREDIT CARDS (continued)

Management Responses

We agree with the audit findings. On July 20, 2021, the Augusta Commission adopted a credit card ordinance and policy consistent with state law. The Mayor's Office will work with the finance department and the Administrator's Office to implement the new policies and procedures to ensure compliance.

- The Augusta Mayor has held a credit card provided by the Finance Department since 2015. This practice is consistent with previous Mayors since consolidation.
- The transmittal form described in the findings was developed by the Mayor's Office in April 2021 as a best practice for reporting expenditures and to add another layer of transparency.

THE CITY'S PROCUREMENT THRESHOLDS

Background and Procedures

While performing the detail test of expenditures and while examining a selection of credit card statements, we noticed several payments to LC Studios, LCC, some of which were in excess of \$5,000.

Testing

In order to obtain an accurate representation of how much was paid to LC Studios, LLC, SME summarized each expenditure to LC Studios, LLC, whether paid by check or by credit card.

Results

We noted that several of the individual invoices from LC Studios, LLC exceeded the \$5,000 threshold described in the City's procurement policy. In total (including invoices paid by both check and the credit card), expenditures with LC Studios, LLC were \$24,969 between December 2020 and March 2021. This amount exceeds the \$10,000 threshold described in the city's procurement policy. Before incurring expenditures of this magnitude, the City's procurement policy requires obtaining competitive bids. The City's procurement policy also includes a preference for local vendors. LC Studios, LLC is headquartered in Florida.

Recommendation

We recommend that the Mayor's Office observe the Procurement Department's policies concerning when to obtain competitive quotes and when to use vendors from outside of the Augusta market.

Management Responses

We agree with the audit findings. As of late May 2021, staff members began procurement training. It should be noted that training had been postponed due to COVID-19, and once available; the primary staff member was trained. Mayor's Office staff will continue to schedule training through the end of the year to ensure a complete understanding of procurement processes and procedures.

BACKGROUND AND PROCEDURES, TESTING, RESULTS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

BENFORD'S ANALYSIS

Background and Procedures

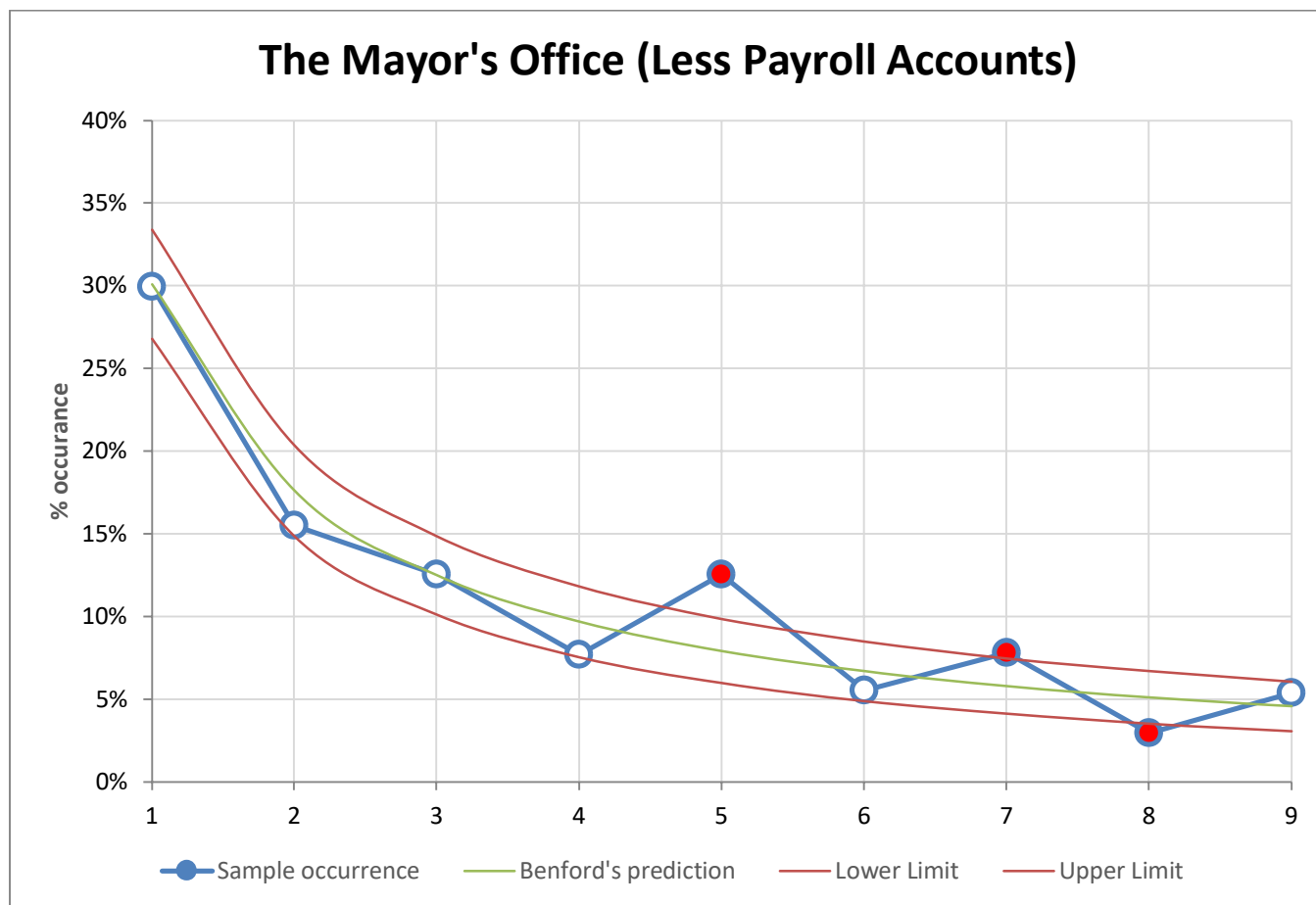
As explained in an April 1, 2017 article in the Journal of Accountancy, "Benford's Law maintains that the numeral 1 will be the leading digit in a genuine data set 30.1% of the time; the numeral 2 will be the leading digit 17.6% of the time; and each subsequent numeral, 3 through 9, will be the leading digit with decreasing frequency."

Testing

We performed a Benford's first digit analysis on the Mayor's Office's expenditures (and, separately, on My Brother's Keeper expenditures).

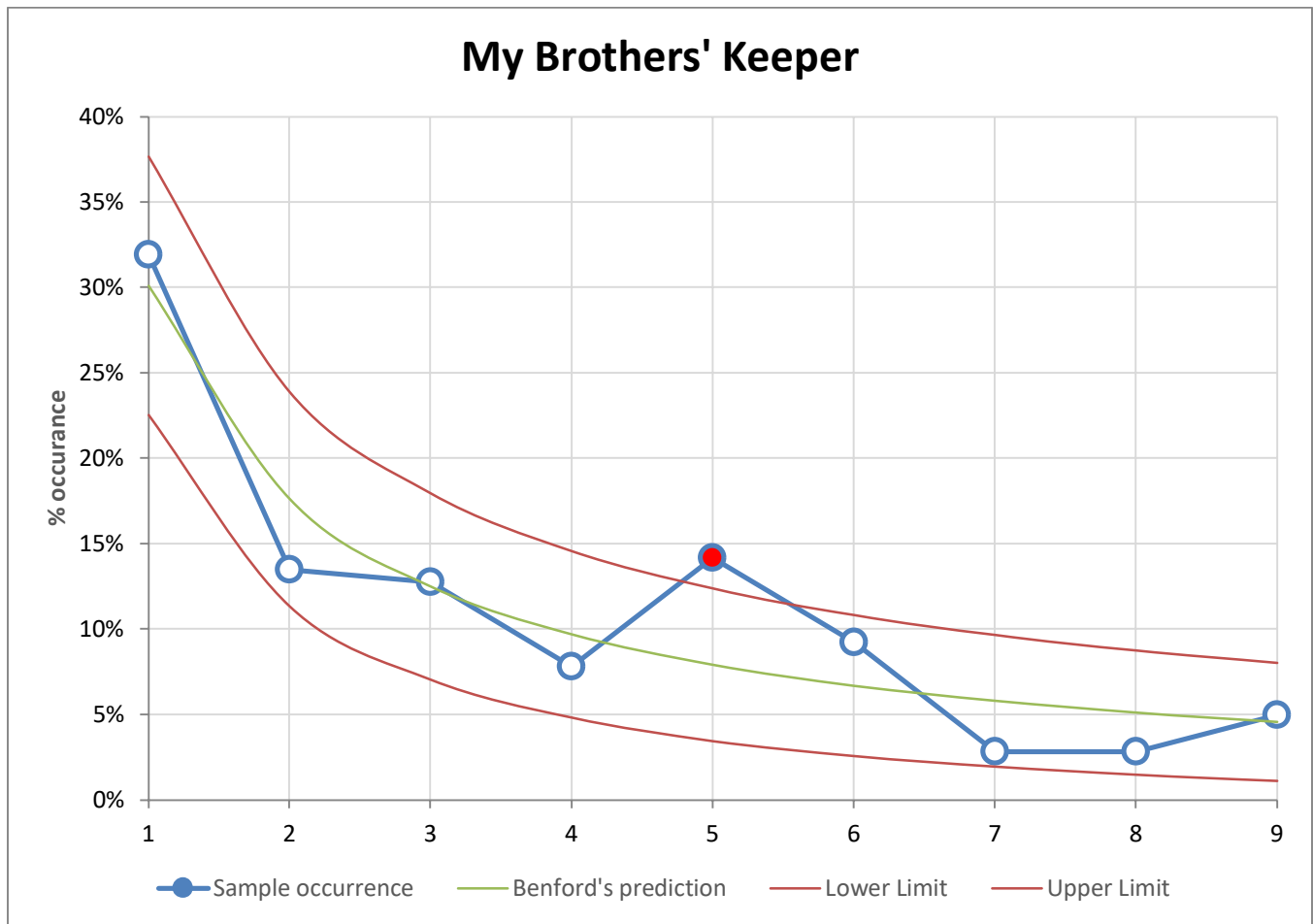
Results

We noted certain "first digits" that occurred more or less frequently than expected. Those populations were subjected to sampling in the detailed expenditure section of this report. See the results of the Benford's analysis below.



BACKGROUND AND PROCEDURES, TESTING, RESULTS,
RECOMMENDATIONS, AND MANAGEMENT RESPONSES

BENFORD'S ANALYSIS (continued)



DETAILED EXPENDITURE TESTING

Background and Procedures

By performing the budget analysis and the Benford's analysis we identified certain populations of transactions that should be subjected to the extra scrutiny of detailed testing. In addition to ensuring that we selected transactions from the largest budget line items and the budget line items that exceeded budget we also selected from the population of transactions that contained the "first digit" that occurred outside of the expected frequency. We then stratified our populations. Stratification allows greater scrutiny to be directed to the larger value items, as these items may contain the greatest potential risk. These procedures resulted in a sample size of 47 transactions from the Mayor's budget and 33 transactions from My Brothers' Keeper.

BACKGROUND AND PROCEDURES, TESTING, RESULTS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

DETAILED EXPENDITURE TESTING (continued)

Testing

For each selected transaction we requested supporting documentation from the Finance Department and tested each transaction against the following attributes:

- a) Obtained the third-party agreement, invoice, or contract for the services or products received and agreed it to the selection.
- b) The third-party agreement, invoice, or contract was properly approved.
- c) The service or products received was for official City use and expensed properly.
- d) The expense transaction is in compliance with the Augusta-Richmond County, GA procurement policy.
- e) The credit card transaction was in compliance with the Georgia State Code §36-80-24.

Results

Supporting third-party agreements, invoices, or contracts were provided for all transactions. In three cases (one purchase from Best Buy, one airline ticket and one hotel stay) the original receipt was not available in the Finance Department. The Mayor's Office provided support (such as email confirmations) for these purchases. In each case, the expense coding appeared reasonable. We noted no indication that expenditures were for anything other than official City use. We did note instances when established procurement procedures were not observed, such as the matter discussed in the section of this report titled the City's procurement thresholds. As noted in the section of this report titled credit card, the City has not "promulgated specific policies", as required by Georgia State Code §36-80-24. Therefore, the use of this credit card by the Mayor's Office is not in compliance with the State code. However, we did not note any purchases that we determined to be prohibited by State code or County ordinance.

Recommendation

As mentioned previously in this report, we recommend that the Board of Commissioners adopt a credit card usage policy in accordance with Georgia Code §36-80-24. We recommend the Mayor's Office support all transactions with third-party invoices or receipts. We further recommend that the credit card transmittal form be used in all cases. We also recommend that the Mayor's Office observe the Procurement Department's policies concerning when to obtain competitive quotes and when to use vendors from outside of the Augusta market.

Management responses

We agree with the audit findings and reiterate that the Mayor's Office will comply with the newly adopted credit card ordinance and policy and ensure that procurement procedures and policies are adhered to, and training for staff members is received.