SUBJECT: Follow Up of Audit Report 2007-03 - Public Works - Pavement Cuts (CM09007) (City Wide)

RECOMMENDATION:

That Report CM09007 respecting the follow up of Audit Report 2007-03, Public Works – Pavement Cuts, be received.

Ann Pekaruk  
Director, Audit Services  
City Manager's Office

EXECUTIVE SUMMARY:

Audit Report 2007-03, Public Works – Pavement Cuts, was originally issued in September, 2007 and management action plans with implementation timelines were included in the Report. In February, 2009, Internal Audit conducted a follow up exercise to determine that appropriate and timely actions had been taken. Regarding the implementation of the twenty-three (23) recommendations made in the original Report and Addendum, eleven (11) have been completed, six (6) are in progress, two (2) have been initiated, alternatives have been implemented for two (2), one (1) has not been implemented and one (1) is no longer applicable.
BACKGROUND:
Audit Report 2007-03, Public Works – Pavement Cuts, was originally issued in September, 2007. The report indicated twenty-three (23) recommendations to strengthen internal controls, provide added functionality and control in the GeoMedia software application and improve the efficiency of vendor payments and City recoveries.

It is normal practice for Internal Audit to conduct follow up reviews within a 12-18 month period following the issuance of the original report in order to determine whether action plans committed to by department management have been implemented. In February, 2009, Internal Audit followed up the report to confirm appropriate and timely actions had been taken.

ANALYSIS/RATIONALE:
The report attached as Appendix “A” to Report CM09007 contains the first three columns as originally reported in Audit Report 2007-03 along with an added fourth column indicating Internal Audit’s follow up comments. Five (5) items in the Addendum have also been followed up with appropriate detail provided.

Eleven (11) out of the twenty-three (23) recommendations have been fully implemented. These include: the updating of the Municipal Consent Application Form (MC); the requirement of an MC holder or bonded contractor’s signature before issuing an excavation permit (EP); adequate paper trail, authorization and write off procedures for all pavement cut adjustments; and improved functionality and trackability within the GeoMedia software application.

Among the six (6) recommendations whose implementations are in progress are: written procedures to cover the financial process of pavement cut payment, invoicing and adjustment; all adjustments to pavement cut billings to be appropriately signed and approved; and regular account reconciliations.

Even though the bonded contractor list is reviewed by staff, it is not updated to delete contractors that fail to provide current bond and insurance information. As well, even after a review of the accounts used to record adjustments to the Annual Minor Construction account, staff continue to post against a revenue account instead of the Construction Cost account, resulting in overstated revenue and Construction cost accounts. The above two recommendations are noted as initiated in their status in the report.

The only recommendation that remains not completed relates to placing restrictions on issuing new Evacuation Permits (EP) if a bonded contractor has overdue balances (pertaining to pavement cuts) outstanding for long periods of time.
ALTERNATIVES FOR CONSIDERATION:
Not applicable.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:
None.

POLICIES AFFECTING PROPOSAL:
None.

RELEVANT CONSULTATION:
The results of the follow up were provided to Finance and Administration staff and staff in the Capital Planning and Implementation division of the Public Works Department responsible for the administration of pavement cuts.

CITY STRATEGIC COMMITMENT:
By evaluating the "Triple Bottom Line", (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

- Community Well-Being is enhanced. □ Yes  ✔ No
- Environmental Well-Being is enhanced. □ Yes  ✔ No
- Economic Well-Being is enhanced. ✔ Yes □ No

City Council's strategic commitment to "Best Practices - Best Value" under "A City That Spends Wisely and Invests Strategically" is addressed through audits and reviews and their subsequent follow up to ensure controls are in place to protect the assets of the City and promote efficient, effective and economic services and programs.

Does the option you are recommending create value across all three bottom lines? □ Yes  ✔ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants? □ Yes  ✔ No

ap:dt
Attachment – Appendix “A”
### CITY OF HAMILTON
INTERNAL AUDIT REPORT 2007-03
PUBLIC WORKS - PAVEMENT CUTS
FOLLOW UP

<table>
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<td>1.</td>
<td>Pavement Cuts Policies &amp; Procedures</td>
<td>That the pavement cut procedures be reviewed and updated to reflect changes that have taken place. In the future, the procedures should be reviewed annually to ensure they are kept up to date.</td>
<td>Agreed. Construction: The pavement cut procedures followed by the Contract Inspector will be reviewed and updated by the end of June 2007 and will be reviewed on an annual basis. Surveys/Tech Services: The pavement cut procedures will be reviewed annually and comments provided for inclusion in the Road Use By-law.</td>
<td>In progress. Some pavement cut procedures were developed after the audit. These include completion of Excavation Permits (EPs), work flowcharts and GeoMedia Permit tracking. However, these procedures were not dated and do not bear evidence of an annual review, as recommended. The procedures noted in the observations have not been updated.</td>
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<td>2.</td>
<td>Municipal Consent Application Form</td>
<td>That the Municipal Consent Application Form be reviewed and updated in accordance with the process and conditions currently in place.</td>
<td>Agreed. Surveys/Tech Services: A new MC form is now in place. All utilities implemented this practice as of April 2007.</td>
<td>Completed. The Municipal Consent Form, updated in April 2007, is currently in use.</td>
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<td>3.</td>
<td>Excavation Permit</td>
<td>That no EP be issued without a valid signature from the MC holder or bonded contractor.</td>
<td>Agreed. Surveys/Tech Services: At the last Utilities Co-ordinating Committee, all members were informed of this issue. Methods are being developed to ensure all forms and permits are signed by the applicant. Implementation date of June 2007 is expected.</td>
<td>Completed. A review of EPs on file from August 9, 2007 to January 30, 2009 noted all had valid signatures.</td>
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## Appendix “A” to Report CM09007

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**PUBLIC WORKS**  
**Pavement Cuts**  
**FOLLOW UP – FEBRUARY 2009**

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| 4. | **Adjustment Process**  
When an EP holder disputes an amount invoiced, a meeting will be arranged at which the TSA, the Contract Inspector (CI), and the EP holder will discuss the questioned restoration cost in detail. Once an adjustment is warranted, the TSA prepares a Request for Adjustment (RFA) and also a Request for Journal (RFJ) if a portion of the adjusted amount is charged to the Annual Minor Construction (AMC) account or other City departments. The RFA is required to be signed by the TSA, the Senior Project Manager (SPM), Survey and the Project Manager (PM), Construction.  
At the time of audit, inadequate backup was attached to the RFA’s selected for testing. The TSA simply used a photocopy of the original work sheet (WS) and manually changed the dollar amounts without further approval. Backup is evidence for valid transactions. The use of improper backup leaves room for mistakes, errors or improper adjustments.  
There was also one incident in which the TSA contacted the Accounts Receivable Clerk directly to cancel invoices instead of requesting adjustments by way of a formal process through Finance & Administration (F&A). When the normal adjustment process is not being followed, inappropriate adjustments could be processed.  
Further, a few overdue balances from 2001 for one bonded contractor were determined uncollectible, adjusted and charged to the AMC account. In this case, the City ended up absorbing the cost through its minor construction costs rather than recording the uncollectible as a bad debt expense. | That the CI note the amount to be adjusted on the original WS and a copy of this revised WS be attached to the related RFA as supporting documentation. The PM should ensure that the attached backup (i.e. revised WS) has been authorized by the CI (through original signature) before signing off the RFA.  
That all adjustments go through F&A using the RFA form. No adjustments should be directly requested by the TSA through Accounts Receivable.  
That corporate procedures pertaining to write-offs be followed when overdue balances are determined uncollectible after necessary and possible follow ups have been performed. The AMC account should not be used to record bad debt expenses.  
That restrictions on issuing new EPs be considered if a bonded contractor has overdue balances outstanding for long periods of time. | Agreed. Surveys/Tech Services: A new procedure will be implemented for the 2007 construction season. The following workflow change is proposed:  
- copy and retain original worksheet;  
- mark original with adjusted values;  
- date and sign amended WS; and  
- submit as per RFA process.  
Agreed. This is effective immediately.  
Agreed. F&A will work with the Accounts Receivable and CPI staff to develop a process to review outstanding payments and determine a course of action for any delinquent accounts. The expected completion date is July 31, 2007.  
Alternative to be considered. F&A and CPI staff will undertake a review to determine if procedure should be changed to secure letters of credit or certified cheques in lieu of bonds. This will be completed by December 31, 2007. | Completed. A review of all RFAs on file for 2007 and 2008 indicated documented changes on the original worksheet and authorization (original signature on RFA form). The dated and signed copy of the amended worksheet and original RFA are forwarded to F&A.  
Completed. Authorized RFA forms are submitted to F&A to process adjustments.  
Completed. Accounts Receivable runs a monthly aging of overdue accounts. Overdue pavement cut billings greater than 90 days (less than $20,000) accounted for 5.7% of the outstanding balance as of February 2009. Contractors have been contacted to investigate disputed amounts or to arrange for payment. There are no overdue balances from prior fiscal years. There was no evidence that the AMC account was used to record bad debt expenses in 2007 and 2008.  
Not completed. Staff indicated that discussions took place but details were not documented. From these informal meetings, it was concluded that the process would not be changed at that time. A corporate initiative is required with the involvement of the Legal Services and Purchasing Divisions. |
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<td>5.</td>
<td>GeoMedia Database Review</td>
<td>That training be arranged for the employees currently using GeoMedia to ensure that they have a clear understanding about the functioning and required processes in GeoMedia.</td>
<td>Agree. Training for employees using GeoMedia will be provided by the 4th quarter, 2007.</td>
<td>Completed. Two days training took place for the TSA in April 2007.</td>
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<td>It was noted during the audit that one of the staff who works extensively with GeoMedia had limited understanding of some of its commonly used functions resulting in errors, extra work and inefficiency.</td>
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<td>A few defects were also discovered in the applications currently available in GeoMedia. For example, an EP previously entered in GeoMedia can be completely deleted from the database with no audit trail. As a result, the tracking purpose of GeoMedia can be compromised. The EP could be deleted intentionally or by accident without being noted.</td>
<td>That the functionality of GeoMedia be reviewed for potential improvement. For example, permanent deletion of any EPs previously entered in GeoMedia needs to be disallowed. A field check should be added to ensure the dates entered are chronologically reasonable. The back-end database requires review. Any redundant columns should be removed or left blank instead of being manually filled in.</td>
<td>Agree. Surveys/Tech Services: System is under development to address any security and database issues. The expected delivery date is May 2007.</td>
<td>Completed. In April 2007, GeoMedia was upgraded and modified to allow for new validation rules for dates. Database fields were also modified to disallow deletion of data. Fields are now updated to read void to allow for retention of information.</td>
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<td>6.</td>
<td>Documentation &amp; Referencing</td>
<td>That the rest of the EPs be referenced to either the primary EP or the WS in GeoMedia when multiple EPs are combined.</td>
<td>Agree. Surveys/Tech Services: This issue is being addressed in the redevelopment project noted above. All EPs will link to a WS in the system.</td>
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<td>EPs with the same holder name for locations in close proximity are sometimes compiled into one worksheet. However, only one EP (primary EP) is referenced to the worksheets while the other related EPs bear no cross-referencing in GeoMedia or on file copies.</td>
<td>That any changes to an EP previously issued be noted both in GeoMedia and on the EP copy on file. Any supporting documentation explaining the reasons for the changes should be attached to the EP copy on file.</td>
<td>Agree. This will be implemented by July 2007.</td>
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<td>At the time of audit, changes to an EP previously issued (such as cancellation, change of EP holder, etc.) were not always noted in GeoMedia or on the EP copy on file. The reasons for the changes were not always documented either.</td>
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<td>There should be an adequate paper trail to support the processes followed. Insufficient documentation and references can result in additional work for any investigations or follow ups that may have to be done. They can also lead to undetected errors or be used to cover mistakes.</td>
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<td><strong>Reconciliation</strong>&lt;br&gt;At the time of audit, various account reconciliations (e.g. total amount paid versus total amount recovered, total amount paid in the ledger versus total amount paid per payment schedules, etc.) were not completed adequately or on a regular basis. As a consequence, errors or questionable transactions would not be identified in a timely manner. This would result in the reconciliation process in the following periods being more cumbersome and time consuming.</td>
<td>That account reconciliations be performed by F&amp;A staff on a regular basis. These processes should include reconciliation between the construction cost account and revenue accounts, the revenue accounts and the overhead accounts and the total amount paid to the Contractor in the general ledger versus the year-to-date total of all the Progress Payment Certificate (PPC) issued.</td>
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<td><strong>Management Action Plan</strong>&lt;br&gt;Agreed. This is already in place for 2007.</td>
<td><strong>Follow Up</strong>&lt;br&gt;(February 2009)&lt;br&gt;In progress. The paid versus recovered reconciliation is performed for each progress payment. The total amount paid in the ledger versus total amount paid per payment schedules and the reconciliation of revenue and overhead accounts are reconciled only at year end.</td>
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<td><strong>Bonded Contractor List</strong>&lt;br&gt;Except for EPs issued under a Municipal Consent, an EP can only be issued to a bonded contractor who has been pre-approved with a satisfactory bond and insurance. The F&amp;A group is responsible for contacting the bonded contractors for renewal of their bonds and insurance, updating the list of bonded contractors and distributing it to the individuals involved in the process. The most updated list provided during the audit included contractors whose bonds or insurance had expired. As a result, there is risk that an EP could be issued to an ineligible private contractor who does not have a valid bond or insurance. Without a valid bond, it would be difficult for the City to recover the restoration cost if the EP holder fails to perform or pay. Without valid insurance, the City could be held liable if there are problems with the excavation or restoration.</td>
<td>That the list of bonded contractors be reviewed and updated by F&amp;A staff on a monthly basis. Those contractors whose bonds or insurance are expiring should be contacted for renewal before the expiry day. Those contractors who fail to provide current bond and insurance documentation ought to be taken off the list immediately.</td>
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<td><strong>Management Action Plan</strong>&lt;br&gt;Agreed. Process is already in place by F&amp;A staff to track and record all expirations dates and follow up. Any difficulties securing renewals are forwarded to CPI staff for their information and assistance as needed to obtain updates.</td>
<td><strong>Follow Up</strong>&lt;br&gt;(Alternative implemented. The listing of bonded contractors is reviewed on a monthly basis. Contractors are contacted (usually shortly after expiration) and given 30-60 days to comply with new documentation to support insurance coverage and current bonding information. Staff will not issue an EP if information is out of date.</td>
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<td><strong>Finance &amp; Administration Procedures</strong>&lt;br&gt;At the time of audit, the F&amp;A staff had only a few written procedures developed to cover the financial process of pavement cut payment, invoicing and adjustment. When there are no complete procedures to refer to, the employee currently carrying on the process relies on personal understanding and experience, which could be incorrect or inconsistent. It is also problematic and inefficient for the successor to commence his/her duties within a short period of time.</td>
<td>That procedures pertaining to the entire process of pavement cut payment, invoicing and adjustment be documented and retained in the F&amp;A area. These procedures should be reviewed annually to ensure that they remain current and are appropriately and consistently applied.</td>
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<td><strong>Management Action Plan</strong>&lt;br&gt;Agreed. F&amp;A already has developed a process for procedure documentation, retention and regular updates for the entire F&amp;A section. Pavement Cut procedures were delayed due to staff turnover but are on schedule for completion by June 1, 2007.</td>
<td><strong>Follow Up</strong>&lt;br&gt;(In progress. F&amp;A staff have reviewed some procedures for invoicing and adjustments. Required updates were noted on the hard copy of the procedure. There is no evidence that these procedures have been reviewed on a regular basis.</td>
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10. **Accounting Process for Adjustments**

During the audit, several issues regarding the accounting process for adjustments were identified. Included in this list are:

- Adjustments posted in PeopleSoft without all the required signing authorities; and
- Journal entries regarding adjustments to annual minor construction posted against a revenue account instead of the construction cost account, resulting in overstated revenue and construction cost accounts.

The departure from the required procedures and the usage of incorrect accounts could result in misleading financial information or improper adjustments.

**RECOMMENDATION FOR STRENGTHENING SYSTEM**

That no adjustments to pavement cut billings be posted by F&A staff unless the RFA is signed appropriately as required.

**MANAGEMENT ACTION PLAN**

Agreed. F&A will return all RFAs that do not bear the correct signatures. This point will be included in the F&A procedure by June 1, 2007.

**FOLLOW UP (February 2009)**

In progress. Review of all original RFAs on file with F&A for 2007 and 2008 showed evidence of properly signed (by Requestor, Surveys Supervisor and Construction Supervisor) RFA forms. The requirement to return all RFAs with incorrect signatures is not included in the F&A procedures.

**In progress. Review of all original RFAs on file with F&A for 2007 and 2008 showed evidence of properly signed (by Requestor, Surveys Supervisor and Construction Supervisor) RFA forms. The requirement to return all RFAs with incorrect signatures is not included in the F&A procedures.**

11. **Process of Payment & Recovery**

Pavement cuts are restored by an independent contractor (Contractor) hired by the City through an annual tender process. The City pays the Contractor first when the restoration is completed and then bills the EP holders for the restoration cost plus overhead charges.

At the time of audit, the payments to the Contractor and invoices to the EP holders were processed separately and with irregular timing differences. Confusion and inefficiencies resulting from this current process were noted during the audit.

Consequently, it has been time consuming for F&A staff to reconcile the total amount paid to the Contractor to the total amount recovered either externally (EP holders) or internally (AMC or other City departments). Thus, errors or questionable transactions might not be identified.

**RECOMMENDATION FOR STRENGTHENING SYSTEM**

That the documents supporting the process of payment (to the Contractor) and recovery (invoicing the EP holders and charging the internal department accounts) be forwarded to F&A staff concurrently.

**MANAGEMENT ACTION PLAN**

Agreed. CPI staff will co-ordinate the payment and RFI information being submitted to F&A for processing effective immediately.

**FOLLOW UP (February 2009)**

Completed. Contractor payment and RFI information is now forwarded concurrently.

**In progress. Review of all original RFAs on file with F&A for 2007 and 2008 showed evidence of properly signed (by Requestor, Surveys Supervisor and Construction Supervisor) RFA forms. The requirement to return all RFAs with incorrect signatures is not included in the F&A procedures.**
The following items were noted during the course of the audit. Although they do not present internal control deficiencies, they are indicated in this Addendum so management is aware of the issues and can address them, as necessary.

1. Currently, when a Progress Payment Certificate (PPC) is received by F&A staff, the total amount to be paid is allocated to a few selected accounts (such as Construction Cost account & Annual Minor Construction (AMC) account) in PeopleSoft. As the allocation is manually calculated based on limited information from the payment schedule attached to the PPC, the process is time consuming and the amounts calculated could be incorrect.

   It is recommended:
   That, as part of the process of payment and recovery, the total amount to be paid be posted to the Construction Cost account during the payment process and then the total amount to be recovered internally (according to the Request for Journal prepared by the Technical Services Assistant) be adjusted from the Construction Cost account to the appropriate accounts during the process of recovery. Consequently, accuracy and efficiency of the payment and recovery processes as well as the reconciliation process would be improved.

   Management Response:
   F&A will take this recommendation under advisement and review it further with staff in May, 2007.

   Follow Up Comment:
   Alternative implemented. Concurrent receipt by F&A of the documents as noted in recommendation 11 of the main report ensures that appropriate accounts are charged and makes for greater accuracy and efficiency in the payment and recovery process.

2. During the audit, it was noted that Ontario Regulation 244/02 under the Municipal Act, 2001, which had disallowed charging gas and electricity companies for EPs issued to them, had been amended to now (December, 2006) allow for the charging of permit fees. Upon communication of this observation to staff, such companies were notified that, starting 2007, they would be charged the appropriate fees. Without regular reviews of legislation pertinent to this subject area, this additional source of revenues might have gone unrealized.

   It is recommended:
   That regulation updates pertinent to pavement cuts be reviewed on a timely basis and any required changes be implemented accordingly.

   Management Response:
   Surveys/Tech Services: Regulatory change is reviewed by Legal Services. They will be advised of the legislation that applies to this area for future correspondence.

   Follow Up Comment:
   Completed. CPI and Legal Services meet quarterly to review utility agreements. There have been no further changes to the regulations since the audit.

3. It was noted that the staff person responsible for approving adjustments used inconsistent signatures. He confirmed the authenticity of these signatures but acknowledged that his signature does vary from time to time. Signatures are used to validate the individual's approvals for certain transactions and thus consistency needs to be maintained.

   It is recommended:
   That a specimen signature for the Technical Services Assistant be set up and maintained.

   Management Response:
   Surveys/Tech Services: Agreed. This will be done immediately.

   Follow Up Comment:
   In progress. Review of documentation signed by the TSA showed that a consistent signature is now used. However, no specimen signature was maintained. CPI staff have indicated that they will request that F&A prepare a Notification of Signature Authority Form.
4. Often road damage is incurred when developers carry out construction work, especially in an “in fill lot” (i.e. an empty lot where the owner wishes to bring the services in from the street). Even though an approach is normally built, the sidewalk adjacent to the approach is very likely to be damaged as a result of the usage of heavy trucks or equipment. Currently, no deposit is held for possible road damages when the building permit is issued. As a result, it would be difficult to obtain payment for restoration costs from the developers after the road is damaged. Consequently, the City has absorbed a considerable amount of the restoration costs in this regard.

It is recommended:
That the possibility of requiring a deposit for possible road damages at the time of the building permit application be discussed with the division issuing the permit. It would help in reducing the time spent on collecting restoration costs from the developers and improving the prospect of recovery rather than cost absorption by the City.

Management Response:
Surveys/Tech Services: This item is being reviewed with the Planning Department to ensure suitable funds are held for damages. Alternately, a charge back system is being considered in the event there are no funds retained. A decision on a methodology is expected by September 2007 for implementation in the 2008 budget process.

Follow Up Comment:
Initiated. Meetings were held with the Planning Department in 2008 but no fee system has been proposed. Only bonded contractors are used.

5. Before initiating the payment process in PeopleSoft, the account allocation of the total amount to be paid is recorded in a Purchase Order Distribution Form (the Form) by F&A staff. Instances were noted in which the printed copy of the Form did not represent the actual amounts posted in PeopleSoft. When an account balance reached the budget, no more transactions to that particular account were added in the non-printed area of the Excel Form, only accessible to the employee preparing the Form. This could result in misleading information and a lack of adequate paper trail, causing confusion. Any budget overruns would not be noticed on a timely basis.

It is recommended:
That the actual amounts posted to each account in PeopleSoft be shown on the Form.

Management Response:
F&A will take this recommendation under advisement and review it further with staff in May, 2007. However, it should be noted that this document is for F&A purposes only to enable reconciliation of actual payment distribution against original Purchase Order distribution.

Follow Up Comment:
No longer applicable. Chart fields were changed in Peoplesoft and the Form was not edited to reflect this change. These Forms are for internal use and not typically printed.