

Final Audit Follow Up

As of March 31, 2002



“Citywide Cash Controls – Department of Management and Administration”

(Report #0134, Issued August, 2001)

Report #0228

July 25, 2002

Summary

All action plan steps developed for the Department of Management and Administration as the result of our previously issued audit report #0134, Citywide Cash Controls, have been implemented or otherwise resolved. New issues have subsequently been identified for which additional actions are recommended.

In audit report #0134, issued August 29, 2001, we identified significant risks at several locations throughout the City that increased the likelihood that cash collections would not be properly and efficiently handled and deposited into the City's bank account. Recommendations were provided to eliminate or reduce those risks. The collections to which these risks and related recommendations pertained were classified into 26 categories. A separate presentation of the risks and recommendations for each category was provided in audit report #0134. Action plan steps were developed for each of the 26 categories.

The Department of Management and Administration was responsible for two of the 26 categories: (1) Accounting Services and (2) the Municipal Supply Center. These two offices had a total of 18 action plan steps due for completion. All of those steps have now been implemented or otherwise resolved. New issues were identified subsequent to the issuance of audit report #0134 for which additional actions are recommended.

Scope, Objectives, and Methodology

Report #0134

The scope of report #0134 included a review of cash collection and processing functions at each City location where significant amounts of cash were

collected. The audit focused on controls pertaining to cash upon collection by the City and/or City employees. The review was conducted during the period January 2, 2001, through May 15, 2001.

The primary objectives of the audit were to determine whether adequate controls had been established over cash collected throughout the City. This included a determination as to whether cash collections were:

- received and processed in a proper and efficient manner,
- adequately documented and accounted for,
- safeguarded, and
- timely deposited into the City's bank account.

The audit disclosed that, for the most part, controls were in place to provide accountability for collections from the time of receipt until deposit. However, the audit identified significant risks at several locations that (1) could result in the undetected loss or unauthorized diversion of cash, (2) limit the interest that could be earned on cash upon deposit, and/or (3) result in cash due the City not being received.

Report #0228

The purpose of this audit follow up is to report on the progress and/or status of the efforts to implement the recommended action plan steps due as of March 31, 2002. To meet this objective and to facilitate the usefulness of our follow up work, a separate follow up report will be issued for each of the five service areas to which the initial audit pertained. The service area addressed by this report is the Department of Management and Administration (DMA).

To obtain information, we conducted interviews with key department staff and reviewed relevant documentation. This audit was conducted in accordance with Generally Accepted Government Auditing Standards, and accordingly included such tests of the records and other auditing procedures as were considered necessary.

Background

The City collected revenues (i.e., cash) of approximately \$414 million at 22 separate departments/offices during fiscal year 2000. Those 22 locations were comprised of the Revenue Office and 21 departments/offices external to the Revenue Office. For audit purposes, the collections at those 22 locations were classified into 26 categories.

Two of the 26 categories pertained to offices that are organizationally under DMA. Those two categories (offices) were Accounting Services and the Municipal Supply Center (MSC). Collections at these two offices during fiscal year 2000 totaled approximately \$7.16 million.

Previous Conditions and Current Status

In report #0134, we identified several risks that needed to be addressed by DMA in regard to collections received at Accounting Services and MSC. These risks included, for example, unsecured collections, inadequate segregation of duties among employees, lack of restrictive endorsements on negotiable instruments, and lack of records adequately documenting dates of receipt or custodial transfers to the Revenue Office. Eighteen action plan steps were developed to address those risks, including revisions to current practices such that collections traditionally collected by those two offices are instead collected directly by the Revenue Office. As of March 31, 2002, DMA had completed or otherwise resolved all 18 (100%) steps. Table 1 provides a summary of the conditions and tasks completed.

**Table 1
Conditions Identified in Report #0134 and Current Status**

Previous Conditions	Current Status
Accounting Services	
<ul style="list-style-type: none"> Applicable City departments will again be instructed to submit their collections directly to the Revenue Office and not to Accounting Services. 	<ul style="list-style-type: none"> ✓ Applicable departments and offices were reminded on January 16, 2001, to forward their collections directly to the Revenue Office in accordance with established City policy. Our review disclosed only isolated instances where Accounting Services received those collections.
<ul style="list-style-type: none"> External entities will be instructed to submit their payments directly to the Revenue Office and not to Accounting Services. 	<ul style="list-style-type: none"> ✓ Accounting Services and other departments/offices informed applicable external entities to remit their payments directly to the Revenue Office. Our review disclosed only isolated instances of payments being received in Accounting Services. These payments were immediately forwarded to the Revenue Office.
<ul style="list-style-type: none"> The standard City billing invoice will be revised to specify that payment should be mailed to the Revenue Office. 	<ul style="list-style-type: none"> ✓ In September 2001, the City billing invoice was revised to indicate that payment should be mailed to the Revenue Office.
<ul style="list-style-type: none"> Any collections received in Accounting Services will be secured in locked file cabinets/desk drawers pending their transfer to the Revenue Office. 	<ul style="list-style-type: none"> ✓ For those isolated instances where payments are received and maintained in Accounting Services pending transfer to the Revenue Office, the collections are secured in a locked file cabinet to which access is restricted to authorized staff.
<ul style="list-style-type: none"> Accounting Services will obtain an endorsement stamp from the Revenue Office and will restrictively endorse any negotiable instrument upon receipt. 	<ul style="list-style-type: none"> ✓ An endorsement stamp was obtained and is used, in those isolated instances where collections are received in Accounting Services, to immediately restrictively endorse negotiable instruments.
<ul style="list-style-type: none"> Any negotiable instruments received in Accounting Services will be transferred to the Revenue Office within one week of receipt. 	<ul style="list-style-type: none"> ✓ For the isolated instances where collections were received in Accounting Services, transfers to the Revenue Office were made within one week of receipt.
<ul style="list-style-type: none"> For any collections received in Accounting Services, the receipt dates will be documented. 	<ul style="list-style-type: none"> ✓ The record used to document collections received in Accounting Services was modified to include the date of receipt.
<ul style="list-style-type: none"> Documentation of receipt dates will be retained. 	<ul style="list-style-type: none"> ✓ Records documenting collections, including the dates of receipt, are retained.

<ul style="list-style-type: none"> Documented acknowledgements of custodial responsibility will be obtained from the Revenue Office for any collections received in Accounting Services and transferred to the Revenue Office. 	<ul style="list-style-type: none"> ✓ For those isolated instances where collections are received, Accounting Services staff obtain documented acknowledgements from the Revenue Office evidencing the custodial transfer of the collections.
<p>Municipal Supply Center</p>	
<ul style="list-style-type: none"> Fees collected for utility pole sales will be secured in a locked cabinet/desk drawer and access to that cabinet/drawer will be restricted to authorized staff. 	<ul style="list-style-type: none"> ✓ Risks relating to utility pole sale collections were resolved when those sales were stopped in September 2001 as the result of a DMA cost-benefit analysis.
<ul style="list-style-type: none"> MSC will obtain an endorsement stamp from the Revenue Office and will restrictively endorse negotiable instruments upon receipt. 	<ul style="list-style-type: none"> ✓ MSC now uses an endorsement stamp obtained from the Revenue Office to restrictively endorse negotiable instruments collected at MSC.
<ul style="list-style-type: none"> Collections for utility pole sales will be transferred to the Revenue Office within one week of receipt. 	<ul style="list-style-type: none"> ✓ Risks relating to utility pole sale collections were resolved when those sales were stopped in September 2001 as the result of a DMA cost-benefit analysis.
<ul style="list-style-type: none"> The auction company that administers the City's annual auction will be instructed to remit their payments directly to the Revenue Office. 	<ul style="list-style-type: none"> ★ In July 2001, MSC instructed the auction company to send future payments to the Revenue Office at City Hall. For the annual auction held in October 2001, the auction company sent to the Revenue Office an initial payment of \$10,268, representing the auction proceeds applicable to the Police Department. The Revenue Office properly notified MSC that a payment had been received. As MSC was not aware of the payment amount, MSC assumed that payment represented the entire auction proceeds. As a result, neither MSC nor Procurement Services were aware that the remaining auction proceeds of \$546,000 had not been received. These funds were being withheld by the auction company pending receipt of legal titles on three City vehicles sold during the auction. Subsequent to our inquiry six months after the auction, actions were initiated by Procurement Services and the City Attorney's Office to obtain the remaining proceeds. As a result of their efforts, a check for \$300,000 was received on June 7, 2002. The auction company is withholding the balance pending resolution of litigation involving one of the auctioned vehicles (a fire truck). Procurement Services and the City Attorney's Office are continuing efforts to resolve that issue and obtain the balance. Similar circumstances should not occur in the future as the City moves to on-line auctions through the Internet and away from the traditional annual auctions. (See "New Issues" section of this report.)
<ul style="list-style-type: none"> Because of the immateriality of utility pole sales, alternatives for disposal that do not result in the charging and collection of fees will be identified and evaluated. 	<ul style="list-style-type: none"> ✓ An analysis conducted by DMA showed that the continued sale of utility poles was not cost-beneficial. An alternative process for disposal of those poles was identified and implemented in September 2001.
<ul style="list-style-type: none"> In the event that an appropriate alternative is identified, the disposal process will be revised such that fees are no longer collected and deposited. 	<ul style="list-style-type: none"> ✓ As noted above, the disposal process was revised such that utility poles were no longer sold effective September 2001. As a result, fees are no longer collected.
<ul style="list-style-type: none"> If an alternative is not identified, perpetual inventory records of used utility poles will be maintained; and those 	<ul style="list-style-type: none"> ✓ As noted above, an alternative was identified and implemented. As a result, fees are no longer charged and collected.

records will be used by independent staff to ensure that amounts collected and deposited are appropriate.	
<ul style="list-style-type: none"> Documented acknowledgements of the acceptance of custodial responsibility will be obtained from the Revenue Office upon the transfer of collections to that office. 	<ul style="list-style-type: none"> ✓ MSC now obtains documented acknowledgements of custody transfers from the Revenue Office upon the transfer of funds.
<ul style="list-style-type: none"> Written procedures for the receipt and processing of collections at MSC will be established. 	<ul style="list-style-type: none"> ✓ MSC established written procedures for the collection and processing of fees received for utility pole sales. However, as noted above, those sales were subsequently stopped.

Table Legend:

- Issue addressed in the original audit

- ✓ Issue addressed and resolved
- ★ Original issue resolved but additional issue noted

New Issues

Subsequent to the issuance of audit report #0134, MSC initiated a program to sell surplus property through the Internet. Under that program, certain surplus property (e.g., vehicles) are placed for bid through a website (govdeals.com). After the bid period ends, the highest bidder is awarded the item. The high bidders pay MSC staff prior to picking up their purchased property. MSC staff subsequently transfers those collections to the Revenue Office for deposit into the City's bank account. We identified controls implemented by MSC for this process. These included, for example:

- only cashier's checks and money orders are accepted; no cash or personal or company checks are accepted,
- collections are safeguarded in a locked cabinet pending transfer to the Revenue Office,
- negotiable instruments are restrictively endorsed upon receipt, and
- documented acknowledgments of custodial responsibility are obtained from the Revenue Office upon the transfer of collections.

MSC is in the process of refining and adjusting this process as it develops. During this development phase, we recommend that MSC establish written procedures addressing the controls listed above as well as procedures requiring timely transfers of collections to the Revenue Office for deposit.

Additionally, as a means of ensuring that sale proceeds are properly deposited into the City's bank account, we recommend that staff other than MSC (e.g., Procurement Services) reconcile sales per the Internet to amounts transferred and deposited into the City's bank account.

Conclusion

DMA has been successful in completing the tasks that were identified in audit report #0134. Additional actions should be taken to ensure that auction proceeds are properly and timely deposited into the City's bank account through further refinements to the recently implemented on-line auction process (Internet sales).

We appreciate the response and assistance provided by the applicable offices during this audit follow up.

Response from Appointed Official

City Manager:

As noted, all action plans identified in this audit have been completed successfully. We appreciate the review and recommendations made by the City Auditor's Office and the cooperation by DMA staff in improving the City's controls over cash collections.

Copies of this Final Audit Follow Up or audit report #0134 may be obtained from the City Auditor's web site (<http://talgov.com/citytlh/auditing/index.html>), or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail, or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (dooleym@talgov.com).

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