

Audit

Follow Up

As of March 31, 2002



Sam M. McCall, CPA, CIA, CGFM
City Auditor

“Citywide Cash Controls – Revenue Office”

(Report #0134, Issued August, 2001)

Report #0232

July 25, 2002

Summary

The Revenue Office has completed many of the action plan steps developed as the result of our previously issued audit report #0134, Citywide Cash Controls. The planned completion for several steps has been deferred due to staff's involvement in implementation of the City's new PeopleSoft Customer Information System.

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.

Two of these 26 categories were (1) general collections processed by the Revenue Office and (2) parking meter collections. There were seven action plan steps pertaining to these two categories originally due for completion as of March 31, 2002. Action plan steps for general collections were the responsibility of the Revenue Office. Responsibility for action plan steps developed for parking meter collections were shared by the Revenue Office with Traffic Engineering. Five additional action plan steps were developed for the Revenue Office to complete by March 31, 2002. These additional steps are intended to assist other City departments/offices in reducing risks associated with their collections. In summary, as of March 31, 2002, the Revenue Office was scheduled to complete 11 action plan steps and Traffic Engineering was scheduled to complete one action plan step (total of 12 steps).

As of March 31, 2002, eight of the 12 action plan

steps had been completed. Completion of the remaining steps pertain to: (1) the provision of written instructions to all City departments/offices for capturing payee information when accepting checks, (2) updating the City's parking meter database, and (3) ensuring that appropriate canister types were placed in each parking meter, was deferred by the Revenue Office. These deferments were due to staff's involvement in implementation of the City's new utility customer information system (CIS).

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 #0232

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 Revenue Office.

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 the Revenue Office. Those two categories were (1) collections received at the Revenue Office [i.e., general

collections] and (2) parking meter fees collected and processed by Revenue Office staff. General collections received and processed by the Revenue Office during fiscal year 2000 totaled in excess of \$405 million. (Of that total, \$42 million was initially collected by other City departments/offices and then transferred to the Revenue Office for deposit.) Parking meter collections for that year totaled approximately \$337,000.

Previous Conditions and Current Status

In report #0134, we identified several risks. Action plan steps were developed to address those risks. Action plan steps developed for the Revenue Office addressed both: (1) risks related only to collections received and processed by the Revenue Office and (2) general risks relating to all departments and offices. These risks included, for example, unsecured collections, inadequate segregation of duties among employees, lack of or inadequate restrictive endorsements on negotiable instruments, and lack of records adequately documenting dates of receipt or custodial transfers to the Revenue Office.

The Revenue Office was scheduled to complete 11 action plan steps as of March 31, 2002. Traffic Engineering was also scheduled to complete one action plan step pertaining to Revenue Office collections as of that date. As shown below in Table 1, eight of those 12 action plan steps were timely completed.

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

Previous Conditions	Current Status
General Collections - Risks Unique to the Revenue Office	
<ul style="list-style-type: none"> The machines being acquired to replace the current DP 500's (used to process utility collections at the City's drive-through facility) will be programmed to place the City's bank and bank account number on the restrictive endorsement. 	<ul style="list-style-type: none"> ✓ The new machines place restrictive endorsements on negotiable instruments that include the City's bank and bank account number.
<ul style="list-style-type: none"> All manual restrictive endorsement stamps will include the City's bank and bank account number. 	<ul style="list-style-type: none"> ✓ All manual endorsement stamps used by the Revenue Office now contain the City's bank and bank account number.
General Collections – Risks Relating to All City Departments/Offices	
<ul style="list-style-type: none"> Upon the award and execution of the new contract for banking services, the Revenue Office will obtain and provide a restrictive endorsement stamp to each City department/office that receives negotiable instruments for deposit. Those stamps will specify that the negotiable instruments are "for deposit only" into the applicable City of Tallahassee bank account. 	<ul style="list-style-type: none"> ✓ As noted during our follow up review of departments/offices external to the Revenue Office, appropriate endorsement stamps were obtained and provided to each of those departments/offices.

<ul style="list-style-type: none"> • Upon receipt of grant proceeds from grantor agencies (e.g., federal, state, and county governments), the Revenue Office will provide the accompanying payment support and a copy of the checks to the applicable grant accountants. 	<ul style="list-style-type: none"> ✓ Upon receipt, payment support and copies of grant checks are forwarded to staff in Accounting Services. That staff then forward those documents to the applicable grant accountants (e.g., in Accounting Services or other departments such as Aviation).
<ul style="list-style-type: none"> • The Revenue Office will use a receipt generated by the City cashing system (CORE) to document all transfers of collections from other departments/offices. The CORE-generated receipt will be provided to the transferring party at the time of the transfer. 	<ul style="list-style-type: none"> ✓ The Revenue Office has employed different methods to document the acknowledgement of custodial transfer of collections from external departments/offices. These methods include providing the transferring party with (1) a copy of a CORE-generated receipt, (2) manual stamp that acknowledges the transfer, and (3) initials and dates of Revenue Office staff acknowledging their receipt of the funds. Each of the methods provides sufficient evidence of the custodial transfer of funds.
<ul style="list-style-type: none"> • The Revenue Office, in conjunction with Utility Customer Services (UCS), will initiate negotiations with applicable collection companies to have payments wire transferred into the City's bank account. The wire transfer of these funds is one alternative for eliminating identified risks associated with receipt of checks from those companies (e.g., checks not safeguarded and/or not deposited in a timely manner). 	<ul style="list-style-type: none"> ✓ If this alternative is selected, the Revenue Office and UCS determined that it would be advantageous to have the related account information electronically remitted at the same time that the wire transfers are made. Subsequently, negotiations were initiated and analyses made. Based on those initial analyses, it was determined that programming changes were needed to the existing CIS in order to ensure successful implementation of this alternative. However, it was decided that making programming changes to the current CIS was not efficient due to the planned replacement of that system with the new PeopleSoft CIS. Accordingly, alternative actions were identified to eliminate the identified risks. Those actions are described in the separate presentation made for UCS.
<ul style="list-style-type: none"> • To allow the State Attorney a means to successfully prosecute non-sufficient funds checks on behalf of the City, the Revenue Office will issue written instructions to applicable departments/offices as to the specific identifying information that must be captured when checks are accepted as payment. 	<ul style="list-style-type: none"> ▼ Behind schedule, completion date amended to June 30, 2002. Staff designated to work on this action step is currently assigned to the City's team created to implement the new PeopleSoft CIS.
<p>Parking Meter Collections</p>	
<ul style="list-style-type: none"> • The Revenue Office will update the City's parking meter database to reflect all current metered parking spaces and the type canister placed in each of those meters. 	<ul style="list-style-type: none"> ▼ Behind schedule, completion date has been amended to September 30, 2002. Staff designated to work on this action step is currently assigned to the City's team created to implement the new PeopleSoft CIS.
<ul style="list-style-type: none"> • The Revenue Office will determine the most appropriate canister type to place in each of the City's parking meters. 	<ul style="list-style-type: none"> ▼ Behind schedule, completion date has been amended to September 30, 2002. Staff designated to work on this action step is currently assigned to the City's team created to implement the new PeopleSoft CIS.

<ul style="list-style-type: none"> Based on the determinations made in the preceding steps, the Revenue Office will replace canisters as necessary to ensure the most appropriate type is placed in each meter. 	<ul style="list-style-type: none"> Behind schedule, completion date has been amended to December 31, 2002. Staff designated to work on this action step is currently assigned to the City's team created to implement the new PeopleSoft CIS.
<ul style="list-style-type: none"> The Revenue Office will continue to perform analytical procedures that compare actual collections with anticipated collections. 	<ul style="list-style-type: none"> The Revenue Office continues to perform analytical procedures.
<ul style="list-style-type: none"> Traffic Engineering will develop written procedures that provide for notification to and coordination with the Revenue Office in regard to: (1) the acquisition of collection canisters, (2) the placement and replacement of canisters in meter housings, (3) the placement and removal of parking meters, and (4) changes to meters as to parking time allowed. 	<ul style="list-style-type: none"> Traffic Engineering developed written procedures that provide for coordination with the Revenue Office.

Table Legend:

- Issue addressed in the original audit

- Issue addressed and resolved
- Completion is behind schedule

Significant Outstanding Issues

As noted in Table 1, action steps to ensure that the most appropriate types of collection canisters are placed in the City's parking meters have been delayed due to staff's involvement in the implementation of the City's new CIS. The establishment and issuance of written instructions for capturing information when accepting checks for payment has also been delayed for that reason. The only other remaining action steps, which were not due for completion during this reporting period, pertain to (1) coordination of changes where certain external entities submit their payments and (2) the issuance of comprehensive written procedures addressing the cash collection process to all City departments/offices.

We appreciate the response and assistance provided by the Revenue Office during this audit follow up.

Response from Appointed Official

City Treasurer-Clerk:

The Treasurer-Clerk's Revenue Division has implemented the majority of the recommendations made in the "Citywide Cash Controls-Revenue Office" report issued in August, 2001. The balance of the recommendations is being implemented, and will be completed by September 30, 2002. We believe that implementation of the recommendations will strengthen the Revenue Office's internal controls over the cash collection process.

Copies of this 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).

Audit Follow Up conducted by:
 T. Bert Fletcher, CPA, Audit Manager
 Sam M. McCall, CPA, CIA, CGFM, City Auditor