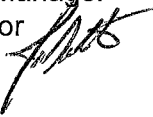




MIAMIBEACH

BUDGET AND PERFORMANCE IMPROVEMENT
Internal Audit Division

INTERNAL AUDIT REPORT

TO: Kathie G. Brooks Interim City Manager
FROM: James J. Sutter, Internal Auditor 
DATE: December 28, 2012
AUDIT: Central Cashier's Office Operational Audit
PERIOD: October 1, 2010 through April 30, 2012

This report is the result of a regularly scheduled operational audit of the Finance Department's Central Cashier's Office and the effectiveness of the security measures implemented. This report does not include the Building Department, Parking Department and the Police Department's Records Management Section cashiering functions which has been audited separately. Similarly, the Parks & Recreation Department's cashiering functions are excluded since they were also audited separately with the most recent report being issued on June 10, 2011.

INTRODUCTION

The Finance Department's Central Cashier's Office is located on the first floor of City Hall and is responsible for receiving, safeguarding and depositing the monies paid to the City by various sources on a daily basis. They must be available to the public, Monday through Friday excluding holidays from 8:30am till 5:00pm, as well as to other City departments/divisions to receive monies and provide receipts. The Central Cashier's Office is currently staffed by a Financial Analyst and a Financial Analyst I as they are in the process of trying to fill a vacant Financial Analyst position.

All currency, check, money order and credit card payments received are to be ultimately processed through the Eden System's Core Cashiering Module so that the designated general ledger accounts are debited and credited accordingly. The City frequently receives more than \$300,000 daily with currency being only about 1.5% of collected revenues on average. This daily total also includes the following monies that are not received and processed initially by the Central Cashier's Office:

- The Parks & Recreation Department receives payments at its various sites for registrations, activity fees, entrance fees, food and beverages, etc.
- The Building Department accepts currency, checks and credit cards as payment for various fees, violations, etc.
- The Parking Department receives currency, checks and credit cards in exchange for the issuance of parking decals, permits, etc.
- The Police Department's Records Management Section accepts currency and checks for copies of police reports, fingerprints, background checks and letters of good conduct.
- The City Commission authorized SunTrust Bank through the ratification of Resolution No. 2007-26614 to provide lock box processing whereby customers' payments are mailed directly to a location accessible by the bank thereby expediting collection.

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The monies received by the above bulleted entities are then batched together and are brought to the Central Cashier's Office for processing. Batch processing can be defined as executing a series of noninteractive jobs all at one time without stopping. Typically, only the general ledger summary totals are entered into the Eden System's General Ledger Module as the corresponding departments maintain separate software (RecWare Safari, Permits Plus, etc.) or other Eden System modules (Utility Billing, Accounts Receivable, etc.) to track each customer's individual transactions.

The Finance Department intends on consolidating many of these cashiering functions later this fiscal year on the first floor of the 1700 Meridian Avenue building. Yet, these plans also include having one Financial Analyst remain in the present Central Cashier's Office to process any needed customer transactions, especially those by the Building Department located on the second floor of City Hall.

All the payments received daily by the Central Cashier's Office are reconciled by its staff to the Eden System's Core Cashiering Module pay file reports with any identified overages or shortages placed into general ledger account 011-8000-369990. All the collected monies are stored inside the vault until being transported in sealed bank bags Monday through Friday by TransValue, Inc.'s armored car services to SunTrust Bank for depositing into the City's designated bank account.

Next, a Financial Analyst III is tasked with reviewing all entries for accuracy before posting the transactions to the City's Eden System. The Treasury Manager will fill in and perform these duties when the Financial Analyst III is either out of the office or has to execute and reconcile cashiering transactions in the Central Cashier's Office due to employee absences. Finally, other designated Finance Department employees in the General Ledger Management Section, independent of the Central Cashier's Office, will perform monthly reconciliations of the City's pooled cash and other bank accounts.

All the supporting source documentation (Eden System reports, City Bills, Miscellaneous Cash Receipts, etc.) is centralized and separated by account (water payments, water deposits, business tax receipt payments, etc.) before being placed into the daily folders (formerly called the daily bags). The most recent three months' folders are stored in the Finance Department until they are sent to the City's designated storage company (International Data Depository) for safekeeping due to space limitations.

The Central Cashier's Office is also responsible for safeguarding the City's vault, which stores and protects currency, blank checks, stocks, letters of credit, surety bonds, signature plates, etc. These items are to be inventoried to monitor their location, maturity dates, etc. for the Finance Department's management. The following bullet points are representative of the items found in the vault during Internal Audit's unannounced May 17, 2012 inventory:

- A \$6,000 petty cash fund maintained by the Central Cashier's Office which is used to reimburse employees for unforeseen items or services costing fifty dollars or less. Also, present is a total of \$2,000 of the Parking Department's petty cash monies which is comprised of \$1,500 from the 5th Street and Alton Road Garage's fund 480, \$250 from the Anchor Garage's fund 463 and \$250 from the Pennsylvania Garage's fund 467. All these reimbursements require prior approval from either the Division/Department Director or their designee and the submittal of a properly completed Petty Cash Voucher.

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- Blank checks for such City funded checking accounts as Consent Decree Trust, Festival of the Arts, Health Facilities Authority, SMG Co-Promotion Fund, Miami Beach Authority Benefit Fund, etc.
- 744 shares of Loews common stock certificates valued at \$30,697 as of September 30, 2012.
- Letters of credit and surety bonds in varying amounts for such companies as Beachsports International, Inc.; Shane Watersports; Pelican Development LLC; Global Spectrum; etc.
- 33 Normandy Shores gate clickers purchased by the City's Property Management Division at \$19.50 each are available for sale to desiring patrons.

OVERALL OPINION

The Finance Department's Central Cashier's Office processes a majority of the City's transactions and safeguards valuable items in the vault. With this responsibility, comes a strong need for strictly followed internal controls, independent review, sufficient security measures, etc. to help ensure that the City's assets are properly protected and accounted for. The following weaknesses were noted which require corrective action:

- The Finance Department did not perform a complete inventory of the vault's contents during the nineteen month audit period to help ensure that all items are accounted for and that their maturity dates have not expired.
- Security weaknesses are identified that if not timely corrected could possibly increase the City's risk of injury and loss.
- Citywide policies and procedures specifying the purpose, preparation and restricting the usage of Miscellaneous Cash Receipts forms by City departments/divisions were not documented, distributed and consistently followed by staff.
- Tested petty cash expenditures were reimbursed despite either exceeding the \$50 maximum or not meeting the designated approved criteria and should have been paid from a Request for Direct Purchase or a Standing/Purchase Order.
- The monthly due dates for the pooled cash bank reconciliations differed in the Finance Department's operating policy and procedures (45 days) compared to the targeted 50 days in the City's performance measurement software. Using the operating policy and procedure terms, 47.37% or nine of the nineteen month's pooled cash account reconciliations completed during the audit period were not prepared timely averaging 5.78 days after their due dates. In addition, between three and five months bank reconciliations were completed after the Finance Department's designated due date for the six other active checking accounts found safeguarded inside the Central Cashier's Office vault.
- The Normandy Shores clickers purchase and subsequent sales are not being effectively controlled
- The possibility exist that Central Cashier's Office job duties may not be properly assigned to satisfy the segregation of duties principle.
- Although supporting documentation was present in the reviewed daily folders, there were no explanations present detailing the reasons for the voided transactions.

PURPOSE

The purpose of this audit was to determine whether the Finance Department maintained current policies and procedures that were known and followed by staff; whether City assets and personnel were adequately safeguarded and accounted for; whether sufficient documentation and internal controls were implemented to help determine the completeness and correctness of all tested transactions; and whether tested transactions were accurately recorded into the City's Financial System.

SCOPE

1. Confirm that effective and detailed operating policies and procedures have been developed and are being utilized for the proper control and accountability of all related transactions.
2. Confirm that tested collections and inventory are adequately safeguarded, that access to key supporting documents and records is properly restricted to authorized employees and permitted only in accordance with management policy.
3. Confirm that proper segregation of duties and internal controls are followed to provide reasonable assurance that all tested City assets are accounted for.
4. Confirm that tested files and records are adequately secured, neatly organized and properly maintained.
5. Confirm by examination of the records that tested collections received were correctly deposited into the designated SunTrust Bank's general depository account and the account was reconciled timely.
6. Confirm that tested transactions were accurately entered into the City's Financial System.

FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

1. Finding: *The Complete Vault's Contents are Not Inventoried at least Quarterly to Help Ensure that all Items are Present and to Determine Whether any can be Disposed of or Returned to their Original Owners*
The Central Cashier's Office vault is used primarily to safeguard blank checks, signature plates, stocks, currency, promissory notes and letters of credit. Internal Audit's unannounced May 17, 2012 physical inventory count of the vault's contents noted the following shortcomings:
 - a. Although the Finance Department maintained an inventory of the letters of credit, there are other important items stored in the vault that are not included (blank checks, stocks, currency, etc.). Maintaining a current complete inventory listing is beneficial in determining item accountability, monitoring maturity dates, etc.

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- b. Internal Audit believes that possibly up to thirty different items that had previously been closed out, satisfied, expired, etc. continue to be stored in the vault. Examples include inactive Miami Beach Housing Authority Benefit and Festival of the Arts blank checks (bank accounts were closed in 2002 and 2005 respectively), Seaboard surety bonds due 08/01/88, Beachsports International, Inc. letters of credit expiring 06/04/93, a Finance Department's purchasing credit card that expired in March 2006, etc.

Recommendation(s):

The Finance Department should consider implementing the following recommendations to improve internal controls and documentation over the vault and its contents:

- a. Quarterly complete inventory listings should be timely and accurately performed by designated Finance Department employee(s) independent from the Central Cashier's Office. Any items deemed missing from the prior inventory listings should be investigated as to the reasons until a satisfactory explanation is reached.

Furthermore, the Central Cashier's Office staff should prepare and maintain an Excel schedule listing all relevant information for any items removed from the vault. This report should at a minimum contain the individual's name that removed the item, the time/date that the item was removed, the description of the item removed, the reason for the removal and the time/date that the item was either returned or permanently disposed of.

- b. The expiration dates of all documents stored in the vault should be reviewed during the preparation of future quarterly inventory listings to determine if any have expired or been satisfied and therefore may have no value to the City. Upon approval of the City's Chief Financial Officer or her designee, these items may be able to be removed from the vault and either disposed of or returned to their original owner.

Management Response (Finance):

The Central Cashier's Office will begin as soon as possible to maintain a complete list of the inventory that is stored in the Central Cashier's Office vault. An inventory will be performed on a quarterly basis by a Finance Department employee outside of the Cashiering/Treasury functions. Any items that have expired or closed out will be discarded or returned to the original owners.

2. Finding: *Security Weaknesses are Identified that Could Possibly Increase the City's Risk of Injury and Loss*

Given the amount of currency, stocks, etc. stored in the cash register drawers and the vault, the Central Cashier's Office implemented security procedures were reviewed and the following weaknesses noted:

- a. Although the alarm codes have been changed with employee turnover, inquiries found that the vault's combination has not been changed in several years.
- b. Cashiers' monies are not properly secured during lunchtime thereby making it difficult to determine the cause of any possible shortages as a supervisor could access their monies with a key during their absence to process transactions.

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- c. The front glass for the two cashiers' stations where customers interact with City personnel is made of standard plate glass and is not tempered thereby possibly increasing the likelihood of a successful robbery or that someone may be injured. Also, the entry space at the bottom of the front glass is too large potentially allowing an individual to reach their arm through and improperly access anything stored nearby.
- d. The vault room's back door, which serves as a fire exit providing needed egress on to the loading dock, is not properly secured as it does not contain either a strike plate, dead bolt or a separate alarm. It contains a key lock that can be accessed by anyone with either a key or the ability to force the lock as the office's alarm is not active during business hours.
- e. The Central Cashier's Office personnel stated that they have not been informed of the desired procedures to follow during a robbery attempt which may increase the possibility of injury, enhance the extent of the City's loss and reduce the likelihood that the perpetrator will be caught.

Recommendation(s):

Although Internal Audit is aware that pending changes with the Central Cashier's Office are forthcoming with the planned consolidation of operations in the 1700 Meridian Avenue building, the Finance Department should initiate a security review of both locations. Included in their review should be the feasibility of adopting the following recommendations to help minimize the risk of injury and loss and increase the likelihood of the perpetrator's capture:

- a. Despite the presence of other barriers to entry (alarms, keys, etc.), the vault's combination should be changed as employees with access are reassigned or terminated.
- b. The cashier's monies should be properly secured in a locked bank bag prior to their leaving so that no one other than a designated supervisor would have access during their absence. If a supervisor needs to process transactions during the cashier's absence, a separate money bank should be used and then reconciled at the end of the day.
- c. The front glass needs to be reconfigured to prevent someone from being able to reach inside and grab any nearby items.
- d. A strike plate with a dead bolt lock and/or a separate alarm should be installed on the vault room's back door.
- e. The desired protocol to follow during a robbery attempt should be drafted, properly communicated to Central Cashier's Office personnel to be followed.

Management Response (Finance):

- a. We concur. As employees with access to the combination are terminated or reassigned, the vault combination will be changed.
- b. Only the cashiers and his/her supervisors have access to their cash drawer and

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pay files. Upon leaving for lunch, the cashier locks his/her computer and also locks the pay file and the cash drawer. When a cashier is on extended absence (such as vacation, sick etc), that cashier's position will be filled by another person from the new Customer Service Center. All employees in the new Customer Service Center are cross trained to also be a cashier on a rotating basis. So when one cashier is out, he/she will be replaced by another person from the pool of Customer Service employees.

- c. When the window is not in use, we will install some type of closure to the opening of the window to ensure that no one from the outside can reach inside.
- d. We were told several years ago by the Fire Department that the back door is an emergency fire exit, and we were not allowed to put a deadlock on it. However, this door is attached to the alarm system, that is activated when the Central Cashier's Office is closed, that includes all doors and windows. This alarm system also has a motion sensor that will detect any movement within the Central Cashier's Office.
- e. All cashiers will be told what to do in case of a robbery. There is a silent alarm button underneath the cashiers' desk that when pressed will immediately alert the Police Department.

Internal Audit Observation:

- b. Any supervisors that are filling in for lunch and that need to process transactions should do so through their own pay files and with separate monies. This practice should help make each cashier accountable for their own monies.
- d. The addition of either a strike plate and/or a continuously armed separate alarm will not preclude this back door from being used as an emergency fire exit and should better protect the individuals and the City assets inside.

3. Finding: Citywide Policies and Procedures Specifying the Purpose, Preparation and Restricting the Usage of Miscellaneous Cash Receipts Forms by City Departments/Divisions were not Documented, Distributed and Consistently Followed
Miscellaneous Cash Receipts (MCRs) are three part sequentially numbered forms used by the City to record various customer payments. This form requires the preparer to list such relevant data as the date and amount of the transaction, the payee's name, the general ledger account number(s) and a description of the transaction. The completed MCR accompanied by payment is then to be submitted and processed by the Central Cashier's Office with the customer receiving a validated copy as a receipt.

City departments/divisions like Code Compliance, Planning, Police, etc. have become frequent users of MCR forms for a variety of purposes. Most of these departments/divisions use independent software systems to document and record daily transactions and outstanding balances that are not interfaced with the City's Eden System. Concurrently, payments for outstanding balances are frequently received by these departments, which then prepare and bring the MCRs with the payments to the Central Cashier for processing.

Inquiries found that there are currently no Citywide policies and procedures regarding

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the MCRs intended uses and restrictions. As a result, its usage has grown to include diverse transactions that are better suited to have been entered into the Eden System's Accounts Receivable Module through the creation of City Bills instead.

It was also learned that operational procedures regarding the usage of MCRs varies depending on the department/division. For transactions originating with departments/divisions located in City Hall, the MCR may be prepared by the City employee processing the transaction, given to the customer to go pay at the Central Cashier's Office and then to have them return a validated copy of the form as proof of payment. Other times, the MCR is prepared by the City employee processing the transaction, the payment is received by the same employee, and both the form and the payment are later taken to the Central Cashier's Office for deposit and processing. An added concern to this approach is that there could be forgotten, misplaced or lost payments that are not timely processed.

However, for City departments with offices in locations other than City Hall, sending customers to drive or walk to City Hall to process the payment and return with proof of payment is impractical and a disservice to the customer. Therefore, both the MCR and the payment are often collected by the City employee initiating the transaction and then taken to the Central Cashier later for processing.

Nonetheless, billing and collecting amounts due from any of these example transactions results in a poor segregation of duties and are internal control weaknesses. At the same time, the risk exposure is even greater for any received currency payments due to the lack of software system integration. Amounts collected in currency could be misappropriated by the employee issuing a fictitious receipt or a MCR that has not been validated (processed) by the Central Cashier's Office thereby giving the paying customer the impression that the amounts due are satisfied. Changes can then be made to the department's maintained system software without proper controls to ensure that amounts satisfied were properly posted to the general ledger or the entire transaction may never be entered.

Lastly, the review of randomly sampled processed MCRs found instances whereby the amounts were either whited out or manually changed and not initialed (MCR #s 308090, 316235 and 316237), pertinent information was omitted (MCR #s 310699 and 315859), transactions were voided and no explanations were provided (MCR #s 313754, 315594, etc.). These unsupported changes could indicate instances whereby the monies received differ from the amounts posted to the City's Eden System unless additional precautions are taken.

Recommendation(s):

Citywide policies and procedures concerning the usage of MCRs should be prepared, distributed, and followed by all. Their completion should help restrict MCRs to its specified intended uses which should result in the creation of more City Bills in the Eden System's Accounts Receivable Module. As a result, there would be active records of the transactions and the customers would receive periodic reminders that any City Bills are still outstanding and monies owed.

The Finance Department should prepare written correspondence instructing City departments/divisions not to handle payments. The preferred approach is to have the

customers send all payments directly to a designated lock box or the Central Cashier's Office where it could then be applied against a City Bill, Payment Voucher, etc.

Finally, any changes to the manually prepared MCRs should be initialed and documented explaining the reasons. If not present, the Central Cashier's Office should obtain and record this information before processing the transaction.

Management Response (Finance):

All departments/divisions were trained by the Finance Department in preparing their own accounts receivable City Bills. However, there could still be instances where a City Bill is not warranted and the only solution is the creation of an MCR. All payments received through the mail usually are received by the Finance Department where a Financial Analyst prepares the supporting documentation (such as a copy of the City Bill, if it didn't come with the payment) and takes it along with the payment to the Central Cashier's Office for processing. The Finance Department will draft MCR policies and procedures which will include a listing of its allowable usages.

4. Finding: *Twenty-Three Tested Petty Cash Expenditures Exceeded the \$50 Stated Maximum and Thirty Other Items that were Incorrectly Purchased by Petty Cash Monies Instead of by Requests for Direct Payment or Purchase/Standing Orders*

The Central Cashier's Office is responsible for maintaining a \$6,000 petty cash fund, which is used to reimburse employees for unforeseen items or services costing fifty dollars or less that it would be otherwise impractical to purchase through the usual purchasing methods. Also, present is a total of \$2,000 of the Parking Department's petty cash monies which is comprised of \$1,500 from the 5th Street and Alton Road Garage's fund 480, \$250 from the Anchor Garage's fund 463 and \$250 from the Pennsylvania Garage's fund 467. All these reimbursements require prior approval from either the Division/Department Director or their designee and the submittal of a properly completed Petty Cash Voucher.

Provided policies and procedures relating to petty cash funds dated September 30, 2009 included a section detailing the items for which petty cash funds may not be used (items in excess of \$50, cashing of personal checks or providing personal loans, etc.). Internal Audit's unannounced May 17, 2012 test counts found that all aforementioned petty cash monies were accounted for through the reconciling of the total cash on hand and the provided receipts. However, review of the corresponding department's transactions comprising five randomly sampled City checks numbered 4138, 307241, 315043, 316262 and 324789 that reimbursed the \$6,000 petty cash fund's balance identified the following apparent departures from the Finance Department's policies and procedures:

- Twenty-three petty cash expenditures totaling \$1,650.70 were submitted and reimbursed although they each individually exceeded the \$50 maximum ranging from a low of \$56.14 to a high of \$106.25. Of these, twenty were due to the accumulation of \$7 daily meal allowances paid to specified Police Department union employees for working overtime per their negotiated contracts.
- Thirty sampled petty cash expenditures totaling \$794.39 did not meet the designated criteria and would have been better suited to be paid through a Request for Direct Payment or a Purchase/Standing Order. For example, thirteen different transactions totaling \$353.00 were for the payment of soccer referees by the City's Parks & Recreation Division and twelve others totaling

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\$306.78 were for the purchase of client identification for identified homeless people by the Office of Real Estate, Housing and Community Development.

- Two of these aforementioned client identification purchases totaling \$61.78 did not contain the corresponding invoice. Instead, they contained only a Publix receipt for the purchase of a money order which could be subsequently issued to any desired payee.

Recommendation(s):

The Finance Department should review the petty cash criteria and make any needed revisions. Once finalized, Finance Department management should send correspondence to all department/division heads detailing the requirements for petty cash reimbursement. Only legitimate petty cash expenditures that do not exceed \$50 and meet the identified criteria should be submitted to the Central Cashier's Office for reimbursement. If not met, then the petty cash should not be disbursed and another payment option should be pursued by the initiating department/division.

Additionally, the Finance Department should investigate the possibility of having these \$7 meal allowances reimbursed to City employees through the payroll rather than petty cash to help reduce the corresponding number of transactions. Finally, the necessary invoices supporting the purchase should be provided to the Central Cashier's Office or the corresponding monies should not be reimbursed.

Management Response (Finance):

The petty cash policies and procedures will be updated to reflect that only the Chief Financial Officer or her designee, namely the Assistant Finance Director, are the only individuals authorized to override the \$50 threshold policy. An exception to the \$50 rule is for the \$7 meal allowance for the Police Department union employees. They may bring several \$7 meal allowances that total more than \$50 in one petty cash voucher. Another exception is for the payments made to the Office of Real Estate, Housing and Community Development for the purchase of client identification (from the Department of Motor Vehicle) for homeless people.

We will continue to work with the Police Department in order to find a suitable arrangement in order to get meal allowances to be paid via the employees payroll check.

5. Finding: *Bank Reconciliations were not Always Completed Timely for the Seven City Checking Accounts Reviewed*

Ten different randomly selected business day's transactions occurring during the audit period were tested to verify that the currency, checks and money orders processed by the Central Cashier's Office were completely and timely deposited in the City's SunTrust Bank pooled cash account. No variances were noted as all the reviewed monies were found to be deposited intact.

The Finance Department's policy and procedure states "A reconciliation of each bank account held by the City of Miami Beach must be completed and approved on a monthly basis. The pooled cash bank reconciliation should be completed 45 days from the end of the month being reconciled. All other bank reconciliations should be completed within 30 days from the end of the month being reconciled." Consequently, October's pooled cash bank reconciliation should be completed by December 15th while all other October bank reconciliations should be done by November 30th and so on. However, their target

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measure on the City's performance measurement software is 50 days which is 5 days more than stated in the department's policy and procedure. Reconciliations are a valuable internal control feature when individuals, independent from those performing the work, complete them timely as they enable others to be reasonably assured that all monies are accounted for and that the checking account balances are correct.

Testing found that nine of the nineteen pooled cash bank reconciliations completed during the audit period or 47.37% were finished after the 45 day due date specified in the Finance Department's policy and procedure. The number of days late ranged from a low of 2 days for April 2011 to a high of 18 days for April 2012, averaging 5.78 days for all months late.

Using the more lenient 50 day due date detailed in the City's performance measurement software, the number of months not prepared timely decreased to six of the nineteen pooled cash months bank reconciliations sampled or 31.58%. The number of days late ranged from a low of 1 day for November 2010 to a high of 13 days for April 2012, averaging 4.33 days for all months late.

Furthermore, Internal Audit's May 17, 2012 unannounced vault inventory identified six different active checking accounts whose unused checks and completed stubs were present. The subsequent review of these checking accounts' bank reconciliations completed by various Finance Department personnel for the nineteen month audit period found the following:

- Three months or 15.75% were not completed timely for the Community Development Block Grant account ranging between 2 and 23 days past due.
- Four months or 21.05% were not completed timely for the Health Facilities Authority, Consent Decree Trust, Hurricane Contingency and the Cultural Arts Council Fund accounts ranging between 2 and 18 days past due.
- Five months or 26.32% were not completed timely for the CMB/SMG Co-Promotion Fund account ranging between 2 and 18 days past due.

Recommendation(s):

The Finance Department should amend either their policy and procedure or their performance measurement software goals so that they are in agreement. Once the due date is finalized, Finance Department personnel should complete all bank reconciliations by the designated due dates in adherence to sound internal controls.

Management Response (Finance):

The Finance Department is making every effort to stay within the 30-50 day timeline. For the past few years the amount of bank reconciliations have been increasing, new accounts include the medical, dental, bond proceeds accounts, red light camera, 5th and Alton operations, Penn shops and garage operations, and new investments. Each account requires additional time to reconcile as each one has different sources of revenues, different methods of vendor payments and outstanding check tracking systems.

The pooled cash reconciliation currently demands more time to be reconciled due to the different methods of payments that the City is currently offering. For example, pay on foot machines, web payment, new credit card machines located on different locations

throughout the City and tracking of payments to the different parking garage and shops. In addition, the month end closing was not done in a timely manner to give sufficient time for the bank reconciliation to be done within the 50 day time frame.

The staff that was responsible for completing the bank reconciliations is no longer with the City; she had excellent accounting experience which made the process run smoothly for 5 years. It will take some time for the new personnel to obtain the experience and knowledge of each bank reconciliation.

Furthermore, Internal Audit's May 17, 2012 vault inventory identified six different active checking accounts whose unused checks and completed stubs were present. This statement is not relevant to the bank reconciliations that were not completed on time.

Lastly, the Finance Department will revise the policy and procedure to change the due dates to 50 days for the pooled cash bank reconciliation and 45 days for all other reconciliations.

6. Finding: *The Normandy Shores Clickers Purchase and Subsequent Sales are not Being Effectively Controlled*

The Property Management Division's Property Control Coordinator purchases Normandy Shores remote control devices or clickers for \$19.50 each from AAA Automated Door Repair Inc. on an as needed basis. These clickers are used to operate the gates located at the Biarritz Drive entrance to Normandy Shores, at the intersection of South Shore and Ray Street and at the intersection of Fairway and North Shore Drives. Expenses are charged to general ledger account 520-1720-000342 Repairs and Maintenance - Supply.

In turn, the Central Cashier's Office sells these clickers for \$35 to anyone that may need to gain access to these restricted areas. The revenues from the sale of the clickers are charge to the Miscellaneous Revenue account (011-8000-369999). Additionally, they will notify the Property Control Coordinator to order additional clickers whenever their inventory levels get low. Review of the Eden System's Accounts Payable Module found that a total of \$1,950 was spent in purchasing 100 clickers during the nineteen month audit period.

Further inquiries found that the Central Cashier's Office and the Property Management Division did not maintain any documentation indicating how many clickers were purchased, how many were sold, how many were determined to be defective within thirty days and were replaced at no charge, etc. As a result, there is no known way to verify that all clickers were accounted for and that all corresponding revenues were recorded.

Recommendation(s):

The City Administration should decide the best option to pursue as there currently are insufficient controls over the purchase, recording and sale of the clickers. One option to consider is to have the Normandy Shores homeowners association be responsible for the clickers. Another option is to continue the current practice and have the City accept the risk that clickers may end up missing.

The optimal option is to have a designated Property Management Division employee place sequential numbers on the received clickers packaging to help increase

accountability. The Central Cashier's Office should maintain an Excel spreadsheet that includes at least these identifying numbers, the corresponding purchaser's name and the date purchased. The designated independent Property Management Division employee should periodically reconcile the provided clickers with the supporting documentation, the inventory on hand and the generated revenues to help ensure that all are accounted for. However this method would not be very cost effective since sales of clickers are limited during the year.

Management Response (Property Management):

The Property Management Division can have the clickers numbered upon receipt to help ensure that all purchased are subsequently given to the Central Cashier's Office for sale.

Management Response (Finance):

The Central Cashier's Office receives the Normandy Shores clickers from the Property Management Department and sells them to the residents upon presenting proper identification. The clickers do not currently have any type of identification number but it would be a great help if the Property Management Division would label them. This way, the Central Cashier's Office can keep a log of the exact clickers sold to each specific resident, and to also keep track that if a clicker is returned defective within 30 days, it is replaced and given to that resident without charge.

7. Finding: *The Segregation of Duties Principle Could be Violated*

Proper segregation of duties is an essential internal control and job duties need to be assigned accordingly. One basic tenet is that the individual receiving and processing the monies should not be the one also responsible for its reconciliation and recording.

The designated Financial Analyst III typically reviews the Central Cashier's Office daily transactions and monies received before posting the transactions to the appropriate general ledger accounts in the City's Eden System. However, this Financial Analyst III occasionally works receiving and processing payments in the Central Cashier's Office when others are out. On these days, an improper segregation of duties could exist as this individual could receive and process payments, perform daily reconciliations of the monies received with the supporting documentation and then post the transactions to the appropriate general ledger accounts in the City's Financial System. The Treasury Manager also has these same capabilities but inquiries found that he will perform these tasks only when the Financial Analyst III is out too.

Recommendation(s):

The job duties described above should be reassigned so that those responsible for handling the monies are separate from those responsible for its reconciliation and recording. Therefore, Internal Audit believes that the Financial Analyst III and the Treasury Manager should be precluded from receiving monies and processing transactions in the Central Cashier's Office. This scenario should be less prevalent once the cashiering function consolidates as they will be other cashiers able to fill in during each other's absences.

Management Response (Finance):

Now that the Central Cashier's Office will have rotating cashiers on a daily basis when the new Customer Service Center is opened, there is no need for the Financial Analyst

III (FAIII) to be performing the work of a cashier. The FAIII will only be responsible for posting the daily work collected by the cashiers. If for any reason, the FAIII is unavailable to post due to sickness/vacation, the Treasury Manager will post the daily work. Also, if for any reason, the FAIII has to perform the work of a cashier on any specific day, the Treasury Manager will be the person who will post the work for that day.

8. Finding: *Voided Transactions Were Not Explained in the Supporting Documentation Included in the Daily Bag*

The cashiers' supervisors have the ability to create voids as needed while the pay files are unlocked without providing an explanation as to its cause. Voids are reviewed during the reconciliation process at the end of each shift by the Financial Analyst III.

Five days of daily bag transactions were randomly reviewed and verified that all voids were listed on the "reconciliation of register to supporting documentation report". As expected, supporting documentation was maintained showing that the transaction was voided but no information was present to explain why the void was made. Given this scenario, the possibility exists that legitimate currency transactions could be subsequently voided and the monies misappropriated if effective compensating controls are not implemented.

Recommendation(s):

Supporting documentation should contain the reasons for all voids and be included in the daily paperwork provided to and reviewed/approved by the designated Financial Analyst III or Treasury Manager before the transactions are posted to the City's Eden System.

Management Response (Finance):

For a transaction to be voided, it can only be voided by the Cashier's Supervisor or the Financial Analyst III as the cashiers cannot void their own transactions. The void transaction icon is not available on the cashiers menu in Core Cashiering, only on the Supervisors and FAIII (and Treasury Manager) menu. The Cashier's office will, from now on, "stamp" all voided transactions. This "stamp" will have a line for the supervisor's initial and a line for the voided transaction code. We will create code numbers for each type of voids.

EXIT CONFERENCE

An exit conference was held on November 8, 2012 to discuss the audit report in the Office of Budget and Performance Improvement. Attendees were Chief Financial Officer Patricia Walker, Assistant Finance Director Georgina Echert, Treasury Manager Juan Rodriguez, Financial Analyst III Karla Adrien, Internal Auditor James Sutter and Senior Auditor Mark Coolidge. Management responses were solicited and were received shortly thereafter. All were in agreement with the contents of this report.

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(audit performed by Senior Auditor Mark Coolidge and Auditor Fidel Miranda)

Internal Audit Report
Central Cashier's Office Operational Audit
December 28, 2012

cc: Patricia Walker, Chief Financial Officer
Georgina Echert, Assistant Finance Director
Juan Rodriguez, Expenditures/Treasury Manager
Fred Beckmann, Public Works Department Director
Jay Fink, Assistant Public Works Director