



**Audit of
The Department of City
Development – Development
Center Cash Handling Audit**

MARTIN MATSON
City Comptroller
City of Milwaukee, Wisconsin

November 2012

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Office of the Comptroller

November 2, 2012

To the Honorable
The Common Council
City of Milwaukee

Dear Council Members:

The attached report summarizes the results of our Audit of the Department of City Development - Development Center (Development Center) Cash Handling. The objectives of the audit were to evaluate controls over all collections processes, the cashiering system and reconciliation procedures, evaluate timeliness and accuracy of deposits to the Treasurer's office, and evaluate timeliness and accuracy of the recording of revenue to the City's general ledger.

The Development Center has defined procedures for collecting payments, depositing funds, and recording revenue in the City's general ledger. The audit determined that there are opportunities for improvement in the processes and controls for cash handling. This audit makes ten recommendations to ensure that there are proper controls.

Audit findings are discussed in the Audit Conclusions and Recommendations section of this report, which is followed by the Development Center response.

Appreciation is expressed for the cooperation extended to the auditors by the staff of the Development Center.

Sincerely,

MARTIN MATSON
Comptroller



I. Audit Scope and Objectives

The audit examined procedures and controls over cash handling in the Development Center. This includes all forms of payments, mail-in payments and walk-in payments of cash, check and credit cards. The audit also examined daily cashiering and close procedures, timeliness of entry into the City's general ledger system and timeliness of deposit to the City Treasurer. The Office of the Comptroller believes that the evidence obtained provides a reasonable basis for the audit's findings and conclusions based on the audit objectives.

The scope of this audit included all collections received by the Development Center. The scope of this audit excluded all collections for any grant revenue and any intergovernmental and intra-governmental revenue received by Development Center.

Audit procedures for this report were conducted for the time frame January to June 2012. The audit utilized reports and documents from Development Center Cash Handling System, Department of Neighborhood Services (DNS) Neighborhood Services System (NSS), and the City's accounting system, the Financial Management Information System (FMIS).

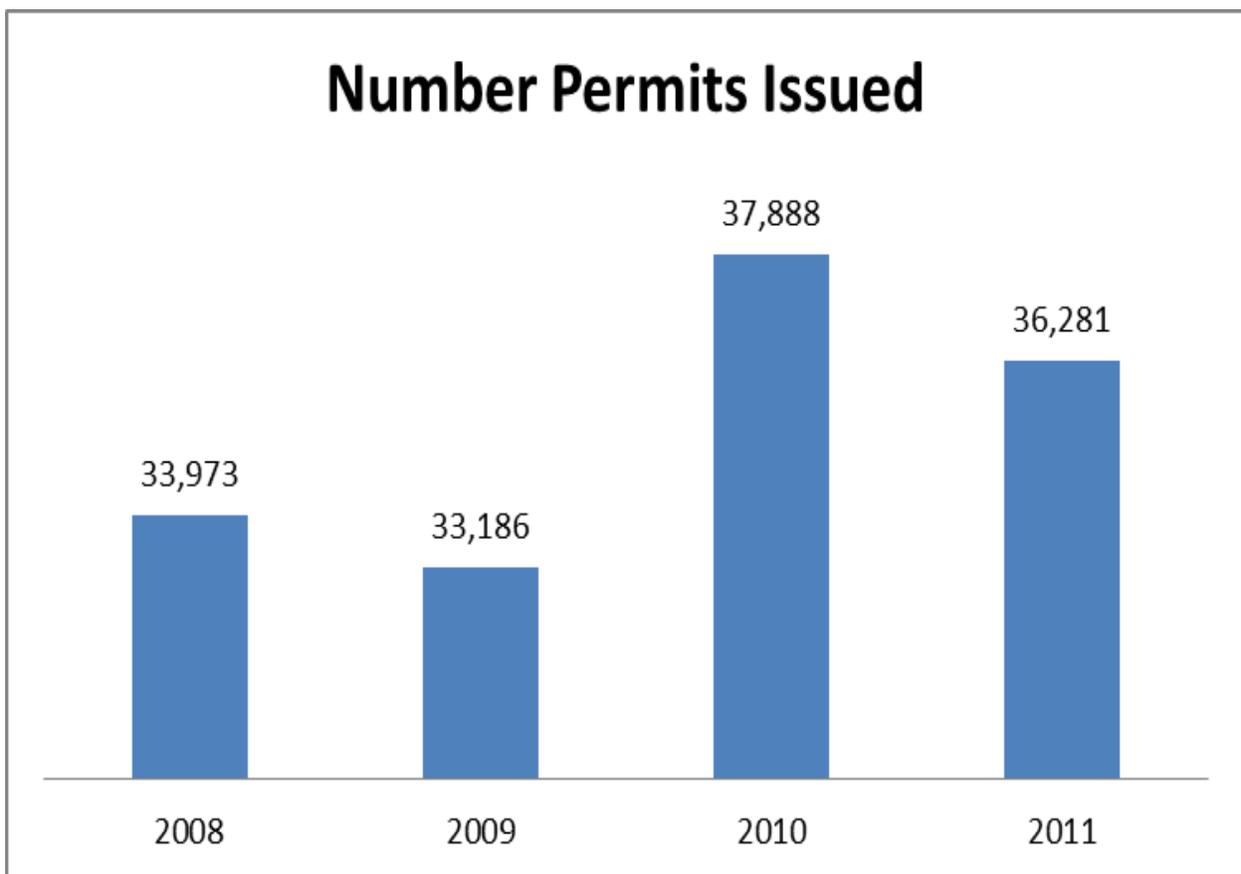
The objectives of the audit were to:

- Evaluate controls over all collections processes, the cashiering system and reconciliation procedures.
- Evaluate timeliness and accuracy of deposits to the Treasurer's office.
- Evaluate timeliness and accuracy of the recording of revenue to the City's general ledger.

II. Organizational and Fiscal Impact

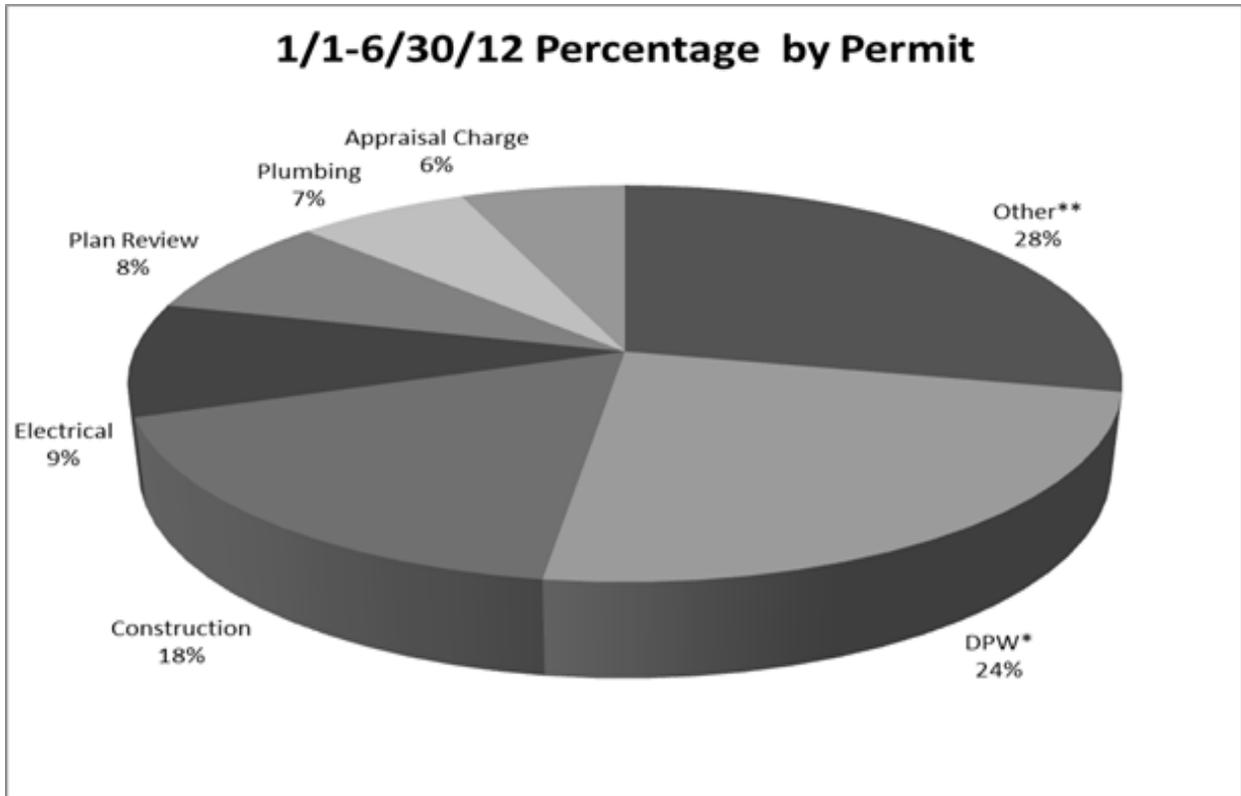
The Development Center is the single source of contact for people and businesses needing permits to construct or remodel buildings in the city of Milwaukee. The Development Center staff review building plans to ensure they comply with the Milwaukee building code, state of Wisconsin building code and the city of Milwaukee zoning code. The staff issues building permits to occupy the public way. The Development Center also processes DNS permits, plan examination fees, Department of Public Works (DPW) permits and board of zoning fees.

A custom cashiering system is used to process a payment which was developed by Precision Consulting. Subsequently, payments are recorded in FMIS.



In 2010, the number of permits issued through the Development Center increased from 33,186 in 2009 to 37,888 in 2010, which is a 14.17% increase. In 2010, more than 53% of the permits were issued through the online e-permit system. In 2011, the number of permits issued through the Development Center decreased from 37,888 in 2010 to 36,281 in 2011, which is a 4.43% decrease. In 2011, more than 51% of the permits were issued through the online e-permit system.

The Development Center collects approximately \$9M annually. Based on the receipts for the period 1/1/12 through 6/30/12, the Development Center received 3% of the payments in cash, 53% of payments in checks and 44% of payments in credit cards.



*The percentage of DPW permits represents all DPW permits processed by the Development Center.

**The percentage of other permits represents all permit categories that are under 5% such as water, HVAC, occupancy, erosion, Board of Zoning Appeals, elevator, asbestos, fire suppression, etc.

III. Audit Conclusions and Recommendations

For this audit, cash is defined as coin, currency, checks, money orders, and credit card transactions. Procedures for cash collection include the following;

- Accounting for cash as it is received.
- Adequate separation of duties, which includes cash collecting, depositing, reconciling and reporting.
- Proper receipts given for all cash received.
- Approval of any voided cash receipts by supervisor.
- Deposit of cash promptly deposited at the Treasurer's Office.
- Reconciliation of deposit forms to supporting documentation and to the accounting system.
- Proper safeguarding of cash.

Internal controls for cash collection are necessary to prevent mishandling of funds and are designed to safeguard and protect employees from inappropriate charges of mishandling funds by defining their responsibilities in the cash handling process. Appropriate controls ensure proper segregation of duties.

There are opportunities for improvement over the processes and controls for cash handling in the Development Center. This audit makes ten recommendations to improve controls. One of the recommendations relates to weaknesses identified in the Development Center Cashiering System. Nine of the recommendations relate to further improvements to the cash handling processes.

A. Cashiering System Controls

The audit examined the system controls as well as the access rights to all of the features those employees of the Development Center's Cashiering Section are assigned.

Segregation of Duties

Currently, the Operations Manager is the Administrator of the cashiering system. The Operations Manager performs business functions within the Development Center's Cashiering System. As the main administrative super user of the Cashiering system, business operation responsibilities present a classic segregation of duties violation.

Recommendation 1: Business functions should not be performed by the Administrator of the Cashiering System.

The Operations Manager of the Development Center should not perform business functions, if continuing in the role of Administrator of the cashiering system. If this is not possible, the Administrator role in the cashiering system should be transferred to another individual who does not perform business functions within the Development Center. This change would eliminate any segregation of duties violations.

B. Controls over Cash Handling

Audit procedures performed were to gain a thorough understanding of the cash handling processes in the Development Center. This was done by performing walkthroughs of the various processes to identify controls. The audit disclosed that there are controls over cash handling. A further test of details was also performed to gain more assurance over the processes.

During the audit, it was noted that the following areas needed improvement in the cash handling processes.

Segregation of Duties

The audit found that all Office Assistant IIIs and IVs and the Operations Manager have the ability to void or adjust their own transactions in the cashiering system on the day the transaction is processed. The Operations Manager and the Office Assistant IVs have the ability to void or adjust all transactions in the cashiering system days after they occur. There is no daily log, no management review of the corrections, or report generated by the cashiering system listing the transactions that were voided or adjusted. Each transaction has a history attached to it which shows the amount received, how payment was tendered, the cashier that processed the payment corrections, and any other related activity.

Recommendation 2: Management should authorize voids and adjustments.

Office Assistant IV's should approve voiding or adjusting transactions for cashiers under them (the III's). Also, the Operations Manager or someone a level above the Office Assistant IV's should approve voiding or adjusting transactions. If the system does not have this feature, management should review void and adjustment reports weekly as a compensating control. This would decrease the risk for misappropriation and/or errors in cash collected.

The audit found that a cashier can be cashiering one day and the next day preparing the deposit, importing permit information into NSS and entering the journal entry into FMIS. One individual has the responsibility for more than one of the cash handling components for the same

transaction: collecting, depositing, disbursement and reconciling. This, in turn, heightens the risk of misappropriation of assets as well as data entry errors.

Recommendation 3: Segregate the cashiering function from other cash handling functions.

The cashier from one day should not be performing reconciling and journal entry tasks the following day. If this is not possible, there should be either daily or weekly management review which should be evidenced by the manager's signature and the date. This would eliminate the risk of one person being responsible for the entire process.

Cashiering Procedures

Currently, there are no formal procedures for resolving cash overages and shortages or a form for documenting resolution of cash overages and shortages.

Recommendation 4: Establish formalized cash overage and shortage procedures.

Formalized procedures for handling cash overages and shortages should be established. These procedures should include the use of a form similar to the Treasurer's Office variance report to document the cash overage or shortage and the resolution of it, including the final decision from management and supporting documentation. All cash overages and shortages should be documented for each individual cash drawer on a daily basis and included with the documentation of that day's activity.

It is the Development Center's practice to accept checks for over the amount due. Development Center staff gives the City Treasurer the extra amount in cash. Subsequently, the City Treasurer issues a refund check to the customer. The Development Center holds the refund check until the customer's check has cleared the bank. When the customer's check has cleared, the refund check is sent to the customer. The cashiers do not keep the receipt received from the Treasurer for this interdepartmental transaction. This practice complicates the cashiering process further with no documentation of these occurrences.

Recommendation 5: Establish a formalized policy for refunds of customer overpayments.

Formalized procedures for handling refunds of customer overpayments should be established. The procedures should include retention of supporting documentation for these transactions.

Cash funds are not periodically counted on a surprise basis by Management. It is best practice in cashiering operations to count cash drawers of cashiers in order to verify the accuracy of cash at any given time and to monitor cashiering staff.

Recommendation 6: Surprise cash counts should be performed at least monthly.

Management, independent from cash collections, should count cash drawers of each cashier at least monthly, preferably biweekly. These counts should be evidenced by the signature of the person performing the counts and the date the counts are performed. This would ensure accuracy of cash drawers. Periodic surprise cash counts detect cash inaccuracies and serve as a preventative measure for the safeguarding of assets.

Reconciliations

Audit testing revealed that there is no reconciliation of the online e-permit system to the cashiering system being performed to determine that all e-permits were accurately and completely imported to the cashiering system.

Recommendation 7: The e-permit system should be reconciled to the cashiering system.

Staff or management independent of the two systems should perform a reconciliation of the e-permit system to the cashiering system monthly, quarterly or at least yearly. This would ensure that all e-permit system revenue is recorded accurately in the cashiering system. If any inaccuracies were detected, they would be remedied in a timely manner.

Audit testing revealed that revenue recorded in FMIS is not reconciled to the cashiering system to verify that revenue has been accurately recorded.

Recommendation 8: A reconciliation of revenue to permits should be performed.

Since the Development Center collects payments for two other departments, management from these divisions should periodically perform a reconciliation of revenue to permits monthly or quarterly. This reconciliation would reduce the risk that revenue is booked inaccurately in FMIS and also serve as a monitoring tool by staff independent of the cashiering section. If inaccuracies are found, management from these departments will be able to coordinate and correct these mistakes in a timely manner since reconciliations would be occurring regularly.

Physical Security

Physical security of cash is a vital component of cashiering controls as it safeguards misappropriation from any potential threat. The audit noted that the combination to the safe is not changed when an employee leaves or even changed periodically.

Recommendation 9: The combination to the safe should be changed periodically.

Development Center management should change the combination periodically (or at least annually) or whenever there is a change of cashier or when the combination has been compromised. The combination should be placed in an envelope which can be signed and dated and kept in a secure area. This would reduce the risk that a former employee could open the safe and remove the cash receipts and increase the safeguarding of funds.

Cashiers are located behind a counter in the Development Center. However, the counter area is open at both ends. Anyone can enter the cashiering area because there are no barriers to enter the cashier's area or to separate the cashier's area from the rest of the office.

Recommendation 10: Access should be limited to the cashiers' area.

A barrier should be installed to limit access to cashiers' and separate the area from the rest of the office. This barrier should be locked at all times and would bar unauthorized persons from entering this area.



Department of City Development

City Plan Commission
Neighborhood Improvement
Development Corporation
Redevelopment Authority

Rocky Marcoux
Commissioner

Martha L. Brown
Deputy Commissioner

November 1, 2012

Mr. Martin Matson
Comptroller
City Hall, Room 404

Attention: Aycha Sirvanci

Dear Mr. Matson:

We have received the report summarizing the audit of cash handling within the Development Center unit of the Department of City Development performed by your office. We found the recommendations provided in the audit to be quite helpful, and have begun to implement a number of them. The following summarizes our response and activities to date regarding the audit recommendations:

Recommendation 1: Business functions should not be performed by the Administrator of the Cashiering System

The correction of this situation requires that the cashiering software be modified to block the ability of the Development Center's Operations Manager to add or delete system users or change user status and access. The Department has submitted a request to the Information Technology Management Division (ITMD) to make this modification. As of this writing, the status of this request (#70987 in ITMD's information technology work order system) is listed as "open."

Recommendation 2: Management should authorize voids and adjustments.

Due to daily staffing patterns, a manager is not always available to immediately authorize voids and adjustments at the time a transaction occurs. In addition, the cashiering system does not have the ability to produce an adjustment report.

However, the system does have the ability to produce a void report. Effective immediately, cashiers will print a daily void report and include it with the closing report. Management will review all closing report documentation, including void reports, on a weekly basis.

Recommendation 3: Segregate the cashiering function from other cash handling functions.

There are infrequent instances in which, because of staff scheduling issues, the same cashier has performed both reconciling and journal entry tasks. Management will monitor this more closely as schedules are prepared. Should this situation occur in the future, management will review closing documents and initial reports.

Recommendation 4: Established formalized cash overage and shortage procedures.

Management will develop a variance report, similar to the report used by the City Treasurer's office, and provide training to staff as to how it should be used. Cash drawer shortages and overages will be investigated and reported to the Treasurer's office daily.

Recommendation 5: Establish a formalized policy for refunds of customer overpayments. Refunds resulting from customer overpayment occur very infrequently. The Development Center will write a formal policy that documents its current practice for handling this situation. Current practice involves accepting checks for more than the permit cost and remitting the extra amount in cash to the City Treasurer; the Treasurer then issues a refund check. The Development Center will continue to hold the refund check until the original customer's check has cleared. The Development Center will create an "overpayment file" in which all related documents, copies and receipts that follow the entire transaction will be kept for reference and review.

Recommendation 6: Surprise cash counts should be performed at least monthly. Surprise cash counts will be implemented as recommended, at least monthly.

Recommendation 7: The ePermit system should be reconciled to the cashiering system. The ePermit system will be reconciled on a monthly basis by the Operations Manager. The Operations Manager will prepare a reconciliation report and forward it to the Department's accounting section for review.

Recommendation 8: A reconciliation of revenue to permits should be performed. Currently building permits are examined daily to verify that fees and permit data were correctly captured through the cashiering process. The Development Center will expand this process to include DPW permits. All FMIS entries also will be verified against cash system reports. Reports will be generated daily and checked by management weekly.

Recommendation 9: The combination to the safe should be changed periodically. The Development Center will investigate this matter, consulting with a locksmith to determine whether the safe combination can be changed and at what cost.

Recommendation 10: Access should be limited to the cashier's area. While the design of the Development Center space makes it impractical to sequester the cashier, the Development Center will seek budget authorization to install gate-like barriers at both ends of the counter, to provide greater security at the access points. In 12 years of operation, the Development Center has not experienced problems with unauthorized personnel behind the main counter.

We note that, effective with pay period 1 in 2013, the management of the Development Center will be transferred from the Dept. of City Development to the Dept. of Neighborhood Services. We have discussed these matters with DNS.

Sincerely,



Martha L. Brown
Deputy Commissioner

C: Commissioner Art Dahlberg
Lynne Steffen, DNS Administration
Chris Rute, Development Center Manager
Lori Schmidt, DCD Finance and Administration