



**Audit of
The Department of
Neighborhood Services
Billings and Receivables**

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City Comptroller
City of Milwaukee, Wisconsin

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Martin Matson
Comptroller

John M. Egan, C.P.A.
Deputy Comptroller

Office of the Comptroller

June 22, 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 Neighborhood Services Billings and Receivables. The objectives of the audit were to evaluate the timeliness and accuracy of the recording of the billings, collections, and receivables in all software used by the Department of Neighborhood Services and the City's general ledger and to evaluate the adequacy of controls over the Department of Neighborhood Services' billing and receivable procedures.

The audit determined that there are opportunities for improvement in the processes and controls for billings and receivables. The Department has defined procedures for preparing invoices, posting payments, depositing funds, and the collection of receivables. This audit makes eleven 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 Department of Neighborhood Services response.

Appreciation is expressed for the cooperation extended to the auditors by the staff of the Department of Neighborhood Services.

Sincerely,

MARTIN MATSON
Comptroller



I Audit Scope and Objectives

The audit examined procedures and controls over the recording of the billings, collections and receivables of the Department of Neighborhood Services (DNS). The audit also examined procedures and controls for transferring unpaid special assessments to the property tax roll.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the audit obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. 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 billings for code enforcement, nuisance abatement, licenses and license renewals, board-ups, special privileges, covered openings, building razing, billboards, and signs projecting over public property prepared by DNS. The scope of this audit excluded all billings for the Permit Center, escrow accounts, any grant revenue received by DNS, and any intergovernmental or intragovernmental billings.

Audit procedures for this report were conducted for the time frame of the year 2011. The audit utilized reports and documents from DNS's Neighborhood Services System (NSS), dBase, Access, and the City's accounting system, the Financial Management Information System (FMIS).

The objectives of the audit were to:

- Evaluate the timeliness and accuracy of the recording of the billings, collections and receivables in all software used by the Department of Neighborhood Services.
- Evaluate the adequacy of controls over DNS's billing and receivable procedures.

II Organizational and Fiscal Impact

The Department of Neighborhood Services (DNS) was created in 1999 to include elements of the former Health and Building Inspection Departments. DNS handles issues relating to buildings or property. DNS improves the appearance of city neighborhoods by improving city cleanliness, abating nuisance properties, and leveraging private investment in neighborhoods. DNS supports neighborhood improvements by enforcing standards for buildings, property, and land use. The department uses its enforcement, financial, and educational resources to encourage investment in housing and other buildings in Milwaukee's neighborhoods. Various inspection and enforcement activities ensure compliance with building and property codes, which helps maintain an attractive investment environment and foster reinvestment into neighborhoods.

DNS is organized into seven divisions: Support Services, Information Technology, Construction Trades Inspections, Commercial Inspection, Residential Housing Inspection, and Environmental and Nuisance Inspection. The Support Services division is responsible for the billing of the services provided by the other divisions.

Support Services uses four software programs to prepare invoices for its services. The four software programs are NSS, dBase, Access-Periodic, and MS-Word. NSS is used to invoice for sprinkler inspections, elevator inspections, code enforcement, razing, residential rental inspections (RRI), fire protection permits (FPP), board-ups, covered openings, billboards, special privileges, and projecting signs. Access-Periodic software is used to invoice for boiler inspections. DBase and Word are used to invoice for nuisance vehicles, litter nuisance, licenses and license renewals.

Support Services has its own cashiers. The cashiers receive and deposit all payments received for DNS invoices. The cashiering and revenue recording functions are properly segregated within DNS. Receivable balances not paid in the current year are placed on the property tax bill as a special assessment.

For the calendar year 2011, the total amount billed by Support Services was \$8,398,853; of the total, \$6,638,178 was prepared using NSS and \$1,760,675 was prepared using all other software. Of the total billed, \$1,747,830 was collected, \$2,789,560 was transferred to the property tax bill as special assessments, and \$3,861,463 was outstanding as of December 31, 2011.

III Audit Conclusions and Recommendations

Accounts Receivable controls provide management with assurance that billings are accurate, and that transactions are processed and recorded properly. Appropriate controls ensure proper segregation of duties.

There are opportunities for improvement over the processes and controls for billings and receivables in DNS. This audit makes eleven recommendations to improve controls. Three of the recommendations relate to weaknesses identified in the NSS. Eight of the recommendations relate to further improvements to the billing, collection, and receivable processes.

A. Neighborhood Services System Controls

The audit examined the system controls as well as the access rights to all of the features that employees of Support Services are assigned.

Access Authorization

The audit found that access to NSS is informally requested through an email to the IT Manager. No formalized request forms are used for approving or granting access to NSS. When a NSS user is terminated, the employee's manager is supposed to inform the IT Manager to remove user access rights from the system. However, the control is not always exercised. No formalized termination forms are used for removing NSS users.

Recommendation 1: Formal access request process should be established

A formal access request form should be completed and signed by the requesting manager so that there is an audit trail of system access approvals, role change requests, and system access termination requests. A single form can serve all these purposes by including three check boxes at the top; "new access request", "remove access request", and "change access request". This would alleviate the risk of individuals having conflicting rights within the system.

Password

Currently, the password length for NSS is five characters, which less than the minimum password requirement dictated by the City of Milwaukee's Password Policy.

Recommendation 2: Password length should be increased to comply with the City's Password Policy

The City's password policy dictates, a password at a minimum be at least eight alphanumeric characters. Complying with the City's policy will strengthen system security.

Segregation of Duties

Currently, the IT Manager is performing business functions within NSS. These functions include preparing invoices for fire prevention permits and residential rental inspections. As the main administrative super user of NSS, business operation responsibilities present a classic segregation of duties violation.

Recommendation 3: Business functions should not be performed by the IT Manager

All billings should be prepared by accounts receivable staff charged with billing responsibilities. IT should focus on administering daily operation activities. IT should not participate in business functions.

B. Controls over Billing, Collections, and Receivables

Audit procedures performed were to gain a thorough understanding of the invoicing, collections, and receivable processes. This was done by performing walkthroughs of the various processes to identify controls. The audit disclosed that there are few controls over billings, collections and receivables. A further test of details was also performed to gain more assurance over the processes.

During the audit, the following areas need improvement over the billing, collections and receivable processes.

Segregation of Duties

The audit found that the individual performing the back-up cashiering function prepares invoices, post payments and prepares FMIS journal entries.

Recommendation 4: Segregate Accounts Receivable responsibilities

For all billings and collections, the responsibilities for billing, receiving payments, posting payments, and preparing FMIS journal entries should be separated. If this is impractical, active management review and written sign-off for these activities must be required. This would decrease the risk of segregation of duties violations.

The audit found that an environmental health staff member prepares the license applications, receives payments, posts payments and sends out licenses. Payments are sent via interoffice mail to the cashiers in the downtown office. The cashier sends the payment receipt back to the environmental health staff member at Lake Tower.

Recommendation 5: Segregate the function of receiving payments from preparing license applications

Payments should be received directly by DNS cashiering staff for licenses. The receipt should be sent to the environmental health staff member to notify the inspector to perform the inspection. This process would alleviate the risk that the interoffice envelope could be destroyed or lost between the Lake Tower Office and the Downtown Office and eliminate segregation of duties violations.

Currently, licenses are produced using a merge program in Microsoft Word and printed out on ordinary paper stock. The license numbering system produces a duplicate number every ten years which is not a unique number.

Recommendation 6: Licenses should be printed on a pre-numbered license form

License numbers would be unique numbers by using a pre-numbered form. The entire license number would be different each year. This form should be treated as a controlled document just like check stock for example. Numbers should be accounted for and kept in a secure location with limited access. This would eliminate repetition of license numbers, segregation of duties violations and increase security over the licenses themselves.

Year – End Reconciliations

The audit found that the boiler inspector prepares a report using the Periodic Boiler Inspection Database detailing the items which were not paid. The accounting assistant in DNS Support Services checks the report which is sent by the boiler inspector against validated invoices that were processed through the cash register. The accounting assistant, that posts payments to NSS, checks the boiler report against validated invoices processed through the cash register. There is no evidence that this process is occurring.

Recommendation 7: Segregate the functions of posting boiler invoice payments from verifying the boiler report

A formal reconciliation of the boiler report should be performed which should include the signature and date of the individual performing the reconciliation and the signature of the individual reviewing the reconciliation. This would alleviate any segregation of duties violations.

The Administrative Services Supervisor changes the status of the invoices in NSS to “ASSESSED”. The Administrative Services Supervisor and the Manager of Administrative Services prepare the report of outstanding receivables to be transferred to the property tax bill together for the Comptroller’s Office.

Recommendation 8: Segregate the preparation of the report of invoices to be transferred to the property tax bill

The Administrative Service Supervisor will strive to prepare the report to transfer unpaid balances to the property tax bill. As this process is formalized, the Manager of Administrative Services should independently review the report before being sent to the Comptroller's Office for final approval. This review should be evidenced by the Manager's signature. This would alleviate any segregation of duties violations and ensure a complete and accurate report.

Calculation of Invoices

Audit testing revealed that the table containing the rates for sprinkler inspections in NSS was not updated for the change in the City ordinance increasing the price of these inspections. The invoices were recalculated based on the current City ordinance. The test found that only one sprinkler invoice from the sample was calculated correctly. This invoice was for a two hour Hydrostatic inspection. All other invoices were for sprinkler head inspections. The difference between the original invoice amount and the recalculated invoice amount could be a significant dollar amount.

Recommendation 9: Rates for services should be updated in NSS when rates are changed

Rates that are hard coded in NSS should be reviewed prior to the first billing for the new year. This procedure would catch whether the rates have been changed or not. This would ensure accurate billing translating to more accurate revenue on the City's financial statements.

Payment Recording in NSS

Audit testing revealed that payments which were processed by the cashier for elevator and sprinkler inspections were not posted to NSS until three months after payment was received.

Recommendation 10: Payments should be posted in NSS immediately after being deposited

Management should develop a process in which payment receipts are handed off to the appropriate personnel for posting in NSS immediately after being deposited. The new process would increase the reliability of the information contained in NSS which would make it easier to respond to inquiries from taxpayers regarding balances owed to the City.

Formal Policies and Procedures

DNS has procedures for preparing invoices, posting payments, depositing funds, and transferring open balances to the property tax bill. These procedures are not formally documented.

Recommendation 11: Develop a formal Policies and Procedures Manual

DNS should develop a formalized Policies and Procedures Manual. The Policies and Procedures Manual should include major goals and standards governing billing and collection for specified services. The manual should also include written set of procedures covering the entire billing and collection process for all applicable DNS services. A formal Policies and Procedures Manual would establish consistency and rules to adhere to for all DNS staff.



Department of Neighborhood Services
Inspectional services for health, safety and neighborhood improvement

Art Dahlberg
Commissioner
Thomas G. Mishefske
Operations Manager

June 19, 2012

Martin Matson
Comptroller
City Hall, Room 404

Re: Response to the Audit of the Department of Neighborhood Services Billing and Receivables

Dear Mr. Matson,

The Department of Neighborhood Services appreciates the auditor's recommendations for improving our billing and receivables processes. The following is the response to each of the recommendations offered in the audit.

Recommendation 1: Formal access request process should be established

While we appreciate this recommendation, we believe that our current email process incorporates all the checks and balances being recommended, but in a faster and more efficient manner. Email requests are accepted from supervisors only, and a response to the supervisor confirms that their request has been processed. These requests are stored electronically and are therefore searchable. We also believe the email process provides for better response times, especially for requests coming from our Lake Tower office. In addition, our NSS system has security tables that show each user's rights. NSS also creates an audit trail of all changes, indicating the date of the change and which staff person made the change. For the reasons outlined here, we would prefer not to change from our current electronic system to a paper system. We will develop an electronic form to create uniformity in the process and our IT section will store the emails in an Outlook folder.

Recommendation 2: Password length should be increased to comply with the City's Password Policy

We agree with this recommendation and have implemented it. The minimum password length is now 8 alphanumeric characters.

Recommendation 3: Business Functions should not be performed by the IT Manager

We agree with this recommendation and, in fact, there are no business functions assigned to the DNS IT Manager. Out of necessity, the manager has been preparing billing letters related to the new programs while the process was being developed and tested. The goal has always been to pass this function along to clerical staff once the process is more streamlined. We hope to complete this transition later this year.

Recommendation 4: Segregate Accounts Receivable responsibilities

The duties are segregated to the extent practical. Due to the limited number of staff and the need to provide back-up, it is not always possible to completely segregate duties. In these cases we will implement management review and assignment of duties. It has been our long-standing practice that the back-up cashier does not create the FMIS deposit on the days she is cashiering.

Recommendation 5: Segregate the function of receiving payments from preparing licenses

It would not be practical to have payments sent directly to the cashier, as a significant amount of review by the licensing clerk is required for each license application before the payment can be processed. To ensure the integrity of this process, we will implement a procedure whereby a report of licenses issued will be reconciled with a report of payments processed by the cashiers.

Recommendation 6: Licenses should be issued on a pre-numbered license form

This would not be practical for all license types. For example, waste tire contractors are assigned a license number that never changes because they have to put it on the tires they transport. Instead we will change our procedure by adding the last 2 digits of the license year to the license number so that each number will be unique. We will also develop new preprinted license forms with a more official look.

Recommendation 7: Segregate the functions of posting boiler invoice payments from verifying the boiler report

We agree with this recommendation and in the future the verification will be done by a supervisor.

Recommendation 8: Segregate the preparation of the report of invoices to be transferred to the property tax bill.

We agree with this recommendation and, in fact, the preparation of this report is a duty assigned to the Administrative Services Supervisor, with review and approval by the Business Operations Manager. Because the supervisor was hired shortly before the processing of the tax roll special charges in 2011, the manager had to train the supervisor in this process.

Recommendation 9: Rates for services should be updated in NSS when rates are changed

We agree with this recommendation and have always strived to ensure rates are updated correctly in NSS. We believe this was an isolated incident and in the future this process will be closely monitored by both the Business Operations Manager and the DNS Operations Manager.

Recommendation 10: Payments should be posted in NSS immediately after being deposited

We agree with this recommendation. Our standard procedure is to post payments as soon as possible after they are processed, recognizing that there will be delays from time to time due to staff vacations and position vacancies. In fact, sprinkler invoice payments are normally posted automatically as the payments are processed by the cashier. The sprinkler postings that were delayed in 2011 were the result of a processing error by a new cashier. This situation has been rectified. The delay in the posting of elevator invoice payments was due to a backlog created by 2 vacancies in the cashier position within less than 1 year.

Recommendation 11: Develop a formal policy and procedures manual

We agree with this recommendation. We have already identified this need and have created a number of written procedures. This project is a work in progress.

Thank you again for the assistance of your staff in reviewing our billing and receivables processes.

Sincerely,



Art Dahlberg
Commissioner

