Audit of Milwaukee Water Works Cashiering Controls

W. MARTIN MORICS
City Comptroller
City of Milwaukee, Wisconsin

August 2011

Table of Contents

Transmittal Letter 1

I. Audit Scope and Objectives 2

II. Organization and Fiscal Impact 2

III. Audit Conclusions and Recommendations 3

A. Daily Cashiering Controls 3

Recommendation 1: Cashiers should not be allowed to authorize voids 4

Recommendation 2: Reasons for each voided transaction should be documented 4

Recommendation 3: There should be formal documentation of supervisory review of voids 4

Recommendation 4: Surprise cash counts should be formally documented 4

B. enQuesta Cashiering & Billing System Controls 5

Recommendation 5: Customer Service Representatives and Cashiers not have the same access rights 5

Recommendation 6: Water Revenue Manager should not have access to perform daily cashiering functions 5

C. Deposit to City Treasurer and City General Ledger 6

Departmental Response 7

City of Milwaukee

Office of the Comptroller

W. Martin Morics, C.P.A.
Comptroller

Michael J. Daun
Deputy Comptroller

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

Craig D. Kammholz
Special Deputy Comptroller

August 5, 2011

To the Honorable
The Common Council
City of Milwaukee

Dear Council Members:

The attached report summarizes the results of our audit of the Milwaukee Water Works Cashiering Controls. The objectives of the audit were to evaluate internal controls over cash and reconciliation procedures at Milwaukee Water Works, evaluate timeliness and accuracy of deposits to the Treasurer, and to evaluate the timeliness and accuracy of recording revenue to the City's General Ledger.

The audit determined that cash controls at Milwaukee Water Works are overall strong with minor improvements needed. The audit makes six recommendations to strengthen controls.

Audit findings are discussed in the Audit Conclusions and Recommendations section of this report, which is followed by Milwaukee Water Works' response.

Appreciation is expressed for the cooperation extended to the auditors by the staff of Milwaukee Water Works.

Sincerely,

W. MARTIN MORICS
Comptroller

Room 404, City Hall, 200 East Wells Street, Milwaukee, Wisconsin 53202 – 3566 Phone: (414) 286-3321, Fax: (414) 286-3281

I. Audit Scope and Objectives

The audit examined procedures and controls for cash collections at Milwaukee Water Works (MWW). This includes all forms of payments, mail-in payments, walk-in payments of cash and check, bank lockbox, and ACH web payments. The audit examined daily cashiering and close procedures, timeliness of entry into the City's general ledger system, and timeliness of deposit to the City Treasurer.

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.

Audit procedures for this report were conducted in June and July of 2011. Initially, walkthroughs and observations were completed in order to gain an understanding of all procedures and controls within MWW. The auditor also observed daily close procedures performed by the two supervisors.

The objectives of the audit were to:

- Evaluate the internal controls over cash collections and reconciliation procedures
- Evaluate the timeliness and accuracy of deposits to the City Treasurer and bank
- Evaluate the timeliness and accuracy of recording of revenue to City's General Ledger

II. Organizational and Fiscal Impact

Milwaukee Water Works' main goal is to provide safe drinking water and fire protection to the residents of the City and in 15 surrounding communities. The business office of the department is responsible for collecting and handling all balances due from account holders of the City.

From January 1, 2011 to June 30, 2011, the revenues of Milwaukee Water Works totaled $85.8 million. Of this amount, approximately $1.2 million were collections in the form of cash. Payments for water bills are received through multiple payment methods. These include customers who walk-in to pay, mail-in their payments, pay online or through lockbox at the bank. Cash, check, and credit card are all payment types accepted for walk-in payments. There

are generally two cashiers on a daily basis collecting payments from customers.

III. Audit Conclusions and Recommendations

Cash controls are designed to provide management with assurance that cash is received and disbursed accurately; that cash transactions are processed and recorded properly; and that cash is adequately safeguarded and deposited.

Cash controls are strong with minor room for improvement. MWW has a number of cashiering controls in place. The cash collection functions are similar to that of the City Treasurer since the department has a computerized cashiering and billing system. The system provides strong audit evidence that can be utilized for reconciliation and monitoring controls. Since MWW has a system with these capabilities, it is essential that the functions are used to the highest capability to provide strong automated cashiering controls.

This audit makes six recommendations to improve cashiering controls for Milwaukee Water Works.

A. Daily Cashiering Controls

Internal controls over cash are designed to: assure that cash is received and disbursed accurately; that cash transactions are recorded properly; and that remaining cash, or inventory, is safeguarded from loss, including theft. Strong controls also provide protection to employees from charges of inappropriate handling or misreporting of cash.

Milwaukee Water Works has many working controls. One important control is that the Cashiering Supervisor performs the daily close-out and recount of the cash. This allows for an independent employee to recount the cash and ensure that cash on hand is accurate. The Water Revenue Manager also performs periodic surprise cash counts of the cash drawers. This is considered a monitoring control. Physical cash is also secured timely by a daily exchange of cash for check that is performed with the City Treasurer. There are also other monitoring controls that exist, which will be discussed further with the recommendations.

The audit disclosed the following observations as areas for improvement over daily cashiering functions.

- Cashiers are allowed to void transactions without supervisory approval.
- The reasons for voids made are not being documented consistently by the cashiers performing the function.
- Voids are being monitored, but without appropriate documentation.
- Surprise cash counts are occurring, but without formal documentation.

The following recommendations aim to improve these observations to further strengthen controls.

Recommendation 1: Cashiers should not be allowed to void transactions without supervisory approval

Cashiers should not be allowed to void their own transactions without prior approval. Currently, the system enables the cashiers to void their own transactions. Access should be removed that would require a supervisor to step in and authorize a void. If the system does not have this capability, regular monitoring of void reports should occur. See the following recommendations for further elaboration.

Recommendation 2: Cashiers should document the reason for each void performed

Some cashiers are documenting the reasons for voids. However, this needs to be more strictly enforced to allow for a more efficient and effective review when the supervisor is monitoring daily voids.

Recommendation 3: Formal documentation of supervisory review of voids needs to occur

Currently, the Cashiering Supervisor is reviewing voids on a daily basis. However, there is no formal documentation of this review. Formal documentation provides for an audit trail since system limitations exist to remove access of cashiers performing voids.

Recommendation 4: Surprise cash counts should be formally documented

The Water Revenue Manager currently conducts surprise cash counts of the cash drawers on a regular basis. However, there is no formal record of this activity. Having formal documents from the system with signature and date provides for a formal audit trail to show that the monitoring was conducted and no exceptions were found.

B. enQuesta Cashiering & Billing System Controls

The audit examined the system controls of the enQuesta cashiering and billing system used by the department for billing and cash collections for water accounts. Audit procedures included analyzing user groups and assigned access rights relevant to cashiering controls. The audit disclosed a strong level of automated controls.

However, there were two noteworthy areas for improvement.

- Customer Service Representatives and Cashiers are part of the same user group. Thus, they have the same access rights that create a lack of separation of duties and lack of accountability.
- The Water Revenue Manager has access to perform day to day cashiering functions that are not part of the job responsibilities.

The following are recommendations to alleviate these issues above and strengthen controls within the divisions and accounting section of the department.

Recommendation 5: Customer Service Representatives and Cashiers should be separated into two user groups

Customer Service Representatives and Cashiers have different job functions. The Customer Service Representatives are responsible for handling customer account issues and performing adjustments to customer accounts. The Cashiers are responsible for collecting payments from customers that walk in to pay their account balances. Separate system user groups should be established to properly separate these job duties so that Cashiers cannot adjust account balances and Customer Service Representatives cannot process customer payments. This would strengthen internal controls.

Recommendation 6: Water Revenue Manager should not have access to perform daily cashiering functions

The Water Revenue Manager monitors the cashiering function but does not process actual payments. Therefore, internal controls would be strengthened if the Water Revenue Manager did not have system access to payment processing.

C. Deposit to City Treasurer and General Ledger

Deposits to the City Treasurer need to occur timely in order to ensure the physical security of cash. Milwaukee Water Works receives cash payments daily. Thus, it is necessary to secure this cash as quickly as possible. First, MWW performs a daily exchange by delivering cash to the Treasury and receiving a check in return. The following morning after the journal entry is entered into the general ledger, the deposit slip with supporting documentation is taken to the Treasurer and MWW deposits all checks directly to the bank.

The audit examined the deposit of cash to the Treasurer as well as the daily journal entry to the City's general ledger. The audit tested a sample of daily receipts including all cash, check, lockbox and internet payments. This test disclosed that cash is being timely and properly secured and deposits are accurately and timely posted to the City's general ledger and the Treasurer's cashiering system. There are no recommendations in regards to these procedures and controls.

Milwaukee
Water Works

COMPTROLLER

2011 AUG -2 AM 9: 18

July 29, 2011

W. Martin Morics
Comptroller
City Hall, Room 404

RE: Response to Audit of Milwaukee Water Works Cashiering Controls

Dear Mr. Morics:

Thank you for the opportunity to work with your staff to review cashiering controls of Milwaukee Water Works (MWW). We have reviewed the report and offer the following responses to the recommendations.

Recommendation 1: Cashiers should not be allowed to void transactions without supervisory approval.

MWW Response to Recommendation 1:

In order to facilitate payment processing and not unduly burden customers who are attempting to make a payment, cashiers need to be able to reverse cash register transactions processed at the counter. There are times when managers are not available to authorize a reversal. MWW has a daily report which lists all reversals processed at the cash register. These reports are reviewed by management twice: on the same day prior to cash close out, and on the following day prior to posting the Cash Deposit to FMIS. With the implementation of Recommendation 2 (see below), additional information will be available to the reviewing manager. With the implementation of Recommendation 3 (see below), the manager's review will be formally documented. These are additional compensating controls to address the concern.

Recommendation 2: Cashiers should document the reason for each void performed.

MWW Response to Recommendation 2:

MWW concurs with this recommendation and has implemented it. Cashiers now document the reason for each void performed.

841 N. Broadway
Zeidler Municipal Building
Room 409
Milwaukee, Wisconsin 53202

www.water.mpw.net

Safe, Abundant Drinking Water.

Recommendation 3: Formal documentation of supervisory review of voids needs to occur.

MWW Response to Recommendation 3:

MWW concurs with this recommendation and has implemented it. The supervisor documents the review of all voids.

Recommendation 4: Surprise cash counts should be formally documented.

MWW Response to Recommendation 4:

MWW concurs with this recommendation and has implemented it. Surprise cash counts are being formally documented.

Recommendation 5: Customer Service Representatives and Cashiers should be separated into two user groups.

MWW Response to Recommendation 5:

MWW concurs with the recommendation and has established separate user groups for the Cashiers and the Customer Service Representatives.

Recommendation 6: Water Revenue Manager should not have access to perform daily cashiering functions.

MWW Response to Recommendation 6:

MWW concurs with the recommendation and has implemented it. The Water Revenue Manager no longer has access to payment processing.

Thank you again for the time your staff put into this audit.

Very truly yours,

Carrie M. Lewis, Superintendent
Milwaukee Water Works

CML:sls