



**Audit of
City Treasurer
Cashiering Controls**

W. MARTIN MORICS

City Comptroller
City of Milwaukee, Wisconsin

June 2008

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Office of the Comptroller

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June 25, 2008

To the Honorable
the Common Council
City of Milwaukee

Dear Council Members:

The attached report summarizes the results of our Audit of City Treasurer Cashiering Controls. The objectives of the audit were to determine whether cash controls in the Office of the Treasurer are adequate; whether cash receipts are properly and timely secured and deposited to the bank; and whether daily cash transactions are accurately and timely recorded in the City's Financial Management Information System (FMIS).

In May 2006 the Treasurer's staff uncovered a theft of cash by one of its tellers, which is discussed in the audit. As a result, the Office of the Treasurer enhanced its cash oversight and control procedures, including implementation of our 2004 audit recommendation to periodically verify all teller cash drawer balances. The audit reviewed these improvements and found that cash controls are now adequate.

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

Appreciation is expressed for the cooperation extended to the auditors by the staff of the Office of the Treasurer.

Sincerely,

W. MARTIN MORICS
Comptroller

I Audit Scope and Objectives

The audit examined procedures and controls for cash handling in the Office of the Treasurer, including vault and cash drawer access and security, cash counting and reconciling, and cash transaction processing and posting. This audit did not examine wire transfers, Automated Clearing House (ACH) transactions, check issuance, and bank account reconciliations. These functions will be examined in subsequent audits.

Audit procedures for this report were conducted periodically during the period from January 2006 through October 2007. The auditors conducted unannounced sample cash counts and observations, as well as a complete count of all cash on hand in May 2006. The auditors observed and reviewed the year-end 2006 teller closing, balancing and reconciling process. Treasurer's Office reports, bank statements, automated cashier system reports and FMIS reports were reviewed for audit testing purposes.

The objectives of the audit were to:

- Determine the adequacy of cashiering controls.
- Determine whether cash transactions are recorded accurately and timely in the Treasurer's automated cashiering system and the City Financial Management Information System (FMIS).
- Determine the status of prior audit recommendations.

II Organizational and Fiscal Impact

In accordance with Wisconsin State Statutes 34.105 and 74.07, and City of Milwaukee Charter Ordinances, the City Treasurer is primarily responsible for the following:

- Receiving and accounting for all monies paid to the City of Milwaukee
- Making disbursements vouchered for payment by the City Comptroller
- Investing City funds not needed to meet current expenditures
- Collecting property taxes for the City, Milwaukee Public Schools, Milwaukee County, Milwaukee Area Technical College
- Collecting miscellaneous fees for the Milwaukee Metropolitan Sewerage District, and the State of Wisconsin
- Collecting delinquent property taxes for all taxing jurisdictions within the City
- Settling property tax levy collections on a pro-rata basis with the other taxing jurisdictions and remitting to each jurisdiction their share of the taxes collected.

In fulfilling its property tax collection functions, the Treasurer collects property taxes for all government units and remits to each unit its share of the tax collections. Considerable funds are also received from the State and Federal governments by wire transfer. The Treasurer's Office processes water bill payments, bus ticket sales, inter-departmental deposits and various licensing payments. About \$2.3 billion in cash transactions were processed by the Treasurer in 2006, including \$399 million by the Treasurer's tellers.

The Office of the Comptroller conducts periodic cash audits of the Treasurer and other City departments to ensure that cash is adequately handled and controlled. Cash audits are also performed by the City's outside auditors during their annual independent audit of the City's Comprehensive Annual Financial Report (CAFR).

III Audit Conclusions and Recommendations

Cashiering 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 on hand is adequately safeguarded.

The audit disclosed that cash controls have been enhanced since a teller theft was discovered in May 2006. Cash controls are currently adequate in the Treasurer's Office. Also, accounting controls are adequate to assure that cash transactions are recorded accurately and timely, and that any exceptions are reported for managerial review. The Treasurer's cashiering system provides an audit trail for all cashiering transactions and identifies any transaction errors or exceptions. In addition, the audit disclosed that year-end teller closing procedures are adequate, with a proper segregation of duties for the cashiering staff.

A. Cashiering Controls

On May 24, 2006 a random cash count by the head teller disclosed that one of the tellers had stolen \$32,700 from her cash drawer. The Treasurer immediately requested the assistance of the Comptroller's Office in a complete count and verification of all cash balances and a review of cash control procedures. A dual cash count by both Offices verified the amount of the theft and substantiated all other cash balances. The teller responsible for this theft was discharged and prosecuted. The City received full restitution for the \$32,700 that had been stolen.

In response to this theft and the findings from the joint review by both Offices, the Treasurer made the improvements to cashiering policies and procedures listed below which were verified by the auditors. With these changes and the implementation of prior audit recommendation reported in section D below, this audit concludes that cashiering procedures and controls are currently adequate.

- **Removed personal bags and purses from the cashiering area:** Tellers had been allowed to keep their personal carry bags and purses at their teller windows, which facilitated this theft. Subsequent review of security camera video and the teller's confession revealed that the dishonest teller transferred money from a cash drawer to her carry bag on the floor by her feet out of view of the camera. Once this was discovered, the Treasurer's Office instituted a

policy requiring that personal bags and purses be stored in new lockers installed away from the cashiering area.

- **Improved security camera placement:** The positioning of security cameras prior to discovery of the theft made it very difficult to observe what the tellers were doing at their teller windows. Once the auditors brought this to the attention of the Treasurer's Office, the camera angles were changed to improve the view.
- **Implemented the prior audit recommendation to count all cash drawers:** The last audit of Treasurer's Office cashiering issued in 2005 recommended that *"...every cash drawer be dual counted no less frequently than once every two weeks and that logs of the counts be maintained."* When the theft was discovered in May 2006, the auditors found that the Revenue Collection Manager was conducting a random count of a single teller cash drawer about once every two weeks and a log of these counts had been maintained. However, every cash drawer was not being counted every two weeks, as recommended. The theft was discovered by such a random count, but that was the first time the guilty teller's cash drawer had been counted in over three months. Since the theft, the Revenue Collection Manager's log indicates that every cash drawer is being counted at least once every two weeks. The Comptroller's auditors are also continuing to conduct occasional unannounced sample cash drawer counts.

B. Cash Security

The audit determined that cash receipts are properly and timely secured and deposited to the bank. The Treasurer's Office implemented the prior audit recommendations, reported in section D below, and this audit concludes that procedures and controls for securing cash are currently adequate.

All vault cash is kept in safes, lock boxes, deposit bags or delivery boxes within the secured section of the vault. The main vault door is open during business hours, but the cash is kept in a separate area of the vault that is locked at all times. Only the Revenue Collection Manager or the Lead Teller have keys to this secure vault area. The audit observed that when cash is needed from vault, the Revenue Collection Manager enters the secured area and obtains the necessary funds.

The cash drawers used by the tellers are locked and stored in the vault when not being used.

Cash drawer keys are in the possession of the tellers at all times; spare keys are stored in a locked box, and the keys to the safes and locked box are in the possession of the Revenue Collection Manager or the Lead Teller.

C. Transaction Processing

The audit determined that cash transactions are recorded accurately in the Treasurer's automated cashiering system and the Citywide Financial Management Information System (FMIS).

This automated cashiering system was upgraded in 2005 and again in 2006. The system now includes an Optical Character Scanning (OCR) capability that tellers use to scan property tax remittances directly into the system for quicker and more accurate transaction processing. The system records payment amount, payment type (i.e. check, currency or credit card) and calculates the amount of change or refunds due. Reports generated by this system are reviewed by management on an on-going basis.

The audit traced a sample of transactions from the automated cashiering system to the City FMIS ledger system and found that cashiering transactions were accurately posted to the FMIS.

Cashiering variances are recorded and monitored. A teller variance report is used to record the amount of a variance, reason for the variance, name of the teller, date of variance, reviewing supervisor as well as findings, conclusions, and recommendations. The audit determined that the reports were complete and accurate.

D. Prior Audit Recommendations

Previous audits of the Treasurer's cashiering function found that internal controls were adequate, but could be enhanced to bring them more inline with banking industry standards. Seven recommendations to enhance controls were made in last audit of Treasurer's Office cashiering issued in September 2005. As indicated below, the current audit has verified that these previous recommendations have been implemented or adequately addressed by the Treasurer's Office, along with the further control enhancements recommended by the auditors as a result of the theft.

- 1) **Internal Control Document:** Cashiering procedures and controls have now been documented, as recommended. This includes a documented policy calling for dual counts of all cash drawers at least every two weeks, as recommended in the 2005 audit.
- 2) **Management Oversight:** The auditors noted an increased management presence and oversight in the teller area since 2005, as recommended.
- 3) **Security Cameras:** A new camera system and software was installed during the last audit which allows Treasurer's Office management to view security camera video of the teller area on their desktop computers. The auditors observed management monitoring the camera video, as recommended, during several unannounced cash counts since 2005. Also, as noted above, security cameras in the cashiering area have been adjusted to provide a more complete view of teller activity.
- 4) **Cash Counts:** The 2005 audit recommended that every cash drawer be dual counted by a second-party no less frequently than every two weeks. As noted above, the current audit indicates that this has been done since the theft was discovered in May 2006.
- 5) **Cash Drawer Limits:** The 2005 audit recommended that limits be established for the amount of cash that is kept in the cashier's cash drawers. Although the Treasurer's Office has not established formal drawer limits, the unannounced audit counts have disclosed lower cash drawer balances than found in prior audit, as well as greater monitoring by the Revenue Collection Manager.
- 6) **Vault Sign-in or Transaction Sheet:** The 2005 audit recommended that a vault access sign-in log be maintained, or alternately, improved camera surveillance of the vault area. Camera surveillance has been improved (see recommendation 7).
- 7) **Vault Security Camera Placement:** The 2005 audit recommended that cameras be adjusted to provide a clear view of all activity within the vault. The Treasurer's Office improved vault surveillance with the addition of a second vault camera, addressing both recommendation 6 and 7.

Since these prior audit recommendations have been address and cashiering controls are now adequate, no additional recommendations are necessary at this time. The Comptroller's Office will continue to monitor the operation of the Treasurer's cashiering controls and procedures in subsequent audits.

WAYNE F. WHITTOW
City Treasurer



James L. Hanna
Deputy City Treasurer

James F. Klajbor
Special Deputy City Treasurer

OFFICE OF THE CITY TREASURER
Milwaukee, Wisconsin

June 10, 2008

W. Martin Morics
Comptroller
City Hall, Room 404

RE: Audit of Cashiering Controls

Dear Mr. Morics:

All of your prior audit recommendations relative to cashiering controls have been addressed.

This office concurs with your audit finding that cashiering controls are adequate.

Sincerely,

WAYNE F. WHITTOW
City Treasurer

WFW/JFK/me

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