



**Audit of
City Treasurer
Cash Controls**

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City of Milwaukee, Wisconsin

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Office of the Comptroller

April 7, 2011

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To the Honorable
The Common Council
City of Milwaukee

Dear Council Members:

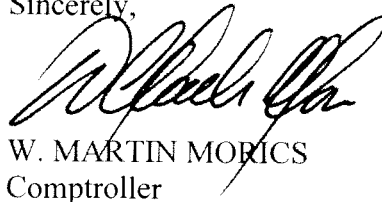
The attached report summarizes the results of our Audit of City Treasurer Cash Controls. The objectives of the audit were to determine whether cash controls in the Office of the Treasurer are adequate; whether cash receipts are properly and timely secured and deposited to the bank; and whether daily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

The audit determined that cash controls in the Treasurer's Office are strong. The Treasurer's office has implemented all prior audit recommendations. Consequently, there are many preventative and detective controls in place. The computerized cashiering system is utilized to receipt cash timely and accurately. Subsequently, daily activity from the system is uploaded and posted to the City's FMIS. Cash is deposited to the bank and transferred between accounts timely and appropriately. The audit makes eight recommendations to further strengthen controls.

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, cash transaction processing and posting as well as the system security of the iNovah cashiering system. The audit also examined wire transfers, Automated Clearing House (ACH) transactions, and bank account reconciliations.

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 periodically throughout 2010. The auditors conducted unannounced sample cash counts and observations. The auditors observed daily and monthly transaction close-out activities, as well as the annual close-out on December 31, 2010. The audit utilized reports and documents from the iNovah cashiering system, deposit and fund transfers, bank accounts, and the City's accounting system, the Financial Management Information System (FMIS).

The objectives of the audit were to:

- Determine the adequacy of cashiering controls
- Determine the adequacy of controls over wire transfers, ACH transactions, and bank account reconciliations
- Determine whether cash transactions are recorded accurately and timely in the Treasurer's automated cashiering system and the FMIS.

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, inter-departmental deposits and various licensing payments. About \$3.1 billion in cash transactions were processed by the Treasurer in 2010, including \$1 billion for the Milwaukee Public Schools. The Treasurer's tellers processed about \$499 million.

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.

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 on hand is adequately safeguarded and deposited.

Overall, cash controls are strong. Prior audit recommendations have been fully implemented. The Treasurer has many preventative and detective controls in place. Consequently, upper management has taken a zero tolerance policy on its approach of cash shortages for the tellers' cash drawers. The iNovah cashiering system has automated system controls to process transactions accurately. Additional manual controls are in place to supplement system controls. Year-end controls and procedures for the teller staff on December 31st appear to be working effectively. Proper controls appear to be in place surrounding the creation and approval of ACH and wire transactions. Cash received at the Treasurer's Office is processed into the iNovah cashiering system timely and accurately and uploaded to the City FMIS daily. This audit makes eight recommendations to further improve cash controls.

The audit noted that some payments received directly by other City departments are not

submitted to the Treasurer's Office timely. Separate audits will be conducted to examine cash handling and controls in these other departments.

A. 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. By defining job responsibilities and granting access rights to the cashiering system accordingly, automatic and manual controls are further strengthened.

Cash needs to be monitored on a consistent basis in order to determine that cash on hand is accurately accounted for and secure. This can be done through management oversight that is manual or automatic. Manual oversight is the process of management stepping in and performing procedures. Automatic monitoring are controls within the cashiering system and video surveillance that monitors the tellers and the vault.

The audit disclosed that there are strong controls over cashiering functions. The surprise cash counts conducted by the Administrative Services section on the Revenue Collection Manager and the vault are operating effectively and occurring on an unannounced basis. Surprise cash counts of the tellers that are performed by the Revenue Collection Manager are occurring regularly. Any detected variances are immediately addressed.

Through observation of year-end collections, the audit also determined that there are strong controls over the temporary tellers. The Revenue Collections Manager and the Lead Teller logon each seasonal teller at the start of the day and count each teller to close at the end of the day. Temporary tellers can only process tax payment transactions. Finally, the supervisors do not allow them to independently transfer cash in and out of their drawers whenever too much cash is accumulated.

During the audit, the following were observed as areas for improvement over cashiering functions.

- The Revenue Collection Manager is not independent from the cash collection function as this position also processes transactions. However, the manager is the only one who counts the tellers.

- The Revenue Collection Manager only counts the cash in the drawer and not other transaction related documents such as licenses, tax bills, water bills, etc.
- The Revenue Collection Manager maintains a manual log of the surprise cash counts conducted. This manual log is the only documentation of the surprise cash counts. There is no further documentation to provide as an audit trail of the counts.

Void and adjustment cashiering transactions appear to be properly authorized and all tellers are properly documenting reasons for each void or adjustment. However, the audit disclosed the following lack of separation of duties:

- Currently, second-party authorization is required for all teller initiated void or adjustment transactions. However, the Revenue Collection Manager and the Lead Teller can void their own transactions, without second-party review. These two supervisors are, thus, in the position to record a transaction, authorize a transaction, maintain the related assets and then void or cancel a transaction.

As noted above, there are opportunities to further strengthen current controls. Of the following recommendations, the first and fourth ones relate to a lack of separation of duties. The second and third recommendations are further enhancements to the controls already in existence.

Recommendation 1: Someone independent of cashiering should count the tellers

The Revenue Collection Manager currently performs the surprise cash counts of teller cash drawers, but this position also collects, records, and maintains custody of cash and is therefore not independent of the cashiering function. The professional staff of the Financial Services group should count the permanent tellers in order to strengthen the surprise count procedures and further segregate duties. This would allow an independent knowledgeable professional who does not participate in the daily cash collections to count the tellers.

Recommendation 2: Improve surprise cash count documentation

Substantiating documentation should be retained for all cash counts, such as printouts of the teller's allocation reports and screen shots of the cash counter screen and batch totals. The Deputy Treasurer reviews the current count logs, and this additional documentation would provide evidence and an audit trail indicating that the counts were performed adequately and that there were no discrepancies in the cash balances.

Recommendation 3: Surprise cash counts should include verification of other transaction documents

Surprise cash counts should be timed towards the end of the business day so the counter can observe the normal close-out procedure when a teller counts all of their transaction documents. Another option would be for the surprise cash counter to independently count and verify the transaction documents against the teller's allocation report during each surprise cash count, regardless of the time of the count. When only the cash is counted there is a risk that the teller's transactions are not in balance. It is not uncommon for tellers to make mistakes while processing transactions.

Recommendation 4: Management should monitor void and adjustment transactions by the Revenue Collection Manager and Lead Teller

Currently, second-party approval in the cashiering system is required from the Revenue Collection Manager or Lead Teller to process teller initiated void or adjustment transactions. However, a second-party is not required to approve voids or adjustments by the Revenue Collection Manager and Lead Teller. Either second-party approval should be required on all voids and adjustments or a process needs to be established for management to review a voids and adjustments report on a regular basis. Timely management review of this report would serve as a compensating control if the Revenue Collection Manager and Lead Teller continue to authorize their own voids and adjustments.

B. iNovah Cashiering System Security

The audit examined the system controls of the iNovah cashiering system as well as the access rights to all of the features that employees of the Treasurer's office are assigned.

Audit procedures were to understand the system security within the iNovah cashiering system. Within the Treasurer's Office setup for iNovah, there are six user groups. The Administrative Services group possesses the capabilities to create, modify, and delete usernames for the system. Employees' access to different screens and modules of the system were analyzed for appropriateness. The iNovah cashiering system provides a reliable audit trail if system controls are utilized correctly. Various employees in the Treasurer's office need different levels of access

to the system in order to ensure proper segregation of duties. The following were identified as weaknesses within the current setup for the iNovah cashiering system.

- As a member of the Administrative Services group, the Special Deputy Treasurer possesses the access rights to create, modify and delete usernames as well as having few transactional access rights. However, the Special Deputy Treasurer does not perform these functions and the related access rights are not needed.
- Certain other staff members and management were included in more than one user group and have access to more system functionality than their job duties may require.
- The Treasurer's office has seasonal employment due to the nature of its activities with tax collections. The seasonal employees do not need to have access rights beyond their temporary employment time frame at the city. The audit found that a couple terminated employees were still classified as active within the system.
- Temporary tellers do not have specific usernames, but rather use generic names identified by teller station number.
- The Financial Services group has a generic username that multiple employees use daily to process transactions and make journal entries.

The following recommendations will mitigate these weaknesses and further strengthen controls.

Recommendation 5: Administrative Services group should perform a formal review of system access rights twice a year

Conducting a formal review of the appropriateness of access rights for all employees including management is necessary. The review should be performed twice a year; once before the busy collection season and again afterwards, in order to remove unneeded system access. Seasonal employees not returning to the Treasurer's Office after the tax collection season do not need continued access rights. When upper management does not have direct responsibility to perform daily transactions, they should not need to have access rights allowing them to enter or modify any transactions or accounts. Removing their capability to modify any balances and granting read-only rights will further strengthen the segregation of duties.

Recommendation 6: Create a separate system user group for administering user accounts

Currently, every user in the Administrative Services group has the same level of access which means that anyone in this group can add, delete or modify a user's access rights. Adding a separate user group would allow for one individual to grant these rights and relieves the other

users in the group from the implied perception that they can make changes within the system.

Recommendation 7: Require individual usernames for each temporary teller

Specific usernames should be assigned to temporary tellers and removed at the end of the tax collection season (see Recommendation 5). Each teller will then be accountable for the transactions and functions processed under their username. Currently, the Revenue Collection Manager and the Lead Teller log-on the temporary tellers each morning and also perform their cash transfers. When multiple users are performing transactions under one username, a lack of accountability exists. Specific usernames will ensure that there is no confusion on who processed a transaction at any given time.

Recommendation 8: Eliminate generic Financial Services username and require individual usernames

Any employee of the Financial Services group processing transactions or completing end of day entries should use their own username when performing these duties. This procedure ensures accountability of each employee's actions. The generic username does not provide any assurance and should be eliminated.

C. Banking and Investment Controls

ACH and wire transfers occur frequently throughout the week. The audit tested these transactions and noted that controls surrounding these transfers are appropriate.

Bank reconciliations were examined and the audit obtained a high level understanding of the process. The audit observed that the bank reconciliations are very manual and cannot occur timely because the recording of cash at the department level is sometimes not timely. Due to the complexity of the reconciliations, the audit is not assessing the strength or weakness of the process in this audit. The 2011 Treasurer's audit intends to examine these issues.

WAYNE F. WHITTOW
City Treasurer



OFFICE OF THE CITY TREASURER
Milwaukee, Wisconsin

April 6, 2011

James L. Hanna
Deputy City Treasurer

James F. Klajbor
Special Deputy City Treasurer

COMPTROLLER
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W. Martin Morics
Comptroller
City Hall, Room 404

RE: 2010 CASH CONTROLS AUDIT RECOMMENDATIONS

Dear Mr. Morics:

This is written in response to the Audit of the City Treasurer's Cash Controls dated March 2011. Below are the responses to the eight recommendations cited in the audit.

Recommendation 1 – Someone independent of cashiering should count the tellers

We agree with the recommendation and have implemented this procedure.

The Financial Services Division will perform unannounced cash counts of the Revenue Collection Manager and the vault once per pay period. The Lead Teller will perform weekly unannounced counts of the tellers. The Lead Teller does not maintain custody of the assets in the vault and is therefore independent of the tellers.

Recommendation 2 – Improve surprise cash count documentation

We agree with this recommendation and have implemented this procedure.

Screen prints of the cash counter screen have always been printed, initialed, and maintained with the cash count log. The Treasurer's Office will now also include screen prints of the daily deposit spreadsheet maintained by the Financial Services Division which includes totals for all checks and non-cash activity in the teller drawers that the Financial Services Division verifies.

Recommendation 3 – Surprise cash counts should include verification of other transaction documents

We agree with this recommendation and have implemented this procedure.

Surprise cash counts have historically been timed at the end of the business day and were changed per the request of the Comptroller's Office to ensure the element of surprise. We will now time the counts at the end of the business day to facilitate counting the drawer in its entirety.

Recommendation 4 – Management should monitor void and adjustment transactions by the Revenue Collection Manager and Lead Teller

We agree with this recommendation and have implemented this procedure.

Due to the configuration of the iNovah system, it is not feasible for the Revenue Collection Manager and the Lead Teller to have rights to approve voids and adjustments of tellers without the ability to approve their own. Consequently, a monthly void and adjustment report will be printed and reviewed by the Deputy City Treasurer.

Recommendation 5 – Administrative Services group should perform a formal review of system access rights twice a year.

We agree with this recommendation and have implemented this procedure.

The current procedure of an annual review of user access rights will be updated to semi-annually. There are certain temporary staff members that return on a monthly basis and need to remain active in the system. All other temporary staff members are deactivated at the end of the tax collection period. After each review, user access reports will be printed and signed, documenting that the review has occurred.

Recommendation 6 – Create a separate system user group for administering user accounts

We do not agree with this recommendation due to impracticability, but have implemented compensating controls.

Having only one employee able to add, delete, or modify a user's access rights is impractical. When this user is out of the office due to vacation or sick leave, it is imperative that another employee have the ability to modify user accounts due to the urgency of the nature of the Treasurer's Office business in serving taxpayers. Accordingly, all but three employees have been removed from the administrative group. These three employees do not have any transaction processing rights within the iNovah system.

Recommendation 7 – Require individual usernames for each temporary teller

We agree with this recommendation and will implement this procedure going forward.

Although generic user names are used for temporary tellers, the generic user names are still unique to each temporary teller for the entire tax collection period. We will, however, use more specific usernames for temporary tellers in the future.

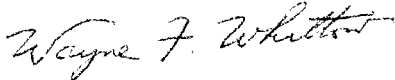
Recommendation 8 – Eliminate generic Financial Services username and require individual usernames.

We do not agree with this recommendation due to impracticability but have implemented compensating controls.

Due to the nature of the Financial Services' use of the iNovah system, it would create an unnecessary hardship on staff to require individual user names. The current procedure is for staff to initial the receipts that print with each entry performed. An additional procedure has been implemented requiring each user to enter their initials in a field which prints on the receipt and creates a traceable log within the iNovah system. Due to the fact that transactions are time stamped in iNovah and that individual user names are required to log on to the computer to gain access to iNovah, if it were necessary, the individual user name that was logged on to the computer at the time an entry was performed could also be obtained, thus creating accountability for all transactions. It is our belief that these compensating controls are sufficient for the minimal risk associated with the entries performed by the Financial Services employees.

Please direct any questions on the above responses to Jim Hanna, Deputy City Treasurer, at extension 3761.

Sincerely,



WAYNE F. WHITTOW
City Treasurer