



**Audit of the
City Treasurer's Internal
Controls Over Cashiering
Activities**

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City of Milwaukee, Wisconsin

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Office of the Comptroller

September 30, 2005

To the Honorable
the Common Council
City of Milwaukee

Dear Council Members:

The attached report summarizes the results of our Audit of the City Treasurer's Internal Controls Over Cashiering Activities. The objectives of the audit were to determine whether cash controls in the Treasurer's Office are adequate; whether cash is properly and timely secured, transferred and deposited; and whether daily cash transaction amounts are accurately entered in the City's Financial Management Information System (FMIS) on a timely basis.

Overall, the audit determined that internal controls over cashiering activities in the Treasurer's Office are adequate, but are in need of strengthening to meet banking industry standards. The audit disclosed that cash is properly and timely secured, transferred and deposited and that the computerized cashiering system utilized by the Treasurer's Office accurately posts the correct dollar amounts to FMIS. Areas identified for improvement include cashier balancing, cash counts with deposits and inventory, and safeguarding of vault cash.

Audit findings and recommendations 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 Treasurer's Office.

Sincerely,



W. MARTIN MORICS
Comptroller

Audit Scope and Objectives

The scope of this audit was limited to the controls and procedures for cashiering activities in the Treasurer's Office. Such activities include vault access, key control, cash access, variances, transfers, deposits to the bank and to the vault, system passwords, voids, and transaction postings. Processes conducted within the Treasurer's Office that were not audited include, wire transfers, automated cash handling (ACH), check issuance, and bank reconciliations. Further review of these processes will be performed in future audits of the City Treasurer's internal controls.

The audit included interviews of the Treasurer's Office staff and observations of cashiering transactions throughout 2004, including year-end processing. Sampling of internal Treasurer's Office reports, bank statements, and FMIS and cashier system reports were used for testing purposes. In addition to sampling and testing, unannounced cash counts were performed. Further, local banking institutions were surveyed, with a number of banks providing information on their internal controls. This information was used in developing the audit's recommendations.

The objectives of this audit were to:

1. Determine whether cash controls are adequate for cashiering activities.
2. Determine whether cash receipts are properly and timely secured and deposited to the bank.
3. Determine whether individual cash transactions are recorded accurately in the Treasurer's cashiering system and FMIS.

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 (City).
- Making disbursements vouchered for payment by the City Comptroller.
- Investing City funds not needed to meet current expenditures.
- Collecting property taxes for the six taxing jurisdictions: the City of Milwaukee, Milwaukee Public Schools, Milwaukee County, Milwaukee Area Technical College, 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 function, the City Treasurer collects property taxes for all government units and remits to each unit its share of the property tax collections in accordance with its levy certification. The total combined 2004 tax levy for all taxing jurisdictions is \$598 million. In addition, considerable funds are received from the State and Federal governments by wire transfer. The Treasurer's Office also processes water bill payments, bus ticket sales, inter-departmental deposits and various licensing payments.

As part of the Comptroller's audit responsibility, cash audits are performed on a periodic basis by the Comptroller's audit staff to assure that internal controls over cash are in place and functioning properly. Cash audits are also performed by the City's external auditors in preparation of the City's Comprehensive Annual Financial Report (CAFR).

Audit Conclusions and Recommendations

Overall, cashiering activities in the City Treasurer's Office are adequately conducted and controlled. However, the audit determined that the controls are in need of strengthening in order to bring them to banking industry standards. Cashiering transactions were posted in a timely and accurate manner to both the Treasurer's cashiering system and to FMIS.

1. Cash 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.

The audit disclosed that internal controls over cash are, in general, adequate. Strong accounting controls are in place to assure that cash transactions are recorded accurately and that any exceptions are reported for managerial review and sign-off. In addition, the Treasurer's cashiering system is designed to identify any transaction errors or exceptions. This system also provides a paper trail for all cashiering transactions. The audit also disclosed that year-end closing procedures are followed with proper segregation of duties for the cashiering staff. However, the audit disclosed the following areas where controls need to be strengthened to meet banking industry standards:

- **Internal control documentation:** The audit disclosed that documented within various office manuals are descriptions of procedures used for cashiering and cash management. These manuals do not include written documentation on the control procedures, or internal controls, used by the Treasurer's Office. Such written documentation will facilitate the identification of control weaknesses, and will assure appropriate changes to controls when cashiering processes change.
- **Supervision of staff:** One major control over any operation is managerial oversight; this oversight establishes an attitude of control consciousness throughout the organization. Past audits have disclosed management's daily oversight of cashiering operations. During this audit's random cash counts, we did not observe management's oversight of cashiering operations.

Treasurer's Office management can also provide strong oversight through the security camera system. The audit determined that the Treasurer's security monitor rotates

through each camera view, rather than transmitting all views simultaneously. However, the system does record continuous views from each camera location, which can be reviewed after the fact, if a problem arises.

A second control issue involving the security camera system is that the camera posted at the entrance of the vault does not record any activity within the vault. Also, the head cashier was the only individual in the Treasurer's Office monitoring the vault camera. This presents a risk, as the head cashier is the employee that consistently accesses the vault alone and can access vault cash. This risk is somewhat mitigated by the fact that these camera views are also monitored by staff in the City Hall security office. Since completion of the field work for the audit the Treasurer's Office installed new security camera software that allows for the viewing of cashing operations by senior management on a continuous basis. The Treasurer's Office has not yet added two camera views within the vault to catch all vault activity. Once all cameras are in place and views are monitored by management, this control would be adequate.

- **Cash counts, inventory counts and drawer limits:** Each cashier is assigned a cash drawer that is locked in the vault at the end of each business day. These cash drawers are not part of the vault cash inventory, which consists of bulk currency, contaminated currency (torn bills), foreign and collectable currency, unused cashier drawers and the head cashier's drawer. The audit survey of the banking industry standards indicates that bank vault staff count cash drawers twice daily, establish drawer limits and count cash inventory daily. The Treasurer's Office does not have separate vault staff. However, cashiers count cash on a daily basis with management performing a second count under certain situations.

The Treasurer's policy is to double count at the start of vacations, sick leave, unexpected absences, variances over or short by \$20 or more, and at year's end. Checks from each cashier's drawer are counted and verified by Treasurer's back room staff as part of a daily close-out routine. This procedure only applies to checks and not currency. There is no daily managerial observation of the cashiers' cash drawer counts. This issue was disclosed in the 2001 and 2002 audits. Treasurer's Office management asserts that surprise double counts are made. However, no surprise counts were observed during the audit and none were documented by the Treasurer's staff. Since the cashiers do not deposit cash on a daily basis, the cashier's drawers may be incorrectly reported as balanced, with the variance rolling over from day to

day without any further reconciliation. In contrast, the banks surveyed have a supervisor or vault employee involved in the daily balancing process using dual counts of all checks and currency. Controls with respect to cash drawer counts need strengthening.

Cash transferred from the cashier's drawers to the head cashier for deposit are double counted by the head cashier, as recommended in the 2002 audit.

During audit observations of cash counts, other risks were identified. There are no established cash drawer limits, or beginning balances. Each cashier determines when a transfer to the head cashier is necessary, and how much cash to keep in their drawer at the day's end. Controls with respect to drawer limits are in need of strengthening.

In terms of vault cash inventory counts, the audit observed that the counts were accurate. The audit disclosed that the Treasurer's Office does not recount unused cash drawers and other pre-counted cash stored in the vault. Banks surveyed indicate that all cash is counted daily.

An issue raised in the 2002 audit report relating to vault cash inventory involves the counting of currency in straps for both vault inventory and for deposits. Currently, bank deposits are prepared by the head cashier and verified by a member of the administrative staff of the Treasurer's Office. Both the head cashier and the management staff include a bulk count of the number of straps, or bundles of large bills (\$100 & \$50 dollar bills) strapped together. This was a recommendation of the 2002 audit. According to Treasurer's Office staff, the large bills (\$50 & \$100) are recounted, while small bill straps (under \$50) are not counted. The risk in this area is minimal and the current control appears to be adequate.

- **Over/short variance reports:** A cash variance report is a control over the accuracy of data entered and identifies where problems might arise in cashiering operations. The cash variance report is to be completed by the cashiers for each variance. The report is intended to record the amount of the variance, reason for the variance, name of the cashier, date of variance, reviewing supervisor as well as findings, conclusions, and recommendations. The audit determined that a number of reports were not fully completed. They were missing a reason or a recommendation for the variance. Banking industry standards require complete cash variance reports for all over/short situations, with all required fields completed by the cashier with subsequent

supervisor signature. When the over/short reports are completely filled out, this becomes an adequate control.

Recommendation 1: Internal Control Document

The audit recommends documenting all the controls currently used within the Treasurer's Office, specifically with regard to cash handling. Further, having a written set of internal controls is a very strong tool to force management to review risks when changes occur within cash handling operations.

Recommendation 2: Management Oversight

The audit recommends that management resume its practice of physically observing the cashiering operations on a random basis. This will indicate that management is concerned about the cashiering operations and how they are controlled.

Recommendation 3: Security Cameras

The audit recommends that the Treasurer's Office management be responsible for observing the security videos of cashiering operations. This would eliminate having a segregation of duties problem where currently the head cashier is responsible for observing these security videos. With the post-audit addition of new security camera software and the ability of management viewing of the camera transmissions, there is a reduced need for the head cashier to watch the security cameras during the course of the day.

Recommendation 4: Cash Counts

The audit recommends that every cash drawer be dual counted no less frequently than once every two weeks and that logs of the counts be maintained. The Treasurer's Office indicated that this would be an acceptable procedure.

Recommendation 5: Cash Drawer Limits

The audit recommends that limits be established for the amount of cash that is kept in the cashier's cash drawers. Throughout the day, cashiers should transfer large amounts of cash to the head cashier. For instance, a standard could be established requiring all \$20 bills over a certain quantity be transferred to the head cashier. Also,

at the end of the day, cash drawers should be brought back to their expected drawer limit, with the remainder transferred to the head cashier's drawer.

2. Cash Security, Access and Deposits

Physical controls over cash are an integral part of the overall internal controls in a cashiering operation. These controls include cash security, access and security of deposits and receipts that are transferred to and from the bank. The audit determined that there are physical controls over security, access and deposits. However, there are areas where these controls need strengthening.

- **Vault cash access:** 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. However, there is a secured section of the vault that is locked at all times with only the head or assistant head cashier having key access. The audit observed that when funds are needed from vault cash, the head cashier or the assistant head cashier enters the secured area and obtains the necessary funds. It is a good control to limit this access. However, it was noted that there was no sign-in sheet, or any other document to identify the reason for access to the vault cash (i.e. exchange of one type of currency for another, or to replenish a cash drawer), nor was there an accompanying non-cashiering staff person.

As reported by the banking institutions surveyed for this audit, controls for monitoring vault activity should include: dual access to the vault, sign-in sheets, and regular reviews of the recorded vault activity.

- **Vault, safe and cash drawer key access:** Another physical control over vault cash is the control and access to vault and cash drawer keys. In the 2002 audit report, risks were identified with regard to cash keys. As a result, the cashier's keys are now stored separately from the safe deposit control keys. Current controls implemented include: cash drawer keys in the possession of the cashiers at all times; spare keys being stored in a locked box, and the keys to the safes and locked box are being held in the possession of the head cashier or assistant head cashier, in the absence of the head cashier. These are well established physical controls that limit access, and therefore, provide adequate internal control.
- **Security cameras:** As mentioned earlier, security cameras placed strategically to

view vault activity provide a strong control and deterrent of risk. Currently, the vault security camera views only personnel entering and leaving the vault. There is no view of activity within the vault. This lack of camera view within the vault weakens control over activities in the vault.

Recommendation 6: Vault Sign-in or Transaction Sheet

The audit recommends that the Treasurer's Office establish a vault sign-in or transaction sheet that would be completed every time the head cashier or assistant head cashier enters and leaves the vault. This sheet would provide a record of vault activities that could be reconciled at the end of each day when the inventory count is made. According to the audit's survey of banking institutions, this is an industry standard practice. A further control would be the addition of a management or non-cashiering employee to be with the head cashier or assistant head cashier when these transactions are made. An alternate control would be continuous security camera surveillance of the vault area.

Recommendation 7: Vault Security Camera Placement

The audit recommends that the vault security cameras be placed in positions to provide a clear view of all activity within the vault. Establishing these cameras are a good deterrent and an excellent way to record activities within the vault.

3. Cash Transaction Recording

The accurate recording of transactions is the goal of any cashiering system. The audit observed that the Treasurer's Cashiering System performs that task adequately overall. The system includes OCR-A scan line reading that identifies proper account(s) to be credited, the amount to be credited, the person/property, and other account identification information. The system also records payment amount, payment type (i.e. check, currency or credit card) and calculates the amount of change or refunds due for the transaction. Reports generated by this system are reviewed by management on a consistent basis. The audit noted the following:

- **Transfer of transaction balances to FMIS:** The Treasurer's Office relies on its cashiering system to provide accurate information and data for posting to the City's FMIS. In 2000 a system reliability audit was performed and the system was found to

be reliable. During the audit, daily cash transaction summaries were traced from the Treasurer's System to the City's FMIS system. These entries were transferred without exception.

- **System Access:** Access to the cashiering system is an important control limiting who has access to make journal entries as well as ensuring accurate transfer of data to FMIS. The Treasurer's system is a stand alone system that has limited access. Access to the application is such that only cashiers can make cash transactions, and only certain managerial staff can record wire transfers, investment and ACH transactions.

The audit revealed through interviews that cashier passwords have never been changed. According to the Treasurer's management, the cashier system is not connected to any other computer system or network. In addition, cashiers cannot login on another cashier's workstation. A new cashier system is included in the Treasury budget for this year; therefore, the password control will be reviewed with the new system.

The audit makes no recommendations regarding cash transaction recording. At the time this audit was completed, the Treasurer's Office was in the process of implementing a new cashiering system. Recommendations will be made in future audits after the new cashiering system has been implemented.

WAYNE F. WHITTOW
CITY TREASURER



OFFICE OF THE CITY TREASURER
MILWAUKEE, WISCONSIN

September 16, 2005

W. Martin Morics
City Comptroller
200 East Wells Street – Room 404
Milwaukee, WI 53202

**RE: Audit of the City Treasurer's Internal Controls Over
Cashiering Activities**

Dear Mr. Morics:

This department concurs with the seven recommendations made in the audit report and has, or will, implement them as soon as reasonably possible.

Sincerely,

James J. Krajcar
for

WAYNE F. WHITTOW
City Treasurer

WFW/jmb