



**Audit of
City Treasurer
Cash Controls**

MARTIN MATSON
City Comptroller

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City of Milwaukee, Wisconsin

September 2016

TABLE OF CONTENTS

Transmittal Letter1

I. Audit Scope and Objectives.....2

II. Organization and Fiscal Impact3

III. Audit Conclusions and Recommendations5

A. Cashiering Activities6

**Recommendation 1: Revise, develop and implement policies and
 procedures as necessary for revenue collection processes.....7**

**Recommendation 2: Reinforce teller and vault cash count procedures and
 documentation processes during the transition of workload responsibilities ..7**

Response from the Office of the City Treasurer8

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Office of the Comptroller

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September 21, 2016

Honorable Tom Barrett, Mayor
The Members of the Common Council
City of Milwaukee
Milwaukee, WI 53202

Dear Mayor and Council Members:

The attached report summarizes the results of our Audit of City Treasurer Cash Controls. The scope of the audit included cash controls within the Revenue Collection Division of the Office of the City Treasurer and the time period under review was January 2015 through May 2016. The objective of the audit was to assess the adequacy and effectiveness of controls in place surrounding cashing activities.

The audit concluded that cash controls in the Office of the City Treasurer are adequately designed and are operating effectively. The audit procedures confirmed that the internal control structure over cashing activity ensures that transactions are recorded accurately and timely and processing meets the appropriate best practice criteria. This audit identifies two recommendations to further enhance the control environment.

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

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

Sincerely,

A handwritten signature in blue ink that reads "Greg Lotze". The signature is written in a cursive style.

Greg Lotze, CPA, CIA
Interim Audit Manager

GL: rmk



I. Audit Scope and Objectives

The audit examined procedures and controls for cash handling in the Office of the City Treasurer, including vault and cash drawer access, cash counting and reconciling, and cash transaction processing and posting. The scope of the audit included cash controls within the Revenue Collection Division of the Office of the City Treasurer. The audit period was from January 1, 2015 through May 31, 2016.

In an effort to reduce duplication of audit tests performed by the external auditors as part of the procedures for the Comprehensive Annual Financial Report, the audit did not include testing of the operating account bank reconciliation, Automated Clearing House transactions and wire transfers, or specific application controls identified within the Tax Collection System surrounding the accuracy of property tax bills. The audit also excluded an assessment of the general and application controls over the iNovah application regarding user access, change control management, security and administration, and vendor application oversight as they were evaluated during the 2015 Audit of iNovah Application Controls.

Audit procedures were conducted in 2016. In addition to substantive and control testing, the auditor observed teller and vault cash counts and daily and monthly close activities. The audit also included observation of the tellers' and manager's close-out and balancing for the month-end of May 2016. The audit utilized reports from the iNovah cashiering system, the Financial Management Information System (FMIS), as well as manual monitoring logs and documents maintained by the Revenue Collection Division.

The objective of the audit was to:

- Assess the adequacy and effectiveness of controls in place surrounding cashiering activities.

The audit objective was satisfied through assessment of: applicable policies and procedures, training and contingencies, control testing re-calculations, authorizations; and comparisons to best practice.

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. Internal Audit believes that the evidence obtained provides a reasonable basis for the audit's findings and conclusions based on the audit objectives.

Methodology

Audit methodology included developing an understanding of processes and controls for cashiering activities of the Revenue Collection Division of the Office of the City Treasurer. The audit procedures, which were developed to evaluate the processes and controls to meet the audit objective, included process walk-throughs, inspection of relevant support documentation and system information, and the testing of controls as follows:

- Reviewed internal policies, procedures, and guidelines;
- Assessed cross-training and process contingencies;
- Assessed cash variance source documentation and data retention processes;
- Verified managerial approval of teller voids and adjustments;
- Verified successful daily general ledger upload via verification of the Office of the City Treasurer iNovah daily Allocation Detail report to the applicable FMIS journal entry detail;
- Verified that surprise cash counts are performed consistently and timely; and
- Assessed controls and processes in place surrounding cashiering activities.

II. Organization and Fiscal Impact

The Office of the City Treasurer, consisting of the Administration and Tax Enforcement, Customer Services, Revenue Collection and Financial Services divisions, fulfill the duties and responsibilities of the City Treasurer, who serves as the chief investment and revenue collection officer. The Administration Division is responsible for the budget, bankruptcies, contracts, facilities, information systems, personnel, procurement, records management, and tax account maintenance and tax enforcement. The Customer Services Division is responsible for the administration of the state lottery and gaming credit program; opening, sorting and distributing

incoming mail; and supports tax account billing, collection and tax enforcement operations. The Financial Services Division performs the cash management activities, fund accounting, investment portfolio management, and payment distribution and tax levy collection settlements. The Revenue Collection Division is responsible for cashiering control and revenue collection.

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

- Receiving and accounting for all monies paid to the City.
- Making disbursements vouchered for payment by the City Comptroller.
- Management and investment of City funds not needed to meet current expenditures.
- Collecting all property taxes levied by the respective taxing jurisdictions within the City of Milwaukee.
- Collecting delinquent property taxes for all taxing jurisdictions within the City of Milwaukee.
- Settling property tax levy collections on a pro-rata basis with the other taxing jurisdictions within the City of Milwaukee and remitting to each jurisdiction its share of the monies collected.

In fulfilling property tax collection functions, the Office of the City 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 office processes water bill payments, inter-departmental deposits and various licensing payments. In 2015 they processed approximately \$2.84 billion in transactions, of which over \$700 million was for Milwaukee Public Schools. Total transactions included \$461 million in cash and checks processed by the tellers. From January 1, 2016 through May 31, 2016, the office processed approximately \$1 billion transactions, of which over \$200 million was for Milwaukee Public Schools. Total transactions processed by the tellers included \$198 million in cash and checks.

The Audit Division conducts periodic cash audits of the Office of the City Treasurer and other City departments to ensure that cash is adequately handled and controlled.

III. Audit Conclusions and Recommendations

The audit assessed the adequacy and effectiveness of internal controls surrounding cashiering activities within the Revenue Collection Division of the Office of the City Treasurer.

The Revenue Collection Division has established preventative and detective cashiering controls over the cashiering processes. These controls were 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. Consequently, management maintains a zero-tolerance policy regarding teller cash shortages and relies upon the iNovah system's automated cashiering controls, supplemented by management authorized manual controls, to ensure that transactions are processed accurately. Month-end closing procedures for the teller staff are operating effectively. Payments and deposits received at the Office of the City Treasurer are processed into the iNovah cashiering system timely and accurately and uploaded to FMIS daily.

The audit concluded that cash controls in the Office of the City Treasurer are adequately designed and are operating effectively. The audit procedures confirmed that the internal control structure over cashiering activity ensures that transactions are recorded accurately and timely and processing meets the appropriate best practice criteria.

This audit identified two recommendations to further enhance the control environment:

1. Revise, develop and implement policies and procedures as necessary for revenue collection processes.
2. Reinforce teller and vault cash count procedures and documentation processes during the transition of workload responsibilities.

A. Cashiering Activities

The audit established that there are strong controls over the cashiering functions. Internal controls over cash are designed to ensure cash is received and disbursed accurately, cash transactions are recorded properly, and remaining cash or inventory is safeguarded from loss (including theft). Effective controls also provide protection to employees from charges of inappropriate handling or misreporting of cash.

Policies and Procedures

In accordance with best practice requirements, management should implement control activities through policies that establish what is expected and in procedures that put policies into action.¹

The performance of audit procedures, including observation of month-end collections activities, determined that there are adequate controls surrounding cashiering operations. However, cashiering functions could be further strengthened by improving the Office of the City Treasurer's written policies and procedures over the revenue collection processes. Consequently, effective controls over cashiering activities require policy and procedure revisions, development, implementation and training to ensure understanding, purpose, and consistency and continuity of operations.

Surprise Cash Counts

The surprise cash counts conducted by the Financial Services Division, for the vault and the Revenue Collection Manager's cash drawer, are adequately designed and operating effectively. Surprise cash counts of the tellers' cash drawers, performed by the Lead Teller, occur regularly and any detected variances are addressed immediately. It is standard practice for cash count reviews to be performed and authorized by someone other than the owner of the cash drawer. These controls have been documented in the Office of the City Treasurer's intra-departmental procedures; however, audit's review identified one instance where a vault cash count was performed, but its review was not documented on the cash count log. In addition, the audit noted that cash count logs, whose preparation is required during the transition of workload

¹ 2013 COSO Framework - Principle 12.

responsibilities to a new processor, did not consistently demonstrate evidence of review by the Deputy Treasurer or a designated representative.

Recommendation 1: Revise, develop and implement policies and procedures as necessary for revenue collection processes.

Policies and procedures define expectations, promote consistency, aid in making effective decisions and productivity, serve as a training tool and provide continuity to operations. To enhance controls over cashiering activities, management should revise, document and implement policies and procedures as is necessary. The policies and procedures should clearly define required controls, timeframes, evidence of supervisory review and processes over cashiering activities as follows:

- When counterfeit money is received the letter sent to the Secret Service, and a copy of the counterfeit bill, should be retained as supporting documentation.
- The retention of supporting documentation for the Variance Report, and the notation of any special instructions when supporting documentation is not retained with the report.
- The date or timeframe in which Voids and Adjustments reports are to be reviewed by the Deputy Treasurer or a designate.

Recommendation 2: Reinforce teller and vault cash count procedures and documentation processes during the transition of workload responsibilities.

Management should reinforce procedures to ensure that cash counts are conducted and documented at least once per week for the teller cash drawers and once per pay period for the Revenue Collection Manager and the vault. In addition, during the transition of workload responsibilities to a new processor, management should reinforce procedures to ensure that cash count logs are reviewed monthly by the Deputy Treasurer, or a designated representative.



Spencer Coggs
City Treasurer

James F. Klajbor
Deputy City Treasurer

OFFICE OF THE CITY TREASURER
Milwaukee, Wisconsin

September 16, 2016

Greg Lotze
Interim Audit Manager
Office of the Comptroller
City Hall, Room 404

RE: Audit of City Treasurer Cash Controls

Dear Mr. Lotze:

This is the Treasurer's Office written response to the two recommendations made in the *Audit of Cash Controls* dated September 2016.

Recommendation 1 – Revise, develop and implement policies and procedures as necessary for revenue collection processes.

It has always been the practice of the Treasurer's Office to document and implement policies and procedures as necessary. The Treasurer's Office keeps copies of received counterfeit money stored in a secure location. It would not be a prudent business decision to keep a copy of the counterfeit money with the variance report, as copies of counterfeit money should only be kept in a secure location with limited staff access. The procedure regarding reviewing voids and adjustments has been updated to include the timeframe for the reports to be reviewed.

Implementation Date: Already in place

Recommendation 2 – Reinforce teller and vault cash count procedures and documentation processes during the transition of workload responsibilities.

The Treasurer's Office always conducts surprise cash counts at least once per week for the teller cash drawers and once per pay period for the Revenue Collection Manager and the vault. A procedural change was made to keep the counts of the vault documented in an electronic format rather than the written log. This procedural change had not yet been reflected in the written procedure at the time this audit was conducted. However, all counts were completed timely and documented in either electronic or written format. The cash count log has been added to the list of reports for monthly review by the Deputy Treasurer or a designated representative.

Implementation Date: Already in place

Sincerely,


SPENCER COGGS
City Treasurer

SC/JFK/RLM

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