



CITYWIDE CASH CONTROLS
Volume 1 of 2

AUDIT REPORT #0134

AUGUST 2001



Copies of this audit report #0132 (project #0102) may be obtained by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (dooleym@talgov.com).

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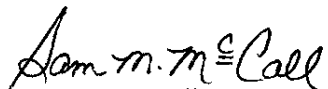
MEMORANDUM

To: Mayor and Members of the City Commission
From: Sam M. McCall, City Auditor
Date: August 29, 2001
Subject: Audit Report on Citywide Cash Controls (#0134)

We have completed an audit of Citywide Cash Controls (#0134). To facilitate the usefulness of this audit, we are issuing this report in two volumes. Volume 1 contains the executive summary, audit scope and objectives, background, methodology, audit results by control activity category, and applicable recommendations. Volume 2 describes for each service area and department the control activities reviewed, assurances provided, risks identified, and applicable recommendations. Action plans have been developed for each cash collection location where risks were identified. This report contains the responses from the City Manager and the Interim City Treasurer-Clerk. We will periodically review the implementation of stated recommendations and action plans.

We thank applicable City staff for their cooperation and assistance during this audit. If you have any questions or need a more detailed briefing on this audit, please contact me.

Respectfully submitted,


Sam M. McCall
City Auditor

SMM/mbd
attachment

Copy: Members of the Audit Committee
Appointed Officials
Leadership Team
Paula G. Cook, Records Administrator

Am. All-America City

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Audit Report



Sam M. McCall, CPA, CIA, CGFM
City Auditor

“Citywide Cash Controls”

Report #0134

August 29, 2001

Executive Summary

Annually, the City of Tallahassee collects in excess of \$400 million at 22 City departments and offices. Our audit of internal controls at those locations showed, for the most part, that controls were in place to provide accountability for collections from the time of receipt until deposit. However, we also identified significant risks at several locations that increased the likelihood that collections will not be properly and efficiently handled and deposited into the City’s bank account. Recommendations have been provided to eliminate or reduce those risks.

The City collected revenues (i.e., cash) in excess of \$400 million at 22 separate departments/offices during fiscal year 2000.

Controls over cash collections are essential to ensure the proper handling and deposit of City funds. The Revenue Office and the collecting departments and offices share responsibility for those controls.

During fiscal year 2000, the City collected revenues (i.e., cash) in excess of \$400 million. The majority of those collections were received and deposited by the Revenue Office. However, a portion of that amount was collected in numerous other City departments and offices. Specifically, we identified 22 City departments and offices that collected cash at the time of our fieldwork. Those 22 locations were comprised of the Revenue Office and 21 departments/offices external to the Revenue Office. For purposes of this audit, the collections at those 22 locations were classified into 26 categories. Two of those categories pertained to the Revenue Office, and the other 24 categories pertained to external departments and offices.

Responsibility to ensure the proper receipt, handling, and deposit of cash is shared by the Revenue Office and the other City departments and offices that collect City revenues. Because of the high inherent risk associated with cash, appropriate controls should be established that safeguard and account for cash. Cost-benefit considerations should determine the type and degree of controls to implement.

Our review showed that City departments and offices have established and implemented controls that, for the most part, provided increased assurance that collected funds will be properly

Controls were in place that increased management's assurance that collections were properly accounted for and deposited. However, significant risks were identified that could negate those controls. Management is receptive to taking the necessary actions to mitigate those risks.

accounted for and deposited. However, we identified risks that, if not adequately addressed, could negate the impact of those controls. We have discussed the identified risks with applicable City management, and they appear receptive to taking actions, where appropriate, that:

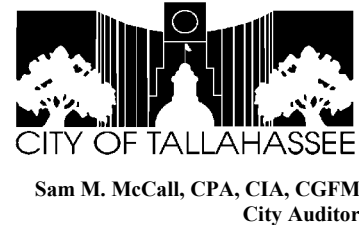
- control access to collections;
- ensure management and supervisory reviews of collection activity are performed and documented for the purpose of assuring the proper disposition of collections;
- segregate duties pertaining to the handling (e.g., receipt and deposit) and accounting for collections when practicable and providing for compensating controls when such segregation is not practicable;
- provide for timely restrictive endorsements on checks, money orders, and similar negotiable instruments as a means of restricting the negotiability of such instruments;
- provide for timely and efficient processing and deposit of collections, thereby reducing exposure of the collected amounts to loss or theft and increasing the interest that can be earned upon deposit;
- document events such as transfers of custodial responsibility or dates of receipt, thereby increasing management's ability to determine responsibility in the event of loss or theft and to verify timely deposit of funds;
- provide for record analyses by staff independent of the cash handling function as a means to ensure that amounts collected were properly deposited and/or that amounts due the City were received;
- establish or enhance existing written procedures to address all aspects of the cash collection and deposit process.

Separate presentations of the identified assurances and risks and related recommendations were made for each of the locations audited.

To facilitate the usefulness of this audit, a separate presentation of the identified assurances and risks and related recommendations was prepared for each of the 26 categories. Those separate presentations are included in **Volume 2** of this reporting package.

We would like to acknowledge the full and complete cooperation and support of applicable City staff during this audit.

Audit Report



“Citywide Cash Controls”

Report #0134

August 29, 2001

Scope and Objectives

The objectives of this audit were to determine whether adequate internal controls had been established over cash collected throughout the City. This included a determination as to whether cash collections were (1) received and processed in a proper and efficient manner, (2) adequately documented and accounted for, (3) safeguarded, (4) and timely deposited into the City’s bank account. Inherent within these stated objectives were determinations as to whether functions and activities relating to cash collections were adequately segregated among different employees.

For purposes of this audit, cash was defined as currency and coins, negotiable instruments, and electronic receipts.

For purposes of this audit, cash was defined as (1) currency and coins, (2) negotiable instruments such as personal and business checks, cashiers’ checks, and money orders, and (3) electronic receipts such as direct deposits made into the City’s bank account by external entities. Examples of the latter would be bank drafts for utility customers and bank settlements received for credit card payments.

The scope of this audit included a review of the cash collection and processing functions at each City location where significant amounts of cash were collected. This audit focused on controls pertaining to cash upon collection by the City and/or City employees. The scope of this review did not address the adequacy of the revenue amounts collected nor address whether all revenues due the City from external entities were paid in the proper amounts by those entities. Our review was conducted during the period January 2, 2001, through May 15, 2001. This audit was conducted in accordance with Generally Accepted Government Auditing Standards.

**Background:
City Cash
Collections**

Cash is collected by the Revenue Office and numerous other City departments and offices.

Section 52 of the City Charter provides that the City Treasurer and Clerk shall receive and collect all moneys belonging to the City, including taxes, license moneys, fines, and income from all other sources. A literal interpretation of this provision would mean that City departments and offices other than (external to) the Office of the Treasurer-Clerk should not collect City revenues (i.e., collect cash). However, City management has applied a more reasonable interpretation. Specifically, when more convenient to the City's citizens and customers and when more efficient and practicable for the City, those other departments and offices are allowed to collect City revenues. For example, City management has determined that it is more convenient and appropriate to allow citizens participating in Parks and Recreation Department activities (e.g., adult and youth sports) to pay applicable fees to Parks and Recreation staff at registration events, as opposed to requiring those citizens to travel to the Revenue Office located at City Hall to pay the required fees. (The Parks and Recreation Department is organizationally under the City Manager, and the Revenue Office is under the City Treasurer-Clerk.)

In some instances, the cash collected by external departments/offices is transferred to the Revenue Office for processing and deposit. In other instances, the collecting department or office processes and deposits their receipts directly into the City's bank account. Regardless of the method, each of those departments and offices reports their collection activity to the Revenue Office for recording and managerial purposes.

The Revenue Office and collecting departments and offices share responsibility to ensure that cash is properly and efficiently received, processed, and deposited.

In those instances where departments and offices external to the Revenue Office (e.g., departments/offices under the City Manager) collect revenues (cash) pursuant to the above "reasonable interpretation," responsibility to ensure that appropriate processes and controls are established and implemented should rest with both the Office of the Treasurer-Clerk (i.e., Revenue Office) and those collecting departments/offices. The Revenue Office should provide appropriate guidance and instruction to the collecting departments/offices and should monitor the collection processes and controls at those locations. At the same time, the collecting departments/offices should follow the guidance and instruction provided by the Revenue Office, establish appropriate systems of internal controls within guidelines established by the City Manager,

and monitor their internal activities to ensure that cash is properly received, safeguarded, processed, and timely deposited or transferred for deposit.

The City received in excess of \$400 million in fiscal year 2000. That amount was collected at 22 separate City departments/offices, including the Revenue Office. The collections at those 22 City departments/offices were classified into 26 categories for purposes of this audit.

During fiscal year 2000, the City collected revenues (i.e., cash) of approximately \$414 million. Approximately 88 percent of those collections (\$363 million) were received directly by the Revenue Office. Pursuant to the “reasonable interpretation” described above, numerous City departments and offices under the City Manager collected the remaining 12 percent (\$51 million). Of that \$51 million, approximately \$42 million was transferred by the collecting departments/offices to the Revenue Office for deposit. The remaining \$9 million was deposited directly into the City’s bank account by the collecting departments/offices.

We identified 22 City locations that collected cash at the time of our audit fieldwork. Those locations included the Revenue Office and 21 departments/offices under the City Manager. For purposes of this audit, we classified the collections at those 22 locations into 26 categories. Two of those categories pertained to the Revenue Office and the other 24 categories pertained to the 21 external departments/offices.

Table 1 on the following page shows annual collections by category, classified by Service Area.

TABLE 1 - ANNUAL COLLECTIONS BY CATEGORY

<i>CATEGORY</i>	<i>ANNUAL (1) COLLECTIONS</i>	<i>TYPE COLLECTIONS</i>
Office of the Treasurer-Clerk – Revenue Office		
Revenue Office (Excluding Parking Meter Collections)	\$405.2 million	Utility payments and deposits; taxes; grants; payments on billed receivables; parking ticket payments, permit fees; etc.
Revenue Office – Parking Meters	\$337,000	Parking meter collections
Office of the City Manager - Development and Transportation Services		
Growth Management	\$18.3 million	Building and environmental permit fees; competency card fees; copy charges
Airport Operations (Excluding Jetport Diner)	\$4.5 million	Parking fees; airline payments for passenger facility charges; lease/rentals from concessionaires; permit fees; locker rentals
Airport – Jetport Diner	\$669,000	Payments for food and drink; catering fees, airline payments for redeemed meal vouchers; etc.
Real Estate – Parking, Leases, and Closings	\$2 million	Fees for City parking facilities; lease payments for City-owned property; real estate closings
Real Estate – Cemetery Sales	\$86,000	Proceeds from sales of burial lots and related perpetual care
Taltran	\$1.1 million	Bus fares
Public Works Engineering	\$796,000	Bid package fees; contractor pre-qualification fees; Department of Transportation repayments
Planning Department	\$424,000	Application fees (e.g., rezoning requests); grant proceeds; copy charges
Office of the City Manager - Safety and Neighborhood Services		
Parks and Recreation – Hilaman Park Golf Course	\$1.1 million	Green fees; cart fees, tournament fees; pro shop sales; food and drink sales; etc.
Parks and Recreation – Jake Gaither Golf Course	\$220,000	Green fees; cart rentals; golf club rentals; vending machine sales; etc.
Parks and Recreation – Adult and Youth Sports	\$303,000	Team and player registration fees; concession stand sales; field rentals; etc.
Parks and Recreation – Recreation Division	\$302,000	Classes and program fees; special event fees; rentals of the Oven/Brokaw-McDougall Houses.
Parks and Recreation – Tennis	\$286,000	Fees for court use, tennis lessons, and clinics; facility rentals
Parks and Recreation – Gymnastics	\$131,000	Registration fees; private lesson fees; event fees
Parks and Recreation – Aquatics	\$74,000	Fees for recreational and competitive swim programs and swim lessons; pool facility rentals
Neighborhood and Community Services	\$1.35 million	Grant proceeds; payments for the City's down payment assistance program; facility rental fees
Animal Service Center	\$200,000	Adoption and boarding fees; miscellaneous sales proceeds
Tallahassee Police Department – Utility Turn-Ons and Miscellaneous Receipts	\$600,000	Nighttime utility payments; grant proceeds; security services payments; donations; copy charges; etc.
Tallahassee Police Department – Operation Funds and Confiscated Cash	\$211,000	Flash funds and confidential funds used in undercover police operations; funds seized as evidence; etc.
Office of the City Manager - Utility Services		
Energy Services	\$8.3 million	Sales of excess natural gas; collections on miscellaneous billings
Utility Customer Services	\$1.75 million	Utility deposits, payoffs of City energy loans; collection company recoveries; miscellaneous
Utility Accounting	\$1.2 million	Payments from Talquin Electric Cooperative
Office of the City Manager - Management and Administration		
Accounting Services	\$6.8 million	Payments/collections submitted by other City departments/offices; COBRA payments; miscellaneous
Municipal Supply Center	\$360,000	Auction proceeds and sales of used utility poles

Note (1): Annual amounts are based on record analyses and/or estimates for either fiscal year 2000 or calendar year 2000.

**Background:
Cash Controls**

Cash is more susceptible to loss or theft compared to most other assets.

Cost-benefit considerations should be made in the determinations as to what controls should be implemented to manage risks associated with cash.

Due to its nature (e.g., liquidity and negotiability), cash is generally more susceptible to loss and unauthorized diversion compared to other assets. One term used to describe this greater susceptibility to loss or theft is “high inherent risk.” To offset this high inherent risk, entities must establish and implement appropriate internal controls that help ensure that cash is properly and efficiently processed, adequately documented and accounted for, safeguarded, and timely deposited.

Cost-benefit considerations should be made by management in the determination as to what level of controls is appropriate to manage the risks associated with cash. Specifically, if the costs of implementing controls to eliminate or reduce a risk are higher than the loss that could likely occur without those controls, the risk may be determined to be “acceptable.” In contrast, if the costs of implementing controls are less than the loss that could likely occur without those controls, the risk may be determined to be “unacceptable.” Because of the high inherent risk associated with cash, such cost-benefit considerations generally provide that some controls over cash be established.

Because there is often more than one control that would offset a particular risk, management must also determine which control (or controls) should be implemented for an identified risk. Again, the loss that could likely occur for an identified risk must be compared to the expected cost of each of the applicable controls when making the determination as to which control(s) should be implemented. For example, if one employee executed events that resulted in revenue generating activities, collected the revenues (cash), and maintained the related records (i.e., an inadequate segregation of duties), the identified risk would be that the employee could lose or divert revenues (cash) without detection. However, if the amount of revenues generated from those activities is minimal when compared to the cost of hiring additional staff for the purpose of segregating the noted duties, management may need to consider less costly controls. In this example, management may determine that periodic comparisons of the revenue generating activities to amounts collected and deposited in the entity’s bank account by appropriate

management/supervisors would effectively determine if revenues were lost or stolen.

The City Manager established internal guidelines for the development and implementation of internal control systems. Those guidelines are applicable to the cash receipt, processing, and deposit functions.

Pursuant to City Commission Internal Control Policy No. 220, guidelines were developed by the City Manager for City departments to use in the establishment of their internal controls systems. Those “Internal Control Guidelines” were established in Administrative Policy and Procedure No. 630. Those guidelines identify various control activities that should be considered by City departments in the establishment of their internal control systems. **Table 2** on the following page specifies those control activities that directly relate to the cash collection and deposit function.

TABLE 2		
NO.	CONTROL ACTIVITY CATEGORY	DESCRIPTION AND EXAMPLES
1.	Access to and Accountability for Resources	Access to resources and records should be limited to authorized individuals and designed to assign and maintain accountability for the custody and use of resources. Examples include (1) locking cash in a safe with access to the safe's contents limited to authorized employees, (2) assigning or having each document (e.g., cash receipt or permit/license) assigned a sequential number for accountability purposes, and (3) assigning custodial responsibility to responsible individuals.
2.	Direct Activity Management	This involves the assignment, review, and approval of staff's work. Supervisors should continuously review and approve the assigned work of their staffs. Also, they should provide their staffs with the necessary guidance and training to help ensure that management directives are achieved. Among other things, this would include (1) systematically reviewing each employee's work to the extent necessary and (2) approving work at critical points to ensure that work flows as intended.
3.	Segregation of Duties	Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions and events should be segregated among individuals to reduce the risk of error or inappropriate actions. For example, no one employee should authorize an event resulting in the collection of cash, have access to or custody of that cash when collected, and maintain the records accounting for that collected cash.
4.	Physical Controls	Assets such as cash should be physically secured. Examples would include controlled entry to locations where cash is stored through locked doors, safes, surveillance cameras, and electronic monitoring devices. Physical controls can also be considered to include devices and/or systems that facilitate the processing of collections to enable more timely deposit of cash, such as cash registers and money counting machines.
5.	Execution of Transactions and Events	Transactions and events should be authorized and executed only by personnel acting within the scope of their authority. Furthermore, transactions should be processed in an efficient and appropriate manner.
6.	Recording of Transactions and Events	Transactions and events should be recorded on a timely basis and properly classified. Cash collection activity should be documented from the point of receipt through deposit.
7.	Information Processing	Information Processing includes a variety of controls to check accuracy, completeness, and authorization of transactions. One example would include independent checks of revenue generating activity to collections received and deposited. Other examples include balancing cash register tapes to collected moneys and reconciling sequentially numbered receipt documents to amounts collected and deposited.
8.	Documentation	Adequate documents and records should be designed and used to help ensure the proper recording of transactions and events. Documentation also includes written operating procedures that provide directives and guidance to staff.

Audit Methodology

For each of the 26 categories identified for audit purposes, an understanding was obtained of the cash collection and handling function. Based on those understandings, assurances and risks were identified and reported.

To address the stated audit objectives, we classified cash collections received by the Revenue Office and external departments/offices into the 26 categories shown in **Table 1**.

For each of those 26 categories, we gained an understanding of the cash collection/processing/deposit activities at the applicable locations. These understandings were based on (1) interviews of staff of the applicable departments and offices and staff of the Revenue Office within the Office of the Treasurer-Clerk, (2) observations of activities and processes, (3) inspections of documents and records, and (4) reviews of selected transactions.

Based on these understandings, we identified assurances and risks. The “assurances” are provided to indicate that controls and procedures were in place to provide reasonable assurance that cash was properly and efficiently collected and processed, safeguarded, documented and accounted for, and timely deposited. In contrast, “risks” represented instances where controls or processes were not in place to provide such reasonable assurances.

For each department/office, we categorized the identified assurances and risks into the following eight “control activity category” classifications that are also shown in **Table 2**:

- Access to and Accountability for Resources
- Direct Activity Management
- Segregation of Duties
- Physical Controls
- Execution of Transactions and Events
- Recording of Transactions and Events
- Information Processing
- Documentation

For each department/office, we prepared a separate presentation of the identified assurances and risks. Those presentations are included in **Volume 2** of this audit report. Included in those presentations are recommendations for actions to reduce the identified risks. In making these recommendations, we considered

the potential costs of implementing offsetting controls and the likely loss that could occur without such controls.

The following section of this report summarizes the results of our audit by control activity category.

Access to and Accountability for Resources

Access to cash was not always adequately restricted to authorized individuals. Forms, records, and documents were not always controlled in a manner that provided assurance that cash was properly collected and deposited. Identified risks impacted annual collections of \$18.5 million.

Access to resources and records should be limited to authorized individuals and designed to assign and maintain accountability for the custody and use of resources. Examples of controls and procedures within this category include (1) locking cash in a safe and limiting access to the safe's contents to authorized employees, (2) assigning or having each document (e.g., cash receipt or permit/license) assigned a sequential number for accountability purposes, and (3) assigning custodial responsibility to responsible individuals. Our audit showed that access to the material amounts of cash collected by the City was properly and adequately controlled and that access and records were generally designed in a manner that ensured accountability. However, significant risks were identified in 15 of the 26 categories. Specifically:

- Access to collections and negotiable instruments at several external departments/offices was not limited to authorized individuals as cash/instruments were stored in unsecured places. For example, we noted locations where collections were stored on tops of desks, shelves, and cabinets, in unlocked drawers and files, and in open bins. Similarly, some collections were transferred between locations through unsecured (i.e., not sealed) interoffice mail. (*Airport Operations, Real Estate – Cemetery Sales, Public Works Engineering, Hilaman Park Golf Course, Adult and Youth Sports, Tennis, Energy Services, Utility Customer Services, Utility Accounting, Accounting Services, and Municipal Supply Center*)
- Forms, records, or documents that (1) documented initial receipt of cash or (2) impacted the amounts of cash collected (e.g., competency cards issued by Growth Management, pass tickets for City pools, and residency cards for tennis) were not sequentially numbered or controlled in a manner that allowed accountability for the forms/records/documents and/or verification that collected amounts were proper and/or deposited. (*Growth Management, Tennis, Aquatics, and Municipal Supply Center*)

- In addition to including the City as a payee on checks, an external entity included the name of a City employee as a payee. Including an individual as a payee on a check increases the risk that the check could be negotiated for unauthorized purposes. *(Real Estate – Parking Leases)*
- The key to vending machine collection containers was maintained in the custody of the employee that should only be provided the key when coins are to be removed from those machines. In addition, at the time of our fieldwork that key was observed in an unlocked desk drawer of that employee. *(Airport Operations)*
- Combinations to safes were not always changed whenever there was a turnover of staff collecting and securing fees. *(Adult and Youth Sports and Tennis)*
- Traffic Engineering maintenance staff have unrestricted access to parking meter collections. In addition, Revenue Office staff removing coins from certain parking meters had access to those coins during the removal process due to the type collection canisters used in those meters. *(Revenue Office – Parking Meters)*

Annual collections impacted by one or more of these identified risks totaled \$18.5 million.

Direct Activity Management

Management and supervisory reviews and approvals were not always conducted or documented. Identified risks impacted annual collections of \$8.5 million.

Direct activity management involves the assignment, review, and approval of staff's work. Supervisors should continuously review and approve the assigned work of their staffs. Among other things, this would include (1) systematically reviewing each employee's work to the extent necessary and (2) approving work at critical points to ensure that work flows as intended. Our audit showed that, generally, applicable management and supervisors adequately reviewed and approved activities pertaining to collecting, processing, and depositing cash. However, as shown in the following, certain risks were identified in 7 of the 26 categories:

- Management did not always review collection records to ensure that the disposition of all collections was adequately documented. *(Public Engineering)*

- Required supervisory approvals of gift certificate sales/issuances were not performed and documented. Such approvals are necessary to preclude unauthorized issuances where no sale is made and where appropriate amounts are not collected. *(Hilaman Park Golf Course)*
- There were no supervisory/management verifications that rain check tickets were issued by staff only to individuals that had paid to play golf. (Rain check tickets are issued to players who have paid the required fees but are unable to complete substantial play because of inclement weather.) *(Hilaman Park and Jake Gaither Golf Courses)*
- Supervisory reviews of cash collection reports were not always documented. *(Adult and Youth Sports, Gymnastics, Aquatics, and Energy Services)*

Annual collections impacted by one or more of these risks totaled \$8.5 million.

Segregation of Duties

Incompatible duties were not always adequately segregated among employees, thereby increasing the risk of undetected loss or diversion of funds. Identified risks impacted annual collections of \$14.5 million.

Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions and events should be segregated among individuals to reduce the risk of error or inappropriate actions. In regard to cash, no one employee should authorize an event resulting in the collection of cash, have access to or custody of that cash when collected, and maintain the records accounting for that collected cash. Incompatible duties and responsibilities were adequately segregated for the material amounts of cash received and processed by the City. However, the risk of undetected loss or diversion of funds was noted at certain locations (i.e., in 18 of the 26 categories) where duties and responsibilities were not always adequately segregated. Specifically:

- Cash collections received at some departments and offices were transferred to Accounting Services. In addition, Accounting Services staff received some collections direct from entities external to the City. Regardless of the source, Accounting Services subsequently transferred those collections to the Revenue Office. Staff responsible for maintaining the City's official accounting records (i.e., general ledger) should not also have custody or access to such collections. *(Real Estate – Leases and Closings, Planning Department, Neighborhood and*

Community Services, TPD Grant Proceeds, Utility Accounting, and Accounting Services)

- Employees initiating and executing rental agreements also collected the related fees, and sometimes prepared the initial records accounting for those fees. *(Airport Operations, Adult and Youth Sports, Recreation Division, Tennis, and Neighborhood and Community Services)*
- In regard to various activities (e.g., the competitive gymnastics and competitive swim programs within the Parks and Recreation Department, energy sales by Energy Services, and meal vouchers and catering sales at the Airport), the functions of billing participants/entities for program activities or sales, receiving the corresponding payments, and maintaining the related billing/receivable records were not adequately segregated among employees. *(Airport – Jetport Diner, Adult and Youth Sports, Tennis, Gymnastics, Aquatics, and Animal Service Center)*
- Employees instructing clinics/classes/etc., preparing or maintaining rosters for such activities, and/or scheduling those activities within the Parks and Recreation Department also collected or had access to the related fees. *(Adult and Youth Sports, Recreation Division, and Tennis)*
- Supervisory staff at some locations had access to collections prior to deposit, received and reviewed cash register or other reports accounting for those collections, prepared applicable summary cash reports, and/or maintained other related records (e.g., golf membership records) pertaining to those collections. *(Hilaman Park Golf Course, Jake Gaither Golf Course, Recreation Division, Aquatics, and Animal Service Center)*
- At Growth Management, the duties of issuing competency cards (such cards certify the competency of certain classes of contractors performing work in the City/County) to individuals, collecting the related fees, and recording the collections in the Permit Tracking System (PETS) were not adequately segregated among staff. *(Growth Management)*

- Duties relating to fees charged to and collected from the public for copies of City documents were not always adequately segregated among employees. Specifically, employees receiving the public's request for document copies also made the copies, collected the related fees, and provided the copied documents to the requesting party. (*Growth Management and Planning Department*)
- At Taltran, generally only person was in the room when daily collections were counted and compared to the computer generated collection count (i.e., based on specialized equipment and software installed in bus fare boxes). Similarly, at the Airport, only one person was present when locker rental and vending machine receipts were removed from the lockers and vending machines. The presence of an additional employee when such moneys are removed, counted, and/or transferred for deposit makes the unauthorized diversion of those collections more difficult. (*Taltran and Airport Operations*)
- In regard to recreational swimming, collection and recording duties (i.e., completion of tally sheets to document the number of pool users) were not adequately segregated among staff. (*Aquatics*)

Annual collections impacted by one or more of these risks totaled \$14.5 million.

Physical Controls

Restrictive endorsements were not always timely placed on negotiable instruments. Also, some restrictive endorsements did not specify the bank or bank account to which the instruments were to be deposited. Identified risks impacted annual collections in excess of \$200 million.

Assets such as cash should be physically secured. One type of physical control over locations where cash is stored is to control entry through locked doors, safes, surveillance cameras, and electronic monitoring devices. Other types of physical controls include (1) restrictively endorsing negotiable instruments so that they can only be deposited into the City's bank account and (2) not accepting currency as a method of payment (e.g., only accept payment by check or money order). Physical controls can also be considered to include devices and/or systems that facilitate the processing of collections to enable more timely deposit of cash, such as cash registers and money counting machines. Furthermore, the defacing and/or voiding of items such as redeemed gift certificates (i.e., instruments of value) represents a physical control. Our audit showed that physical controls over cash were generally

sufficient. However, risks were identified in 16 of the 26 categories as noted in the following:

- Several locations that collected cash did not restrictively endorse negotiable instruments upon receipt. Endorsements were not placed on those instruments until after they had been transferred to the Revenue Office or other offices for deposit preparation. Not restrictively endorsing checks and other similar instruments immediately upon receipt increases the risk of their unauthorized negotiation. (*Growth Management, Airport Operations, Real Estate – Parking, Leases, and Closings, Real Estate – Cemetery Sales, Public Works Engineering, Planning Department, Neighborhood and Community Services, TPD – Miscellaneous Receipts, Energy Services, Utility Customer Services, Utility Accounting, Accounting Services, and Municipal Supply Center*)
- Restrictive endorsements placed on negotiable instruments did not specify the bank or bank account to which the instruments were to be deposited. Restricting the deposit of a negotiable instrument to a specific bank and account reduces the risk of improper deposit or unauthorized diversion. (*Revenue Office and Airport Operations*)
- Redeemed gift certificates and rain check tickets were sometimes not marked “void” or otherwise defaced to preclude unauthorized re-use of those documents for goods or recreational play. (*Hilaman Park and Jake Gaither Golf Courses*)

Annual collections impacted by one or more of these risks likely totaled in excess of \$200 million.

Execution of Transactions and Events

Transactions and events should be authorized and executed only by personnel acting within the scope of their authority. Furthermore, transactions should be processed in an efficient and appropriate manner. Our audit showed that cash collections were generally received and processed by staff within their assigned authority and responsibility, and that procedures were in place to properly process and deposit those collections. However, in 19 of the 26 categories the following risks were identified:

Collections were not always timely or efficiently received, processed, and deposited, thereby increasing the exposure of the collections to loss or theft and limiting the interest that could be earned upon deposit of such collections. Identified risks impacted annual collections of \$23.4 million.

- Collections were not always timely processed and deposited, thereby increasing the exposure to loss or diversion and/or limiting the interest that could be earned on such collections upon deposit. This included instances where cash collected at some City departments/offices was initially transferred to Accounting Services, and then subsequently transferred by Accounting Services to the Revenue Office for deposit. In those instances, there were no valid reasons for routing the cash through Accounting Services. This also included instances where checks received as security deposits for rental events were held and not deposited, and subsequently returned to the renting party after the rental event. *(Airport Operations, Real Estate - Cemetery Sales, Public Works Engineering, Planning Department, Adult and Youth Sports, Tennis, Gymnastics, Aquatics, Neighborhood and Community Services, Animal Service Center, TPD – Miscellaneous Receipts, Utility Customer Services, Utility Accounting, Accounting Services, and Municipal Supply Center)*
- Cash collected at certain external departments/offices and transferred to the Revenue Office for deposit could be processed and deposited more timely if received directly by the Revenue Office. Similarly, collections on billed receivables at some departments/offices would be deposited more timely if the billed parties were instructed to send their payments to the Revenue Office. *(Airport Operations, Real Estate – Parking and Lease Payments, Public Works Engineering, Planning Department, Neighborhood and Community Services, TPD – Miscellaneous Receipts, Accounting Services, and Municipal Supply Center)*
- Fees for various activities (e.g., competitive gymnastics and swim programs within the Parks and Recreation Department) were billed and collected at the applicable departments/offices. To eliminate risks relating to inadequate segregation of duties and to increase the timeliness of the deposit of the applicable collections, those fees should be billed through the City's accounts receivable system and corresponding payments sent directly to the Revenue Office. *(Hilaman Park Golf Course, Aquatics, Neighborhood and Community Services, and Energy Services)*

- Non-utility related worthless checks (non-sufficient funds or NSF checks) returned by the bank that were not paid after initial collection attempts were not turned over to a contracted collection company for additional collection efforts. In addition, there were no standard procedures specifying when worthless checks should be turned over to the State Attorney for prosecution and possible recovery of funds. (*Utility Customer Services*)
- Under the City's water and sewer loan program, City checks were generated that were made payable to the City of Tallahassee for the amount of loan proceeds to be used to pay fees for connection to the City's water and sewer systems. Those checks were transferred to the Revenue Office where they were deposited into the City's bank account as permitting revenues. The creation of a negotiable instrument under these circumstances was not necessary, as the applicable funds could have been transferred through internal journal entries. (*Utility Customer Services*)
- Coaches who were volunteers and not City employees were charged with the responsibility for collecting fees at registration events for Youth Tackle Football. The responsibility for collecting City fees during registration periods should be assigned to City employees. (*Adult and Youth Sports*)
- Selected contractors were allowed to obtain permits on credit. Notwithstanding that certain controls were in place to ensure that payments were received for those permits, this process increased the risk that applicable fees would not be timely collected. (*Growth Management*)
- Participants were not required to renew their City residency cards annually, thereby increasing the risk that persons who are no longer City residents are improperly receiving City residency fee rates. (*Tennis*)

Annual collections impacted by one or more of these risks totaled \$23.4 million.

Recording of Transactions and Events

Adequate records were not always prepared to document cash receipt and processing activity, thereby limiting management's ability to ensure that proper amounts were collected and that collected amounts were timely and properly deposited. Identified risks impacted annual collections of \$24.3 million.

Transactions and events should be recorded/documented on a timely basis and properly classified. For example, cash collection activity should be documented from the point of receipt through deposit. Our review showed that activity relating to the collection, processing, and depositing of cash was generally documented and recorded in the City's accounting records. However, we noted the following risks that were applicable to 17 of the 26 categories:

- Transfers of the custody of collections by some external departments/offices to other departments/offices (e.g., the Revenue Office or Accounting Services) were not documented. The lack of documented acknowledgement of acceptance of custodial responsibility from applicable departments/offices limits management's ability to determine responsibility in the event of loss or theft. *(Real Estate – Parking, Leases, and Closings, Real Estate – Cemetery Sales, Neighborhood and Community Services, TPD - Utility Turn-Ons, Energy Services, Utility Customer Services, Utility Accounting, Accounting Services, and Municipal Supply Center)*
- Some external departments and offices did not always document the dates of receipt of collections. The lack of such documented dates precludes determinations by management and supervisory staff that collections are timely processed and deposited. *(Airport Operations, Real Estate – Parking and Leases, Adult and Youth Sports, Gymnastics, Aquatics, Neighborhood and Community Services, TPD – Miscellaneous Receipts, Energy Services, Utility Customer Services, and Accounting Services)*
- Adequate and/or complete records were not maintained to allow determinations and verifications that proper amounts had been collected and deposited for revenue generating activities such as tennis court use, rentals of City facilities, parking meters, and surplus utility pole sales. *(Revenue Office – Parking Meters, Adult and Youth Sports, Tennis, Aquatics, and Municipal Supply Center)*
- For the Airport's Jetport Diner, adequate records were not maintained that tracked redeemed meal vouchers to the billings submitted to and collections received from the airlines. This limited management's ability to ensure that amounts due to the

City were properly billed and received. (*Airport – Jetport Diner*)

- The disposition of collections received for bid packages was not always properly documented. (*Public Works Engineering*)
- Adequate records were not maintained to track and document the disposition of non-sufficient funds (worthless) checks returned by the bank. (*Utility Customer Services*)
- Records were not maintained to document the individuals that were issued City residency cards. (Those cards allow an individual to pay the City residency rates, which are less than non-City residency rates.) Such records would provide a means to ensure that the cards were issued only to eligible individuals. (*Tennis and Aquatics*)

Annual collections impacted by one or more of these risks totaled \$24.3 million.

Information Processing

Supervisory and/or independent verifications were not performed as a means to ensure that collections were properly received, processed, and deposited. Such verifications are especially significant in those instances where it is not cost-beneficial to segregate incompatible duties among staff. Identified risks impacted annual collections of \$29.1 million.

Information Processing includes a variety of controls to check accuracy, completeness, and authorization of transactions. One example would include independent checks of revenue generating activity to collections received and deposited. Other examples include balancing cash register tapes to collected moneys and reconciling sequentially numbered receipt documents to amounts collected and deposited. The importance of this category of controls is enhanced in those circumstances where cost-benefit determinations preclude the implementation of other controls, such as segregation of incompatible duties among staff. Activity relating to collection, processing, and depositing of cash was generally reviewed and checked by appropriate supervisory and management staff for the purpose of ensuring that the material amounts of cash collections were properly processed and deposited. However, in 18 of the 26 categories, we noted significant risks that resulted from the lack of complete and/or adequate independent checks and review processes. Specifically:

- There were no documented independent or supervisory reconciliations of revenue generating activities and/or records of initial receipt (e.g., cash register tapes) to amounts collected and/or deposited. In this case, “independent” means

reconciliations performed by an employee that does not normally collect and/or have access to the applicable cash collections. (*Growth Management, Airport – Jetport Diner, Real Estate – Cemetery Sales, Taltran, Public Works Engineering, Planning Department, Hilaman Park Golf Course, Jake Gaither Golf Course, Adult and Youth Sports, Recreation Division, Tennis, Gymnastics, Aquatics, Neighborhood and Community Services, Animal Service Center, and TPD – Operation Funds and Confiscated Cash*)

- Documents such as receipt forms, permits, and pass tickets were not accounted for in a manner that allowed independent verifications that amounts collected were properly processed and deposited. (*Growth Management, Airport Operations, Real Estate – Cemetery Sales, Planning Department, Adult and Youth Sports, Recreation Division, Gymnastics, and Aquatics*)
- Some external departments/offices that transferred material amounts of cash collections to the Revenue Office did not verify that the transferred amounts were properly processed and deposited. Such verifications would serve to not only detect unauthorized diversions of funds but, also, errors in recording those collections in the City’s accounting records. (*Growth Management and Accounting Services*)
- Certain instruments of value (City residency cards and rain check tickets) were either (1) not accounted for in a manner that ensured that those instruments were issued only to individuals under appropriate circumstances or (2) were not reconciled back to issuance records to ensure that only valid instruments were presented for redemption. (*Hilaman Park Golf Course, Jake Gaither Golf Course, Tennis, and Aquatics*)

Annual collections impacted by one or more of these risks totaled \$29.1 million.

Documentation

Written procedures providing direction and guidance to staff for collecting and handling cash were not always prepared or complete. Some records were not retained for post audit purposes. Identified risks impacted annual collections of \$18.2 million.

Adequate documents and records should be designed, used, and retained to help ensure and demonstrate the proper recording of transactions and events. Written operating procedures should also be prepared to provide direction and guidance to staff. Such written procedures help ensure a consistent and appropriate methodology for collecting and processing funds. Forms and records used by City staff to document and account for cash collections were generally adequate. However, in regard to documentation controls, risks were identified in 14 of the 26 categories. Specifically:

- For some external departments and offices, written procedures addressing the receipt and processing of cash were either not established or did not address all applicable aspects of the cash collection and deposit process. (*Airport Operations, Airport – Jetport Diner, Real Estate – Parking, Leases, and Closings, Real Estate – Cemetery Sales, Public Works Engineering, Planning Department, Adult and Youth Sports, Tennis, Aquatics, Neighborhood and Community Services, Animal Service Center, Energy Services, and Municipal Supply Center*)
- Within the Recreation Division of the Parks and Recreation Department, daily attendance sheets prepared by counselors for the summer playground program were not retained for post-audit purposes. Similarly, staff of the Aquatics Division of the Parks and Recreation Department did not retain tally sheets and daily cash reports prepared by pool staff. The lack of those records limits the ability to ensure that collections were properly processed and deposited. (*Recreation Division and Aquatics*)

Annual collections impacted by one or more of these risks totaled \$18.2 million.

Recommendations

Specific recommendations were made to eliminate or reduce the identified risks. Those recommendations are presented in Volume 2 of this report.

Based on the risks identified during our reviews at City locations where significant amounts of cash were collected, we made specific recommendations to reduce or eliminate the applicable risks. The costs of implementing or revising existing controls were considered relative to the expected benefits to be derived when making these recommendations. Because of the large number of individual recommendations and the unique nature of many of those recommendations, they are not repeated within this summary report. However, the focus of each individual recommendation was (1) to

limit access to and/or improve accountability, (2) improve the management oversight function, (3) segregate incompatible employee duties, (4) improve physical controls, (5) ensure the proper and efficient execution of transactions and events, (6) ensure the proper recording of transactions and events, (7) ensure the accuracy, completeness, and authorizations of transactions, and/or (8) ensure that appropriate records and forms were designed, used, and retained, and that proper instruction/guidance was provided relative to cash collections.

The specific recommendations for each of the audited locations are included as part of the separate presentations within *Volume 2* of this audit report.

Conclusion

The City has implemented controls that provide certain assurances that cash collections are properly processed and deposited. However, significant risks were identified for which corrective actions are needed.

The City has implemented controls that for the most part provide assurances that cash collections are properly and efficiently received, processed, and deposited into the City's bank account. However, significant risks were identified at several locations that (1) could result in the undetected loss or unauthorized diversion of cash, (2) limit the interest that could be earned on cash upon deposit, and/or (3) result in cash due the City not being received. We would like to acknowledge the full and complete cooperation and support of staff of the Revenue Office and the various external departments and offices in this review.

Response From Appointed Officials

City Manager:

We appreciate the thorough job the City Auditor's staff did in verifying that adequate controls have been established and are being followed for the receipt and timely deposit of cash. We are pleased they found that generally controls are in place and have identified the areas where risks exist and improvements can be made. We recognize the importance of developing and following good internal controls while still providing convenient methods of payment for our citizens and customers.

Completion of the recommended action plans will assure that risks are eliminated or reduced and the City's receipts are properly and efficiently handled. We appreciate the cooperation of staff in all departments with this review and for their prompt response in implementing the recommended improvements.

Interim City Treasurer-Clerk:

We have completed our review of the Cash Receipts Audit and agree with the audit recommendations. The Revenue Division of the Office of the Treasurer-Clerk has developed a schedule to implement the recommendations in a timely manner. We are very pleased that the audit indicated that the Revenue Division had implemented strong internal controls to safeguard the collection of City revenues. I want to commend the Internal Audit staff for their comprehensive and thorough review of the City of Tallahassee revenue collection systems. We will use the audit findings to enhance existing citywide internal control procedures.

Copies of this audit report #0134 (Project #0102) may be obtained by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (dooleym@talgov.com).

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APPENDIX 1 – ANNUAL COLLECTIONS BY CATEGORY

(Presented in Decreasing Order of Collections)

<i>CATEGORY</i>	<i>ANNUAL COLLECTIONS (1)</i>
Revenue Office (Excluding Parking Meter Collections)	\$405.2 million
Growth Management	\$18.3 million
Energy Services	\$8.3 million
Accounting Services	\$6.8 million
Airport Operations (Excluding Jetport Diner)	\$4.5 million
Real Estate – Parking, Leases, and Closings	\$2 million
Utility Customer Services	\$1.75 million
Neighborhood and Community Services	\$1.35 million
Utility Accounting	\$1.2 million
Taltran	\$1.1 million
Parks and Recreation – Hilaman Park Golf Course	\$1.1 million
Public Works Engineering	\$796,000
Airport – Jetport Diner	\$669,000
Tallahassee Police Department – Utility Turn-Ons and Miscellaneous Receipts	\$600,000
Planning Department	\$424,000
Revenue Office – Parking Meters	\$337,000
Municipal Supply Center	\$360,000
Parks and Recreation – Adult and Youth Sports	\$303,000
Parks and Recreation – Recreation Division	\$302,000
Parks and Recreation – Tennis	\$286,000
Parks and Recreation – Jake Gaither Golf Course	\$220,000
Tallahassee Police Department – Operation Funds and Confiscated Cash	\$211,000
Animal Service Center	\$200,000
Parks and Recreation – Gymnastics	\$131,000
Real Estate – Cemetery Sales	\$86,000
Parks and Recreation – Aquatics	\$74,000

Note (1): Annual amounts are based on record analyses and/or estimates for either fiscal year 2000 or calendar year 2000.

