

Audit

Follow Up

As of March 31, 2002



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“Citywide Cash Controls – Utility Services”

(Report #0134, Issued August, 2001)

Report #0230

July 25, 2002

Summary

Two of the three departments and offices within Utility Services have completed all action plan steps developed as the result of our previously issued audit report #0134, Citywide Cash Controls. For the remaining department, Utility Customer Services, half of the action plan steps have been completed and action plan steps have been initiated to resolve the remaining identified risks. Significant remaining issues pertain to (1) securing certain collections and (2) processing and tracking worthless checks.

In audit report #0134, issued August 29, 2001, we identified significant risks at several locations throughout the City that increased the likelihood that cash collections would not be properly and efficiently handled and deposited into the City's bank account. Recommendations were provided to eliminate or reduce those risks. The collections to which these risks and related recommendations pertained were classified into 26 categories. A separate presentation of the risks and recommendations for each category was provided in audit report #0134. Action plan steps were developed for each of the 26 categories.

Three of these 26 categories were collections received within the following departments/offices within Utility Services: (1) Energy Services, (2) Utility Customer Services, and (3) Utility Accounting. There were 15 action plan steps pertaining to these 3 categories originally due for completion as of March 31, 2002. Most of these steps have been completed or initiated.

Scope, Objectives, and Methodology

Report #0134

The scope of report #0134 included a review of cash collection and processing functions at each City location where significant amounts of cash were collected. The audit focused on controls pertaining to cash upon collection by the City and/or City employees. The review was conducted during the period January 2, 2001, through May 15, 2001.

The primary objectives of the audit were to determine whether adequate controls had been established over cash collected throughout the City. This included a determination as to whether cash collections were:

- received and processed in a proper and efficient manner,
- adequately documented and accounted for,
- safeguarded, and
- timely deposited into the City's bank account.

The audit disclosed that, for the most part, controls were in place to provide accountability for collections from the time of receipt until deposit. However, the audit identified significant risks 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.

Report #0230

The purpose of this audit follow up is to report on the progress and/or status of the efforts to implement the

recommended action plan steps due as of March 31, 2002. To meet this objective and to facilitate the usefulness of our follow up work, a separate follow up report will be issued for each of the five service areas to which the initial audit pertained. The service area addressed by this report is Utility Services.

To obtain information, we conducted interviews with key department staff and reviewed relevant documentation. This audit was conducted in accordance with Generally Accepted Government Auditing Standards, and accordingly included such tests of the records and other auditing procedures as were considered necessary.

(2) Utility Customer Services [UCS], and (3) Utility Accounting. Collections at these three departments/offices during fiscal year 2000 totaled approximately \$11.25 million.

Previous Conditions and Current Status

In report #0134, we identified several risks that needed to be addressed in regard to collections received at the departments/offices within Utility Services. These risks included, for example, unsecured collections, inadequate segregation of duties among employees, lack of restrictive endorsements on negotiable instruments, and lack of records adequately documenting dates of receipt or custodial transfers to the Revenue Office.

Background

The City collected revenues (i.e., cash) of approximately \$414 million at 22 separate departments/offices during fiscal year 2000. Those 22 locations were comprised of the Revenue Office and 21 departments/offices external to the Revenue Office. For audit purposes, the collections at those 22 locations were classified into 26 categories.

Three of the 26 categories pertained to Utility Services. Those three categories were (1) Energy Services,

Energy Services, UCS, and Utility Accounting were scheduled to complete a total of 15 action plan steps as of March 31, 2002. As shown below in Table 1, all action plan steps required of Energy Services and Utility Accounting were completed. In regard to UCS, 50% of the required steps have been completed, and actions have been initiated for the remaining steps.

**Table 1
Conditions Identified in Report #0134 and Current Status**

Previous Conditions	Current Status
Energy Services	
<ul style="list-style-type: none"> All external entities will be billed through the City's accounts receivable system. Those entities will be instructed to send their payments directly to the Revenue Office. 	<ul style="list-style-type: none"> ✓ Billing of external entities and collection of the related proceeds is no longer done within Energy Services. All entities are now billed through the City's accounts receivable system and payments remitted directly to the Revenue Office.
<ul style="list-style-type: none"> Supervisory staff will review accounts receivable reports to ensure that amounts are being properly billed and collected based on billing requests submitted to Accounting Services. 	<ul style="list-style-type: none"> ✓ Energy Services staff review reports from accounts receivable to ensure that amounts are properly billed and collected.
<ul style="list-style-type: none"> Any collections received in Energy Services will be properly secured and timely transferred to the Revenue Office for deposit. In addition, all related activity (dates of receipt, management review, custodial transfer, etc.) will be documented. 	<ul style="list-style-type: none"> ✓ Miscellaneous collections are safeguarded in a secured location pending transfer to the Revenue Office. These collections are timely transferred to the Revenue Office and applicable activity is properly documented.
<ul style="list-style-type: none"> Energy Services will obtain an endorsement stamp from the Revenue Office and will restrictively endorse negotiable instruments upon receipt. 	<ul style="list-style-type: none"> ✓ Any negotiable instruments received by Energy Services are now restrictively endorsed with a stamp obtained from the Revenue Office.

Utility Customer Services	
<ul style="list-style-type: none"> • Collections pending transfer to the Revenue Office will be stored in locked desk drawers or file cabinets and access to those places will be limited to authorized staff. 	<ul style="list-style-type: none"> o Collections are now locked up in cabinets overnight and keys to those cabinets are secured and restricted to authorized staff. However, at the time of audit follow-up these cabinets were unlocked during the workday, including periods when custodial employees were temporarily away from their desks. In addition, some checks received for utility deposits were removed from the applicable cabinet during the workday and placed on a shelf in the custodial employee's cubicle. Those checks were accessible to unauthorized individuals when that employee was temporarily away from the cubicle. UCS subsequently indicated that additional safeguards would be implemented.
<ul style="list-style-type: none"> • UCS will obtain an endorsement stamp from the Revenue Office and will restrictively endorse negotiable instruments upon receipt. 	<ul style="list-style-type: none"> ✓ Negotiable instruments received by UCS are now restrictively endorsed with a stamp obtained from the Revenue Office.
<ul style="list-style-type: none"> • In conjunction with the Revenue Office, UCS will initiate negotiations with applicable collection companies to have payments electronically deposited into the City's bank account. 	<ul style="list-style-type: none"> ✓ The Revenue Office and UCS determined that it would be advantageous to have the related account information electronically remitted at the same time that the wire transfers are made. Subsequently, negotiations were initiated and analyses made. Based on those initial analyses, it was determined that programming changes were needed to the existing CIS in order to ensure successful implementation of this alternative. However, it was decided that making programming changes to the current CIS was not efficient due to the planned replacement of that system with the new PeopleSoft CIS. Accordingly, alternative actions have been identified to eliminate the identified risks. These alternative actions include the action plan steps pertaining to securing collections, documenting dates of receipt, and timely transferring collections to the Revenue Office for deposit.
<ul style="list-style-type: none"> • The dates of receipt of collection company checks will be documented. 	<ul style="list-style-type: none"> ✓ A date stamp on the attached remittance advice is used to document the date of receipt for collection company checks.
<ul style="list-style-type: none"> • Collection company checks will be timely transferred to the Revenue Office for deposit. 	<ul style="list-style-type: none"> ✓ Collection company checks are now timely transferred to the Revenue Office.
<ul style="list-style-type: none"> • In regard to the City's water and sewer loan program, City checks will no longer be generated made payable to the City of Tallahassee. The portion of loan proceeds designated for payment of City permit fees will instead be transferred between applicable City funds through accounting journal entries. 	<ul style="list-style-type: none"> o This process is currently under evaluation. Prior to implementing this step, assurance must be provided that all activity relating to the loan program (permit fees, account billings, accounts receivable, etc.) is properly and efficiently recorded.

<ul style="list-style-type: none"> • Negotiations will be initiated with collection companies to pursue recovery for non-utility related worthless checks from individuals that do not respond to the City's standard collection letters. 	<ul style="list-style-type: none"> ✓ Applicable non-utility checks are now turned over to a collection company for further recovery efforts.
<ul style="list-style-type: none"> • UCS will develop a procedure that establishes the criteria to use in determining when a worthless check should be turned over to the State Attorney for prosecution. 	<ul style="list-style-type: none"> o UCS is obtaining material to review and consider in establishing the criteria to use.
<ul style="list-style-type: none"> • Worthless checks meeting the established criteria (see step above) will be turned over to the State Attorney for prosecution. 	<ul style="list-style-type: none"> ✗ Until the criteria are established, applicable checks will not be turned over to the State Attorney.
<ul style="list-style-type: none"> • UCS will use a computer application to maintain records that document the worthless checks returned by the bank and the disposition of each of those checks. UCS will review those records to evaluate the City's overall collection efforts and success in recovering funds and fees for worthless checks. 	<ul style="list-style-type: none"> o UCS developed an Excel spreadsheet to track utility and non-utility related worthless checks returned by the bank. However, a mechanism for determining and tracking the disposition of utility related worthless checks has not been established.
<p>Utility Accounting</p>	
<ul style="list-style-type: none"> • Talquin Electric Cooperative (TEC) will be instructed to submit their monthly payments directly to the Revenue Office. 	<ul style="list-style-type: none"> ✓ Based on instructions provided by Utility Accounting, TEC now submits the monthly payments directly to the Revenue Office.

Table Legend:

- Issue addressed in the original audit
- o Corrective action initiated but not completed

- ✓ Issue addressed and resolved
- ✗ Action not taken

Significant Outstanding Issues

As noted in Table 1, action steps to secure certain UCS collections, process and track worthless checks returned by the bank, and stop generation of City checks made payable to the City of Tallahassee have not been completed. However, action to resolve the related risks for each of these areas has been initiated.

We appreciate the response and assistance provided by the applicable departments/offices during this audit follow up.

Response from Appointed Official

City Manager:

The extremely positive results of this follow-up reflect management's commitment to its fiduciary responsibilities and internal control. I thank the auditors for their assistance.

Copies of this Audit Follow Up or audit report #0134 may be obtained from the City Auditor's web site (<http://talgov.com/citytlh/auditing/index.html>), or via request 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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