

Final Audit Follow-Up

As of March 31, 2013



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Interim City Auditor

Treasurer-Clerk's Revenue Office

(Report #1208 issued March 20, 2012)

Report #1316

May 31, 2013

Summary

The Treasurer-Clerk's Revenue Office and other applicable City departments and offices have completed 20 of the 22 action plan steps established to address issues identified in audit report #1208. Because of actions in progress and/or management's stated intentions, responsibility for completion of the two remaining action plan steps is turned over to City management.

In audit report #1208 we reported the Treasurer-Clerk's Revenue Office (Revenue Office), with assistance from other City departments and offices, has implemented controls that for the most part provide assurances that revenues and receipts collected through the Revenue Office (\$690 million in fiscal year 2011) are properly and efficiently processed, accounted for, safeguarded, and deposited into the City's bank account. Adequate and appropriate actions were generally taken to collect funds for deposited negotiable instruments and electronic deposits rejected and returned by the City's bank because of insufficient funds in the payer's account or other reasons.

Areas (risks) were identified by the audit for which recommendations were made to further reduce the risk that revenues due the City are not properly received, accounted for, and deposited. For reporting purposes, those risks were classified into the following control categories: (1) access to and accountability for resources, (2) direct activity management, (3) segregation of incompatible duties, (4) physical

controls, (5) execution of transactions and events, (6) recording of transactions and events, (7) information processing, and (8) documentation.

Twenty-two action plan steps were developed to address the identified risks. Twenty of those 22 steps have been completed, two of which were completed during the follow-up period covered by this second follow-up engagement. Actions completed (or initiated) during the period covered by this follow-up review included:

- Accounting Services staff no longer accept checks and other negotiable instruments, and in the few instances such items are inadvertently received in Accounting Services, they are immediately taken to either (1) the Revenue Office's satellite location in City Hall or (2) the City Hall mail room for safekeeping and subsequent secured transport to the main Revenue Office located at the Renaissance Building.
- UBCS has now implemented a method and process to compare and reconcile parking ticket collections reported to UBCS by the Revenue Office (i.e., reported for the purpose of allowing UBCS to update the City's parking system database) to parking ticket collections recorded and reflected in the PeopleSoft Financials System.

In regard to the remaining two action plan steps, responsibility for ensuring completion is turned over to City management. Those two steps involve (1) enhancing collection efforts for non-utility payments returned by the bank because of insufficient funds in the payers'

accounts or other reasons and (2) timely billing Leon County for its share of certain maintenance fees paid by the City. Management has stated the intent to complete those two actions; actions are currently in progress to complete one of those two steps.

We appreciate the cooperation and assistance provided by staff in Accounting Services, UBCS, and ISS during this follow-up engagement.

Scope, Objectives, and Methodology

We conducted this audit follow-up in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require we plan and perform the audit follow-up to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit follow-up objectives.

Report #1208

The scope of report #1208 included a review of the various activities administered and performed by the City Treasurer-Clerk’s Revenue Office. The audit reviewed applicable processes, procedures, systems, and records used in the Revenue Office. Certain other areas within the City directly relating to Revenue Office operations and activities were also addressed by the audit.

The objectives were to determine whether:

- Methods, procedures, and internal controls were adequate to ensure revenues and receipts collected by the Revenue Office were properly processed, accounted for, safeguarded, and deposited; and
- Adequate and appropriate actions were taken to collect funds for deposited negotiable

instruments (e.g., checks) and electronic deposits rejected and returned by the City’s bank because of insufficient funds in the payer’s account or other reasons.

Inherent in those objectives was the identification of risks and recommendations to eliminate or mitigate those risks.

The audit covered processes and controls in place as of the time of our review during the period September through December 2011.

Report #1316

This is our second and final follow-up on action plan steps identified in audit report #1208. The purpose of this follow-up is to report on the progress and status of efforts to remaining action plan steps due for completion as of March 31, 2013. To determine the status of the action plan steps, we interviewed staff, made observations, and reviewed relevant documentation.

Background

The Revenue Office receives and collects moneys due the City pursuant to Section 52 of the City’s charter. As shown in the following table for FY 2011, the vast majority of City receipts and revenues are collected and/or deposited directly by the Revenue Office.

<u>Collecting/depositing department</u>	<u>Amount</u>	<u>Percent</u>
Revenue Office (Note 1)	\$690,176,097	96%
Other City departments and offices (Note 2)	\$29,644,835	4%
Total	\$719,820,932	100%
<i>NOTE (1):</i> Includes collections received in other City departments/offices but transferred to the Revenue Office for processing, recording, and deposit.		
<i>NOTE (2):</i> Includes, for example, fees collected and deposited directly by Parks and Recreation, StarMetro, and the Animal Services Center.		

Revenue Categories. Revenues and receipts collected and deposited by the Revenue Office are from various City activities and functions. The largest category is utility payments and deposits. While the vast majority of collections processed and deposited by the Revenue Office result from activities administered by other City departments, there are two categories that are administered directly by the Revenue Office. Those two categories are (1) business licenses and (2) loading zone permits. The following table shows categories of revenues and receipts processed and deposited by the Revenue Office in FY 2011.

<u>Category</u>	<u>Amount</u>	<u>Percent</u>
Utility Payments & Deposits	\$502,808,491	72.85%
Payments for various fees and services billed through Accounts Receivable	\$30,985,779	4.49%
Growth Management Fees	\$8,021,973	1.16%
Business Licenses (Note 1)	\$1,793,762	0.26%
Parking Meters	\$338,775	0.05%
Parking Fines	\$285,591	0.04%
Loading Zone permits (Note 1)	\$10,905	0.01%
Miscellaneous (Note 2)	\$145,930,821	21.14%
Total	\$690,176,097	100%
<i>Note 1: These activities are administered directly by the Revenue Office and not by other City departments/offices.</i>		
<i>Note 2: This category includes various taxes, grants, fines, etc. to which the City was entitled.</i>		

Tender Type. With technological advancements over recent years, an increasing number and amount of payments are now received and deposited electronically. That increase was attributable to significant efforts by Revenue Office management. As shown by the following table, over one-third of FY 2011 collections were received and deposited electronically.

<u>Payment Method (Tender Type)</u>	<u>Amount</u>	<u>Percent</u>
Cash	\$25,184,849	3.6%
Check (negotiable instruments) (Note 1)	\$413,376,980	59.9%
Electronic	\$251,614,268	36.5%
Total	\$690,176,097	100%
<i>NOTE (1): Negotiable instruments received in the Revenue Office are electronically deposited.</i>		

As with most institutions accepting negotiable instruments as payment for fees and/or services, deposited items are sometimes returned by the City’s bank when the payer’s bank account has insufficient funds or is closed, frozen, garnished, etc. Returns include items deposited electronically as well as those physically received and deposited. For returned items the Revenue Office initiates appropriate actions to recover the funds due the City.

Previous Conditions and Current Status

In audit report #1208, we noted our audit procedures showed the Revenue Office, for the most part, established and implemented appropriate, adequate, and efficient methods and controls to ensure the proper processing, recording, and deposit of funds collected on behalf of the City. As reported, many of the identified methods and controls were the result of improvements and enhancements in processes and procedures implemented by Revenue Office management over the past decade.

We identified certain areas where additional improvements and enhancements were warranted to further mitigate the risk that City funds are not properly accounted for and deposited. Twenty-two action plan steps were developed to address the identified issues. Our initial follow-up report (Report #1305) showed 18 of those steps were

completed during the prior follow-up period. Of the four remaining steps, we determined two were completed during the period covered by this second follow-up engagement.

Responsibility for ensuring completion of the remaining two action plan steps is turned over to City management. A description of specific actions taken and remaining to be taken are described in further detail in Table 4 that follows.

**Table 4
Action Plan Steps from Audit Report #1208
Due as of March 31, 2013, and Current Status**

Action Plan Steps Due as of March 31, 2013	Current Status
Ensure controlled access and proper accountability	
<ul style="list-style-type: none"> The remaining electronic system access permission for the applicable employee noted in the audit report will be changed so that employee will no longer have unescorted access to the vault. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<ul style="list-style-type: none"> Documented management approval will accompany all subsequent requests sent to Facilities Management for changes to electronic access permissions. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<ul style="list-style-type: none"> Keys to the City Hall drop box will be stored in a secured location, accessible only by authorized staff. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<ul style="list-style-type: none"> Cashiers will lock their cash drawers when temporarily away from their work stations, and cashiers will be instructed to place the keys in a secured location with the Cashier Supervisor when temporarily away from their work stations. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<ul style="list-style-type: none"> The door to the mail room will be locked when that room is not attended by authorized staff. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
Ensure adequate management and oversight	
<ul style="list-style-type: none"> Efforts will be made to timely hire a new Revenue Office Administrator. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
Ensure adequate segregation of employee duties or compensating controls	
<ul style="list-style-type: none"> Reports documenting all changes to previously recorded collection activity will be generated and reviewed (i.e., by staff other than closing and opening supervisors), with discrepancies reported directly to Revenue Office management and UBCS management for their review. That management staff will review those reports to ensure the propriety and reasonableness of those changes. Questionable and/or unsupported changes will be investigated. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<ul style="list-style-type: none"> The Revenue Office Administrator will review, for propriety and reasonableness, voided 	<ul style="list-style-type: none"> ✓ Completed in a prior period.

<p>transactions, database adjustments, and related reconciliations pertaining to business tax and loading zone permit collections.</p>	
<ul style="list-style-type: none"> Accounting Services will no longer accept checks and other negotiable instruments. Instead, individuals will be instructed to remit checks and negotiable instruments to the Revenue Office (either at the Renaissance Building or the City Hall satellite office). Any checks or negotiable instruments inadvertently sent to Accounting Services will be immediately transferred to the Revenue satellite office in City Hall. Individuals/entities that have traditionally sent their payments (checks/negotiable instruments) will be instructed to send their subsequent payments directly to the Revenue Office. 	<p>✓ Our subsequent review and observations during this follow-up engagement show that Accounting Services staff no longer accept checks and other negotiable instruments, and in the few instances such items are inadvertently received in Accounting Services, they are immediately taken to either the Revenue Office’s satellite location in City Hall or to the City Hall mail room for safekeeping and subsequent secured transport to the main Revenue Office located at the Renaissance Building. (The mail room is organizationally part of the Revenue Office.) Furthermore, we noted Accounting Services removed the open basket marked “Checks Going to Revenue” that had formerly been used to retain checks and other negotiable instruments inadvertently received and accepted in Accounting Services. Accordingly, this step is considered completed.</p>
<p>Ensure adequate and appropriate physical controls</p>	
<ul style="list-style-type: none"> A surveillance camera will be installed to monitor the lock box located on the north side of City Hall. 	<p>✓ Completed in a prior period.</p>
<ul style="list-style-type: none"> Real-time (live) feed of all surveillance cameras monitoring Revenue Office locations and activities will be provided to TPD. 	<p>✓ Completed in a prior period.</p>
<ul style="list-style-type: none"> TPD will be provided a restrictive endorsement stamp to use for checks and negotiable instruments collected for utility turn-ons. 	<p>✓ Completed in a prior period.</p>
<ul style="list-style-type: none"> Updated restrictive endorsement stamps reflecting the current name of the City’s bank will be obtained and provided to applicable City departments and offices. 	<p>✓ Completed in a prior period.</p>
<ul style="list-style-type: none"> Efforts will continue to revise the RP Solutions application such that complete and legible restrictive endorsements can be placed on checks and other negotiable instruments processed through that application. <i>(The Treasurer-Clerk indicated a determination has been made that it is not practicable with the current hardware and software to add a legible endorsement containing the City’s bank and bank account. However, the Treasurer-Clerk indicated efforts will continue to place complete and legible endorsements on negotiable instruments as future system upgrades are made.)</i> 	<p>✓ Completed in a prior period.</p>

Ensure proper execution of transactions and events	
<ul style="list-style-type: none"> • When City efforts to recover funds for returned non-utility items are not successful, UBCS will submit those items to the City’s contracted collection agent for additional collection efforts. 	<ul style="list-style-type: none"> ❖ UBCS recently (May 8, 2013) requested and received City Commission approval to negotiate a contract with a new vendor for City debt collection services. UBCS management indicated that, as part of the upcoming negotiations, it will ensure the contract allows for the City to submit returned <u>non-utility</u> payment items (i.e., negotiable instruments such as checks returned by the bank because of insufficient funds in the payer’s account or other reasons) to the contracted collection agent for collection efforts on behalf of the City. Based on these actions taken to date and management’s stated intent, responsibility for finalization of this action plan step is turned over to City management.
<ul style="list-style-type: none"> • ISS will bill the County for its share of costs for services provided by Accela, Inc. in a timely manner. 	<ul style="list-style-type: none"> ❖ In the initial audit we reported the City’s Information System Services (ISS) Department did not bill Leon County (County) in a timely manner for the County’s share of an annual maintenance fee paid to a contractor for website services. Specifically, the County was not billed until six months after the City received the invoice from and paid the contractor. During our initial follow-up engagement (See Report #1305), we again found the City did not timely bill the County for its share of annual fees for the subsequent year. In that instance, ISS again did not take action to bill the County until six months after the City received the invoice for and paid the annual maintenance fees. ISS attributed these delays to administrative oversight. During our current follow-up engagement, we determined the City received the contractor’s invoice for annual fees for the subsequent year on February 20, 2013. ISS paid that invoice on February 27, 2013. However, as of the date of inquiry on May 1, 2013 (two months later), ISS had not initiated action to bill the County for the County’s share of that annual maintenance fee (50%). In response to our inquiry, ISS staff initiated actions to bill the County. Not timely billing the County results in the City not timely receiving funds for further use or investment. We again recommend that appropriate steps be taken to ensure the County is timely billed for its share of this annual fee. This step is being turned over to management to ensure resolution.

Ensure proper recording of transactions and events	
<ul style="list-style-type: none"> • Transfer receipts will be prepared and signed to document the daily transfer of checks and negotiable instruments from the Growth Management Department to the Revenue Office. Both the Growth Management Department and Revenue Office will retain those receipts (e.g., one a copy and the other the original) in accordance with City record retention requirements. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
Ensure adequate “external processing controls”	
<ul style="list-style-type: none"> • Growth Management staff will have processes in place that verify collections remitted daily to the Revenue Office are properly recorded and reflected in the PeopleSoft Financials System. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<ul style="list-style-type: none"> • UBCS staff will use the developed method to verify parking ticket collections reported by the Revenue Office and recorded in the parking ticket ACCESS database are properly and accurately reflected in the PeopleSoft Financials System. 	<ul style="list-style-type: none"> ✓ UBCS has now implemented a method and process to compare and reconcile parking ticket collections reported to UBCS by the Revenue Office (i.e., reported for the purpose of allowing UBCS to update the City’s parking system database) to parking ticket collections recorded and reflected in the PeopleSoft Financials System. For the relatively few instances where the collections differed, UBCS researches and determines the underlying reasons for the differences (e.g., recording or deposit errors, timing differences, or other reasons). When necessary, appropriate corrections are made to the applicable system. This control helps ensure parking ticket collections received by the Revenue Office are properly processed, recorded, and deposited.
<ul style="list-style-type: none"> • TPD will verify that fees that should have been collected for issued taxi cab permits are properly reflected as recorded revenue collections in the PeopleSoft Financials System. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<ul style="list-style-type: none"> • An appropriate Public Works supervisor will independently compare parking meter collections reflected by the parking meter application to parking meter collections recorded in the PeopleSoft Financials System. Records used in those comparisons will be obtained independent of staff within the Meter Shop and Revenue Office. Any unreasonable or significant differences will be reviewed and investigated. Also, the appropriate Public Works supervisor will ascertain if there are any unexplained or unreasonable changes to the parking meter application, such that data from that system could have been intentionally manipulated. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.

<ul style="list-style-type: none"> Accounting Services will complete necessary training to ensure timely reconciliations of collections (and disbursements) per the bank statement to recordings reflected in the City’s general ledger (PeopleSoft Financials). 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
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Table Legend:

- Issue to be addressed from the original audit.
- ❖ Responsibility for completion turned over to City management
- ✓ Issue addressed and completed or otherwise resolved.

Conclusion

Table 4 above shows 20 of the 22 action plan steps established to address issues identified in audit report #1208 have been successfully completed. As also shown in Table 4, responsibility for ensuring the remaining two action plan steps are completed has been turned over to City management. Those two steps pertain to (1) enhanced debt collection services for returned non-utility payment items (i.e., negotiable checks returned by the bank because of insufficient funds in the payer’s account or similar reasons) and (2) timely billing of the County for its share of certain maintenance costs.

We appreciate the cooperation and assistance provided by staff in Accounting Services, UBCS, and ISS during this follow-up engagement.

Appointed Officials’ Response

City Manager: I am pleased to see that the final follow-up on the Audit of the Treasurer-Clerk’s Revenue Office indicates that 20 out of the 22 action plan steps have been completed and that the remaining two steps are in progress for completion. I am also pleased that the audit indicated that overall revenue and related transactions were appropriately accounted for and accurately recorded. The audit findings from this audit and the recommended improvements will result in much improved revenue processes for the City of Tallahassee. The City Auditor’s team demonstrated the highest level of cooperation and professionalism during the audit period. I would like to thank the Auditor’s Office as well as all the departments for their work on this audit.

City Treasurer-Clerk: We appreciate the diligence of staff in the Office of the City Auditor in following up on the action items. We are pleased that substantial progress has been made on the only two remaining items and will provide whatever assistance we can offer to aid in completion of those remaining items.

Copies of this final audit follow-up #1316 or audit report #1208 may be obtained from the City Auditor’s website (<http://talgov.com/auditing/index.cfm>) or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (Office of the City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@talgov.com).

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