

Audit

Follow Up

As of September 30, 2002



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City Auditor

“Citywide Cash Controls – Utility Services”

(Report #0134, Issued August 29, 2001)

Report #0308

January 17, 2003

Summary

Thirteen of fifteen action plan steps due for completion as of September 30, 2002, for audit report #0134, Citywide Cash Controls, have been completed. The remaining two steps are to be completed by Utility Customer Services and include (1) submitting worthless checks to the State Attorney in accordance with recently established criteria and (2) tracking the disposition of worthless checks for managerial oversight purposes.

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 three categories due for completion as of September 30, 2002. All but two of these steps have been completed. Actions taken to date should now allow for completion of these two remaining steps as well as another step not due for completion until the next reporting period. All three of these remaining steps are to be completed by Utility Customer Services.

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. 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 #0308

This is our second follow up on action plan steps identified in audit report #0134. In our first follow up we reported on progress and/or status of efforts to implement recommended action plan steps due as of March 31, 2002. The purpose of this second audit follow up is to report on the progress and/or status of

efforts to implement recommended action plan steps due as of September 30, 2002, including those initially due as of March 31, 2002.

To meet this objective and to facilitate the usefulness of our follow up work, separate follow up reports are 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, lack of records adequately documenting dates of receipt or custodial transfers to the Revenue Office, and not tracking and submitting worthless checks to the State Attorney for prosecution.

Energy Services, UCS, and Utility Accounting were scheduled to complete a total of 15 action plan steps as of September 30, 2002. All five action plan steps required of Energy Services and Utility Accounting were completed as of March 31, 2002. In regard to UCS, eight of the ten (80%) steps scheduled for completion by September 30, 2002, have been completed.

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,

**Table 1
Action Plan Steps from Report #0134 and Current Status**

Action Plan Steps	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"> ✓ Completed during prior period.
<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"> ✓ Completed during prior period.
<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"> ✓ Completed during prior period.
<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"> ✓ Completed during prior period.

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"> ✓ Collections are now adequately safeguarded.
<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"> ✓ Completed during prior period.
<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"> ✓ Completed during prior period through alternative actions.
<ul style="list-style-type: none"> • The dates of receipt of collection company checks will be documented. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<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"> ✓ Completed during prior period.
<ul style="list-style-type: none"> • In regard to the City's water and sewer loan program, City checks will no longer be generated and 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"> ✓ After review, UCS management determined that the generation of checks automated a complex multi-department process. This "automation" ensured that specific actions (e.g., recording journal entries in PeopleSoft financial and CIS systems) were completed. Elimination of this check generation process would require manual communications and entries in applicable systems. Accordingly, UCS management decided that the risks from generating checks (negotiable instruments) payable to the City were more than offset by the benefits obtained through the automated process. This issue has been addressed by management.
<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"> ✓ Completed during prior period.
<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"> ✓ During our follow up fieldwork, UCS completed procedures that established the criteria for submitting worthless checks to the State Attorney. Those procedures provide for submission after attempts by the contracted collection company have been unsuccessful (i.e., contracted collection company is provided 90 days to collect before a worthless check is turned over to the State Attorney).
<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"> ✗ As the procedures noted in the prior action were not completed and approved until December 2002, verification of UCS actions will be addressed in a subsequent follow up period.

<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"> ✘ It was determined not to be economical and efficient to complete this process under a system that was being replaced. Accordingly, UCS deferred completion of this step until implementation of the new PeopleSoft CIS (October 2002). Actions to complete this step will be addressed in our subsequent follow up.
<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"> ✓ Completed during prior period.

Table Legend:

- Issue addressed in the original audit

- ✓ Issue addressed and resolved
- ✘ Issue not resolved

Significant Outstanding Issues

As noted in Table 1, remaining action steps include: (1) the submission of worthless checks to the State Attorney for prosecution pursuant to recently established criteria and (2) tracking worthless checks returned by the bank for managerial oversight purposes. Another action step scheduled for completion after September 30, 2002 (i.e., after successful implementation of the PeopleSoft CIS), involves the timely transfer of utility deposits to the Revenue Office. As other prerequisite actions have now been taken, completion of these remaining steps is anticipated during the subsequent follow up period.

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

Response from Appointed Official

City Manager:

I'm pleased with the level of implementation of the Action Plan. It reflects Management's determination to establish and maintain the highest level of cost-effective internal control. We 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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