



CITY AUDITOR'S OFFICE

TO: Mayor and Council Members
THRU: Margaret L. Krym, City Auditor *MK*
FROM: Kathy Magaw, Assistant City Auditor *CM*
DATE: September 22, 2011
SUBJECT: Cash Handling –Transactions Audit

Attached you will find our report for the Cash Handling-Transaction Audit.

We would like to thank Vicki Bateman, Financial Services Director and Steve Pohlman, Parks and Recreation Director for their cooperation and assistance during this audit. We would also like to thank Donnie Ward, Parks and Recreation Computer Technician/RecTrac Specialist and all the many cash custodians who generously gave their time to assist us in accumulating the needed data.

We are available to respond to any questions or concerns you may have about the information contained in this document.

C: Gary R. King, City Manager
Dolores Menendez, City Attorney
Rebecca van Deutekom, City Clerk
Victoria Bateman, Financial Services Director
Stephen Pohlman, Parks and Recreation Director
Audit Committee



CITY AUDITOR'S OFFICE

Cash Handling – Transactions Audit

Date: September 22, 2011

Executive Summary

City cashiers received payments in excess of \$50 million dollars during Fiscal Year 2010. Staff in the Financial Services Department receives ninety percent and staff in Parks and Recreation Department receives ten percent of these monies. The Financial Services Department received these funds at two separate locations, City Hall Cashier's Office and Customer Billing Services. The Parks and Recreation Department maintained 33 cash drawers to receive funds at various locations throughout the City.

The objectives of this audit were to provide assurance that Policies and Procedures relating to the handling of cash transactions reflect best practice and were consistent throughout the City. Also, provide assurance that internal controls were in place and functioning consistently throughout the City to ensure that cash receipts were deposited and reported. We found that there was not a centralized authority to design, implement, monitor and govern the cash receiving process Citywide. This has resulted in inconsistent policies and procedures, inconsistent internal controls, and reporting methods. We also found that some policies and procedures did not reflect best practice.

The City has two different policy and procedure manuals that govern cash receiving. One is in the Financial Services Department and one in the Parks and Recreation Department. There are best practice controls lacking in each of them. They both need improvement. We have recommended that they be consolidated and strengthened.

During our detail testing and observation of the cash receiving operations by various cashiers and staff, we found that some internal controls were deficient or missing. A survey of cashiers found some additional weaknesses in security controls. Specific examples of these missing controls are included in this report. We have recommended that the responsibility for internal controls over all cash receipts be assigned to one process owner with the authority to implement and improve these controls across all departments.

The Parks and Recreation Department uses the RecTrac Software System to capture sales activity and record payments. This software has the ability to track unpaid amounts due and advance deposits by household account. As of February 9, 2011, the outstanding balance due for services provided exceeded \$50,000. A requested aging report indicated that 79% of these funds were older than 120+ days. We found that internal controls over the management of these accounts were insufficient and we found errors in the balances, however, we did observe some collection efforts. We have recommended that controls be implemented to govern, monitor and collect these balances. We have also recommended that documented policies and procedures be made available to all staff members who interact with the RecTrac System and have access to these accounts.

Full Report

The Cash Handling – Transaction Audit was identified in the Citywide risk assessment performed during the summer of 2010, and was included in the 2011 approved Audit Plan.

This audit was conducted as a performance audit. Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation of evidence against stated criteria. Performance audits provide objective analysis so that Management and those charged with governance and oversight can use the information to improve program performance and operation, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

This performance audit was conducted in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background Information

On June 29, 2010, we published the first part of our audit work involving cash handling. The report was entitled Cash Handling – Imprest Funds and it excluded cash transaction activity. During FY 2011, we proceeded with the audit work on Cash Handling – Transactions. During our background work, we reviewed prior audits relating to cash handling and compiled a listing of numerous findings or risks that were noted in audit reports during the past five (5) years. We also evaluated risks exposed by a theft in October 2010, at the Customer Billing Services (CBS) Cashier's Office and we considered these risks in developing our objectives for this audit engagement.

We compiled additional background information to guide us in understanding areas of risk. Some of this information is presented here to provide a context for understanding cash handling in the City.

Below is a breakdown of the Cash Drawer Fund Balances for the City of Cape Coral as of September 30, 2010. Each of these locations is a site where cash transactions may occur:

Department	Dollar Amount on Hand	Cash Drawers	Cash transactions processed - Totals for FY10 (October 1, 2009-September 30, 2010)
Police Department	\$ 200	1	\$ 18,599
Financial Services Dept (City Hall Cashiers & CBS)	\$ 2,400	6	\$ 45,436,945
Parks & Recreation Dept	\$ 4,400	33	\$ 5,168,119
Totals:	\$ 7,000	40	\$ 50,623,663

The Parks and Recreation Department (P&R) has 33 cash drawers and 25 of these use RecTrac cash registers, which function with integrated real-time software systems. Seven use Casio Cash Registers, these registers are stand-alone and do not integrate with any other systems. One cash drawer utilizes a manual process and provides manual receipts. These cash registers are at various locations throughout the City.

The Financial Services Department utilized the H.T.E. accounting software system to collect and account for cash receipts. During 2010, they transitioned to the ActiveGov software system, which now is integrated with the JD Edwards (JDE) accounting software.

City Management has determined that it is more convenient and appropriate to allow citizens participating in P&R activities (e.g., adult and youth sports) to pay applicable fees to P&R staff at their off-site facilities, as opposed to requiring those citizens to travel to the Cashier's Office located at City Hall to pay required fees.

In some instances, the cash collected by external divisions is delivered in a deposit bag to the Cashier's Office and transferred by the armored car service. In other instances, the collecting facility or off-site location processes their daily receipts and deposits are transferred directly by the armored car service. Regardless of the method, each of those facilities or off-site locations reports their collection activity to the Financial Services Department for recording.

Purpose

The purpose of this audit engagement was to provide assurance that cash is well controlled and consistently managed.

Scope

The scope of this audit included a review of the cash collection and processing functions at City locations where cash is received. This audit focused on internal controls pertaining to this cash collection.

The scope of this review did not address the accuracy of the revenue amounts collected. It also excluded Cape Coral Charter Schools, the Community Redevelopment Agency, and Lockbox receipts. Additionally, Petty Cash Imprest Funds, Petty Cash Gratuities, Petty Cash Change Funds and Petty Cash Vending Machines were excluded, as they were recently the subject of a separate audit report. We have also excluded Sun Splash Family Water Park as it is listed on the annual audit plan as a separate audit.

Methodology

During our audit work, we considered historical risks as well as current issues to define the scope and objectives of this engagement. We reviewed existing policy and procedure manuals and compared them to best practices. We surveyed staff in various

cashier functional areas to ascertain their understanding of cash controls. We did detail testing of internal controls in selected areas as follows:

- The area with the highest volume of cash transactions – Customer Billing Services
- An offsite area using a Casio Register located at the Pelican Softball complex
- An area using the integrated RecTrac system located in P&R Administration

Audit Objectives and Conclusions

Objective one: Provide assurance that Policies and Procedures relating to the handling of cash transactions reflect best practice and are consistent throughout the City.

During this audit engagement, we found that there is not a centralized authority to design, implement, monitor and govern the cash receiving process throughout the City. This has resulted in inconsistent policies and procedures and inconsistent internal controls and reporting methods. We also found that some policies and procedures did not reflect best practice.

Objective two: Provide assurance that internal controls are in place and functioning consistently throughout the City to ensure that cash receipts are deposited and reported.

We found that some controls were not consistent throughout the City. In some areas, controls were weak or missing.

The balance of this report will explain our work and recommendations in more detail.

Cash collection processes are various and complex and the Policies and Procedures governing them are not uniform.

During our fieldwork, we found a variety of systems that are used for cash collection and receipting of City funds in a multitude of locations throughout the City as describe below:

Location	Responsible Department	Governing policies and procedures	Software System employed to record transaction data	Responsibility for training cashiers regarding Policy and Procedures
City Hall Cashier's Office	Financial Services	Finance Department Cashier Division Policy and Procedure Manual	H.T.E.(phased out), Active Gov	Financial Services - Cashier Supervisor
Customer Billing Services	Financial Services	Finance Department Cashier Division Policy and Procedure Manual	H.T.E.(phased out), Active Gov	Financial Services - Cashier Supervisor
City Hall	Parks and Recreation	Parks and Recreation Department - Cash Handling Policies and Procedures	RecTrac	Financial Services - Cashier Supervisor
Offsite locations/ facilities	Parks and Recreation	Parks and Recreation Department - Cash Handling Policies and Procedures	RecTrac, Casio Cash Registers, Manual Receipts	Financial Services - Cashier Supervisor
Records Division	Police Department	Finance Department Cashier Division Policy and Procedure Manual (No copy available on site)	Active Gov	Financial Services - Cashier Supervisor

The Cashier Supervisor in the Financial Services Department oversees the Cashier Division at City Hall and Customer Billing Services. She is also responsible for providing cash handling training to the cashiers in P&R and the Police Department; however, she does not have supervisory authority over these cashiers. Many of the cashiers in P&R and Police Department have other responsibilities, which are their primary job function. Serving as a cashier may be an add-on responsibility.

With the downsizing of staff and reorganizations, the roles of some of City staff have changed and cashiering responsibilities may have shifted. It is important that all staff with responsibility for cash handling have this responsibility documented in their job description because of the associated risk and importance of cash handling. It is also important that they be trained because of the complexity of the City's systems.

We found six instances where the employees were being required to handle cash but their job description did not reflect that responsibility. We also found that with shifting

employee responsibilities, the reporting supervisor was not accurately recorded on some of the job descriptions.

We recommend that job descriptions be reviewed and updated to include the required language when new cash handling responsibilities are assigned.

Management Response #1:

Finance and P&R will review job descriptions for all cashiers and ensure they are updated to reflect these responsibilities

We found that training for many employees was not current and the records documenting their training were not centrally located and were not easily retrievable. Some had received their cash handling training over 4 to 10 years ago. Best practice suggests that cash handlers should be recertified annually.

We recommend that training certifications be maintained in a centralized database, that documentation of certification be retained in the employee's personnel file and that these certifications be updated with regular re-training.

Management Response #2:

Agree. Finance's Head Cashier will maintain a copy of the completed training certificate and provide a copy to HR for the employee's personnel file.

The Financial Services Department Cashier Division Policies and Procedures Manual acknowledges that all cash handlers do not report to the Financial Services Department when it states that the Cashier's office "*is responsible for receiving, posting, depositing, and safekeeping monies belonging to the City; however there are numerous other City employees who handle cash that do not work in the Cashier's Office*". It goes on to state that the Finance Department Cashier Division Policy and Procedure Manual will "*serve to educate its cashiers and other cash handlers.*" This has created a sense of conflicting responsibility for the Cashier Supervisor. She has been tasked with training of cash handlers Citywide, but her authority does not extend beyond Financial Services and she is not empowered to oversee controls and processes in other departments. Also, there are only two copies of the Financial Services Department Cashier Division Policies and Procedures Manual, one in the City Hall Cashier's Office and one at Customer Billing Services.

The Parks and Recreation Department also has Cash Handling Policies and Procedures, which are posted on the City's intranet. These two cash handling policy and procedure documents are not consistent. By having more than one manual for cash management across the City, staff may interpret that they have permission to comply selectively. Also, Management's directives are undermined and the inconsistency may suggest that Management is not clearly aware of its own intent. Employee perception and confidence in the process may be diminished.

We obtained copies of each manual and compared them to each other and to best practices. During our review, we noted differences and some areas needing improvement. Examples of these are listed here:

Best Practice for cash management	Financial Services Department Cashier Division Manual	Parks and Recreation Department Manual
Use of manual receipts when systems are not available.	Not addressed	Adequately addressed
Establish strict physical access control to the cash drawer (password protected or key secured).	Adequately addressed	Not addressed
Access to vault / safe is limited to key personnel only.	Addressed but requires improvement	Not addressed
Upon termination of key personnel the combination of the vault / safe and or cash control access should be changed	Not addressed	Not addressed
Require Management to approve, track and analyze register void transactions and investigate excessive use.	Addressed but requires improvement	Not addressed
Require Management to approve, track and analyze “no sales”, returns and refunds and investigate excessive use.	Addressed but requires improvement	Not addressed
Require Management (Supervisor) to approve returns or refunds.	Addressed but requires improvement	Not addressed
Management should summarize cashier's cumulative overages and shortages and use this information in evaluating employee performance.	Not addressed	Addressed but requires improvement
Management should document procedures for cash refunds to customers.	Addressed but requires improvement	Not addressed
Management should require that staff handling cash be trained properly and on a regular basis.	Addressed but requires improvement	Addressed but requires improvement

We recommend that cash management practices and internal controls be standardized across all departments and governed by a unified Policies and Procedures manual that is made available to all cash handlers and that the responsibility and authority for maintaining compliance to these internal controls be clearly assigned to one department.

Management Response #3a:

Finance will update their Policies and Procedures Manual and incorporate Park and Recreation’s cash handling procedures into Finance’s Manual.

We also recommend that controls that have not been addressed should be added to the policies and procedures and those found to be inadequately addressed should be revised and strengthened.

<i>Management Response #3b:</i>
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<i>Finance will update its policies and procedures manual.</i>
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The Financial Services Department has a process in place for managing non-sufficient funds (NSF) checks, which are returned to them for payments made for Utilities and/or other City services excluding Parks and Recreation. Staff maintains a listing of NSF checks based on the month in which it was returned. We did not review this process in detail. The Financial Services Department does not monitor or track NSF checks in the Parks and Recreation Department.

We recommend that management of these Parks and Recreation Department NSF checks, and all other Citywide NSF checks be consolidated with the Financial Services Department's NSF checks to gain efficiencies, standardize effective controls, and ensure collection efforts are pursued. We also recommend that documented policies and procedures for governing the management of these checks be developed to include aging reports of all outstanding checks.

<i>Management Response #4:</i>

<i>Finance will develop a procedure for all NSF checks to be sent to our Cashiers for tracking and collection.</i>
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During detail testing some internal controls were found to be deficient or missing.

We selected a sample of transactions for testing from the period March 7, 2010 through March 14, 2010 for P&R Department and March 8, 2010 through March 16, 2010 for Financial Services Department. Our results are as follows for each of the areas examined:

Customer Billing Services

During the selected testing period, the department was in the middle of a conversion from H.T.E. to ActiveGov software systems. These systems are used to capture and report the daily cash transaction activity. During this period, some types of transactions were being entered into ActiveGov and other types were being entered into H.T.E. In order to balance the daily cash received to the daily reported transactions a Daily Sales Register Activity Report was required from both H.T.E. and ActiveGov. We learned that the daily sales transaction data (Daily Sales Register Activity Report) from the H.T.E. system had not been retained. Therefore, we were unable to verify and confirm that daily cash received equaled daily sales posted.

The process of counting money, reconciling the cash to the receipts and balancing the cash drawer is a strong control that creates accountability for the day's transactions. In this case, we were unable to verify that this control was in place.

We recommend that supporting documents for balancing purposes are consistent throughout the City, and that all departments reconcile the daily cash received to the Daily Sales Register Activity Report and the cash deposit and that documentation to evidence this reconciliation be retained.

Management Response #5:

Finance will develop a standard process and documentation for all cashiers to use.

The cashier preparing the daily cash balancing sheet had another co-worker verify her cash. The co-workers initials evidenced this verification. When questioned, they advised us that their verification was only to ensure that the cash recorded on the deposit slip equaled the cash being deposited. It did not indicate that they had reconciled to the Daily Sales Register Activity Report.

This lack of verification by a Supervisor was confirmed during our survey of cashiers when seven out of 20 responded that their Supervisor or Manager did not verify the daily cash receipts activity.

Best practice would indicate that a cash balancing sheet should be used to record and reconcile the activity of balancing the daily cash received to the Daily Sales Register Activity Report. This reconciliation should be verified by a supervisor rather than a co-

worker and evidenced with the supervisor's initials indicating that the entire reconciliation has been verified.

We recommend that a Supervisor verify the daily cash received to the Daily Sales Register Activity Report and to the daily deposit slip and evidence that verification with their initials on the Daily Sales Register Activity Report and on the daily deposit slip.

Management Response #6:

When available, the Supervisor will verify the daily cash receipts. When the Supervisor is not available, another cashier will perform the verification.

We observed that refunds, voids, and returns were not always reviewed or monitored by supervisors or managers. The language in the Financial Services policy and procedures manual that addresses voids, returns, and refunds was incomplete.

One of the control weaknesses that allowed the theft at CBS to occur in October 2010 was related to a lack of supervisor (Management) review of voids and a lack of Management tracking of void activity.

We recommend that a unified Citywide Cash Handling Policy and Procedures manual be strengthened by including language for management controls in the area of reviewing and monitoring:

- A supervisor should immediately approve voids, returns, and refunds
- Require Management to approve, track and analyze register void transactions and investigate excessive use of void transactions
- Require Management to approve, track and analyze "no sales", returns, refunds and investigate excessive use
- Require a supervisor to approve returns (refunds)

Management Response #7:

Finance will update its policy and procedures manual to include these additional controls.

When reviewing overages and/or shortages we noted that there were none during the testing period, which seemed unusual. Also, Management did not have documentation of prior overages and/or shortages. No record was being kept. An area of vulnerability and risk that should be controlled is overages and/or shortages. A proper internal control mechanism would provide Management with a documented history of the frequency of overages and/or shortages and the individual cashier responsible.

The Financial Services Cashier Policy and Procedure manual does not address the area of:

- Management approval, tracking, and analyzing overages and/or shortages
- Investigation of excessive incidents of overages and/or shortages

We recommend that a unified Citywide Cash Handling Policy and Procedures manual be strengthened by adding this language.

- Require Management to approve, track and analyze overages and/or shortages
- Management should summarize cashiers' cumulative overages and/or shortages and use this information in evaluating employee performance
- Monthly reports from Citywide facilities should be submitted to the Cashier Supervisor for review, and if required, investigation

<i>Management Response #8:</i>

<i>Finance will update its policy and procedures manual by adding the recommended language.</i>

Parks and Recreation Administration

During our testing period (March 7-14, 2010), we found that all the days examined did not have a daily cash balancing sheet to reconcile the daily cash received to the Daily Sales Register Activity Report or to deposits. We were told that the cashier, who prepares the deposit, runs a calculator tape and a co-worker verifies her cash count and checks for deposit. The verifier then initials the tape. This evidence of the control is placed into the deposit bag with the deposit and is no longer retained by the City.

As stated above, we recommend that supporting documents for balancing purposes are consistent throughout the City and to have all departments reconcile the daily cash received to the Daily Sales Register Activity Report, and that documentation to evidence this reconciliation be retained.

We also found a break of numerical sequence in the deposit ticket numbers used and staff was not able to provide an explanation. During our internal control follow up in March 2011 regarding a theft in P&R, we found that the numerical sequences of deposit slips were not being monitored. Monitoring of numerical sequence is a strong control. It alerts you immediately when one is out of sequence and allows Management to investigate at the time of monitoring.

During their review of this theft, P&R staff felt that separating these deposit tickets from the deposit book made it more difficult to account for the numerical sequence of the deposit slips. We agree, however, monitoring the numerical sequence is a control that should be regularly performed either during the reconciliation process or by the P&R Department staff. Management must determine when and how this monitoring of numerical sequence will be achieved.

We recommend Management document a procedure to communicate to staff how the numerical sequence of deposit slips will be monitored and who will be responsible for that process.

Management Response #9:

Finance will update its policies and procedures manual to include the monitoring of the deposit slips.

During our review, we examined some refund items. Some items appeared to have approval as indicated by initials on receipts, while others did not. As at CBS, there does not appear to be a clear written documented policy for the approval, administration and/or management of refunds, voids and returns. As previously recommended, a policy governing these should be included in a Citywide Cash Handling Policy and Procedures manual.

Parks and Recreation Athletics Division - Pelican Baseball

This location uses a Casio cash register, which is not integrated into the financial accounting software systems. Transactions from this area are manually keyed into the RecTrac system at City Hall. We selected this area for examination because of the nature of these risks.

We examined detailed transactions for the testing period (March 7-14, 2010). All deposit tickets were used in numerical sequential order. The cash register tape (Z-tape) numbers were in sequential order. We reviewed the “no sales” (opening of the cash drawer without transaction activity) on the Z-tape and found that they were reasonable and minimal compared to the amount of the deposit.

We commend the P&R Athletics Coordinator for having the documentation (audit trail) for each transaction we reviewed (deposit ticket, Z-tape, cash balancing sheet, and deposit bag receipt). All signatures were present on the daily cash proof sheets for dual control purposes. We found the paperwork for transactions very organized and easily accessible. It appears that all controls are in place and functioning.

Other control issues

We observed that the Financial Services Department Cashier Division Manual did not address a manual back up process to document cash receiving activity at times when systems are not available (system down).

We specifically recommend that Management establish guidance and control for the use of manual receipts. Such a policy should define using manual receipts in sequential order, when to use them (for what reason or purpose authorized), control and accountability of the manual receipts, and providing training to staff who will use the manual receipt process.

Management Response #10:

Finance will update its policies and procedures manual to address the back up process.

The theft at CBS in October 2010 was facilitated when a supervisor shared her password. This allowed the cashier to over-ride transactions. Best practice requires segregation of duties for cash receiving with a separation between those who receive the cash and those who are verifying daily activity and approving voids and cancellations.

We have an administrative regulation (AR#46) for end user computing that stipulates passwords will be protected and never shared.

We recommend as part of the cash handling duties that AR #46 be re-enforced and included in the unified Citywide Cash Handling Policy and Procedures manual.

<i>Management Response #11:</i>
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<i>Finance will re-enforce and include this recommendation on the policies and procedures manual.</i>

A survey of cashiers found some additional weaknesses in security controls.

Because cash is vulnerable to misappropriation, it must be secured at all times. Security controls include storing cash in vaults and/or safes. Best practice requires that access to these vaults and/or safes must be restricted to a supervisor and/or authorized (key) personnel. Also, that the vaults and/or safes combination should be changed at least once a year or when there is a change in authorized (key) personnel.

During our survey, we found that most combinations had not been regularly changed and some had not been changed for over three years. We also found that for at least five locations, the access to the safe was provided to numerous employees and was not restricted.

We **recommend** Management limit vault and/or safe access to authorized (key) personnel.

Management Response 12a:

Finance will review current access, regularly change combinations.

We also **recommend** that Management implement a policy and procedure for the combinations to be changed regularly or with termination or change in authorized (key) personnel and the date of change be logged.

Management Response 12b:

Finance will review current access, regularly change combinations.

During the survey, we observed the cash drawers to determine if there were any checks present that were not restrictively endorsed. Out of 20 drawers verified we found one that had a check present that had not been restrictively endorsed and we found two checks that were not made payable to the City of Cape Coral. Rather they were made payable to the facility (i.e. Pop's Café and Art Studio.) On some occasions, we understand that checks are received via the mail, and for these situations staff does not have control.

We also understand that the checks mentioned above are still negotiable and the bank will accept them and credit the City, however best practice would require that all checks be made payable to the City of Cape Coral.

We recommend that the wording in the unified Citywide Policy and Procedure manual be strengthened by adding the following language: "all checks must be made payable to the City of Cape Coral and marked *immediately* with a restrictive endorsement. "

Management Response #13:

We don't agree that all checks must be made payable to the City of Cape Coral. Bank of America accepts checks payable to specific City Departments.

We asked cashiers if they were familiar with Administrative Regulation #38 (AR#38) (Theft Reporting) and Resolution 27-05 (Fraud Policy). Twelve cashiers out of twenty responded that they were not familiar with these policies.

We recommend that the unified Citywide Policy and Procedure manual include references to AR#38 and guidance on how to report an incident.

Management Response #14:

Finance will include AR#38 in its policies and procedures manual.

During the course of this audit, Management was provided with more specific detailed suggestions and detailed results of our survey to assist with improving the unified Citywide Cash Handling Policy and Procedures manual.

The receivable balances in the Parks and Recreation Department Household Accounts are not adequately controlled.

The RecTrac Software System used by the Parks and Recreation Department captures sales activity and records payments made to the City for participation in Parks and Recreation activities or use of Parks and Recreation facilities. This software also has the ability to track unpaid amounts due to the City for past participation/use or expected future participation/use (reservations). The Parks and Recreation Department calls these accounts Household Accounts.

During our fieldwork, we requested reports to help quantify the outstanding balances in these accounts. We learned that the method of extracting management reports for Household Account balances is not consistently used and reports vary based on the parameters used to request the report. Also, it was not possible to retrieve historical reports. We learned that these reports were not generated or used by Management for review and monitoring of balances on a regularly scheduled basis. A prior year report that the Department had on hand (9/5/07) and a current report (2/9/11) showed the following:

Household Accounts	Balance as of 9/5/2007	Balance as of 2/9/2011	Increase (Decrease)
Activity Registrations	\$ 21,636	\$ 35,865	\$ 14,228
Court Reservations	42	42	-
Pass Memberships	3,379	4,314	935
POS Modules *	33,891	11,562	(22,329)
Trip Modules	696	100	(596)
	<u>59,644</u>	<u>51,882</u>	<u>(7,762)</u>
Facility Reservations	87,507	68,519	(18,988)
Rental Reservations	8,560	170,405	161,845
	<u>96,067</u>	<u>238,924</u>	<u>142,857</u>
Combined Total	<u>\$ 155,711</u>	<u>\$ 290,807</u>	<u>\$ 135,096</u>

* POS Modules = The Point of Sale module is linked to global household accounts and may consist of items such as payments for special events and NSF checks.

We requested a report that would show the age of the outstanding balances. The Department was able to contact the RecTrac Vendor representative and generate an aging report for us. For purposes of this aging report, we excluded the Reservation balances. The report we were provided shows that over 78% of the outstanding balances are over 120 + days.

We were advised that some of these old accounts resulted from non-sufficient funds (NSF) checks. We were provided a listing of outstanding NSF checks as of August 29, 2011 which totaled less than \$5,000. The Department Management advised us that the

individual amounts of these checks are small and collection efforts would be costly. Also, Management indicated that they do not wish to write these balances off but rather retain the information in the system, as a red flag caution should the household attempt to use City services in the future. The aging report was as of February 9, 2011.

Age	Balance	Percent of Total
Current	\$ 5,770	11%
Over 30 days	1,862	4%
Over 60 days	542	1%
Over 90 days	2,635	5%
Over 120 days	40,091	79%
Totals:	<u>\$ 50,901</u>	<u>100%</u>

When examining the detail in these reports we found balances that were incorrect that may have been caused by mis-postings. Therefore, we cannot confirm the reliability of the underlying data in the reports. On February 10, 2011, there were 34,300 household accounts.

We did observe some efforts made by the department to collect on various individual balances but we did not see consistently applied management practices supported by policies and procedures.

We recommend these accounts be regularly reviewed for accuracy, corrections made where errors are found and subsequent collection efforts pursued on all balances over a Management determined dollar amount.

Management Response #15:

P&R will review all accounts receivable balances and verify receivable balances and resolve outstanding balances.

The household account balances (which are a detail ledger) are not integrated into the financial accounting software system (JDE) and we did confirm that these balances are not recorded in the general ledger and therefore not reported in the City's financial information. This also means that there is not an overall general ledger account, which can be used for reconciliation of the overall balance to ensure that all changes made to these accounts are recorded, authorized and or accounted for.

We recommend that a control ledger be established and the detail account balances be reconciled to it on a monthly basis. This is also a recommended best practice.

Management Response #16:

Finance will develop a summary general ledger balance and reconcile it to the detailed ledger maintained by P&R.

We found there was no documented guidance regarding these household accounts provided to front end users who post transactions and interact with customers. We also found that department policies and procedures addressing management of these accounts were, at best, fragmented. Best practices require that written procedures exist for all accounts receivable and collection activities. Procedures should address preparing bills, recording receivables in the detail accounts receivable records, account limits, collecting the accounts, recording payments, adjustments to receivables, and follow-up of delinquent accounts.

We recommend that Policies and Procedures be developed that will address preparing bills, recording receivables in the detail accounts receivables records, account limits, collecting the accounts, recording payments, adjustments to receivables, and follow-up of delinquent accounts.

Management Response 17a:

Finance will provide procedures and train P&R personnel on how to handle the household accounts.

We recommend that a Management report format be developed and used consistently to control, collect and monitor these balances.

Management Response 17b:

Finance will develop a management report to be used by Finance and P&R to control and monitor balances.