



CITY OF WILMINGTON

Cash Receipts

Internal Audit Review

December 14, 2017

City Auditor's Office

Terence J. Williams
 City Auditor
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Highlights

Why We Did This Audit

The Internal Audit Department (IA) performed a scheduled audit of Cash Receipts. The audit was in accordance with the 2016 Internal Audit Plan.

Methodology

The objectives were met by assessing prior audit findings, discussions with City personnel, analysis of change in cash receipts from year-to-year, testing of 25 randomly selected workdays, evaluation of MUNIS user attributes; and analysis of physical security, segregation of duties, cash overages/shortages, and instances of insufficient funds.

Audit Review Committee:

Robert C. Johnson, Chair

Ciro Adams
 Marchelle Basnight
 Angelique Dennis
 Bud Freel
 Ronald Pinkett
 Tanya Washington

Objective and Scope

As part of our audit plan, we conducted a Performance Audit of Cash Receipts for the period commencing July 1, 2015 through June 30, 2016. Our objectives were to determine if controls over cash receipts processing and bank deposits were in place and functioning appropriately; if cash receipts were deposited on a timely and accurate basis; and if cash receipts were accurately recorded in the general ledger. IA believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS"). These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The Revenue Department receives payments for receivables, such as utility bills, citations and red-light tickets, real estate taxes, wage taxes, fire department receipts, and false alarms bills. The department accepts and processes funds through in-person payments, mailings, phone calls, and the Payments website. Cash and checks are maintained securely until collection and deposit by an armored car servicer. Transactions related to receipts are tallied and verified by management. Any discrepancies are investigated and documented by management. Batches related to the payments are processed through MUNIS. Finance performs monthly reconciliations of bank accounts to reconcile deposits.

Key Statistics:

	FY 2016	FY 2014
Number of work days	251	243
Percentage of days selected	9.96%	10.29%
Number of batches tested	297	268
Total number of batches with errors	37	69
Rate of errors	12.46%	25.75%
Number of transactions tested	75	75
Total number of transactions with errors	5	15

What we found

Key Findings

Following are key issues that resulted in a process/area to be risk rated a three or four. See **Attachment A** for the detail of these and all comments identified during the review.

Risk Ranking:		(See Attachment B for full rating definitions)			
Process / Area	Process / Area Owner	1 Strong Controls	2 Controlled Effectively	3 Controlled - Improvement Required	4 Significant Improvement Required
User Access	Patrick T. Carter Stephanie Collins L. Jean Everett				√
Batch Processing	Patrick T. Carter			√	
Earned Income Tax	Stephanie Collins L. Jean Everett			√	
Lack of Supporting Documentation	Stephanie Collins			√	

User Access

1. Controls need to be strengthened in the following areas: universal badge access, consultant access, terminated employee access, controls over keys, and related procedures, due to six employees with badge access to the revenue area not having a business-need to access the Revenue Department. In addition, five consultants for a security vendor have universal access to all City departments including the Revenue Department and a temporary employee in the Earned Income Tax division had badge access to the Revenue Department for approximately seven months after being terminated and the badge was never obtained.
2. Segregation of duties (SOD) issues were also identified during MUNIS system access testing for various Finance employees located in the Revenue, Utility Billing, and Accounting Divisions. Although no instances of improper activity were detected during the engagement, a total of 18 employees had the ability to perform at least two or more of the following responsibilities that should have been segregated: handle cash, post cash receipts, record journal entries, edit customer accounts / bills and perform cash receipts reconciliations.

In addition, one MUNIS account for a consultant remained open for over one year past their authorized date.

Batch Processing

3. Controls need strengthening in regard to supervisory review of batch processing, due to seven out of 67 (10%) batch cover sheets selected for testing not being signed by the supervisor.

Earned Income Tax

4. Noncompliance exists with Section VII of the Central Cashier procedures manual (“Handling and Safeguarding Cash”) surrounding Earned Income Tax receipts. The following are some examples of issues that were noted and involved wage tax payments, 73 checks totaling approximately \$41.6K were not secured in a locked manner or processed within 48 hours of receipt, as required by the Earned Income Tax Division; there was an excessive delay of nine months with depositing and recording \$128.91 received by the Revenue Department in January 2016, and a lost check mailed in by a customer for \$64.89 was never deposited or recorded as a receipt by the Revenue Department.

Lack of Supporting Documentation

5. Controls need improvement surrounding how cash receipts are processed, due to a lack of supporting documentation, untimely deposits or an erroneous journal entry for a cash over / short account. For instance, 42 out of 372 (11.29%) FY16 CR selected for testing had one or more of the following errors, 13 (3.5%) batches had missing supporting documentation or documentation that did not support that amount of receipts deposited; 21 (6%) batches had incomplete receipts and seven (2%) batches were not recorded in a timely manner.

Management Responses to Audit Recommendations

Summary of Management Responses

Recommendation #1: Human Resources should consider only granting badge access based on a business needs. Furthermore, a procedure should be implemented by Human Resources where City directors are required to periodically confirm badge access to department areas. Management should immediately inform Human Resources about terminated employees, as required. In addition, the Revenue Department should institute a manual log for keys and update the Central Cashier procedure manual concerning the frequency of changeovers and reviews for locks, keys, and badge access.

Management response & action plan: Management did not provide a response to this finding.

No response

Completion Date: TBD

Recommendation #2: The Department of Integrated Technologies (DOIT) should establish and institute a formal process where user access levels are verified by City Management on a routine basis. Where necessary, Finance Management should work with DOIT to restrict user access and ensure that proper SOD controls exist. In addition, Finance Management should provide timely notification to DOIT regarding instances when a user's access should be disabled.

Management response & action plan: Management did not provide a response to this finding.

No response

Completion Date: TBD.

Recommendation #3: Management should reinforce the importance of reviewing batch processing for accuracy. In addition, Revenue Department Management should consistently signoff on batch coversheets, as evidence of their review.

Management response & action plan: Management did not provide a response to this finding.

No response

Completion Date: TBD.

Recommendation #4: Management within the Revenue Department should reinforce the importance of following departmental procedures. For instance, all receipts should be secured and deposited as soon as possible. Management should consider establishing procedures for circumstances where there is uncertainty with the recording of customer receipts. In these circumstances, cash receipts should be deposited in a timely manner. For instance, the checks could be deposited in the bank immediately and temporarily recorded to a miscellaneous cash receipts account in MUNIS by the Revenue Department.

If cash or checks are received by the Earned Income Tax Division, management should immediately return the cash or checks to the Revenue Department for deposit. Where necessary, the Earned Income Tax Division management should continue to aid the Revenue Department concerning customer accounts.

If checks will be recorded in a miscellaneous cash receipts account in MUNIS by the Revenue Department, care should be taken by the Earned Income Tax Division to ensure that the checks are reallocated to the appropriate customer account in an accurate and timely manner.

No response

Management response & action plan: Management did not provide a response to this finding.

Completion Date: TBD.

Recommendation #5: The Revenue department should ensure that documentation is retained for all receipts, and that the procedure manual guidelines are followed. They should also consider storing all documentation electronically through the Tyler Content Management (TCM) application. Management should ensure that all transactions are recorded in a timely manner. Care should be taken by the Revenue department to prevent and correct all errors. When required, the Revenue department management should communicate errors to accountants in the Finance department so that erroneous balances can be adjusted.

Management response & action plan: Management did not provide a response to this finding.

No response

Completion Date: TBD

Audit Team

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Yvette R. Johnson, Senior Auditor
Tamara Thompson, Audit Manager