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**Audit of  
City Treasurer  
Cash Controls**

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**MARTIN MATSON**  
City Comptroller  
City of Milwaukee, Wisconsin

May 2012

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**Martin Matson**  
Comptroller

**John M. Egan, C.P.A.**  
Special Deputy Comptroller

Office of the Comptroller

May 14, 2012

To the Honorable  
The Common Council  
City of Milwaukee

Dear Council Members:

The attached report summarizes the results of our Audit of City Treasurer Cash Controls. The objectives of the audit were to determine whether cash controls in the Office of the Treasurer are adequate; whether cash receipts are properly and timely secured and deposited to the bank; and whether daily cash transactions are accurately and timely recorded in the City's Financial Management Information System (FMIS). Additionally, the audit assessed controls within the administration of the iNovah application, bank reconciliation procedures, and the status of implementation of prior audit recommendations.

The audit determined that cash controls in the Treasurer's Office are adequate to effectively mitigate risk. The Treasurer's Office continues to be receptive to audit recommendations contributing to its robust control environment. The current Audit of City Treasurer Cash Controls resulted in three recommendations to further strengthen controls.

Audit findings are discussed in the Audit Conclusions and Recommendations section of this report, which is followed by the City Treasurer's response.

Appreciation is expressed for the cooperation extended to the auditors by the staff of the Office of the Treasurer.

Sincerely,

MARTIN MATSON  
Comptroller

MM/ssm

## **I Audit Scope and Objectives**

The audit examined procedures and controls for cash handling in the Office of the Treasurer, including vault and cash drawer access and security, cash counting and reconciling, cash transaction processing and posting as well as the system security of the iNovah cashiering system. The audit also examined wire transfers, Automated Clearing House (ACH) transactions, and bank account reconciliations.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the audit obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The Office of the Comptroller believes that the evidence obtained provides a reasonable basis for the audit's findings and conclusions based on the audit objectives.

Audit procedures for this report were conducted periodically throughout 2011 and into 2012. In addition to substantive and control testing, the auditors conducted unannounced sample cash counts and observations and observed daily and monthly close activities. The audit also included observation of the tellers and managers close-out and balancing for the year on December 31, 2011. The audit utilized reports and documents from the iNovah cashiering system, deposit and funds transfers, bank accounts, and the Financial Management Information System (FMIS), the City's accounting system.

The objectives of the audit were to:

- Determine the adequacy of cashiering controls.
- Determine the adequacy of controls over wire transfers, ACH transactions, and bank account reconciliations.
- Determine whether cash transactions are recorded accurately and timely in iNovah and FMIS.
- Determine the implementation status of prior audit recommendations.

## **II Organizational and Fiscal Impact**

In accordance with Wisconsin State Statutes 34.105 and 74.07, and City of Milwaukee Charter Ordinances, the City Treasurer is primarily responsible for the following:

- Receiving and accounting for all monies paid to the City of Milwaukee.

- Making disbursements vouchered for payment by the City Comptroller.
- Investing City funds not needed to meet current expenditures.
- Collecting property taxes for the City, Milwaukee Public Schools, Milwaukee County, and Milwaukee Area Technical College.
- Collecting miscellaneous fees for the Milwaukee Metropolitan Sewerage District, and the State of Wisconsin.
- Collecting delinquent property taxes for all taxing jurisdictions within the City.
- Settling property tax levy collections on a pro-rata basis with the other taxing jurisdictions and remitting to each jurisdiction its share of the taxes collected.

In fulfilling property tax collection functions, the Treasurer collects property taxes for all government units and remits to each unit its share of the tax collections. Considerable funds are also received from the State and Federal governments by wire transfer. The Treasurer's Office processes water bill payments, inter-departmental deposits and various licensing payments. In 2011 the Treasury processed approximately \$2.89 billion in transactions, of which almost \$1 billion was for Milwaukee Public Schools, including \$482 million in cash and checks processed by the Treasurer's tellers.

The Office of the Comptroller conducts periodic cash audits of the Treasurer and other City departments to ensure that cash is adequately handled and controlled.

### **III Audit Conclusions and Recommendations**

Cashiering controls are designed to provide management with assurance that cash is received and disbursed accurately; that cash transactions are processed and recorded properly; and that cash on hand is adequately safeguarded and deposited.

Overall, cash controls are strong. Upper management maintains a zero-tolerance policy for teller cash shortages and there are automated controls built into the iNovah cashiering system to ensure transactions are processed accurately. Additional manual controls have been implemented to supplement the system's automated controls. Year-end procedures for the teller staff are operating effectively and there are adequate controls in place surrounding the initiation and approval of ACH and wire transactions processed by the Financial Services staff. Cash received at the Treasurer's Office is processed into the iNovah cashiering system timely and accurately and uploaded to FMIS daily.

This audit makes three recommendations to further improve the control environment. The issues are related to surprise dual cash count documentation and system security administration for the iNovah cashiering system and the Wells Fargo Commercial Electronic Office software used for wire transfer and ACH transactions:

- Formalize Surprise Dual Cash Count Policies and Procedures.
- Correct Weaknesses Identified within iNovah System Security.
- Strengthen Wells Fargo Commercial Electronic Office System Administration.

### **A. Cashiering Controls**

Internal controls over cash are designed to ensure cash is received and disbursed accurately; cash transactions are recorded properly; and remaining cash or inventory is safeguarded from loss, including theft. Effective controls also provide protection to employees from charges of inappropriate handling or misreporting of cash. By defining job responsibilities and granting access rights to the cashiering system accordingly, automatic and manual controls are further strengthened.

The audit established there are strong controls over cashiering functions. Through testing and observation of year-end collections activities, the audit determined there are adequate controls surrounding the use of temporary tellers. The Revenue Collections Manager or the Lead Teller log on the temporary tellers to the cashiering system at the start of the day and count each teller to close at the end of the day. Temporary tellers can only process tax payment transactions and require supervisor authorization to transfer cash to or from the vault. However, the audit noted that the prior audit recommendation to assign individual usernames for each temporary teller has not been implemented. Management should continue to work to create unique usernames and passwords for the temporary tellers to provide adequate accountability and protection for the users and management.

The surprise cash counts conducted by the Financial Services section for the vault and the Revenue Collection Manager's cash drawer are adequately designed and operating effectively. Surprise counts of the tellers performed by the Lead Teller occur regularly and any detected variances are addressed immediately. Though it is standard practice for cash counts to be performed and signed-off by someone other than the owner of the cash drawer, the procedure is not documented. As such, the audit noted documentation retained for cash counts was not consistently initialed by the individual performing the cash count to support adequate segregation of duties. Evidence of controls provides management with assurance the control is performed consistently and provides an audit trail for accountability while documented policies and

procedures convey management expectations to staff and maintain institutional knowledge for future reference.

The following is a recommendation to further enhance the existing controls.

### **Recommendation 1: Formalize Surprise Dual Cash Count Policies and Procedures**

Management should compose a formal written policy and procedure for the surprise dual cash count process. The policy and procedure should include the appropriate steps to complete the process including the documentation to be retained and the appropriate sign-offs required, and should be maintained in a central location for easy reference. Additionally, management should consider periodically reviewing the documentation to ensure sign-offs are recorded consistently.

## **B. iNovah Cashiering System Security**

The audit examined the system controls of the iNovah cashiering system as well as the access rights to the features that employees of the Treasurer's Office are assigned.

There are currently six security groups that define access to the system for a given user. The Treasurer's Office Administrative Services group is responsible for creating, modifying, and deleting system users and performing the periodic user access reviews. Audit procedures performed to test the controls in place, including an analysis of user access for appropriateness based on job function, revealed weaknesses in iNovah system security administration processes and opportunities for tightening access. Specifically:

- The individual performing the semi-annual access review has system administrative capabilities creating an inadequate segregation of duties.
- The system administrators have the ability to adjust transactions in the cashiering module also creating inadequate segregation of duties as system administrators should not have access to the production environment.
- iNovah user account screens are not printed and retained with the semi-annual access review packet to substantiate the reviewer verified whether the users' access was enabled or disabled at the time of review.
- All iNovah users are assigned to their specific role based user group and the Research user group. The Research user group does not provide any additional permissions over the specific role based user groups.

Removing excess access among users and strengthening system security procedures will increase the efficiency and effectiveness of the periodic access reviews and decrease the risk of

unauthorized or inaccurate transactions. The following recommendation will help mitigate the weaknesses identified above and fortify existing controls.

**Recommendation 2: Correct weaknesses identified within iNovah System Security.**

Management should strengthen the iNovah system control environment by performing the following:

- The semi-annual system access review should continue to be coordinated by the system administrator, however, the user access levels should be reviewed and approved by someone without system administration capabilities and possessing the knowledge of the job functions to reasonably assess adequate business need (i.e., the Revenue Collection and Financial Services managers). Documentation evidencing the managers' approvals and change requests should be retained with the review packets.
- The permission to adjust transactions should be removed from the Administrator user group.
- The iNovah user account screens should be printed and retained with the periodic access review packet for re-performance purposes and to evidence the reviewer verified whether the users' access was active or inactive at the time of the review. Management should also retain evidence of any changes made as a result of the review (i.e., disabling access for a terminated employee).
- Specific user IDs should be removed from the Research user group to increase the efficiency and effectiveness of the periodic access review.

**C. Banking and Investment Controls**

Reconciliations for the operating bank account maintained by the Investment and Financial Services group were tested as part of the audit for accuracy and timeliness. The reconciliations were found to be accurate, however, the audit noted that some payments received from other departments within the City are not submitted to the Treasurer's Office timely which delays the balancing process. Separate audits have been completed or are in process to assess cash handling and controls in these other departments.

The Wells Fargo Commercial Electronic Office (CEO) application is the banking product the Treasurer's Office uses to access account information and process ACH transactions and wire transfers. The application provides a suite of automated controls that effectively mitigate the risk of unauthorized or inaccurate transactions inherent in electronic funds transfers. Audit procedures included testing these controls and did not identify any exceptions. Audit procedures also included reviewing the process for adding, changing, and deleting CEO users. These



procedures are operating effectively, however, the audit found that an application user list is not generated and reviewed by management for appropriateness on a consistent frequency.

The following is a recommendation to further enhance the existing controls.

**Recommendation 3: Strengthen Wells Fargo Commercial Electronic Office System Administration**

To strengthen controls within the process for administering access to CEO, the City Treasury should design, implement, and retain evidence of a consistent periodic access review. The review should be performed at least twice a year, preferably quarterly. The review should also be performed by someone independent of administration responsibilities with adequate knowledge of the application and job duties to assess reasonableness of access granted.



**OFFICE OF THE CITY TREASURER**  
Milwaukee, Wisconsin

May 11, 2012

2012 MAY 11 PM 3:51  
COMPTROLLER

Martin Matson  
City Comptroller  
City Hall, Room 404

**RE: AUDIT OF CITY TREASURER CASH CONTROLS**

Dear Mr. Matson:

This is written in response to the Audit of City Treasurer Cash Controls dated May 2012.

**Recommendation 1:**

**Formalize Surprise Dual Cash Count Policies and Procedures**

*Management should compose a formal written policy and procedure for the surprise dual cash count process. The policy and procedure should include the appropriate steps to complete the process including the documentation to be retained and the appropriate sign-offs required, and should be maintained in a central location for easy reference. Additionally, management should consider periodically reviewing the documentation to ensure sign-offs are recorded consistently.*

Department management concurs with the recommendation and the Standard Operating Procedures have already been written.

**Recommendation 2:**

**Correct weaknesses identified within iNovah System Security**

*Management should strengthen the iNovah system control environment by performing the following:*

- *The semi-annual system access review should continue to be coordinated by the system administrator, however, the user access levels should be reviewed and approved by someone without system administration capabilities and possessing the knowledge of the job functions to reasonably assess adequate business need (i.e., the Revenue Collection and Financial Services managers). Documentation evidencing the managers' approvals and change requests should be retained with the review packets.*

Department management concurs with the recommendation.

- *The permission to adjust transactions should be removed from the Administrator user group.*

Department management concurs with the recommendation and it has already been done.

- *The iNovah user account screens should be printed and retained with the periodic access review packet for re-performance purposes and to evidence the reviewer verified whether the users' access was active or inactive at the time of the review. Management should also retain evidence of any changes made as a result of the review (i.e., disabling access for a terminated employee).*

Department management concurs with the recommendation.

- *Specific user IDs should be removed from the Research user group to increase the efficiency and effectiveness of the periodic access review.*

This poses no security risk and needs to be researched further before department management can opine on the recommendation. Department management wants to assure there are no unintended consequences by removing specific user ID's from the Research group, which could impede staff from performing their duties.

### **Recommendation 3:**

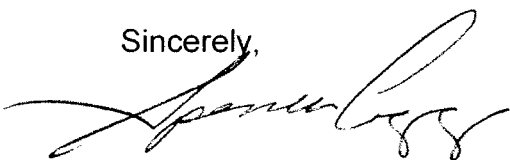
#### **Strengthen Wells Fargo Commercial Electronic Office System Administration**

*To strengthen controls within the process for administering access to CEO, the City Treasury should design, implement, and retain evidence of a consistent periodic access review. The review should be performed at least twice a year, preferably quarterly. The review should also be performed by someone independent of administration responsibilities with adequate knowledge of the application and job duties to assess reasonableness of access granted.*

Department management concurs with the recommendation. The CEO review will be done concurrent with the April and October reviews of the iNovah cashing system and the N275 tax collection system. Department division managers will review staff access reports and sign off on their respective staff's CEO access.

Please direct any questions on the above responses to Jim Klajbor, Deputy City Treasurer, at extension 2246.

Sincerely,



**SPENCER COGGS**  
City Treasurer