



Audit of Internal Controls
City of Milwaukee
City Clerk
License System

W. MARTIN MORICS
City Comptroller
City of Milwaukee, Wisconsin

April, 2002

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Office of the Comptroller

April 15, 2002

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To the Honorable
the Common Council
City of Milwaukee

Dear Council Members:

The attached report summarizes the results of our audit of City of Milwaukee's City Clerk License System. The main objective of this audit was to determine whether internal controls are in place and functioning. These controls were reviewed in relation to the American Institute of Certified Public Accountants' (AICPA) criteria for system reliability. The emphasis of this review was on the separation of duties involved in issuing licenses and recording of the fees assessed, and the access controls needed to maintain the files used in the generation of the licenses and other related files.

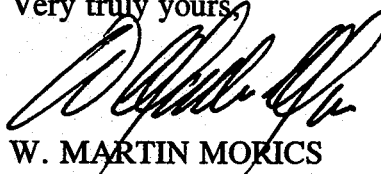
The audit included an evaluation of security over the System and of the internal controls over System input, processing and output. This evaluation included the procedures used to enter information into the System from the initial application submission, updating the records as the license application works its way through various administrative procedures, ending with the issuance or denial of the license as directed by the Common Council.

This System was previously audited in August, 1993 resulting in 33 recommendations for improvements. That audit disclosed internal control weaknesses in both the manual procedures and the computer system that indicated unauthorized licenses could be obtained or fees could be diverted without timely and effective detection. At that time the System lacked the necessary internal controls to accurately account for and report the issuance of licenses and the receipt of related fees. Since the prior audit, the City Clerk's License Division has moved the license fee payment process to the Treasurer's Office. This critical separation of duties addressed a number of control weaknesses identified in the prior audit, thereby discouraging the possibility of a misappropriation of funds. Other improvements to internal controls implemented since the 1993 audit are highlighted in the Audit Conclusions section as are recommendations yet to be implemented.

Audit results and recommendations are discussed more fully in the Audit Conclusions and Recommendations section of the report. The City Clerk's response is also presented in the audit report.

Appreciation is expressed for the cooperation extended to the auditors by the staff of the City Clerk's License Division.

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Martin Morics', written over the printed name.

W. MARTIN MORICS
Comptroller

AUDIT SCOPE AND OBJECTIVES

Audit Scope and Objectives

This is an audit of the License System used by the City Clerk's License Division to process applications for licenses authorized by the Common Council, and to issue the license when so authorized by the Common Council.

The objective of the audit was to determine whether internal controls are in place and functioning. These controls were reviewed in relation to the American Institute of Certified Public Accountants' (AICPA) criteria for system reliability. The emphasis of this review was on the separation of duties involved in issuing licenses and recording of the fees assessed, and the access controls needed to maintain the files used in the generation of the licenses and other related files.

The audit included an evaluation of security over the system and of the internal controls over system input, processing and output. This evaluation included the procedures used to enter information into the system from the initial application submission, updating the records as the license application works its way through various administrative procedures, ending with the issuance or denial of the license as directed by the Common Council.

It did not include enforcement actions after license issuance as such activity is not within the jurisdiction of the License Division. This was not a review of the controls surrounding the recording of license fee collections nor did it include examination of the controls in place for accounting or distribution of those receipts. This review did not attempt to determine the extent to which license fees cover costs nor did it compare our fee structure to that of other large cities.

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obtained or fees could be diverted without timely and effective detection. At that time the License System lacked the necessary internal controls to accurately account for and report the issuance of licenses and the receipt of related fees. Since the prior audit, the License Division has moved the license fee payment process to the Treasurer's Office. This critical separation of duties addressed a number of control weaknesses identified in the prior audit, thereby discouraging the possibility of a misappropriation of funds.

Other improvements to internal controls implemented since the 1993 Comptroller's audit are highlighted in the Audit Conclusions section as are recommendations yet to be implemented.

**ORGANIZATIONAL
AND
FISCAL IMPACT**

Organizational and Fiscal Impact

The License Division of the office of the City Clerk is responsible for the issuance of licenses authorized by the Common Council. The Division issued 23,190 licenses in 2001. Licenses not involving Common Council action are issued by other departments, such as the Treasurer, Health, and Neighborhood Services.

License fees for Common Council authorized licenses amount to approximately \$1.4 million per year. Some fees are fixed by the legislation that created the license, while some are allowed to be increased to recover substantiated costs of issuance.

The main purpose of the License System is to make application and license information readily available to License Division staff for application processing for various licenses, and as other city departments such as Neighborhood Services, Health, and Police provide input as appropriate to the licensing process. The system is also used to update license records as license holders report changes of address and ownership.

In 1986, the License System was implemented on the City's mainframe computer to provide the following functions:

- General license inquiry,
- Add, update, transfer and renew people (i.e., bartender, taxi driver), premise, and vehicle licenses,
- Retrieve bartender licenses,
- Generate the list of license applications for submission to the Common Council (the grant list),
- Generate listing of licenses that need to be renewed,
- Generate listing of liquor licenses for publication in compliance with state statutes,

- Extract license information for applications requiring police department review,
- Report liquor and cigarette license information for submittal to the state.

Since installation the system has been modified to better meet the needs of the License Division and to incorporate some of the recommendations from the prior audit. As the City's mainframe computer environment provides a stable and reliable environment for the daily use of this system, there are no plans to replace it with a client-server system.

**AUDIT CONCLUSIONS
AND
RECOMMENDATIONS**

Audit Conclusions and Recommendations

Status of Prior Audit Recommendations

The prior audit (1993) resulted in 33 recommendations (these are listed in Exhibit 1) for improvement of internal controls. Sixteen of the recommendations were for improved information system controls; nine have been implemented, three were addressed by moving the payment process to the Treasurer's Office, and four are still planned. The recommendations not yet implemented were to add audit trails to record who entered what data when, a series of reports to reflect system activity and provide system measurement reports, and to have the entire license computer-generated (eliminating the need for blank license stock). Ten recommendations were for improvements in the general control environment; six have been implemented, three were addressed by moving the payment process, and one (a daily log of system activity) is still planned. Seven recommendations were for improvements in physical and accounting controls; five have been implemented. The two recommendations (reconciling accounts with the City's books and reviewing accounts) not implemented are only partially addressed by the movement of the payment process to the Treasurer's Office.

Current Audit Conclusions and Recommendations

The purpose of information systems internal controls is to assure that computer systems process information in a complete, accurate, authorized, consistent, and timely manner. Properly designed controls that are found to be operating as planned provide a basis for determining if a computer system is reliable.

The American Institute of Certified Public Accountants (AICPA) defines a reliable system as "...one that is capable of operating without material error, fault, or failure...." The AICPA postulates four principles of reliability categorized as: availability, security,

integrity, and maintainability. The audit found that the License System and its related controls adequately meets these principles of reliability. A summary of how the License System meets these principles follows, along with recommendations for improvements.

Availability: The system should be available when needed by users, both for data entry and to support decision making based on data reported by the system. The License Division is very customer-oriented and relies on the License System to record the information needed to begin the licensing process while the customer is in the office, as well as to respond in a timely manner to inquiries from the public or city staff.

The terminals in the License Division are connected to the city's mainframe via the City Clerk's local area network (LAN), or directly to the mainframe should there be a problem with the LAN. This redundant connection and having the system run on the mainframe in a protected environment was designed to ensure maximum system availability during normal business hours. Should the system become unavailable, division files contain the original documents for current licenses and needed information could be retrieved manually. These paper documents remain the official legal record.

Security: The system should be protected from unauthorized physical and logical access. Protection against improper data entry is needed to ensure that only properly authorized licenses are issued.

System and application controls allow only authorized staff to change information from terminals physically located in the License Division offices. Authorized system users were matched to the current License Division staff. The ability to add, change, or delete system information was found to be restricted to License Division staff. (License information is a public record, and any authorized city user can view the data.) Access to the system is password controlled and an additional password is required for specific screens before data can be updated. Procedural problems with passwords noted in the prior audit, such as recording

and sharing them, have been corrected by departmental policy of neither sharing nor recording them. Access to blank license stock was found to be properly controlled, correcting a deficiency noted in the previous audit. License fees are now received in the City Treasurer's Office instead of the License Division, correcting a deficiency noted in the previous audit. This transfer of cash receipts to the City Treasurer substantially improves the internal controls over cash and implements an essential earlier audit recommendation regarding the separation of duties.

***Recommendation 1:** Security and accountability could be improved by implementing recommendations #10, 13, 29, and 31 from the prior audit that would add a system-generated audit trail of who entered what data, and have the system generate the entire license. Such an audit trail would provide positive confirmation and reduce the need for manual review. The system-generated license would eliminate the need to control the blank license stock.*

***Recommendation 2:** Without periodic reconciliation between the license system and FMIS, some of the control issues noted in the prior review remain. While processed receipts received from the Treasurer's Office are used to update individual application files, there should be a periodic reconciliation between the two systems to ensure that all licenses issued are properly reflected in the accounting records, and this can be accomplished by implementing recommendations #16 and 33 from the prior audit.*

Integrity: System processing is complete, accurate, current, and authorized. License records are public records by State statute and their accessibility, accuracy, and completeness are of concern to the license holders, the public, and the various units of government that may be involved with administrative or judicial proceedings involving the various licenses and or their holders. Controls are needed over the input, processing, and output of the system to ensure its integrity and reliability.

License data is entered only once, and then the system uses this data as the clerk moves from screen to screen rather than requiring re-entering the same data multiple times as the application moves through the review process. This virtually eliminates repetitive data entry, a major source of errors. In addition to the controls described above, management relies on a manual review of system-generated data before submission of license applications to the Common Council and spot-checks during normal processing for error detection.

Recommendation 3: Implementing recommendation #9 from the prior audit to provide automated system performance reporting to inform management of the status of applications and help address license related problems in a timely and effective manner, reducing the need for manual review. For example, providing information on the time elapsed since date of application would help identify applications requiring immediate attention. This was recommended in the prior audit but has not yet been implemented.

Maintainability: The system can be modified as needed in order to continue to provide for system availability, security, and integrity.

The system was designed by License Division staff to specifically meet their requirements which have remained relatively stable. The system has required only moderate modification since it was implemented in 1986 by the Department of Administration's Information and Technology Management Division (ITMD) using NATURAL language, which has been used throughout the city for a number of years. ITMD has provided timely support and remains responsible for system support, avoiding dependence on an outside vendor.

Recommendation 4: The License Division has plans to revise and update the system documentation to ensure that it matches the system currently operating. Current documentation is essential to the ability to continue to maintain the system to meet the needs of the division, and updating the documentation would

also help the division as they prepare to make some personnel changes due to retirement.

EXHIBIT

Exhibit 1

Prior Audit Recommendation	Implemented	No longer needed	Not Implemented	Planned
1. Routine supervisory review of recently issued files	X			
2. Separation of duties		X		
3. Two clerks at front counter		X		
4. Security camera		X		
5. Eliminate "received from" from invoice/receipt document		X		
6. Prohibit acceptance of fees at counter		X		
7. Signs regarding payment of fees	X			
8. Routine post-issuance file review	X			
9. Modify license system to produce transaction and performance reports				X
10. Daily log				X
11. Storage of license certificates	X			
12. Prenumbering of certificates	X			
13. Have seal and signature imprinted by computer				X
14. Treasurer to post payments	X			
15. Review FMIS accounts		X		
16. Reconciliation with City books			X	
17. Eliminate multiple license receipt	X			

Exhibit 1

Prior Audit Recommendation	Implemented	No longer needed	Not Implemented	Planned
18. Discontinue giving mainframe password to supervisor	X			
19. Destroy log of mainframe passwords and change them	X			
20. Logging off when away from workstation	X			
21. Remove license counter user-id	X			
22. Restrict access in NATURAL	X			
23. Proper security access for supervisors	X			
24. Separate payment and refund transactions	X			
25. Update of license fee file by Treasurer	X			
26. Track fees paid daily	X			
27. Include FMIS account distribution data for payment and refunds	X			
28. Create unique refund transaction	X			
29. Implement transaction tracking				X
30. Develop purge program	X			
31. Transaction reports				X
32. Daily transaction activity reconciliation	X			
33. Daily reconciliation with Treasurer and FMIS			X	

DEPARTMENT RESPONSE

4-8-02



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Office of the City Clerk

April 5, 2002

Ronald D. Leonhardt
City Clerk

Carolyn Hill Robertson
Deputy City Clerk

W. Martin Morics
Comptroller
Room 404, City Hall
200 E. Wells Street
Milwaukee, WI 53202

Dear Mr. Morics:

We appreciate the assistance provided to our department in your recent "Audit of Internal Controls-City Clerk License System". The licensing function is a critical area of responsibility for the City Clerk's Office and this review at a time of management transition is especially important to ensure that this function is being properly performed.

Your staff had a few suggestions for improvements that could further strengthen the internal controls in the automated license system. We are in agreement with all of these recommendations:

Recommendation 1: *The License Division will work with the Information and Technology Management Division of DOA (ITMD) to improve security and accountability by adding a system-generated audit trail of who entered what data.*

Recommendation 2: *The License Division will meet with the Treasurer's Office and appropriate FMIS staff to determine a method for periodic reconciliation between the FMIS, Treasurer's cashiering and licensing systems to ensure that all licenses are properly reflected in the city's accounting records.*

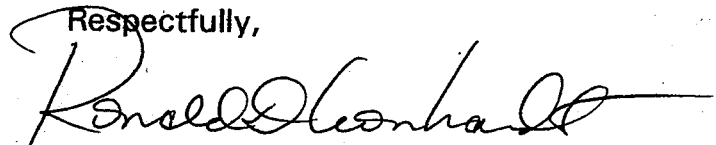
Recommendation 3: *The License Division has begun review with ITMD to determine how to provide automated system performance reporting to inform management of the status of applications and help address license related problems in a timely and effective manner, reducing the need for manual review.*

Recommendation 4: ITMD has agreed to provide updated system documentation.

Once the above steps have been taken, we will be able to proceed with implementing each of the recommendations within the limits of available funding. Where additional funding is required, we will either seek contingency funding or incorporate these items into our 2003 budget request.

We will be happy to provide a status report on these items by August 1, 2002.

Respectfully,



Ronald D. Leonhardt
City Clerk

Cc: Leo Wagner
Ald. Jeff Pawlinski, Chair, Utilities and Licenses Committee

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