



**Audit of
Health Department
Cashiering Controls**

W. MARTIN MORICS
City Comptroller
City of Milwaukee, Wisconsin

September 2011

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Office of the Comptroller
September 1, 2011

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To the Honorable
The Common Council
City of Milwaukee

Dear Council Members:

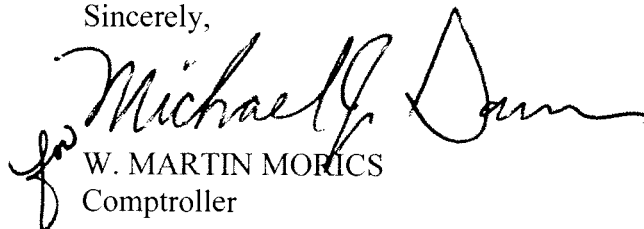
The attached report summarizes the results of our Audit of the Health Department Cashiering Controls. The objectives of the audit were to evaluate internal controls over cash in the Health Department, evaluate reconciliation and deposit activities, and to evaluate the safeguarding of receipts prior to deposit with the City Treasurer.

The audit determined that cash controls in the Health Department are reasonable with room for improvement. The audit makes six recommendations to strengthen controls.

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

Appreciation is expressed for the cooperation extended to the auditors by the staff of the Health Department.

Sincerely,


for W. MARTIN MORICS
Comptroller

I. Audit Scope and Objectives

The audit examined procedures and controls for cash collections in the Health Department, including the collections at the Consumer Environmental Health Division, Vital Statistics Division, and Lead Abatement Division. The audit also examined daily close procedures of these collections when transferred to central accounting for entry into the City's general ledger system and then deposit to the City Treasurer.

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 in April 2011. Initially, walkthroughs and observations were completed in order to gain an understanding of all collections occurring within the Health Department. The auditor observed the accounting function prepare deposit slips and FMIS journal entries from a day's collections. The audit then selected samples from each division to test if the controls identified were operating effectively.

The objectives of the audit were to:

- Evaluate the internal controls over collection of receipts
- Evaluate the reconciliation and deposit activities of cash receipts
- Evaluate the safeguarding of the receipts prior to deposit with the City Treasurer

II. Organizational and Fiscal Impact

The mission of the Health Department is to assure that the City of Milwaukee is the healthiest city in the nation, with the best personal health care, environmental health, and population-based preventive services possible. The Health Department engages in the following activities in order to accomplish its mission. These services include the division of Consumer Environmental Health which inspects licenses and enforces health codes to various types of restaurants and businesses. They also provide health education initiatives and disease control by providing immunizations at various health clinics around the City. The Department also provides lead abatement initiatives to prevent childhood poisoning. Finally, the division of Vital Statistics

issues copies of birth and death certificates to residents.

In 2010, the revenues of the Health Department for services it provided totaled \$2,479,971. Of this amount, approximately \$2 million were for food and restaurant licenses. The 2011 City budget adopted that food and restaurant licenses be transferred to the City Clerk. The Health Department continues to conduct the inspections, but licenses are being issued at the City Clerk and payments for the licenses are collected at the City Treasurer. Approximately \$348,000 of these revenues are accounted for by the weights and measures licenses, \$86,000 for vital statistic fees, \$17,000 for lead abatement permits, and \$11,000 to tattoo licenses.

Payments for these services and licenses are made through mail and walk-in payments. Cash, check, and credit card are all accepted for licenses, permits and certificates issued and sold by Consumer Environmental Health, Lead Abatement and Vital Statistics.

III. Audit Conclusions and Recommendations

Cash 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 is adequately safeguarded and deposited.

Cash controls are reasonable; however, there is room for improvement. The Health Department's divisions have varying levels of cashiering controls. The cash collection functions are more manual at the Health Department, but with some adequate practices in place. Some divisions have a lack of separation of duties due to staffing levels while other divisions have sufficient staffing with different opportunities for improvement. The audit focused on the cash collections for Consumer Environmental Health, Vital Statistics and Lead Abatement permits. Flu vaccinations at the clinics around the City were not tested as the revenue from this was minimal in 2010 and there were no actual collections in 2011, since vaccinations were provided free of charge.

This audit makes six recommendations to improve cash controls for the divisions and accounting of the Health Department.

A. Daily Cashiering Controls

Internal controls over cash are designed to: assure that cash is received and disbursed accurately; that cash transactions are recorded properly; and that remaining cash, or inventory, is safeguarded from loss, including theft. Strong controls also provide protection to employees from charges of inappropriate handling or misreporting of cash.

When a transaction occurs, certain procedures and controls need to be in place to provide for a solid audit trail. Evidence of the existence of a transaction is the most important documentation needed.

The audit disclosed the following observations as areas for improvement over daily cashiering functions.

- Receipts are not generated or given for all transactions regardless of division processed in.
- Current records maintained do not link the payments with the transaction related documents such as with application, permit or license numbers.
- Physical security of cash may be at heightened risk before deposit to the City Treasurer.

The following recommendations aim to improve these observations to further strengthen controls.

Recommendation 1: Generate a receipt for each transaction processed

Receipts need to be given for each transaction processed within each division issuing a license, permit, or selling a death or birth certificate.

- Lead Abatement permits - the cashier needs to generate and give a manual receipt from a receipt book.
- Vital Statistics and Consumer Environmental Health - generate and hand out a receipt for each transaction.

Recommendation 2: Record application, permit or license number for each transaction

For each sale or issuance of license, permit or birth/death certificate, the application, permit or license number should be recorded within the manual log of receipts. This process will ensure a link between the payment and the document issued or sold for the transaction.

Recommendation 3: Physical security of cash needs to be enhanced

Physical security of cash needs to be strengthened within the divisions as well as when it is secured at the departmental level before deposit to the City Treasurer. The divisions need to ensure that cash and checks are secured within their offices if it is not transferred immediately at the end of the day to accounting. Once transferred, physical security procedures need to be strengthened in order to ensure that only a limited number of staff have access to the cash deposits before deposit to the City Treasurer.

- Keys to cash drawers within the divisions need to be secured in areas where limited staff has access to them.
- Accounting staff needs to secure cash and checks so a minimum number of staff have access to it including other accounting personnel who have no direct involvement with the cash and checks (such as payroll clerks).

B. Daily Reconciliation and Accounting Procedures

When cash is collected for the day, close out and reconciliation procedures need to be completed in order to ensure that there are payments for all licenses, permits, and certificates sold. Transaction related documents need to be accounted for and matched up against the payments collected in order to ensure accuracy. Supervisory control is also necessary in order to review the cashiers' processing of transactions.

The audit disclosed the following observations of the cash close out procedures for the three divisions and the accounting section.

- There are no verification procedures conducted on a daily basis by the supervisors in the division. The cashiers close out and take all relevant documents to accounting themselves.

- The cash log provided to the accounting clerk is used to verify the physical cash. The accounting clerk does not check to make sure that the transactions recorded are complete. This staff member only counts the cash to ensure that it matches to the log.
- There is a lack of segregation of duties within accounting in regards to recording revenue, verifying cash, and depositing to the City Treasurer.

The following are recommendations to alleviate these issues above and strengthen controls within the divisions and accounting section of the department.

Recommendation 4: Supervisors within divisions or accounting should review cashiers transactions at daily close out for proper completion

The Department should determine if it is more practical for the supervisor within each division or for accounting to review each day's transactions for completeness. Each division's daily collections should be agreed to the transaction related documents and the total payments received (cash, checks, and credit card receipts). Each payment should be able to be matched up against each license, birth/death certificate, or lead permit issued or sold for the day.

Recommendation 5: Duties should be segregated among the accounting staff in order to ensure proper deposit and recording of daily cash collections

The procedures within accounting need to be redesigned to ensure that daily deposit, reconciliation, and revenue recording activities are properly segregated among employees. Ideally, the same employee should not record the revenue, maintain custody of the assets, (cash and checks) prepare, and make the deposit to the City Treasurer.

C. Deposits to City Treasurer

Deposits to the City Treasurer need to occur frequently in order to ensure timely deposit of the cash to the bank. Cash can then be invested more quickly so that interest income can begin to accumulate as early as possible. Accuracy of the cash being deposited is also important. The City Treasurer tellers need to verify the cash that the departments take over for deposit.

The Treasurer issues receipts to the departments and taxpayers when a transaction is processed through their office. This process is essential for the departmental deposits since the cash and checks represent the department's revenue collections. A receipt should always be given when the department (customer) walks in to make a deposit. Currently, the Treasurer is taking the deposit slips and currency from the Health Department and not issuing a receipt until later when they have time to process the deposits and recount the cash. They do not count the cash in front of the departmental employee. This is a procedural weakness of the City Treasurer that needs to be remedied within their office.

Consequently, if the Treasurer does not implement any changes to the current procedure, the Health department needs to consider the following recommendation to mitigate this matter.

Recommendation 6: Verify that deposit slip and Treasurer receipt match

Since the Treasurer is not issuing a receipt to the accounting clerk at the time of drop off, the amounts listed on the receipt should be matched up to the deposit slip by the Health Department. This should also be reported to the divisions to inform them that their cash has been deposited accurately. These procedures will ensure that all cash, checks and documentation submitted by the accounting clerk on the deposit slip were deposited and recorded accurately by the Treasurer.



Tom Barrett
Mayor

Bevan K. Baker, FACHE
Commissioner of Health

Raquel M. Filmanowicz
Health Operations Administrator

Health Department

Family and Community Health Services

web site: www.milwaukee.gov/health

August 31, 2011

W. Martin Morics
Comptroller
City Hall, Room 404

RE: 2011 Audit of the Health Department Cashiering Controls

Dear Mr. Morics:

This is the written response to the Audit of the Health Department's Cashiering Controls dated July 2011. Below are the specific responses to the six (6) recommendations cited in the audit.

Recommendation 1 – Generate a receipt for each transaction processed.

We agree with this recommendation as it relates to our Lead Abatement permits and Vital Statistics Section. The Consumer Environmental Health Section already generates a receipt for each transaction which is reconciled with the invoice and license generated through the CHILI's software program.

New procedures have been implemented in the Lead Section that connects the permit number with the receipt provided as well as the log of permits issued.

The Vital Statistics Section will be purchasing a new cash register to implement several of the recommendations of this audit. We will look for a cash register that has the capability to handle the more complex receipt specifications necessary to provide the details of each transaction as specified in this recommendation.

Recommendation 2 – Record application, permit or license number for each transaction.

We agree with the recommendation as it relates to our Lead Abatement permits and Vital Statistics Section. The Consumer Environmental Health Section already links the payment for each transaction which is reconciled with the invoice and license generated through the CHILI's software program.

Think Health. Act Now!

New procedures have been implemented in the Lead Section that links the permit number with the receipt provided as well as the log of permits issued.

As described previously, the Vital Statistics Section will be looking for a new cash register that has the capability to handle the link between the payment and a unique local file number of the Birth or Death Certificate being issued.

Recommendation 3 – Physical security of cash needs to be enhanced.

We agree with the recommendation and will ensure that additional security measures are taken within each division. This may include but not limited to the issuance of keys or installation of keyed cash drawers, purchase of new cash registers, moving of cash registers, and purchase of separate cash boxes for each section to store in the central safe. Each section will be assessed individually and measures will be implemented to meet their specific operations and physical space issues as well as our budgetary limitations.

Recommendation 4 – Supervisors within divisions or accounting should review cashiers transactions at daily close out for proper completion.

We agree with the recommendation and will implement a procedure in each section that will require a supervisor or manager to review daily transactions at the daily close.

Recommendation 5 – Duties should be segregated among the accounting staff in order to ensure proper deposit and recording of daily cash collections.

We do not entirely agree with this recommendation due to impracticability, but will implement partial compensating controls. We are investigating the option of having each section make its own deposit to the Treasurer's Office, while the accounting section maintains the responsibility for recording the revenue in FMIS and maintain all records. We feel confident that the records kept by each section are still complete enough to provide a reconciliation of the deposits. We also feel that the custody of the assets (cash and checks) is should be maintained centrally in the safe on the 3rd Floor of the ZMB upon close each day, however with the implementation of recommendation 3 the physical security will be enhanced and segregated within the safe.

Recommendation 6 – Verify that deposit slip and Treasurer receipt match

We agree with this recommendation and will implement a new procedure to ensure that once the Treasurer's receipt is received the Accounting Assistant II will verify that it matches the deposit slip and then provide confirmation to the affected program. This was already implemented in Vital Statistics and is part of the monthly reconciliation of the deposit summary. As a result of the audit this has already been implemented in the Consumer Environmental Health Food Licensing Division and Lead Section.

Please direct any questions on the above responses to Yvette Rowe, Business Operations Manager, at X3997.

Sincerely,

Bevan K. Baker (RUF)

Bevan K. Baker, FACHE
Commissioner of Health