



**Audit of
City Treasurer
Cash Controls**

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June 25, 2013

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 City Treasurer are adequate, 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 systems used for cashing, cash management, and tax collection; and evaluated the status of implementation of prior audit recommendations.

The audit determined that controls in the Treasurer's Office are adequate to effectively mitigate identified risks. Cash controls are adequately designed and operating effectively, cash transactions are recorded accurately and timely, and controls within system administration are operating as intended. Additionally, all prior audit recommendations have been fully implemented. We commend the department for their continued efforts in addressing risks and improving controls.

Audit results are discussed in the Audit Conclusions section of this report. The audit does not make any recommendations for improvement.

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

Sincerely,

Aycha Sirvanci, CPA
Audit Manager

AS:ssm



I Audit Scope and Objectives

The audit examined procedures and controls for cash handling in the Office of the City Treasurer, including vault and cash drawer access and security, cash counting and reconciling, cash transaction processing and posting, as well as the system security administration of the iNovah cashiering system, the Wells Fargo Commercial Electronic Office (CEO) online banking application, and the Tax Collection System. The audit also included procedures to test the status of prior audit recommendations.

In an effort to reduce duplication of audit tests performed by the external auditors as part of the procedures for the Comprehensive Annual Financial Report, the audit did not include testing of the operating account bank reconciliation, Automated Clearing House (ACH) transactions and wire transfers, or specific application controls identified within the Tax Collection System surrounding the accuracy of property tax bills.

Audit procedures for this report were conducted periodically throughout 2012 and into 2013. In addition to substantive and control testing, the auditors observed teller and vault cash counts and daily and monthly close activities. The audit also included observation of the tellers' and manager's close-out and balancing for the year on December 31, 2012. The audit utilized reports from the iNovah cashiering system, FMIS, the CEO online banking application, and the Tax Collection System, as well as manual monitoring logs and documents maintained by the Revenue Collection Division. The Audit Division believes that the evidence obtained provides a reasonable basis for the audit's findings and conclusions based on the audit objectives.

The objectives of the audit were to:

- Assess the adequacy and effectiveness of controls in place surrounding cashiering activities;
- Assess the adequacy and effectiveness of controls surrounding systems and applications utilized by the City Treasurer's Office for cashiering, cash management, and tax collection; and
- Determine the status of prior audit recommendations.

For the first time, this year's audit included inquiries into the potential controls and monitoring

processes in place to prevent or detect unauthorized changes to data in the Tax Collection System.

II Organization and Fiscal Impact

The Treasurer's Office, consisting of the Administration, Customer Services, Financial Services, and Revenue Collection Divisions, fulfills the duties and responsibilities of the City Treasurer, who serves as the chief investment and revenue collection officer. The Administration Division is responsible for the budget, contracts, facilities, information systems, personnel, procurement, tax account maintenance, and tax enforcement. The Customer Services Division is responsible for the administration of the state lottery and gaming credit program, and bankruptcies. They also open and distribute incoming mail, and support tax account billing and collection, and tax enforcement operations. The Financial Services Division performs the cash management activities, fund accounting, investment portfolio management, payment distribution, and tax levy collection settlements. The Revenue Collection Division is responsible for cashiering control and revenue collection.

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 2012 the Treasurer's Office processed approximately \$2.74 billion in transactions, of which over \$900 million was for Milwaukee Public Schools. Total transactions includes \$454 million in cash and checks processed by the Treasurer's tellers.

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

III Audit Conclusions

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 closing procedures for the teller staff are operating effectively. Payments and deposits received at the Treasurer's Office are processed into the iNovah cashiering system timely and accurately and uploaded to FMIS daily.

The audit determined that controls in the Treasurer's Office are adequate to effectively mitigate identified risks. Based on the audit procedures performed, and the internal control structure in place during fieldwork, cash controls are adequately designed and operating effectively, cash transactions are recorded accurately and timely, and controls within system administration are operating as intended. Additionally, all prior audit recommendations have been fully implemented. The audit does not make any recommendations for further improvement.

A. Cashiering Activities

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 that there are strong controls over the cashiering functions. Through testing and observation of year-end collections activities, the audit determined that there are adequate controls surrounding the use of temporary tellers during current collection¹. The Revenue Collection Manager or the Lead Teller logon the temporary tellers to the cashiering system at the start of the day and count each teller's cash drawer 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.

The surprise cash counts conducted by the Financial Services Division for the vault and the Revenue Collection Manager's cash drawer are adequately designed and operating effectively. Surprise cash counts of the tellers performed by the Lead Teller occur regularly and any detected variances are addressed immediately.

B. System Security Administration

System security controls provide a separation of duties to guard against improper electronic access or unauthorized changes. The audit included an evaluation and testing of key administration controls for three system applications used within the Treasurer's Office: iNovah, Wells Fargo CEO, and the Tax Collection System.

iNovah is the cashiering system used by the Treasurer's Office Revenue Collection Division and the Financial Services Division to process payments and department deposits. iNovah is

¹ Current collection is the time period starting when tax bills are mailed out in December to when taxes are due on January 31 the following year.

provided by System Innovators, Inc. and must be installed on the computer from which it is being accessed. CEO functions like an on-line banking system that, with proper authentication, can be accessed from any computer. It is used by the Financial Services Division for cash management activities including ACH transactions and wire transfers. The Tax Collection System (TCS) is used for the billing and collection of property taxes. The TCS was implemented on the City's mainframe in 1984. It is administered by the Information Technology Management Division (ITMD) and is the only system currently on the City's mainframe.

Audit procedures were performed to determine the system enforced password parameters, how access is granted and defined, and how access is terminated. Procedures also included an evaluation of user access to each system for appropriateness based on job function. Internal system controls surrounding iNovah, CEO, and the Tax Collection System are operating as intended. Additionally, access is appropriate to provide adequate segregation of duties.

The audit identified several key controls to prevent and detect unauthorized changes to the tax roll in the Tax Collection System. Access to make the changes is limited to two individuals and all activity is tracked by the system. Additionally, taxes collected are reconciled to the original tax levy after all changes have been made and current collection is closed. These controls may be tested further in a future audit of City Treasurer cash controls.

C. Prior Audit Recommendations

The 2011 Audit of City Treasurer Cash Controls made three recommendations to further improve the control environment. The issues were related to surprise dual cash count documentation and system security administration for the iNovah cashiering system and the Wells Fargo Commercial Electronic Office application.

2011 Audit Recommendations

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

All three recommendations have been fully implemented and are operating as intended.