



**Audit of
City Treasurer Cash Controls**

AYCHA SAWA
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October 2020

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Comptroller

Joshua Benson
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Office of the Comptroller

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Special Deputy Comptroller

October 16, 2020

Honorable Tom Barrett, Mayor
The Members of the Common Council
City of Milwaukee
Milwaukee, WI 53202

Dear Mayor and Council Members:

The attached report summarizes the results of the audit of the City Treasurer Cash Controls. The scope of the audit included the cash controls within the Revenue Collection Division of the Office of the City Treasurer and the access controls over the iNovah application cashing system from May 1, 2018 through December 31, 2019. The audit objectives were to:

1. Assess the adequacy and effectiveness of controls in place surrounding cashing activities; and
2. Evaluate the adequacy and effectiveness of access controls surrounding the iNovah application.

The audit concluded that cash controls in place over the Revenue Collection Division are adequately designed and are operating effectively. The audit procedures confirmed that the internal control structure over cashing activities ensure transactions are recorded timely and accurately and processing meets the appropriate best practices criteria. This report identified one recommendation to further enhance this robust control environment.

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

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

Sincerely,

Charles Roedel, CPA, CIA
Audit Manager

CR/dma



OBJECTIVES

The objectives of the audit were to:

- Assess the adequacy and effectiveness of controls in place surrounding cashing activities; and
- Evaluate the adequacy and effectiveness of access controls surrounding the iNovah application.

BACKGROUND

The Office of the City Treasurer Divisions includes Revenue Collection, Administration and Tax Enforcement, Customer Service, and Financial Services.

The Revenue Collection Division is responsible for cashing control and revenue collection. In 2019, Revenue Collection Transactions processed were \$3.28 billion.

The Administration Division is responsible for the budget, bankruptcies, contracts, facilities, information systems, personnel, procurement, records management, tax account maintenance, and tax enforcement.

The Customer Service Division is responsible for the administration of the state lottery and gaming credit program, billing, 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.

AUDIT REPORT HIGHLIGHTS

Audit of City Treasurer Cash Controls

OVERVIEW

The audit concluded that cash controls in place over the Revenue Collection Division are adequately designed and are operating effectively. The audit procedures confirmed that the internal controls structures over cashing activities ensure that transactions are recorded accurately, timely, and processing meets the appropriate best practice criteria. However, management should periodically review policies and procedures, and update as needed for continued relevance and effectiveness.

This audit report identified one recommendations to address this issue, as summarized in the Recommendation Summary below. (Details on all recommendations and observations can be found in the Audit Conclusions and Recommendations section of this report.)

RECOMMENDATION SUMMARY

1. Review policies and procedures for revenue collection processes, and update as needed.

Management should periodically view policies and procedures, and update as needed for continued relevance and effectiveness:

- Per a predetermined schedule review policies and procedures;
- Update policies and procedures as process changes occur; and
- Evidence of review or revisions should be indicated in the operating procedure with the name of the individual performing the update and the date the review or revision occurred.

I. Audit Scope and Objectives

Scope

The scope of the audit included cash controls within the Revenue Collection Division of the Office of the City Treasurer and the access controls over the iNovah application cashiering system. The time period covered was May 1, 2018 through December 31, 2019. The audit examined procedures and controls for revenue collection including vault and cash drawer access, cash counting and reconciliation, and cash transaction processing and posting.

In an effort to reduce duplication of audit tests performed by the external auditors as part of the annual financial audit, the audit did not include audit testing of the operating account bank reconciliation; Automated Clearing House transactions and wire transfers; or other specific application controls identified within the Muni Tax Collection System surrounding the accuracy of property tax bills. The audit also excluded an assessment of cash controls outside of the Office of the City Treasurer and iNovah application control functionality.

Audit activities consisted of walk-throughs, observations, review of policies and procedures, and testing of controls. Internal Audit observed teller and vault cash counts, and daily and monthly closing activities. The audit also included observation of manager and teller year-end closeout and balancing for December 2019. The audit-utilized reports from the iNovah cashiering system, the Financial Management Information System (FMIS), as well as manual monitoring logs and documentation maintain by the Revenue Collection Division.

Objectives

The objectives of the audit were as follows:

1. Assess the adequacy and effectiveness of controls in place surrounding cashiering activities; and
2. Evaluate the adequacy and effectiveness of access controls surrounding the iNovah application.

The objectives of the audit were satisfied through assessment of applicable policies and procedures, training and contingencies, control testing, authorizations, and comparisons to best practices.

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for the audit's finding and conclusion based on the audit objectives.

Methodology

Audit methodology included developing an understanding of the processes and controls over the Office of the City Treasurer Revenue Collection Division cashiering activities. To establish appropriate evaluation criteria for this audit, controls and procedures specific to the Office of the City Treasurer Revenue Collection cashiering activities were compared to best practice controls audit program. The audit procedures developed to evaluate the processes and controls to meet the audit objectives included process walk-throughs, inspection of relevant control documentation, and the testing of controls as follows:

- Assessed cross-training and process contingencies;
- Assessed cash variance source documentation and data retention processes;
- Assessed controls and processes in place surrounding cashiering activities;
- Reviewed internal policies, procedures, and guidelines;
- Verified managerial approval of teller voids and adjustments;
- Verified that surprise cash counts are performed consistently and timely;
- Verified successful daily general ledger upload via verification of the iNovah Allocation Detail report to the applicable FMIS journal entry detail; and
- Verified department management, or designated representative, periodically reviews user accounts to ensure only current employees have access to the application.

II. Organization and Fiscal Impact

The Office of the City Treasurer Divisions include Administration and Tax Enforcement, Customer Service, Financial Services, and Revenue Collection; 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, bankruptcies, contracts, facilities, information systems, personnel, procurement, records management, tax account maintenance, and tax enforcement. The Customer Service Division is responsible for the administration of the state lottery and gaming credit program; opening, sorting, and distributing incoming mail; and supports tax account billing, 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 the City of Milwaukee Charter Ordinances, the Office of the City Treasurer mission includes the following responsibilities:

- Receiving and accounting for all monies paid to the City of Milwaukee.
- Making disbursements vouchered for payment by the City of Milwaukee Comptroller.
- Management and investment of City of Milwaukee funds not needed to meet current expenditures.
- Collecting all property taxes levied by the respective taxing jurisdictions within the City of Milwaukee.
- Collecting delinquent property taxes for all taxing jurisdictions within the City of Milwaukee;
- Settling property tax levy collections on a pro-rata basis with the other tax jurisdictions within the City of Milwaukee, and remitting to each jurisdiction its share of the monies collected.¹

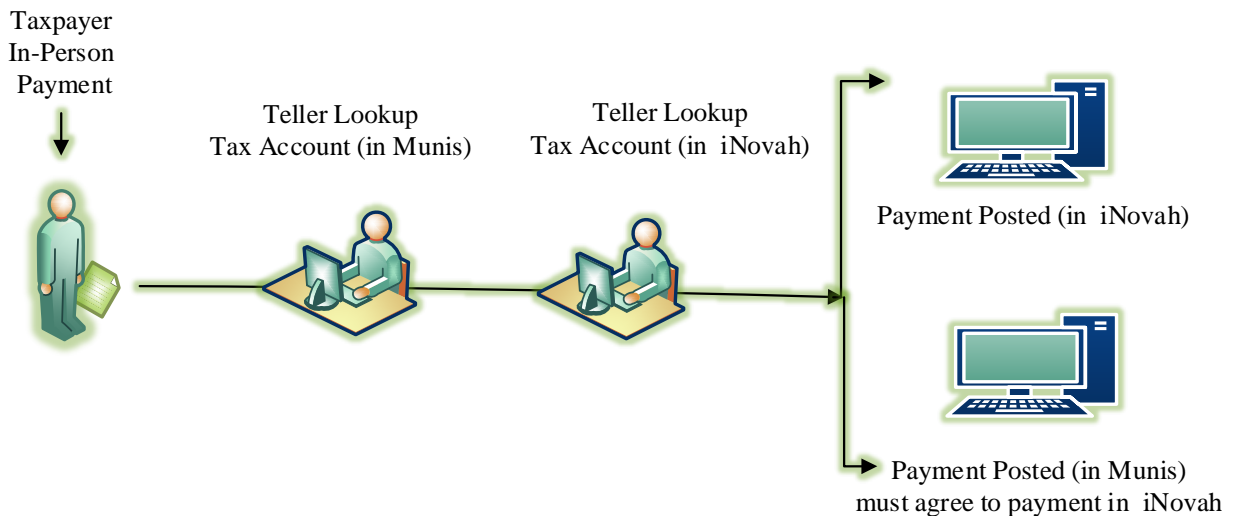
¹ 2020 Plan and Budget Summary, Office of the City Treasurer, www.city.milwaukee.gov

Munis Tax Collection System

The Treasurer's Office accepts and processes property tax payments with or/without a customer coupon. For property tax payments processed with a coupon, the teller enters bill number in the Munis System, and selects a payment category (real estate/personal property/special improvement). If a coupon were not presented with payment, the teller would perform an advanced search (tax key number or address). Once the teller has identified the correct property, in iNovah the teller would select payment type and enter payment amount in allocations. In Munis, the teller will select apply payment, enter payment amount, and select (check/cash) to complete the transaction. The teller will validate the transaction in iNovah by selecting (check/cash); a receipt is printed and given to the customer along with tax bill if provided. The current teller workflow process is demonstrated below in Figure 1.

The Treasurer's Office offers various methods to pay property tax using US Bank Electronic Funds Transfers (EFT), and online via Munis Self-Service Tax Information. Through the Munis Self-Service Tax Information site, residents can pay Real Estate and Personal Property taxes online in full, partial, delinquent, and installment payments all year.

Figure 1: Teller Workflow Process



Transactions and Processing

In fulfilling the property tax collection function, the Office of the City Treasurer collects property tax for all government units and remits each unit its share of the tax collections, and receives funds from the State and Federal Government via wire transfer. The office also processes water bill payments, inter-departmental deposits and various licensing payments. Each year the Revenue Collection Division processes billions of dollars in transactions including millions of dollars for Milwaukee Public Schools (MPS) transactions and millions of dollars in cash and checks transactions.

Revenue Collection Transactions²

The tables below present notable information related to approximate volume of transactions processed by the tellers' for years 2018 and 2019.

2018 Revenue Collection Transactions	
Transactions Processed	\$3.4 billion
MPS Transactions	\$905 million
Cash & Check Transactions	\$119 million

2019 Revenue Collection Transactions	
Transactions Processed	\$3.28 billion
MPS Transactions	\$938 million
Cash & Check Transactions	\$127 million

II. Audit Conclusions and Recommendations

The audit assessed the adequacy and effectiveness of internal controls surrounding cashiering activities within the Revenue Collection Division of the Office of the City Treasurer. The Revenue Collection Division has established adequate preventive and detective controls over the cashiering processes. These controls were designed to provide management with assurance that cash is

² Allocation Detail Lower Level by Company (iNovah Report) – Excluding Voids and Adjustments 2018
Allocation Detail Lower Level by Company (iNovah Report) – Excluding Voids and Adjustments 2019

received and disbursed accurately, cash transactions are processed and recorded properly, and cash on hand is adequately safeguarded and deposited. Consequently, management maintains a zero-tolerance policy regarding teller cash shortages and relies upon the iNovah system's automated cashiering controls, supplemented with management authorizations, and manual controls, to ensure that transactions are processed accurately. Month-end and year-end closing procedures for the teller staff are operating effectively. Payments and deposits received at the Office of the City Treasurer are processed in the iNovah cashiering system timely, accurately, and uploaded to FMIS daily.

The audit also evaluated the adequacy and effectiveness of access controls surrounding the iNovah application. iNovah access periodic reviews are performed bi-annually (spring and fall). Reviews are documented, supporting documentation is retained, the administrator notes proper approvals, and any identified anomalies are followed-up on timely. The iNovah Semi-Annual Access Report evidence provided by IT Support is relevant, valid and reliable to obtain the audit objective.

The audit concluded that cash controls in place over the Revenue Collection Division are adequately designed and are operating effectively. The audit procedures confirmed that the internal controls structure over cashiering activities ensure transactions are recorded accurately, timely, and processing meets the appropriate best practices criteria. However, management should periodically review policies and procedures, and update as needed for continued relevance and effectiveness.

This audit report identified one recommendation to address this issue:

1. Review policies and procedures for revenue collection processes, and update as needed.

Additional details regarding the recommendation for improvement are provided in the remaining sections of this report.

A. Cashiering Activities

The audit established that there are strong controls over the cashiering functions. 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). Controls also provide protection to employees from contentions of inappropriate handling or misreporting of cash.

Policies and Procedures

In accordance with best practice requirements, management should periodically review and update policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risk.³

Organizations use policies and procedures to set the standards for acceptable behavior and business practices. Policies and procedures are living documents that should grow and adapt with an organization. While the core elements of policy may stay the same, the details should change with the organization. Policy review and revision is a crucial part of an effective policy and procedure management plan. Outdated policies can leave an organization at risk, and old policies may fail to comply with new laws and regulations. Regularly reviewing policies and procedures keeps an organization up-to-date with regulations, best practices, and ensures that its policies are consistent and effective. The Revenue Collection Division policies and procedures are up-to-date, and in alignment with current cashiering activities, however, management should periodically review policies and procedures over the revenue collection processes, and update as needed.

At the close of the audit, the Office of the City Treasurer management informed Internal Audit that the Revenue Collection Division is in the process of uploading a new version of iNovah that includes an interface with Munis Tax, and testing will begin in September 2020. Internal Audit has noted the Revenue Collection Division would draft new revenue collection procedures for that interface as it may affect other current procedures. Internal Audit will monitor and follow-up on

³ 2014 COSO Framework – Principle 12.05.

the audit recommendation in July 2021, to ensure the audit finding has been resolved per management's agreed upon corrective action plan.

Recommendation 1: Review policies and procedures for revenue collection processes, and update as needed.

Management should periodically review policies and procedures for revenue collection processes, and update as needed for continued relevance and effectiveness:

- Per a predetermined schedule review policies and procedures;
- Update policies and procedures as process changes occur; and
- Indicate evidence of review or revisions in the operating procedure with the name of the individual performing the update and the date the review or revision occurred.



Spencer Coggs
City Treasurer

James F. Klajbor
Deputy City Treasurer

Margarita M. Gutierrez
Special Deputy City Treasurer

Robyn L. Malone
Special Deputy City Treasurer

OFFICE OF THE CITY TREASURER
Milwaukee, Wisconsin

October 1, 2020

Charles Roedel
Auditing Manager
City Hall, Room 404

RE: Department Response to Cashiering Controls Audit

Mr. Roedel,

We have reviewed your report on the *Audit of City Treasurer Cash Controls* and offer the following response to its finding and recommendation:

Finding:

Review and update policies and procedures for revenue collection processes. The audit determined many policies and procedures last updates occurred in 2006-2015.

Recommendation:

Management should periodically review policies and procedures per a predetermined schedule and update as process changes occur. Evidence of review or revisions should be indicated in the operating procedure with the name of the individual performing the update and the date the review or revision occurred.

The report clearly states that the cashiering controls in place are operating effectively. No major problems were identified. With that being the case, this office believes that, in the absence of any material weaknesses, there is no reportable finding. Rather, there is simply a recommendation regarding a best practice that the office may wish to pursue that could have been communicated to department management in a separate communication, outside of the formal audit report.



This department fully understands the importance of keeping SOP's up-to-date. The office maintains hundreds of standard operating procedures (SOP's). Each is updated when any operating procedure changes due to administrative rule, legislation, policy, or information system changes. SOP's are an important tool used in training every new hire and are in use on a daily basis. If changes are identified in any SOP, they are made immediately and noted accordingly.

Since SOP's are updated as required on an on-going basis, this office is open to the idea of developing a list of "critical" cashiering control SOP's, mutually agreed upon by department management and the auditing manager, which could be reviewed by a department manager on annual basis in July, with the manager dating and initialing completion of each SOP under review.

Respectfully,



SPENCER COGGS

City Treasurer

Ref: K:\EXECUTIVE OFFICE\LETTERS\CITY DEPARTMENT LETTERS\AuditResponse-2019CashControls.docx

Aycha Sawa, CPA, CIA
Comptroller

Joshua Benson
Deputy Comptroller



Office of the Comptroller

Toni Biscobing
Special Deputy Comptroller

October 16, 2020

Honorable Tom Barrett, Mayor
The Members of the Common Council
City of Milwaukee
Milwaukee, WI 53202

Dear Mayor and Council Members:

With this letter, the Office of the City Comptroller acknowledges receipt of the preceding report, which communicates the results of the Audit of City Treasurer Cash Controls. I have read the report and support its conclusions. Implementation of the stated recommendation(s) will help improve City processes.

As the City Comptroller, I was not involved in any portion of the work conducted in connection with the audit. At all times, the Internal Audit Division worked autonomously in order to maintain the integrity, objectivity, and independence of the audit, both in fact and in appearance.

Sincerely,

A handwritten signature in black ink, appearing to read "Aycha Sawa".

Aycha Sawa, CPA, CIA
Comptroller