



**Audit of
City Treasurer
Cash Controls**

W. MARTIN MORICS
City Comptroller
City of Milwaukee, Wisconsin

March 2009

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Office of the Comptroller

March 12, 2009

W. Martin Morics, C.P.A.
Comptroller

Michael J. Daun
Deputy Comptroller

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

Craig D. Kammholz
Special Deputy Comptroller

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).

In August 2008 the Treasurer's staff uncovered a theft of cash by one of its tellers, which is discussed in the audit. As a result, the Office of the Treasurer enhanced its cash oversight and control procedures. The audit reviewed these improvements and found that cash controls are currently adequate.

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

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

Sincerely,

W. MARTIN MORICS
Comptroller

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, and cash transaction processing and posting. The audit also examined wire transfers, Automated Clearing House (ACH) transactions, check issuance, and bank account reconciliations.

Audit procedures for this report were conducted periodically throughout 2008. The auditors conducted unannounced sample cash counts and observations. The auditors observed and reviewed the year-end 2008 teller closing, balancing and reconciling process. Treasurer's Office reports, bank statements, automated cashier system reports and reports from the City's accounting system, the Financial Management Information System (FMIS), were reviewed for audit testing purposes.

The objectives of the audit were to:

- Determine the adequacy of cashiering controls.
- Determine the adequacy of controls over wire transfers, ACH transactions, check issuance and bank account reconciliations.
- Determine whether cash transactions are recorded accurately and timely in the Treasurer's automated cashiering system and the FMIS.

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, 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 their share of the taxes collected.

In fulfilling its 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 Department payments, inter-departmental deposits and various licensing payments. About \$2.6 billion in cash transactions were processed by the Treasurer in 2008, including \$439 million 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. Cash audits are also performed by the City's outside auditors during their annual independent audit of the City's Comprehensive Annual Financial Report (CAFR).

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.

The audit disclosed that the Treasurer's cash controls have been enhanced since a teller theft was discovered in August 2008 and are currently adequate. Also, accounting controls are adequate to assure that cash transactions are recorded accurately and timely, and that any exceptions are reported for managerial review. The Treasurer's cashiering system provides an audit trail for all cashiering transactions and identifies any transaction errors or exceptions. In addition, year-end teller closing procedures are adequate, with a proper segregation of duties for the cashiering staff. Further, random surprise cash counts by the Treasurer's staff on a bi-weekly basis provide further control over cash on hand. The Treasurer has implemented all previous audit recommendations. This audit recommends timelier bank account reconciliations.

A. Cashiering Controls

On August 15, 2008 a random cash count by the Treasurer's head teller disclosed that one of the tellers had an unexplained shortage of \$5,175 in her cash drawer. According to Treasurer's staff, when questioned, the teller admitted the theft, was discharged and is currently being prosecuted. The Treasurer's Office immediately informed the Comptroller about the theft. The City has not received restitution for the \$5,175 shortage. In 2007, a similar shortage of \$600 was discovered by Treasurer's staff in the same teller's drawer. The teller was suspended for several days.

Reviews of cashiering transactions for 2008 by both Offices revealed that the teller who had stolen City cash had processed an inordinate number of voided transactions to hide the theft and delay detection. To enhance controls the Treasurer's Office modified its automated cashiering system to prevent tellers from independently voiding or adjusting their transactions. Supervisory assistance is now needed for voids and adjustments.

The auditors examined the cashiering transactions of the other tellers and did not find any similar patterns of questionable transactions. The auditors also verified that a supervisor's assistance is needed to enter voids and adjustments. Cashiering controls are currently adequate.

B. Cash Security

The audit determined that cash receipts are properly and timely secured and deposited to the bank. Also, controls for securing cash are currently adequate.

All vault cash is kept in safes, lock boxes, deposit bags or delivery boxes within the secured section of the vault. The main vault door is open during business hours, but the cash is kept in a separate area of the vault that is locked at all times. Only the Revenue Collection Manager and Lead Teller have keys to this secure vault area. The audit observed that when cash is needed from the vault, the Revenue Collection Manager enters the secured area and obtains the necessary funds.

The cash drawers used by the tellers are locked and stored in the vault when not being used. Cash drawer keys are in the possession of the tellers at all times; spare keys are stored in a locked box, and the keys to the safes and locked box are in the possession of the Revenue Collection Manager and Lead Teller.

C. Transaction Processing

The audit determined that cash transactions are recorded accurately in the Treasurer's automated cashiering system and the Citywide Financial Management Information System (FMIS).

The automated cashiering system was upgraded in 2005 and again in 2006. The system now includes an Optical Character Scanning (OCR) capability that tellers use to scan property tax remittances directly into the system for quicker and more accurate transaction processing. The system records payment amount, payment type (i.e. check, currency or credit card) and calculates the amount of change or refunds due. Reports generated by this system are reviewed by management on an on-going basis.

The audit traced a sample of transactions from the automated cashiering system to the City FMIS ledger system and found that cashiering transactions were accurately posted to the FMIS.

Cashiering variances are recorded and monitored. A teller variance report is used to record the amount of a variance, reason for the variance, name of the teller, date of variance, reviewing supervisor as well as findings, conclusions, and recommendations. The audit determined that the reports were complete and accurate.

D. Banking and Investment Controls

The audit reviewed and observed the procedures for wire transfers, ACH transactions, bank reconciliations and investment activities. The audit found that there are proper controls and segregation of duties for these transactions with the exception of bank reconciliations. The Comptroller's Office will continue to report in subsequent audits on the operation of the Treasurer's cashiering controls and procedures for handling wire transfers, ACH transactions, bank reconciliations and investment activities.

Recommendation 1: Reconcile bank accounts timely

The audit recommends that bank reconciliations be prepared on a monthly basis. The Treasurer's Office is currently behind on the bank reconciliations due to retirement of staff.

COMPTROLLER

WAYNE F. WHITTOW
City Treasurer

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Copy to CK & Jm

James L. Hanna
Deputy City Treasurer

James F. Klajbor
Special Deputy City Treasurer

OFFICE OF THE CITY TREASURER
Milwaukee, Wisconsin

March 6, 2009

W. Martin Morics
Comptroller
City Hall, Room 404

RE: Audit of Cashiering Controls

Dear Mr. Morics:

This office concurs with your audit finding that cashiering controls are adequate.

Every effort will be made to keep bank account reconciliations current with the limited staffing resources available.

Sincerely,

Wayne F. Whittow

WAYNE F. WHITTOW
City Treasurer

