**Audit of City of Milwaukee
Department of City Development
Development Center and Plan Administration Section
Cashiering Activities**

W. MARTIN MORICS
City Comptroller
City of Milwaukee, Wisconsin
April, 2001

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Office of the Comptroller

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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 cashiering activities in the Department of City Development's Development Center and Plan Administration Section. The objectives of this audit were to determine whether internal controls are adequate to ensure that payment receipts are safeguarded from loss and are accurately recorded in the City's accounting system. The audit also sought to determine whether all payment receipts are recorded in the Development Center's cashiering system, the City's accounting system and the DNS permit file in an accurate and timely manner, and whether the cashiering system is reliable. The scope of the audit included interviews of Development Center staff, observation of cashiering activities, review of policies, procedures, records and reports, transaction testing, and review of the process of updating the permit file maintained by the Department of Neighborhood Services (DNS).

The audit determined that permit collections are accurately recorded in the Development Center's cashiering system, but that it was not possible to ascertain whether all payment receipts were processed in a timely manner. The audit concluded that payment receipts are accurately recorded in the City's accounting system. The audit also concluded that updates to the DNS permit file are made in a timely manner, but noted two areas where errors requiring manual correction occurred. The audit determined that the Development Center's cashiering system is generally reliable, but that improvements in basic internal control procedures are needed.

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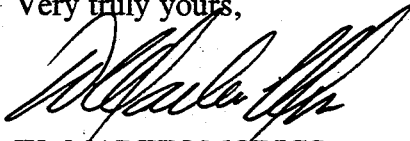
The audit makes recommendations in the following areas:

- Separation of Duties and Supervisory Oversight
- Logging Payments, Reconciliation and Other Processing Control Improvements
- Policy and Procedure Documentation
- System Security and Access Controls
- Needed System Enhancements

Audit results are discussed in the Audit Questions and Conclusions section of the report. Audit recommendations are presented next, followed by the Department of City Development's staff response.

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

Very truly yours,

W. MARTIN MØRICS
Comptroller

AUDIT SCOPE AND OBJECTIVES

AUDIT SCOPE AND OBJECTIVES

The scope of this audit included the Department of City Development (DCD) – Development Center and Plan Administration Section (Development Center) cashiering activities associated with the issuance of permits. Managerial personnel within the Development Center, and DCD Information Systems Services, cashiers and others associated with the receipt and handling of cash receipts were interviewed. The audit also included the observation of mail handling activities, the recording of transactions, cashier opening, balancing, closing and deposit activities and a review of records and reports supporting these activities. A sample of the 188 cashiering transactions entered on August 29, 2000 was examined by the auditors to test the timeliness and accuracy of the cashiering system. Since the cashiering process also updates the City's permit database, the audit reviewed the process utilized to update the permit file in the Department of Neighborhood Services (DNS).

The objectives of this audit were to determine whether established internal controls are adequate to ensure that cash receipts are safeguarded from loss and are accurately recorded in the City's accounting system. Additional audit objectives included an effort to answer the following questions:

1. Are all permit collections recorded in the Development Center's cashiering system in an accurate and timely manner?
2. Do such collections result in timely and accurate updates to the City's Financial Management and Information System (FMIS) and the DNS permit file?
3. Is the Development Center's cashiering system reliable?
   A. Are the Development Center's cashiering system internal control policies and procedures clearly documented and followed?
   B. Are the cashiering computer system's security and access controls adequate and functioning properly?

ORGANIZATIONAL AND
FISCAL IMPACT AND OVERVIEW

ORGANIZATIONAL, FISCAL IMPACT AND OVERVIEW

The Development Center assumed responsibility for cashiering activities effective January 3, 2000. In March, 2000 the Development Center was relocated from the Zeidler Municipal Building to the 809 North Broadway Street Building. From January 3, 2000 through December 31, 2000 the Development Center collected $7,534,036 in revenue for the sale of permits, licenses, plan exam, inspection and razing fees, health nuisance abatement and other charges on behalf of DNS, the Department of Public Works (DPW) and the Health Department. Development Center staff indicated that approximately ninety three percent of the revenue received is attributed to check receipts, while about six percent involves credit and debit card remittances and one percent relates to cash payments. This activity encompassed approximately 52,000 individual transactions. The Development Center is staffed with 27 employees.

Payments and permit applications, etc. are received by the Development Center by mail, in person and by fax. The basic responsibilities of the Development Center include mail handling and distribution, the review of permit applications, etc. by plan examiners and all related cashiering processes subsequent to approval by plan examiners. These include daily set-up activities, recording transactions, reconciling receipts to the cashiering system, recording summarized transaction activity in FMIS, preparation of deposits, depositing receipts with the City Treasurer, various activities associated with closing activities at day's end and the safeguarding of receipts. The Development Center's cashiering system is also relied upon to update the DNS permit file. As it relates to the cashiering activity performed by the Development Center, the DNS provides inspection activities to protect the City's environmental quality and building stock through the enforcement of safety, health, property use and maintenance regulations.

The Development Center's cashiering system was developed and installed by Quadrant Systems, Incorporated in April, 1993. This system is a DOS based system running under Microsoft Windows. There have been three main modifications to the cashiering system since it was installed. In addition to enabling the uploading of permit information to the DNS, permit file, the system was modified to accept charge card payments and most recently made year 2000 compliant. Future plans include providing for the sale of permits, etc. through the internet. Plans also exist to track the status of permit applications up until the point of issuance.

The audit identified five main Development Center cashiering functions. These functions are presented below with information concerning the business purpose/ output of each function and the entity that performs the function.

1) Receipt of Permit Applications and Review by Plan Examiners – The business purpose of this function is to receive, review and approve permit applications and payments in preparation for processing these payments through the cashiering system. Contractors paying by mail are directed to send applications and remittances to a DCD Post Office Box. These mail receipts are picked up by DCD staff and delivered to DCD's Administrative Services Center. Development Center personnel pick/up mail receipts and bring them to the Development Center, where they are sorted by type of permit and the responsible plan examiner. Electrical and plumbing permits are not distributed to a plan examiner, but are made available to other office staff including cashiers for review and processing. Contractors may also choose to meet with plan examiners and remit payment in person or by fax. Information on permit applications, etc. is reviewed by staff in relation to established fee schedules, manually recomputed mathematically and compared to the amount remitted. Applications may be returned to contractors if information is incorrect, incomplete or the remittance amount is incorrect.

2) Transaction Recording and Processing – The business purpose of this function is to ensure that all relevant transaction data is recorded accurately and completely and to accumulate transaction information for balancing, reporting and uploading to the DNS permit file. Unlike many retailing operations where the sale of an item simply requires the scanning of the bar code of an item being purchased or data entry of the amount due, Development Center cashiers must enter a variety of information for each transaction including property ownership, contractor name, job site and amount by account. Exhibit A details the data that must be entered for each permit and the screens on which it is entered.

3) Reconciliation of Payment Receipts to Reports of Transaction Activity – The business purpose of this function is to ensure that the amounts of cash, checks and charges agree with recorded transaction activity and to identify and correct any variances. Reports are generated through the cashiering system which summarize transaction activity and facilitate the balancing process. Part of this reconciliation involves the comparison of charge card totals summarized on a separate charge card authorization machine to the recorded charges on the cashiering system. Cashiers perform this responsibility.

4) Deposit Activities and the Safeguarding of Payment Receipts – The business purpose of this function involves the preparation of the deposit form, entry of information to FMIS and the physical transfer of receipts to the City Treasurer's Office on a daily basis. Deposit activities are performed on a daily basis by cashiers but not immediately after receipts have been reconciled. Therefore, receipts are maintained in a locked safe overnight, and in a locked cabinet the following day until deposited mid-morning. Receipts in the possession of plan examiners or not processed to completion are also placed in the locked safe overnight.

5) Uploading the DNS Permit File – The business purpose of this function is to update the DNS database of all approved permits. Prior to this update data entry errors, duplicate permits resulting from voided and reissued permits, and valid permits issued but omitted from the data extract must be identified and corrected. This process involves the comparison of individual permits to system reports and online changes to transaction information. Once corrections and omissions have been made, the plan examiner assistant supervisor or an assistant updates the permit file through online approval. With respect to permits omitted from the processing stream but identified by comparison to permits, the DNS records the permit and related information based on notification provided by the Development Center. There is limited online editing at the time of transaction entry, resulting in many of the errors requiring the corrections noted above. DPW permit information is not included in the correction process described above. DPW permits are transferred to DPW which in turn updates its own systems.

AUDIT QUESTIONS
AND
CONCLUSIONS

AUDIT QUESTIONS AND CONCLUSIONS

1. **Are all permit collections recorded in the Development Center's cashiering system in an accurate and timely manner?**

   The audit determined that permit collections are accurately recorded in the Development Center's cashiering system. The audit also determined that it was not possible to ascertain whether all payment receipts were processed in a timely manner.

   The audit traced individual transactions from the cashiering system's detail transaction log to individual permits and found no discrepancies with respect to the amount paid, permit categories, permit number and validation. All permits issued were located and examined. However, the audit disclosed that a large number of corrections must be made to after transactions have been recorded on the cashiering system (but prior to uploading the DNS permit file). For permits processed on September 19, 2000, the audit identified 95 corrections made for 140 non-DPW permits processed. The errors identified were not monetary. Errors included incorrect contractor names, incorrect property address information, improper identification regarding whether a property was exempt from fees based on public ownership, etc. The above errors were identified and corrected through manual processes occurring after transaction entry but prior to updating the DNS permit file. There is limited online editing performed at the point of transaction entry. The lack of on-line editing results in the need for substantial and ongoing effort to correct numerous errors in recorded transaction data.

   The audit noted that mailed in permit applications and payment remittances are not logged at the point of receipt or date and time stamped. Therefore, it is not possible to determine whether all transactions are recorded in a timely manner. Since some of these applications and remittances are subsequently given to plan examiners for review or returned to contractors for additional information, this lack of control could lead to missing or misplaced permit applications with resulting delays. While there are office policies establishing a 24 hour period for cashiers to record transactions and a 48 hour period for plan examiners to review and approve applications, there is no practical way to monitor compliance with established policy. Nor is there any assurance that all unprocessed payments held by plan examiners are placed in the locked safe overnight.

2. **Do such collections result in timely and accurate updates to FMIS and the DNS permit file?**

The audit concluded that recorded transaction activity results in timely and accurate updates to FMIS once transactions have been recorded on the cashiering system. The audit further concluded that updates to the DNS permit file were made in a timely manner, but noted two areas where errors occurred. Instances of voided and replaced permits being improperly uploaded to the DNS permit file did occur. When these errors were identified, the plan exam assistant supervisor corrected the DNS permit system file. Development Center staff stated that such errors are rare, but they were not able to provide a precise measure of the frequency. One such error was identified during audit field work. Duplicate permits have not occurred since the cause of the problem was identified and cashiers have been informed to exercise caution when voiding and canceling transactions.

Secondly, discussion and review of the processes relating to uploading the DNS permit file also disclosed one instance when a valid permit was dropped. There is uncertainty at the present time as to why this occurs. The Development Center identifies such occurrences through manual comparison of verification and upload reports to actual permits and notifies DNS of such omissions in order that permits will be manually reentered.

There are no written procedures describing the processes relating to uploading the DNS permit file or correcting the errors described above. Training of new personnel as well as ongoing supervisory oversight are hampered by the lack of such documentation.

3. **Is the Development Center's cashiering system reliable?**

The Development Center's cashiering system is generally reliable. However, the audit disclosed the need to improve basic internal control procedures.

    A. **Are the Development Center's cashiering system internal control policies and procedures adequate, clearly documented and followed?**

        The audit determined that major policies and procedures have been clearly documented and followed but also that there is a need to improve internal

controls. As mentioned earlier, the DNS permit file "upload" procedures are not documented. Also, security policies and procedures are not documented. See below.

Balancing and the deposit activities

Payment receipts are balanced to cashiering system reports on a daily basis at approximately 11:30 a.m. Upon completion of the balancing process a deposit receipt is completed and signed by two cashiers. FMIS is then updated and deposit receipts are placed in a locked cabinet. Part of this balancing process includes the reconciliation of credit card receipts per the cashiering system to a separate charge card authorization machine, as transactions are presently recorded on both systems. The audit noted that charge card totals do not appear on some of the balancing reports generated by the cashiering system. Prepared at mid-day, deposit receipts are maintained in the locked cabinet until day's end when they are placed in a locked safe. Deposit receipts are hand delivered to the City Treasurer's Office the following morning around 9:30 a.m. The audit noted that the locked cabinet used to store receipts also was used by a cashier to store her personal belongings and that the key to the locked cabinet was maintained in an unlocked drawer near the locked cabinet.

In addition to mid-day balancing activities, there are closing activities performed at day's end for the transaction activity which occurs after balancing has been completed. This process involves the manual counting of receipts and comparison of such counts to system generated totals by the lead cashier after business hours. After closing activities have been completed, the lead cashier stays an hour or longer to perform other cashiering duties. This affords the cashier the opportunity to complete other work in an uninterrupted manner. However, it could also provide an opportunity for the misappropriation of receipts given the cashier's access to receipts, the cashiering system, permit applications, the cashier's skill level and the lack of a system log. In addition, the safety of the cashier working alone is of concern as well.

Supervisory oversight

Cashiers perform opening, transaction recording, reconciliation, closing and deposit activities. The plan exam assistant supervisor is the Development Center's manager in charge of cashiering activities and is involved from time to

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time in matters relating to the cashiering process. However, this manager does not routinely participate in or observe various activities performed by cashiers. There is no existing practice or policy that requires monitoring of cashiering variances. Therefore, such variances are not routinely monitored.

Office policies and procedures
The audit disclosed six areas of concern regarding policies and procedures.

1. There are no formalized procedures to require that faxed payments with credit card information are provided to cashiers in a complete or timely manner. Security over credit card information is of concern as fax machines are located away from cashiering stations.
2. The Development Center does not maintain a log of customer complaints. However, Development Center staff stated that there have been occasions when contractors complained about paying more money for permits than was necessary. Development Center staff also stated that it is the Development Center's practice to retain overpayments up to $5.00.
3. It is the Development Center's practice to accept company checks for up to $300 over the amount due. Development Center staff then pays the City Treasurer the extra amount remitted in cash. Subsequently, the City Treasurer issues a refund check to the customer. This practice complicates the cashiering process and depletes cash on hand.
4. At the time of the audit, cashiers were allowed to make change for Development Center employees. This practice may interfere with comparing the accuracy of counts by the type of payment tendered.
5. At the present time, the Development Center charges a $15.00 fee for the return of checks due to non sufficient funds (NSF). The amount of this fee has not been changed since it was established a number of years ago.

B. Are cashiering computer controls adequate and functioning properly?

A "Reliable System" is one that is capable of operating without material error, fault, or failure during a specified period in a specified environment. The audit concluded that Development Center's cashiering system has been reliable. However, the audit also concluded that there is a need to improve controls to ensure the continued reliability of the cashiering system.

The audit used the following four principles to evaluate whether the Development Center's cashiering system is reliable.

Principle 1. Availability: The system is available for operation and use at times set forth in service-level statements or agreements.

Development Center staff have stated that the cashiering system is available for use during business hours. On occasion cashiering screens go blank due to system overload requiring a restart. No transaction data is lost when this occurs. The Development Center intends to remedy this problem by installation of a second hard drive. DCD Information Systems Services staff and the independent contractor are available to address any system problems which may occur. Cashiering system data is backed up nightly. Backup copies are maintained on and off site. If needed a backup server is available and could be operational within one day. However, there is no established policy regarding hours of operation and the cashiering system does not restrict the hours of system availability.

Principle 2. Security: The system is protected against unauthorized physical and logical access.

Access to the cashiering system is restricted to authorized users. Cashiering stations are located behind a counter. Authorized users access the system through the use of operator identification codes and passwords. The system is equipped with virus protection software. In the event of a robbery, cashiers are able to activate an alarm that alerts police officers in the City Treasurer's and Mayor's offices.

The audit noted that internal control improvements are needed in the following areas.

1. The plan exam assistant supervisor changes cashier passwords on a quarterly basis through the cashiering system's table maintenance function. Knowledge of cashiers passwords could allow the plan exam assistant supervisor to access the cashiering system as a cashier which would reduce the reliability of the

system's audit trail. The system does not prompt cashiers to periodically change passwords.

2. A system log or tracking facility is not available or used to determine who accessed the cashiering system, which files were accessed or when such access occurred.

3. Disaster recovery and contingency plans have not been tested.

4. Physical security alarms are not routinely tested.

5. There is no written security policy. Employees do not sign agreements when hired acknowledging that they will adhere to a security policy.

6. In 2000, the Milwaukee Police Department reviewed security relating to the cashiering system and made five recommendations to the Development Center. Two of these recommendations have been implemented while the other three have not. The recommendations that have not been implemented include the installation of a gate separating the microfilm section from the customer aisle, maintaining receipts in a locked safe and presenting a robbery procedure lecture on an annual basis.

Principle 3 Integrity: System processing is complete, accurate, timely and authorized.

Audit transaction tests indicated that transactions are accurately recorded on the cashiering system. Daily balancing activities described above ensure that amounts deposited agree with cashiering system totals and that errors are corrected. The cashiering manual documents processing integrity policies. However, transaction activity recorded through the cashiering system is not periodically reconciled to FMIS.

Principle 4 Maintainability: The system can be updated when required in a manner that continues to provide system availability, security and integrity.

DCD Information Systems Services staff and the contractor who installed the cashiering system are available to update the system when needed. The cashiering system has been modified to accept year 2000 and later dates. However, there are no established procedures concerning the logging and reviewing of requests from authorized users for system changes, nor is a problem and problem resolution log maintained.

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RECOMMENDATIONS

AUDIT RECOMMENDATIONS

A. Separation of Duties and Supervisory Oversight

The audit concluded that there is a need to improve the segregation of duties relating to the performance of cashiering activities. Current responsibilities performed by the cashier, and lead cashier relating to transaction recording, balancing and deposit reconciliation should be performed by different personnel. Such improvement requires increased supervisory oversight and/or the reassignment of staffing responsibilities as follows:

- **Development Center management should take a more active role in the review and monitoring of cashiering activities,** including the periodic and random observation and review of balancing activities and related reports and review of voided or cancelled transactions.

- **The Development Center should establish a policy concerning cashiering "over" and "short" variances.** This policy should provide that the plan exam assistant supervisor monitor such variances for each cashier on an ongoing basis, establish acceptable variance limits and take corrective actions as required. This recommendation is aimed at improving accountability for variances by cashier.

B. Logging Payments, Reconciliation and Other Processing Control Improvements

- **Development Center personnel should log, date and time stamp all payments received at the point of receipt.** Such payments should be monitored from the point of receipt through payment processing or return to contractor if necessary. The payment receipt log would need to be matched with payments processed, in process, or returned. Utilization of available optical character reading technology would ease implementation of this recommendation. The audit concludes it is important to ensure that all payments are accounted for and that management has the means to provide such assurance. Processing requirements of 24 hours for cashiers to record payments and 48 hours for plan examiners to review application and forward payments for processing should be monitored. All exceptions should be reported to DCD management at least monthly. The Development Center is currently developing a computerized project tracking system. The audit recommends that this system include the necessary features to track payments.

- **The Development Center should consider changing the timing of balancing and deposit activities.** Deposits should be taken to the City Treasurer's Office before the end of a day rather than the following morning. This may require earlier balancing to ensure timely deposit. Receipts and deposits should not be kept in a locked cabinet during business hours but be safeguarded in the office's locked safe instead. Cashiering change balances may have to be increased in order to implement these recommendations. Benefits resulting from these recommendations include improved timeliness in deposit and investment, and improved security over cash deposits.

- **Development Center management should consider modifying or eliminating the practice of allowing the lead cashier to remain alone for processing work after the close of regular business hours.** It would be preferable for cashier safety and proper control over cash receipts that she not remain alone after the close of regular business hours. If it is determined that the lead cashier needs to remain after hours, the audit recommends that another cashier or Development Center staff member knowledgeable of cashiering matters also remain to assist in closing activities and lock-up. The audit also recommends that two cashiers be present at the beginning of a day to perform opening activities. These recommendations will improve accountability and promote increased staff safety.

C. Policy and Procedure Documentation

While procedures are generally adequate, the audit identified the need for certain expanded internal control procedures.

- **Development Center management should improve security over fax (credit/debit card) payments.** Consideration should be given to moving the fax machine closer to cashier stations. Improved security will more effectively safeguard confidential customer financial data.

- **The Development Center should inform customers of its policy of retaining overpayments of up to $5.00.** A notice describing the policy should be printed on all permit application forms.

- **The Development Center should discontinue the practice of making change for employees. Fees for NSF checks should be increased to $23 to discourage the submission of such checks.**

D. System Security and Access Controls

- **Development Center management should establish a policy concerning office hours** of operation and cashiering system availability. This is needed to help guard against unauthorized system access.

- **The cashiering system also should be modified to require cashiers to change their own passwords every 45 days.** Good internal control can be circumvented if a single person knows the passwords of all employees associated with the cashiering function.

- **The Development Center should maintain a system generated log** documenting who accessed the cashiering system, the time of such access, and which files were accessed.

- **Development Center management should periodically test disaster recovery, contingency plans and security alarms.** Procedures should be prepared for processing payments in the event the automated cashiering system fails to enable continuity of operations. The Development Center should establish security objectives and standards for the protection of the cashiering system against potential risks which may disrupt system operation.

- **The Development Center should implement two of the remaining security recommendations previously made by the Milwaukee Police Department.** DNS **should** maintain receipts in a locked safe and present a robbery procedure lecture on an annual basis.

- **The Development Center should assemble all related security policies and procedures including those implemented as a result of this audit into a security manual for its cashiering system.** The Development Center should require employees to sign agreements acknowledging that they have read, understood and will adhere to that policy while employed by the Development Center.

- **Development Center staff should reconcile recorded transaction activity** per the cashiering system to FMIS on a monthly basis.

- **The Development Center should establish procedures for the logging and review of requests from authorized users for system changes** and maintain a problem and

problem resolution log. The Development Center should update the system manual to include these procedures.

E. Needed System Enhancements

The Development Center and DCD should thoroughly examine the existing cashiering system in light of the future processing, control and management information needs as outlined in this audit. This examination should consider an integrated solution for processing data and producing management reports. The present DOS based system fails to take full advantage of currently available technology. The Development Center should consider not only current system needs but also changes needed to insure system adequacy for the next four to six years. As noted earlier the Development Center is designing and implementing a computerized project tracking system. Independent of this, the audit disclosed the need for the following system features:

- **The capability for expanded online editing of payment receipts performed at the point of data entry** to avoid the "reprocessing" and correction of transaction errors. The audit recommends that the Development Center link the cashiering system to the DNS permit file to facilitate the online editing of addresses. (Note: online editing as described above was one of the goals specified in the request for proposal used to acquire the original cashiering system in 1993. This feature has for the most part not been implemented.)

- The necessary system features to **minimize the possibility of voided transactions being considered valid** by the system and to **prevent valid permits from being excluded** by the system when updating the DNS permit file.

- **The ability to authorize charge card payments**, making it unnecessary to maintain a separate authorization machine and to balance this machine's totals to the cashiering system.

- **The capacity for automated completion of address and property use information.** A limited amount of data filling at the point of transaction entry occurs at the present time. For example, the entry of a transaction code results in the system auto-filling a permit description and account number on the transaction entry screen. Complete address information must be manually entered for both owner and job site addresses as well as various codes relating to property use.

EXHIBIT

Development Center
Audit of Cashiering Activities
Transaction Entry

<u>System Screen</u>	<u>Transaction Entry</u>
Start-Up Screen	Select start-up and normal system operation option
Receipt Accounting System	Developer copyright information screen is presented
Security Screen	Enter cashier ID and Password
Daily Processing Menu	Select transaction processing
Transaction Entry Screen	Enter Transaction Code
	System responds with permit type & account & receipt numbers
	System assigns permit number & permit date
	Enter contractor name
	Enter permit fee amount
	Enter estimated project cost
	Enter job site location address
	Enter use code e.g. 1 = family
	Enter number of units
	Enter code designating private or public
	Enter occupancy code
	Enter owner name and address
	System assigns a serial number
	System notifies user of incorrect property address entry
	System allows user to reenter property address
	System notifies user upon entry of correct address
Transaction Entry Screen	Enter permit number
	Enter payer name
	Enter payer address information
	Enter transaction amount
	System responds with total due & change due amounts
System presents select continue option	Option #1: Payments
	Option #2: Multiple
	Option #3: Cancel Entry
	Option #4: Fix Error
	Option #5: Drawer/Documents
	Option #6: Review Receipt
	Enter payment method
	Enter payment amount
	System responds with amount tendered
	System calculates change due
	Select Option #5 Drawer/Documents
	System requests that application be inserted in SLIP printer
Trandata Screen	System lists transaction information A. through Y.
	System prompt: Edit which field
	Change transaction information if necessary

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DEPARTMENT RESPONSE

**City
of
Milwaukee**

Department of City Development

Housing Authority
Redevelopment Authority
City Plan Commission
Historic Preservation Commission

Julie A. Penman
Commissioner

Michal A. Dawson
Deputy Commissioner

April 16, 2001

Mr. W. Martin Morics
Comptroller, City of Milwaukee
200 E. Wells St., Room 404

Dear Mr. Morics:

The following comments respond to the recommendations of the audit of cashiering activities in the Department of City Development's Development Center, performed by your office in fall, 2000. We wish to express our appreciation for delaying the audit until the Development Center had moved to its new quarters and staff was fully responsible for the implementation of cashiering procedures. This delay resulted in audit observations that are particularly helpful to Development Center managers.

This was the first audit of cashiering procedures related to development permitting since an evaluation of internal controls over cash and payments in the Building Inspection Department in 1997. Several of the recommendations contained in your 1997 report have been implemented by the Development Center since its transfer to the Department of City Development, including:

1) The Development Center began accepting credit card payments for permit and plan examination fees in March 1999.
2) The Development Center now has a written cashiering manual.
3) The Development Center now uses a post office box to receive mailed permits and payments.

We have already implemented several of the recommendations contained in the 2000 audit, as noted below.

Recommendation A – Separation of Duties and Supervisory Oversight

<u>Review and monitoring of activities/cashiering variances</u>
In response to the recommendation of more active oversight of cashiering activities, the supervisor will periodically observe and review balancing procedures without prior notice to the cashiers (about once or twice a month).
We will establish a database to log daily variances and to record voids and cancellations, including the reason for the void or cancellation. Variance information is currently noted on the Treasurer's office deposit slip. We would appreciate the advice of the Comptroller's office regarding acceptable variance limits.

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Internet Address: www.mkedcd.org Business Information: www.milwaukeebiz.com
T.D.D. Numbers: Rent Assistance 286-2921 and Community Services 286-3504

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Recommendation B – Logging Payments, Reconciliation and Other Processing Control Improvements

Logging of payments
The audit suggests that all payments be logged, dated and time-stamped at the point of receipt. We understand the value of this recommendation as a strategy to prevent problems. It would be helpful to receive information about other City departments that receive a similar volume of applications that require processing and are tracking receipt of applications and payments in this fashion.

Timing of balance and deposit
We have implemented the recommendation regarding deposit of funds with the City Treasurer before the end of the business day. We have changed procedures regarding the use of the Development Center's safe, and receipts not deposited immediately at the Treasurer's office are now locked in the safe until they can be taken to City Hall.

Hours of lead cashier
We do not expect to implement the recommendation regarding the work schedule of the lead cashier, because this schedule has proven critical to the Development Center's ability to process permit payments within the 24 hour deadline. However, we have taken several measures to address concerns surrounding this schedule. We have instituted a closing of two of the three cash registers at 4 p.m. each day. A trial balance is run at that time. Receipts taken from the two closed registers are stored in locked bags within the locked safe. Also, another staff person is now observing the daily opening procedure.

Recommendations C and D – Policy and Procedure Documentation/ System Security and Access Controls

Security of fax payments
The Development Center has purchased a second fax machine, which is installed just a few feet from the cashiering stations. The fax number for this machine is being placed on permit forms as they are revised and reprinted. The policy of retaining overpayments of up to $5 will also be noted on revised permit application forms.

NSF fee
We have implemented an NSF fee of $23, consistent with section 81-19.5 of the Milwaukee Code of Ordinances.

Security policy
We have a written robbery procedure in place, and would appreciate receiving information regarding other elements you would consider appropriate for a security policy. We agree that an annual review of robbery procedures is appropriate. The Department of Public Works Buildings and Fleet Division security manager is responsible for the testing of our security alarms, and has, in fact, overseen alarm testing.

Cashiering system changes
We will organize existing notes into a log of cashiering system changes to the cash system manual.

<u>Disaster recovery</u>
We have in place a procedure to issue permits off the hard drive of an individual computer in case of network failure. Hand-written receipts are issued if necessary. The Department makes nightly data backups, and stores backup tapes off site.

Recommendation E – Needed System Enhancements

As the report points out, the current cashiering system is limited in many respects. We have identified funds that will allow us to develop a new system, and expect to complete design requirements for a new cashiering system later this year. We intend to evaluate the cashiering system used by the Office of the City Treasurer prior to writing design requirements, with particular interest in the direct linkage of that system to FMIS.

The design requirements will incorporate the recommendations regarding hours of cashiering system availability, passwords, a cashiering access log, on-line editing, charge card authorization, and automated completion of address and property use information. Such improvements will reduce cashiering time and data-entry errors and improve system security. System enhancements also are necessary to implement Internet-based permitting and to facilitate electronic document retention.

Should you require additional information about any of these actions, please contact Martha Brown, Development Center Manager, at ext. 5830.

Sincerely,

Julie A. Penman
Commissioner

APPENDIX

City of Milwaukee

Office of the Comptroller

April 20, 2001

Julie Penman, Commissioner
Department of City Development
809 North Broadway Street, Second Floor
Milwaukee, WI 53202

Dear Ms. Penman:

During the exit conference relating to our audit of the DCD Development Center's cashiering activities, your staff requested that we provide information concerning a recommendation to develop a security manual. In response to this request, we are submitting Attachments A and B for your consideration. Attachment A provides generalized information relating to security matters and examples of areas which may be included in a security manual. Attachment B provides the City's security policy. Further assistance concerning security concerns may be obtained by contacting Mr. Randolf Gschwind, Chief Information Officer in the Department of Administration Information and Technology Division.

Your April 16, 2001 response to the audit requested information regarding cashiering variances and logging of payments. This information is provided in Attachment C.

If you have any questions about this matter please contact Michael J. Daun, Director of Financial Services, at 286-2304.

Very truly yours,

W. MARTIN MORICS
Comptroller

WMM: GLO
Ref: WP-4244
CC: Martha Brown
    Suzanne Hanson

Development Center Cashiering Activities – Security Manual Safeguards

At the March 27, 2001 exit conference, concerning the audit report of the Development Center's cash handling activities, Development Center staff requested advice concerning the recommendation to establish a security manual in relation to their cashiering system. The audit recommended that the Development Center should assemble all related security policies and procedures including those implemented as result of this audit into a security policy. Implementation of this recommendation requires that the Development Center define and communicate performance objectives, policies and standards for system security. The bullet points summarized below provide examples of security policies and procedures that the Development Center may wish to incorporate into their own manual. It should be noted that these points are not all inclusive. Computer system security policies and procedures should be based on an appropriate level of segregation of duties.

Computer System Security Safeguards

- Change system passwords on a periodic basis, preferably through system prompts
- Require that passwords not be shared among personnel
- Review system access and functionality granted to employees on a periodic basis
- Require supervisory authorization for changes to access levels granted to staff
- Maintain and review a system log that records each employee access to the system including: files accessed; maintenance performed on the files accessed; log-in and log-out dates and times
- Periodic management review of system logs
- Document disaster recovery and contingency plan
- Periodic test of disaster recovery and contingency plan

Procedural Safeguards

- Police are contacted prior to taking deposits to the City Treasurer
- Tapes of the security camera are periodically reviewed by Development Center management
- The Police Department periodically reviews the physical security environment at the Development Center
- Receipt of cash is minimized through use of a post office "lock" box and acceptance of charge and debit card payments
- Logs of card access to the Development Center are periodically reviewed
- Hours of public access to the Development Center are documented and displayed at the Center

Physical Security Safeguards
- A surveillance camera is used to monitor the cashiering area
- Alarms may be activated notifying Police located within City Hall of a robbery that is in progress. The security policy should include a description of where these alarms are located, how they are activated, as well as a description of actions that should be taken if the alarms are activated in error.
- A security gate is closed at the close of business
- The safe maintaining cash receipts is locked

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The more we do with computers, the more using computers leads to risks.

This guide will help you, as a City computing user, help keep City data and computing networks secure.

Important Contacts:

U Your department has an *information security officer (ISO)* who coordinates and is responsible for the security of your department's computers and data. Your ISO is
_____, at x_____.

U Your department also has a network administrator, _____, at x_____, who manages technology in your department.

Things you need to know...

U You should receive annual training on security.

U In order to access the City's computer systems, you need to have your own, unique password, which no one else knows. *Some ways to make sure no one else can guess your password, or log on as you:*

> 1. Choose a password with at least 6 characters.
> 2. Do not use your name, the current month, or other obvious, predictable things as your password.
> 3. You should not write your password down. If you need to, don't keep it next to your computer!
> 4. Include at least one non-alphanumeric character (like @%?!~) in your password. It's harder for computer programs to guess!
> 5. Your system should require you to change your password every month or so. Don't re-use the same two or three passwords --always select a new password.
> 6. Don't tell anyone else your password.

U When you log-in, your computer should display a message, telling you the date and time of the last log-in. Make sure that was the last time YOU were on the system!

U You can only be logged on at one PC at a time. If there is an exception, see your ISO.

U When you leave your PC unattended, the screen should go blank after 15 minutes, and require YOU to enter YOUR password to get back to work. This way, no one else can use your access privileges, without your knowing.

U Third parties (the public, consultants, vendors) are NOT allowed access through YOUR log-on. Refer all requests for access to your ISO.

U Computers, software and data are City property (just like the telephone, photocopier, City vehicles, etc.). Your use is supported by tax dollars. These resources should be used only for City business.

U Do NOT install any software, data, demonstrations, etc. without your network administrator's permission and assistance. This will protect YOU from being liable for copyright violation, virus infection, or other problems.

U Be aware of the restrictions on use of software specified in its license.

U Computer viruses can can come from demo disks, files shuttled between work and home computers, or the Internet. Diskettes and downloads from Internet or bulletin boards MUST be virus-checked before being copied to City computers. Your network administrator has information on how to accomplish this.

U Modems look like "back doors" to hackers trying to break into the City's systems. If you use a modem, you must take the following precautions:

> 1. Physically disconnect your computer from the network while using the modem. Your network administrator will show you how.
> 2. Turn the modem off when it is not in use.
> 3. All communications from the outside must come to the network, not directly to your modem.
> 4. Virus-check all downloaded files using BEFORE re-connecting your PC to the network.

U Data on your department's network is backed up daily, to prevent data loss. Data stored on your PC (the C:\ drive) or diskettes (A: or B: drives) CANNOT be backed up. If it is City data, that is important to operations, save it to the network (I:, J:, or K: drives --see your network administrator). If it is confidential and crucial, make your own diskette backups, and KEEP THEM SECURED.

U If you suspect virus infection, or that someone has logged on as your or guessed your password, or in any other way threatened the security of City computers and data, report it IMMEDIATELY to your ISO.

Development Center Cashiering Activities
Cashiering Variances and Logging Payments

Cashiering Variance Limits

To the best of our knowledge there are no City wide standards regarding cashiering variances. Therefore, standards need to be established that are appropriate for each cashiering environment. Based on the familiarity that we have obtained regarding your cashiering environment the following guidelines would appear to be worth considering.

1. Variances should be resolved on a daily basis by recounts, and comparisons to system records and permits processed. A cashier other than the one experiencing the variance should assist in any recounts.
2. Information pertaining to variances that can't be resolved should be summarized in a variance log.
3. The cashier variance log could provide the following information; variance date, variance amount, over/short indicator, cashier and the payment type the variance relates to (e.g. cash, checks or charges).
4. Information on the variance log should summarize the information indicated in point three above. This information should also be summarized for each cashier.
5. Management should periodically review this log. Any single variance by any cashier amounting to $25 or more and multiple variances cumulatively exceeding $50 per month warrant attention. Consideration should be given to variances that cancel each other during subsequent days. Numerous variances (e.g. five) associated with any cashier in a specified period also warrant attention.
6. When management determines that dollar thresholds are exceeded or occurrence rates are excessive, they may wish to discuss the situation with a cashier, obtain information from the cashier regarding variances, counsel a cashier, work with the cashier directly or take other action as necessary.

Logging Payment Receipts

Audit staff discussed this matter with Municipal Court management as it processes a large volume of mail receipts. To control the flow of mail receipts the Municipal Court developed an "Online Inventory System". This system was developed in-house and was designed for integration with their management information system. Mail payment receipts are date and time stamped. They are then collated by whether a case has been created or not. Adding machine tapes are made of both types of remittances.

Next, cashiers bring up the mail entry screen. Where a case has been established, the cashier enters a defendants name. The system responds with case information. Next the cashier enters the payment amount and the system identifies the payment as being a mail payment. Where a case has not been created (this is more like the environment at the Development Center), the cashier follows system prompts and enters a citation number, defendant name, amount and date. Again the system identifies the payment as a mail receipts for a specified day. After the entry of all receipts or as many as can be processed in a day, the system will generate a report of all transactions entered and control totals for both types of remittances. The system also posts processing results to a separate file. Control totals are compared to adding machine tape totals by someone other than the cashier who inputted receipt information. Any variances are accounted for. At times, not all remittances received in a day will be processed. In this event the amount of checks on hand should account for the difference. Once all mail receipts are accounted the cashier accesses the mail payment file and applies payments to its Management Information System.

Municipal Court staff has indicated that it would be pleased to provide a walk-through of how this system works to the Development Center if desired.

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