

# **Final Audit Follow Up As of March 31, 2003**



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## **“Citywide Cash Controls – Utility Services” (Report #0134, Issued August 29, 2001)**

**Report #0317**

**June 3, 2003**

### **Summary**

**Applicable departments have completed all sixteen action plan steps developed to address risks identified in audit report #0134, Citywide Cash Controls.**

In audit report #0134, issued August 29, 2001, we identified significant risks at several locations throughout the City that increased the likelihood that cash collections would not be properly and efficiently handled and deposited into the City's bank account. Recommendations were provided to eliminate or reduce those risks. The collections to which these risks and related recommendations pertained were classified into 26 categories. A separate presentation of the risks and recommendations for each category was provided in audit report #0134. Action plan steps were developed for each of the 26 categories.

Three of these 26 categories were collections received within the following departments/offices within Utility Services: (1) Energy Services, (2) Utility Customer Services, and (3) Utility Accounting. There were 16 action plan steps pertaining to these three categories due for completion. All of these steps have been completed.

whether adequate controls had been established over cash collected throughout the City. This included a determination as to whether cash collections were:

- received and processed in a proper and efficient manner,
- adequately documented and accounted for,
- safeguarded, and
- timely deposited into the City's bank account.

The audit disclosed that, for the most part, controls were in place to provide accountability for collections from the time of receipt until deposit. However, the audit identified significant risks at several locations that (1) could result in the undetected loss or unauthorized diversion of cash, (2) limit the interest that could be earned on cash upon deposit, and/or (3) result in cash due the City not being received.

### **Report #0317**

This is our third follow up on action plan steps identified in audit report #0134. In our first two follow ups we reported on progress and/or status of efforts to implement recommended action plan steps due as of March 31, 2002, and September 30, 2002, respectively. The purpose of this third audit follow up is to report on the progress and/or status of efforts to implement recommended action plan steps due as of March 31, 2003, including those initially due prior to that date.

To meet this objective and to facilitate the usefulness of our follow up work, separate follow up reports are issued for each of the five service areas to which the initial audit pertained. The service area addressed by this report is Utility Services. This is the final follow up report for Utility Services.

To obtain information, we conducted interviews with key department staff and reviewed relevant documentation. This audit was conducted in accordance with Generally Accepted Government Auditing Standards, and accordingly included such tests of the records and other auditing procedures as were considered necessary.

### **Scope, Objectives, and Methodology**

#### **Report #0134**

The scope of report #0134 included a review of cash collection and processing functions at each City location where significant amounts of cash were collected. The audit focused on controls pertaining to cash upon collection by the City. The review was conducted during the period January 2, 2001, through May 15, 2001.

The primary objectives of the audit were to determine

**Background**

The City collected revenues (i.e., cash) of approximately \$414 million at 22 separate departments/offices during fiscal year 2000. Those 22 locations were comprised of the Revenue Office and 21 departments/offices external to the Revenue Office. For audit purposes, the collections at those 22 locations were classified into 26 categories.

Three of the 26 categories pertained to Utility Services. Those three categories were (1) Energy Services, (2) Utility Customer Services [UCS], and (3) Utility Accounting. Collections at these three departments/offices during fiscal year 2000 totaled approximately \$11.25 million.

**Previous Conditions and Current Status**

In report #0134, we identified several risks that needed to be addressed in regard to collections received at the departments/offices within Utility Services. These risks included, for example, unsecured collections, inadequate segregation of duties among employees, lack of restrictive endorsements on negotiable instruments, lack of records adequately documenting dates of receipt or custodial transfers to the Revenue Office, and not tracking and submitting worthless checks to the State Attorney for prosecution.

Energy Services, UCS, and Utility Accounting were scheduled to complete a total of 16 action plan steps as of March 31, 2003. As reflected in Table 1, those 16 action plan steps have been completed.

**Table 1  
Action Plan Steps from Report #0134 and Current Status**

Action Plan Steps	Current Status
<b>Energy Services</b>	
<ul style="list-style-type: none"> <li>All external entities will be billed through the City's accounts receivable system. Those entities will be instructed to send their payments directly to the Revenue Office.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Completed during prior period.</li> </ul>
<ul style="list-style-type: none"> <li>Supervisory staff will review accounts receivable reports to ensure that amounts are being properly billed and collected based on billing requests submitted to Accounting Services.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Completed during prior period.</li> </ul>
<ul style="list-style-type: none"> <li>Any collections received in Energy Services will be properly secured and timely transferred to the Revenue Office for deposit. In addition, all related activity (dates of receipt, management review, custodial transfer, etc.) will be documented.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Completed during prior period.</li> </ul>
<ul style="list-style-type: none"> <li>Energy Services will obtain an endorsement stamp from the Revenue Office and will restrictively endorse negotiable instruments upon receipt.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Completed during prior period.</li> </ul>

<b>Utility Customer Services</b>	
<ul style="list-style-type: none"> <li>• Collections pending transfer to the Revenue Office will be stored in locked desk drawers or file cabinets and access to those places will be limited to authorized staff.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Completed during prior period.</li> </ul>
<ul style="list-style-type: none"> <li>• UCS will obtain an endorsement stamp from the Revenue Office and will restrictively endorse negotiable instruments upon receipt.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Completed during prior period.</li> </ul>
<ul style="list-style-type: none"> <li>• Upon implementation of the PeopleSoft Customer Information System (CIS), checks and other negotiable instruments received for utility deposits, which relate to utility turn-on dates subsequent to the receipt dates, will be transferred to the Revenue Office within one week of receipt.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Because of the enhanced capabilities of the new PeopleSoft CIS, checks and other negotiable instruments received for all utility deposits are now being deposited in a timely manner.</li> </ul>
<ul style="list-style-type: none"> <li>• In conjunction with the Revenue Office, UCS will initiate negotiations with applicable collection companies to have payments electronically deposited into the City's bank account.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Completed during prior period through alternative actions.</li> </ul>
<ul style="list-style-type: none"> <li>• The dates of receipt of collection company checks will be documented.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Completed during prior period.</li> </ul>
<ul style="list-style-type: none"> <li>• Collection company checks will be timely transferred to the Revenue Office for deposit.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Completed during prior period.</li> </ul>
<ul style="list-style-type: none"> <li>• In regard to the City's water and sewer loan program, City checks will no longer be generated and made payable to the City of Tallahassee. The portion of loan proceeds designated for payment of City permit fees will instead be transferred between applicable City funds through accounting journal entries.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Issue addressed and resolved during prior period.</li> </ul>
<ul style="list-style-type: none"> <li>• Negotiations will be initiated with collection companies to pursue recovery for non-utility related worthless checks from individuals that do not respond to the City's standard collection letters.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Completed during prior period.</li> </ul>
<ul style="list-style-type: none"> <li>• UCS will develop a procedure that establishes the criteria to use in determining when a worthless check should be turned over to the State Attorney for prosecution.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Completed during prior period.</li> </ul>
<ul style="list-style-type: none"> <li>• Worthless checks meeting the established criteria (see step above) will be turned over to the State Attorney for prosecution.</li> </ul>	<ul style="list-style-type: none"> <li>✓ A policy has been adopted that provides for worthless checks meeting certain criteria to be submitted for prosecution. The first checks will be submitted under this policy in June 2003.</li> </ul>
<ul style="list-style-type: none"> <li>• UCS will use a computer application to maintain records that document the worthless checks returned by the bank and the disposition of each of those checks. UCS will review those records to evaluate the City's overall collection efforts and success in recovering funds and fees for worthless checks.</li> </ul>	<ul style="list-style-type: none"> <li>✓ UCS staff developed an ACCESS database that tracks all worthless checks returned by the bank and the status and disposition of those checks. That database is being used to monitor the collection efforts.</li> </ul>

<b>Utility Accounting</b>	
<ul style="list-style-type: none"> <li>Talquin Electric Cooperative (TEC) will be instructed to submit their monthly payments directly to the Revenue Office.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Completed during prior period.</li> </ul>

**Table Legend:**

- Issue addressed in the original audit
- ✓ Issue addressed and resolved

## Conclusion

The three applicable City departments/offices have been successful in completing the tasks identified in audit report #0134. We commend Utility Services management for their efforts in completing the action plan steps. We encourage management to continue monitoring activity and risks relating to cash. Such monitoring efforts should be directed towards: (1) ensuring existing controls are consistently and properly applied and (2) implementing appropriate control measures as circumstances change and new risks are identified.

We appreciate the response and assistance provided by the applicable departments/offices during this audit follow up.

## Response from Appointed Official

**City Manager:**

I'm extremely pleased by the commitment of the Utility Services staff and the City Auditor's staff to work together towards improved efficiency, effectiveness and stronger internal controls.

Copies of this Final Audit Follow Up or audit report #0134 may be obtained from the City Auditor's web site (<http://talgov.com/citytlh/auditing/index.html>), or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail, or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (dooleym@talgov.com).

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