




Office of the City Manager

INFORMATION CALENDAR

November 15, 2005

To: Honorable Mayor and
Members of the City Council

From:  Phil Kamlarz, City Manager

Submitted by: Fran David, Director, Finance Department

Subject: Customer Service Cash Receipts/Cash Handling Audit – Status Report (CF63-04)

SUMMARY

At the request of the City Manager and Finance Director, the City Auditor's Office conducted an audit of cash receipts/cash handling in the Finance Department's Customer Service Division in Fall 2002. The purpose of the audit was to review procedures and practices used by Customer Service front counter cashiers to receive, handle, safeguard, and deposit cash and cash equivalents.

The Auditor's report was submitted to Council on April 8, 2003, and included a discussion of the recommendations Customer Service had implemented since the audit. The Finance Department provided status reports on September 16, 2003, March 23, 2004, and November 9, 2004. This report provides a current update on the outstanding items. In May 2006, Finance will provide a report to Council on the status of recommendations that have not yet been fully implemented. Finance will also report at that time on whether any further improvements can be made as a result of the HTE (FUND\$) upgrade.

The complete Customer Service Cash Receipts/Cash Handling Audit can be found on the City's website at: <http://www.cityofberkeley.info/auditor/currentaudits.htm>, and the previous updates can be found at: http://www.cityofberkeley.info/citycouncil/agenda_main.htm.

CURRENT SITUATION AND ITS EFFECTS

Finance Customer Service has successfully implemented the majority of the audit recommendations contained in the original Audit. Recommendations in Findings 3 and 4, related to FUND\$ security, are part of a larger scale project, will take additional time to implement, and are constrained by system characteristics. Resolution of this recommendation requires further long-term action by the Departments of Finance and Information Technology.

Finding 1: Concerns with supervisory review of each cashier's daily reconciliation.

Auditor's Recommendation (1.1): The Auditor's report recommended cashiers should not begin cashiering until his/her \$200 start-up fund and reconciliation for the prior day's cash receipts have together been reconciled and approved by the supervisor.

Department Response: Not implemented. Will be implemented by December 2005. Finance – Customer Service has recognized this as a problem. The 9/80 work schedule, implemented during most of calendar year 2004, and which allowed staff the time to reconcile their funds, was terminated in January 2005 due to insufficient staff. This was caused by a high number of workers compensation claims and high absenteeism in the division, as well as budget impacts.

The obvious and ideal solution would be to “off-shift” the staff so that some of them start and end early and the rest start and end later. This would allow Customer Service to maintain good internal controls while meeting the desired levels of customer service during the current phone and counter hours of Monday – Friday, 8:30am – 4:30pm. Finance – Customer Service simply does not have enough staff to do this.

Therefore, in the interest of internal controls and improved risk management, Customer Service Center public hours will be reduced to 9:00am – 4:30pm. While this erodes customer service, it will allow cashiers to balance and reconcile their start-up funds and prior day’s receipts before starting their next shift. This schedule coincides with the hours for the HHS – Vital Statistics counter, which is located in the Finance Customer Service Center; and is consistent with some days at the Planning & Development Permit Service Center. As some of the currently planned technological innovations are implemented in the City and Finance-Customer Service over the next year, it is likely that we can regain some of the drop in the delivery of customer service

Auditor’s Recommendation 1.2: Update the written policies and procedures that describe how the supervisor is supposed to review and approve each cashier’s daily cash receipts reconciliation as follows:

- A) Require the supervisor to document the sample of Cash Receipts transactions reviewed and traced, and further require that she document the reason for any exceptions found.
- B) Require the supervisor to review payment support documentation on a sample basis to see if the payment collected by the cashiers appears correct. Require significant or recurring errors be brought to the attention of a manager, in writing.
- C) Require that all procedural updates have the written approval of the supervisor before staff implements them.

Department Response: Implemented. Written procedures were updated in October 2005 incorporating the recommendations. They have been included in the Cash Handling procedures document and a copy has been given to each staff member after the Manger reviewed the procedure and documented the date of review and approval.

Finding 2: Controls Over Parking Ticket System Input Are Not Adequate

Auditor’s Recommendation (2.1A): Continue the recently implemented procedure requiring that a supervisor makes sure that parking ticket transaction count and amount totals in the PTS and FUNDS reports are in agreement, for each employee entering payment activity, on a daily basis.

Department Response: Partially Implemented. The supervisor reconciles the total dollar amount on the PTS660-A report with the FUND\$ Payment/Adjustment Edit and Posting. The count will not be reconciled since the FUND\$ report captures dollar total and not individual citation count. Since the total dollar amount is reconciled, Finance believes this is adequate for control over parking system input.

Auditor's Recommendation (2.1B): This activity should be documented.

Department Response: Implemented. Effective October 2005, the supervisor documents this activity by dating and signing the PTS660-A document.

Auditor's Recommendation (2.1C): This new procedure should be incorporated into the written policies and procedures by 2/28/03.

Department Response: Implemented. This procedure was added to the Cash Handling Supervisor Duty requirements document in October 2005.

Auditor's Recommendation (2.2): Document that total parking ticket payments and payment adjustments in the Berkeley Parking Ticket System are being periodically reconciled with like activity in FUND\$.

Department Response: Implemented. Currently the manager reviews the monthly total in PTS and FUND\$ and posts to an Excel spreadsheet which is reviewed with the Finance Director monthly. The Auditor has recommended additional reviews for the specific components of the total dollar amount such as web fees and jail fund expenses. This additional detailed step has been implemented in October 2005 and will be conducted at least quarterly.

Auditor's Recommendation (2.3A): Establish and implement a pre-approval or post review procedure which provides reasonable assurance that parking ticket fee adjustments and dismissals that are entered into the PTS system are not erroneous or improper, and are properly documented. Those authorizing or reviewing parking ticket dismissals and adjustments should have their work reviewed by his or her supervisor.

Department Response: Implemented. Currently the manager reviews the monthly dismissal total in PTS and tracks the count and amount on an Excel spreadsheet for trend analysis. This is reviewed monthly with the Finance Director. The dismissal rate has been reduced from 7.1% in FY04 to 5.6% in FY05. An additional step was implemented in October 2005 that requires the Supervisor to review a minimum of 5 dismissals per employee monthly to verify that dismissals were not erroneous or improper and properly documented. Effective October 2005, the Supervisor now documents the results of this review monthly and retains the back up documents for 1 year.

Auditor's Recommendation (2.3B): Procedures should identify how all review and approval is to be documented and should be incorporated into the written policies and procedures.

Department Response: Implemented. The Counter Staff Customer Service manual documents requirements for dismissal, including the type of approval and documentation required. The Supervisor requirements were added to the Cash Handling Supervisor Duty document in October 2005.

Finding 3: Cashiers Have Excessive FUNDS\$ Authorization.

Auditor's Recommendation 3: Remove the FUNDS\$ authorization that allows the Customer Service cashiers to:

- A) Enter Business License charges and charge adjustments into the Occupational Licenses Module.
- B) Add, delete, and change payment plans in accounts receivable.
- C) Enter refunds and write-offs into the Miscellaneous Receivables Module

Monitor cashier FUNDS\$ authorization to ensure that billing and cash receipting functions are not performed by the same employee

Department Response: Not Implemented. Currently, FUNDS\$ does not allow for separation of authorization of these duties. Cashiers are entering charges for specific payments that do not have a corresponding bill such as reprints of a Business License or a new dog license transaction. While both Finance and IT recognize that the situation has risks and is not consistent with desired levels of internal controls, full implementation of the strategy requires both: (1) analysis of each job to assess what authorities are appropriate to that job function; and (2) development of an "authorities group" that grants members of that group system access only for their specific job-related responsibilities. However, this is a monumental task requiring dedicated resources in both Finance and IT. To date, only the Cash Receipts module has received full analysis, with Miscellaneous Receivables, Occupational Licenses, and Utility Billing yet to be done.

Finding 4: Concerns with FUNDS\$ upgrade installation.

Auditor's Recommendation (4.1): Establish a project in the Work Plan system for the purpose of removing incompatible FUNDS\$ authorization given to employees. This project should be completed within one year from the time this report is issued. The review should cover the City's cash handlers first.

Department Response: Partially implemented. Improvements have been made to better define user access requirements in cash receipts. These features include reorganizing user access profiles for specific desk functions, and applying restrictions to required receipt types. These adjustments will be made after the major upgrade to the HTE (FUNDS\$) financial system scheduled for the end of 2005.

A system of effectively detecting and removing incompatible authorization cannot be implemented at this time due to the inconsistent structure of security functions within the software module, and a comprehensive view of the user access functions is not possible.

Alternative procedures to stabilize user access changes were explored but a complete solution cannot be developed at this time due to the current HTE security structure. While HTE is expected to improve this structure somewhat in their next release, it is unlikely that the problem will be entirely resolved. Meanwhile, a joint Finance/IT team will review the problem after the HTE upgrade is completed by carefully organizing user groups, and it will implement monitoring mechanisms to detect when group access has changed. While this will not entirely address all the security concerns identified in the audit, it will provide a significant advance in being able to better manage the complexities of HTE user access.

Auditor's Recommendation (4.2): Finance should train supervisors and managers how to review the FUNDS\$ authorization given to their staff for incompatible authorization.

Department Response: Partially implemented: No further action planned. Finance supervisors and managers have been trained and follow the current user access request process for FUNDS\$ authorization. Requests for FUNDS\$ authorization from all City departments are now submitted through an IT HelpDesk Service Request on iCoBWeb. Instructions for submitting a Service Request are available in Groupware under Information Technology. No other specific training is planned. As noted above, in 4.1, a system of effectively detecting and removing incompatible authorization cannot be implemented at this time due to the inconsistent structure of security functions within the software module, and a comprehensive view of the user access functions is not possible.

Auditor's Recommendation (4.3): Finance and IT should continue with their plans to develop FUNDS\$ security software designed to help prohibit employees from receiving incompatible FUNDS\$ authorization, or to detect such authorization when it has occurred. This project should be formally established in the City's Work Plan System as a joint project for Finance and IT.

Department Response: Not implemented. Will not implement at this time. Finance and Information Systems have developed, and are adopting, a defined user group strategy appropriate to each unique job description, particularly related to cash handling and processing of payments. All applications that involve cash or receipts handling will have system access/authority administered using the "defined users group" approach.

While both Finance and IT recognize that the situation has risks and is not consistent with desired levels of internal controls, full implementation of the strategy requires both: (1) analysis of each job to assess what authorities are appropriate to that job function; and (2) development of an "authorities group" that grants members of that group system access only for their specific job-related responsibilities. However, this is a monumental task requiring dedicated resources in both Finance and IT. To date, only the Cash Receipts module has received full analysis, with Miscellaneous Receivables, Occupational Licenses, and Utility Billing yet to be done.

This task will be developed and presented to the Technology Governance Group (TGG) for review and prioritization by Spring 2006. It will be up to TGG to determine this project's priority, along with other requests for IT resources. Unless this project is implemented, neither Finance nor IT has sufficient resources to accomplish this complex task. The project cannot be fully planned until after the upgrade to HTE.

Auditor's Recommendation (4.4): Establish a formal module leader structure within the City that includes: A) one central authority; B) minimal qualifications for module leaders; C) minimum training requirements; D) sufficient authority in the organization; E) assigning a module leader to each module; F) incorporating module leader duties in pertinent job descriptions and; G) procedures to ensure staff are available for timely software testing and placement into production.

Department Response: Partially implemented. A draft Administrative Regulation (AR) has been developed that outlines qualifications and job responsibilities for module leaders, as well as who is responsible for appointing the module leader. This project was moved to the work plan for the TGG and incorporated into the larger review of IT support functions for the entire City.

Establishing minimal qualifications for module leaders and incorporating these and module leader duties into pertinent job descriptions will follow approval of the AR. This may likely require redrafting certain job classifications, and even requiring "meet and confer" sessions with affected bargaining units. Until the AR is approved and in place, and IT, HR, and Finance are able to redirect shrinking resources to this project, further implementation has been halted. Currently, almost all modules in the Financial Enterprise System have designated module leaders.

Furthermore, this project extends beyond Finance and affects several other departments. Therefore, this project may be moved more appropriately under the leadership of the HR Department. Both Finance and IT will continue as participants on the team, but once again, allocation of needed resources is outside the authority of Finance: TGG will determine when and how many IT resources are devoted to this project by June of 2006. Once that is determined, staff will revisit what resources from Finance and HR can be devoted to the project and when they are available. The status of this item will be updated in the May 2006 report to Council.

Finding 5: Cashiering supervisor has too much access to FUNDS, money and records.

Auditor's Recommendation (5.1): Remove the cashiering supervisor's authorization to enter charges and charge adjustments in all FUNDS applications when he or she can also enter the payments or payment adjustments for these charges. If a supervisor can void payments, then he or she should not be authorized to receive payments or to enter payments into FUNDS.

Department Response: Implemented through alternate means in September 2004. Finance – Customer Service supervisors are no longer entering charges and charge adjustments. The separation of payment entry and void payment authorization will not be implemented, because it requires modification to existing HTE programs. A joint Finance and IT team developed an exception report that lists cash receipts entered and voided by the same user or multiple users. The Customer Service Manager reviews this report at least quarterly.

Finding 6: Uncollectible Accounts Receivable Are Not Being Written-Off.

Auditor's Recommendation (6.0): Finance and City departments should write-off all currently uncollectible accounts receivable within one year from the date that this audit report is issued, and do so in accordance with AR 3.15 or its planned revision. Finance should immediately begin providing the City Departments that generate MR revenue with accounts receivable aging

reports. Finance should also provide write-off guidance and training to these departments as necessary.

Department Response: Partially implemented. AR 3.15 has been revised, but not yet submitted to the City Manager's Office. However, once the revision to AR 3.15 is submitted and approved by June 2006, accounts will be written off on a quarterly basis administratively, and very large write-offs will be brought to Council annually starting in the first quarter of FY 2007.

Finance has not been able to provide departments with quarterly reports of scheduled write-offs due to severe collection staff shortages as a result of extended worker's comp cases.

Finding 7: Concerns Regarding the Prevention and Reporting of Missing Payments.

Auditor's Recommendation (7.2): The City should establish and implement a policy requiring background checks for all City employees that handle cash or other liquid assets. We further recommend that this policy specifically identify the positions in the city that will be subject to background check, along with the type and degree of background investigation each position requires. Finally, the policy should also identify the criteria for requiring background checks for any new positions that might be added to the City staff.

Department Response: Implemented. Implemented in all departments.

Finding 10: Too many employees can open the safe.

Auditor's Recommendation (10.1): Stamp all keys "Do Not Duplicate" to help prevent unauthorized duplication. Re-key all the cashier moneybags, and give the sole key to the cashier that the bag is assigned to.

Department Response: Implemented alternative measure. The employee has the primary key and it is stamped "Do not duplicate." An emergency back up key is kept in the safe in a section that allows only supervisor or manager access and requires dual custody.

Finding 12: Concerns over front counter employee safety.

Auditor's Recommendation (12.0): Continue the current level of police presence at the current Customer Service location until the division is moved. Design the Customer Service work area at the new location so that City employees and City assets are adequately safeguarded from abusive members of the public and from theft. Consider having the CS counter staff, the City's Safety Committee, and the Police Department, evaluate the new office layout and safety features for adequacy before they are purchased, built, and installed.

Department Response: Implemented. A full time security guard is in the lobby and the counter security gate has been installed.

BACKGROUND

The Finance Customer Service Center has responsibility for processing customer payments for various City bills, administering programs such as business licenses, animal licensing, taxi scrip

reimbursement, and taxi and vendor licensing; and provides general information to customer inquires. The Customer Service Center also manages the Administrative Review process for parking citations, assists the Administrative Hearing Officer, and provides staff preparation for other administrative appeals.

CURRENT SITUATION

Finance – Customer Service continues to review its policies and procedures as part of an on-going effort to implement improvements in its business practices. However, with the consistent reduction in staffing due to budget impacts, this division is unable to maintain previously established standards for customer services. Telephone queue times are increasing and delay times at the counter have doubled. Finance is working to mitigate these conditions, and the technology component of the Customer Service initiative is expected to help in this effort.

The shortage of personnel resources, due to long-term worker's compensation situations and a high absentee rate, make the consistent maintenance of internal controls and separation of duties on a day-to-day basis impossible at the levels desired by the Finance Director. However, Finance staff continues to adjust daily, and maintains minimum levels of protection for City assets at all times.

POSSIBLE FUTURE ACTIONS

As part of an on-going effort, Finance and Information Technology will continue to review alternative procedures to effectively obtain a comprehensive view of user access functions and improve the management of user access changes to ensure proper cash handling controls are in place and being practiced. The degree to which this will be effective depends on both vendor demands and system constraints of the HTE financial enterprise system. It is also contingent on resources in Information Technology.

Finance – Customer Service will continue to assess what can be done at any point in time based on available resources, and take appropriate actions. In the interest of getting the work done and serving our customers, and as daily swings in staff occur, internal controls and separation of duties may be weakened. The Finance Director is reviewing resource needs and will be presenting a revised plan to the City Manager in the spring of 2006.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

Not known at this time.

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