




Office of the City Manager

INFORMATION CALENDAR

May 22, 2007

To: Honorable Mayor and
Members of the City Council

From:  Phil Kamlarz, City Manager

Submitted by: Robert Hicks, Acting Director, Finance Department

Subject: Customer Service Cash Receipts/Cash Handling Audit – Status Report

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, November 9, 2004, and November 15, 2005. This report provides a current update on the outstanding items. Another progress report will be delivered to Council no later than May 2008.

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 FUNDS security, are part of a larger scale project, will take additional time to implement, and are constrained by system characteristics. Implementation of these recommendations require further long-term action by the Departments of Finance and Information Technology (IT).

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:

A. Not Implemented. Currently, FUNDS\$ does not allow for separation of authorization of charge and charge adjustments. Any modifications to system features will need to be evaluated and will require dedicated resources in both Finance and IT.

B. Partially Implemented. The in-house modification to segregate “add”, “delete” and “change” for customer maintenance was working. A recent review of this modification indicated that it is no longer working. This will be brought back to IT for further analysis to determine the feasibility of retrofitting the modification.

C. Implemented. Compensating control is in place. All refunds and write-offs into the Miscellaneous Receivable Module are being reviewed by the Revenue Collection Supervisor.

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 were made after the major upgrade to the FUNDS\$ (HTE) financial system.

Alternative procedures to stabilize user access changes were explored but a complete solution cannot be developed at this time due to the current FUNDS\$ 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. A joint Finance/IT team reviewed the problem after the last upgrade was completed by carefully organizing user groups, and implemented monitoring mechanisms to detect when group access has changed. While this has not entirely addressed all the security concerns identified in the audit, it will provide a significant advance in being able to better manage the complexities of FUNDS\$ 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: Implemented. Finance supervisors and managers have been trained to access the menu driver security reports in order to review FUNDS\$ authorization given to their staff.

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 IT have developed and adopted a defined user group strategy, particularly related to cash handling and payment processing. Only group authority will be employed rather than customizing authority for each and every user.

Auditor's Recommendation (4.4) Establish a formal module leader structure within the City that includes:

- a. One central authority that can require module leaders to follow the testing protocol and timetable, and determine when upgrades will get put into production.
- b. Minimal qualifications for module leaders.
- c. Minimum training requirements.
- d. Assigning module leader duties to employees high enough in the organizational structure so that they can properly perform their module leader duties.
- e. Assigning a module leader to each module.
- f. Defining and incorporating module leader duties in pertinent job descriptions.
- g. Procedures to ensure staff are available for timely software (upgrade) testing and placement into production.

Department Response: Partially Implemented. An Administrative Regulation (AR) has been drafted and is being reviewed by the Technology Governance Group (TGG). The new target date for implementation is November 2007.

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, and is pending approval. Once the new version of AR 3.15 is approved (projected for September 2007), accounts will be written off on a quarterly basis administratively, and very large write-offs will be brought to Council annually starting in May 2008.

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.

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.

In addition, 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 FUNDS\$ (HTE) financial enterprise system. It is also contingent on resources in Information Technology.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

Not known at this time.

CONTACT PERSON

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