



CITY OF DALLAS

Dallas City Council

Mayor

Tom Leppert

Mayor Pro Tem

Dr. Elba Garcia

Deputy Mayor Pro Tem

Dwaine Caraway

Council Members

Jerry Allen

Tennell Atkins

Carolyn Davis

Angela Hunt

Vonciel Jones Hill

Sheffield Kadane

Linda Koop

Pauline Medrano

Ron Natinsky

Dave Neumann

Mitchell Rasansky

Steve Salazar

Office of the City Auditor

Audit Report

CASH RECEIPTS

at the

**Dallas Water Utilities Customer Service Lobby and
the Martin Luther King, Jr. Utility Pay Station**

(Report No. A08-005)

January 4, 2008

City Auditor

Craig D. Kinton

Table of Contents

	Page
Executive Summary	1
Audit Results	
Cash receipts reconciliations are not timely as required by Administrative Directive 4-9, Internal Control.	4
Cash verification controls are not adequate or sufficiently documented and some security cameras are not operational or monitored.	6
Reconciliation Division Policies and Procedures are not current.	8
Appendices	
Appendix I – Background, Objective, Scope and Methodology	10
Appendix II – Major Contributors to This Report	13
Appendix III – Management’s Response	14

Executive Summary

The Department of Water Utilities (DWU) maintains adequate controls over a daily average of \$85,000 in cash receipts (cash, checks, money orders, and credit cards) collected at the DWU Customer Service Lobby and \$8,600 at the Martin Luther King, Jr. (MLK) Utility Pay Station. Cash receipts are entered into the Customer Information Accounting Billing System (CIABS) and deposited timely.

Cash receipts, however, are not recorded timely to the City's accounting system (AMS Advantage). The DWU and the Office of Financial Services (OFS) recorded cash receipts to AMS Advantage anywhere from five days to 60 days from the date of the initial transaction. As a result, OFS's Reconciliation Division (Reconciliation Division) does not have the information needed to timely reconcile AMS Advantage and the bank statements as required by Administrative Directive 4-9, Internal Control. The Reconciliation Division's policies and procedures have not been updated since March 31, 1996. In addition, certain DWU cash verification controls are not adequate or sufficiently documented, and some security cameras controlled by the Equipment and Building Services Department (EBS) are not operational or monitored.

Summary of Recommendations

The Director of DWU can improve cash receipts controls by ensuring that cash receipts are timely recorded and reconciled to AMS Advantage and the bank statements. The Director of DWU can also improve cash receipts controls by ensuring that supervisors observe and verify the DWU Customer Service Lobby opening day cash balances and by enhancing procedures for unscheduled cash counts.

The Director of EBS should ensure that security cameras are functional and routinely monitored.

The Director of OFS can improve cash receipts controls by ensuring that:

- Cash receipts are timely recorded and reconciled to AMS Advantage and the bank statements; and,
- Reconciliation Division's policies and procedures are updated.

Summary of Management’s Response

The Directors of DWU, EBS, and OFS fully agree with two recommendations and partially agree with one recommendation and intend to take timely actions to address the issues noted in this report. The Director of DWU does not fully agree with the recommendation to verify the \$250 change fund at both the beginning and close of the business day. The Director of DWU states that standard banking procedures include a daily balance verification of a cash drawer. The complete responses are included as Appendix III to this report.

Summary of Objective, Scope and Methodology

The audit objective was to evaluate the DWU Customer Service Lobby's and the MLK Utility Pay Station's cash receipts controls for the period of October 2006 to April 2007.

The scope of the audit covered DWU's processes and procedures to ensure that cash receipts are adequately safeguarded, promptly recorded and deposited, and properly reconciled to AMS Advantage and the bank statements. In addition, the audit scope included certain OFS processes and procedures to ensure that cash receipts are promptly recorded and properly reconciled to AMS Advantage and the bank statements.

Although EBS security functions were not within the scope of this audit, we verified that certain EBS security cameras that record cash receipts collections were functioning and monitored.

The audit methodology included: 1) interviewing the DWU and the Department of Environmental and Health Services (EHS) personnel involved in the cash receipts process and staff from the Reconciliation Division; 2) reviewing policies and procedures; 3) conducting walk-throughs and observations of cash receipts processes; 4) reviewing daily cash activity for selected days in each month of the audit period; and, 5) verifying the timeliness of deposits and recording to the AMS Advantage System.

Background Summary

The DWU cash receipts collection function is an integral part of the City's revenue operations. For the first six months of fiscal year 2007, DWU collected approximately \$200 million in water utility revenue from all sources.

DWU Customer Service Lobby

The DWU Customer Service Lobby accepts cash, checks, money orders, and credit cards and is authorized to accept past due payments and restore service that has been terminated.

MLK Utility Pay Station

The MLK, Jr. Community Center is part of the Department of Environmental and Health Services. The MLK Utility Pay Station accepts cash, checks, and money orders and is also authorized to accept past due payments and restore service that has been terminated.

Audit Results

Overall Conclusions

The Department of Water Utilities (DWU) maintains adequate controls over a daily average of \$85,000 in cash receipts (cash, checks, money orders, and credit cards) collected at the DWU Customer Service Lobby and \$8,600 at the Martin Luther King, Jr. (MLK) Utility Pay Station. Cash receipts are entered into the Customer Information Accounting Billing System (CIABS) and deposited timely.

Cash receipts, however, are not recorded timely to the City's accounting system (AMS Advantage). The DWU and the Office of Financial Services recorded cash receipts to AMS Advantage anywhere from five days to 60 days from the date of the initial transaction. As a result, OFS's Reconciliation Division (Reconciliation Division) does not have the information needed to timely reconcile AMS Advantage and the bank statements as required by Administrative Directive 4-9, Internal Control. The Reconciliation Division's policies and procedures have not been updated since March 31, 1996. In addition, certain DWU cash verification controls are not adequate or sufficiently documented, and some security cameras controlled and maintained by the Equipment and Building Services Department (EBS) are not operational or monitored.

Cash receipts reconciliations are not timely as required by Administrative Directive 4-9, Internal Control.

The DWU's Payment Processing Division does not record credit card receipts to the AMS Advantage timely. In addition, personnel in OFS do not timely record MLK Utility Pay Station cash deposit amounts to AMS Advantage. As a result, the Reconciliation Division cannot easily reconcile credit card and cash receipts to AMS Advantage and to the City's bank statements.

The Reconciliation Division uses automated software to assist in the reconciliation process. This software compares AMS Advantage and bank data at a point in time to match the cash receipts recorded on AMS Advantage to the cash receipts recorded by the bank. When the DWU's Payment Processing Division and personnel in OFS do not record cash receipts timely the Reconciliation Division does not have important information needed to timely reconcile.

As a result, DWU cannot ensure that it is properly accounting for cash receipts and that cash balances recorded in AMS Advantage are current and reliable.

**An Audit Report on –
Cash Receipts at the Dallas Water Utilities Customer Service Lobby and the Martin Luther
King, Jr. Utility Pay Station**

The following policies are stated in Administrative Directive (AD) 4-9.

- Section 6.3.2 states, “Transactions and other significant events are to be recorded on a timely basis and properly classified.”
- Section 7.1.5.4(D) states, “All authorized events should be identified and related transactions needed, created, documented, and properly processed. Transactions should be added to files in the appropriate systems and accurately reported in a timely manner.”

Recommendation I:

We recommend the Director of DWU and the Director of OFS work to comply with AD 4-9 by:

- Timely recording cash receipts transactions to AMS Advantage; and,
- Clearing all outstanding reconciling items promptly.

Management’s Response

Agree. Management agrees to the importance of timeliness in recording cash receipts into AMS Advantage. At the start of the audit in October 2006, DWU payment processing personnel assumed the new duty of recording cash receipts into AMS. This is a two step process in AMS: 1) entering the receipts; and, 2) approval within the AMS system by a supervisor. Procedures have been re-visited to ensure credit card receipts are recorded in AMS within two business days after bank deposit and Customer Service Lobby receipts are deposited in the bank the following business day. Upon balancing of the bank deposits, these receipts are recorded in AMS within one business day.

OFS posts the cash receipts into AMS for the Martin Luther King, Jr. pay station within 24 hours of receipt. If cash receipts are not received promptly, the staff at the MLK station is notified via e-mail. Upon “go-live” of Pay1, cash receipts posting will occur automatically via an interface between Pay1 and AMS. Subsequently, the activity will be reported via the departmental report card to the Department Director if the items are not cleared timely.

Cash verification controls are not adequate or sufficiently documented and some security cameras are not operational or monitored.

The DWU Customer Service Lobby Supervisors do not verify the cashiers' daily change funds and do not sufficiently document unscheduled cashier audits. In addition, some security cameras are not functioning and are not monitored by security personnel.

Supervisors do not verify cashiers' daily change funds

The DWU Customer Service Lobby Supervisor does not ensure that each cashier's \$250 change fund is accurate at the beginning and close of each business day. Inadequate verification could allow misappropriation of funds to go undetected. For example, the cash receipts for the previous day could be used to offset change fund shortages and the current day's cash receipts could be used to offset the prior day's payment shortages.

Supervisors audit cashiers' on an unscheduled basis, but better control documentation is needed.

Supervisors perform unscheduled cash / check audits of each cashier on a monthly basis. The supervisors use a Monthly Audit Report Checklist form to document this control; however, the supervisors performing the audit do not consistently sign the form. As a result, in some instances, there is no documentation showing that the audit was actually performed. In addition, the forms do not include important control information, such as, the opening cash drawer balance, the amount of cash receipts collected that day, and the cashier's signature indicating that the cashier agrees with the results of the unscheduled cash / check audit.

The practice of conducting and documenting unscheduled cash audits encourages cashiers to accurately manage and record cash receipts. When these unscheduled cash / check audits are not adequately documented, DWU cannot verify that the supervisor is conducting unscheduled cash / check audits and that an important control is in place and functioning properly.

Some security cameras are not functioning and are not consistently monitored.

The security cameras at the DWU Customer Service Lobby are not monitored by security personnel. In addition, the camera over the Payment Processing vault is not operational and the camera for the night drop box does not function consistently. These cameras are controlled and maintained by EBS.

**An Audit Report on –
Cash Receipts at the Dallas Water Utilities Customer Service Lobby and the Martin Luther King, Jr. Utility Pay Station**

Security cameras are installed to record cash receipts collections and processing at the DWU Customer Service Lobby, the Payment Processing Division vault, and the night drop box. When operational and monitored, these security cameras provide an additional level of cash collection control by ensuring that all personnel handling cash receipts and supervising the cash collection process are recorded. If cash receipts discrepancies occur and the cameras are not operational or not monitored, the City loses a method to effectively research and resolve the discrepancies.

Recommendation II:

We recommend the Director of DWU improve cash verification controls by ensuring that:

- The DWU Customer Service Lobby supervisor verifies each cashier's \$250 change fund at the beginning and close of each business day;
- The Audit Report Checklist forms include the signature of the supervisor who performed the review, the opening cash drawer balance, the amount of cash receipts collected that day, and the cashier's signature verifying that they agree with the results of the unscheduled cash / check counts; and,

We also recommend the Director of EBS ensure that security cameras are operational and monitored.

Management's Response

Partially Agree. The Director of DWU does not agree with the recommendation to verify the \$250 change fund at both the beginning and close of the business day. Standard banking procedures include a daily balance verification of a cash drawer. Currently, each cashier verifies the \$250 change fund and daily receipts at the end of each business day. Procedures have been modified to ensure a supervisor verifies the \$250 change fund for each cashier. Upon verification, the \$250 change fund cash box is placed directly into a separate drawer within the vault to which only that cashier has the key. This area of the vault is only accessible by another key held by the lobby personnel. Entry into the vault each morning by the cashiers to retrieve their \$250 change fund cash box is verified by a payment processing employee.

The Audit Report Checklist form has been modified to require a wet signature of the supervisor performing the audit. In addition, procedures have been updated to where reconciliation statements are printed by each cashier from the

**An Audit Report on –
Cash Receipts at the Dallas Water Utilities Customer Service Lobby and the Martin Luther
King, Jr. Utility Pay Station**

cashiering system for both the \$250 change fund and the daily receipts, which is signed by both the supervisor and cashier.

The Director of EBS agrees with the recommendation. During the time that the audit was being conducted, EBS and the contract vendor were in the process of upgrading the City Hall security system. Included in the security system upgrade was replacement of old cameras and installation of new cameras in areas where cash is handled by the Water Department within City Hall. Installation included a total of seven cameras that are monitored by City Hall Security Dispatch Center (EBS) on L1-A-North on a 24-hour per day, 7-day a week basis. The new cameras are located and provide coverage of the following areas:

- Payment processing office area and vault (two cameras);
- Water lobby (three cameras);
- Night drop box (one camera); and,
- Outside view of door entrance into Water lobby (one camera)

The new cameras and dispatch center become operational in September 2007.

Reconciliation Division Policies and Procedures are not current.

The Reconciliation Division's Policies and Procedures were last updated March 31, 1996. Since that time, the City has implemented several new automated systems and tools that affect the Reconciliation Division's daily operations. For example, the City has a new accounting system and the Reconciliation Division has purchased software used in reconciling the City's 24 bank accounts, which includes the DWU's bank accounts.

Policies and procedures that address current functions and processes are recognized as good operating practices. Up-to-date policies and procedures would provide the Reconciliation Division with the assurance that every person involved in a process is aware of the tasks that are to be accomplished and the acceptable methods to be used in performing those tasks. Policies and procedures also provide an effective mechanism for training and evaluating staff performance. Without current written policies and procedures, the Reconciliation Division must rely on employees' institutional memory or customary practices to carry out day-to-day responsibilities.

Recommendation III:

We recommend the Director of OFS ensure that the Reconciliation Division's policies and procedures are updated.

Management's Response

Agree. The Director of OFS agrees and will have the Reconciliation Division's policies and procedures updated by September 2008.

Appendix I

Background, Objectives, Scope and Methodology

Background

Dallas Water Utilities Business and Customer Operations

The Dallas Water Utilities (DWU) Business and Customer Operations provides accounting, financial, and budget support to DWU and provides customer relations, billings, and credit and collections activities.

The DWU provides citizens with a variety of ways to pay their water bills including traditional mail, the internet, an interactive telephone payment system, and payment stations located around the City. This audit, however, focused on the processes for collecting cash receipts (cash, checks, money orders, and credit card payments) for water bills collected at the DWU Customer Service Lobby and the Martin Luther King, Jr. Utility Pay Station (MLK).

DWU Customer Service Lobby

The DWU Customer Service Lobby is located in Room 1A North of City Hall and is open Monday through Friday from 8:15 a.m. to 5:15 p.m. The DWU Customer Service Lobby accepts cash, checks, money orders, and credit cards and is authorized to accept past due payments and restore service that has been terminated. The DWU Customer Service Lobby is budgeted seven cashiers and one supervisor.

Martin Luther King, Jr. (MLK) Utility Pay Station

The MLK Jr. Community Center is part of the City of Dallas' Department of Environmental and Health Services (EHS). The MLK Utility Pay Station is located in the front lobby area of the MLK Community Center Core building and is open Monday through Friday from 8:30 a.m. to 5:30 p.m. In addition to DWU payments, the MLK Utility Pay Station accepts payments for ONCOR (previously TXU Electric), Atmos Gas, Stream Energy, Reliant, moving traffic violations, and payment plans for citations. The MLK Utility Pay Station accepts cash, checks, and money orders and is authorized to accept past due payments and restore service that has been terminated. The MLK Utility Pay Station is budgeted two permanent employees and two temporary cashiers.

**An Audit Report on –
Cash Receipts at the Dallas Water Utilities Customer Service Lobby and the Martin Luther King, Jr. Utility Pay Station**

The Office of Financial Services Reconciliation Division

The Office of Financial Services (OFS) Reconciliation Division is responsible for timely and accurately reconciling 24 City bank accounts and resolving any outstanding reconciling items.

Customer Information Accounting Billing System

The DWU uses a mainframe billing system called Customer Information Accounting Billing System (CIABS). CIABS is a fully integrated, electronic-processing system that is interfaced with the City's mainframe accounting system (AMS Advantage). The CIABS system has served the City for over 20 years. Cashiering terminals are used by cashiers at the DWU Customer Service Lobby and branches to access customer accounts, enter payments, and issue receipts. CIABS automatically encodes each customer payment with the appropriate revenue codes, assembles the information, and tallies and reports the amount of cash to be deposited into the City's bank statements accounts. All payments collected at the DWU Customer Service Lobby and the branches are recorded and transmitted through CIABS to update the respective customer accounts. PAY1, a new billing system, is scheduled to replace CIABS in January 2008.

Objectives, Scope and Methodology

This audit was conducted under the authority of City Charter, Chapter IX, Section 3 and in accordance with generally accepted government auditing standards.

The audit objective was to evaluate cash receipts (cash, checks, money orders, and credit cards) controls over the DWU Customer Service Lobby and the MLK Utility Pay Station and covered the period from October 1, 2006 to April 2007.

To gain an understanding of the relevant internal controls in place over the handling, processing, reconciling, and reporting of cash receipts, the following steps were performed:

1. Interviewed DWU, EHS, and EBS personnel involved in the cash receipts process and staff from the Reconciliation Division;
2. Reviewed policies and procedures;
3. Conducted walk-throughs and observations at the DWU Customer Service Lobby and MLK Utility Pay Station;

**An Audit Report on –
Cash Receipts at the Dallas Water Utilities Customer Service Lobby and the Martin Luther
King, Jr. Utility Pay Station**

4. Reviewed documentation outlining the flow of transactions, including the receipt, recording, safekeeping, deposit, and reconciliation of cash receipts; and,
5. Observed the operation of certain EBS security cameras.

In addition, the following audit tests were performed:

1. Judgmentally selected daily cash activity for certain days in each month of the audit period and traced amounts collected to the daily cash reconciliation;
2. Traced daily cash activity for selected days to AMS Advantage and to bank statements deposits; and,
3. Reviewed and tested monthly cash receipts bank statements reconciliations.

Appendix II

Major Contributors to This Report

Carol Smith, CPA, CIA, CFE – Audit Manager

Tony Sivasothy, CPA – Project Manager

Reisha Hall, Auditor

Theresa Hampden, CPA – Quality Control Manager

Management's Response

Memorandum

RECEIVED

DEC 28 2007

CITY AUDITOR'S OFFICE



CITY OF DALLAS

Date December 27, 2007

To Craig D. Kinton
City Auditor

Subject Draft Audit Report
Cash Receipts at the Dallas Water Utilities Customer Service Lobby and the Martin
Luther King, Jr. Utility Pay Station

Dallas Water Utilities, (DWU), Office of Financial Services (OFS), and Equipment and Building Services (EBS) have reviewed the Draft Audit Report and provide the following Management Responses to the Recommendations:

Cash receipts reconciliations are not timely as required by Administrative Directive 4-9, Internal Control

Recommendation I:

We recommend the Director of DWU and the Director of OFS work to comply with AD 4-9 by:

- Timely recording cash receipts transactions to AMS Advantage; and,
- Clearing all outstanding reconciling items promptly.

Management Response:

Management agrees to the importance of timeliness in recording cash receipts into AMS Advantage. At the start of this audit in October 2006, DWU payment processing personnel assumed the new duty of recording cash receipts into AMS. This is a two step process in AMS: 1) entering the receipts, and 2) approval within the AMS system by a supervisor. Procedures have been re-visited to ensure credit card receipts are recorded in AMS within 2 business days after bank deposit and Customer Service Lobby receipts are deposited in the bank the following business day. Upon balancing of the bank deposits, these receipts are recorded in AMS within one business day.

OFS posts the cash receipts into AMS for the Martin Luther King, Jr. pay station within 24 hours of receipt. If cash receipts are not received promptly the staff at the MLK Center is notified via Email. Upon "go-live" of Pay1, cash receipts postings will occur automatically via an interface between Pay1 and AMS. Subsequently, the activity will be reported via the departmental report card to the Department Director if the items are not cleared timely.

**An Audit Report on –
Cash Receipts at the Dallas Water Utilities Customer Service Lobby and the Martin Luther
King, Jr. Utility Pay Station**

December 27, 2007
Page 2

Cash verification controls are not adequate or sufficiently documented and some security cameras are not operational or monitored.

Recommendation II:

We recommend the Director of DWU improve cash verification controls by ensuring that:

- The DWU Customer Service Lobby supervisor verifies each cashier's \$250 change fund at the beginning and close of each business day;
- The Audit Report Checklist forms include the signature of the supervisor who performed the review, the opening cash drawer balance, the amount of cash receipts collected that day, and the cashier's signature verifying that they agree with the results of the unscheduled cash/check counts; and

We also recommend the Director of EBS ensure that security cameras are operational and monitored.

Management Response:

The Director of DWU does not agree with the recommendation to verify the \$250 change fund at both the beginning and close of the business day. Standard banking procedures include a daily balance verification of a cash drawer. Currently, each cashier verifies the \$250 change fund and daily receipts at the end of each business day. Procedures have been modified to ensure a supervisor verifies the \$250 change fund for each cashier. Upon verification, the \$250 change fund cash box is placed directly into a separate drawer within the vault to which only that cashier has the key. This area of the vault is only accessible by another key held by the lobby personnel. Entry into the vault each morning by the cashiers to retrieve their \$250 change fund cash box is verified by a payment processing employee.

The Audit Report Checklist form has been modified to require a wet signature of the supervisor performing the audit. In addition, procedures have been updated to where reconciliation statements are printed by each cashier from the cashiering system for both the \$250 change fund and the daily receipts, which is signed by both the supervisor and cashier.

The Director of EBS agrees with this audit recommendation. During the time that the audit was being conducted, EBS and the contract vendor were in the process of upgrading the City Hall security system. Included in the security system upgrade was replacement of old cameras and installation of new cameras in areas where cash is handled by the Water Department within City Hall. Installation included a total of seven cameras that are monitored by City Hall Security Dispatch Center (EBS) on L1ANorthy on a 24-hour, 7-day a week basis. The new cameras are located and provide coverage of the following areas:

**An Audit Report on –
Cash Receipts at the Dallas Water Utilities Customer Service Lobby and the Martin Luther
King, Jr. Utility Pay Station**

December 27, 2007

Page 3

- Payment Processing Office area and vault (2 cameras)
- Water lobby (3 cameras)
- Night drop box (1 camera)
- Outside view of door entry into Water lobby (1 camera)

The new cameras and dispatch center became operational in September 2007.

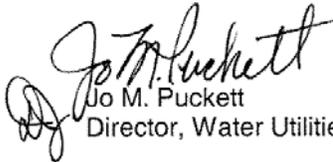
Recommendation III:

We recommend the Director of OFS ensure that the Reconciliation Division's policies and procedures are updated.

Management Response:

Director of OFS agrees and will have the Reconciliation Division's policies and procedures updated by September 2008.

Please let me know if you require any additional information or response to your Audit Report.


Jo M. Puckett
Director, Water Utilities

C: Mary K. Suhm, City Manager
Ramon F. Miguez, P.E., Assistant City Manager
Jill Jordan, P.E., Assistant City Manager
Dave Cook, Chief Financial Officer
Edward Scott, City Controller
Jack Ireland, Director, EBS

An Audit Report on –
Cash Receipts at the Dallas Water Utilities Customer Service Lobby and the Martin Luther
King, Jr. Utility Pay Station

RECEIVED

DEC 27 2007

CITY AUDITOR'S OFFICE



CITY OF DALLAS

Memorandum

DATE December 27, 2007
TO Craig D. Kinton, CPA, City Auditor
SUBJECT Audit Report – Cash Receipts at Dallas Water Utilities

The Department of Equipment and Building Services (EBS) was requested to provide a response to the audit report. My response to the audit recommendation for EBS is as follows:

Recommendation II:

We also recommend the Director of EBS ensure that security cameras are operational and monitored. Agree Disagree _____

Management Response:

During the time that the audit was being conducted, EBS and contract vendor were in the process of upgrading the City Hall security system. Included in the security system upgrade was replacement of old cameras and installation of new cameras in areas where cash is handled by the Water Department within City Hall. Installation included a total of seven cameras that are monitored by City Hall Security Dispatch Center (EBS) on L1-A-North on a 24-hour per day, 7-day a week basis. The new cameras are located and provide coverage of the following areas:

- Office area and vault (2 cameras)
- Water lobby (3 cameras)
- Night drop box (1 camera)
- Outside view of door entrance into Water lobby (1 camera)

Implementation Date:

The new cameras and dispatch center became operational in September 2007.

Responsible Staff:

Beverly Davis, Assistant Director, EBS

Please let me know if you require any additional information or response to your Audit Report.



Jack Ireland, Director
Equipment and Building Services

c: Mary K. Suhm, City Manager
Ramon F. Miguez, P.E., Assistant City Manager
Jill Jordan, P.E., Assistant City Manager
Jody Puckett, Director, DWU
Vicki Reed, Assistant Director, DWU
Beverly Davis, Assistant Director, EBS