

OFFICE OF THE CITY AUDITOR

AUDIT OF THE ARMORED CAR SERVICE CONTRACT ADMINISTERED BY THE OFFICE OF FINANCIAL SERVICES



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March 24, 2006

Memorandum



CITY OF DALLAS

March 24, 2006

Honorable Mayor and Members of the City Council
City of Dallas

We have performed an audit of the armored car service contract administered by the Office of Financial Services. Our audit covered the period July 1, through November 30, 2005. The audit was conducted under the authority of Chapter IX, Section 3 of the Dallas City Charter and at the City Council's request.

We determined that City processes were not adequate to (1) account for bank deposits transferred to armored car personnel, (2) reconcile bank deposits, and (3) monitor contractor performance. We identified \$2,444 in cost savings and determined the City could save \$64,377 over three years by changing processes and revising the current contract.

We appreciate the cooperation of City staff during our audit.

Paul T. Garner

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Assistant City Auditor

c: Mary K. Suhm, City Manager

**AUDIT OF THE ARMORED CAR SERVICE CONTRACT ADMINISTERED BY
THE OFFICE OF FINANCIAL SERVICES**

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INTRODUCTION

Authorization

We conducted a performance audit of the armored car service contract administered by the Office of Financial Services. The armored car service picks-up bank deposits at 31 City of Dallas facilities. We conducted this audit under the authority of Chapter IX, Section 3 of the Dallas City Charter and at the City Council's request.

Scope and Methodology

Our audit was conducted in accordance with generally accepted government auditing standards and covered the period July 1, through November 30, 2005. However, we also reviewed any related records, procedures, and events occurring before and after this period.

Our audit objectives were to evaluate City department processes for:

- Preparing bank deposits,
- Accounting for bank deposits transferred to armored car personnel, and
- Reconciling bank deposits.

To develop an understanding of relevant internal controls, we interviewed City department managers and staff; analyzed internal control evaluations; and reviewed administrative directives, related department procedures, and the armored car service contract. We interviewed both armored car service and designated bank representatives.

We selected six of the 31 City of Dallas facilities that have deposits picked-up by the armored car service and evaluated the process for receiving, recording, verifying, and accounting for the bank deposits. The six facilities that we visited were selected based on the estimated daily average dollar amount of the bank deposit. At each facility, we observed the employee's preparing the deposit and providing the deposit to the armored car personnel. We used a judgmental sample to select one facility with an extremely high \$750,000 estimated average daily deposit and the remaining five facilities were randomly selected.

Overall Conclusion

We conclude that the processes were adequate to ensure that bank deposits were properly prepared. However, processes were not adequate to (1) account for bank deposits transferred to armored car personnel, (2) reconcile bank deposits, and (3) monitor contractor performance. We also determined the City of Dallas could save \$64,377 over three years by changing processes and revising the current contract. Our concerns are noted and discussed in the Opportunities for Improvement section of this report.

COST SAVINGS: \$2,444

COST AVOIDANCE: \$64,377

INTRODUCTION

Background

The City of Dallas receives payments at multiple facilities for various services provided to citizens. The funds must be properly accounted for and timely deposited in the bank. As a result, the City of Dallas has used an armored car service for bank deposits for many years. The armored car service picks-up the bank deposits, brings change (coins and currency) to the facilities, makes same day bank deposits for eight facilities, and makes next day bank deposits for the remaining 23 facilities. The 31 locations have estimated daily average deposits of \$1,345,300. A new three-year contract became effective October 1, 2005. Although a new vendor was awarded the contract, there were no changes to bank deposit processes.

One facility included in our audit had two previous instances with missing bank deposits. In June 2000, an armored car employee stole a bag of money that contained about \$26,000 in cash and checks. City employees miscounted the number of bags and the armored car employee took advantage of this to steal the money. The City became aware of the loss when the City Controller's office notified the department that the bank deposit verification had not been received. However, because of the frequent delay in the reconciliations, there was no immediate cause for concern and in February 2001, a criminal investigation was recommended. At the same facility in 2003, the bank sent the City a debit advice indicating \$11,237 was missing from the deposit. However, the debit advice was sent almost 30 days after the deposit. Although the bank credited our account for the missing money because they had not followed procedures, the City assumed responsibility and had the bank remove the funds credited to the account. When the City discovered the discrepancy, they did an administrative investigation before beginning a criminal investigation. Although the administrative investigation recommended a change in processes so that two people count the money, there was not enough evidence to support a criminal charge.

OPPORTUNITIES FOR IMPROVEMENT

OPPORTUNITIES FOR IMPROVEMENT

We identified certain processes, policies and procedures that can be improved to account for all the deposits, ensure compliance with the contract, and reduce costs. Our audit was neither designed nor intended to be a detailed study of each relevant system, procedure, transaction, or location that receives money. Accordingly, the opportunities for improvement in this report may not be comprehensive of the areas where improvements may be needed.

1. Processes are not adequate to ensure accountability for deposits and compliance with the contract.

The City of Dallas does not always comply with the contract and does not ensure the armored car service contractor is complying with the current contract. The current armored car contract is similar to the previous contract and provides for the contractor to pick-up bank deposits at designated facilities at indicated times, retain loading receipts showing pick-up and bank delivery times, ensure personnel are readily identifiable and, upon request, show proof of identification and employment. The City is required to retain bank deposits if the armored car service employees either do not have proper identification or do not arrive at the designated time.

During the first several weeks of the contract, we observed the bank deposit process at six facilities. Although several issues were observed at some facilities, we identified at least one processing issue at each facility.

- **Armored car personnel did not always have proper identification and did not adequately document fund transfers.**

We observed City employees releasing the deposit to armored car personnel who either did not always wear company identification badges, record actual time of deposit pick-up, sign the deposit log legibly, or compare serial numbers for sealed deposit bags actually picked-up to the information reported on the deposit log. Although armored car personnel had to go through security doors and were known to staff, we observed City employees give two deposits to armored car personnel who did not have an identification badge and did not record the time of deposit pick-up.

- **Deposit pick-ups did not occur regularly and at the scheduled location.**

We also observed that armored car personnel did not always pick-up deposits according to the contract scheduled times, and on Columbus Day and Veterans Day, which are bank but not City holidays. Further, we became aware the armored car service did not pick-up bank deposits at another facility for two months because armored car personnel did not pass a background check.

OPPORTUNITIES FOR IMPROVEMENT

Our follow-up tests showed that deposit pick-ups are occurring at all facilities. As a result of our audit efforts, the City received a \$2,444 credit because the armored car service did not meet contract performance requirements.

- **Reconciliations were not timely conducted to account for bank deposits.**

Our audit showed bank reconciliations are not being timely conducted to ensure all deposits are recorded in the City's account. Bank reconciliations are three months late because the City changed banks and also converted to a new accounting system. Further, bank reconciliation procedures have not been finalized. Although we verified that funds released to armored car personnel on the day we conducted our audit tests were timely deposited into the bank, the City had \$188,530 deposits in transit as of July 31, 2005 that had not been reconciled as of October 25, 2005.

A previous investigation of \$11,237 in missing deposits during 2003 showed that bank deposit verification had not been received but there was no immediate cause for concern because of the frequent delay in reconciliations. The City's lack of ability to timely reconcile bank statements is a serious problem that has been previously reported to management. However, they have not taken the appropriate action to ensure that this key critical control is performed timely.

- **Armored car service performance was not monitored.**

Our audit showed that effective contract monitoring was not in place to ensure money is only expended on services actually received. Department processes for documenting contractor non-performance either did not exist, were in draft form only, or were not current. Further, department personnel are not familiar with the contract terms and do not know when the contractor is not in compliance, do not know who to contact if the armored car personnel are not complying with the contract, and are not requested to provide and are not voluntarily providing any feedback on contractor performance to the contract administrator. Finally, competing priorities have resulted in staff not being assigned to administer the armored car contract.

Administrative Directive 4-13 specifically identifies Budget and Management Services (Cash and Management Division) as responsible for monitoring the armored car service contract and Administrative Directive 4-5 outlines general responsibilities for reporting contractor non-performance. The armored car service contract states the City will be entitled to a credit if armored car personnel either do not show to pick-up a deposit, have improper identification, or do not arrive at the scheduled pick-up time.

OPPORTUNITIES FOR IMPROVEMENT

As a result of these concerns, the City is increasing risk for potential monetary loss.

We recommend the Director of the Office of Financial Services:

- A. Conduct timely reconciliations and implement bank reconciliation procedures.
- B. Either finalize, update, or prepare department procedures regarding the specific process for documenting contractor non-performance and ensuring accountability for the money.
- C. Develop a checklist for each facility to verify compliance with the contract, require each facility to provide the contract administrator with a quarterly analysis of the vendor's compliance with the contract, document the analysis in the contract file, and request credit from the vendor for all documented non-performance issues.
- D. Provide training to department employees and ensure they are accountable for understanding the contract terms and know whenever the contractor is not complying, who to contact for any non-compliance issues, and provide feedback on any performance issues.

Management's Response:

- A. OFS Management agrees with the recommendation. The delay in this fiscal year's bank reconciliation has been the move to the new Advantage 3 system. Once the new report required for this process is completed, the Controller's Office will be reconciling the bank on a timely basis.
- B. OFS Management agrees with the recommendation. Once the new Treasury Assistant Director reports to work in April, this will be one of the tasks they will be asked to perform.
- C. OFS Management agrees with this recommendation. Once the new Treasury Assistant Director reports to work in April, this will be one of the tasks assigned to him.
- D. OFS Management agrees with this recommendation. Once the new Treasury Assistant Director reports to work in April, this will be one of the tasks assigned to him.

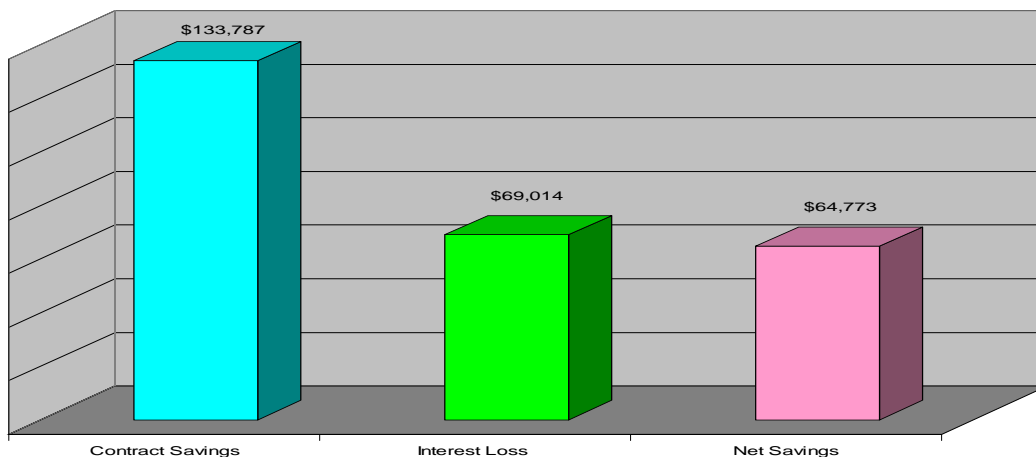
OPPORTUNITIES FOR IMPROVEMENT

2. Current processes prevented contract savings of \$64,377 over three-years.

The armored car service contractor informed us that the City could reduce costs if there were changes to City processes and contract requirements. Without submitting another bid, the vendor informed the City Auditor's Office the current \$445,955 contract could be reduced by 30%, based on industry standards, with just two changes. First, the pick-up times would have to change to allow more flexibility for the armored car company to integrate these routes with other customers in the same area. Second, the same day bank deposit for eight locations should be changed to next day deposit.

The current armored car contract is similar to the previous contract with the contract riders showing the pick-up time and deposit requirements for each facility. Sound management practices require City managers to routinely evaluate processes and procedures to improve efficiency and reduce costs. Although the contract information was provided to each department, we were informed that few changes were recommended and the changes were focused on pick-up times that were convenient for the City.

To fully evaluate the feasibility of changing eight locations from same day to next day bank deposit, we compared the reduced contract costs for three years to the potential interest lost. Our daily interest lost computation of \$88.48 was based on assuming a 3% interest rate on funds being deposited in the bank, average daily deposits of \$1,076,500 for the 8 locations, and 365 days in a year. We then computed the interest for five days a week for 52 weeks each year for three years. The following chart shows the contract cost savings, loss of interest and the projected coverall net savings by revising the contract.



OPPORTUNITIES FOR IMPROVEMENT

We recommend the Director of the Office of Financial Services in consultation with the City Attorney's office:

- Meet with the armored car service representatives and City departments to amend the contract and revise City processes involving deposit pick-up times and same day bank deposit requirements to obtain these and possibly other contract savings.

Management's Response:

OFS Management disagrees with this recommendation. The City Charter requires deposits be at the bank within 24 hours of collection. When the contract was written this requirement was included.

Auditor's Comments:

The requirement for the contractor would remain unchanged; all deposits would be made within 24 hours. However, the contractor could make deposits the next business day within the 24 hour requirement. The contractor understands this requirement.