

Memorandum



CITY OF DALLAS

Date: August 13, 2004

To: Honorable Mayor and Members of the City Council

Subject: Follow-up report of the December 7, 2001, *Performance Audit of the Utility Pay Station at the Martin Luther King Jr. Community Center*, Report # 343.

We conducted this follow-up report under the authority of Chapter IX of the City Charter and according to applicable government auditing standards. We included tests of records and reviews of program guidelines and procedures that we considered necessary in the circumstances.

Our objective was to determine whether management had implemented our recommendations or taken other acceptable actions to remedy the control weaknesses we had identified in the original audit report.

The original report contained seven findings with thirty recommendations. Management implemented eight recommendations, partially implemented three recommendations, and did not implement nineteen recommendations.

1. **Internal controls require significant improvements.** *We recommended the Director of Environmental and Health Services and the MLK Center Manager establish procedures to ensure effective internal controls. Procedures include, but are not limited to:*

1. Evaluate daily cash reconciliation process to ensure timely deposits. **(Partially implemented)**
2. Comply with City Administrative Directive 4-13 (ensure cash collections are deposited on date of receipt or within 24 hours.) **(Not Implemented)**
3. Review adjustments to cash collections to ensure they are adequately documented, justified, and approved in writing. **(Implemented)**
4. Ensure all reports and documents are neatly prepared and provide an audit trail among cashiers' reports, polling reports, cash summaries, and deposit warrants. **(Not Implemented)** *Documentation showing scheduled audits, cash receipts, and correct reconciliation of the change fund and petty cash were incomplete and/or did not exist.*

5. Ensure the amounts deposited agree to the deposit warrant, deposit bag pick-up log, and armored transfer receipt. **(Implemented)**
6. Ensure the combination safe remains locked at all times. **(Not Implemented)**
The procedures for securing the funds were not routinely followed by staff. The safe was left unlocked for the convenience of staff.
7. Ensure the numbered documents are properly used and accounted for. **(Not Implemented)**
A review of the receipts in the petty cash box and armored car documents showed the receipts were not in sequential order, unsigned, improperly filled out, and unaccounted for. The armored car receipts were not numbered to allow for more accurate tracking.

Management stated in Audit Report 343 that internal control and the policies and procedures of the Utility Pay Station (UPS) were being revised and would be tested and completed by December 2001. Management also stated that the combination safe is located within three key-locked controlled entrances, which ensures severely restricted access. However, the Department will take the additional precaution of also locking the combination safe, which is within the vault and the controlled area.

2. **UPS policy and procedures are not current.** *We recommended the Director of Environmental and Health Services and the MLK Center Manager ensure that policies and procedures:*

8. Are updated and clearly detail the current procedures and operations. **(Partially Implemented)**
9. Are reviewed and evaluated at least annually and that the review is documented. **(Not Implemented)**
Although a policies and procedures were updated, they are not being followed. UPS staff lacked documentation showing any revisions or updates after the initial review.
10. Show an effective date and identify who is responsible for updating the policy. **(Implemented)**
11. Address procedures in the event of theft or robbery. **(Implemented)**

Management stated in the original report that the policies and procedures will be completed and tested by the end of December 2001. The revised procedures would be reviewed annually and the reviews would be documented.

3. The UPS maintained an unauthorized fund. *We recommended the Director of Environmental and Health Services:*

12. Immediately eliminate this fund and deposit cash into the City's bank account. **(Not Implemented)** *A cash receipt dated August 31, 2001, showed that a combination of funds were deposited into the City's account which was suppose to eliminate the existence of an overage fund. The documentations showing that the amount of the overage fund actually moved from the UPS to the City's general fund was not produced by UPS staff. Later, a memo dated November 29, 2001 from the MLK Center Manager to the Director of EHS stated that a recent change fund audit showed a \$369.50 shortage. That shortage was inadvertently corrected with a deposit from an overage fund.*
13. Enforce compliance with City policy and procedures. **(Not Implemented)** *Required documentation such as the change fund overage/shortage log that was designed to ensure controls and to immediately identify discrepancies was not implemented per City policy.*
14. Provide UPS staff training on proper handling and documentation of cash overages and shortages. **(Implemented)**
15. Revise UPS policy and procedures to comply with the Resource Information Guide. **(Not Implemented)** *UPS policies and procedures do not accurately reflect the policies and procedures in the Resource Information Guide.*

Management agreed to eliminate the overage fund, revise UPS procedures for handling overages and shortages in compliance with City policies and procedures and train staff in these procedures.

4. The UPS petty cash fund is not properly managed and controlled. *We recommend the Director of Environmental and Health Services:*

16. Immediately investigate and resolve the shortages. **(Not Implemented)** *The UPS has had more than one incident where funds were missing and unaccounted for without resolution. Investigations of the missing funds has been severely hampered because of lack of proper financial controls, failure of management and staff to follow procedures, and lack of security equipment that works to monitor and record the activities at the UPS.*
17. Ensure the resource balance sheet account accurately reports the authorized amount for petty cash. **(Implemented)**

18. Reconsider the size of the petty cash fund. **(Implemented)** *The Audit Report and recommendations were published on December 7, 2001. The petty cash decrease was made on April 30, 2003.*
19. Train personnel performing departmental audits of the petty cash to closely examine and verify that the petty cash fund is used properly. **(Not Implemented)** *Documentation failed to show that departmental audits were routinely done as per the policies and procedures.*
20. Ensure the petty cash custodians and their supervisors are properly trained on City's policy and requirements for petty cash funds. **(Implemented)**
21. Ensure the petty cash fund is reconciled at least monthly, or more frequently based on activity. **(Not Implemented)** *A review of petty cash receipts indicated the petty cash was improperly documented, receipts were unaccounted for, filled out incorrectly, not in sequential order and procedures were not being followed per the Resource Information Guide.*

Management stated in the original audit that petty cash was reduced from \$1725.00 to \$500.00. Additionally, management stated that the Center Manager and Petty Cash Custodian would assure compliance with the requirements of Resource Information Guide 3-15 "Petty Cash/Change Fund". Management also stated that procedures have been implemented whereby petty cash will be reimbursed at least monthly and reconciled by the custodian weekly. The cashier drawers are reconciled daily as part of the daily closeout procedure. The full change fund will be reconciled weekly along with petty cash.

5. The UPS Change Fund is not properly managed and controlled. *We recommend the Director of Environmental and Health Services:*

22. Immediately investigate and resolve the shortages. **(Not Implemented)** *The UPS has had more than one incident where funds were missing and unaccounted for without resolution. Investigations of the missing funds have been severely hampered because of lack of proper financial controls, failure of management and staff to follow procedures, and lack of security equipment that works to monitor and record the activities at the UPS.*
23. Ensure the Resource balance sheet account accurately reports the authorized amount for the change fund. **(Not Implemented)** *There has been more than one incident where funds were missing and unaccounted for.*

24. Ensure that departmental audits of petty cash also include a concurrent audit of the change fund and differences (overages/shortages) are documented and immediately resolved. **(Not Implemented)** *UPS staff failed to follow accounting procedures used to identify overages/shortages in the change fund. Resource Information Guide states that departments using a change fund will keep a daily overage/shortage log showing the activity of the change fund.*
25. Update policy and procedures to reflect the correct amount for the change fund. **(Not Implemented)**

Management responded the change fund was audited in November 2001 and a shortage of \$369.50 was identified. A payment voucher was processed to reimburse the change fund for this amount and a journal voucher was processed to adjust the Resource balance to the authorized amount of \$925.00. The revised policies and procedures included directives that future audits include all cash funds as well as other relevant recommendations from this audit report. On May 6, 2003, representatives from the Auditor's Offices counted the petty cash and the change fund. Both accounts had minor shortages, which were not noted on an overage/shortage log. On May 8, 2003, the Utility Pay Station Manager at the request of the Auditor representative recounted these funds. The change fund was missing \$851.26. This information was given to the Dallas Police Department's Public Integrity Unit. At the completion of their investigation, they concluded that due to the lack of controls financially and systematically at the UPS, they could not determine the disposition of the unaccounted for funds. The City Auditor's Office's Investigative Unit issued an administrative report dated June 16, 2004.

6. MLK Center programs did not receive commissions earned. We recommend the:

26. Director of Environmental and Health Services ensure that commissions are properly accounted for and credited to MLK Center programs. **(Implemented)**
27. MLK Center Manager regularly review financial reports to ensure the MLK Center receives the money it is due (e.g. commissions, donations, etc.) **(Partially Implemented).**

Management stated that journal vouchers are being processed to transfer \$30,273.80 in commissions and fees earned during the period of March through July 2001, to the Trust Fund. However, due to a change in the contract in July 2001, there will be no additional commissions paid to the City under this contract.

7. **Some Job duties and responsibilities are incompatible with current position classifications.** *We recommend that the:*

28. The Director of Environmental and Health Services request the Director of Human Resources to review and classify the duties and responsibilities required for the position of Fiscal Affairs Manager. **(Not Implemented)**
29. The Director of Environmental and Health Services and the MLK Center Manager ensure that personnel responsible for enforcing internal controls are not tasked with incompatible duties and responsibilities and with additional duties and responsibilities that could interfere with enforcing internal controls. **(Not Implemented)**
30. The Director of environmental and Health Services and the MLK Center Manager develop written policy and procedures to compensate for those instances that the Fiscal Affairs Manager and Cashier Supervisor perform incompatible duties and responsibilities. **(Not Implemented)**

Management stated that the City underwent a major classification modification and the official titles of Fiscal Affairs Manager and Cashier supervisor were changed to Coordinator II and Supervisor. The City was in the process of reviewing bids to privatize the UPS and the West Dallas Multicultural Center. Management felt there was no need to further review the City's position titles or job descriptions.

We appreciate management's cooperation in this follow-up.

Thomas Taylor

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City Auditor

c: Mary K. Suhm, Interim City Manager
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