



Greg Fischer  
Mayor

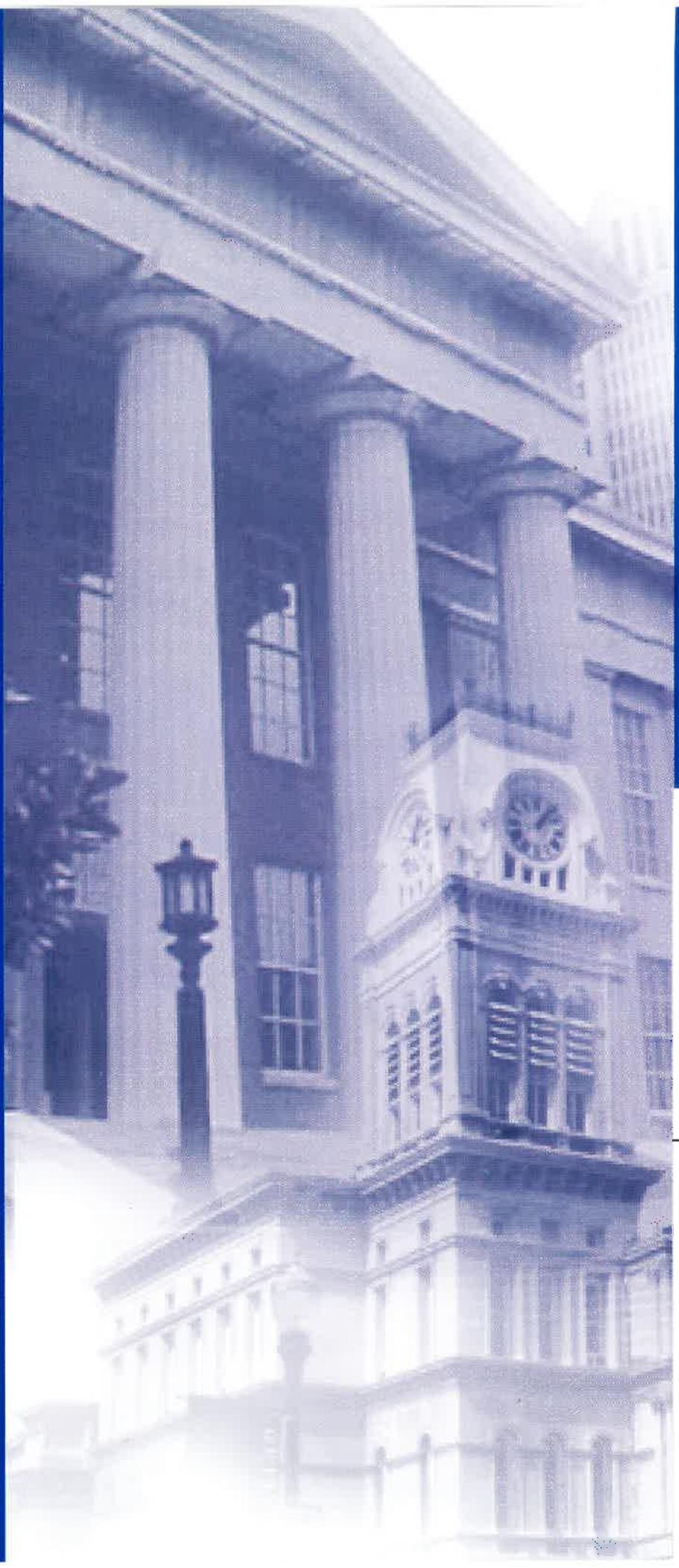
Louisville Metro Council

The Office of Internal Audit provides independent, objective assurance and consulting services that adds value to and improves Louisville Metro Government.

Office of Internal Audit

Louisville Metro Government

Cash Management Policy  
Develop Louisville



# Audit Report

## Louisville Metro Government

### Cash Management Policy Develop Louisville

May 2016

Office of Internal Audit



Louisville Metro Government

---

Cash Management Policy  
Develop Louisville

**Table of Contents**

**Executive Summary ..... 2**

**Transmittal Letter ..... 3**

    Introduction..... 3

    Scope..... 4

    Opinion ..... 4

    Corrective Action Plan..... 5

    Internal Control Rating ..... 6

    Background..... 7

    Summary of Audit Results..... 7

**Observations and Recommendations ..... 9**

    1) General Administration ..... 10

    2) Monitoring and Reconciliation..... 12

    3) Transaction Processing..... 14

## Executive Summary

### PROJECT TITLE

**Louisville Metro Government - Cash Management Policy (Develop Louisville)**

### OBJECTIVE AND SCOPE

The objective was to perform a review of the Louisville Metro Government Cash Management Policy, which is owned by the Office of Management and Budget (OMB). The primary focus of the review was an assessment of compliance with the Louisville Metro Government Cash Management Policy at the department level and within the OMB – Cash Management Division. This included how activity was processed, recorded, and monitored. Departmental policies, procedures and records related to the Louisville Metro Government Cash Management Policy were reviewed. The objective was to obtain assurance that the risks are adequately mitigated through internal controls in the process.

This was a compliance review based on policies and procedures for the operational and fiscal administration of the Louisville Metro Government Cash Management Policy. Cashiering functions within five Louisville Metro Government (LMG) departments were selected for review. The Develop Louisville cashiering function was judgmentally selected for review. The review included activity during the second quarter of fiscal year 2015 through the first quarter of fiscal year 2016 (October 1, 2014 through September 30, 2015). The details of the scope and methodology of the review are addressed in the Observations and Recommendations.

### INTERNAL CONTROL ASSESSMENT

### SECTION

**Needs Improvement**

**Develop Louisville**

### RESULTS

Opportunities exist for improving the internal control structure for the Develop Louisville cashiering function. Examples include the following.

- **General Administration.** There were issues noted regarding the general administration of cashiering activity.
  - There were instances in which the amount of daily receipts transported to the Office of Management and Budget (OMB) per the courier log was inaccurately and inconsistently documented.
- **Monitoring and Reconciliation.** There were issues noted regarding monitoring and reconciliation of cashiering activity.
  - There was an instance in which the funds collected from daily sales did not agree with the sales per the cashiering report.
  - Starting cash banks were not consistently verified in the presence of two individuals.
- **Transaction Processing.** There were issues noted regarding processing transactions related to cashiering activity.
  - Upon receipt, mail is opened solely by a member of the cashiering staff and the mail is not logged.



OFFICE OF INTERNAL AUDIT  
LOUISVILLE, KENTUCKY

GREG FISCHER  
MAYOR

MAY R. PORTER, CHIEF AUDIT EXECUTIVE

DAVID YATES  
PRESIDENT METRO COUNCIL

**Transmittal Letter**

May 27, 2016

The Honorable Greg Fischer  
Mayor of Louisville Metro  
Louisville Metro Hall  
Louisville, KY 40202

**Subject: Audit of the Louisville Metro Government - Cash Management Policy (Develop Louisville)**

**Introduction**

An audit of the Louisville Metro Government Cash Management Policy, which is owned by the Office of Management and Budget (OMB), was performed. The primary focus of the review was an assessment of compliance with the Louisville Metro Government Cash Management Policy at the department level and within the OMB – Cash Management Division. This included how activity was processed, recorded, and monitored. Departmental policies, procedures and records related to the Louisville Metro Government Cash Management Policy were reviewed. The objective was to obtain assurance that the risks are adequately mitigated through internal controls in the process.

The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the audit, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

### Scope

A thorough understanding of the Develop Louisville cashiering activity was obtained in order to evaluate the internal control structure. This was achieved through interviews of key personnel and examination of supporting documentation. This included obtaining an understanding of the policies and procedures for processing, recording, monitoring, reconciling, and reporting of activity. Testing of activity was also performed to determine the effectiveness of the controls.

The Develop Louisville cashiering activity was judgmentally selected for review. The review included activity during the second quarter of fiscal year 2015 through the first quarter of fiscal year 2016 (October 1, 2014 through September 30, 2015). The details of the scope and methodology of the review will be addressed in the Observations and Recommendations section of this report. The examination would not identify all weaknesses because it was based on selective review of data.

### Opinion

It is our opinion that the internal control structure for the Louisville Metro Government Cash Management Policy, specific to Develop Louisville needs improvement. The internal control rating is on page 6 of this report. The rating quantifies our opinion regarding the internal controls, and identifies areas requiring corrective action. Opportunities to strengthen the internal control structure were noted. Examples include the following.

- **General Administration.** There were issues noted regarding the general administration of cashiering activity.
  - The supervisor and multiple cashiers have the combination to the safe. Access to the safe should be restricted to the necessary employees.
  - There were instances in which the amount of daily receipts transported to the Office of Management and Budget (OMB) per the courier log was inaccurately and inconsistently documented.
- **Monitoring and Reconciliation.** There were issues noted regarding monitoring and reconciliation of cashiering activity.
  - There was an instance in which the funds collected from daily sales did not agree with the sales per the cashiering report.
  - Starting cash banks were not consistently verified in the presence of two individuals.
- **Transaction Processing.** There were issues noted regarding processing transactions related to cashiering activity.

- Upon receipt mail is opened solely by a member of the cashiering staff and the mail is not logged.

**Corrective Action Plan**

Representatives from Develop Louisville have reviewed the results and are committed to addressing the issues noted. Corrective action plans are included in this report in the Observations and Recommendation section. We will continue to work with Develop Louisville to ensure the actions taken are effective to address the issues noted.

Sincerely,

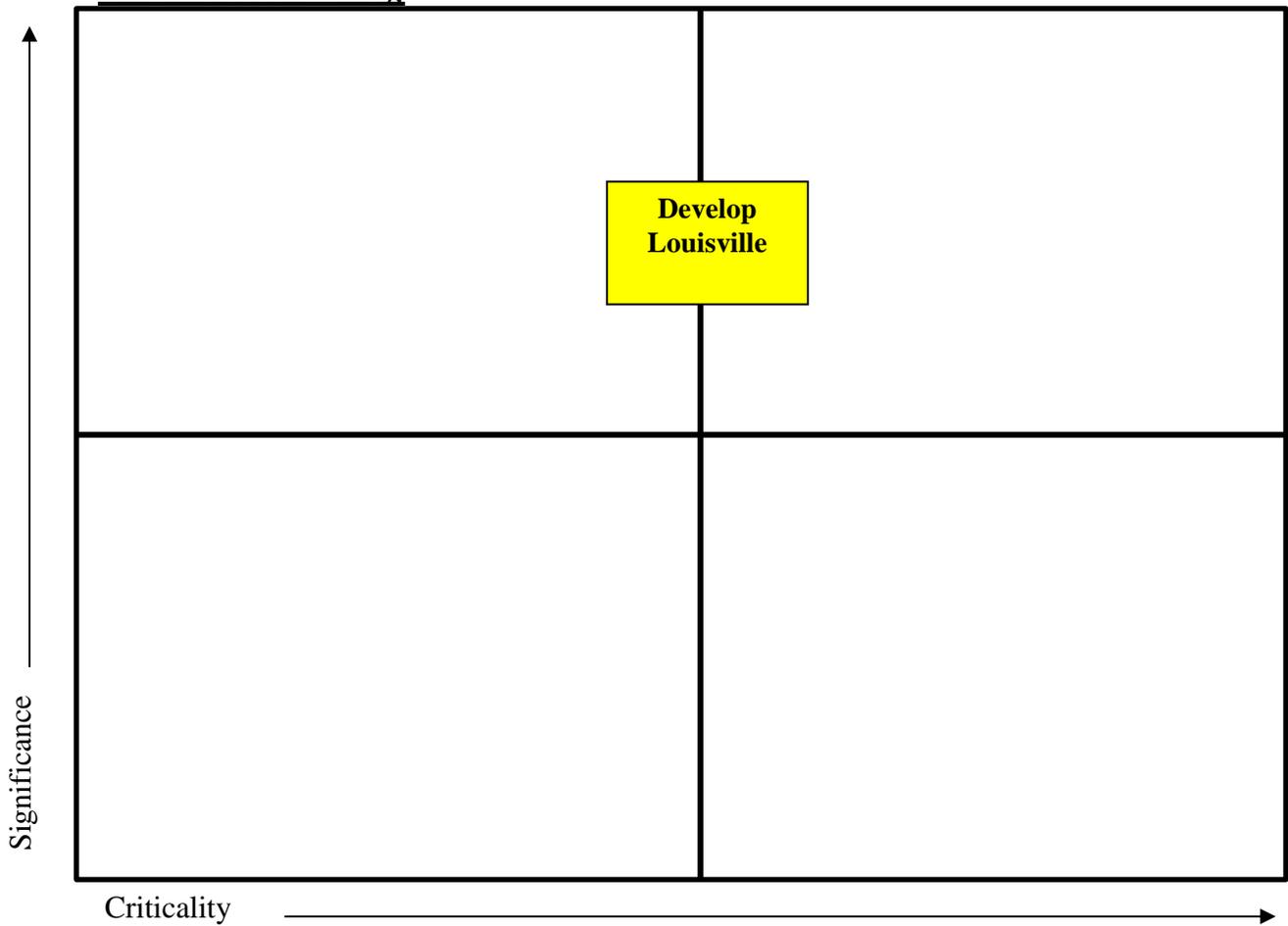


---

May R. Porter, CIA  
Chief Audit Executive

cc: Louisville Metro Council Government Accountability and Ethics Committee  
Chief Financial Officer  
Director of Develop Louisville  
Louisville Metro External Auditors  
Louisville Metro Council President

***Internal Control Rating***



<u>Legend</u>			
<b><i>Criteria Issues</i></b>	<b><u>Satisfactory</u></b> Not likely to impact operations.	<b><u>Needs Improvement</u></b> Impact on operations likely contained.	<b><u>Inadequate</u></b> Impact on operations likely widespread or compounding.
<b><i>Controls</i></b>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<b><i>Policy Compliance</i></b>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<b><i>Image</i></b>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<b><i>Corrective Action</i></b>	May be necessary.	Prompt.	Immediate.

## **Background**

Develop Louisville focuses on the full range of land development activities, including planning and design, vacant property initiatives, advanced planning, housing and community development programs, permits and licensing, land acquisition, public art, and clean and green sustainable development partnerships. The Develop Louisville cashiering function accepts payments for various types of inspections, permits, licenses and fees for multiple Louisville Metro Government departments including, but not limited to, Codes and Regulations, Public Works, the Louisville Metro Police Department and Louisville Metro Fire Department. During the review period, which is the second quarter of fiscal year 2015 through the first quarter of fiscal year 2016 (October 1, 2014 through September 30, 2015), approximately \$10,600,000 was collected by Develop Louisville.

This audit is the result of a review of department-level compliance, which was requested by the Office of Management and Budget.

## **Summary of Audit Results**

### **I. Current Audit Results**

See Observations and Recommendations section of this report.

### **II. Prior Audit Issues**

The Office of Internal Audit previously conducted a review of the Louisville Metro Government Licenses and Permits Revenue in April of 2015. Unless otherwise noted, all prior issues have been satisfactorily addressed.

### **III. Statement of Auditing Standards**

The audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

### **IV. Statement of Internal Control**

An understanding of the internal control structure was obtained in order to support the final opinion.

### **V. Statement of Irregularities, Illegal Acts, and Other Noncompliance**

The review did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected during the review that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

## **VI. Views of Responsible Officials / Action Plan**

A draft report was issued to Develop Louisville and the Office of Management and Budget on April 8, 2016. An exit conference was held at the Office of Management and Budget in the City Hall Annex on May 4, 2016. Attending were Heather Plowman, Tawana Hughes, Deborah Bilitski, James Mims representing Develop Louisville and Monica Harmon and Angie Dunn representing the Office of Management and Budget and May Porter and Laketa Short representing Internal Audit. Final audit results were discussed.

The views of the Develop Louisville officials were received on May 19, 2016 and are included as corrective action plans in the Observations and Recommendations section of the report. The plans indicate a commitment to addressing the issues noted.

LMCO §30.36(B) requires Louisville Metro Agencies to respond to draft audit reports in a timely manner. It specifically states that

*“The response must be forwarded to the Office of Internal Audit within 15 days of the exit conference, or no longer than 30 days of receipt of the draft report.”*

The Develop Louisville response was provided within this required timeframe.

## Observations and Recommendations

### **Scope and Methodology**

A review of the Louisville Metro Government Cash Management Policy, which is owned by the Office of Management and Budget (OMB), was performed. The primary focus of the review was an assessment of compliance with the Louisville Metro Government Cash Management Policy at the department level and within the OMB – Cash Management Division. The Develop Louisville cashiering activity was judgmentally selected for review. The operating policies, procedures and records specific to cashiering activity were reviewed. The primary focus was the operational and fiscal administration of the activity. This included how activity was processed, recorded, and monitored. The objective was to obtain assurance that the risks are adequately mitigated through internal controls in the process.

The Develop Louisville cashiering activity was tested using a sampling approach. Testing was performed on a sample of transactions related to processing payments and reconciliations during the review period, the second quarter fiscal year 2015 through first quarter fiscal year 2016 (October 1, 2014 through September 30, 2015). Samples, consisting of a total of ten transactions days were selected for testing accuracy, completeness, and timeliness.

The examination would not reveal all non-compliance issues because it was based on selective review of data.

### **Observations**

Issues were noted with the Develop Louisville cashiering activity. As a result, the effectiveness of the internal control structure needs improvement. Areas in which there are opportunities to strengthen the controls include the following.

- 1) General Administration
- 2) Monitoring and Reconciliation
- 3) Transaction Processing

Details of these begin on the following page.

## **1) General Administration**

- **Safeguarding of Assets.** There were issues noted regarding the internal controls relative to safeguarding funds. Safeguarding of assets is the responsibility of all employees. By nature, cash receipts are prone to theft or misappropriation. Accordingly, it is important to have effective internal controls in place to safeguard these assets.
  - All cash drawers in use by Develop Louisville do not properly restrict access to cash receipts. The inability to lock the cash drawer increases the risk of misappropriation of funds.
  - The supervisor and multiple cashiers have the combination to the safe. Access to the safe should be restricted to the necessary employees.
  - There were 19 of 35 instances in which the amount of daily receipts transported to Cash Management per the courier log was inaccurately and inconsistently documented. Inaccurate and inconsistent completion of the courier log causes it not to be a reliable tool for tracking the exchange of the daily receipts.
  - There were 4 of 35 instances in which the courier pick up date was not noted on the courier log. This decreases the ability to determine timely pick up.

### **Recommendations**

Appropriate personnel should consider the following recommendations concerning Develop Louisville.

- ✓ Replace or repair the malfunctioning cash drawer, as cash drawers should be locked and secured when left unattended.
- ✓ Limit safe access to supervisory and authorized personnel only. Combinations or keys to safes should be restricted to the custodian of the cash and designated back-up personnel. Combinations or locks should be changed as necessary, and whenever a person with the combination or key is reassigned or terminated. Management should consider the need to require safe access under dual control.
- ✓ In order to ensure the courier log can be used as a reliable control, consider the following:
  - Develop procedures regarding the purpose and proper use of the courier log. This will promote consistency and accuracy.
  - Perform a cursory review of the courier log, after the courier signs and dates, to verify all information is provided. If all information is not provided, ask the courier to complete the log prior to his/her departure.

### **Develop Louisville's Corrective Action Plan**

Develop Louisville concurs with and will implement the recommendations related to general administration. In addition, Develop Louisville stated the following:

Everyday all reconciliations are reviewed by the cashier and supervisor or designated back up and signed by both. Neither cash drawer is malfunctioning, they operate differently. One drawer locks automatically every time it is closed and requires a key to open for every transaction. The other drawer has the option of being locked and will not open until unlocked. When it is unlocked it is opened and closed with a button. Both drawers have been in place and in use for longer than 3 years.

Develop Louisville concurs with however, will not implement the recommendations related to safe access. In addition, Develop Louisville stated the following:

The safe is a combination lock that has been in place for more than 3 years. An attempt has been made previously to change the combination but no one has knowledge of how to do this. Klein Brothers was contacted and they also were unsure how to change the combination. Because the combination cannot be changed, we will consult further with the Office of Internal Audit to establish alternative controls to address this issue as well as looking into restricting the personnel who have access to the combination.

Develop Louisville concurs with and will implement the recommendations related to general administration of the courier log. In addition, Develop Louisville stated the following:

The courier log is monitored daily by the courier and cashier staff to ensure all necessary information is completed. An instruction sheet/SOP for completing the log is adhered to the inside cover of the binder with instructions for each specific department that completes the log and the couriers. This SOP was put in place during the audit process when it was found a courier person signed once for a single pick-up that included multiple

## **2) Monitoring and Reconciliation**

- **Daily Cashiering activity.** Cashiering activity is recorded and documented by way of automated receipts and reports from the cash registering system. There were issues regarding the accuracy and completeness of cashiering activity processing. Specifics include the following.
  - There was 1 of 35 instances in which the funds collected from daily sales did not agree with the sales per the cashiering report. The discrepancy was identified on the reconciliation. However, it should also be researched and resolved. It cannot be determined if any research and/or a resolution took place as there no documentation noted. *Similar issues were noted in a previous audit.*
- **Monitoring and Reconciliation.** There were issues regarding recording, monitoring, and reconciling transaction activity, which diminished accountability over funds. Specifics include the following.
  - There was 1 of 35 instances in which the reconciliation was not signed by the cashier and the supervisor. Both signatures are necessary to signify that both the cashier and a supervisor jointly performed the reconciliation and both agree that receipts on hand have been reconciled to the transactions recorded within the revenue processing system.
  - Starting cash banks were not consistently verified in the presence of two individuals. This makes it difficult to hold a single individual responsible for any discrepancies in reported sales and actual receipts.

### **Recommendations**

Appropriate personnel should consider the following recommendations concerning Develop Louisville.

- ✓ In performing the reconciliation of cashiering activity, applicable personnel should consider the following:
  - The sales receipts should agree to net sales per the cash registering system report. Any differences between the sales receipts and the applicable reports should be investigated and resolved.
  - All reconciliations should be subject to a formal review, evidenced by the reviewer's signature and the date of review.
- ✓ The reconciliation should be completed under dual control. Additionally, the reconciliation should contain both signatures (person completing reconciliation and the cashier) indicating agreement from both parties involved in reconciling the funds.
- ✓ Verification of the starting bank should be completed by the cashier in the presence of a supervisor or a second cashiering employee. Documentation should include both signatures indicating agreement of both parties involved in the exchange of funds.

### *Develop Louisville's Corrective Action Plan*

Develop Louisville concurs with and will implement the recommendations related to monitoring and reconciliation. In addition, Develop Louisville stated the following:

The instances referenced that funds did not match the reports were investigated and found to be a report coding error not a cashier or counting error. The total portion of the reports were correct, however some transactions were not being reflected correctly in the transaction list which caused the difference in numbers. The coding that generates the reports has been updated. All transactions are reflected on the reports and reports are signed by both the cashier and either supervisor or designated back up, whomever performed the count out.

The instances referenced when signatures were not present are days that a cashier was absent without notice so the count out could not be performed the prior afternoon before the absence. In a previous audit dates of cash drawer reports were requested and the cashiers from those dates were no longer with metro and their original reports had not been kept by previous supervisor and re-prints from Crystal reports had to be provided. Since these were re-prints there were no signatures.

Starting cash is verified daily by supervisor or designated backup performing the count out and the cashier. When the cash amount is verified the supervisor separates the starting fund of \$150 and the cashier verifies this amount when starting their next cash drawer.

### **3) Transaction Processing**

- **Transaction Processing.** Some issues were noted regarding the internal controls relative to transaction processing. Transaction processing includes activities involving processing individual transactions within the cashiering system, including monitoring and reporting the transactions. Accordingly, it is important to have effective internal controls in place to deter misappropriation of assets, establish accountability, and to ensure the integrity of reporting and transactions.
  - Upon receipt, mail is opened solely by a member of the cashiering staff and the mail is not logged. A best practice is to open mail under dual control, specifically mail with cash receipts (i.e. check, money order, credit card information) and to document the mail receipts by way of a log.

### **Recommendations**

Appropriate personnel should consider the following recommendations concerning Develop Louisville.

- ✓ Departments that receive a high volume of cash receipts through the mail should consider designating at least two people to open mail. One person should total the remittances and the other, the payments. The totals should then be reconciled and the remittances forwarded to the appropriate area for data entry. The cash should then be processed in accordance with the LMG Cash Management Policy. Checks and money orders should be restrictively endorsed upon receipt.

### **Develop Louisville's Corrective Action Plan**

Develop Louisville concurs with and will implement the recommendations related to transaction processing. In addition, Develop Louisville stated the following:

Due to multiple department reorganizations and name changes all mail is first delivered to the 2nd floor (Codes and regulations) and is sorted and dispersed by their staff. Their mail is more time sensitive, thus they are the first ones to receive it. When payments are received via mail they are processed the day they are received or placed in the safe and processed the next day depending on the permit or license status they are paying for. No cash is received by mail. We have been instructed by the Office of Management and Budget to not endorse any checks or money orders processed, therefore we will not implement this portion of the recommendation.

### **Office of Management and Budget's Corrective Action Plan**

OMB does not concur with and will not implement the recommendation related to restrictively endorsing checks and money orders upon receipt. In addition, OMB stated the following:

The Office of Management and Budget's Cash Management division does not concur with the portion of the recommendation related to restrictively endorsed checks/money orders for deposits that are transported to OMB Cash Management for processing. Cash

Management will endorse those items upon receipt through the use of electronic deposit technology. Checks/money orders that are received at a Metro Agency should be logged, processed and secured in a safe, locked cash drawer, or a locked bank bag upon receipt. Those items should then be prepared for courier transport to OMB for deposit. Any Metro Agency that is responsible for taking deposits directly to the bank should endorse the checks/money orders as (recommended) indicated above.

Cash Management, in conjunction with our banking partner, has elected to deposit checks/money orders electronically. This technology is provided by the bank through the use of a scanner. The bank has advised that checks/money orders deposited through the scanner should not be endorsed. The scanner provides an endorsement image on the item when received at the bank. If a check/money order has been endorsed prior to being scanned, the stamped endorsement will distort the imaged endorsement. As a result, any Metro Agency that has deposits couriered to OMB for processing should not endorse the checks/money orders upon receipt. Cash Management accepts the risk associated with endorsing the checks/money orders through the electronic endorsement process. Endorsements will be addressed in the new Revenue Control Policy.



The purpose of this survey is to solicit your opinion concerning the quality of the **Louisville Metro Government - Cash Management Policy (Develop Louisville)**. Please feel free to expand on any areas that you wish to clarify in the comment area at the end. Please return the completed survey electronically to [IAUDITIMB@Louisvilleky.gov](mailto:IAUDITIMB@Louisvilleky.gov) or to ATTN: Internal Audit 609 W. Jefferson St Louisville, KY 40202. We sincerely appreciate your feedback. The survey can also be completed online at the following link: <https://louisvilleky.wufoo.com/forms/audit-report-satisfaction-survey/>

### **Survey**

1. The audit report thoroughly explained the scope, objectives, and timing of the audit.  
  
 Strongly Agree  
 Agree  
 Neither Agree or Disagree  
 Disagree  
 Strongly Disagree
  
2. The audit report reflects knowledge of the departmental/governmental policies related to the area or process being audited.  
  
 Strongly Agree  
 Agree  
 Neither Agree or Disagree  
 Disagree  
 Strongly Disagree
  
3. The audit report is accurate and clearly communicated the audit results.  
  
 Strongly Agree  
 Agree  
 Neither Agree or Disagree  
 Disagree  
 Strongly Disagree
  
4. The audit recommendations were constructive, relevant, and actionable.  
  
 Strongly Agree  
 Agree  
 Neither Agree or Disagree  
 Disagree  
 Strongly Disagree
  
5. **\*\*Was there anything about the audit report that you especially liked?**
  
6. **\*\*Was there anything about the audit report that you especially disliked?**

Office of Internal Audit

Phone: 502.574.3291

[www.louisvilleky.gov/InternalAudit/](http://www.louisvilleky.gov/InternalAudit/)