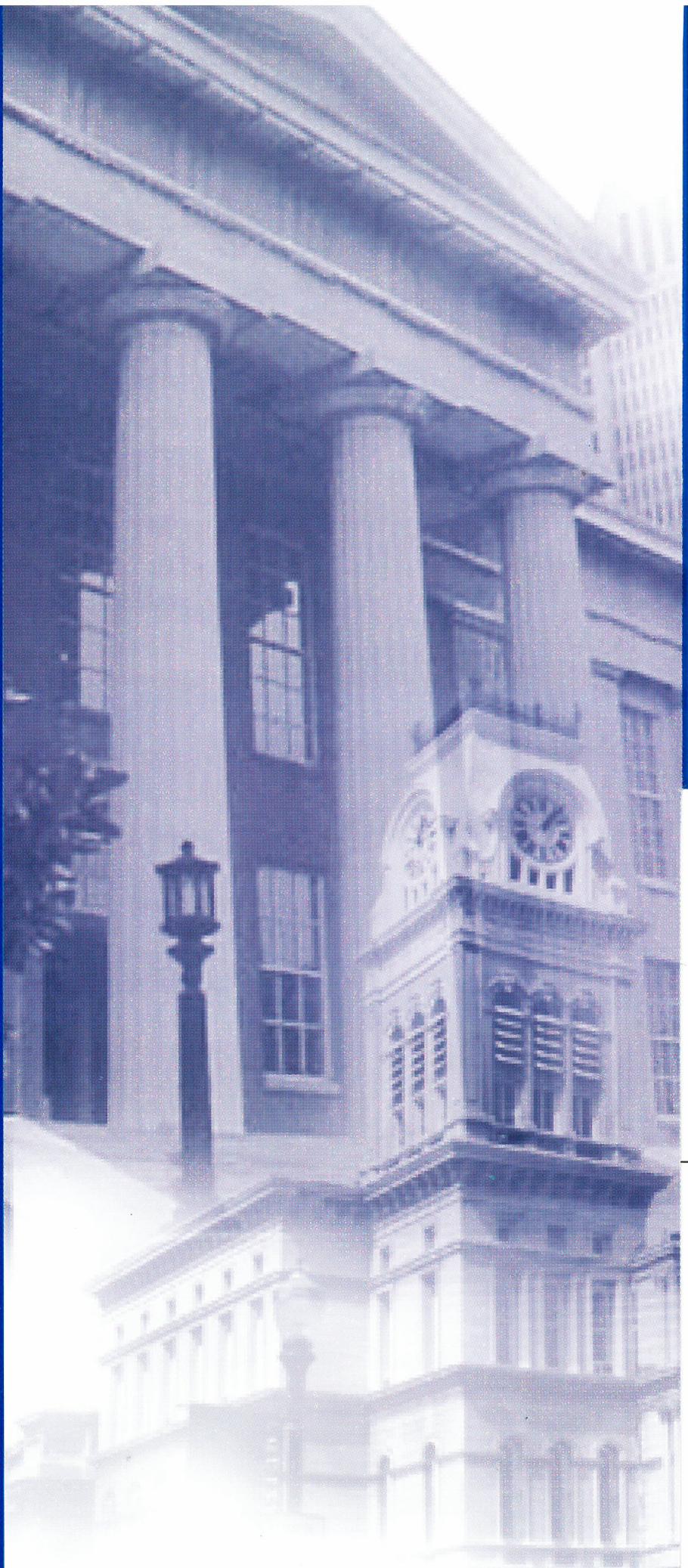




Greg Fischer
Mayor

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
LMPD Public Service Counter

Audit Report

Louisville Metro Government

Cash Management Policy Louisville Metro Police Department Public Service Counter

May 2016



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Executive Summary

| | |
|--|------------------------------------|
| PROJECT TITLE | |
| Louisville Metro Government - Cash Management Policy (LMPD Public Service Counter) | |
| OBJECTIVE AND SCOPE | |
| <p>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.</p> <p>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 Louisville Metro Police Department (LMPD) Public Service Counter 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.</p> | |
| INTERNAL CONTROL ASSESSMENT | SECTION |
| Needs Improvement | LMPD Public Service Counter |
| RESULTS | |
| <p>Opportunities exist for improving the internal control structure for the LMPD Public Service Counter. Examples include the following.</p> <ul style="list-style-type: none"> • Monitoring and Reconciliation. There were issues noted regarding monitoring and reconciliation of cashiering activity. <ul style="list-style-type: none"> ➤ There were instances in which the funds collected from the daily sales did not agree with the sales per the cashiering report. ➤ The custody of the funds is exchanged multiple times prior to the occurrence of a formal reconciliation. ➤ Cashiering staff continue to access funds after the reconciliation has been completed and formally documented. • Transaction Processing. There were issues noted regarding processing of transactions related to cashiering activity. <ul style="list-style-type: none"> ➤ The cashiers share a single cash drawer. ➤ There were instances in which fees were waived for an agency that was not authorized to receive a waiver of fees. | |



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 (LMPD Public Service Counter)

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 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 LMPD Public Service Counter 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 activity. Testing of activity was also performed to determine the effectiveness of the controls.

The Louisville Metro Police Department (LMPD) Public Service Counter 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 Louisville Metro Government Cash Management Policy, specific to the LMPD Public Service Counter 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.

- **Monitoring and Reconciliation.** There were issues noted regarding monitoring and reconciliation of cashiering activity.
 - There were instances in which the funds collected from the daily sales did not agree with the sales per the cashiering report.
 - The custody of the funds is exchanged multiple times prior to the occurrence of a formal reconciliation.
 - Cashiering staff continue to access funds after the reconciliation has been completed and formally documented.
- **Transaction Processing.** There were issues noted regarding processing of transactions related to cashiering activity.
 - The cashiers share a single cash drawer.
 - There were instances in which fees were waived for an agency that was not authorized to receive a waiver of fees.

Corrective Action Plan

Representatives from LMPD 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 LMPD to ensure the actions taken are effective to address the issues noted.

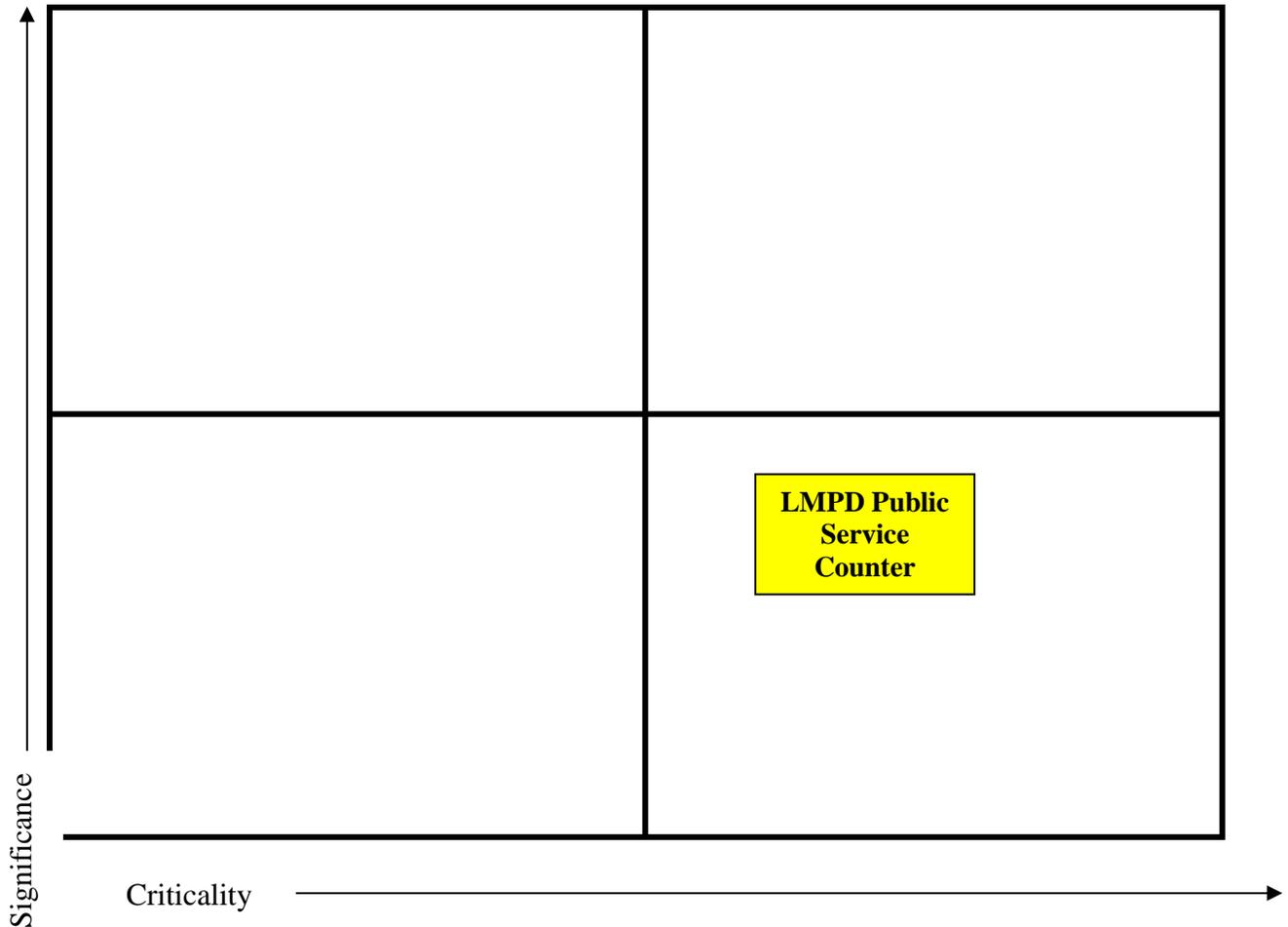
Sincerely,



May R. Porter, CIA
Chief Audit Executive

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

Internal Control Rating



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

Background

The Louisville Metro Police Department (LMPD) Public Service Counter (PSC) is the central location where citizens can obtain official copies of incident reports and accident reports. Customers are able to order reports by mail, phone and on site, at the PSC. The PSC also collects fees for use of the LMPD gym as well as cell phone/long distance fees. 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 \$76,854 was collected for records and reports.

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 has not performed any previous reviews of the LMPD Public Service Counter.

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 the Louisville Metro Police Department and the Office of Management and Budget on April 8, 2016. An exit conference was held at the Office of Internal Audit in the City Hall Annex on April 26, 2016. Attending were Sandy Goose, Robin Oates, Major Barry Wilkerson, and Assistant Chief Robert Schroeder representing the Louisville Metro Police Department 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 Louisville Metro Police Department officials were received on May 5, 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 Louisville Metro Police Department 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 Louisville Metro Police Department (LMPD) Public Service Counter 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 includes 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 LMPD Public Service Counter cashiering activity was tested using a sampling approach. Testing was performed on a sample of transactions related to processing payments and reconciliations occurring during the review period, the second quarter of fiscal year 2015 through the first quarter of fiscal year 2016 (October 1, 2014 through September 30, 2015). Samples, consisting of a total of five transaction dates 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 LMPD Public Service Counter 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) Monitoring and Reconciliation
- 2) Transaction Processing

Details of these begin on the following page.

1) Monitoring and Reconciliation

- **Monitoring and Reconciliation.** There were issues regarding recording, monitoring, and reconciling transaction activity, which diminished accountability over funds. Specifics include the following.
 - Cashiering activity is not reconciled in the presence of the cashier and the supervisor or a designee at the end of a shift. The current procedure is for the supervisor to perform the reconciliation during the morning of the next business day. This increases the risk of misappropriation of funds and diminishes accountability due to the unnecessary delay in reconciling and subsequently securing the funds.
 - Custody of funds is exchanged multiple times prior to the occurrence of a formal reconciliation. Exchanges of custody include the initial transfer of funds from the cashier to the supervisor and then from the supervisor to a lead cashier. When this occurs, custody of funds is exchanged without a documented verification of the amount. This weakens accountability since it is not possible to attribute any discrepancies to a single individual.
 - Cashiering staff continue to access funds after the reconciliation has been completed and formally documented. This practice would allow misappropriation of funds to remain undetected.
 - Starting cash banks were not consistently verified in the presence of two individuals. The current procedure is for the cashier to collect the starting bank from the supervisor and then verify the amount of his/her assigned starting bank independently. This makes it difficult to hold a single individual responsible for any discrepancies in reported sales and actual receipts.
- **Daily Cash Management Activity.** Cashiering activity is recorded and documented by way of automated receipts and reports from the cash registering system, as well as manually created logs. There were issues regarding the accuracy and completeness of cashiering activity processing. Specifics include the following.
 - There were two of five 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 was no documentation noted.

Recommendations

Appropriate personnel should consider the following recommendations concerning the Louisville Metro Police Department Public Service Counter.

- ✓ The reconciliation should be completed under dual control at the completion of the cashiering shift. Additionally, the reconciliation should contain signatures of both people, indicating agreement from both parties involved in reconciling the funds.
 - The cashier should be present during the reconciliation process. However, if this is not feasible, the cashier and a supervisor (or designee) should count the funds and document their agreement on the amount collected.

- ✓ Once the funds collected are counted and verified under dual control, the funds should be sealed in a bank deposit bag and locked in the safe immediately after completion of the verification process. The amount of funds should be documented and used for reconciliation purposes, if the reconciliation is to take place at a later time.
- ✓ 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 from both parties involved in the exchange of funds.
- ✓ In performing the reconciliation of cash management 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 way of the reviewer's signature and the date of review.

LMPD's Corrective Action Plan

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

At the end of each shift each clerk's bag will be verified with the employee and or the Supervisor/Lead person, both employees will sign off on the reconciliation.

A change has been put into policy regarding the issues of funds being exchanged multiple times prior to reconciliation and the access of funds after reconciliation has been changed.

Policy was already in place regarding formal review of all reconciliations. The tape and transmittals were always reviewed but if the clerk failed to write their transactions down and ring it up the only explanation was cashier error. Once cashiering funds are assigned to the clerks it will be easier to determine the clerks issues and document appropriately.

2) 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.
 - The cashier shares a single cash drawer with others temporarily performing the cashier role during breaks. When this occurs, custody of cash register receipts is exchanged without a documented independent verification of the amount. This weakens accountability since it is not possible to attribute any discrepancies to a single individual.
 - Mail is opened solely by a member of the cashiering staff. The mail is not logged upon receipt. 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.
- **Fee Waivers and Voided Transactions.** The PSC routinely waives fees for Louisville Metro Government agencies and other police agencies. There are also instances in which the PSC processes voided transactions. Both types of transactions are processed using the cash registering system and also documented on a manual log.
 - There were three of ten instances in which fees were waived for an agency that was not authorized to receive a fee waiver, as the agency was not noted on the Exempt Agency List.
 - There was one of ten instances in which the name of the agency receiving the fee waiver was not documented, as required, on the applicable manual log. As a result, it cannot be determined if the waiver was given to an authorized agency.
 - There were three of three instances in which the cashiering system report indicated that a void had been issued. However, the authorization and reason for the void had not been documented, as required, on the applicable manual log. The lack of documentation regarding an explanation for the voided transactions reduces the ability to determine if the voids were appropriately issued.

Recommendations

Appropriate personnel should consider the following recommendations concerning the Louisville Metro Police Department Public Service Counter.

- ✓ The cashier should be assigned a cash drawer for their use only. The funds should be secured and access restricted to the individual to which the drawer is assigned. Ideally, the cash register reporting system would provide activity reports for each individual. If individual cash drawer accountability is not feasible (e.g., staff size or technology constraints), additional accountability procedures (e.g., supervisory use of intermittent activity reporting to support change in custody of register funds) should be initiated.

- ✓ Departments that receive a high volume of 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 agreed and the remittances forwarded to the appropriate area for data entry. The cash should then be processed in accordance with the Office of Management and Budget's Cash Management Policy. Checks and money orders should be restrictively endorsed, upon receipt.
- ✓ In cases where the cashier must perform a void or issue a fee waiver, the transaction should be thoroughly documented, reviewed and reconciled by supervisory personnel. Use of a void / refund/ fee waiver form will assist in documenting the amount of the transaction, the cashier processing the transaction, and the signature of the customer involved in the transaction. The form should require a supervisor's review and approval, and be attached to the transaction receipt for submission with the daily detail. If the supervisor is the person initiating the void or refund, a second person's approval should be required.
- ✓ The Exempt Agency Form should be updated to include all agencies authorized to receive a fee waiver.

LMPD's Corrective Action Plan

LMPD concurs with and will implement the recommendation related to transaction processing. In addition, LMPD stated the following:

Cashiering funds will be requested for clerks working the cash register. They will be responsible for their own bank and the funds they take in for the day. They will balance their cash bag with the Supervisor/Lead Person and both parties will sign off on the reconciliation form.

LMPD does not concur with and will not implement the recommendation regarding restrictive endorsement of checks and money orders upon receipt. In addition, LMPD will implement the following corrective action:

OMB has advised not to endorse any check or money order received for payment. Deposits are sent to Metro Finance for processing and our instructions were not to endorse checks or money orders due to the check reader not picking up the check correctly due to the stamp on the back. Due to the small staff size two people cannot be assigned to opening mail and logging requests and money received in the office.

Records is in the process of moving/combining all units to the same location. It has been instructed that there will be two clerks responsible for opening mail, distributing the mail to the supervisor(s) and then mail will be assigned to clerks for processing. Target date is based upon when Records will be moved.

LMPD concurs with and will implement the recommendations related to fee waivers and voided transactions. In addition, LMPD stated the following:

After being informed that all voids needed written explanation, the policy was updated to include written explanation for voids prior to the exit interview. Waived list was updated and given to all clerks.

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 (LMPD Public Service Counter) Audit Report**. 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 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

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