



City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

October 26, 2011

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

RE: Neighborhood Services Cash Collections, Audit 11-10

Dear Mayor Littlefield and City Council Members:

Attached is the Internal Audit Division's report on Neighborhood Services Cash Collections, Audit 11-10.

We thank the management and staff of the Neighborhood Services department for their cooperation and assistance during this audit.

Sincerely,

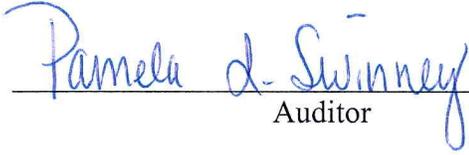
Stan Sewell, CPA, CGFM
Director of Internal Audit

Attachment

cc: Dan Johnson, Chief of Staff
Audit Committee Members
Beverly Johnson, Administrator Neighborhood Services
Daisy Madison, City Finance Officer

**NEIGHBORHOOD SERVICES DEPARTMENT
CASH COLLECTIONS
AUDIT 11-10
SEPTEMBER 29, 2011**

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Auditor



Audit Director

**NEIGHBORHOOD SERVICES DEPARTMENT
CASH COLLECTIONS
AUDIT 11-10**

INTRODUCTION

The Department of Neighborhood Services and Community Development maintains the City's neighborhoods through code enforcement, community services and neighborhood support programs. Community programs administered by the department (and funded by grants) include World Changers Home Repair, Neighborhood Leadership Institute, HomeAgain, CBDG – Home Repair, CDBG – Infrastructure and Public Facilities, Emergency Shelter Grants, Shelter Plus Care, Fair Housing, Rental Property Renovation and Community Revitalization Deduction.

Revenue collections by the department include grant funds, program income and code conference dues. The majority of funds collected are via U.S. Postal Service or electronic funds transfers. The department rarely receives payment in cash.

STATISTICS

	<u>FY10</u>	<u>FY11</u>
Revenues	\$ 4,740,822	\$ 6,040,532

Source: Oracle

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Division's 2011 Audit Agenda. The objectives of this audit were to determine if:

1. Proper internal controls are in place for the cash collections process; and,
2. Cash collections are properly documented and submitted to the Treasurer's office within the required three day period.

STATEMENT OF SCOPE

Based on the work performed during the preliminary survey and the assessment of risk, the audit will cover the cash collections of Neighborhood Services and Community Development from July 1, 2010 to June 30, 2011. Source documentation was obtained from the Finance and Neighborhood Services departments. Original records as well as copies were used as evidence and verified through physical examination.

STATEMENT OF METHODOLOGY

We reviewed the written policies/procedures and interviewed staff of the Neighborhood Services department to gain an understanding of the cash collections process. In addition, we reviewed the *Internal Control and Compliance Manual for Tennessee Municipalities*, the Chattanooga City Code, and the City of Chattanooga *Finance Policies & Procedures for Collections*. In addition, we reviewed a sample of cash collections and various supporting documentation.

The sample size and selection were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT CONCLUSIONS

Based upon the test work performed and the audit findings noted below, we conclude that:

1. Proper internal controls are in place for the cash collection process; and,
2. Cash collections are properly documented and submitted to the Treasurer's office within the required three day period.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Neighborhood Services department, they do present risks that can be more effectively controlled.

Changes in custody of funds are not properly documented.

Internal Control and Compliance Manual for Tennessee Municipalities Title 5 Chapter 13 Section 2 states "anytime custody of money changes from one employee to another, the money should be counted by both employees. A prenumbered receipt or other document recording the count should be prepared and signed by BOTH EMPLOYEES INDICATING CONCURRENCE WITH THE AMOUNT TRANSFERRED. This document should be retained by the individual turning the money over."

Prior to completion of our audit, custody of funds changed several times between initial receipt and review of collection reports. Due to our finding, the department has streamlined the process and integrated the required documentation to support transfers of funds between staff.

Recommendation 1

We recommend the department properly document the transfer of funds between employees.

Auditee Response

The department implemented the following procedures:

- ❖ Created a form that captures the required information to document fund transfers between employees.
- ❖ Trained staff on procedures for collecting and transferring funds internally, and procedures for submitting funds to the Treasurer's office. Persons trained were Administrator, Manager of Community Development, Fiscal Coordinator, Executive Assistant and Administrative Support Assistants. The training was conducted by the Deputy Administrator.

The Finance Policies & Procedures Collections manual does not comply with Internal Control and Compliance Manual for Tennessee Municipalities.

Internal Control and Compliance Manual for Tennessee Municipalities Title 5 Chapter 14 Section 4 states "all mail is delivered intact (unopened) to two or more designated employees. The designated employees should immediately open the mail and prepare a list of all money/checks received in the mail. All checks should be stamped "FOR DEPOSIT ONLY." The money/checks received through the mail should be given to the cashier, who should give the persons opening the mail a pre-numbered receipt. The pre-numbered receipt should be attached to the list prepared by the employees opening the mail."

Finance Policies & Procedures Collections policy (dated Feb. 2011) Section 2 states "Official City of Chattanooga pre-numbered receipts are required for all funds **received in person**" and "a daily log should be prepared for all checks received in the mail. The customer's cancelled check will serve as a receipt." The policy does not address the requirement to have two or more designated employees open the mail. Further, the policy doesn't require a pre-numbered receipt be issued by the cashier to the check log preparer.

Recommendation 2

We recommend the Finance department update the cash collections policies and procedures manual to include the requirement that two designated employees open the mail, prepare a list of checks received, and obtain a pre-numbered receipt from the cashier (collection report preparer).

Auditee Response (Finance)

The Finance Department will review the current policies and procedures for collections to determine how they should be revised to address this finding in a cost effective manner.