

MANAGEMENT AUDIT REPORT

OF

TRANSIT DEPARTMENT REVENUES

REPORT NO. 04-104



City of Albuquerque
Office of Internal Audit and Investigations



City of Albuquerque

Office of Internal Audit and Investigations
P.O. BOX 1293 ALBUQUERQUE, NEW MEXICO 87103

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Accountability in Government Oversight Committee
City of Albuquerque
Albuquerque, New Mexico

Audit: Transit Department Revenues
04-104

FINAL

INTRODUCTION

The Office of Internal Audit performed surprise cash counts of the cash funds held at the Transit Department (Transit). Transit operates the fixed route transit system in Albuquerque (Sun Tran), and provides curb-to-curb transportation services for mobility-impaired citizens (Sun Van). At the time of our surprise cash counts, Transit also operated the City of Albuquerque (City) Parking Division. As of July 1, 2004, the Parking Division was transferred to the Municipal Development Department.

The Department of Finance and Administrative Services (DFAS), Treasury Division (Treasury) records show that there were fifteen separate funds assigned to the Transit Department, as of the date of the August 2003 cash counts. According to Treasury's records, the total authorized balance of these fifteen funds was \$6,320. Treasury's records indicate that:

- Four of these funds were petty cash funds
- Eleven of these funds were change funds.

Surprise cash audits are made as a means of testing and reviewing internal control procedures over cash and the handling of revenues.

Transit operations collected approximately \$3.3 million each year in passenger revenues in both fiscal years (FY) 2003 and FY2004. The parking facilities and parking meter operations collected approximately \$3 million in revenue in both fiscal years (FY) 2003 and FY2004. The Parking Division was moved from Transit to the Department of Municipal Development (DMD) in FY2005.

On June 21, 2004, Transit experienced a theft at the Alvarado Transportation Center (ATC) teller area of approximately \$700 in cash, and an unknown amount of bus passes and bus tokens. Internal Audit updated this revenue audit by reviewing the controls in effect as of June 2004 over cash handling in Transit. As of June 2004, Transit processed revenues at two locations, the main Transit vault at the Yale Boulevard facilities; and the cashier area at the ATC. In FY2005, Transit also began to process revenues at the new Westside Transit facility.

AUDIT OBJECTIVES

The objectives of the audit were to determine:

- Does Transit have all of the cash funds that it had been assigned?
- Did Transit cash funds reconcile to the appropriate control account?
- Does Transit have adequate internal control procedures to safeguard and control cash and cash equivalents?
- Does Transit have adequate policies and procedures for revenue collection and safeguarding of receipts?

SCOPE

Our audit did not include an examination of all the functions, transactions and activities related to cash handling at Transit. We reviewed the internal controls in effect as of August 2003 over cash handling at Transit. We also reviewed the status of controls over cash handling in effect at Transit, as of June 2004. We did this second review as a result of the June 21, 2004, theft at the ATC teller area of approximately \$700 in cash, and an unknown amount of bus passes and bus tokens. We completed our audit fieldwork in July 2004. The audit was conducted in accordance with Government Auditing Standards, except Standard 3.49, which requires an external quality review.

METHODOLOGY

In August 2003, we performed surprise cash counts of the cash funds held at Transit. Surprise cash audits are made as a means of testing and reviewing internal control procedures over cash and the handling of revenues. Additionally, we interviewed key personnel, relating to cash handling controls and procedures in effect in the department. This audit, and its conclusions, is based on information provided through interviews, tests and reviews of current procedures

FINDINGS

The following findings concern areas, which we believe would be improved by implementing the related recommendations.

1. TRANSIT AND DFAS SHOULD ENSURE THAT RECORDS OF CASH FUNDS AND CASH EQUIVALENTS ARE ACCURATE AND CURRENT.

The cash funds, and all other cash receipts and cash equivalents on hand, were counted on August 21, 2003. According to Treasury's records, the total authorized balance of the fifteen funds was \$6,320. Transit had returned a \$50 change fund, a \$300 petty cash fund, and \$1,500 from another change fund to Treasury. These funds were returned to Treasury in August and September of 2002.

Transit had documentation to show that the funds had been returned to Treasury. Treasury had not updated its records to reflect the returned funds. If Treasury had updated its records, it would have shown that Transit had been authorized to have \$4,470 in cash funds. Treasury procedures to update its cash fund records have not been performed on a timely basis. These funds may be more susceptible to the risk of loss since records of funds assigned to Transit are not accurate.

However, Transit only had cash funds totaling \$4,425. There was a \$45 difference between Treasury records and actual cash funds on hand at Transit.

The results of the counts are summarized below:

- Change Funds

Seven change funds totaling \$700 were counted at the ATC. None of these funds were over or short.

Three change funds totaling \$2,625 were counted at the Parking Division. One of the change funds (\$2,525) had been divided by the Transit Department into 11 sub-funds. The Treasury records indicated that this fund was a multi-custodial fund with 4 sub-custodians. However, there were actually more than four sub-custodians responsible for portions of this fund (see Finding No. 5). None of these change funds were over or short.

- Petty Cash Funds

Treasury records indicate that as of the date of the cash count, there were four authorized petty cash funds with a total balance of \$1,400. However, a \$300 petty cash fund that had been assigned to parking had been returned to Treasury. Transit's remaining three petty cash funds amounted to \$1,100. Two of the petty cash funds counted did not agree to the authorized amounts.

- Daily Receipts

Total receipts of \$35,197 were counted and consisted of:

- (1) Daily receipts at Parking of \$23,680 and
- (2) Daily receipts of \$11,517 at Transit.

Five discrepancies were noted:

- There were four shortages totaling \$70
- There was an overage of \$8

(See Finding No. 5, for a discussion of cash over and shorts.)

- Cash Equivalents

Cash equivalents, which consist of bus passes and tokens, were counted. On the day of the cash count, \$6,355 in cash equivalent items was counted. Transit does not keep detailed records of these items. Consequently, we could not determine if there were cash equivalent items missing, since there were no records and therefore, more susceptible to the risk of loss.

In June 2004, we observed the storage area in the ATC where bus passes and tokens are stored. We noted that all of the bus passes for August and September were stored in an unlocked room in the ATC during working hours. The value of the bus passes stored in this unlocked room was \$422,400. If a small portion of these bus passes were stolen from this unsecured area, Transit might not detect the theft. All products with cash equivalent value should be stored in secured areas.

June 2004 theft at the ATC teller area

On June 21, 2004, Transit experienced a theft at the ATC teller area of approximately \$700 in cash (from the vault), and the loss of an unknown amount of bus passes and bus tokens, which Transit refers to as product. At that time, the following keys were kept in a metal box in the teller area: (1) the key to the office door of the teller supervisor, where the vault is located, (2) the master key to the vault (the vault is key-opened, it does not have a combination lock), (3) all of the teller's keys to the teller sub-sections in the vault, and (4) the keys to the money bags which are kept in the teller subsections of the vault. Any Transit employee with card key access to the teller area could gain access to the metal box where all of the keys were kept.

Transit uses a card key access system to control access to the customer service area at the ATC. The teller area is located in the customer service area. The system administrator provided us with a list of the individuals and their level of access to the system. This list indicates that there were 28 Transit employees who had card key access to this area that were not involved in the customer service or teller functions. Good internal controls would require that access to this area is limited to Transit employees who work in Customer Service.

The system administrator provided us with a list of the individuals that had "full access" to the system, i.e., system administrator rights. This access allows an individual to make changes to the system, including who can access areas that are secured by card key access. The system administrator noted that there were two individuals who should no longer have "full access" (system administrator) rights to the system, and whose access should be deleted. We also determined that the system administrator is not periodically generating and reviewing a list of employees that have access to areas secured by card key access.

According to Transit fiscal management, when the June 21 theft occurred, there was also a theft of tokens and bus passes. Transit did not have accurate and complete inventory records, so it could not readily determine how much in products was stolen.

RECOMMENDATION

DFAS Treasury Division should update its cash fund records to reflect the funds that are currently in Transit's possession.

Transit should keep accurate and complete inventory records of cash equivalent items.

Transit should periodically generate and review a list of employees' access to cash handling areas secured by card key access. Transit should ensure that employees have the minimum level of access that allows them to perform their job.

EXECUTIVE RESPONSE FROM TRANSIT

"Transit concurs with the recommendations. Both of them have already been implemented."

EXECUTIVE RESPONSE FROM DFAS

"DFAS concurs with the finding. The division's primary cashbook documentation does show that \$1,850 had been deposited by Transit in 2002 on two different dates, approximately one month apart. However, this was apparently done without providing Treasury the proper, concurrent administrative notification as instructed on page 50 of the Treasury Division Cash Handling Manual which requires notification to Treasury in advance of a transfer or termination of imprest funds or the departure of a custodian. No record of such notification in either of these instances was found even though it does exist for other such changes made by the department. This explains the discrepancy at the administrative level. Treasury will modify its procedures by December 31, 2005 to add a requirement to follow-up when required documentation does not accompany a deposit."

2. TRANSIT SHOULD DEVELOP PROCEDURES TO ENSURE THAT THE CONTROLS OVER CASH PROCESSING ARE ADEQUATE.

Transit has a main walk-in vault at its facility on Yale Boulevard. All of the revenues from Transit operations are counted and prepared for deposit at this facility. During FY2003, transit operations had passenger bus revenues of \$3.3 million. Each day, the

cash from the fare boxes in buses is emptied into a container at this facility. At the time of the original cash count, the cash was counted, and prepared for deposit, by a single Transit employee.

We observed the cash handling process in the Transit vault at the Yale facility after the theft in June 2004. At that time, there were two Transit employees present in the vault. Although there were two employees present in the vault, they were doing different tasks. While one employee straightened the dollar bills from the fare boxes, the other employee was processing ATC teller deposits. As a result, effective dual control was not present during the handling of bus fare currency. Although the situation in June 2004 was improved from August 2003, both employees should be jointly involved in the handling of bus fare currency to ensure dual control.

It is a standard internal control procedure in cash handling operations for two employees to be involved in the counting of the cash and the preparation of bank deposits, when large sums of money are processed. This reduces the possibility of employee theft of the cash.

Transit procedures require that two employees are present when cash is counted at the vault. Treasury's Cash Handling Manual requires that appropriate actions are taken to ensure the safekeeping of cash and cash equivalents. The manual states that it is a City requirement that dual verification is performed for all cash, cash equivalents and non-cash items. Per the manual, dual verification is ". . . as counting twice, two people at the same time (both persons have to be present). Or, one individual counts while the second individual verifies the count."

The Treasury Cash Handling Manual also provides guidelines regarding security systems used by departments. According to the manual, "Security systems should be reviewed on a regular schedule and appropriate measures taken to ensure functionality of systems. Review should include appropriate improvement of existing systems, and implement new systems if needed."

Main Vault Security Cameras

There are two security cameras in the vault. On the day that the auditors observed the cash count, one of the security cameras was not working. This increases the risk of loss of passenger revenues.

Main Vault Cash Equivalents

When the auditors observed the cash handling process in the Transit vault at the Yale facility, we noted several large bags of bus tokens stored in a drawer in a file cabinet in the vault. Transit personnel informed us that these are bus tokens that they do not have room for at the ATC, and that there was no written record maintained of the quantity or the dollar value of these tokens.

If the tokens - cash equivalents were stolen, there would be no record documenting the amount of the loss. A Transit employee informed the auditors that in the first part of July, Transit received an additional \$80,000 of adult tokens that were being stored in the Yale vault facility. These tokens had not been recorded into the product inventory records maintained by Transit, since tokens that are stored in the Yale vault are not considered to be part of the product inventory. Only the products that are stored at the ATC are recorded in the product inventory records.

RECOMMENDATION

Transit should ensure that two employees are involved in the counting of the cash and the preparation of bank deposits in the main vault at the facility on Yale Boulevard.

Transit should ensure that both security cameras function in the main vault at the facility on Yale Boulevard.

Transit should develop procedures to ensure that all cash equivalent products are recorded in its inventory records.

EXECUTIVE RESPONSE FROM TRANSIT

***“Loomis Fargo and Company is now handling this process. The fare box vaults are removed from the fare boxes by Transit in the evening. The contents of the vaults are then dumped in to the main receiving vault, via a locked vault system. Every morning, except for Sunday morning, Loomis Fargo picks up the main vault receiver and takes it to their counting office to be counted and deposited into Transit’s account at the bank. No Transit employee has access to, or the opportunity to handle, bus fare cash.*”**

“For unknown reasons, the cable connection between the Yale facility’s main maintenance building and the vault room has been faulty since installation. Since making the decision to contract for the counting and deposit function, it did not seem critical to further explore correcting the connectivity issue.

“Transit concurs with the recommendation that all cash equivalents be recorded in its inventory records. In the past, Transit didn’t count bulk tokens until the container was needed and opened. Bulk tokens are now recorded as the amount ordered when they are received and again when the container is opened.”

3. TRANSIT SHOULD PERFORM DAILY FARE BOX AUDITS AND RECONCILE THE DAILY PASSENGER REVENUE.

Transit has a computer system that tracks the revenues received by fare box on each bus. Passengers deposit cash and tokens into the fare box. The fare box in each bus records the dollar amount and the number of each type of paying passenger. This information is then downloaded, on a daily basis, into the computer system. The amount of the daily passenger revenues from the fare box can be reconciled to the information about the number of paying passengers. Transit was not reconciling the daily passenger revenue amounts recorded by the computer system to the daily deposits of passenger revenues.

Transit procedures require that its employees perform audits of 7 fare boxes daily, to verify that all passenger revenues received are counted. As of August 2003, the required fare box audits were no longer performed. Passenger revenues are susceptible to the risk of loss, and may go undetected. Fare box audits can help to deter employee theft, if drivers are made aware that the procedure is being performed.

As of June 2004, a Transit supervisor had been assigned the responsibility of making a daily comparison of a sample of individual fare boxes counted by Yale vault personnel to the computer system records of the revenue recorded by the computerized fare box. The purpose of this process is to identify (1) fare boxes that may be incorrectly recording revenues and need to be repaired, or (2) discrepancies of revenues less than the amount indicated by the fare box.

On June 21, 2004, the auditors reviewed the supervisor’s records. There were six fare boxes that had been selected by transit personnel for audit. In all six cases, the Transit supervisor that reviewed the records indicated on the documentation that the fare box audits were “ok”, i.e., there were no significant discrepancies that needed to be

investigated. However, the GFI fare box information for bus 338 indicated that it had received only \$5 in revenue; but the cash count by Transit vault personnel indicated that the fare box had actually received \$67 in revenue.

According to the procedures established by Transit, this situation should have been investigated to determine the cause for the discrepancy. However, the Transit supervisor that had reviewed the information noted on the documentation that the situation was “ok”, and no investigation was done. As of July 2004, the Transit supervisor informed the auditors that he had still not finished comparing all of the June information.

Additionally, Transit employees did not compare and investigate significant discrepancies between the total daily deposit and the amount of bus fare box revenue. A comparison of this nature would help to establish that all Transit bus revenues are properly processed and deposited.

RECOMMENDATION

Transit should reinstate the required daily fare box audits.

Transit should research and resolve discrepancies noted in its fare box audits.

Transit should reconcile the daily passenger revenue amounts recorded by the computer system to the daily deposits of passenger revenues. A more timely comparison of this information may result in determining the cause of potential problems.

EXECUTIVE RESPONSE FROM TRANSIT

***“Transit concurs with the recommendation to reinstate a required daily fare box audit. In order to implement this recommendation, Transit will purchase six new fare box vault receivers at a price of \$700 each plus a computerized random sampling program. This new equipment should be installed by the beginning of the third quarter of FY/06. At that time, transit can implement the recommendation to research and resolve discrepancies noted in fare box audits.*”**

***“Transit concurs with the recommendation to reconcile daily passenger revenues with daily deposits. Any discrepancies that exceed plus or minus 2%, which is the fare box manufacturer’s tolerance, will be referred to the Operations Division for investigation and resolution.*”**

This process will be instituted by the beginning of the second quarter of FY/06 (September 1, 2005)."

4. TRANSIT SHOULD PROPERLY RECORD CASH OVERAGES AND SHORTAGES AND REPORT MISSING REVENUES.

Reporting of Cash Overages and Shortages

The Treasury Manual requires that "Overages/shortages are recorded in the appropriate **valid** account and activity using Form F4-362." Administrative Instruction No. 2-4 states, "The loss of cash imprest funds (change funds, petty cash funds, checking accounts, etc.) or other City monies (currency, coins, passes, tokens, tickets, etc.) must be recorded as shortages in accordance with Generally Accepted Accounting Principles." There were cases where cash fund overages and shortages were identified by Transit Department employees, but these situations were not handled in accordance with the Treasury Manual. Transit employees have prepared some over/short forms, but did not record the items in the City's accounting records. For example, there was a \$50 shortage on May 12, 2003. Transit employees prepared a cash shortage form, but did not record this in the City's general ledger accounting system. Transit personnel were holding this shortage because they were waiting to get the signature of a supervisor who was on a one year leave of absence.

Reporting of Missing Revenues

Administrative Instruction No. 2-4 states, "Discovery of missing City monies requires timely notification of appropriate departmental management and City Treasury Division. . . . Any discrepancy involving shortages of fifty dollars or more in receipts, imprest funds, counterfeit money or forged checks requires direct notification of Treasury Division."

Passenger revenues of \$798 were supposed to be deposited on September 11, 2003. This revenue was a part of a larger deposit that was made by Transit on this date. However, the bank notified Transit that the \$798 was not received. Transit did not notify Treasury of this loss until February 2004. After Treasury was notified, the City Treasurer made a determination that the \$798 ". . . is now being documented and reported as missing monies by Treasury. Transit revenues of \$798.00 are missing and were subject to deposit on 9/11/03." At this time, Treasury notified Internal Audit. Transit did not promptly notify Treasury and Internal Audit of the monetary loss. In June 2002, Transit had a loss of \$949. Treasury stated that the loss was not reported to them for 14 months.

In September and October 2003, seven bags that contained coupons and revenue paid by Sun Van customers were lost. Another two bags were turned in late. Transit maintains a log on which information about these bags is recorded. On this log, information about two bags collected was scratched out, without an explanation.

Transit was not recording or tracking the trend of individual teller shortages as required by City procedures. When Transit records daily cash receipt information into the City's general ledger, it lumps together all teller overages and shortages for the day, rather than recording the amounts of the individual teller shortages and overages. The Transit Fiscal Manager stated that he did not know that Transit was required to record cash overages and shortages in the City's general ledger system. He further indicated that Transit had not been making general ledger entries to record all teller cash overages and shortages.

We noted a \$106 teller shortage that occurred on May 3, 2004. The shortage could not be traced to the City's general ledger.

RECOMMENDATION

Transit should properly report cash overages/shortages and missing revenue to Treasury as required by City administrative instructions.

Transit should improve the controls over the handling and processing of the Sun Van passenger revenue bags. Lost bags should be investigated and explanations should be made on the bag log.

Transit should properly record individual teller shortages into the City's general ledger system as required by City procedures, and track the trend of shortages by individual tellers over time.

EXECUTIVE RESPONSE FROM TRANSIT

“Transit concurs with the recommendation that overages/shortages and missing revenues should be reported as required. Beginning immediately, Transit will report any missing revenues, for whatever reason, according to standard City processes and requirements.

“Transit has corrected the issue of improving controls over the handling and processing of MiniRide passenger revenue bags by installing two vaults, one at the east side facility and one at the west side facility. The MiniRide (formerly referred to as Sun Van) driver and the supervisor

(together) drop the revenue bags into the vaults, after the revenue bags have been reconciled by the driver and checked by the supervisor. Once deposited, only finance staff can open the vaults. The finance staff opens the vault and checks for missing revenue bags against the revenue recap sheet, which as also been deposited in the vault.

“Transit concurs with the recommendation that teller overages/shortages should be properly recorded. The finance staff receives a daily summary of all the tellers’ overages/shortages. The total overages/shortages are now being posted to the general ledger. Any trends in overages/shortages are tracked so appropriate personnel actions can be taken.”

5. TRANSIT SHOULD ENSURE THAT RESPONSIBILITY FOR CASH FUNDS IS FORMALLY TRANSFERRED TO NEW CUSTODIANS.

When a fund is transferred from one custodian to another, the money should be counted and a new Custodian’s Statement of Responsibility should be completed, signed and notarized. This ensures accountability for the fund and protects both the former custodian and the new custodian.

Treasury maintains a record of cash funds assigned to the various City departments and their divisions. It is important that the records maintained by Treasury accurately reflect who the custodians are of the cash funds assigned to City departments and their divisions.

According to Treasury’s Manual, “Request for transferring funds from one custodian to another also requires a statement of approval from your Department Director.” Also, when funds are transferred, the manual requires that “A new statement of responsibility and dual verification is required at the time of transfer of any imprest funds.”

When a change fund is split between more than one person the Manual requires that “. . . each responsible person is identified by name and social security number. The responsibility for the funds are equally shared between the custodians. Each custodian must sign the Multi-Custodian Statement of Responsibility, this is a legal notarized document.”

- On various occasions, funds were transferred to different custodians without the required transfer procedures being performed. In each of these cases, there was nothing which documented that Transit personnel had dual verified the funds when cash was transferred from one custodian to another. Additionally, new statements of custodian responsibility were not prepared. A \$300 petty cash fund and a \$50 change

fund are being held by a different individual than shown on the records maintained by Treasury.

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- Eleven of 24 employees, who had been assigned responsibility for cash funds, did not have custodian statements.
- Also, a \$2,525 change fund has been transferred or distributed among nine individuals, eight of whom are not listed as sub-custodians on the statement.

Transit Department fiscal management has not ensured that departmental employees follow the required Treasury procedures that require updating its cash fund records on a timely basis. Without accurate Treasury records of funds that have been assigned to various Transit Department custodians, these funds may be more susceptible to the risk of loss.

RECOMMENDATION

Transit should ensure that when responsibility for a change fund is transferred to a new custodian, a new Custodian's Statement of Responsibility should be completed, signed and notarized.

Transit should ensure that all employees, who have been assigned responsibility for cash funds, have custodian statements.

EXECUTIVE RESPONSE FROM TRANSIT

“Transit concurs with this recommendation that new custodian statements should be completed on a timely basis and has corrected this issue. When change funds are reassigned, generally as the result of an employee leaving, the customer service supervisor is responsible for initiating the process of obtaining a new custodian statement for that change fund.”

“Transit concurs with the recommendation that all employees with responsibility for cash funds should have custodian statements. Treasury is now sending Transit a current listing of change fund custodians. Transit verifies this list and returns it to Treasury.”

6. TRANSIT SHOULD ENSURE THAT CASH FUND CUSTODIANS MAINTAIN ADEQUATE SEPARATION OF DUTIES.

The Treasury Cash Handling Manual states that there should be separation of duties for cash handlers. Cash fund custodians should not have access to other cash funds or revenues to avoid the potential of commingling of funds. The commingling of funds increases the risk to the City of the loss of these funds. The manual states that “Commingling of cash imprest funds (petty cash/change funds, or any other fund) is not permitted.”

According to the Treasury Manual, regarding the transportation of money, “Employee safety is always the top consideration when transporting money. Take precautions...Go in pairs.”

- Two \$300 petty cash funds and two \$50 change funds are being held by one individual in a single \$700 fund, and not accounted for separately.
- One employee at Transit had access to three sources of cash revenues. This same individual assisted in the reconciliation of these revenues, and prepared revenue deposits. This employee also transported the deposits to the main vault located at the Transit facilities on Yale by herself.

These activities contradict the requirements in the Treasury Manual regarding transporting of cash and the separation of duties. When the same person performs multiple cash handling duties, it can compromise and weaken controls over cash. Whenever duties conflict, employees are in jeopardy of being held responsible for events over which they may or may not have control. With separation of duties, both the custodian and the City are protected.

Access to Cash Equivalents

The employees who have access to and issue the cash equivalents to vendors and other Transit personnel are the same employees who perform the reconciliation and record keeping process for these cash equivalents. These employees also process the payments that are received from the vendors who sell the products. A system of good internal controls would separate the duties of record keeping, access and issuance of the cash equivalents, and the processing of the payments.

RECOMMENDATION

Transit should ensure that a single employee is not the custodian for more than one cash fund.

Transit should ensure that cash fund custodians maintain adequate separation of duties.

EXECUTIVE RESPONSE FROM TRANSIT

“Transit concurs with this recommendation. This finding occurred as the result of several vacancies in the Transit finance division during the extended course of this audit. Some of these vacancies have now been filled, and the division is segregating duties as practical.”

7. TRANSIT SHOULD ENSURE THAT TRAINING AND CERTIFICATIONS FOR ALL CASH FUND CUSTODIANS ARE CURRENT.

City policies require that training and certification are current for all cash handlers. According to the Treasury Cash Handling Manual, “The individual must have a current cash handling certification.” According to Administrative Instruction No. 2-6, “Those individuals not certified by the Treasury Division will not be recognized as official cash handlers and shall not handle City monies until completing the training course and receiving certification.”

As of August 21, 2003, Transit had 24 employees assigned to cash handling duties. Our review of training and certification status for these employees showed that three had not received the required training and fifteen had certifications which were expired.

Transit fiscal management has not monitored cash training and certification to ensure that all custodians have current cash handling certification. As a result, Transit has allowed individuals, who are not certified, to handle City revenues. These employees handle more than \$6.3 million in revenues each year.

The cash handling training offered by Treasury covers a variety of topics. The training includes accounts receivable, deposit preparation, recording of revenues on City accounting systems, and petty cash funds.

RECOMMENDATION

Transit should ensure that all cash fund custodians have received the required cash handling training and are certified as City cash handlers.

EXECUTIVE RESPONSE FROM TRANSIT

“Transit concurs with the recommendation. All personnel that handle cash have been certified by Treasury.”

8. TRANSIT SHOULD COMPLY WITH THE CITY’S CREDIT AND ACCOUNTS RECEIVABLE POLICY.

In September 2003, the City implemented a revised credit and accounts receivable policy. According to Administrative Instruction No. 2-2 (Revised), Credit, Collections and Accounts Receivable Policy:

- All receivable systems shall be approved by the DFAS and shall interface with the City’s general ledger.
- Duties will be assigned in such a manner that responsibilities or the authority to extend credit, prepare billing, make adjustments to billings, or receive and record payments are separated.
- Guidelines for the processing of receivables which are delinquent were provided. For debt over \$1000 and past due over 120 days, the Legal department is to participate in the collection of the debt.

Bus passes and tokens are consigned by Transit to various companies and institutions. The amounts due for the consignments are recorded by Transit on internal records. According to Treasury personnel, DFAS has not approved the Transit system that records these receivable transactions.

Duties have not been separated as required by the City policy. One Transit employee is responsible for all of the transactions relating to the recording, collecting, reconciling and safeguarding of these cash equivalent items. Financial losses can occur when one employee has total control over the processing of transactions. Losses can remain undetected because other employees do not participate in the processing of items.

Transit records indicate that \$5,892 of consigned item receivables is older than 90 days. According to Transit's records, two of these old receivables are \$1,000 or more. Transit records do not indicate if these two receivables are more than 120 days old. If they are, Administrative Instruction No. 2-2 (Revised) would require the involvement of the Legal Department to collect these funds. One Transit receivable for \$3,921 listed on the City's Accounts Receivable system is more than four years old. We determined that not all of the Transit consigned items are listed in the City's account receivable records.

RECOMMENDATION

Transit should obtain approval from DFAS for the use of their in-house system for consigned item receivables. Transit should ensure that the system can interface with the City's general ledger. Transit should ensure that any receivables which it keeps on a subsidiary ledger are reflected in total on the City's general ledger system.

Transit should segregate the duties of processing and accounting for consigned items.

Transit should ensure that the required actions to initiate collections on past due accounts are performed.

EXECUTIVE RESPONSE FROM TRANSIT

“Over the next six months, Transit and Treasury will work with the Director of DFAS to identify necessary changes related to consigned items. Tokens and passes consigned to vendors, principally APS, are not directly equivalent to traditional accounts receivable. Policies regarding amounts of consigned items by type of vendor will be considered.”

“As noted in the response to Finding 6, vacancies in the Transit financial division caused the disruption of several internal controls related to the segregation of duties. With the filling of some of those vacancies, appropriate segregation of duties is being reinstated as practical.

The receivables related to consignments to APS will likely require special handling.”

EXECUTIVE RESPONSE FROM DFAS

“DFAS respectfully notes that additional interfaces to the existing antiquated general ledger system are not practical at this time. Assuming a positive public response to the 2005 GO bond package, implementation of a new accounting system for the City may allow for appropriate interfaces.”

9. TRANSIT SHOULD UPDATE ITS WRITTEN CASH HANDLING PROCEDURES.

Transit collected \$6.3 million in revenues in FY2003. Transit does have some written cash handling procedures for its operations; however, these procedures have not been updated since 1995. Since 1995, Transit has added two additional sites where cash revenues are processed, the ATC cashier area and the Westside Transit Facility. Written procedures would improve control of the cash procedures.

In November 2003, the Transit Director instructed Transit’s fiscal manager to develop written cash handling procedures for the department. As of July 2004, this has not yet been accomplished.

RECOMMENDATION

Transit should update its written cash handling procedures.

EXECUTIVE RESPONSE FROM TRANSIT

“Transit agrees that current cash handling procedures should be documented and will complete this task by December 31, 2005.

“It is useful to note that, prior to the opening of the west side transit center, OMB staff met with Transit managers, Treasury staff, Internal Audit staff and the Chief Operations Officer in a series of meetings, as well as conducted site visits, to devise a plan to collect and count fare box money collected at both the east and west side facilities. The plan went to implementation when an armored car operator began collecting vaults to count money and prepare funds for deposit.”

10. DMD SHOULD DEVELOP PROCEDURES TO ENSURE THAT TIMELY LEGAL ACTION IS INITIATED FOR THE COLLECTION OF A DEBT.

On March 4, 2002, the City purchased the Acropolis Parking Unit. At the same time, the City leased this parking facility to a company that was required to make monthly lease payments to the City. According to the agreement, the property was purchased from the parent company of the subsidiary which leased the property. The purchase of the property by the City was financed by the issuance of revenue bonds. The company that leased the parking facility was also required to pay the City for the costs associated with the issuance and servicing of the bonds. The City did not receive any payments for these costs.

According to the terms of the lease agreement, the company could defer up to 50 percent of the lease payments for three years after the payment was due, based upon the financial results of the parking facility's operations. However, the company was still required to pay the City \$221,302 during this two-year period (50 percent of the total amount due). The amounts due from the company had been recorded as an accounts receivable by the City. The company did not make any lease payments to the City. Administrative Instruction No. 2-2 (Revised) states, "For debts of at least \$25,000 . . . Legal action shall be taken."

In April 2004, DMD took over the operation of the Acropolis parking facility. In July 2004, a lawsuit was filed by the Legal Department in an effort to collect the unpaid debt. If the Parking Division had referred this situation to the Legal Department for action when the debt to the City first exceeded \$25,000, the loss to the City may have been reduced.

RECOMMENDATION

DMD should develop procedures to ensure that timely legal action is initiated for the collection of a debt as soon it exceeds \$25,000.

EXECUTIVE RESPONSE FROM DMD

"The fact pattern related to the Acropolis parking facility is far more complicated and convoluted than as presented in the finding, involving changes in ownership and at least one bankruptcy filing. The Parking Division, first under Transit and then under DMD, involved the Legal Department as soon as it became apparent that the lessee would not meet their contractual obligations under the lease. Not only was a lawsuit

filed, the Parking Division took over daily operations of the Acropolis parking structure to minimize further economic detriment to the City.”

11. MISCELLANEOUS FINDING

The following finding does not require a response, but should be considered as an additional ways to improve Transit cash handling.

City regulations and state statutes require that public funds be deposited no later than the close of the next business day. We noted situations where Transit did not comply with these requirements for the timely deposit of public funds. For example, \$673 of revenues which had been received on August 7, 2003, had not yet been deposited as of August 21, 2003.

On March 16, 2004, Transit sent 9 checks to the Treasury Division for deposit into the City's bank account. Transit had been holding these checks. Six of these checks were dated in February 2004.

As of August 21, 2003, Transit was holding \$3,480 of checks in its vault paid by Parking Division customers. One of these checks, for \$768, had been written by the customer in April 2003.

Transit should make timely deposits of all public funds.

CONCLUSION

Transit should improve its cash handling processes and security to better safeguard City monies. Transit should ensure that all of its personnel who handle City monies have required the required training. Transit should ensure that all revenues that it receives are properly accounted for.

We appreciate the assistance and cooperation of Transit and DMD personnel.

Senior Auditor

Principal Auditor

REVIEWED

Principal Auditor

APPROVED:

Carmen L. Kavelman, CPA, CISA, CGAP
Acting Director, Office of Internal Audit
and Investigations

APPROVED FOR PUBLICATION:

Chairman, Accountability in Government
Oversight Committee