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### **Report on Review of Cash Receipt Collections**

The City of Evanston (“the City”) requested our assistance in reviewing and assessing internal controls and procedures surrounding the City’s cash collection points. The overall engagement objectives were to identify any key issues observed and communicate best practices of a well-run collection system. Identified cash collections points for this engagement included:

City Hall Collector’s office  
Garage parking collections within City Hall  
Chandler - Newberger Community Center

Our report is organized as follows:

- > Background
- > Approach
- > Executive Summary
- > Appendix A – Internal Control Structure
- > Appendix B – Specific Findings and Recommendations

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**Background:**

This study was undertaken to evaluate the cash collection processes and financial records with the following specific outcomes in mind:

- > Maintain and/or improve internal controls
- > Identify practices that are inconsistent with “best practices”

*Maintain and/or improve internal controls*

Cash receipts maintain an internal control structure, the purpose of which is to provide reasonable assurance that specific objectives are achieved. These objectives include the safeguarding of assets from unauthorized use or disposal and appropriate authorization of transactions.

Two of the components of the internal control structure relevant to this study are the accounting system and the control procedures. See **Appendix A** for a detailed description of these control system components.

The objective of this evaluation is to consider the City’s internal control structure in the process of evaluating the City of Evanston City Hall Collector’s office, garage parking collections within City Hall, and the collection point at the Chandler – Newberger Community Center and limit recommendations of opportunities for efficiencies to those that maintain or improve that internal control structure.

*Identify practices that are inconsistent with “best practices” used by other governments*

Achieving efficient cash receipt operations that maximize the benefit to the residents goes beyond just maintaining a sound internal control structure. Optimizing available resources, developing comprehensive procedure manuals, and providing proper employee training also play an important role in obtaining efficient and consistent operations.

We considered these items, referred to as “best practices,” during our evaluation of the cash receipt processes.

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**Approach:**

The evaluation of the City's cash receipt processes consisted of the following components:

- > Project Planning
- > Completion of Assessments
- > Analysis of Results

*Project Planning*

The planning phase included the following:

- > Identify the practices of a well-run municipality to develop a "best practices" benchmark against which to compare the City's operations. This approach helps identify controls that are not present in the City's procedures but which are components of a good internal control structure. For these purposes, we considered industry sources, trade materials and our experience and knowledge in the industry.
- > Development of a work program. The work program served to organize the work so that the City's objectives were met. In planning the work to be performed, we considered your desired outcomes.

*Completion of Assessments*

The completion of assessments phase included:

- > Interviews of personnel at the previously identified cash collection points and the performance of walkthroughs of procedures with staff.
- > Obtain a selection of cash receipts and assess the process performed in comparison to the City's current documented procedures and industry "best practices". Assessments included the use of daily receipt registers to record transactions, the security of daily deposits, and the identification of control strengths and weaknesses.

*Analysis of Results*

- > Assess the information gathered in the assessment phase with respect to the desired outcome in Project Planning. During this phase we consider internal control structure to identify areas of weakness. We also determine how findings compare to "best practices" noted in other municipalities in an attempt to identify areas of improvement.

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**Executive Summary:**

As part of the engagement, we selected a sample of revenues from each of the previously identified cash collection points for testing. The results of our testing indicated that some revenues were not processed in accordance with the City's standard cash collection procedures. These specific findings are documented in **Appendix B** of this report. Of the items tested during this engagement where proper documentation was available, we did not identify any transactions that appeared to indicate employee improprieties occurred. However, we offer the following observations and recommendations based on our review and evaluation of the City's cash receipt process:

***Segregation of duties***

Segregation of duties can be defined as the inability of one employee to conceal errors or improprieties in the normal course of their duties. Adequate segregation of duties reduces the likelihood that errors or fraud will occur or remain undetected. Duties requiring segregation are the authorization of transactions, custody of cash received, and the recording or reporting of transactions. A control over the processing of a transaction should not be performed by the same individual responsible for recording or reporting the transaction.

Cash (currency, coin, checks, money orders and credit cards) is inherently risky because it is the most liquid of the City's assets. It is extremely important that all departments handling cash implement and adhere to strong internal controls. Below we list some areas where we found a lack of segregation of duties.

At the City Hall Collector's office, we found a lack of segregation of duties in the Operations Coordinator position. The Coordinator reconciles the daily cash receipts collected by the cashiers, prepares the deposit for pickup by Garda, and enters, saves and posts the receipts to the accounting system (IRIS). During her reconciliation process, she changes dollar amounts and account numbers when she discovers errors that were made by the cashiers. Additionally, there is no review of the Operations Coordinator's duties by the Accounting Department unless there is an issue with the bank reconciliations. This lack of segregation creates an opportunity for a misappropriation of receipts by adjusting the entries in the accounting system (IRIS) to match the deposit made to the bank.

To assist in mitigating the risk of loss, we recommend that the embedded control within IRIS be activated that allows someone independent from the entry of the cash receipt into the system to post the data after reviewing supporting documentation. This posting should be completed by someone outside of the Collector's office, preferably in Accounting. As part of the posting process, a review of the amount collected according to the original cashier reports should be

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compared to the changes made by the Coordinator, and then to the amount deposited by Garda.

***City stickers***

All clerks at City Hall perform cashier functions, and the Operations Coordinator also may assist as a cashier. All cashiers also have access to the vehicle city stickers and enter the stickers into the City Sticker database after payment has been received. Because the cashiers are required to enter the stickers into a separate database for tracking, there is no assurance that the stickers entered have actually been paid. Therefore, an opportunity exists to enter a City sticker in the database as paid without the City receiving revenue.

Additionally, although the Collector's office uses a log to track assigned City stickers, there is no review of the log to ensure that the stickers on the log have actually been issued, residency requirements have been met, and payment has been recorded. For the current process to function correctly, a report should be generated from the Duncan cashier system by City sticker code so the number of stickers sold according to the report can be matched to the City's actual sticker inventory and the dollar amount of sticker revenue in the City's general ledger.

The current process also makes it difficult to track vehicle sticker inventory because stickers sold are entered into Duncan in bulk for the total dollar amount of stickers sold with no indication of the type of stickers or sticker numbers. In order to reconcile the information in Duncan to the log maintained by the Collector's office, each vehicle sticker number sold would need to be entered individually in the system.

***Cash receipts ledger***

Ideally, the cashiering system in the Collector's office would interface directly with the City's general ledger, and all items sold by the City (residential parking permits, lot permits, dog tags, building permits, etc.) would post directly to the proper revenue account. Dollar amounts for each unique revenue item could be pre-populated within the system and cashiers would be prevented from editing the amounts. Each revenue type also would be assigned a specific general ledger account number in the cashier system. These system changes would eliminate the cumbersome process of data entry into multiple systems and reduce errors due to inaccurate entries. The City could also use an interfaced cash receipts ledger to track vehicle sticker inventories so that the list of stickers issued is updated as soon as a payment transaction is completed.

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***Cash drop box controls***

The Collector's office utilizes a drop box to hold prepared deposits waiting for Garda pickup. The Operations Coordinator and recreation center place deposits in the drop box. However, recreation center deposits are not secured and the Operations Coordinator has a key to access the drop box. Additionally, if the deposit were found to be missing, it would be difficult to prove when the theft occurred, before or after it was placed in the drop box. The inherent risk associated with the current process could be mitigated partially by using a deposit log for the drop box. The deposit log would document the time a deposit was put in or taken out of the box, the amount of the deposit, and the employee (or armored car representative) that performed each action. Ideally, all deposits placed in the box would be counted by two individuals to verify the correct deposit amount was recorded on the log.

The cashiers at the Chandler–Newberger Community Center also use a drop box and safe for deposits. We recommend that the Community Center use a similar log to help monitor its deposits.

***Accountability***

There appears to be a lack of individual accountability for errors identified during the daily cash reconciliation process. During the reconciliation process, cashiers reconcile the total amount collected for their drawer to the total reported collections from the system. Then the Operations Coordinator combines the receipts from all cashier clerks to calculate a grand total and compares it to the amount of revenue recorded in Duncan. Any errors discovered are investigated and adjusted as necessary. Overages or shortages are recorded in a separate line item in the general ledger. Because all receipts are combined in the reconciliation process, it cannot be determined which cashier was responsible for the error and there is no accountability. When cashiers are not notified of errors, the same error may be performed repeatedly. In addition, if a cashier is suspected of causing discrepancies or misappropriating funds, there is no proof to support the City's disputes.

We recommend that cashiers reconcile the receipts for each transaction type to identify miscoding errors up front. The Operations Coordinator should then review each cashier's reconciliation individually so that errors can be corrected up front and the cashier can be held accountable. Afterwards, the Operations Coordinator can reconcile the total daily cash collections to the Duncan system.

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***Inefficiencies***

During the engagement, we had the opportunity to observe the cashiers at the Collector's office. We were informed that cashiers are scheduled to work at the window for half of the day and the other half is spent completing assigned desk duties. However, we observed numerous occurrences when a cashier is beginning to work on reconciling accounts or entering data into the sub-ledgers and must leave to assist at the window because of the large volume of customers. The cashier returned to the desk after customers dispersed, but there often isn't enough desk time to complete all responsibilities. As mentioned above, a new, integrated cash receipts ledger would reduce the amount of time needed for desk duties, such as data entry and reconciling. In the absence of a new cash receipts ledger, the City should consider rearranging each cashier's scheduled time at the window to help minimize disruptions from desk duties as much as possible and improve efficiency.

***Safety and security***

The Collector's office has a glass pane separating cashiers from the customers. We noticed many times that a customer could not hear the cashier and the cashier was required to stand up and speak over the glass. When doing so, the benefit of having the glass separation in place is lost and potentially makes the cashier vulnerable to a frustrated or disgruntled customer. We recommend that the protective glass be extended higher and speakers installed to improve communication with customers and maintain the safety of the City's cashiers.

***Inconsistencies in processes***

The City recently combined its cash collection and parking departments, so it is understandable that there are inconsistencies in processes performed by cashiers. During our observations and inquiries at the City Hall Collector's office we found staff performing cash handling duties in different ways. Employees informed us that they primarily developed the methodology for their duties from personal experience.

We noted the City has a Cash Handling Operations Manual that documents the City's policies for cash handling. We observed that the Chandler-Newberger Community Center uses the manual as a training device and keeps it conveniently located at the register for reference. However, the cashiers at the Collector's office were not aware of the manual's existence.

We recommend that the City review the Cash Handling Operations Manual and update it as necessary to serve as a comprehensive reference for all employees involved in the cash receipts process. The manual should be provided to all cash collection locations and employees should be required to participate in a training session covering important points from the manual. The training should cover the framework for a proper internal control structure such as:

- > What types of identification are required from customers

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- > When payment exceptions or discounts are allowed
- > Which City employees may receive free permit parking
- > Who is allowed to void transactions

Providing consistent guidelines for all cashiers limits the reliance on personal judgment or risk of offending customers and increases the likelihood of providing a safe and secure environment for staff and the City's assets.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

Jason Coyle, CPA, Partner

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## **Appendix A – Internal Control Structure**

An internal control structure includes the following components:

- > Accounting system
- > Control procedures

In evaluating the internal control structure of the City's cash receipt functions in conjunction with our review, we considered the accounting system and control procedures based on the following criteria.

### **Accounting System**

The accounting system consists of the methods and records established to identify, assemble, analyze, record, and report the City's transactions and to maintain accountability for the related assets and liabilities. An effective accounting system gives appropriate consideration to establishing methods and records that will:

- > Identify and records valid transactions.
- > Describe on a timely basis the transactions in sufficient detail to permit proper classification of transactions for financial reporting.
- > Measure the value of transactions in a manner that permits recording their proper monetary value in the financial statements.
- > Determine the period in which transactions occurred to permit recording of transactions in the proper accounting period.
- > Present properly the transactions and related disclosures in the financial statements.

### **Control Procedures**

Control procedures are those policies and procedures in addition to the control environment and accounting system that management has established to provide reasonable assurance that specific City objectives will be achieved. Control procedures have various objectives, and are applied at various organizational and data processing levels. They may also be integrated into specific components of the control environment and the accounting system. Generally, they may be categorized as procedures that pertain to:

- > Proper authorization of transactions and activities.

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- > Segregation of duties that reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of his duties - assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets.
- > Design and use of adequate documents and records to help ensure the proper recording of transactions and events, such as monitoring the use of pre-numbered permit and City stickers.
- > Adequate safeguards over access to and use of assets and records, such as secured facilities and authorization for access to computer programs and data files.
- > Independent checks on performance and proper valuation of recorded amounts, such as clerical checks, reconciliations, comparison of assets with recorded accountability, computer-programmed controls, management review of reports that summarize the detail of account balances (for example, an aged trial balance of accounts receivable), and user review of computer-generated reports.

*Adopted from the AICPA's Consideration of the Internal Control Structure in a Financial Statement Audit.*

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## **Appendix B - Specific Findings and Recommendations**

### **CITY COLLECTOR'S OFFICE – VEHICLE STICKERS**

1. Finding: It was difficult to confirm payment for several vehicle stickers. Vehicle stickers sold are entered into Duncan as a batch. Therefore, the amount and date individual sticker numbers were sold could not be determined.

Recommendation: Vehicle stickers sold should be entered into Duncan individually or batches should include documentation referencing the sticker numbers sold.

2. Finding: We reviewed the City sticker database and noted several gaps in vehicle sticker numbers issued. The City investigated the cause for the gaps in sticker number sequence but has not been able to provide an explanation.

Recommendation: A thorough inventory of vehicle sticker numbers should be completed annually to ensure all vehicle stickers are accounted for properly as sold or available.

3. Finding: All employees in the Collector's office have access to the City's sticker database. Although there is identifying information in the database for data entered, there is no review or reconciliation to verify information was entered accurately and revenue in the sticker database agrees to revenue in the City's general ledger.

Recommendation: The City should have a cash receipts system that is interfaced with the general ledger so vehicle stickers sold are immediately recorded as revenue. An alternative recommendation for the current system is that someone independent of the sticker database entry should reconcile the revenue from the database to the revenue reported in the general ledger.

4. Finding: Refunds occasionally are issued by the City Collector's office. We identified one refund on 3/1/2010 for \$524 that did not have any supporting documentation.

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### **Appendix B - Specific Findings and Recommendations (continued)**

Recommendation: Supporting documentation for refunds should be reviewed in detail and approved by an employee independent of the data entry process.

5. Finding: During our review of the City's sticker database, we noted sticker number 012550 sold for \$10 was entered in the database twice.

Recommendation: The City's system should require stickers sold to be entered individually according to sticker number and include a control that prevents duplicate entries for the same sticker number.

### **CITY COLLECTOR'S OFFICE – PARKING PERMITS**

1. Finding: During our testing of parking permit payments, we found the following discrepancies between permit issuance documentation and amounts received according to the Duncan cash receipts system:
  - a. Lot 4, permit numbers 16 and 17: The invoice indicates one permit was issued but no payment data was entered. However, two permit numbers were awarded in the system and the amount paid could not be confirmed without the sale date or payment information on the invoice.
  - b. Lot 4, permit number 10: The permit was issued to a City truck and the invoice indicated there was no charge, but the system indicated the amount due was \$150.
  - c. Lot 8/31, permit number 21: The invoice indicates the permit was issued for \$105, but the system includes a note that there was no charge because the permit was issued to a crossing guard.

Recommendation: Employees should be trained on the proper documentation required for permit issuances to eliminate inconsistencies. Any permits issued at no charge or discounted fees should be documented consistently on the invoice and in the cash receipts system. Invoices for no charge and discounted permits should also document the review and approval of a supervisor.

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## **Appendix B - Specific Findings and Recommendations (continued)**

### **CHANDLER – NEWBERGER COMMUNITY CENTER**

1. Finding: The Community Center has surveillance cameras in place in the cashier area. However, the camera tapes are only reviewed if there are issues.

Recommendation: Security tapes should be periodically reviewed by a supervisor to identify any inappropriate behavior by employees.

2. Finding: During our testing at the Community Center, we identified a registration for a children's class on 3/11/2010 that did not include evidence of the customer payment. The program manager determined that there was a discrepancy between the registration and payment because the class was likely paid for by a babysitter who dropped off the child rather than the guardian who registered for the class.

Recommendation: During drop off/walk-in activities, cashiers should record all relevant payment information and match it to registration information to verify all participants have properly paid.

### **CITY COLLECTOR'S OFFICE – MISCELLANEOUS OBSERVATIONS**

1. Finding: During shift breaks in the Collector's office, we observed that one cashier often would take the place of another cashier at the same register.

Recommendation: Each cashier should operate his own register drawer so the cashier can be held accountable for any discrepancies in cash collections.

2. Finding: Payments received through the mail or drop box are opened and processed by one employee.

Recommendation: Drop off payments should be counted by more than one employee to verify the amount of cash received and prevent theft.