

#1 (Rev.1/93) SINGLE PAGE COMMUNICATION TO THE COMMON COUNCIL

TO: THE COMMON COUNCIL: DATE: February 17, 2005

FROM: DEPARTMENT: Audit and Control

DIVISION: Audit

SUBJECT: [: **License Division**
 [: **Dept. of License and Inspections**
 [:
 [:

PRIOR COUNCIL REFERENCE: (IF ANY) [:

Ex. (Item No. xxx, C.C.P. xx/xx/xx)

TEXT: (TYPE SINGLE SPACE BELOW)

Summary of Findings

1. The safeguarding of assets (cash) is not well controlled and could lead to misappropriations of funds
 - a. Cash and checks are kept in a drawer, not in a teller cage, and are accessible to several individuals at any given time. As such, responsibility for any missing funds would not be ascertainable.
 - b. Physical safeguards for cash are not present.
 - c. Physical safeguards of employees are not secure either in the division or en-route to Treasury area tellers.
2. "Deposit of Receipts Intact on a Daily Basis" is a sound accounting control principle that was not adhered to. Undeposited checks were uncovered during the audit.
3. There is a lack of segregation of duties with several persons handling cash. The same employee handles the cash and records and reconciles the revenue for particular types of licenses. This does not allow for control of cash or control over the particular license process.
4. The lack of reconciliations between the two systems leads to incorrect financial record keeping. The differences must be resolved.
5. Documentation is missing or is incomplete in a sample of cases examined. Audit was, therefore, unable to validate that the qualifications exist for the licensee or that the correct amount was charged for the licenses.
6. Missing documentation of original license information because of retention practices.

7. There appears to be too many categories of licenses given the number and dollar values for the City to reasonably monitor.
8. Field inspection for license verification by the audit team in two geographic areas of the City revealed discrepancies at two businesses with exceptions to the license process.

Summary of Recommendations – Licenses Audit

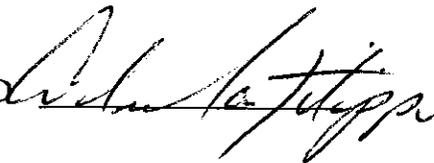
1. The assets need to be safeguarded. The Licenses division should implement the policies and procedures in place in the Permits division. Their permit process authorization is based on the charter and policies. Once the permit is deemed eligible, an invoice is produced by the Permit system (HANSEN). The individual proceeds to the Treasury area where they pay the fee to a teller, who then prints the original permit for display at their job site (or business location in the case of the licenses). This precludes the need to have cash in any Permits drawer that can be accessed by numerous individuals and eliminates the safety factor of carrying the receipts to Treasury.
2. Receipts should be deposited intact daily. This reduces the risk for misappropriation of assets.
3. Reconciliations must be done if a formal policy and process or an interface is not implemented. The risk is that licenses may be issued, but the correct amount of revenue from the license is not collected. The general ledger records only that which has been received through the Treasury function. There is no comparison to what they expect to collect based on the licenses issued in the system. The steps needed in a reconciliation are:
4. An interface was developed in M.I.S. between the PEEK system and the MUNIS system but never installed. This needs to be done and at this time is being tested for implementation. This would eliminate the need to reconcile the two systems; however, we would advise that the systems be agreed to each other on a monthly basis.
5. A documentation/filing system review needs to be initiated. Each license category has its unique filing and retention methods. There is also no interrelationship developed among the various licenses and their licensees. A person filing multiple license applications may have one filed by location of the business, and other(s) by owner or proprietor. The retention process does not always include the original application so an employee does not know if there are conditions that were not met or have lapsed or if other requirements exist (such as financials, etc.).

6. More physical inspection of licenses should be performed. The inspection of licensee businesses may be tested by physically visiting all businesses in a commercial strip or using property records compare the addresses and owners to the license database. Any lost revenues would be uncovered. The advantage of the visit is that the business may have changed and more licenses may be identified.
7. Management must be accountable to follow up on outstanding issues as a result of the prior audit. We recommended in the prior audit that a reconciliation be performed and no action was taken. In fact, the manual reconciliation was discontinued and no system interface was implemented for over a year. An interface between the two systems has been written and tested, but its implementation for December 2004 was delayed again.
8. Field inspection for license verification by the audit team in two geographic areas of the City revealed discrepancies at two businesses with exceptions to the license process.

TYPE DEPARTMENT HEAD NAME: ANDREW SANFILIPPO

TYPE TITLE: COMPTROLLER

SIGNATURE OF DEPARTMENT HEAD

A handwritten signature in black ink, appearing to read "Andrew Sanfilippo", written over a horizontal line.