

TO: THE COMMON COUNCIL DATE: December 27, 2010
FROM: THE DEPARTMENT OF
AUDIT & CONTROL
SUBJECT: Audit Report – Division of
Treasury and Collections

Attached please find an audit report on the Division of Treasury and Collections. The audit covers the period January 1, 2010 through June 30, 2010 and examines the Division of the Treasury's processes for receiving, recording and receipting cash and cash equivalents. This review covered the Treasury's Cash Management, Internal Controls, and Trust & Agency Fund Management. It did not cover the Collections area within Treasury. This review is the first after perhaps a dozen years.

Overall, our findings were quite positive and we are encouraged by the professionalism and proficiency of the Treasury operation. It is a compliment to the Commissioner, the Director and the administration that such a vital City function is managed so well. While we did make some recommendations, it cannot be denied that this is a well run area within City Hall.

Our thirteen recommendations were specifically addressed in the Division's response which is also attached. They are in the midst of making or have already completed a number of them. The Audit found no material discrepancies in the amount of monies reported. All required records were made available to our Audit Team. This Audit represents the first comprehensive review of the Treasury Division's operations in perhaps a dozen years. It should be duly noted that the Treasury is run in a professional manner and the system of internal controls is highly effective. While there is always room for improvement, especially in light of emerging technologies, we find that the Division's methods for receiving, recording and receipting cash and cash equivalents are sufficient and afford more than a reasonable level of comfort.

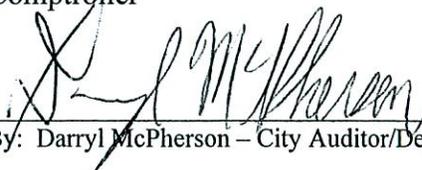
We thank the Commissioner and the Director for their cooperation with the production of the audit. We extend our appreciation for the Division's continued efficiency and make note that much of it is possible by virtue of the efforts of the retiring Treasury Administrator. Her contribution to the City of Buffalo has been truly invaluable.

If you have any further questions on this matter, please feel free to contact the Department of Audit and Control.

DEPARTMENT HEAD: Andrew A. SanFilippo

TITLE: Comptroller

SIGNATURE:

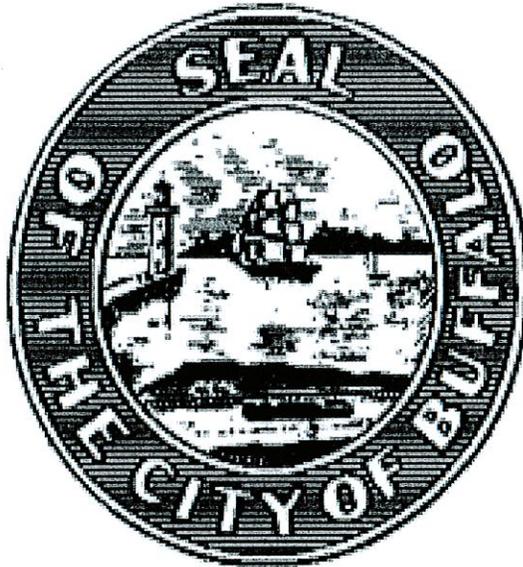

By: Darryl McPherson – City Auditor/Deputy Comptroller

CITY OF BUFFALO
DEPARTMENT OF AUDIT & CONTROL

AUDIT REPORT ON THE
DIVISION OF TREASURY & COLLECTIONS

For the Period January 1– June 30, 2010

ANDREW A. SANFILIPPO
COMPTROLLER



DARRYL McPHERSON
CITY AUDITOR

DECEMBER 2010

Audit Scope

The audit covers the period January 1, 2010 through June 30, 2010 and examines the Division of the Treasury's processes for receiving, recording and receipting cash and cash equivalents. This review covered the Treasury's Cash Management, Internal Controls, and Trust & Agency Fund Management. It did not cover the Collections area within Treasury.

Description of the Division of the Treasury

The Division of the Treasury, located in Room 117 City Hall, is a Division of the Department of Administration, Finance, Policy and Urban Affairs. The City of Buffalo website lists the following description of Treasury Services:

- Receive, receipt, and deposit all monies for the City of Buffalo including but not limited to Taxes, Sewer, Water, User Fee, Parking Violations and Accounts Receivable
- Furnish monthly Statement of Condition to the City Comptroller
- Keeps accurate and separate accounts of various funds for City, Sewer Authority and Water Board
- Acts as a Trustee for Trust and Agency Investment Accounts
- Collect and maintain records of all City employee garnishees and liens and distribute all monies as specified by the Courts

Personnel

The Division of the Treasury is comprised of a Director, an Administrator, an Assistant Administrator, and a staff of 14.

Audit Approach

1. Gaining an overall understanding of Treasury activities, including internal controls, through interviews with the Treasury Administrator and the Assistant Treasury Administrator
2. Selection of 21 Test Dates from the Audit Period January 1 – June 30, 2010
3. Detailed examination of Sample Date payments through review of Treasury teller tape totals, and corresponding source documents, including verification that payments are accurately reflected in the various revenue source databases, e.g. Tax, User Fee, Parking, Permits and Licenses
4. Observation of Teller activities
5. Review of Chief Teller's activities
6. Overview of Pay and Display Parking Meter Revenue
7. Detailed review of bank deposit slips prepared for cash and checks taken in at the Treasury Teller Room in City Hall deposited via Dunbar Armed Guard into the City of Buffalo's Cash Clearing Account at M&T Bank

8. Detailed review of disbursement of funds from the Clearing Account into the appropriate Fund specific Bank Accounts
9. Audit of Trust & Agency Funds
10. Count of Year End Cash on Hand June 30, 2010

Treasury Operations Overview

Receive, receipt, and deposit all monies for the City of Buffalo including but not limited to Taxes, Sewer, Water, User Fee, Parking Violations and Accounts Receivable.

There are several avenues available for customers to pay bills owed to the City, i.e. City Hall, Lockbox, American Water, and Internet.

PAYMENT LOCATIONS

Type of Payment	Lock Box via mail	City Hall in person, online, via mail	American Water in person, via mail	Internet
TAX PROPERTY	Y	Y	N	Y
TAX SEWER	Y	Y	N	Y
USER FEE	Y	Y	N	Y
WATER	Y	Y	Y	Y
PARKING	Y	Y	N	Y

PAYMENT DUE DATES

Type of Payment	Period	Due Date
TAX PROPERTY	Semi-annual	31-Jul , 31-Dec
TAX SEWER	Annual	30-Sep
USER FEE	Quarterly	16-Aug, 16-Nov, 16-Feb, 16-May
WATER	Quarterly	Varies Depending on Area of the City
PARKING	Variable	

Payment locations:

City Hall Treasury: Tellers accept payments. Each business day, Dunbar, an armed guard service, picks up the daily cash and checks for deposit into an M&T Bank Clearing Account.

Lockbox Receipts: Mailed City Invoices contain return payment envelopes with Post Office Box numbers which correspond to Types of Payments, e.g. User Fees, Taxes and Parking. M&T Bank processes lock box payments. The cash and checks are deposited into the City of Buffalo's M&T Bank Clearing Account. The payments are scanned and an electronic file is created which is transferred to the City of Buffalo Management Information Systems Department (MIS).

American Water: Water payments are made in person and by mail to American Water located on Exchange Street. American Water acts a payment processor for the City of Buffalo. Similar to the Treasury, each business day American Water prepares a deposit of cash and checks which Dunbar, an armed guard service, picks up and deposits into the City of Buffalo M&T Clearing Account. Effective July 1, 2010, the City has replaced American Water with a new service provider named Veolia. American Water handled the water payments during the Audit timeframe.

Internet Payments: Payments can be made through the internet. Customers can access the payment screens through the City of Buffalo website. A credit card merchant bank deposits the payments into the M&T Internet Clearing Account.

Payment Data Capture in Management Information Systems (MIS) Department:

Payment detail is sent from the M&T Lockbox, American Water and the Internet Merchant Bank to MIS which enables updating of the Receivables database.

Next Day Reporting and Movement of Funds: The business day following the deposit, the Treasury staff summarizes the prior day's receipts from all payment locations. MUNIS journal entries are entered to record the Cash Deposit and the corresponding reduction in the accounts receivable. The Chief Teller prepares checks written on the Clearing Account to move money into the bank accounts set up for specific funds. These processes are depicted in Diagrams 1-3 which follow.

Diagram 1

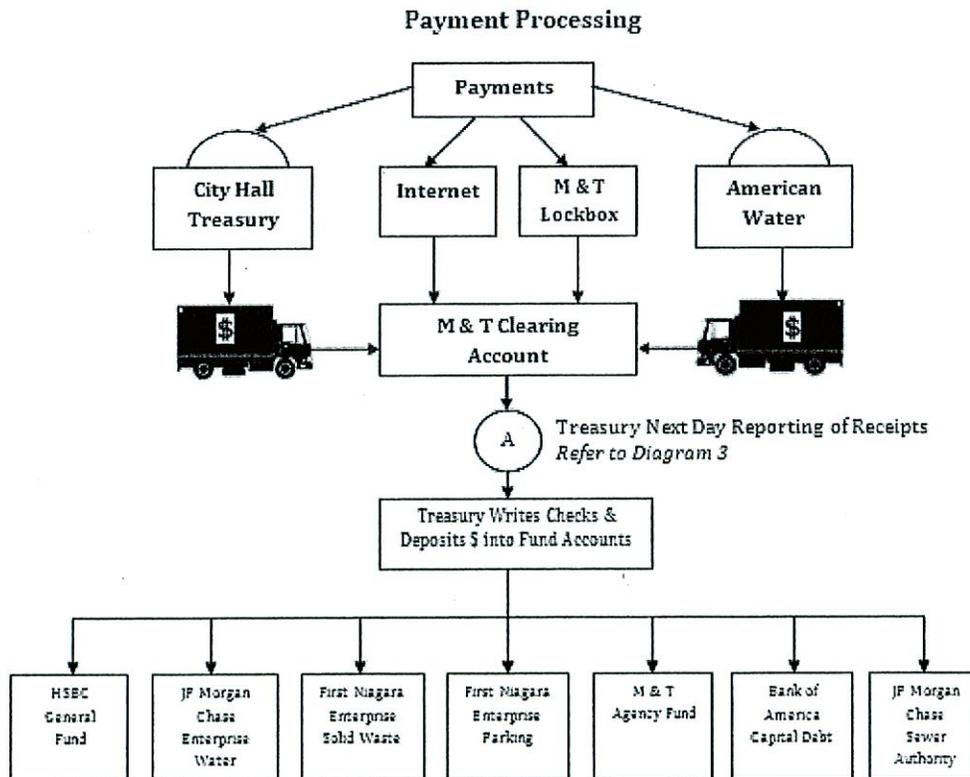


Diagram 2

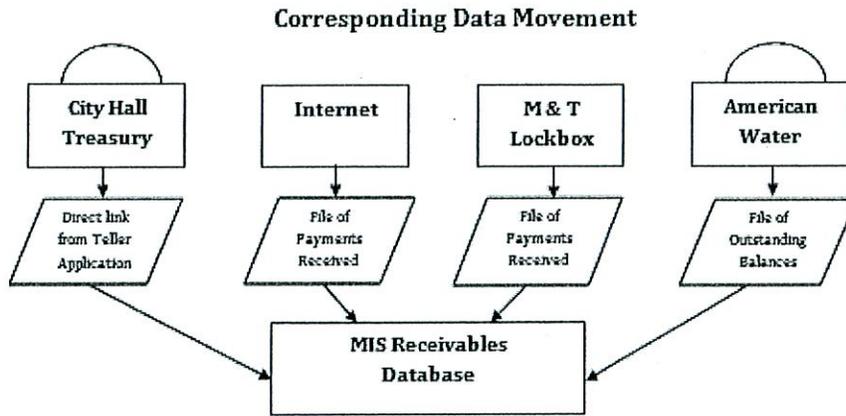
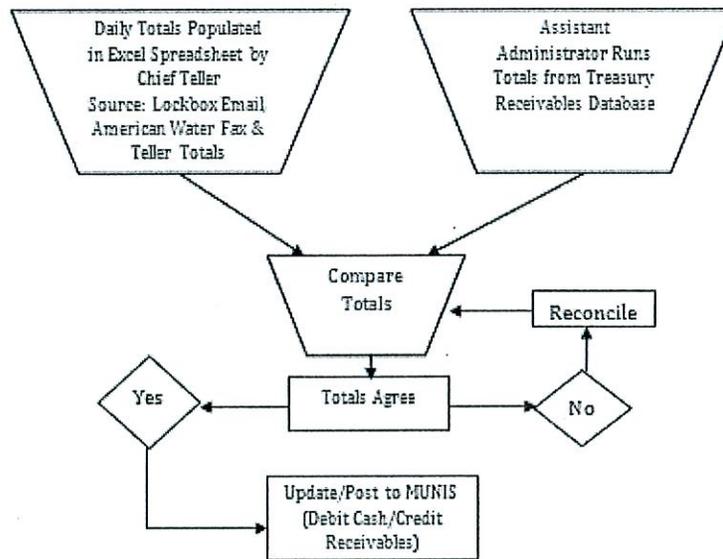


Diagram 3

Treasury Next Day Reporting of Receipts

Refer to placement of **A** in Diagram 1

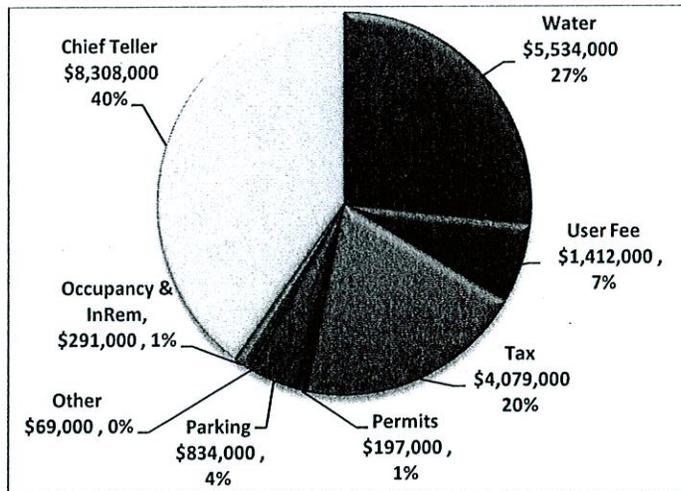


Audit Sample

There were 124 business days in the Audit time period, January 1 through June 30, 2010.

Audit Sample Data	
Treasury Business Days during Audit Period	124
Audit Sample Days	21
% of Days in Sample	17%
Confidence Level	95%
Margin of Error	5%
Clearing Account Deposits in Audit Period (\$ in Millions)	\$ 120
Clearing Account Deposits from Sample (\$ in Millions)	\$ 20
% of Clearing Account Deposits in Sample	17%

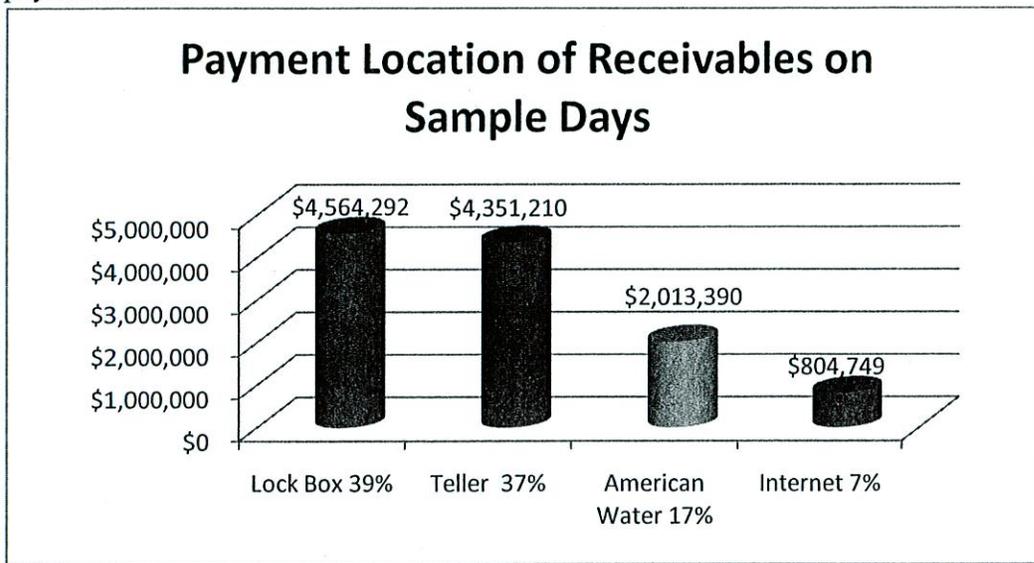
Payment Types within the Sample Data



Tax payments as a percentage of the Total is lower than one might expect. This is due to the Audit timeframe, January through June. Tax payment due dates fall in July and December; months that are not in the Audit timeframe. The Chief Teller work will be discussed later in the audit.

The following graph depicts the amount of payments processed at various payment points. Data pertains to payments to a particular receivable, i.e. Taxes, Water Bills, User Fees, Parking Summonses, on the sample dates in the Audit. It excludes the Chief Teller's activity. A

significant percentage is processed by the Treasury Tellers. This percentage is affected by the volume of payments which the Lockbox is unable to process for various reasons, e.g., missing payment stub.



Testing

Testing consisted of a detailed examination of payments through review of teller tape totals and a corresponding review of original source documents. The testing verified that payments are accurately reflected in the various Revenue Source Databases, e.g. Tax, User Fee, Parking, Permits and Licenses.

Tax Payments made in Treasury Teller Room:

Test Date: 1-5-2010

Teller Number 25

Tax Receipts Total: \$210,845.72

The \$210,845.72 corresponded to payments on 415 accounts. The actual pay date was December 30, 2009 for \$200,877.97. These payments were received prior to the Tax deadline for second half taxes and, though applied on January 5, 2010, are listed as paid on December 30, 2009.

The source document consisting of a bill with a payment validation stamp indicating the sequence, teller number and amount remitted was examined in the Assessment and Taxation Department. All original receipts are returned to the originating department by the Treasury Division. The physical source document was in order and the Tax History Database reflected the record of the payment. The tax history for many of these payments reflects a credit to interest which was removed due to the lag between the payment date and the processing date. This programmatic adjustment is necessary at year end when mail is received near the deadline and payment volume carries the processing beyond the deadline. (See Tax History Database example below.)

Tax History Database

Payments

2009

Type Cd	Pay	Batch	Pay Type	Batch Date	Seq No	Teller No	Adj Cd	Amount	System Date
TH	001	0	FHT	7/15/2009	7007	TR61		456.63	7/15/2009
TH	002	0	SRT	7/22/2009	7388	TR61		86.87	7/22/2009
TH	003	0	SHT	1/5/2010	79	TR25		456.63	1/5/2010
TH	004	0	SHI	1/5/2010	9999	SYST	BL	-13.7	1/5/2010

Exit

This Tax Payment for Second Half Taxes was received prior to Dec 30, 2009. The Payment was not processed until Jan 5, 2010.

A late fee was removed programmaticly by the City of Buffalo MIS department.

This is evident in the Tax History Software.

The Treasury Receivables database clearly shows the pay date as 12/30/2009. The Tax History Database does not show the 12/30 date

Sample of User Fee Payments made in Treasury Teller Room

Test Date: 3-19-2010

Teller Number: 85

User Fee Receipts Total: \$76,575.52

Teller 85 represents payments received from escrow activity or City In Rem distribution business. The payments are summarized in a data file and applied programmaticly by the MIS Department to the receivables database. The source document tested was created in the Treasury Division office. It consisted of two purchase orders in the amount of \$60,678.74 and \$15,896.78, respectively, which were used to pay User Fees for In Rem 43 properties. These two dollar amounts were verified using the Treasury Daily Journal along with the User Fee software where payments are then applied to the properties after the payment to the Treasury has been made. The audit team found no discrepancies on how payments were applied using a random selection of the payments.

Sample of Parking Fee Payments made in Treasury Teller Room

Test Date: 3-05-2010

Teller Number: 33

Parking Summonses Receipts Total: \$6,640.80

To note, a grand total of \$42,796.90 in parking revenue was recorded into the Treasury on March 5, 2010. We examined the dollar amount reported on the Teller Batch Report for Teller 33 in the amount of \$6,640.80. The batch for Teller 33 had 123 actual parking infractions. All transactions done by this teller were audited for compliance using the Treasury Daily Journal and the Parking Enforcement software. On occasion a ticket may be paid before it is recorded in the Parking System; an example would be a ticket issued outside City Hall which is paid immediately. The payment is accepted by the Teller before the receivable is in the system. It is entered in the Treasury Journal as a "dummy ticket". The ticket is subsequently entered in the Parking Database. All parking tickets taken in by this Teller matched the summons number that was input by the Parking Enforcement Division personnel. There were no discrepancies in money received and money applied.

Sample of Lock Box Payments

Test Date: 1-05-2010

Teller Number: 61 Lockbox

Tax, User Fee and Parking Receipts Total: \$1,604,235.65

A sample of tax payments, parking summonses and user fee payments made into the City of Buffalo's lockbox location were tested. The City water payments by customers to the lockbox location were not tested on the Oasis software. Verification of receipts of payments applied to individual properties revealed no discrepancy in the tax history software and user fee software. Parking summons paid through the lockbox include a \$15.00 surcharge that is added on to the initial charge of the infraction. All payments audited in the sample were applied properly, including the surcharge amount.

Observation of Teller Activities

The Treasury is located on the first floor of City Hall. The Teller room where payments are made is staffed by 4 to 6 tellers and a Chief Teller. The Bank Room is open from 8 AM through 5 PM Monday through Friday excluding holidays. An armed City of Buffalo police officer is present in the Treasury during all hours of operation.

Tellers process payments from customers in person and those received through the mail. The payments are recorded on the Treasury Receivables Teller Application. Payments received via the mail are processed by the Tellers intermittently when few or no customers are in line. While exact numbers are not available, mailed-in payments seemed to outnumber the walk-in customers on the day observed. On the day of teller observation, customers seemed somewhat confused as to which Teller was open for business, unless a call out for "next" was heard by the

customer. When a Teller is dedicated to processing mail, signage should indicate they are closed.

The customer presents the Teller with a bill which enables the teller to display what has been billed. If the customer does not have a bill, they are directed to obtain one from the respective department, e.g. Assessment for Taxes, Parking Violations for Parking Tickets etc. It should be noted that if a customer does not verify the name and address when receiving this duplicate bill, they could be paying for someone else's bill. This almost was the case on the day of teller observation in July. On the day observed, a person presented a tax bill for payment, and the amount did not agree with the customer's payment expectation. Through conversation with the teller, it was learned that the tax payer did not receive the correct bill when obtaining a duplicate bill. The Teller told the individual to return to Assessment for the correct tax bill. We recommend address verification be required before Assessment prints a duplicate bill.

The Tellers start the day with a \$50 bank from which change can be made for transactions during the day. Each Teller is responsible for verifying this initial bank prior to customers being waited upon. The Teller then signs into the Treasury Payment System which enables the employee to begin the current day's activities. Every payment transacted requires a validation stamp onto the bill by a "validator" machine. The stamp prints payment type, teller number, amount remitted, account number, date and time onto the bill. The Treasury software allows the teller to input the amount given by the customer and calculates change if any is due. The amount paid and the amount to return to the customer is also manually written down on the bill aiding in the internal control of returning change to the customer.

The Teller is responsible for counting the cash three times before completing the transaction. All denominations over \$50.00 are also checked for counterfeit using a felt tip marker. If a citizen pays with a check, the teller uses the "endorse" key which prints "payable to the City of Buffalo" on the back of the check. Credit card payments are only accepted by the Teller for parking summonses that have a suspension put on the individual or if the car had a boot placed on the tire. For customer convenience, credit card payments are accepted at an online computer terminal located at the front of the Treasury for any payment due to the City. A \$2.00 fee or 2% of the total transaction is charged to the cardholder for this service.

At the time of reconciling the cash drawer, the Teller prints out a summary of their day's business. The summary presents a cash total, check total, credit card total. The Tellers fill out a daily paper report where cash denominations are tallied, checks are totaled and a comparison is made to the Teller Closeout Tape. If the amounts agree, the Teller closes out and prepares a deposit slip. Any voided transactions that occurred during their shift need a supervisor's override and an explanation as to why the transaction was voided. The deposit slip is wrapped around the deposit of cash and checks, secured with a rubber band and placed in the Daily Deposit Bag in the Safe. The invoices paid throughout the day are separated by the Teller and a batch description header sheet is completed with a calculated total representing what was paid by revenue source. All paperwork is then given to the Chief Teller for processing.

During the audit time frame there were a total of five occasions on which a Teller was short or over. On such occasions the Division of Audit is contacted. The cash and checks are recounted by the auditor and the shortage or overage is documented. The Treasury Administrator meets with the Teller to review the day's business in an effort to identify the transaction(s) which caused the out of balance condition. A review of Teller memory is initially used by the supervisor to help recall any potential problematic transactions.

The security cameras used in the Treasury monitor each Teller separately and are used to provide additional proof when shortages or overages exist. To note, during the course of the audit a Teller was over \$85. The Teller recalled a potential transaction that may have been the cause of the overage to the supervisor. Security cameras were reviewed and showed a customer paying \$5,300. The transaction showed change due of \$85. The \$5,300 dollar amount was recorded in the Teller software and on the paperwork retained, but the change of \$85.00 was not written down as procedure calls for. The cameras provided adequate proof that showed the customer was given a receipt, but no change. The customer was notified and the error corrected.

Role of the Chief Teller

The Chief Teller receives payments from various City functions and departments. The Chief verifies that the payment matches MUNIS batch amounts entered by the originating department, posts the batch into MUNIS and deposits the payment via the Dunbar armed guard service. Several departments accept payments directly from customers, however these departments follow the same deposit procedure in the Treasury, *i.e.*, a MUNIS batch is created by the department and the day's receipts are brought to the Chief Teller for deposit. The City Clerk's office is one such department. Other departments prepare the MUNIS remittance document yet the customer pays the Chief Teller directly, such an example is revenue received from the Department of Permit and Inspection Services. The Chief also receives and deposits non-Treasury Journal accounts receivable payments, such as Utility rebills. The Chief Teller work area is separate from the Teller work area and has 3 PCs dedicated to City department business, Towing, and Permits respectively. Money taken in by the Chief is deposited daily along with the Tellers' deposits.

Permits

Permit applications are entered into the Hansen System. The Permit and Inspection Services Department located on the third floor of City Hall prepares a remittance document given to the applicant. Some permits are processed through the Engineering Division in a similar manner. The permit applicant pays the Chief Teller in the Treasury. The Hansen transactions are imported into MUNIS. Permit Revenue from the 21 sample days totaled \$197,000. Permit activity was reviewed in Hansen from a sample date. Transactions matched in Hansen and MUNIS and on the Treasury Deposit. Hansen and MUNIS permit payments are reconciled daily by the Chief Teller.

Licenses

The City of Buffalo requires valid licenses to operate various businesses within the City. License payments are made directly to the License Office located on the third floor of City Hall. The Account Clerks in the License Office prepare individual deposits of the cash and checks received. The money is recorded in the Peak System and imported into a MUNIS Batch. The deposits and MUNIS payment proof are brought to the Chief Teller and are posted in the Chief's Journal entry. License revenue on the day sampled totaled \$6,287. MUNIS License payments are reconciled daily by the Chief Teller.

Testing of Chief Teller's Direct Deposits:

The Chief Teller processes MUNIS journal entries to record interfund movement of cash. Two examples follow:

Interfund: Agency Fund Payable to General Fund Receivable. The City Accountant sent a memo to the Investment and Debt Management Officer requesting a wire transfer of funds from an Agency Fund Bank Account to the General Fund Bank Account. The Wire was processed by a Senior Accountant in the Investment and Debt Management Division. The Senior Accountant prepares a payment proof in MUNIS which is brought to the Chief Teller who posts this batch in their City Business Journal. The Senior Accountant had all support documents filed and readily available for this audit.

Interfund: Sewer Authority Operating Fund to Sewer Authority Checking Account. The Sewer Authority Supervising Accountant made an online transfer of 1 million dollars from the Sewer Authority Operating Fund Bank Account to the Sewer Authority Checking Account to cover payroll and accounts payable. The Sewer Authority Supervising Accountant prepares a payment proof in MUNIS which is brought to the Chief Teller who posts this batch in their City Business MUNIS Journal Voucher. The Supervising Accountant had all support documents filed and readily available for this audit.

Parking Meter Revenue:

Pay and Display Parking Meter payments are made with coin or credit card. Parking coin is picked up from the Pay and Display boxes and from the old meters. These secure locked boxes are brought to the Treasury Teller area where they are opened and the coins emptied into large plastic bags which are picked up by Dunbar. The coin is counted by Dunbar and deposited in the M&T Clearing Account. The amount of coin is emailed to the Treasury Chief Teller and Administrator. This amount is entered in MUNIS with a Journal entry. An Administrative Clerk in Parking Enforcement runs a report with Chase Paycheck which identifies the credit card payments made at the Pay and Display machines. This individual creates a payment proof in MUNIS which is given to the Chief Teller who posts the journal entry in MUNIS. There may be a lag in posting this revenue. As an example, the Parking Meter credit card revenue reported as received on June 18 was related to credit card transactions from June 16 and June 17. Ideally the MUNIS Parking Meter Credit Card Revenue entries would be made in a more real time manner.

The monthly HSBC Bank reconciliation performed by the Accounting Division captures all Pay and Display credit card activity which is then reconciled to MUNIS.

Reporting Duties of the Chief Teller

The Chief Teller is also responsible for assembling and populating the Excel Daily Revenue Worksheet. This worksheet provides a summation of all Treasury receipts on a particular day which includes the Chief's work, the Tellers' work, the Lockbox and American Water.

Detailed Review of Bank Deposit Slips

The daily Treasury deposit is picked up by the Dunbar Armed Guards during mid afternoon. The deposit is comprised of the individual teller deposits and the Chief Teller deposits of batches closed that day. A spreadsheet is maintained by the Chief Teller which represents this "bag" deposit.

Tellers typically open a new batch in the afternoon subsequent to the Armed Guard pick up. Tellers keep the afternoon batches open at end of day and resume processing the same batch the next day. Money received during the afternoon becomes part of the next day's batch and therefore part of the next day's deposit. At month end or on payment deadline dates, e.g., User Fee deadline February 16, 2010, the afternoon batches are closed at the end of the day to assure the payments are shown paid by the due date. On such occasions the Teller closes their batch and the activity is shown as part of the "bag" deposit when in fact it will be part of the next day's deposit. Effort should be made to make these timing differences evident to any report users. The report should show any closed, but not deposited money as "Cash In Transit". There should be no differences between the "bag" deposit and the Armed Guard deposit. Amounts listed as deposited should represent only cash actually deposited.

We reviewed the deposit slips for 11 days during the audit period. Sixty-four percent of the days matched the daily "bag" deposit total shown on the Clearing Account Balance, a Treasury worksheet. On 4 of the 11 days (or 36%), the amounts shown as the "bag" deposit did not agree to the deposit log signed by the Dunbar Armed Guard. The differences were researched and it was demonstrated that the difference was attributable to a deposit held until the next day due to timing. Adding a Cash in Transit line in the report should eliminate these differences.

Detailed Review of Checks Drawn on Clearing Account to Disburse Into Fund Accounts

The same 11 days reviewed for deposit into the Clearing Account were then reviewed for movement of money into the appropriate fund accounts. The next business day following the reporting of the deposit into the Clearing Account, payments are summarized and fund amounts are identified. The Chief Teller prepares checks payable to the City of Buffalo or the Buffalo Sewer Authority drawn on the M&T Clearing Account. These checks are signed by the Director

of the Treasury and are then deposited via courier or directly by Treasury personnel into fund specific accounts maintained at HSBC, JPMorgan Chase, First Niagara and M&T Banks. Checks typically clear one to two days after deposit into the Fund accounts. However, there is already the one day lag in writing the checks on the previous day's receipts. As an example, for payments made in the Treasury on a Friday, the fund checks are not drawn until Monday and due to the physical writing and subsequent deposit of the checks, the money may not clear into the General Fund account for up to five days. Cash availability in the funds can be accelerated through adoption of an online ACH payment system which will replace the use of checks to transfer money from the Clearing Account into the Fund accounts.

The Treasury reviews the M&T Clearing Account on a daily basis. One of the checks written in the 11 day sample cleared for an incorrect amount. The check was written for \$50,000 more than what it cleared, (check # 19330 written 3/19/10 Amount \$51,941.49, cleared 3/23/10 Amount \$1,941.49). Treasury documentation from the date indicated the bank made an error and corrected it the next day on March 24, 2010. This correction is evident in the bank statement. The Treasury reconciles the Clearing Account on a daily basis. The implementation of ACH fund transfer will reduce the opportunity for bank data entry error inherent in check clearing. Accuracy will be assured by the dual review of the transfer prepared by a Treasury Administrator and authorized by the Treasury Director.

Trust and Agency Funds

The Director of the Treasury has responsibility for all Trust and Agency Funds. Agency funds are used to account for money and property received and held by the City in the capacity of custodian. Agency Funds in fiscal year 2010 equal \$1.4 Million. One of the largest components is associated with Prisoner Property. During the Fiscal Year certain General Fund revenue is temporarily booked to an Agency account, but is ultimately due to the General Fund. One such account is Court Ordered In-Rem payments. In these cases the court may require the delinquent tax payer to make incremental payments on the amount owed.

Due to system constraints, these incremental amounts cannot be applied in the Tax System. Instead, the payment is recorded in an agency account until it equals the amount owed for a specific component of the taxes billed, e.g. Tax Arrears Interest, Tax Arrears 2009. The tax payer must stop at the Department of Assessment and Taxation to obtain a Treasury receipt pay in form. This form is presented to the Teller in Treasury along with the partial payment. This process will no longer be necessary when payment of Tax Receivables is implemented in MUNIS scheduled for early 2011. The MUNIS system will allow partial payment on Tax Receivables.

Treasury is also working to stream line the number of Agency Accounts and is in the process of closing several inactive accounts.

Trust Funds: The Director of the Treasury is also the custodian of monies given to the City to be held in trust for specific purposes. The principal of these trust funds totals approximately

\$94,000. There are six trusts. The largest is the Forsyth Park Trust which is invested in two Certificates of Deposit with terms of 5 years and ½ year respectively.

Year End Cash on Hand in Treasury

On June 30, 2010, an Audit of Treasury Cash on Hand was conducted by the Division of Audit. A team of auditors counted and verified the total of five Tellers' receipts including the Chief Teller as well as the Treasury safe cash. It should be noted that a total of \$77,585.13 in cash and \$726,050.19 in checks was physically counted by the audit team bringing the total cash on hand to \$803,635.32 of which \$17,000.10 was cash in the Treasury safe. A total of four Tellers were completely in balance, while one Teller was over \$20.00.

Internal Controls

A proper Segregation of Duties is evident in the Treasury Division's processes. A ready example is the inability of Tellers to void transactions. A Treasury Supervisor or Administrator must void the transaction. The Receivables database maintains a detailed record of any voided transaction. The Teller transactions are numbered and the voided transaction is retained in the count.

There are also many cross checks in the Treasury Division's processes. The computerized Teller application produces Daily Batch Total reports which correspond to the Teller Deposits. The Deposit Totals are summarized by the Chief Teller on a Daily Balancing Sheet. These amounts are then confirmed by the Assistant Administrator in checks with treasury journal reports and in checks with the bank account's prior day activity report available online.

Internal control over the bank account is assured through control of the physical checks issued on the Clearing Account. The checks are prepared by the Chief Teller and the Treasury Director's signature is required on all checks.

The monthly Bank Reconciliations for the clearing account and internet account are done by the Treasury Administrator and Assistant Administrator. As noted in the Audit recommendations, the Bank Reconciliation makes use of a "plug" number. This plug should be eliminated. These reconciliations should be independently reviewed by the Division of Accounting on a monthly basis.

Internal Control is enhanced through the presence of closed circuit cameras in the Treasury Teller area. The cameras have numerous views and allow detailed review of Teller transactions. The Assistant Treasury Administrator makes frequent use of the review capability. Although the Treasury Safe is covered by closed circuit cameras, the combination has not changed for several years.

In the event of a Teller shortage or overage greater than \$20, the Treasury Administrator contacts the Division of Audit to review the Teller's deposit and the Teller Batch Total Report. The Auditor documents the out of balance condition on a form which is signed by the Auditor and the

Teller. An overage is deposited and recorded in a Trust and Agency liability account. A shortage is expensed and the Treasury deposit is reimbursed for the shortage.

Recommendations

1. Money processed through the Lockbox should be processed into the respective Fund Bank Account in a timelier manner.
2. The current method of issuing checks from the Clearing account should be replaced with an online ACH payment system. This will require original ACH entry to be completed in two steps. Step one should have an Administrator or Chief Teller in the department logon to a bank web site and complete a preloaded ACH template (the templates should have fields locked to assure that only City of Buffalo accounts can send and receive funds; free form ACH should not be allowed). Step two, authorization, should be completed by the Director of the Treasury or someone who has signature rights on the account (e.g., the Commissioner of Administration, Finance, Policy and Urban Affairs, the Comptroller or one of his authorized designees.)
3. Using separate Journal Entries for Lockbox, American Water, and Treasury would create a record of processing locations in the Ledger, thereby yielding a better audit trail within the Ledger.
4. The Daily Revenue reports should identify Cash in Transit when the “bag” deposit is not equal to the armed guard bank deposit due to timing differences caused by month end and payment deadlines. For example, Teller Batches on the final due date of a bill are closed at end of day after the armed guard pickup. Currently the Revenue Report may show a deposit amount containing a portion held for the next day’s deposit; this amount should be shown separately.
5. Treasury should explore the possibility of automating next day Journal Entries in MUNIS.
6. MIS should adjust the Teller screens to capture the Treasury Supervisor’s name or log-in ID on all voided transactions.
7. Treasury Supervisors with administrative privileges to void Teller transactions should document the reason for the void. This information could be captured within a field on the Teller screen.
8. Signs directing customers to various payment locations within the Teller Area on the first floor of City Hall is confusing in its placement. Some are eye level, foot level or waist level and should be revamped to provide clear and consistent directions. Also any hand written sign should be replaced with professionally produced versions. Flow into the Treasury Room by citizens should begin with the first Teller accepting payments except on days when high volume is anticipated.

9. Security personnel provided by the Buffalo Police Department should have a stronger visible presence in the Treasury Teller Room. This could be achieved with an elevated platform overlooking the Teller cage to protect against any potential security breaches.
10. The M&T Clearing Account Reconciliation is done by the Treasury Administrator. The reconciliation makes use of a small plug number to balance. The reconciliation methodology should eliminate this plug. The Clearing Account Reconciliation should be reviewed by the Accounting Division on a monthly basis.
11. The reasons for Lockbox and American Water rejects should be examined and measures to eliminate these rejects should then be initiated.
12. As an added internal control, the safe combination should change when any personnel with access to the combination leaves employment in the Treasury Division.
13. The Treasury Director expressed a desire to develop a written Policies and Procedures Manual. High priority should be given to this initiative.

Summary

The Audit found no material discrepancies in the amount of monies reported. All required records were made available to our Audit Team. This Audit represents the first comprehensive review of the Treasury Division's operations in perhaps a dozen years. It should be duly noted that the Treasury is run in a professional manner and the system of internal controls is highly effective. While there is always room for improvement, especially in light of emerging technologies, we find that the Division's methods for receiving, recording and receipting cash and cash equivalents are sufficient and afford more than a reasonable level of comfort.

Afterword

An Exit conference took place on December 21, 2010. The management team for the Treasury was quite enthusiastic about the results of the audit. They were very forward thinking regarding the recommendations and have initiated, and completed, some of them before this report was finalized. The Treasury is receptive to further automation and there are significant changes coming in early 2011 as Tax and User Fee Payments are integrated into MUNIS. There are opportunities for significant reduction to manual processes involved in daily Treasury reporting through efficient spreadsheet design. Their written response is attached hereto and made a part hereof. We thank the staff and management of the Division of Treasury and Collections for their professionalism and cooperation.



CITY OF BUFFALO
DEPARTMENT OF
ADMINISTRATION, FINANCE & URBAN AFFAIRS



BYRON W. BROWN
MAYOR

JANET PENKSA
COMMISSIONER

MICHAEL A. SEAMAN
DIRECTOR OF TREASURY AND
COLLECTIONS

December 24, 2010

Andrew Sanfilippo, Comptroller
Department of Audit and Control
Room 1230 City Hall
Buffalo New York 14202

Dear Comptroller Sanfilippo:

I am quite proud of the Audit conducted by the Department of Audit and Control for the period January 1, 2010 through June 30, 2010 that examined the Division of Treasury's processes for receiving, recording, and receipting cash and cash equivalents. This review covered the Treasury's Cash Management, Internal Controls and Trust & Agency Fund Management.

On Tuesday, December 21, 2010, Commissioner Penksa, Debbie Renzoni, Mary Comerford and I met with Darby Fishkin, Darryl McPherson, Ann O'Donnell and Frank Barrile of your staff, for an exit conference to discuss both their findings and our comments. Many of the recommendation impinge on the work of the Department of Management Information Systems. (MIS) Treasury staff has met with Raj Mehta and Paul Springer of MIS to examine the recommendations that require their assistance and have been assured the recommendations will be completed in the next update of the Treasury Teller System. I have instructed my staff to keep the Division of Audit apprised of these changes as they occur and if there is any delay.

At the completion of the meeting with your staff, we were asked to submit our comments to you so that this Audit could be filed with the Common Council. Attached please find our written response to the Division of Audits recommendations.

Thank you for the fine work your staff performed and I hope we continue our successfully Inter departmental relationship into the future for the good of the City of Buffalo.

Very truly yours,

Michael A. Seaman
Director of Treasury and Collections

Cc: Janet Penska, Commissioner of Administration, Finance, Policy and Urban Affairs

1. Money processed thorough the Lockbox should be processed into the respective Fund Bank account in a timelier manner. **Response: Recommend MIS Import the days Lock Box @ 3:30 each day rather than the following morning after 8:00 am. Discussed this 12/14/10 with Raj Mehta, Director of MIS & Paul Springer, MIS Systems Analyst, assigned to Treasury, it will be imported on the day Lockbox process expediting the posting by at least 24 hours. The money cannot be directly imported into the respective fund accounts because one portion of every three tax bills is not General Fund, it is Sewer and approximately 50% of most water bills are Sewer funds.**
2. The current method of issuing checks for the Clearing account should be replaced with an online ACH payment system. This will require original ACH entry to be completed in two steps. **Response: Completed. Changed 12/8/10.**
3. Using separate Journal Entries for Lockbox, American Water, and Treasury would create a record of processing locations in the Ledger, thereby yielding a better audit trail within the Ledger. **Response: It was agreed that this will be postponed until the New MUNIS Receivable system for Tax, Sewer and User Fee is launched in early 2011. The new MUNIS system should be able to accommodate this recommendation.**
4. The Daily Revenue reports should identify Cash in Transit when the "bag" deposit is not equal to the armed guard bank deposit due to timing differences caused by month end and payment deadlines. For Example, Teller Batches on the final due date of a bill are closed at end of day after the armed guard pickup. Currently the Revenue Report may show a deposit amount containing a portion held for the next day's deposit; this amount should be shown separately. **Response: Completed 12/24/10.**
5. Treasury should explore the possibility of automating next day Journal entries in MUNIS. **Response: In our exit Conference, it was agreed that currently there is not a viable option to accomplish this at this time.**
6. MIS should adjust the Teller screens to capture the Treasury Supervisor's name or log-in ID on all voided transactions. **Response: On 12/14/10 we discussed with MIS Director, Raj Mehta to make this change. He said that it will be completed in the new version of the Teller System they are working on at this time.**
7. Treasury Supervisors with administrative privileges to void Teller transactions should document the reason for the void. This information could be captured within a filed on the Teller screen. **Response: Again, on 12/14/10 we discussed with MIS Director, Raj Mehta to add a comment field to accommodate this change. He said that it will be completed in the new version of the Teller System they are working on at this time.**
8. Signs directing customers to various payment locations within the Teller Area on the first floor of City Hall is confusing in its placement. **Response: Completed. Removed all confusing signs.**
9. Security personnel provided by Buffalo Police Department should have a stronger visible presence in the Treasury Teller Room. This could be achieved with an elevated platform overlooking the Teller Cage to protect against any potential security breaches. **Response: It was agreed, the designated area we currently utilize is most central. We are talking with the Division of Buildings on a possible configuration similar to that in the Lobby of City Hall.**

10. The M & T Clearing Account Reconciliation is done by the Treasury Administrator. The reconciliation makes use of a small plug number to balance. The reconciliation methodology should eliminate this plug. The Clearing account Reconciliation should be reviewed by the Accounting Division on a monthly basis. **Response: The plug number is a result of a timing issue with the credit card and ACH Payments. Unlike cash & check receipts, received and processed on a specific day, a WEB or ACH payment can be made today, recorded by MIS tomorrow and posted to our bank the next day. We have spoken to M& T Bank again today to have all of the funds deposited directly into the one Clearing account. We were advised it will happen ASAP. We also spoke with MIS about massaging the timing of the posting of the WEB & ACH payments and the Director, Raj Mehta is willing to work with us to correct the lag. We are willing to assist the reconciliation being done by Accounting Division.**
11. The reason for Lockbox and American Water rejects should be examined and measures to eliminate these rejects should then be initiated. **Response: Lock Box returns, (rejects) are a result of customer remitting a check without an OCR (Optical Character Remittance) scan line source document. There will always be rejected items, however, less than 1% of the remitted bills to Lock Box are returned to the Treasury for processing, which is far less than the industry average.**
12. As an added internal control, the safe combination should change when any personnel with access to the combination leaves employment in the Treasury Division. **Response: We are calling for a company who can change the tumblers & finding out what the cost will be.**
13. The Treasury Director expressed a desire to develop a written Policies and Procedures Manual. High priority should be given to this initiative. **Response: Will be completed within the next year.**