



**CITY OF NEVADA, MISSOURI
MANAGEMENT OF CASH RECEIPTS**

**From The Office Of State Auditor
Claire McCaskill**

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AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

September 2004

The following problems were discovered as a result of an audit conducted by our office of the City of Nevada, Missouri.

Receipts totaling \$39,701 were collected by the City of Nevada from January 2002 to April 2004 but were not deposited.

The city does not track payments for various types of tax revenues to ensure all payments are properly received and recorded in the city's accounting records. As a result, cigarette and franchise taxes totaling \$24,445 received by check were deposited into the city's bank account but were not recorded in the city's accounting records. These checks were substituted into the city's deposits and recorded cash receipts were not deposited, and apparently misappropriated.

Adequate controls have not been established over receipts collected by the city's pool and golf course resulting in \$15,256 received by these facilities apparently being misappropriated. These fees were collected at the city's pool and golf course, but were apparently not recorded in the city's accounting records and not deposited into the city's bank accounts.

A lack of internal control and little or no independent review allowed these misappropriations to occur and not be detected. Information regarding these missing monies has been turned over to the Vernon County Prosecuting Attorney and the Missouri State Highway Patrol.

Also included in the report are several recommendations related to weaknesses in the city's accounting controls and procedures.

A petition audit fulfilling our obligations under Section 29.230 is still in process, and additional findings and recommendations will be included in a subsequent report.

All reports are available on our website: www.auditor.mo.gov

YELLOW SHEET

CITY OF NEVADA, MISSOURI

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and
Members of the City Council
City of Nevada, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Nevada, Missouri. Our initial review of the city's management of cash receipts identified serious weaknesses, and we were subsequently informed by city officials that some city funds may have been misappropriated. As a result, we are issuing a separate report on the management of cash receipts. The scope of this audit included, but was not necessarily limited to, the period January 1, 2004 through April 30, 2004 and the years ended December 31, 2003 and 2002. The objectives of this audit were to:

1. Investigate irregularities regarding cash receipts and deposits.
2. Determine to what extent city funds may have been misappropriated.
3. Review and evaluate certain controls and procedures regarding cash receipts and deposits.

To accomplish these objectives, we reviewed financial records and other pertinent documents; interviewed various personnel of the city, as well as certain external parties; and tested selected transactions. Our methodology included, but was not necessarily limited to obtaining an understanding of internal controls significant to the audit objectives and considering whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying Management Advisory Report presents our findings arising from our audit of the City of Nevada, Management of Cash Receipts. A petition audit fulfilling our obligations under Section 29.230 is still in process, and additional findings and recommendations will be included in a subsequent report.



Claire McCaskill
State Auditor

June 24, 2004 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA
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EXECUTIVE SUMMARY

CITY OF NEVADA, MISSOURI
MANAGEMENT OF CASH RECEIPTS
EXECUTIVE SUMMARY

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Nevada, Missouri. Our initial review of the city's management of cash receipts identified serious weaknesses, and we were subsequently informed by city officials that some city funds may have been misappropriated. On April 2, 2004, the city's finance department discovered a check for \$513 for the payment of cigarette taxes included in a city deposit that had not been recorded in the city accounting records, and cash totaling the same amount was apparently misappropriated. Additionally, on April 19, 2004, the city finance department learned that two night depository bank bags containing \$984 in golf fees were never processed by the city's finance department and could not be located.

Our audit identified receipts totaling at least \$39,701 were collected by the City of Nevada from January 2002 to April 2004 but were not deposited. Checks totaling \$24,445 for the payment of city cigarette and franchise taxes were deposited into the city's bank account but not recorded in the city's accounting records. These unrecorded checks were substituted into city deposits and recorded cash receipts were not deposited, and apparently misappropriated. In addition, cash and checks totaling \$15,256 collected at the city's pool and golf course were apparently not recorded in the city's accounting records and not deposited into the city's bank account.

The city has a blanket bond covering all city employees. The bond coverage carries a \$25,000 deductible.

Lack of internal control and little or no independent review allowed these misappropriations to occur and not be detected. Controls over numerous types of city revenues are weak as noted in the accompanying Management Advisory Report. Information regarding these missing monies has been turned over to the Vernon County Prosecuting Attorney and the Missouri State Highway Patrol.

A petition audit fulfilling our obligations under Section 29.230 is still in process, and additional findings and recommendations will be included in a subsequent report.

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

CITY OF NEVADA, MISSOURI
MANAGEMENT OF CASH RECEIPTS
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1.	Misappropriated Funds
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Receipts totaling at least \$39,701 were collected by the City of Nevada from January 2002 to April 2004 but were not deposited.

Checks totaling \$24,445 for the payment of city cigarette and franchise taxes were deposited into the city's bank account but not recorded in the city's accounting records. These unrecorded checks were substituted into city deposits and recorded cash receipts were not deposited, and apparently misappropriated. In addition, cash and checks totaling \$15,256 collected at the city's pool and golf course were apparently not recorded in the city's accounting records and not deposited into the city's bank account.

The following table shows by revenue source and period the amount of receipts not accounted for:

Revenue Source	January 1 to April 30, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002	Total
Cigarette tax	\$ 1,869	19,469	758	22,096
Franchise tax	0	2,349	0	2,349
Golf fees	984	6,788	6,763	14,535
Pool fees	0	0	721	721
Total	\$ 2,853	28,606	8,242	39,701

On April 2, 2004, the city's finance department discovered a check for \$513 for the payment of cigarette taxes included in a city deposit that had not been recorded in the city accounting records. Additionally, of the approximately \$2,560 in cash receipts recorded on this day, only \$2,047 was included in the deposit. As a result, it appears the \$513 check was substituted in the deposit for misappropriated cash receipts. On April 19, 2004, the city finance department was advised by the golf course manager that two night depository bank bags had not been returned by the finance department to the golf course. Apparently, golf fees put in these bank bags totaling \$984 for two separate turnovers were never processed by the city's finance department and could not be located.

Lack of internal control and little or no independent review, as discussed in the remainder of this Management Advisory Report (MAR), allowed these misappropriations to occur and not be detected. Controls over numerous types of city revenues are weak, and the city should review other revenue sources for additional misappropriations. Information

regarding these missing monies has been turned over to the Vernon County Prosecuting Attorney and the Missouri State Highway Patrol.

WE RECOMMEND the City Council take the necessary action to recover the missing funds and work with law enforcement officials regarding any criminal prosecution. Additionally, the city should review all revenue sources for other potential misappropriations.

AUDITEE'S RESPONSE

The City Council provided the following response:

On April 2, 2004 while preparing the daily deposit for April 1, 2004, a check was discovered that had not been entered into the city's cash receipts system. An investigation was started by the Finance Department. The city's CPA, Diehl, Banwart, Bolton, Jarred & Bledsoe CPA's was contacted, and the payer of the check was contacted to determine date the check was mailed.

On April 5, 2004, the city's CPA was asked to examine the bank deposit in question. On April 6, 2004, the accounting records related to the deposit in question were examined.

Between April 5, 2004 and April 23, 2004: The Finance Department identified all Cigarette Tax receipts posted to the City of Nevada accounting system for 2002, 2003 and thru April 2004. In 2002 all major taxpayers had a payment posted for each month except for one taxpayer in November and December. In 2003 and 2004 there were several gaps which needed further investigation.

The Finance Department requested lists of cigarette tax payments from the major taxpayers. We compared these lists with payments shown as received by the City and identified certain payments not recorded by the City. We requested copies of cancelled checks for the missing deposits from one of the major taxpayers.

Immediately after April 5, 2004 several internal control procedures were implemented in the finance department, while waiting for our CPA's May 7, 2004 letter, such as: (1) all checks received by mail are processed immediately or placed in a locked bag until they are processed; (2) bags from the bank's night deposit are delivered to a front office employee who logs them in and places them in the safe; (3) each staff member has their own cash drawer; (4) the daily bank deposits are prepared by an employee in the back office who has no access to cash and checks received in the front office.

On April 19, 2004 the City's finance staff was informed by the Golf Course manager that two bank bags were missing. The city's CPA was contacted and examined the records relating to the golf course bags.

On about April 28, 2004, during an interview initiated by the State Auditor's Office covering several areas, the Finance Department informed them of possible missing funds. They were

advised that the City was investigating and did not yet have complete information. It was agreed that the city would brief the State Auditor's Office in two weeks, which was done.

On May 7, 2004 the city received the CPA's report on both the cigarette tax incident and the golf course bag incident.

On May 7, 2004 a meeting was held in the City Attorney's office with the: City Attorney, City Manager, City Police Chief, City Finance Director, City Manager's Office Director, and the city's CPA in attendance. At that time it was agreed that a criminal investigation would be initiated. The City Attorney and Chief of Police simultaneously referred the criminal investigation to the Vernon County Prosecuting Attorney and the Missouri Highway Patrol. The city was advised by the State Auditor's staff that the Missouri Highway Patrol requested the assistance of the State Auditor's staff in the field investigation.

The City will take all necessary actions to recover the misappropriated City funds including: (1) seeking recovery of funds from the individual or individuals responsible when they are identified by the criminal investigation and (2) seeking recovery, under the City's "Employee Fidelity" insurance coverage. The City will continue to assist the Missouri Highway Patrol and the Vernon County Prosecuting Attorney with the criminal investigation, prosecution and restitution.

All revenue sources have been or will be reviewed to insure all City funds are properly deposited and recorded in the City's accounting records. Details are included in the responses to Items 2 and 3.

The city's CPA is preparing additional recommendations on behalf of the City in his report to be issued on or before August 31, 2004.

2. Controls over Revenues

Controls over the collection and recording of various city revenues are poor and have allowed the misappropriation noted in MAR 1 to go undetected.

A. The city is not properly monitoring the collection of cigarette taxes, hotel/motel taxes and telephone franchise taxes. The city does not track payments for these revenues to ensure all payments are properly received and recorded in the city's accounting records.

- A total of 25 monthly payments totaling \$22,096 for cigarette taxes have been misappropriated since December 2002 and the city was not aware of this. As an example, cigarette taxes are due monthly, city accounting records show only four monthly payments for one of the city's largest cigarette vendors during 2003, and no one contacted the vendor or investigated why eight monthly payments were not received. In addition, total actual cigarette tax revenue reflected in the city's budget decreased approximately 50 percent from 2002 to 2003, but no city official investigated the cause of the decrease.

- Telephone franchise taxes are paid to the city by approximately 18 different telephone companies. While city ordinance only requires an annual payment of franchise taxes, some companies pay monthly, quarterly, or semi-annually. Without any tracking procedures in place, the city is unable to ensure 18 different companies paying at different intervals have all paid their taxes. As a result, the city did not identify at least 7 payments totaling \$2,349 that were misappropriated.
- Hotel/motel taxes paid by the city's six local motels are not adequately monitored. One payment totaling \$780 for hotel/motel taxes due in April 2003 was never recorded by the city and the city never contacted the local motel to follow up on the missing payment. We contacted the local motel manager who indicated that the check was issued but has never been negotiated. As a result, the city should contact the motel and request the check be reissued.
- Two of the city's six motels do not remit hotel/motel taxes monthly as required by city code. While city code allows for penalties to be assessed for delinquent payments, the city has not assessed penalties. For example, one motel has delinquent taxes dating back to October 2002, and has not paid any taxes since October 2003. No effort had been made by the city to collect these taxes until we brought this matter to the city's attention.
- Monthly reports for cigarette taxes, hotel/motel taxes, and telephone franchise taxes are not filed separately by vendor allowing for easy access to payment information. Instead, these monthly reports are placed with the batch of daily receipts and filed by date paid. In addition, when these taxes are paid the city does not always document in the general ledger what month the payment is for. As a result, the only way to determine what months have been paid is to search through the daily batch files for the monthly reports. The city finance department should file monthly reports in a more accessible manner and include adequate detail when posting to the city's general ledger.
- City code allows for the periodic examination of the books and records of the vendors remitting cigarette taxes, hotel/motel taxes, and franchise taxes to ensure the accuracy of the payments received. The city does not have any procedures in place to perform these examinations. As a result, the city has no assurance that the tax payments received are accurate.

To ensure the prompt collection of taxes, prevent the loss of tax revenue and ensure equitable treatment of local businesses, the city should establish controls to adequately monitor and enforce the collection of cigarette taxes, hotel/motel taxes, and franchise taxes. The city's failure to track these revenues allowed the misappropriation noted in MAR 1 to occur and not be detected.

- B. Adequate controls have not been established over receipts collected by the city's pool and golf course. As a result, receipts totaling at least \$15,256 were collected by these facilities and misappropriated.

The pool accepts cash and checks for the payment of pool fees, pool concessions, and pool passes. The golf course accepts cash, checks, and credit cards for payment of golf fees, golf concessions, and merchandise at the golf pro shop.

Monies collected at these facilities are summarized on a daily summary sheet. At the end of each day, the monies and a copy of the summary sheet are to be placed in a numbered money bag and dropped in the bank's night depository. The following day one of the city's finance department clerks is to retrieve the money bag from the bank, count the money, and then record the money in the city's accounting records. These monies are then to be deposited daily with other city cash receipts. Our review noted the following weaknesses:

1. Money bags picked up from the bank are not recorded immediately upon receipt and not placed in a secure location until recorded. These bags are placed on a desk until clerks have time to process them. As a result, access to the money bag is not limited.

To adequately safeguard against theft or misuse of funds and to provide assurance that all receipts are accounted for, monies should be recorded immediately upon receipt, and maintained in a secure location until deposited. As an alternative to the city taking these monies out of the bank, the city could consider having the pool and the golf course prepare a deposit slip, leaving the money in the bank's night depository. The city finance department would then record the monies based upon the daily summary sheet and maintain a validated deposit slip from the bank.

2. There is no documentation to indicate that anyone compares the daily summary sheets at these facilities to the amounts recorded in the city's general ledger to ensure all monies were properly accounted for. While the city issues a receipt slip to the pool and the golf course for monies recorded, no one at these facilities compares the receipt slips to the daily summary sheets. Further, no one in the finance department goes to these facilities to review the records maintained.

The city finance department should initiate procedures to compare records maintained at the pool and the golf course to monies recorded in the city's accounting records to ensure all receipts are properly deposited into the city's bank account and recorded.

3. There is no documentation to indicate that anyone ensures a daily summary sheet is prepared for each day's activity at the pool and the golf course, and each day is accounted for in the city's general ledger. For

example, had someone been making this comparison they would have identified approximately 88 days during the period January 1, 2002 through April 30, 2004 for which there was nothing recorded in the city's general ledger for the golf course.

Our review indicated that approximately 27 of these 88 days represent daily receipts which were misappropriated. The golf course appears to have been closed or there was no activity for the remaining days.

To account for all receipts from the pool and the golf course, a daily summary sheet should be prepared for each day, or if the facility is closed a notation of no monies received should be indicated on the summary sheet.

The city's failure to maintain adequate controls over monies collected by the pool and the golf course represent serious control weaknesses that could have detected some of the misappropriation noted in MAR 1 had these controls been in place.

C. Some receipts for cigarette taxes, hotel/motel taxes, telephone franchise taxes, and pool and golf course collections were not properly classified in the city's accounting records making it difficult to properly track these revenues. During 2004, 2003 and 2002, receipts were posted to the wrong revenue classification in the wrong fund in the city's accounting records. Examples include:

- \$3,793 in hotel/motel taxes for the tourism fund were posted as cigarette taxes in the parks fund.
- \$442 in cigarette taxes for the parks fund were posted as telephone franchise taxes in the general fund.
- \$628 in hotel/motel taxes for the tourism fund were posted as telephone franchise taxes in the general fund.
- \$10,767 in golf fees were incorrectly posted as golf concessions.
- \$315 in pool fees were incorrectly posted as golf fees.

In order to properly track city revenues, the accounting records should be reviewed for the proper posting and classification of revenues.

WE RECOMMEND the City Council:

A. Establish controls to adequately monitor and enforce the collection of cigarette taxes, hotel/motel taxes, and franchise taxes, including procedures to periodically examine the books and records of vendors remitting the taxes to ensure payments received are accurate.

- B.1. Ensure monies are recorded immediately upon receipt and maintained in a secure location until deposited. The city should also consider letting the initial drop of monies into the night depository by the pool and the golf course be the deposit.
2. Ensure someone independent of the receipt processing function reconciles the daily revenue summary sheets transmitted to the city for deposit to a city receipt slip. In addition, the city finance department should implement procedures to periodically review records maintained at the pool and the golf course.
3. Ensure a revenue summary sheet is prepared daily for the city pool and golf course.
- C. Ensure accounting records are properly reviewed and revenues are appropriately classified.

AUDITEE'S RESPONSE

The City Council provided the following responses:

- A. *Cigarette tax payments are now being entered immediately upon receipt, by the front office finance staff, following the procedures established for payments received by mail. The receipts are being monitored by a member of the back office finance staff on a monthly basis. Monthly reports on Cigarette Tax receipts from the Missouri Department of Revenue will be utilized for comparison to City receipts. The major cigarette vendors will be contacted if a payment is not received each month. Cigarette vendors will be asked to submit tax payments electronically, if capable, directly to City's bank account.*

Hotel/Motel tax payments are now being entered immediately upon receipt, by the front office finance staff, following the procedures established for payments received by mail. The receipts are being monitored by a member of the back office finance staff. Late payments will have penalties added and invoices stating such will be sent out monthly.

Franchise tax payments are received both as electronic deposits and by mail. The franchise tax deposits received by mail are now being entered immediately upon receipt, by the front office finance staff, following procedures established for payments received by mail. Tax payment schedules will be identified for each franchise taxpayer and the payments will be monitored on a monthly basis to see that they are paid according to the schedule.

Procedures are being established to periodically verify the accuracy of cigarette taxes, hotel/motel taxes and franchise taxes using various independent reports and possible examination of the taxpayer's books and records.

- B.1. *All monies are recorded as soon as practical and are being secured until recorded. Detailed procedures are included in the City's Internal Control Policy Regarding Receipt and Processing of City Funds. Procedures have been established to have the bank work*

up the deposits from the Golf Course immediately and from the Swimming Pool beginning with the 2005 season.

- 2. The daily revenue summary sheets from the Swimming Pool and the Golf Course are being reconciled by the front office of the finance department when received from the bank. Validated receipts are being reconciled to daily revenue summary sheets by pool and golf staff when bags are returned. A procedure is being established for unannounced periodic reviews of records maintained at the Swimming Pool and the Golf Course.*
 - 3. Daily revenue sheets are now prepared at both the Swimming Pool and the Golf Course even if there is no business for the day.*
- C. Accuracy of coding of revenues to the General Ledger is being reviewed on a monthly basis by the Finance Director and corrections made where necessary, before accounting records for the month are closed.*

The city's CPA is preparing additional recommendations on behalf of the City in his report to be issued on or before August 31, 2004.

3. Accounting Controls and Procedures
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The composition of receipts is not reconciled to the composition of deposits. The city's computerized accounting system allows for receipt numbers to be skipped or for the same receipt number to be used several times. In addition, duties are not adequately segregated within the finance department.

- A. The method of payment (cash, check, or money order) is not reconciled to the composition of deposits. While the method of payment is indicated for most receipt slips, we noted several instances where it was either not indicated or indicated as both cash and check making it unclear as to the exact method of payment.

The city's computerized accounting system has the capability of tracking the method of payment of each receipt, but the accounting software does not include this information on the daily activity reports generated by the city to compare to the total deposit. The City Finance Director indicated that the city has not been reconciling the method of payments to the composition of the total deposit because the process takes too long. The city's daily balancing procedure includes reconciling the total monies in the deposit to the total monies on the city's daily activity report without reconciling the method of payment to the composition of the deposit. The city's software vendor has been contacted to change the system to include the method of payment on the daily activity reports.

To ensure all receipts are accounted for properly and deposited intact, the method of payments received should be recorded for all receipts and the composition of

receipts should be reconciled to the composition of the bank deposits. Had such a comparison been performed, some of the misappropriation noted in MAR 1 may have been detected.

- B. The city's computerized accounting system does not account for the numerical sequence of receipts. Receipt numbers are often skipped, and at the discretion of the clerk receipting the monies, the same receipt number may be used as many as eight times by adding the extension "001" through "008" at the end of the receipt number. Numerous instances were found on the city's daily activity report where receipt numbers were missing or receipt numbers were used more than once. As a result, the city has no assurance that all receipts are properly accounted for. Issuing and accounting for the numerical sequence of receipts is necessary to ensure proper recording and accountability of all receipts.
- C. The duties of receiving, recording, depositing and reconciling are not adequately segregated. The city has five clerks who all perform these duties. In addition, cash drawers used to make change and hold cash receipts are not individually assigned. All clerks have access to all cash drawers. Further, monies received through the mail, such as cigarette taxes, are processed by any one of these five clerks when time is available. These mail receipts are not logged or recorded as the mail is opened.

To adequately safeguard receipts and reduce the risk of loss, theft or misuse of funds, the duties of receiving, recording, depositing and reconciling should be segregated. This could be achieved by segregating the functions of receiving and recording monies from that of reconciling receipts to bank deposits. In addition, cash drawers should be individually assigned limiting the access to only one clerk. Further, someone independent of the cash accounting functions should open the mail. All mail receipts should be logged or recorded upon receipt, then reconciled to the daily deposit to ensure all receipts are recorded and deposited. Had such controls been in place, some of the misappropriation noted in MAR 1 might have been prevented.

WE RECOMMEND the City Council:

- A. Ensure the method of payment is recorded for each receipt and the composition of receipts is reconciled to the composition of deposits.
- B. Ensure the numerical sequence of receipts is accounted for properly.
- C. Provide for the segregation of duties, and ensure cash drawers are individually assigned. In addition, ensure someone independent of the cash accounting functions opens mail receipts and prepares a log. The log of mail receipts should be reconciled to the daily deposits.

AUDITEE'S RESPONSE

The City Council provided the following responses:

- A. The method of payment (cash, check, credit card etc.) is now recorded for each receipt and totals for each payment method are printed on the daily cash receipt reports.*
- B. All receipt numbers are now accounted for on the daily cash receipt reports.*
- C. Each employee receiving payments has an individual cash drawer assigned. The mail is opened by an employee with no access to the cash accounting functions. All checks and receipts are now scanned into a log. A log is then prepared by the employee preparing the daily deposit of all checks in the daily deposit. The two logs are now compared to insure that all checks received have been included in the daily deposit.*

The city's CPA is preparing additional recommendations on behalf of the City in his report to be issued on or before August 31, 2004.

4. Utility System and City Fees
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Adjustments made to customer accounts are not properly authorized or adequately documented, and the city does not compare the total gallons of water billed to the gallons of water pumped. Additionally, the controls over the collection of various types of city fees need improvement.

- A. During 2003 adjustments totaling over \$71,000 were made to customer's water/sewer accounts for misapplied payments and write offs with no independent review or approval. The utility clerks have the ability to record adjustments to utility customer's accounts without any independent review or approval of the adjustment. Additionally, adjustments totaling approximately \$6.5 million were made to customer accounts apparently resulting from misread meters. While these adjustments were also not reviewed or approved, the city needs to evaluate the large amount of adjustments resulting from misread meters.

Authorization forms for credit adjustments are to be prepared listing the reason for the adjustment and signed as approved by the City Finance Director. Our review noted that authorization forms are not completed for all adjustments, and the authorization forms that were prepared were not approved and did not always document the reason for the adjustment.

Proper approval/authorization and adequate documentation which fully explains the reason for the adjustments are necessary to ensure only the proper accounts and amounts are adjusted and to reduce the risk of misstatement or misappropriation.

- B. The city does not compare the total gallons of water billed to the gallons of water pumped. The total gallons of water pumped are documented by the water treatment plant monthly, and the gallons of water billed are available through the city's computerized billing system, therefore the information is available to perform such reconciliation.

The city's independent auditor performs this reconciliation annually during the course of the city's annual audit. During the year ending December 31, 2003, the city's independent auditor determined that the gallons of water pumped exceeded the total gallons billed by 58,806,142 gallons, or 16.5 percent.

To help detect significant water loss on a timely basis and to help ensure all water usage is properly billed, the city should reconcile the total gallons of water pumped to the gallons of water billed on a monthly basis and investigate significant differences. The Public Service Commission generally recommends investigation if water usage not billed exceeds 15 percent.

- C. The city collects and bills customers for various types of receipts, including merchant and occupational licenses, building permits, and miscellaneous charges such as bulk water, rent, water testing, research, and copies. During our review of these areas we noted the following weaknesses:

1. There is no oversight or adequate segregation of duties related to the city's merchant and occupational licensing or billing of miscellaneous charges. A finance clerk performs all functions related to generating the license application, processing, collecting, recording and assessing the delinquent penalty if applicable. In addition, the same finance clerk is responsible for preparing all miscellaneous billings and collecting and recording the subsequent payments.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that duties are adequately segregated.

2. A ledger is maintained to track the miscellaneous charges billed and dates paid; however, the ledger is not always complete and accurate. Of the 11 billings we selected from the 2003 ledger that were not marked paid, 9 had been paid but the payment information was not posted to the ledger. In addition, there was no evidence that the city had performed any follow up action, such as sending delinquent notices, on the other two unpaid billings.

To ensure customer billings are properly received and recorded, the billing ledger should be maintained accurately and completely.

3. Building permits are not prenumbered. The city utilizes a database for the building permits; however, permits are manually numbered by using the

next available number. The information and fee amount is entered into the database, then the permit is printed. In 2003, the building permit database crashed and a back up was not maintained. At our request the city tried to account for all building permits issued in 2003 by using the printed copies on hand; however, at least 10 of approximately 136 permit numbers are unaccounted for.

To provide additional assurance all monies are properly collected, recorded, and deposited, permits should be prenumbered and the numerical sequence should be accounted for properly.

4. There is no documentation to indicate that anyone reconciles building permits issued, merchant and occupational licenses issued, or the billing ledger of miscellaneous charges to amounts collected and recorded in the city's accounting records. To ensure fees for all permits and licenses and other miscellaneous charges are properly collected and recorded, the permits and licenses issued and the billing ledger should be periodically compared to amounts recorded in the city's accounting records.

WE RECOMMEND the City Council:

- A. Require independent approval of all credit adjustments, and ensure adequate documentation is retained of such adjustments. Additionally, the city should evaluate the large adjustments resulting from misread meters.
- B. Compare the gallons of water pumped to the gallons billed on a monthly basis and investigate significant differences.
- C.1. Segregate the duties of receipting monies from that of preparing bills, recording payments, and following up on delinquent accounts.
 2. Ensure the customer billing ledger is accurate and complete. In addition, follow up action should be performed on all unpaid billings.
 3. Require all permits to be prenumbered and the numerical sequence accounted for properly.
 4. Reconcile licenses and permits issued and the billing ledger for miscellaneous charges to amounts collected and recorded in the city's accounting records.

AUDITEE'S RESPONSE

The City Council provided the following response:

- A. *All water bill adjustments will be produced by the back office finance staff, based on information provided by the front office finance staff. A reason for all adjustments is*

documented. All adjustments are verified and approved by the Finance Director or his designee. Procedures will be established to minimize misread meters.

- B. A comparison of gallons of water pumped to the system will be compared to gallons of water billed on a monthly basis and significant differences will be investigated.*

- C.1. Billing for miscellaneous charges will be moved to the back office of the finance department. Payments will be made at the front office of the finance department and reported to the back office for tracking. Follow-up of delinquent invoices will be performed by the back office staff. Merchant and occupation billing will continue as is, but the Finance Director or designee will review the initial merchant and occupation license billing journal for accuracy and completeness. Payments will be tracked and delinquent accounts will be contacted in a timely manner.*
 - 2. The miscellaneous billing ledger will be maintained accurately and completely by the back office finance staff.*
 - 3. All building permits will be pre-numbered and all building permits will be accounted for properly.*
 - 4. The back office finance staff will reconcile licenses and permits issued and the miscellaneous billing ledger to the City's general ledger to insure all payments are recorded correctly.*

The city's CPA is preparing additional recommendations on behalf of the City in his report to be issued on or before August 31, 2004.