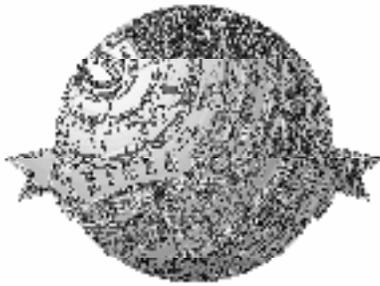


FOLLOW-UP OF
DEPARTMENT OF FINANCE AND ADMINISTRATIVE SERVICES
TREASURY DIVISION
PHYSICAL SECURITY
REPORT NO. 07-05-109F



City of Albuquerque
Office of Internal Audit and Investigations



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

September 20, 2007

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

Follow-Up: Treasury Division, Physical Security
07-05-109F

FINAL

INTRODUCTION

The Office of Internal Audit and Investigations (OIAI) performed a follow-up of Audit No. 05-109, Treasury Division Physical Security, issued October 26, 2005. The purpose of our follow-up is to report on the progress made by the Department of Finance and Administrative Services (DFAS) Treasury Division (Treasury) management in addressing our findings and recommendations.

Treasury is the City's banker. They collect taxes and fees, administer and invest monetary assets, and manage the municipal bond program. To achieve its goal of governmental excellence and effectiveness, Treasury:

- Records and controls City funds;
- Collects/administers taxes and fees;
- Provides debt management services to City departments to minimize financing costs; and
- Provides cash/investment services to City departments to optimize investment income.

SCOPE, OBJECTIVES, AND METHODOLOGY

Our follow-up procedures consist of interviews of City personnel and review and verification of applicable documentation to assess the status of our audit recommendations. Our follow-up is substantially less in scope than an audit. Our objective is to ensure management has taken meaningful and effective corrective action in regards to our findings and recommendations. The audit was conducted in accordance with Government Auditing Standards.

The scope of the follow-up did not include an examination of all the functions and activities related to Treasury. We limited our scope to physical security measures in place from the date of our report, October 26, 2005, to August 16, 2007.

RECOMMENDATION NO. 1:

OIAI compared a sample of Treasury's Over/Short Monthly Reports to the general ledger, and noted one item that was posted to the general ledger but not included on Treasury's Monthly Report. Treasury was not reconciling its records to the general ledger.

OIAI also reviewed three daily over and short reports. Although Treasury management provided additional details, OIAI could not determine the reason(s) for the overages and shortages by reviewing the daily reports alone.

OIAI recommended Treasury reconcile its monthly over/short reports to the general ledger and fully document the reasons for overages/shortages on the daily over and short reports.

DFAS responded they concurred with this recommendation and indicated that all over/short reports would be reviewed and approved by management, and that Treasury's Over/Short Monthly Report would be reviewed and approved by the Treasurer.

ACTION TAKEN

The audit recommendation has been partially implemented. Treasury stated that all over/short reports are reconciled to the general ledger monthly, reviewed by management, and submitted to the Treasurer for review and approval.

Treasury provided copies of its updated Procedures for Treasury Vault Section and Procedures for Treasury Teller Section, which include the following for overages/shortages:

- If the teller does not balance, then he/she must complete the daily over/short report, including the amount over/short and the reason for the overage/shortage.
- Management must sign-off on all daily over/short reports.
- All over/short amounts will be entered into Treasury's Over and Short Monthly Report, which is provided to the Treasurer for review and approval.
- Treasury's Over and Short Monthly Report must be reconciled with the general ledger report.

OIAI compared Treasury's Over and Short Monthly Reports for May, June, and July 2006, including the daily over/short reports, to the general ledger. During our review, OIAI noted the following exceptions:

- Four overages/shortages posted to the general ledger in June 2006, but were not included on Treasury's Over and Short Monthly Report for June 2006.
- No daily over/short report was available for two overages/shortages posted to the general ledger in June 2006.

No exceptions were noted in May or July 2006, and the Treasurer signed the Over and Short Monthly Reports in May, June, and July 2006.

RECOMMENDATION

Treasury should adhere to its established procedures and prepare daily over/short reports when necessary and reconcile the Over and Short Monthly Reports to the general ledger.

RESPONSE FROM DFAS

"DFAS concurs with the recommendation and will attempt to be more diligent in adhering to established procedures with respect to the preparation of daily over/short reports when necessary and reconciling those reports to the General Ledger."

RECOMMENDATION NO. 2:

OIAI reviewed the current cash receipt books and the current refuse bag receipt books. OIAI could not determine if all receipt books were present and accounted for since Treasury did not record the first and last receipt numbers on hand.

OIAI recommended Treasury record the first and last receipt numbers of the receipt books on hand, and take a periodic inventory of the receipt books on hand.

DFAS responded they concurred with this recommendation and indicated that Treasury had completed an inventory of all receipt books in the vault, and that employees would log out and log in receipt books.

ACTION TAKEN

The audit recommendation has been partially implemented. OIAI reviewed the cash receipt book inventories conducted in May 2005, March 2006, and March 2007. These inventories have been conducted at least annually and document new, used, and partially used cash receipt books on hand.

OIAI reviewed the cash receipt book log and the refuse receipt book log. These logs document the:

- Receipt book number;
- Date it was checked out;
- Who it was checked out to; and
- Date it was returned to the vault.

Treasury indicated that the refuse receipt book log also serves to document its periodic inventories of refuse receipt books. This log only includes receipt books that have already been issued by Treasury's vault person. It does not include receipt books that have not been issued by Treasury's vault person, but that are secured in Treasury's vault.

RECOMMENDATION

Treasury should take a periodic inventory of all refuse receipt books on hand, whether issued by the Vault Person or not. Treasury should document these periodic inventories.

RESPONSE FROM DFAS

“DFAS concurs with the recommendation. Treasury conducted a refuse receipt book inventory on September 5, 2007. Treasury will conduct an annual inventory on refuse receipt books. The next inventory will be scheduled by September 5, 2008.”

RECOMMENDATION NO. 3:

OIAI reviewed the authorized cardholder listing and one of the signature logs and selected a sample of individuals authorized to pick up accounts payable and/or payroll checks. OIAI attempted to verify that these individuals were current employees, had not transferred to another

department/division, and had a completed authorization form on file with Treasury. OIAI also attempted to verify that Treasury checks IDs when employees pick up checks. OIAI noted several exceptions, including the following:

- Two individuals who transferred were still listed under their old department/division on the most recent electronic cardholder listing.
- Three individuals were no longer employed by the City, but were listed on the most recent electronic cardholder listing.
- Two individuals picked up payroll checks, but did not have authorization forms on file at Treasury.
- Card numbers that appeared to have been issued to multiple individuals, and cardholders who appeared to have been issued more than one card.

OIAI also reviewed the Employee Clearance Form and noted that it did not include a line item for Accounts Payable/Payroll ID cards issued by the Treasury Division, and that it did not require Treasury sign-off.

OIAI recommended:

- Treasury management periodically review the authorized cardholder listing for exceptions, including terminated employees and employees who have transferred to other departments/divisions.
- Treasury management ensure that authorization forms are available for all currently authorized cardholders.
- The Human Resources Department (HRD) consider revising the Employee Clearance Form to include ID cards issued by Treasury.

DFAS responded they concurred with this recommendation and indicated that a semi-annual management verification was completed in September 2005, and that a recently developed report addresses staff turnover and potential duplication of card numbers.

HRD responded they concurred with this recommendation and indicated they would work with DFAS to revise the Employee Clearance Form by December 31, 2005.

ACTION TAKEN

Treasury:

The audit recommendation has not been implemented. Treasury provided a copy of the semi-annual verification memorandum, which is dated August 25, 2006. No semi-annual verification had been conducted since.

OIAI reviewed the report that addresses staff turnover and potential duplication of card numbers and noted the following exceptions:

- One card number was assigned to two cardholders. The Treasury Supervisor indicated this was a typo.
- One cardholder had two card numbers. The Treasury Supervisor was not aware that the cardholder had transferred to another department.

Using the report that addresses staff turnover, OIAI also selected a statistical sample of 30 out of a population of 129 cardholders. OIAI reviewed the City's payroll system, EmPath, to verify the cardholders are currently employed and have not transferred to another department/division. The following exceptions were noted:

- Two cardholders were no longer employed by the City.
- Three cardholders had transferred to a department/division other than the one listed on the report that addresses staff turnover.

HRD:

The audit recommendation has been implemented. The Employee Clearance Form has been revised and includes/requires:

- A line item for Badges/ID Cards.
- The supervisor to certify that he/she has returned the employee's Treasury ID card to Treasury.
- The supervisor and the department head/division manager to sign and date the revised Form.

RECOMMENDATION

Treasury should distribute its Financial Verification Reports at least semi-annually.

Treasury should periodically review the accounts payable/payroll ID cardholder listing for accuracy.

RESPONSE FROM DFAS

“DFAS concurs with the recommendation. The next semi-annual verification report is scheduled for distribution on September 12, 2007 and semi-annually thereafter.

“Treasury just completed transferring accounts payable/payroll ID cardholder paper information to an electronic listing (database) which should allow Treasury to better track employee’s financial ID status. Treasury will work with HRD to compare Treasury’s electronic accounts payable/payroll ID listing to HRD’s employee listing in EmPath to identify situations that may require further inquiry.”

RECOMMENDATION NO. 4:

Treasury management indicated they were in the process of upgrading their security equipment, and they planned to test this equipment quarterly when all upgrades were complete. However, at the time of the audit, they were not routinely testing the existing security equipment.

OIAI recommended Treasury periodically test its security equipment and document the results.

DFAS responded they concurred with this recommendation and indicated that Treasury would test its security equipment quarterly and log the results.

ACTION TAKEN

The audit recommendation has been implemented. Treasury indicated that they notify the Albuquerque Police Department before conducting security equipment testing. Testing involves opening the vault and testing the panic alarms and trap bills at each register. Tests are conducted at both Treasury Main and Annex locations.

Treasury provided a copy of its security equipment testing documentation. OIAI noted that security equipment tests were conducted in January, April, July, and August 2006.

RECOMMENDATION NO. 5:

During the audit, Treasury management indicated that combinations to safes were not changed on a routine basis, and entries were made on the vault access log only when opening and closing the vault for the day.

OIAI recommended Treasury routinely change the combinations to safes, and require that all employee interactions with the vault, excluding the vault teller and the vault teller backup, are recorded on the vault access log.

DFAS responded they concurred with this recommendation and indicated that Treasury recently purchased a digital numerical combination lock and would install a second digital numerical combination lock in October 2005. DFAS also indicated that a vault access log was placed outside the vault door.

ACTION TAKEN

The audit recommendation has been partially implemented. Treasury indicated they installed digital combination locks for all safes at both Treasury Main and Annex locations, and they will change combinations at least annually or whenever there is turnover. Treasury changed combinations at both locations in March 2006 and again in December 2006 when the previous Treasurer retired.

Treasury also indicated that an access log has been placed outside the vault door and a security camera has been positioned to provide additional security. Treasury maintains two separate vault logs. The first log is used to record the opening/closing of the vault each day. OIAI reviewed the October 2006 log and noted entries were made every business day between October 4 and October 13, 2006. The second log is used to record vault access exclusive of opening and closing the vault at the beginning and ending of the day. OIAI reviewed this log, which documents the date, time-in, time-out, initials, and reason for entry.

We noted the following:

- Between January 2006 and October 2006, the reason for entry was not documented in 6 of 108 entries.

- The time-out column was added in August 2006. However, the time-out was not documented in 33 of 42 entries.

RECOMMENDATION

Treasury should ensure that all columns of the Vault Entry Log are completed, including the reason for entry and the time-out.

RESPONSE FROM DFAS

“DFAS concurs with the recommendation. Treasury will now require a supervisor to review the vault entry log daily to ensure all columns are completed, and will initial the log to confirm the review has been completed.”

RECOMMENDATION NO. 6:

Treasury management indicated that its employees were not subject to background checks.

OIAI recommended Treasury incorporate background checks into its hiring process.

DFAS responded they concurred and indicated they would pursue this recommendation with HRD and the Legal Department.

ACTION TAKEN

The audit recommendation has not been implemented. Treasury indicated that although background checks have not been implemented, they did send a memo to the HRD Director on October 15, 2006 requesting that background checks be performed. OIAI followed-up with DFAS on August 1, 2007, who indicated that preliminary discussions have been held with HRD, but background checks have not been implemented at Treasury.

RECOMMENDATION

Treasury should incorporate background checks into its hiring process.

RESPONSE FROM DFAS

“While DFAS agrees that background checks might be advisable for certain positions within the Division, it is not likely that such a step will be incorporated into the hiring process in the near future. There are budget considerations to be addressed, as well as a potential requirement that job descriptions be changed to incorporate such a requirement. Treasury will meet with HRD and Legal prior to December 31, 2007 to determine exactly what would be required should such a requirement be implemented.”

RECOMMENDATION NO. 7:

Treasury management indicated that surprise cash counts were typically performed after hours and not in the presence of the appropriate teller. The cash counts were not documented.

OIAI recommended Treasury perform surprise cash counts in the presence of the appropriate teller, and document the results.

DFAS responded they concurred with this recommendation and indicated that Treasury would perform quarterly surprise cash counts. Either the vault person with the teller present or two management individuals would perform the cash counts.

ACTION TAKEN

The audit recommendation has been partially implemented. Treasury indicated they began conducting quarterly surprise cash counts in 2006. The surprise cash counts are conducted at any time of day by the vault person with the teller present.

Treasury provided its updated surprise cash count procedures, which are included in the Procedures for Treasury Vault Section and Procedures for Treasury Teller Section. The procedures state that all tellers will undergo surprise cash counts quarterly.

Treasury provided documentation supporting its surprise cash counts for the first, second, and third quarter of calendar year 2006. During our review, we noted the following:

- Three of the 13 surprise cash counts were not dual verified (i.e. only the person who conducted the cash count signed the cash count form. The teller or a second manager did not sign the form).

- Surprise cash counts were conducted only once for each of the four tellers during the first, second, and third quarters of 2006. Treasury stated that tellers are randomly selected and not every teller may be selected every quarter.

RECOMMENDATION

Treasury should ensure that surprise cash counts are conducted in accordance with established procedures, which state: All tellers will undergo surprise cash counts quarterly. The surprise cash counts will be conducted by the vault person with the teller present, or in the absence of the teller, two management individuals.

RESPONSE FROM DFAS

“DFAS concurs with the recommendation and will ensure that subsequent surprise cash counts are conducted in accordance with established procedures.”

RECOMMENDATION NO. 8:

OIAI selected a sample of petty cash and change fund custodians from Treasury’s listing and verified the employment status of each custodian and the amount of each petty cash/change fund. The following exceptions were identified:

- Five current employees were not working in the department/division noted on Treasury’s listing.
- One custodian on Treasury’s listing was not currently employed by the City.
- Two amounts verified by custodians did not agree with Treasury’s listing.

OIAI reviewed the Employee Clearance Form and noted that it did include the following line item – Petty Cash Reconciled. However, the Clearance Form did not include a line item for change funds, and it did not require Treasury sign-off.

OIAI recommended Treasury periodically review the current listing of petty cash and change fund custodians to verify the accuracy of the listing.

DFAS responded they concurred with this recommendation and indicated that Treasury had completed a semi-annual management verification in September 2005.

OIAI recommended HRD consider revising the Employee Clearance Form to ensure that both petty cash and change funds are either returned to the Treasury Division or appropriately assigned to a new custodian.

HRD responded they concurred with this recommendation and indicated they would work with DFAS to revise the Employee Clearance Form by December 31, 2005.

ACTION TAKEN

Treasury:

The audit recommendation has been partially implemented. Treasury indicated they were interviewing department custodians and financial officers to identify the types of petty cash transactions, the internal controls in place, and the available alternatives to petty cash.

Treasury prepared a summary report of its review, dated November 13, 2006, and noted the following:

- There are 15 departments with petty cash/change funds.
- There are 56 change fund custodians, with funds totaling \$48,830.
- There are 46 petty cash custodians, with funds totaling \$28,345.

Treasury identified 19 petty cash custodians with no reimbursement activity in the last six months and initiated a recall of these funds, totaling \$7,480.

Using the Imprest Funds Custodians Report dated November 1, 2006, OIAI selected a statistical sample of 29 out of a population of 102 petty cash and change fund custodians. We verified the employment status of these custodians, and noted the following exception:

- One custodian is no longer employed with the City. This individual terminated employment on August 9, 2005.

Treasury provided a copy of the semi-annual verification memo dated August 25, 2006. No semi-annual verification has been conducted since.

HRD:

The audit recommendation has not been implemented. The Employee Clearance Form has been revised and includes the following line item – Petty Cash Audited Out. However, the revised Form does not include a line item for change funds.

RECOMMENDATION

Treasury should distribute its Financial Verification Reports at least semi-annually. Treasury should also periodically review the Imprest Funds Custodians Report for accuracy.

HRD should revise the Employee Clearance Form to include both petty cash and change funds to ensure these funds are either returned to Treasury or appropriately assigned to a new custodian.

RESPONSE FROM DFAS

“DFAS concurs with the recommendation. The next semi-annual verification report is scheduled for distribution on September 12, 2007 and semi-annually thereafter. By December 31, 2007, the Director of DFAS will meet with the directors of departments with petty cash and or change funds to discuss more appropriate procedures for the custodial transfer of both types of funds when a custodial employee is transferred or terminated.”

RESPONSE FROM HRD

“HRD has worked with both the prior and current directors of DFAS in an effort to ensure that the form reflects all items that must be addressed when an employee terminates employment with the City, and believed they had satisfied the original recommendation. HRD respectfully notes that the Employee Clearance Form is a Payroll form, not a Personnel Form, and serves primarily as a checklist for items to be considered as an employee is terminated from City employment and that HRD rarely has actual knowledge of items assigned to a specific employee. HRD will continue to assist the Departments in ensuring that City assets are properly returned when employment is terminated, or an employee is transferred.”

RECOMMENDATION NO. 9:

OIAI reviewed software used by Treasury, including Envision, Cashier for Windows, and mainframe applications. OIAI noted several exceptions, including the following:

- Passwords did not expire for Envision.
- Administrator level passwords did not expire for Cashier for Windows.
- Three users on the Envision user listing were not currently employed by the City. One user on the Envision user listing had transferred to a department outside of Treasury. However, these IDs were still assigned to a user group.
- One employee had update access in the Utility Billing System. Treasury management indicated that this employee recently transferred to Treasury from the Water Utility Department. Therefore, this employee's access had not been reviewed and adjusted from update access to read only access.

OIAI recommended:

- Treasury implement password change requirements for all users of Envision and Cashier for Windows.
- Treasury periodically review the Envision user listing to ensure that user IDs of individuals no longer employed by Treasury are removed from assigned user groups.
- Treasury periodically review the access rights of users of mainframe applications.

DFAS responded they concurred with this recommendation and indicated that cashiers would be required to change passwords every 30 days, and that management would review access rights semi-annually.

ACTION TAKEN

The audit recommendation has been partially implemented. Treasury indicated that passwords for both Envision and Cashier for Windows expire every 30 days, and that employees leaving Treasury are removed from both systems. Treasury stated that access rights were reviewed on October 12, 2005 and October 12, 2006.

OIAI reviewed system reports for Envision and Cashier for Windows. Envision requires users to change passwords every 30 days. Cashier for Windows requires users in the "Cashier" group to change passwords every 30 days, but not users in the "Master" group. Fourteen users are in the "Cashier" group and five users are in the "Master" group.

OIAI reviewed the user listings for Envision and Cashier for Windows to determine if users have transferred to a department outside of Treasury or have terminated employment with the City. During our review, we noted that one user had transferred out of Treasury, but her access to Envision had not been revoked.

RECOMMENDATION

Treasury should review access rights at least semi-annually and immediately revoke system access when users terminate City employment or transfer to another department.

Treasury should apply the 30 day password change requirement to all users of Cashier for Windows, including users in the “Cashier” and “Master” groups.

RESPONSE FROM DFAS

“DFAS concurs with the recommendation. Access to Envision has been revoked for the employee identified during the follow-up audit work.

“The 30-day password change requirement has been implemented for all users of Cashier for Windows, including users in the “cashier” and “master” groups.”

CONCLUSION

Treasury has fully implemented or resolved one of the recommendations noted in the initial audit. Six items have been partially implemented, and two items have not been implemented.

The recommendations noted above should enhance internal controls in the following areas that still need improvement:

- Over and short reporting;
- Receipt book inventories;
- Accounts payable/payroll ID cardholder listing;
- Semi-annual management verification;
- Imprest funds custodian listing;
- Vault entry log;
- Background checks;

- Surprise cash counts; and
- Access rights to Treasury applications.

HRD has fully implemented or resolved one of the recommendations noted in the initial audit. One item has not been implemented. HRD should revise the Employee Clearance Form to ensure that both petty cash and change funds are accounted for when employees transfer to other departments within the City or terminate City employment.

We appreciate the assistance and cooperation of Treasury and HRD personnel during the audit.

Principal Auditor

REVIEWED:

Audit Manager

Internal Auditor

APPROVED:

APPROVED FOR PUBLICATION:

Carmen Kavelman, CPA, CISA, CGAP
Director
Office of Internal Audit & Investigations

Chairperson, Accountability in Government
Oversight Committee