REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

SPECIAL REPORT ON THE LATE DEPOSITS OF OCCUPATIONAL LICENSE TAXES (OLTs) FINANCE- REVENUE DIVISION

INTERNAL AUDIT REPORT 600010-05

July 15, 2010

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Councilwoman Joyce Bowman
Chairman, Shreveport City Council

Dear Councilwoman Bowman:

Subject: SR600010–05 — Special Report on the Late Deposits of Occupational License Taxes (OLTs) Finance-Revenue Division

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Graham, CPA, CIA
City Internal Auditor

EXECUTIVE SUMMARY
SPECIAL REPORT ON THE
LATE DEPOSITS OF OCCUPATIONAL LICENSE TAXES (OLTs)
SPECIAL REPORT (SR) 600010-05

The purpose of the executive summary is to convey in capsule form the significant issues of this special report. The executive summary is a vehicle for reviewing the report and should only be used in conjunction with the entire report.

INTRODUCTION

The Internal Audit Office discovered that daily deposits were not being made of Occupational License Taxes (OLTs) received through the mail. This was noted while conducting work during the Annual Follow-up.

RECOMMENDATION/EVALUATION RISK CRITERIA

The chart below summarizes the recommendations outlined in the report and our evaluation of risk for the recommendations. We evaluated the importance of each audit recommendation by assigning each a level of risk. The risk levels, as defined in the chart below, were determined based on the possible results for the entity if the recommendation is not implemented. This report contains two findings with three recommendations addressing actions necessary to remedy the observed deficient conditions.

Risk Levels	***Recommendations***
High Risk Possibility of fraud, waste, and abuse of City assets; Interrupted and/or disrupted operations; Entity's mission not being met; Adverse publicity.	▪ Comply with A.P. 3-7 by making daily deposits. (Finding 1) ▪ Ensure immediate restrictive endorsement for all checks received. (Finding 1)
Medium Risk Possibility of continuing, significant operating inefficiencies and high-level non-compliance issues.	Review and evaluate goals & objectives for effectiveness and consistency with activities. (Finding 2)
Low Risk Possibility of continuing operating inefficiencies and some low-level non-compliance issues.	**None**

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SPECIAL REPORT ON THE LATE DEPOSITS OF OCCUPATIONAL LICENSE TAXES (OLTs) FINANCE-REVENUE DIVISION SPECIAL REPORT (SR) 600010-05

OBJECTIVES

We have completed a special report on the late deposits of Occupational License Taxes (OLTs). During work on the Annual Follow-up of the "Special Report of the Finance-Revenue Cashiering, City Hall Annex Location, Physical Security Environment," we were informed and validated that some mail receipts were not being deposited in a timely manner. Specifically, we noted that mail receipts for Occupational License Taxes (OLTs) had not been deposited for several weeks.

Our objectives were to determine the efficiency and effectiveness of the operations of the division; its economy and efficiency of resources; and determine whether organizational goals and objectives were being met.

SCOPE AND METHODOLOGY

The scope of the study of internal control was limited to the general controls surrounding our objectives.

Audit procedures applied included, but were not necessarily limited to, the following:

- Observing operations and ongoing activities.
- Reviewing applicable records and documents.
- Interviewing appropriate personnel and management.

BACKGROUND

The Revenue Division bills and/or collects the majority of the City's revenues, including water and sewerage charges, property taxes, occupational license taxes, and charges for emergency medical services. It also collects delinquent accounts, operates a cashiering station, and provides customer service for persons paying their City taxes and fees in person. In this area, during work on the Annual Follow-up, we discovered that daily deposits of occupational license taxes (OLTs) were not being made.

CONCLUSIONS/FINDINGS/RECOMMENDATIONS

The Internal Audit Office expresses appreciation to the employees of the Finance – Revenue Section for their cooperation and assistance provided during our review.

Based on our review, we believe management could enhance the control environment by making daily deposits of all mail receipts received.

1. Late Deposits & Lack of Restrictive Endorsement of Occupational License Tax Receipts

Criteria: Administrative Procedure 3-7, "Cash Receipts," section 5b, part 1 (Timely Deposit of Monies Received), requires all cash and checks received be deposited in the Accounting Division within 24 hours, when physically and economically feasible. Also, part 2 of the referenced section requires that all checks received by the City be immediately and restrictively endorsed "For Deposit Only."

Condition: We noted that mail receipts for the City's Occupational License Taxes were not being timely deposited or restrictively endorsed. Specifically, partly based on comments from the responsible employees and observation of undeposited mail receipts, we noted that:

- Some mail receipts were held for almost a month prior to being deposited. We reviewed and totaled a sample stack of **58** undeposited checks amounting to **$75,911.09**. The majority of these checks were dated from January 25 – 29, 2010. The date of our on-site visit was Thursday, February 18, 2010 (a difference of approximately 3 weeks between check date and the auditors' site visit).

- None of the aforementioned checks observed had been immediately and restrictively endorsed "For Deposit Only".

Effect:
- Loss of interest revenue.
- Negative publicity.
- Exposure of the undeposited checks to fraud, waste, and abuse.
- Possibility of expired occupational licenses.

Cause:
- Lack of prioritizing mail receipts for processing.
- Insufficient manpower.

Recommendation: We recommend that management:

1. Comply with A. P. 3-7 “Cash Receipts”, specifically section 5b, by making mail deposits as soon as possible after receipt, preferably within 24 hours. This may require obtaining seasonal help and/or prioritizing work schedules during this time.

2. Ensure that upon receipt all checks received are immediately and restrictively endorsed “For Deposit Only”.

Management Plan of Action: We concur with the recommendations. We are currently in the process of cross-training to ensure that we are able to operate more efficiently. The recommendations from the Internal Audit Office will assist the Revenue Division in making the necessary changes in cash handling operations. The proposed changes are as follows:

1. All payments received through the mail (with the exception of payments that are processed on the Unisys Machine) will be opened and stamped “For Deposit Only” and the accompanying documentation will be stamped with a dated “Received” stamp.

2. After all mail is opened and stamped, payments will be evenly distributed to the Revenue Specialists by the Revenue Supervisor. Prior to peak seasons, all Revenue employees will receive a written request asking if they are willing to work overtime if needed. Management will use this to determine if additional seasonal help is necessary.

Timetable: Immediately.

2. Goals & Objectives (For Bank Deposits)

Criteria: Objectives, as well as short and long-term goals should be identified, measured, evaluated, and achieved to determine whether an organization is operating within and accomplishing its mission.

Condition: We noted that although the Revenue Division had established goals and objectives relative to faster bank deposits and increased collection of revenues, accomplishment of them was questionable. For example, according to the 2009 and 2010 Annual Operating Budgets of the City of Shreveport, the Finance Revenue Division listed as goals and objectives respectively, “convert checks mailed to the City to electronic files for faster deposit of funds at the bank” and “increase collection of delinquent revenues due the City.” However, achieving these goals will be unlikely if the division does not expediently collect, deposit, record, and reconcile the revenues that it currently receives.

Effect:
- Inefficient and ineffective operations.
- Goals and objectives not fully accomplished.

Cause: Management may have not recognized the need to measure these goals and/or correlate their achievement with the current activities of its division.

Recommendation: We recommend that management review and evaluate its goals and objectives for effectiveness and consistency with its activities.

Management Plan of Action: *(See response for Finding #1).*

Timetable: Immediately.

Prepared by:

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CAO
City Council
Clerk of Council
City Attorney
External Auditor
Interim Finance Director
Revenue Administrator
Revenue Supervisor