

<p><b>Date:</b> November 15, 2018</p> <p><b>To:</b> Adam Cloud, City Treasurer</p> <p><b>From:</b> Craig Trujillo, CPA, Chief Auditor Joseph Caruso, CPA, Deputy Chief Auditor</p> <p><b>Tele:</b> (860) 757-9952 (860) 757-9955</p>		<p><b>City of Hartford Treasurer's Office Custody of Funds Audit Report 1907</b></p>
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## I. Executive Summary

In accordance with our audit plan for the fiscal year ending June 30, 2019, we completed an audit in October 2018 of the Treasurer's Department Custody of Funds accounts and operations. The purpose of the examination was to evaluate and test internal accounting and operating controls, the accuracy and propriety of transactions processed, the degree of compliance with established operating policy and procedures, and to recommend improvements where required. The results of our examination were reviewed with A. Cloud, Treasurer; N. Plessy-Cloud, System Manager; and other responsible members of operating management. The summary which follows includes only exceptions disclosed and recommended operating improvements. Included are management's actions taken or planned including timeframes to resolve each finding and/or recommendation in this report. We thank Treasury Department management and staff for their cooperation and courtesies extended to us during our audit.

We are pleased to report that controls and tests of processes relating to Custody of Fund accounts and operations were found to be satisfactory.

### Background

The Custody of Funds Unit (CFU) of the City Treasurer's Office is responsible for managing the inflow and outflow of City funds in an accountable and efficient manner while maximizing the return on short-term investments. The CFU has three primary functions: disbursements, bank reconciliations and short-term investing. CFU pays City of Hartford (City) obligations to vendors, employees and retirees; accounts for and balances the receipts and disbursements of City funds in conjunction with the City's general ledger and Finance Department accounting systems; and, maximizes income related to STIF overnight investments. As of June 30, 2018, CFU managed 36 bank/investment accounts and more than \$63 million in short-term investments.

### Scope

The scope of our audit included various reviews and tests of transactions recorded primarily during the fiscal year ended June 30, 2018. The following audit procedures were performed:

- Reviews and evaluations of policies, procedures and related internal operating and accounting controls;

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- Tests of cash receipts, daily deposits and daily cash balancing processes;
- Reviews of the management oversight and investment of excess General Fund cash;
- Reviews and tests of disbursements and related processes and controls; and
- Reviews of bank reconciliations and tests of reconciling items.

## **II. Audit Results**

### Bank Reconciliations

It is the responsibility of the various City departments to follow-up and properly account for non-sufficient fund (NSF) or bounced checks after being notified of them by the Treasurer's Office. We found that NSF checks were not always being followed-up on and accounted for properly by various City departments. Tests of 33 NSF checks totaling \$9,545 and reviews of related operations disclosed that all 33 NSF checks were not reversed in the MUNIS Financial Management System (MUNIS) by the originating departments. It is the current practice of certain departments not to reverse NSF checks in the City's accounting systems. None of the 33 NSF check entries were reversed by the originating departments, even though they were notified to do so by the Treasurer's Office. We also noted that the NSF fee is not standard from department to department. NSF fees currently being charged by various departments is \$20 or \$50. We recommend that City management implement a standard NSF fee to be used by all departments, thereby removing any discretion from the Department and Division Heads. This NSF fee should be adopted by City Council and included in the City Municipal Code.

### **Management Response**

Due Date: January 31, 2019

Responsible Person: Melissa McCaw, Interim Chief Financial Officer; Leigh Ann Ralls, Finance Director; Adam Cloud, City Treasurer

It must be stressed that it is the responsibility of the departments, not Treasury, to properly account for NSFs or returned checks. Management understands that the purpose of this entry is to identify the problem. However, we disagree that it should be listed as an auditable item under our control. Management and Budget should be made aware of this issue so that the Revenue Management Unit can make the necessary changes to the existing policies and procedures

### Internal Controls

Various other tests and reviews disclosed the following:

1. There is not always an appropriate level of segregation of duties over CFU functions. Good internal control requires an appropriate level of segregation of duties over cash receipt processing and related accounting functions. We noted that one CFU employee has access to cash and checks, has bank reconciliation approval responsibilities and initiates, creates and posts journal entries. Depending on daily staffing levels, this

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employee could potentially perform a number of these functions. Treasurer's Office management informed us that this cannot always be avoided due to staffing levels and additional staff would have to be hired to completely address this matter.

2. The Quality Data System (QDS), used by the Tax Collector's Office & Assessor's Office to account for City taxes and the City grand list, financial interface allows authorized users to create an interface file for the purpose of posting the Cash Register daily cash receipts transactions to MUNIS. However, when the interface files are uploaded into MUNIS for credit card payments, the transactions are not recorded properly. Credit card payments have two separate account codes in MUINS, namely tax and convenience fee. Credit card payments, which include the tax and convenience payments, are uploaded only to the tax account code causing the MUNIS general ledger tax account to be overstated and the convenience fee account to be understated. As a result, CFU management must make a journal entry every time these tax and convenience fee transactions are uploaded to MUNIS. Management is aware of this issue and corrected actions are forthcoming.

**Management Response**

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Responsible Person: Adam Cloud, City Treasurer

It must be noted that while Treasury ultimately has custodial responsibility of all City funds, the source of the areas of concern comes from either the departments that fail to act in a timely manner or because MUNIS/QDS is ineffective in recording and coding data properly. These issues should ultimately be resolved with the implementation of a new online credit card payment system.

**Distribution**

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Internal Audit Commission Members

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M. McCaw, Interim Chief Financial Officer & Director, Department of Management, Budget & Grants

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