

March 20, 2008

Internal Audit Report 2008-4
Controls Over Checks Received by Mail
Finance Department

Introduction. According to the Anchorage Municipal Code, the Treasurer, under the direction of the Chief Fiscal Officer, receives, collects and is the custodian for the Municipality of all money due or accruing to the Municipality. The Treasurer shall deposit all moneys received by him belonging to the Municipality in such banks as the Mayor and/or Chief Fiscal Officer have established as Municipal depositories. Except in cases where deposits at longer periods are specifically authorized by ordinance or the Chief Fiscal Officer, it shall be the duty of every person authorized to receive or collect money to deposit such collections in full daily with the Treasurer.

Objective and Scope. The objective of our audit was to determine the adequacy of controls over checks received through the mail. Specifically, we evaluated current procedures contained in Municipal policies and procedures and the Anchorage Municipal Code. We also reviewed and tested the procedures used to process payments received through the mail at the Treasury Division and the Employee Relations Department.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of February 2008.

Overall Evaluation. Controls over checks received through the mail required strengthening. Municipal Policy and Procedure (P&P) 24-1, *Collecting, Securing, Depositing and Reporting Cash*, did not adequately prescribe control procedures for processing and accounting for checks received through the mail. Procedures at the Treasury Division and Employee Relations Department did not

provide a record of checks received through the mail. As a result, checks could be lost or misappropriated without detection.

FINDING AND RECOMMENDATION

1. Controls Require Strengthening for Checks Received by Mail.

- a. Finding.** There was a significant lack of internal control over checks received by mail. As a result, checks could be lost or misappropriated without detection.

P&P 24-1 only requires that all payments received by mail must be processed, reported and deposited on the date of receipt through established cash collection procedures; and discourages sending cash and checks through the courier system. The procedures do not require a log of all checks that have been received through the mail nor a reconciliation or verification of the deposit to ensure that all checks received were actually deposited. The procedures also do not require segregation of duties between the individual opening the mail and making the deposit.

Our review of procedures in the Treasurer's office disclosed that mail received was processed by the Administrative Assistant but none of the checks received were logged in. Consequently, no record was kept as to what checks were received or where they were sent for processing and deposit. All letters that could be identified as payments that belong to Treasury were sent to the cashiers for processing and deposit. However, other mail was opened to determine where it should be sent. Many letters containing checks from insurance companies or other vendors were placed in an envelope and sent through the Municipal courier to the Employee Relations Department. At the Employee Relations Department, checks received in the mail also were not logged in. Any checks that did not belong to Employee Relations were again forwarded to other Departments. Checks that pertained to

Employee Relations were entered on a Municipal Cash Receipt form and deposited in Treasury.

Sound internal control procedures require that all checks or money received through the mail should be logged in by the individual opening the mail. The checks and money should be given to another employee who prepares the deposit. The supervisor should verify the deposit with the log maintained by the employee opening the mail to ensure that all items received have been deposited.

- b. Recommendation.** P&P 24-1 should be revised to require proper internal controls over cash and checks received in the mail to include, at a minimum, the following: a log of all cash and/or checks received in the mail and the date of receipt; the name of the individual to whom the checks and/or cash was sent to, if applicable; a supervisory verification of the deposit with the log of items received; and segregation of duties between the individual opening the mail and making the deposit.
- c. Management Comments.** Management stated, “Management concurs with the Internal Auditor’s finding and recommendation to strengthen policy and procedure 24-1 by adding a section addressing internal controls related to tracking payments by mail and by requiring segregation of duties between the person opening mail and the person making daily deposits. Management immediately corrected the interoffice routing of checks from Treasury to Employee Relations and now ensures that all such checks are logged before routing. All checks generically addressed to the City’s P.O. Box and received by Treasury are logged, researched, routed and have disposition noted. Management has begun to consider specific practices regarding checks by mail in the update to policy and procedure 24-1. The policy and procedure update should be completed by the end of the second quarter 2008. Additional emphasis regarding internal training and standards will be placed on those departments which receive payments by mail but do not have accounts setup within the PeopleSoft

Accounts Receivable module, or do not have an active cash register/receipting operation. Specific to Employee Relations' checks received by mail, Management intends to work with Employee Relations starting in April 2008 to transition the function of opening, receiving, logging and depositing checks received by mail from Employee Relations to Treasury. All such payments would be tracked and deposited timely receipt and Employee Relations would receive copies of backup paperwork to alert them to specific payments processed by Treasury.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials.