



Office of the City Auditor

Audit of Selected Revenue Collection Points

Report Date: October 31, 2013

Office of the City Auditor
2401 Courthouse Drive, Room 344
Virginia Beach, Virginia 23456
757.385.5870

"Promoting Accountability and Integrity in City Operations"



Office of the City Auditor

"Promoting Accountability and Integrity in City Operations"

Lyndon Remias, CPA, CIA
Timothy Bell, CICA

City Auditor
Senior Auditor

www.vbgov.com/cityauditor

Office of the City Auditor
2401 Courthouse Drive, Room 344
Virginia Beach, VA 23456

Telephone: 757.385.5870

Fax: 757.385.5875

Fraud, Waste, and Abuse Hotline 757.468.3330



Office of the City Auditor
Transmittal Letter



Date: October 31, 2013
To: James K. Spore, City Manager
Subject: Audit of Selected Revenue Collection Points

I am pleased to present the report of our audit of the City's Selected Revenue Collection Points. Our audit focused on the policies and procedures use at the various revenue collection locations.

Overall, based on our audit, the processes and controls governing revenue collection including the receiving, recording, depositing and reconciliation of revenues to City accounting records were adequate, but management can enhance these processes and improve efficiency by implementing our recommendations related to controlling and monitoring of the City's revenue collection.

Findings considered to be of insignificant risk have been discussed with management. The results of this audit will be provided to City Council through the City's Audit Committee.

The Office of the City Auditor reports to City Council through the City's Audit Committee and is organizationally independent of all other City Departments. This report is intended solely for the information and use of the Audit Committee, City Council, City Manager, and appropriate management. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We would like to thank the staff of the Finance Department and the various City departments we visited for their courteous and prompt assistance during our audit.

If you have any questions about this report, or any audit-related issue, I can be reached at 385.5872 or via email at lremias@vbgov.com.

Respectfully submitted,

Lyndon S. Remias, CPA, CIA
City Auditor

c: City Council Members
Audit Committee Members
Dave Hansen, Deputy City Manager
Patricia Phillips, Director of Finance



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Purpose

The purpose of our audit was to review of the process and adequacy of internal controls over the collection, depositing and reconciling of revenue at various programs and locations throughout the City.

Scope & Objective

The audit covered the policies and procedures in place at all City locations where cash and checks are received as revenue. These locations do not include the locations with a Point-of-Sale (POS) system/register such as Libraries, Recreation Centers, Farmer's Market, Virginia Aquarium Museum stores, Treasurer's Office and Commissioner of Revenue. We conducted our fieldwork from April 4, 2013 through September 25, 2013.

Methodology

To accomplish our objectives, we performed the following procedures:

- Determined the location of the City's revenue collection points.
- Reviewed policies and procedures at each location regarding collecting, depositing and recording of fees and other monies and met with appropriate staff to discuss such.
- Examined procedures related to the safeguarding of cash received.
- Reviewed internal controls through inquiry and examination of documents and identified high-risk areas.
- Compared revenue reported via the deposit transmittals to actual Treasurer's records.
- Made recommendations to improve processes, increase efficiency and strengthen the internal controls associated with revenue collection at the City's various revenue collection points.

Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained during this audit provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Office of the City Auditor reports to City Council through the Audit Committee and is organizationally independent of all City Departments. This report will be distributed to the City's Audit Committee, City Council, City Manager, and appropriate management within the City of Virginia Beach. This report will also be made available to the public.



Background

The City of Virginia Beach Treasurer's Office is the custodian of all public monies of the City, and their primary purpose is the collection of revenues on behalf of the City. However, there are various locations throughout the City who handle revenue in cash, checks and credit cards. A location that receives and handles revenue must have both an awareness of and show a commitment to strong internal controls for receiving revenue,



especially cash receipts. Management has the responsibility for establishing and maintaining the proper environment of internal controls over the cash handling. This environment is established with written procedures and maintained by awareness through regular communications between management and staff. Management must demonstrate a commitment by example and review. Internal controls are necessary to prevent mishandling of funds and to safeguard against loss. Strong internal controls also protect employees from inappropriate charges of mishandling funds by defining responsibilities in the revenue collection process.

The revenue collection points that are located throughout the City vary in size and collection procedures. Some locations have Point-of-Sale systems (registers), such as the Recreation Centers, Libraries and Museum stores. However, many locations have manual procedures to collect, record, deposit and reconcile revenues and have not been evaluated as to the sufficiency of these procedures to ensure proper and complete accounting of all revenues received. For our review, we limited our scope of coverage to those locations that did not have a Point-of-Sale (POS) system; thereby we did not review the following locations:

Locations Not Reviewed
Libraries (Previously covered under separate audit)
Recreation Centers (Previously covered under separate audit)
Farmer's Market (Previously covered under separate audit)
Virginia Aquarium Museum stores (Separate audit underway)
Treasurer's Office (Utilizes a POS system)
Commissioner of Revenue (Utilizes a POS system)

Overall, we visited 56 different revenue collection locations throughout the City from April 4, 2013 to September 25, 2013. These locations handled approximately \$28,000,000 (~\$20,000,000 from Social Services) in revenue. The listing of all the selected and visited revenue collection locations is available in Appendix 1.



All locations collecting revenue, especially cash, must develop and implement procedures that address the following elements:

Elements of Revenue Handling Procedures

- Accounting for revenue as it is received;
 - Separating individual cash handling duties;
 - Safeguarding the handling and storage of cash and checks;
 - Depositing the cash and checks promptly;
 - Reconciling revenue activity in a timely manner;
 - Monitoring of the process by administrators not involved.
-

Our audit focused mainly on five areas of revenue collection; the receiving, recording, safeguarding, depositing and reconciliation.

Receiving

The key to effective cash control while separating duties is to minimize the number of people who actually handle cash before it's deposited. However, the person receiving the cash should not be the person who deposits it and should not be involved in or have access to accounting records nor be involved in the reconciliation of cash book balances to bank balances. Only employees authorized by management should have access to cash receipts.

Recording

The cash accountability ensures that cash is accounted for, properly documented and secured, and traceable to specific cash handlers. A pre-numbered receipt should be given for all revenues, cash as well as checks, when received and recorded in a receipt or log book. Supervisors should approve all voided and refunded transactions.

Safeguarding

The revenues should be kept physically protected, including the cash handlers in their physical environment. To promote accountability over revenue, particularly cash, access of cash should be restricted to as few people as possible. When proper cash accountability exists, you can answer following:

- Who has access to cash?
- Why they are permitted to have access to cash/safe/money bag?
- Is the cash in a secured environment?
- What has occurred from the beginning of the transaction to the end?

Depositing

The revenues should be deposited by a separate person from those who receive the revenues. All revenues should be promptly deposited and verified by the supervisor(s). The deposit should be reconciled to the transmittal slip and recorded in proper InSITE account codes.



Reconciling

To provide reasonable assurance that all revenues received and are accounted for, reconciliation procedures should be performed. The periodic reconciliations of receipts, deposits and general ledger accounts provide effective checks and balances.

Policies and Procedures

Management should provide policies and procedures for revenue collection to locations that receive any amount of cash. Training should also be provided to minimize the risk of errors and misappropriations.



Findings and Recommendations

Receiving Revenue

The City's revenue collection locations receive revenue in a variety of ways: in a payment office; through the mail; in a little hut on a fishing pier; and in outlying administrative offices at various City parks. We did not find any significant issues with separation of duties or any other internal controls related to how the revenue is received.

Recording Revenue

In our review of the recording of revenue collections, we found the following exceptions (with number of locations in parentheses):

Exceptions to Recording Internal Controls

- Location did not have capability to print receipts (2)
- Does not give out receipts for check transactions (1)
- Only gives a receipt upon request (1)

Note: Departments with exceptions are listed in Appendix 2

The inconsistent use of receipts makes reconciliation of revenue receipts to deposits difficult and increases the risk of concealed errors or irregularities going unchecked. This increases the risk of lost or stolen cash receipts and could project inaccurate application of revenues to department accounts.

Recommendations

- 1.1 Implement requirement that all revenue collection locations issue pre-numbered receipts for cash and checks received.
- 1.2 Require use of receipt logbooks for recording all receipts issued.



Safeguarding Revenue

The following are some issues we found at the revenue collection locations with regards to the safeguarding of revenues received:

Exceptions to Safeguarding Internal Controls

- No safe or locking cash box (2)
- No locking money bag used for deposits (1)
- Safe in use does not securely protect revenues (1)
- Safe is at location but not in use (1)
- Safe is left open during operating hours (1)
- Safe was not working at time of our visit (1)
- File cabinet lock not used (1)
- Safe is not bolted to the ground (1)
- Too many employees have access to the safe (2)

Any lack of strong safeguards over possession of cash revenues increases the risk of lost and stolen cash receipts and creates an unsafe work environment. Also, weak safeguarding controls increases risk of improper use of City assets, i.e. “borrowing” and inaccurate application of cash receipts to City accounts due to missing money.

Recommendations

- 2.1 Require the use of locking money bags for safekeeping and transportation of monies to deposit site.
- 2.2 Require purchase of safe(s) or locking cash boxes to securely protect contents as appropriate to the location. Bolt safes to the floor if possible.
- 2.3 Use all available features of locking file cabinets with key or combination locks when location requires the use of lock box.
- 2.4 Minimize the number of people with access to the safe(s) or locking cash boxes.



Depositing Revenue

The following are some issues we found at the revenue collection locations with regards to the depositing of revenues received:

Exceptions to Depositing Internal Controls

- Interoffice mail used to transport checks (1)
- Revenues for deposit being sent to Finance/Comptroller's office instead of Treasurer's Office (2)
- Revenues are not deposited promptly (once a month) (1)

Each of the exceptions above can increase the risk of lost and stolen receipts. Revenues should always be under the control of the delegated person and accounted for when transferring from one individual to another. Strong internal controls requires the minimal number of people to handle the revenues and for prompt depositing.

Recommendations

- 3.1 Require all deposits of revenues to be hand-carried to designated bank(s) or Treasurer's Office.
- 3.2 Minimize the amount of funds held overnight, i.e. deposit promptly.



Reconciling Revenue

Reconciliation of revenues received to the general ledger is a very important step for management to ensure accountability and completeness of recording all revenues. Below is a chart of exceptions that were found.

Exceptions to Reconciling Internal Controls

- No reconciliation of deposits to revenues reported by billing system, customer database, customer orders, receipt book, tickets sold or other documentation (7)
- Reconciliation between department's internal system to InSITE no longer performed (1)
- Never have done any reconciliation of any type before (1)
- Lack of documentation of reconciliations (7)

Reconciliations between what was deposited to what receipts or departmental systems say should always be conducted by a person independent of the receiving end of the revenue collection process. When reconciliations are not performed, the risk is higher for errors, discrepancies, or irregularities not being detected and misapplication of revenues to department accounts

Recommendations

- 4.1 Require all revenues to be reconciled to receipt records, or to departmental database applications to minimize risk that revenues received would be unaccounted for. When feasible, perform a comparison of historical data on a month-to-month or year-to-date basis to review for anomalies.
- 4.2 Document all reconciliations for management and auditing review.



Policies and Procedures (City-wide and Departmental)

Some revenue collection locations (outside of Libraries and Recreation Centers) do not have formal written training procedures to teach employees their duties regarding revenue collection but rather conduct on-the-job training. Also, the City itself does not have an Administrative Directive or guidance on cash handling within the City. Written revenue collection procedures help clarify responsibilities, provide clear separation of duties and help minimize errors in the receiving, recording, depositing and reconciling processes. The following are revenue collection locations with lack of policies and procedures for revenue collection:

Exceptions to Policies and Procedures
Human Services- Community Corrections
Human Services- Emergency Services
Human Services- Social Services Division
Parks and Recreation- Citywide- Accounts Management
Parks and Recreation- Business Systems
Parks and Recreation-Landscape Management Division
Parks and Recreation- Marketing & Resource Development
Planning- Permits and Inspections
Planning- Zoning Administration
Public Works- Facilities Management
Real Estate Assessor- Land Use Program

Recommendations

- 5.1 Require all revenue collection locations to have written revenue collection procedures.
- 5.2 Create an Administrative Directive for basic internal controls for revenue handling.

Conclusion

Overall, based on the results of our audit, the processes and controls governing management and oversight of the City's revenue collection process were adequate. We noted no fraud, but management can enhance these processes and improve efficiency by implementing our recommendations related to the revenue collection process.

Acknowledgements

We would like to thank the staff of Finance and the various City departments for their courteous and prompt assistance during our review.



APPENDIX 1 Revenue Collection Locations Reviewed

#	Department	Revenue Collection Point Name	Location
1	City Attorney	Collections	Building 1- Second Floor
2	City Attorney	Land Use Section	Building 1- City Attorney
3	City Attorney	Real Estate	Building 20
4	City Attorney	Freedom of Information Act	Building 1- FOIA Office
5	Convention and Visitors Bureau	Visitor Information Center	2100 Parks Avenue
6	Convention and Visitors Bureau	Convention Center Contractor Commissions	Virginia Beach Convention Center
7	Convention and Visitors Bureau	Event Related Payments	Virginia Beach Convention Center
8	Convention and Visitors Bureau	Retail Department	Virginia Beach Convention Center
9	Convention and Visitors Bureau	Ticket Sales	Virginia Beach Convention Center
10	Economic Development	Economic Development	222 Central Park Ave, Suite 1000
11	Finance	Finance	Building 1- 3rd Floor
12	Finance	Risk Management	Building 22
13	Fire	Fire Administration	Building 21
14	Fire	Fire Training Center	927 South Birdneck Road
15	Human Resources	Learning and Development	Building 18
16	Human Resources	Human Resources-Beam Advertising	Building 18
17	Human Resources	Human Rights Commission	Building 18
18	Human Services	Adult Outpatient Services	3143 Magic Hollow Blvd
19	Human Services	Child and Youth Mental Health & SA Services	Pembroke 3
20	Human Services	Office of Reimbursement	Pembroke 3
21	Human Services	Adult Outpatient Services	Pembroke 3
22	Human Services	Community Corrections	Pembroke 3
23	Human Services	Developmental Services & Administration	Pembroke 3
24	Human Services	PALS	416 Investors Place
25	Human Services	Emergency Services	Pembroke 3
26	Human Services	Pendleton Child Service Center	Building 23
27	Human Services	Social Services Division	Pembroke 3
28	Library	Wahab Public Law Library	Building 10B- Courthouse



Office of the City Auditor Audit of Selected Revenue Collection Points

#	Department	Revenue Collection Point Name	Location
29	Parks and Recreation	Programs & Operations, Out-of-School Time	City Wide Office- Lynnhaven Pkwy
30	Parks and Recreation	Permitting Office	City Wide Office- Lynnhaven Pkwy
31	Parks and Recreation	Landscape Management	4141 Dam Neck Road
32	Parks and Recreation	Administration	Building 21
33	Parks and Recreation	Planning, Design and Development	Building 21
34	Parks and Recreation	Business Systems- Set Off Debt Payments	Building 21
35	Parks and Recreation	Marketing Resource and Development	Building 21
36	Parks and Recreation	Owl's Creek Tennis Pro Shop	928 South Birdneck Road
37	Parks and Recreation	Princess Anne Athletic Complex	Princess Anne Athletic Complex
38	Parks and Recreation	Team Fees	Princess Anne Athletic Complex
39	Parks and Recreation	Field and Facility Fees	Princess Anne Athletic Complex
40	Parks and Recreation	Special Events	Mount Trashmore
41	Parks and Recreation	Lynnhaven Boat Ramp	Lynnhaven Boat Ramp
42	Parks and Recreation	Munden Point Park	Munden Point Park
43	Parks and Recreation	Little Island Park	Little Island Park
44	Parks and Recreation	Red Wing Park	Red Wing Park
45	Parks and Recreation	Woodstock Park	Woodstock Park
46	Planning	Development Services Center	Building 2
47	Planning	Permits and Inspections	Building 2
48	Police	Police HQ – Cashier	Police HQ
49	Police	Uniform and Supply	Building 5
50	Public Works	Technical Services	Building 18
51	Public Works	Waste Management	3024 Holland Road
52	Public Works	Fleet Management	Leroy Road
53	Public Works	Business Center	Building 2
54	Public Works	Real Estate Collection	Building 2
55	Public Works	Stormwater	Building 2
56	Real Estate Assessor	Real Estate Assessment	Building 18



APPENDIX 2 Exceptions by Department and Division

#	Department	Receiving Revenue	Recording Revenue	Safeguarding Revenue	Depositing Revenue	Reconciling Revenue
1	City Attorney- Land Use Section				Interoffice mail used to transport checks	
2	Convention and Visitors Bureau- Convention Center		Retail Operations- Receipt is not always printed			Contractor Payments/Event Related Payments/Ticket Sales/Retail Operations- No reconciliation documentation
3	Convention and Visitors Bureau- Visitor Information Center			Too many people have access to safe		
4	Finance- Risk Management		Does not give receipts for check transactions	Too many people have access to safe	Revenues sent to Finance instead of Treasurer's Office	Revenues not reconciled to Riskmaster system.
5	Fire- Fire Marshall				Revenues sent to Finance instead of Treasurer's Office	Does not reconcile revenues to Red NMX system
6	Fire- Fire Training Center		Receipts are only given upon request			Does not reconcile revenues to training orders
7	Human Services- Developmental Services			Does not use safe		No reconciliation documentation
8	Human Services- Social Services			Safe is left open during operating hours		No reconciliation documentation. Also, does not reconcile revenues to billing system
9	Human Services- Pendleton Child Service Center			Safe not working at the time of review visit		
10	Human Services- Community Corrections			Safe does not securely protect revenues (wooden box in use)		
11	Library- Wahab Law Library		No receipts are given (no capability to print receipts)			
12	Parks and Recreation- Business Systems					Reconciliation between InSITE and CLASS no longer performed
13	Parks and Recreation- Landscape Management			Does not have a safe		Never done reconciliations of any type before
14	Parks and Recreation- Parks and Natural Areas- Various			Little Island Park- No locking cashbox on pier	Munden Point Park- Revenues are not deposited promptly	Lynnhaven Boat Ramp/Woodstock Park- No reconciliation between revenues to tickets
15	Parks and Recreation- Parks and Natural Areas- Red Wing Park					No reconciliation documentation
16	Planning- Developmental Services Center					No reconciliation between revenues and client database
17	Police- Support Division			Safe not bolted to floor. Also, no locking money bag for depositing		
18	Public Works- Waste Management			File cabinet lock not used		
	Total	0	4	11	4	16

Note: Appendix 2 revised 5/26/2014



City of Virginia Beach

VBgov.com

DEPARTMENT OF FINANCE
(757) 385-4681
FAX (757) 385-4302
TTY: 711

MUNICIPAL CENTER
BUILDING 1
2401 COURTHOUSE DRIVE
VIRGINIA BEACH, VA 23456-9001

INTER-OFFICE MEMORANDUM

DATE: October 31, 2013

TO: Mr. Lyndon Remias, City Auditor

FROM: Ms. Patricia A. Phillips, Director of Finance 

SUBJECT: Audit of Selected Revenue Collection Points

Thank you for your review of selected revenue collection points including the processes of receiving recording, safeguarding, depositing and reconciling revenue. I am pleased that the audit found adequate processes and controls in place and that no fraud was found. I note that the audit did not cover major revenue collection points that have point-of-sale (POS) systems/registers in place, such as Libraries, Recreation Centers, Farmer's Market, Aquarium, Treasurer's Office and Commissioner of the Revenue.

We concur that departments should implement the report's recommendations for the various collection points identified in the report. We have addressed the findings within our own department for the Risk Management Division. Further, we will work towards the development of a future Revenue Collection Administrative Directive that further clarifies and expands the guidelines for cash receipt controls currently found on our Internal Controls web page.

We are pleased that you found the transmittal form designed for the Farmer's Market to be an excellent model that could be used by other departments for revenue processing. Thank you for your recognition of Trish Donahue's work in developing the form during our exit conference.

We are pleased that the audit had favorable findings; however, we understand the potential for fraud and abuse is present and the risk varies with the ethics of the individual collector. We will continue to support the audit recommendations and appreciate the effort that went into the audit report.