



Mayor
Ben White
Mayor Pro Tem
Dave Ruesink
City Manager
Glenn Brown

Councilmembers
John Crompton
James Massey
Dennis Maloney
Katy-Marie Lyles
Lawrence Stewart

Agenda
College Station City Council
Workshop Meeting
Thursday, February 25, 2010 3:00 p.m.
City Hall Council Chambers, 1101 Texas Avenue
College Station, Texas

1. Presentation, possible action, and discussion on items listed on the consent agenda.
2. Presentation, possible action, and discussion concerning the City Internal Auditor's Utility Customer Service Cash Handling Audit Report.
3. Presentation, possible action, and discussion concerning the City Internal Auditor's Court Cash Handling and Accounts Receivable Audit Report.
4. Presentation, possible action, and discussion concerning the City Internal Auditor's Fuel Operations Follow-up Audit Report.
5. Presentation, possible action, and discussion on an update of the City of College Station FY 10 Budget, and FY 11 Budget Planning.
6. Presentation, possible action, and discussion regarding activities within the College Station Utilities Electric Department.
7. Presentation, possible action, and discussion regarding a proposed green building standard for future municipal facilities in the City of College Station.
8. Council Calendar
 - March 1 2010 Citizens University at Planning and Development (Council Chambers), 5:30 p.m.
 - March 2 Council Appointee Evaluations at Admin Conference Room, 5:00 p.m.
 - March 8 2010 Citizens University at College Station Utilities, 5:30 p.m.
 - March 9 Epicurean Extravaganzas at Brazos County Expo Complex. 5:30 p.m.
 - March 10 Annual CSPD Award Banquet at CS Hilton, 6:30 p.m.
 - March 11 Council Workshop/Regular Meeting, 3:00 p.m. & 7:00 p.m.
9. Presentation, possible action, and discussion on future agenda items: A Council Member may inquire about a subject for which notice has not been given. A statement of specific factual information or the

City Council Workshop Meeting

Thursday, February 25, 2010

recitation of existing policy may be given. Any deliberation shall be limited to a proposal to place the subject on an agenda for a subsequent meeting.

10. Discussion, review and possible action regarding the following meetings: Arts Council of the Brazos Valley, Audit Committee, Brazos County Health Dept., Brazos Valley Council of Governments, Brazos Valley Wide Area Communications Task Force, Cemetery Committee, Code Review Committee, Design Review Board, Historic Preservation Committee, Interfaith Dialogue Association, Intergovernmental Committee, Joint Relief Funding Review Committee, Landmark Commission, Library Committee, Metropolitan Planning Organization, National League of Cities, Outside Agency Funding Review, Parks and Recreation Board, Planning and Zoning Commission, Sister City Association, TAMU Student Senate, Research Valley Partnership, Regional Transportation Committee for Council of Governments, Texas Municipal League, Transportation Committee, Wolf Pen Creek Oversight Committee, Wolf Pen Creek TIF Board, Zoning Board of Adjustments, BVSWM, Signature Event Task Force, (Notice of Agendas posted on City Hall bulletin board).
11. Executive Session will immediately follow the workshop meeting in the Administrative Conference Room.

Consultation with Attorney {Gov't Code Section 551.071}; possible action. The City Council may seek advice from its attorney regarding a pending or contemplated litigation subject or settlement offer or attorney-client privileged information. Litigation is an ongoing process and questions may arise as to a litigation tactic or settlement offer, which needs to be discussed with the City Council. Upon occasion the City Council may need information from its attorney as to the status of a pending or contemplated litigation subject or settlement offer or attorney-client privileged information. After executive session discussion, any final action or vote taken will be in public. The following subject(s) may be discussed:

 - a. City of Bryan's application with TCEQ for water & sewer permits in Westside/Highway 60 area, near Brushy Water Supply Corporation to decertify City of College and certify City of Bryan
 - b. Discussion of Legal Issues Regarding: Wellborn Incorporation Request
 - c. Water CCN / 2002 Annexation / Wellborn Water Supply Corporation
 - d. Sewer CCN permit requests for Brushy & Wellborn Services Areas
 - e. Water CCN permit requests for Brushy & Wellborn Services Areas
 - f. Legal aspects of Water Well, permits and possible purchase of or lease of water well sites
 - g. TMPA v. PUC (College Station filed Intervention)
 - h. City of Bryan suit filed against College Station, Legal issues and advise on Brazos Valley Solid Waste Management Agency contract, on proposed methane gas contract
 - i. Update on legal proceedings for Grimes County Landfill site and contracts for development of Grimes County site
 - j. Weingarten Realty Investors v. College Station, Ron Silvia, David Ruesink, Lynn McIlhaney, and Ben White
 - k. Chavers et al v. Tyrone Morrows, Michael Ikner, City of Bryan, City of College Station, et al
 - l. Rogers Sheridan v. Barbara Schob & Greg Abbott
 - m. Clancey v. College Station, Glenn Brown, and Kathy Merrill
 - n. Verizon v. City of College Station
 - o. Legal Aspects of Brazos Valley Convention & Visitors Bureau Articles of Incorporation and Bylaws
 - p. Contemplate Litigation, Legal remedies available to abate weeds, rubbish, brush and other unsanitary matter from a lot in the College Hills residential area.

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Competitive Matters {Gov't Code Section 551.086}; possible action: The City Council may deliberate, vote, or take final action on a competitive matter in closed session. The City Council must make a good faith determination, by majority vote of the City Council, that the matter is a Competitive Matter. A "Competitive Matter" is a utility-related matter that the City Council determines is related to the City of College Station's Electric Utility Competitive Activity, including commercial information, which if disclosed would give advantage to competitors or prospective competitors. The following is a general representation of the subject(s) to be considered as a competitive matter.

a. Power Supply

12. Action on executive session, or any workshop agenda item not completed or discussed in today's workshop meeting may be discussed in tonight's Regular Meeting if necessary.

13. Adjourn.

APPROVED:

City Manager

Notice is hereby given that a Workshop Meeting of the City Council of the City of College Station, Texas will be held on the 25th day of February, 2010 at 3:00 pm in the City Hall Council Chambers, 1101 Texas Avenue, College Station, Texas. The following subjects will be discussed, to wit: See Agenda

Posted this 22nd day of February, 2010 at 2:00 pm



City Secretary

I, the undersigned, do hereby certify that the above Notice of Meeting of the Governing Body of the City of College Station, Texas, is a true and correct copy of said Notice and that I posted a true and correct copy of said notice on the bulletin board at City Hall, 1101 Texas Avenue, in College Station, Texas, and the City's website, www.cstx.gov . The Agenda and Notice are readily accessible to the general public at all times. Said Notice and Agenda were posted on February 22, 2010 at 2:00 pm and remained so posted continuously for at least 72 hours proceeding the scheduled time of said meeting.

This public notice was removed from the official board at the College Station City Hall on the following date and time: _____ by _____.

Dated this ____ day of _____, 2010.

CITY OF COLLEGE STATION, TEXAS

By _____

Subscribed and sworn to before me on this the ____ day of _____,

Notary Public – Brazos County, Texas My commission expires: _____

This building is wheelchair accessible. Handicap parking spaces are available. Any request for sign interpretive service must be made 48 hours before the meeting. To make arrangements call (979) 764-3517 or (TDD) 1-800-735-2989. Agendas may be viewed on www.cstx.gov. Council meetings are broadcast live on Cable Access Channel 19.

February 25, 2010
Workshop Agenda Item No. 2
Utility Customer Service Cash Handling Audit Report

To: Mayor and Members of the City Council

From: Ty Elliott, City Internal Auditor

Agenda Caption: Presentation, possible action, and discussion concerning the City Internal Auditor's Utility Customer Service Cash Handling Audit Report.

Recommendation(s): Give staff direction to implement the recommendations contained in the Audit Report.

Summary:

Reason for the Audit: A cash handling audit of the Utility Customer Service Division was included in the fiscal year 2010 audit plan based on the results of the Citywide Cash Handling Questionnaire completed in August 2009, results of the Citywide Risk Assessment completed in October 2007, and findings from previous audit work. On September 24, 2009, the City Council approved the City Internal Auditor's audit plan.

Background: Utility Customer Services, a Division of the Finance Department, has over 36,000 utility customers. In FY09, the Division collected approximately \$120 million in revenue for the City. Utility Customer Service is also the largest handler of currency in the City, with approximate currency collections of over \$5 million per year.

Audit Scope and Objectives: This audit addresses Utility Customer Service cash handling policies, procedures, processes and practices. The audit objectives determined:

- The adequacy of procedures to receive, handle, safeguard, and deposit cash,
- The presence of indicators of common cash handling fraud schemes, and
- The existence of unauthorized or other off-book checking accounts at any banks in the local area.

Audit Results: No cash handling frauds were detected. In addition, no unauthorized bank accounts were identified. Overall, I found that most Utility Customer Services policies and procedures aligned with cash handling best practices. However, a few areas of improvement were identified such as:

- Controls could be strengthened if some duties of the Division's staff were separated.
- Policies and procedures could be better communicated and practiced.
- Policies should be reviewed relating (1) to non-cash credit adjustments and (2) support documentation requirements for adjustment approvals.
- A policy prohibiting cashiers from cashing personal checks of city employees should be implemented.

Attachments: Utility Customer Service Cash Handling Audit Report

Cash Handling Audit of Utility Customer Service

November 2009

**City Internal Auditor's Office
City of College Station**

File#: 09-02

Utility Customer Service Cash Handling Audit

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Introduction

The City Internal Auditor conducted this cash handling audit of the Utility Customer Service Division of the Department of Finance pursuant to Article III Section 30 of the College Station City Charter, which outlines the City Internal Auditor's primary duties.

An internal audit is an objective, systematic examination of evidence to assess independently the performance of an organization, program, activity, or function. The purpose of an internal audit is to provide information to improve public accountability and facilitate decision-making. Internal audits encompass a wide variety of objectives, including those related to assessing program effectiveness and results; economy and efficiency; internal control; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information.

A cash handling audit of the Utility Customer Service Division was included in the fiscal year 2010 audit plan based on the results of the Citywide Cash Handling Questionnaire completed in August 2009, results of the Citywide Risk Assessment completed in October 2007, and findings from previous audit work. On September 24, 2009, the City Council approved the City Internal Auditor's audit plan.

Utility Customer Service Background

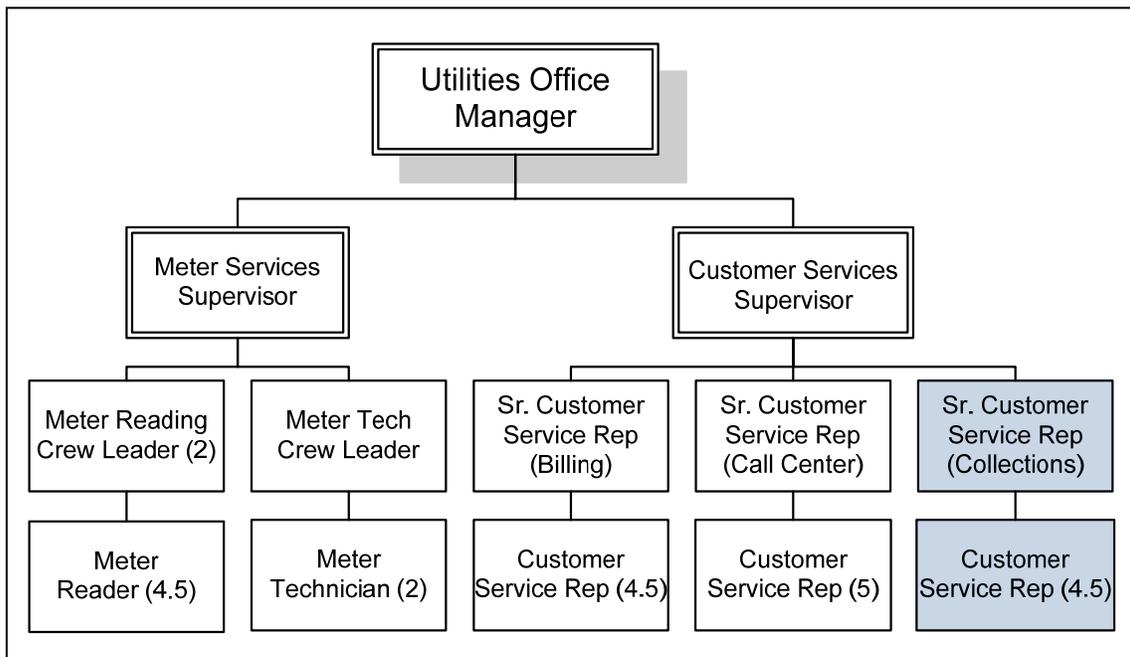
Utility Customer Service is a division of the Fiscal Services Department responsible for connecting and disconnecting water and electric meters, reading those meters, and providing billing and collection services for the City's electric, water, wastewater, sanitation and drainage utilities.

Utility Customer Services has two primary operating areas, meter services and customer services, which deliver five distinct lines of business. These lines of business are meter reading, meter connects and disconnects, call center activities, bill calculation and generation, and bill collections.

Utility Customer Services has over 36,000 utility accounts consisting of approximately 35,000 electric and 22,000 water meters that are read, billed and collected monthly. In fiscal year 2009, Utility Customer Service collected approximately \$120 million in revenue for the City of College Station. This revenue represents the largest revenue stream in the City. The customer base consists of approximately 33,000 residential and 3,000 commercial accounts.

The Division is headed by the Utility Customer Service Manager and has 28 full-time employees and three part-time employee. The Manager reports to the Fiscal Services Director. Figure 1 below is the organizational chart for the Utility Customer Service Division.

Figure 1: Utility Customer Service Division Organization Chart



The Collections Unit is responsible for collecting utility payments monthly; therefore, most cash handling responsibilities reside in this business unit (highlighted in blue in the chart above). The Collections Unit's customer service representatives primarily function as cashiers and main responsibilities consist of accepting and processing payments received from the public at the Utility Customer Service front counter or drive thru using automated cash registers. With these cash registers, the cashiers directly input cash receipts activity into the Cash Receipts application of the City's automated accounting system, HTE.

Currently, there are five (four full-time and one part-time) customer service representatives responsible for working six cash registers. Generally, three customer service reps work the counter and two customer service reps work the drive thru at one time. When the customer service reps are not working at the front counter or drive thru (cashiering), they answer walk-in customer questions and process payments received by mail, electronically, or by phone.

A senior customer service representative provides lead direction to the customer service reps working the cashiers. Her main duties pertaining to the Collections Unit include reviewing and approving each cashier's daily cash receipts reconciliation; safeguarding cash and cash equivalents, keys, and important documents; and functioning as a back-up cashier in case of high volume activity.

Several payment options are offered including bank draft, credit/debit card over the web or phone, night deposit, mail and paying in person. In fiscal year 2002, Utility Customer Service introduced an interactive voice response system (IVR) that allows customers with a touch-tone phone to retrieve automated account information and pay utility bills by phone. Also in fiscal year 2002, Utility Customer Service implemented a program which gave customers the ability to access account information and pay bills over the internet. Table 1 below describes the customer usage of the various types of payment options offered by the City.

Table 1: FY09 Payment Method Comparison

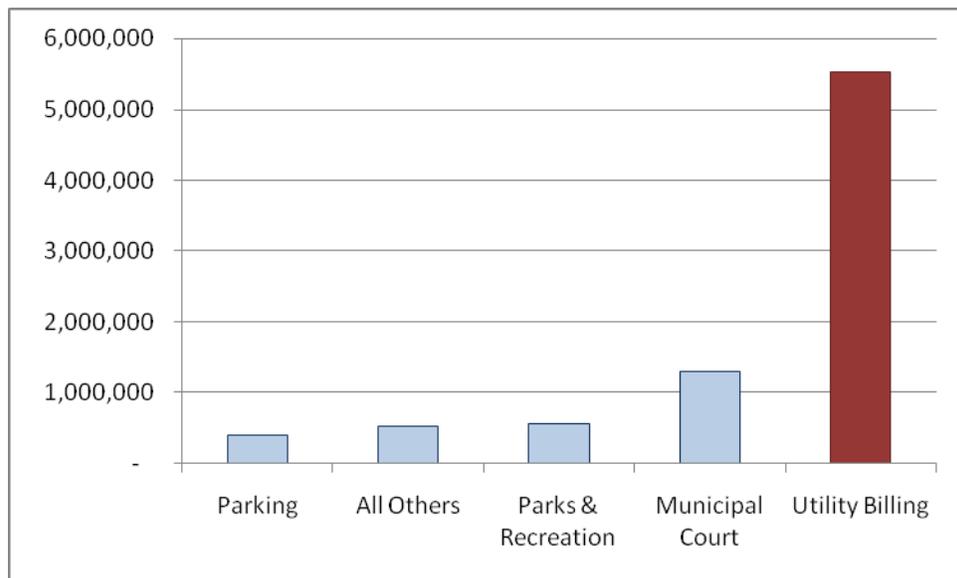
Payment Method	# of Pmts		Amount	
Mail	133,898	29%	\$48,473,800	41%
Internet Payments	149,020	32%	27,709,800	23%
Counter/Drive-Thru	78,494	17%	16,681,300	14%
Bank Drafts	41,994	9%	12,896,200	11%
Phone/IVR	23,651	5%	4,376,300	4%
Night Deposit	16,100	3%	3,654,700	3%
Electronic Pay ¹	9,679	2%	2,027,000	2%
Other	8,721	2%	3,651,500	3%
Totals:	461,557		\$119,470,600	

Since the implementation of the internet payment program and IVR, credit/debit card payments made by customers has steadily

¹ Online bill pay system customers setup with their bank to electronically send utility bill payments to the City, which are uploaded into the City's financial system.

increased; whereas, currency and check payments have decreased. Currently, approximately 5 percent of utility bills are paid through currency, 40 percent through debit or credit cards, and 55 percent by check. Despite only 5 percent of collections are in the form of currency, Utility Customer Service is still the largest handler of currency in the City. Figure 2 below compares the currency receipts of the City's cash handling locations for fiscal year 2009.

Figure 2: FY09 Currency Receipts Comparisons (in dollars)



Audit Objectives

This audit addresses Utility Customer Service cash handling policies, procedures, processes and practices. This report answers the following questions:

- Does the Utility Customer Service Division have adequate procedures to receive, handle, safeguard, and deposit cash and cash equivalents?
- Are there any indicators of common cash handling fraud schemes that exists within the Utility Customer Service Division?
- Are there any unauthorized or other off-book checking accounts at any banks in the local area?

Scope and Methodology

This audit was conducted in accordance with government auditing standards, which are promulgated by the Comptroller General of the United States. Audit fieldwork was conducted from September 2009 through October 2009.

The audit scope included procedures and practices used by the customer service representatives of the Utility Customer Service Division's Collections Unit to receive, handle, and deposit cash, checks, and credit card payments at the time of fieldwork.

The audit methods used to complete the audit objectives included:

- Reviewing the work of auditors in other jurisdictions and researching professional literature to identify best practices for municipal utility billing and collections.
- Interviewing staff responsible for performing cash handling oversight functions.
- Conducting data analysis using specialized auditing software to test for cash handling fraud indicators and system control failings.
- Reviewing cash receipt support documentation, Utility Customer Service employees' system functional access authority, the City's fiscal policy on cash handling, and Utility Customer Services procedures.
- Observing customer service representatives perform their cashiering responsibilities.
- Observing non-cash credit review and approval and receipt reconciliation processes performed by the Division's supervisors.
- Performing a surprise cash count of all Utility Customer Service counter and drive-thru drawers on September 23, 2009.
- Making an inquiry at all banks in the local area for a list of all accounts in the name of the City.

Findings and Analysis

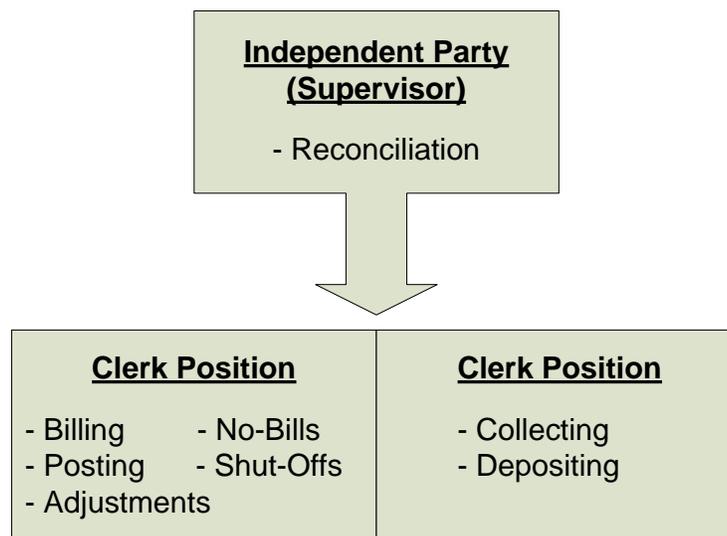
UCS is in General Alignment with Cash Handling Best Practices

Cash may include currency, coins, checks, money orders, or credit/debit card transactions. The following are generally considered to be best practices in cash handling: (1) appropriate segregation of duties, (2) effective receipting controls, (3) proper security measures regarding daily balancing and depositing of cash collections, (4) and sufficient management or officer review. Policies and procedures were reviewed, key staff was interviewed, system functional access authority was analyzed and operations were observed to determine if Utility Customer Service (UCS) exhibited these characteristics.

The Duties of Some Employees Could be Better Segregated

Separation of duty, as a security principle, has as its primary objective the prevention of fraud and errors. This objective is achieved by disseminating the tasks and associated privileges for a specific business process among multiple users. To achieve the highest level of internal control over the cash handling process, a different person should be involved in billing/recording, collecting, and reconciling functions. Figure 3 below illustrates this concept.

Figure 3: Appropriate Cash Handling Segregation of Duties



Customer Service Representatives are cross trained. Billing, Call Center, and Collections customer service representatives are cross trained in order to be capable to work in any of these three business units. Cross training allows staffing flexibility to better manage leave and to rearrange staff in the case of unexpected high volume for a business unit during the day.

Utility Billing employees have functional access to perform incompatible duties. Customer Service Representatives in all business units have the authority to enter receipts, enter adjustments, create and change customer information, bill customer accounts, create/change delinquency status, and create and close work orders. As a result, employees who collect cash have the ability to perform billing and recording duties.

Adjustment review and posting is appropriately typically performed by the Sr. Customer Service Rep in the Billing Unit. However, the Sr. Customer Service Reps in the Call Center and Collections Units also have system access to perform this function. In addition, all three Sr. Customer Service Reps have system access to post cash receipts and authorize voided payments.

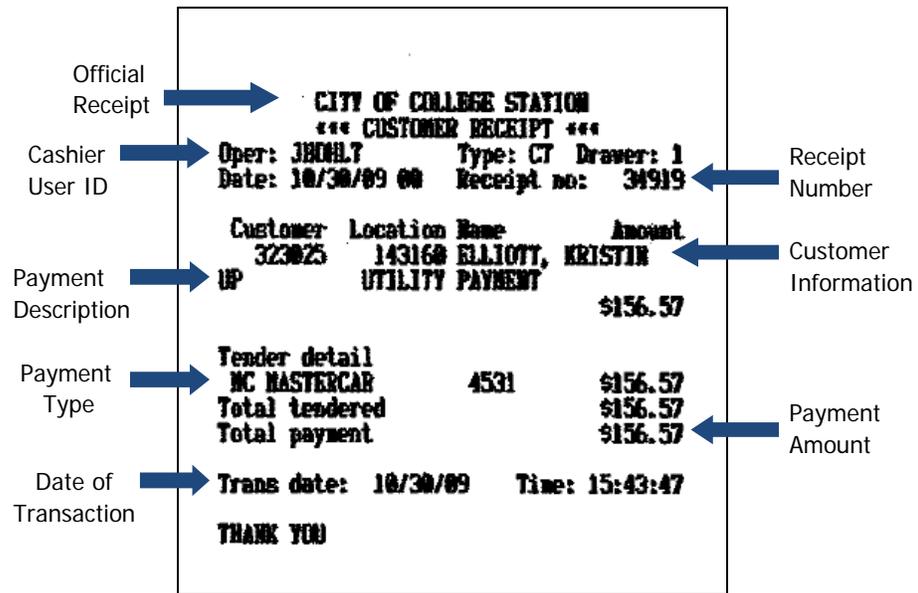
Procedurally, posting cash receipts and authorizing voided payments is appropriately performed by the Sr. Customer Service Rep in the Collections Unit. She also performs the daily balance and review of each cashier drawer. However, she sometimes performs an incompatible duty as a back-up cashier during instances of high volume activity.

Effective Receipting Controls Exist, but Some Practices Could Improve

The following are generally considered to be best practices in receipting cash: (1) Official pre-numbered receipts should be used. (2) Information on receipts should include the payor's name; purpose or description of the cash payment; quantity; and unit price, if applicable; type of cash received (check, currency, etc.); total amount of cash received; and the signature of the person collecting or receiving the cash. (3) Checks received should be immediately restrictively endorsed, "For Deposit Only". (4) A duplicate receipt should be provided to the payor for each transaction.

System generated receipts are adequate. Official City of College Station Utility Customer Service receipts are created by automated cash registers, which are integrated with the City's accounting system. Receipt documentation created by these registers contains all the necessary features to effectively reconcile processed payments to accounting records. Figure 4 below is an example of a receipt cashiers furnish to customers upon payment of a utility bill.

Figure 4: Example of a Utility Customer Service Receipt



Checks received are appropriate endorsed. Based on my review, I found that when cashiers receive checks for payment they immediately endorse the check with an official City stamp that contains the language "For Deposit Only".

Cashiers are not providing all customers with duplicate receipts. City cash handling procedures state that cashiers should always give the customer a receipt. In addition, they state that "each cashiering location should have a sign encouraging customers to notify management if they do not get a receipt." I observed occasions where customers were not offered a receipt. In addition, there are no receipt related signs present at the Utility Customer Service location.

Surprise cash count revealed missing receipt documentation. I performed a surprise cash count and analytical review of utility payments on September 23, 2009. During this audit procedure, I

found that several transactions were lacking necessary receipt documentation. Table 2 on the next page summarizes these findings.

Table 2:

9/23/09 Utility Payments' Receipt Documentation by Tender Type

Tender Type	Totals Transactions		No Receipt but had a Billing Stub		No Receipt or Billing Stub	
	Trans	Amount	Trans	Amount	Trans	Amount
Check	71	\$22,826	39	\$15,260	10	\$949
Cash	56	8,871	8	1,212	1	30
Credit	<u>28</u>	<u>6,463</u>	<u>8</u>	<u>1,998</u>	<u>3</u>	<u>904</u>
Totals:	155	\$38,159	55	\$18,470	14	\$1,883

Approximately 9 percent of transactions had no receipt documentation—i.e., no receipt or billing stub accompanied the payment. Four cashiers were on duty on September 23, 2009 and all but one had instances where receipt documentation was missing from their cash drawer. Table 3 below describes these results.

Table 3:

9/23/09 Utility Payments' Receipt Documentation by Cashier

Cashier	Totals Transactions		No Receipt but had a Billing Stub		No Receipt or Billing Stub	
	Trans	Amount	Trans	Amount	Trans	Amount
Cashier1	12	\$2,187	5	\$994	0	\$0
Cashier2	46	9,067	9	2,153	4	934
Cashier3	67	22,060	38	14,789	5	353
Cashier4	<u>30</u>	<u>4,845</u>	<u>3</u>	<u>534</u>	<u>5</u>	<u>596</u>
Totals:	155	\$38,159	55	\$18,470	14	\$1,883

Cash Collection Security Measures Are Adequate

Effective security measures for balancing and depositing cash collections have the following elements: (1) Cashiers should have a lockable cash drawer, and it should be secured in a locked safe, to which access is limited to the employee collecting the cash and a supervisor. If there is more than one person receiving cash at the same time, each person should have his/her own cash drawer. (2) All cash receipts should be balanced daily by comparing the pre-numbered receipts issued with the actual amount of cash in the drawer. (3) Deposit should occur at the earliest possible time with all funds intact. The entire amount of receipts collected must be

deposited so that all collections are posted as receipts to the City's accounts. (4) The deposit receipt should be reconciled to cashiers' receipt documents after the deposit has been made.

Security Measures for Balancing and Depositing of Cash Collections Are Effective. At the end of each business day, cashiers reconcile his or her cash receipts. The cashier begins by printing out his or her cash edit listing report from HTE. This report is designed to identify and summarize all cash receipts activity performed by the cashier for the day. After this is done, source documentation for each type of transaction is totaled (adding machine tapes are prepared), and reconciled with the edit report by the cashier. Additionally, currency, coins, checks, and credit card payments are totaled and compared with like information in the edit report.

Once this has been done, the Collections Unit Sr. Customer Service Rep reviews each cashier's reconciliation to make sure the cash receipts edit listing reports, cash and cash equivalents, and supporting source documentation are in agreement. As part of the review process, the Sr. Customer Service Rep recounts the currency and coins for each cash drawer to make sure all money is accounted for. All cash receipts and most support documentation for these receipts are then placed in a courier bag with a bank deposit slip, which is locked and placed in the Utility Customer Service safe by the Sr. Customer Service Rep. The bank bag is picked up the next day by an armored vehicle to be delivered and deposited into the City's Citibank account.

Independent reconciliation is performed by Accounting Division staff. Each day, an Accountant in the Accounting Division of Fiscal Services reconciles the daily Utility Customer Service deposit to the City's Citibank account statement. She verifies that all deposits reconcile to accounting records, sales records, and the bank statement. This step ensures that all cash sales recorded for the day were properly and timely deposited and correctly recorded in the City's accounting system.

Cash drawers are individually assigned and secure. Each cashier is assigned a cash drawer with a \$220 change fund. The drawers are all locked in the safe overnight. In addition, cashiers can lock their drawers at their work station.

No Cash Handling Fraud was Revealed

According to the 2006 Association of Certified Fraud Examiners Report to the Nation on Occupational Fraud and Abuse, approximately 33 percent of occupational fraud target incoming receipts or cash on hand. The three most common frauds related to cash handling include: check for cash substitution schemes, lapping schemes, and account receivable schemes. I performed various audit procedures to determine the risk that any Utility Customer Service employee is involved in perpetrating one of these frauds.

No Cash for Check Substitution Schemes were Detected

A check for cash substitution scheme is the number one way funds are stolen in any cash receipting activity. This scheme is perpetrated by a cashier who substitutes checks from unrecorded payments for cash from payments which have been receipted and recorded in the accounting records. When the cashier places the checks from these unrecorded transactions in the cash drawer, there is an immediate overage in the account. To remedy this situation, the cashier merely removes the displaced cash from the cash drawer. The checks used in this scheme are almost always received through the mail. These are high risk transactions because these customers do not ever expect to receive a receipt. The customer's account for each unrecorded transaction is always marked "paid".

- | Y | N | Check for Cash Substitution Scheme Risk Evaluation: |
|---|---|--|
| | X | 1. Are employee duties appropriately segregated? |
| ✓ | | 2. Are deposits made daily and in the same form received? |
| ✓ | | 3. Does the check and cash composition of the daily bank deposit agree with the mode of payment indicated on the cash receipts? |
| ✓ | | 4. Are official pre-numbered cash receipts used, which indicate mode of payment data (i.e.; payment by check or cash)? |
| ✓ | | 5. Does the organization verify daily cash receipt accountability to a bank-validated deposit slip showing check and cash composition? |
| ✓ | | 6. Does the Division control revenue checks which are received through the mail by having more than one employee present when the mail is opened, making a log of the transactions, and then reconciling this information to daily cash receipt transactions to ensure that all payments were recorded properly and deposited in the bank? |

The fraud detection methods utilized revealed no fraud. In order to determine if a check for cash substitution scheme was being

perpetrated by a Utility Customer Service employee, I reviewed: (1) the segregation of duties of key personnel, (2) the check and cash composition of the daily bank deposit during an unannounced cash counts and during substantive audit tests of cash receipts, (3) the records of the numerical series of official pre-numbered receipts to verify that these receipts are used sequentially (including properly accounting for all copies of voided documents). Based on this review, I did not detect any cash substitution schemes.

No Lapping Schemes Were Detected

A lapping scheme is perpetrated by a cashier who issues cash receipts for customer payments, but subsequently makes no bank deposit, or a short bank deposit, of the funds. The difference between the total amount receipted and the lesser amount deposited is stolen. Cumulative cash shortages over a period of time represent the total amount of the loss in a lapping scheme. The customer's account for each unrecorded transaction is always marked "paid". Ways perpetrators conceal the disposition of lapping schemes include: paying back the amount of the loss, canceling the accountability established by the cash receipts issued through unauthorized voiding activity, destroying the supporting documents representing the accountability for the funds stolen, or reporting a mysterious disappearance theft of cash receipts.

- | | | |
|----------|----------|---|
| Y | N | Lapping Scheme Risk Evaluation: |
| | X | 1. Are employee duties appropriately segregated? |
| | X | 2. Are personal checks of cashiers or other fund custodians not allowed to be cashed at Utility Customer Service registers? |
| ✓ | | 3. Are there no deposit timing lags from Utility Customer Service to the City's bank account? |
| ✓ | | 4. Are deposits made daily and intact? |
| ✓ | | 5. Is there no excessive amount of void cash receipts transactions? |
| ✓ | | 6. Does the check and cash composition of the bank deposit agree with the check and cash composition of the cash receipts issued? |
| ✓ | | 7. Is there no reported mysterious disappearance of cash receipts? |
| ✓ | | 8. Are official pre-numbered cash receipts used and are none missing? |

The fraud detection methods utilized revealed no lapping scheme fraud. In order to determine if a lapping scheme was being perpetrated by a Utility Customer Service employee, I conducted comparative analytical reviews of three fiscal years of utility revenue streams to determine which areas had unfavorable trends. To

determine reasons why revenue changed from previous reporting periods, I interviewed the Utility Customer Service Manager and confirmed responses obtained from her by using alternative records and through substantive audit tests. Additional audit procedures to detect lapping schemes included: unannounced cash count, review of the timeliness of deposits, review of the check and cash composition of daily bank deposits, analytical review of voided transactions, and observations of cash receipting operations. Based on this review, I did not detect any lapping schemes.

Employees’ personal checks are being cashed by cashiers. I analyzed payment records over the last three fiscal years for the presence of personal checks from cashiers and other fund custodians. Utility Customer Service was the only location that cashes personal checks of city employees. The Division has a policy that cashiers should not cash their own checks, but this could not be verified through existing records. Therefore, the presence of employees’ personal checks in cash drawers increases the risk of a lapping scheme being perpetrated by a cashier. In fiscal year 2009, 655 personal checks were cashed for over \$31,000.

No Account Receivable Schemes Were Detected

In account receivable schemes, an employee steals a customer’s payment, and then does one of two things in order to conceal the irregular activity. He or she either writes-off the account, such as through a “non-cash credit” transaction (i.e.; an account write-off, adjustment, or cancellation), or lets the account go delinquent (i.e.; without taking any action). This latter condition usually results in customer feedback and detection of the scheme, unless customer feedback is received by the same employee who stole the customer’s payment. The dishonest employee could then further manipulate the records to conceal any irregular activity from view by managers.

- | Y | N | Account Receivable Schemes Risk Evaluation: |
|---|----------|---|
| | X | 1. Are employee duties appropriately segregated? |
| ✓ | | 2. Does management periodically review exception report listings of all non-cash credit transactions? |
| ✓ | | 3. Are all non-cash credit transactions authorized and approved? |
| | X | 4. Are all non-cash credit transactions supported by appropriate documentation for the action? |
| ✓ | | 5. Are delinquent accounts monitored closely? |
| ✓ | | 6. Does the entity maintain an accounts receivable control account? |



7. Does the balance in the accounts receivable control account agree with the total of the customer account balances?

The fraud detection methods utilized revealed no accounts receivable fraud. In order to determine if an accounts receivable scheme was being perpetrated by a Utility Customer Service employee, I did the following: (1) reviewed the segregation of duties of key personnel, (2) performed comparative analytical reviews of the last three fiscal years of non-cash credit transactions to identify correlations between employees and these types of risky transactions, and (3) observed a Sr. Customer Service Rep perform the non-cash credit review and approval process. Based on this review, I did not detect any account receivables schemes.

Adequate support documentation is not required for some types of adjustments. Late fees are 10 percent the value of the customer’s bill, and the minimum late fee charged is \$3. Utility Customer Service’s policy is to forgive a customer’s late payment fee without question under the following two conditions (1) it is the customer’s first late bill within a twelve month period and (2) the customer requests for the late charge to be forgiven. Any Customer Service Rep (including cashiers) can make these types of adjustments regardless of the amount of the late bill. Adequate support documentation is not required to demonstrate that the customer requested the late bill to be forgiven. In these instances, the Sr. Customer Service Rep who approves the adjustment confirms that the amount adjusted is correct and checks to make sure that it is the first time the customer has been forgiven of a late charge within the last twelve months. Table 4 below provides a breakdown of late fee adjustments made from the beginning of fiscal year 2007 to the end of fiscal year 2009.

Table 4: FY07 – FY09 Late Fee Credit Adjustments

Late Fee Credit Adjustment Range	Transactions Number		Transaction Amount	
	Count	Percent	Amount	Percent
Less than \$50	7,142	92.96%	\$119,974.81	39.83%
\$50 to \$99.99	250	3.25%	16,818.85	5.58%
\$100 to \$499.99	209	2.72%	50,008.15	16.60%
\$500 to \$999.99	45	0.59%	32,867.48	10.91%
\$1,000 to \$4,999.99	36	0.47%	76,348.64	25.35%
Greater than \$5,000	1	0.01%	5,183.79	1.72%

Customer Service Reps also adjust customers' bills when customers explain that their high consumption was due to any type of water leak. No support documentation is required by the customer to show that they have fixed the leak before the adjustment is made. For these types of cases, the Sr. Customer Service Rep who approves the adjustment verifies that the customer's consumption is greater than their historic consumption. Typically, the adjustment is made for half the billed consumption—as long as half is not less than normal consumption. For example, a customer has an \$800 bill and consumption of 144,000 gallons; the Customer Service Rep will credit the customer account for 72,000 gallons, resulting in a \$400 credit to their bill. Table 5 below provides a breakdown of water consumption adjustments made from the beginning of fiscal year 2007 to the end of fiscal year 2009.

Table 5: FY07 – FY09 Water Consumption Credit Adjustments

Water Credit Adjustment Range	Transactions Number		Transaction Amount	
	Count	Percent	Amount	Percent
Less than \$50	1688	69.24%	\$33,749.26	13.39%
\$50 to \$99.99	395	16.20%	\$28,351.55	11.24%
\$100 to \$499.99	326	13.37%	\$60,339.85	23.93%
\$500 to \$999.99	17	0.70%	\$12,438.37	4.93%
\$1,000 to \$4,999.99	7	0.29%	\$19,262.00	7.64%
\$5,000 to \$14,999.99	2	0.08%	\$18,889.62	7.49%
\$15,000 to \$29,999.99	2	0.08%	\$46,721.39	18.53%
Greater than \$30,000	1	0.04%	\$32,388.50	12.85%

Unsupported account adjustments represent the highest risk of fraud. Unsupported account adjustments eliminate the accountability for money from real debts owed to the City after customer payments have been stolen. These adjustments represent a high risk for fraud, similar to any other kind of negative cash transaction. Because cashiers have the authority to perform billing and recording duties, fictitious adjustments made to forgive customers' late bills or higher than normal consumption could be done without detection.

No Unauthorized City Bank Accounts Were Identified

No unauthorized or other off-book checking accounts at any banks in the local area were identified. Through Chamber of Commerce records, I identified 48 financial institutions in the local area where personal and commercial checking accounts can be established. The City's official account is with Citibank; therefore, there should not be any other accounts in the City's name or any City department's name at any of the other 47 financial institutions in the local area. I contacted each of these financial institutions and received official verification that no unauthorized City accounts exist.

Recommendations

Utility Customer Service needs a few slight improvements, encompassed in the following audit recommendations. Implementing these recommendations would strengthen internal controls to further prevent any misappropriation of cash on hand.

1. To strengthen controls, the Collections Unit Sr. Customer Service Rep should not function as a backup cashier because she performs the following incompatible duties: reconciles the cashiers' end of the day receipts, approves voided transactions, reviews essential cash control reports, and prepares the daily collections deposit.

If this separation of duties is not entirely possible, other means of internal control should be practiced, such as: rotation of duties, exercising more strict supervision, double-checking work, enforced vacations, additional training to improve the quality of performance, and frequent audits.

2. To achieve the highest level of internal control, Utility Customer Service should consider segregating the duties of customer service representatives to their essential duties within each business unit. As a result, Collection Unit employees with the primary responsibility of collecting cash payments would not have access to billing and recording functions.

As a mitigating control, Utility Customer Service should at least restrict cashiers from making credit adjustments over \$50. Approximately 84 percent of credit adjustments made in fiscal year 2009 were under \$50. However, this represented only 25 percent of amount of credit adjustments made in fiscal year 2009. If an adjustment of over \$50 is needed to be made to a customer's account, a cashier could call upon the Collections Unit Sr. Customer Service Rep to make the adjustment (provided she no longer functions as a cashier).

3. The Department of Fiscal Services cash control policies and procedures are in alignment with accepted cash handling best practices. The Utility Customer Service Manager should periodically communicate these policies and procedures to her staff along with explaining their purpose and importance. Special emphasis should be placed on providing receipts to customers and

retaining receipt support documentation in cash drawers for end of the day balancing. In addition, each cashier location should have a sign encouraging customers to notify management if they do not get a receipt.

4. The Utility Customer Service Manager should implement a policy prohibiting cashiers from cashing personal checks of city employees. During the daily balancing process of cash receipts, the Collections Unit Sr. Customer Service Rep should verify that no employee personal checks are in the front counter or drive thru cash drawers.
5. Utility Customer Service should reexamine their customer friendly policies of forgiving money owed to the City that are a result of customer mistakes. In fiscal year 2009, Utility Customer Service made 13,155 non-cash credit adjustments (excluding write-offs) for approximately \$767,000. Legitimate account adjustments include: (a) pre-billing adjustments for unusual circumstances, such as meter reading errors and broken transmission lines or facilities; and, (b) post-billing adjustments for other miscellaneous accounting errors noted by both employees and customers for a wide variety of reasons. In other words, generally accepted account adjustments are the result of employee errors. A large number of the account adjustments made by Utility Customer Service, however, are a result of customer friendly policies of liberally forgiving customer mistakes (e.g. late payments, plumbing leaks, etc.).
6. Support documentation should be required for all types of adjustments in order for the adjustment to be approved and processed. For example, if Utility Customer Service decides to continue to adjust customer bills in the case of a plumbing leak, the customer should be required to furnish documentation that the leak has been repaired.

Internal Audit Recommendations and Fiscal Services Response:

1. **Recommendation:** To strengthen controls, the Collections Unit Sr. Customer Service Rep should not function as a backup cashier because she performs the following incompatible duties: reconciles the cashiers' end of the day receipts, approves voided transactions, reviews essential cash control reports, and prepares the daily collections deposit.

If this separation of duties is not entirely possible, other means of internal control should be practiced, such as: rotation of duties, exercising more strict supervision, double-checking work, enforced vacations, additional training to improve the quality of performance, and frequent audits.

Response: Management realizes that this recommendation would strengthen controls. However, there is a fine line between too much control and the inability to provide efficient, effective service. It would not be prudent to take away cashiering duties from the Collections Unit Sr. Customer Service Representative as she must function as a backup cashier when we are short handed. We do concur that other means of control should be exercised and will develop a plan to address this.

2. **Recommendation:** To achieve the highest level of internal control, Utility Customer Service should consider segregating the duties of customer service representatives to their essential duties within each business unit. As a result, Collection Unit employees with the primary responsibility of collecting cash payments would not have access to billing and recording functions. As a mitigating control, Utility Customer Service should at least restrict cashiers from making credit adjustments over \$50. Approximately 84 percent of credit adjustments made in fiscal year 2009 were under \$50. However, this represented only 25 percent of amount of credit adjustments made in fiscal year 2009. If an adjustment of over \$50 is needed to be made to a customer's account, a cashier could call upon the Collections Unit Sr. Customer Service Rep to make the adjustment (provided she no longer functions as a cashier).

Response: Management concurs and will develop a policy to restrict the dollar amount of adjustments made by Customer Service Representatives that handle cash to \$50.00. Any adjustments over \$50.00 will be made by a Senior Customer Service Representative that does not have cash handling duties.

3. **Recommendation:** The Department of Fiscal Services cash control policies and procedures are in alignment with accepted cash handling best practices. The Utility Customer Service Manager should periodically communicate these policies and procedures to her staff along with explaining their purpose and importance. Special emphasis should be placed on providing receipts to customers and retaining receipt support documentation in cash drawers for end of the day balancing. In addition, each cashier location should have a sign encouraging customers to notify management if they do not get a receipt.

Response: Management concurs and has implemented this recommendation. Staff has been instructed to always print a computer generated receipt so that one can be retained in their cash drawer and the other can be presented to the customer. Management will be revising policies and procedures to include this. Signs will be placed in the lobby and drive through areas encouraging customers to notify management if a receipt is not given.

4. **Recommendation:** The Utility Customer Service Manager should implement a policy prohibiting cashiers from cashing employee personal checks of City employees. During the daily balancing process of cash receipts, the Collections Unit Sr. Customer Service Rep should verify that no employee personal checks are in the front counter or drive thru cash drawers.

Response: Management concurs and will cease cashing personal checks of City employees.

5. **Recommendation:** Utility Customer Service should reexamine their customer friendly policies of forgiving money owed to the City that are a result of customer mistakes. In fiscal year 2009, Utility Customer Service made 13,155 non-cash credit adjustments (excluding write-offs) for approximately \$767,000. Legitimate account adjustments include: (a) pre-billing adjustments for unusual circumstances, such as meter reading errors and broken transmission lines or facilities; and, (b) post-billing adjustments for other miscellaneous accounting errors noted by both employees and customers for a wide variety of reasons. In other words, generally accepted account adjustments are the result of employee errors. A large number of the account adjustments made by Utility Customer Service, however, are a result of customer friendly policies of liberally forgiving customer mistakes (e.g. late payments, plumbing leaks, etc).

Response: Management concurs and will reexamine these policies. A policy will be written that will give guidelines for processing adjustments to customer accounts.

6. **Recommendation:** Support documentation should be required for all types of adjustments in order for the adjustment to be approved and processed. For example, if Utility Customer Service decides to continue to adjust customer bills in the case of a plumbing leak, the customer should be required to furnish documentation that the leak has been repaired.

Response: Management concurs and will work with IT to find a solution that could include scanners or electronic signatures that could be utilized by Customer Service Representatives that handle cash to receive documentation or signatures before making adjustments.

February 25, 2010
Workshop Agenda Item No. 3
Court Cash Handling and Accounts Receivable Audit Report

To: Mayor and Members of the City Council

From: Ty Elliott, City Internal Auditor

Agenda Caption: Presentation, possible action, and discussion concerning the City Internal Auditor's Court Cash Handling and Accounts Receivable Audit Report.

Recommendation(s): Give staff direction to implement the recommendations contained in the Audit Report.

Summary:

Reason for the Audit: A cash handling audit of the Municipal Court Division was included in the fiscal year 2010 audit plan based on the results of the Citywide Cash Handling Questionnaire completed in August 2009, results of the Citywide Risk Assessment completed in October 2007, and findings from previous audit work. On September 24, 2009, the City Council approved the City Internal Auditor's audit plan.

Background: Municipal Court, a Division of the Finance Department, collects in excess of five million dollars per year. Approximately \$1.3 million of these collections are in the form of currency—which is the second highest currency collections in the city.

Audit Scope and Objectives: This audit addresses municipal court cash handling and accounts receivable policies, procedures, processes and practices. This report answers the following questions:

- Does the Municipal Court Division have adequate procedures to receive, handle, safeguard, and deposit cash and cash equivalents and is the Court in compliance with those procedures?
- Does the Municipal Court properly manage and record receivables to ensure that receivables recorded in the City's financial records are complete?
- Does the Municipal Court utilize adequate collection efforts to collect monies owed to the City?

Audit Results: Municipal Court policies, procedures, and practices are in alignment with cash handling and accounts receivable best practices. In addition, the Court utilizes adequate collection efforts to collect fines and fees owed to the city. However, previous court administrations' accounting practices resulted in accounting irregularities in the account receivable balance and the bond account. Court staff is currently working to resolve these issues.

Attachments: Court Cash Handling and Account Receivable Audit Report

**Cash Handling & Accounts Receivable Management
Audit of the Municipal Court**

January 2010

**City Internal Auditor's Office
City of College Station**

File#: 10-01

Municipal Court Audit

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Introduction

The City Internal Auditor conducted this cash handling and account receivable management audit of the Municipal Court Division of the Department of Finance pursuant to Article III Section 30 of the College Station City Charter, which outlines the City Internal Auditor's primary duties.

An internal audit is an objective, systematic examination of evidence to assess independently the performance of an organization, program, activity, or function. The purpose of an internal audit is to provide information to improve public accountability and facilitate decision-making. Internal audits encompass a wide variety of objectives, including those related to assessing program effectiveness and results; economy and efficiency; internal control; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information.

A cash handling audit of the Municipal Court Division was included in the fiscal year 2010 audit plan based on the results of the Citywide Cash Handling Questionnaire completed in August 2009, results of the Citywide Risk Assessment completed in October 2007, and findings from previous audit work. On September 24, 2009, the City Council approved the City Internal Auditor's audit plan.

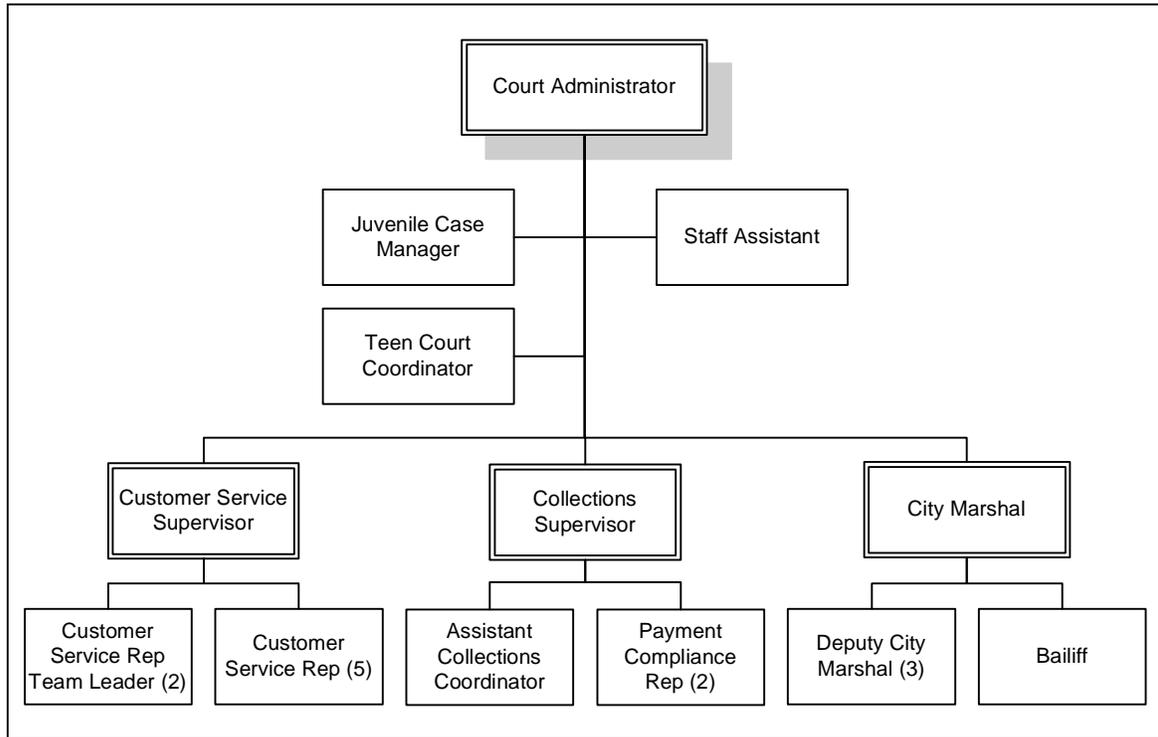
Municipal Court Background

Municipal Court is a division of the Fiscal Services Department that is responsible for the collection and disposition of approximately 30,000 plus traffic, parking, state law and city ordinance violations per year.

The Division is managed by the Court Administrator who reports to the Assistant Finance Director, and has twenty full-time employees and one part-time employee. These employees staff the three primary business units at the Municipal Court: Customer Service, Warrants, and Collections. In addition, the Teen Court Coordinator administers the City's Teen Court Program that helps develop the youth of the City. The Juvenile Case Manager is in charge of maintaining the juvenile and minor docket. The Municipal Court

Judge is independent of the Court Administrator and reports directly to the City Council. Figure 1 below is the organizational chart for the Municipal Court Division.

Figure 1: Municipal Court Division Organization Chart



The Customer Service Unit is comprised of Customer Service Representatives who work the front counter and employees who service the public over the phone. Front counter employees have cashiering responsibilities and accept and process citation payments received from walk-in patrons using automated cash registers. With these cash registers, the cashiers directly input cash receipts activity into JEMS, the City's Municipal Court information system. Customer Service Representatives are also responsible for reviewing citations for correctness, preparing non-contested cases for pre-trial, entering jail arraignment cases, and processing the mail.

Municipal Court's warrant activities include a City Marshal, two fulltime Deputy City Marshalls and one part-time Deputy City Marshal. The Marshals serve the Municipal Court's capias pro fine and failure to appear warrants. One fulltime Deputy City Marshal and the part-time Deputy City Marshal provide security for the Court. Municipal Court's security requires citizens to walk through a metal detector and scan belongings through an ex-ray machine to ensure the safety of citizens

and staff. City Marshals clear approximately 1,300 to 1,400 warrants per year by arrest, contact by telephone or in person, resulting in the collection of approximately \$800,000 per year.

Municipal Court's Collection staff includes a Collections Supervisor, an Assistant Collections Coordinator and two Payment Compliance Officers. This portion of the staff works closely with the City Marshals. Collections follow a citation that has been filed with the Court by the College Station Police Department, Code Enforcement or Parking Enforcement to ensure collection and disposition of the citation. Collections create approximately 1,500 to 1,900 warrants per year. These collection efforts are responsible for approximately 40 percent of Municipal Court's collections. Collections personnel are also responsible for placing defendants in the failure to appear program, submitting cases to the external collection agency, issuing failure to appear warrants, entering jail arraignment cases, and conducting administrative hearings for civil parking cases.

The Municipal Court Division collects a variety of fees and revenue, which include:

- Traffic, parking, city ordinance or penal violation fines – adjudicated and administrative fines relating to violations of state and City of College Station statutes and ordinances.
- Point of service fees – these are cost-based fees for materials and services provided by the Division to petitioners.
- Administrative and/or mandatory court fees – these fees imposed by operation of law or by the discretion of the Judge, relating to adjudicated matters within the Municipal Court's jurisdiction.

Generally, fines and adjudicated monetary penalties are for violations of law, while fees are charges for the cost of services rendered by the Court. The Municipal Court's largest revenue stream is for traffic fines and fees.

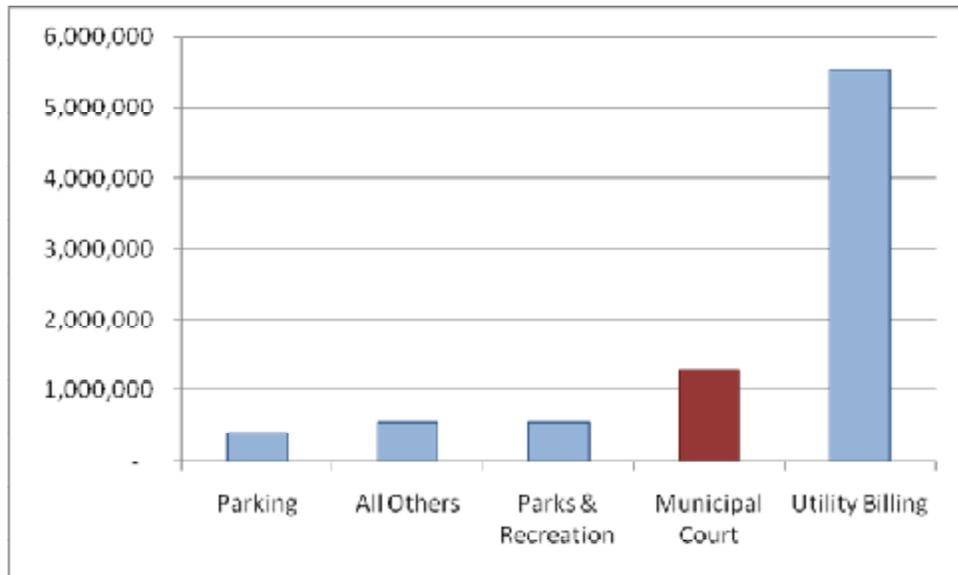
Municipal Court collects the state fees that are payable to the State of Texas. JEMS is designed to separate and disburse court related payments based on state mandated criteria. Each day, court transactions are summarized in disbursement batches and uploaded into the City's accounting system, HTE. The Accounting Division of

the Fiscal Services Department remits this money on a monthly basis to the State Comptroller's Office.

Municipal Court offers several methods of payment including payment plans negotiated by the two Payment Compliance Officers, credit card payments over the internet, in person or by calling into the Court by telephone. The Court has a drop box at their location for payments as well as documentation that may be turned into the Court for dismissal of citations. The Municipal Court accepts checks, cash, money orders and credit card payments from MasterCard, Visa and Discover.

Municipal Court collects in excess of five million dollars per year. Approximately \$1.3 million of these collections are in the form of currency. Figure 2 below compares the currency receipts of the City's cash handling locations for fiscal year 2009.

Figure 2: FY09 Currency Receipts Comparisons (in dollars)



Audit Objectives

This audit addresses municipal court cash handling and accounts receivable policies, procedures, processes and practices. This report answers the following questions:

- Does the Municipal Court Division have adequate procedures to receive, handle, safeguard, and deposit cash and cash equivalents and is the Court in compliance with those procedures?
- Does the Municipal Court properly manage and record receivables to ensure that receivables recorded in the City's financial records are complete?
- Does the Municipal Court utilize adequate collection efforts to collect monies owed to the City?

Scope and Methodology

This audit was conducted in accordance with government auditing standards, which are promulgated by the Comptroller General of the United States. Audit fieldwork was conducted from December 2009 through January 2009.

The audit scope included procedures and practices used by municipal court staff to receive, handle, record, deposit, and collect cash, checks, and credit card payments at the time of fieldwork.

The audit methods used to complete the audit objectives included:

- Reviewing the work of auditors in other jurisdictions and researching professional literature to identify best practices for municipal court cash handling, recording, and collections functions.
- Interviewing staff responsible for performing cash handling, recording, and collection oversight functions.
- Conducting data analysis using specialized auditing software to test for fraud indicators and system control failings.

- Reviewing cash receipt support documentation, municipal court employees' system functional access authority, the City's fiscal policy on cash handling, and municipal court procedures.
- Observing customer service and payment compliance representatives perform their cashiering and financial recording responsibilities.
- Observing non-cash credit review and approval and receipt reconciliation processes performed by the Division's supervisors.
- Performing a surprise cash count of all municipal court cash drawers on December 29, 2009.
- Observed the method by which citations are created, processed and flow from the Police Department information system to the Municipal Court information system to determine if the billing system is effectively designed (i.e. complete, accurate and timely billing).
- Reviewing municipal court case records and observing work performed by court staff to determine compliance with written policy and procedures.
- Identified and reviewed applicable reporting mechanisms and the effectiveness of the reports utilized by the Court to manage receivables and optimize collection efforts.

Findings and Analysis

Cash Handling Best Practices have been Implemented

Cash may include currency, coins, checks, money orders, or credit/debit card transactions. The following are generally considered to be best practices in cash handling: (1) appropriate segregation of duties, (2) effective receipting controls, (3) proper security measures regarding daily balancing and depositing of cash collections, (4) and sufficient management or officer review. Policies and procedures were reviewed, key staff was interviewed, system functional access authority was analyzed and operations were observed to determine if the Municipal Court exhibited these characteristics.

The Duties of Court Employees Are Appropriately Segregated

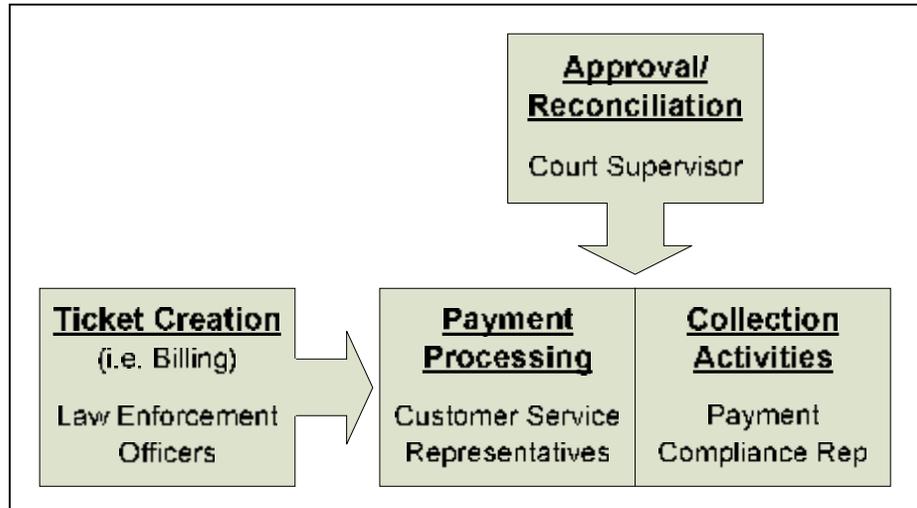
Separation of duty, as a security principle, has as its primary objective the prevention of fraud and errors. This objective is achieved by disseminating the tasks and associated privileges for a specific business process among multiple users. To achieve the highest level of internal control over the cash handling process, a different person should be involved in billing, payment processing, collection activities, and approval and reconciliation functions.

Appropriate municipal court segregation of duties is an effective physical control. College Station police, code enforcement, or parking enforcement officers create billings through writing tickets for traffic, parking, city ordinance, or penal violations. Customer Service Representatives are responsible for cashiering duties related to processing court fines and fees. Payment Compliance Representatives are responsible for collection activities such as monitoring accounts receivables, establishing payment plans for eligible defendants, activating warrants, issuing failure to appear citations, maxing fines or placing defendants in OmniBase¹ (which places holds on defendants' drivers' license). Daily reconciliations of cash receipts to cash on hand are performed by both Customer Service Representatives and municipal court supervisors. In addition, only municipal court supervisors or the Court Administrator can

¹ OmniBase Services of Texas maintains and administers the central database for the cities and counties contracted to use the Department of Public Safety's Failure to Appear Program.

approve voided transactions. Figure 3 below describes the Municipal Court's segregation of duties.

Figure 3: Municipal Court Segregation of Duties



Mail processing procedures could be improved. Customer Service Reps working as cashiers are permitted to open and process the mail without supervision. The mail checks are then included in their cash drawer and reconciled to daily cash receipt transactions to ensure that all payments were recorded properly and deposited in the bank. To best mitigate the risk of theft through a check for cash substitution scheme, Customer Service Reps functioning as cashiers should not open and process the mail. Alternatively, more than one employee could be present when the mail is opened and recorded.

During my observations of this process, I noted an instance where a defendant who owed \$140 in court related fines sent two checks in the mail totaling \$280. The Customer Service Rep simply returned one of the checks. The proper procedure in this situation should have been to receive both checks into the JEMS system, recorded as revenue—then issue a refund through the City's financial information system and a refund check generated through the Accounting Division.

Municipal Court Utilizes Effective Receipting Controls

The following are generally considered to be best practices in receipting cash: (1) A duplicate receipt should be provided to the payor for each transaction. (2) Checks received should be

immediately restrictively endorsed, "For Deposit Only". (3) Official pre-numbered receipts should be used. (4) Information on receipts should include the payor's name; purpose or description of the cash payment; quantity; and unit price, if applicable; type of cash received (check, currency, etc.); total amount of cash received; and the signature of the person collecting or receiving the cash.

Cashiers provide duplicate receipts to those who make payments at the Court. City cash handling procedures state that cashiers should always give the customer a receipt. Based on my observations and review of municipal court procedures and other support documentation, cashiers provide duplicate receipts to those who pay their court fines or fees at the Municipal Court.

Checks received are appropriately endorsed. Based on my review, I found that when cashiers receive checks for payment they immediately endorse the check with an official city stamp that contains the language "For Deposit Only".

System generated receipts are adequate. Municipal Court official receipts are created by automated cash registers, which are integrated with the Court's information system (JEMS). Receipt documentation created by these registers contains all the necessary features to effectively reconcile processed payments to accounting records, such as

- Information identifying the document as an official city receipt,
- The system generated pre-numbered receipt number,
- The mode of payment (i.e. cash, credit card, check, etc.),
- The date of the transaction,
- Information identifying the payor (i.e. name and address),
- Information identifying the clerk who processed the payment,
- The case number for easy support document retrieval,
- A description of the payment, and
- The payment amount and account balance.

In addition, these receipts are automatically numbered by the information system in sequential order.

Cash Collection Security Measures Are Adequate

Effective security measures for balancing and depositing cash collections have the following elements: (1) Cashiers should have a lockable cash drawer, and it should be secured in a locked safe, to which access is limited to the employee collecting the cash and a

supervisor. If there is more than one person receiving cash at the same time, each person should have his/her own cash drawer. (2) All cash receipts should be balanced daily by comparing the pre-numbered receipts issued with the actual amount of cash in the drawer. (3) Deposit should occur at the earliest possible time with all funds intact. The entire amount of receipts collected must be deposited so that all collections are posted as receipts to the City's accounts. (4) The deposit receipt should be reconciled to cashiers' receipt documents after the deposit has been made.

Security Measures for Balancing and Depositing of Cash Collections Are Effective. At the end of each business day, Customer Service Rep cashiers reconcile his or her cash receipts. The cashier begins by printing out his or her daily cash listing report from JEMS. This report is designed to identify and summarize all cash receipts activity performed by the cashier for the day. After this is done, source documentation for each type of transaction is totaled (adding machine tapes are prepared), and reconciled with the cash listing report by the cashier. Additionally, currency, coins, checks, and credit card payments are totaled and compared with like information in the cash listing report. The cashier has a fellow employee verify their reconciliation before they secure their cash drawer in the Municipal Court safe overnight.

The next day, one of the two court supervisors or the Court Administrator reviews each cashier's reconciliation to make sure the cash receipts listing reports, cash and cash equivalents, and supporting source documentation are in agreement. As part of the review process, the supervisor recounts the currency and coins for each cash drawer to make sure all money is accounted for. All cash receipts and most support documentation for these receipts are then placed in a courier bag with a bank deposit slip, which is locked and placed in the Municipal Court safe until an armored vehicle arrives to deliver and deposit cash collected from the previous day into the City's Citibank account.

Independent reconciliation is performed by Accounting Division staff. Each day, an Accountant in the Accounting Division of Fiscal Services reconciles the daily court deposit to the City's Citibank account statement. She verifies that all deposits reconcile to accounting records, payment records, and the bank statement. This step ensures that all cash sales recorded for the day were properly

and timely deposited and correctly recorded in the City's accounting system.

Cash drawers are individually assigned and secure. Each Customer Service Rep is assigned a cash drawer with a \$100 change fund. The drawers are all locked in the safe overnight. In addition, cashiers can lock their drawers at their work station. A petty cash fund of \$200 is also secured in the safe. These cash funds are centrally monitored and correspond to authorize funds amounts recorded in the Accounting Division of Fiscal Services.

Additional positive audit findings were noted. Based on my review, the following audit findings related to physical controls over cash handling functions were noted.

- Deposits are made daily, intact, and in the same form received.
- The check and cash composition of the daily bank deposit agrees with the mode of payment indicated on the cash receipts.
- Personal checks of cashiers, fund custodians, or other city employees are not allowed to be cashed at court registers.
- There are no deposit timing lags from court deposits to the City's bank account.
- Voided receipts are approved by supervisors who do not accept payments or issue receipts. Voided receipts adequately document the reason for the void.
- Court personnel that handle cash are trained on how to recognize counterfeit currency and utilize counterfeit pen detectors for large currency bills received.
- Security cameras are strategically placed in the lobby area of the Municipal Court. The Court Administrator is able to monitor all cashiers from her desk through a live video feed. The Court Administrator can also review historical footage from the cameras.
- Daily, court personnel and Accounting Division personnel independently verify that all payments have been properly posted into the City's financial system.
- Reports are generated both daily and monthly to reconcile daily transaction processing as well as monthly activity. Overage and shortage reports are also kept and monitored by management.
- Checks returned for not sufficient funds are monitored by court management, appropriate reversal entries are made, and the cases are subjected to the Court's collection processes.
- No unexplained anomalies in court revenue patterns were found.

AR is Properly Managed but Accounting Corrections are Needed

Currently, the Municipal Court properly manages and records accounts receivables resulting from citations or other court related revenue sources. In addition, the Court utilizes adequate collection efforts to collect monies owed to the City. Prior accounting practices and JEMS system glitches; however, have led to data integrity issues regarding historical court case records. As a result, the value of court related account receivables is not known. In addition, the balance of the bond account can't be accurately determined.

Court Related Receivables are Properly Managed

Proper management of accounts receivables is an essential accounting function. To be achieved an organization must be able to estimate the realizable value of its accounts receivables, effectively process transactions, encompass proper authorization, and sufficiently manage delinquent accounts. Based on my review, I found that Municipal Court properly manages and records current accounts receivables resulting from citations or other court related revenue sources.

Current practices enable the Court to estimate the realizable value of recent receivables. The net realizable value of court related accounts receivables are determined by having the Municipal Court adjudicate the case and issue an order as to the amount of fines and fees due. Final determination of the net realizable value of the receivable is accomplished when the amount is paid. Each violation also has a unique case identification number and undergoes a process for substantiation should the individual plea not guilty or simply does not pay the fine or fee.

Appropriate transaction processing related measures are present. Citations are uniquely numbered, time, and date stamped and remitted daily for processing. In addition, the system is set to apply appropriate fines and fees if violations are not paid when due. Court orders establishing the amounts due are timely entered into the system (which establishes the legal receivable) and payments are entered into the system at the time of payment. Daily, payments processed in JEMS are reconciled to the bank deposit and revenue recorded in JEMS is reconciled with the City's financial system.

Receivable authorization is defined and appropriate. All fines and fees are defined and authorized by state law or through city ordinance. Responsibilities and authorizations for recording of receivables is defined, communicated and understood. The Division has formal policies and procedures for all court processes and these policies and procedures are observed.

The Court utilizes adequate collection efforts to collect monies owed to the City. Unlike other receivables, court related accounts receivable are not written off due to the legal nature of the receivable. To increase the likelihood of collecting on all accounts; the Municipal Court has developed a well defined and effective process for collecting delinquent accounts. Delinquent accounts are monitored closely and effective reporting tools are utilized to assess collection activity. To increase collections, the Court also negotiates payment plans for qualified defendants.

When civil or criminal citations are unpaid after 10 days, Payment Compliance Reps mail these defendants notifications warning them of pending warrants for their arrest if they do not contact the Court and make arrangements to pay their fines. If the citation is still unpaid after 30 days, the defendant is charged with a Failure to Appear citation and the fine is increased to the maximum allowed by state law. If a defendant is charged with Failure to Appear, not only will the Court issue a warrant but the defendant will be reported to the DPS Omnibase system. Once the defendant has been reported to Omni, the DPS will not allow him or her to renew their Texas driver's license. In addition, if the defendant's license expires while an Omni hold is in place their driving privileges are suspended, putting him or her at risk of being arrested and jailed on a charge of driving with a suspended license. For defendants who have an out-of-state driver's license, after 60 days, the account is turned over to the City's outside collection agency.

In addition to the collection efforts mentioned above, the Municipal Court conducts two warrant roundup and amnesty programs per year. The Municipal Court holds a warrant amnesty period for approximately two weeks, where local residents can pay off Class C misdemeanor fines without an additional warrant fee. Once the amnesty period has passed, local authorities begin a roundup period of actively pursuing those with warrants.

Previous Accounting Practices and System Failings Corrupted Records

The accounting practices of previous court administrations in conjuncture with information system failings led to some accounting record errors. As a result, accounting corrections need to be made on several aged receivables in order to accurately estimate the value of court related accounts receivables. In addition, accounting corrections to the bond account are needed to reconcile municipal court records to the City's official financial records.

The balance of court related accounts receivable is not known. Based on my review there are at least three causes for the uncertainty in the balance of accounts receivable: (1) prior processing and accounting of defensive driving cases, (2) prior processing and accounting of deferred disposition cases (i.e. cases that may be dismissed if the defendant meets probationary requirements set by the Court), and (3) information system errors.

There are errors in several historical defensive driving cases because the previous court process for handling these cases caused negative account receivable balances to occur. For defensive driving, the defendant is required to pay upfront the citation's fine and any associated fees. In the past, if the defendant completed the defensive driving course and met all the other terms of their probation, court staff would reverse the citation and fines resulting in an erroneous negative account receivable balance. Currently, the Court may dismiss the citation (not the fine) from the defendant's records upon successfully completion of the course and probationary terms.

The way deferred disposition cases were handled in the past also caused errors in account receivables. When requesting deferred disposition, defendants would pay the original fine amount. At the same time court staff would increase the fine to the maximum allowed by law, resulting in a balance owed by the defendant if they did not complete the terms of their probation. There were several instances where previous court personnel did not remove the account receivable balance from defendants who successfully met the terms of their probation. As a result, accounts receivable was erroneously overstated in these instances.

The Court Administrator provided documentation of several JEMS system produced errors. I also interviewed Department of Information Technology staff to confirm that JEMS system glitches have caused several transactional related problems. Based on my review, JEMS system glitches could have caused additional historical accounting problems and errors related to court related accounts receivable.

The bond account balance in JEMS does not reconcile with the general ledger balance. As of December 2009, the bond account balance in the general ledger is approximately \$48,000 greater than the balance found in JEMS.

When requesting deferred disposition, the Court collects a special expense fee. The state portions of this fee are disbursed and remitted to the State. The remainder of this money is collected but remains as a payable (in the bond account), until the deferral period is completed². Once the deferral period is over, the payable should be disbursed; however, there have been instances when this did not occur resulting in the difference in bond account in JEMS and the general ledger.

During the course of the audit, I was provided with evidence that there has been significant work completed by both the Court and Accounting staff to address this issue. For example, the balance of the bond account at the end of fiscal year 2008 was over \$580,000; in fiscal year 2009 the balance was under \$200,000.

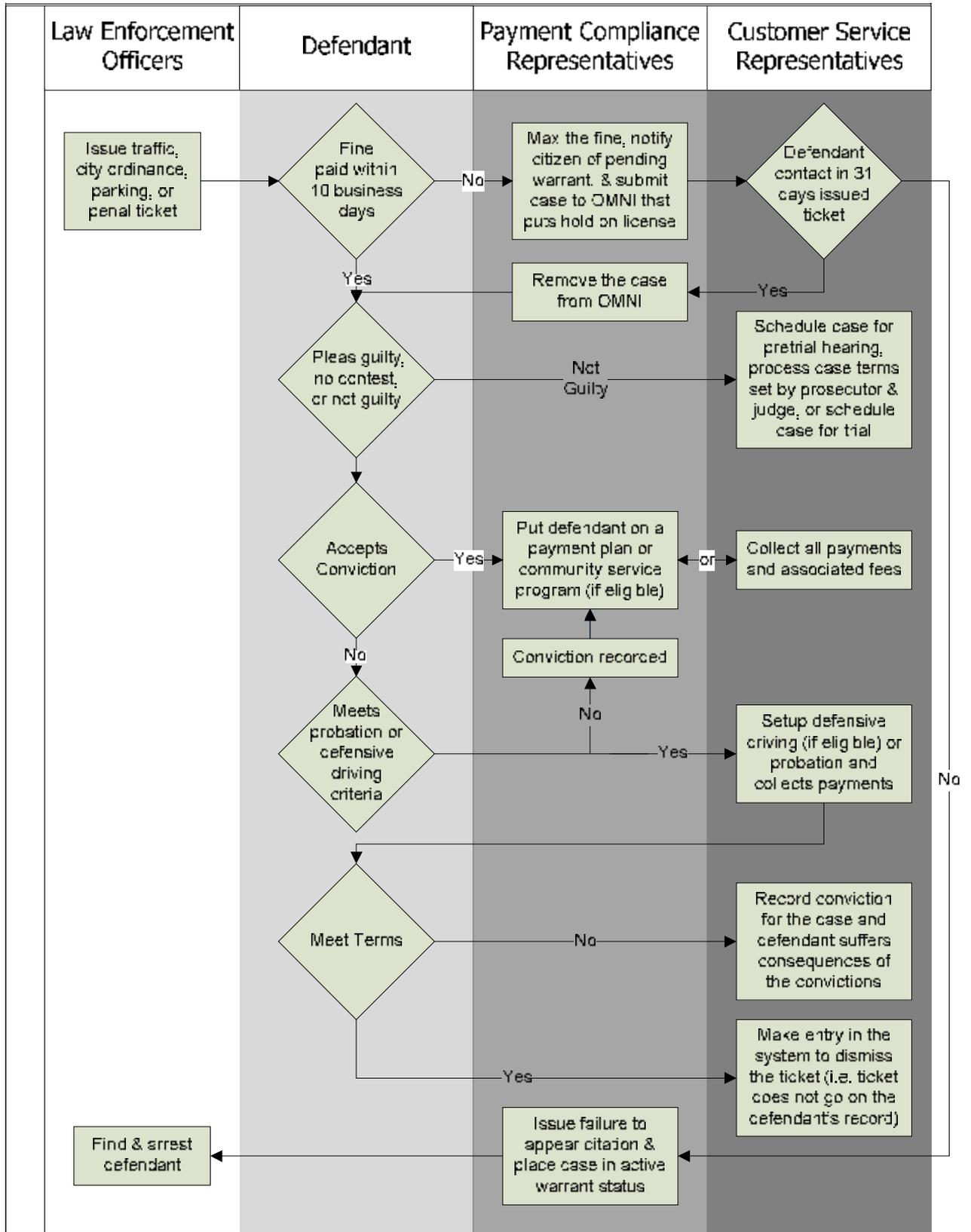
² According to state law, the Municipal court was not allowed to disburse the deferred special expense fee until the end of the deferral period. Effective September 1, 2009, a new ruling was issued allowing municipal courts to collect and disburse the special expense fee prior to the end of the deferral period.

Recommendations

Overall, the Municipal Court has adequate procedures to receive, handle, safeguard, and deposit cash and cash equivalents. In addition, receivables are currently being properly managed and recorded and collection efforts are effective. As a result, the audit revealed few changes that need to be made in order to strengthen controls related to the audit scope and objectives. However, the audit did reveal the following:

1. The Municipal Court Administrator should change mail processing policies and procedures to restrict Customer Service Reps functioning as cashiers from opening and processing payments received through the mail. Alternatively, more than one employee should be present when the mail is opened and payments from the mail are recorded.
2. The Municipal Court Administrator should be able to accurately estimate the net realizable value of court related accounts receivable. To accomplish this goal, the Court Administrator should research historical cases with an accounts receivable balance to determine their accuracy and then make necessary adjustments to the JEMS system along with appropriate journal entry adjustments to the general ledger.
3. The Municipal Court Administrator and Accounting Division staff should continue to investigate cases with account receivable balances due to deferred disposition expense fees in order to best reconcile the JEMS bond account balance to the general ledger's balance. Perfect reconciliation is likely not to occur given the age of some of these records; therefore, adjusting journal entries may need to be made to balance the account going forward.

Appendix 1: Municipal Court Cross Functional Flow Chart



Appendix 2:

The Chief Financial Officer's Response to the Audit Recommendations

1. The Municipal Court Administrator should change mail processing policies and procedures to restrict Customer Service Reps functioning as cashiers from opening and processing payments received through the mail. Alternatively, more than one employee should be present when the mail is opened and payments from the mail are recorded.

Response: Management concurs. The Municipal Court Administrator will implement a policy either restricting the person who processes the mail from cashiering that day or requiring two people to process the mail.

2. The Municipal Court Administrator should be able to accurately estimate the net realizable value of court related accounts receivable. To accomplish this goal, the Court Administrator should research historical cases with an accounts receivable balance to determine their accuracy and then make necessary adjustments to the JEMS system along with appropriate journal entry adjustments to the general ledger.

Response: Management concurs. The Municipal Court Administrator will continue to research historical cases to determine their accuracy and make necessary adjustments to the JEMS system along with appropriate journal entries to the general ledger.

3. The Municipal Court Administrator and Accounting Division staff should continue to investigate cases with account receivable balances due to deferred disposition expense fees in order to best reconcile the JEMS bond account balance to the general ledger's balance. Perfect reconciliation is likely not to occur given the age of some of these records; therefore, adjusting journal entries may need to be made to balance the account going forward.

Response: Management concurs. The Municipal Court Administrator and Accounting staff will continue to investigate cases holding bonds on file and create adjustments to reconcile the bonds in the JEMS system to the bonds on the general ledger. Municipal Court Administrator will investigate cases cleared by deferred disposition that continue to show an outstanding balance. Municipal Court Administrator will continue to work closely with our software vendor, PCSS, to perfect the purge function which will eliminate most of the problems with old cases.

February 25, 2010
Workshop Agenda Item No. 4
Fuel Operations Follow-up Audit Report

To: Mayor and Members of the City Council

From: Ty Elliott, City Internal Auditor

Agenda Caption: Presentation, possible action, and discussion concerning the City Internal Auditor's Fuel Operations Follow-up Audit Report.

Summary: The follow-up audit report summarizes the fuel operations audit recommendations, management's responses, and the audit follow-up findings—which describe how city management has implemented the auditor's recommendations.

Audit Results: Department of Public Works management concurred with all seven audit recommendations. After the completion of all audit tests, I found that three recommendations were fully implemented and four recommendations were partially implemented. However, Public Works currently has plans in place to fully implement the four recommendations that were partially implemented.

Attachments: Fuel Operations Follow-up Audit Report



CITY OF COLLEGE STATION

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AUDIT COMMITTEE
Councilmember Lawrence Stewart
Councilmember James Massey
Mayor Ben White

TO: Audit Committee Members
FROM: Ty Elliott, City Internal Auditor
DATE: February 5, 2010
SUBJECT: **Fuel Operations Follow-up Audit Report**

The fuel operations follow-up audit was conducted in accordance with the fiscal year 2010 audit plan. This audit report summarizes the fuel operations audit recommendations, management's responses, and the audit follow-up findings (which describe how city management has implemented the auditor's recommendations). This audit was conducted in accordance with government auditing standards, which are promulgated by the Comptroller General of the United States.

- Audit Recommendation:** The Director of Public Works should instruct the Fleet Buyer to verify that the invoiced unit cost corresponds with the contract price documented in the city's fuel agreement with Brenco. There are four steps to verifying the contract price. (1) Obtain the Oil Price Information Service (OPIS) publication for Hearne, TX. (2) Verify that the date on the OPIS publication matches the order date documented on the invoice and the transaction log. (3) Identify the UBD rack average rates for unleaded (UNL) and diesel (ULS) on the OPIS publication, and add the appropriate markup rate based on the gallons delivered. (4) Compare the unit costs identified in step three to the unit costs on the invoice.

Management Response: *Management concurs with the recommendation and will instruct the Fleet Buyer to verify that the invoiced unit price corresponds with the contract price.*

Audit Follow-up Finding: I interviewed the Fleet Buyer and observed her perform her duties related to purchasing and receiving of fuel. Based on my review, she now verifies fuel contract prices by performing the steps outlined in the recommendation above.

- Audit Recommendation:** The Director of Public Works should direct Fleet personnel to do a thorough evaluation and cleanup of the data in both the fuel management system (Phoenix) and the equipment file in the city's financial system to ensure that the data is accurate and corresponds to one another. Former employees and current employees, who no longer have a need to fuel city vehicles or equipment, should have their fuel pump authorization deactivated from the Phoenix system. In addition, non misc fuel cards that are not assigned to current city equipment or vehicles should be deactivated in the Phoenix system.

Management Response: Management concurs with the recommendation and will direct that the data in the fuel management system and city's financial system be cleaned up as described to ensure that the data is accurate in both systems.

Audit Follow-up Finding: In conducting the Fuel Operations Audit, I found 8,934 transactions for 137,105 gallons of fuel recorded in the fuel management system (Phoenix) that was missing from the city's financial system (HTE). Fleet Services has made several improvements to correct this problem such as: performing daily fuel transactions imports from Phoenix into HTE, reconciling these transactions on a daily basis, and conducting significant data cleanup in both Phoenix and the equipment file of HTE.

I reviewed all fuel transactions between 7/1/09 and 12/31/09 found in the Phoenix and HTE databases. I found that the transactions in the two systems completely reconciled. Therefore, I conclude that the measures that Fleet personnel have taken to ensure that the data is accurate and corresponds to one another have been effective.

Fleet personnel have also reduced the number fuel cards for equipment, miscellaneous fuel cards, and drivers authorized to obtain fuel at city fueling stations. The table below summarizes these results.

	Equipment Cards	Driver Authorization	Misc Cards
As of March 2009	504	1,141	59
As of January 2010	474	699	41
Difference	30	442	18
Percent Reduction	6%	39%	31%

According to Fleet personnel, a significant clean-up of the data in the Phoenix system was conducted shortly after the release of the audit report. However, I found there are no procedures in place to periodically identify and deactivate fuel authorization from individuals who no longer have a need to use city fueling stations. As a result, I found 37 authorized fuel users who are no longer employed by the City. In addition, I found 62 authorized users who have not obtained any fuel at city fueling stations within the last 6 months. At least two authorized fuel users have vehicle allowances. When I interviewed these two employees they did not know they were authorized to obtain fuel at city fueling stations.

3. **Audit Recommendation:** The Director of Public Works should direct Fleet staff to activate the fuel management system's odometer reasonability control for all fuel cards. Prior to this control being implemented, Fleet should develop a communications plan to instruct all fuel users about the importance of entering correct odometer readings and to communicate the proper fueling procedures. Once odometer reasonability controls are implemented, Fleet should consider using odometer entries to calculate miles per gallon or cost per mile in order to track driver and vehicle efficiency.

Management Response: Management concurs with the recommendations and will direct the implementation of the fuel management system's odometer reasonability controls for vehicles after meeting with fleet coordinators from each department to develop a training and informational program.

Audit Follow-up Finding: Odometer reasonability controls have been partially implemented. Odometer reasonability ranges should be set based on vehicles' fuel economy and fuel tank capacity. Although odometer control ranges have been set for all vehicles, reasonability ranges are not always based on vehicles' fuel economy and fuel tank capacity. For example, a 2004 Ford Crown Vic has a

tank capacity of 20 gallons and an estimated fuel economy of 14 miles per gallon. Therefore, a logical odometer reasonability range for a Crown Vic could be 1 to 280 (20 × 14).

Current system settings also allow fueling after a user enters three odometer readings that fall outside of the reasonability range—which functionally bypasses the odometer reasonability control. As a result, city fuel pump users continue to enter incorrect odometer readings. Consequently, Fleet is currently unable to take advantage of system tools to track driver and vehicle efficiency and better schedule preventative maintenance.

Fleet has develop a communications plan to instruct all fuel users about the importance of entering correct odometer readings and proper fueling procedures. However, formal training and communications have not yet been given to all users—an additional cause for the continued incorrect odometer entries.

- 4. Audit Recommendation:** The Director of Public Works should direct Fleet personnel to activate the fuel management system’s quantity restriction controls for all fuel cards. Quantity restriction should be set to match a vehicle’s tank size. Therefore, Fleet staff should verify that tank capacity data recorded in the city’s financial system’s equipment inventory file is complete and accurate prior to implementing quantity restriction controls. The Phoenix system also has the ability to set daily and monthly fuel quantity limits for fuel cards. Daily and monthly limits should be set in accordance with cardholder needs in order to prevent users from circumventing quantity controls by fueling multiple times within the same day or more than reasonable within a month. Therefore, Fleet staff should work with department fuel users and conduct a fuel usage analysis to identify appropriate daily and monthly fueling limits to be placed on fuel cards.

Management Response: *Management concurs with the recommendation. Fleet staff will be directed to work with departmental fleet coordinators to conduct a fuel usage analysis to determine appropriate fueling limits and implement the fuel management system’s quantity restriction controls as described for all fuel cards.*

Audit Follow-up Finding: Quantity, daily, and monthly fueling limit controls have been partially implemented. Quantity, daily, and monthly fueling limits have been set for all vehicles and drivers. However, quantity limits do not always correspond with fuel tank capacity. In addition, daily and monthly limits are sometimes set artificially high, rendering the control ineffective.

- 5. Audit Recommendation:** The Director of Public Works should direct Fleet staff to monitor miscellaneous fuel card usage by employee and supply users’ supervisors with miscellaneous fuel card usage reports. Department supervisors should be instructed by Fleet to use these reports to help them identify possible instances of inappropriate fuel use. Fleet staff should also conduct an analysis of miscellaneous card use. This analysis should identify the following: (1) potential unmetered equipment that can be assigned to each miscellaneous fuel card, (2) reasonable monthly limits that can be placed on each miscellaneous card based on the historical use of unmetered equipment appropriate to be fueled with the card, (3) who uses miscellaneous cards and determine if these users are appropriate for the card’s intended use, and (4) the miscellaneous cards that should be deactivated from the system.

Management Response: *Management concurs with the recommendation. Fleet staff will be directed to work with departmental fleet coordinators to conduct miscellaneous fuel card usage analysis as described to identify possible instances of inappropriate fuel use and to take actions to prohibit inappropriate fuel card activity.*

Audit Follow-up Finding: Fleet’s current miscellaneous fuel card usage monitoring procedures are adequate to identify possible instances of inappropriate fuel use. Fleet staff has also performed the

necessary analysis to identify the miscellaneous cards that should be deactivated from the system and these cards have been removed.

6. **Audit Recommendation:** The Director of Public Works should direct Fleet staff to draft fueling procedures to be distributed to current authorized users, and provide these instructions to every new user.

Management Response: *Management concurs with the recommendation and will direct the fleet staff to draft fueling procedures to be provided to all authorized users and to new users added to the system.*

Audit Follow-up Finding: Fleet staff has drafted fueling procedures to be distributed to current authorized users, and these instructions have been provided to every new user.

7. **Audit Recommendation:** The Director of Public Works should direct Fleet staff to conduct an analysis to determine the overhead cost of administering fuel and develop an overhead rate that reflects those costs. In addition, the equipment inventory file should be examined to ensure that all vehicles and equipment are assessed the same overhead rate.

Management Response: *Management concurs with the recommendation and will direct the Fleet staff to determine the overhead cost for administering the fuel system and establish an overhead rate that accurately reflects those costs. The Fleet staff will examine the equipment inventory to ensure that all vehicles and equipment are assessed the correct overhead rate.*

Audit Follow-up Finding: Fleet staff has conducted a reasonable analysis to determine the overhead cost of administering fuel and developed an overhead rate of six percent that reflects these costs. However, the equipment inventory file has not yet been updated to ensure that all vehicles and equipment are assessed the six percent overhead rate.

February 25, 2010
Workshop Agenda Item No. 5
Update on FY 10 Budget and FY 11 Budget Planning

To: Glenn Brown, City Manager

From: Jeff Kersten, Chief Financial Officer

Agenda Caption: Presentation, possible action, and discussion on an update of the City of College Station FY 10 Budget, and FY 11 Budget Planning.

Recommendation(s): Staff recommends the City Council receive the report and provide any desired direction.

Summary: Staff will be presenting an update on the status of the FY 10 Budget and an update on the planning for the FY 11 Budget. This update will include a status report key revenue streams. Based on current revenue estimates it will be necessary to make reductions to the FY 10 budget in order to keep ongoing revenues in balance with ongoing expenditures.

Staff will present some preliminary recommendations on how to address this budget shortfall. Staff will also discuss the impacts this will have on the FY 11 budget process.

Budget & Financial Summary: Information will be presented at the workshop meeting.

Attachments:

**February 25, 2010
Workshop Agenda Item No. 6
Update on Activities within CSU Electric**

To: Glenn Brown, City Manager

From: David Massey, Director of Electric Utilities

Agenda Caption: Presentation, possible action, and discussion regarding activities within the College Station Utilities Electric Department.

Recommendation(s): N/A

Summary: Briefing on the status of various projects and programs within the Electric Utility including the Street Light Monitoring System, Dowling Road Substation, and our latest Energy Programs.

Budget & Financial Summary: N/A

Attachments:

**February 25, 2010
Workshop Agenda Item No. 7
City of College Station Green Building Standards**

To: Glenn Brown, City Manager

From: Chuck Gilman, Director of Capital Projects

Agenda Caption: Presentation, possible action, and discussion regarding a proposed green building standard for future municipal facilities in the City of College Station.

Recommendation(s): Staff recommends a specific standard be established to set the minimum design standards for new facilities that are derived from other green building programs and organizations that do not typically apply to municipal facilities.

Summary: There are numerous organizations that have established green building programs, building codes, and design criteria defining a green building, such as the U.S. Green Building Council - Leadership in Energy and Environmental Design (LEED) for New Construction and Major Renovations, International Code Council - National Green Building Standard, LEED Neighborhood Development, etc. Each of these programs has similar elements and standards, but all differ in many areas. Additionally, some of these programs and standards were developed for a specific type of commercial construction and were not intended to be applied to municipal buildings such as fire stations, wastewater laboratories, scale houses, etc. Unfortunately, there is not a specific standard for municipal facilities. Additionally, one specific program or standard may not meet all of the expectations of the City of College Station.

Therefore, Staff is recommending that a standard be developed from many of the existing programs and criteria to meet the expectations of the City of College Station that is compatible with facilities serving a municipality. Staff will also seek input and direction from the Green College Station Technical Taskforce in the development of this standard before returning to City Council for approval.

Budget & Financial Summary: N/A

Attachments: N/A