

**Treasury Division Check Pick-Up Audit**

**June 17, 2009**

**Report #671**

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**EXECUTIVE SUMMARY**

**AUDIT REPORT #671**

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## EXECUTIVE SUMMARY

### AUDIT CONCLUSION

Based on our testing, it appears that the Treasury Division's check pick-up process and check pick-up logs are not being used in the most effective and efficient manner to ensure that checks picked up are properly authorized and disbursed to the correct recipient.

### AUDIT FINDINGS

**Finding 1-1** Check pick-up logs are not being utilized in the most effective manner.

**Finding 1-2** Although Treasury's policy requires the use of pre-authorization forms, we found that these forms were not being used during our scope period.

**Finding 1-3** Some checks weren't properly authorized for pick-up.

**Internal Control Weakness 1-1** Three Treasury employees can process and approve their own transactions in FAMIS, the City's financial accounting system.

**Internal Control Weakness 1-2** The manual (typewritten) check signers don't verify the validity of the vendor whom the check is made out to.

**Internal Control Weakness 1-3** Some write-up reports contained the first names only of people picking up checks.

**Internal Control Weakness 1-4** Passwords used in the check printing software, Procheck, are not required to be changed on a regular basis.

**Opportunity for Improvement 1-1** Treasury should add two columns to the check pick-up log template – one for the individuals' printed name in addition to their signature and the second for the initials of the Treasury employee who distributes the check.

**Opportunity For Improvement 1-2** Treasury should work with Procurement and Accounts Payable to implement a method of encouraging vendors to accept ACH disbursements, which are less expensive for the City to process than the use of checks.

**Opportunity For Improvement 1-3** Treasury should mail the checks to poll workers, rather than allow them to be picked up and mailed by the Supervisor of Elections Office.

**OFFICE OF THE COUNCIL AUDITOR**  
Suite 200, St. James Building



June 17, 2009

Report #671

Honorable Members of the City Council  
City of Jacksonville

**INTRODUCTION**

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Jacksonville Municipal Code, we conducted an audit of the Treasury Division's Check Pick-Up Process for the period beginning October 1, 2006 through September 30, 2008. The Treasury Division has custody of the City's funds and has responsibility for the investment and disbursement of these funds. This audit focused only on the checks that were picked up in-person from the Treasury Division. Although the Treasury's standard operating procedures require checks to be mailed, checks are allowed to be picked up in some instances. During the two year audit period, we estimated that approximately 18,382 vendor checks were picked up, representing 16% of the 112,725 vendor checks printed.

**STATEMENT OF OBJECTIVE**

The objective of the audit was to determine if the Treasury Division's check pick-up process and check pick-up logs are used in the most effective manner to ensure that checks picked up are properly authorized and disbursed to the correct recipient.

**STATEMENT OF SCOPE AND METHODOLOGY**

The scope of our audit included a random sample of checks picked up from the Treasury Division between October 1, 2006 and September 30, 2008. We randomly selected four individual weeks during the audit period and counted the number of Accounts Payable checks on the check pick-up logs in order to obtain an approximate number of checks picked up weekly. We used the weekly average to approximate the daily and annual number of checks picked up from the Treasury, since this information was not tracked by the Division. Using a statistical sampling program, we determined our sample size should be approximately 376 checks to achieve a 95% confidence level with our estimated two year population of 18,382 checks. According to our estimations, a sample of 376 checks was equivalent to approximately 11 days of check pick up logs. Our random sample for detailed testing consisted of the following days: 10/16/06, 12/5/06, 2/21/07, 4/26/07, 6/8/07, 7/30/07, 9/18/07, 11/7/07, 1/10/08, 3/21/08, and 5/5/08. The actual number of checks for those 11 days was 413, which became our sample size. We reviewed the check pick-up logs by documenting the check numbers of the checks picked up and signature of the person who picked them up. We then reviewed the daily write-up reports for

the check numbers listed on the pick up logs and noted the payee, dollar amount of the check, and the individual authorized to pick up the check. (The write-up reports are FAMIS [the City's financial accounting system] generated Accounts Payable check registers that are notated with the name and phone number of the individual authorized to pick up a check listed, if applicable. They are generated daily by the City's General Accounting Division (GAD) and sent to Treasury prior to printing checks.) Both the check pick-up logs and write-up reports were provided by Treasury staff. We confirmed that the name of the individual picking up the check on the check log and write-up reports matched.

Next, we reviewed images of the checks that had been picked up to ensure that the checks were endorsed by their intended recipients. This step was performed by searching the check archive database provided by Wachovia Bank for checks issued beginning in 2007 to current. Copies of check images were provided by Treasury staff for checks issued before January 2007, as these were only accessible through the Bank of America archive system (the City switched from Bank of America to Wachovia in January 2007). Using FAMIS, we searched for the checks that could not be found in the archives to ensure they had been voided in the system. We then verified that all voided checks in our sample were on file in Treasury and that they had been properly stamped 'void'.

#### **STATEMENT OF AUDITING STANDARDS**

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

#### **AUDITEE RESPONSES**

Responses from the auditee have been inserted after the respective finding and recommendation. We received these responses from the Treasury, Procurement, and the General Accounting Divisions and the Supervisor of Elections Office.

#### **AUDIT CONCLUSION**

Based on our testing, it appears that the Treasury Division's check pick-up process and check pick-up logs are not being used in the most effective manner to ensure that checks picked up are properly authorized and disbursed to the correct recipient.

Our audit findings and recommendations are as follows:

### **Finding 1 – 1 \*Pick Up Logs Not Utilized Effectively\***

Check pick-up logs are not being utilized in the most effective manner. According to Treasury's check pick-up policy, when an individual picks up a check from the Treasury, he/she must sign a log at the front desk upon receipt of the check. The log includes the date, check number(s), department/company, and signature.

While reviewing the check pick-up logs maintained by Treasury, we observed the following:

1. Individuals' names on the write-up reports prepared by GAD did not match the signatures on the check pick-up logs for 152 out of 219 checks (68%) picked up from the Treasury. (We considered our population to be 219 in this instance because that is the number of checks which were legibly notated on the write-up lists AND the pick-up logs.) Per Treasury, a majority of these checks were picked up by runners, which is why so many of the signatures did not match. However, we have no way of verifying if the runners were authorized to pick up the checks.
2. Five out of 413 checks (1%) picked up were not signed for on the log. The signature column had been left blank.

### **Recommendation to Finding 1 – 1**

1. GAD should specify the person or persons authorized to pick-up a check on the write-up lists and Treasury should enforce a rule or policy to require that only the person(s) on the write-up lists can pick up the check.
2. All portions of the check log should be completed before the check is released.

### **Auditee Response to Finding 1 – 1**

#### Treasury Response:

1. *Accounting Division has agreed to specify the person authorized to pick up a check on the write up list, including an indication that the check will be picked up by a runner. The person picking the checks up will present valid city identification.*
2. *Check pick up logs will be reviewed by the Treasurer or his/her designee on a periodic basis for compliance with Treasury rules. The review will be represented by date and initials at the bottom of the day's log.*

GAD Response: *We agree that the Accounting Division should specify the person authorized to pick up a check on the write up list. When a check is to be picked up by a department, that individual is indicated on the check request. This information is written onto the check register for that day and sent to the Treasury division for check mail out and distribution. Although Accounting does not know who actually picks up the check, we do inform the requesting individuals that they must be pre-approved by the Treasury Division to pick up checks.*

### **Finding 1 – 2 \*Preauthorization Forms Not Used\***

Although Treasury’s policy requires the use of pre-authorization forms (which authorizes who is allowed to pick up a check for a department/division), we found that these forms were not being used during our scope period.

### **Recommendation to Finding 1 – 2**

As stated in the Recommendation to Finding 1-1, part one, listed above, GAD should specify the person or persons authorized to pick-up a check on the write-up lists and Treasury should enforce a rule or policy to require that only the person on the write-up lists can pick up the check. We also recommend that Treasury evaluate whether the pre-authorization forms are needed.

### **Auditee Response to Finding 1 – 2**

Treasury Response: *Treasury will evaluate whether the existing pre-authorization forms should continue in use, or if other controls maybe more effective.*

GAD Response: *We agree that the Accounting Division should specify the individual authorized to pick-up a check since we are the ones to review and release vouchers into the check writer. The information we use for check pick up comes from the using agency and we write that information on the check register along with a contact number. If Treasury deems preauthorized forms are needed, then A/P is to be supplied the list of those individuals. If the person’s name given to A/P is not on the list, we can let them know that the person is not authorized for check pick up. This will ensure that only those individuals that have been pre approved will be picking up checks.*

### **Finding 1 – 3 \*Checks Picked Up Without Written Authorization\***

Some checks weren’t properly authorized for pick-up according to Treasury’s policies and procedures. Ninety-four out of 413 checks (23%) were picked up from the Treasury Division without proper written authorization. We requested authorization documents for checks that were picked up but not noted on the write-up lists. We were provided with a number of email requests to pick up the checks; however, these emails were not sent to the Treasurer for approval, as required by internal policies and procedures.

### **Recommendation to Finding 1 – 3**

We recommend that the Division’s policy be followed in order to require approval by the Treasurer for check pick-ups not on the write-up lists and to retain documentation confirming approvals for all checks that are picked up.

### **Auditee Response to Finding 1 – 3**

*The check pick up log will be reviewed periodically to determine compliance with Treasury rules and controls over check pick up. Check pick up requests outside of those authorized by GAD on the “write-up” report will be in writing submitted to the Treasury Department and approved by the Treasurer or his designee.*

## **INTERNAL CONTROL WEAKNESSES**

### **Internal Control Weaknesses 1 – 1 \*FAMIS Access\***

We noted that the access rights granted to three Treasury employees allow them to enter and post their own transactions in FAMIS, the City’s financial accounting system. Basic internal control guidelines state that the duties of inputting and approving of transactions should be separated.

### **Recommendation to Internal Control Weakness 1 – 1**

We recommend that access levels be limited so that employees cannot process and approve their own transactions.

### **Auditee Response to Internal Control Weakness 1 – 1**

*Treasury will contact Accounting Systems to see if assigned approval paths can be modified to prevent approval personnel from having access to the entry level screens. As a matter of normal operations, duties are assigned to employees to separate the functions of keying and approving of FAMIS accounting entries. Journal entries that are approved in Treasury are subsequently reviewed and approved by Accounting prior to being posted in the General Ledger. Wire transfer entries and check voids are approved and posted directly from Treasury, with the functions of keying and approving performed by different individuals.*

### **Internal Control Weaknesses 1 – 2 \*Manual Check Processing\***

Before a manual (typewritten) check is signed, the preparer types the payee name and amount on a blank check. (The manual check process does not interface with FAMIS, so all of the fields on a check must be typed using a typewriter.) Although these checks are prepared using a typewriter, they are signed using a machine that requires two keys in order to print the signature on the check. Two departments hold the printer keys necessary to sign these manual checks. The printer key holders only verify the beginning and ending check signing machine count for the checks that are signed. The check signers do not verify the validity of the vendor whom the check is made out to or the payment amount of the check.

### **Recommendation to Internal Control Weakness 1 – 2**

We recommend that Treasury evaluate the need for these manual (typewritten) checks. If they are needed, we recommend that the two key holders verify that the manual checks are addressed

to an actual vendor in FAMIS and review supporting documentation for reasonableness before the check is signed.

**Auditee Response to Internal Control Weakness 1 – 2**

*Treasury will explore all options to fully eliminate typewritten checks. Manual checks issued in this manner are only used to replace a previously authorized, approved, and recorded disbursement. The vast majority of items that are reissued are system generated and have the same controls that exist for any other disbursement. Full documentation will be presented to both key holders along with any manual check for signature.*

**Internal Control Weaknesses 1 – 3 \*Write Up Reports\***

Some write-up reports contained first names only of people picking up checks. GAD creates the write up reports by notating the daily check register with the name and phone number of the City employee or vendor representative who will pick up a check.

**Recommendation to Internal Control Weakness 1 – 3**

We recommend that the full name be included on the write-up reports. Even though employees of GAD and Treasury may be familiar with the City employees who frequently pick up checks, including the full name is a preventative measure to ensure that checks are only released to those authorized individuals.

**Auditee Response to Internal Control Weakness 1 – 3**

*GAD will comply with your recommendation to have the first and last name included on the write up reports.*

**Internal Control Weaknesses 1 – 4 \*Procheck Passwords Not Changed\***

Passwords used in the check printing software, Procheck, are not required to be changed on a regular basis. It is considered a good system control to change passwords periodically to prevent unauthorized access of information systems. Requiring a password change also discourages users from using the same password on multiple accounts, which can increase the likelihood of unauthorized access.

**Recommendation to Internal Control Weakness 1 – 4**

We recommend that the Treasury Division evaluate the need for requiring periodic password changes in Procheck.

**Auditee Response to Internal Control Weakness 1 – 4**

*Treasury will work with ProCheck to develop a periodic required password change for each authorized user.*

## **OPPORTUNITIES FOR IMPROVEMENT**

### **Opportunity for Improvement 1-1 \*Printed Names on Pick-up Logs\***

While reviewing the check pick-up logs maintained by Treasury, we observed that we were unable to read the pick up individuals' signature for 128 of the 413 checks (31%) in our audit sample. Also, there was no indication on the logs on exactly who in Treasury distributed the check.

### **Recommendation to Opportunity for Improvement 1-1**

We recommend that two columns be added to the check pick-up log template – one for the individuals' printed name in addition to their signature and the second for the initials of the Treasury employee who distributes the check.

### **Auditee Response to Opportunity for Improvement 1-1**

*A Printed Name column has been added to the check pick up log. Treasury employees will note the identification presented on the pick up log as well as initial the log for each item released to better document the release of each item.*

### **Opportunity for Improvement 1 – 2 \*Increase ACH Payments\***

We observed that the majority of the City's vendors do not receive payments electronically. The City issues ACH disbursements to vendors that request to receive payments electronically, but the City does not require the use of ACH payments.

### **Recommendation to Opportunity for Improvement 1 – 2**

As recommended in our Accounts Payable audit, Report #654, issued August 13, 2008, Treasury should work with Procurement and Accounts Payable to implement a method of encouraging vendors to accept Automated Clearing House (ACH) disbursements. ACH disbursements are widely accepted in the business environment and are a cost effective method of making and receiving payments.

### **Auditee Response to Opportunity for Improvement 1 – 2**

Treasury Response: *Treasury, Procurement and Accounts Payable will continue to work together to find ways to migrate to greater utilization of ACH and other means of electronic payment.*

GAD Response: *We agree that Treasury, Procurement and Accounts Payable should work together to encourage vendors to accept ACH disbursements. Accounts payable takes every opportunity when speaking with its vendors to promote and encourage vendors to sign up for*

*ACH. Treasury sent out an initial notification of the program with each check for an extended period of time. Once an ACH payment is processed, Treasury sends a notice to the vendor letting them know that a payment from the City will be credited to their bank account and which invoices the City is paying. Treasury promotes ACH by requiring the vendor to enroll in the program at the same time the vendor is picking up his/her check. The Accounting Division would be in favor of another round of mass notification with check disbursement to vendors.*

*Procurement Response: Procurement agrees with this Opportunity for Improvement. Based on the recommendation presented, Procurement will work with Treasury to establish language promoting ACH disbursements. The established ACH disbursement language will be included in competitive bid solicitations. This addition to the competitive bid solicitations will outline the benefits to vendors of ACH disbursements and provide direction on signing up to receive ACH disbursements from the City of Jacksonville.*

**Opportunity for Improvement 1 – 3 \*Poll Worker Checks\***

During the audit, we noted that checks for poll workers were picked by someone in the Supervisor of Elections office. The checks are then mailed to the workers from that office.

**Recommendation to Opportunity for Improvement 1 – 3**

We recommend that the Treasury Division mail the checks to the poll workers, rather than allow them to be picked up.

**Auditee Response to Opportunity for Improvement 1 – 3**

Treasury Response: *Poll worker checks will be mailed directly from Treasury in the future.*

Supervisor of Elections' Response: *We concur with the recommendation of the Auditor's office.*

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We appreciate the assistance and cooperation we received from the Treasury Division through the course of this audit.

Respectfully submitted,

Kirk A. Sherman, CPA  
Council Auditor