



TENNESSEE

A C WHARTON, JR. - Mayor
GEORGE M. LITTLE - Chief Administrative Officer
EXECUTIVE DIVISION
Internal Audit Service Center
LEON PATTMAN, CIA, CISA, CRMA, CMFO
City Auditor

August 18, 2014

Mr. John Cameron, City Engineer
Engineering Division
125 N. Main Street, Suite 644
Memphis, Tennessee 38103

Dear Director Cameron:

We have completed our “quick response” assessment of internal controls over revenue receipt specifically with respect to the handling of payments received via the mail. The scope of the assessment was limited to the Traffic Signal Maintenance payment receipt process.

BACKGROUND

On July 17, 2014, Internal Audit received an envelope intended for Traffic Signal Maintenance. An auditor noticed that the envelope contained a check made payable to the City and to the attention of an individual. The fact that an individual (City employee) name appeared on the check (a negotiable instrument) represented a control deficiency. Therefore, we conducted a “quick response” internal control assessment of their process for handling payments received through the mail that supported approximately \$200,000 in revenue collection for fiscal year 2014. The assessment included documenting the process flow and evaluating controls with respect to the State’s *“Internal Control and Compliance Manual for Tennessee Municipalities”* (also referred to as the City Manual) and other best practices.

CONCLUSION

Overall, the internal controls were satisfactory with two deficiencies noted.

DEFICIENCIES

- Process lacked compliance with the City Manual, Title 5, Chapter 14, Section 4, “Municipal officials should ensure that all mail is delivered intact (unopened) to two or more designated employees. The designated employees should immediately open the mail and prepare a list of all money/checks received in the mail.” Currently, only one employee opens the mail and records payment entries to the log.

- Traffic Signal Maintenance sent invoices to customers that requested the payment instrument (check) be made payable to the City and sent to the attention of a City employee. The purpose for adding the employee's name was to help ensure the payment went to the right person for processing. The remittance guidance on the invoice created a situation where a City employee's name could and was included on an actual check. Therefore, an individual's name on a check payable to the City, which is a negotiable instrument, increases the likelihood of errors and irregularities regarding City funds.

RECOMMENDATIONS

- Management should ensure compliance with the City Manual by designating two or more employees to open the mail and prepare a daily log of all invoice payments.
- Management should replace the City employee's name on invoices with specific address information to ensure payment instruments (checks) go to the right location for processing.

MANAGEMENT'S RESPONSE

After engaging audit management regarding the draft memorandum, engineering management designated the three employees working the department to open mail the with at least two being present during mail opening and logging. Additionally, the invoices sent to customers for payment will no longer direct customers to address payments to the attention of a City employee. Rather, the invoices sent to customers will request payment remittances be sent to a specific location/department and/or to the attention of a position title.

The corrective actions noted in the management's response should adequately address the deficiencies noted. Therefore, at this time, there is no further audit activity warranted.

Our assessment may not necessarily disclose all internal control weaknesses related to compliance with the City Manual and City policies with respect to the payment receipts. The procedures performed for this project do not constitute an audit under government auditing standards.

We appreciate the cooperation of Engineering Division management and staff. Please feel free to give us a call if you have questions or concerns.

Sincerely,


Marion Tucker, CFE, CICA
Auditor-in-Charge


Catrina McCollum, CFE, CICA
Project Manager

APPROVED:


Leon Pattman, CIA, CISA, CRMA, CMFO
City Auditor

- c: A C Wharton, Jr., Mayor
George M. Little, Chief Administrative Officer
Brian Collins, Director, Finance Division
Manny Belen, Deputy Director, Engineering Division
John Stevenson, Land Developer/Budget Administrator, Engineering Division
John Walko, Manager, Signal Maintenance and Construction, Engineering Division