

CITY OF PHILADELPHIA PENNSYLVANIA

OFFICE OF THE CONTROLLER

Promoting honest, efficient, and fully accountable government

**PERFORMANCE AUDIT
OF THE CITY OF PHILADELPHIA
CASH MANAGEMENT PROGRAM**

JUNE 2012



City Controller
ALAN BUTKOVITZ



CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER
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ALAN BUTKOVITZ
City Controller

GERALD V. MICCIULLA
Deputy City Controller

August 1, 2012

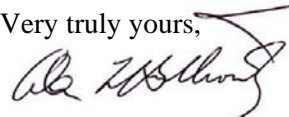
Mr. Rob Dubow, Director of Finance
Office of the Director of Finance
1401 John F. Kennedy Boulevard
Room 1330, Municipal Services Building
Philadelphia, PA 19102

Dear Mr. Dubow:

The Office of the Controller commissioned and oversaw a performance audit, conducted by the accounting firm of Shechtman Marks Devor PC, of the City of Philadelphia's cash management program. The purpose of this audit was to review procedures for the collection, disbursement, and investment of City funds to identify opportunities to increase the amount of cash available for investing and maximize investment earnings. This review was conducted pursuant to Section 6-400 (d) of the Home Rule Charter, and the results of the independent accountant's review are summarized in the executive summary attached to this report.

We discussed the findings and recommendations with you and your staff at an exit conference and included your written response to the independent accountant's findings in Section II of the report. Our evaluation of your response is contained in Section III of the report. We believe the recommendations in the attached report, if implemented, will improve the city's cash management procedures.

We would like to express our thanks to you and your staff, as well as the staffs of the Department of Revenue and the Office of the City Treasurer, for the courtesy and cooperation displayed during the conduct of our work.

Very truly yours,

ALAN BUTKOVITZ
City Controller

cc: Honorable Michael A. Nutter, Mayor
Honorable Darrell L. Clarke, President
and Honorable Members of City Council
Members of the Mayor's Cabinet
Keith J. Richardson, Revenue Commissioner
Nancy Winkler, City Treasurer



PERFORMANCE AUDIT OF THE CITY OF PHILADELPHIA CASH MANAGEMENT PROGRAM

EXECUTIVE SUMMARY

Why The Controller's Office Conducted the Examination

The Controller's Office engaged Shechtman Marks Devor PC (SMD) to conduct a performance audit of the City of Philadelphia's cash management program. The objective of this audit was to review current procedures for the collection, disbursement and investment of City funds in order to identify (1) opportunities to increase the amount of cash available for investing and (2) ways to maximize investment earnings.

What The Controller's Office Found

Some of the more significant observations are listed below. We believe these conditions, and others described in the report, warrant the immediate attention of management.

- The Office of the City Treasurer's (Treasurer's Office) decisions about the City's consolidated cash account, particularly with respect to idle cash not invested, needed to be documented. Treasurer's Office personnel were unable to provide (1) formal procedures detailing the process for calculating each day's uninvested cash balance, (2) documentation showing how daily calculations were made, and (3) evidence of supervisory review of daily cash decisions. Also, Treasurer's Office personnel stated they lacked tools which would enable them to properly forecast cash inflows and outflows for daily and long-term investment purposes. From July 2010 through August 2011, idle funds not invested ranged from \$32 million to as high as \$220 million. While Treasurer's Office personnel asserted that these uninvested cash balances earned credits which offset bank fees and the investment fees would have exceeded any investment earnings on these monies, they could not provide any analysis to support this assertion.
- The Treasurer's Office needed to improve its monitoring of bank fees incurred by the City, which in fiscal year 2011 totaled over \$1 million. Specifically, SMD noted (1) bank fees were not accounted for separately in the City's accounting system in order to identify the aggregate amount of fees incurred; (2) the City did not have formal contracts with banks for fee charges to ensure that the City received the best rates; and (3) the Treasurer's Office did not periodically review bank fee charges to verify their accuracy.
- The Department of Revenue (Revenue Department) did not always timely process and deposit incoming mail receipts. During fiscal year 2011, twenty percent of mail collections were deposited more than a week after receipt, with the longest time lags noted during the City's peak tax collection period from January through May. This condition appeared to result from workspace limitations and outdated payment processing equipment. In addition, deposit time lags were more pronounced for individual and business taxes for which there was no mandatory electronic payment requirement.

What The Controller's Office Recommends

To improve controls over the City's consolidated cash funds, the Treasurer's Office should establish formal procedures for the calculation of daily balances not invested, which require documentation of this calculation and evidence of supervisory review. Also, Treasurer's Office personnel should be provided with the necessary budgeting tools to enable them to forecast cash inflows and outflows for daily and long-term investment purposes. To strengthen its monitoring of bank fees, the Treasurer's Office should obtain contracts with the banks for fee charges and then perform monthly comparisons of actual fees charged to contracted rates. To decrease deposit time lags, the Revenue Department should obtain additional workspace for the processing of mail collections during peak times, upgrade payment processing equipment, and extend the mandatory electronic payment filing to the tax types not currently subject to the requirement. These and other proposed actions are more fully described in the findings and recommendations section of the report.

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MANAGEMENT'S RESPONSE II

**CONTROLLER'S OFFICE EVALUATION OF MANAGEMENT'S
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SECTION I

INDEPENDENT ACCOUNTANT'S REPORT

Performance Audit
of the
City of Philadelphia
Cash Management Program
June 2012

Performance Audit of the Cash Management Program
City of Philadelphia

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Alan Butkovitz
City Controller
1230 Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102-1679

Dear Mr. Butkovitz:

This report contains the results of the performance audit of the City of Philadelphia's Cash Management Program. The report addresses current city procedures for the collection, disbursement and investment of City funds and highlights areas that could improve cash management. The audit covered the period from July 1, 2010 to June 30, 2011, with selected testing through September 2011.

This audit was conducted as a result of a request for proposals by the City of Philadelphia Office of the Controller. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The scope of this audit was limited to the areas as outlined in the project, scope and methodology section of this report and as agreed upon with the Office of the Controller.

Our audit found that current city procedures for the collection, disbursement and investment functions could be improved to increase the amount of cash the City has available to invest. We offer 18 recommendations to address identified findings and strengthen the City of Philadelphia's policies and procedures over cash management in regards to the collection, disbursement and investment of funds. We suggest that these recommendations be implemented immediately.

This assessment of the City of Philadelphia's cash management practices and policies could not have been completed without the cooperation and support of the Office of the Controller, Office of the Director of Finance, Department of Revenue, and Office of the City Treasurer.

Thank you for allowing Shechtman Marks Devor PC the opportunity to work with the Office of the Controller on this important engagement.

June 2012

Performance Audit of the Cash Management Program
City of Philadelphia
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Summary of Results

Objectives of Audit

The Office of the City Controller engaged Shechtman Marks Devor PC to conduct a performance audit of the City of Philadelphia's cash management program. The audit's objectives were to identify (1) opportunities to increase the amount of cash available for investing and (2) ways to maximize investment earnings.

Overview of Conditions Found

Our audit identified several deficiencies in the City's collection, disbursement, and investment functions that hindered its ability to increase cash available for investing and maximizing earnings. As more fully described in the body of the report, the following conditions exist:

- The Department of Revenue (Revenue Department) did not always timely process and deposit incoming mail receipts. During fiscal year 2011, twenty percent of mail collections were deposited more than a week after receipt, with the longest time lags noted during the City's peak tax collection period from January through May. This condition appeared to result from workspace limitations and outdated payment processing equipment. In addition, deposit time lags were more pronounced for individual and business taxes for which there was no mandatory electronic payment requirement.
- The City may not be maximizing its use of electronic funds transfer (EFT) for disbursements since no analysis of the City's use of EFT for this area could be provided. Such an analysis would assist City management in determining whether the City is incurring higher than necessary bank fees by not paying via EFT and missing opportunities for vendor discounts.
- The Office of the City Treasurer (Treasurer's Office) needs to better monitor bank fees incurred by the City, which in fiscal year 2011 totaled over \$1 million according to bank statements. Specifically, we noted (1) bank fees were not accounted for separately in the City's accounting system in order to identify the aggregate amount of fees incurred; (2) the City did not have formal contracts with banks for fee charges to ensure that the City received the best rates; and (3) the Treasurer's Office did not periodically review bank fee charges to ensure that the City was being charged correctly.

Performance Audit of the Cash Management Program
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Summary of Results (continued)

- Treasurer's Office decisions about the City's consolidated cash account, particularly the idle cash not invested, needed to be documented. While the Treasurer's Office indicated that it monitors consolidated cash account balances, it provided no evidence of formal procedures detailing the process for calculating each day's uninvested cash balance, lacked evidence showing that daily calculations were made, and did not require a documented supervisory review of daily cash decisions. In addition, Treasurer's Office personnel informed us that they lacked tools which would enable them to properly forecast inflows and outflows of cash for daily and long-term investment purposes. From July 2010 through August 2011, idle consolidated cash balances not invested ranged from \$32 million to as high as \$220 million. While Treasurer's Office personnel asserted that these uninvested balances earned credits which offset bank fees and the investment fees would have exceeded any investment earnings on these monies, they could not provide any analysis to support this assertion.
- The Treasurer's Office oversight of the City's investments required improvement. With no minutes maintained of the Treasurer's Office required quarterly meetings with the City's investment managers, we were unable to determine whether the Treasurer's Office had performed adequate monitoring of the investment managers' decisions and performance.

Summary of Recommendations

We offer several recommendations to City management for improving cash management procedures. Some of the more significant include: (1) obtain additional workspace for the processing of mail collections in the Revenue Department during peak times and upgrade payment processing equipment to decrease deposit time lags; (2) extend the mandatory electronic payment filing to the tax types not currently subject to the requirement; (3) perform an analysis of the City's use of EFT for disbursements to identify potential savings opportunities; (4) obtain contracts with the banks for fee charges and then perform monthly comparisons of actual fees charged to contracted rates; (5) establish formal procedures for the calculation of daily consolidated cash balances not invested, which require documentation of this calculation and evidence of supervisory review; and (6) provide the Treasurer's Office with the budgeting tools needed to forecast cash inflows and outflows for daily and long-term investment purposes. These and other recommendations are discussed more fully in the body of the report.

Performance Audit of the Cash Management Program
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June 2012
Project scope and methodology

Project scope

Our project scope included the following:

1. A review of the Revenue Department's procedures for processing mail remittances with a focus on how long it takes the department to deposit checks after it receives them as well as the reasons for any significant delays noted.
2. A review of City's use of EFT mechanisms for both receiving and disbursing funds to identify ways for the City to effectively increase its use of these mechanisms and thus generate more positive cash flow.
3. A review of the bank fees and charges paid by the City, including whether the City has instituted procedures to ensure obtaining the best rates and to check the accuracy of charges.
4. A review of the effectiveness of the Treasurer's Office in maximizing funds available for investment while still meeting daily disbursement requirements.

To accomplish our audit objectives, we examined procedures and records for the period July 1, 2010 through June 30, 2011 unless otherwise stated in our report. Our audit fieldwork was performed between July 2011 and October 2011.

Audit methodology

In order to conduct the detail review of the City's cash management practices, Shechtman Marks Devor PC (SMD) gathered information from a variety of sources using several approaches and methodologies, including:

- **Performance audit standards**

In the execution of the performance audit, SMD followed generally accepted *Government Auditing Standards* issued by the Comptroller General of the United States "Yellow Book" and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

- **Structured interviews with key management and staff**

SMD interviewed fifteen key management and staff in the Revenue Department, the Office of the Director of Finance's (Finance Office's) Budget Bureau, and the Treasurer's Office to gain an understanding of the operational policies and procedures surrounding the cash receipts, cash disbursements and investment functions. These interviews permitted a top-down understanding of the various elements involved in the flow of cash from collections to disbursement and/or investment.

Performance Audit of the Cash Management Program
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Project scope and methodology (continued)

Audit methodology (continued)

- **Review of the EFT mechanisms in use**

SMD identified the EFT mechanisms currently in use to handle the receipt and disbursement of funds in order to offer recommendations that would provide opportunities to generate more positive cash flow.

- **Observation and walk-throughs**

After obtaining an understanding of the key policies and procedures in place, SMD observed the execution of such by “walking-through” the systems in order to corroborate its understanding through inquiry with what is actually taking place, to identify areas where there may be opportunities for improvements in accelerating cash flow and maximizing investment earnings.

- **Review of financial data, bank statements, and other documents**

SMD reviewed city financial data, investment policies, bank statements, cash flow forecasts, and collection and handling processes.

- **Analysis of time lag for collections**

SMD obtained the fiscal 2011 population of tax and water/sewer collections¹, which are the principal revenues collected directly by the Revenue Department. These collections were analyzed to determine which had the greatest time lag between postmark date and deposit date in order to determine areas with the greatest potential for improvement. Other revenue sources such as locally generated non-tax revenues and grant revenues, which are collected primarily by other city agencies, were not included in our testing. Additionally, SMD performed a test of controls over the recording of the postmark and deposit date in order to rely on the results of our data analysis. Our test of controls showed no exceptions.

- **Review of bank fees and charges paid**

SMD obtained bank statements and fee invoices for the three major banks used by the City and compiled an aggregate list of bank fees by type of charge. SMD made inquiries of Treasurer’s Office personnel as to the department’s procedures to ensure obtaining the best rates and to check the accuracy of charges.

¹ The collection data was extracted by the Office of the Controller from the payment files generated by Revenue’s Payment Processing Unit as well as Revenue’s Taxpayer Inquiry and Payment System (TIPS).

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Project scope and methodology (continued)

Audit methodology (continued)

- **Investment policy and idle funds review**

SMD reviewed the current investment policy as well as the daily bank balances to determine the amount of cash being held idle (uninvested) and to understand how the City was managing its investments while still meeting daily disbursement requirements.

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Constraints and limitations

Constraints and limitations present special factors that should be considered in the interpretation of audit results. Key considerations include the following:

- The controls-review centered on selected controls within the collections process; SMD did not perform a detailed controls review of all areas.
- SMD performed direct observations and walk-throughs, and collected data, records, and documents from City staff. While these sources of information were reviewed for reasonableness and checked against other financial documents, it was not within the scope of our audit to validate all secondary sources of information.
- SMD's review covered the Revenue Department's collections of tax and water/sewer revenues. SMD's assessment of these collections may not be applicable to collections by other City agencies not included in our testing.

Other constraints and limitations may be noted throughout the report as necessary.

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Findings and Recommendations

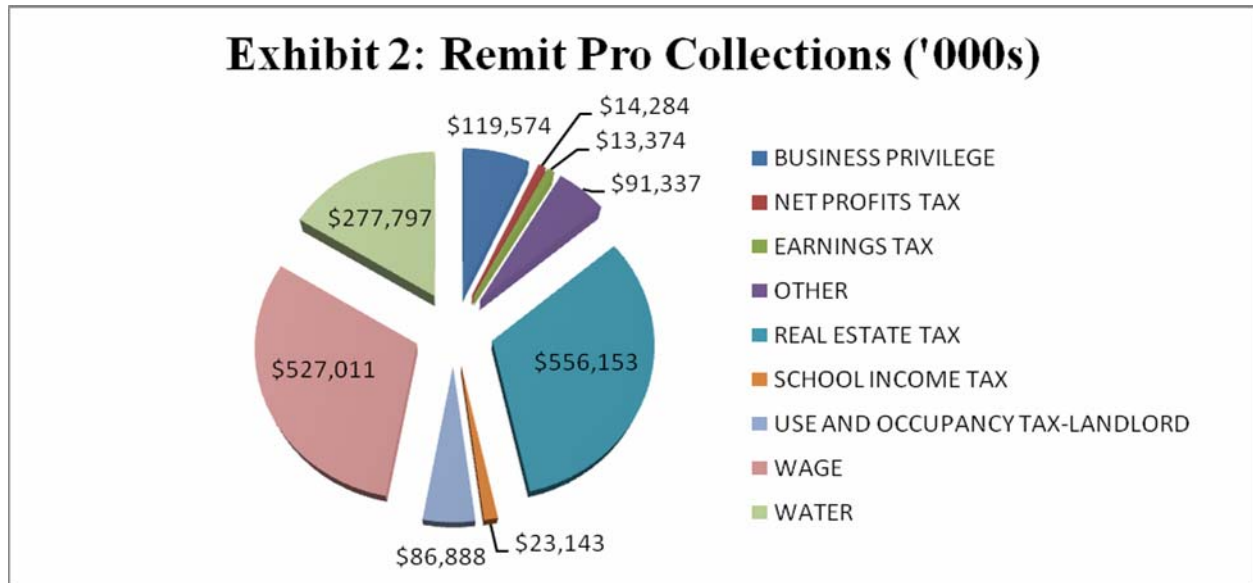
Finding No. 1 – Mail receipts processed by the Revenue Department were not being deposited timely during certain times of the year.

In fiscal year 2011, the Revenue Department collected over \$3.5 billion in tax and water/sewer revenues. Several Revenue Department units received these collections, which ranged from company wage and income taxes to individual water payments and were submitted by cash, check or electronic payments. The Revenue Department's Remittance Processing Unit (Remit Pro), responsible for mail receipts, processed approximately 48% of the Revenue Department's collections during fiscal year 2011, as shown in Exhibit 1 below.

Exhibit 1: Total Collections by Method (in millions)

| Collection Method | FY 2011 Actual | Percentage of total receipts |
|---|----------------|------------------------------|
| Remit Pro | \$ 1,709 | 48% |
| Electronic funds transfers | 1,156 | 33% |
| Bulk requestors / collection agencies / other | 444 | 12% |
| Municipal service building cashiers | 196 | 6% |
| Satellite offices | 44 | 1% |
| Total City receipts | \$ 3,549 | 100% |

Exhibit 2, below, shows the dollar volume by type of tax collected and processed by Remit Pro during fiscal year 2011.

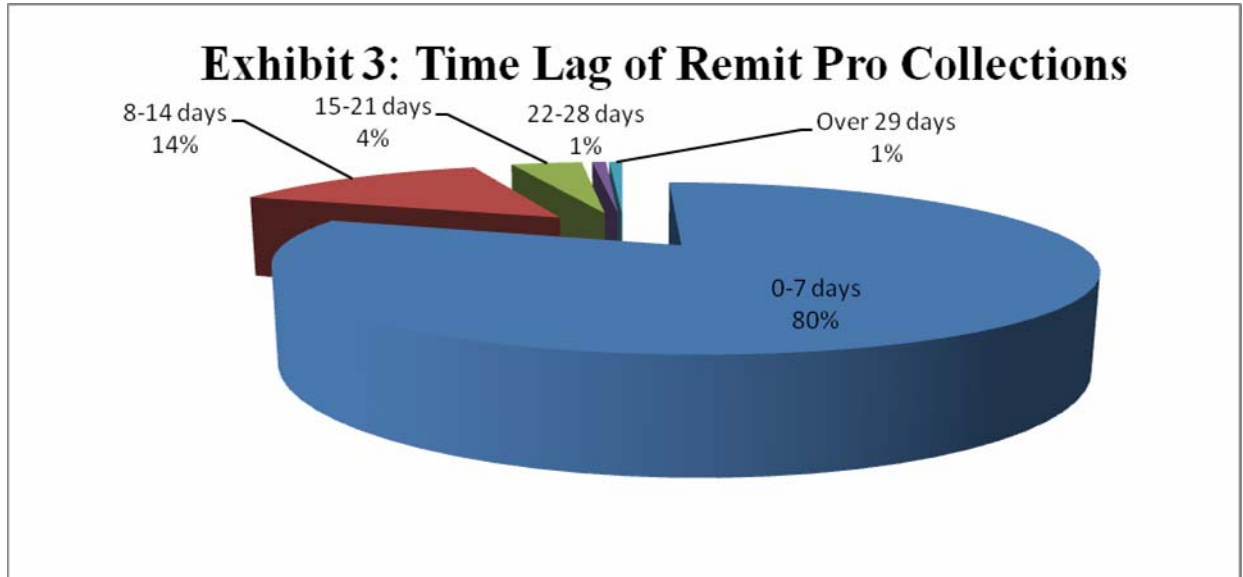


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Findings and Recommendations (continued)

Finding No. 1 (continued)

Through our analysis of collections through Remit Pro, there was a time lag of several days, or even weeks, in depositing collections. Exhibit 3, below, provides a general breakdown.

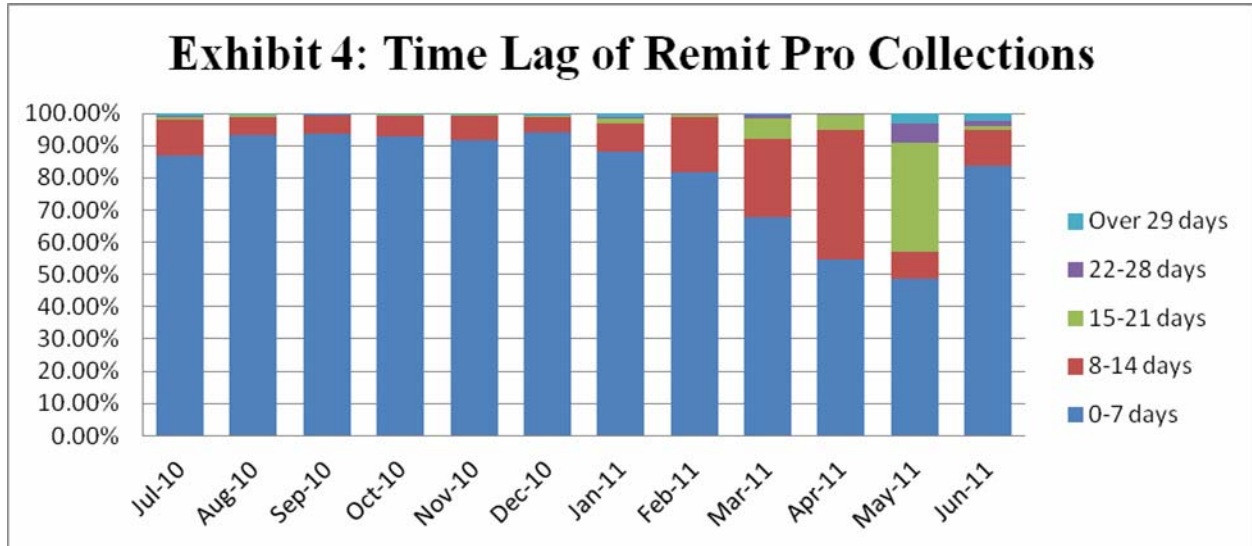


The flow of collections is as such: incoming mail is transmitted directly from the Post Office to the Incoming Mail Unit in batches. From there, the batches are divided between those with and without exceptions. Examples of exceptions include when a remittance is missing a payment coupon and/or an account number. Additionally, any payments with interest and penalties or hand-written water bills must be processed manually as the system cannot process them automatically. Those without exceptions go straight to Remit Pro and from there to Cashiering/Settlement Processing and then to the bank. Those with exceptions go to Exception Processing where they are delayed on average for three to five days until the exception is resolved. From there they go back to Remit Pro and on to Cashiering and on to the bank. Exception Processing can have a delay of up to a month resolving issues during the heavier collection period, which runs from the end of January to May.

Performance Audit of the Cash Management Program
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Findings and Recommendations (continued)

Finding No. 1 (continued)

The current solution is the employment of a second shift during the heavy collection months from the end of January to May, (refer to Exhibit 4 below), to help with the inflow of mail.



The two shifts during this time are 6am to 2:30pm and 10am to 6pm. The shifts operate in the larger central area in the processing room which provides slightly more room for the staff to work. However, this approach is not sufficient to manage the high inflow of mail. Employees are given separate work stations and not able to work in groups; the lack of adequate work space prevents them from working effectively.

Additional employees would not solve the problem though without also addressing the issue of the old encoding equipment within Cashiering, which results in numerous errors during processing and higher bank fees. As the age of the equipment is advanced, there is also no effective internal or external support or service for the technology, creating additional time delays.

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Findings and Recommendations (continued)

Finding No. 1 (continued)

The Revenue Department does not have an advanced software system allowing them to image checks upfront and deposit them immediately. Instead, a check cannot be deposited until the exception has been resolved. Exceptions can only be resolved through the step of preparing and printing of manual coupons. Neither the Cashiers' nor Remit Pro have the ability to simply enter the information into the system; image all information and deposit checks immediately. Customer service and bank fees are also negatively impacted as the current method of resolving a taxpayer question is to request a copy of the cancelled check from the bank; the Revenue Department is not able to retrieve a copy internally once the check has been deposited.

Recommendation No. 1.1

We recommend a larger work space with a central room that would allow the Department to house 30 to 50 people during the peak times enabling them to address exceptions and process collections on a more timely basis.

Recommendation No. 1.2

We recommend purchasing new or additional encoding equipment to increase productivity.

Recommendation No. 1.3

We recommend the installation of Leading Edge software to enable the imaging of checks in Remit Pro and at the cashiers' window, allowing deposits and exceptions to be processed faster and customer services to be improved.

Finding No. 2 – The City does not require all taxes over a certain amount be filed electronically, creating backlogs and time lags.

The use of Electronic Funds Transfer (EFT) for collections is an important method of enhancing cash management. Timely receipts enable the City to maximize available cash and minimize deposit time lag, costly overdraft fees, and time consuming bank reconciliation requirements. The City has in place the following EFT collection mechanisms: Automated Clearing House ("ACH") credits, ACH debits, credit card payments and e-checks. ACH transactions are electronic transfers from one bank account to another. ACH credits are generally used by payroll processing companies and large businesses to remit taxes in batches; ACH debits are generally used by individuals and small businesses to remit taxes on a payment-by-payment basis.

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Findings and Recommendations (continued)

Finding No. 2 (continued)

As shown above in Exhibit 1, approximately 33% of total collections in fiscal year 2011 were through EFT mechanisms: 63% ACH credits, 36% ACH debits, 1% credit cards, and less than 1% e-checks. These collections were generally received within a few days with a time lag of one day for ACH credits and debits, two days for credit card collections (excluding American Express) and e-checks, and three days for American Express collections.

The City has attempted to increase the use of its EFT mechanisms, including credit card payments and e-checks. Effective January 1, 2011, businesses that remit an average of \$20,000 or greater per month for Wage, Amusement, Parking, Vehicle Rental, Hotel, Liquor, Valet Parking, or Outdoor Advertising Taxes were required to remit tax payments electronically through ACH credit or ACH debit. Revenue Department officials informed us that the threshold was subsequently lowered to \$15,000 per month. The current threshold amount, which became effective January 1, 2012, is \$10,000 per month.

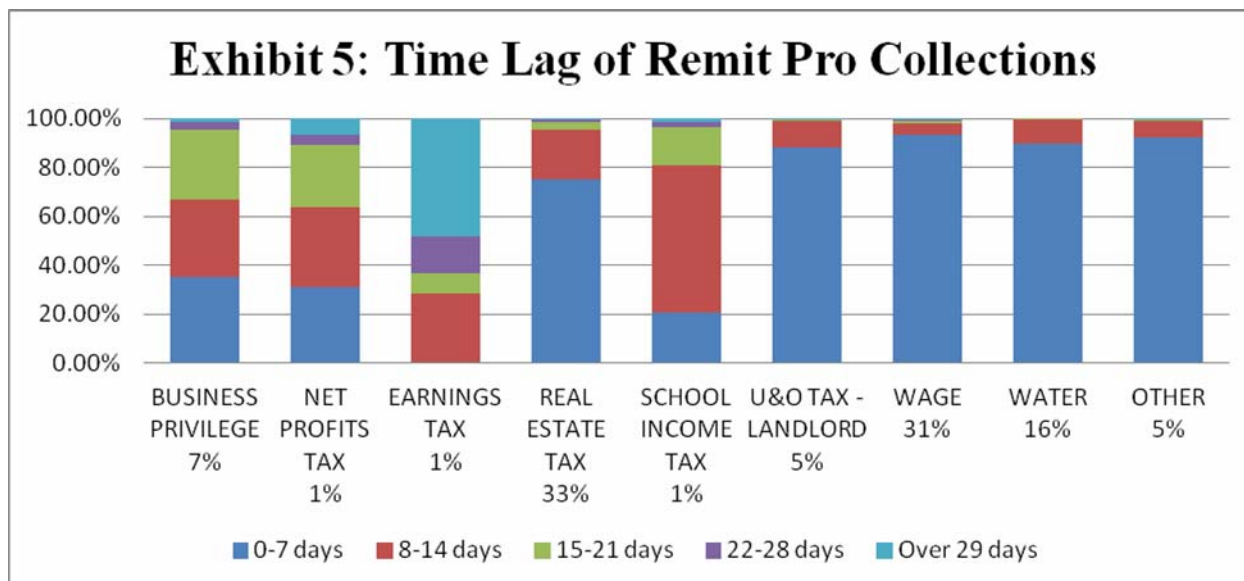
At the time of our testing in October 2011, there was no mandatory electronic payment filing for individual taxes, such as Earnings Tax and School Income Tax; for business taxes the requirement was being phased in stages. The business taxes currently required to be transmitted electronically over the established levels, as noted earlier, were Wage, Amusement, Parking, Vehicle Rental, Hotel, Liquor, Valet Parking and Outdoor Advertising Taxes. Business Privilege Tax and Net Profits Tax were not yet included in this list due to the initial phases including monthly taxes only. Additionally, the City did not have the ability to accept all types of taxes electronically, such as the Use and Occupancy Tax.

As shown below in Exhibit 5, time lags were more pronounced in individual taxes and business taxes for which there was not a mandatory electronic payment requirement, such as the Business Privilege Tax, Net Profits Tax, Earnings Tax, and School Income Tax.

Performance Audit of the Cash Management Program
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Findings and Recommendations (continued)

Finding No. 2 (continued)



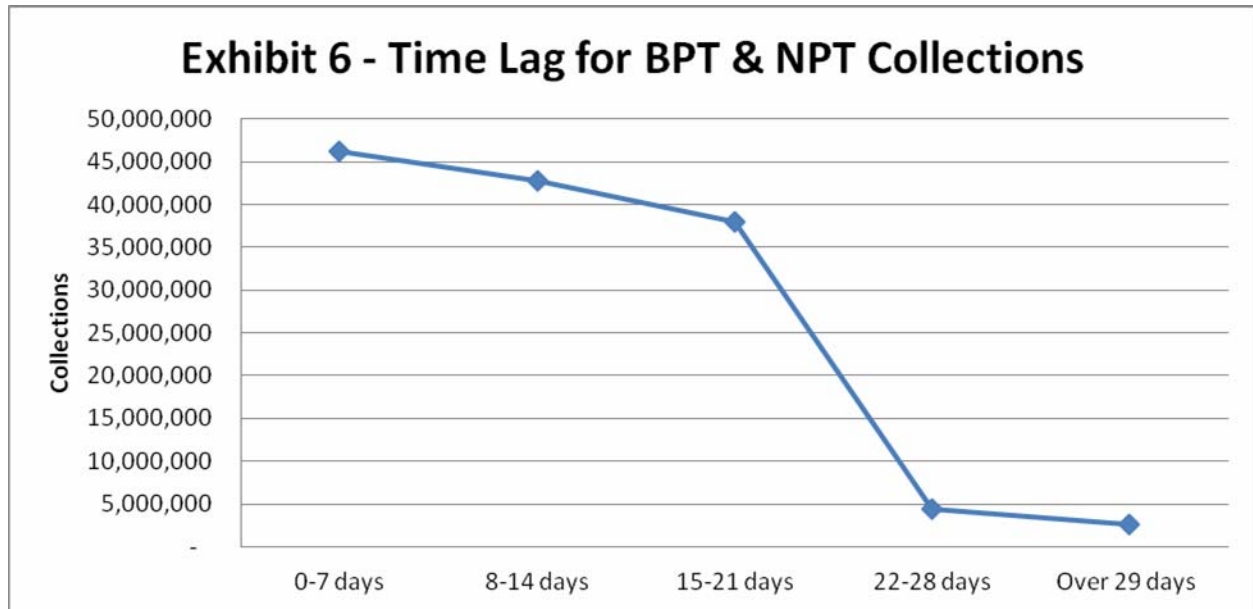
At certain times of the year when business tax payments are due, a large volume of payments for Business Privilege Tax (BPT) and Net Profits Tax (NPT) are delayed in the Incoming Mail Unit waiting to be sorted and sent to the appropriate place within the Revenue Department: Exception Processing, Remit Pro, or Cashiering. These payments can take time to open and process due to the manual nature of having to physically place different sized envelopes in the extracting equipment and remove the contents. During our walkthrough of the mail room on September 28, 2011, we noted an estimated eight days backlog of unprocessed receipts due to the tax filing deadlines.

BPT and NPT are two business taxes not required to be filed electronically and comprised approximately \$133 million, or approximately 8%, of the fiscal year 2011 collections processed through Remit Pro.

As shown below in Exhibit 6, of this total amount, approximately \$47 million was deposited within seven days, approximately \$43 million within 8 to 14 days, approximately \$37 million within 15 to 21 days, approximately \$4 million within 22 to 28 days and approximately \$3 million not deposited until after 29 days of the postmark date. In aggregate for all taxes, these delays translate to lost earning opportunities.

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Findings and Recommendations (continued)

Finding No. 2 (continued)



Requiring individual and business taxpayers to use EFT for BPT and NPT payments could result in fewer instances of taxpayer checks returned without payment, for which the City incurred fees totaling approximately \$63,000 in fiscal year 2011.

Recommendation No. 2.1

We recommend that the Revenue Department extend the mandatory electronic payment filing to the tax types not currently subject to the requirement. This change should be implemented effective January 1, 2013, with early adoption preferred to address this issue.

Finding No. 3

Drop boxes were not emptied according to procedures at the North Philadelphia satellite location.

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Findings and Recommendations (continued)

Finding No. 3 (continued)

Drop boxes are present at the Municipal Services Building and the two satellite locations in North Philadelphia and Northeast Philadelphia. These drop boxes assist the taxpayer who needs same day credit to his or her account without the burden of waiting in line at the cashiering station. According to procedures, drop boxes are expected to be emptied three times a day on a set schedule with the contents processed the same day as received. At the satellite locations, which send their daily deposits to the Municipal Services Building's cashiering unit early in the morning, the cashiers are supposed to batch and send any unprocessed drop box receipts with their daily deposits. They should not be held to process during the day.

During our walkthrough at the North Philadelphia location on September 30, 2011, we learned drop boxes were only being emptied once a day, first thing in the morning, and the contents were not sent to the Municipal Services Building to be deposited until the following morning, creating an automatic two day time lag. We believe this issue exists mainly because no manager is onsite at this location.

Recommendation No. 3.1

We recommend a manager of the Revenue Department monitor satellite locations to ensure that drop box procedures are being followed according to policy.

Finding No. 4

The City may not be maximizing its use of EFT for disbursements.

EFT is a payment solution that involves directly exchanging funds between two bank accounts saving time and money. Funds can be distributed to any individual or business account quickly, automatically, electronically and economically.

Some benefits of EFT can include:

- Reduced costs associated with check production and reconciliation
- Reduced postage and/or distribution expenses
- Decreased staff time spent on administration
- Increased accuracy through electronic banking
- Enhanced cash flow forecasting by scheduling disbursements to be paid only when due
- Greater internal controls over accounts payable
- Increased potential vendor discounts

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Findings and Recommendations (continued)

Finding No. 4 (continued)

At the time of our review, the City was using EFT for pension payments, vendor payments and payroll. The use of manual checks for disbursements contributed to higher account reconciliation fees, which totaled approximately \$52,000 in fiscal year 2011. The Treasurer's Office asserted it was difficult to increase the use of electronic payments as vendor payments typically include a high volume of one-time checks and they are prohibited from requiring union employees to enroll in direct deposit. Through the end of our fieldwork the Treasurer's Office was unable to provide an analysis of the City's use of EFT for disbursements.

Recommendation No. 4.1

We recommend the City perform an analysis of its use of EFT for disbursements to develop a performance measure of the optimal percentage of payments made through electronic versus manual means. This analysis should include assessing whether the City is incurring higher than necessary bank fees and missing opportunities for vendor discounts. At the exit conference, Finance Office management informed us that none of the City's contracts with its vendors contained an early payment discount provision. We recommend that the City consider including such a provision in future vendor contracts.

Finding No. 5

Bank fees and credits offset against these fees were not accounted for separately in the general ledger in order to identify the aggregate amount of fees incurred and credits earned.

According to bank statements that we examined, the City incurred approximately \$1.045 million in fees to three main banks². Per discussion with the Treasurer's Office, daily balances left uninvested in the Consolidated Cash Account earn credits which can then be used to offset certain bank fees. These credits are earned as an alternative to interest income. As bank fees incurred and credits earned were not tracked separately within the general ledger system, it was not possible to verify what percentage of fees was tested during this audit or verify the amount of fees offset by credits. However, Treasurer's Office personnel asserted that these banks encompassed the majority of fees incurred and that approximately \$710,000 in fees were offset by credits earned. Our analysis showed an overall fee structure as presented in Exhibit 7 below:

² Fee amount of \$1.045 million does not include fiscal agent fees.

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Findings and Recommendations (continued)

Finding No. 5 (continued)

Exhibit 7 – Fees Incurred to Three Major Banks for Fiscal Year 2011

| Banking fees | Amount |
|-----------------------------|--------------|
| ACH fees | \$ 215,000 |
| Encoding deposited Items | 176,000 |
| Various depository services | 188,000 |
| Returns | 63,000 |
| Brinks armored car service | 60,000 |
| Information services | 56,000 |
| Lockbox | 55,000 |
| Account reconciliations | 52,000 |
| Wire transfer fees | 39,000 |
| Controlled disbursements | 35,000 |
| Account maintenance | 34,000 |
| Imaging | 31,000 |
| Integrated payables | 21,000 |
| FDIC assessment charge | 20,000 |
| Total fees charged | \$ 1,045,000 |

Recommendation No. 5.1

We recommend the City properly record credits earned and bank fees incurred within the general ledger system as separate revenue and expense line items.

Finding No. 6

Bank fees were not analyzed and compared to fee arrangements to ascertain they are being charged correctly.

As noted previously, SMD reviewed the fees charged by three major banks. We found the nature and classification of fees difficult to understand and were not able to gain comfort that the City was being charged the proper amounts. Treasurer's Office personnel asserted that they also found the fees complicated and confusing and, at the time of our review, indicated they were in the process of obtaining a consultant to ascertain they are being charged the correct amounts and receiving the best rates.

Performance Audit of the Cash Management Program
City of Philadelphia
June 2012

Findings and Recommendations (continued)

Finding No. 6 (continued)

Recommendation No. 6.1

We concur with the Treasurer's Office decision of engaging a consultant to better understand the bank fees. Alternatively, the Treasurer's Office may want to obtain the appropriate training so that decisions about bank fees and charges can be done in-house. We also recommend a spreadsheet be kept of all fees charged per month and by bank to better assess the fees being charged. This spreadsheet should be reviewed monthly for any unusual charges and tied into the general ledger as recommended above.

Finding No. 7

Bank fees were neither contracted upon at agreed upon best rates nor compared to industry averages of fees paid by municipalities for reasonableness.

As of June 30, 2011, the City did not have any signed contracts with banks as to fee arrangements.

Recommendation No. 7.1

We recommend the City obtain contracted banking fee arrangements and once obtained, compare to the bank charges incurred.

Recommendation No. 7.2

We recommend a representative from the Treasurer's Office obtain membership in the Association for Financial Professionals (AFP), which would provide access to industry averages by geographical region for comparison. The City should work with their banks to obtain bank statements with AFP codes. These codes can then be used to better analyze the fees that the City is incurring.

Finding No. 8

As noted above, the Revenue Department does not have an advanced system enabling electronic deposits. Instead, the cash and check collections are bundled and sent by armored cars for daily deposits. In fiscal year 2011, the City paid approximately \$60,000 on Brinks Armored Car Service fees.

Performance Audit of the Cash Management Program
City of Philadelphia
June 2012

Findings and Recommendations (continued)

Finding No. 8 (continued)

Recommendation No. 8.1

With regard to cash collections, we recommend the City consider using Safe Vantage solution, a “Virtual Vault”, instead of daily armored pickup of deposits. A virtual vault provides provisional daily credits of deposits without physical pickups of cash. A safe would be installed within the Revenue Department which accepts deposits, provides a final count of all cash deposited and transmits that information to the bank that day. Cash flow is accelerated with faster access to working capital; bank fees are reduced with decreased armored car services and account reconciliation fees and employees can focus on other business needs and spend less time handling cash and preparing deposits.

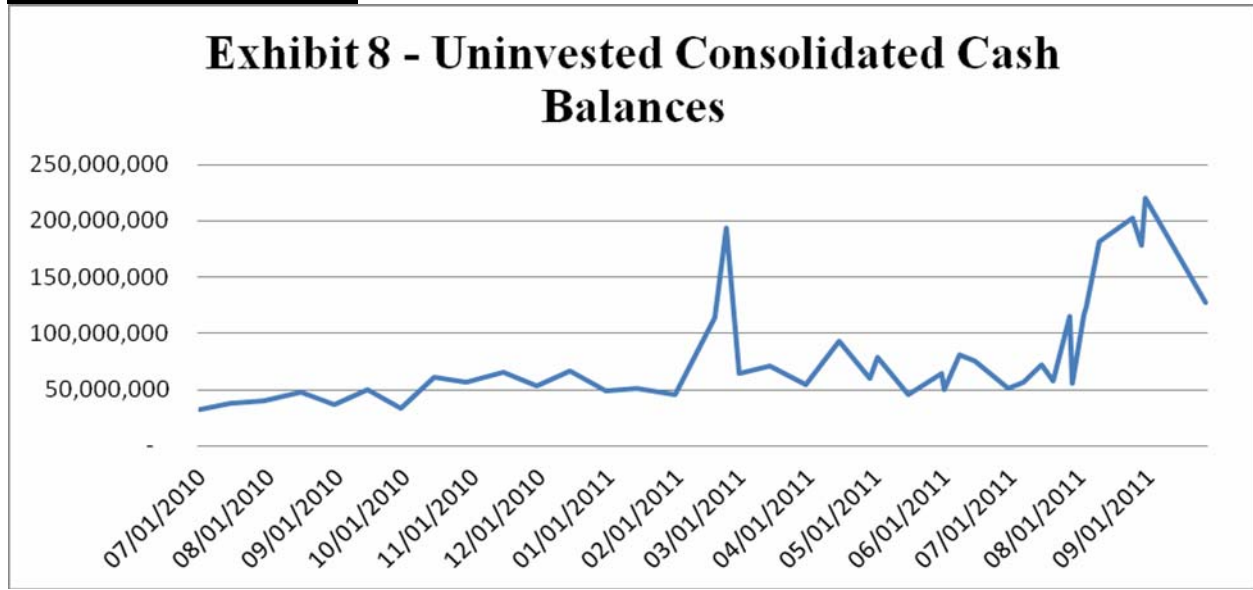
For check collections, we recommend the City consider using an Electronic Deposit service (also known as Check 21). Check 21 allows a customer to transmit check images (for example, using a scanner) to the bank rather than physically transporting the paper checks for deposit. This service would allow the City to make deposits from any business location directly into its account, regardless of whether there is a physical bank location in the geographical area. With Electronic Deposit, the City would be able to consolidate banking relationships to get the services it wants, saving on account maintenance and reducing account reconciliation time. Certain banks have electronic check clearing agreements with the Federal Reserve Bank and other financial institutions enabling checks to clear faster and resolve returned items quicker. The Returned Item Image service would allow images to be viewed and redeposit online in real time. Additionally, the returned items suite of services would allow the City to strategically redeposit returns for improved collection, such as redeposit on the 1st or 15th day of the month.

Finding No. 9

Decisions about consolidated cash account balances, particularly the idle cash not invested, need to be documented. As shown below in Exhibit 8, idle consolidated cash balances not invested ranged from a low of \$32 million in July 2010 to a high of \$220 million in August 2011. As of September 27, 2011, the balance was approximately \$127 million. While Treasurer’s Office personnel asserted that these uninvested balances earned credits which offset bank fees and the investment fees would have exceeded any investment earnings on these monies, they could not provide any analysis to support this assertion.

Performance Audit of the Cash Management Program
City of Philadelphia
June 2012
Findings and Recommendations (continued)

Finding No. 9 (continued)



The flow of decision making for determining the amount of consolidated cash to leave uninvested is as such: each morning a Treasurer's Office employee responsible for managing the consolidated cash balance receives the Consolidated Deposit report from the prior day and reconciles it to the bank reports. Next he computes what expenses will post to the bank that day based on his knowledge of the accounts payable and payroll systems, arriving at an ending balance which he then communicates to the account broker and others in the Treasurer's Office, to decide amounts to either be invested or remain in the consolidated cash account. Per Treasurer's Office personnel, for a period of time, the amount of consolidated cash funds not invested was based partly on earning credits to avoid bank fees; however, in 2011 the balances remained uninvested on the notion that they would incur more in investment fees than earn in investment income.

There were several deficiencies we identified with these procedures:

- There were no formal written procedures detailing the process for daily cash investment decisions, including how each day's uninvested consolidated cash balance was calculated.
- The Treasurer's Office did not document daily cash calculations.

Performance Audit of the Cash Management Program
City of Philadelphia
June 2012

Findings and Recommendations (continued)

Finding No. 9 (continued)

- There was no evidence of supervisory review of daily cash decisions.
- Treasurer's Office personnel were unable to document their assertion that the savings on unincurred bank fees were greater than the potential investment earnings.
- Only one other individual in the Treasurer's Office knew the daily cash investment decision procedure. There was no contingency plan if both individuals were absent at the same time.
- The calculation of the uninvested consolidated cash balance was made on historical data and estimates of when items were expected to clear the bank. Since the City was not investing these funds, it was not an issue, but if a more optimal investment strategy was to be pursued, the Treasurer's Office would need to employ more precise cash forecasting procedures.
- Treasurer's Office personnel asserted to us that they lacked tools which would enable them to properly forecast inflows and outflows of cash for daily and long-term investment purposes. Tools such as sensitivity analyses, stress tests and manipulation of data were not available for use or upon request. Rather, the Treasurer's Office based its investment planning on quarterly cash flow forecast reports published by the Budget Bureau. As these reports were not generated specifically for the needs of the Treasurer's Office, they were not able to generate a daily cash flow model and were hindered from achieving their investment goals.

Recommendation 9.1

We recommend the Treasurer's Office document formal policies and procedures for the calculation and management of consolidated cash, particularly the amount left uninvested.

Recommendation 9.2

We recommend the Treasurer's Office record the calculation of daily cash on a worksheet to provide an audit trail as well to enable an individual not familiar with the process to perform the job in case of an emergency. These calculations should include details as to how much was invested, how much was left uninvested, and the rationale for those decisions.

Recommendation 9.3

We recommend the Treasurer's Office perform an analysis on whether the savings on unincurred bank fees is greater than potential investment earnings in order to justify amounts retained as idle consolidated cash balances rather than investing or utilizing an overnight sweep for excess cash.

Performance Audit of the Cash Management Program
City of Philadelphia
June 2012

Findings and Recommendations (continued)

Finding No. 9 (continued)

Recommendation 9.4

We recommend the cash decisions be reviewed and documented by supervisory personnel in the Treasurer's Office on a daily basis.

Recommendation 9.5

We recommend the City Treasurer be provided with budgeting tools enabling them to properly forecast cash inflows and outflows for daily and long-term investment purposes. We recommend more communication between the City Treasurer and the Budget Bureau to further improve the cash forecasting function.

Finding No. 10

The Treasurer's Office oversight of the City's investments required improvement.

Treasurer's Office personnel asserted they had not been investing idle cash because no further investments were allowable due to the restrictions of the City investment policy and any possible return on the investments from which they were permitted to choose would be less than the fees incurred.

As reported to us by the Treasurer's Office, all consolidated cash was in non-interest bearing accounts for the following reasons: (1) the four basis points fee (.04%) charged by a certain bank to invest the money was higher than any investment income they could earn; (2) given the future uncertainty of the banking community at the time, liquid assets were a top priority to ensure the city had cash on hand to meet future obligations; and (3) the City's investment policy was too restrictive with U.S. Treasury securities being their only option, as maximum limits had been reached for corporate investments. The Treasurer's Office asserted they were working on revising the investment policy and had received from a certain bank a summary of ideas. At the time of our fieldwork we were not able to review this summary as it was still subject to internal review.

Performance Audit of the Cash Management Program
City of Philadelphia
June 2012
Findings and Recommendations (continued)

Finding No. 10 (continued)

We noted the following issue:

- Per the City's Investment Policy, meetings between investment managers and the City Treasurer should take place at least quarterly. Further there is a specified agenda which these meetings should adhere to, including items such as investment results review, appropriateness of the present portfolio, internal investment policies, performance net of fees, financial market outlooks, etc. Treasurer's Office personnel had indicated they meet with the investment managers on a quarterly basis to discuss these issues; however, at the time of our fieldwork Treasurer's Office personnel were unable to provide any documentation or minutes to support these meetings or demonstrate due diligence in monitoring the investment decisions.

Recommendation 10.1

We recommend minutes of quarterly meetings with the investment managers be prepared and retained by the Treasurer's Office to document monitoring of investment decisions.

Recommendation 10.2

We recommend the Treasurer continue working toward revising the investment policy to expand the City's choice of investment options.

SECTION II
MANAGEMENT'S RESPONSE



CITY OF PHILADELPHIA

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ROB DUBOW
Director of Finance

July 30, 2012

The Honorable Alan Butkovitz
City Controller
1230 Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102-1679

Re: Performance Audit of the City of Philadelphia Cash Management Program

Dear Mr. Butkovitz:

Thank you for the opportunity to discuss the draft report of the above-referenced audit at the exit conference held on July 9, 2012.

Prior to responding to specific findings and recommendations in your audit, I would like to point out that both the Revenue Department and the City Treasurer's Office have been working actively to improve the City's cash management processes. The Revenue Department engaged a consultant to conduct a study of its processes and systems, and, based on that study, has issued a Request for Proposals (RFP) for a state-of-the-art cashiering/payment processing system that will increase efficiencies in the workflow and employ the latest technology to allow for more timely deposit of funds. Responses were due on Friday, July 20, 2012, and we hope to award a contract in fall, 2012. In addition, the City Treasurer's Office has engaged a consultant to review all of the City's banking arrangements, review the fees associated with those arrangements, advise on best practices, and assist in developing a RFP for all City banking services so that all of the services will be under contract as the result of a competitive process that ensures the City will achieve the best rates. The new cashiering system, as well as the City Treasurer's banking consultant and subsequent RFP process, will be referred to throughout my response.

I offer the following responses to the findings and recommendations found in the Controller's audit.

Finding and Recommendation 1

Your report indicated that the Revenue Department (Revenue) was not depositing mail receipts timely during certain times of year due to various inefficiencies in the process. You recommend: a larger work space that would house 30 to 50 people during peak times, allowing them to work in groups and enabling them to address exceptions and process collections on a more timely basis; the purchase of new or additional encoding equipment to increase productivity; and installing leading edge software to enable the imaging of checks in Remit Pro and at the cashiers' window, allowing deposits and exceptions to be processed faster and customer service to be improved.

Response:

Revenue recognizes the limitations of the space and does their best to work effectively within those limitations. For the last several years, Revenue has engaged two shifts during tax season to process the annual tax returns due April 15 of each year. Over that same time period, Revenue has cut the processing time from 12 to about 4 weeks during peak times. The state-of-the-art payment processing system being acquired through the above-mentioned RFP process will limit the need to increase staff during peak tax periods; allow for more timely and efficient bank deposits at both the teller stations in MSB and the two mini city hall locations; and will include Check 21 imaging capabilities. We expect the system will enable the processing of credit card payments, as well as check, cash, and money orders. Exceptions are not a function of the system, but of the information that Revenue receives with payments, and will continue regardless of the new system. Taxpayers and water customers must send in the coupon with their check/money order in order for Revenue to apply the payments. Revenue continually tries to educate the public on how to complete the payment coupons, but when no coupon is remitted and no address or account number is on the check or money order, staff must research the taxpayer information and process the "exception." However, we hope that a new system will assist with faster processing of the exceptions.

Finding and Recommendation 2

You report that Revenue does not require all taxes over a certain amount to be filed electronically. To maximize cash and minimize deposit time lag, you recommend, effective January 1, 2013, that Revenue extend the mandatory electronic payment filing to the tax types not currently subject to the requirement.

Response:

Revenue is committed to minimizing deposit time lags and maximizing cash, as well as to exploring new ways to eliminate paper both in the form of returns and payments. As of January 1, 2011, Revenue made it mandatory that monthly payments over \$20,000 be made by electronic fund transfer (EFT). Effective January 1, 2012, the mandatory amount for electronic payments was decreased to \$10,000 monthly. Revenue would like to have a robust and user-friendly on-line filing and payment portal, similar to the Commonwealth's E-Tides system, so it could mandate electronic payment for all business taxes, including those filed and paid annually. Unfortunately, the development of such a portal may cost upwards of \$1 million. Even if the funds were available, timing required for development/testing of such a portal would not allow for completion in early 2013 in time to receive annual tax payments due then. Regarding real estate tax, roughly half of the residential property owners in the City (approximately 270,000)

have their real estate taxes paid through their mortgage companies. Revenue does not think it is wise to mandate electronic payment of real estate taxes by the other half of the residential property owners since not all will have computers with internet access or be comfortable with or have the means to pay on-line.

Finding and Recommendation 3

You find that drop boxes were not emptied according to procedures at the North Philadelphia satellite location, and you recommend that a manager of the Revenue Department monitor satellite locations to ensure that drop box procedures are being followed according to policy.

Response:

The manager at the North Philadelphia location is from another department and is generally present, even though he was not present during your walkthrough on 9/30/2011. We will continue to discuss with the supervising department the importance of following the policy with regard to drop box procedures, particularly the schedule for emptying the boxes and processing the same day.

Finding and Recommendation 4

Your report states that the City is not maximizing the use of electronic funds transfers (EFT) for its disbursements and further states that the use of manual checks for disbursements contributes to higher bank fees. In addition, you state that the Treasurer's Office was unable to provide an analysis of the City's use of EFT for disbursement.

Response:

Overall, the total number of checks printed annually has decreased from 498,505 in 2005 to 360,126 in 2011. Over this time, the City has increased the number of employees, as well as vendors, who are receiving payments electronically. We continue to encourage vendors to use electronic funds transfers for receipt of payment from the City, and the number of vendors using EFT has steadily increased from 10% in 2005 to 38% in 2011. The Accounting Bureau can provide a report with details regarding the use of EFTs for disbursement. Also, it should be noted that direct deposit payments for payroll have increased from 70% in 2004 to 81% in 2011. As part of the RFP for banking services, the Treasurer's Office will request a marketing plan for further increasing employee direct deposit. Additionally, we are considering including an option for a service whereby rebates are earned on disbursements to vendors initiated by credit card. We hope to discuss this further among the Finance agencies and with your office as well.

Finding and Recommendation 5

Your report finds that bank fees and credits offset against these fees were not accounted for separately in the general ledger in order to identify the aggregate amount of fees incurred and credits earned, and you recommend that we implement this practice.

Response

You are correct that bank fees and credits offset against the fees are not accounted for separately in the general ledger. However, the Treasurer's Office does report fees for payroll and pension banking services, both of which are under contract, in the Mayor's quarterly contracting report. The banking consultant engaged by the Treasurer's office will examine this practice and will

provide advice regarding appropriateness of including compensating balances services in the new banking contracts. The Treasurer believes that best practices involve use of a Treasury Management system and will explore with OIT the possibility of implementing such a system. This would facilitate the reporting of fees in the aggregate manner the Controller recommends.

Finding and Recommendation 6

Your report finds that bank fees were not analyzed and compared to fee arrangements to ascertain they are being charged correctly. You recommend that a spreadsheet be maintained of all fees and that it be reviewed monthly.

Response

The Treasurer's Office does review charges and works with the authorized depositories to make fee adjustments as necessary. Additionally, the Treasurer's Office maintains a spreadsheet tracking banking fees charged by the larger depositories, including Wells Fargo, PNC, and Bank of America. As part of its work with the banking consultant, the Treasurer hopes to implement additional tools to analyze and monitor fees, including the possibility of a new Treasury Management System as mentioned above.

Finding and Recommendation 7

Your report finds that bank fees were neither contracted upon at agreed upon best rates nor compared to industry averages of fees paid by municipalities for reasonableness and that, as of June 30, 2011, the City did not have any signed contracts with banks as to fee arrangements. You recommend that the City obtain contracted banking fee arrangements and monitor charges against those contracts. Further, you recommend that the Treasurer's Office obtain membership in the Association for Financial Professionals (AFP), and work to obtain bank statements with AFP codes to assist in better analyzing the fees the City is incurring.

Response

While it is correct that the Treasurer's office has not historically had contracts for all of its banking arrangements, the City does have formal contracts for both payroll and pension banking services. Additionally, it is our plan to competitively procure and contract for all commercial banking services through the RFP process previously mentioned. We agree with your recommendation that someone in the Treasurer's Office should be a member of AFP, and the Treasurer's Office will be joining that organization shortly. However, bank statements with AFP codes would only be useful with correlated technology, i.e. a Treasury Information System that does not exist currently in the Treasurer's Office, but will be explored.

Finding and Recommendation 8

Your finding states that Revenue does not have an advanced system enabling electronic deposits and continues to utilize and pay for armored car services. You recommend utilization of a virtual vault solution for cash collections and Check 21 for check collections.

Response:

As stated previously, the Revenue Department has issued a RFP for a new payment processing system, and we expect that the system will provide Check 21 capabilities. As part of the payment processing implementation and the banking services review, we expect to review the

current use of armored car services and the potential use of a virtual vault type process to provide for more efficient, timely and secure deposits of cash.

Finding and Recommendation 9

You indicate that decisions about consolidated cash account balances need to be documented as your review found no formal, written procedures detailing the process for daily cash investment decisions, no documentation of daily cash calculations or supervisory review of daily cash decisions, and that Treasurer's Office personnel were unable to document their assertion that the savings on unincurred bank fees were greater than the potential investment earnings. You recommend that the Treasurer's Office: 1) document formal policies and procedures for the calculation and management of consolidated cash, particularly the amount left uninvested; 2) record the calculation of daily cash on a worksheet to provide an audit trail as well to enable an individual not familiar with the process to perform the job in case of an emergency; 3) perform an analysis on whether the savings on unincurred bank fees are greater than potential investment earnings in order to justify amounts retained as idle consolidated cash balances rather than investing or utilizing an overnight sweep for excess cash; 4) have supervisory personnel review and document the cash decisions on a daily basis; and 5) be provided with budgeting tools enabling them to properly forecast cash inflows and outflows for daily and long-term purposes.

Response:

After our discussion and explanation at the exit conference, I am disappointed by your characterization (and bold heading on the Exhibit 8 chart) of the funds as being "uninvested." The funds you refer to as "uninvested" were invested in an FDIC insured bank account that generated an effective return of approximately 50 basis points (0.5%). This is an investment product that is fully FDIC insured, meeting the City's investment policy of preserving principal, maintaining liquidity and seeking return. Investment in this account was proactively considered by Treasurer's Office staff, and I approved the recommendation. In comparison, net of fees to the money manager, ConCash is earning only 15- 20 basis points.

The analysis you recommend to determine whether the savings on unincurred bank fees are greater than potential investment earnings is continually undertaken by the Treasurer's office as part of its quarterly portfolio review and as part of its ongoing management of the funds. Cash flow projections are provided to the money manager for ConCash on a quarterly basis and are discussed explicitly as part of the quarterly review. Actual cash balances and projected weekly expenditures are conveyed to the ConCash money manager on a daily basis. Treasurer's office staff confers on a regular basis to confirm strategy between quarterly meetings.

The practices of maximizing use of compensating balances to earn interest credits to offset fees is widely applied by corporate and municipal treasurers and, in the current market environment, has become a best practice for treasury investments. According to the Government Finance Officers Association (GFOA) Statement on "Procurement of Banking Services," most recently updated in 2010: "Governments should consider including the following practices in their procurement of banking services: . . . (4) Evaluate the relative benefits and costs of paying for services through direct fees, compensating balances or a combination of the two (blended). Factors to consider in this evaluation are the earnings credit rate, reserve requirements and insurance fees on deposits." This is a strategy that is market related, and we will continue to use

it while the economics are favorable and the earnings credits are above the consolidated cash return. We will not use it when and if rates rise such that we can earn more than the earnings credit rate and appropriate securities are available to purchase.

In the current interest rate environment, the city is intentionally maximizing the use of earnings credits because: (1) the funds are fully FDIC insured under a DoddFrank temporary program that assures preservation of principal, (2) the funds can be moved at any time with no penalty, giving the city maximum liquidity, and (3) the City can earn more on the earnings credit program than it can in the pooled ConCash account.

While the process for determining the daily cash is well understood and followed by the cash manager and the backup cash manager, we agree with your recommendation to document procedures. The Treasurer's Office has documented formal policies and procedures for the calculation and management of consolidated cash and will provide a copy of those procedures to your staff. The spreadsheets you recommend are already a part of that process and are maintained on a daily basis. The procedures establish well-defined guidelines. With periodic supervisory review and reliance on money managers to ensure compliance with investment policies, it is not always necessary or feasible for a manager to sign off on each step of the process on a daily basis. This is another area where the Treasury Management system discussed previously would be helpful. Best practices involve use of a Treasury Management system to independently verify policy adherence. Systemic controls include compliance reporting by the money manager and compliance testing of every investment against the City Investment Policy.

Finding and Recommendation 10

You find that Treasurer's Office oversight of the City's investments requires improvement and recommend that minutes of quarterly investment manager meetings be prepared and retained to document the monitoring of investment decisions and that the Treasurer continue working toward revising the investment policy to expand the City's choice of investment options.

Response:

As previously stated, the Treasurer's Office was proactively managing investments during this period regardless of any lack of documentation that your audit may have found. While documentation of meetings may not have been provided to you during the audit, the Treasurer's Office does hold quarterly investment meetings with all of the City's investment managers. There have been no formal minutes, but PowerPoint presentations are on file in the Treasurer's Office from all of these meetings. Going forward, the Treasurer's Office will be implementing a practice of preparing minutes of the quarterly investment manager meetings. Additionally, the Treasurer's Office is continuing to review the investment policy and will recommend expanding the choice of investment options if appropriate within the context of the City's investment goals.

Thank you for the observations provided in your report and for the opportunity to respond. We look forward to continued cooperation with your office.

Sincerely,



Rob Dubow

cc: Kathleen Duggan, Audit Administrator
Joan Markman, Chief Integrity Officer
Nicole McCormac, Deputy Budget Director
Gerald Micciulla, Deputy City Controller
Joseph Oswald, Director of Accounting
Catherine Paster, First Deputy Finance Director
Rebecca Rhynhart, Budget Director
Harvey Rice, First Deputy City Controller
Keith Richardson, Revenue Commissioner
Nancy Winkler, City Treasurer

SECTION III

CONTROLLER'S OFFICE EVALUATION OF MANAGEMENT'S RESPONSE

CONTROLLER'S OFFICE EVALUATION OF MANAGEMENT'S RESPONSE

Government Auditing Standards require auditors to report instances where the auditee's comments to the auditor's findings, conclusions, or recommendations are not, in the auditor's opinion, valid or do not address the recommendations. We believe this to be the case with certain comments made in management's response to the Independent Accountant's Report prepared by Shechtman Marks Devor PC (SMD). Our evaluations of management's comments are presented in the order of their response. Management's responses have been correlated to the finding numbers in the SMD report. When we disagree with management, we have provided reasons for our disagreements.

Management's Response (Finding 4)

In response to SMD's finding that the Office of the City Treasurer (Treasurer's Office) was unable to provide an analysis of the City's use of Electronic Funds Transfer (EFT) for disbursements, management states that the Office of the Director of Finance's Accounting Bureau "can provide a report with details regarding the use of EFTs for disbursement."

City Controller's Office Evaluation

At no time during the course of the audit did management provide SMD with evidence that it was routinely generating such a report and using it to monitor the City's usage of EFT for disbursements on an ongoing basis. We believe that performing this periodic analysis would assist management in developing a plan to increase the use of EFT for disbursements and reduce bank fees and other costs incurred by the City.

Management's Response (Finding 6)

In response to SMD's recommendation that the Treasurer's Office prepare a spreadsheet to monitor bank fees incurred each month, management asserts that "the Treasurer's Office maintains a spreadsheet tracking banking fees charged by the larger depositories, including Wells Fargo, PNC, and Bank of America."

City Controller's Office Evaluation

Even though management asserts that a spreadsheet tracking bank fees is maintained, Treasurer's Office personnel never provided SMD with this spreadsheet when SMD interviewed Treasurer's Office personnel regarding their procedures for monitoring bank fees incurred by the City.

Management's Response (Finding 7)

In regard to SMD's finding that the City did not have any signed contracts with banks as to fee arrangements, management responds that "the City does have formal contracts for both payroll and pension banking services."

City Controller's Office Evaluation

During the course of the audit, Treasurer's Office personnel only informed SMD of the existence of one banking service contract – the City's agreement with the bank serving as its fiscal agent. Despite being requested by SMD during the audit, Treasurer's Office personnel never provided SMD with any contracts covering the banking fees for the three major banks discussed in SMD's report.

Management's Response (Finding 9)

In response to SMD's findings on the Treasurer's Office oversight of the City's consolidated cash funds, management disagrees with the report's description of certain consolidated cash funds as being "uninvested". Management asserts that these funds were maintained in an account which generated a higher rate of return than that being earned by consolidated cash monies invested with the City's money manager. Also, management states "the analysis you recommend to determine whether the savings on unincurred bank fees are greater than potential investment earnings is continually undertaken by the Treasurer's Office as part of its quarterly portfolio review and as part of its ongoing management of the funds." Lastly, in regard to SMD's recommendation that the calculation supporting daily cash decisions be documented on a worksheet, management states that "the spreadsheets you recommend are already a part of that process and are maintained on a daily basis."

City Controller's Office Evaluation

SMD used the term "uninvested" to describe the consolidated cash monies that were left in a non-interest bearing checking account and, therefore, were not forwarded to the City's money manager for investment in bonds or other securities permitted by the City's investment policy. With regard to management's assertion that these funds earned a higher rate of return than they would have generated if invested with the money manager, SMD was unable to verify this claim since Treasurer's Office personnel did not provide any evidence to document an analysis of potential investment returns versus saved investment fees. While management asserts that the Treasurer's Office conducted this analysis as part of its quarterly portfolio review, SMD was unable to ascertain whether this actually occurred since the Treasurer's Office did not prepare minutes of its quarterly meetings with investment managers.

With regard to management's claim that spreadsheets supporting each day's cash decisions are maintained on a daily basis, Treasurer's Office personnel did not provide SMD with any such spreadsheets during the course of the audit. In fact, the Treasurer's Office employee responsible for daily cash calculations informed SMD that, while he used a spreadsheet to perform the calculations, he did not retain each day's spreadsheet.