

**CITY OF PHILADELPHIA - TREASURER'S OFFICE
FINAL REPORT
ANALYSIS OF THE CONSOLIDATED CASH ACCOUNT
July 1, 2014 – June 30, 2017**

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Executive Summary

The accompanying report includes the background of our engagement, the approach taken and the findings that resulted. The scope of our engagement consisted of a detailed analysis of the cumulative unreconciled cash difference between the City's bank records and the City's Accounting records (FAMIS) for the City's Consolidated Cash (CON CASH) Account during the period July 1, 2014 – June 30, 2017.

The City Treasurer's Office (CTO) is responsible for reconciling the City of Philadelphia's bank accounts. The Consolidated Cash (CON CASH) account is the City's largest bank account, with approximately \$9.9 billion in revenues processed through this account in a fiscal year. The CON CASH account, while maintained by CTO, was not consistently reconciled for the period July 1, 2014 – June 30, 2017, as noted in the City's FY17 Comprehensive Annual Financial Report.

In response to this matter, our firm was engaged to assist in the research of unidentified reconciling items noted, to identify amounts to be adjusted as a result of the research, to review and begin documenting the CTO accounting policies and practices, and to provide recommendations that improve the CTO day-to-day processes and strengthen the internal controls, specifically regarding bank account reconciliations.

Our team utilized a comprehensive approach to this engagement, and accordingly, various procedures were performed to achieve the engagement objectives. Our procedures were completed through phases, which included a process overview/general assessment, trend analysis, transactional testing and findings and recommendations. Throughout our engagement, our team reviewed approximately eight thousand five hundred (8,500) disbursement transactions and approximately seventeen thousand (17,000) deposit transactions.

Our procedures were designed to "match" both deposit and disbursement transactions, as noted on each monthly bank statement, as compared to FAMIS. Any transactions that did not "match" were noted as exceptions to be further investigated and resolved. To date, our "matching" procedures have resulted **in \$26.6 million of recorded adjustments** that have contributed to the overall decrease in the CON CASH variance. The nature of these adjustments included unrecorded debt service payment activity totaling \$21.2 million; unrecorded bank return item activity within CON CASH, as well as, other related accounts, totaling \$3.8 million; correcting adjustments for a revised daily consolidated revenue report and transfers between accounts totaling \$1.2 million and \$354,000 of unrecorded wire transfers.

As noted in the table below, the CON CASH variance has declined to \$528,000 as of January 25, 2019.

CONSOLIDATED CASH VARIANCE STATUS

Date	Amount*
June 30, 2017	\$40.1M
December 31, 2017	33.3M
March 31, 2018	27.6M
April 30, 2018	26.6M
June 30, 2018	28.6M
July 31, 2018	27.1M
September 30, 2018	23.3M
November 30, 2018	2.1M
December 20, 2018	882K
January 25, 2019	\$528K

*M – Millions
*K- Thousands

As a result of our engagement, we noted the following findings and areas where improvements should be made that will enhance the operations and internal controls of the CTO.

- **Process/Policy Enhancements**

During our engagement, we noted that reconciling items remain on bank reconciliations in excess of one year. We also noted that journal entry explanations in the City’s accounting software are not detailed and wire transfer documentation is not maintained consistently.

We recommend that a “cut off” period for reconciling items be established and also that a standardized template of journal entry explanations be prepared, in addition to, a checklist of routine entries, to ensure that common reconciling items are accounted for consistently and timely.

- **Activities Outside of the City Treasury Office**

During our engagement, we noted that there is a lack of communication between the CTO and other interrelated departments (e.g. Revenue, Health, Water, etc.).

We recommend that periodic meetings continue between the CTO and other interrelated departments to continue to enhance knowledge sharing and create efficiencies.

- **Records Retention**

We noted that the CTO records and retention policy is outdated and is not comprehensive.

We recommend that the CTO develop a policy that considers how documents are filed, what evidence of sign in/out of records will be maintained, which records should be maintained permanently and how the overall policy will be communicated to employees.

- **Policy and Procedure Manual**

We noted that the CTO does not maintain a comprehensive policy and procedure manual.

We recommend that the CTO develop a comprehensive policy and procedure manual that addresses all significant CTO functions that are capable of being measured on a quantitative basis. Specifically, any transactions that involve the initiation, authorization, recording, processing or reporting of transactions should be considered and documented accordingly. Consideration of the future use of technology in the CTO should be inherent in the manual.

- **Personnel Management**

We noted that the CTO has experienced challenges in maintaining consistent staffing levels to ensure that the required workload is continuously completed on a timely basis.

We recommend that the CTO perform a comprehensive assessment of its staffing needs, which includes the addition of another accounting manager (ensuring additional oversight and review of staff accountants preparing bank reconciliations), understanding current areas of need and level of effort and the capabilities/skill set required for CTO accounting positions.

- **Review Functions of All Bank Accounts**

We noted that the CTO is responsible for a large number of accounts, some of which have few transactions and maintain small balances.

We recommend that the CTO review the functions of all bank accounts to determine whether they are truly necessary and/or required. This will also assist CTO in determining an appropriate personnel staffing level within the department.

Ms. Rasheia Johnson, Treasurer
City of Philadelphia, Treasurer's Office
Municipal Services Building, Suite 640
1401 JFK Boulevard
Philadelphia, PA 19102

Dear Rasheia,

We are pleased to present our final report regarding the analysis of the City of Philadelphia's Consolidated Cash (CON CASH) account. This report presents the results of our engagement, in addition to, our findings and recommendations. The scope of our engagement consisted of a detailed analysis of a cumulative unreconciled cash difference between the City's bank records and the City's accounting records (FAMIS) for the CON CASH Account during the period July 1, 2014 – June 30, 2017.

Background

The Office of the City Treasurer was established by the Philadelphia Home Rule Charter to be the official custodian of all City of Philadelphia cash and securities. The powers and duties of the Treasurer's Office include: maintaining control and managing deposits with banks designated by City Council; disbursing funds upon proper authorization and overseeing the distribution of checks; reconciling City bank accounts; generating reports on receipts, deposits, transfers, withdrawals and investments; investing funds in excess of immediate requirements; and overseeing and managing the City's debt. The City Treasurer, appointed by the Finance Director, manages the department.

As noted in the aforementioned paragraph, the City Treasurer's Office (CTO) is responsible for reconciling the City of Philadelphia's bank accounts. The CON CASH account is the City's largest bank account, with approximately \$9.9 billion in revenues processed through this account in a fiscal year. The CON CASH account, while maintained by CTO, was not consistently reconciled for the period July 1, 2014 – June 30, 2017, as noted in the City's FY17 Comprehensive Annual Financial Report.

In response to this matter, our firm was engaged to assist in the research of unidentified reconciling items noted, to identify amounts to be adjusted as a result of the research, to review and begin documenting the CTO accounting policies and practices, and to provide

recommendations that improve the CTO day-to-day processes and strengthen the internal controls, specifically regarding bank account reconciliations.

Specifically, the scope of our engagement consisted of a detailed analysis of the cumulative unreconciled cash difference between the City's bank records and the City's Accounting records (FAMIS) for the City's Consolidated Cash (CON CASH) Account during the period July 1, 2014 – June 30, 2017. The scope of our engagement did not include testing the operating effectiveness of the internal controls within the CTO and accordingly, our procedures were not designed to express an opinion on the operations and controls over the CTO taken as a whole (or over the CON CASH account), and we do not express such an opinion. Accordingly, we were not engaged to conduct a fraud examination or a complete assessment of the CTO internal control environment.

Approach

Consistent with our workplan, our procedures were conducted in the following phases:

- Process Overview/General Assessment
- Trend Analysis
- Transactional Testing
- Reporting (included herein)

Our team utilized a comprehensive approach to this engagement, and accordingly, various procedures were performed to achieve the engagement objectives. Our procedures, by phase, are outlined below.

Process Overview/General Assessment Phase

- Interviews with CTO personnel/alumni - Our team interviewed existing CTO accounting staff, a former Deputy Treasurer, a former CTO consultant and two other former CTO employees.
- Interviews with other City of Philadelphia Departments – Our team interviewed selected individuals within the Revenue, Finance/Accounting, and Health departments. Our discussions were ongoing throughout the engagement as different issues were identified and attempted to be resolved.
- Documentation of interviews - Documentation was obtained and drafted regarding the bank reconciliation process, bank account protocol, recording and approving entries in the City's accounting system (FAMIS), disbursement process, receipts process, organization chart and a broad overview of CTO personnel roles and responsibilities.

- Inventory of archived CTO files - An assessment was completed of bank statements, bank reconciliations prepared and related support, wire transfer slips and deposit slips. Any items that were not found (e.g. daily consolidated revenue reports, etc.) were obtained via other means within CTO or via other departments.

Trend Analysis

- Review of work products completed by Finance/CTO – Our team reviewed the electronic bank reconciliation and supporting files that were prepared by CTO/Finance. Our team took these files into consideration in planning our transactional testing. Our team has utilized the monthly bank reconciliation files for FY 2015 that were retrieved from the CTO archives to further resolve unmatched items noted as a result of our analysis and comparison. The bank reconciliation prepared as of 6/30/14 was compared to the bank reconciliations prepared as of 4/30/15 and 7/31/17 to determine if any open unmatched items from 6/30/14 still existed and also if there were any unusual or significant reconciling items that our team had not considered during the engagement. This comparison resulted in recorded adjustments totaling \$1.3 million related to bank returned items that were identified as outstanding reconciling items on the 6/30/14 bank reconciliation and were never recorded in the City’s records.
- Prepare a global trend analysis (from bank statements) of inflows and outflows to identify unusual fluctuations over all three fiscal years - a global fluctuation analysis was prepared that compared total monthly deposits on the bank statement over the 3-year period to total monthly debits on FAMIS over the same 3-year period. The analysis resulted in 14 months that had total bank deposits in excess of those on FAMIS (i.e. potential unrecorded deposits on the accounting records). The analysis also showed that 6 of the 14 months were in FY 2015, 3 of the 14 months were in FY 2016 and the remaining 5 months were in FY 2017.
- A global fluctuation analysis was also prepared for total monthly disbursements on the bank statements over the 3-year period to the monthly credits on FAMIS over the same 3-year period. The analysis revealed fluctuations that were inconsistent and revealed no significant pattern. The overall variance for FY 2015 was \$10 million higher on FAMIS, the overall variance for FY 2016 was \$3.5 million higher on the bank and the overall variance for FY 2017 was \$15 million higher on FAMIS. The net variance for the 3 years was \$21.5 million higher on FAMIS.

Transactional Testing

- Analysis and comparison of bank generated activity to FAMIS (book) activity by month for all 3 fiscal years. Our team compared/matched all disbursements and deposits over \$100,000 over all 3 fiscal years. In total, our team reviewed approximately eight thousand five hundred (8,500) disbursement transactions and approximately seventeen thousand

(17,000) deposit transactions. A listing of approximately 780 unmatched disbursements items resulted. A listing of approximately 1,435 unmatched deposit items resulted. As of the date of our report no unmatched disbursements remain. The review of disbursements resulted in the adjustment of \$21.2 million of unrecorded debt service payment activity. The review also resulted in the recording of approximately \$354,000 of wire transfer transactions on the City's books. There are 8 unmatched deposit items that remain. CTO continues to review these remaining unmatched transactions to bring them to resolution.

- Analysis of activity in other "Feeder" (i.e. accounts that have transactional activity that is transferred into CON CASH) bank accounts to CON CASH – Our team reviewed the activity in the feeder bank accounts for all 3 fiscal years, which included the revenue lockbox accounts. No adjustments to the variance were noted as a result of this analysis, except for bank return items noted in these accounts.
- Investigation/research of systemic reconciling items (e.g. Health Department receipts, credit card transactions related to receipt of revenue/taxes, bank return items, transfers and "directs") - Our team reviewed the Health Department receipts through our procedures performed over the deposits reviewed. Our team noted unmatched Health Department deposits within the items that remain. It should be noted that many Health Department deposits were below our threshold and thus may not have been noted on the overall unmatched deposit listing. "Directs" (i.e. those deposits that are physically submitted to the City via cashiers at payment centers within the City) were reviewed in connection with the overall analysis and comparison of bank generated activity to FAMIS (book) activity by month over all three fiscal years.
- Our team reviewed credit card transactions, primarily related to the receipt of revenue/taxes, via our analysis of the feeder accounts. The results of this review are reflected in the results of our review of feeder accounts, noted previously. No adjustments to the variance were noted as a result.
- Our team reviewed the bank return items activity within CON CASH, as well as, the feeder and lockbox accounts. As a result of this review, \$2.5 million was recorded as a reduction to the overall CON CASH variance.
- Our team reviewed wire transfers through our analysis and comparison of bank generated activity to FAMIS (book) activity by month for all 3 fiscal years. Any unmatched disbursements or deposits that were wire transfers were included in the detailed listings. As of the date of our report no unmatched disbursement items remain. There are 8 unmatched deposit items that remain. Additionally, there are 15 internal wire transfer deposits into the CON CASH account from another City bank account that CTO represents are in fact valid transactions due to their internal nature. CTO continues to collectively review these remaining unmatched transactions to bring them to full resolution.

- Specific procedures were completed regarding the Revenue Department – Our team reviewed the daily Consolidated Revenue Reports and compared them to the daily entry recorded in FAMIS. Our team noted \$750,000 of adjustments as a result of our review and comparison of such. Our team also reviewed support for each revenue refund issued during the period under review and also inquired of department personnel regarding weeks where a refund was not issued during the period under review. This review did not result in any adjustments to the variance.
- Review of journal entries recorded in FAMIS to determine duplicates, incorrect posting, validity, etc. – Our team reviewed journal entries recorded in FAMIS over the 3 fiscal years under review for any duplicates noted, round number entries, entries made on the weekend, etc. Our review of journal entries did not result in any adjustments to the variance.
- Incorrect postings and the validity of journal entries posted are being verified as a result of the unmatched deposits and disbursements that our team noted. As of the date of our report no unmatched disbursement items remain. There are 8 deposit items that remain. CTO continues to review these remaining unmatched transactions to bring them to resolution.
- Review of Wire Transfers/ Cash Transfer Authorizations (CTAs) – Our team has reviewed wire transfers and CTAs for all 3 fiscal years and noted \$450,000 of wire transfer adjustments that resulted from this procedure.
- Review of Suspense Accounts noted by the Finance Department - There are two primary suspense accounts that impact CON CASH. Our team has reviewed the activity over the 3-year period in both suspense accounts and did not note any adjustments as a result.

Our procedures were designed to “match” both deposit and disbursement transactions, as noted on each monthly bank statement, as compared to FAMIS. Any transactions that do not “match” are noted as exceptions to be further investigated and resolved. To date, our “matching” procedures have resulted in \$26.6 million of recorded adjustments that have contributed to the overall decrease in the CON CASH variance. As noted in the table below, the CON CASH variance has declined to \$528,000 as of January 25, 2019.

CONSOLIDATED CASH VARIANCE STATUS

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December 20, 2018	882K
January 25, 2019	\$528K

The amount of the CON CASH variance will fluctuate up and down as the identification of bank deposits that have been deposited in the bank and not validated in FAMIS, as well as, transactions validated in FAMIS and not deposited into the bank continues. It is anticipated that the resulting treatment of any remaining variance will be determined by the City.

Findings & Recommendations

During our engagement, we became aware of the following matters that we believe represent opportunities for strengthening internal controls and operating efficiency within the City of Philadelphia Treasurer's Office. The findings noted herein represent our observations and inquiries during the period under review (July 2014 through June 2017) for this engagement.

1. City Treasurer's Office Process/Policy Enhancements

Journal Entries

Issues: Reconciling items remain on bank account reconciliations for an extended period of time. Only one CTO accountant is authorized to post CTO journal entries and a formal review of journal entries prepared and posted within CTO is not occurring.

Conditions: During our engagement we noted that many bank reconciliations reviewed contained reconciling items that were more than one or two years old. Industry practice would suggest that no more than one year be used as a timeframe to consider for adjustment of a reconciling item; however, CTO has experienced resolution of specific reconciling items in excess of one year (e.g. Health Department deposits). A current CTO "cut off" policy does not exist primarily because of the systemic nature of long-standing reconciling items.

During our engagement we noted that descriptions/explanations for journal entries are not very detailed. We understand that the character field within the FAMIS description area is limited; however, a standard template for explanations can address this issue. Once developed, these standardized explanations should be distributed to all relevant CTO employees for future reference. Once a journal entry is posted in the accounting system (FAMIS), the related supporting documentation should be maintained and filed with each

1. City Treasurer's Office Process/Policy Enhancements (continued)

journal entry. We did note that documentation supporting journal entries is maintained in hard copy format; however, not always consistently.

Recommendations: We recommend that CTO develop a "cut off" policy for the length of time that a reconciling item can be maintained on a bank reconciliation. A generally accepted practice would be to adjust any reconciling items that exceed one year. Long standing reconciling items noted should be discussed with the Finance Department (or other respective department) to determine the appropriate disposition. CTO will need to consider all types of reconciling matters and their historical timing of resolution.

We also recommend that CTO develop standardized/formatted journal entry explanations within the accounting software (FAMIS) to further support the reason for recording the journal entry. Journal entries recorded by CTO need to be formally documented, which includes the documentation of the preparer and reviewer. We recommend that a standard monthly checklist be developed for the accountant responsible for journal entries to ensure entries are recorded for routine/standard transactions (e.g. debt service transactions, wire transfers for PICA, school district transactions, etc.). Additionally, a checklist should be created for the CTO accountant(s) that reconciles CON CASH to ensure that all common reconciling items are identified and considered, such as bank return items from all "feeder" and suspense accounts into the CON CASH account. Additionally, a control sheet for journal entries should be considered to ensure that standard, periodic entries are being recorded on a consistent basis. Development of the policy and checklist should be completed in consultation with the Finance Department review of relevant Standard Accounting Policies that would apply.

We also recommend that additional CTO accountants are appropriately trained and obtain the appropriate FAMIS access rights to ensure that the posting of journal entries is a continuous process that does not stop when assigned individuals are out on extended leave. The review of CTO journal entries should be completed and evidenced by designated CTO management. A repository of all CTO journal entries should be maintained on a monthly basis.

1. City Treasurer's Office Process/Policy Enhancements (continued)

Wire Transfers

Issue: The documentation of wire transfer transactions is not consistent.

Conditions: During our engagement we noted that wire transfer forms were not completed fully. Specifically, the completion of the preparer and reviewer fields was not consistent and not deemed mandatory.

During our analysis of disbursements, we noted upon completion of a wire transfer, a corresponding check is generated that is not always voided or canceled in FAMIS as a part of this process.

Recommendations: We recommend that wire transfer forms require a journal entry number (JETR) and are signed off by the preparer and reviewer. It appears that these fields exist on the form and therefore can be populated; however, the completion of the applicable fields should be mandatory, prior to the approval of the transaction.

We also recommend that the cancellation of a wire transfer check be a required policy to reduce the risk of the misappropriation of assets and to ensure that the wire transfer is properly recorded in FAMIS. We also recommend that management consider the need to print checks (and subsequently void them) in these situations in the future.

2. Identify and Analyze Activities Outside of the City Treasury Office

Issue: A lack of communication between CTO and other interrelated City of Philadelphia departments exists.

Condition: During the engagement it became evident that interrelated departments (e.g. Revenue, Health, Water, etc.) do not communicate with CTO on a consistent basis. As a result of this engagement, we have noted that frequent meetings between City departments and CTO prove to be beneficial as sharing of information inevitably leads to efficiencies, a sense of purpose and camaraderie amongst peers and departments.

Recommendation: We recommend that periodic meetings (frequency to be determined based on need) continue between the Treasurer's Office and other interrelated departments to continue to enhance knowledge sharing, discuss current issues encountered and create efficiencies. An agenda item at such meetings should be the discussion of long-standing reconciling items noted during the CTO bank reconciliation process. These meetings should result in reported action items that serve as a basis for monitoring.

3. Update, Communicate, and Monitor the Records Retention Policy

Issue: The CTO requires an updated and comprehensive records retention policy.

Condition: Even in this age of computerized data, significant volumes of paper documents and records are generated. During our engagement we noted that accounting records took an extensive amount of time to be located when needed. The causes of the problem appeared to be (a) lack of a clearly specified system for filing records, (b) failure of those who removed records from the files to indicate who took the record and (c) failure to return the record to the files or misfiling it when it was returned. The result was that employees spent nonproductive time searching for needed documents.

Recommendations:

We recommend that the following steps be taken:

- Develop a systematic manner of filing documents and describe the system in the accounting manual or post a description on the filing cabinets or in the storage room so that employees will know how to find and refile documents.
- Institute use of “sign-out” cards to be filled out when a document is removed, showing who took the record. The card should be placed in the file in place of the removed document.
- Establish a policy specifying which records should be retained permanently (perhaps scanned for electronic filing) and which records should be kept only for a given period before being destroyed and how long that period should be. (It might differ for different types of documents.) Also, decide on when records should be removed from more centrally located accessible files to other storage areas. Assign personnel the responsibility to periodically clean out the files in accordance with the established policy.
- Specification of how the policy will be communicated to employees and acknowledgment of the policy.

3. Update, Communicate, and Monitor the Records Retention Policy (continued)

We believe it is important for the CTO to periodically review and update its document retention policy to make sure that it complies with current federal and state laws and regulations and update it if necessary. Legal counsel, the Records Department and the Finance Department personnel (and any other relevant officials) should be involved in the process, as deemed necessary.

Once the policy is updated, it should be periodically communicated throughout the CTO, and compliance with the policy should be monitored. Doing so could be to the CTO's advantage if an employee were to violate the policy during a legal or regulatory investigation by demonstrating that the CTO had taken reasonable steps to ensure compliance. It may be helpful to designate one person, or engage legal counsel, to be responsible for monitoring changes in laws and regulations that may have implications for the retention policy and for enforcing the policy.

We recommend that the CTO establish a central depository and registry for retained documents and provide a means for preventing or stopping the destruction of documents. Once a system is established, CTO should consider automating these records, storing records within shared electronic files and overall ways in which technology could be used to implement the retention policy.

4. Develop a Policy and Procedure Manual

Issue: The CTO does not maintain a comprehensive policy and procedure manual.

Condition: During the overview and general assessment phase of our engagement, our objective was to gain a detailed understanding of how the CTO operated on a daily basis. While we were presented with selected documentation to further our understanding, the documentation was only for certain selected processes within the entire CTO operation, it was not centralized or comprehensive. Key functions within the CTO such as the bank reconciliation process or the transfer/wiring of funds were not documented in a policy or procedure. We noted that the consistent turnover within the CTO has contributed to the overall lack of policies and procedures, in addition to, changes in processes and procedures being implemented without being appropriately documented.

4. Develop a Policy and Procedure Manual (continued)

Recommendation: We believe that considerable improvement and standardization of CTO policies and procedures would result from the preparation of an overall policies and procedures manual. Obviously, a department without written procedures can expect to find many policy and procedural inconsistencies. The number of such inconsistencies can be minimized by the written codification of CTO policies and procedures and insistence on adherence to them. Such a manual should include policies and procedures relative to all significant CTO functions that are capable of being measured on quantitative bases.

Accounting procedures, in particular, are procedures to initiate, authorize, record, process, and report transactions. Documenting a process involves identifying and gaining an understanding of the events or transactions that trigger performance of the process, the automated or manual procedures used in performing the process, the person(s) or position(s) responsible for performing the procedures, the source documents used or generated, the procedures for approval and review and correction of any errors detected, and the financial or operational entries or reports summarizing the result of the process. Procedures that may be used to gain an understanding of the workflow or flow of transactions include inquiry of Company personnel; observation of them performing their duties; inspection of documents, forms, and records used in or produced in the process; tracing transactions through the system; and performing a walkthrough of the procedures performed in the process. Documentation may include policy manuals, process models, flowcharts, job descriptions, documents, and forms, and can be in paper form, electronic files, or other media.

The development and use of a CTO manual should provide the following benefits:

- Objectives, responsibilities, and authority would be clearly defined for all employees.
- Use of such a manual would assist in coordinating the electronic flow of information.
- Establish consistent practices.
- Assist in the preparation of timely and accurate monthly reporting.
- Aid in review by management of the adherence to CTO policies.
- Aid in exchange of management ideas.
- Provide the CTO with a source of information that will not be lost if key personnel leave.
- Aid in the training of new employees, especially in the event of the untimely resignation of key accounting staff.

The use of written policies, procedures, and job descriptions in conjunction with specific assignment of responsibilities would increase the supervisory personnel's effectiveness. Such written documents would decrease the time spent on supervision of personnel in attempts to define job responsibilities on each occasion of employee turnover.

4. Develop a Policy and Procedure Manual (continued)

We recognize that the preparation of the manual will be a very time-consuming task; however, we believe that action should be taken by the CTO and that the CTO establish a timetable for the completion of the manual. The information that we have gathered during this engagement through our discussions with CTO employees and the review of existing documentation and templates should provide the CTO with a good start to establishing a comprehensive policies and procedures manual.

Consideration of the inclusion of technology in the bank reconciliation process will assist in the documentation of current and ongoing policies and procedures, having an electronic repository of information that can be accessed by all CTO employees for reference will also assist with the implementation of the recommended cross-training of CTO personnel. The implementation of a treasury management system would assist in the repository of information, documentation/templates for current bank reconciliation procedures and training of current (and future) CTO employees.

5. CTO Personnel Management

Issue: The CTO is not able to maintain consistent staffing levels to ensure that the required workload is completed.

Conditions: The CTO is responsible for a large number of bank accounts, many with a significant volume of transactions. After reviewing the historical staffing level of the CTO, it was apparent that, despite increases in funding for staffing during the three-year fiscal year period under review (2015, 2016 and 2017), even with the additional positions, staffing levels placed a strain on the current accounting personnel to complete their responsibilities in a timely manner. We also understand that the lack of consistent staff in the CTO was due to the lack of perceived career progression within the department.

Recommendations: We recommend that the CTO consider the following in assessing their current staffing needs:

- The addition of another Accounting Manager or equivalent who is responsible for ensuring that all 70+ bank account reconciliations are reviewed timely.

5. CTO Personnel Management (continued)

- Filling the currently vacant Deputy Treasurer position, responsible for oversight of the entire CTO bank reconciliation process. Prior to the conclusion of our engagement, we understand that this position has been filled.
- Assigning the requirement to review and approve journal entries before being recorded in FAMIS to an existing accounting position and also to overall duties of the Deputy Treasurer for Cash Management.
- Interviewing existing accounting personnel to understand areas of need, which may include knowledge of the wire transfer process, bank reconciliation and review process, journal entry posting and approval process, among other areas.
- Commitment to a minimum number of accounting professionals needed to ensure that the volume of work is completed timely. The minimum number should consider a contingency for occasional employee turnover and adequate coverage when employees are out of the office for an extended period.
- The skill set needed in many CTO accounting positions is that of an accountant, not a bookkeeper. Competence to prepare bank reconciliations, analyze data and question inconsistencies, among other attributes, are required to fulfill the job responsibilities of a CTO accountant for any future hiring considerations.

An additional element to be considered is employee training and continuing education and cross-training within CTO. Training serves several functions:

- It is vital to employees' understanding of their job requirements.
- It enables new employees to master the learning curve.
- It provides a sense of belonging and value for an employee.
- It can foster team spirit.
- It is evidence of the CTO's commitment to developing the competence of its employees.
- Should be conducted on, at least, an annual basis.
- Should set a favorable tone from the first day of employment. (Onboarding Process)

We highly recommend that cross-training of CTO staff be implemented immediately. In an effort to minimize work disruption, cross-training can serve as a useful tool to ensure that staff are well equipped and empowered to fulfill multiple responsibilities as required.

5. CTO Personnel Management (continued)

A cost-effective way to stretch training dollars is to have employees hold on-site training sessions for the other employees. As a side benefit, by having those employees hold on-site training sessions, concepts learned are reinforced, thus increasing knowledge retention. Training courses to consider should include a more in-depth knowledge of the current accounting system (FAMIS), current events impacting a government Treasury function and any software efficiencies (e.g. specific Microsoft EXCEL seminars, etc.). Coupled with on-site training sessions, an automated training platform should be considered to encourage continued professional education.

Lastly, once CTO accounting personnel staffing needs are solidified, consideration of the development of performance measures for each major CTO function would provide positive feedback to employees and management tools for supervisors and managers to monitor on a periodic basis. Performance measures are indices developed by function or position that management can use to properly understand the results of operations and gauge the improvement in performance over time. Performance measures are developed by reviewing the time, quality, and quantity of a function. For example, performance measures in the accounts payable function would include the number of invoices processed (quantity), the number of vendor correspondences related to incorrect payment (quality) and the time to process a group of invoices (time). Accordingly, performance measures would need to be developed for CTO.

6. Review Functions of Bank Accounts

Issue: The CTO is responsible for a large number of bank accounts. An overall assessment needs to be made regarding the need and relevance of all bank accounts.

Condition: At present, the CTO maintains a large number of bank accounts (estimated to be 300). Many of the accounts were established for narrow purposes and have few transactions and small balances. Further an overall assessment needs to be made regarding the need and relevance of all CON CASH “feeder accounts” (accounts that have activity transferred into CON CASH), lockbox accounts and other accounts that impact CON CASH. A checklist of all such accounts should be developed to ensure all bank accounts are included in the overall assessment.

Recommendations: Given the current situation of the CON CASH bank account variance and the level of effort currently required to maintain timely reconciliations of all CTO bank accounts, we recommend that CTO review the functions of all bank accounts to determine whether they are truly necessary and/or required. The process of reconciling the CTO bank accounts is a very manual and labor-intensive process. The implementation of technology within the bank reconciliation process should be considered by the CTO in this overall

6. Review Functions of Bank Accounts (continued)

assessment in determining if there is any benefit to maintaining certain accounts. Additionally, once an initial assessment is completed, a periodic assessment should occur as best practice within a three-year timespan prospectively.

During the assessment process, consideration should be given to creating a separate bank account for the Health Department that specifically aggregates all Health Department deposits. We believe that having a separate account will help to more clearly isolate specific Health Department reconciling matters and make their resolution more efficient.

We appreciate the cooperation that we have received throughout this engagement.

We welcome the opportunity to discuss these matters further and assist with the implementation of the recommendations.

Horsely, Buckner & Heffler, LLP

January 25, 2019