

City of Manitowoc, WI

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Government Best Practice

Internal Controls To Prevent and Detect Fraud

Finance Committee Report

Agenda:

OCT 2022

REPORT OUT: 3RD Quarter of 2022

Risk/Function Objective Outcome Plan/Report Out Discovery Note

<p>Fraud hotline or employee web portal</p>	<p>For internal and external sources to anonymously and confidentially report suspicious behavior.</p>	<p>VM Number HR Director with the City Attorney shall review calls to determine the next steps to follow dependent upon the situation. In addition, Employee Concern Policy included in EPM communicating the number.</p>	<p>The line has been established for employees. The number is: 1-920-686-6973 No voicemails were recorded in 3rd quarter 2022. Cyber security fraud has been added to search for misuse of unauthorized web portal access.</p>
<p>Separation of Duties</p>	<p>A single employee should not be in a position to both commit and then conceal fraudulent activities.</p>	<p>Ongoing as duties are added or changed to employees</p>	<p>Always on alert for control opportunities. No issues noted at this time.</p>
<p>Cross Training</p>	<p>All Administrative Specialists in the Finance area are cross-trained in all aspects associated with cash handling.</p>	<p>Make sure all employees rotate duties and are involved in the tasks for awareness in any fraudulent activities.</p>	<p>Continue with standard work processes being created and updated.</p>
<p>Time off from Job</p>	<p>Allows for possible detection that a process has a weakness in an employee's task. Make sure all employees take enough extended time off to alleviate any suspicious behavior.</p>	<p>Make sure all employees take enough extended time off to alleviate any suspicious behavior</p>	<p>No suspicious activity noted. With employees off we will monitor closely for minimum staffing needs.</p>
<p>Reconciliations: Bank Accounts and Budget line item Accounts</p>	<p>Provides for checking the cash balance on the balance sheet per the bank statements. Account reconciliation can provide insight in discrepancies and accuracy of the data recorded from transactions performed throughout the organization. Account reconciliations are dependent upon the activity level.</p>	<p>Bank Statement reconciliations completed on a monthly. Account reconciliations are performed periodically pursuant to the level of activity in the account</p>	<p>All accounts are balanced and journal entries are up to date.</p>
<p>Review and Authorization of Expense Reimbursements of Employees</p>	<p>Management will first ensure all policies and procedures are followed. Expense reimbursement requests submitted by employees shall</p>	<p>Ongoing process of checks and balances with the policy manual and per diems in the Finance</p>	<p>Correct forms are being used. Taxable event is evaluated.</p>

	include support documentation, and approval by the employee's immediate supervisor. Expense reports submitted by members of management should be reviewed by other members of management.	Department upon payment to the employee.	
Petty Cash Reconciliation	Shall be dependent upon the usage level of the cash on hand within each department with a petty cash account. These advances of cash to departments are recorded in the balance sheet noting each amount assigned to a department. A custodian in each department is assigned the responsibility for safeguarding and reconciling the account. They are to have disbursement receipts with the date, amount, purpose and name of receivership for each voucher. Petty cash funds shall be kept in a locked box and have limited access to a small amount of people.	Management of the Finance Department shall order an internal audit of a petty cash fund on a periodic basis. Departments shall be randomly selected each quarter or more often as deemed necessary.	3 rd quarter no checks on receipting stations were done. No alerts were present.
Vault Cash Counts	Vault cash is depended upon for treasury transactions that require a need for cash. There is an established justifiable amount available. There is a cash withdrawal to advance Treasury at tax season. Those funds are redeposited after the busier installments. All cash in the vault is accounted for. There shall not be a vault petty cash fund created.	Counts are done on a quarterly basis. (more frequent during tax season). A check sheet has been created to account for all varieties of cash on hand that is available to Treasury.	All counts have been successful in balancing. There is a rotation of employees that do the count, so it is not always the same two employees.
Cash Over/Short	Small amounts of overage or shortage can happen at times in Treasury. If the till at the end of the day is off, a Cash Receipting type code of COS is used to balance the register.	This account is monitored for materiality. The amounts should be very small and the level of usage low.	No issues noted
Treasury Cash/Credit Card Handling	This is for the protection of external customers and the Customer Service	At a department meeting once a quarter, the Finance Director will remind the	All workstations have access to accept credit cards.

	<p>Representative. Any currency or credit card handed to the CSR shall never leave the sight of the external customer. It is preferred the customer swipe their own credit card. This should alleviate any question of short funds and/or credit card identity theft.</p>	<p>CSRs about the importance of this issue.</p>	<p>There are two cash counters in the Clerk/Treasury area that are located in visibility of the customer.</p>
<p>Cash Distribution on Request</p>	<p>Departments have special events and need starting cash. A Cash Distribution Form is required to be filled out and timely returned to the Finance Department. A member of the department will authorize the distribution, a member in Treasury will fulfill the request and yet another member of the department will verify the accuracy of the distribution. The department requesting the cash will sign for the money upon pickup and again at return.</p>	<p>When Vault Cash Counts are done, these transactions are considered in that count because the advance for starting cash disbursements come from those funds. It will identify if those funds were timely returned or are still outstanding.</p>	<p>All bags returned timely and accurately</p>
<p>Cash Held by Department</p>	<p>This process is used for the Activenet system. Receipts are generated and the cash accounts are really a holding account until the actual monies are receipted into the Financial System in Treasury.</p>	<p>The 'Cash Held by Department' account should relieve itself every time a deposit is done in Treasury. This is a mechanism to located a shortage or overage of funds verse the receipts that were entered into the Activenet system.</p>	<p>This account is monitored weekly.</p>
<p>Void/Negative Receipt Transactions</p>	<p>All cash receipting locations are responsible to turn in to the Finance Department any valid paperwork with an explanation for the void.</p>	<p>The Finance Department shall account for all voids and check the validity of the void and research negative receipting.</p>	<p>All transactions have been verified for validity.</p> <p>The banks' cash counter can not count a \$2 bill.</p>
<p>Deposit Alteration Notifications</p>	<p>A process arranged with the bank to send secure notification when deposits have an error in them.</p>	<p>Finance Department investigates why there was an error and analyzes whether a process needs to be improved to correct a possible defect.</p>	<p>None material. Bank would notify Finance of discrepancy. Torn bills and holes from cigarette burns are not accepted.</p>

<p>Advanced Online Banking Services - Positive Pay</p>	<p>A tool the bank uses to reduce check fraud. A check register file is uploaded through the online banking service. The bank will only clear the checks that are listed on the register. If a check is trying to clear that doesn't match the register, an exception notice is emailed to the Finance Department. This service also allows for voiding a check which eliminated the stop payment fee.</p>	<p>All is working well if there are no exception notifications. If there is an exception, a secure login to the bank is required to identify the issue. A determination needs to be made respective to the issue.</p>	<p>Working well. Stops payment of people being re-issued checks that 'lost' them or duplicate submission were noted and corrected.</p> <p>Try not to re-issue checks until they are at least a month old.</p>
<p>Advanced Online Banking Services - ACH Blocks and Filters</p>	<p>A tool the bank uses to protect the bank account from unauthorized ACH debits. Rules determining the entity and the maximum amount allowed to debit are setup.</p>	<p>All is working well if there are no exception notifications. If there is an exception, a secure login to the bank is required to identify the issue. A determination needs to be made respective to the issue.</p>	<p>No issues.</p>
<p>Dual Wire Authorization</p>	<p>allows for one person in the Finance/Treasury Department to initiate a wire, but another person has to Approve the transaction before the wire will actually process.</p>	<p>Security feature for all employees having access to this function.</p>	<p>Been working successfully and all employees affected feel protected with this control. The initial person setting up the wire doesn't get notification that someone approved their transaction. We manually notify via email.</p>
<p>P-Cards</p>	<p>Are issued to personnel as approved by the Finance Committee. The Finance Department tracks all issued credit cards and the credit limit. The department is also responsible for issuing new cards, terminating cards, requesting replacement cards for lost, stolen or malfunctioning cards.</p>	<p>A list is continually updated reflecting any changes.</p> <p>A new card is issued for a department when an employee leaves the city employment.</p>	<p>With P-cards being used more often, the credit limits seem to again be an issue. Will monitor. 2 Cards had fraudulent activity identified. Both closed and reissued and no loss.</p>

Journal Entries	Are generated through the financial software in Finance Department only.	All entries are approved by another member in the Finance Department. The check is for accuracy, prevention of duplication, alert of completion, and internal control of fraud prevention.	Complete
Bank Accounts	Banks shall be researched using the city's FIN to identify any potential agency funds. Also, related agencies shall provide their annual 990 filing.	Research annually. Collect 990 forms annually for auditors. A resolution was approved to establish all financial agencies that the city is allowed to invest funds in.	Within the past year, a new account was setup for the CDBG Close. The only authority to that account is the Community Development Director and the Interim Finance Director. The account will be closed when the projects are complete.
Busted Trends	A useful tool for finding fraud. The trends for revenue in government are characteristically static. Generating an analysis for trends for revenue is fairly noncomplex.	Spreadsheets identifying major revenue categories	Complete. None found.

Vendor Creation	The setup of a Vendor is only done in the Finance Department by a person that does not process the weekly Accounts Payables. A W-9 is always required except for true refunds or reimbursements. Vendors shall be classified as temporary or permanent.	A report shall be generated monthly to monitor the new vendors that were setup. This report should identify all newly created accounts in the past 30 days. The report should be scanned for any duplications or suspicious looking accounts. Vendor remit addresses are validated from the invoice.	In compliance. No suspicious account identified.
A/P Outstanding Checks	Process is an attempt to get all checks to clear the bank. Ultimate goal is to have no unclaimed property. The notification letter sent might identify fraud in the payable process and/or flaws in the process. Checks cut are not distributed to the department unless a written request has been approved.	A notice is sent to the creditor that a check was issued to them and has not cleared our bank.	The County now holds all our unclaimed funds that were processed to them in 2021. This happens every other 'odd' year.
Inventory Control	For physical parts/equipment shall be counted on an annual basis.	Comply with audit regulations.	On going inventory is placed in the system and will be inventoried at year end.
Information Technology Purchase	MPU IT department purchases computer equipment on behalf of the City.	Requisitions by the IT department are sent to the Finance Department for approval. IT equipment vendors are set up to have a purchase requisition order sent via email to the Finance Director.	Quotes are gathered and sent to Finance for approval via purchase requisition to purchase for the overall City needs and funding source is City's IT Budget. Departments using their own budget, approves those purchases.
Adjustment Processes	Are available in the financial software. If the adjustment has a monetary affect and depending on the situation, a committee may need to give prior approval to make an adjustment.	The Finance Department will review the transaction to ensure compliancy and accuracy of the adjustment. The transaction can only be committed in the financial system by Finance.	All adjustments have been approved for compliancy.

A/R Past Due Notice	process shall be done monthly to ensure all account balances outstanding are legitimate. Notifications are sent in progression of aging. There is a letter for past dues at 30, 60-90 and the final letter they may ultimately be sent to collection.	Notifications are sent in progression of aging and may ultimately be sent to collection.	The process is up to date.
Write-off/Collection Approval	The Finance Department staff accountant has identified fully aged balances and sent the proper document to the customer for notification of the collection status.	The account is sent to collections and tracking of recovery of funds from the accounts are done by a different staff member.	Collection amounts from SDC are slowing with the tax season over. However SDC does a very good job of collection. About 47% return.
Remote Deposit Capture	Standard Work Process established. Scan of checks that are automatically deposited to the city bank accounts. Checks are stored up to 90 days before destroyed. The bank has all checks available online for review.	Deposit of checks is timely and no need for physical delivery.	Deposit is balanced, the amount deposited to the bank account is verified, and 90 days is still the retention to discard checks.
Bids/Quotes, Change Orders, Contract Management	Are channeled through the Board of Public Works, which the Finance Director is a voting member (Comptroller is a voting member in the Finance Director's absence). Bids/Quotes are identified in Section 1.7 of this Guidebook and/or pursuant to Chapter 66 of the Wisconsin State Statutes. Change Orders are recommended by the Director of Public Infrastructure and ultimately approved by the voting members of the BPW. Management of contracts shall be done by ensuring that the amounts paid to a contractor do not exceed the amount of the contract. All change orders to a contract need to be approved by the BPW before payment is made for that change order.	Recognition of correct procedures should be analyzed for all aspects. Also, amounts paid shall not exceed the contract amount.	All procedures for thresholds are in compliance. Contract amounts exceeding the budget are immediately addressed to CAWG or are rebid. BPW meet timely and frequently to open bids and pay bills. A Finance/Attorney presence at the BPW assures compliancy.

<p>Grants</p>	<p>Awarded to the city should be tracked from application to closure. An internal and external audit will be assessed for every grant awarded.</p>	<p>The department being awarded the grant must submit the application, award documents and all draw requests to the Finance Department.</p>	<p>City is awarded CDBG and COVID grants that require significant additional federal requirements and guidelines that the City is obliging to. Overall grant applications are increasing for the City.</p>
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