

City of Manitowoc, WI

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Government Best Practice

Internal Controls To Prevent and Detect Fraud

Finance Committee Report

Agenda:

January 2025

REPORT OUT: 4th Quarter of 2024

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 and citizens. The number is: 1-920-686-6973 No voicemails were received 4th quarter 2024.</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 monitor closely for minimum staffing needs. In addition, continuous monitor of proper usage of paid time off is performed by Payroll.</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 basis. Account reconciliations are performed periodically pursuant to the level of activity in the account</p>	<p>No material discrepancies noted in FY2023 or YTD FY2024. Comptroller performs bank recon on a monthly basis.</p>
<p>Review and Authorization of Expense</p>	<p>Management will first ensure all policies and procedures are followed. Expense reimbursement requests</p>	<p>Ongoing process of checks and balances in the Finance Dept with the policy</p>	<p>Correct forms are being used. Although the form is being revised to</p>

<p>Reimbursements of Employees</p>	<p>submitted by employees shall 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.</p>	<p>manual and per diems upon payment to the employee.</p>	<p>provide transparency and efficient administration. Taxable events are evaluated. Training of appropriate expense to be expensed is continued focus in 2024 and 2025. Reminder to Department Heads to have their expense reimbursements approved by Mayor.</p>
<p>Petty Cash Reconciliation</p>	<p>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.</p>	<p>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.</p>	<p>Petty Cash amounts held by departments are extremely immaterial, and only 3 departments have a Petty Cash (Transit, Rahr, and Library). Evaluating removing petty cash. Internal audits will be conducted during 1st quarter 2025. No alerts were present.</p>
<p>Vault Cash Counts</p>	<p>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 from the bank to advance Treasury at tax season. Those funds are redeposited after the busier installment dates. All cash in the vault is accounted for. There shall not</p>	<p>Counts are done on a monthly to bi-monthly basis. A check sheet has been created to account for all varieties of cash on hand that is available to Treasury.</p>	<p>3 counts performed: 11/1/2024 11/25/2024 12/30/2024 by Finance Accountant and a second individual. There is a rotation of employees that do the count, so it is not always the same</p>

	be a vault petty cash fund created.		two employees. Effective November 2023, only Finance department individuals perform the counts.
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.	In 2024, two larger over/shorts of \$20. Reviewed cameras and interviewed staff; could not determine cause. No issues noted from the perspective of materiality otherwise.
Treasury Cash/Credit Card Handling	This is for the protection of external customers and the Customer Service 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.	At a department meeting once a quarter, the Finance Director will remind the CSRs about the importance of this issue.	All workstations have access to accept credit cards. PCI requirements will be a focus in 1st Qtr 2025. There are two cash counters in the Clerk/Treasury area that are located in visibility of the customer.
Cash Distribution on Request	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.	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.	All bags returned timely and accurately.
Cash Held by Department	This process is used for the Activenet system. Receipts are generated and the cash	The 'Cash Held by Department' account should relieve itself every	This account is monitored weekly. No concerns noted.

	accounts are really a holding account until the actual monies are receipted into the Financial System in Treasury.	time a deposit is done in Treasury. This is a mechanism to locate a shortage or overage of funds versus the receipts that were entered into the Activenet system.	
Void/Negative Receipt Transactions	All cash receipting locations are responsible to turn in to the Finance Department any valid paperwork with an explanation for the void.	The Finance Department shall account for all voids and check the validity of the void and research negative receipting.	All transactions have been verified for validity.
Deposit Alteration Notifications	A process arranged with the bank to send secure notification when deposits have an error in them.	Finance Department investigates why there was an error and analyzes whether a process needs to be improved to correct a possible defect.	None material. Bank would notify Finance (preferable Finance Director for segregation of duties) of discrepancy. Torn bills and holes from cigarette burns are not accepted. The bank's cash counter can not count a \$2 bill.
Advanced Online Banking Services - Positive Pay	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.	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.	Working well. Stops payment of re-issued checks to people that 'lost' them or duplicate submission with mobile deposit. Try not to re-issue checks until they are at least a month old.
Advanced Online Banking Services - ACH Blocks and Filters	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.	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	No issues.

		made respective to the issue.	
Dual Wire Authorization	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.	Security feature for all employees having access to this function.	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-Cards	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.	A list is continually updated reflecting any changes. A new card is issued for a department when an employee leaves the city employment.	With P-cards being used more often, credit limits seem to be an issue. Continuing to monitor. Limits increased add liability/increase credit risk to the City. Finance is considering implementing an annual in-depth PCard audit beginning in 2025.
Journal Entries	Are generated through the financial software in Finance Department only.	All entries are reviewed by another member in the Finance Department. The review is to check 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.	Research will be performed in 1 st or 2 nd Q 2025 to determine any unauthorized accounts using City FIN.

			Updated Resolution was presented at January 2024 Finance Committee. 2025 annual update will occur 1 st Qtr 2025.
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 since 2021. This happens every other 'odd' year.
Inventory Control	Physical parts/equipment shall be counted on an annual basis.	Comply with audit regulations.	Ongoing inventory is placed in the system and will be inventoried at year end. YE2023 saw a drastic decrease (-\$200k) due to inventory not being fully counted for a number of years.

			Corrective actions are being made.
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. We continue to improve this process to restrict departments from using their own budget as funding source to be the approver of purchases to enhance overall Cybersecurity.
Adjustment Processes	Are available in the financial software. If the adjustment has a monetary effect, 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, and 90-days with the final letter stating 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. Finance Department is only department sending notices; not departments who generate invoices.
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.	SDC does a good job of collection. Historically a 46% return.
Remote Deposit Capture	Standard Work Process established. Scan of checks that are automatically deposited to the city bank accounts. Checks are stored	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

	up to 90 days before being destroyed. The bank has all checks available online for review.		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 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 appear to be in compliance. Contract amounts exceeding the budget are immediately addressed to CAWG or are rebid. BPW meets timely and frequently to open bids and pay bills. Finance/Attorney presence at the BPW meeting assures compliancy.
Grants	Awarded to the city should be tracked from application to closure. An internal and external audit will be assessed for every grant awarded.	The department being awarded the grant must submit the application, award documents, and all draw requests to the Finance Department.	Overall grant applications are increasing for the City; especially Federal. Finance is developing a process to have Finance be the central repository for all grants for the City to ensure state/federal guidelines are followed. Grant Management Policy being presented at a 1 st Qtr 2025 Finance Committee Meeting.