

FISCAL AUDIT

**DEPARTMENT OF PUBLIC SAFETY
BUREAU OF POLICE**

CENTRAL RECORDS & REPORTS UNIT (CRRU) RECORD ROOM

Special Audit by the
Office of City Controller

**MICHAEL E. LAMB
CITY CONTROLLER**

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January, 2013



MICHAEL E. LAMB

CITY CONTROLLER

First Floor City-County Building • 414 Grant Street • Pittsburgh, Pennsylvania 15219

January 31, 2013

To the Honorables: Mayor Luke Ravenstahl and
Members of Pittsburgh City Council:

The Office of the City Controller is pleased to present this Special Audit of the **Police Bureau Central Records and Reports Unit (CCRU) Record Room**, conducted pursuant to the Controller's powers under Section 404(b) of the Pittsburgh Home Rule Charter.

EXECUTIVE SUMMARY

The Record Room is a component of the Central Records and Reports unit (CRRU) which is part of Support Services, a unit of the Administration Branch of the City of Pittsburgh Police Bureau. The Record Room is responsible for providing police reports that are available to the public for a fee. The public is entitled to all Incidence reports (2.0 reports) and some Investigative reports. Victims of hit and run, burglary or robbery, theft or fraud, or identity theft may obtain copies of the corresponding investigative reports. All reports available to the public may be obtained in person at the Record Room office located in the Municipal Court Building or through the mail.

The Police Bureau requested our assistance in conducting a special audit to determine the extent of misappropriation of fees collected by the Record Room due to recently discovered evidence of theft.

The objectives of this special audit are to perform procedures to determine the extent of misappropriation of funds and to also examine the receipt process and identify areas where internal controls could be strengthened to adequately safeguard Record Room revenues. In order to achieve these objectives, we performed certain procedures to determine the amount of cash missing and to also evaluate the adequacy of internal controls. Our procedures were conducted in accordance with applicable government auditing standards.

Our audit disclosed that cash in the amount of \$17,140 is missing and total checks of \$61,871 received for the period October 11, 2011 through November 15, 2012 were not deposited by the part time cashier responsible for making the deposits. Revenues collected in 2010 were

deposited; however the deposit was not made timely. Revenues for 2011 were also not deposited timely except for seven days in which no deposits were made at all.

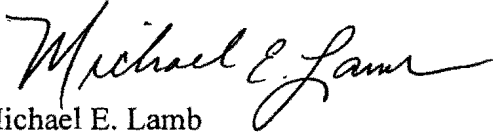
We also noted the existence of inadequate internal controls increasing the risk of loss or misappropriation of funds to occur and not be detected in a timely manner. In addition we also observed:

- Cash Register currently in use is not automated.
- Record Room deposits are not reconciled to city accounting system.
- Cashiers are not bonded.
- Voided transactions are not adequately documented or reviewed.
- Periodic independent audit to ensure existence of adequate internal controls and reliable records is not performed.

These observations and our recommendations are discussed in greater detail in the Audit Result section of this report.

We wish to acknowledge the Police Bureau's initiative in implementing immediate measures to correct some internal control weaknesses.

Sincerely,

A handwritten signature in black ink, reading "Michael E. Lamb". The signature is fluid and cursive, with the first name "Michael" being the most prominent part.

Michael E. Lamb
City Controller

INTRODUCTION

This fiscal audit of the CRRU Record Room was conducted pursuant to the Controller's powers under Section 404(b) of the Pittsburgh Home Rule Charter.

SCOPE AND METHODOLOGY

This audit was conducted pursuant to Article IV, Section 404 (b) of the City of Pittsburgh Home Rule Charter. Our procedures were limited to examining documentation and revenue records for the period January 1, 2010 to November 15, 2012.

The objectives of this special audit are to perform procedures to determine the extent of misappropriation of funds and to also examine the revenue process and identify areas where internal controls could be strengthened to adequately safeguard Record Room revenues.

Our audit procedures consists primarily of inquiries, examination of potential evidentiary documents and revenue records to determine how much cash is missing and to also identify areas where internal controls could be strengthened to adequately safeguard Record Room fees received. These procedures were neither designed nor intended to be a detailed audit of the Record Room. Accordingly, the findings and recommendations presented in this report only pertain to records examined and matters discovered during this audit. Specifically we:

- Interviewed Police Bureau and Record Room personnel to gain an understanding of the processes and internal controls over the recordation of receipts.
- Evaluated adequacy of internal controls over the collection, recording and deposit of fees collected by the Record Room.
- Prepared summaries and made copies of all pertinent documentation examined.
- Examined supporting documentation to determine total fee revenue collected for the period January 1, 2010 to November 15, 2012.
- Performed procedures to determine whether revenue that was collected was actually deposited.
- Applied procedures to determine total amount of cash missing.

Our procedures were performed during November 26, 2012 to December 14, 2012.

OVERVIEW

The Record Room is a component of the Central Records and Reports unit (CRRU) which is part of Support Services, a unit of the Administration Branch of the City of Pittsburgh Police Bureau. The Record Room is responsible for providing police reports that are available to the public for a fee of \$15. The public is entitled to all Incidence reports (2.0 reports) and some Investigative reports. Victims of hit and run, burglary or robbery, theft or fraud, or identity theft may obtain copies of the investigative reports. Reports available to the public may be obtained in person at the Record Room office located in the Municipal Court Building or through the mail. Reports are retrieved from two primary sources; Police Imaging System (IMS) to retrieve city police reports and Pennsylvania Department of Transportation (PennDOT) Crash System to retrieve accident reports.

The Record Room was staffed by two cashiers, one part time (since 1991) and the other fulltime (hired August 2011) responsible for collecting and processing payments received both in person and through the mail for the period of our audit. However at the time of our fieldwork, there was only one cashier, the part time cashier was asked to resign.

Individuals who come to the counter to request reports are required to complete a request form, present photo identification (if needed for the type of report requested) and pay the fee. For requests sent through the mail, a completed request form or request documented on letterhead is also enclosed with the payment. Acceptable form of payments include cash, check or money order, however the practice of accepting payments in cash was discontinued shortly before the start of our fieldwork. Payments are currently being processed using the MA-1350-1 Series Cash Register. Each cashier has a start up fund of \$200 at the beginning of the day and restrictive endorsement of "For Deposit Only" is stamped on all checks upon receipt.

At the end of the day each cashier balances her collection for the day by reconciling receipts, monies collected and the Cash Register Z-Tape. A revenue report and deposit slip is prepared for the days' collections by the part time cashier, reviewed by the supervisor and stored in a safe pending actual deposit to the bank. The next morning, a daily revenue report is prepared documenting the total receipts in cash and check for the day. A copy of the report is maintained for filing and two copies are sent to the Finance department when deposits are taken to the bank. A monthly summary report is also prepared to show total monies collected at the end of each month. This report documents deposit amounts for each business day in the month. We noted that there is no supervisory review to verify deposits are actually made.

Deposits for the five previous business days are made once a week on Wednesdays. A copy of the validated deposit slip and a bank receipt is returned to the office for filing. After the deposits are made, the revenue sheet is sent to the Finance dept. to be validated. The validated daily revenue sheet is received back from Finance and filed with the other documentation in a monthly folder. All documentation prepared for deposit including the day's work are securely stored in a safe until the actual deposit is made.

AUDIT RESULT

Our audit disclosed for the period October 11, 2011 through November 15, 2012, not all record room collections/receipts were deposited in the bank. Revenue in the form of cash was missing and checks were also held and not deposited resulting in the possible loss of revenue from stale checks. Our audit also revealed inadequate internal controls over the revenue process, some of which the Police Bureau has already implemented steps to correct. Our findings and recommendations are discussed in detail as follows:

Finding # 1: Missing Cash

Internal Controls over the revenue collections in the Record Room were inadequate to mitigate risks associated with the collection and deposit of receipts. The cashiers were not adequately supervised and the part time cashier's duties were not properly segregated. As a result a total of \$17,140 receipts in the form of cash collected over 153 business days during the period October 11, 2011 through November 15, 2012 is missing. Per Record Room policy, receipts collected for the previous five business days are to be deposited weekly on the following Wednesday.

The part time cashier was responsible for collecting receipts, preparing revenue records, preparing deposits and also taking all the receipts collected to the bank. It appears that the part time cashier responsible for taking the deposits to the bank was substituting checks in place of cash, thereby allowing the cash receipts collected not be deposited in the bank account. Although daily revenue records are reviewed, there was no adequate supervision to ensure amounts collected were actually deposited in the bank. The lack of effective internal controls and adequate supervision increased the risk that errors and/or misappropriation of assets may occur and not be detected in a timely manner.

Recommendations

Establish policies and procedures to ensure proper supervision of the receipt process. Deposit documents such as receipts from the bank and/or validated deposit slips should be compared to the revenue records after the deposit is made to ensure all receipts are actually deposited. Also, effective internal controls dictate that proper segregation of duties should be maintained within the functions of collection, recordation and custody of assets.

The duties of preparing deposits and taking the deposit to the bank should be segregated. If this is not administratively possible, cashiers should take turn taking the deposit to the bank at a minimum. The newly implemented policy of not accepting cash as a form of payment significantly reduces risk of the misappropriation of receipts.

Finding # 2: Checks Collected Not Deposited

The part time cashier was not depositing checks collected and due to lack of adequate supervisory review this was not detected timely. Our audit disclosed checks in the amount of

\$61,871 recorded as received during the period October 11, 2011 to November 15, 2012 were not deposited in the bank by the part time cashier. Stacks of 3,714 physical checks approximately totaling \$56,797 were discovered enclosed in the records examined, of which \$14,581 (967 checks) may be deemed stale (6 months or older) by the issuing bank thereby resulting in additional loss of revenue to the city. Also, the difference between the total checks recorded as received of \$61,871 and physical checks of \$56,797 (or \$5,074) represent revenue recorded as received in the form of checks. However, Auditors were unable to find any specific detail relating to this amount.

Recommendations

Establish procedures to ensure effective internal controls to safeguard against loss of public resources by increased supervision over the receipt process. Specifically the Police Bureau should consider:

- Implementing supervisory review of deposits records before and after the deposit is made. Independent review and verification of deposit documents (duplicate deposit slip/ bank receipt) to revenue records (daily revenue report/ generation report) should be performed to verify all collections are actually deposited in the bank.
- Deposit runs to the bank should be made by a person independent of the deposit preparation process if possible. At a minimum, cashiers should take turns making the deposit run.

Finding #3: Lack of system generated records and reports

The Cash Register currently utilized by the Record Room to process receipts is old and does not have the capability to generate reports or to track statistical data. The current model (MA-1350-1 Series Cash Register) has been in since for the past ten years and does not have the capability to automatically generate reports other than the X and Z-tape which provides control totals and summary of payments received by type of report issued. The daily and monthly revenue reports used to balance receipts are manually prepared by the cashiers based on receipts entered into the register. The use of outdated equipment makes it easier for misappropriation of assets to occur and not be detected timely.

Recommendation

The Record Room should explore the option of upgrading to an automated cash register system thereby reducing the risk of errors, or misappropriation of funds.

Finding #4: Reconciliations Not Performed

There are no reconciliations performed to agree record room revenues to the city accounting system to ensure accuracy and allow for early detection of errors and/or irregularities. Performing periodic reconciliation to agree deposits made to the accounting system is a good

management control practice to ensure accuracy and early detection of errors and/or irregularities.

Recommendation

Establish procedures to periodically reconcile record room receipts to the City's accounting system.

Finding #5: Cashiers Not Bonded

Cashiers working the Record Room counter are currently not bonded. Best Practices dictates that employees in sensitive situations where theft could occur, such as those who handle cash to be bonded to protect against financial loss.

Recommendation

Explore possibility of bonding all cashiers.

Finding #6: Lack of Supervisory review of Voided Transactions

Currently the Record Room does not have procedures for reviewing and validating voided transactions and the cashiers could void transactions without supervisory review and/or approval. Although voided transactions are recorded on the X and Z-tapes and cash is no longer accepted, the risk still remains that transactions could be voided and funds pocketed.

Recommendation

Establish policy and procedures requiring supervisory review of all voided transactions.

Finding #7: Periodic Audit

There is no independent review of the Record Room activity. Periodic audit serves as important internal control providing an independent verification that transactions have been properly recorded, records are accurate and adequate internal controls are in place based on established professional standards.

Recommendation

As discussed with the Record Room management, the Controller's office will implement procedures to conduct annual audits of the Record Room.