City of Memphis

TENNESSEE

A C WHARTON, JR. - Mayor
JACK SAMMONS - Chief Administrative Officer

EXECUTIVE DIVISION
Internal Audit Service Center
LEON PATTMAN, CIA, CISA, CRMA, CMFO
City Auditor

July 23, 2015

Ms. Janet Hooks, Director
Parks and Neighborhoods
City of Memphis
2599 Avery Avenue
Memphis, Tennessee 38112

Dear Director Hooks:

We have completed our examination of internal controls over revenue receipts in response to a recent allegation of cash improprieties that occurred at the East Shelby Library. The objective of this examination was to evaluate the adequacy and effectiveness of internal controls over revenue receipts including cash handling for the entire library system. To accomplish our objective, we interviewed management and staff to gain an understanding of internal control design and implementation, and reviewed documentation. The scope of the audit was limited to the library revenue receipts process.

Conclusion

Internal Controls over revenue receipts for the library system are reasonably designed and implemented when considering the total revenue and risk exposure except for a significant control deficiency in the revenue reconciliation process. Additionally, we noted opportunities to improve information technology (IT) controls as well.

Background

On March 26, 2015, Internal Audit was informed of a customer complaint where a library employee allegedly committed "official misconduct" for personal monetary gain in the performance of official duties. The library employee requested that the customer pay a $50 library fine but agreed to settle with the customer for $20; when in fact the total fine was $2. The customer paid the $20 but subsequently complained to management and received the appropriate refund. Internal Audit conducted a preliminary survey of the matter and determined that the matter may be criminal (official misconduct) in nature and thereby referred the matter to Police Inspectional Service Bureau. Internal Audit initiated a revenue receipts internal control examination.

Summary of Internal Controls

Overall, the Memphis Public Library (MPL) system of controls is designed to provide responsive customer service and safeguard revenues. The system of controls is reasonable, but not optimal given the fact that the average individual transaction amount is approximately $2.31 based on the sample months tested and approximately $260.00 average daily deposits for the entire library system. The basic internal control framework consists of the following:

1) Process Controls

- daily cash receipt reconciliations at all branches with two people involved,

- independent review and signoff of branch reconciliations by accounting clerk prior to entering into Oracle and review of confirmed bank deposits,

- two persons witness funds placed in safe for overnight safekeeping,

- camera monitoring of safe at main (Central) library.

2) IT Application Controls

- basic data input controls such as standardized screens, form fields, drop down menus, edit checks to help ensure data input accuracy,

- limited aspects of identity management that restricted elevated system privileges (administrators accounts) and email approval for administrator privileges (no written procedures),

- limited use of password administration for circulation staff.

Control Deficiencies

Generally, internal control deficiencies are due to lack of adequate design or full implementation of the control. Normally, a deficiency will not allow management and employees to prevent, detect, and correct impairments to operational efficiency, effectiveness, or compliance to established governance (laws, regulations, grants, contracts, policies, etc.). During the course of our examination, auditors evaluated the adequacy and effectiveness of internal controls and IT application controls related to the library revenue receipts process. We noted the following:

- The daily revenue reconciliation process did not include agreeing the stand alone cash register transactions to the revenue transactions in the Integrated Library System (ILS).

Thereby, it would be unlikely that errors or irregularities would be identified which auditors view as a "significant control deficiency".

- Basic output controls such as reports that show the results of daily transactions were not produced for management's review and for the daily reconciliation process.

- Identity management process did not require unique identification for each individual system user and their transactions that ensure individual accountability for all revenue transactions. Based on auditors' preliminary assessment of data reliability, we learned that the revenue transaction records in the database do not contain the user identification which compromises the audit trail with respect to individual accountability.

Note: Management stated that the system requires an individual to have a unique ID for various locations within the library. Thus, generic ID's were used to be more practical and customer service oriented.

- Identity management process should require written approval for system privileges granted to all users. The written approval documents should be maintained while the individual is employed and for a standard period of time thereafter (typically at least one year).

- Password administration did not require a complex personal identification number (PIN) such as the use of alpha-numeric characters, special symbols, and at least eight characters.

- Password administration did not restrict access to a user's password to only that user via encryption or masking. Rather, the system administrator's guide stated the administrators and supervisors could view PINs. Thus, the individual would not be solely accountable if the revenue transaction record contained the user ID.

- The system did not retain electronic system records in accordance with the Municipal Technical Advisory Service's (MTAS) seven year guidance. Additionally, auditors did not find written policy and procedures to review, approve, and document the destruction of records as required by the City Manual.

Opportunities to Strengthen Controls

- We found no written guidance for employees to handle refunds, voids, cash shortages/overages, "no sales transactions", and return checks. The written policies and procedures should provide a clear, concise and consistent guidance for all staff involved in

the library revenue process. According to management, the written procedures are in the process of being revised and updated.

- Employees that handle payments and cash items do not have individual accountability for a cash drawer. Rather, all employees worked out of the same cash register drawer(s) which makes it difficult to attribute errors or irregularities to a specific person.

Note: Due to minimal revenue exposure ($2.31 average individual revenue transaction amount and $260 average revenue collection across all of MPL) register/drawer for each circulation representative may not be beneficial to implement. Auditors believe that there is low likelihood and low impact for stated exposure to be realized.

- We noted instances of overages and shortages which were not properly recorded to the general ledger to the over/short account. Rather, the overages and shortages were netted in the revenue figure.

Observation

The City's libraries (Central, Cordova, East Shelby, and Whitehaven locations) accept credit cards through a credit card swipe device connected to a dial up line for authorization and processing. The card swipe device is not connected to the City's network and no credit card data reside at any time on the network. However, the libraries are subject to complying with Payment Card Industry (PCI) standards for safeguarding customers' credit card information. The initial PCI requirement is for the libraries to assess what specific PCI standards apply to its specific credit card processing operations. Auditors observed the City's Information Security Officer (ISO) performing the PCI assessment. Based on the PCI assessment and the observations made, PCI processing training is required at all PCI processing locations and City PCI policy needs to be distributed to all areas that process credit cards. The ISO concluded that no additional PCI requirements were applicable to the libraries.

Recommendations

- Management should develop an ILS report to capture daily revenue transactions to strengthen the daily reconciliation process.

- Management should develop specific policies and procedures for refunds, voids, cash overage/shortage, no sales transactions, and return checks. The procedures should require supervisor/management approval and oversight of these transactions. Voided transactions should be well documented and adequately reviewed to help prevent and detect fraud.

- Management should document written risk associated with the lack of individual accountability due to the low impact dollar amount of revenue and exposure.

- Cash overages/shortages should be recorded in the "over/short" general ledger account 49126 for their service center.

- Management should implement the following IT application controls:

  o develop a ILS report for use in the revenue reconciliation process to ensure accuracy and completeness for revenue transactions,

  o explore the system capabilities to determine if an individual user ID can be used throughout the system to eliminate generic IDs and maintain individual user accountability,

  o develop written policies and procedures to document approval for system privileges and the retention thereof,

  o increase the complexity policy for user passwords (PIN) to reduce the likelihood of unauthorized system access,

  o encrypt user passwords (PIN) and limit access to only the specific user for individual accountability, and

  o implement system record retention policy and procedures to comply with MTAS guidance and the City Manual.
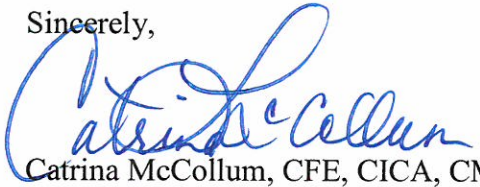
We conducted this attestation engagement in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective and our assessment of all evidence. Our engagement may not necessarily disclose all weaknesses related to the library revenue receipts process.

Our audit process encourages management to provide a written response to the draft report for inclusion in the final report. We presented you with the draft report dated July 8, 2015. Your written response to the draft appears in full text as an attachment to this report. We will evaluate the response and the adequacy of corrective action during subsequent follow-up activity.

We appreciate the cooperation of MPL management and staff during our examination and assistance of the City Information Technology Security Officer. Please feel free to give us a call if you have any questions or need additional assistance.

Sincerely,

Catrina McCollum, CFE, CICA, CMFO   Brian K. Ford, CIA, CISA, CRMA
Project Manager   IT Auditor

APPROVED:

Leon Pattman, CIA, CISA, CRMA, CMFO
City Auditor

Attach: Response from Director of Parks and Neighborhoods

c: AC Wharton, Jr., Mayor
          Jack Sammons, Chief Administrative Officer
          Keenon McCloy, Director, Library
          Brent Nair, Director/CIO, Information Services Division

CITY OF MEMPHIS
DIVISION OF PARKS AND NEIGHBORHOODS
MEMPHIS PUBLIC LIBRARY

TO: Leon Pattman, City Auditor
FROM: Keenon McCloy, Library Director
DATE: July 15, 2015
SUBJECT: Response to Revenue Receipt Recommendations for the Library

We are in receipt of your examination of internal controls over revenue receipts at the Memphis Public Library. We appreciate your review and conclusions that they are reasonably designed and implemented when considering the total revenue and risk exposure. As it relates to the noted control deficiency and opportunity to improve information technology (IT) controls, we respectfully submit the following response for your consideration:

- Management has developed a report to capture daily revenue transactions from the ILS system, and this new review process will be implemented within the next 30 days. It should strengthen our daily reconciliation process.
- Management will put into writing specific policies and procedures for refunds, voids, cash overage/shortage, no sales transactions and return checks that require supervisory approval and oversight.
- We are working with Accounting and Internal Audit to determine the manner by which we will show cash overages/shortages since Oracle does not currently allow entry to the required account in our Receipts Module for our service center. If the Oracle system cannot be modified, the Finance Manager will prepare a journal entry that summarize the "over/short" each month beginning July 1, 2015 from the Daily Collection Record and submit this entry to Accounting for recording to the general ledger on or before the 5th working day of the following month.
- Management has created a daily log in the ILS for use in the revenue reconciliation process to ensure accuracy and completeness in revenue transactions.
- Due to substantial system limitations and low risk to reward ratio, management declines to implement a process change whereby individual user IDs can be used throughout the system to eliminate generic IDs. In the event we replace the Integrated Library System in the future, we will include this requirement in to the RFP.
- Management will provide written policies and procedures for system privileges and retention.
- Management has increased the number of characters required in passwords from four to eight, requiring that all include complex alpha-numeric characters and special symbols.
- Management will implement a records retention policy in compliance with MTAS and the City Manual guidelines.

We have attached a Corrective Action Plan Management Tracking Tool with additional detail, but all feasible recommendations should be completed no later than August 12, 1015.

All points of service that collect revenues have notices posted stating that if staff do not provide a receipt, they should notify management immediately. We also have an extensive customer complaint/feedback process available to all library customers.

Once again, thank you for the thoughtful review of our revenue collections process, and we will look forward to completing recommended action items no later than August 12, 2015.

Thank you.

Attachment: Corrective Action Plan Management Tracking Tool

CC: Janet P. Hooks