



**OFFICE OF THE INSPECTOR GENERAL**  
*City of Chicago*



***REPORT OF THE INSPECTOR GENERAL'S OFFICE:***

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***IGO AUDIT OF THE OFFICE OF THE CITY CLERK  
CICERO/ARCHER SOUTH SIDE SATELLITE OFFICE***

***NOVEMBER 2010***

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November 19, 2010

To the Mayor, Members of the City Council, the City Clerk, the City Treasurer, and the residents of the City of Chicago:

The Inspector General's Office ("IGO") has completed an audit of the cash handling procedures for the periods of January 1, 2006 through December 31, 2006 and January 1, 2008 through December 31, 2008 and sticker inventory for the period of June 1, 2007 through May 31, 2008 of the Clerk's Office's satellite location at 5674 S. Archer Ave, Unit A ("Cicero/Archer"), previously located at 5301 S. Cicero Ave. The purpose of the audit was to review, test, and evaluate cash handling and inventory procedures to determine whether the Clerk's Office had effective and efficient operations and internal controls, as well as adequate policies and procedures in place. The audit was prompted by evidence developed in a since-closed IGO investigation revealing significant control issues in the operation of the Clerk's Office. That investigation was initiated on the basis of a referral from the City Clerk. In making that investigative referral, the Clerk noted concerns of more systemic irregularities at the Cicero/Archer location originating under the administration of a prior City Clerk and invited independent IGO inquiry into those broader suspected irregularities. Attached is a copy of the audit report containing our findings and recommendations and incorporating Clerk's Office responses and our responses to those, where required.

The audit found that the Clerk's Office's application of internal controls was not adequate to ensure efficient and effective management of the cash handling procedures until late in 2008 when a new point of sales system was installed. We also identified significant deficiencies in internal controls over cash handling and the sticker inventory process.

We found, among others, the following deficiencies in internal controls:

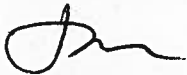
- Weak inventory procedures and lack of performance of inventory reconciliation. Sticker inventory requested from the vault was not maintained by one set, standardized process, thus allowing for and resulting in inconsistencies. Inventory count sheets and the master inventory were inconsistent.
  - A sticker analysis performed for the 2007-2008 sticker year revealed 19,786 stickers, valued at \$1,756,110 that were initially unaccounted for, and not reconciled, reviewed or investigated by the Clerk's Office until the

presentation of findings by the IGO auditors in September 2010. Further inquiry identified 18,406 of those stickers as having actually been sold. Therefore, of the 19,786 stickers that had not been reconciled, 1,380 remained missing, with a corresponding potential loss of \$134,325

- Improper maintenance of financial records. Office of the City Treasurer ("OCT") records were not reconciled/balanced to the Clerk's Office documentation on a regular basis. The OCT was not able to balance the credit card sales receipts to the credit card account.
- Near total absence of segregation of duties within the Cicero/Archer office with regards to cash handling. The Program Manager and Payment Service Representatives (PSRs) all worked from the same cash drawer during business hours, removing individual PSR accountability for overages and shortages.

The Clerk's Office fully cooperated with the IGO throughout the audit. Our report notes that the Clerk's Office has been proactive in addressing certain shortcomings revealed in the course of the audit, and has indicated ongoing efforts to supplement its corrective measures. The adequacy and effectiveness of any such measures as may have been instituted by the Clerk's Office was beyond the scope of this audit and will be the subject of a follow up report from the IGO.

Respectfully,



Joseph M. Ferguson  
Inspector General  
City of Chicago

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## AUDITOR'S REPORT

We have completed an audit of the Office of the City Clerk Cicero/Archer South Side Satellite Office. The audit reviewed cash handling for the periods of January 1, 2006 through December 31, 2006 and January 1, 2008 through December 31, 2008, and further analysis of vehicle sticker inventories for the period of June 1, 2007 through May 31, 2008.

The authority to perform such an audit is established in the City of Chicago Municipal Code § 2-56-030 which states that the Inspector General's Office has the power and duty to review the programs of City government in order to identify any inefficiencies, waste and potential for misconduct, and to promote economy, efficiency, effectiveness and integrity in the administration of City programs and operations.

Our purpose was to review, test, and evaluate activities performed to determine whether the Cicero/Archer Clerk's Office had effective and efficient operations and internal controls as well as adequate policies and procedures. City Clerk management is responsible for establishing and monitoring effective internal controls over the cash handling and sticker inventory. We also evaluated whether controls effectively prevented theft, loss, waste, and misconduct.

We conducted this audit in accordance with generally accepted Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Based upon the results of our audit, we determined that the Clerk's Office's application of internal controls was *not* adequate to ensure efficient and effective management of the cash handling procedures until late in 2008 when a new point of sales system was installed and a new Program Manager was put in place. However, internal controls over sticker inventory procedures were not adequate throughout the entire audit period. The Clerk's Office planned to implement a new electronic inventory system for the 2010 – 2011 sticker year which was not tested as it was beyond the audit period.

We identified significant deficiencies in internal controls over cash handling and the sticker inventory process. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to effectively carry out the function or program being audited. We cannot be assured that the controls in place would prevent theft, loss, waste, and misconduct at the Cicero/Archer Office.

We would like to thank the Office of the City Clerk's management and staff for their cooperation during the audit. Their assistance contributed significantly to the successful completion of the audit.

Wendy Funk  
Chief Auditor

## **EXECUTIVE SUMMARY**

The Inspector General's Office ("IGO") performed an audit of the 2006 and 2008 calendar years' cash handling procedures and the 2007-2008 inventory process of the Office of the City Clerk's ("OCC") satellite office located at 5674 S. Archer Avenue, Chicago, IL ("Cicero/Archer")<sup>1</sup> The audit was prompted by evidence developed in a since-closed IGO investigation revealing significant control issues in the operation of the Clerk's Office. That investigation was initiated on the basis of a referral from the City Clerk. In making that investigative referral, the Clerk noted concerns of more systemic irregularities at the Cicero/Archer location originating under the administration of a prior City Clerk and invited independent IGO inquiry into those broader suspected irregularities.

The Clerk's Office sells over one million vehicle city stickers to residents of the City of Chicago. The purpose of the audit was to review, test, and evaluate cash handling and inventory procedures to determine whether the Clerk's Office had effective and efficient operations and internal controls, as well as adequate policies and procedures in place. We also evaluated whether controls effectively prevented theft, loss, waste, and potential for mishandling. To our knowledge, this is the first comprehensive operational audit of the City Clerk's Cicero/Archer satellite office.

Audit steps included:

- interviewing and observing office management and employees to document process flow;
- determining whether cash and receipts were properly safeguarded throughout the process from collection to deposit;
- determining whether daily receipts and daily deposits agreed to daily sales records, and that the reconciliation process was performed by an employee independent of the receipt, recording, and deposit processes;
- determining whether the appropriate inventory process of all items received, sold, and unsold was properly maintained; and
- reviewing the master inventory to ensure inventory was appropriately distributed.

Based upon the results of our audit, we determined that for the 2006 calendar year and 2007-2008 sticker year, the Cicero/Archer office's application of internal controls was not adequate to ensure efficient and effective management of the office. We found deficiencies in most of Cicero/Archer's internal controls relating to cash handling and inventory. As a result, we cannot be assured that inventory and/or cash were properly safeguarded against theft or loss.

We found, among others, the following deficiencies in internal controls and resulting negative consequences:

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<sup>1</sup> In August 2008, the Cicero/Archer office was moved to its current location at 5674 S. Archer, from 5301 S. Cicero. To avoid confusion, we will refer to both offices as the Cicero/Archer office.

- *Weak inventory procedures and lack of inventory reconciliation.* Sticker inventory requested from the vault was not maintained by one set, standardized process, thus allowing for and resulting in inconsistencies. Inventory count sheets and the master inventory were inconsistent. For example, items scheduled to be sent to one location were sometimes sent to another. A sticker analysis performed for the 2007-2008 sticker year revealed 19,786 stickers, valued at \$1,756,110 that were initially unaccounted for, and had not been reconciled, reviewed or investigated by the Clerk's Office until questioned by the auditors. Further inquiry identified 18,406 of those stickers as having actually been sold. Therefore, of the 19,786 stickers that had not been reconciled, 1,380 of them remain missing, with a corresponding potential loss of \$134,325.
- *Improper maintenance of financial records.* Daily logs tested as part of the audit were inconsistent and lacked proper approvals by employees or managers. Back-up documentation, including bank deposit tickets, was missing or incorrect. This resulted in, among other things, a recording error of \$26,635 posted to the wrong Clerk's office location. In addition, inconsistencies in the daily logs resulted in shortages and missing income. Office of the City Treasurer ("OCT") records were not reconciled/balanced to the Clerk's Office documentation on a regular basis. The OCT was not able to balance the credit card sales receipts to the credit card account. It instead used estimates as the basis for its determinations that unbalanced amounts were immaterial. We also found no evidence of a 'maximum immaterial calculation,' *i.e.*, a standardized guideline and/or benchmark established and approved by management regarding a dollar amount or percentage that is considered to be within an acceptable range of error and not requiring additional investigation by the OCT.
- *Near total absence of segregation of duties within the Cicero/Archer office with regards to cash handling.* In 2006, the Program Manager controlled all functions of cash handling, including collecting cash, verifying cash, reconciling cash and preparation of the cash deposits. The Program Manager combined daily log sheets from several different Payment Service Representatives ("PSR") into one master log, eliminating proof of daily logs by individual PSRs for the day. During the audit period, the Program Manager and PSRs all worked from the same cash drawer during business hours, removing individual PSR accountability for overages and shortages. Collectively, these practices resulted in substantial systemic deficits in accountability.
- *Non-existent written policies and procedures.* Employees working in the office may not have been able to properly carry out their job duties.

During August 2008, the Clerk's Office implemented a city-wide point of sales ("POS") system and appointed a new Program Manager to the Cicero/Archer office. The POS system ensures that all transactions and sales totals are tracked and recorded electronically, thus significantly reducing opportunity for theft, loss, or mishandling of cash or cash equivalents. There was a how-to manual created for the system that included procedures for cash handling and balancing as well as other various functions. However, it did not include procedures for inventory control or financial reconciliations.

Thus, based on the results of the audit of 2008 calendar year cash handling review we determined that the Cicero/Archer office's application of internal controls was adequate to ensure efficient and effective management of cash handling procedures under the new Program Manager.

Additional issues noted during the audit are described in detail in the "Audit Findings and Recommendations" section of this report beginning on page 11.



## **BACKGROUND**

This section describes the organization and purpose of the Office of the City Clerk during the audit period spanning part or all of the period January 1, 2006 through December 31, 2008.

### **Introduction**

The City of Chicago - Office of the City Clerk, per its website, is responsible for:

- Maintaining official records of city government.
- Publishing the Journal of Proceedings of the Chicago City Council.
- Issuing all business, liquor and other city licenses.
- The sale of more than 1.1 million vehicle stickers<sup>2</sup> and over one hundred thousand residential permit parking stickers.

In addition, the OCC is also responsible for accepting applications for passports, introducing damage claims (property, vehicle, and water bill) to the City Council Committee on Finance, and running the Senior Medical ID and Kids ID programs.

All of these services can be obtained at City Hall, located at 121 N. LaSalle St. Room 107, Chicago, IL, 60601. Also, the OCC has satellite offices at 5674 S. Archer Avenue, Unit A (“Cicero/Archer Office”)<sup>1</sup> and 5430 W. Gale Street. These satellite offices, also known as substations, provide many of the same services.

### **Vehicle Stickers**

Per City of Chicago Ordinance §3-56-020:

*It shall be unlawful for any motor vehicle owner residing within the city to use, or to cause or permit any of the owner's agents, employees, lessees, licensees or bailees, to use, any motor vehicle or any other vehicle upon the public ways of the city or upon any city-owned property, unless such vehicle is licensed as provided in this chapter.*

The Clerk’s Office sells more than 1.1 million stickers each year to residents. City stickers expire on June 30<sup>th</sup> of each year, but vehicle owners generally have until July 15<sup>th</sup> before enforcement begins. The annual sticker cycle runs from July 1 through June 30. The OCC experiences a “rush” for approximately 2 months, starting June 1.

In 2006, the sales process was performed manually. PSRs collected income and documented sales on Daily Sales Logs. In August 2008, the OCC implemented a point of sales system, AMUI

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<sup>2</sup> Throughout the Wheel Tax Licenses Ordinance, Chi. Municipal Code § 3-56, a licensed vehicle is proven by displaying a wheel tax license emblem, commonly known as a vehicle sticker.

(Application Maintenance User Interface), which allows the OCC to electronically track all sales and inventory per PSR, per shift.

In addition, at the end of August 2008, shortly after the Cicero/Archer office moved locations, there was a change in management and during the audit testing period there were two different program managers.

Currently, the Cicero/Archer office employs 5 full-time employees, one program manager, one assistant manager, and 3 PSRs. During the rush season, interns and/or part-time employees may be hired as part of the staff. The Cicero/Archer office, along with the other substations, report to the Director of Licensing Verification.

### Verification Section

The Verification Section is responsible for all the recordkeeping and reporting of funds that are deposited into the City accounts with regards to sticker sales. This income comes from City Hall, satellite offices, and over 400 currency exchanges (daily), ward offices (weekly), and internet sales. All income deposited into the City accounts are reconciled with the sales receipts from these various selling locations. Verification also manages all refunded or returned city stickers, handles non-sufficient funds checks, and alleviates phone inquiries from residents regarding sticker issues.

### Computerized Inventory System

During the audit period of 2006-2008, the OCC did not have an inventory system. The OCC attempted to track inventory manually, but the process was not successful. The manufacturer sent sticker inventory to City Hall for distribution. The satellite offices, including Cicero/Archer, requested sticker inventory when needed. However, there was no comprehensive streamlined process to track every sticker.

In 2009 the OCC began implementing an electronic inventory system that tracks every sticker number in its inventory, through to the sale of the sticker and/or return of the sticker. Full implementation was expected during the 2010-11 sticker year.

### Data Services

Data Services ("DS") is a department within the Office of the City Clerk responsible for data entry. It is located in the basement of City Hall. As daily logs are received from all Clerk Sales facilities, mainly during the busy season, DS employees enter all sales information from each facility to build a data file. First, the reported sales are verified to ensure that all pertinent information was entered correctly. If a sale comes through as an error the data service employee can contact the City resident to obtain correct information. This data file is continually updated and used to create renewal notices for the following year.

Data Services is also in charge of customer service during busy season to help with overflow (selling stickers, record requests, etc.) and Fleet Operation Sales which encompasses sticker sales to car dealers, municipal vehicles, and other organizations requiring 10 stickers or more.

Lastly, DS receives all incoming mail regarding sticker sales. The DS manager reports to the Deputy City Clerk.

## **SCOPE, OBJECTIVES, AND PURPOSE**

### **Scope and Methodology**

The scope of this audit consisted of reviewing cash receipts handling, and vehicle sticker inventory control procedures at the Cicero/Archer Clerk's Office for the audit period 2006 through 2008. Fieldwork was completed on December 11, 2009.

Audit steps included:

- interviewing and observing office management and employees to document process flow;
- determining whether cash and receipts were properly safeguarded throughout the process from collection to deposit;
- determining whether daily receipts and daily deposits agreed to daily sales records, and that the reconciliation process was performed by an employee independent of the receipt, recording, and deposit processes;
- determining whether appropriate inventory of all items received, sold, and unsold was properly maintained; and
- reviewing the Master Inventory to ensure inventory was appropriately distributed.

### **Objectives**

The objectives of this audit were to:

- gain an understanding of the process and functioning of the City Clerk's Office;
- evaluate the policies and procedures respecting Clerk's Office cash receipts and inventory;
- assess the adequacy and effectiveness of internal controls relating to the sale, recording and safeguarding of vehicle stickers;
- test and evaluate activities performed to ensure effective and efficient operations and compliance with procedures and policies; and
- identify inefficiencies, waste, loss, and potential for misconduct.

### **Purpose**

The Clerk's Office is responsible for establishing and maintaining a system of internal controls to adequately safeguard sticker inventory and cash handling as an integral part of the department's overall internal control structure. The objectives of such a system are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use, and that all transactions are executed in accordance with management authorization and are properly recorded. The purpose of this review was to assess whether the above-mentioned responsibilities and objectives were carried out in an effective and efficient manner, with minimal waste, loss or misappropriation of assets and/or cash.

### **Audit Team**

Nicole Orr, Auditor

Melanie Mui, Senior Auditor

Wendy Funk, Chief Auditor

## AUDIT FINDINGS AND RECOMMENDATIONS

Multiple internal control issues existed at the Clerk's Cicero/Archer Satellite Office that will be further explained in the findings detailed below.

### **Finding 08-01: Unaccounted for Stickers and Lack of Inventory Reconciliation in the 2007-2008 Sticker Year**

Based on the inventory procedures listed below in Finding 08-03, the audit team conducted a sticker analysis. Information provided by the Verification Section, including beginning inventory, stickers sold (from Daily Logs of each working shift throughout the year), damaged/returned stickers, and ending (unsold) inventory, should allow each sticker to be traced from the manufacturer to its ending point, regardless of whether it was sold. Ultimately, if a sticker was sent to the Cicero/Archer office and could not be traced to an end, we deemed it 'missing.'

We have determined from our sticker analysis for the 07-08 sticker year that 19,786 stickers were sent to the Cicero/Archer Office, *not* recorded as sold, and *not* recorded as returned, which resulted in missing stickers with an aggregate value of \$1,756,110. When this discrepancy was brought to their attention, the Clerk's Office Data Services staff, with assistance from the Department of Innovation and Technology (DOIT), found a majority of these stickers, 18,436, to be included in a separate database maintained by the Clerk's Office for the purpose of documenting vehicle and owner information for the next year's renewal notice. Thus, 1,380 stickers are still missing, valued at \$134,325.

Although the 18,406 stickers were ultimately identified as sold, the Clerk's Office was unaware that the supporting documentation did not exist for the original 19,786 stickers. No employee from the Clerk's Office reconciled, reviewed or investigated this discrepancy until asked by the auditors.

One possible reason for the discrepancy, per discussion with Clerk's Office management, could have been that the stickers, although originally sent to the Cicero/Archer Office, may have been moved to another satellite office or substation to be sold. However the proper paperwork was not filled out to indicate that the stickers were moved to another location. There was no explanation for the 1,380 stickers still missing.

Best practices for inventory internal controls require accurate and complete inventory counts and proper recordkeeping – including appropriate descriptions and accurate records of quantities on hand, in order to ensure assets are properly safeguarded and not subject to theft, waste or loss. Our review revealed that neither the Clerk's satellite office nor City Hall had policy or procedure guidelines or a standard process of inventory reconciliation. Ending inventory was returned to City Hall and logged in without regard or concern for missing stickers. These weaknesses have resulted in unaccounted-for sales, and possible theft or waste.

**Recommendation(s):**

We recommend formulation and implementation of a set of standard policies and procedures to include a comprehensive uniform inventory process at satellite offices and City Hall. The Clerk's Office should implement a process for reconciling new sticker inventory, stickers sold, stickers voided/damaged, stickers returned (not sold) and other adjustments to produce a reliably accurate ending inventory on a standardized, periodic basis. In the absence of such a reconciliation process, the Clerk's Office will be unable to identify and resolve inventory discrepancies, determine the cause(s) of observed discrepancies, and adjust the records accordingly.<sup>3</sup>

**Management Response:**

This audit encompassed the 2007-2008 city sticker sales year. This sales period was the last year that manual sales were in place prior to the "print on demand" environment. All transactions that took place required either a pre-printed renewal form or a hand written form completed by the customer. Both types of forms were returned to city hall along with the respective revenue and inspected and verified by the city clerk verification department. This step accounts for all monies attached with all paperwork ensuring that each application was married to the appropriate dollar amount. Once verified these forms were then released to the city clerk mailroom division to be sorted in numerical order based upon sticker type and sticker number. These forms were further divided by the form type (type 1 = pre-printed and type 2 = handwritten forms) Type 1 forms were then run through a high speed scanner and electronically added to a new data base. This is where 18,436 of the alleged missing stickers were transmitted. The hand written applications were sent to a key punch vendor who data entered the hand written application into a format that could then be mass applied to the city clerk data base. The remaining 1350 stickers that the audit team identifies as missing are in all likelihood handwritten applications that were checked by our verification department and sent to our outside vendor for data entry. Every season there are applications that are illegible and unable to be captured because of this. This does not indicate that the monies were not collected. In any event, 1350 sticker applications out of approximately 1.3 million applications translates to a one tenth of one percent error rate.

Since the implementation of a computerized inventory system and point of sale electronic sales system in late 2008 reconciliation of all stickers sold and not sold is done electronically and without the errors or encumbrances of the manual system. Reconciliation and tracking functions are now done automatically. All recommendations of the audit team are in place.

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<sup>3</sup> Per Data Services, as of the 2010-2011 sticker year, a computerized inventory system was to be implemented. This system was expected to potentially alleviate the inventory control issues. However, this was beyond the audit period and was not reviewed by the audit team.

**Finding 08-02: Financial Records Not Properly Maintained**

Based on interviews with the Program Manager, the following cash handling process was to be followed:

- New employees were trained by current employees, (without reference to or the existence of a documented policy and procedure manual)
- Each Payment Service Representative (PSR) began the work day with a \$75 bank, which was the equivalent of the proceeds from the sale of a passenger vehicle sticker carried over from prior day transactions.
- During each shift, PSRs kept a manual log (daily log) of each type of transaction that was used to reconcile the drawer at the end of each shift.
- Drawers were locked and put in a locked cabinet behind the counter when PSRs stepped away (during breaks or lunches).
- At the end of the day, PSRs counted the cash proceeds in their drawers, placed the proceeds, less \$75 for the next day's starting bank, and their signed daily log sheets into a bag, and placed the bags in the office safe. In addition they placed a new log sheet in the drawer in preparation for the next day and stored the drawer in the safe as well.
- In the morning, the Program Manager was responsible for reconciling the drawers from the prior day and preparing the Garda (third-party bank pick-up) deposits. The Program Manager would prepare two bags for Garda pick-up and delivery: one was a cash/checks bag with a deposit slip for LaSalle Bank, and a second that included credit card receipts and voids.
- Garda delivered the bag with the cash and checks to LaSalle Bank and delivered the second bag with the credit card receipts and voids to City Hall. Garda usually made pick-ups on Monday, Wednesday, and Friday, but did so every business day during the 'rush' which runs from June 1<sup>st</sup> through July 15<sup>th</sup>.
- If at the end of the day, a drawer did not balance, the discrepancy, shortages or overages would be noted on the daily log sheet and sent to City Hall for further investigation.

Our review of a testing sample of 130 daily logs covering 50 days provided by the verification section, revealed the following weaknesses:

- a) The daily logs provided were utilized and maintained inconsistently. Many did not list the PSR and one PSR had two log sheets for the same day. Dates were incorrect, and/or numbers were crossed out or illegible. 120 daily logs out of 130 logs reviewed were not signed off by the PSR and 103 were not signed by the Program Manager.
- b) Some daily logs were not accompanied by corresponding deposit tickets.
- c) Of the 50 days tested, there was a net shortage of \$928 (2006 - \$814; 2008 - \$114) that was never accounted for or investigated.
- d) One instance found that \$950 was received as sticker income in the form of cash, but without any documentation verifying that it was deposited.

- e) Revenues for the Cicero/Archer office totaling \$26,635 were coded and deposited as if from another Clerk's Office location, with the errors never identified until performance of our audit.
- f) Office of the City Treasurer ("OCT") records were not reconciled/balanced to the Clerk's Office documentation on a regular basis. The OCT was not able to balance the credit card sales receipts to the credit card account. It therefore used an estimate to conclude that the unbalanced amount was immaterial, although the audit found no evidence of an 'immaterial maximum calculation' *i.e.*, a guideline established and approved by management specifying dollar amount or percentage considered to be within an acceptable range of error thus not requiring additional OCT investigation.

The accounting system should have strong internal controls to ensure accuracy and completeness of financial records. It should 1) identify and record all valid transactions, 2) provide detailed and timely descriptions of transactions traceable to the source, 3) measure transactions to permit recording at proper values, 4) determine when transactions occurred, and 5) properly present transactions.

During the audit period, the Clerk's Office did not have the appropriate controls or oversight in place to ensure that all transactions were accounted for and accurate.

Inconsistent financial records can potentially result in a loss of income that should be accounted for, thus allowing for undetected theft or waste within the City department. OCT did not have complete and accurate financial records for the Clerk's Office, nor did it track deposits or income to specific transactions.

#### **Recommendation(s):**

We recommend the Clerk's Office maintain a standard set of written policies and procedures that dictate exactly how paperwork and other financial records should be recorded and accounted for. As of 2010, due to the new point of sales system implementation, the OCT has been able to reconcile all transactions without exception.

#### **Management Response:**

The handling process was an entirely manual procedure utilizing millions of pieces of paper to document, track and process city sticker sales through end of year reconciliation. The new electronic systems have eliminated the paper processing and has virtually eliminated human error. The systems are programmed to record every transaction and not allow for errors in dollar charges. The inventory system tracks and records all stickers regardless of category. Spot audits have shown all transactions to have been reconciled under the new system. Written standards and policies are inherent in the system with staff being trained and given user Cashiering System Training manuals.



**Finding 08-03: Inventory Procedures were Weak and an Inventory Reconciliation was Not Performed**

Based on interviews with the verification section the inventory procedures followed during the audit period were as follows:

City stickers for the current sticker sales season, which ran from June 1 through May 31, were delivered directly from the manufacturer to the City Hall Clerk's Office and kept in a vault. City Hall assigned and delivered specified series of stickers to each sticker sales location.

After the initial distribution, the remaining stickers were kept in the vault as part of inventory until the selling location requested additional stickers for sale. A sticker request form was filled out by the selling location and sent to City Hall, where it would be authorized by the individual who removed the series of stickers from the vault.

Per discussion with the PSRs located at the Cicero/Archer office, once the stickers were sent to Cicero/Archer, all PSRs sold stickers from a single batch, as opposed to each PSR working from separate batches.

At the end of the sticker season, unused (unsold) stickers were returned to the vault at City Hall where they were added to an "Unused Chicago Vehicle Stickers" list. For audit purposes, the "Unused Chicago Vehicle Stickers" list was used as a year-end inventory.

The following weaknesses were noted relating to inventory management procedures:

- a) No overall reconciliation of sticker inventory.
- b) No regular tracking of sticker inventory by City Hall or the Cicero/Archer office.
- c) Inconsistencies between the inventory count sheets and the master inventory. Items that are scheduled to be sent to one location may be sent to another.
- d) Sticker inventory at the Clerk's satellite office was not listed on the master inventory.
- e) Sticker inventory requested from the vault was not maintained through a single standardized process, allowing for inconsistencies.
- f) Returned inventory (damaged or voided stickers) was not accounted for properly.
- g) No PSR-specific assignment of sticker inventory, rather all PSRs worked from the same batch of stickers. This resulted in an absence of individual accountability necessary to prevent waste, fraud, or misuse.
- h) There were stickers sold out of the Cicero/Archer office that had no paper trail of ever being distributed to that office from City Hall.

Inventory best practices and effective internal controls require accurate and complete inventory counts and proper recordkeeping. This includes appropriate descriptions and accurate records of quantities on hand which ensure assets are properly safeguarded and not subject to theft, waste or loss. A year-end inventory count should be performed in order to ensure accuracy of balances recorded and to prevent waste or loss of inventory. Each PSR should be assigned their own set

of stickers to sell for each shift. The sticker series should be recorded and reconciled at the end of each shift.

There was not a standard process of inventory reconciliation required by the Clerk's Office or City Hall. Ending inventory was sent back to City Hall and logged in without any concern for missing stickers. These weaknesses contributed to unaccounted-for sales, and potential theft or waste.

**Recommendation(s):**

We recommend each PSR work from a separate set of assigned inventory each shift. The sticker series should be recorded and reconciled at the end of each shift. This decreases the chance for theft and increases accountability.

We also recommend a uniform inventory process be put in place at the Cicero/Archer office and City Hall where a year-end inventory count should be performed in order to ensure accuracy of balances recorded and to prevent waste or loss of inventory. A process should occur where a reconciliation of the new sticker inventory (the 'beginning' inventory consists of a new batch of stickers every year. The ending inventory from the previous year is NOT reused in the current year), stickers sold, stickers voided/damaged, stickers returned (not sold) and other adjustments to come to an ending inventory. The purpose of reconciliation is to identify and resolve any inventory discrepancies, determine the cause of the discrepancies, and adjust the records accordingly.

**Management Response:**

A computerized electronic inventory system has been implemented that tracks every sticker from cradle to grave and generates daily, weekly, monthly, and yearly reconciliations as needed.

**Finding 08-04: Incompatible Functions Performed by One Individual**

The following weaknesses were noted in regards to the segregation of duties under the direction of the first Program Manager:

- a) The Program Manager controlled all functions of cash handling, including collecting cash, verifying cash, and preparation of the cash deposits.
- b) The Program Manager combined daily log sheets from several different Payment Service Representatives (“PSRs”) into one master log, eliminating proof of daily logs by individual PSRs for the day.
- c) The cash receipts of Tuesdays, Thursdays and Saturdays were missing for a six-month period. The Program Manager consolidated daily logs and changed the dates to coincide with the Garda pick-ups on Mondays, Wednesdays, and Fridays eliminating proof that the cash receipts of Tuesdays, Thursdays, or Saturdays were included in the pick-ups.
- d) The Program Manager and PSRs all worked from the same cash drawer during business hours, removing accountability for overages and shortages. However, PSRs only maintained their own daily logs on occasion.

Segregation of duties is a basic, key internal control. Four general categories of functions must be separated in order to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business.

The functions that should be separated include:

- o authorization function
- o recordkeeping
- o custody of assets: direct or indirect
- o reconciliation

The failure to properly segregate duties occurred because the first Program Manager chose not to follow the procedures as originally described by that same Program Manager. As noted in b) and c) above, the Program Manager’s ability to combine daily log sheets as well as daily deposits allows for the potential of theft or loss of funds to go unnoticed.

A new Program Manager was assigned to the Cicero/Archer office at the end of August 2008 along with the implementation of the new point of sales system which alleviated all segregation of duties issues. A how-to manual was created for the system that included procedures for cash handling and balancing as well as other various functions.

**Recommendation(s):**

We recommend the Cicero/Archer office continue to follow the cash handling and balancing section of the “Vehicle and General Licensing Procedures Manual”. In addition, these procedures should be incorporated into an overall written policies and procedures manual distributed to all employees.

**Management Response:**

The program manager responsible for these functions disregarded long established procedures. A Vehicle and General Licensing Procedures Manual spells out the procedures to be followed by all individuals responsible for sticker sales. This coupled with the two new electronic components and a change in managers, addresses the audit's concerns.

**Finding 08-05: Overall Written Policies and Procedures were Deficient**

The Program Manager indicated there were no policies and procedures for the Clerk's Office. New employees were only trained by the current employees without reference to any type of standardized written policies and procedures. A how-to manual was created for the system at the end of 2007 but was not utilized by the Cicero/Archer office until August 2008. This manual included procedures for cash handling and balancing as well as other various functions. However, it did not include procedures for inventory control or financial reconciliations.

Policies and procedures are a set of documents that describe an organization's policies for operation and the procedures necessary to fulfill the policies. Employees may not be able to properly carry out their job duties without these standard guidelines.

**Recommendation(s):**

We recommend the formulation and implementation of overall standard written policies and procedures. All departments within the OCC should have specific policies and procedures for all sub-departments and functions. At the very least, there should be one overall policies and procedures manual that encompasses the entire OCC. It should also be communicated and/or distributed to all staff.

**Management Response:**

A user manual containing procedures for cash handling and balancing was in place and cashiers were trained on the job by senior Payment Service Representatives. Each day these PSR's completed a daily log delineating each transaction by type, tallied with the cash taken in and then checked by the satellite manager. The reconciliation took place at the end of the shift and then was checked by the manager for accuracy and correctness before being prepared for the bank deposit. The audit cites that it did not include procedures for inventory control or financial reconciliations. There were internal controls, however they were manual in nature and subject to human error. Likewise, inventory control was in place but again manual in nature and subject to human error. With the implementation of the two new electronic systems these concerns have been fully addressed.

**IGO Response to Management Response:**

We stand by our finding that policies and procedures were deficient. As evidenced by the previous findings, and as indicated by the Program Manager in charge of the Cicero/Archer Office, written policies and procedures were not in place at the time of our review. The user manual discussed in the management response contains no policies and procedures regarding inventory control.