

**CITY OF BUFFALO  
DEPARTMENT OF AUDIT AND CONTROL**

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**AUDIT REPORT ON THE INTERNAL  
CONTROLS OVER REVENUE AT THE  
CITY CLERK**

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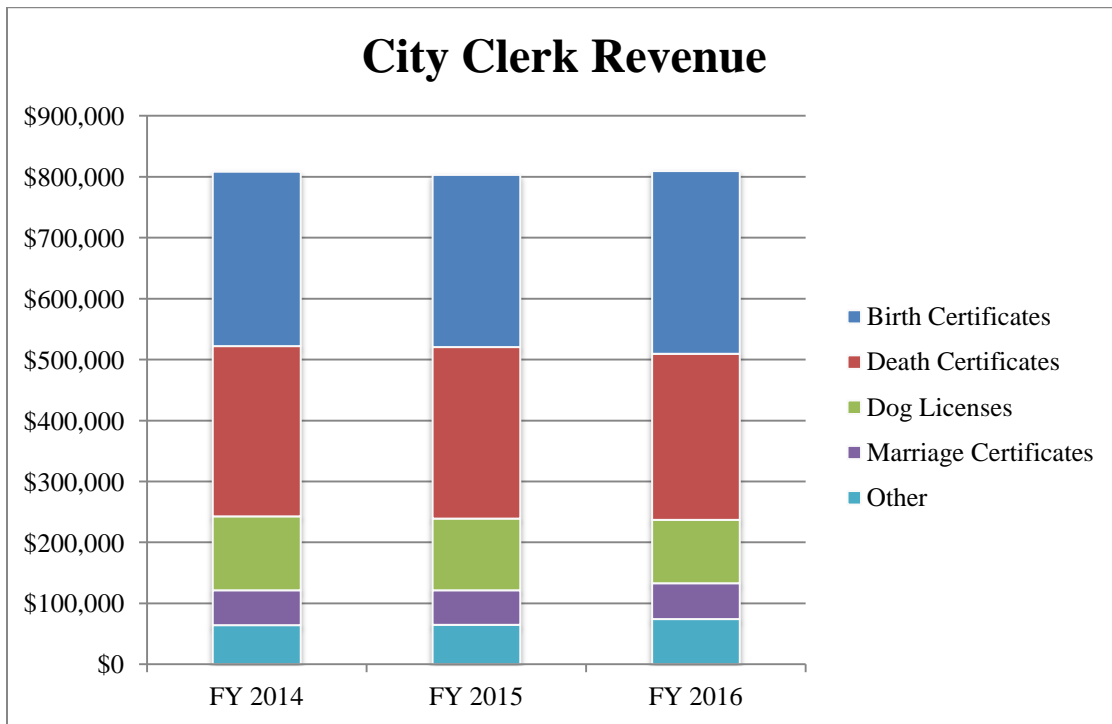
**DECEMBER 2016**

## Preface

In accordance with the goals set forth in the Annual Audit Plan, we conducted an audit of the internal controls over revenue at the City Clerk. The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

## Background

The City Clerk's main revenue sources are from the issuance of birth certificates, death certificates, dog licenses, marriage licenses and marriage certificates. Fees are charged in accordance with chapters 175 and 361-8 of the City Charter. Revenue recorded in MUNIS (the City of Buffalo's financial accounting software) for Fiscal Years 2014 to 2016 has been consistent, with annual revenues of approximately \$800,000. Approximately 70% of annual revenue consists of birth certificates and death certificates while approximately 13% is dog licenses.



The City Clerk records approximately 34,000 transactions per year or about 140 per day. The City Clerk's office is consistently busy with a steady stream of customers. Employees assist customers, receive payments and process transactions at multiple workstations simultaneously.

With the volume of transactions, it is imperative that a proper system of internal controls is in place.

The same employee can print a certificate/license, accept payment, record the transaction in MUNIS and reconcile the receipts. This could allow for transactions to be processed with no evidence of occurrence and without any other employee's knowledge. Certificates and licenses issued are not tracked by the sequential number on the back of the security paper they are printed on. This could allow certificates to be issued without payment being received or recorded. As the system currently operates, there is no way to verify if all revenue received at the City Clerk is recorded in MUNIS and deposited in the City bank account

The large volume of transactions, coupled with the opportunity for misappropriation of assets and lack of segregation of duties, creates an environment where fraud could occur and go undetected. Exhibit A on page 6 contains a full narrative of the revenue cycle.

### **Audit Objective**

The objectives of the audit are to document and evaluate the internal controls of the City Clerk over revenue.

To achieve the objectives, the following procedures were performed:

- Interviewing staff regarding the revenue process and the documentation of the revenue cycle.
- Testing of transactions to determine if the revenue process performs as documented.
- Evaluation of the process to determine the strengths and weaknesses of the internal controls of the revenue cycle.

### **Audit Findings**

- 1. Cannot Determine Completeness of Revenue** – The most significant deficiency with the City Clerk revenue process is the inability to verify the completeness of revenue. Certificates/licenses are issued on pre-numbered security paper; however, there is no verification procedure in place to determine that all certificate numbers have been accounted for. This could allow certificates to be issued without receiving or recording a payment. As the system currently operates, there is no way to verify if all revenue received at the City Clerk is recorded in MUNIS and deposited in the City bank account.
- 2. Assets are not Properly Safeguarded** – Cash is maintained in an unlocked drawer during operating hours. Cash is not counted at the end of the day prior to being placed into the safe.

Multiple employees have access to the cash drawer and safe. There are no cameras on the cash drawer or safe. If a cash shortage was found, it could not be attributed to an employee. Checks are not immediately restrictively endorsed when received. Security paper used to issue licenses and certificates is maintained in an unsecure area during operating hours. Multiple employees have access to the security paper.

3. **Lack of Segregation of Duties** – There is not a proper segregation of duties. The same employee can print a certificate/license, accept payment, record the transaction in MUNIS and reconcile the receipts. This could allow for transactions to be processed with no evidence of occurrence and without any other employee’s knowledge.
4. **Revenue Process is Inefficient** – Based on review of the daily receipt process and the monthly revenue tracking/reporting process, multiple procedures were noted that do not enhance internal controls over the revenue process. A single marriage or dog license transaction is recorded three times in two separate computer systems and an Excel spreadsheet. Recording these transactions in multiple locations decreases efficiency with no improvement to internal control.
5. **Form of Payment Misreported in MUNIS** –Discrepancies between cash, check and credit card amounts are noted in pen on the MUNIS report, but not corrected in MUNIS. The discrepancies are due to input errors by the employee entering the transaction. Recorded receipts in total agrees to the MUNIS report, but actual amounts of cash, checks and credit card deposits do not agree to the data recorded in MUNIS. This prevents verification of the classification of revenue by payment type.
6. **Transactions Recorded in MUNIS not Supported by Documentation** – The lack of identifying characteristics entered into MUNIS does not allow for an item to be vouched to the supporting documentation. The sequential number on the back of the security paper is not recorded in MUNIS. This prevents verification of the existence and occurrence of a transaction if MUNIS records cannot be vouched to supporting documentation.
7. **Transaction Reversals Lack Support** – During audit testing it was noted that no supporting documentation is created or retained by the City Clerk when a transaction is reversed. The validity of the reduction to revenue is unknown.
8. **Preparation and Review of Reconciliation is not Documented** – There is no evidence of who prepared the daily reconciliation between the transactions recorded in MUNIS, BAS and actual receipts. There is also no evidence of the reconciliation review performed by a second employee.

## **Recommendations to Improve Internal Controls over Revenue at the City Clerk**

- 1. Do not Accept Cash at Clerk's Office** –The most effective internal control for the City Clerk would be to stop accepting cash as a form of payment. From 2014-2016 the City Clerk averaged annual cash collections of approximately \$330,000 or 40% of total revenue.

Receiving payment only by credit card or check would increase internal control. Cash can easily be misappropriated in an environment with a large number of small dollar transactions. Misappropriation of check and credit card receipts is more difficult. Any customer paying cash could be directed to Treasury to obtain a receipt and then return to the City Clerk with a paid receipt. We suggest this be implemented immediately.

- 2. Track Pre-Numbered Documents** –Begin tracking the sequential security numbers on the back of the security paper, which all certificates/licenses are printed on. Tracking the sequential numbers would reduce the risk of transactions not being recorded. A record of certificate numbers, certificates issued and revenue recorded should be kept and reconciled regularly to MUNIS and deposits with Treasury.
- 3. Improve Safeguards over Assets** - Cash and checks should be stored in a secure location at all times. Cash should be counted at the end of each day, prior to being placed in the safe. Checks should be restrictively endorsed “for deposit only, City of Buffalo” immediately. Access to cash and checks should be limited to necessary personnel. The Security Paper used to print licenses and certificates should be secured at all times, with access only granted to personnel not involved in the revenue process.
- 4. Improve Segregation of Duties** – The entire revenue process should not be able to be performed by a single employee. One employee should not be able to print a certificate, accept payment and record the transaction. The individual who is performing the reconciliation should not be involved in the cash receipts process. Checks received by mail should be opened, endorsed and totaled by someone not involved in the cash receipts process, and then given to someone in the cash receipts process. Totals recorded should be reconciled to total given to cash receipts personnel.
- 5. Improve Efficiency** – Numerous procedures are performed in the daily and monthly revenue processes that do not enhance the internal controls over revenue. Eliminate recording dog licenses in triplicate (Excel, MUNIS, BAS). Stop manually recording marriage license activity; rely instead on available computer systems. A computer systems review should be performed to determine if all activity can be processed and recorded using one system. Integrating all activity to one system should improve accuracy and efficiency.

- 6. Establish Written Policies and Procedures** – Establish and document policies and procedures that improve internal controls over revenue, increase efficiency, eliminate redundancies, and standardize processing.
- 7. Obtain Security Cameras** – Due to the approximately \$800,000 of receipts processed annually at the City Clerk, a camera should record activity at the cash drawer and the safe. This should act as a fraud deterrent and should enable management to identify any fraudulent transactions and errors that occur.
- 8. Document Review of Reconciliation** – Employees performing and reviewing the daily and monthly reconciliation of revenue should sign and date their work as evidence of completion.

## **EXHIBIT A**

### **Description of the City Clerk Revenue Process**

The majority of revenue consists of the following; birth certificate, paper copy is \$10, plastic wallet size card \$25, death certificate copy is also \$10. Dog licenses are \$20.50 for unspayed/unneutered and \$13.50 for spayed/neutered dogs. A marriage license is \$40 (\$30 for license, \$10 for certificate). A portion of the dog and marriage license fee is required to be remitted to NYS. A full fee schedule is listed in the City Charter, Chapter 175.

<http://www.ecode360.com/13589773?highlight=#13589773>

The revenue process begins in one of three ways. Individuals can walk-in to the City Clerk office, submit a request by mail (forms available on the City Clerk Website), or submit a request online. The process does not vary amongst the different types of certificates/licenses except for an additional step for dog and marriage licenses. All dog licenses and marriage licenses are entered in BAS and then MUNIS while all other transactions are entered only in MUNIS.

Marriage licenses have a sequential number automatically generated by BAS. New and renewal dog license numbers are automatically generated by BAS in two separate sequences. Marriage and dog license numbers are entered into MUNIS as a reference.

### **Walk-Ins**

An individual enters the City Clerk's office, obtains and completes an application form. There is a separate application for each certificate (birth, death and marriage). The individual then provides state issued photo identification to the City Clerk employee. Photo identification is necessary, as only certain people are allowed to obtain documents. Birth and death certificates are printed from Laserfiche (records management software) if it is available. If it is older and not on Laserfiche, the City Clerk employee will check the internal record books or contact records management located at 85 River Rock Drive. If the certificate still cannot be found, the customer is asked to provide additional information.

Dog and marriage licenses are printed out of the BAS system.

Certificates are printed and provided to the customer while the application is placed next to the cash drawer. Licenses issued are stamped "paid". The certificate or license is then stamped on the reverse side with the City Clerk's signature and also stamped with the embossed seal making the document official.

The customer proceeds down the counter and pays the City Clerk employee. The City Clerk employee collects the cash or check and places it into an unsecure cash drawer. Checks are not

immediately restrictively endorsed. The employee then enters the transaction into MUNIS, noting charge code, payment method and license number for dog or marriage license. A credit card machine is utilized for credit card payments. After the card is swiped, the transaction is recorded in MUNIS and the credit card receipt is placed next to the cash drawer with all other applications. The application is then run through an endorser, which is linked to MUNIS. This machine time stamps the back of the application, notes payment amount, receipt number (MUNIS city wide receipt number) and MUNIS user ID, which is CK 21. This user ID is accessible and used by all City Clerk employees. The receipt number is sequential within MUNIS for citywide receipts and not exclusive to the City Clerk. A copy of the receipt is provided to a customer if requested. The application is then placed next to the cash drawer for use in the reconciliation process.

### **Mail-In Requests and Online Payments via VitalChek website**

Customers can obtain applications from the City Clerk website and mail in their request. The request is then fulfilled using the same process as a walk-in transaction.

The City of Buffalo has a contract with LexisNexis VitalChek Network Inc. This is a service where customers can request birth, death and marriage certificates from the City of Buffalo through the internet. VitalChek obtains payment of \$8.50 for their service along with the \$10 fee for each copy of a certificate. VitalChek verifies that the person requesting the certificate is authorized to obtain it. Each day, the City Clerk receives a check in the mail for the quantity of certificates paid for on their website, along with customer detail, so the City Clerk can fulfill the requests. This is the same process as mail-in requests, except they are in bulk and verification of identity has been performed by VitalChek.

### **Online Dog License Renewal**

Payments are made by customers online using a credit card, debit card or e-check. These online dog license renewal payments are processed as their own separate batch deposit as the funds are not received at the City Clerk. The online dog license renewal report showing all payments from the previous business day is printed by a City Clerk employee and the payments are then recorded in BAS and MUNIS to fulfill the license requests. Entering the licenses in MUNIS reconciles the cash already received by the City to the dog license revenue.

### **Reconciliation Process**

At the end of each day, the administrative assistant begins the reconciliation process, which is completed the following morning. At 4:30pm a MUNIS batch report is printed, which includes all transactions from the day. All the applications placed next to the cash drawer are taken and counted (# of copies requested on each application) as each copy is \$10. All credit card receipts are placed into an envelope and the credit card machine is closed out, which produces a summary tape. Credit card receipts are counted and the total dollar value is noted on the envelope. All



checks are then added. All these documents and the uncounted cash from the cash drawer are placed into the safe overnight. The following morning, the administrative assistant opens the safe and takes out the receipts from the day before. The MUNIS report is then reconciled to the number of requested certificate copies from the customer applications and cash receipts. The MUNIS report provides a summary of total receipts by charge code (certificate/license type) and by receipt type, (cash, check and credit card payment). The administrative assistant then reviews the BAS dog license report (summarized dog licenses and renewals) for agreement to the MUNIS report. The City Clerk does not print a marriage license report out of BAS each day. Marriage licenses are tallied separately by counting blank pieces of paper with the BAS marriage license number written on it which is placed next to the cash drawer at the time of transaction. These pieces of paper are reconciled to the MUNIS report. If there are discrepancies between cash, check and credit card amounts due to input error, the administrative assistant makes the correction in pen on the MUNIS report but no correction is made in MUNIS. After reconciliation, the administrative assistant opens MUNIS, locates the batch (user ID CK 21), closes and releases it. Two copies of the batch report are then printed. There is no signature or sign off noting who the reconciliation was performed by.

The reconciliation is then reviewed by a different employee. All applications and forms of payment (cash, check and credit cards) are recounted for agreement to the MUNIS report. The employee does not initial or sign the reports as evidence of their review of the reconciliation. The employee then places the reconciliation and all receipts into the safe.

At around noon each day, an employee who was not involved with the reconciliation process brings the deposit down to Treasury. Treasury then verifies that the total cash, checks and credit card receipts agree to the MUNIS report total receipts.

### **Monthly remittance to NYS**

An internal Excel monthly spreadsheet is maintained to track revenue recorded. The spreadsheet is used to determine the amount needed to be remitted to NYS Department of Health and NYS Department of Agriculture and Markets each month related to marriage and dog licenses.

### **Security Paper**

All birth and death certificates are printed on security paper with a sequential number on the back, which is provided free of charge by New York State. All other certificates and licenses are printed on purchased security paper with a sequential number on the back. This security paper is purchased in bulk to reduce the cost. The City Clerk also sells this security paper to other municipalities that are not large enough to purchase in bulk. Each box of the security paper has the beginning and ending numbers on the outside of the box. The vendor invoice lists the beginning and ending numbers for the entire purchase. All the blank security paper is in a cage that is locked when the City Clerk's office is closed. Three employees and the City Clerk have

the combination to the safe where the key is stored. The sequential numbers on the security paper are not recorded in MUNIS or utilized to verify completeness of revenue.

### **Voids**

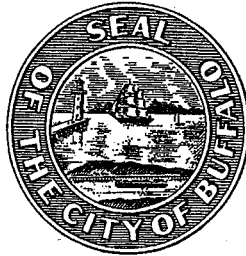
When birth or death certificates are printed but later deemed incorrect, the certificate is voided. The voided certificate is then recorded on a "Local Forms Disposition Report" (LDR). Approximately every two weeks, all voided certificates are dated and signed off by the City Clerk and brought to the Department of Audit and Control for verification. All certificates provided must match the security numbers listed on the Disposition form. If any certificates are missing or not recorded, the City Clerk is notified of this discrepancy. Audit then destroys the voided certificates and returns the LDR to the City Clerk's Office. Once a year the City Clerk's office will send these LDR's to Albany for record keeping of all security numbers recorded as voids. As the security numbers are not used when transactions are entered, the voided certificates cannot be used as a tool to check for out of sequence transactions.

# OFFICE OF THE CITY CLERK

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## City Clerk Audit Response

After meeting with the Comptroller's Office regarding the recent audit we have agreed to work with the MIS Department and the Comptroller's Office to fine tune our revenue recording process. We will be looking into the possibility of transferring the current BAS system into the MUNIS system having all transactions recorded in the same system.

The City Clerk's Office will continue to work with the Comptroller's Office to keep up our high standards of security and improve in any way possible to best serve the general public of the City of Buffalo.

*Gerald A. Chwalinski*