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Intergovernmental Cooperation Authority of Pittsburgh
c/o Mr. Henry Sciortino
Four North Shore Center
106 Isabella Street
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Pittsburgh Pa 15212

Re: Review of City of Pittsburgh Cash Management Practices – Department of Finance

To the Board of Directors of the Intergovernmental Cooperation Authority of Pittsburgh:

At your request, we have performed consulting procedures designed to assess the adequacy of the Department of Finance's ("Finance" or the "Department") cash management practices on behalf of the Intergovernmental Cooperation Authority ("ICA") and in conjunction with the City of Pittsburgh's ("City") Controller's office.

This report is organized into the following sections:

- I. Background
- II. Objectives of the Engagement
- III. Tasks Performed and Information Reviewed
- IV. Analysis of Finance's Cash Management Practices, Policies and Procedures
- V. Summary of Analysis and Recommendations
- VI. Conclusion

I. Background¹

The Department of Finance (“Finance”) is responsible for the collection and investment of all of the City’s operating cash. Specifically, Finance is responsible for:

- Billing and/or collecting all tax revenue (including self-assessed and real estate taxes, including any related fees and charges);
- Managing and maintaining all of the City’s tax records;
- Investigating and auditing tax accounts;
- Managing Citywide real estate;
- Serving as the tax collector for the Pittsburgh Public School District;
- Managing the City’s debt, including both the issuance of new debt and the management and use of debt proceeds;
- Managing the City’s cash balances, bank accounts and investment portfolio;
- Funding, monitoring and managing the investments of the City’s three pension funds; and
- Managing the external financial audit of the City’s financial statements prepared by the Controller’s Office.

The Department comprises six divisions:

- Real Estate – The Real Estate Division is composed of two distinct units:
 - Taxation and Collection – This unit is responsible for all real estate tax billing and collections, including Treasurer’s sales. The City collects real estate taxes for both the City and the Pittsburgh Public School District.
 - Properties for Sale - This unit manages, maintains, and markets properties on behalf of the City, School District and Allegheny County.
- Collections and Compliance – This division is responsible for the billing and processing of self-assessed taxes (“ISAT”) including the Payroll Expense Tax, Local

¹ Unless otherwise noted, the information in this section has been obtained from the City of Pittsburgh’s 2013 Operating Budget dated November 13, 2012.

Services Tax, Amusement Tax, Parking Tax, and Institution and Service Privilege Tax. This division also monitors tax compliance through audits and investigations.

- Financial Control – This division manages the City’s financial portfolio and provides debt service administration, account balancing, daily funds investment, and offers residents and businesses the opportunity to make payments daily at staffed cashier windows.
- Data Entry – This division inputs, images, and indexes many of the City’s tax payments and fines including Real Estate, ISAT, and archived Traffic Court tickets. Data Entry downloads all payment files from the City’s collection vendors and sorts and prepares the City’s ISAT forms. This division also is responsible for the implementation and maintenance of the False Alarm billing system.
- Administration – This division coordinates and supports the operation of all other divisions within the Department and performs certain citywide government functions such as arranging debt financing/refunding, administering the Pension Trust Fund, providing BID and NID² administrative assistance, performing financial and compliance audit oversight for City, State and Federal reporting, performing citywide cost allocation studies, and acting as the liaison between the Mayor’s Office, City Council, the Controller’s Office and various departments of the State of Pennsylvania. This division includes the Office of Management and Budget.
- Procurement, Fleet and Asset Services – This division assures the appropriate procurement of all equipment, goods and services for the entire City government. It establishes procurement-related policies and procedures, monitors contract issuances, maintains contract listings, coordinates statewide contract usage, assists in resolving contract-related disputes, is responsible for the proper disposal of surplus City equipment, and manages the contract that provides fleet maintenance and management services for the City’s fleet of approximately 1,000 vehicles. In addition, this division oversees City property leasing arrangements, security services, custodial services, elevator management and capital asset accounting services. The department also provides printing and graphic services to all City departments.

The Department is currently led by Director of Finance, Scott Kunka. An abbreviated organization chart summarizing the current structure of the Department is attached as **Exhibit A**.

II. Objectives of the Engagement

The objectives of our engagement were to:

² Business Improvement District (“BID”) and Neighborhood Improvement District (“NID”)

1. Analyze and assess Finance's cash management practices, policies and procedures;
2. Identify and evaluate the adequacy of said cash management practices, policies and procedures as well as any related internal controls; and
3. Offer recommendations for improvement in internal controls.

III. Tasks Performed and Information Reviewed

To accomplish the objectives of the engagement, we performed the following tasks:

1. Discussed the background and objectives of the engagement with the ICA and various representatives in the City Controller's Office and Finance Department, Members of City Council, and the City's external auditors.
2. Reviewed and analyzed the documents received in connection with this engagement and performed independent research of documents available in the public domain.
3. Met with representatives of the City's external auditors (Maher Duessel) to determine whether, and the extent to which, their annual audit of the City's financial statements includes an assessment of the City's internal controls over cash management.
4. Reviewed and analyzed the Treasurer's Office Cashiering and Cash Management procedure manuals;
5. Discussed cash entry points and cash management procedures with Anthony J. Pokora – Assistant Director, Finance and other Finance personnel.
6. Observed relevant sample documents provided during the course of the aforementioned interviews.

IV. Analysis of Finance's Cash Management Practices, Policies and Procedures

To identify the primary entry points of cash into the City in general (and Finance specifically), we met with Anthony Pokora, Assistant Director, Finance and other Finance Department personnel. Based upon our discussions we determined that the principal cash entry points of the Finance Department include the cashier windows, bank lockboxes, a payment drop box located in the lobby of the City-County building, and within various divisions within the Department of Finance.

The primary sources of cash into Finance are as follows:

- Tax Revenues - Real Estate, Library, and ISAT;
- Other Payments, including:
 - Various Payments Received via Other City Departments (“Cashier 7”)
 - Pittsburgh Water and Sewer Authority (“PWSA”) Payments
 - Alarm Permit Payments
 - Dog License Payments
 - Other Payments

Tax Revenues

In 2013, tax revenues will account for nearly 80 percent of the City’s total projected general fund revenues. A review of the City’s 2013 Operating Budget is as follows:³

³ The following taxes may not be inclusive of all taxes collected by Finance. “Payroll Expense Tax” and “Payroll Preparation Tax” are assumed to be one in the same. “Public Service Privilege Tax” has been included with “Institution and Service Privilege Tax” for purposes of the chart above.

	Budget 2013	Estimates 2012	Actual 2011
<i>Real Estate Taxes</i>	\$ 130,578,000	\$ 129,690,937	\$ 129,658,026
<i>Deed Transfer Tax</i>	15,989,953	15,098,192	18,297,657
<i>Self-Assessed Taxes ("ISAT")</i>			
Earned Income Tax	73,228,000	65,833,470	71,868,430
Payroll Expense Tax	54,065,534	51,268,000	50,355,422
Parking Tax	51,377,998	47,979,046	47,365,204
Local Services Tax	13,925,585	13,857,864	13,772,837
Act 77 Tax Relief	12,636,534	12,035,295	12,388,758
Amusement Tax	12,576,640	11,753,869	13,548,673
Facility Usage Fee	3,670,107	3,585,695	3,843,177
Institution and Service Privilege Tax	1,959,000	1,472,838	1,785,311
Penalties and Interest	1,324,875	1,435,081	1,443,159
Other Taxes	3,400	60,062	247,553
<i>Total Taxes</i>	<u>\$ 371,335,626</u>	<u>\$ 354,070,349</u>	<u>\$ 364,574,207</u>
<i>Total Projected General Fund Revenues</i>	<u>\$ 470,210,172</u>	<u>\$ 467,468,120</u>	<u>\$ 479,641,451</u>

City taxes are divided into two categories: assessed and self-assessed. For assessed taxes (City Real Estate, School District and Library taxes), the City computes the amount of tax due based on information provided by Allegheny County and bills the taxpayers accordingly. For self-assessed ("ISAT") taxes, the City provides forms to be completed by the taxpayer or tax preparer; however, it is ultimately the taxpayer's responsibility to file any required returns and remit any amounts due. Both assessed and self-assessed taxes are collected by the City Treasurer who is also responsible for the identification and collection of delinquent taxes.

Tax Revenues – Real Estate⁴

Margaret Lanier (Treasurer, City of Pittsburgh; Deputy Director, Department of Finance) and Drew Dauer (Acting Real Estate Manager) are responsible for the billing and collection of Real Estate Taxes. The City receives assessed values from Allegheny County ("County") in

⁴ Unless otherwise noted, the information in this section was obtained from the December 31, 2012 Real Estate Tax narrative prepared by the City's external auditors, Maher Duessel.



late December or early January. This data, including any applicable discounts⁵ is entered into the City's real estate tax system by Drew Dauer. Assessed values are spot checked by someone in the Real Estate Division and the information is sent to an outside vendor to process and mail the real estate tax bills.^{6,7} While City prefers to have this process complete by early January so taxpayers receive their bills by mid-February, the timing is at least partially dependent on when information is received from the County.

Consider the following for 2012:

Real Estate Tax bills sent	Mid-February
Pay at Discount by	March 30 th
Gross Due	April 20 th
2 nd Installment	Billed June, due June 30 th
3 rd Installment	Billed August, due August 31 st
Interest Charged (on lien property only)	Beginning April 1 st (10% per year)

The majority of real estate tax payments are received via a PNC lockbox ("Cashier 98").^{8,9} Amounts received are deposited and recorded by PNC, which provides a daily report of lockbox collections to the City.¹⁰ Payments are applied in the City's real estate tax system by Drew Dauer. The system separates payments by City and School, current/prior years, and interest. Any payments due the School District are subsequently wired into a separate School District account. Any checks received at the Real Estate Division or cashier windows are collected and forwarded to the PNC lockbox for processing and deposit, they are not processed at the cashier windows or the Real Estate Division. Any cash payments received

⁵ Act 50 Homestead Discounts are received from the County (automatic renewal, list is maintained by County) while Act 77 Senior Discounts (senior tax relief) are determined by the City. Act 77 renewal forms are mailed annually around August.

⁶ A sample of processed bills is sent to City to review for accuracy before the bills are mailed.

⁷ Real estate tax bills include amounts due to both the City (real estate taxes and, beginning in fiscal year 2013, the library tax) and the School District. These amounts are broken out within the City's real estate tax system. The bills are two-part, one for the taxpayer to keep and another to return with payment. Occasionally, the Treasurer will set up payment plans related to real estate taxes. Additional bills are sent to taxpayers who elect to pay on an installment basis by the Real Estate Division.

⁸ This statement was confirmed by Anthony Pokora, who indicated "over 95%" of real estate and ISAT payments come through the PNC lockbox. The rest come through the cashier windows, the majority of which are payments by elderly City residents who often pay in cash.

⁹ Mortgage companies send payments to the lockbox as well.

¹⁰ These reports are sent to Data Entry. In addition to the daily reports (which display the total amounts received), images of all checks (and bills) received are sent via disk. Disks are sent daily during busy times (January and February) and weekly otherwise.



are processed through the cashier windows located on the first floor of the City-County Building (414 Grant Street, Pittsburgh PA, 15219).

In addition, taxpayers have the ability to pay *current year*¹¹ real estate taxes via credit card online through processing merchant, Paymentus.¹² Taxpayers may do so from their home or through the cashier windows.

At the end of each month, a distribution report is prepared by Internal Auditor Jen Gula to verify that what has been applied in the City's real estate tax system matches what Cash Management¹³ has recorded as received. All bank reconciliations are performed by Finance personnel who are independent of the real estate tax process.

Delinquent Amounts – Current Year

Delinquency notices are sent to all taxpayers who have not paid by the gross due date. The City handles only current year delinquencies. If unpaid, the delinquent accounts are sent to Jordan Tax Services (“Jordan”) for collection in January/February of the following year. The City keeps these accounts on their books as accounts receivable even after they have been turned over to the collection agency.

Delinquent Amounts – Prior Years

All prior year delinquencies are handled by Jordan. Each week Jordan emails a payment file and a summary detailing the prior week's collections to Drew Dauer and Cash Management. Jordan then wires collections of City real estate taxes to a City account and collections of School District taxes to a separate school account. Drew Dauer applies the payment file in the City's real estate tax system based on the split detailed by Jordan. He then forwards the distribution report to Cash Management, which books City monies¹⁴ as of the date the payments were applied to each taxpayer's account.

Library Tax

On November 8, 2011 City voters approved the imposition of a new Library Tax based on real estate assessed values. In 2012, the City issued a separate bill for this tax. Beginning in fiscal year 2013, a single bill will be sent to taxpayers for City real estate taxes, School District taxes and the Library tax. The procedures for collection and processing will remain as detailed above.

¹¹ Jordan Tax Services also accepts credit card payments for delinquent tax amounts that have been turned over to them.

¹² Paymentus charges a 2.75% fee for this service. Taxpayers may also pay via phone through processing merchant, Paymentus.

¹³ Cash Management is another name for the Cashier Windows.

¹⁴ Lien satisfaction and Treasurer's Sale costs collected by Jordan are also booked by Cash Management.

Tax Revenues – ISAT

These taxes are self-assessed, meaning the taxpayer is ultimately responsible for filing any required returns and computing (and remitting) any amounts due. Several of these taxes require the filing of a return by the taxpayer even when there is no tax due (i.e. earned income tax, payroll expense tax, and institution and service privilege tax). As is the case with City-assessed taxes, there are penalties for non-compliance.¹⁵ However, with self-assessed taxes, delinquencies result only for those who file a return or those who are audited and found not to be in compliance.

For all payments of self-assessed taxes (except direct payment of Earned Income tax and Local Services tax by individual taxpayers), a business/institution must first register with the Finance Department.¹⁶

Some of the ISATs levied by the City include:

- Earned Income tax
- Payroll Expense tax
- Parking tax
- Local Services tax
- Amusement tax
- Facility Usage fee
- Institution and Service Privilege tax

ISAT Collections¹⁷

As is the case with Real Estate taxes, the majority of ISAT payments are also received via a PNC lockbox (“Cashier 98”).¹⁸ Amounts received are recorded by PNC and a daily report (along with the supporting documentation) is forwarded to the City. Unlike Real Estate checks, ISAT checks received at the cashier windows are *not* forwarded to the ISAT lockbox or processed at the cashier windows. Instead, ISAT checks are collected and forwarded to Second Floor Finance for processing before they are returned to Cash Management for deposit. Any cash payments subsequently received are processed through the cashier windows.

¹⁵ Failure to file and late filing of returns carry penalties and taxes that are not paid when due accrue penalties and interest. Federal extensions are not recognized by the City or School District, and neither grant extensions of their own.

¹⁶ Tax forms are mailed only to those who are properly registered with the City. Failure to receive a form is never an excuse for failing to file or pay any ISATs for which one is liable.

¹⁷ Unless otherwise noted, the information in this section was obtained from the December 31, 2012 Miscellaneous Tax Billings narrative by Maher Duessel

¹⁸ This statement was confirmed by Anthony Pokora, who indicated “over 95%” of real estate and ISAT payments come through the PNC lockbox. The rest come through the cashier windows.

Cashier Windows/Cash Management Process

While the majority of receipts for City taxes are received through a PNC lockbox (as discussed above), cash, checks and money orders for tax payments (as well as a variety of other assessments and fees) are also handled through the Finance Department's four Cashier Windows located on the first floor of the City-County Building. During regular business hours, three cashiers and one head cashier staff the cashier windows. Each cashier has their own cash drawer²⁰ for which they are ultimately responsible.²¹

Throughout the day, cashiers process and validate payments related to dog licenses, tax payments (real estate, ISAT, library), tax certifications ("certs")²², PWSA bills²³, DTD²⁴/ad fees, etc.²⁵ All activity is recorded in the Quadrant system with receipts issued to customers for all cash transactions.²⁶

Access to the Quadrant system is limited to the three cashiers plus the head cashier. Each cashier has a unique system log on and cashier number. All activity in the Quadrant system is tracked by cashier number, and only the head cashier has the ability to void transactions within the Quadrant system.

Daily Balancing²⁷

All cashier drawers are balanced and reviewed by the head cashier daily.²⁸ Cashiers separate payments received by transaction code, manually add each stack and report the totals on a

²⁰ All cash drawers lock and each cashier has a key to their drawer only. Cashier drawers contain \$50 base money plus \$1 "bait" money. ("Bait" money is an added security measure commonly employed by banks. The serial numbers of bait bills are recorded and kept on file to assist in tracing the cash (and perpetrator) in the event of a robbery. These bills are physically placed beneath a small lever located within each cash drawer. If the bait money is pulled from beneath the lever, an alarm will sound.) Drawers must be locked when cashiers leave their windows for any reason. All drawers are stored in what they call the "bus" (a rolling cabinet that houses 6 cash drawers and locks independently). Cashier drawers are removed from the bus every morning and returned every night upon balancing. Only the head cashier has a key to the master lock on the bus. The bus is stored in the vault overnight. The vault requires a key and a combination to access it. Four individuals currently know the combination, two of which also have a key.

²¹ Per Anthony Pokora, cashiers are *personally responsible for any shortages* in their drawers. A written policy is in place stating such.

²² Tax certifications are confirmations that property taxes on a given property are paid to date.

²³ Residents can pay their PWSA (water) bills at the Cashier Windows. A spreadsheet detailing payments received is emailed to PWSA daily.

²⁴ DTD fees are related to delinquent property taxes and ad fees are related to newspaper publication of properties posted for Treasurer Sale.

²⁵ Real estate/library taxes and PWSA bills paid for with checks are *not* processed at the cashier windows. They are collected and forwarded to the respective bank lockboxes for processing and deposit. ISAT payments received with checks are *not* forwarded to the lockbox *or* processed at the cashier windows. They are collected and forwarded to 2nd Floor Finance for processing and then returned to Cash Management for deposit. Dog licenses, certs and DTD/ad fees paid by check *are* processed at the cashier windows. *All* cash payments are processed at the cashier windows.

²⁶ Receipts are *not* issued for check or money order transactions.

²⁷ Unless otherwise noted, all information in this section was obtained from the "Cashiering & Balancing" section of Policies and Procedures binder provided by Cash Management

“Daily Report of Collections.”²⁹ A report (“Quadrant Report”) is generated for each cashier from the Quadrant system that displays the totals by transaction code and payment method. The Daily Report of Collections and the Quadrant Report *must* match. Each cashier then counts his/her cash drawer and runs an adding machine tape accordingly. This physical cash count must match the total cash transactions displayed on the Quadrant Report. A cashier cannot continue until all manual counts and totals are in balance with the Quadrant Report.

Once completely in balance with the Quadrant Report, each cashier fills out a separate deposit slip for each transaction code (PWSA, Real Estate, Library, DTD/Ad fees, certs, Dogs, and ISAT). Deposits are prepared based on the totals displayed on the Quadrant Report (less any due bills or pre-deposits for real estate and library taxes) using a combination of the checks on hand and the cash in the drawer. For example, if a cashier has \$350 total dog receipts and \$210 in dog checks, that cashier must include \$140 cash with that deposit. The deposit slip should include the date (accounting date), cash total, check total, cashier number, and a description of to what deposit is related (in this case, “Dogs”).

After all deposits are prepared, cash drawers are recounted and another adding machine tape is run. This tape is printed and placed in the cashier drawer indicating all required daily balancing has been completed. The head cashier then re-counts each drawer and signs off on the tape noting their review.

Each cashier places all his/her deposits into a wooden box that is kept on top of the bus³⁰ until they are picked up for delivery to the bank.³¹ The following morning, a Finance employee accompanied by a police officer delivers the deposits to the bank.³² Bank validated duplicate copies of deposit slips and bank receipts are returned to Cash Management and all related paperwork is distributed and/or filed appropriately.

The following day, the head cashier prepares the “Daily Total Cash Balance” report (a two-page report that performs a final zero tape balance) and a daily “Cash Sheet”³³ (a report that lists all collections for that day with supporting documentation attached). After all daily

²⁸ The bus houses the 4 cashier drawers (balanced daily), 1 paper drawer and 1 coin drawer (both of which are balanced weekly by the head cashier). The paper and coin drawers contain roughly \$3,000 in total. Only the head cashier is authorized to access the cash/coin drawers to make change (cashiers cannot do it themselves).

²⁹ A “Daily Report of Collections” is prepared by each cashier listing the various types of collections received that day. It is signed off on by the cashier and given to the head cashier upon balancing.

³⁰ If the deposit has greater than \$3,000 in cash, it needs to be sent to the Strip District per bank policy. The cashier bands the cash in \$1,000 increments and makes copies of all banded cash and coin envelopes. The cashier then prepares a bank security deposit bag, places the cash inside and seals it. The deposit bag is then taken by bank messenger and police escort to the bank’s processing center in the Strip District.

³¹ Deposits are locked in the vault overnight.

³² Deposits are sent at least once daily. In times of high volume (i.e. when taxes are due) deposits are sent more frequently.

³³ This report is similar to the “Daily Report of Collections” prepared by the cashiers, but includes all Cash Management activity for the day.

postings are complete and balanced against support; all documentation is forwarded to the Controller's Office for additional review and reconciliation.³⁴

"Cashier 7"³⁵

In addition to the items discussed above, other City departments bring the payments they collect to the Cashier Windows for processing and deposit.³⁶ All such deposits must be accompanied by the following:

- A completed bank deposit slip,³⁷
- A departmental invoice/memo/cover sheet³⁸ detailing:
 - the department making the deposit (including a contact person);
 - the deposit total, and;
 - the JD Edwards account number(s) to which the deposit is to be posted.³⁹
- All checks must be restrictively endorsed, "For Deposit Only."

The majority of departmental deposits are checks.⁴⁰ If the deposit total does not match the total displayed on the cover sheet, the department is contacted and either the cashier corrects the error or returns everything to the department so they can make the necessary corrections.

The following morning, a Finance employee accompanied by a police officer delivers the deposits to the bank. Bank validated duplicate copies of deposit slips and bank receipts are returned to Cash Management. A cashier compares the bank receipts to the deposit slips (to ensure the deposit was entered correctly) and attaches them to the paperwork provided by the departments. At this time, the cashier enters the transactions into the Quadrant system under the "Cashier 7" log in.⁴¹

The cashier⁴² enters the following information into the Quadrant system:

- JD Edwards transaction code (from chart);

³⁴ The Controller's Office currently performs all bank reconciliations aside from that of the Library Fund, which is currently performed by Finance.

³⁵ Unless otherwise noted, all information in this section was obtained from the "Cashier 7" section of Policies and Procedures binder and the "Procedure for Processing of Cash & Checks" summary, both provided by Cash Management

³⁶ Departmental deposits are also received via interoffice mail.

³⁷ If a department does not submit a deposit slip with its deposit, the receiving cashier will have to complete one for them.

³⁸ There is no uniform form to submit at this time. Each department creates their own based on their specific needs.

³⁹ Most departments will submit two copies – one to remain with Finance and another to be returned to them.

⁴⁰ "Procedure for Processing Cash & Checks" submitted by Cash Management.

⁴¹ The "Cashier 7" log in is used solely for departmental deposits.

⁴² Cashier 7 processing and balancing is generally performed by the same cashier, however, all cashiers are cross-trained accordingly.

- CR account number (the JD Edwards account number(s) from the cover sheet provided by the department with the deposit);
- Date of deposit or wire (in “Reference #” field);
- Fund Name (as displayed on the description line of the transaction code chart);
- Amount;
- Payment Method (always “Pre-Deposit” since the deposit has already been made);
- Reason for deposit (on the Payment Screen in the “Payor” field).

After the Quadrant system is successfully populated with all of the above information, the cashier validates each copy of the departmental cover sheet provided with the deposit. Original copies are then forwarded to the Controller’s Office for balancing purposes and any additional copies are returned to the department with the bank validated duplicate copy of the deposit slip attached.⁴³

Balancing “Cashier 7”⁴⁴

After all deposits have been entered into Quadrant system, Cashier 7 is balanced. Cashier 7 is balanced daily and is the last Cashier to be balanced.

Similar to the process described above related to Daily Balancing, a Quadrant Report is generated for Cashier 7.⁴⁵ As previously described, this report details a cashier’s daily activity by transaction code and payment type. For each fund, the totals displayed on this report are compared to the total of the manually added and validated departmental cover sheets. A copy of the Quadrant Report is attached to the validated departmental cover sheets and is forwarded to the Controller’s Office⁴⁶ and another copy is kept on file with the other cashiers’ balance sheets.

Once Cashier 7 is balanced, a report detailing the daily summary of Quadrant activity (totals by Tran Code for all registers and all cashiers)⁴⁷ is run, printed and filed accordingly.

⁴³ Only if available. At times, Finance will only receive one bank validated duplicate copy of the deposit slip back from the bank, in which case, it is retained by Finance and only the validated cover sheet is returned to the department.

⁴⁴ Unless otherwise noted, all information in this section was obtained from the “Cashier 7” section of Policies and Procedures binder and the “Procedure for Processing of Cash & Checks” summary, both provided by Cash Management.

⁴⁵ No “Daily Report of Collections” is prepared for Cashier 7.

⁴⁶ The following are forwarded to the Controller’s Office after all cashiers and registers have been balanced: original validated departmental cover sheets/memos, bank validated duplicate copy of deposit slip(s), bank receipt(s), and a copy of the “Quadrant Report”

⁴⁷ This report is only generated after all cashiers and registers have been successfully balanced.

Other Items Received by Finance

PWSA Payments (Entry Point: Cashier Windows)

PWSA bills paid in cash are processed through the Cashier Windows. Any bills paid by check are collected and forwarded to the PWSA lockbox⁴⁸ for processing and deposit.

Alarm Permits (Entry Point: Data Entry)

All operational fire and burglar alarm systems within the City are required to obtain a permit from the Department of Finance. The Data Control Supervisor currently handles all City alarm permits. Payments are entered, processed and balanced in the CRYWOLF application. A summary report is printed from CRYWOLF that displays all permits and payments processed that day. This report is compared to a manual tally of the cash⁴⁹ and checks collected. Once in balance, the checks (with adding tape attached),⁵⁰ a copy of the summary report, a bank deposit slip, and a cover sheet⁵¹ are delivered to the Cashier Windows for further processing.

The Data Control Supervisor monitors registered alarm systems and invoices customers for any permits due to be renewed or any accounts with outstanding balances.

Dog Licenses (Entry Points: Various)

All dogs (3 months or older) within the City are required to have a current license. Licenses can be obtained in one of three ways: Animal Care and Control can come to any resident's home to sell licenses, a license form can be mailed, or licenses can be picked up in person at the City County Building Treasurer's office. Licenses must be renewed on an annual basis.⁵²

All dog licensing information is maintained in a Microsoft Access database⁵³ with payments processed through the Quadrant system. All dog licenses are pre-numbered. Annual renewal and renewal delinquency letters are mailed to all license owners on file.

Applications and the related payments are received in several ways. First, they can be mailed to a lockbox at Citizen's Bank. All lockbox activity is downloaded and entered into the Access database by Cash Management personnel. If there are no issues with the application, a cashier will issue and mail the license.

⁴⁸ The City does not manage the PWSA lockbox.

⁴⁹ Payment by cash is rare. Permits paid with cash are processed and posted immediately and customers are given their new permits on the spot.

⁵⁰ Restrictively endorsed "For Deposit Only"

⁵¹ They call it a "Deposit Form." It is essentially the equivalent of the cover sheets/memos/invoices described above in the "Cashier 7" section.

⁵² 3- and 12-year renewal options are also available

⁵³ This database is populated and maintained by Cash Management staff.

Second, Animal Control officers will occasionally drop off forms and payments for temporary licenses that they have issued in the field. Payments can be by check or in cash. Cashiers fill out a regular license application, process the payments, and issue and mail a permanent license to the pet owner.

Third, applications and payments can be mailed directly to the Treasurer's Office (Pet License Department). If there are no issues with the application, a cashier will process the license fees, issue and mail the license.

Any applications delivered and paid in person are processed at the Cashier Windows as described above. Additional fees for lost license replacement requests and NSF checks may apply.

If there are any issues with the applications received (i.e. incorrect fee submitted, no proof of spay/neuter provided, County License not City, etc.) the following additional measures are taken by Cash Management personnel:

Any rejected/held applications received via the lockbox are reviewed. Letters are sent to dog owners requesting a copy of the spay/neuter certificate be provided and/or the additional/correct fee submitted. These licenses are kept on file until the certificate or fees are received. At that time, the City's database is updated and the license and receipt are mailed to the owner. Any additional fees received are held by Cash Management personnel for bulk deposit once per month.⁵⁵

Fees submitted with new and renewal applications received via mail are reviewed. If the amount submitted is incorrect, everything is returned to the dog owner along with a letter explaining the error and a return envelope.

County applications received by the City are collected and forwarded to the County Treasurer twice per month. Likewise, the County Treasurer collects and forwards City applications received to Cash Management. Cash Management personnel will fill out a City application with the information contained on the County application and dispose of the County materials. The new City application, the check, a letter explaining the City fees and requirements, and a return envelope are sent to the dog owner.

ISAT Accounts Receivable (Entry Point: Data Entry)

Occasionally, the Treasurer will set up payment plans related to ISAT.⁵⁶ The related receivables are maintained and invoiced by Second Floor Finance. Payments are mailed to the Treasurer's Office and delivered to Data Entry for processing several times a day. The

⁵⁵ These additional fees, NSF check fees and the related reissued payment checks are all processed through "Cashier 7". Regular license fees, lost license replacement fees, and fees delivered by Animal Control Officers are all entered under a cashier's regular cashier number.

⁵⁶ Payment plans are strictly related to real estate and ISAT taxes. Payment plans are not arranged for any other types of taxes or fees.

checks are validated by Data Entry and restrictively endorsed. A bank deposit slip (for the ISAT lockbox) is completed and a departmental cover sheet is filled out. The checks, bank deposit slip and cover sheet are delivered to the Cashier Windows for deposit.

Penn Credit Deposits (Entry Point: Second Floor Finance)

Two checks are received from a collection agency (Penn Credit Corp) monthly related to delinquent ISAT taxes collected. The deposit is prepared and brought to the Cashier Windows for processing and deposit.

Treasurer Sales (Entry Point: Real Estate Department)

A Real Estate department employee handles all Treasurer Sales. She brings all checks, real estate bills and ad fees slips to the Cashier Windows for processing and deposit.

Bureau of Procurement, Fleet and Asset Services (Entry Point: "BPFAS")

Checks are received by the BPFAS related to fuel reimbursement from the Parking Authority and parking fees from non-City employees. These checks are forwarded to the Cashier Windows for processing and are deposited along with the required departmental cover sheet.

Additionally, the BPFAS receives rent checks related to leased City properties. These are forwarded to the Real Estate Department for processing. The Real Estate Department then forwards them to Cash Management for deposit.

Uploading Quadrant Data to JD Edwards

All Quadrant activity must be converted to Peoplesoft files before it can be uploaded to the JD Edwards accounting system. Finance performs this conversion and then uploads the activity to JD Edwards. Personnel at the City Controller's Office perform additional levels of review and reconciliation *before* posting the uploaded activity to the City's general ledger in JD Edwards.⁵⁷

V. Summary of Analysis and Recommendations

Based upon our review and analysis of Finance's cash management procedures, we noted the following recommendations for improvement of the overall control environment:

- Cash Management Policies and Procedures – The Treasurer's Office cash management area maintains detailed written policies and procedures, which are reviewed and updated on a regular basis. We would recommend management implement periodic and random compliance checks to test and verify compliance with all written policies and procedures, especially when new updates are implemented.

⁵⁷ Finance cannot post to the City's general ledger. *Only* the Controller's Office can do so.

Because of the Treasurer's office experience in preparing comprehensive written procedures over cash management, we recommend that the Treasurer's office assist the other divisions within the Finance Department, as well as other City Departments, in developing and implementing written cash management policies and procedures.

- Independent Deposits – While the majority of City deposits come through Finance,⁵⁸ some City departments independently deposit the funds they take in. For example, the Police Records Room and several Parks and Recreation locations (i.e. pools, tennis courts, and the Schenley Park skating rink) still prepare and perform their own deposits.

While centralizing all City deposits through Finance would reduce the risk of cash misappropriation, based upon our work in, and familiarity with, other City departments, we understand this is currently unrealistic. As such, Treasurer's cash management function should assist other City departments in developing standard policies and procedures for depositing City funds.

- General Ledger - Because all City deposits are not centralized through Finance, it is critical that the City's general ledger effectively encompass *all* City bank accounts. We understand that not all City bank accounts are currently recorded on the general ledger (for example, the cashier holding, real estate, ISAT and dog lockbox) and are only incorporated into the annual financial statements through the Controller's Office year-end closing procedures. We recommend the Controller's Office create and actively monitor general ledger accounts for all City bank accounts⁵⁹ and any City departments holding any such accounts (in Finance's case, those accounts listed above) work with the Controller's Office to keep the related ledger balances current.
- Interdepartmental Reconciliations - Each department/division performs its own internal functions and reconciliations, but does little (if anything) to verify what came before and/or happened after it in the business process. Currently, Finance does not reconcile payments received from other City departments beyond verifying that the amounts received correspond to the invoice/memo/cover sheets provided by the departments with their deposits. Finance should perform regular

⁵⁸ Other than those wired directly into City accounts or sent directly to City lockboxes

⁵⁹ A similar recommendation was highlighted by the City's external auditor, Maher Duessel in a letter addressed to the Mayor, Controller, and Director of Finance related to the December 31, 2011 audit: "Bank Account Management – We noted that not all bank accounts (cashier holding, real estate, ISAT, dog lockbox, and Schenley Park skating rink) are recorded on the general ledger because the Controller's Office does not maintain these accounts. These accounts are included in the audited financial statements through the Controller's Office year-end closing procedures. We recommend that the Controller's Office create general ledger accounts for all bank accounts, work with the department holding the account, and update the general ledger on a monthly basis."

reconciliations to ensure amounts received equal what should have been received from those departments. In other words, Finance should not solely rely on the cover sheets provided with the deposits alone. Instead, they should independently determine what amounts they should be receiving from other City departments and ensure the actual deposits agree to these amounts. To accomplish this objective, Finance must have the capability to access any departmental reports necessary to independently verify and reconcile deposits received from other City departments. This could be at least partially alleviated if the systems employed by other City departments (i.e. Accela-used by the Bureau of Building Inspection, City Planning and the Department of Public Works' Permits Counter) were directly interfaced with the JD Edwards accounting system or if a single accounting system⁶⁰ was implemented City-wide.

- System Integration and Functionality – Closely related to the above recommendation, the Quadrant system employed by Cash Management is not directly compatible with the JD Edwards accounting system. Currently, all activity processed in the Quadrant system must be converted to PeopleSoft files before it can be uploaded/transferred into the JD Edwards accounting system. This additional “step” results in additional work for Finance personnel and increases the potential for human error, an unnecessary added risk. The Quadrant system should directly interface with the JD Edwards system. If this is not possible, an alternative system that directly interfaces with the JD Edwards system should be evaluated and implemented.
- Secure Methods of Payment – Cash Management currently has the ability to accept and process credit card payments related to *current year* real estate tax payments only. According to Anthony Pokora, Cash Management is currently working with Paymentus to develop the software necessary to also accept credit card payments for other fees (i.e. alarm permits and dog licenses). This change will increase the City's controls over cash, as payments by credit card are inherently more secure than those made by cash or check.

We recommend the City accept payments by credit/debit card for several reasons. The use of a credit/debit card system reduces the handling of funds by cash management personnel, provides a more traceable source of funding, and improves overall customer service. Further, acceptance of credit/debit cards will improve department efficiency, reduce the risk of cash misappropriation, and reduce the amount of funds that need to be deposited or kept on location.

Additionally, it should be noted, that the majority of tax payments (which represent the majority of City general fund revenues) are currently received and processed through a bank lockbox, an intrinsically secure practice.

⁶⁰ With defined and controlled user access and capabilities.

- Fraud Hotline - All Finance employees should be made aware of the fraud hotline recently established by the Controller's Office. According to the Association of Certified Fraud Examiners' 2012 Report to the Nations on Occupational Fraud and Abuse, occupational fraud is more likely to be detected by a tip than by any other method and the majority of tips reporting fraud come from employees of the victim organization. Providing individuals a means to report suspicious activity and encouraging them to do so, is a critical component of any anti-fraud program.

VI. Conclusion

During our review of Finance, we noted that the department has internal controls in place. Likewise during the course of our work, we did not observe, nor did Finance management identify, any actual instances of fraud, abuse or asset misappropriation. Finance management should consider all recommendations contained herein in an effort to further minimize the risk of cash misappropriation. Furthermore, I would encourage Cash Management to assist not only the other divisions of Finance, but other City Departments as well in developing and implementing written cash management policies and procedures of their own.

Management Representation Letter

We have requested that Finance management provide a representation letter indicating that, to the best of their knowledge and belief:

- Finance management has provided us with all information requested during our analysis;
- Management is not aware of any cash receipt transactions that have not been properly deposited into the City's accounts;
- Management is not aware of any fraud, suspected fraud or violations of laws and regulations affecting Finance;
- Finance management is responsible for the design and implementation of programs and internal controls intended to prevent and detect fraud and ensure the safeguarding of City assets.

See **Exhibit B** for a draft of the representation letter that we have requested Finance management to prepare and execute.

As of the date of this report, Finance management has refused to prepare or execute the management representation letter that we have requested, indicating that they have been directed not to do so by City legal counsel.

* * * * *

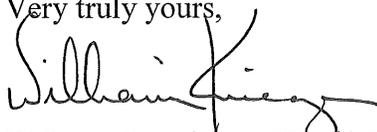
This report summarizes the results of our analyses to date. We reserve the right to amend or supplement this report as necessary should additional information become available to us. The use of this report is limited to the current matter referenced above and this report may not be used for any other purpose without our prior written consent.

All of the work conducted in preparing this report and the related analyses was performed by me or others working under my supervision. The opinions and conclusions stated in this report are expressed with a reasonable degree of professional certainty.

The scope of this consulting engagement was to provide a comprehensive review of the City of Pittsburgh's cash management processes, procedures and internal controls. This engagement does not constitute, nor have we performed, an examination in accordance with generally accepted auditing standards ("GAAS"). The objective of a GAAS examination is to express an opinion regarding the fair presentation of historical or prospective financial statements or other financial information presented in accordance with generally accepted accounting principles. Accordingly, we do not express such an opinion. Likewise, this engagement does not constitute a fraud investigation, the objective of which is to determine whether evidence is sufficient to support specific allegations of fraud. Having completed the procedures detailed herein, we have presented findings and provided recommendations to strengthen the City's cash management processes, procedures and internal controls. We believe that the consulting analyses we performed provide a reasonable basis for our findings and recommendations.

If you have any questions regarding our analysis or this report, please do not hesitate to contact me.

Very truly yours,



William G. Krieger, CPA/ABV/CFF/CGMA, CFE



Department of Finance

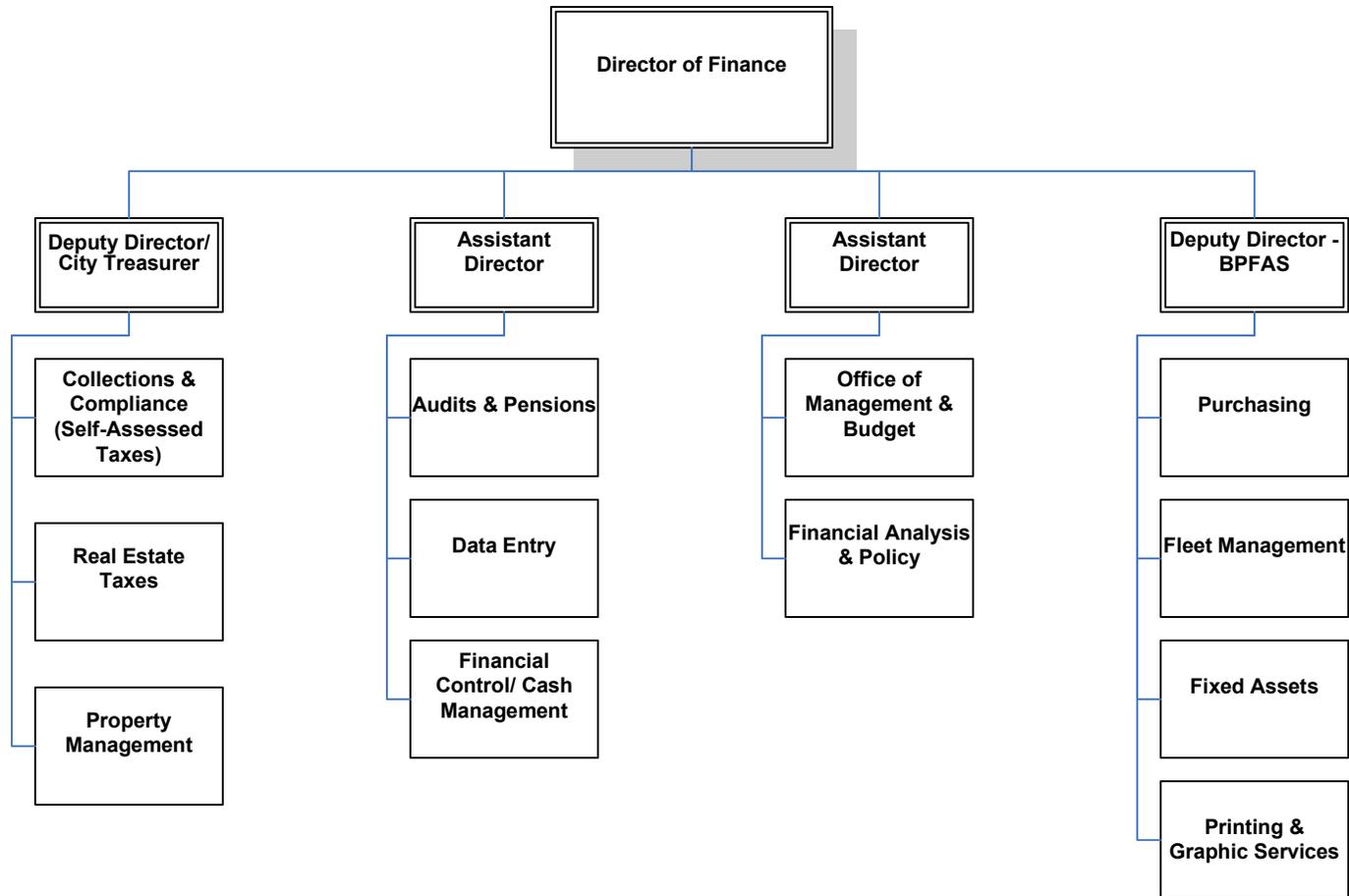


EXHIBIT B

{Date}

William G. Krieger
Managing Director
Gleason & Associates, P.C.
One Gateway Center, Suite 525
Pittsburgh, PA 15222

Re: Departmental Management Representations Regarding Cash Management Internal Controls – {Department/ Bureau Name}

Dear Mr. Krieger:

I/we am/are providing this letter to you in connection with your review of the cash management procedures and internal controls of the City of Pittsburgh, Department of {Insert Department / Bureau Name} conducted from May xx, 2013 [date of opening conference letter for department] through the date of this letter.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

I/we confirm, to the best of my/our knowledge and belief, as of {Date of this letter}, the following representations made to you during your cash management controls review.

1. I/we have provided you with:
 - a. Access to all information that you have requested, as well as other information that may be relevant to your project, such as business practices, policies, procedures, cash receipt records, and other documentation of departmental business operations.
 - b. Unrestricted access to persons within the department from whom you obtained information regarding departmental cash management procedures and internal controls.

William G. Krieger

{Date}

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2. I/we am/are not aware of any material cash receipt transactions that have not been properly deposited into the accounts of the City of Pittsburgh and/or recorded in the accounting records underlying the City of Pittsburgh's financial statements.
3. I/we acknowledge my/our responsibility for the design and implementation of programs and internal controls intended to prevent and detect fraud and ensure the safeguarding of City of Pittsburgh assets.
4. I/we have no knowledge of any fraud or suspected fraud that affects the City of Pittsburgh and which involves:
 - a. {Departmental [or Bureau] Name} Management,
 - b. {Departmental [or Bureau] Name} employees who have significant roles in the cash management functions or internal controls intended to safeguard assets of the City of Pittsburgh, or
 - c. Others where fraud could have a material effect on the cash balances and/or other transactions recorded.
5. I/we have no knowledge of any fraud, allegations of fraud, or suspected fraud affecting the City of Pittsburgh's {Departmental [or Bureau] Name} which may have been communicated to me/us by employees, former employees, analysts, regulators, or others.
6. I/we have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be consider when analyzing the cash receipt transaction records of {Departmental [or Bureau] Name}.
7. To the best of my/our knowledge and belief, no events have occurred subsequent to the completion of your fieldwork and through the date of this letter that would require adjustment to, or disclosure in, your report on {Departmental [or Bureau] Name} cash management controls.

Very truly yours,

{Department / Bureau Director Name}

{Title}

Cc: Michael Lamb, City Controller