

I. EXECUTIVE SUMMARY

The Office of Public Integrity (OPI) examined the adequacy of procedures in recording sales, the effectiveness of internal controls in the cash collections process, and compliance with approved policies and practices in the Department of Environmental Services, Office of the Commissioner, Division of Cemeteries.

OPI was able to account for all reported cash collections for the test period. However, we noted certain deficiencies, both of an operational and an internal control nature that require management attention to ensure compliance with City and Department policy.

- ◆ The Division of Cemeteries does not always deposit cash in a timely manner in accordance with the City's Cash Collection Policies.
- ◆ OPI determined that the recording of revenue collection and deposits is inadequate and does not comply with City Cash Collection Policies.
- ◆ OPI noted excessive delinquent accounts receivable balances for both commercial and noncommercial accounts.

II. BACKGROUND, OBJECTIVES AND SCOPE

A. Assignment

The Office of Public Integrity routinely examines revenue systems and City-administered cash collection processes as well as compliance with established policies. The Department of Environmental Services requested this review.

B. Background

The Division of Cemeteries administers Mt. Hope and Riverside Cemeteries. This Division provides information to individuals interested in burials and interments at both cemeteries, sells mausoleum and grave space, coordinates burials with funeral directors, provides necessary grounds maintenance and digging of graves, and opens crypts for receipt of urns or caskets.

Cemetery management relies on the Bureau of Treasury for administration support in managing its record keeping of sales collections and accounts receivable. Treasury maintains a database of active accounts, both commercial and noncommercial. Treasury also mails monthly statements to all commercial accounts and maintains records of all payments mailed to Treasury. The Division deposits all their collections paid at the cemeteries in Treasury. Total cemetery sales resulting from operating revenue in the fiscal year ended June 30, 2011 is \$1,243,596.

C. Objective And Scope

The objectives of the review were to assess the adequacy of internal controls over the cemetery sales process, to determine that the City of Rochester receives all entitled revenues in a timely manner and to assess the quality of and, controls over cemetery sales and accounts receivable. The scope included cash receipts and corresponding records applicable to cash collections at the cemeteries during September 2010 as well as an analysis of accounts receivable as of February 28, 2011. For the month of September 2010, cemeteries collected check, cash and credit card payments totaling \$68,551.50.

Management is responsible for establishing and maintaining a system of internal accounting and administrative control. Fulfilling this responsibility requires estimates and judgments by management to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of accurate, informative reports that are fairly stated.

Because of inherent limitations in any system of internal accounting and administrative control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any system evaluation to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

The recommendations presented in this report include the more significant areas of potential improvement that came to our attention during the course of the examination, but do not include all possible improvements that a more extensive review might develop.

III. RESULTS OF REVIEW

OPI was able to account for all reported cash collections for the test period. However, we noted certain deficiencies, both of an operational and an internal control nature that require management attention to ensure compliance with City and Department policy.

A. Untimely Deposits of Daily Collections

City Cash Collection Policies require that City personnel deposit all cash within five days of receipt or immediately upon the accumulation of \$100, whichever occurs first. The Office of Public Integrity noted that Cemetery personnel do not deposit daily revenue in accordance with these policies.

During September 2010, the cemeteries collected check, cash and credit card payments totaling \$68,551.50. This included \$50,724.30 in cash and checks and \$17,827.20 in credit card payments. The Office of Public Integrity noted that the cemetery offices delinquently deposited \$41,006.10 or 68.8% of the cash and checks that they received during this period. The following table summarizes the late deposits of cemetery cash and check payments:

Department of Environmental Services
 Division of Cemeteries
 Analysis of Delinquent Cash and Check Deposits
For the Period September 1, 2010 to September 30, 2010

<u>Days Deposited Late</u>	<u>Frequency of Occurrence</u>		<u>Amount</u>	<u>Percent</u>
	<u>Number</u>	<u>Percent</u>		
Timely Deposits	29	31.2%	\$ 9,718.20	19.2%
Deposited 1 day late	39	41.9	32,345.00	63.8
Deposited 2 days late	13	14.0	4,885.00	9.6
Deposited 3 days late	3	3.2	2,050.00	4.0
Deposited 4 days late	6	6.5	1,254.50	2.5
Deposited 5 days late	3	3.2	471.60	0.9
Totals	<u>93</u>	<u>100.0%</u>	<u>\$50,724.30</u>	<u>100.0%</u>

Timely deposits of cash are important because a delay in deposit results in a greater risk of loss, theft or diversion. Additionally, personal checks received in payment may be good upon receipt, but not at a later point in time. Finally, undeposited cash is idle cash and does not contribute to the best possible utilization of City resources.

◆ Recommendation

The Division of Cemeteries should deposit cash collections in accordance with City policies.

B. Cash Collection Procedures Do Not Comply With City Policies

City Cash Collection Policies require employees responsible for cash collection operations to properly identify cash collections during the subsequent deposit process on a corresponding FIS Data Input Form. City policy requires this procedure to provide verification that cash collections equal cash deposits. The

document also serves as input to update the City's Financial Information System.

OPI noted that Cemetery personnel do not prepare FIS Data Input Forms for cash collections they send to Treasury for deposit. Rather, Treasury employees prepare the cemeteries' FIS Data Input Form at City Hall at time of deposit by recording only the total amount received from the cemeteries, without any of the detail information identifying the collections to the deposits as City policy requires. Therefore, the FIS documents do not contain the supporting documentation necessary to allow for subsequent reconciliation.

Additionally, Treasury does not return to the cemeteries, receipted copies of FIS Data Input Forms confirming cash collected at the cemeteries and deposited with Treasury. As a result, Cemetery personnel cannot properly account for and reconcile their cash deposits sent to Treasury. Also, they cannot verify the accuracy of FIS deposit information.

◆ Recommendation

1. The Division of Cemeteries should prepare their own FIS Data Input Form for all revenue collections sent to Treasury in accordance with the City's Cash Collection Policies. They should also verify all cash collections forwarded to Treasury for deposit by examination of receipted FIS Data Input Forms.
2. Treasury should return the receipted copy of the FIS Data Input Forms to the originating cemetery office for appropriate personnel to verify deposits.

C. Delinquent Accounts Receivable Balances

Unless paid in full at the time of the sale, cemetery customers agree to time payment plans requiring regular monthly payments. The Bureau of Treasury uses this information to record each account on their accounts receivable computer database system. With this system, Treasury maintains an accounts receivable listing of all time payment accounts for the Division of Cemeteries, updating the accounts as they receive payment information. Treasury also uses this system to age the receivables to identify delinquent accounts and provides these aged accounts receivable reports to Cemetery management.

Management should regularly analyze receivables balances to determine delinquent and uncollectible accounts. This analysis is an important basis for the administration of collection efforts. Based on our review of receivable balances, cemetery management does not appear to effectively manage delinquent accounts. We based this conclusion on an analysis of the following listings of aged account balances for commercial and noncommercial accounts as of February 28, 2011.

Division of Cemeteries
Aged Listing of Accounts Receivable
Non-Commercial Accounts
As of February 28, 2011

Period	Mt. Hope Cemetery		Riverside Cemetery		Total	
	Amount Due	Percent	Amount Due	Percent	Amount Due	Percent
Outstanding						
Current	\$60,326.50	69.37%	\$280,848.83	87.84%	\$341,175.33	83.89%
1 month	881.50	1.01	4,063.72	1.27	4,945.22	1.22
2 months	366.00	.43	1,859.42	.58	2,225.42	.55
3 months	287.00	.33	1,232.02	.39	1,519.02	.37
4 months	200.00	.23	953.02	.30	1,153.02	.28
5 months	175.00	.20	910.02	.28	1,085.02	.27
6 months	175.00	.20	948.02	.30	1,123.02	.28
7 months	323.00	.37	953.90	.30	1,276.90	.31
8 months	175.00	.20	769.08	.24	944.08	.23
9 months	175.00	.20	721.64	.22	896.64	.22
10 months	175.00	.20	794.64	.25	969.64	.24
11 months	175.00	.20	826.64	.26	1,001.64	.25
12+ months	<u>23,531.00</u>	<u>27.06</u>	<u>24,831.98</u>	<u>7.77</u>	<u>48,362.98</u>	<u>11.89</u>
	<u>\$86,965.00</u>	<u>100.00%</u>	<u>\$319,712.93</u>	<u>100.00%</u>	<u>\$406,677.93</u>	<u>100.00%</u>

Division of Cemeteries
Aged Listing of Accounts Receivable
Commercial Accounts
As of February 28, 2011

Period	Mt. Hope Cemetery		Riverside Cemetery		Total	
	Amount Due	Percent	Amount Due	Percent	Amount Due	Percent
Outstanding						
Current	\$18,038.20	57.35%	\$15,014.60	20.84%	\$ 33,052.80	31.93%
31-60 days	2,350.00	7.47	10,201.60	14.16	12,551.60	12.13
61-90 days	2,975.00	9.46	2,100.00	2.91	5,075.00	4.90
Over 90 days	<u>8,091.57</u>	<u>25.72</u>	<u>44,741.54</u>	<u>62.09</u>	<u>52,833.11*</u>	<u>51.04</u>
	<u>\$31,454.77</u>	<u>100.00%</u>	<u>\$72,057.74</u>	<u>100.00%</u>	<u>\$103,512.51</u>	<u>100.00%</u>

* This includes \$31,392.53 sent to the Law Department for collection.

Of the \$406,678 total receivable balance for noncommercial accounts, \$48,363, or 11.89% is delinquent 12 months or more. Additionally, for the commercial accounts, \$52,833 or 51% of the \$103,513 total receivable balance is over 90 days delinquent. This analysis indicates that an excessive outstanding receivable balance is delinquent.

◆ Recommendation

Cemetery personnel should consistently follow up on all delinquent accounts and make every effort to collect these receivables. The accounts receivable system should generate a more detailed report so that management can take immediate action and they should cancel any contracts that fail to become current. Additionally, Cemetery personnel should write off accounts that they deem to be uncollectable.

IV. DEPARTMENT RESPONSE

The response of Department of Environmental Services to this report begins on the next page.



Inter-Departmental Correspondence



To: Daniel A. Mastrella, Manager of Internal Audit
From: Paul M. Holahan, Commissioner of Environmental Services
Date: September 22, 2011
Subject: **Response to Audit of Cash Handling Procedures at Cemeteries**

The Department of Environmental Services (DES) requested that the Office of Public Integrity (OPI) perform an audit on the Division of Cemeteries' financial activities once it became known that the cemetery operation would be transferring from the Department of Youth and Recreation Services to DES.

The audit that was subsequently performed by OPI examined the cash receipts and corresponding records applicable to cash collections at the cemeteries in September 2010, and an analysis of the accounts receivable file as of February 28, 2011. The audit report cited three main deficiencies: 1) Inadequate recording of revenue collection and deposits; 2) Untimely cash deposits; and 3) Excessive delinquent accounts receivable balances. The department's comments relative to these findings are as follows:

Inadequate Recording of Revenue Collection

The audit found fault that the financial transaction paperwork between the Department of Finance/Bureau of Treasury and Department of Environmental Services/Division of Cemeteries did not comply with the cash handling procedures that were in place at the time of the review. The process between the two departments had been put in place when the Finance Department assumed responsibility for cemetery account billing many years ago. In July 2011, the City of Rochester implemented a new financial system, including a new billing system for the cemetery operations with entirely new processes for these types of transactions. The cemetery operations will take the necessary actions to ensure that the new processes are strictly adhered to.

Untimely Cash Deposits

During the audit period, cemetery staff routinely brought invoices and cash deposits to Treasury on a daily basis. On these days, any checks collected were also hand delivered to Treasury. On days that no cash was collected, deposits were placed in the inter-office mail for pickup by the Bureau of Treasury. Since the time of the audit, the inter-office mail operation has been eliminated. As such, all cash and check deposits are now delivered daily to Treasury.

Excessive Delinquent Accounts Receivable Balances

The accounts that appear to be uncollectible will be closed.

Cc: Mary A. Gaudioso, Assistant Commissioner