

**DEPARTMENT OF ENVIRONMENTAL SERVICES
OFFICE OF COMMISSIONER, DIVISION OF CEMETERIES
REVIEW OF CASH HANDLING PROCEDURES**

**The Office of Public Integrity
Date: July 9, 2015**

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 of 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 collected at the Cemeteries does not comply with the City's Cash Collection Policies.
- ◆ OPI noted that since the update of MUNIS in January 2015, the accounts receivable system utilized to maintain control over time payment accounts is not able to produce an aging schedule for the accounts. OPI manually compiled an aging report for commercial accounts and noted an excessive delinquent accounts receivable balance.
- ◆ OPI noted 10 invoices totaling \$2,775 that have not been processed through MUNIS for billing to the customers.

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 interments at both cemeteries, sells mausoleum, grave and niche space, coordinates burials with funeral directors, provides necessary grounds maintenance and digging of graves, and opens crypts for receipt of urns or caskets.

The Bureau of Treasury administers the record keeping of sales collections and accounts receivable. Treasury maintains a database of active accounts, both

commercial and non-commercial. Treasury also mails monthly statements to all commercial accounts and maintains records of all payments mailed to Treasury. The Division deposits all revenue collected at the cemeteries in Treasury. During the period January 1, 2014 through September 18, 2014 the Division reported \$761,517 in operating revenue collected at the cemeteries.

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 the period January 1, 2014 through September 18, 2014.

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.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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.

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

City Cash Collection Policies require that City personnel deposit all cash within five days of receipt or immediately upon the accumulation of \$300, whichever occurs first. The Office of Public Integrity noted that Cemetery personnel do not deposit daily revenue in accordance with these policies.

For the period January 1, 2014 thru September 18, 2014, the Cemeteries collected a total of \$761,517 in revenue. We noted that Cemetery personnel only provided receipts for \$105,294 or 14% of this revenue. As a result, for an analysis of the timeliness of deposits, we could only test the 14% of revenue with receipts.

The Office of Public Integrity noted that the cemetery offices delinquent deposited \$29,424 or 27.9% of the \$105,294 in revenue that we tested. 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 January 1, 2014 to September 18, 2014

<u>Days Deposited Late</u>	<u>Frequency of Occurrence</u>		<u>Amount</u>	<u>Percent</u>
	<u>Receipts</u>	<u>Percent</u>		
Timely Deposits	116	73.9%	\$ 75,870	72.1%
Deposited 1 day late	24	15.3%	18,146	17.2%
Deposited 2 days late	6	3.8%	2,244	2.2%
Deposited 3 days late	3	1.9%	4,025	3.8%
Deposited 4 days late	3	1.9%	1,489	1.4%
Deposited 5 days late	2	1.3%	1,825	1.7%
Deposited more than 5 days late	3	1.9%	1,695	1.6%
Totals	<u>157</u>	<u>100 0%</u>	<u>\$105,294</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. Receipts Not Completed for All Cash Received

City Cash Collection Policies require that all cash collection areas record cash when received. Acceptable methods for recording cash include cash registers, serially numbered customer receipts and serially numbered tickets.

Cemetery personnel utilize serially numbered customer receipts to record cash that they receive at the Cemeteries. However, we noted they do not issue receipts for all collections that they receive. Of the \$761,517 in revenue received at the Cemeteries during our scope period, we noted only 157 receipts totaling \$105,294. This represents only 14% of the total revenue.

Internal control over cash receipts is significantly diminished when cash is not recorded upon receipt.

◆ Recommendation

The Division of Cemeteries should comply with the City's Cash Collection Policies and record all cash when they receive it. Cemeteries personnel should prepare a receipt for all collections received at the cemeteries.

C. Accounts Receivable System Not Able to Produce Aging Reports and Excessive Delinquent Accounts Receivable Balances for Commercial Accounts

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 maintains responsibility for invoicing these customers, recording payments received from cemetery customers and maintaining balances due for each customer. Treasury personnel track this information on their accounts receivable computer 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.

OPI noted that, since the City updated MUNIS in January 2015, the accounts receivable system cannot produce an aging schedule of accounts receivable. Information Technology (IT) personnel indicated that they have not uploaded the necessary reports to the MUNIS live environment because they need Cemetery or Treasury personnel to validate the data before it goes live.

Management should regularly analyze receivables balances to determine delinquent and uncollectible accounts. This analysis is an important basis for the administration of collection efforts.

Although we could not obtain an aging of accounts receivable for individual time payment accounts we were able to use information on the monthly billing statements to manually produce an aging of the commercial accounts. Following is a listing of aged account balances for commercial accounts as of February 28, 2015:

Division of Cemeteries
Aged Listing of Accounts Receivable
Commercial Accounts
As of February 28, 2015

Period	<u>Mt. Hope Cemetery</u>		<u>Riverside Cemetery</u>		<u>Total</u>	
	<u>Amount Due</u>	<u>Percent</u>	<u>Amount Due</u>	<u>Percent</u>	<u>Amount Due</u>	<u>Percent</u>
Outstanding						
Current	\$33,618.40	60.0%	\$38,883.71	74.6%	\$ 72,502.11	67.0%
61-90 days	3,132.52	5.6	2,147.10	4.1	5,279.62	4.9
Over 90 days	19,272.33	34.4	11,113.01	21.3	30,385.34	28.1
	<u>\$56,023.25</u>	<u>100.0%</u>	<u>\$52,143.82</u>	<u>100.0%</u>	<u>\$108,167.07</u>	<u>100.00%</u>

Of the \$108,167 total receivable balance for commercial accounts, \$30,385.34, or 28.1% is delinquent over 90 days. This is an improvement from our prior audit of this area in 2011 when we noted 51% of the accounts receivable were over 90 days delinquent. However, this analysis indicates that an excessive outstanding receivable balance is still delinquent.

◆ Recommendation

Cemetery personnel should validate the necessary data so that IT personnel can upload the aging reports to the MUNIS live environment.

Additionally, Cemetery personnel should consistently follow up on all delinquent accounts and make every effort to collect these receivables. Also, Cemetery personnel should write off accounts that they deem to be uncollectable.

D. Invoices Deleted From MUNIS

OPI noted 10 invoices for cemetery services that have not been processed through MUNIS for billing to the customers. The total of these invoices is \$2,775. Cemetery personnel entered these invoices into MUNIS for processing. However, these invoices did not get through the MUNIS workflow before the year-end closing. As a result, Accounting personnel deleted them prior to the batch posting to the general ledger. Accounting personnel indicated that, generally, they make the appropriate departments aware of this situation when it occurs. However, Cemetery personnel indicated that they were not made aware that these invoices were deleted and, as a result, they did not re-enter them into MUNIS for approval and processing. The following table summarizes these invoices:

Review of Mt. Hope and Riverside Cemeteries
Invoices Deleted From MUNIS

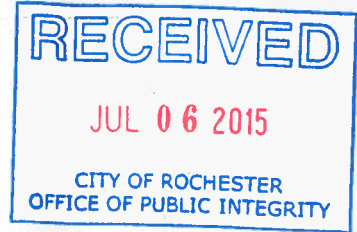
<u>Invoice Number</u>	<u>Account Number</u>	<u>Name</u>	<u>Invoice Date</u>	<u>Invoice Amount</u>	<u>Cemetery</u>
21763	30100028	Farrell-Ryan Funeral Home	08/01/14	\$ 275	Mt. Hope
21791	30100068	Cremation Services of Western NY	08/01/14	275	Mt. Hope
21902	30100069	DM Williams Funeral Home	08/08/14	300	Riverside
21904	30100046	Walker Brothers Funeral Home	08/09/14	275	Mt. Hope
21950	30100038	Falvo Funeral Home Inc.	08/12/14	275	Mt. Hope
22372	30100010	Metropolitan Funeral Chapels	09/08/14	275	Mt. Hope
22408	30100028	Farrell-Ryan Funeral Home	09/08/14	275	Mt. Hope
22448	30100010	Metropolitan Funeral Chapels	09/10/14	275	Mt. Hope
22573	30100038	Falvo Funeral Home Inc.	09/16/14	275	Mt. Hope
22575	30100069	DM Williams Funeral Home	09/16/14	275	Mt. Hope
				<u>\$2,775</u>	

◆ Recommendation

Cemetery personnel should review these invoices and ensure that they get re-entered into MUNIS for approval and processing. Additionally, Cemetery personnel should ensure that procedures are in place to keep this from occurring again.

IV. **DEPARTMENT RESPONSE**

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



To: Daniel A. Mastrella, Manager of Internal Audit

From: Norman H. Jones, Commissioner of Environmental Services

Date: June 30, 2015

Subject: **DES Division of Cemeteries Cash Handling Review**

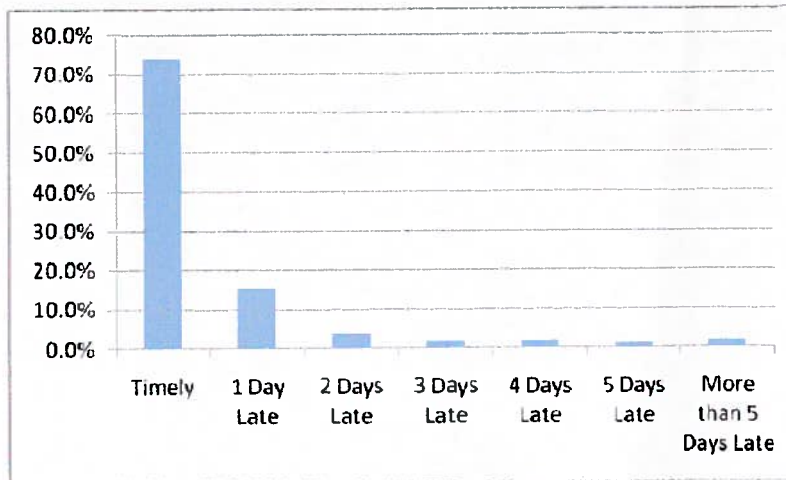
The Department of Environmental Services (DES) requested that the Office of Public Integrity (OPI) perform an audit on the Division of Cemeteries' cash handling procedures.

The audit performed by OPI examined cash receipts and corresponding records applicable to cash collections at the cemeteries from January 1, 2014 through September 18, 2014.

The audit cited four main deficiencies: 1) Untimely cash deposits; 2) Inadequate recording of revenue collected; 3) Inability of MUNIS system to produce accurate aging reports since the system upgrade in January 2015; and 4) The deletion of invoices. The department's comments relative to these findings are as follows.

Untimely Deposits

The audit found that in some cases deposits were not made in the time frame required by the City's cash handling procedures (e.g., within the five days of receipt or immediately upon the accumulation of \$300, whichever occurs first). Of the deposits examined, 73.9% were made on time, with another 15.3% made one day late. Five of the deposits identified in the audit as being late occurred during a MUNIS blackout period, which may have contributed to the timeliness issue. This includes two that were in excess of being 5 days late.



The Division of Cemeteries will make every effort to comply with the deposit parameters.

Inadequate Recording of Revenue Collected

The audit documented that that cemetery staff issues handwritten receipts for only those financial transactions in which cash is received. This operating practice has been in place since the MUNIS financial system implementation in July 2011. The audit recommends that a handwritten, sequentially numbered receipt be issued to customers for all financial transactions related to sales and service fees until such time as a cashiering system is implemented at the cemeteries by the Finance/IT departments. This recommendation has already been implemented by the work unit.

Inability of the MUNIS System to Produce Accurate Aging Reports

After the system upgrade in January 2015, there was a short delay in verifying the accuracy of the MUNIS reports in test status. Unfortunately, the audit was conducted during this time period. The reports have been working properly since sometime in March 2015.

In the absence of the aging reports, the department was able to review payment plan accounts and funeral director accounts where credit has been extended. The payment plans were reviewed using the last MUNIS report before the upgrade, and funeral director accounts by reviewing the monthly statements. Management utilizes the statements to review the funeral director accounts on a monthly basis. This is in lieu of using the summary aging report which shows little detail.

The accounts that are deemed to be uncollectible are routinely closed. The Law Department is actively working on collecting the delinquent amounts cited in the audit, and as such, these accounts will not be written off until such time as the Law Department advises the department to do so.

Invoices Deleted from MUNIS

The audit discovered that 10 invoices to funeral homes for cemetery services provided were not processed through the MUNIS billing system. These invoices were deleted from batches in MUNIS by personnel in the Department of Finance/Bureau of Accounting at year end, and not re-entered by the cemetery staff in the new accounting period, as required by year end procedures. The Division of Cemeteries has no evidence that cemetery personnel were made aware of these actions by the Accounting staff. Members from the two work units have consulted to resolve the process flaw, so the problem should not occur in the future. To correct the immediate issue of the funeral homes not being charged for the services provided, the Division of Cemeteries has reached out to the Department of Finance/Bureau of Treasury, who manages the receivable system for the cemetery billing, and they have agreed to re-bill the funeral homes for these charges.

Summation

At the department's request, OPI conducted this first cash handling audit on the Division of Cemeteries cash handling procedures since the implementation of the MUNIS financial system and transition to the new billing system. The audit pointed out several opportunities for improvement and the department will update our policies and procedures to take full advantage of these opportunities. As always, we appreciate the effort of the OPI staff in the undertaking of this audit and formulation of recommendations.

Cc: Mary A. Gaudioso, Assistant Commissioner of Environmental Services
Jeffery Simmons, Cemetery Manager