

**CITY OF LAS VEGAS AUDIT OVERSIGHT COMMITTEE**  
**City Hall, 400 Stewart Avenue**  
**Las Vegas, Nevada 89101**  
**City Manager Conference Room, Eight Floor**  
**City of Las Vegas Internet Address: <http://www.lasvegasnevada.gov>**

**AGENDA**

**April 19, 2007**  
**10:00 AM**

ALL ITEMS ON THIS AGENDA ARE SCHEDULED FOR ACTION UNLESS SPECIFICALLY NOTED OTHERWISE. UNLESS OTHERWISE STATED, ITEMS MAY BE TAKEN OUT OF THE ORDER PRESENTED AT THE DISCRETION OF THE CHAIRPERSON.

DUPLICATE AUDIO CDS MAY BE AVAILABLE AT A COST OF \$5.00 PER CD THROUGH THE CITY CLERK'S OFFICE.

1. CALL TO ORDER
2. ANNOUNCEMENT RE: COMPLIANCE WITH OPEN MEETING LAW
3. Approval of the Final Minutes by reference of the Audit Oversight Committee Meeting of November 21, 2006
4. Discussion and possible action on the appointment of the Chairperson and Vice Chairperson for Calendar Year 2007
5. General Report by the City Auditor
6. Report and possible action on the Quantification of Savings related to the implementation of Audit Reports
7. Discussion and possible action on Audit of Metropolitan Police - Funding
8. Report and possible action on the status of legal action related to the Misuse of a Purchase Card (P-Card) in the Information Technologies Department
9. Report and possible action on the status of the implementation of the recommendations and delivery of the same to the City Auditor's Office
10. Report and possible action on Durango Hills Golf Course Management Contract - Sales Tax Collection and Remittance
11. Report and possible action on Durango Hills Golf Course Management Contract - Sales Tax for Purchases
12. Report and possible action on Durango Hills Golf Course Management Contract - Property Tax

13. Report and possible action on Parking and Enforcement and Collections - Delinquent Parking Citation Collection Program - 1999 Outstanding Balance
14. Discussion and possible action on sales tax for non-city sales
15. Report and possible action on status of delivery of documented procedures of audit trails to the City Auditor's Office
16. Discussion and possible action on Review of Building and Safety Department Express Inspections (752-0607-07)
17. Discussion and possible action on Internal Control Review Activity Report December 31, 2006 (2900-0607-08)
18. Discussion and possible action on Audit of City Procurement Card Program (2001-0607-09)
19. Discussion and possible action on Audit of City Cell Phone Charges (2005-0607-10)
20. Discussion and possible action on Audit of Citywide Long Distance Telephone Calls (2006-0607-11)
21. CITIZENS PARTICIPATION: Public comment during this portion of the agenda must be limited to matters within the jurisdiction of the Committee. No subject may be acted upon by the Committee unless that subject is on the agenda and is scheduled for action. If you wish to be heard, come to the podium and give your name for the record. The amount of discussion on any single subject, as well as the amount of time any single speaker is allowed, may be limited
22. ADJOURNMENT

Facilities are provided throughout City Hall for the convenience of disabled persons. Special equipment for the hearing impaired is available for use at meetings. If you need an accommodation to attend and participate in this meeting, please call the City Clerk's office at 229-6311 and advise of your need at least 48 hours in advance of the meeting. The City's TDD number is 386-9108.

**THIS MEETING HAS BEEN PROPERLY NOTICED AND POSTED AT THE FOLLOWING LOCATIONS:**

City Clerk's Bulletin Board, City Hall Plaza, 2nd Floor Skybridge  
Bulletin Board, City Hall Plaza (next door to Metro Records)  
Las Vegas Library, 833 Las Vegas Boulevard North  
Clark County Government Center, 500 S. Grand Central Parkway  
Grant Sawyer Building, 555 E. Washington Avenue

**AGENDA SUMMARY PAGE**  
**AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 19, 2007**

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**DEPARTMENT: CITY AUDITOR**  
**DIRECTOR: RADFORD SNELDING**

**SUBJECT:**  
**CALL TO ORDER**



**AGENDA SUMMARY PAGE**  
**AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 19, 2007**

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**DEPARTMENT: CITY AUDITOR**  
**DIRECTOR: RADFORD SNELDING**

**SUBJECT:**  
ANNOUNCEMENT RE" COMPLIANCE WITH OPEN MEETING LAW



**AGENDA SUMMARY PAGE**  
**AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 19, 2007**

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**DEPARTMENT: CITY AUDITOR**  
**DIRECTOR: RADFORD SNELDING**

**SUBJECT:**

Approval of the Final Minutes by reference of the Audit Oversight Committee Meeting of November 21, 2006



**AGENDA SUMMARY PAGE**  
**AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 19, 2007**

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**DEPARTMENT:** CITY AUDITOR'S OFFICE  
**DIRECTOR:** RADFORD SNELDING

Consent  Discussion

**SUBJECT:**

Discussion and possible action on the appointment of the Chairperson and Vice Chairperson for Calendar year 2007

**Fiscal Impact**

No Impact  Augmentation Required  
 Budget Funds Available

**Amount:**  
**Funding Source:**  
**Dept./Division:**

**PURPOSE/BACKGROUND:**

The purpose is to select an Audit Committee Chairperson and Vice Chairperson for calendar year 2007.

**RECOMMENDATION:**

The recommendation is to approve an Audit Committee Chairperson and Vice Chairperson for calendar year 2007.

**BACKUP DOCUMENTATION:**

None



**AGENDA SUMMARY PAGE**  
**AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 19, 2007**

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**DEPARTMENT:** CITY AUDITOR'S OFFICE  
**DIRECTOR:** RADFORD SNELDING

Consent  Discussion

**SUBJECT:**

General Report by the City Auditor

**Fiscal Impact**

No Impact

Augmentation Required

Budget Funds Available

**Amount:**

**Funding Source:**

**Dept./Division:**

**PURPOSE/BACKGROUND:**

To give a status report on the Audits and Projects in Process and open Investigations and Control Reviews.

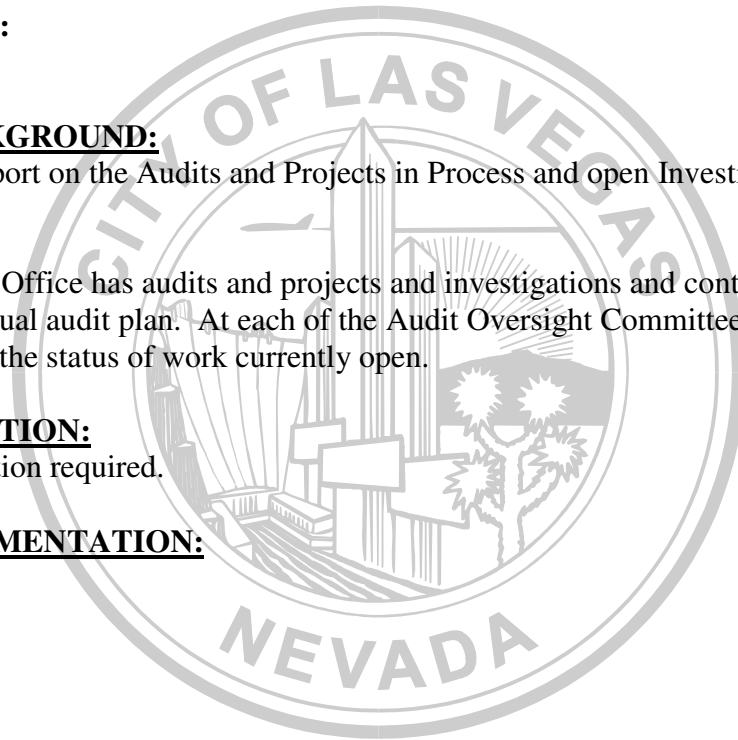
The City Auditor's Office has audits and projects and investigations and control reviews as assigned in the annual audit plan. At each of the Audit Oversight Committee Meetings the City Auditor reports on the status of work currently open.

**RECOMMENDATION:**

Report only; no action required.

**BACKUP DOCUMENTATION:**

None



**AGENDA SUMMARY PAGE**  
**AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 19, 2007**

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**DEPARTMENT: CITY AUDITOR'S OFFICE**  
**DIRECTOR: RADFORD SNELDING**

Consent  Discussion

**SUBJECT:**

Report and possible action on the Quantification of Savings related to the implementation of Audit Reports

**Fiscal Impact**

No Impact  Augmentation Required  
 Budget Funds Available

**Amount:**

**Funding Source:**

**Dept./Division:**

**PURPOSE/BACKGROUND:**

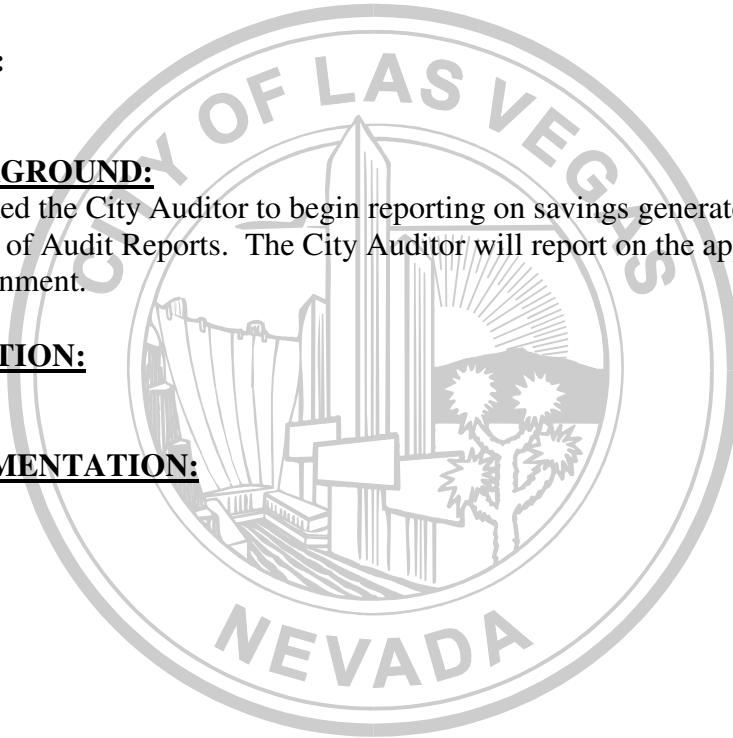
The Committee asked the City Auditor to begin reporting on savings generated as the result of the implementation of Audit Reports. The City Auditor will report on the approach and progress regarding this assignment.

**RECOMMENDATION:**

Accept the report.

**BACKUP DOCUMENTATION:**

None.



**AGENDA SUMMARY PAGE**  
**AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 19, 2007**

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**DEPARTMENT:** CITY AUDITOR'S OFFICE  
**DIRECTOR:** RADFORD SNELDING

Consent  Discussion

**SUBJECT:**

Discussion and possible action on Audit of Metropolitan Police - Funding

**Fiscal Impact**

No Impact

Augmentation Required

Budget Funds Available

**Amount:**

**Funding Source:**

**Dept./Division:**

**PURPOSE/BACKGROUND:**

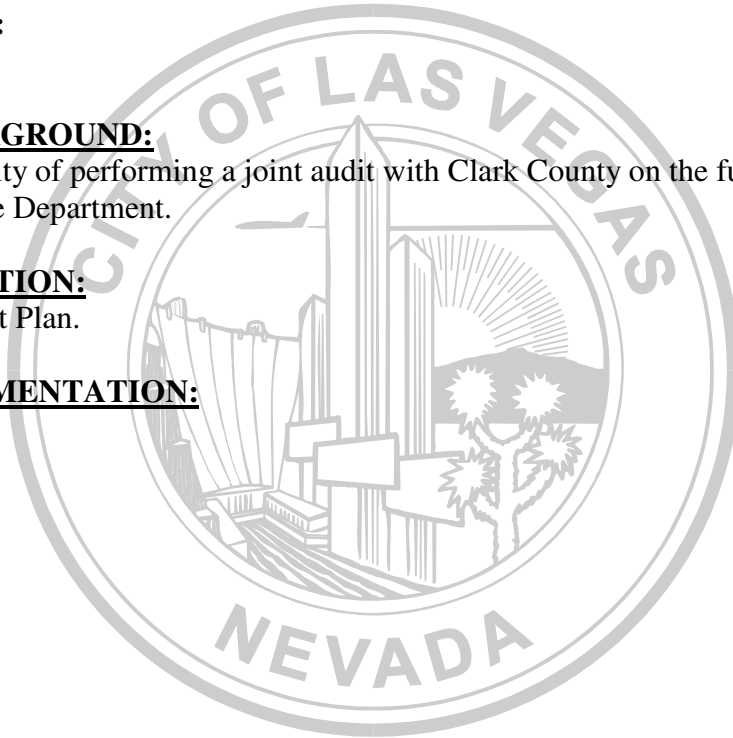
To discuss possibility of performing a joint audit with Clark County on the funding of the Metropolitan Police Department.

**RECOMMENDATION:**

Remove from Audit Plan.

**BACKUP DOCUMENTATION:**

None



**AGENDA SUMMARY PAGE**  
**AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 19, 2007**

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**DEPARTMENT: CITY AUDITOR'S OFFICE**  
**DIRECTOR: RADFORD SNELDING**

Consent  Discussion

**SUBJECT:**

Report and possible action on the status of legal action related to the Misuse of a Purchase Card (P-Card) in the Information Technologies Department

**Fiscal Impact**

No Impact  Augmentation Required  
 Budget Funds Available

**Amount:**  
**Funding Source:**  
**Dept./Division:**

**PURPOSE/BACKGROUND:**

Report on the status of legal action related to the Misuse of a Purchase Card (P-Card) in the Information Technologies Department.

**RECOMMENDATION:**

Accept the report.

**BACKUP DOCUMENTATION:**

None.



**AGENDA SUMMARY PAGE**  
**AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 19, 2007**

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**DEPARTMENT: CITY AUDITOR'S OFFICE**  
**DIRECTOR: RADFORD SNELDING**

Consent  Discussion

**SUBJECT:**

Report and possible action on the status of the implementation of the recommendations and delivery of the same to the City Auditor's Office

**Fiscal Impact**

No Impact

Augmentation Required

Budget Funds Available

**Amount:**

**Funding Source:**

**Dept./Division:**

**PURPOSE/BACKGROUND:**

Report on the status of the implementation of the recommendations and delivery of the same to the City Auditor's Office.

**RECOMMENDATION:**

Accept the report.

**BACKUP DOCUMENTATION:**

None.



**AGENDA SUMMARY PAGE**  
**AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 19, 2007**

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**DEPARTMENT: CITY AUDITOR'S OFFICE**  
**DIRECTOR: RADFORD SNELDING**

Consent  Discussion

**SUBJECT:**

Report and possible action on Durango Hills Golf Course Management Contract - Sales Tax Collection and Remittance

**Fiscal Impact**

No Impact

Augmentation Required

Budget Funds Available

**Amount:**

**Funding Source:**

**Dept./Division:**

**PURPOSE/BACKGROUND:**

Update Committee on City Attorney status of sales tax collection and remittance.

**RECOMMENDATION:**

No City Auditor Recommendation.

**BACKUP DOCUMENTATION:**

None.



**AGENDA SUMMARY PAGE**  
**AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 19, 2007**

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**DEPARTMENT:** CITY AUDITOR'S OFFICE  
**DIRECTOR:** RADFORD SNELDING

Consent  Discussion

**SUBJECT:**

Report and possible action on Durango Hills Golf Course Management Contract - Sales Tax for Purchases

**Fiscal Impact**

No Impact

Augmentation Required

Budget Funds Available

**Amount:**

**Funding Source:**

**Dept./Division:**

**PURPOSE/BACKGROUND:**

Update Committee on City Attorney status of sales tax for purchases..

**RECOMMENDATION:**

No City Auditor Recommendation.

**BACKUP DOCUMENTATION:**

None.



**AGENDA SUMMARY PAGE**  
**AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 19, 2007**

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**DEPARTMENT:** CITY AUDITOR'S OFFICE  
**DIRECTOR:** RADFORD SNELDING

Consent  Discussion

**SUBJECT:**

Report and possible action on Durango Hills Golf Course Management Contract - Property Tax

**Fiscal Impact**

No Impact  Augmentation Required  
 Budget Funds Available

**Amount:**  
**Funding Source:**  
**Dept./Division:**

**PURPOSE/BACKGROUND:**

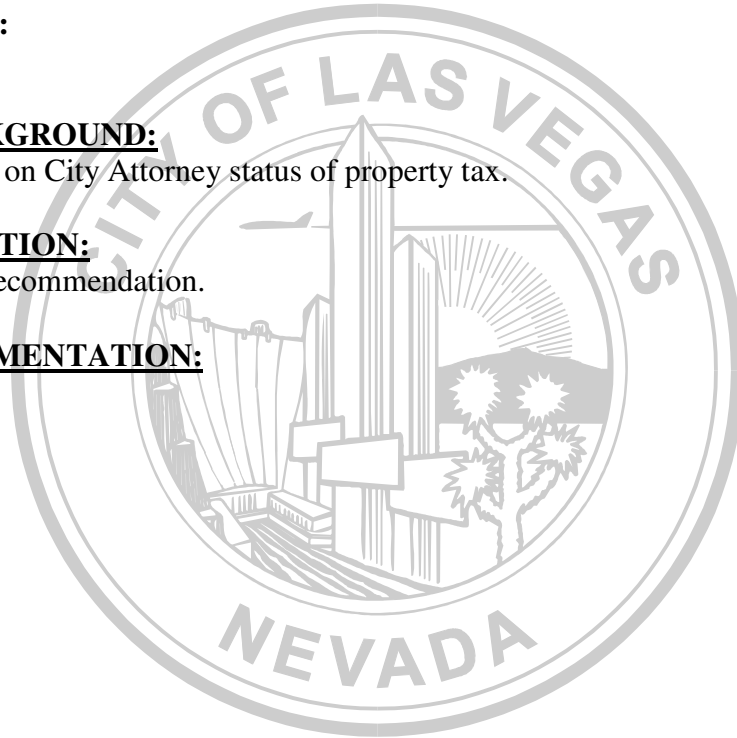
Update Committee on City Attorney status of property tax.

**RECOMMENDATION:**

No City Auditor Recommendation.

**BACKUP DOCUMENTATION:**

None.



**AGENDA SUMMARY PAGE**  
**AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 19, 2007**

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**DEPARTMENT: CITY AUDITOR'S OFFICE**  
**DIRECTOR: RADFORD SNELDING**

Consent  Discussion

**SUBJECT:**

Report and possible action on Parking and Enforcement and Collections - Delinquent Parking Citation Collection Program - 1999 Outstanding Balance

**Fiscal Impact**

No Impact

Augmentation Required

Budget Funds Available

**Amount:**

**Funding Source:**

**Dept./Division:**

**PURPOSE/BACKGROUND:**

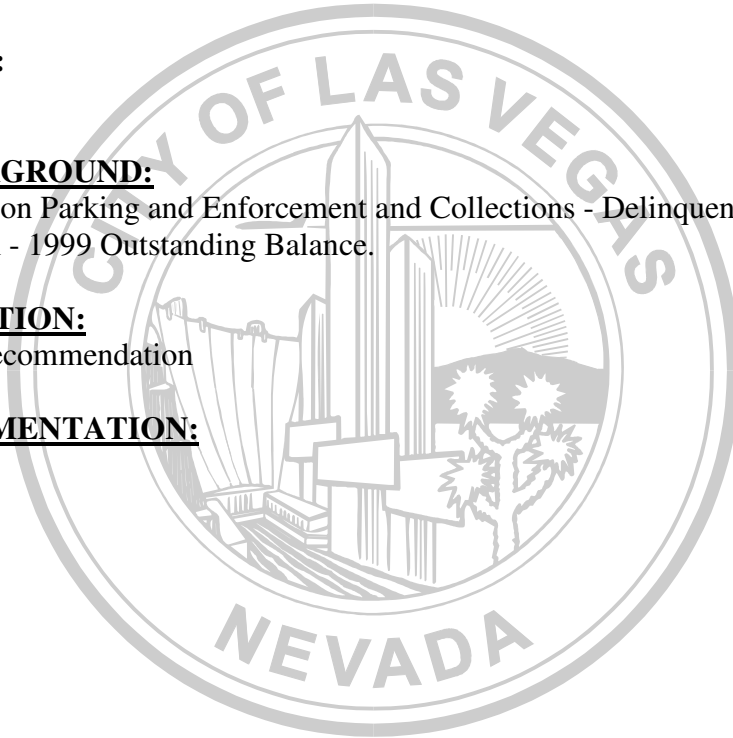
Update Committee on Parking and Enforcement and Collections - Delinquent Parking Citation Collection Program - 1999 Outstanding Balance.

**RECOMMENDATION:**

No City Auditor Recommendation

**BACKUP DOCUMENTATION:**

None.



**AGENDA SUMMARY PAGE**  
**AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 19, 2007**

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**DEPARTMENT:** CITY AUDITOR'S OFFICE  
**DIRECTOR:** RADFORD SNELDING

Consent  Discussion

**SUBJECT:**

Report and possible action on sales tax for non-city sales

**Fiscal Impact**

No Impact

Augmentation Required

Budget Funds Available

**Amount:**

**Funding Source:**

**Dept./Division:**

**PURPOSE/BACKGROUND:**

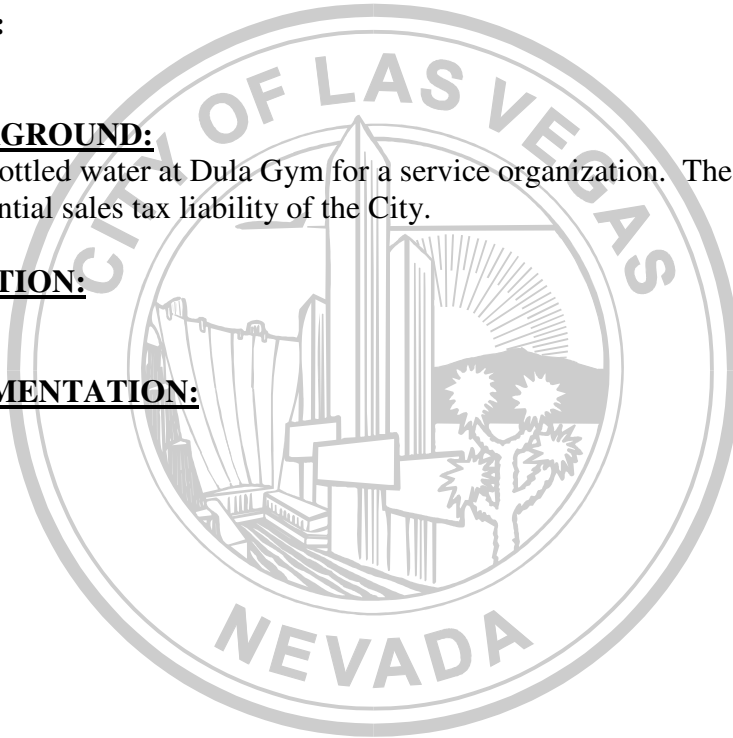
The City has sold bottled water at Dula Gym for a service organization. The Committee asked for a report on potential sales tax liability of the City.

**RECOMMENDATION:**

Accept the report.

**BACKUP DOCUMENTATION:**

None.



**AGENDA SUMMARY PAGE**  
**AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 19, 2007**

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**DEPARTMENT: CITY AUDITOR'S OFFICE**  
**DIRECTOR: RADFORD SNELDING**

Consent  Discussion

**SUBJECT:**

Report and possible action on status of delivery of documented procedures of audit trails to the City Auditor's Office

**Fiscal Impact**

No Impact  Augmentation Required  
 Budget Funds Available

**Amount:**  
**Funding Source:**  
**Dept./Division:**

**PURPOSE/BACKGROUND:**

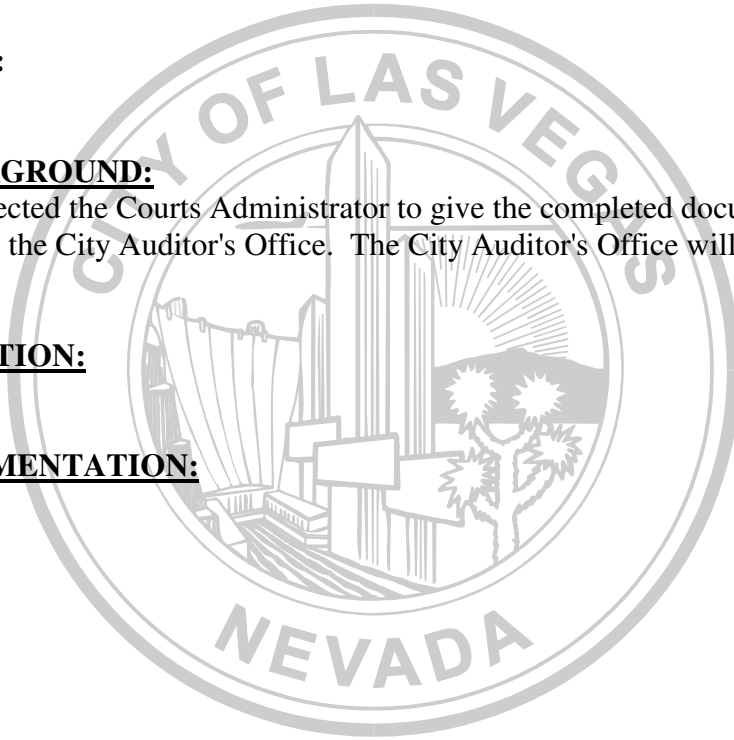
The Committee directed the Courts Administrator to give the completed documented procedures of the audit trails to the City Auditor's Office. The City Auditor's Office will report on the status of this action.

**RECOMMENDATION:**

Accept the report.

**BACKUP DOCUMENTATION:**

None.



**AGENDA SUMMARY PAGE**  
**AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 19, 2007**

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**DEPARTMENT: CITY AUDITOR'S OFFICE**  
**DIRECTOR: RADFORD SNELDING**

Consent  Discussion

**SUBJECT:**

Discussion and possible action on Review of Building and Safety Department Express Inspections (752-0607-07)

**Fiscal Impact**

No Impact  Augmentation Required  
 Budget Funds Available

**Amount:**  
**Funding Source:**  
**Dept./Division:**

**PURPOSE/BACKGROUND:**

To review the audit report Review of Building and Safety Department Express Inspections.

This audit was part of the authorized Audit Plan FY 2006-2007.

**RECOMMENDATION:**

Approval.

**BACKUP DOCUMENTATION:**

Review of Building and Safety Department Express Inspections (752-0607-07)

# **CITY AUDITOR'S OFFICE**



## **REVIEW OF BUILDING AND SAFETY DEPARTMENT EXPRESS INSPECTIONS**

**Report No. CAO 752-0607-07**

**November 9, 2006**

**RADFORD K. SNELDING, CPA, CIA, CFE**

**CITY AUDITOR**

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**REVIEW OF  
BUILDING AND SAFETY DEPARTMENT  
EXPRESS INSPECTIONS  
CAO 752-0607-07**

**BACKGROUND**

The Building and Safety Department Inspection Division is responsible for ensuring that construction within the City of Las Vegas conforms to established building codes. To accomplish this, the Inspection Division employs an Inspection Manager, 7 Supervisors, 70 Inspectors, and 3 full-time and 1 part-time dispatchers. For an additional fee, customers can schedule same day or set time inspections. These inspections are referred to as Express Inspections.

**OBJECTIVES**

The Building and Safety Department requested the assistance of the City Auditor's Office in reviewing the Express Inspections process. Our objective in completing this review was to identify and evaluate the adequacy of existing controls relative to the Express Inspection process.

**SCOPE AND METHODOLOGY**

Our review was performed in accordance with generally accepted government auditing standards. Procedures included:

- Review of City policy and procedures and Nevada guidelines;
- Interviews of personnel;
- Express Inspection observations; and
- Analysis of financial data.

The analysis of financial data was limited to the months of June and July 2006. The review did not include reviewing the quality of the completion of Express Inspections. The last day of fieldwork was August 29, 2006.

**FINDINGS AND RECOMMENDATIONS**

Our review identified certain issues management should address to improve the Express Inspection process and ensure proper collection and recording of all fees. These deficiencies are summarized in the following sections. While other issues were identified and discussed with management, they were deemed less significant for reporting purposes.

## **1. Check Acceptance Procedure**

### **Criteria**

#### ***City of Las Vegas Check Acceptance Procedure (FN304a):***

##### ***Responsibilities and Authority***

The Department, Division, or Office Supervisor is responsible for: Ensuring their employees are following the check acceptance policy and procedure.

##### ***Procedures***

Use the following procedures when accepting a check on the City's behalf.

##### ***Checklist***

- Verify that the check is dated for the same day they are given. Do not accept postdated checks. (Procedure Number 2)
- Do not accept pre-signed checks. Make sure all checks are signed in your presence. (Procedure Number 3)
- Write the driver's license or photo identification number on the check. (Procedure Number 7)

##### ***Types of Identification***

When accepting payments by check, have the check writer present their driver's license. If they do not have a driver's license, two forms of identification are required.

### **Condition**

Express Inspections are same day or set time inspections for which additional fees are charged. The additional fees are paid by the customer for doing inspections in the form of personal checks, business checks, or money orders. Many Express Inspections occur at construction job sites. The acceptance of these checks is not in compliance with the City's Check Acceptance Procedure. Contractors pay for these inspections with pre-written, pre-signed checks made out to the City of Las Vegas. Further, identification is not obtained. Instead, inspectors write the permit number and street address on the check.

### **Cause**

Checks are accepted by inspectors at job sites and not by a cashier in an office setting. City procedures were designed to provide controls relative to the acceptance of checks by City departments. The controls were created for standard cashier functions and not for checks accepted in the field.

## **Effect**

Check acceptance procedures for Express Inspections is not in compliance with City established procedures.

## **Recommendation**

Building and Safety management should contact Finance and Business Services for assistance in evaluating current check handling practices and develop adequate compensating controls. Consideration should be given to researching the feasibility and cost effectiveness of implementing alternative payment methods for Express Inspections. Potential options include:

- ***Credit Cards:*** The customer could provide credit card authorization when scheduling Express Inspections. After the completion of the inspection, the credit card could be charged for the exact amount of the inspection.
- ***Interactive Voice Response (IVR):*** Building and Safety could add an option that would enable customers to schedule Express Inspections at a stated time and make the payment over the system.

## **2. Safeguarding of Receipted Checks**

### **Criteria**

#### ***City of Las Vegas Cash Handling Policy (FN302):***

##### ***Cash Safeguards***

- Cash handling areas shall have restricted access.
- Money stored in drawers, desks, and filing cabinets shall be locked when left unattended.
- All revenue collections, regardless of amount, shall be deposited intact within 24 hours.
- For security reasons, the transportation of deposits from remote sites to the departments shall be handled by City Marshals or the designated armored car service. All deposits shall be made using lockable bags with the keys being held only by the depositor.
- Checks collected during the day shall be restrictively endorsed (“FOR DEPOSIT ONLY”) immediately upon receipt.

Checks should be safeguarded from acceptance until deposited at the bank to avoid the theft of checks. The Corporate Fraud Handbook Prevention and Detection, by Joseph T. Wells identifies various check tampering schemes:

- "...In one instance, signed checks were left overnight on the desks of some employees because processing on the checks was not complete. A janitor on the overnight cleaning crew found these checks and took them, forged the endorsements of the payees, and cashed them..."
- "...Once the check has been intercepted, perpetrators can cash it by forging the payee's signature, hence the term "forged endorsement scheme."
- "The second type of intercepted check scheme is the altered payee scheme...The fraudster inserts her own name, the name of a fictitious entity, or some other name on the payee line of the check. The alteration essentially makes the check payable to the fraudster, so there is no need to forge an endorsement and no need to obtain false identification. The fraudster or an accomplice can endorse the check in her own name and convert it."

The Fraud Examiners Manual identifies ways stolen checks are used:

- "Using a stolen canceled check; a check thief can order checks from a mail-order check printer and have them sent to a mail drop address. Checks can then be written on the new stock and cashed."
- "Check washing takes place to the tune of \$815 million every year in the U.S., and it is increasing at an alarming rate. Checks are stolen from mailrooms and mailboxes, and then the check is inserted into a solution of chemicals that can be purchased at a hardware store. Once dried the fraudster can write in any amount and the checks are usually cashed without question."

### **Condition**

Inspectors turn in Express Inspection checks with applicable documentation at the West Yard. The checks are not properly safeguarded, as follows:

- Checks are not adequately secured until they are forwarded to the Permit Division office supervisor as noted below:
  - Checks and applicable inspection documentation are placed in an open wire basket on the dispatcher's desk.
  - Checks remain in the unsecured wire basket until processed for transfer to the Development Services Center (DSC).
  - The dispatcher records the check numbers, inspection number, permit numbers, company name and amount on an Express Inspections Check Summary Log (Cash Summary). The checks and Cash Summary are inserted into an interoffice mailer and placed on an unsecured table until picked up by a runner for transport to the DSC.
  - The runner gives the interoffice mailer to an office specialist, who in turns forwards it to an office supervisor.
- Inspectors do not restrictively endorse checks immediately upon receipt. Instead, the Permit Division cashier at the DSC completes this when she receipts checks

- into either Legacy or Hansen (City of Las Vegas integrated data management software systems) and prepares them for deposit.
- Checks are not always deposited intact within 24 hours, as noted below:
    - Checks accepted on Fridays and throughout the weekend are not processed until the next business day (usually Monday).
    - When the assigned dispatcher is not at work, checks are not processed until her return.
    - As time allows, the cashier receipts checks into either Legacy or Hansen. Checks not receipted throughout the day are secured in the cashiers change bag for processing the next day.

### **Cause**

The deposit of checks is assigned a lower priority than other duties.

### **Effect**

Non-compliance with City established policies and procedures regarding safeguarding checks. Inadequate internal controls can result in the theft of checks.

### **Recommendation**

Building and Safety management should strengthen controls relative to check processing to include the following:

- Checks should be immediately restrictive endorsed upon receipt.
- The inspectors should insert Express Inspection checks into a drop safe.
- Access to the drop safe should be restricted to employees responsible for the deposit.
- Checks should be receipted into Legacy or Hansen by an employee at the West Yard and directly deposited into the bank.
- An employee should be assigned the check receipting function when the assigned employee is not available.

## **3. Customer Receipts**

### **Criteria**

*City of Las Vegas Cash Handling Policy (FN302)*  
*Cash Receipting*

All cash collected by departments shall be recorded by cash register or on a General Receipt (GR) form. GRs must be printed to include the city name, the department name, or both.

### ***City of Las Vegas Cash Handling Procedure (FN302a)***

#### ***Responsibilities and Authority***

A Department Director whose department receives cash shall be responsible for: Ensuring the department has written cash handling procedures that are consistent with the city-wide cash handling policy.

#### ***Procedure***

- When a payment is received from an individual on behalf of the City, the cashier shall:
  - Record the transaction by cash register, ATLAS receipting system (ATLAS), or on a General Receipt (GR) form.
  - Provide a receipt to the individual making the payment. Include the city name, the department name, and customer name and address on all receipts. (Procedure Number 1)
- The departmental cashier or accounting clerk accounts for all Cash Summary Sheets and pre-numbered forms (used and unused) that are issued to that department. The assigned cashier logs out and signs for all GR books issued to outside collection points. (Procedure Number 5)
- Whenever a department finishes a GR book, the cashier or accounting personnel checks to ensure all copies are included, and has the Department Director or Designee sign off on the book. The department retains the book(s) for a period of two fiscal years or until audited whichever occurs later. (Procedure Number 6)

### **Condition**

City policy requires recording the receipt of checks by using either a cash register or a GR form. Express Inspection checks are not receipted by either of these methods. Instead inconsistent procedures are used by the inspectors to receipt Express Inspection checks, as follows:

- Inspectors write various comments on the inspection report/request to indicate the acceptance of checks. Comments range from indicating that a check was received to writing the check number, amount of check, and/or payor name.
- Inspectors stamp their inspector number on the check stub, indicate a check was received, and give the check stub back to the customer.

### **Cause**

The Inspection Division has not implemented a consistent method to record the receipt of checks. Newly hired inspectors are trained by observing seasoned inspectors in the field.

## **Effect**

Non-compliance with City policy and procedures.

## **Recommendation**

Building and Safety management should implement and document consistent procedures for the receipting of checks. City policy requires the use of GR forms when a cash register is not used. Consideration should be given to assigning each inspector a GR book. Upon accepting checks, one copy of the receipt should be given to the customer and the other copy left in the book. The City of Las Vegas Cash Handling Procedure should be followed in accounting for all used and unused receipts.

## **4. Reconciliation of Express Inspections to Accepted Checks**

### **Criteria**

#### ***Cash Handling Policy (FN302)***

##### ***Cash Receipting***

Cash receipting duties shall be adequately segregated whenever possible.

#### ***City of Las Vegas Cash Handling Procedure (FN302a)***

##### ***Responsibilities and Authorities***

A Department Director whose department receives cash shall be responsible for:

- Ensuring the department has written cash handling procedures that are consistent with the city-wide cash handling policy.
- Designate an employee as the Reconciler.

The Reconciler shall be responsible for:

- Safeguarding the City's cash assets.
- Preparing a Cash Summary Sheet.
- Reconciling money and GRs and/or cash register tape.

##### ***Procedure***

An employee (other than the cashier) designated by the department director shall: Ensure that the cash, checks, and revenue receipts are in agreement. (Procedure Number 3)

### **Condition**

The dispatcher at the West Yard records Express Inspection checks on a Check Summary and forwards the checks and Check Summary to the DSC for deposit. Scheduled Express Inspections are not reconciled to deposited checks.

To ascertain whether checks were received for all Express Inspections, we reconciled scheduled Express Inspections (per the Request Log) to accepted checks (per the Cash Summary) for the months of June and July 2006. We noted differences between the two documents. The reasons for these differences are noted below:

- A receivable is not set up in the computer for Express Inspections. Instead, checks are charged as a general receipt against the permit number when receipted.
- Under the following conditions, Express Inspections were included on the Check Summary but not on the Request Log:
  - Overtime Express Inspections scheduled by the supervisors.
  - Contractor requests to convert scheduled regular inspections into Express Inspections.
  - Hand written inspection requests/reports which indicate the contractor requested the Express Inspections when inspector is already in the field.
  - Express Inspections canceled in the computer but not on the Request Log.
- There was no evidence in the computer that Express Inspections occurred. However, the inspections were listed on the Request Log.
- Checks are not always turned into the dispatcher on the same day.
- Checks received for weekend inspections were included on the Cash Summary but not on the Request Log.
- No evidence exists that checks were received for two Express Inspections.

### **Cause**

No reconciliation of inspections to the receipted checks is completed.

### **Effect**

No assurance that Express Inspections fees have been collected and deposited intact.

### **Recommendation**

Building and Safety management should assign an employee the responsibility for reconciling Express Inspections to accepted checks. This employee should not be responsible for handling checks. To assist in this reconciliation, the following procedures should be implemented:

- All Express Inspections should be included on the Request Log.
- Canceled Express inspections should be documented on the Request Log.
- Follow-up should be performed and documented when differences exist between scheduled inspections and deposited checks.

## **5. Monthly Performance Report**

### **Criteria**

Performance reports should accurately reflect an organization's operations and performance.

### **Condition**

Each month, a Cash Summary Sheet is prepared by an administrative secretary. The Cash Summary Sheet compares the monthly and fiscal year to date figures to the same periods from the previous fiscal year. Included on the Cash Summary Sheet are the number of and revenue total for Express Inspections.

We completed a comparison between the count and revenue figures for Express Inspections taken from the daily Cash Summaries to the July 2006 Cash Summary Sheet. Differences existed between the two documents. A portion of the difference can be attributed to the following:

- The count of Express Inspections on the July 2006 Cash Summary Sheet is based on the number of checks receipted not the number of inspections completed.
- The revenue for Express Inspections on the July 2006 Cash Summary Sheet is based on when the checks were receipted in Legacy or Hansen not on the date of the Inspections.
- The July 2006 Cash Summary Sheet includes Hansen receipted callouts.

A \$3,085 difference between the daily Cash Summaries to the Cash Summary Sheet could not be explained.

### **Cause**

Use of inaccurate computer generated reports in the preparation of the monthly Cash Summary Sheet.

### **Effect**

Reliance on inaccurate statistical information for management decisions or performance measures.

### **Recommendation**

Building and Safety management should develop a more accurate method of calculating monthly performance data.

## 6. Overpayments

### Criteria

***NRS 120A.095 (2) “Intangible property” defined.*** ‘Intangible property’ includes:

Credit balances, **customers’ overpayments**, gift certificates, security deposits, refunds, credit memoranda, unpaid wages, unused airline tickets and unidentified remittances;

***NRS 120A.220 Intangible personal property held by court, public corporation or officer, or governmental entity.***

Except as otherwise provided in NRS 607.170, all intangible personal property held for the owner by any court, public corporation, public authority or public officer, an appointee thereof, a federal or state governmental entity or a political subdivision thereof, that has remained unclaimed by the owner for more than 3 years after it became payable or distributable is presumed abandoned and subject to the provisions of this chapter if:

1. The last known address or residence of the owner or the property is in this State,  
or
2. The property is otherwise abandoned in this State.

***NRS 120A.430 Action to enforce payment or delivery of abandoned property to Administrator; award of costs and attorney’s fees; imposition of civil penalty.***

If any person refuses to pay or deliver property to the Administrator as required under this chapter, the Attorney general, upon request of the Administrator, may bring an action in a court of competent jurisdiction to enforce the payment or delivery. In such an action, the court may award costs and reasonable attorney’s fees to the prevailing party, and, if the Administrator is the prevailing party, may impose a civil penalty against the losing party in the amount not to exceed 2 percent of the value of the property, or \$1,000, whichever is greater.

***NRS 120A.440 Criminal penalties.***

1. Except as otherwise provided in subsection 2, any person who willfully fails to make any report or perform any other duty required under this chapter is guilty of a misdemeanor. Each day such a report is withheld constitutes a separate offense.
2. Any person who willfully refuses to pay or deliver abandoned property to the Administrator as required under this chapter is guilty of a gross misdemeanor.

***NRS 120A.450 Interest***

1. Except as otherwise provided in subsection 2, in addition to any penalties for which he may be liable, any person who fails to report or to pay or deliver abandoned property within the time prescribed by this chapter shall pay to the Administrator interest at the rate of 18 percent per annum on the money or the value of other property from the date on which the property should have been paid or delivered.
2. The Administrator may waive the right to the payment of all or part of the interest pursuant to this section if:
  - a. The person otherwise obligated to make payment files with the Administrator a verified statement of the facts, showing that his failure to report or to make payment or delivery was not willful or negligent but occurred because of circumstances beyond his control; and
  - b. The Administrator so finds.

**Condition**

As noted previously in the first finding of this report, contractors carry numerous pre-written, pre-signed checks made out for various amounts to the City of Las Vegas. When contractors do not have checks made out for the correct amount for Express Inspections, the inspectors are given checks for amounts that exceed the required fee. These checks are accepted and receipted for the full amount as Express Inspections. The overpayment amounts are not identified.

**Cause**

The focus of contractors is on construction continuation and they view the overpayments as a cost of doing business.

**Effect**

Non-compliance with Nevada Revised Statutes that could result in the imposition of civil or criminal penalties.

**Recommendation**

Building and Safety management should separately track and record all overpayments collected from Express Inspections. Overpayments should be made available for refund or applied against further inspections. Any overpayments that remain unclaimed after three years should be treated as unclaimed property and processed in accordance with Nevada Revised Statute.

## **7. Policy and Procedures Manual**

### **Criteria**

#### ***City of Las Vegas Cash Handling Procedure (FN302a)***

##### ***Responsibilities and Authority***

A Department Director whose department receives cash shall be responsible for:  
Providing written procedures to all employees whose responsibilities include revenue collection and disbursement.

### **Condition**

No written policies and procedures exist for Express Inspections.

### **Cause**

The Inspections Division has not documented their process.

### **Effect**

Certain practices followed in the acceptance of Express Inspection checks are inconsistent and out of compliance with City policy and procedures.

### **Recommendation**

Building and Safety management should document its Express Inspection policies and procedures. As the operation does not conform to a standard check acceptance process, Finance and Business Services should approve any deviations from City policies and procedures.

## **8. Document Retention**

### **Criteria**

#### ***Building and Safety Retention Policy:***

Record Series Number: 57162

Record Series: Cash Summary Sheets and Backup

Local/State/Federally Mandatory Retention Period: Until completion of Annual Audit

Legal Requirements:

Nevada Revised Statute 354.624

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Nevada Administrative Code 239.531  
Nevada Administrative Code 239.551

***Nevada Administrative Code 239.531 Records for building and safety.***

*Bookkeeping records:* Period of Minimum Retention – Until annual audit is completed.

***Nevada Administrative Code 239.551 Miscellaneous records common to local governmental entities.***

*Accounting reports, general (office copies):* Period of Minimum Retention – Until annual audit is completed.

**Condition**

The Request Logs and Cash Summaries are filed by date in binders. Once the binders are full, the oldest logs are destroyed. On average, only two to three months of Request Logs and Cash Summaries are retained.

**Cause**

The dispatchers were instructed to destroy older documentation.

**Effect**

- Non compliance with State of Nevada, and Building and Safety retention policies.
- Inability to effectively research issues when documents are destroyed.

**Recommendation**

Building and Safety management should re-evaluate its document retention practices and determine the proper period to retain Request Logs and Cash Summaries. These documents should at a minimum be retained for the period required by Nevada Administrative Code.

## MANGEMENT RESPONSES

### 1. Check Acceptance Procedures

#### **Recommendation:**

Building and Safety management should contact Finance and Business Services for assistance in evaluating current check handling practices and develop adequate compensating controls. Consideration should be given to researching the feasibility and cost effectiveness of implementing alternative payment methods for Express Inspections. Potential options include:

- **Credit Cards:** The customer could provide credit card authorization when scheduling Express Inspections. After the completion of the inspection, the credit card could be charged for the exact amount of the inspection.
- **Interactive Voice Response (IVR):** Building and Safety could add an option that would enable customers to schedule Express Inspections at a stated time and make the payment over the system.

#### **Management Plan of Action:**

In cooperation with Cory DeMille of the Finance Department, all inspectors have now been issued stamps and immediately restrictively endorse checks to CLV upon receipt. Receipts are issued in accordance with the WSC Cashiering and Deposit process. Cash is never accepted.

#### **Estimated Date of Completion:**

November 15, 2006

### 2. Safeguarding of Receipted Checks

#### **Recommendation:**

Building and Safety management should strengthen controls relative to check processing to include the following:

- Checks should be immediately restrictive endorsed upon receipt.
- The inspectors should insert the Express Inspection checks into a drop safe.
- Access to the drop safe should be restricted to employees responsible for the deposit.
- Checks should be receipted into Legacy or Hansen by an employee at the West Yard and directly deposited into the bank.

Review of Building and Safety Department  
Express Inspections  
CAO 752-0607-07  
August 29, 2006

- An employee should be assigned the check receipting function when the assigned employee is not available.

**Management Plan of Action:**

All inspectors are provided with stamps to immediately restrictively endorse checks to the CLV. Checks are now deposited in a drop safe located at the West Service Center. Access to drop safe is restricted to the Inspections Manager and Administrative Secretary. A cashier is now assigned to the WSC and enters all checks into either Legacy and Hansen and the checks are picked up by AT Systems and deposited daily. A back up cashier is now provided.

**Estimated Date of Completion:**

November 15, 2006

**3. Customer Receipts**

**Recommendation:**

Building and Safety management should implement and document consistent procedures for the receipting of checks. City policy requires the use of GR forms when a cash register is not used. Consideration should be given to assigning each inspector a GR book. Upon accepting checks, one part of the receipt should be given to the customer and the other copy left in the book. The City of Las Vegas Cash Handling Procedure should be followed in accounting for all used and unused receipts.

**Management Plan of Action:**

In cooperation with Cory DeMille of the Finance Department, all necessary information is entered on the clients inspection receipt including job address, inspection type, appointment date and time, inspector number, inspector's name and signature, check number received and amount, and comments regarding the inspection.

**Estimated Date of Completion:**

November 15, 2006

Review of Building and Safety Department  
Express Inspections  
CAO 752-0607-07  
August 29, 2006

#### **4. Reconciliation of Express Inspections to Accepted Checks**

##### **Recommendation:**

Building and Safety management should assign an employee the responsibility for reconciling Express Inspections to accepted checks. This employee should not be responsible for handling checks. To assist in this reconciliation, the following procedures should be implemented:

- All Express Inspections should be included on the Request Log.
- Canceled Express inspections should be documented on the Request Log.
- Follow-up should be performed and documented when differences exist between scheduled inspections and deposited checks.

##### **Management Plan of Action:**

All Express Inspections are entered in an Express Inspection Log. Canceled inspections are entered in red. All requested inspections are reconciled with deposited checks. Any discrepancies are brought to the attention of the Senior Inspector for an explanation. The Cashier will reconcile the log daily to insure that all checks have been received for all inspections scheduled.

##### **Estimated Date of Completion:**

November 15, 2006

#### **5. Monthly Performance Report**

##### **Recommendation:**

Building and Safety management should develop a more accurate method of calculating monthly performance data.

##### **Management Plan of Action:**

Daily reports are sent to Finance and the Cashier Supervisor. Daily Reports are kept until quarterly audits by a supervisor and periodic audits by the City Auditor.

##### **Estimated Date of Completion:**

November 15, 2006

## **6. Overpayments**

### **Recommendation:**

Building and Safety management should separately track and record all overpayments collected from Express Inspections. Overpayments should be made available for refund or applied against further inspections. Any overpayments that remain unclaimed after three years should be treated as unclaimed property and processed in accordance with State Statute.

### **Management Plan of Action:**

Overpayments are not accepted.

### **Estimated Date of Completion:**

October 5, 2006

## **7. Policy and Procedures Manual**

### **Recommendation:**

Building and Safety management should document its Express Inspection policies and procedures. As the operation does not conform to a standard check acceptance process, Finance and Business Services should approve any deviations from City policies and procedures.

### **Management Plan of Action:**

A Policy and Procedures Manual has been developed and distributed for staff use. This document is available on request.

### **Estimated Date of Completion:**

November 15, 2006

## **8. Document Retention**

### **Recommendation:**

Building and Safety management should re-evaluate its document retention practices and determine the proper period to retain Request Logs and Cash Summaries. These

Review of Building and Safety Department  
Express Inspections  
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August 29, 2006

documents should at a minimum be retained for the period required by Nevada Administrative Code.

**Management Plan of Action:**

Management Plan of Action: All logs are kept for a minimum of one year or until such time as a complete audit has been done on the process.

**Estimated Date of Completion:**

November 15, 2006

**AGENDA SUMMARY PAGE**  
**AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 19, 2007**

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**DEPARTMENT: CITY AUDITOR'S OFFICE**  
**DIRECTOR: RADFORD SNELDING**

Consent  Discussion

**SUBJECT:**

Discussion and possible action on Internal Control Review Activity Report December 31, 2006  
CAO 2900-0607-08

**Fiscal Impact**

No Impact

Augmentation Required

Budget Funds Available

**Amount:**

**Funding Source:**

**Dept./Division:**

**PURPOSE/BACKGROUND:**

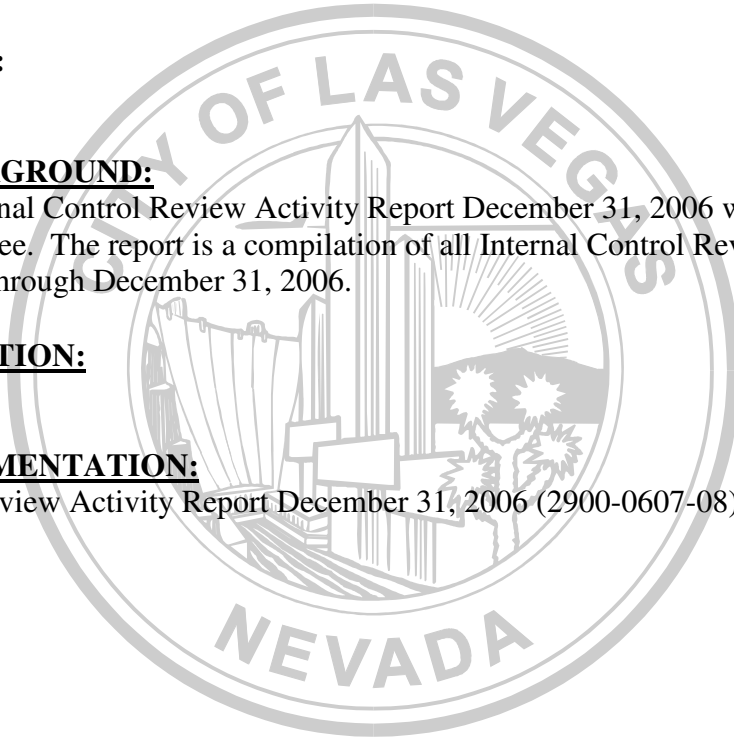
To review the Internal Control Review Activity Report December 31, 2006 with the Audit Oversight Committee. The report is a compilation of all Internal Control Reviews performed from July 1, 2006 through December 31, 2006.

**RECOMMENDATION:**

Approval.

**BACKUP DOCUMENTATION:**

Internal Control Review Activity Report December 31, 2006 (2900-0607-08)



# **CITY AUDITOR'S OFFICE**



## **INTERNAL CONTROL REVIEW ACTIVITY REPORT DECEMBER 31, 2006**

**Report No. CAO 2900-0607-08**

**March 30, 2007**

**RADFORD K. SNELDING, CPA, CIA, CFE**

**CITY AUDITOR**

# INTERNAL CONTROL REVIEW ACTIVITY REPORT DECEMBER 31, 2006

**CAO 2900-0607-08**

## BACKGROUND

The City Auditor's Office has the responsibility to Evaluate, Enhance, Educate, and Enforce internal control issues that come to the Office's attention.

- **Evaluate** - The Office independently and objectively performs Internal Control Reviews to evaluate applicable internal controls through professional expertise and judgment.
- **Enhance** - After evaluation, the Office makes recommendations to enhance the adequacy and effectiveness of existing controls and further recommends additional controls as appropriate.
- **Educate** - Through the Internal Control Review Memorandums to management and the periodic *Internal Control Review Activity Reports*, the Office educates management and others of appropriate internal controls.
- **Enforce** - Enforcement is limited to supplying data to management to help them enforce the policies and procedures of the City.

The results of the Internal Control Reviews are reported in two steps:

- An Internal Control Review Memorandum is released to the appropriate levels of management and the Mayor and City Council. This Memorandum assists management in the timely correction of control deficiencies.
- Semiannually, a summary report is made of all findings and recommendations from the Internal Control Review Memorandums and released in a formal *Internal Control Review Activity Report*.

This report summarizes the Internal Control Review Memorandums issued since the last *Internal Control Review Activity Report* (June 30, 2006), including findings, recommendations, and management responses. The recommendations are included in the follow-up system for tracking purposes.

**INTERNAL CONTROL REVIEW  
ACTIVITY REPORT  
December 31, 2006  
CAO 2900-0607-08**

**OBJECTIVES**

Our objectives in completing the *Internal Control Review Activity Report* are to:

- Review all activity for the period noted relative to internal control reviews;
- Document for tracking purposes findings and recommendations noted in Internal Control Review Memorandums; and
- Report to the public the results of activities of the City Auditor’s Office.

The objectives of each of the Internal Control Reviews were to:

- Determine the adequacy of existing internal controls;
- Determine the reason(s) for any control failure;
- Recommend corrective action; and
- Report the results of our review.

**SCOPE AND METHODOLOGY**

Fieldwork performed during each of the Internal Control Reviews was performed in accordance with generally accepted governmental auditing standards. Procedures included:

- Observing operations.
- Interviewing personnel.
- Reviewing records, reports, and other applicable documentation.

**INTERNAL CONTROL MEMORANDUMS ISSUED**

**ICR 028 Internal Control Review: Neighborhood Services EVOLVE Gift Card Issue**

**Background**

It came to the attention of the City Auditor’s Office that a City of Las Vegas employee was purchasing a large number of gift cards on their P-Card for Home Depot and Wal-Mart. Upon investigation, these gift cards were purchased for the City’s EVOLVE program for ex-offenders. The City Auditor’s Office proceeded to perform an Internal Control Review of the EVOLVE gift card program.

**Findings and Conclusions**

The EVOLVE Policies and Procedures states, “A gift card may be issued to the clients on an as needed basis.” It further states, “The client must provide a receipt for all purchases made which total the assistance amount.” When given a gift card, the client signs a form stating he will return the receipts within 10 days. Upon examining the records of the recipients of 35 of the cards, we found that no receipts had been returned for 22 of the cards.

**INTERNAL CONTROL REVIEW  
ACTIVITY REPORT  
December 31, 2006  
CAO 2900-0607-08**

**Recommendation**

EVOLVE should change their Policies and Procedures to include:  
Issue a self addressed stamped envelope with the gift card for the purpose of returning either the receipts or the unused gift card.

**ICR 033 Internal Control Review: Becker Community School – Missing Deposit**

**Background**

On Friday, June 2, 2006, the Assistant Site Leader for Lummis Safekey went to Becker Community School to drop that day's deposit of \$706 (\$142 cash and \$564 in checks). She faxed the necessary paperwork over to Finance and signed the deposit log confirming that she had dropped the deposit in the safe. The Recreation Leader from Becker also signed the log confirming that she had witnessed the deposit being dropped. When the Recreation Leader went to collect all of the deposits from the safe later that evening, she discovered the deposit from Lummis was not in the safe. After thoroughly searching for it, the deposit was never found. The City Auditor's Office subsequently completed an Internal Control Review of this incident.

**Findings/Conclusions**

Upon investigation, it was discovered that no one actually saw the Lummis Assistant Site Leader bring the deposit bag into Becker Community School. The Assistant Site Leader signed the log but does not recall dropping the deposit into the safe. She does recall setting the deposit on one of the desks. The Becker Recreation Leader admits that even though she signed the log, she did not actually witness the deposit being dropped into the safe, as required by procedure. The Recreation Leader searched everywhere the deposit could have accidentally been dropped and reviewed the surveillance tape from a camera in the parking lot. The tape showed the Assistant Site Leader but the deposit could not be seen at the angle the camera was set. There was no surveillance camera inside Becker Community School. Neither the Lummis Assistant Site Leader nor the Becker Recreation Leader followed the Safekey Cash Handling Procedures written for the Community Schools.

**Recommendations**

1. Leisure Services needs to change the Safekey Cash Handling Procedures for the Community Schools. It should state that the Safekey employee is responsible for dropping the deposit into the safe while the Community School employee witnesses the drop. Only then should they both sign the deposit log. The Safekey employee should not drop the deposit in the safe without a Community School employee present to act as a witness.
2. The Director of Leisure Services should request that Detention & Enforcement complete an evaluation of the feasibility of installing surveillance cameras at Safekey drop sites. At a minimum, these cameras should be installed and positioned to record the dropping of the deposits.

**INTERNAL CONTROL REVIEW  
ACTIVITY REPORT  
December 31, 2006  
CAO 2900-0607-08**

**MANAGEMENT RESPONSES  
TO  
INTERNAL CONTROL REVIEW ACTIVITY REPORT**

**1. ICR 028 Internal Control Review: Neighborhood Services EVOLVE Gift Card Issue**

**Recommendation:** EVOLVE should change their Policies and Procedures to include: Providing a self addressed stamped envelope with the gift card for the purpose of returning either the receipts or the unused gift card.

**Management Response:** The Neighborhood Services Department/EVOLVE center will immediately implement the City Auditor's recommendation to include "issuing a self addressed stamped envelope with the gift card for the purpose of returning either the receipts or the unused gift cards" to the center. The EVOLVE center will also take an additional step to ensure that receipts or unused gift cards are returned:

*Internal Control Review/Field Search – The Quality Assurance Specialist (QAS) as part of EVOLVE's internal control process will add to the scope of her duties, the regular review of gift card logs to determine if receipts or unused cards have been returned in accordance with appropriate policies and procedures. In instances where the receipts have not been returned, in accordance with policies and procedures, the QAS will tell the Guidance Specialist to conduct a field search to assist with retrieving unused cards or receipts.*

**Estimated Date of Completion:**

EVOLVE Policy Change - 7/30/2006

Quality Assurance Review - 7/10/2006 (Implementation Date)

**2. ICR 033 Internal Control Review: Becker Community School – Missing Deposit**

**Recommendation 1:** Leisure Services need to change the Safekey Cash Handling Procedures for the Community Schools. It should state that the Safekey employee is responsible for dropping the deposit into the safe while the Community School employee witnesses the drop. Only then, should they both sign the deposit log. The Safekey employee should not drop the deposit in the safe without a Community School employee present to act as a witness.

**Management Response:** Agree with the recommendation. The Safekey & Community School/Center Cash Handling Procedures will be changed to reflect the recommendation. All full-time and hourly staff will receive notification regarding this change. The City Auditor's Office will also be copied in the communication.

**INTERNAL CONTROL REVIEW  
ACTIVITY REPORT  
December 31, 2006  
CAO 2900-0607-08**

**Estimated Date of Completion:** 11/1/2006

**Recommendation 2:** The Director of Leisure Services should request that Detention & Enforcement complete an evaluation of the feasibility of installing surveillance cameras at Safekey drop sites. At a minimum, these cameras should be installed and positioned to record the dropping of the deposits.

**Management Response:** Agree with the recommendation. I will meet with Detention & Enforcement regarding possible installation of surveillance camera equipment at all Community School and Community Center locations within the City of Las Vegas.

**Estimated Date of Completion:** 11/1/2006

**AGENDA SUMMARY PAGE**  
**AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 19, 2007**

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**DEPARTMENT: CITY AUDITOR'S OFFICE**  
**DIRECTOR: RADFORD SNELDING**

Consent  Discussion

**SUBJECT:**

Discussion and possible action on Audit of City Procurement Card Program (2001-0607-09)

**Fiscal Impact**

No Impact

Augmentation Required

Budget Funds Available

**Amount:**

**Funding Source:**

**Dept./Division:**

**PURPOSE/BACKGROUND:**

To review the audit report Audit of City Procurement Card Program.

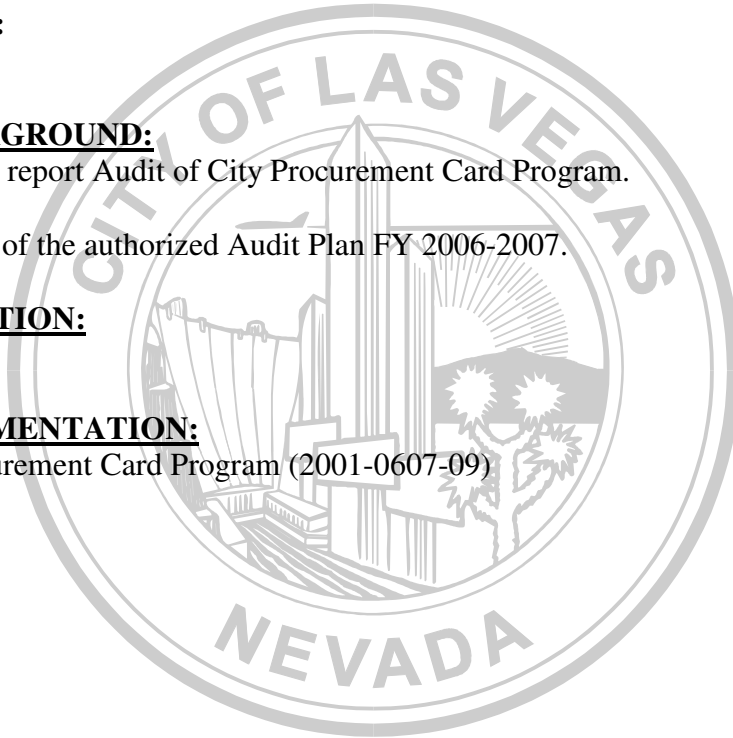
This audit was part of the authorized Audit Plan FY 2006-2007.

**RECOMMENDATION:**

Approval.

**BACKUP DOCUMENTATION:**

Audit of City Procurement Card Program (2001-0607-09)



# **CITY AUDITOR'S OFFICE**



## **AUDIT OF CITY PROCUREMENT CARD PROGRAM**

**Report No. CAO 2001-0607-09**

**April 11, 2007**

**RADFORD K. SNELDING, CPA, CIA, CFE**

**CITY AUDITOR**

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**AUDIT OF  
CITY PROCUREMENT CARD PROGRAM  
CAO 2001-0607-09**

**BACKGROUND**

The City has a Procurement Card (P-Card) Program in which city employees are issued credit cards for use in purchasing business related goods and services. The P-Card Program's policies and procedures are outlined in *Procurement Card Program Policy* (FN605.1) and *Procurement Card Program Procedure* (FN605a.1). P-Card documentation standards are included in a *P-Card Instructions* sheet.

According to the P-Card Program Policy:

P-Cards provide employees with a cost-effective and convenient method of purchasing small dollar business-related items from any supplier that accepts the City's P-Card. P-Cards:

- Simplify and decentralize the purchasing process for targeted transactions.
- Increase the purchasing options offered to departments.
- Reduce the need for petty cash.
- Expedite delivery of goods or services.
- Reduce payment processing time and expense.
- Streamline the small dollar purchasing process.

The City has approximately 338 outstanding P-Cards with varying spending limits. During fiscal year 2006, there were approximately 25,000 P-Card purchases totaling more than \$5 million.

The City's P-Card Program is administered by the Purchasing & Contracts Division (Purchasing) and the Accounting Division (Accounting) of the City's Finance and Business Services Department (Finance). The P-Card Program Administrator within Purchasing oversees the administration of the P-Card program and is the primary contact for communication with cardholders and the card issuing financial institution. Accounting staff receive, review, and file P-Card transaction receipts, monitor the status of P-Card reconciliations, make general ledger entries, and make the monthly payment to the P-Card issuing financial institution.

The City uses a P-Card software program for recording and reconciling P-Card transactions. In January 2007, the City will be changing to a new web-based P-Card system in conjunction with a change to a new P-Card issuing financial institution.

## **OBJECTIVES**

The objectives of this audit were to assess:

- Compliance with laws and regulations.
- Efficiency of operations.
- Adequacy of internal or management controls to help prevent fraud, waste, and abuse.

## **SCOPE AND METHODOLOGY**

Our audit fieldwork was performed in accordance with generally accepted government auditing standards. The scope of our audit was limited to reviewing P-Card transactions during fiscal year 2006 (July 1, 2005 through June 30, 2006). Our audit included:

- Discussions with City staff and management.
- Testing of P-Card transactions using data analysis tools.
- Review of supporting documentation for a sample of P-Card transactions.

## **FINDINGS AND RECOMMENDATIONS**

Our audit identified issues management should address relating to controls over the City's P-Card program. These issues are summarized in this section. While other issues were identified and discussed with management, they were deemed less significant for reporting purposes.

## 1. Desk Procedures

### Criteria:

Documented desk procedures assist employees and management in performing the day-to-day functions of an organization and in implementing and monitoring adherence to policies. Desk procedures address the key activities and processes of an organization, how they are performed, by whom, and establish accountability.

### Condition:

- While the City's P-Card Program policies and procedures provide general guidelines for those participating in and administering the P-Card program, they do not detail the routine functions, procedures, and responsibilities of those involved in administration, processing, and monitoring of the P-Card Program (i.e., P-Card Program Administrator, Accounting staff, Cashiers).
- During the past year, three Accounting staff directly involved in the oversight and processing of P-Card transactions transferred to other divisions/departments within the City. No documented desk procedures were available for use by the new staff in learning their responsibilities.

### Cause:

- Detailed functions and responsibilities of staff involved in P-Card administration and processing are not documented.
- Reliance on experience and expertise of other staff.

### Effect:

- Potential for confusion or misinterpretations on divisions of responsibility and expectations of management.
- Reliance on staff for on-the-job training.
- Reduced ability to hold staff accountable for their areas of responsibility.

### Recommendation:

Finance should create documented desk procedures for all positions involved in the administration, processing, and monitoring of P-Card transactions. The division of responsibilities between Purchasing and Accounting should be clearly defined within these procedures.

## 2. P-Card Transaction Analysis

### Criteria:

According to the City's Procurement Card Program Procedure, the P-Card Program Administrator is responsible for:

- Monitoring the performance of the P-Card program using a monthly Excel spreadsheet statement.
- Monitoring P-Card use for compliance with the Procurement Card Policy and this procedure.
- Notifying the Purchasing and Contracts Manager of P-Card misuse.

Regular data analysis of P-Card transactions can be effective in monitoring P-Card activity and identifying improper, abusive, and fraudulent transactions.

### Condition:

- The P-Card Program Administrator currently completes a monthly review of a spreadsheet of P-Card transactions for significant and unusual transactions.
- This review is limited in its effectiveness due to the inherent limitations of the data within the spreadsheet and reporting capabilities of the current P-Card system.
- The objectives, methodology, and procedures to be followed by the P-Card Program Administrator to "monitor the performance of the P-Card program" have not been defined or documented.

### Cause:

- Inherent limitations with current system.
- Lack of adequate data analysis tools.
- Lack of defined objectives, methodology, and procedures to monitor P-Card program performance.

### Effect:

- Improper, abusive, and fraudulent P-Card transactions may go undetected.

### Recommendation:

Finance should evaluate what additional routine data analysis could be performed to improve the monitoring of P-Card transactions. An evaluation should be made of data mining and analysis tools that could be used.

Finance should document its objectives, methodology, and procedures to be followed by the P-Card Program Administrator and/or Accounting in monitoring the performance of the P-Card program. Responsibilities and the timing for completing this monitoring should be clearly defined and documented. The following are examples of areas that could be monitored on a regular basis:

- Transactions of unusual amounts or relationships

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- Questionable vendors identified by name or by MCCs (standard codes that the credit card industry maintains to categorize merchants)
- Weekend and holiday purchases
- Evidence of split transactions
- Year-end spending

### 3. Prohibited P-Card Purchases

#### Criteria:

Internal controls are most effective when procedures exist to detect violations of policy.

The City's *Procurement Card Program Policy* states the following:

Prohibited P-Card purchases shall include, but are not limited to:

- Furniture/furnishings included under current Purchase Agreements.
- Computer hardware and software (except for Information Technologies Department personnel)
- Gasoline or oil (except for Fleet & Transportation Services Division personnel)
- Vehicle repairs
- Travel expenses such as hotels, food and airline tickets (except when specific authorization granted)
- Cash advances
- Personal items
- Any item currently covered under a Blanket Purchase Order (The Procurement Card may not be used for issuing releases against Blanket Purchase Order Agreements)
- Any additional goods/services specifically restricted by the Purchasing & Contracts Division or the Cardholder's Department or Division

Payment for purchases shall not be split as a means of staying within the single purchase limit.

The City's *Procurement Card Program Procedure* states that cardholders are to "verify that items being purchased are not currently covered under a Blanket Purchase Order."

#### Condition:

- During our review of fiscal year 2006 P-Card transactions, prohibited P-Card purchases (as defined by the City's P-Card Program Policy) were identified as follows:
  - Fuel and oil purchased by employees in divisions outside of Fleet & Transportation Services
  - Vehicle repair costs
  - Split transactions (two or more transactions that would have normally been a single-purchase transaction, but were split to circumvent established spending limits).
- Other groups of P-Card transactions were identified that *may* include prohibited transactions. According to policy, these transactions would only be prohibited if

covered under existing purchase agreements. It is unknown how many of these transactions were prohibited as we did not compare each of these transactions against existing purchase agreements.

- Furniture purchases (approximately 49 transactions totaling \$26,000).
  - P-Card purchases made with approximately 134 vendors with whom the City has blanket or contract purchase agreements. There were purchases totaling more than \$5,000 during the year with 33 of these vendors.
- Purchases of items covered under blanket or contract purchase agreements are not currently decremented against contracted amounts.
- No formal procedures are in place to identify and track the prohibited transactions outlined in policy. Therefore, there is no assurance that these prohibited transactions will be identified.
- The Accounting staff who review the supporting documentation for P-Card transactions are not familiar with the details of existing blanket and contract purchase agreements and therefore, not in a position to identify transactions covered by these agreements.
- Purchasing and Accounting staff were not aware of “any additional goods/services specifically restricted by the Purchasing & Contracts Division or the Cardholder’s Department or Division”.

**Cause:**

- Lack of formalized procedures for identification and reporting of policy stipulated prohibited transactions.
- Cardholders are not familiar with all purchase agreements.

**Effect:**

- Prohibited P-Card transactions are not all being identified and tracked.
- Potential for violation of terms of purchase agreements.
- P-Card transactions with vendors with whom the City has purchase agreements are not decremented against contracted amounts.

**Recommendation:**

Finance should improve controls over prohibited P-Card transactions as follows:

- Finance should evaluate the adequacy of the current listing of prohibited transactions.
- Finance should implement procedures and assign responsibility for identification and reporting of identified prohibited transactions. Cardholders should be made aware of violations.
- Measures should be taken to make identification of items covered under purchase agreements more easily identifiable for cardholders, approvers, reconcilers, and those given responsibility for identification of prohibited transactions.
- Finance should formally request that any additional goods/services specifically restricted for purchase with a P-Card by other departments be communicated to them.

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- Finance should evaluate the feasibility of implementing a process by which blanket or contract purchase agreement contracted amounts could be decremented for eligible P-Card transactions.

#### **4. P-Card Strike Program**

##### **Criteria:**

Candid and constructive counseling, performance appraisals, and discipline can provide reinforcement of the system of internal control. Internal control policies and procedures should identify the specific actions or lack of adherence to internal control within the purchase card program that warrants counseling, discipline, or both. (GAO Audit Guide – Auditing and Investigating the Internal Control of Governmental Purchase Card Programs, p. 25)

The *Procurement Card Program Policy* states the following:

The Accounting Division will monitor use of P-Cards and determine if chronic abuse exists. Chronic abuse occurs when a habit or pattern of behavior continually results in late or missing backup receipts, unrecovered sales tax, or unreconciled charges. Chronic abuse may result in revocation of P-Card privileges. P-Card misuse or repeated policy violations may result in revocations of P-Card privileges. Finance will notify the Division Manager or Department Director in advance if the intent is to revoke P-Card privileges.

The *Procurement Card Program Procedure* states the following:

The Accounting Operations Division is responsible for monitoring the frequency of occurrence and number of transactions going into default accounts, sales tax charged and purchases in which no backup has been submitted. Accounting Operations is to:

- Maintain records to track compliance with the Procurement Card Policy and Procedure.
- Provide notification to cardholders, reconcilers and approvers of non-compliance.
- Revoke card privileges if chronic abuse of card privileges occurs.
- Provide monthly performance statistics to the City Manager's Office.

The *P-Card Instructions* document states the following:

Accounting will track the number of “strikes” that each cardholder has each month. A strike occurs when a transaction is not reconciled, when proper backup is not provided to Finance within the specified period of time or when sales tax is repeatedly charged and not recovered. Accumulating 3 strikes during a 3 month period may result in revocation of P-Card privileges.

##### **Condition:**

- Accounting staff receive and review supporting documentation for P-Card transactions.

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- Accounting maintains monthly spreadsheets of P-Card transactions to document that the following steps have been completed:
  - P-Card charges have been appropriately reconciled.
  - Supporting documentation has been submitted for each P-Card transaction.
  - Sales tax has not been charged.
  - Appropriate signatures have been obtained.
- Accounting inputs the word “Complete” next to a transaction once the above steps are found to be complete.
- If the cardholder is deficient in any of these areas, notes on the deficiency are made or a line is left blank. Per Accounting, these are considered “strikes” and an e-mail noting the deficiency may be sent out to the cardholder and/or the respective Department Director. According to the *P-Card Instructions*, accumulating three strikes during a three-month period may result in revocation of P-Card privileges.
- The following deficiencies were noted with the current P-Card strike program:
  - Other than general discussions of the P-Card strike program in the City’s policy and procedures, the details on how the strike program should be administered are not documented.
  - The current definition of a strike in the *P-Card Instructions* is incomplete as it does not address prohibited transactions outlined in policy.
  - Beyond the cardholder’s approver, no Purchasing or Accounting staff are formally responsible for reviewing the records for prohibited transactions.
  - No current cumulative summary of strikes was available for review. Per Accounting, this was in part due to employee turnover.
  - It is not evident from the spreadsheets when a formal strike had been issued against a cardholder and whether correspondence had been sent to the cardholder and/or Director.
  - While the P-Card Program Administrator periodically communicates violations of P-Card policy to Accounting, she does not currently have access to the strike tracking spreadsheet and her roles and responsibilities as they relate to the strike tracking program are not clearly defined.
  - Justification for allowing an employee with three strikes to continue as a cardholder is not always documented.
  - The steps that must be taken prior to revoking an employee’s P-Card and who is responsible for carrying out these steps are not documented.

### **Cause:**

- Lack of documentation on the administration of the P-Card strike program and the roles and responsibilities of staff in the program.

### **Effect:**

- Inconsistencies in the administration of the P-Card strike program.

**Recommendation:**

Finance should re-evaluate the effectiveness of the current P-Card strike program and address the identified deficiencies:

- The details on how the strike program is administered should be more clearly documented.
- The definition of a strike should be clearly defined and documented.
- A cumulative summary of strikes should be maintained.
- Strikes should be more clearly identified on the strike monitoring spreadsheet.
- Correspondence regarding strikes should be better documented and tracked.
- The P-Card Program Administrator's role in the strike program should be defined and documented.
- Justifications for a cardholder maintaining their P-Card after repeated violations of policy/procedure should be documented.
- The steps that must be taken prior to revoking an employee's P-Card and responsibility for carrying out these steps should be clearly defined and documented.

## 5. Approver Training

### Criteria:

According to the *Procurement Card Program Policy*, the Department Director or designee is to review each P-Card expenditure to ensure the goods and services were necessary and for official use. These individuals are P-Card transaction approvers (approvers). The approval of each P-Card transaction is evidenced by a signature on a P-Card transaction summary sheet and/or the transaction receipts submitted monthly to Accounting.

The review of P-Card transactions by approvers is a critical control activity in the P-Card program. Approvers are the first and key line of defense against fraudulent, improper, and abusive P-Card purchases as they are closest to the business activities of the cardholders. Accordingly, it is important that these individuals are appropriately trained in P-Card policies and procedures and how to identify these types of transactions. Regular training can be beneficial in maintaining their knowledge and awareness of control activities.

### Condition:

- While cardholders must attend a training class prior to the issuance of their card, P-Card transaction approvers do not attend any training outlining their roles and responsibilities and the “red flags” of fraudulent, improper, and abusive P-Card purchases.
- Finance recently began developing a P-Card approver training course.

### Cause:

- Lack of an established training course for P-Card approvers.

### Effect:

- Without proper training, approvers may not be fully aware of their roles and responsibilities and may not be familiar with the “red flags” to look for in reviewing P-Card transactions and fail to detect fraudulent, improper, and abusive purchases.

### Recommendation:

Finance should develop and implement a required training program for P-Card approvers. This program should include periodic refresher courses as deemed appropriate. Finance should also develop a document for P-Card approvers that provides guidance for reviewing P-Card transactions and common “red flags” of fraudulent, improper, and abusive transactions.

## 6. Identification of Contracting Opportunities

### Criteria:

- According to the City's *Procurement Card Program Procedure*, Purchasing is responsible for evaluating the monthly P-Card report for contracting opportunities.

### Condition:

- Purchasing is responsible for the evaluation of P-Card activity for contracting opportunities.
- During fiscal year 2006, the City had P-Card purchases exceeding \$10,000 with 71 different vendors. The City already has blanket or contract purchase agreements with 19 of these vendors.
- Additional contracting opportunities may be available with some of these vendors.
- The monthly P-Card report available to buyers within Purchasing is limited in its usefulness in identifying contracting opportunities as the information contained within the spreadsheet is only for a specific month rather than cumulative. Improved reports with summarized trend information would provide the buyers with improved data for analysis and identification of contracting opportunities.
- The P-Card transaction evaluation process to be performed by buyers has not been formalized.

### Cause:

- Limited reporting capabilities of current system.

### Effect:

- Contracting opportunities may not be timely identified.
- Potential for missed opportunities for discounts through blanket or contract purchase agreements.

### Recommendation:

Purchasing should develop improved reports for buyers to review for identification of contracting opportunities. In addition, Purchasing should formalize and document the P-Card transaction evaluation process to be performed by its buyers.

## 7. Card Activity Evaluation

### Criteria:

- Effective financial loss exposure management and control of a P-Card program includes limiting the number of P-Cards and related spending limits to operational need requirements.

### Condition:

- During fiscal year 2006, 51 City cardholders had fewer than ten transactions. 25 of these 51 cardholders received their card or returned their card during the year. Therefore, 26 cardholders had the P-Card throughout the year and used it fewer than ten times. This may be an indication that these P-Cards are no longer necessary.
- While an informal review of cardholder activity is periodically conducted by Finance, no formal annual review process is in place. Justification by departments for retention of low usage cards is not documented.
- There is no documented approach/methodology to controlling the number of cardholders and spending limits.

### Cause:

- Current approach for evaluating cardholder activity and spending limits has not been formalized.

### Effect:

- Lack of formalized program for evaluation of cardholder activity.
- Lack of documentation from departments justifying retention of low usage cards.

### Recommendation:

Finance should create a documented approach/methodology to follow in evaluating cardholder activity and spending limits. Reports could annually be sent out to each department summarizing the number of P-Card transactions, total dollar amounts, and the spending limits for each cardholder. Department management could then be asked to review the report and justify the retention of low usage cards (based on a threshold established by Finance) and confirm the continuation of the established spending limits.

## **8. Management Reporting**

### **Criteria:**

The City's Procurement Card Program Procedure states that Accounting is to provide monthly performance statistics to the City Manager's Office.

### **Condition:**

- A monthly P-Card program performance report is not currently being created by Accounting for distribution to those involved in the administration of the P-Card program and the City Manager's Office.

### **Cause:**

- Performance report not being created.
- Limited reporting capabilities of current P-Card system.

### **Effect:**

- City management may lack useful information needed in carrying out their internal control and management responsibilities.

### **Recommendation:**

Finance should determine what management reports should be created to summarize P-Card program activity. The following should be defined and documented:

- Information to be included in the reports
- Source of information
- Staff responsible for creation of the reports
- Timing of creation and distribution of the reports
- Individuals to whom the reports will be distributed

## 9. Transaction Categories and Descriptions

### Criteria:

Information input into the P-Card system must be complete and accurate for effective data analysis.

### Condition:

- When P-Card transactions are entered into the P-Card system, cardholders or reconcilers classify the nature of the transaction from a listing of 80 categories. Examples of these categories are automotive, books, electrical, and food.
- During fiscal year 2006, approximately 6,000 P-Card transactions (24%) were classified to a miscellaneous category (i.e., miscellaneous supplies, equipment, services).
- Of the 80 categories, 21 were used for fewer than 20 transactions.
- Approximately 576 P-Card transactions (2%) were not assigned to any category.
- These categories are not currently being used by Purchasing or Accounting on a regular basis for transaction analysis.
- While the new P-Card system will not use these transaction categories, certain codes (GL codes, MCC codes) will help identify the nature of transactions and be available for transaction analysis.
- Cardholders are prompted in the P-Card system to input a description of each purchase to identify the nature of the transaction. Certain cardholders (or their reconcilers) continue to only put minimal information in this field (e.g., repair, supplies, building materials, equipment, food).

### Cause:

- The category codes may no longer be meeting the needs of the users or reflect the nature of the City's P-Card transactions.
- Importance of this information is not emphasized with users.

### Effect:

- Incomplete information for effective data analysis and identification of purchase irregularities.

### Recommendation:

Finance should implement procedures for the regular review of transactions using available transaction categories/identifiers (e.g., GL codes, MCC codes). Cardholders should be formally reminded of the importance of the proper categorization of purchases and to provide descriptive information in the transaction description field.

## MANAGEMENT RESPONSES

### 1. Desk Procedures

**Recommendation:** Finance should create documented desk procedures for all positions involved in the administration, processing, and monitoring of P-Card transactions. The division of responsibilities between Purchasing and Accounting should be clearly defined within these procedures.

**Management Action Plan:** Purchasing and Accounting will create desk procedures for all positions involved in the Pcard program.

**Estimated Date of Completion:** December 2007

### 2. P-Card Transaction Analysis

**Recommendation:** Finance should evaluate what additional routine data analysis could be performed to improve the monitoring of P-Card transactions. An evaluation should be made of data mining and analysis tools that could be used.

Finance should document its objectives, methodology, and procedures to be followed by the P-Card Program Administrator and/or Accounting in monitoring the performance of the P-Card program. Responsibilities and the timing for completing this monitoring should be clearly defined and documented. The following are examples of areas that could be monitored on a regular basis:

- Transactions of unusual amounts or relationships
- Questionable vendors identified by name or by MCCs (standard codes that the credit card industry maintains to categorize merchants)
- Weekend and holiday purchases
- Evidence of split transactions
- Year-end spending

**Management Action Plan:** Purchasing and Accounting will identify reports and create desk procedures that will aid in the evaluation of Pcard transactions. The timing and frequency of this analysis will be outlined in the documents.

**Estimated Date of Completion:** December 2007

### 3. Prohibited P-Card Purchases

**Recommendation:**

Finance should improve controls over prohibited P-Card transactions as follows:

- Finance should evaluate the adequacy of the current listing of prohibited transactions.
- Finance should implement procedures and assign responsibility for identification and reporting of identified prohibited transactions. Cardholders should be made aware of violations.
- Measures should be taken to make identification of items covered under purchase agreements more easily identifiable for cardholders, approvers, reconcilers, and those given responsibility for identification of prohibited transactions.
- Finance should formally request that any additional goods/services specifically restricted for purchase with a P-Card by other departments be communicated to them.
- Finance should evaluate the feasibility of implementing a process by which blanket or contract purchase agreement contracted amounts could be decremented for eligible P-Card transactions.

**Management Action Plan:** Finance will improve controls over prohibited P-Card transactions through:

- Review of the current list of prohibited transactions and evaluation of any additional policies and procedures used by City departments.
- Formalizing the process for the identification and reporting of prohibited P-Card transactions. After notification of a violation, the Approver will be required to submit a corrective action to Finance within an established timeframe.
- Updating desk procedures to include reporting schedule requirements analysis criteria. Procedures will identify timelines for notification and reporting of prohibited transactions.

The software functionality to decrement from a PO is not currently available. Finance will continue to evaluate options for possible enhancements to the application which may be made available in the future.

**Estimated Date of Completion:** December 2007

#### 4. P-Card Strike Program

**Recommendation:** Finance should re-evaluate the effectiveness of the current P-Card strike program and address the identified deficiencies:

- The details on how the strike program is administered should be more clearly documented.
- The definition of a strike should be clearly defined and documented.
- A cumulative summary of strikes should be maintained.
- Strikes should be more clearly identified on the strike monitoring spreadsheet.
- Correspondence regarding strikes should be better documented and tracked.
- The P-Card Program Administrator's role in the strike program should be defined and documented.
- Justifications for a cardholder maintaining their P-Card after repeated violations of policy/procedure should be documented.
- The steps that must be taken prior to revoking an employee's P-Card and responsibility for carrying out these steps should be clearly defined and documented.

**Management Action Plan:** Purchasing and Accounting will collaborate on an evaluation of the current strike program for clarity and consistency. The definition of a strike, when and how a strike will be issued, revocation of a P-Card, and an improved method of strike tracking will be developed and documented.

**Estimated Date of Completion:** December 2007

#### 5. Approver Training

**Recommendation:** Finance should develop and implement a required training program for P-Card approvers. This program should include periodic refresher courses as deemed appropriate. Finance should also develop a document for P-Card approvers that provides guidance for reviewing P-Card transactions and common "red flags" of fraudulent, improper, and abusive transactions.

**Management Action Plan:** Finance has partnered with Internal Audit to implement a training program with extensive training materials. This item has been completed for all existing P-Card program participants and is in place to train all future P-Card program participants. We will continually evaluate the adequacy of the training materials provided to Approvers.

To further ensure compliance by P-card participants, we will address Approver accountability. It is our intent to formalize the notification process to approvers

regarding violations of P-card procedures and policies. The notification will require the Approver to submit a corrective action plan to Finance within an established time frame.

**Estimated Date of Completion:** December 2007

## **6. Identification of Contracting Opportunities**

**Recommendation:** Purchasing should develop improved reports for buyers to review for identification of contracting opportunities. In addition, Purchasing should formalize and document the P-Card transaction evaluation process to be performed by its buyers.

**Management Action Plan:** Reports will be developed and procedures documented to assist Buyers in identifying contracting opportunities.

**Estimated Date of Completion:** December 2007

## **7. Card Activity Evaluation**

**Recommendation:** Finance should create a documented approach/methodology to follow in evaluating cardholder activity and spending limits. Reports could annually be sent out to each department summarizing the number of P-Card transactions, total dollar amounts, and the spending limits for each cardholder. Department management could then be asked to review the report and justify the retention of low usage cards (based on a threshold established by Finance) and confirm the continuation of the established spending limits.

**Management Action Plan:** A report will be developed to properly monitor card usage and card limits. Justifications will be requested from Departments with low usage cards or excessive card limits. A determination will be made by Purchasing as to whether the low usage cards will be cancelled or if limits will be adjusted.

**Estimated Date of Completion:** December 2007

## 8. Management Reporting

**Recommendation:** Finance should determine what management reports should be created to summarize P-Card program activity. The following should be defined and documented:

- Information to be included in the reports
- Source of information
- Staff responsible for creation of the reports
- Timing of creation and distribution of the reports
- Individuals to whom the reports will be distributed

**Management Action Plan:** Finance will identify and develop a P-Card reporting strategy.

**Estimated Date of Completion:** December 2007

## 9. Transaction Categories and Descriptions

**Recommendation:** Finance should implement procedures for the regular review of transactions using available transaction categories/identifiers (e.g., GL codes, MCC codes). Cardholders should be formally reminded of the importance of the proper categorization of purchases and to provide descriptive information in the transaction description field.

**Management Action Plan:** Finance will develop and distribute a procedure addressing the acceptable level of transaction categorization and transaction review criteria.

**Estimated Date of Completion:** December 2007

**AGENDA SUMMARY PAGE**  
**AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 19, 2007**

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**DEPARTMENT:** CITY AUDITOR'S OFFICE  
**DIRECTOR:** RADFORD SNELDING

Consent  Discussion

**SUBJECT:**

Discussion and possible action on Audit of City Cell Phone Charges (2005-0607-10)

**Fiscal Impact**

No Impact

Augmentation Required

Budget Funds Available

**Amount:**

**Funding Source:**

**Dept./Division:**

**PURPOSE/BACKGROUND:**

To review the audit report Audit of City Cell Phone Charges (2005-0607-10).

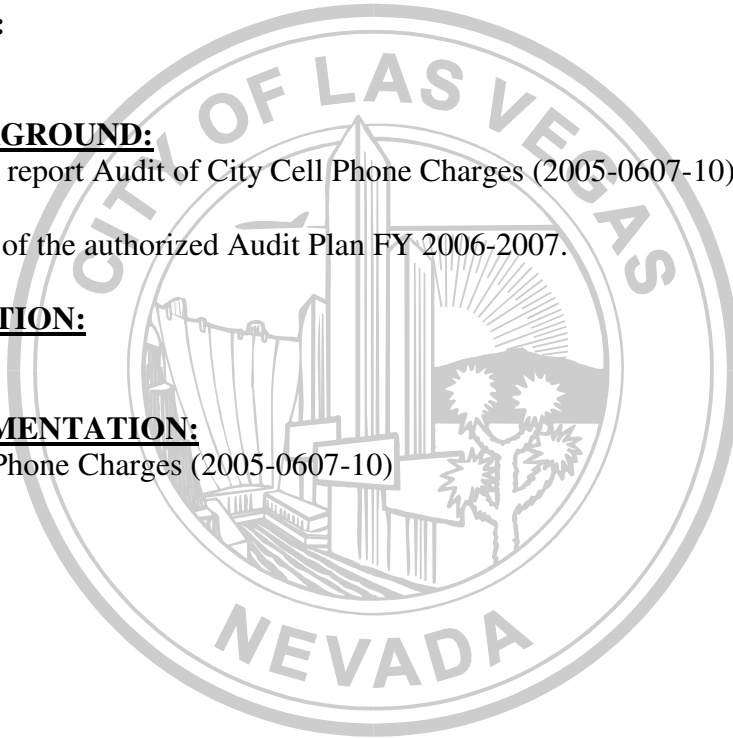
This audit was part of the authorized Audit Plan FY 2006-2007.

**RECOMMENDATION:**

Approval.

**BACKUP DOCUMENTATION:**

Audit of City Cell Phone Charges (2005-0607-10)



# **CITY AUDITOR'S OFFICE**



## **AUDIT OF CITY CELL PHONE CHARGES**

**Report No. CAO 2005-0607-10**

**April 11, 2007**

**RADFORD K. SNELDING, CPA, CIA, CFE**

**CITY AUDITOR**

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**AUDIT OF  
CITY CELL PHONE CHARGES  
CAO 2005-0607-10**

**BACKGROUND**

Cellular phones increase productivity and have become as important as desk phones. The cost of cellular service is steadily rising and is now approximately \$625,000 per year for the City of Las Vegas.

City policy allows for limited personal calls with reimbursement to the City. Information Technologies (IT) developed and implemented the City's Phone System which simplified the payment process for personal cellular calls and was a major development in providing a monitoring mechanism over cell phone usage. Detail call information is provided by the vendors and entered into the Phone System. The Phone System can provide information for management's control over phone usage and costs.

Cell phone usage is governed by:

- Communications Equipment Policy ( IT121.3) and Procedures (IT121a.3)
- Information Resources Use Policy (IT136)
- Operations Manual Financial Personal Reimbursement (F.17)
- Personnel Policies Manual Health / Safety City Property, Security, Privacy and Searches (9.06).

There are 411 mobile internet access devices. The City pays a monthly fee for unlimited use on these internet access phone numbers. The City's Phone System assigns a cost per minute of use regardless of voice or data communication. The City's Phone System was the data source for the audit. There were no audit adjustments to the data from the City's Phone System. Audit testing was based on all the data from the City's Phone System.

**OBJECTIVE**

Our objectives in completing the audit of city cell phone charges were to determine if:

- Current policies and procedures have been established in accordance with applicable guidelines.
- Management controls are adequate and operating as intended.
- Monitoring procedures are in place to prevent abuses.

## **SCOPE AND METHODOLOGY**

The scope of our audit included reviewing all cell phone records maintained in the City's Phone System for the period July 1, 2004 to June 30, 2006. Over 1.2 million Provider 1 cell phones records and over 850 thousand Provider 2 cell phones records were tested and reviewed for the two fiscal years.

Our fieldwork was performed in accordance with generally accepted governmental auditing standards. Procedures included:

- Interviewing applicable city personnel
- Researching applicable policies, procedures, regulations and guidelines
- Performing various audit data extracts and analysis of data
- Testing established management controls

## **FINDINGS AND RECOMMENDATIONS**

Our audit identified issues management should address relating to the enhancement of controls over a cell phone monitoring program. The issues are summarized in the following sections. There were other issues identified and discussed with management, they were deemed less significant for reporting purposes. Management has agreed to undertake a process that will provide line management with the needed tools for monitoring cell phone assignments and usage.

### **1. Inventory Assignment and Accountability**

#### **Criteria:**

Procedures state accountability: Managing the inventory, issuance, usage, return, replacement, and repair of communications equipment. (IT121a.3)

#### **Condition:**

The Phone System was created because of a need to automate the manual procedures and to begin to provide management with the ability to automate oversight control procedures. Inventory records are the first step in the oversight process. Over time inventory records have become less accurate because updated information is dependent on information being received from various sources in a timely and accurate manner.

During the audit the validation of inventory information was undertaken. Various sources of information were reviewed and compared to determine the reliability of the information.

Numerous differences in information were noted. These differences reduce the level of confidence in the complete reliability of inventory information.

Some of the reasons for the differences could be:

- Inactive phones never being deleted from inventory
- Active phones the City is paying but never added to the inventory
- Errors caused by the vendor
- Change information not being provided in a timely and accurate manner

Dependable inventory records are needed for the validation of phone assignment. The ability to assign accountability over cell phone usage is the first step in any management monitoring program. Call usage on unassigned cell phones is open to possible abuse by anyone having access to the phone. There are 456 cell phones, not assigned to a specific individual.

Out of 642 Provider 1 phones there are 242 phones, 37.6%, having no accountability for personal calls made from them. They are assigned to a non person (such as City Hall, Fire, etc). The above total does not include multiple phones numbers to one individual (such as; wireless internet card is a separate number, special project, etc).

Out of 522 Provider 2 phones there are 214 phones, 40.9%, having no accountability for personal calls made from them. They are assigned to a non person (such as City Hall, Fire, etc). The above total does not include multiple phones numbers to one individual (such as; wireless internet card is a separate number, special project, etc).

**Cause:**

Without a periodic inventory and comparison to other information sources there are no assurances that all information was received and updated in a proper and timely manner.

**Effect:**

A reliable and update inventory listing is the central control to validate activity relating to cell phones. Without it inaccuracy in vendor billing can go unnoticed. Without reliable and valid inventory information any conclusions could be subject to question.

**Recommendation:**

1. Better inventory control procedures are needed. Better inventory controls can be started by:

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- a) Performing a complete physical inventory to validate that the Phone System records are accurate and current.
- b) A periodic comparison between the vendor information and the Phone System to verify that the City is not being charged for phones not being used.
- c) All cell phones should be assigned to an individual in order to have accountability over monthly calls and expenses. Assignment to an individual should be made to as many phones as possible.

## 2. Business or Personal Call Accountability

### Criteria:

Policy and procedures states:

Property and services provided or paid by the City are to be used for city business purposes. Personal business usage is minimal and incidental. (IT121.3)

Employees issued long distance access codes and /or using cell phones shall review phone call usage on a monthly basis and reimburse the City through payroll deduction for any costs incurred as a result of personal use. (IT121.3)

Use of cellular phones to place long distance calls should be restricted to times when a landline is not available. (IT121.3)

### Condition:

City policy states personal long distance calls can be made provided they are "reasonable" and reimbursement is made to the City for the calls. There are no guidelines as to the definition of reasonable calls.

1. The following findings were from over two million phone records reviewed, from the Phone System. The records covered fiscal year 2005 and fiscal year 2006 data (Provider 1 1,213,358 records and Provider 2 852,388 records).

Provider 1 – Calls Identified as Business or Personal

	Call Count	Percentage	Call Length	Percentage
<b>Totals</b>	<b>1,213,358</b>		<b>2,729,772</b>	
Personal	141,790	11.7 %	355,346	13.0 %
Business	1,071,568	88.3 %	2,374,426	87.0 %

The majority of cell phone calls were classified as business by employees.

Provider 2 – Calls Identified as Business or Personal

	Call Count	Percentage	Call Length	Percentage
<b>Totals</b>	<b>852,388</b>		<b>2,051,586</b>	
Personal	92,018	10.8 %	251,844	12.3 %
Business	760,370	89.2 %	1,799,741	87.7 %

The majority of cell phone calls were classified as business by employees.

During detail audit analysis, it was determine that all personal calls were not being properly reported. There were 8,338 paired numbers found. A paired number, from the same cell phone, is one where the same called number was reported as both a personal call and other times the same number called was reported as a business call. The call is either business or personal, but not both. This indicates that employees are incorrectly reporting calls.

2. Reimbursement of personal calls is charged a blended rate of six cent per minute which does not cover the actual cost of cellular service. The blended rate covers 3.7% of the Provider 1 cost but personal calls use 13.0% of total minutes used. The blended rate covers 3.9% of the Provider 2 cost but personal calls use 12.3% of total minutes used. The cost of cell phones is the same for both local and long distance minutes.
3. Without an ongoing usage monitoring program it is not possible to determine if City assets are being used in the most productive manner. The audit review indicated that management must increase review. Tested for cell phones with high usage. Selected usage of 7,000 minutes or more, as the cutoff amount during the audit period.
  - There were 125 Provider 1 users with over 7,000 minutes spent on the cell phone. The highest single user had 23,131 calls using 51,429 minutes, which averages out to 98.9 minutes per work day. (This includes internet data communication calls.)
  - There were 95 Provider 2 users with over 7,000 minutes spent on the cell phone. The highest single user had 12,574 calls using 40,795 minutes; which averages out to 78.5 minutes per work day. (This includes internet data communication calls.)
4. Current written policy states long distance landline must be used. If this stays the policy the requirement must be communicated to employees. If more long distance calls are made from the desk phones the cell phone long distance expense to the City would be reduced. It is far less expensive to use desk phone long distance than the expense of using cell phones for long distance. The City gets a huge discount on long distance calls from desk phones. Also there is no possibility of overages charges as there are with cell phones.

**Cause:**

There has been no establishment of an ongoing control review program over cell phone usage.

**Effect:**

Without an effective monitoring program there are opportunities for abuse of the system.

The only monitoring performed is to make sure that each individual reviews their monthly phone bill for business and personal calls. This current program does not provide adequate assurances that possible abuses are not taking place. The City could be inappropriately paying for employees' personal calls.

- If a strong monitoring program was put into place, that employees are made aware of, the deterrence factor would increase and more accurate reporting of call type by employees would take place.
- Without an active and ongoing monitoring program there is no means of telling if all personal calls are reported and reimbursement is being made.
- Without an effective monitoring program to uncover possible discrepancies the City could be incurring needless costs.

**Recommendations:**

1. Management should establish a control system for ongoing monitoring of cell phone usage. Cell phone costs are based on total usage, both local and long distance are billed the same. If employees were encouraged to use desk phones, where possible, overage charges could be significantly reduced.
2. Management should increase the reimbursement rate for personal calls made on cell phones. A higher reimbursement rate would provide actual cost recovery and it would most likely reduce the number of personal calls on cell phones. With less usage the City's cell phone bill should be reduced.

### **3. Cell Phone Plans**

#### **Criteria:**

City resources are to be spent in a cost effective manner.

#### **Condition:**

The expense of cell phones has been increasing with time. There are 1,114 cell phone numbers which cost the City of Las Vegas approximately \$52,000 per month. Between the vendors there are multiple cell phone plans which the employee can select from.

Over 91% of the Provider 1 cell phone being used cost the City over \$40 per month, with 16.2% of cell phones costing the City over \$100 per month. 75% of the Provider 1 plans cost between \$40 and \$99.99 for the basic monthly access charge.

Over 44.5% of the Provider 2 cell phone being used cost the City over \$50 per month, with 2.6% of the users costing the City over \$100 per month. 75.9% of the Provider 2 plans cost between \$25 and \$99.99 for the basic monthly access charge.

There has not been a study to determine the correlation between usage and monthly plan costs.

#### **Cause:**

Each user is allowed to have any type of cell plan provided the employee's manager approves the purchase.

#### **Effect:**

The ability to get any type of plan, adds to the difficulty of monitoring and controlling cell phone expenses. The plans all have different features, usage limits and expenses. For control purposes the number of plans which can be selected should be reduced so there is a better means of monitoring the cell phone usage.

#### **Recommendation:**

1. Management must reduce the cell phone plan choices for easier and better control monitoring. There should be a review to determine the needs of each cell phone user to determine which plan best serves the need of the City and the end user at the least cost.

#### 4. Cell Phone Usage

**Criteria:**

City resources are to be spent in a cost effective manner.

**Condition:**

Cell phones are a productivity tool if used correctly. Additional steps to monitor usage to assure productivity should be started. The audit review showed:

1. A review of data from July 2004 to June 2006 showed that:
  - The 100 most used Provider 1 cell phone numbers spent between 3.7 and 21.4 workweeks on the cell phone.
  - The 100 most used Provider 2 cell phone numbers spent between 2.8 and 17.0 workweeks on the cell phone.(These include internet data communication calls.)
2. A review of one month bill for both Provider 1 and Provider 2 found many cell phones with no minutes used during the month reviewed.
  - Found 206 Provider 1 cell phones, costing \$10,566, with no minutes used in June, 2006
  - Found 141 Provider 2 cell phones, costing \$3,451, with no minutes used in May, 2006

This underutilization of cell phones, over time, could amount to significant dollars.

3. There are other cell phone usage charges that add to the City costs. Those charges include a variety of fees charged on the monthly vendor bills. While those miscellaneous / other charges appear to be small in comparison to the monthly bill total, on a yearly basis they add to over \$6,000 and may include third party billing, ring tones, joke of the day or even 900 or 888 numbers: Provider 1 averages \$315 per month and Provider 2 averages \$191 per month. These fees do not include usage overage fees, directory assistance and other stated fees.
4. The vendor's bills have a general category called "usage charges" which contains all fees over and above plan charges not covered by the "access charges". These fees average approximately \$583 per month for Provider 2 and \$2,364 for Provider 1. These other fees amount to approximately \$36,000 per year for the cell phones. These charges indicate cell phone users are going over the monthly allocation of minutes.

**Cause:**

There is no activate ongoing review program to determine if total cell phone costs can be reduced by better monitoring over cell phone usage and the associated miscellaneous costs.

**Effect:**

The City may be over paying thousands of dollars on a yearly basis.

**Recommendation:**

Management must begin to gain control over the increasing cost of cell phone. This process can be started by:

1. Requiring that all new cell phone requests be accompanied by a questionnaire to determine the user needs. This questionnaire would be the basis for the assignment of the cell phone plan, which meets the user needs at the least cost to the City.
2. There should be a questionnaire sent to all current cell users to determine if the cell phone plan they have meets their needs. The completed questionnaire would form the basis to begin to control the increasing costs, since cell phone plans could be better matched with actual cell phones usage.

This study will determine whether expenses could be cut without loss of productivity associated with cell phones. This could also address the issue of users going over their monthly allocation of minutes.

## **MANAGEMENT RESPONSES**

### **1. Inventory Assignment and Accountability**

#### **Recommendation:**

Better inventory control procedures are needed. Better inventory controls can be started by:

- a) Performing a complete physical inventory to validate that the Phone System records are accurate and current.
- b) A periodic comparison between the vendor information and the Phone System to verify that the City is not being charged for phones not being used.
- c) All cell phones should be assigned to an individual in order to have accountability over monthly calls and expenses. Assignment to an individual should be made to as many phones as possible.

#### **Management Plan of Action:**

- a) **Response:** A departmental list of cellular devices will be produced from the Phone System and distributed to each department for their review and validation of use, assignment and need. The information gathered from this review will be used to identify the correct disposition of each device and update the Phone System records.

**Estimated Date of Completion:** 10-05-2007

#### **Management Plan of Action:**

- b) **Response:** This is currently being accomplished by a monthly bill review by the Accounts Payable section of Finance and Business Services. Any differences are addressed with the vendor. The system provides an exception report of any items that are billed by the vendor but not in the phone database. If an exception kicks out, we don't pay it until it is confirmed to be a valid bill.

**Estimated Date of Completion:** Completed

#### **Management Plan of Action:**

- c) **Response:** A departmental list of cellular devices will be produced from the Phone System and distributed to each department for their review and validation of use, assignment and need. The information gathered from this

review will be used to identify the correct disposition of each device and update the Phone System records.

**Estimated Date of Completion:** 10-05-2007

## **2. Business or Personal Call Accountability**

### **Recommendation:**

1. Management should establish a control system for ongoing monitoring of cell phone usage. Cell phone costs are based on total usage, both local and long distance are billed the same. If employees were encouraged to use desk phones, where possible, overage charges could be significantly reduced.
2. Management should increase the reimbursement rate for personal calls made on cell phones. A higher reimbursement rate would provide actual cost recovery and it would most likely reduce the number of personal calls on cell phones. With less usage the City's cell phone bill should be reduced.

### **Management Plan of Action:**

**Response to 1:** All cell phones will be placed in a pooled minutes plan with each vendor eliminating any overage charges. Reminders about City policy and suggested alternatives practices will be distributed to users.

**Estimated Date of Completion:** 08-03-2007

### **Management Plan of Action:**

**Response to 2:** Industry charge plan standard rates will be reviewed for a possible adjustment.

**Estimated Date of Completion:** 07-31-2007

## **3. Cell Phone Plans**

### **Recommendation:**

Management must reduce the cell phone plan choices for easier and better control monitoring. There should be a review to determine the needs of each cell phone user to determine which plan best serves the need of the City and the end user at the least cost.

### **Management Plan of Action:**

**Response:** We have met with the vendors and are consolidating the plans so we will have one pooled plan for each vendor. We will have 5 different prices for each vendor Basic plan without PDA and with PDA, advanced plan without PDA and with PDA and wireless data card. This will allow for an easier review of vendor bills. Additionally, we will be having quarterly reviews with each vendor to ensure all phones are on the correct plan. Users will not need to make plan choice. Results of the departmental inventory survey will be used to determine the proper plan distributions.

IT and Finance have met and are planning on transitioning the billing process from direct cost to the user to a single standard price to users for each type of service through the Communications ISF.

**Estimated Date of Completion:** 07-02-2007

#### **4. Cell Phone Usage**

##### **Recommendation:**

Management must begin to gain control over the increasing cost of cell phone. This process can be started by:

1. Requiring that all new cell phone requests be accompanied by a questionnaire to determine the user needs. This questionnaire would be the basis for the assignment of the cell phone plan, which meets the user needs at the least cost to the City.
2. There should be questionnaire sent to all current cell users to determine if the cell phone plan they have meets their needs. The completed questionnaire would form the basis to begin to control the increasing costs, since cell phone plans could be better matched with actual cell phones usage.

This study will determine were expenses could be cut without loss of productivity associated with cell phones. This could also address the issue of users going over their month allocation of minutes.

##### **Management Plan of Action:**

**Response to 1:** The current process requires department approval before a cell phone is issued. IT along with Finance and Business Services will monitor the distribution of phones in the pooled plans for cost effectiveness.

**Estimated Date of Completion:** 07-02-2007 then ongoing quarterly

Audit of the Citywide – Cell Phone Charges

CAO 2005-0607-10

December 21, 2006

**Management Plan of Action:**

**Response to 2:** A departmental list of cellular devices will be produced from the Phone System and distributed to each department for their review and validation of use, assignment and need. The information gathered from this review will be used to identify the correct disposition of each device.

**Estimated Date of Completion:** 10-05-2007

**AGENDA SUMMARY PAGE**  
**AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 19, 2007**

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**DEPARTMENT: CITY AUDITOR'S OFFICE**  
**DIRECTOR: RADFORD SNELDING**

Consent  Discussion

**SUBJECT:**

Discussion and possible action on Audit of Citywide Long Distance Telephone Calls (2006-0607-11)

**Fiscal Impact**

No Impact  Augmentation Required  
 Budget Funds Available

**Amount:**  
**Funding Source:**  
**Dept./Division:**

**PURPOSE/BACKGROUND:**

To review the audit report Audit of Citywide Long Distance Telephone Calls (2006-0607-11)

**RECOMMENDATION:**

Approval.

**BACKUP DOCUMENTATION:**

Audit of Citywide Long Distance Telephone Calls (2006-0607-11)



# **CITY AUDITOR'S OFFICE**



## **AUDIT OF CITYWIDE LONG DISTANCE TELEPHONE CALLS**

**Report No. CAO 2006-0607-11**

**April 11, 2007**

**RADFORD K. SNELDING, CPA, CIA, CFE**

**CITY AUDITOR**

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# **AUDIT OF CITYWIDE LONG DISTANCE TELEPHONE CALLS CAO 2006-0607-11**

## **BACKGROUND**

Long distance calls from office desk phones are part of the daily work environment. The cost of long distance service is approximately \$14,500 per year for the City of Las Vegas. Long distance calls totaled approximately 5.8 man years (270 person weeks) used. Information Technologies (IT) has developed an in-house Phone System for the monitoring of long distance calls and for the simplification of the payment process for personal long distance calls. The development and implementation of the City's Phone System was a major development in providing a monitoring mechanism. There is a wealth of information in the Phone System, which can be used for management's control over phone usage and for the control of costs.

Long distance phone usage is governed by:

- Communications Equipment Policy (IT121.3) and Procedures (IT121a.3)
- Information Resources Use Policy (IT136)
- Operations Manual Financial Personal Reimbursements (F.17)
- Personnel Policies Manual - Health / Safety - City Property, Security, Privacy and Searches (9.06).

## **OBJECTIVE**

Our objectives in completing the audit of citywide long distance phone charges were to ensure that:

- Current policies and procedures have been established in accordance with applicable guidelines.
- Management controls are adequate and operating as intended.
- Monitoring procedures are in place to prevent abuses.

## **SCOPE AND METHODOLOGY**

The scope of our audit included reviewing all long distance phone records maintained in the City's Phone System for the period July 1, 2004 to June 30, 2006. Over 210,000 long distance phones records were tested and reviewed, over the two fiscal years.

Our fieldwork was performed in accordance with generally accepted governmental auditing standards. Procedures included:

- Interviewing applicable city personnel
- Researching applicable guidelines

- Performing various audit extracts and analysis of the data

- Testing established management controls

## **FINDINGS AND RECOMMENDATIONS**

Our audit identified issues management should address relating to the enhancement of monitoring controls of long distance calls. The issues are summarized in the following sections. There were other issues identified and discussed with management, they were deemed less significant for reporting purposes.

City policy states personal long distance calls can be made provided they are "reasonable" and reimbursement is made to the City for the calls. There are no guidelines as to the definition of reasonable calls.

### **Accountability**

#### **Criteria:**

Property and services provided or paid by the City are to be used for city business purposes. Personal business usage is minimal and incidental. (IT121.3)

Employees issued long distance access codes and /or using cell phones shall review phone call usage on a monthly basis and reimburse the City through payroll deduction for any costs incurred as a result of personal use. (IT121.3)

Use of cellular phones to place long distance calls should be restricted to times when a landline is not available. (IT121.3)

Property and Services provided or paid for by the City are to be used for city business purposes. (IT121.3)

#### **Conditions:**

1. The Phone System provides information which can be used for management's control and review of long distance usage and the control of costs.

The following is a summary:

#### **Long Distance – Calls Identified as Business or Personal**

Type	Call Count	Percentage	Call Length	Percentage
<b>Totals</b>	<b>210,923</b>		<b>646,452</b>	
Personal	9,768	4.6 %	39,393	6.1 %
Business	201,155	95.4 %	607,058	93.9 %

The majority of long distance calls were classified as business by employees. There is no active and ongoing review program that validate if all personal calls are being identified and reimbursed.

2. It was noted that there are various third party charges on the local vendor bill. Third party charges are incurred when the user incurs an expense that is billed to the City phone number. Third party billings are in addition to the normal monthly charges and run between \$400 and \$1,000 per month. International calls are billed separately and there is no active and ongoing review of call usage.

Third party billings and reduction in international calls could realize possible annualized savings of between \$4,800 and \$12,000.

3. Current procedures for use of long distance require an access code to be entered to complete the call. The audit revealed gaps in this control.

- There were 86,929 long distance calls placed which totaled 228,015 minutes of usage, which did not require the entry of an access code. All fax machines have open access to long distance, along with other specialized phone lines that do not require an access code. There is no active and ongoing review program over this usage. (Dollar impact \$5,114)

4. There are phones provided in Council Chambers for the local newspaper personnel. Over the audit period there were 1,079 long distance calls placed which totaled 4,172 minutes of long distance usage. From a business standpoint there should be few if any long distance calls being made. (Dollar impact \$93.57)

5. Over the audit period there were 37 long distance codes with more than 500 calls. The highest code had 1,563 calls using 4,070 minutes. There is no active and ongoing review program to validate the business reason for the calls.

6. There were 2,000 long distance calls being 15 minutes or more in length. The longest call was 346.8 minutes in length. There is no active and ongoing review program to validate the business reason for the calls.

**Cause:**

There is no detail ongoing review program over long distance phone usage. The only monitoring performed is to make sure that each individual reviews their monthly phone bill for business and personal calls. This current program does not provide adequate assurances that possible abuses are not taking place.

**Effect:**

Without an effective monitoring program there are opportunities for abuse of the system.

- If strong monitoring program was put into place, that employees are made aware of, the deterrence factor would increase and more accurate reporting of call type by employees would take place.
- Without an active and ongoing monitoring program there is no means of telling if all personal calls are reported and reimbursement is being made.
- Without an effective monitoring program to uncover possible discrepancies the City could be incurring needless costs.

**Recommendation:**

1. Management should establish a more active and ongoing monitoring program over long distance call usage.

## **MANAGEMENT RESPONSES**

### **Accountability**

#### **Recommendation:**

Management should establish a more active and ongoing monitoring program over long distance call usage.

#### **Management Plan of Action:**

**Response:** IT will provide monthly departmental reports of users that exceed established usage thresholds to ensure minimal misuse of long distance. However, based the recommendation in the Cell Phone Audit to encourage use of desk phones for long distance calls, the use and cost of long distance call services may increase.

**Estimated Date of Completion:** 07-02-2007

**AGENDA SUMMARY PAGE**  
**AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 19, 2007**

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**DEPARTMENT: CITY AUDITOR**  
**DIRECTOR: RADFORD SNELDING**

**SUBJECT:**

**CITIZENS PARTICIPATION:** Public comment during this portion of the agenda must be limited to matters within the jurisdiction of the Committee. No subject may be acted upon by the Committee unless that subject is on the agenda and is scheduled for action. If you wish to be heard, come to the podium and give your name for the record. The amount of discussion on any single subject, as well as the amount of time any single speaker is allowed, may be limited



**AGENDA SUMMARY PAGE**  
**AUDIT OVERSIGHT COMMITTEE MEETING OF: APRIL 19, 2007**

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**DEPARTMENT: CITY AUDITOR**  
**DIRECTOR: RADFORD SNELDING**

Consent  Discussion

**SUBJECT:**  
ADJOURNMENT

