

INTERNAL AUDIT REPORT

CITY OF MANCHESTER

NEW HAMPSHIRE



**DEPARTMENT OF ELDERLY SERVICES CHECKING ACCOUNT
FOR THE 17 MONTHS ENDED MAY 31, 2004**

Prepared by
City of Manchester, NH – Finance Department
Internal Audit Division

**INTERNAL AUDIT REPORT
CITY OF MANCHESTER, NEW HAMPSHIRE
DEPARTMENT OF ELDERLY SERVICES CHECKING ACCOUNT
FOR THE 17 MONTHS ENDED MAY 31, 2004**

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	1
INTRODUCTION	2
OBSERVATIONS AND RECOMMENDATIONS	
OBSERVATION 1: UNRECORDED CHECKING ACCOUNT	4
OBSERVATION 2: LACK OF INTERNAL CONTROLS	5
OBSERVATION 3: UNTIMELY CASH DEPOSITS	6
SCHEDULES OF FINANCIAL ACTIVITY	
SCHEDULE OF ACCOUNT ACTIVITY	7
SCHEDULE OF REVENUES AND EXPENDITURES (CASH BASIS).....	8



City of Manchester
Department of Finance

One City Hall Plaza
Manchester, New Hampshire 03101
Phone: (603) 624-6460
Fax: (603) 624-6549

June 29, 2004

Committee on Accounts, Enrollment and Revenue Administration
City of Manchester, New Hampshire
Honorable Aldermen: Smith, Shea, Guinta, Osborne and Thibaultt

Dear Honorable Committee Members:

On May 20, 2005 a telephone call was received by Internal Audit (IA) concerning a checking account at the West Side Senior Center. The caller claimed that the account was used to reimburse employees for charges to their personal credit cards. He thought they were using the funds for non-city business. IA immediately started an investigation into the complaint.

IA's procedures were to conduct a financial and compliance audit of the West Side Senior Center checking account for the 17 months ended May 31, 2004. The audit procedures began with an evaluation of the internal control structure in place at the Department of Elderly Services, a review of laws and regulations governing activities of the account and tests of transactions occurring during the 17 months ended May 31, 2004.

Conclusion

Based on the testwork performed, the West Side Senior Center does maintain a checking account that is not recorded in the financial statements of the City of Manchester. The account collects fees and donations from the clients of the center for games and activities and uses these funds mostly for expenditures directly involved with the activity. Some general office expenses are paid out of the fund. A system of internal controls to ensure that the funds are collected and used only for its intended purpose is completely lacking. However, IA noted no instances where any funds were used for personal expenditures.

Draft observation worksheets and a draft audit report was sent to the Director of the Division of Elderly Services for her review and comment. The observations generated and the auditee written responses are included on pages four through eight. The auditee's responses indicate disagreement with the report's finding and argues that these are not City funds and as such do not fall under City rules and regulations. IA appreciates the courtesy and cooperation of the staff and administration of the Division of Elderly Services on this assignment.

Respectfully Submitted,

Kevin Buckley, CPA
Internal Audit Manager

INTRODUCTION

AUDIT BACKGROUND

As a result of a citizen inquiry of a checking account held at the West Side Senior Center an audit was conducted to determine the status of the account and if expenditures from the account were being used in accordance with management's intended purpose.

The Finance Officer of the City of Manchester, NH has been designated by state law, city charter and local ordinance with the authority to conduct such examinations and audits.

Our audit was conducted between May 2004 and June 2004 in accordance with standards applicable to financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

AUDIT SCOPE AND OBJECTIVES

The audit was limited to financial activity of a checking account used for the benefit of the West Side Senior Center and its clients for the 17 months ended May 31, 2004.

The results of our testing, observations generated, auditee responses and the schedules of financial activity are included in the report starting on page four.

BACKGROUND OF AUDITEE

In 1986 the City of Manchester passed an ordinance to establish the Elderly Services Department. The Department's mission statement is:

The Elderly Services Department is the principal City agency responsible for mobilizing the human, physical and financial resources available to assist the elderly population of the community. The Department plans, develops and implements those programs that best serve the elderly and is, at all times, guided by the principal of maintaining the dignity and independence of each member of the elderly population.

The Elderly Services Department currently maintains two senior centers. The East Side Senior Center located at 66 Hanover Street and the West Side Senior Center located in the old fire station at 76 North Main Street. A new senior center is currently under construction adjacent to the West Side Center. Upon its completion in August it will combine both centers under one roof.

The Elderly Services Department consists of a Director, an Elderly Services Specialist II and two Elderly Services Specialist I who run the two senior centers.

CHECKING ACCOUNT

The West Side Senior Center maintains a checking account at the Bank of New Hampshire under the name of "Claire Dachowski or Barbara Vigneault for the West Side Center". Barbara Vigneault is the Director of Elderly Services and Clair Dachowski is the Elderly Specialist II in

charge of the West Side Center. The account is a non-interest bearing checking account. An analysis of bank statements for the 12 months ended December 31, 2003 show that the average daily balance in the account was \$17,211. During the 12 months there were 27 deposits totaling \$89,512 for an average deposit of \$3,315 and 222 checks and other debits totaling \$87,604.

During the 17 month audited period ended May 31, 2004 the account had collections of \$138,293 and expenditures of \$117,478.

Revenues into the account were generated by coffee and snack donations, fees for card and bingo games, activity fees, trip fees and donations.

Expenditures were used to provide coffee and snacks, prizes for card and bingo games, supplies used in activities, trip costs including bus drivers and chaperones, and some general office supplies.

During the audit period the West Side Senior Center ran almost daily games and activities that are attended by anywhere from a handful of seniors to a full house on many days. The Center also collected money during the audit period for approximately fifty (50) events. Events included trips that ranged from Maine to Florida to Las Vegas, birthday and holiday parties, and various concerts and other entertainment. All functions appear to be very well attended.

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATION 1: UNRECORDED CHECKING ACCOUNT

Observation:

Per the City of Manchester NH, Code of Ordinances section 35.020 “No City Official or Clerk shall deposit any city money or funds except in the City Treasury”. Per section 35.021 The Finance Officer shall establish deposit procedures for all city departments receiving money for the city”. Further more “All city departments receiving money for the city outside of the City Treasury shall pay the full amount of all said monies intact into the City Treasury daily, weekly or as often as the Finance Officer shall direct”.

The Department of Elderly Services has maintained a checking account since 1987 at the Bank of NH for the collection and disbursement of fees and donations that benefit the clients of the department. The department collects and disburses the funds in the normal course of business at the senior centers and as such are collecting fees and disbursing funds on behalf of the City with the City liable for the funds.

The Department of Elderly Services did not seek or receive approval from the Finance Department to open or maintain the account. They also did not receive authorization to collect the various fees that go into the account. Per the City Revenue Policy: when imposing a new fee and/or charge or revising an existing fee/charge, the proposal shall be submitted to the Board of Mayor and Aldermen (BMA) for consideration, reviewed by Finance for financial analysis, and the City Solicitor's Office for feasibility and compliance with applicable laws. As noted in observation 4 this lack of oversight and approval has the potential to cause legal problems for the City.

Per the City of Manchester NH, Code of Ordinances section 35.022 “No money shall be paid out of the City Treasury until the Mayor and Aldermen have taken the necessary action to authorize the payment, ...”.

The Department of Elderly Services uses the funds collected from their clients for a variety of services that directly benefit the clients. For the most part funds are collected for a very specific purpose, such as a trip, and all of the funds collected are used to pay for that trip. In other instances money is collected in excess of the amount needed for the activity and the excess funds are used for a variety purposes that mostly directly aid the clients. Testing has revealed a few instances that a limited amount of funds were used to purchase office supplies, capital assets (air conditioners) and general office expenses (copier expense and cell phone). These are normal expenses of the Department that supplement the budget and should have been approved by the BMA through the budgetary process.

The City has not been reporting the account in its financial statements thereby understating cash, revenues and expenditures. The amount of understatement is however immaterial to the statements.

Recommendation:

The Department of Elderly Services should work with the Finance Department to ensure that all accounts are fully accounted for in the City's accounting system and reported in the City's financial statements.

The Department should follow section 35.022 of the City of Manchester NH, Code of Ordinances and go through the normal budgetary process for expenditures that are a regular part of doing business.

Auditee Response:

The Department will work with Finance to ensure that the account is fully accounted for in the City's accounting system and reported in their financial statements. A copy of the monthly statement and the reconciliation report will be sent to Finance monthly.

OBSERVATION 2: LACK OF INTERNAL CONTROLS

Observation:

A properly functioning system of internal controls should be designed to reduce the risk to a low level that any errors and unauthorized transactions cannot occur and not be detected in a timely manner by employees in the normal course of their duties. One of the essential elements of a properly functioning system is the segregation of incompatible duties so that one employee cannot both commit and conceal an error or fraud. Three types of duties are generally considered incompatible: authorization, record keeping and custody. Ideally no single individual should be able to 1) authorize a transaction, 2) record the transaction in the accounting records and 3) maintain custody of the assets resulting from the transaction.

At the West-side Center one person has custody of the checking account, is an authorized signer on the account, maintains the check register, receives the goods and services purchased with the funds, receives cash payments, prepares the deposit and reconciles the account. The only check of the account is regular reports that are prepared by this individual and sent to the Elderly Department Director. In addition, as noted in Observation 1, the account is not recorded as part of the City's financial records and lacks the oversight that would occur there.

Recommendation:

At present one-person staffs the West Side Center and proper segregation may prove difficult. When the new West Side center is completed additional personnel will be available in the building to aid in proper segregation of duties.

The person who maintains the checkbook should not be an authorized signer on the account.

The same person who has custody of the checkbook should not do the monthly reconciliation.

The bank deposit should be prepared by someone not involved with the collection of the funds that can then compare amounts collected to the source documents such as prenumbered receipts.

Auditee Response:

The Department will institute the recommendations for internal controls.

OBSERVATION 3: UNTIMELY CASH DEPOSITS

Observation:

The collection and possession of cash is one of the most inherently risky areas in any organization. Every effort should be made to limit the amount of cash on hand at any time. Per the City of Manchester NH, Code of Ordinances section 35.021 (B) "All city departments receiving money for the city from sources outside the City Treasury shall pay the full amount of all said moneys intact into the City Treasury daily, weekly, or as often as the Finance Officer shall direct". The Finance Officer has determined that deposits will be made daily if collections exceed \$100 or at least weekly if deposits are under \$100.

Analysis of the checking account maintained by the Department shows that deposits are done on an average of two times per month with an average deposit of over \$3,000.

Recommendation:

The Department should attempt to minimize the amount of cash on hand by following the City deposit policy and preparing deposits on a daily basis.

Auditee Response:

The Department will make timely deposits.

**CITY OF MANCHESTER NH
DEPARTMENT OF ELDERLY SERVICES
WEST SIDE SENIOR CENTER CHECKING ACCOUNT
SCHEDULE OF ACCOUNT ACTIVITY**

	Calendar Year 2003	5 Months Ended 5/31/2004	Total
BEGINNING BALANCE	\$ 22,628	\$ 27,496	\$ 22,628
REVENUES	\$ 89,504	\$ 48,789	\$ 138,293
EXPENDITURES	\$ 84,636	\$ 32,843	\$ 117,479
ENDING BALANCE	\$ 27,496	\$ 43,442	\$ 43,442

CITY OF MANCHESTER NH
DEPARTMENT OF ELDERLY SERVICES
WEST SIDE SENIOR CENTER CHECKING ACCOUNT
SCHEDULE OF REVENUES AND EXPENDITURES
(CASH BASIS)

	Calendar Year 2003	5 Months Ended 5/31/2004	Total
REVENUES			
TRIPS AND SHOWS	\$ 49,305	\$ 39,070	\$ 88,375
PARTIES AND FUNCTIONS	\$ 25,845	\$ 3,430	\$ 29,275
GAMES AND ACTIVITIES	\$ 12,282	\$ 5,905	\$ 18,187
FUND RAISING	\$ 6,942	\$ 2,719	\$ 9,661
MISC	\$ 322	\$ 56	\$ 378
	<hr/>		
TOTAL REVENUES	\$ 94,696	\$ 51,180	\$ 145,876
EXPENDITURES			
TRIPS	\$ 59,486	\$ 26,064	\$ 85,550
SUPPLIES	\$ 22,011	\$ 6,259	\$ 28,270
GIFTS AND PRIZES	\$ 7,023	\$ 2,711	\$ 9,734
MISC	\$ 1,308	\$ 200	\$ 1,508
	<hr/>		
TOTAL EXPENDITURES	\$ 89,827	\$ 35,234	\$ 125,062
	<hr/>		
NET REVENUES/(EXPENDITURES)	\$ 4,869	\$ 15,946	\$ 20,815
	<hr/> <hr/>		

Includes games fees received and prizes paid in cash of \$4,421 and \$1,992 for calendar year 2003 and the five months ended May 31, 2004 respectively.