

INTERNAL AUDIT REPORT

CITY OF MANCHESTER

NEW HAMPSHIRE



**OFFICE OF YOUTH SERVICES CHECKING ACCOUNT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

**INTERNAL AUDIT REPORT
CITY OF MANCHESTER, NEW HAMPSHIRE
OFFICE OF YOUTH SERVICES CHECKING ACCOUNT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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July 30, 2004

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

Dear Honorable Committee Members:

The new Director of the Office of Youth Services (OYS) upon taking over the Office noted that they had a checking account used to collect fees for certain programs and make expenditures that benefited the programs. He requested advice from the Finance Department on the correct procedures over the account and was informed that Departments were not allowed to have separate accounts and the money should be turned over to the Finance Department for deposit in the City accounts. Internal Audit (IA) then requested that an audit be performed on the account.

IA's procedures were to conduct a financial and compliance audit of the OYS checking account for the Fiscal Year Ended June 30, 2004. The audit procedures began with an evaluation of the internal control structure in place at the OYS, a review of laws and regulations governing activities of the account and tests of transactions occurring during the Fiscal Year Ended June 30, 2004.

Conclusion

Based on the testwork performed, the OYS did maintain a checking account that was not recorded in the financial statements of the City of Manchester. The account was used to collect fees for the Alcohol Court Referral Program and the Youth Shoplifter Program. The account also collected and disbursed restitution payments from juveniles involved in vandalism. A system of internal controls to ensure that the funds are collected and used only for its intended purpose was completely lacking during the time that the account was in use. However, IA noted no instances where any funds were used for personal or inappropriate expenditures. OYS did not maintain sufficient records to ensure that all revenue collected was deposited however, IA could find no evidence that any funds were misused.

Draft observation worksheets and a draft audit report was sent to the Director of the OYS for his review and comment. The observations generated and the auditee written responses are included on pages five through thirteen. The auditee's responses indicate agreement with the report's findings. IA appreciates the courtesy and cooperation of the staff and administration of the OYS on this assignment.

Respectfully Submitted,

Kevin Buckley, CPA
Internal Audit Manager

INTRODUCTION

AUDIT BACKGROUND

As a result of an inquiry from the new Director of Youth Services an audit was conducted to determine if expenditures and revenues from the checking account that was turned over to the Finance Department 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 during July of 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 certain OYS programs for the Fiscal Year Ended June 30, 2004.

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

BACKGROUND OF AUDITEE

In 1971 the City of Manchester established the OYS as a court diversion program. The Office's mission statement is:

The OYS is the principal City agency responsible for reducing juvenile delinquency and preventing crime and violence among youth while being a voice for youth as individuals and in public policy.

The OYS is located in the Carol M Rines Center, 1528 Elm Street, Manchester NH.

The OYS consists of a Director, three Youth Services Councilors, two Youth Services Outreach Workers and a Customer Service Rep I.

OYS is responsible for crisis intervention and referral, juvenile restitution, anti-graffiti, substance abuse education, substance abuse information line, alcohol court referral program, shoplifter prevention, children in need of services (CHINS) and Firesafe Intervention.

CHECKING ACCOUNT

The OYS had maintained a non-interest-bearing checking account at the Bank of New Hampshire in the name of "Office of Youth Services, For the City of Manchester" until July 23, 2004 when it was closed and the balance turned over to the Finance Department. This account had been in use for several years. The account had as authorized signers the OYS Director (both former and

current) and one of the Youth Services Councilor at the time it was closed. The checkbook was under the physical control of the OYS Director. For the fiscal year ended June 30, 2004 OYS issued 38 checks and 12 debit card transactions totaling \$16,947 and collected \$9,657 in fees and restitution.

Revenues

There are three sources of revenue into the account.

The majority of revenue is collected from the Alcohol Court Referral Program. This is a court ordered program for underage drinkers. The program gets referrals from several courts in the State. Each participant must pay \$100 to enter the program, which consists of a four-session self-assessment of the use and misuse of alcohol. OYS staff conducts the sessions. Funds are used to buy the few supplies needed and pay for staff training.

Juveniles who have vandalized property may be referred by the Manchester Police Department (MPD) to report to the OYS to make restitution to the victims of the vandalism. They will work out a payment plan with the OYS and make periodic payments. When the entire amount is paid a check is cut to the victim and the MPD is notified. Occasionally the District Court will order restitution.

Minors arrested for shoplifting may be court ordered to attend the Shoplifter Education Program. The cost is \$45 and covers the cost of materials. The materials consist of some CDs and a booklet that the offender takes home and then completes a self-test that is returned to the OYS and graded. Results are sent to the court as evidence of completion of the course.

The OYS does not maintain records to determine how much was collected from each program or sufficient records to determine that all funds collected were deposited. For the three years ended 7/15/04 approximately \$25,500 was deposited in the checking account. The Youth Services Councilors that administer these programs are able to waive the fees under certain circumstances and the fee waivers do not have to be approved and are not documented.

Expenditures

The OYS Director who wrote the checks also maintained the checkbook. There was no formal independent reconciliation process nor was there any subsidiary ledgers to account for program income and expenses. Restitution checks were noted on a client sheet. The completed client sheet was filed in the juvenile's case folder when fully paid. All expenditures tested had sufficient supporting documentation.

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”.

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 Office of Youth Services (OYS) had maintained a checking account at Citizen’s Bank for the collection and disbursement of fees for the Restitution, Alcohol Court Referral and Shoplifting programs. The department collects and disburses the funds in the normal course of business and as such are collecting fees and disbursing funds on behalf of the City with the City liable for the funds. A large percent of these funds were disbursed for expenditures that would normally be funded through the budgetary process such as training and conference fees.

The OYS 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 BMA for consideration, reviewed by Finance for financial analysis, and the City Solicitor's Office for feasibility and compliance with applicable laws.

The city had not been reporting the account in its financial statements thereby understating cash, revenues and expenditures. The amount of understatement was immaterial to the financial statements taken as a whole.

Recommendation:

The OYS closed the checking account on July 23, 2004.

The OYS should work with the Finance Department to ensure that the proper revenue accounts are approved and are set up in HTE to accept these funds.

During the budget process OYS should ensure that the funds formerly paid out of the checking account for the necessary expenditures of the programs are included in their budget as well as the offsetting estimated revenues.

Restitution funds should be set up as a separate balance sheet account with the Finance Department.

Auditee Response:

See Attachment Page 8

OBSERVATION 2: ACCOUNTING FOR REVENUES

Observation:

Internal Audit attempted to compare the amount of revenue collected by program to the program expenditures however, the Office of Youth Services did not maintain records that were sufficient to determine which program's revenue made up each deposit. The Office does not maintain ledgers for each program with the exception of restitution cases that are still open. When a restitution case is closed the ledger is filed in the offenders case file making it extremely difficult to determine when the revenues were deposited. Having these records is important to easily determine the level of program activity from year to year and perform financial analysis at the program level.

Recommendation:

If a separate revenue account is set up in HTE for each program and subsidiary ledgers are maintained at the Office it can be determined that the revenue is properly posted and make meaningful financial analysis possible. It will be important to have this information when determining estimated revenues during the budget process.

Auditee Response:

See Attachment Page 8

OBSERVATION 3: WAIVER OF FEES AND SEGREGATION OF DUTIES

Observation:

The Office of Youth Services collects fees for restitution payments, court ordered shoplifter program and Alcohol program. Internal Audit has been told that for all three programs the fees can be waived. For the restitution program the fee waiver has to be initiated from the court or the victim has to agree to accept a lower payment. For the other two programs it is at the program manager's discretion whether or not to charge the fee. If it is determined that the client is unable due to financial circumstances to pay for the program they will waive the fee. Program managers

are also the people who collect the fees for deposit. The program managers do not need any approval for the fee waiver nor do they document the reason for the waiver. This represents a serious internal control problem as the person who intakes people to the program and collects the payment can waive the fee without any documentation or approval. It would be a simple matter to not deposit the fees collected and claim that the fee was waived.

Recommendation:

The duties of intake to the program, collection of fees and waiver of fees should be separated. The best way to do this is to have fees paid to someone not involved with the program who would be issued a receipt as proof to show the program manager that the fee was paid.

If a fee is to be waived the reason should be documented and approved by a person in a supervisory position.

Auditee Response:

See Attachment Page 8

OBSERVATION 4: 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 Office of Youth Services shows that deposits were not always deposited on the day they were collected even though they exceeded the \$100 limit. Deposits would take several days in some instances to be deposited.

Recommendation:

The Office 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:

See Attachment Page 8

ATTACHMENT
CLIENT RESPONSE TO OBSERVATIONS

The City of Manchester Office of Youth Services Policy: Client Numbering System

Purpose and Definition:

This policy exists so that each client who receives services at the City of Manchester Office of Youth Services can be tracked for clinical and financial purposes. With the exception of clients who receive ‘one time’ services or a sporadic series of ‘one time’ services, all persons coming into the City of Manchester Office of Youth Services shall receive a client number. The Receptionist shall be in charge of assigning client numbers and preparing reports for internal and external audit. These reports shall consist of, but not be limited to, census and client flow reports.

Client Number Prefix:

1. The first four numbers are the year the client was initially admitted (e.g. 2004 = 2004)
2. The fifth and sixth numbers are the month the client was admitted (e.g. March = 03 & November = 11)
3. After the first six numbers there is always a dash
4. Finally, the last 3 digits represent the client number.

So, if Michael Johnson was the first client of 2005, his number would be Michael Johnson - 200501-001. Thusly, Sergio Lopez – 200506-432 means that Sergio was admitted in June of 2005 and that he is the 432nd client to enter The City of Manchester Office of Youth Services for the year.

Client Number Suffix:

Each Client Number will have a suffix to indicate the specific program the client is currently involved with at The City of Manchester Office of Youth Services. NOTE: All clients will have only one client number. However, because of involvement in different programs a client might have multiple client suffixes.

Approved Client Suffixes:

JD	=	Juvenile Diversion
SA	=	Substance Abuse
MR	=	Money Restitution
MA	=	Money Alcohol Program
MY	=	Money YES Program
WA	=	Waived Alcohol Program Fee*
WY	=	Waived YES Program Fee*

* In order for a client fee to be waived, the petitioner must produce a memo requesting the fee be waived and that form must be signed by the Director of the Office of Youth Services and the Receptionist.

So, if Michael Johnson, from above were in the waived YES Program, his Client Number would be: 200501-001 WY

Written on July 27, 2004

Effective Date: August 2, 2004

By Martin P. Boldin, Executive Director,
City of Manchester Office of Youth Services

The City of Manchester Office of Youth Services Policy: Client Accounting System – Financial Accounting

Purpose and Definition:

This policy exists so that each client who receives services at the City of Manchester Office of Youth Services can be audited to insure the financial integrity of all transactions between the City of Manchester Office of Youth Services and the clients served by the Office of Youth Services. With the exception of clients who receive ‘one time’ services or a sporadic series of ‘one time’ services, all persons receiving services from the City of Manchester Office of Youth Services will have a chart that can be audited for financial activity.

Client Flow Reporting

The Receptionist or Designee, through a ‘Daily Sign In Log,’ accounts for each client who enters the Office of Youth Services on a given day. Each service provider will account for each client he or she sees on a daily basis. These numbers will be reconciled each day by the receptionist and reviewed by the Director of the Office of Youth Services on a biweekly basis. Outreach workers will also indicate the number of clients they saw on a daily basis in writing to the receptionist. The Director of the Office of Youth Services will review these reports on a biweekly basis.

Collecting and Depositing Funds

All client numbers will have suffixes that reflect whether or not finances or waivers of fees will be associated with the services they receive. All clients who have financial obligations tied to their interactions with the City of Manchester Office of Youth Services will hand all funds due the Office of Youth Services to the Receptionist or designee.* The Receptionist or her designee will receipt all financial transactions related to clients (white copy). Receipts will be kept in a receipt book held by the Receptionist (pink copy) and a yellow copy of receipts will be placed in each chart of each client for each transaction.

(*In the event that a client is not able to pay for services when the Receptionist is available, the client will be asked to mail check payments to the receptionist at the City of Manchester Office of Youth Services. The same day of the receipt of checks or money orders for these accounts is received receipts will be mailed to the client who made the payment. All cash payments must be made to the Receptionist directly. All cash transactions must be receipted immediately by the Receptionist.)

All funds collected on a given day will be turned over to the Director of the City of Manchester Office of Youth Services. Once monies and/or checks total more than \$100.00, the Director of the City of Manchester Office of Youth Services or designee will deposit those funds in Citizen’s Bank. Bank deposit receipts, the deposit book and a ledger of these transactions shall be maintained by the Director of the Office of Youth Services.

Internal Auditing

The Director of the Office of Youth Services, The Receptionist and an additional staff member at least once monthly shall reconcile the Bank Deposit Book and the Receipt Book.

Quarterly, the director of the Office of Youth Services will request that a random staff member make an audit of 10% of all client records served in that quarter to insure that financial records are accurate and complete.

Annually, the Director of the Office of Youth Services will write the Director of the City of Manchester Finance Department appraising him or her of the status of all collected and deposited monies, all monthly receivable reconciliation's and quarterly chart audits. Additionally, the Director of the Office of Youth Services will seek the Director of Finance's written opinion as to the need for an account audit.

Reporting Irregularities

Any inconsistencies between monies collected, monies deposited, receipts, receipt books, the ledger and/or client records will be reported within 24 hours of their discovery, in writing, to the Director of the Office of Youth Services and the Receptionist. All written reports will be reviewed by the Director of the Office of Youth Services and the Receptionist within 24 hours. Any reconciliation that speaks a clerical error will be explained in writing and signed off by all involved parties, the Director of the Office of Youth Services and the Receptionist and kept for quarterly, annual and audit review. In the case where an irregularity cannot be explained, whether or not it involves the loss or accrual of actual funds, it will be reported, in writing, within 24 hours to the Director of the Finance Department and the Mayor of the City of Manchester.

Written on July 27, 2004

Revised on August 26, 2004

Effective Date: August 26, 2004

By Martin P. Boldin, Executive Director,
City of Manchester Office of Youth Services

**CITY OF MANCHESTER NH
OFFICE OF YOUTH SERVICES
CHECKING ACCOUNT
SCHEDULE OF ACCOUNT ACTIVITY**

	Fiscal Year 2003	Fiscal Year 2004	Total
BEGINNING BALANCE	\$ 12,677	\$ 12,297	\$ 12,677
REVENUES	\$ 5,243	\$ 9,390	\$ 14,633
EXPENDITURES	\$ 5,623	\$ 17,125	\$ 22,748
ENDING BALANCE	\$ 12,297	\$ 4,562	\$ 4,562

**CITY OF MANCHESTER NH
OFFICE OF YOUTH SERVICES
CHECKING ACCOUNT
SCHEDULE OF REVENUES AND EXPENDITURES
(CASH BASIS)**

	Fiscal Year 2003	Fiscal Year 2004	Total
REVENUES			
TOTAL REVENUES	\$ 5,476	\$ 9,657	\$ 15,133
EXPENDITURES			
DUES, CONFERENCE, TRAINING	\$ 1,376	\$ 6,021	\$ 7,397
RESTITUTION	\$ 994	\$ 2,180	\$ 3,174
OFFICE SUPPLIES	\$ 0	\$ 5,311	\$ 5,311
SHOPLIFTER PROGRAM	\$ 1,963	\$ 1,963	\$ 3,926
ALCOHOL AWARENESS	\$ 952	\$ 831	\$ 1,783
OTHER EXPENSES	\$ 386	\$ 640	\$ 1,026
TOTAL EXPENDITURES	\$ 5,671	\$ 16,946	\$ 22,617
NET REVENUES/(EXPENDITURES)	\$ (195)	\$ (7,289)	\$ (7,484)