

INTERNAL AUDIT REPORT

CITY OF MANCHESTER

NEW HAMPSHIRE



**Office of the City Clerk
Business License and Enforcement Division**

Fraud Investigation

Prepared by
City of Manchester, NH
Office of the Independent Auditor

**INTERNAL AUDIT REPORT
CITY OF MANCHESTER, NEW HAMPSHIRE
OFFICE OF THE CITY CLERK
BUSINESS LICENSE AND ENFORCEMENT DIVISION
FRAUD INVESTIGATION**

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September 2, 2008

*Committee on Accounts, Enrollment and Revenue Administration
City of Manchester, New Hampshire
Honorable Aldermen: Sullivan, Lopez, Devries, M.Roy, Ouellette*

Dear Honorable Committee Members:

On June 26, 2008 this office met with the City Solicitor and the Mayor concerning a suspected fraud committed at the Office of the City Clerk. The Deputy City Clerk had discovered that the License Enforcement Officer was not depositing fees paid for alarm permits. He had admitted to the Deputy City Clerk that he had taken 3 alarm permit fees totaling \$90. The criminal investigation was turned over to the Manchester Police Department and I started a fraud audit to determine the extent and causes of the fraudulent activity. The City Clerk was also put on paid leave due to allegations of improper actions for not immediately reporting the theft or firing the employee who is also her nephew.

It was quickly determined that the suspected fraudulent activity was limited to the Office of the City Clerk, Business License and Enforcement Division. The employee had been hired as a temporary employee doing data entry in the Licensing Enforcement Division on February 7, 2007 and promoted to a full time License Enforcement Inspector on April 23, 2007. The employee's last day of service was April 18, 2008. It was determined that the audit period would encompass his tenure as a full time permanent employee from April 2007 through April 2008.

The audit procedures involved:

- A review of internal control procedures in place during the audit period.
- Tracing every alarm permit application on file from the permit application through collection and deposit of the fees.
- Tracing every alarm permit fee and fine from the C-PLIMS/ILEADS system to deposit in the City bank account during the audit period.
- Tracing every payment for business license and permit in the Business License system to deposit in the City bank account during the audit period.
- An analytic review of all revenue collected by the former Business License Inspector during FYs 2006, 2007 and 2008.

Conclusion

My audit has determined that a few internal control practices allowed the former License Enforcement Inspector to have the ability to take fees he was collecting and cover up the theft. Because of the nature of cash collections and the poor conditions of financial records found I was unable to determine if any collections, other than the ones admitted to, were taken. Testing did reveal the following errors:

- Cash and checks not recorded upon receipt
- Untimely deposit of cash and checks
- Improper segregation of duties
- Lack of controls over database applications
- Employee suspected of theft allowed access to financial records
- Amounts paid per databases did not match the amounts deposited
- 67 paid permits not marked as paid in database
- 117 accounts marked as paid in the databases could not be traced to a deposit
- Problems with ILEADS implementation made it impossible for the department to bill accounts for 10 months causing revenues to be understated in FY 2008 by approximately \$81,500.

The draft audit report was sent to The Manchester Police Department, The State of NH Department of Justice, and the Office of the City Clerk for comment. The findings, recommendations and responses by government officials are presented in the report that follows. We appreciate the courtesy and cooperation of the staff and administration of all the departments involved in this investigation.

Respectfully Submitted,

Kevin Buckley
Internal Audit Manager

INTRODUCTION

AUDIT BACKGROUND

On June 26, 2008 this office met with the City Solicitor and the Mayor concerning a suspected fraud committed at the Office of the City Clerk. The former License Enforcement Officer was observed by the Deputy City Clerk not depositing fees paid for alarm permits. He had admitted to the Deputy City Clerk that he had taken 3 alarm permit fees totaling \$90. The criminal investigation was turned over to the Manchester Police Department and I started a fraud audit to determine the extent and causes of the fraudulent activity. The City Clerk was also put on paid leave due to allegations of improper actions for not immediately reporting the theft or firing the employee who was also her nephew.

My audit was conducted 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

Based on the preliminary investigation it was determined that the revenues collected at the Office of the City Clerk, Business License and Enforcement Division would be audited from April or 2007 when the License Enforcement Officer started as a full-time permanent employee until April of 2008 when he left service with the City. 100% of the revenue transactions recorded to the C-PLIMS/ILEADS alarm system and the Business License system would have to be traced to the daily deposit logs and the bank deposit.

BACKGROUND OF AUDITEES

The Office of the City Clerk was established under the current charter section 3.02 and Code of Ordinances section 30.18. The Office is headed by the City Clerk. Charter Section 3.07 provides that the City Clerk is an officer of the City and appointed by the Board of Aldermen. The City Clerk is nominated and confirmed by a majority vote of the Board of Aldermen. The City Clerk has no set term and can only be removed by a vote of nine Aldermen.

The Business License and Enforcement Division is charged with the responsibility to License and track the following:

- Dog Licenses
- Alarm Permits
- Taxi License
- Business Licenses

The office is also responsible for inspections and investigations of compliance with rules and regulations governing licensure in the City.

FINDINGS AND RECOMMENDATIONS

INTERNAL CONTROLS OVER REVENUE COLLECTIONS AT THE OFFICE OF THE CITY CLERK, BUSINESS LICENSE AND ENFORCEMENT DIVISION

Procedures for Revenue Collection During the Audit Period:

A customer either mails in applications for licenses and permits to the office or delivers them to the counter. If it is collected by a counter person in some instances the funds were accepted and entered on the daily cash log and the collection rung into the cash register. The application would then be delivered to the License Enforcement Officer for entry into the license/permit tracking software and a permit/license number assigned and the permit/license issued. Sometime the collection is for a fine and the fine collection is entered to the computer system to record that the account receivable is paid.

In other instances the cash or check is attached to the application and the package is given to the License Enforcement Officer for processing. After processing the License Enforcement Officer will batch all the collections and prepare a batch document for all the receipts collected. These are given to a counter person who will record the total of the batch on the daily cash log and enter the entire batch into the cash register.

At the end of each day the deposit is prepared and the cash drawer is reconciled to the register tape and the daily deposit. The deposit is then entered into the HTE financial accounting system and the posting is reconciled to the deposit to ensure that all deposits are posted to the correct account.

OBSERVATION 1: CASH HANDLING PROCEDURES

Best practices for handling cash include, but are not limited to, the following:

- The person who receives cash receipts should immediately record the transaction at the time of receipt.
- Segregation of duties should be incorporated so that one person is not responsible for the receipt, recording, deposit and reconciliation of receipts.
- All receipts should be deposited daily. City policy also requires that all receipts be deposited into the City bank account daily.

The following conditions were found to have occurred at the City Clerks Office during the audit period:

- **Cash and checks not recorded upon receipt.**

When receipts are collected for the payment of alarm permits and fines/penalties the receipts were attached to the invoice and sent back to the License Enforcement Inspector's office prior to recording on the daily cash log for processing. This included both cash and checks during the audit period.

- **Untimely deposit of cash and checks**

The License Enforcement Inspector would then post the payment to the alarm database, prepare an alarm tally sheet of all the payments collected, then hand the tally sheet and receipts to the cashiers for processing into the daily deposit. Because there was no initial recording of the receipt it was difficult to determine how long the receipts were held. I compared the date that the payment was recorded to the alarm database and compared it to the actual deposit date per the daily log.

Of the approximately 2,600 alarm transactions I examined 188 transactions were deposited greater than five days after they were posted as "paid" in the alarm database. Of the 188 transactions deposited greater than five days after posting in the database 23 were deposited greater than 20 days after posting. It should be noted that all cash payments were posted in the database on the same day or after the date of deposit on the daily cash logs. Held deposits appear to be limited to receipts collected by check.

The same condition was found during my testing of business licenses and permits.

- **Improper segregation of duties**

The License Enforcement Inspector was collecting receipts and was the first person to enter them into the City records. He also entered information into and maintained the alarm database. This gave him access to and the ability to change without approval the records in the database. This also allowed him to post all receipts into the database and because the database was never reconciled to the financial system he controlled which receipts he sent to the deposit. The database would show that the person paid even if the receipts were never deposited into the City accounts.

Recommendation:

All receipts should be recorded by the person who collects the money at the time of collection.

All receipts including both cash and checks should be handled by the cashiers and deposited into the City's bank account daily.

The database should have controls so that the License Enforcement Inspector cannot change records or void transactions without supervisory approval.

The License Enforcement Inspector should not be handling and retaining cash and checks at his desk.

Auditee Response:

The Office of the City Clerk was internally reorganized after the City Clerk was placed on Administrative Leave on June 27, 2008. Not only did many of the policies and procedures of the office need further review and subsequent revision and implementation, but several positions within the office had to be reassigned to allow for a more efficient and effective operation of the department. This ultimately allowed for a more appropriate segregation of duties and a more responsible handling of cash receipts.

The office currently has one (1) part-time (seasonal) and two (2) full-time Customer Service Representatives (CSR's) working the front counter as their primary function. One (1) CSR who was originally hired to work the front counter has been indefinitely assigned to the Election Division. Additionally, we have one (1) Board-approved vacant CSR position.

As the customer load increases throughout the day, an Administrative Assistant III (AIII) serves as primary back-up to the counter. If a significant customer waiting time still persists, the Administrative Assistant II (AII) serves as the secondary back-up to the counter. The License Enforcement Inspector and/or the Licensing & Compliance Coordinator typically do not work the front counter unless either all the staff identified above are committed with customers or a complex licensing issue arises.

In cases where either the Inspector or the Coordinator is assisting a customer at the front counter or handling a mailed request for any of the various licenses or permits issued by the office, the application is immediately processed using the appropriate database. The payment and relevant documentation is then handed to a CSR to be processed through the cash register since neither the Inspector nor the Coordinator has the means to access the cash register at any time.

If an application is received and processed, but cannot be entered into the cash register immediately, the check payment is restrictively endorsed and entered into register as soon as the customer load decreases and a CSR is available. All cash payments are now processed immediately by the department.

Any partially processed license or permit request and related check receipt is placed within a folder bearing the corresponding employee name, inside a locked safe at the end of the day. Additionally, any unprocessed mail for license or permit requests received during the day are likewise, locked in the department's safe for processing the following work day.

Multi-day batch processing has been eliminated in order to provide for more timely deposits. Single-day batch processing, however, still remains an efficient tool for managing large volumes of mail. This usually occurs following a monthly billing for dogs or alarms. Batch processing allows assigned staff to focus on processing rather than traveling back and forth from work station to cash register. Cash transactions are exempt from batch processing and as previously stated, require immediate processing.

A new policy for handling miscellaneous receipts and properly documenting transactions was implemented on July 15, 2008. All receipts, whether cash or check, are now accurately identified on the *Register Cash-Out Log* allowing for proper reconciliation by the AAI the following day. A new policy for handling interdepartmental transactions has also been implemented. Transactions are now correctly identified and recorded during the deposit process which protects both departments from revenues being applied to incorrect line items within departmental budgets.

Each year, nearly a half million dollars (\$500,000) flows through the Business Licensing Division. Handling payments for countless license and permit applications is inherent to the position of the License Enforcement Inspector as well as the Licensing & Compliance Coordinator. What also must be inherent to the position, however, is honesty and integrity. While this audit identifies what is suggested to be an *Improper Segregation of Duties*, it must be noted that the true cause should be attributed to a combination of an individual intent on malfeasance and the inability of certain databases to provide adequate reporting and safeguards.

In May and again in July, the department filled the positions of Licensing & Compliance Coordinator and License Enforcement Inspector, respectively. Both individuals come to the department with a combined 45 years of law enforcement experience and a reputation of being beyond reproach.

Database Controls

The City Clerk's Office uses several stand alone databases to track licenses, permits and fines.

Alarm licenses and fines were tracked in the C-PLIMS database maintained by the City Police Department. In September of 2007 C-PLIMS was replaced by the ILEADS system. Both of these systems were/are used by the Police Department to track a variety of data. Alarm tracking is one of the minor modules of the system. The module contains all information on owners of alarms in the City. All alarms are required by law to be licensed by the City and a permit costs \$30 for the initial permit and \$20 for the annual renewal. Annually in April the system will generate billings for all existing alarms. In addition, if the Police or Fire Department is sent out on a false alarm the owner is fined. Fines are calculated based on the number of false alarms. Also unpermitted alarms are fined \$100. The System also tracks the number of false alarms and calculates the fine as well as tracks unpermitted alarm fines.

Business licenses, amusement device permits and noise permits are tracked by a database application developed by the City's Information Systems Department. This system generates permits and licenses for several types of businesses and several types of mechanical devices in use throughout the City. It also tracks and produces bills for fines and late fees related to these permits and licenses.

Dog licenses are likewise tracked by a database application developed by the City's Information Systems Department.

OBSERVATION 2: CONTROLS OVER DATABASES

My testing has revealed conditions with the databases used at the City Clerk's Office that make it possible that fraud could be committed and not be detected in a timely manner by employees during the course of their usual duties.

The Office runs several databases used to issue license, permits and fines. None of these databases are integrated into the City's Financial System (HTE) and daily activity is batched and entered to the HTE system manually. All revenue is processed through the cash register system prior to deposit and cash deposited is reconciled to both the cash register and posting to the HTE financial system daily.

The individual databases are not reconciled to the deposit or the HTE system by someone independent of the revenue collection and recording process. This has allowed many posting errors to go undetected in both the databases as well as the HTE system. It also has allowed transactions to go un-posted to the database systems causing accounts receivable records to be incorrect.

There are also few controls in place to prevent the employee entering transactions to the databases from voiding, erasing or modifying transaction without supervisory approval. This allows the employee to change the transaction records and cover up fraudulent activity without being detected.

Recommendation:

The Office should develop procedures to reconcile all databases to the HTE system on at least a monthly basis by a person independent of the revenue collection and posting procedures.

The Office should also work with the City's Information System Department to add controls to all databases that will prevent the employee who processes revenue transactions from erasing, changing or voiding transactions in the system without supervisory approval.

Auditee Response:

The Deputy City Clerk has met several times with Information Systems, dating back to February 15, 2008, in a joint departmental effort to migrate Business Licensing into HTE. While funding remains an obstacle for this effort, a secondary plan has been implemented. In July, the Business and Dog Licensing Database was reprogrammed to prevent any user from creating and then erasing, altering, or voiding a record in the database.

Taxicab Driver and Vehicle Licenses are still processed manually. A Taxicab Database was created by the original License Enforcement Inspector in 1995 to provide for an effective way to reconcile license activity thus preventing fraudulent behavior. This database continues to serve as a vital tool for reconciling activity within the department.

The Alarm Permit Database (ILEADS) remains a weakness, however, of the Business Licensing Division. Proper reporting capabilities have been requested of the software provider (Intergraph) for over a month and a half yet the reports remain non-existent. The reports requested will allow a supervisor or senior administrative personnel within the department to adequately reconcile all alarm activity during a given month, week, or even daily. Meetings are ongoing with the Manchester Police Department, Information Systems, Intergraph, and City Clerk's Office in order to pass this hurdle. Since all other areas throughout the revenue processing chain are now properly segregated, this remains the final component for a complete segregation of duties and absolute control of databases used within the Business Licensing & Enforcement Division.

Chronology of Suspected Fraudulent Activity

On January 24, 2008 the Deputy City Clerk walked by the License Enforcement Officer's office and noticed an application for a new alarm permit with \$30 of cash attached sitting on the desk. Occasionally the Deputy City Clerk will run a random check on items he finds. In this instance he recorded the information so he could check on it later.

On February 20, 2008 the Deputy City Clerk finds another alarm application on the License Enforcement Officer's desk with six five dollar bills attached. He copied the bills and the application to check on later.

On February 25, 2008 the Deputy City Clerk reviews the daily cash logs to try to find the deposits for the two transactions. He also asks another employee to check the logs to see if she can find the deposits of the two application fees. Neither can find any evidence that the two application fees have been deposited.

On February 28, 2008 the Deputy City Clerk confronts the License Enforcement Officer. Eventually he admits to taking the funds plus one other alarm fee for a total of \$90. He is informed that he will be immediately fired. When the City Clerk is informed of the alleged theft she interviews the License Enforcement Officer and over rules the firing. She informs the employee that she will allow him to stay for thirty days and that he must pay back the money.

Testing reveals that the January 24th permit was entered to the ILEADS system on 2/4/2008 as paid but no deposit of the payment could be found. The February 20th alarm permit was entered in ILEADS as paid on 2/29/08 and in the 3/1/08 deposit. The other permit fee that the License Enforcement Officer admitted to taking was found to have been recorded in the system as paid on 3/3/08 and the payment deposited on 3/7/2008 but there was also a \$30 deposit for that alarm on 1/11/2008. It is unclear what the first alarm fee was for as no payment or permit was made in ILEADS at that time.

On March 3, 2008 the City Clerk sent an email to all employees advising them that all "cash" payments must be processed at the counter and not brought back to anyone's desk. Payments made by check are not included in this email.

On April 4, 2008, the Deputy City Clerk went to the City Solicitor requesting legal advice concerning the continued employment of the License Enforcement Inspector in the City Clerk's Office, thirty-five (35) days after he admitted to the thefts.

On April 7, 2008 the License Enforcement Officer submits his resignation and leaves City service on April 23, 2008.

On June 21, 2008, the Mayor's Office contacted the Deputy City Clerk to inquire about numerous rumors circulating City Hall regarding the possible misconduct of the License Enforcement Inspector.

OBSERVATION 3: EMPLOYEE SUSPECTED OF THEFT ALLOWED ACCESS TO FINANCIAL RECORDS

On February 28, 2008 a License Enforcement Inspector admitted to stealing 3 alarm payments totaling \$90. At that time his supervisor recommended immediate dismissal of the employee but the City Clerk overruled him and allowed the employee to remain employed with the City until April 23, 2008.

Upon learning of the theft the City Clerk issued an e-mail to all City Clerk employees that cash was not to be brought to any employee's desk but should be processed through the register immediately.

My testing has revealed that the License Enforcement Inspector continued to process revenue transactions through the system and prepared deposits up until April 17, 2008. The entire time he remained employed it appears that he had complete access to all records related to revenue transactions both paper and electronic. Furthermore the License Enforcement Inspector hired to replace the former employee reported that he found cash payments attached to paper work at his desk when he started working in April of 2008.

Recommendation:

The handling of cash is the highest risk area of any organization. It is very difficult to prevent the theft of cash payments and therefore the integrity of employees who handle cash must be above reproach. If an employee is suspected of stealing cash they should be immediately removed from any cash handling procedures.

An employee who is suspected of stealing should not be allowed access to any financial records either paper or electronic. This allows the employee to destroy or alter records of any transactions they may have taken.

Auditee Response:

There is no question that the Deputy City Clerk fired the License Enforcement Inspector immediately, when during a random audit, it was determined that at least two (2) separate thefts occurred totaling sixty dollars (\$60.00). Since it was impossible to effectively remove the

Inspector from the Business Licensing Division and contain him elsewhere within the department while a proper internal audit could be conducted in order to determine the true magnitude of the theft, an immediate dismissal was required. The firing, which was substantiated by correspondence between the Deputy City Clerk and the City Clerk, was subsequently overruled by the City Clerk. The inspector remained within the Business Licensing Division with unfettered access to all programs, maintained his City-issued Purchasing Card (P-Card) and retained his master key for the entire City Hall complex, for forty-nine (49) days after the initial firing.

The department is in complete agreement with the recommendations identified in the audit under Observation #3. Retaining the employee in any capacity after his own admissions of fraudulent behavior left the City exposed to far greater damage for nearly two (2) months.

RESULTS OF REVENUE TESTING

Based on the preliminary investigation it was determined that the revenues collected at the Office of the City Clerk, Business License and Enforcement Division would have to be audited from April of 2007 when the License Enforcement Officer started as a full-time permanent employee until April of 2008 when he left service with the City. 100% of the revenue transactions recorded to the C-PLIMS/ILEADS alarm system and the Business License system would have to be traced to the daily deposit logs and the bank deposit.

My testing has revealed the following errors in the processing of license and permit related revenue at the City Clerk's Office.

OBSERVATION 4: ERRORS NOTED IN REVENUE PROCESSING

Alarm Permits

I attempted to trace all paper permits on file at the City Clerk's office into the CPLIMS system and the daily deposit logs. I was able to trace 1,799 permits into the CPLIMS system; however, I noted 44 permits that had the following errors:

- In two cases the same permit number was assigned to two different alarms.
- 5 permits noted as original permits (\$30) were charged as a renewal (\$20).
- 4 permits were marked as unpaid in CPLIMS.
- 24 permits could not be found in CPLIMS and could not be traced to a payment.
- 9 permits were not in CPLIMS but I traced the payment to the Daily Cash Logs.

I was unable to determine if the permits missing in CPLIMS were paid and the money not deposited or if they were issued a permit without payment.

There were approximately 800 alarms (28%) in CPLIMS that I could not find a paper copy of a permit in the files. It appeared that many files were missing from the filing cabinet. If the files were available the total of permits without payments in the system or other errors may have been greater.

As part of my testing for missing collections I traced every transaction in the C-PLIMS system to the daily deposit sheets from April 1, 2007 through the date when the Department switched to ILEADS, October 1, 2007. I also traced every deposit posted in the HTE module for Alarm Citations, False Alarms, Alarm Applications and Alarm Renewals to the daily deposit sheets and into C-PLIMS.

My testing revealed many errors and omissions between the two systems. Following is a summary of the problems encountered.

- Out of 2,565 transactions in the C-PLIMS database 10 were noted where the amount deposited per the Daily deposit sheet differed from the amount noted in the C-PLIMS database. The net amount of these errors was \$281

- It was noted that 41 deposits could not be traced to a posting in the C-PLIMS database with a total amount of \$4,435. Of particular concern was a payment of \$3,450 from Bank of America that was never posted as paid in C-PLIMS.
- Four deposits posted in HTE could not be traced to the Daily Deposit sheets. As the Daily Deposit sheet is reconciled to cash deposited and the posting in HTE this most likely is from a posting error in HTE to the wrong account.
- Out of 2,565 transactions in the C-PLIMS database tested, 65 payments could not be traced to the daily deposit sheet. The total of these deposits was \$1,715. Twenty-nine of the payments were cash and one was a \$300 money order. At least some of these payments are most likely related to the 41 deposits that I could not trace into C-PLIMS as noted above. In many instances the name or account number noted on the Daily Deposit log did not match either the name or account number in C-PLIMS. In a several cases no name or number was written on the Daily Deposit Log or the name noted on the Daily Deposit Log was of the alarm company that was paying for the customer instead of the customer. This made it impossible to know which account was actually being paid.

I also traced every paid transaction in the ILEADS system to the daily deposit sheets from October 1, 2007 when the Department switched from C-PLIMS to ILEADS, until the end of my audit period April 30, 2008. I also traced every deposit posted in the HTE module for Alarm Citations, False Alarms, Alarm Applications and Alarm Renewals to the daily deposit sheets and into ILEADS.

My testing revealed many errors and omissions between the two systems. Following is a summary of the problems encountered.

- Of the 98 transactions traced through the two systems there were three posting errors in the ILEADS system understating the amount of revenue collected by \$55.
- Twenty-six payments noted on the daily deposit sheets could not be traced to the ILEADS system. The total amount of payments collected and not posted was \$1,590.
- Fourteen payments posted in ILEADS totaling \$385 could not be traced to a payment deposited in the City's bank account.

As noted above, errors on the Daily Deposit Log make it impossible to determine which accounts are being paid in some instances.

Business License Related Revenue

From the business license database I analyzed the 1,445 transactions that were initiated by the License Enforcement Inspector suspected of fraud. I traced all transactions from the database to the daily cash deposit sheets. There were several minor posting errors to the database that amounted to a net variance of \$192.

I also noted 38 transactions totaling \$3,914 that could not be traced into the daily deposit. Two transactions of \$100 each were determined to most likely be posting errors. The remainder was from unknown causes

Recommendation:

Greater care should be taken in the filing of alarm permits to ensure that the records are complete and accurate.

An employee accused of theft should not have had access to accounting records as noted in observation 3.

All the errors noted in the database systems could have been caught and corrected if the department had been conducting regular reconciliations between the databases and the HTE financial system by a person independent of cash handling or recording duties.

Auditee Response:

It should be noted that the missing paper copies of the eight hundred (800) alarms identified in the observation are all sequentially numbered thus suggesting that they were intentionally removed from the file cabinet. It was these hard copies of permit applications that led to the discovery of the theft in the first place. Every application for the four (4) previous years of permit history remains in archives and intact.

Again, the department is in complete agreement with the recommendations of the audit under this observation as well. The employee was not only accused of theft but *admitted* to theft, yet was allowed to remain within the department with complete and total access to all payments and financial, licensing, and personnel records and files.

Once the reporting deficiency noted in the response to Observation #2 is corrected, the department will have the ability to completely reconcile all aspects of revenue collection within the Business Licensing Division.

OTHER MANAGEMENT ISSUE

During my last audit of the Office of the City Clerk for the Eighteen Months Ended December 31, 2004 it was noted that the C-PLIMS system used to track alarm permits and fees had problems such as not interfacing with the City's HTE financial accounting system and lack of reporting accounts receivable at year end. The City Clerk's Office's access to meaningful report creation and database reconciliation was nonexistence. At the time it was noted that the system was in the process of being replaced.

On September 24, 2007 the City switched to the ILEADS system. ILEADS sits on the Police Departments server and provides a variety of functions for the Police and Fire Departments. As with C-PLIMS the module that tracks alarm permits is a minor module within the system. It has been reported that the majority of the system is working well.

OBSERVATION 5: ILEADS IMPLEMENTATION PROBLEMS

At the time of its implementation there was no parallel system running nor was it run in a test environment first to identify problems before going live. In addition the City Clerk's Office appears to have had almost no input into the selection or design of the system during its development.

Whenever a major computer system is changed there are always problems encountered. These problems can be lessened by proper planning including involving all users in the design and implementation of the system. It is not surprising then that problems were encountered during implementation of ILEADS.

Testing revealed some instances where data from the C-PLIMS system was not transferred correctly to the ILEADS system. This caused some payments in C-PLIMS not to be posted in ILEADS making accounts receivable balances to be off slightly for some accounts.

Problems with implementation also made it impossible for the department to produce any bills from September of 2007 through July of 2008. Calculation of fines for false alarms and the resultant billing was also hampered. The result was that revenues for alarm permits and fines were down for FY 2008 by more than \$81,500. Most of the revenue will be collected and posted in FY 2009 causing revenues in that year to be overstated.

Recommendation:

Greater planning needs to be made when implementing any major software change. Planning should involve the input of all users of the system.

The City Clerk's Office should have booked an accounts receivable at year end for the alarm permits and fines so that the revenues would be posted to the correct year.

Auditee Response:

As noted within the audit, the department had little input on the selection and eventual implementation of ILEADS. While there is a recognition that the primary purpose of the software is not to perform the financial accounting of the intrusion alarm processing and permitting for the City of Manchester, the system has provided little more than a rudimentary tool in our permitting efforts. Even when it appeared in August, 2008 that Intergraph was very close to solving the existing shortfalls of software, eleven (11) months after the initial implementation, we still remain unable to perform even basic reporting and reconciliation.

Furthermore, the department remains unable to mail approximately four thousand (4000) alarm permit renewal notices that were due to be mailed in July. A final meeting with the Police Department, Information Systems Department, Intergraph, and the City Clerk's Office has been scheduled for Wednesday, September 17, 2008 to make a decision whether Intergraph can deliver what is needed for the proper administration of Alarm Permitting.

In the event it is determined that the current software cannot deliver, this department has already had preliminary discussions with the Information Systems Department about migrating alarm information out of ILEADS and into another database that can.

It should be clear, however, that the seventeen hundred fifteen dollars (\$1715) in missing Alarm payments identified in CPLIMS; the three hundred eighty-five dollars (\$385) in missing Alarm payments identified in ILEADS; and the three thousand nine hundred and fourteen dollars (\$3914) in missing Business License payments identified in the Business and Dog Licensing Database, a total of six thousand and fourteen dollars (\$6014) in missing payments, received by the City and ultimately not deposited in City bank accounts, is not solely a reflection of limitations or deficiencies found in the software used by the department. No amount of database safeguards or account reconciliations will prevent a motivated individual intent on theft and malfeasance from succeeding on some level. It is imperative that each individual involved in the revenue collections process be selected carefully and the policies and procedures now in place be followed without fail.