



CITY OF SAN ANTONIO

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May 28, 2009

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Mayor and Council Members:

SUBJECT: Citywide Cash Handling Phase II Audit Report

We are pleased to send you the audit report of the Citywide Cash Handling Phase II. This audit began in November 2007 and concluded with an exit meeting with department management in March 2009. Management's verbatim response is included in Appendix D of the report. The Departments of Information Technology Services and Finance should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully submitted,

Park E. Pearson, CPA
City Auditor
City of San Antonio

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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Citywide Cash Handling Phase II Audit

Project No. AU07-017B

May 28, 2009

Executive Summary

As part of the annual Audit Plan, we conducted the Citywide Cash Handling Phase II audit. This is the second audit report of a two-phase audit. The first audit report, issued on September 25, 2008, related to internal controls for citywide cash handling activities. This audit report focuses on the Information Technology (IT) infrastructure for the City's revenue collection and recording processes. The audit objective, conclusions and recommendations follow:

Are there opportunities to improve the City's revenue collection and recording processes?

There are opportunities to improve the revenue collections and recording processes at various City departments. The City uses 15 point-of-sale (POS) systems to record and process revenue collections (See **Appendix A**). We determined that five of the six systems reviewed require manual reconciliation or processing prior to posting daily transactions into the City's current (enterprise) accounting system (See **Appendix B**). Moreover, Information Technology Services Department (ITSD) recognized the Millennium and Golf Gopher systems as two other POS systems requiring manual processing (See **Appendix A**).

Also, we determined that the net accounts receivable balance in the City's fiscal year 2007 Comprehensive Annual Financial Report (CAFR) was understated by approximately \$860,000. Since this balance was maintained in the Municipal Accounts Receivable Receipt system and did not flow into the City's current (enterprise) accounting system, it was not included in the CAFR. We determined this based on matching charges with related payments.

In addition, Development Services Department (DSD) purchased 10 Hansen software modules for land management and development in 2002. We determined that the City paid licensing and five years of maintenance fees on three Hansen modules which were not used. We reported our observations and recommendations to ITSD management on August 15, 2008 to assist them in their deliberations concerning renewal of the Hansen maintenance agreement. Collaborative efforts by ITSD, DSD, and the City Attorney's Office resulted in purchasing a one-year renewal of the Hansen maintenance agreement, with up to a two-year extension, at an annual cost of \$288,000. As a result, the City was able to reduce annual maintenance fees by approximately \$88,000.

We recommend:

- ITSD and Finance Departments should communicate and fully develop business requirements of individual departments prior to acquiring or developing new systems. This will ensure that the new POS system satisfies functional needs for citywide departments, specifically those with unique requirements.
- Finance Department should analyze Municipal Accounts Receivable Receipt (MARR) transactions and ensure with departments utilizing MARR

that all outstanding accounts receivable are correctly recorded in the City's current (enterprise) accounting system.

We wish to note that the Finance Department has secured \$140,000 in "seed" money to begin research for a citywide POS system during fiscal year 2009.

Management's verbatim response is at **Appendix D** on page 9.

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Background

During fiscal year 2007, the City of San Antonio (City) recognized more than \$1.5 billion in revenue, of which approximately 80 percent was derived from property taxes, sales taxes, and utilities. The remaining 20 percent (approximately \$293 million) consisted of customer payments for traffic fines, rental fees, birth certificates, health services, overdue library books, and other services the City provides.

Twenty of the City's departments were responsible for collecting the \$293 million at various citywide collection sites. These departments utilized 15 different point-of-sale (POS) systems to process this revenue because the City's current (enterprise) accounting system does not accommodate their unique requirements due to software limitations or business processes. See **Appendix B** on page 7 for a listing of the POS systems currently in use.

Audit Scope and Methodology

The initial audit scope consisted of the 20 City departments that generated the approximately \$293 million in revenue from cash and cash equivalents for fiscal year 2007. After performing a risk assessment of these departments, we narrowed the audit scope to six. These departments generated approximately \$165 million in revenue using six of the 15 POS systems currently in place. We reviewed the integration of these POS systems with the City's current (enterprise) accounting system, including appropriate recording of accounts receivable. See **Appendix B** for a listing of the departments and POS systems included in our audit scope.

Additionally, in 2002, the City purchased licensing and the related maintenance agreement to use 10 Hansen software modules for land management and development¹. We reviewed the Hansen contract (effective October 2003 to September 2008), related maintenance agreement and licensing for these 10 software modules purchased. We reported the Hansen system observations to ITSD management on August 15, 2008 to assist them in their deliberations concerning the maintenance contract renewal.

We interviewed personnel from various departments. We also observed and created flowcharts of relevant processes to gain an understanding of the cash collection process and related POS systems.

We conducted this audit from November 2007 to December 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate

¹ The Hansen software facilitates issuing building permits, performing inspections, licensing, cashiering, and capturing Web transactions.

information to provide a reasonable basis for the results based on the audit objectives. We believe that the information obtained provides a reasonable basis for the results based on the audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

Audit Results and Recommendations

A. Opportunities exist to improve the revenue collections and recording processes.

Five point-of-sale (POS) systems, such as Chameleon (records vaccination fees for Animal Care Service) and MCRT (records traffic fines and fees for Municipal Court), are not integrated with Municipal Accounts Receivable Receipt (MARR) or the City's current (enterprise) accounting system. These departments manually enter summary data of collection activities into the (enterprise) accounting system. The other ten POS systems process transactions through MARR, which interfaces with the City's (enterprise) accounting system. See **Appendix A** on page 6 for a diagram of the collection and recording of receipts infrastructure.

A.1 Inefficiencies in the revenue collection and reporting processes

Inefficiencies exist in the revenue collection and recording processes for five of the six POS systems reviewed. We also noted that Information Technology Services Department (ITSD) had recognized the Millennium and Golf Gopher as two other POS systems requiring manual processing (See **Appendix B** for listing of POS systems). Manual processing of transactions is required for systems that do not interface with the City's current (enterprise) accounting system. Departments manually record end-of-day summary transactions in the City's (enterprise) accounting system for these POS systems. These inefficiencies increase the possibility of data entry errors and the need to perform unnecessary daily reconciliations. For example:

- Development Services Department (DSD) analyzes the validity of receivable transactions in the Hansen system on a daily basis. The system creates invalid receivable transactions for incomplete online permit applications submitted by customers. We determined that an Administrative Assistant spends virtually full-time evaluating receivable balances to identify and remove invalid transactions.
- The Municipal Court reconciles payments received from defendants with orders prepared by judges. At times, cashiers charge incorrect fines due to misinterpretation of written amounts in the Judge's Orders. An integrated case management and POS system would eliminate this inefficiency. It would allow cashiers to access cases and charge fines based on amounts entered by the Judge in the system for the respective cases. We determined that two Court Clerks expend a total of approximately 2,000 hours annually reconciling this information daily.

A.2 Understatement of the net accounts receivable balance in the 2007 Comprehensive Annual Financial Report (CAFR)

The net accounts receivable balance in the City's fiscal year 2007 CAFR was understated by approximately \$860,000. These receivables include fines for code violations issued by Code Compliance and license permits for food establishments issued by the Health Department. Since this balance was maintained in the Municipal Accounts Receivable Receipt (MARR) system and was not processed into the City's current (enterprise) accounting system, it was not included in the CAFR. MARR transactions were only included in the (enterprise) accounting system upon payment. However, GASB Statement 33 requires recognition of these receivables when there is an enforceable legal claim.

A.3 Purchase and maintenance of software modules not implemented

In 2002, the City purchased licensing and the related maintenance agreement to use 10 Hansen software modules for land management and development that did not fully satisfy its needs. This software was mainly selected through a process facilitated by a consultant. DSD and ITSD made efforts to implement the 10 Hansen modules. However, three of the modules could not be implemented and ITSD had to modify the other seven for DSD's use.

Three modules could not be used.

The City paid for licenses and five years of maintenance fees on three Hansen modules (Mobile Solutions for Inspections, GIS Viewer, and the Bulk Stage Progression) which were not used. For example, DSD rejected the Mobile Solutions for Inspections module several months after implementation began as an unsuitable option for mobile inspections. The module required the use of a small handheld computer input device that was too small in capacity and inadequate in functionality to replace the laptop computers used at the time. Another module, the Bulk Stage Progression tool did not work initially and required modifications to correct the errors it generated. After working with Hansen for approximately one year, the issues were resolved. However, due to the length of time for a solution from Hansen, DSD and ITSD had already developed an alternative process to handle the most critical aspect of stage progression.

Required module modifications and ITSD support issues.

ITSD had to modify seven modules before implementation. An unusually high number of modifications were necessary to meet functional requirements according to ITSD. As of December 2008, there were 25 ongoing Hansen software issues needing resolution. For example, the system does not properly process refunds and customer overpayments. In addition, it does not provide an audit trail of void transactions. Consequently, six ITSD employees expend about 1,000 hours annually to continuously monitor and maintain the Hansen system. We reported our observations and recommendations on the Hansen system to ITSD management on August 15, 2008 to assist them in their deliberations concerning the maintenance contract renewal. As a result, the City was able to

renew the contract and eliminate three of the modules not used with annual reduction in maintenance fees of approximately \$88,000.

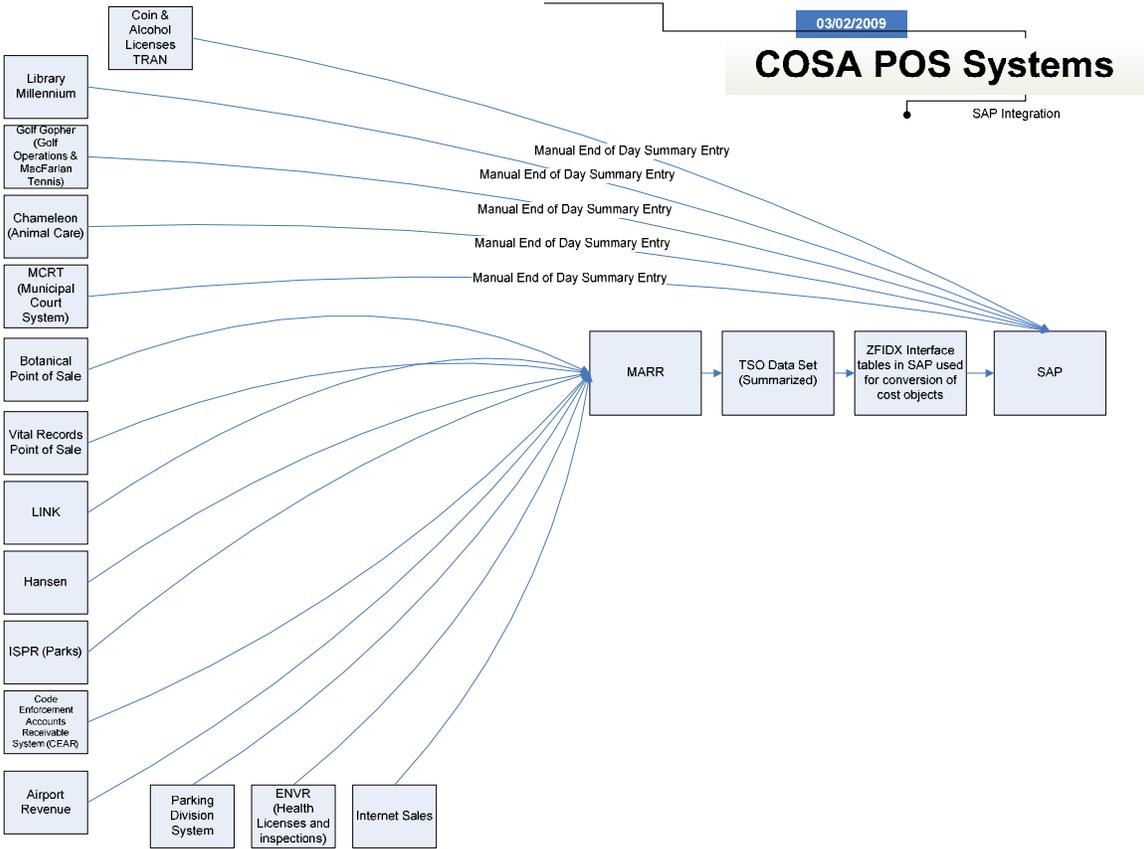
Recommendations:

A.1. & A.3. ITSD and Finance Departments should communicate and fully develop business requirements of individual departments prior to acquiring or developing new systems. This will ensure that the new POS system satisfies functional needs for citywide departments, specifically those with unique requirements.

A.2. Finance Department should analyze Municipal Accounts Receivable Receipt (MARR) transactions and ensure with departments utilizing MARR that all outstanding accounts receivable are correctly recorded in the City's current (enterprise) accounting system.

Appendix A – IT Infrastructure of POS Systems

The following chart illustrates the recording of revenue transactions from POS systems to the City’s current (enterprise) accounting system. The first five POS systems require departments to manually enter summary data of collection activities into the (enterprise) accounting system. The other ten POS systems process transactions through MARR, which interfaces with the City’s (enterprise) accounting system.



Source: Information Technology Services Department

Appendix B – Description of POS Systems Used

POS System	Year Implemented	Reviewed During Audit	Manual Process and/or Reconciliation Required	Department	Description of Transactions Processed:
TRAN	1985	X	Y, *	Finance	Coin and alcohol licenses
Millennium	2004		*	Library	Book check-out and late fines
Golf Gopher	2005		*	Parks and Recreation	Sale of inventory items in the tennis clubhouse
Chameleon	2007	X	Y, *	Animal Care Services	Vaccination and pet adoption fees
MCRT	1986	X	Y, *	Municipal Courts	Traffic fines and fees
Botanical POS (BPOS)	2000			Parks and Recreation	Entry fees into Botanical Gardens
Vital Records POS (VPOS)	2002			Health	Sale of birth/death/fetal death certificates, record searches, water testing
LINK	1997			Customer Service / 311	Payments for various City services and fees (Municipal Court, Permits, Birth/Death Certificates, Parks, etc.)
Hansen	2003	X	Y	Development Services	Land development and construction permits, plan reviews, inspections, trade licenses
ISPR	1997			Parks and Recreation	Park reservations and usage fees
CEAR	1991			Finance	Fines for code violations
Airport Revenue DataPoint	In use over 20 years	X	Y	Aviation	Parking, lease and miscellaneous fee payments
Traffic/Parking Division System (TPDS)	1998	X		Downtown Operations	Parking payments made by customers
ENVR	Approx 1995			Health	Permits and/or license for establishment inspections
Internet Sales	2003			Various	e-Payment module used by Municipal Court, Aviation, Planning and Development Services, and Convention Sports and Entertainment Facilities

Y Auditors determined that these systems require manual reconciliation or processing prior to posting daily transactions into the City’s current (enterprise) accounting system.

* These systems are also recognized by ITSD as requiring manual intervention.

Appendix C – Staff Acknowledgment

Barry Lipton, CPA, DABFA, Deputy City Auditor
Denis Cano, CPA, CIA, CISA Audit Manager
Daniel Zuniga, CIA, Auditor
Tanya Rodriguez, Auditor

Appendix D – Management Response



CITY OF SAN ANTONIO
SAN ANTONIO TEXAS 78283-3966

Park E. Pearson
 Interim City Auditor
 San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of Cash Handling Phase II

The Information Technology Services (ITSD) and Finance Departments have reviewed the audit report and have developed the Corrective Action Plans below corresponding to report recommendations.

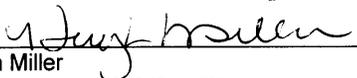
Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
	Opportunities exist to improve the revenue collections and recording processes				
A-1 & A-3	The ITSD and Finance Departments should communicate and fully develop business requirements of individual departments prior to acquiring or developing new systems. This will ensure that the new POS system satisfies functional needs for citywide departments, specifically those with unique requirements.	5	Accept	Troy Elliott, Assistant Finance Director/ Yolanda Maldonado, Assistant Information Services Director	September 30, 2011
A-2	The Finance Department should analyze Municipal Accounts Receivable Receipt (MARR) transactions and ensure with departments utilizing MARR that all outstanding accounts receivable are correctly recorded in the City's current (enterprise) accounting system.	5	Accept	Troy Elliott, Assistant Finance Director	Completed

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p><u>Action plan:</u></p> <p><u>A1 & A3</u> The ITSD and Finance Departments should communicate and fully develop business requirements of individual departments prior to acquiring or developing new systems. This will ensure that the new POS system satisfies functional needs for citywide departments, specifically those with unique requirements.</p> <p><u>Management's Response:</u></p> <p>The Finance Department in coordination with the Information Technology Services Department has developed an enterprise wide strategy to improve inefficiencies in the revenue collection and reporting processes. In October 2004 the City took a significant step towards improving the financial accounting and reporting with the implementation of SAP. However, numerous legacy systems continue to exist for the collection of revenues that are not integrated or the systems are partially integrated through the MARR application and account translation tables. Recognizing the need for continued improvement, the fiscal year 2009 adopted budget included \$140,426 to conduct a thorough analysis and document business requirements for each City department's revenue collection processes.</p> <p>Currently, professional services have been procured through the State of Texas Department of Information Resources (DIR) for two business analysts to document the business requirements for the collection, recording of sales and customer receivables. The project to conduct the analysis and document the business requirements started on April 6, 2009 and it is anticipated the final deliverable will be completed by September 15, 2009. The business requirements will be used to develop a Request for Competitive Sealed Proposal (RFCSP) to procure an enterprise software solution. Additional funding will be requested through the annual budget process and the IT Strategic Planning Council for the implementation of an enterprise wide point of sale system (POS Project).</p> <p>The primary goals of the POS Project are to establish direct integration to the SAP financial system through a standard software application or develop direct interfaces from third party applications in order to eliminate manual process and maintain all sales transactions and customer accounts in one system of record (SAP). The estimated completion date for the POS Project is September 30, 2011 based on the information known at this time. The scope and timeline are also contingent upon the available funding. As more information becomes available the timeline may be adjusted. Currently the City is also in the process of replacing legacy systems for Municipal Courts, Tyler InCode and the Health Department, Digital Health Department. Integration with SAP will be a mandatory requirement as these and any other new software that contains a point of sale component are implemented throughout the City.</p>				

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p>Additionally, the Finance Department has drafted Administrative Directive 8.4 establishing citywide guidelines and related internal controls for management of accounts receivables and collection of city revenue. This Administrative Directive will require all City Departments to coordinate with the Finance and Information Technology Services Department prior to procuring new Point of Sale systems. The Administrative Directive will also require that third party systems used in the revenue collection process interface directly with SAP and all transactions and customer data be recorded in SAP as the system of record. The estimated effective date of this Directive is June 1, 2009.</p> <p>With respect to the purchase and maintenance of Hansen modules not implemented ITSD will continue to work with Planning and Development Services and Finance departments to build a direct interface to SAP and remove the current integration with MARR as a middleware solution to process the transactions into SAP. Discussions have been held between ITSD and Planning and Development Services to begin a review of their processes to gather requirements and build an RFCSP to procure a replacement of the Hansen software. It is anticipated that replacement software will be procured in FY11.</p> <p><u>Action plan:</u></p> <p><u>A2</u> The Finance Department should analyze Municipal Accounts Receivable Receipt (MARR) transactions and ensure with departments utilizing MARR that all outstanding accounts receivable are correctly recorded in the City's current (enterprise) accounting system.</p> <p><u>Management's Response:</u></p> <p>The Finance Department conducted a comprehensive review of all outstanding receivable balances during fiscal year 2008. The review consisted of identifying all non integrated systems, inventorying customer receivables, analyzing receivables for collectability, and establishing allowance for accounts estimated to be uncollectable based on the age of the account. As a result of this review, the fiscal year 2008 Comprehensive Annual Financial Report included all receivables of the City adjusted for uncollectable accounts. An annual process has been established to ensure that all outstanding accounts receivable are correctly recorded in the City's financial accounting system. Additionally, these manual processes and functions will be reduced and eliminated as the integration of these systems are strengthened, migrated to SAP or with the the implementation of an enterprise wide point of sale system.</p>				

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,



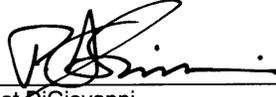
Hugh Miller
Chief Technology Officer/Director
Information Technology Services Department



Richard Vain
Chief Information Officer
City Manager's Office



Ben Gorzell Jr., CPA
Director
Finance Department



Pat DiGiovanni
Deputy City Manager
City Manager's Office