



# CITY OF WILMINGTON

## Treasury Department

### Internal Audit Review

December 16, 2020

## City Auditor's Office

Terence J. Williams  
City Auditor  
(302) 576-2165

## Highlights

### *Why We Did This Audit*

The Internal Audit Department (IA) performed a scheduled audit of the Treasurer's Office. The audit was in accordance with the 2019 Internal Audit Plan.

### *Methodology*

The objectives were met through interviewing management and staff, reviewing existing procedures/guidelines for Pensions, Treasury reporting, and the Escheat process and performing detailed testing for each process.

### *Distribution*

Ronald Pinkett, Chair

Ciro Adams  
Marchelle Basnight  
Angelique Dennis  
Bud Freel  
Tanya Washington

### *Objective and Scope*

Internal Audit (IA) conducted a Performance Audit of the City of Wilmington's Treasury Department (Treasury). The audit objective was to determine if Treasury has sufficient controls in place to maintain compliance and adequate administration of select areas of operations. The five areas being reviewed are as follows: 1) Pensions; 2) Escheat Process; 3) Financial Reporting; 4) Wire Transfers; and 5) Debt Management.

We conducted our audit in accordance with Generally Accepted Government Audit Standards (GAGAS). These Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective.

### *Background*

A general overview of the five operations being reviewed is listed below.

- PENSIONS – The Treasury staff shall accurately and consistently calculate the annual pension benefit amount using a standardized formula as defined by City Code.
- ESCHEAT PROGRAMS (City of Wilmington and State of Delaware) – Checks that remain uncashed after 120 days are placed in a stale date status. The stale date status includes the following: 1) place a stop payment on the check; 2) void the check; and 3) record the check amount in a Liability Account For Uncashed Checks (G/L #21451). After five years, all unclaimed funds are placed on deposit with the State of Delaware Escheator.
- FINANCIAL REPORTING – The Treasury Department prepares a "Cash on Hand Report" and an "Investments Report" twice per month for City Council. The reports are prepared the first and third Thursday of each month.
- DEBT MANAGEMENT – The Treasury Department would not provide access to the debt records. The reason stated for the denial of access was that the Treasurer was currently in litigation with the Mayor.
- WIRE TRANSFERS - The Treasury Department would not provide access to the wire transfer records. Again, the reason stated for the denial of access was that the Treasurer was currently in litigation with the Mayor.

## ***Key Statistics***

An approximate dollar value of the cash and investment balances during the audit period as valued per the sample population are as follows.

- The total cash value is in the \$11M to \$15M dollar range.
- The General Cash Account comprises the majority of the cash balance and is in the \$8M to \$9M range.
- There are approximately thirty-two (32) investment accounts and the approximate value of all investments total \$400M.

## ***What we found***

### **Key Findings**

Following are key issues that resulted in a process or area to be risk rated a three or four. See **Attachment A** for a detail of these and all comments identified during the review.

<b>Risk Ranking:</b>		<b>(See Attachment B for full rating definitions)</b>			
<b>Process / Area</b>	<b>Process / Area Owner</b>	<b>1 Strong Controls</b>	<b>2 Controlled Effectively</b>	<b>3 Controlled - Improvement Required</b>	<b>4 Significant Improvement Required</b>
Asset Management	Kalief Cole				✓
Lack of Data Access	Velda Jones-Potter				✓
Reconciliation	Velda Jones- Potter; Brett Taylor				✓
Compliance	Velda Jones-Potter			✓	
Record Retention	Kalief Cole			✓	
Reporting	Kalief Cole			✓	
Policies & Procedures	Kalief Cole			✓	

## **ASSET MANAGEMENT**

1. Control weaknesses exist related to the City of Wilmington's (CoW) internal escheat process. Based on testing, it was identified that some stale dated checks were not moved to the Uncashed Check Liability Account in a timely manner, as required by the CoW escheatment process. Ten stale dated checks that have been outstanding for over 120 days were selected for detailed testing to ensure compliance with the CoW Escheat Policy. However, they were not provided and resulted in a scope limitation.

## **LACK OF DATA ACCESS**

2. Noncompliance exists with City Code (Sec 2-677) – “Access to employees, records and property,” due to being denied access to wire transfers and the debt management processes, which created a scope limitation and prevented us from being able to audit two of the departments primary functions. In addition, the department was unable to produce statements for 32 investment accounts.

## **RECONCILIATION**

3. Control weakness exists because there is no reconciliation process for the Uncashed Check Liability account to support the balance in the account.

## **COMPLIANCE**

4. The Treasury staff indicated that they were in the process of becoming compliant with the State of Delaware Escheat Program. However, IA was not able to verify compliance, because documentation selected for detailed tested was not provided by the department.

## **RECORD RETENTION**

5. Treasury does not file system generated payroll reports that support the salary data used in calculating the pension amount. In the procedural audit, when salary reports were generated, they did not agree with the salary data used in the pension calculation. The variances are very minor and insignificant, but the reason for the variances should be identified.

## **REPORTING**

6. Financial reporting traditionally reports a book balance (i.e. cash reported on a balance sheet). However, the present process used to produce the Treasury report results in the “bank” balance being overstated by outstanding checks and understated by deposits in transit.
7. Investment statements could not easily be produced with paper or electronic copies by the Treasurer's Office to support the balances in the investment report.

## **POLICIES AND PROCEDURES**

8. The Pension Policy and Procedure Manual needs improvement, because it does not clearly state procedure on how to calculate pensions and the various scenarios, such as a reduction in full benefits.

## *Management Responses to Audit Recommendations*

### Summary of Management Responses

#### **Recommendation #1:**

It is recommended that a financial audit be conducted by an external CPA firm to ensure the processes are working as intended and financial data is being properly recorded.

#### **Management response & action plan:**

#### **Completion Date:**

---

#### **Recommendation #2:**

Management must comply with City Code (Sec 2-677) and provide the necessary access to the Internal Audit Department to fulfill its duties.

#### **Management response & action plan:**

#### **Completion Date:**

---

#### **Recommendation #3:**

Management should ensure the Uncashed Check Liability Account is reconciled monthly.

#### **Management response & action plan:**

#### **Completion Date:**

---

#### **Recommendation #4:**

Department should improve monitoring of the Escheat Process, in order to ensure compliance with the State of Delaware Escheatment Program exists.

#### **Management response & action plan:**

#### **Completion Date:**

---

#### **Recommendation #5:**

The pension calculation sheet should always include a payroll system report validating the salaries used in the calculation.

**Management response & action plan:**

**Completion Date:**

---

**Recommendation #6:**

Management should rethink how the “Cash on Hand” balance is currently being reported and determine if reporting the balance that is obtained from a daily online bank report is appropriate as compared to reporting the cash book balance.

**Management response & action plan:**

**Completion Date:**

---

**Recommendation #7:**

All financial reports (including the investment report) should be supported by workpapers and statements that can validate the amounts reported. The external statements should be able to easily be reproduced either with paper copies or electronic PDF copies filed on the server.

**Management response & action plan:**

**Completion Date:**

---

**Recommendation #8:**

The Policy and Procedure manual should explicitly supply step by step instructions for all pension calculation scenarios and provide calculation examples with references to specific code sections for each step.

**Management response & action plan:**

**Completion Date:**

---

**Audit Team**

Victor Prospero, CPA  
Tamara Thompson, Audit Manager