CITY AUDITOR'S OFFICE

Remittance Processing

APRIL 4, 2011

AUDIT REPORT NO. 1110

April 4, 2011

Honorable Mayor and Members of the City Council:

Enclosed is the audit report, *Remittance Processing*. The City's Remittance Processing program (Program) is part of the Finance & Accounting Division's Customer Service department.

This audit of the City's Program found that generally there are sufficient controls to ensure that customer payments are properly and timely applied to appropriate accounts and deposited into the City's bank account. However, the trend of decreasing mail-in payments and increasing electronic payments underlines the City's opportunity to reconfigure its in-house remittance processing operation.

Opportunities for improvement were identified in Program staffing, efficiency, security, and internal controls. These improvements could potentially reduce remittance processing costs by more than $264,000.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

Sharron Walker

Sharron Walker, CPA, CFE
City Auditor

Audit Team:
Joyce Gilbride, Assistant City Auditor
Kyla Anderson, Senior Auditor
Joanna Munar, Senior Auditor

TABLE OF CONTENTS

EXECUTIVE SUMMARY

This audit of *Remittance Processing* was included on the Council-approved FY 2010/11 Audit Plan to assess internal controls and cost effectiveness of the Remittance Processing program (Program).

The City's in-house Program is part of the Finance & Accounting Division's Customer Service department. Program staff process and deposit mail-in payments for utilities, privilege (sales) tax and licenses, alarm permits, and uncontested parking tickets. Prior to bringing payment processing services in-house in January 1999, the City contracted for these services through its banking provider.

According to a Federal Reserve study recently published, an increasing number of consumers are gravitating toward online bill payment each year. Similarly, the City of Scottsdale has seen mail-in (check) payments decline by 5 to 6 percent per year, while credit card/electronic payments have been increasing. However, the Program has not benchmarked its productivity to address this payment trend. Compared with another Valley city's in-house remittance processing function, Scottsdale's Program processes about half as many items per position. Improved productivity could potentially reduce remittance processing costs by about $264,000.

Additional opportunities for efficiencies include encouraging electronic payments, implementing electronic sales tax reporting, discontinuing storage of paper documents that have been imaged, and eliminating redundant tasks. Program procedures can be improved by depositing all "suspense" items timely, requiring management review of voided transactions, and eliminating nonessential items from processing areas.

Remittance Processing is currently housed in a facility that is separate from other Customer Service functions. Originally serving as a second customer service location available to Scottsdale citizens, this facility was closed to the general public in October 2009. Access to this facility has not been appropriately limited. As well, this remote location hinders opportunities for cross-training, staff interaction, and management oversight.

To gain processing efficiencies, accelerate check clearing, and decrease banking fees, the Finance & Accounting Division is currently working to implement Remote Deposit Capture. This is a process that will allow Remittance Processing to scan checks and transmit the scanned images rather than the physical checks to the City's bank for deposit.

BACKGROUND

Program Overview

The City's Remittance Processing program (Program) is part of the Finance & Accounting Division's Customer Service department. The Program processes and deposits mail-in payments for utilities, privilege (sales) tax and licenses, alarm permits, and uncontested parking tickets. Prior to bringing payment processing services in-house in January 1999, the City contracted for these services through its banking provider.

In addition to mailed-in checks, Remittance Processing also uploads electronic payments to the appropriate systems. The City provides an option to pay utility bills and parking tickets online. Utility customers can also choose to have their checking or savings accounts automatically debited through a program known as SurePay. However, effective September 2010, credit cards are no longer accepted for on-line payments other than parking tickets.[1]

When the mail is received, a Customer Service Representative (CSR) sorts the payments into types.

- Utility bills and license and permit renewals include a remittance coupon, which helps automate payment processing. For these, a transport machine reads the account number and amount due coded on the coupon; endorses, encodes and images the check; and creates a file that records payment information on the customer's account.
- When payment is made without the remittance coupon or when the amount paid varies from the amount due, a CSR has to manually key the payment amount and account number.
- Because the City does not offer electronic reporting and payment for sales tax returns, they are paid by check. Also, because sales tax payments are self-reported to the City on manual forms, they do not have remittance coupons or encoding. As a result, CSRs must manually process these payments. In addition, they enter the sales tax return data into GenTax and scan an image of the return for records retention purposes.

Table 1. Summary of Payment Processing Methods

Electronic Payments	Check payments with coupon	Check payments without or that differ from coupon
Fully automated: Staff manually downloads or uploads digital files.	Mostly automated: Payment types sorted manually. Check processed for deposit and billing system updated automatically.	Mostly manual: Payment types sorted manually. Check amount and account information manually keyed. Billing system updated automatically. †

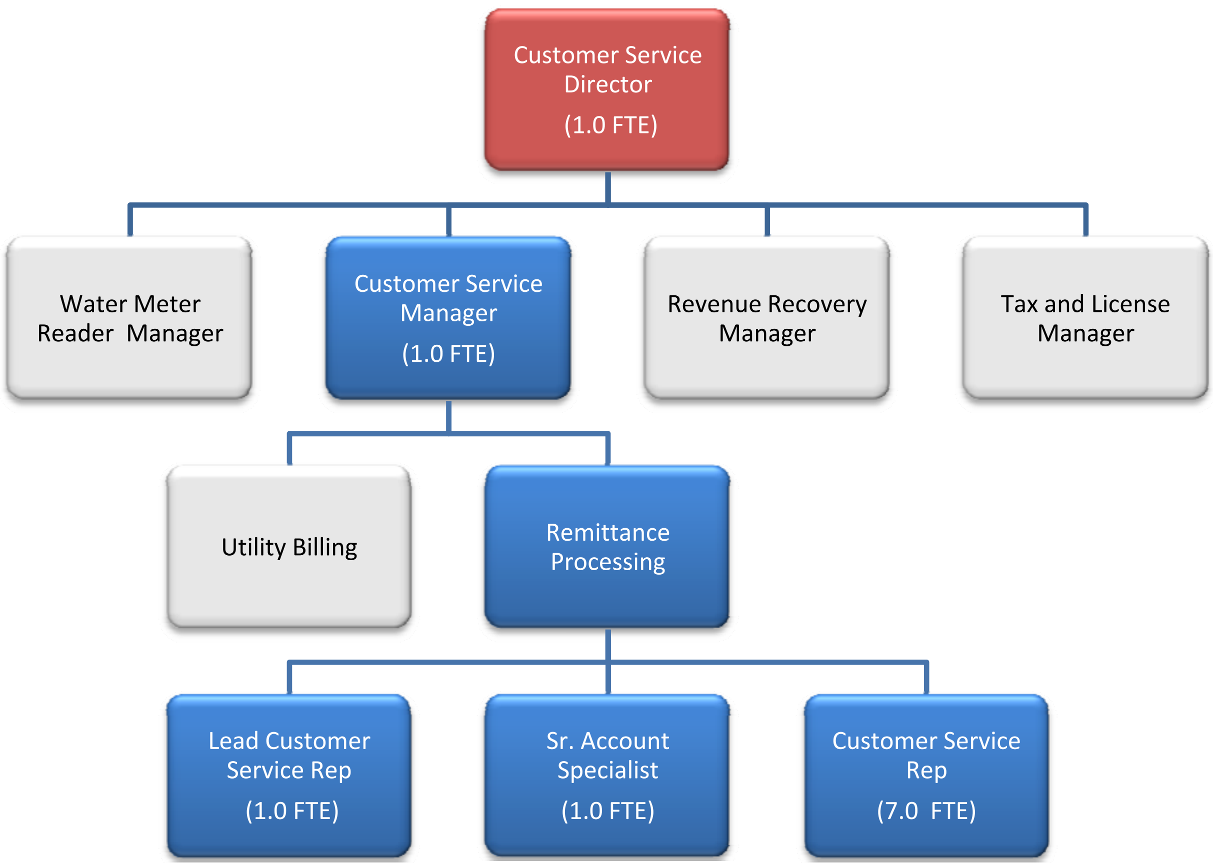
† With the exception of sales tax returns which are manually keyed

[1] However, customers may use credit cards when paying in person at the Customer Service window in One Civic Center.

Budget and Staffing

The Program's fiscal year 2010/11 budget is approximately $1.0 million with eleven positions, as shown in Figure 1. However, the customer service director and manager also have responsibility for additional programs. Also, the senior account specialist assists with remittance processing at peak times, but the position's primary responsibility is to process miscellaneous payments, such as parking tickets, Code Enforcement assessments, and reimbursements. Until October 2009, when the North Customer Service facility was closed to the public, this position also served walk-in customers.

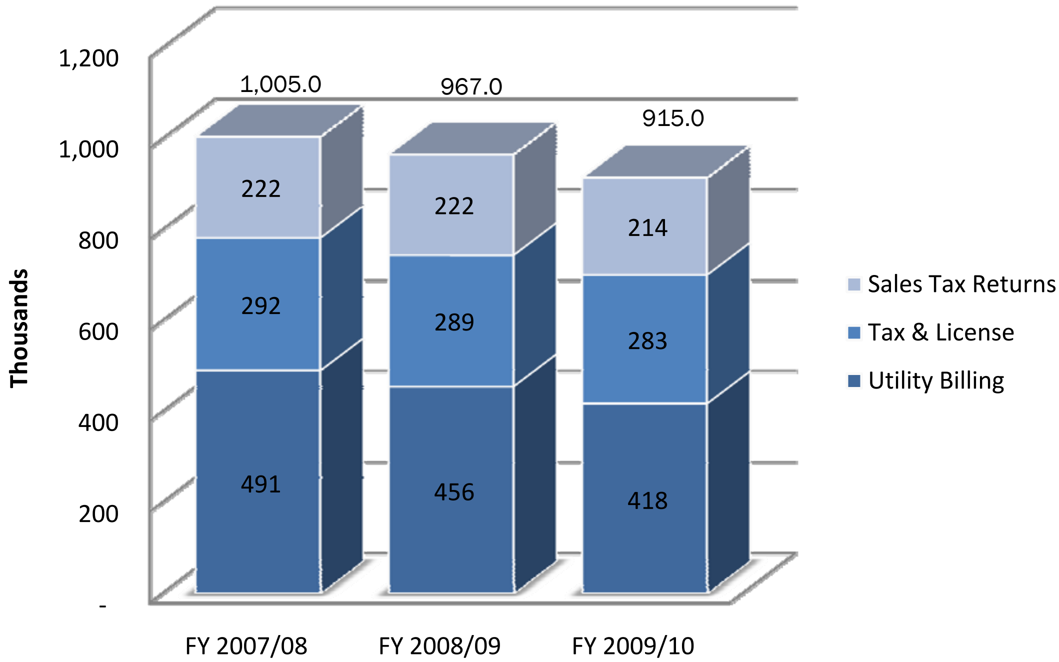
Figure 1: Organizational Structure of Remittance Processing Program



SOURCE: Auditor analysis of organizational structure.

While the General Fund initially pays for Program expenditures, half is then allocated to the City's enterprise funds based on their proportion of Remittance Processing workload. As shown in Figure 2 on page 4, utility billing payments accounted for about half the quantity of mail-in items processed by Program customer service representatives over the last three fiscal years. For fiscal year 2009/10, these costs were then charged 18% to the Water Fund, 16% to the Sewer Fund, and 16% to the Solid Waste Fund.

Figure 2. Mail-In Items Processed FY 2007/08 - FY 2009/10



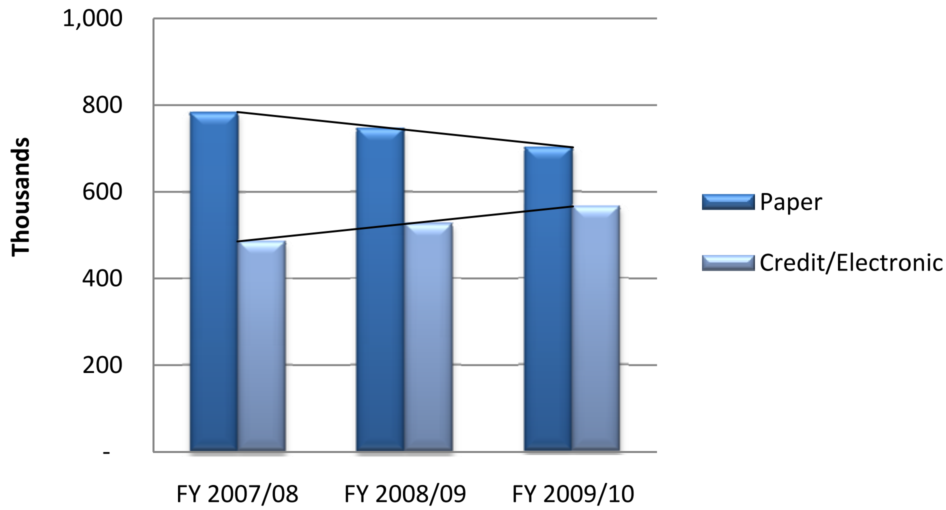
SOURCE: Auditor analysis of *Remittance Payment Statistics Reports*

Customer Payment Trends

According to a Federal Reserve study recently published, from 2006 to 2009 check payments decreased at a compound annual rate of 7.2%.[2] Further, the report states the migration from paper to electronic payments is a continuing trend. Similarly, the City of Scottsdale has seen check payments decline by 5 to 6% per year, as shown in Figure 3, while credit card/electronic payments have been increasing.

[2] *The 2010 Federal Reserve Payments Study: Noncash Payment Trends in the United States: 2006-2009,* Released December 8, 2010

Figure 3. Number of Payments Processed by Tender



SOURCE: Auditor analysis of *Remittance Payment Statistics Reports*

In addition to electronic payments, check processing has become more automated. To gain processing efficiencies, accelerate check clearing, and decrease banking fees, the Finance & Accounting Division is currently working to implement Remote Deposit Capture. This is a process that will allow Remittance Processing to scan checks and transmit the scanned images rather than the physical checks to the City's bank for deposit. The Division is currently purchasing the software required to implement this process.

The trend of increased electronic payments and advances in processing methods presents an opportunity for the City to assess its in-house remittance processing function to provide improved customer service and faster payment processing at a lower cost.

OBJECTIVES, SCOPE AND METHODOLOGY

This audit of the City's Remittance Processing program (Program) was conducted in accordance with the Council-approved fiscal year 2010/11 audit plan. The audit objectives were to assess internal controls and cost effectiveness of the Remittance Processing program, including a cost comparison with outside vendors. Audit work included evaluating a cost analysis prepared for the Program but current vendor pricing was not readily available for comparison. The audit scope included fiscal years 2008/09 through 2009/10 with some analysis of prior and current fiscal years for trend and comparative data.

To gain an understanding of the key functions and procedures of the City's in-house Remittance Processing program, we interviewed staff including the manager, lead Customer Service Representative and Senior Account Specialist. We observed remittance processing at various times during the month to observe variations in workload. We interviewed the Financial Services Technology Director to gain an understanding of Program activity and access to the City's NorthStar (utilities), GenTax (sales tax), and PowerPark (parking violation) systems. We also interviewed the Accounting Coordinator regarding reconciliation of deposit activity. Staff from the City Court was interviewed regarding the Court's payment processing volume and procedures.

To gain an understanding of national payment trends and changes in payment processing, we reviewed:

- *Federal Reserve Payments Study, by the Federal Reserve System*, dated December 2010.
- *GFOA Best Practice Report - Using Remote Deposit Capture*, by the Government Finance Officers Association's (GFOA), dated March 2010.

To analyze productivity and payment tender trends, we reviewed Program statistic reports and staffing FTEs for fiscal years 2007/08 through 2009/10, and the first seven months of the current fiscal year. Another municipality in the Valley maintains an in-house remittance processing function. For comparison purposes, we observed this municipality's remittance processing, interviewed the supervisor of operations and obtained monthly performance data for December 2010.

To determine timeliness, accuracy, and completeness of the City's remittance processing activities, we:

- Tested a random selection of daily remittances processed during the period of December 2010 through January 2011 to confirm they were accurately and timely applied to the appropriate customer accounts.
- Traced a random sample of Remittance Processing deposits processed during the period of July 2009 through January 2011 to the City's bank statement to confirm existence.

- Interviewed the Tax & License manager, obtained their list of payment items received in January 2011 requiring research, and reviewed the log for the final disposition or actions taken.
- Monitored the length of time required for the Program to receive controlled documents sent from various payment drop-box locations throughout the City, and the U.S. mail.

To evaluate segregation of duties for the internal cashiering, utility billing, sales tax, and parking systems, we tested Program customer service representatives' system access. In addition, we reviewed electronic key access records maintained by Municipal Security to evaluate appropriateness of staff and contractor access to external doors and restricted internal rooms. As well, we reviewed recorded staff access to restricted internal rooms during the month of December 2010.

For applicable criteria, we reviewed Administrative Regulation 100, *Access to City Facilities,* and the City's Comprehensive Financial Policy No. 15 regarding the evaluation of alternative means of service delivery. Additionally, we reviewed a prior audit report prepared by this office, 0901 - 0904 *Cash Handling*, dated October 2008, and conducted an unannounced cash handling audit to test the Program's processing.

Research was conducted to obtain remittance processing service costs of outside vendors, but specific information was not readily available. In lieu of contacting vendors, we reviewed projected outsourcing cost data contained in a 2004 draft cost analysis of remittance processing prepared by the Financial Services department.[3] This cost analysis included remittance processing pricing provided by the City's bank at the time. Using SmartStream financial reports and Program processing statistics, we developed and analyzed the program's fiscal year 2009/10 full cost of service.

Based on these audit procedures, we determined that generally there are sufficient controls to ensure that customer payments are properly and timely applied to appropriate accounts and deposited into the City's bank account. However, the trend of decreasing mail-in payments and increasing electronic payments underlines the City's opportunity to reconfigure its in-house remittance processing operation. Opportunities for improvement were identified in Program staffing, efficiency, security, and internal controls.

We conducted this audit in accordance with generally accepted government auditing standards as required by Article III, Scottsdale Revised Code, §2-117 et seq. Those 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 on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Audit work took place from January through February 2011, with Joyce Gilbride, Kyla Anderson, and Joanna Munar conducting the work.

---

[3] This report appears to be the final version that management relied on as there is no indication that it was revised.

FINDINGS AND ANALYSIS

1. Increasing electronic payments result in more efficient operations needing fewer staff.

As more consumers have gravitated toward online bill payment, the Remittance Processing Program (Program) has not benchmarked its productivity. Currently, off-peak available staff time is used for low priority activities, such as reviewing scanned images multiple times. Also the City can further encourage electronic payments by implementing electronic sales tax return reporting.

A. Remittance Processing productivity is about half that of another city's.

The number of mail-in payments made by check to the City has steadily declined for several years while payments made electronically or by credit card have been increasing, as shown in Figure 3 on page 5. Staffing has not been sufficiently adjusted in response to this trend.

As shown in Table 2, another local municipality's in-house remittance processing program handles almost twice as many mail-in transactions with approximately the same number of full time equivalent (FTE) staff. This municipality's remittance processing program has 7 full-time staff: 6 directly responsible for processing mail-in payments and 1 supervisor. In contrast, Scottsdale's Program has had 10 to 11 staff: an average of 7.4 FTE directly responsible for processing mail-in payments, 1 senior staff account specialist who processes miscellaneous payments, 1 lead position, and 0.5 FTE manager position.[4]

Table 2. Remittance Processing Productivity Comparison FY 2009/10

	Scottsdale	Other Local City
Direct Staff (FTE)	7.4	6.0
Annual Mail-in Payments[1]	915,148	1,302,000
Productivity per Direct FTE[2]	123,669	217,000
Indirect Staff (FTE)	2.5	1.0

1. The other city reported processing between 102,000 – 115,000 mail-in items per month. Annual payments were projected using this range.
2. Scottsdale's annual payment count includes an additional 213,672 items because Program staff key in sales tax returns. The other city's staff forwards the returns to its separate tax section for data entry.

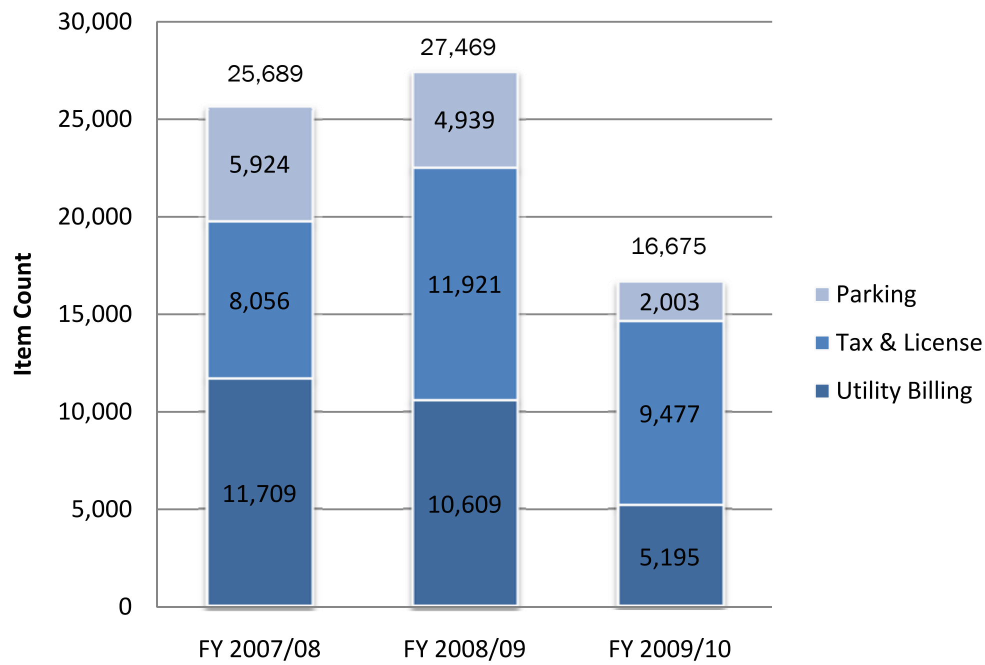
SOURCE: Auditor analysis of Program statistical reports and interviews.

Currently the Program's customer service representatives have time available to enter sales tax returns and take customer service calls.

[4] This productivity analysis excludes 0.2 FTE for the Customer Service Director.

As well as the electronic payment trend, productivity is affected by staff assignment. A senior account specialist position is largely dedicated to processing certain miscellaneous payments, such as parking tickets and Code Enforcement assessments, which are identified as "over-the-counter". Prior to the Remittance Processing facility being closed to the public in October 2009, this position also processed payments from walk-in customers. Figure 4 depicts the declining number of transactions processed by this position in recent years.

Figure 4. Over-the-Counter Items Processed by Remittance Processing FY 2007/08 - FY 2009/10



SOURCE: Auditor analysis of *Remittance Payment Statistics Reports* for North location.

This position is processing about 13% of the average customer service representative workload.

B. Several efficiencies can also achieve cost savings.

Remittance processing efficiency can be improved by implementing electronic sales tax reporting, not storing utility payment coupons, and not repetitively confirming scanned images.

- Currently taxpayers have to file a paper sales tax return with a check payment. About 45% of the 240,000 returns filed annually do not owe a payment, but staff must still key the return information into GenTax. When the GenTax sales tax system was installed in 2005, the Finance & Accounting Division had an opportunity to implement an online sales tax reporting module. With this module, taxpayers could complete tax returns online, thus eliminating the need for Program staff to manually enter each return. Also, the associated electronic payments would require little staff time for processing. Although the project was ready for implementation, the former customer service director decided against moving forward. Currently, the Division is considering a third-party online portal that would allow taxpayers to electronically submit sales tax returns.[5]

While sales tax returns represent a smaller transaction volume than utility payments, they create a larger workload due to the manual returns. In a May 2010 report to City Council, Finance & Accounting Division staff outlined the growth and cost effectiveness of customer electronic payments. In this analysis, staff emphasized that electronic payments pose little or no cost to the City in the form of banking fees. Therefore the City would benefit both from efficiency and lower cost by implementing electronic sales tax reporting.

- Currently paper remittance stubs are unnecessarily retained. When Utility Billing produces utility bills to mail to customers, billing detail is retained in the electronic account files and billing images used to print the bills are also retained. Utility Billing retains these records for 3 years after the current fiscal year.

  When the Program processes utility customer payments, the transport machine automatically images the check and payment coupon. In addition to retaining these images for 3 years after the current fiscal year, the Program stores the paper payment coupons at an off-site location for the same time period. The other local municipality with in-house remittance processing retains an imaged record of utility payment transactions but destroys the paper payment coupons 24 hours after they were processed. The Program's annual records storage costs of about $5,000 could be reduced, although department staff estimate the savings would be minimal. Retaining the paper coupons is unnecessary as two imaged copies are already being retained.

- Sales tax return images are reviewed multiple times as part of daily processes. When the paper sales tax return is received, it is imaged and then the image is viewed by a customer service representative (CSR). The tax return image is viewed again when the CSR keys tax return data into the GenTax interface system. In addition, during off-peak times of the day, another CSR will view the sales tax return to verify the presence and quality of the image. Finally, for performance evaluation purposes, the lead CSR periodically chooses a random sample of 12 batches (about 300 sales tax returns) per CSR and views the images to verify data entry was accurate.

  To reduce storage costs of retaining tax returns for the required 3 years, Finance & Accounting began relying on the imaged returns as the original, destroying the paper copy after 6 months. The Program manager indicated

[5] In such an arrangement, the City would not incur a cost but the taxpayer would pay a convenience fee.

that staff was concerned that a tax return might be missed or the image unreadable; therefore, a third verification was added. However, based on discussions with Program staff and technology staff, there have been no documented incidences of image retention problems.

On average, the City receives more than 240,000 sales tax returns annually. The additional staff time required to repeat the image verification steps is unnecessary given the low risk.

C. Improved productivity could potentially reduce program costs by about $264,000.

Based on the other municipality's remittance processing productivity and Scottsdale's FY 2009/10 mail-in transactions, the Program could be staffed with 3.2 customer service representatives and one supervisory position. Instead, it had 7.4 FTE customer service representatives in FY 2009/10 and 7 positions in FY 2010/11 plus 2.5 senior and supervisory positions. As depicted in Table 3, with 4 customer service representatives and one supervisory position, the City could potentially reduce direct labor costs by more than $171,000, a 17% savings, and total labor costs by more than $264,000, or a 27% savings.

Table 3. Potential Savings From Improved Productivity

FY 2009/10 Actual	FTE	Current Productivity	FTE	Improved Productivity	Potential Savings
Direct Costs:					
Salaries & Benefits	7.4	$373,708	4.0	$202,005	$171,703
Contractual		26,062		26,062	0
Commodities		8,225		8,225	0
Total Direct Costs		$407,995		$236,292	$171,703
Indirect Costs:					
Salaries & Benefits[1]	2.5	$174,123	1.0	$81,592	$92,531
Contractual		378,172		378,172	0
Commodities		5,293		5,293	0
Total Indirect Costs		$557,588		$465,057	$92,531
Total		**$965,584**		**$701,349**	**$264,234**
Cost Per Item		$1.38		$1.00	$0.38

1. The listed cost excludes 100% of the Customer Service Director salary & benefits and 50% of the Customer Service Manager salary & benefits that are charged to this program.

SOURCE: Auditor analysis of SmartStream expenditure reports and budgets.

D. The Division has not recently analyzed alternative means of service delivery.

The Finance & Accounting Division last conducted a cost-benefit analysis of the City's Remittance Processing function seven years ago. In that analysis, division staff determined that it was financially prudent to continue the in-house remittance processing program, but this conclusion was largely based on perceived customer service benefits. The financial analysis was somewhat flawed as it only included direct costs of 2 CSR positions, and indicated the other 7 CSR positions processed mail (a necessary part of the function) or were "floaters" used as needed.

In the analysis, Division staff further noted that the City would one day reach a break-even point at which time it would be financially wise to outsource the function. In addition, the City's Financial Policy No. 15 requires periodic analysis of alternative service delivery means to ensure that services provided to citizens are economical.

Recommendations:

The Finance & Accounting Division should evaluate ways to increase productivity and improve cost effectiveness of the City's remittance processing function. This should include:

A. benchmarking Remittance Processing productivity,

B. implementing electronic sales tax reporting, discontinuing paper coupon storage, and discontinuing repeated image verifications,

C. reducing program costs by reassessing staff levels, and

D. analyzing service delivery alternatives.

As well, the Division should implement a program to encourage more customer use of electronic payment methods to further minimize processing costs.

2. More individuals have access to Remittance Processing facilities than necessary and access privileges have not been regularly reviewed.

Access to the Remittance Processing facility's perimeter doors and interior rooms has not been limited based on the individual's day-to-day responsibilities. As well, Municipal Security has not formally reviewed building access with building management as required by Administrative Regulation (AR) 100.

Remittance Processing is housed at a facility shared with Meter Reading and Utility Billing staff, a total of 32 employees. Since October 2009, this building is not open to the general public. As shown in Table 4, at the time of our audit, more than 140 individuals had perimeter door access and 48 individuals had access to interior remittance processing rooms. As well, 7 individuals with perimeter door access were former employees of the City's contracted security provider.

Table 4. Perimeter and Interior Door Access on January 21, 2011

	Perimeter	Interior
Current access List	141	48
Employees assigned to location	32	10
Others with access	**109**	**38**

SOURCE: Auditor analysis of Scottsdale Police Department - Municipal Security's report, *Door Groups with Persons,* dated 1/21/2011.

Because the number of individuals with access appeared excessive, we obtained key card access logs for December 2010, prior to the start of this audit, and reviewed access to the interior doors of processing rooms. For this test month, we did not note any unusual access by individuals or on weekends, City holidays, or outside of normal business hours.

To limit potential risk exposure, access to payment processing areas should be restricted to only those employees with a direct need based on job responsibilities ("least privilege" principle). The Remittance Processing manager stated he was not aware of which employees or contractors had been granted access to the building or to payment processing areas. Municipal Security is required by AR 100 to conduct biannual reviews of City facility access with appropriate management. Not doing periodic reviews of building access rights has resulted in several individuals having access to the remittance processing facilities without a business need. In addition, Municipal Security did not realize former employees of the security contractor continued to be authorized.

Recommendations:

Finance & Accounting Division management, the Remittance Processing Manager, and Municipal Security should review access to the facility's perimeter and interior doors for appropriateness based on the "least privilege" principle. In addition, Division or Program management authorization should be required to add processing room access.

As well, Municipal Security should implement a process to immediately remove building access for security contractor's employees when they are no longer providing service for the City.

3. Certain procedures can be improved to achieve better internal controls and improve security over customer information.

Depositing "suspense" items timely, providing management review of voided transactions, implementing standards for workspace organization, and better protecting sensitive customer information can help mitigate risks associated with remittance processing operations.

A. Customer payments requiring research are not credited to a suspense account nor tracked pending their disposition.

When the Remittance Processing Program receives a check that is not accompanied by adequate identifying documentation, the check is not deposited. Instead, the original check is sent to the Tax & License office for research. The Program does not maintain a record of the checks sent for research and does not follow up with Tax & License to ensure all checks were received and appropriately handled. Although Tax & License maintains a log of the suspense items received from the Program, there is no way to ensure the list is complete.

A significant volume of checks are handled in this manner. Based on the Tax & License log, about 1,500 checks were received from the Program for research in January 2011. The current process does not provide sufficient controls over customer payments. Better controls would be provided by depositing the original check, crediting it to a suspense account and routing a scanned image for research. Once the payment has been identified, it can be applied to the appropriate customer account or refunded if it was received in error.

B. An approved cash handling exception is not appropriate.

Currently, the Program's senior account specialist has an approved cash handling exception that allows her to void payments without management review and approval. AR 268 requires managerial review of voided transactions; however the AR allows the Finance & Accounting Division to grant exceptions to cash handling requirements. This granted exception predates the current Program and Division management. However, the current Program manager indicated management review of voids is an unnecessary control.

For adequate separation of duties and internal controls over transaction accuracy, such a cash handling exception is inappropriate.

C. Nonessential items are allowed in remittance processing work areas.

The payment processing areas are casually operated, with personal items cluttering the work space.

- Nonessential and personal items, such as purses, books, and papers, increase the risk of loss of negotiable instruments or sensitive data, whether intentionally or not. Payment processing is more typically performed on clean tables without personal items.
- Personal electronic devices, such as cell phones and music players, are allowed in the processing area. Electronic devices often have a camera and/or data storage capability that can be used to capture an image, download, or transmit data. Such devices are commonly prohibited in a payment processing area.
- The payment processing areas did not have security cameras to serve as a deterrent. In addition, a camera can lessen the likelihood that all employees in

the area will be suspect in the event of a loss.

D. Some customer credit card information is unnecessarily handled by others.

Some Accounting staff take customer payment calls rather than transfer the calls to Customer Service. To provide appropriate segregation of duties, Accounting staff cannot record payments due to their access to billing and accounting systems. So when they obtain a customer's credit card information, they must relay the information to Remittance Processing or Tax & License staff for processing.

Access to sensitive cardholder information should be limited to necessary and appropriate staff.

Recommendations:

The Finance & Accounting Division should improve remittance processing procedures as follows:

A. Checks without sufficient customer account information should be deposited and credited to a suspense account while research is being conducted using images.

B. The AR 268 exception should be withdrawn, and Program management should be required to review and approve voided transactions.

C. Nonessential and personal items should not be allowed in remittance processing areas. The Division should consider use of security cameras as well.

D. Customer requests to make a credit card payment over the phone should be transferred to authorized staff in Remittance Processing or Tax & License.

4. Additional efficiencies may be achieved by locating Remittance Processing together with other Customer Service functions.

When the City initially brought remittance processing in-house in 1999, the second customer service location was established to provide greater convenience to Scottsdale citizens. However, since the North location closed to the public in October 2009, in-person transactions must now be done at One Civic Center on the City's main campus. Yet Remittance Processing and some other Customer Service staff have remained at the separate location. Moving the remittance processing function to the City's main campus may provide the following benefits:

- Greater opportunity to cross-train Customer Service staff in multiple customer service functions. This could improve service and reduce total staffing costs.
- Increased management oversight as the division and department directors are located at One Civic Center.
- Greater interaction with other Finance & Accounting staff, including system technical support.

- Reduced expenses by eliminating armored car service at the North location and personal mileage reimbursement for travel between Customer Service locations.
- Elimination of risks associated with transmitting negotiable items from Remittance Processing to Tax & License.

There is no longer a customer service reason for Remittance Processing to remain separated from related Customer Service functions, particularly Tax & License.

Recommendation:

Finance & Accounting Division management should consider locating Remittance Processing together with the closely associated division functions.

ACTION PLAN

---

1. Increasing electronic payments result in more efficient operations needing fewer staff.

Recommendations:

The Finance & Accounting Division should evaluate ways to increase productivity and improve cost effectiveness of the City's remittance processing function. This should include:

A. benchmarking Remittance Processing productivity,

B. implementing electronic sales tax reporting, discontinuing paper coupon storage, and discontinuing repeated image verifications,

C. reducing program costs by reassessing staff levels, and

D. analyzing service delivery alternatives

As well, the Division should implement a program to encourage more customer use of electronic payment methods to further minimize processing costs.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: Consistent with Financial Policy No. 15 (evaluation of alternative means of service delivery) and our directive to "Do more with less"; the Finance & Accounting Division will continue to actively identify areas to improve program efficiencies and reduce costs. This includes pursuing all recommendations listed above.

Additionally, as a measure of good business practices and recognizing the employee value of "Plan and innovate for the future"; the Finance & Accounting Division will analyze the feasibility of offering competitively priced remittance processing services to neighboring municipalities. Scottsdale's streamlined remittance process, as noted throughout this report, affords us a unique opportunity to capitalize on a successful program.

RESPONSIBLE PARTY: Dennis Enriquez, Customer Service Director

COMPLETED BY: July 2011.

2. More individuals have access to Remittance Processing facilities than necessary and access privileges have not been regularly reviewed.

Recommendations:

Finance & Accounting Division management, the Remittance Processing Manager, and Municipal Security should review access to Remittance Processing perimeter and interior doors for appropriateness based on the "least privilege" principle. In addition, Division or Program management authorization should be required to add processing room access.

As well, Municipal Security should implement a process to immediately remove building access for security contractor's employees when they are no longer providing service for the City.

Finance & Accounting Response:

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: The Remittance Processing Manager will work concertedly with Municipal Security staff to ensure we follow the "least privilege" principle. This includes limiting access of the perimeter and interior doors and restricting access to the processing center. Further, the Remittance Processing Manager will regularly (no less than quarterly) review the list of authorized personnel and provide immediate notice to Municipal Security staff at any time there is a change of assigned staff to the remittance program.

RESPONSIBLE PARTY: Anthony Mangini, Customer Service Manager

COMPLETED BY: April 30, 2011

Municipal Security Response:

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: Municipal Security will establish a formal procedure and schedule to review access to the Remittance Processing perimeter and interior doors at least bi-annually with Finance and Accounting Division management in accordance with AR 100. Municipal Security agrees with and supports the principal that access to sensitive areas should be based on the "least privilege" principle. Municipal Security will work with Finance and Accounting Division management to maintain this level of limited access control to this sensitive facility.

Currently, authorization is not granted to any location without the approval of the building/location manager, the department SP3, or the Municipal Security Manger. This practice will remain in effect and will be verified and validated through the bi-annual audits mentioned above.

Municipal Security has already implemented a process requiring immediate written notification when contract security personnel are no longer assigned to the City of Scottsdale account. The contractor is also required to submit a weekly active-employee roster to further verify and validate current contract personnel.

RESPONSIBLE PARTY: Daniel Porter, Municipal Security Manager

COMPLETED BY: 04/30/11

3. Certain procedures can be improved to achieve better internal controls and improve security over customer information.

Recommendations:

The Finance & Accounting Division should improve remittance processing procedures as follows:

A. Checks without sufficient customer account information should be deposited and credited to a suspense account while research is being conducted using images.

B. The AR 268 exception should be withdrawn, and Program management should be required to review and approve voided transactions.

C. Nonessential and personal items should not be allowed in remittance processing areas. The Division should consider use of security cameras as well.

D. Customer requests to make a credit card payment over the phone should be transferred to authorized staff in Remittance Processing or Tax & License.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: The Finance & Accounting Division agrees that improved security over customer information can be achieved through better internal controls. In addition to pursuing the above recommendations; we are preparing a written policy on "acceptable personal items" permitted within the remittance processing area and considering staff lockers (located outside of the processing area) to store any non-acceptable items.

RESPONSIBLE PARTY: Dennis Enriquez, Customer Service Director

COMPLETED BY: June 2011

4. Additional efficiencies may be achieved by locating Remittance Processing together with other Customer Service functions.

Recommendation:

Finance & Accounting Division management should consider locating Remittance Processing together with the closely associated division functions.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: The Finance & Accounting Division agrees with the above recommendation and will consider all options to centralize division functions.

RESPONSIBLE PARTY: Dennis Enriquez, Customer Service Director

COMPLETED BY: July 2011

City Auditor's Office
4021 N. 75th St., Suite 105
Scottsdale, Arizona 85251
(480) 312-7756
http://www.ScottsdaleAZ.gov
Search: "auditor"

CITY OF SCOTTSDALE ARIZONA

The City Auditor's Office provides independent research, analysis, consultation, and educational services to promote operational efficiency, effectiveness, accountability, and integrity in response to City needs.