



## **CITY CLERK'S REVENUES**

## **SPECIAL AUDIT**

**JULY 1, 2015 THROUGH JUNE 30, 2016**

**CITY OF CHESAPEAKE, VIRGINIA  
AUDIT SERVICES DEPARTMENT**



February 28, 2017

The Honorable Alan P. Krasnoff and  
Members of the City Council  
City of Chesapeake  
City Hall – 6<sup>th</sup> Floor  
Chesapeake, Virginia 23328

Dear Mayor Krasnoff and Members of the City Council:

We have completed our review of the Chesapeake City Clerk's Office (Clerk's Office) Revenues for July 1, 2015 – June 30, 2016. Our review was conducted for the purpose of evaluating controls over the revenue collection process within the Clerk's Office and whether it was complying with applicable City and Clerk's Office procedures related to cash handling, cash settlement, segregation of duties, safeguarding of assets and passport issuance.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusion 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.

The Clerk's Office provided essential services for the City of Chesapeake (City). Its primary purpose was to document, preserve, and maintain historical records of the legislative actions taken by the Mayor and City Council. Additionally, the Clerk's Office provided staff support for the City Council and served as a United States Passport agency.

For Fiscal Year 2016-2017 (FY 16-17), the Clerk's Office had an operating budget of slightly under \$600,000.00 and accounted for 0.06% of the City's budget. The Office had an authorized compliment of 7.0 personnel. The personnel compliment accounted for slightly under 81.0% of budgetary requirements. The Clerk's Office received 86.43% (\$508,703.00) of its budget from the General Fund. The remaining 13.57% (\$79,900.00) came from charges for services such as passport issuance. The Clerk's Office was located on the sixth floor of the City Hall building

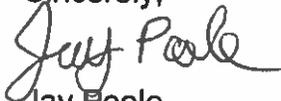
To conduct this audit, we reviewed various aspects of Clerk's Office functions. We reviewed passport issuance records and cash settlement records for the period of April thru June 2016. Procedures for receiving and recording of passport operations assets were reviewed. Compliance with City policies and applicable Federal regulations were verified.



Based on our review, we determined the Clerk's Office had accomplished its overall mission of providing a historical record of the governing body, including ordinances, resolutions, minutes of the council meetings, work sessions and special meetings, coordinating the responses to the concerns and needs of the citizens, and other City departments, providing staff support to the City Council, and serving as a passport agency. However, we did identify several revenue-related areas of concern that needed to be addressed. Those areas included the processing of passports, cash handling and reconciliations, internal control weaknesses, and physical security.

This report, in draft, was provided to the Clerk's Office for review and response. Their comments have been considered in the preparation of this report. These comments have been included in the Managerial Summary, the Audit Report, and Appendix A. The City Clerk's staff were very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

Sincerely,



Jay Poole  
City Auditor  
City of Chesapeake, Virginia

C: Sandy M. Madison, City Clerk



## **Managerial Summary**

### **A. Objectives, Scope, and Methodology**

We have completed our review of the Chesapeake City Clerk's Office (Clerk's Office) Revenues for July 1, 2015 – June 30, 2016. Our review was conducted for the purpose of evaluating controls over the revenue collection process within the Clerk's Office and whether it was complying with applicable City and Clerk's Office procedures related to cash handling, cash settlement, segregation of duties, safeguarding of assets and passport issuance.

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To conduct this audit, we reviewed various aspects of Clerk's Office functions. We reviewed passport issuance records and cash settlement records for the period of April thru June 2016. Procedures for receiving and recording of passport operations assets were reviewed. Compliance with City policies and applicable Federal regulations were verified.

## **Major Observations and Conclusions**

Based on our review, we determined the Clerk's Office had accomplished its overall mission of providing a historical record of the governing body, including ordinances, resolutions, minutes of the council meetings, work sessions and special meetings, coordinating the responses to the concerns and needs of the citizens, and other City departments, providing staff support to the City Council, and serving as a passport agency. However, we did identify several revenue-related areas of concern that needed to be addressed. Those areas included the processing of passports, cash handling and reconciliations, internal control weaknesses, and physical security.

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### **B. Performance Information**

The City Clerk's goal was to serve as the professional link between the citizens of Chesapeake, City Council, and City departments, work closely with City Council, and provided staff support to the Mayor and City Council. Another goal was to prepare, preserve, and maintain the permanent and historical records of the City as well as the legislative actions of the City Council in accordance with City policy and the Virginia Public Records Act. In furtherance of this goal, the Clerk's Office recorded and published City Council minutes and insured that the City Council decisions were recorded properly and archived. The Clerk's Office also served as a conduit for information by handling inquiries from citizens and other City departments, assisted the City Council with correspondence, managed the appointments to the City's Authorities, Boards, and Commissions, and handled research requests.

### **C. Handling of Passport Applications and Review of Internal Controls**

While the primary activities of the Clerk's Office were generally being handled in a satisfactory manner, we noted that there were several passport revenue-related areas where performance could be enhanced. These areas included the processing of passports, cash handling and reconciliations, internal controls, and physical security

## **1. Passport Issuance Process Controls**

**Finding** – The Clerk’s Office did not have documented procedures that addressed the passport issuance process. The number of issued passports indicated on Passport Transmittal Forms were not reconciled to the total dollar amount of application fees processed to the general ledger. Internal controls related to cash handling, settlement, segregation of duties, and safeguards over assets for the passport issuance process were not in place. In addition, there was limited oversight and monitoring of the passport issuance operation.

**Recommendation** – The Clerk’s Office should enhance and document their cash handling, cash settlement and passport issuance policies and procedures so that cash is adequately safeguarded. Passport application fees should be reconciled to the general ledger on a periodic basis. Also, employees should not be not allowed to handle a transaction from beginning to end. In addition, the Clerk’s Office should develop an ongoing oversight and monitoring process to ensure adherence to cash settlement, cash handling, passport issuance processes, and safeguarding of assets procedures.

**Response** - With the guidance of Audit Services, we have implemented an ongoing monitoring process to ensure adherence to cash settlement, cash handling, passport issuance processes and safeguarding all assets and procedures s so that cash is adequately safeguarded at all times. Passport application fees are reconciled to the general ledger on a daily basis. I am certain that we are operating at a much more accountable and improved process and appreciate the help of Audit Services. (Note: the full text of the City Clerk’s response is included in the audit report .



City Clerk's Revenues

SPECIAL AUDIT

July 1, 2015 TO June 30, 2016

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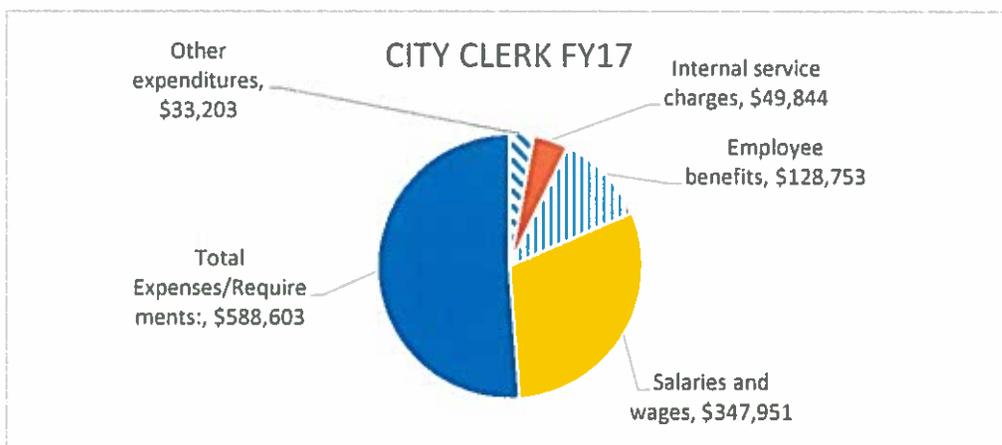
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**City Clerk's Office Budget for FY 16-17**

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### **Major Observations and Conclusions**

Based on our review, we determined the Clerk's Office had accomplished its overall mission of providing a historical record of the governing body, including ordinances, resolutions, minutes of the council meetings, work sessions and special meetings, coordinating the responses to the concerns and needs of the citizens, and other City departments, providing staff support to the City Council, and serving as a passport agency. However, we did identify several revenue-related areas of concern that needed to be addressed. Those areas included the processing of passports, cash handling and reconciliations, internal control weaknesses, and physical security.

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### **Methodology**

To conduct this audit, we reviewed various aspects of Clerk's Office functions. We reviewed passport issuance records and cash settlement records for the period of April thru June 2016. Procedures for receiving and recording of passport operations assets were reviewed. Compliance with City policies and applicable Federal regulations were verified.

In addition to these items we reviewed, tested, and evaluated Clerk's Office operating policies, procedures, and practices. We conducted a site visit of areas where the passport assets were maintained for the purpose of assessing the physical security of the location, safeguarding of assets, key controls, the use of panic alarms, and the use of cameras, their location, and testing protocol.

The audit included extensive interviews with Clerk's Office staff to better understand control practices. A review of individual responsibilities, segregation of duties, and maintenance of records was conducted. The process for passport issuance was observed. A sample of the end of day settlement sheets and supporting documentation was reviewed. General cash handling and reconciliation practices were reviewed as well as the Clerk's Office general ledger revenue accounts.

## **B. Performance Information**

The City Clerk's goal was to serve as the professional link between the citizens of Chesapeake, City Council, and City departments, work closely with City Council, and provided staff support to the Mayor and City Council. Another goal was to prepare, preserve, and maintain the permanent and historical records of the City as well as the legislative actions of the City Council in accordance with City policy and the Virginia Public Records Act. In furtherance of this goal, the Clerk's Office recorded and published City Council minutes and insured that the City Council decisions were recorded properly and archived. The Clerk's Office also served as a conduit for information by handling inquiries from citizens and other City departments, assisted the City Council with correspondence, managed the appointments to the City's Authorities, Boards, and Commissions, and handled research requests.

### **1. Link to the Citizens of Chesapeake**

The Clerk's Office served as a vital cog in City government, functioning as a link between City officials and the general public. As such they handled hundreds of phone calls a year and inquires for information of all kinds. Those requests and calls were then routed to the correct department or City official for proper follow up. They also served as the gate keepers for the City Council and the Mayor.

### **2. Preparation, Preservation, and Maintenance of Permanent and Historical Records**

One of the chief functions of the Clerk's office was responsibility for the preservation of official City Council actions and maintaining the archives of the City. They processed all resolutions, ordinances, other agreements, and recorded and published City Council minutes. During FY 16-17 the Clerk's office expected to process 75 resolutions, 190 ordinances, 35 agreements, and minutes for 78 City Council meetings, work sessions, and other special meetings. In addition, they expected to process 102 requests for destruction of records and add an additional 90 records into permanent electronic storage.

### **3. Support for the Mayor, City Council, and Board and Commissions**

In FY 16-17 the Clerk's Office expected to prepare 1,300 pieces of correspondence for the Mayor and Member of City Council. In addition to the letter writing, the Clerk's Office expected to process 210 appointments, resignations, and purge letters for the various City boards and commissions. In addition they are often called upon to handle various research requests from City officials and board members.

#### **4. Issuance of Passports**

As a service to the public the Clerk's Office maintained a Passport Office. The office was able to assist citizens with all their passport needs. The Passport Office processed 2,012 passports for issuance in FY14-15 and was on track to process 2,100 for FY16-17.

## **C. Handling of Passport Applications and Review of Internal Controls**

While the primary activities of the clerk's Office were generally being handled in a satisfactory manner, we noted that there were several passport revenue-related areas where performance could be enhanced. These areas included the processing of passports, cash handling and reconciliations, internal controls, and physical security

### **1. Passport Issuance Process Controls**

**Finding – The Clerk's Office did not have documented procedures that addressed the passport issuance process. The number of issued passports indicated on Passport Transmittal Forms were not reconciled to the total dollar amount of application fees processed to the general ledger. Internal controls related to cash handling, settlement, segregation of duties, and safeguards over assets for the passport issuance process were not in place. In addition, there was limited oversight and monitoring of the passport issuance operation.**

An effective passport issuance process should incorporate the following attributes:

- Documented internal control procedures related to cash handling, settlement, segregation of duties, and the safeguarding of assets
- Safeguarded cash within the office during the day and at night
- Controlled duplicate keys and combinations to cash funds and safes
- Defined and detailed daily settlement processes including settlement time(s), use of count sheets/tapes with signatures and dates, counts of the entire cash fund, processing of overage and shortages, and periodic surprise cash counts
- Defined cash exchange processes
- Periodic reconciliation process for agreeing application fees indicated on transmittal forms to the general ledger application fee account
- Customers provided with receipts at the time of their transactions
- Endorsed customers checks for application fees when they are received
- Periodic quality review of transmittal forms for completeness and accuracy
- Periodic surprise cash counts including review of transmittal forms, and reconciliation of application fees to transmittal forms
- Training for passport agents
- Periodic reviews of staff authorized to access the City Treasurer's (Treasurer's) system

The Clerk's Office had been issuing passports in City Hall since 2004. We evaluated the internal controls in place for cash handling, settlement and safeguarding of assets for the passport issuance operation to determine if the internal controls were functioning as designed. Our review of the operation and testing of records revealed that policies and

procedures for the Issuance of passports, cash handling, settlement and the safe guarding of assets had not been developed and documented. Therefore, the internal controls related to cash handling, settlement and the safeguarding of assets were not in place. In addition, we found that employees were allowed to process financial transactions from beginning to end with minimal or no management oversight and monitoring. Further, we found that the passport application fees collected were not periodically reconciled to the number of issued passport reflected on the transmittal forms. Internal control weaknesses were identified in the following areas:

### **Infrastructure**

- The Treasurer's system could not be accessed on the Passport Office computer.
- Access to the Treasurer's system was not accessible on a centralized computer on the 6<sup>th</sup> floor Clerk's office.
- All passport agents did not have user ID's to access the Treasurer's system.
- Information required for system generated receipts had not been established (i.e., first initial last name of each person's application fee in the note section).
- System access to the Treasurer's system was not being reviewed on a periodic basis to ensure only current employees had access to the system.

### **Cash handling and settlement**

- Cash and checks were not maintained under the sole control of one individual.
- Five employees had access to the key to the file cabinet located in the Passport Office and to the file cabinet in the Clerk's Office where funds were kept overnight. The keys to the Clerk's Office file cabinet were kept in a can on top of the file cabinet for easy access.
- The Treasurer's system was not always settled on the day when application fees were paid. Transactions were sometimes held for two weeks or longer before being processed to the Treasurer's system.
- Cash exchanges between employees were not counted and documented when they occurred. Therefore, if an error occurred there, was no record to determine where the error took place. (this process was corrected during the audit)
- Customers were not provided receipts when application fee payments were received.
- An over/short general ledger account had not established for processing cashier variances.
- Checks received for payments were not immediately endorsed when received.
- Surprise cash counts were not being performed on cash funds on a periodic basis.

### **Security**

- Panic alarm had not been installed in the downstairs Passport Office. In addition, Panic alarms located in the Clerk's Office were not tested on an ongoing basis and the alarms were not affixed to the desk.
- The Clerk's Office did not have a safe to store cash/checks overnight.
- There was no camera located in the downstairs Passport Office.
- The Passport Office did not have a combination lock that could be changed when someone left employment.
- There was no log maintained that recorded the movement of cash/checks to and from the Clerk's Office file cabinet where cash/checks were stored. The log should document who entered the cabinet, time, date, and purpose.

### **Transmittal Form Completion**

- Preparer's signatures were not always indicated on the transmittal forms.
- Phone numbers indicated on the forms were not always correct.
- Dates indicated on transmittal forms were not always for the dates the transactions occurred.
- Agent stamps were not always placed on the transmittal forms.
- Boxes for adults and minors were checked incorrectly on the transmittal form; therefore, the fee amount indicated on the form did not always match fees that the boxes checked would indicate.
- There was no periodic quality control review performed for transmittal forms to ensure the forms were accurately completed.
- Total dollar amounts of application fees processed to the general ledger were not being reconciled to the number of passports issued as indicated on transmittal form(s) (i.e. total number of passports issued on transmittals X \$25 application fee).

### **Electronic Receipts**

- The Clerk's Office had not established standards as to what information was required to be indicated on all receipts.
- Receipts were printed at the time of settlement.
- Receipts did not indicate the names of all the individuals the payment covered.

These conditions existed because procedures needed to be developed, documented, and implemented for cash settlement, cash handling, passport issuance processes, and safeguarding of assets. Also, passport agents were allowed to handle transactions from beginning to end. In addition, there was minimal oversight and monitoring to ensure controls were in place and functioning as designed. The lack of internal controls, oversight and monitoring expose the city to potential revenue loss.

**Recommendation – The Clerk’s Office should enhance and document their cash handling, cash settlement and passport issuance policies and procedures so that cash is adequately safeguarded. Passport application fees should be reconciled to the general ledger on a periodic basis. Also, employees should not be not allowed to handle a transaction from beginning to end. In addition, the Clerk’s Office should develop an ongoing oversight and monitoring process to ensure adherence to cash settlement, cash handling, passport issuance processes, and safeguarding of assets procedures.**

The following areas should be addressed:

### **Infrastructure**

- The Treasurer’s system icon should be installed on the computer located in the Passport Office.
- The Treasurer’s system icon should be also installed on a centralized computer located in the Clerk’s Office.
- All passport agents should have access to the Treasurer’s system.
- Required information should be identified and included on all electronic receipts.
- System access to the Treasurer’s system should be verified on a periodic basis to ensure that only current employees have access to the system.

### **Cash handling and settlement**

- Cash/checks should be maintained under the sole control of one person.
- Access to the locations where cash/checks are stored should be controlled. Settlement of cash/checks should be completed on the date the funds are received.
- Cash exchanged between employees should be counted and documented at the time the exchange takes place.
- Customers should be given a receipt at the time the transaction occurs.
- An over/short general ledger account should be established.
- Checks received for application fees should be immediately endorsed when received.
- Surprise cash counts should be performed on a periodic basis. This count should include review of transmittals and daily settlement documentation.

### **Security**

- A panic alarm should be installed in the Passport Office.
- Panic alarms located in the Clerk’s Office should be affixed to a desk so that they can be set off unobtrusively in the event of an emergency.
- All Panic alarms should be tested on a periodic basis and the testing should be

documented.

- A small safe should be purchased to store cash/checks.
- The City should consider placing a camera in the Passport Office.
- A combination lock should be installed in the passport office and changed when someone leaves the City's employ.
- A log should be established to record the movement of assets to and from the file cabinet. The log should document who entered the cabinet, time, date, and purpose.

### **Transmittal form completion**

- Transmittal forms should always be completed in full detail.
- Preparer's signature should always be indicated on the forms.
- Phone numbers indicated on the form should always correct.
- Dates indicated on the form should be the date the transaction occurred.
- Agent stamps should always be included on the form.
- Boxes for adult and minors should be checked in the places so that the fee amount indicated on the form agrees with the boxes checked.
- Quality control reviews should be performed on a periodic basis to ensure forms are accurately completed.
- Application fees should be reconciled to the total amount of application fees processed to the general ledger application fee account on a periodic basis.

### **Electronic receipts**

- The Clerk's Office should establish what information is required to be on every receipt.
- Receipts should reflect the names of all individuals for whom payment was received.

Also, we would recommend the following work flow for passport agents

### **Suggested Work Flow for Passport Agents**

1. Receive completed application and supporting documentation from customer
2. Review application and supporting documentation for completeness
3. Complete transmittal form when transaction occurs
4. Collect payment for each passport (check or money order only) and for the application fee (cash, check, money order, debit and/or credit card) checks for application fees should be endorsed when received

5. Payments for application fees should be entered into the Treasurer's system as they occur, with two receipts issued by the system. The customer is to be given one receipt, and the second receipt kept as part of settlement documentation.
6. At the end of each work day, settle that day's work
7. Agree each passport application processed to the daily transmittal report for accuracy.
8. Pull totals from the Treasurer's system
9. Count cash on adding machine tape label, initial, and date the tape, make two tapes of checks received, label, initial and date tapes, (attach with Treasurer's reconciliation sheet) at the end of each day's work
10. Pull batch for bank card transactions run adding machine tape of card receipts and agree to machine batch total and Treasurer's reconciliation sheet at the end of each day's work
11. Attach all adding machine tapes to the settlement sheet
12. Complete and sign Treasurer's settlement sheet
13. Make deposit at Treasurer's office
14. File Treasurer's settlement sheet and copies of all types of transmittals used for that day's work together and retain as required
15. Management should perform periodic reviews of transmittal forms for completeness and to ensure that the total number of passport applications listed on the form times the \$25.00 application fee (total dollar amount) agrees to the total dollar amount of application fees processed to the general ledger.
16. Perform surprise cash counts at least once every 60 days to include: cash count, comparison of completed Transmittals Forms to completed passport application, review of transmittal form for completeness, and reconciliation of the number of passports issued as reflected on the passport transmittal form(s) to the dollar amount of application fees collected on the daily settlement sheet.

**Response - In response to the Special Audit conducted by Audit Services, the City Clerk's office essential services for the City of Chesapeake primary purpose is to document, preserve, and maintain historical records of the legislative actions taken by the Mayor and City Council. Additionally we provide staff support for the City Council. No changes were recommended in those processes and we continue to provide the preservation of all records, as required.**

**The City Clerk's Office also serves as a United States Passport Agency. City Auditor Poole and staff reviewed various aspects of passport issuance and cash settlement records and made suggestions for an improved processing of passports, cash handling and reconciliations, internal control weaknesses and physical security.**

**With the guidance of Audit Services, we have implemented an ongoing monitoring process to ensure adherence to cash settlement, cash handling, passport issuance processes and safeguarding all assets and procedures so that cash is adequately safeguarded at all times. Passport application fees are reconciled to the general ledger on a daily basis. I am certain that we are operating at a much more accountable and improved process and appreciate the help of Audit Services.**



# **APPENDIX A**

## **RESPONSE FROM CITY CLERK'S OFFICE**



## MEMORANDUM

**TO:** Jay Poole, City Auditor  
**FROM:** Sandy Madison, City Clerk  
**DATE:** March 1, 2017  
**SUBJECT:** CITY CLERK SPECIAL AUDIT

After reviewing a draft of the Special Audit conducted by the Audit Department on the Passport Issuance Process, Controls, Security, Infrastructure and Cash handling procedures, I have provided the following response. Audit provided their findings and subsequent recommendations for each finding and this memorandum addresses both.

### **1. Passport Issuance Process Controls**

**Finding** – The Clerk’s Office did not have documented procedures that addressed the passport issuance process. The number of issued passports indicated on Passport Transmittal Forms were not reconciled to the total dollar amount of application fees processed to the general ledger. Internal controls related to cash handling, settlement, segregation of duties, and safeguards over assets for the passport issuance process were not in place. In addition, there was limited oversight and monitoring of the passport issuance operation.

**Recommendation** – The Clerk’s Office should enhance and document their cash handling, cash settlement and passport issuance policies and procedures so that cash is adequately safeguarded. Passport application fees should be reconciled to the general ledger on a periodic basis. Also, employees should not be not allowed to handle a transaction from beginning to end. In addition, the Clerk’s Office should develop an ongoing oversight and monitoring process to ensure adherence to cash settlement, cash handling, passport issuance processes, and safeguarding of assets procedures.

#### ***City Clerk’s Response:***

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***Sandy Madison, MMC  
City Clerk***