



INTERNAL AUDIT

**Cash Processing and Handling
Audit**

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Executive Summary

The City Auditor has conducted a Cash Processing and Handling audit. This audit was conducted under the authority of Resolution #2013-51 and in accordance with the Annual Audit Plan approved by the City Council in Resolution #2014-27. This audit primarily examined the policies, procedures, and practices being used in those areas that handle and process cash transactions for the City of League City. The areas reviewed receive, handle, and deposit cash, checks, and credit card payments for many different types of transactions.

City staff at the audited locations are generally accounting for and handling cash appropriately. Some locations can improve certain aspects of their cash handling practices, including more limited access to cash drawers, greater security over keys and drawers, and eliminating manual sales. Finance can improve adherence and accountability to the City's Cash Receipts and Petty Cash policies by making them readily accessible and by providing annual refresher training.

The details of the overall findings and recommendations are discussed in this report.

Objective

The objective of this audit according to the Annual Audit Plan was to determine if controls are designed properly and operating effectively.

Scope and Methodology

The City Auditor reviewed cash handling transactions, verified the existence and propriety of petty cash funds, and verified compliance with the City's Cash Receipts and Petty Cash policies. The term "cash" refers to all methods of payment that are accepted by the City of League City (cash, checks, money orders, credit cards, electronic payments, etc.).

The following seven locations were observed:

Location:	Organization:
Helen Hall Library	Parks & Recreation
Hometown Heroes Park (incl Walker St Pool)	Parks & Recreation
Records Management	Police
League City Animal Services	Police
Municipal Court	Finance
Finance (Utility Payments)	Finance
Building	Planning and Development

These seven areas represent all areas that handle cash throughout the City. In addition to being accountable for customer payments, cash handling locations usually have a small change fund and some have a petty cash fund for making small dollar purchases.

During the planning phase of the audit, each employee that handles cash in these areas was asked to complete a cash handling survey. A total of 43 were sent and 37 were returned. These survey responses were reviewed to obtain information regarding cash handling practices and to identify any potential control weaknesses.

As part of the audit, the following was done:

- Reviewed written cash handling procedures
- Utilized self-assessment questionnaires in addition to interviewing personnel within each cash handling department
- Observed cash handling processes
- Verified change and petty cash funds
- Evaluated the design and effectiveness of cash handling controls

Generally, City staff at the locations reviewed are appropriately accounting for and handling cash. Some locations can improve certain aspects of their cash handling practices to help prevent errors or irregularities or make the detection of any discrepancies easier. Also, Finance can improve oversight and compliance with policy requirements.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards. Those standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The City Auditor believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

Observations took place in August and September of 2016.

The sampling methodology is discussed in Exhibit A and the reliability and integrity of information is discussed in Exhibit B.

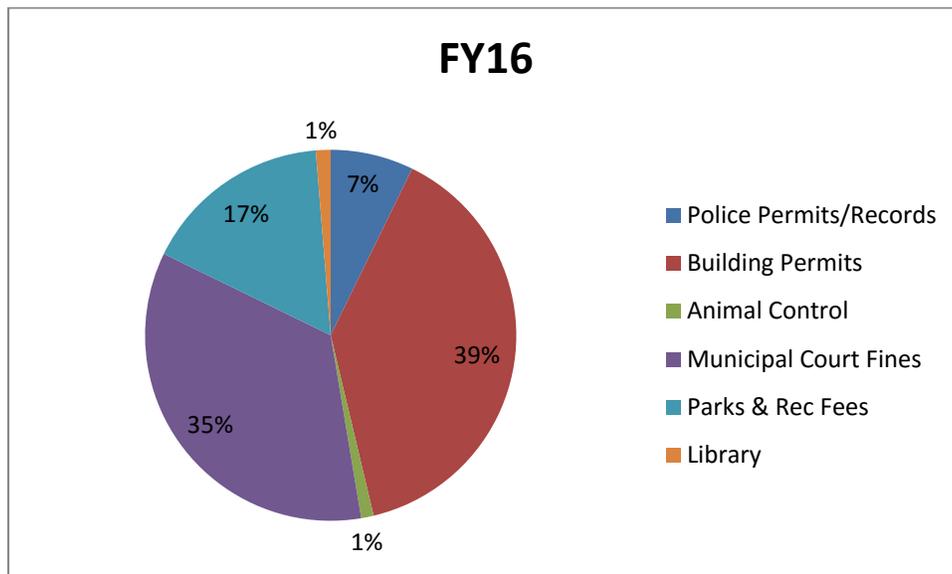
Background

The City of League City collects money from several sources. Money may be collected directly from the customer (in person, via mail, drop box locations, or online) or from third party custodians.

In addition to accepting traditional cash, check, and money order payments, most departments also accept credit cards. Some of the departments are also able to accept Internet payments for certain transactions – Parks and Recreation, Records Management, Municipal Court, and Utility Billing.

Several departments have also been assigned petty cash and change funds. Petty cash funds may be advanced to employees to make purchases on behalf of the City or may reimburse employees for purchases made on behalf of the City with the employees' personal funds. The use of Procurement Cards (P-cards) has greatly reduced the need for petty cash, but there are still some transactions where cash is needed or the employee does not have a P-card. Change funds are held by departments to make change where cash is regularly received from customers. The only department that utilizes a change fund is the Library due to their coin-operated machines. An evaluation of controls surrounding petty cash and change funds was included in this audit.

In fiscal year 2016, staff throughout the City collected approximately \$5.2M for various fines, fees, services, and products. This amount excludes what was collected in Utility Billing for water and sewer services. Revenue in Utility Billing was approximately \$32.7M.



Findings and Recommendations

During the audit, certain areas for improvement were identified. The audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the Findings and Recommendations section presented in this report may not be all-inclusive of areas where improvement might be needed.

Management is in a unique position to best understand their operations and may be able to identify more efficient and effective approaches to the following recommendations:

1. Improving controls at some locations could help prevent errors or irregularities or make their detection easier.

Library

- A. More than one employee is allowed to use the same cash register or drawer at the same time without a mitigating control, such as individual cashier codes.
- B. The key for the cash drawers is left unsecured in a drawer beneath the cash drawers.
- C. Sales in the Adult Services area are done manually, outside of the Integrated Library System (ILS), Sirsi.
- D. Revenue from the coin-operated machines, copiers/printers and fax machine, is not reconciled. A report is available, but the current staff does not know how to interpret it.
- E. Based on review of the transaction volume and amounts, a petty cash fund is no longer needed.
- F. One employee transports the deposit to Finance unprotected.

Building

- A. Non-cash payments collected throughout the day are kept unsecured in a desk drawer.

Recommendations:

Library

- A. Working with IT, the Library should research Sirsi and see if there is any way to assign individual cashier codes. This will allow for better accountability and

record of which cashiers accessed the cash drawers. Also, consider scheduling the clerks for longer shifts at the circulation (front) desk, so individuals can be responsible for their money, rather than the Library, as a whole, having responsibility. This will also provide more accountability and responsibility to the individual clerk.

- B. When a transaction is made in the system, the cash drawer automatically opens, so the need to open the cash drawer without a transaction should be very limited. While the risk is low that a patron would be able to locate the key and open the cash drawers without an employee noticing, it is best practice to keep the key secure. This can be accomplished in a variety of ways, one being to assign a “key holder” per shift. This employee would wear the key and would need to be present to unlock the drawer, if the need arose. This would also provide additional scrutiny of the reason for the drawer being opened manually.
- C. Working with IT, the Library should research Sirsi and see if there is a way to program additional accounts and/or sales into the system to be able to account for the small items that are sold in the Adult Services area, i.e. earbuds and exam proctoring. The materiality of these sales is rather low, but the more that can be accounted for within the system reduces the likelihood of human error and provides more transparency with the ability to run automated reports.
- D. The coins are collected from the coin-operated machines on a weekly basis and accounted for, but no reconciliation of these sales is being done. There is a report that the copiers/printers generate, which provides the number of print jobs that have been done, but it is not easy to interpret. With the aid of IT, review the reports and determine if there is a way to interpret them that would aid in the reconciliation of the sales dollars with the number of print jobs.
- E. The petty cash fund of \$50 has not been used in quite some time. The use of P-cards has taken the place of the petty cash fund for the Library, so it is recommended that the petty cash be turned in.
- F. When available, it is recommended that two employees transport the deposit to Finance. If two employees are not available, then it is recommended to walk in front of the building where there are more cameras and citizens. Employee safety is a high priority.

Management Response (Library):

- A. The Helen Hall Library Assistant City Librarian Teresa Potter-Reyes reached out to Sirsi regarding the possibility of assigning individual cashier codes. Sirsi's response is that they currently do not have a feature to assign individual cashier codes. The current staff capacity in the Circulation section of Helen Hall Library does not allow an individual employee to be assigned to each of the two cash registers for each hourly shift of the day. If future staff capacities in the Circulation section allow each cash register to be staffed by a single employee for each hourly shift of the day, the efficiency of customer service provided to citizens would benefit from such a change.
- B. The keys to the cash drawers are now all kept in secure locations. The Circulation Supervisor Kelsea Meza has a key with her at all times, one of the keys is kept in her locked office during the day and locked in the safe at night, and the third key is always locked away in the safe.
- C. The Library added to Sirsi additional sales to account for the small items that are sold in the Adult Services area, i.e. earbuds and exam proctoring. The sales and payments are now included in the Bill Breakdown report which reflects all transactions.
- D. Library staff reached out to EnvisionWare, the company supplying the software and hardware for public printing. EnvisionWare's response was that the report parameters cannot be changed. Library staff reviewed the print job report and determined a more accurate interpretation of the number of print jobs. Library staff was advised to research other library practices regarding print job and print revenue reconciliation: The Harris County Public Library System does not currently analyze the print job reports beyond simply trusting the report for print revenue reconciliation.
- E. The petty cash fund of \$50 for the Library was turned in on October 18, 2016.
- F. When available, two employees transport the deposit to Finance. If two employees are not available, then the person responsible for transporting the deposit walks in front of the building where there are more cameras and citizens.

Target Date: January 4, 2017

Responsible Party: Chien Wei/Teresa Potter-Reyes

Building

- A. Payments collected throughout the day need to be kept secure. This can be accomplished by using locking cash boxes/bags or locking drawers. While no cash is being left unsecured it is still best practice to keep all forms of payment secure.

Management Response (Building):

All payments will be kept secure throughout the day (including checks and credit card receipts) in a locked box/cash drawer. At the end of the day, the daily deposit will be secured in the locking bank bag in the safe.

Target Date: November 15, 2016

Responsible Party: Paul Menzies/Barbara Roberts

2. Training should be provided on a recurring basis to ensure that all staff is aware of their cash handling role and can be held accountable.

The City has a Cash Receipts and Petty Cash policy. Within these policies are two forms, Cashier's Agreement and Acknowledgement of Receipt of Petty Cash Fund, which all employees who are assigned cash must sign. These forms also serve as acknowledgment of the policies and agreement to abide by them. Surveys completed by the individuals who handle cash indicated that they were all aware of these policies and had received a copy of them. These policies are not kept in a public location for easy access to review. There is also no recurrence of training and/or acknowledgement of these policies.

All of these signed forms are kept on file in Finance with the Accounting Manager. All employees with cash handling responsibilities had a signed form on file with the exception of several employees in Parks and Rec and the Library.

- A. Parks and Rec employs a higher number of employees during the summer, which is their peak time for activities and programs. These summer rec aides are only seasonal employees, so Finance does not directly handle their cash assignments. Parks and Rec handles it internally by dividing some of their full-time employees' funds into \$25 increments for the summer aides. They provide their own acknowledgement form to the aides for their signature and these forms are kept on file at the department level.
- B. Since the Library does not assign individuals funds, they are all assigned at the department level, only the Circulation Supervisor has a signed form on file with Finance. Ultimate responsibility may lie with the supervisor, but all employees that handle cash should be aware of and accountable for the policies. The library keeps a signed copy of their supplemental Money Handling Policy on file.

Recommendations:

Finance should keep the policies in a central location where all employees can readily access them. Mandatory cash handling training and acknowledgement of the policies should occur on at least an annual basis. This can be accomplished using an online tool to ask a few questions and then an electronic acknowledgement can be obtained and kept for records.

According to the Petty Cash policy, Finance is able to perform a surprise audit at any time. Finance also performs a routine audit annually. As part of these audits for Parks and Rec and Library, review of the departmental acknowledgements should be included.

Management Response:

Finance will store the policies in Policy Tech, a centralized location available for all employees. All employees responsible for handling cash will be required to review the policies on an annual basis. An electronic acknowledgement of this review will be stored within Policy Tech. The Accounting Manager will be responsible for ensuring that all acknowledgements have been received.

The Accounting Manager will be responsible for continuing to perform routine surprise audits on an annual basis for all cash handling areas. The audit for each area will include acknowledgement by the department.

Target Date: January 31, 2017, for locating the policies in Policy Tech.

June 30, 2017, acknowledgements of the policy will be received and annual surprise audits will be performed.

Responsible Party: Rebecca Underhill/Lonna Stein

3. Jail and Animal Control lack the ability to take credit card payments.

The jail collects payment for cash bonds and some fines. The jail is only able to take cash payments. Many people request to make a credit card payment, but at this time the jail is unable to process them. If the jail was able to process credit card payments it would be a convenience to the customers and it would also reduce the amount of cash that was exchanged and kept on-hand.

Animal Control is able to process credit card payments at the Animal Shelter, but when they are at City sponsored off-site events they are unable to take credit card payments and can only process cash and checks. If customers were able to use their credit cards it could potentially increase adoptions as well as decrease the amount of cash that needs to be secured and transported.

Recommendation:

IT should research options for mobile credit card transactions that could be utilized by the Jail and Animal Control at their offsite events.

Management Response:

The Municipal Court concurs with this recommendation. Accounting will work with Bank of America to establish both a jail and mobile machine. The “mobile” machine will be used for offsite events (such as Animal Control) and to serve as a backup.

Target Date: February 1, 2017

Responsible Party: Ryan Smith

EXHIBIT A

Sampling Methodology

All seven departments/areas that handle cash were reviewed along with the daily deposit reports that are run from their respective system.

1. Municipal Court – Daily Cash Collection Register Operator Summary – Incode (Tyler Technologies)
2. Library – Bill Breakdown – Sirsi
3. Parks and Rec – GL Distribution Report – RecTrac
4. Building, Police Records, Finance, and Animal Control – Cash Edit Listing – AS400

Using the Petty Cash Listing from Finance, 100% of the “cashiers” were provided a Cash Handling Questionnaire and were verified that they had signed cash handling forms on file with Finance.

EXHIBIT B

Reliability and Integrity of Information

Findings 1 and 3 are inquiry and observation based.

Finding 2 was partially observation based and also based on comparing the Petty Cash Listing with the signed forms on file with Finance.