



GARLAND

INTERNAL AUDIT

Cash Count

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Report 201707

City Auditor:

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Overall Conclusion

Internal Audit (IA) conducted surprise cash counts at 16 departments citywide. This included 8 Petty Cash Funds, 4 Change Funds, and 8 Other Funds. No significant overages or shortages were noted during the counts. City Directives were, for the most part followed; however IA identified several areas for improvement, including but not limited to:

- One shortage was identified, in the amount of \$67.
- Reconciliations were not performed and reviewed regularly by management.
- Checks were not always endorsed upon receipt.
- Deposit were not consistently made by the next business day.
- In three instances, cash was not secured on the day of the cash count.
- Some of the cash handling areas were not segregated, and management did not review fund activities.
- Cash Handling Custodian Agreements were not completed by several departments.

Management was also provided with additional Opportunities for Improvement to enhance internal controls. These were not considered significant to the objective of the audit, but warrant the attention of Management. Consequently, they do not appear in this report.

Authorization

We have conducted an audit of the Cash Count. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

Objective(s)

1. Verify whether the administration of the City's cash funds is in compliance with the City of Garland's Financial Policies, Procedures and Directives.
2. Determine whether cash is secured.

Scope and Methodology

IA 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 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.

The scope of the audit was to review one-third of the City's Petty Cash and Change Fund locations as well as other ("Other" Funds) locations that collect cash. As part of the methodology, we conducted surprise site visits where we reconciled cash on hand with

receipts and assessed compliance with City Directives/Financial Policies, including security of funds, cash handling procedures, and allowable expenditures.

IA conducted surprise cash counts in 16 departments that consisted of 8 Petty Cash Funds, 4 Change Funds and 8 Other Funds.

To adequately address the audit objectives and to describe the scope of our work on internal controls, IA performed the following:

- Reviewed the City's:
 - Accounting Cash Handling Procedures Directive # 1 (“Accounting Directive #1”) - Obj. 1.
 - Accounting Prohibited Expenditures Directive # 9 (“Accounting Directive #9”) - Obj. 1.
 - Accounting Petty Cash Directive # 11 (“Accounting Directive #11”) -Obj. 1.
 - Travel Employee Business Expense #4 (Travel Directive #4) – Obj. 1.
 - Standard Operating Procedure 1124-011 (“SOP1124-011”) – Obj.1.
- Conducted surprise counts of petty cash and change/other funds in order to determine if all funds are accounted for (Obj. 1 & 2).
- Reconciled IA’s count with daily deposit information, various systems, and City bank statements and the general ledger (Obj. 1).
- Observed if funds were secured (Obj. 2).
- Inquired if those responsible for handling cash had reviewed Policies and Procedures as well as Directives (Obj. 1).
- Verified whether overages/shortages were recorded (Obj. 1).
- Determined if the correct petty cash custodian was on record and receiving reimbursement checks (Obj. 1).
- Verified if a petty cash reimbursement log was maintained (Obj. 1).
- Inquired if the petty cash custodian is the only person who had access to the funds (Obj. 2).
- Reviewed the following:
 - Original itemized receipts as required by the directive (Obj. 1).
 - Management approval on documentation (Obj. 1).
 - Prohibited expenditures (Obj. 1).
 - Receipts did not exceed the \$100 limit per transaction (Obj. 1).
 - Payments were not split to meet the \$100 limit per transaction (Obj. 1).
- Verified if:
 - Change/Other funds were secure (Obj. 2).
 - Change/Other fund checks were endorsed and deposited within one business day (Obj. 1 & 2).
 - Voided transactions are documented and reviewed by management (Obj 2).
 - Pre-numbered receipts are used to record payments (Obj 2).
- Inquired if:
 - Change / Other funds were placed in a sealed deposit bag (Obj. 1 & 2).
 - Change / Other fund transactions were reviewed by management and compared to receivables (Obj. 1 & 2).

- Cash is tallied independently or with one other person (Obj. 2).
- Receiving the mail is done independently or with one other person (Obj. 2).

To assess the reliability of electronic cash reports produced by departments, IA interviewed cash custodians, performed cash counts, reviewed for any gaps in transaction numbers when available, and compared cash information with actual deposits. As a result of our testing, we determined that the data was sufficiently reliable for the purposes of this report.

Background

Change and Other Funds

Various departments throughout the City take in cash for fees and services provided such as permits, inspections, utility payments, registration fees, admissions, copies, internet use etc. The change funds are used to make change readily available for those customers paying for fees and services. Departments are responsible for reconciling their cash and for preparing cash reports. For some locations, this is a cash register which is used as a point of sale for all transactions. Daily deposits are made by either by taking the funds to Finance, or having the funds picked up by an armored car service.

As of May 31, 2017, there was a total balance of \$23,121.75 issued by Finance in change funds⁽¹⁾.

Also, some departments throughout the City take in cash for fees and services provided such as zoning verification letters, plat copies, construction/elevation permits, sidewalk curb assessments, salvage checks for electronics recycling, vendor fair registration, and cash/escrow bonds, etc. These departments do not have a change fund, and are referred to as “Other” funds.

Petty Cash

The Petty Cash Directive allows departments to reimburse employees for expenses of \$100 or less. The Finance Department is responsible for distributing and documenting the petty cash for departments and maintaining a current list of petty cash custodians for each department.

When an employee makes a purchase, the employee can get reimbursed through the petty cash fund for their department, Finance, or any other City petty cash fund. The employee is responsible for submitting an original itemized receipt before reimbursement can be made. Accounting Directive #9 lists items for which reimbursement is prohibited, such as alcohol, party and gift items, or flowers. The Travel Directive #4 includes items for which reimbursement is prohibited during travel such as entertainment fees, valet services, etc.

Per Accounting Directives #1 and #11, as well as SOP #1124-011, petty cash custodians are responsible for obtaining original receipts from employees and issuing a receipt with the employee's name, account number, and a brief description of the reimbursement. Quarterly, or more frequently if needed, the petty cash custodian is required to reconcile their petty cash fund, submit all receipts with vouchers to the Financial Services Department and process a request for a check so they can replenish their petty cash fund.

As of May 31, 2017, there was a total balance of \$15,850 in petty cash funds⁽³⁾.

Although some departments have petty cash funds available for purchases, the City's preferred method of payment is the Procurement Card, or P-card, which should be used in lieu of petty cash where possible^(3,4).

City management has established the following directives and policies to guide employees that have cash handling responsibilities:

- Accounting Cash Handling Procedures Directive # 1 – This directive establishes procedures for handling the receipt of cash.
- Accounting Prohibited Expenditures Directive # 9 – This directive is to specifically identify prohibited expenditure items.
- Accounting Petty Cash Directive # 11 – This directive outlines the general administration of Petty Cash. Petty Cash expenditures occur when a P-card cannot be used. Also, Standard Operating Procedure 1124-011 establishes guidelines for Petty Cash Administration according to the Petty Cash Directive.
- Travel Employee Business Expense #4 – This directive outlines costs associated with an employee while Conducting City business both inside and outside the City limits.

(1) Financial Services Accounting Supervisor

(2) Purchasing Directive 1 - Purchasing Policies and Procedures

(3) Accounting Directive 11 - Petty Cash

Note: "Cash" for purposes of this report includes currency, coins, checks and money orders.

Opportunities for Improvement

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

FINDING – CASH HANDLING	
CONDITION (THE WAY IT IS)	<p>IA identified the following internal control weaknesses related to Petty Cash, Change and Other Funds on the day of the cash count:</p> <p><u>Petty Cash Fund</u></p> <ol style="list-style-type: none"> 1. 1 out of 8 areas had a shortage of \$67. This shortage had not been report to Finance. 2. 2 out of 8 areas did not reconcile the petty cash account at least quarterly. 3. 2 out of 8 areas did not perform management review of fund activity. 4. 1 out of 8 areas did not use pre-numbered receipts to record transactions. 5. 3 out of 8 areas did not document reasons for voided receipts. 6. 1 out of 8 areas did not secure cash in a locked safe. <p><u>Change and Other Funds</u></p> <ol style="list-style-type: none"> 7. 1 out of 12 areas did not have a stamp to endorse checks with the City’s banking information. 8. 5 out of 12 areas did not endorse checks, or failed to endorse them immediately. 9. 3 out of 12 areas did not deposit checks by the next business day. 10. 1 out 12 areas did not place cash in sealed bags for deposits. 11. 2 out of 12 areas did not secure cash in a locked safe. 12. 1 out of 12 areas did not issue pre-numbered receipts to customers. 13. 4 out of 12 areas did not have signed Cash Handling Custodian Agreements. A Custodian Agreement verifies that you have received the COG Cash Handling Directive and understand the guidelines and agree to comply with all aspects of the program as it relates to the position.

	<p>14. 5 out of 12 areas tally cash independently without management review.</p> <p>15. 5 out of 12 areas checked mail for payments independently.</p> <p>16. 3 out of 12 areas did not have a management review process in place related to other funds that are received.</p> <p>17. 4 out of 12 areas did not compare incoming cash to receivables to ensure the correct amount was received.</p> <p>18. 4 out of 12 areas did not document reasons for voids.</p>
<p>CRITERIA (THE WAY IT SHOULD BE)</p>	<p>The COG Accounting Petty Cash Directive #11 states:</p> <ul style="list-style-type: none"> • The Petty Cash Custodian shall reconcile the petty cash fund on a quarterly basis or more frequently as the funds are depleted. A manager or supervisor must approve the reconciliation. Applicable to condition 1, 2 and 3. • Pre-numbered petty cash vouchers are to be filled out by the Petty Cash Custodian for each disbursement. Applicable to condition 4. <p>Cash Handling Directive states:</p> <ul style="list-style-type: none"> • Upon receipt, all checks must be endorsed with the City's banking information. Applicable to condition 7 and 8. • Deposits: Each day's receipts will be deposited to the City's bank no later than the next business day. Each day's deposit must be sealed in a tamper proof plastic bag along with completed bank deposit ticket. Deposits held overnight must be stored in a locked and secured location. Applicable to condition 6, 9, 10, and 11. • For each cash transaction, a pre-numbered receipt will be prepared and given to the payer. Applicable to condition 12. • Designated Cash Handling personnel should send a signed and approved Cash Handling Custodian Agreement to Financial Services. Applicable to condition 13. <p>The Committee of Sponsoring Organizations (COSO) provide guidance and framework on enterprise risk management, internal control, and fraud deterrence. Control activities in the framework include:</p>

	<ul style="list-style-type: none"> • Actions supported by policies and procedures address risks. Applicable to condition 5 and 18. • Segregate duties that involve custody, authorization, and recordkeeping. Applicable to conditions 14, 15, 16 and 17.
<p style="text-align: center;">CAUSE (DIFFERENCE BETWEEN CONDITION & CRITERIA)</p>	<p>IA noted that the conditions related to cash handling occurred mainly due to:</p> <ul style="list-style-type: none"> • Lack of training. • Processes were not always evaluated to mitigate risks and/or implement effective controls over cash handling.
<p style="text-align: center;">EFFECT (SO WHAT?)</p>	<p>Internal control weaknesses over cash handling will increase the potential risk for:</p> <ul style="list-style-type: none"> • Lost or stolen cash. • Unavailability of funds for immediate use. • Timely detection for inappropriate activities. • Negative impact on customer satisfaction, and the City's reputation.
<p style="text-align: center;">RECOMMENDATION</p>	<p>Department heads should:</p> <ul style="list-style-type: none"> • Ensure personnel who handle cash attend the Cash Audit training and complete a Custodian Agreement. This training will include, but not limited to: <ol style="list-style-type: none"> 1) Preparing reconciliations. 2) Securing cash. 3) Depositing requirements. 4) Recognizing prohibited expenditures. • Ensure personnel who have cash handling responsibilities review and understand directives and policies prior to performing their duties. • Provide all necessary tools, such as stamps and safes to mitigate risk. • Develop departmental procedures to implement detective and/or preventative controls to mitigate risks over cash handling such as segregating duties and/or management review. <p>Finance should offer Cash Handling training at least once a year to employees that are responsible for cash handling.</p>

MANAGEMENT RESPONSE	Concur
ACTION PLAN	<p>Management will ensure that personnel who have cash handling responsibilities will:</p> <ul style="list-style-type: none"> • Attend the Cash Audit training and complete a Custodian Agreement. • Read and understand directives and policies prior to performing their duties. • Provide all necessary tools, such as stamps and safes to mitigate risk. • Develop departmental procedures to implement detective and/or preventative controls to mitigate risks over cash handling such as segregating duties, reconciliations, and/or management review. <p>Finance will offer Cash Handling training at least once a year to employees that are responsible for cash handling.</p>
IMPLEMENTATION DATE	October 1, 2017

Exhibit A – Sampling Methodology

Transactions were selected randomly on the day of the cash count to review petty cash expenditures, change and other fund transactions, and to trace deposits to bank statements. The results can be projected to the entire population.