



GARLAND

INTERNAL AUDIT

Cash Count

September 1, 2020

Report 201904-B

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Executive Summary

Internal Audit (IA) conducted surprise cash counts for 16 locations, which involved 15 Change funds and three Petty Cash funds. No significant overages or shortages were noted during the counts. City Directives were followed for the most part; however, IA identified several areas for improvement:

- Employees are potentially put at risk by transporting deposits to designated deposit pick-up locations.
- Items are being processed as Petty Cash reimbursements that could be processed through Payroll.
- Petty Cash reimbursements occurred at two locations for prohibited items.
- Deposits received from three locations are not being secured in a safe at one of the designated armored car pick-up location.
- Current City Directive requires daily deposits, regardless of staff resources or amount of cash collected.
- Checks are not endorsed immediately at one location.
- Check endorsement stamp being used at two locations has outdated bank name.
- Employees are sharing tills at one location.
- Voided transactions are not reviewed at one location.
- Security cameras are not present at six locations.
- Transactions do not have sequential numbering at two locations.
- Cash Handling Custodian Agreements have not been completed at seven locations.
- The Petty Cash and Change Fund Custodian listing maintained by the City is inaccurate for four locations.
- Cash Handling Custodian Agreements are signed without proper or periodic training.

In addition, the use of an armored car service for depositing City assets began several years ago. IA reviewed the current armored car service contract, invoices and pick-up frequency at several locations. Based on IA's review and analysis, there were several areas identified for improvement:

- Vendor invoices include billings for services that did not occur at a seasonally closed facility, and for a location that is not a designated deposit pick-up location.
- Some surcharge fees are unsubstantiated by the deposit pick-up logs reviewed.
- Excess liability surcharges are occurring at one large cash-handling location due to not having Image Cash Letter (electronic image depositing) equipment.
- The City is not receiving invoice credits for missed scheduled pick-ups.
- Deposit pick-up frequency is inconsistently applied to locations with lower deposit amounts.
- Relevant supporting documents are not reviewed during invoice processing, to verify accuracy of billings.
- Armored car service deposit log books are not identified by City locations, and pages are not sequentially numbered.

Finally, IA performed a follow-up review of Department B to ensure the department implemented the recommendations from the FY18 Cash Count Audit. Based on IA's review, all recommendations were implemented with the exception of performing daily deposits.

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

This audit was conducted under the authority of Article IV, Section 8 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

Objectives

The objectives of this audit were to determine that:

- A. The administration of the City's cash funds is in compliance with the City of Garland's Financial Policies and Procedures and Directives.
- B. Cash is secured.
- C. Armored car service billing is in compliance with terms and conditions listed in the contract and the current frequency for each stop is cost effective.
- D. Department B implemented previous cash count audit recommendations.

Scope and Methodology

IA conducted this performance audit and follow-up in accordance with Generally Accepted Government Auditing Standards. Those standards require that IA plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. IA believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

The scope of the audit was to 1) review one-third of the City's Change Fund and Petty Cash locations, 2) review the armored car service contract during the period of January to November, 2019, and 3) perform an audit follow-up at Department B as of October 31, 2019.

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

- *Cash Handling Procedures Directive #1* – This directive establishes procedures for handling the receipt of cash. (Obj. A)
- *Prohibited Expenditures Directive #9* – This directive is to specifically identify prohibited expenditure items. (Obj. A)
- *Petty Cash Directive #11* – This directive outlines the general administration of Petty Cash. Petty Cash expenditures occur when a P-card cannot be used. (Obj. A)

- *Standard Operating Procedure 1124-011* - establishes guidelines for Petty Cash Administration according to the Petty Cash Directive. (Obj. A)
- *Travel Employee Business Expense #4* - This directive outlines costs associated with an employee while conducting City business both inside and outside the City limits. (Obj. A)
- *Purchasing Policies and Procedures, 4.1.3* - This policy states that purchase cards (or P-Card) is the preferred method of payment for purchases up to \$3,000. (Obj. A)

To adequately address the audit objectives and to describe the scope of work on internal controls, IA conducted surprise site visits at sixteen (16) cash handling locations and performed the following:

Change Fund

- Verified and validated that the Change Fund Custodian receiving the reimbursement checks is the person on record in the Finance Department. (Obj. A)
- Verified that change fund checks are endorsed immediately and deposited within one business day. (Obj. A & B)
- Obtained detailed transaction reports to ensure sequential numbering for payments and receipts, and overages and shortages were recorded. Additionally, voids, cancellations and adjustments are properly documented and reviewed by management. (Obj. A & B)
- Conducted a walkthrough of processes to ensure funds are secured and cash is counted independently or with one other person. (Obj. B)
- Reconciled IA's count of change fund with the department's daily deposit information, Point of Sale (POS) systems, City bank statements, the Finance System's General Ledger, and verified management review. (Obj. A & B)
- Inquired that receiving the mail is done independently or with one other person. (Obj. A & B)

Petty Cash

- Verified and validated that the Petty Cash Custodian receiving the reimbursement checks is the person on record in the Finance Department. (Obj. A)
- Inquired that personnel responsible for handling cash has reviewed City Directives and policies and procedures. (Obj. A)
- Reviewed the original itemized receipts to ensure compliance with the Petty Cash and Prohibited Expenditure Directives. (Obj. A)
- Interviewed petty cash custodian to verify who has access to the funds. (Obj. B)
- Inspected petty cash approval documentation for management approval. (Obj. A)
- Validated that a petty cash reimbursement log exists and pre-numbered receipts are used to record payments. (Obj. B)
- Confirmed receipts did not exceed the \$100 limit per transaction and payments were not split to meet the \$100 limit per transaction. (Obj. A)
- Conducted a walkthrough to ensure funds are secured. (Obj. B)
- Validated that voided transactions are properly documented, reviewed and approved by management. (Obj. B)

Armored Car Service Testing

- Obtained copies of the armored car service billing invoices and location pick-up logs. (Obj. C)
- Compared invoices with pick-up logs for accuracy. (Obj. C)
- Evaluated monthly billing invoices and monthly surcharge invoices and conducted billing analysis. (Obj. C)
- Inquired how often armored car service is needed. (Obj. C)
- Inquired if armored car service misses any scheduled pick-ups. (Obj. C)
- Inquired if staff is notifying Finance when a scheduled pick-up doesn't occur. (Obj. C)
- Reviewed and evaluated cash management options. (Obj. C)

Department B Follow-Up Testing

- Reviewed the developed policies and procedures and verified all staff completed training. (Obj. D)
- Compared transactions from the in-house servicing system to the City's financial system to ensure transactions are recorded in the City's financial system. (Obj. D)
- Determined that the Microsoft Access database has been removed from the employee's hard drive. (Obj. D)
- Inquired with management and verified what "in-house servicing system" is being used by staff. (Obj. D)
- Observed and verified that supervisor's office location provides for additional staff oversight. (Obj. D)
- Examined employees' desks to ensure there are no checks being left unsecured. (Obj. D)
- Inquired with management and verified drop safe installation, observed location, and inquired as to opening/closing procedures, and employee access. (Obj. D)
- Performed walk-thru of cash handling process with department personnel. (Obj. D)
- Inquired and observed with staff as to what the deposit process is, and how often deposits are occurring. Obtained sampling of deposits and transactions. (Obj. D)
- Verified the Department's use of pre-numbered receipts. Obtained examples of pre-numbered receipts, verified sequential usage and compared with deposits. (Obj. D)

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

Background

Some factors are common to all cash handling throughout the City of Garland organization. A designated Custodian is required and pre-numbered receipts must be issued. A reconciliation of the funds must be performed periodically and any discrepancies must be recorded on the reconciliation form. Funds must be kept in a secured location and each day's receipts must be deposited by the next business day. The cash drawer and petty cash funds must not be comingled. Employees who handle cash and their Managing Director are

required to sign a Cash Handling Custodian Agreement, which outlines key cash-handling policies and procedures, and confirms the employee has received and understands the Agreement. ^(2,3,4)

Change Funds

Various departments throughout the City take in cash for fees and services provided such as permits, inspections, utility payments, registration fees, admissions, copies, and internet use. 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 that is used as a point of sale for all transactions. Deposits are made by taking the funds to designated locations within the City, or having the funds picked up by an armored car service. Not all locations are making deposits daily due to efficiency of depositing low dollar amounts.

As of April 2019, there was a balance of \$22,731.75 in change funds issued by Finance. ⁽¹⁾

Petty Cash

The Petty Cash Directive allows departments to reimburse employees for expenses up to \$100. 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 lists items for which reimbursement is prohibited during travel such as entertainment fees, valet services, etc.

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, and submit all receipts with vouchers to the Finance Department and process a request for a check so they can replenish their petty cash fund.

As of April 2019, there was a balance of \$15,850.00 in petty cash funds issued by Finance. ⁽¹⁾

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. ^(2,3,4)

Armored Car Service

The Cash Handling Directive states "Each day's receipts will be deposited to the City's bank no later than the next business day." This Directive also states "An armored car service will courier deposits to the City's bank. Several locations are designated as pick-up locations for the armored car service." There are eleven designated City pick-up locations; however, there

are approximately 36 locations (fluctuates due to seasonal locations) that receive monies from the public which require depositing. The locations that are not designated armored car pick-up locations transport their monies to the designated locations, by walking or driving.

The armored car service contract is a 2-year contract, entered into in January, 2019. As written, the contract amount is approximately \$52,000 for the 11 month period reviewed for pick-ups only. There is an additional monthly invoice which includes surcharges for 1) excess liability - deposits greater than \$50,000 per stop, at a rate of .50 per \$1,000; 2) number of deposit bags greater than five per stop, at a rate of \$1.95 per additional bag; and 3) number of minutes of "wait time" in excess of five minutes per stop, at a rate of \$3.95 per minute. IA calculated that surcharges thru November 30, 2019 would have totaled \$8,436, if the City of Garland had been billed correctly.

- (1) Financial Services
- (2) Accounting Directive 1 – Cash Handling
- (3) Finance and Accounting Directive 11 – Petty Cash
- (4) Standard Operating Procedure 1124-011 – Petty Cash Administration

Opportunities for Improvement

During the audit, IA identified certain areas for improvement. The 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.

#1 - ARMORED CAR SERVICE CONTRACT REVIEW (OBJ. C)

CONDITION
(The way it is)

The City entered into a two-year contract with an armored car service in January, 2019, to pick up cash, checks and money orders at eleven designated locations, for depositing.

During a review of the contract and the invoices received to date, IA noted the following:

- Five of the monthly invoices include charges for a seasonally closed facility, for a total amount of \$3,151.
- On one occasion, a \$380 fee was charged for picking up at a location that is not a designated deposit pick-up location.
- Excess bag fees were charged 17 times. The pick-up logs document the number of bags picked up, and these invoice fees are not substantiated by the pick-up logs reviewed.
- There are 23 missed scheduled pick-ups documented by City staff, and the City is not receiving invoice credits.
- Excess liability surcharges are being incorrectly billed. (Please note: During the January to November time period, two of the eleven surcharge invoices could not be identified, so it is difficult to determine exact information. Some surcharges were under-billed and some were over-billed, but based on the information received, the armored car service has a net under-billing of approximately \$4,200.)
- Services being rendered do not match the schedule attached to the contract.
- Armored car service log books of deposits are not identifiable by City designated locations, and pages are not sequentially numbered.
- The City is paying the armored car service approximately \$5,300 per year to pick up approximately \$27,000 per year in deposits for one location.
- During the audit period, approximately 80% of the payments received at one location, and deposited via the armored car service, were checks totaling approximately \$3 million. This location does not have Image Cash Letter (electronic image depositing) capabilities, and excess liability surcharges are invoiced as a result.

<p>CRITERIA (The way it should be)</p>	<p><i>Standards for Internal Control in the Federal Government Policy Principle IC 10.10</i> states “Transaction control activities are actions built directly into operational processes to support the entity in achieving its objectives and addressing related risks. “Transactions” tends to be associated with financial processes (e.g., payables transactions), while “activities” is more generally applied to operational or compliance processes. For the purposes of this standard, “transactions” covers both definitions. Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities.”</p> <p><i>Standards for Internal Control in the Federal Government Policy Principle IC 12.01</i> states “Management should implement control activities through policies.”</p> <p>“The following attributes contribute to the design, implementation, and operating effectiveness of this principle:</p> <ul style="list-style-type: none"> • Documentation of Responsibilities through Policies • Periodic Review of Control Activities”
<p>CAUSE (Difference between condition & criteria)</p>	<ul style="list-style-type: none"> • There has not been an evaluation of cost effectiveness of armored car services for monies received at each deposit pick-up location. • Processes are not always thoroughly evaluated to mitigate risks and/or implement effective monitoring. • The Contract does not have a credit provision for lack of service due to missed scheduled deposit pick-ups. • Relevant supporting documents are not reviewed during invoice processing, to verify accuracy of billings. • Lack of training or understanding of impacts with regard to fields left blank on deposit pick-up logs. • Vendor’s client portal is not being utilized.
<p>EFFECT (So what?)</p>	<p>Internal control weaknesses over contract compliance and monitoring will increase the potential risk for:</p> <ul style="list-style-type: none"> • Payments being made for services not rendered. • Unavailability of funds for immediate use. • Timely detection of improper billings. • Negative impact on City’s reputation. • Use of City resources is not efficient in some situations.

RECOMMENDATION	<p>City Management should:</p> <ol style="list-style-type: none"> 1. Request a credit for payment of services that were not rendered and for missed pick-ups. 2. Evaluate cash-handling locations' deposit amount and frequency to determine cost effectiveness of current armored car service pick-ups. 3. Consider renegotiating the contract to reflect appropriate pick-up locations, frequency, pricing, remediation of missed scheduled pick-ups and any other relevant factors. 4. Ensure that the armored car service pick-up log books are identified by department name, and pages are numbered. 5. Develop and implement policies and procedures and provide training to address: <ul style="list-style-type: none"> o Verification of services rendered by increasing communication with departments and documentation of services provided o Documentation of missed pick-ups and other potential credits or refunds o Using the client portal to add/remove deposit pick-up locations, report missed scheduled pick-ups, order pick-up log books, and print account statements and invoices. 6. Purchase the Image Cash Letter electronic deposit equipment (Remote Capture Scanner) for locations that receive a large volume of checks.
MANAGEMENT RESPONSE	Concur
ACTION PLAN	<ol style="list-style-type: none"> 1. The armored car service vendor has been notified about the charges for the seasonal facility and the missed pick-ups. The Finance Department expects that a credit will be applied to future armored car service bills. Finance has also contacted the armored car service vendor to determine the most efficient way to notify them of missed pick-ups and changes to locations, to ensure that all changes are reflected on each months' invoice. A log will be created to reconcile each monthly invoice. 2. The Finance Department is evaluating the current locations designated for deposit pick up, as well as the overall process for transporting the City's cash to the bank vault. Specifically, Finance is working with the City Marshal's office to analyze the cost/benefit of utilizing City Marshals to assist with transporting cash to a secure City location, thus eliminating

	<p>multiple designated locations for armored car pick-up. (See Finding #2.)</p> <ol style="list-style-type: none"> 3. The Finance Department will consider amending the armored car service contract, if necessary, to reflect any changes once the evaluation has been completed. 4. Standard operating procedures, including Department responsibilities as well as Finance responsibilities, will be drafted once this analysis is completed. 5. Same response as #4. 6. The Image Cash Letter electronic deposit equipment (Remote Capture Scanner) has been purchased from our depository bank for the location that accepts a large volume of checks. Staff will be trained on how to use this equipment.
<p>IMPLEMENTATION DATE</p>	<p>10/31/2020 for installation and training of electronic deposit equipment, and consolidation of locations that do not bring in a significant amount of cash.</p> <p>1/1/2021 for full implementation of procedures regarding invoice review and transporting the City's cash.</p> <p>It should be noted that due to the COVID-19 pandemic the armored car deposit pickups have been reduced.</p>

#2 - BRINGING DEPOSITS TO DESIGNATED PICK-UP LOCATIONS (OBJ. A & B)

<p>CONDITION (The way it is)</p>	<p>During the audit, IA noted approximately 20 cash-collecting locations utilize City employees to physically transport deposits to designated armored car pick-up locations, which creates risk of theft or injury to those employees.</p>
<p>CRITERIA (The way it should be)</p>	<p><i>Standards for Internal Control in the Federal Government Policy Principle 10.03</i> states “Management establishes physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment that might be vulnerable to risk of loss or unauthorized use.”</p> <p><i>City of Garland Risk Management Directive 1</i> states “The City of Garland recognizes that an effective and aggressive safety and loss prevention program has a profound effect on the reduction of employee injuries; injury to the public; damage to, or loss of City property and funds; damage to property of the public; and work interruptions. The purpose of this directive is to establish the framework for an ongoing City-wide safety and loss prevention program for the City of Garland and assign responsibilities and authorities for the design, administration and implementation of this program.”</p>
<p>CAUSE (Difference between condition & criteria)</p>	<p>Historically, it had not been cost effective to contract with an armored car service to pick up deposits at all cash-collecting locations. Therefore, it was decided to designate 11 locations within the City of Garland for deposit pick-ups by the armored car service. City employees from 20 locations are currently transporting monies to those designated pick-up locations.</p>
<p>EFFECT (So what?)</p>	<p>City employees are at risk of theft or injury when transporting cash to the designated location for depositing.</p>
<p>RECOMMENDATION</p>	<p>City management should consider using City Deputy Marshals, or other cost efficient and safer alternative, for picking up deposit bags at the City’s cash handling locations and delivering them to a specified armored car pick-up location.</p>
<p>MANAGEMENT RESPONSE</p>	<p>Concur</p>
<p>ACTION PLAN</p>	<p>As noted in Finding #1, Finance is evaluating the current locations designated for armored car deposit pick-up, and overall process for transporting the City’s cash to the bank vault. This includes working with the City Marshal’s office to analyze the</p>

	cost/benefit of utilizing City Marshals to assist with transporting cash to a secure City location, thus eliminating multiple designated armored car pick-up locations, and removing this responsibility from departmental staff.
IMPLEMENTATION DATE	1/1/2021 for full implementation. It should be noted that due to the COVID-19 pandemic the armored car deposit pickups have been reduced.

#3 – CASH HANDLING (OBJ. A & B)

**CONDITION
(The way it is)**

For the 16 locations audited, IA identified the following cash handling weaknesses related to Change Fund, Other Cash Funds, and Petty Cash (See Exhibit B):

Change Fund and Other Cash Funds

- One designated armored car deposit pick-up location receives deposit bags from three additional locations, totaling over \$1.5 million between January and November, but those deposits are not secured in the safe by the designated location.
- A Cash Handling Custodian Agreement has not been signed by employees at seven locations.
- Of 113 Cash Handling Custodian Agreements received during this cash count, 35 were dated in 2016 and 2017.
- The Petty Cash and Change Fund Custodian listing with Finance has inaccurate custodians listed at four locations.
- Employees are sharing tills at one location.
- Voided transactions are not being reviewed at one location.
- Security cameras are not present at six locations.
- Sequential numbering of transactions is not being used at two locations.
- Checks are not being immediately endorsed at one location.
- Check endorsement stamp being used at two locations has outdated bank name.
- Locations that receive a lower amount of payments are required to transport deposit bags to deposit pick-up locations, or City is paying armored car service to pick up small deposits.

Petty Cash

- Petty Cash reimbursements occurred at two locations for prohibited items.
- Petty Cash reimbursements to employees were processed at three locations for items such as training fees, testing fees, employee expense reports, airline fees, college transcript fees, CDL driver's license renewal, and mileage that could be processed with a Purchasing Card or thru Payroll.

CRITERIA
(The way it should be)

According to the *Cash Handling Directive #1*, "The receiving of cash, i.e. coin, currency, checks, should be centralized and secured within the department as much as possible."

According to the *Cash Handling Directive #1*, "Designated Cash Handling personnel should send a signed and approved Cash Handling Custodian Agreement to Financial Services."

According to the *Petty Cash Directive #11*, "The Department Director shall notify Financial Services when the Petty Cash Custodian responsibility is assigned to a new individual."

The *Cash Audit Training Presentation* prepared by Finance includes a Standard Operating Procedures slide that states voids and refunds must be approved by the manager and that all refunds and voids should be properly documented.

Standards for Internal Control in the Federal Government Policy Principle 10.03 states "A variety of control activities are used in information processing. Examples include edit checks of data entered; accounting for transactions in numerical sequences; comparing file totals with control accounts; and controlling access to data, files, and programs."

This Principle also states "Management establishes physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment that might be vulnerable to risk of loss or unauthorized use. Management periodically counts and compares such assets to control records."

According to the *Cash Handling Directive #1*, "Each day's receipts will be deposited to the City's bank no later than the next business day."

According to the *Cash Handling Directive #1*, "Upon receipt, all checks must be endorsed as follows:

City of Garland
For deposit only
JP Morgan Chase Bank NA, Dallas, Texas
(Department Name)"

	<p>The prohibited items listed in the <i>City Prohibited Expenditures Directive #9</i> states “Party and gift expenditures for promotions, secretary's day, showers, birthdays, or farewells (excluding retirements).”</p>
<p>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 proper cash handling training for new hires, and lack of periodic ‘refresher’ trainings for cash handlers. • Employee unawareness of City Directives or Cash Handling Custodian Agreement updates or changes. • Deficiency in management oversight. • City Directive is not clear as to cost-effectiveness of making daily deposits for cash-collecting locations that have a lower cash flow.
<p>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 of inappropriate activities. • Negative impact on customer satisfaction, and the City’s reputation. • Use of City resources is not efficient in some situations.
<p>RECOMMENDATION</p>	<p>City Management should:</p> <ol style="list-style-type: none"> 1. Ensure that all deposit bags are secured at designated deposit locations. 2. Require all new hire personnel who have cash handling duties complete Cash Handling training developed by the Finance Department. This training will include, but is not limited to: <ul style="list-style-type: none"> ○ Securing cash at all times. ○ Preparing reconciliations. ○ Depositing requirements. ○ Recognizing prohibited expenditures. ○ Proper documentation and approval of voids and cancellations. 3. Ensure that all cash handling employees complete a Custodian Agreement upon completion of Cash Handling training, and thereafter when updated or changed. 4. Develop a system for Finance to receive and track Cash Handling Agreements when employees move to other departments, or leave the employ of the City.

	<ol style="list-style-type: none"> 5. Establish a process wherein tills are not shared. 6. Require that voids are reviewed by the supervisor and documented properly. 7. Evaluate if installing security cameras is cost efficient at high risk cash handling areas. 8. Reconsider the daily deposit requirement to take into consideration those locations that do not have a large cash flow, to be more cost efficient. 9. Ensure that all recorded transactions such as receipts have a sequential number. 10. Require all checks be endorsed immediately with a correct endorsement stamp. 11. Modify the Directive for Petty Cash Administration to: <ul style="list-style-type: none"> o Better define expenses that are allowed; o Exclude employee reimbursements which could occur thru Payroll, and purchases which could occur through use of a Purchasing Card. 12. Consider eliminating, or reducing the amount of petty cash funds that are not routinely used or no longer needed.
<p>MANAGEMENT RESPONSE</p>	<p>Concur (Nos. 1-4 and 6-12) Partially Concur (No. 5)</p>
<p>ACTION PLAN AND IMPLEMENTATION DATE</p>	<ol style="list-style-type: none"> 1. Department will research and obtain pricing for drop box safes to allow other departments to drop their deposit to ensure that cash is safeguarded until the armored car service can pick it up for deposit. Implementation by 9/30/2020. 2. Currently, the Finance Department has a cash handling training presentation available on the intranet for employees, and will work on developing a more interactive training class for employees with cash handling duties. Implementation by 12/30/2020. 3. All cash handling custodians have signed cash handling agreements, and they have been sent to Finance for recordkeeping. All were completed between October 17, 2019 and December 30, 2019. 4. The Finance Department annually verifies the cash handling agreement records to ensure the files are up to date. However, Finance relies upon the departments to notify us when changes occur. Review and verification by Finance occurs annually in April of each year. 5. Tills are shared for brief times (lunch hour or employee breaks) to ensure that there is no interruption of work flow. Employees log out of the POS system and monies collected are allocated to the correct employee (no sharing of log-ins)

so there is a delineation of which employee received which monies. Department accepts the risk.

6. Modification to the two POS programs have been requested, which will limit ability to void based on user profiles. Implementation will be complete by 3/15/2021.
7. Of the six locations identified without security cameras, four are scheduled to have cameras installed as part of projects within the 2019 Bond Program. Facilities Management and Finance evaluated cost efficiency of installing cameras at the remaining two locations and agreed that all six identified locations will receive cameras to capture financial transactions. For the two non-2019 Bond Program projects, design will start by 9/30/2020.
8. The Finance Department will evaluate all financial directives for opportunities for improvement; the daily deposit requirement will be considered during this review. Implementation will be complete by 12/30/2020.
9. Sequential numbering capabilities have been requested, and vendor is working to accommodate this request. Implementation date is 3/1/2021.
10. Location 1: The department has implemented a hardcopy endorsement into the ICL processing. The department accepts the risk of securing checks until they are processed electronically. Implementation date: 08/14/2020.
Location 2: New endorsement stamps were ordered and distributed on October 28, 2019. Stamps will be reviewed annually with each new fiscal year.
11. The Finance Department will evaluate the petty cash directive for opportunities for improvement, including the feasibility of adding employee reimbursements to the payroll function. A full recommendation for improvement is expected to be made by 12/30/2020.
Location 1 and 2: The Petty Cash directive was distributed to, and reviewed by, staff and management on January 14, 2020, to ensure all purchases are appropriate.
Location 3: Management provided updated training with staff on January 14, 2020 regarding the Petty Cash directive concerning prohibited expenses.
12. The Finance Department will evaluate the petty cash and all financial directives for opportunities for improvement, including limiting the number of petty cash drawers in the City, and reducing petty cash fund balances where appropriate. A full recommendation for improvement is expected to be made by 12/30/2020.

Department B Follow-up

The section below includes the original opportunities for improvement and management response from the previous audit dated October 15, 2018, as well as the audit follow-up results and the new opportunities for improvement.

Original Opportunities for Improvement

2018 REPORT - DEPARTMENT B (OBJ. D)	
CONDITION (The way it is)	<p>During the 2018 surprise Cash Count at Department B, IA identified the following exceptions related to cash handling:</p> <ul style="list-style-type: none"> • Data Integrity issues exist due to staff utilizing a Microsoft Access database saved on employee’s hard drive to process the payments instead of directly using the City’s Database. This database allows the employees to add, delete, and modify the entries and it is not backed up by the IT department. • Checks are left on employee’s desk, and therefore not secured. • Payments are not processed into the system and deposited timely. For example, a check in the amount of \$3,025 was not entered into the system until the day of the cash count but it was received approximately two weeks prior. • IA’s analysis of the previous deposit revealed that checks were held for approximately two to four weeks prior to making deposits, which included a check that exceeded \$85K. • Department prints a receipt from the Access database to give to clients instead of providing pre-numbered receipts.
RECOMMENDATION	<p>Management should:</p> <ol style="list-style-type: none"> 1. Develop policies and procedures to safeguard City’s assets and maintain proper records. 2. Ensure only City approved systems are used to enter payments. 3. Consider moving the supervisor within the Department to increase oversight and compliance with City Directives and policies. 4. Order and install a drop safe for employees to drop the payments once items have been processed and recorded. 5. Ensure that pre-numbered receipts are issued to each customer when payments are made.

	<p>6. Ensure the department makes timely deposits and utilizes the armored car courier service that is already picking up deposits from the same building.</p>
<p>MANAGEMENT RESPONSE</p>	<p>The department agrees with the recommendations and immediately implemented new policies and procedures once identified by Internal Audit.</p>
<p>ACTION PLAN</p>	<ol style="list-style-type: none"> 1. Policies and procedures were developed and implemented. All staff involved in the deposit process have been trained and understand the new procedure. 2. Deposits and cash transactions are being processed in the City's financial system as well as the in-house servicing system. This tracks and records the transaction and gives the appropriate staff access to deposit information at any time. Individual databases on employees' hard drives are no longer used. 3. The supervisor over the department's financial systems was moved into the main office to provide better oversight of the process. 4. The department purchased a safe and facilities installed it securely to the floor. 5. The department now uses pre-numbered deposit receipts that can be tracked. Receipt books have three copies and are kept at the front desk. One receipt is given to the client, one receipt is attached to the check and dropped in the safe, and the final receipt remains in the book. 6a. Deposits are secured as they are received. The financial services supervisor verifies the final bank deposit and places it in a sealed armored car transport bag. The armored car service picks up all deposits daily. Deposits that are received after pickup will be kept in the locked safe overnight. 6b. The department manager pulls reports from the city financial system, in-house servicing system and the receipt books to verify deposit transactions weekly. These reconciliation reports are scanned into the system and kept by fiscal year. The reports may be viewed by authorized persons at any time.
<p>IMPLEMENTATION DATE</p>	<p>All changes were implemented immediately following the Cash Audit.</p>

FOLLOW-UP

A surprise cash count was performed on November 5, 2019. At the time of the count, Department B checks totaled \$10,558.67 and were dated between 10/31/2019 and 11/4/2019.

IA further evaluated if previous cash count recommendations were implemented.

1. Internal policies and procedures for processing payments have been created since the last cash count audit. IA reviewed these and observed they were sufficient. IA verified that all employees have been trained. – FULLY IMPLEMENTED
 2. IA validated that the Access database previously being used is no longer used to enter payments and no information is stored on individual employees' hard drive. IA verified that Department B records payment transactions in the City-approved systems. – FULLY IMPLEMENTED
 3. IA observed that the Supervisor's work location has been moved to be within the department, and is now diagonal to the front desk employee who has primary responsibility for receiving payments and writing receipts. – FULLY IMPLEMENTED
 4. IA observed the drop safe was installed and is securely bolted to the floor in the supervisor's office. – FULLY IMPLEMENTED
 5. IA verified that pre-numbered receipts are issued to customers for payments received. In addition, a log was created to track pre-numbered receipts. – FULLY IMPLEMENTED
 - 6a. IA observed that deposits are now picked up by the armored car service. – FULLY IMPLEMENTED
 - 6b. IA's analysis of the ten most recent deposits indicates deposits are not occurring daily. During the August 30, 2019 to October 31, 2019 time period, there were 85 checks received, totaling \$100,079. Of those, 66 checks were held for between 4 and 16 working days. Additionally, the date of 36 receipts indicated that the checks could have been deposited with a prior deposit. (Please note: Since the time of the review, management has informed us that they have updated their procedures to include daily deposits.) (See Exhibit A). – NOT IMPLEMENTED
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Exhibit A – Department B Deposit Analysis

The last ten deposit transactions were selected for analysis.

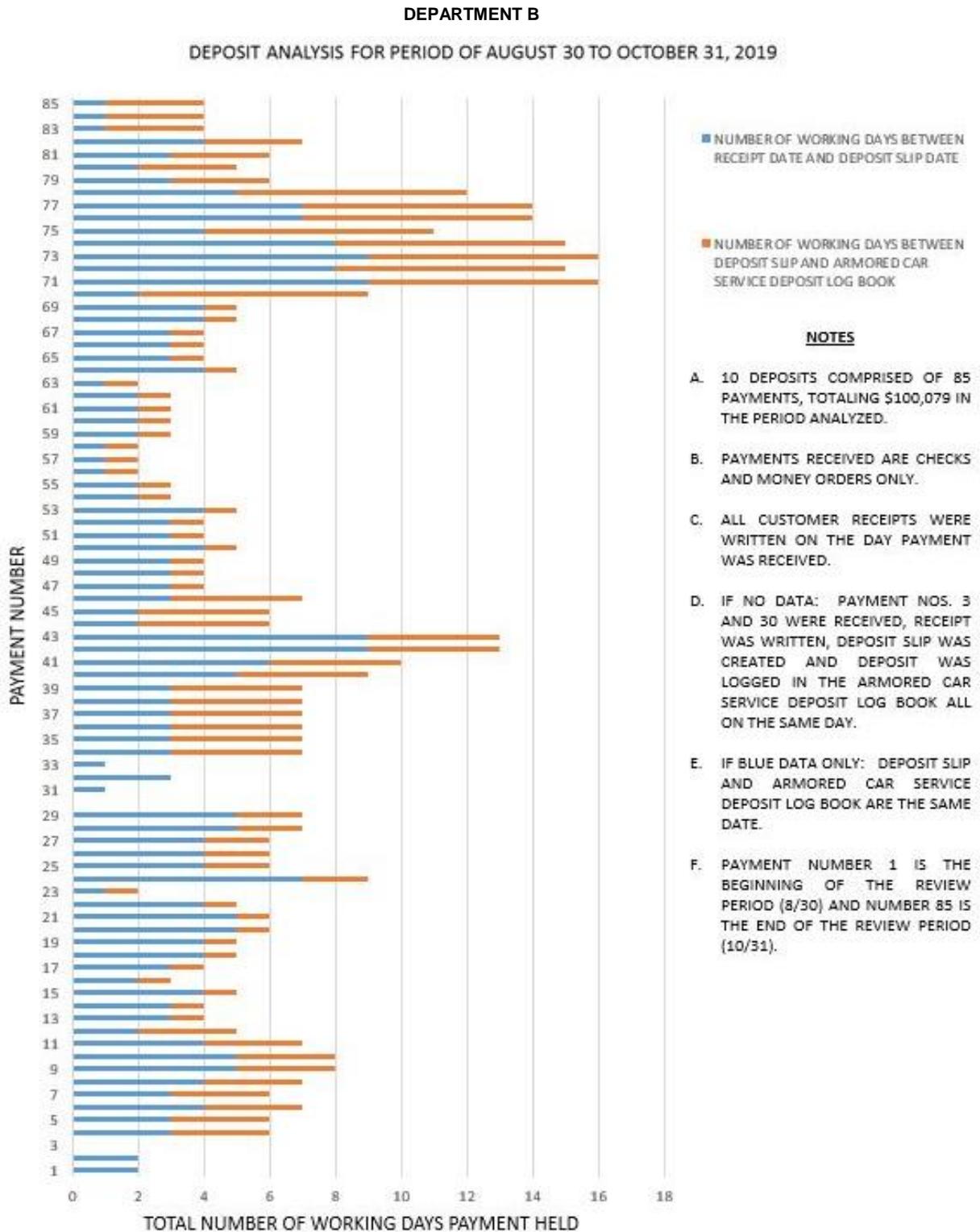


Exhibit B – Sampling Methodology

Transactions were randomly selected on the day of the cash count to review petty cash expenditures and change fund transactions. IA also traced deposits and transactions to bank statements. Random sampling methodology was applied to give an even distribution to the chances a given sample is selected.