



GARLAND

INTERNAL AUDIT

Cash Count

October 15, 2018

Report 201807

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Executive Summary:

Internal Audit (IA) conducted surprise cash counts in seven departments, which involved 14 Change funds and six Petty cash funds.

Change Funds:

IA identified significant issues in the handling of Change funds in two departments.

While performing cash count in Department A, overages were identified which led IA to expand the scope to a six month timeframe. The expanded analysis revealed several overages and shortages during this period. Upon further inquiry, it was discovered that cashiers were not properly trained or made aware of City's cash handling directives. They did not have access to run transaction reports to reconcile/balance daily cash totals.

During cash count in Department B, IA identified multiple internal control weaknesses. There were delays in recording or depositing of payments. Payments were being processed in a system that had no access restrictions to prevent unauthorized data modification or deletion. The data recorded in this system was also not being backed up by the Information Technology department.

The remaining departments, for the most part, followed the City Directives and policies.

Petty Cash:

Two exceptions were identified in the handling of the Petty cash funds. One department consistently did not obtain itemized receipts from staff, before reimbursements were processed. Another department used the petty cash fund to reimburse for expenditures that were prohibited by the City.

Management was also provided with additional Opportunities for Improvement to enhance internal controls. These are not considered significant to the objective of the audit, but warrant the attention of Management and consequently, 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:

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 IA 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. IA 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 Change Fund and Petty Cash locations. To adequately address the audit objectives and to describe the scope of our work on internal controls IA conducted surprise site visits and performed the following:

Reviewed the Directives and Standard Operating Procedure:

- Cash Handling Procedures Directive #1 –(Obj. 1)
- Prohibited Expenditures Directive #9 –(Obj. 1)
- Petty Cash Directive # 11 –(Obj. 1)
- Employee Business Expense #4 (Travel Directive #4) – (Obj. 1)
- Standard Operating Procedure 1124-011 (“SOP1124-011”) (Obj.1)

Change Fund

- Verified and validated that Change Fund Custodian receiving the reimbursement checks is the person on record in the Finance Department. (Obj. 1)
- Verified that change fund checks were endorsed immediately and deposited within one business day (Obj. 1 & 2)
- Obtained detailed transaction reports to ensure sequential numbering for payments and receipts, overages and shortages were recorded, voids, cancellations and adjustments are properly documented and reviewed by management. (Obj 1&2)
- Conducted a walkthrough to ensure funds are secured and cash is tallied independently or with one other person. (Obj. 2)
- Reconciled IA's count with daily deposit information, Point of Sale (POS) systems, City bank statements and the General Ledger, and verified management review (Obj. 1&2)
- Inquired that receiving the mail is done independently or with one other person. (Obj. 1 &2)

Petty Cash

- Verified and validated that Petty Cash Custodian receiving the reimbursement checks is the person on record in the Finance Department. (Obj. 1)
- Inquired that personnel responsible for handling cash has reviewed Directives, policies and procedures.(Obj. 1)
- Reviewed original itemized receipts to ensure compliance with the Petty Cash and Prohibited Expenditure Directives (Obj. 1)
- Interviewed petty cash custodian to verify that is the only person who has access to the funds –(Obj. 2)
- Inspected petty cash documentation for management approval (Obj. 1)
- Validated that a petty cash reimbursement log exists and pre-numbered receipts are used to record payments. (Obj 2.)

- Confirmed Receipts did not exceed the \$100 limit per transaction and payments were not split to meet the \$100 limit per transaction. (Obj. 1)
- Conducted a walkthrough to ensure funds are secured (Obj. 2)
- Inspected voided transactions are documented and reviewed by management. (Obj 2)

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:

Change Funds

Change funds are used to make change readily available for those customers paying cash for fees and services. Various departments throughout the City receive cash for fees and services provided such as permits, inspections, utility payments, registration fees, admissions, copies, internet use. The Finance Department is responsible for distributing and recording the change fund for departments and maintaining a current list of change fund custodians for each department. A Cash Handling Custodian Agreement must be signed by employees handling cash and their Managing Director. A designated Custodian is required to keep funds secure and pre-numbered receipts must be issued. Each departments is responsible for reconciling their cash and for preparing daily cash reports. Daily deposits are made either by taking the funds to a centralized location or having the funds picked up by an armored car service.

As of September 2018, the total change fund balance for all departments is \$22,355.

Petty Cash

Petty cash is used to reimburse employees for business related expenditures. Petty Cash Directive #11 allows departments to reimburse employees for expenses of \$100 or less. The Finance Department is responsible for distributing and recording the petty cash for departments and maintaining a current list of petty cash custodians for each department. A Cash Handling Custodian Agreement must be signed by employees handling cash and their Managing Director. When an employee makes a purchase, the employee can get reimbursed through the petty cash fund from their department or Finance. The employee is responsible for submitting an original itemized receipt before reimbursement can be made. Prohibited Expenditure Directive #9 lists items for which reimbursement is not allowed, 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 and valet services.

Per Cash Handling Directives #1 and Petty Cash #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 the departments petty cash fund, submit all receipts with vouchers to the

Financial Services Department and process a check request so they can replenish their petty cash fund.

As of September 2018, the total petty cash fund balance for all departments is \$15,850.

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

Opportunities for Improvement

During the audit IA identified 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.

FINDING #1: Department A (Obj. 1 & 2)

CONDITION (THE WAY IT IS)

Department A consists of four change fund locations that will be noted as Location 1, Location 2, Location 3 and Location 4 for purposes of this report.

The cash count at Locations 1 and 2 revealed an overage of approximately \$10 and \$6, respectively. IA reviewed the overage and shortage log and identified several unreconciled items during prior months. Consequently, the scope was expanded to analyze data from January/2018 through June/2018 of all four locations.

The table below displays the total *number* of overages and shortages that occurred at all four locations from January/2018 through June/2018:

Month	Jan	Feb	Mar	Apr	May	Jun	Total
# of Overages	46	31	65	59	60	67	328
# of Shortages	34	36	37	46	52	37	242

Source: Point of Sale (POS) System

The table below displays the combined *dollar amount* of overages and shortages that occurred each month from January/2018 through June/2018:

Month	Jan	Feb	Mar	Apr	May	June	Total
# of Overages	\$ 432.49	\$ 458.06	\$ 729.08	\$ 1,285.05	\$ 1,269.65	\$ 2,627.64	\$ 6,801.97
# of Shortages	\$ (345.76)	\$ (593.06)	\$ (276.53)	\$ (710.02)	\$ (831.21)	\$ (956.10)	\$ (3,712.68)

Source: Point of Sale (POS) System

Additionally, IA analyzed *overall amounts* of overages and shortages based on individual departments to distinguish where improvement and additional training is required.

Monthly Summary-Count

Department	# of Overages	# of Shortages
Location 1	58	81
Location 2	70	48
Location 3	85	76
Location 4	115	37
Total	328	242

Source: Point of Sale (POS) System

<i>Monthly Summary-\$ Amount</i>		
Department	# of Overages	# of Shortages
Location 1	\$603.35	(\$493.79)
Location 2	\$2,368.47	(\$654.04)
Location 3	\$1,470.04	(\$1,267.32)
Location 4	\$2,360.11	(\$1,297.53)
Total	\$6,801.97	(\$3,712.68)

Source: POS System

CRITERIA (THE WAY IT SHOULD BE)

Cash Handling Directive #1 states that each Department Director is responsible to ensure that this Directive is implemented and followed within their departments.

- Designated Cash Handling personnel should send a signed and approved Cash Handling Agreement.
- The balance of the cash drawer should be verified daily by a supervisor not involved in the receipt of cash.

The City's Cash Audit Training Presentation prepared by Finance addresses key "Situations to Avoid" such as mixing up denominations in the cash drawer, sacrificing accuracy for speed, forgetting to make change, not counting money out twice when paying out, doing two transactions at the same time, not using an adding machine, not looking at cash while you are counting, and money falling onto floor or into trash.

The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government (also called the "Green Book"), Principle #10-Design Control Activities, outlines controls that should be designed and implemented by management, including:

- *Comparing actual performance to planned or expected results and analyzing significant differences*
- *Ensuring physical control to secure and safeguard assets;*

Separating responsibilities of key duties including (but not limited to) authorizing transactions, processing and recording transactions, reviewing transactions, and handling assets so that no one individual controls all key aspects of a transaction or event; Designing control activities

which may include verifications, reconciliations, authorizations, and approvals, physical control activities, and supervisory control activities.

The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government #16.04-Internal Control System Monitoring:

- Management monitors the internal control system through ongoing monitoring and separate evaluations.*
- Ongoing monitoring is built into the entity's operations, performed continually, and responsive to change.*
- Separate evaluations are used periodically and may provide feedback on the effectiveness of ongoing monitoring.*

CAUSE (DIFFERENCE BETWEEN CONDITION & CRITERIA)

- Tills are shared throughout the day, hence funds from two different registers are combined.
- At closing, employees conduct a blind count because they do not have access to run daily transaction reports.
- Management does not review variance reports to identify root cause for discrepancies.
- Keys are left on the register throughout the day.
- Employees handling cash are not aware of Cash Handling Directives and have not signed Cash Handling Custodian Agreements.

EFFECT (SO WHAT?)

- There is an increase in risk for mishandling of funds when the City Directives are not being followed.
- Poor cash handling results in a negative impact to customer satisfaction and the City's reputation.

RECOMMENDATION

Management should:

- Contact City's Finance Department to provide Cash Handling training.
- Have all cashiers review Cash Handling Directives and sign the Cash Handling Custodian Agreement.
- Give cashiers read-only access to print transaction detail report, which will enable employees to reconcile ending balances and review the overage or shortages to identify errors if applicable.
- Review daily reconciliation reports to identify root cause for overages and shortages.
- Consider providing each employee individual tills so they can reconcile and verify ending balances at the end of their shift.
- Ensure that keys are removed from the register and kept in secure area, such as a safe, since it is not necessary for the POS system to function.

MANAGEMENT RESPONSE:

Concur

ACTION PLAN:

A meeting with all cash handling employees was immediately held following the surprise audit to discuss the audit results and departmental changes going forward.

- The Cash Handling Directive and Custodian Agreement was reviewed and distributed to all employees to sign and return.
- Employees now have access to reviewing end of day reports and there is a second count by another employee to verify reconciliation. The new practice requires that both employees must sign a cash ledger form which ensures the accuracies of the starting and closing tills.
- Cash counts and point of sale transactions are being reviewed by management each day.
- Discrepancies are immediately researched and feedback is provided to the employee.
- The overall frequency and overage/shortage amounts has been significantly reduced since the date of the meeting and the implementation of these new processes.
- Keys have been removed from all registers as recommended.
- The department is researching various options to accommodate the recommendation of individual tills.

IMPLEMENTATION DATE:

September 17, 2018.

FINDING #2: Department B (Obj. 1 & 2)

CONDITION (THE WAY IT IS)

During the surprise Cash Count at Department B, IA identified the following exceptions related to cash handling:

- 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.

CRITERIA (THE WAY IT SHOULD BE)

The COG Accounting Cash Handling Directive #1 states:

- The receiving of cash i.e. coin, currency, checks, should be as centralized and secured within the departments as much as possible.
- For each cash transaction, a pre-numbered receipt will be prepared and given to the payer.
- Each day's receipts will be deposited to the City's Bank no later than the next business day.
 - a. Each day's deposit must be sealed in a tamper proof plastic bag along with the completed bank deposit ticket.
 - b. Deposits held overnight must be stored in a locked and secured location.
- An armored car service will courier deposits to the City's bank. Several departments are designated as pick-up locations for the armored car service.
 - a. Each departmental deposit should be delivered to a designated armored car pick-up location.
- The balance of the cash drawer should be verified daily by a supervisor not involved in the receipt of cash.

According to the COG IT Network Drives Directive #3 titled *Appropriate Use of Local and Network Drives*:

- Data essential for continuing business operations should be stored in a manner that provides sufficient recovery and accessibility in the event of equipment damage or failure.

The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government (also called the "Green Book"), Principle #10: Design Control Activities, outlines controls which should be designed and implemented by management, including:

- *Comparing actual performance to planned or expected results and analyzing significant differences*
- *Ensuring physical control to secure and safeguard assets;*
- *Separating responsibilities of key duties including (but not limited to) authorizing transactions, processing and recording transactions, reviewing transactions, and handling assets so that no one individual controls all key aspects of a transaction or event; Designing control activities which may include verifications, reconciliations, authorizations, and approvals, physical control activities, and supervisory control activities.*

The Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States, states in: Government Accountability Office (GAO) Green Book, Principle 16.04: Internal Control System Monitoring: Management monitors the internal control system through ongoing monitoring and separate evaluations. Ongoing monitoring is built into the entity's operations, performed continually, and responsive to change. Separate evaluations are used periodically and may provide feedback on the effectiveness of ongoing monitoring.

CAUSE (DIFFERENCE BETWEEN CONDITION & CRITERIA)

- There are no official departmental policies and procedures..
- The department does not have a safe.
- Deposits are being brought to City Hall; however, IA was made aware that an armored car service picks up deposits daily from a different department located within the same building.
- There is a deficiency in oversight since the supervisor is physically located outside of the office in which the department operates.

EFFECT (SO WHAT?)

- There is an increase in risk for mishandling of funds when City directives are not being followed.
- Failure to verify funds frequently and maintain documentation of the verification reduces the ability to detect improprieties.
- The probability of losing customer information, increases.
- If deposits are not made timely, funds may not be available for City's immediate use.

RECOMMENDATION

Management should:

- Develop policies and procedures to safeguard City's assets and maintain proper records.
- Ensure only City approved systems are used to enter payments.

- Consider moving the supervisor within the Department to increase oversight and compliance with City Directives and policies.
- Order and install a drop safe for employees to drop the payments once items have been processed and recorded.
- Ensure that pre-numbered receipts are issued to each customer when payments are made.
- Ensure the department makes timely deposits and utilizes the armored car courier service that is already picking up deposits from the same building.

MANAGEMENT RESPONSE:

The department agrees with the recommendations and immediately implemented new policies and procedures once identified by Internal Audit.

ACTION PLAN:

- Policies and procedures were developed and implemented. All staff involved in the deposit process have been trained and understands the new procedure.
- 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.
- The supervisor over the department's financial systems was moved into the main office to provide better oversight of the process.
- The department purchased a safe and facilities installed it securely to the floor.
- 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.
- 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.
- 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.

IMPLEMENTATION DATE:

All changes were implemented immediately following the Cash Audit.

Finding #3: All Other Departments (Obj. 1 & 2)

CONDITION (THE WAY IT IS)

Change Fund

1. One out of nine change funds had a variance due to the comingling of funds. During cash count, this area had the previous two days deposit bag inside the drawer with their current day's till. Previous day's deposits should be secured in a safe.
2. One out of nine change fund custodians have not read Cash Handling Directives or policies/procedures.
3. Four out of nine change fund areas do not document the reasons for voids.
4. One out of nine change fund areas share system login information.

Petty Cash

5. One out of six petty cash funds did not consistently retain itemized receipts. For example, a meal was purchased instead of consuming the meal provided by the conference and a non-itemized receipt was obtained.
6. One out of six petty cash funds had expenditures that were prohibited.

CRITERIA (THE WAY IT SHOULD BE)

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. 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.

The Cash Handling Directive establishes procedures for the receipt of cash, therefore Custodian's should be aware of the Directives in order to protect the City's Cash assets.

The Cash Audit Training Presentation prepared by Finance included 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.

According to the Information Technology Security Policy Directive #2, each authorized user granted system access must comply with all technology-related policies and procedures, and handle assets such as passwords, identification codes, City confidential data and physical system assets in a secure and responsible manner.

The COG Accounting Petty Cash Directive #11 and Petty Cash Administration SOP states that, Detailed, original receipts must be obtained for each reimbursement.

The Employee Business Expenses (Travel) Directive #4 states, employees shall utilize all meals provided by the conference/seminar/meeting.

The COG Prohibited Expenditures Directive #9 states party and gift expenditures for promotion, secretary's day, showers, birthdays, farewells (excluding retirements) are specifically prohibited.

CAUSE (DIFFERENCE BETWEEN CONDITION & CRITERIA)

- Lack of proper cash handling training,
- Employees are unaware of City Directives
- Deficiency in management oversight.

EFFECT (SO WHAT?)

Internal control weaknesses over cash handling will increase the potential risk for:

- 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

RECOMMENDATION

Department heads should ensure that:

- Personnel who handle cash attend the Cash Audit training held by the Finance Department and complete a Custodian Agreement. This training will include, but is not limited to:
 - 1) Securing cash at all times.
 - 2) Preparing reconciliations.
 - 3) Depositing requirements.
 - 4) Recognizing prohibited expenditures.
 - 5) Proper documentation and approval of voids and cancellations.
- Departmental procedures are developed and implemented to mitigate risks over cash handling.
- Voids are approved by the supervisor and documented properly.
- Deposits are made daily.
- Personnel has individual log in access and this information is not shared.
- Itemized receipts are obtained from employees.
- Employees utilize meals provided by conferences.

MANAGEMENT RESPONSE:

Concur

ACTION PLAN:

Management will ensure that:

- Staff incorporates the recommendations into existing procedures.
- All Cash Handling Directives, policies and procedures are followed and documented with periodic training and Cash Handling Agreements are updated.
- Petty Cash Directives are communicated to all the employees and emphasize the importance of obtaining itemized receipts and utilizing meals that are provided. Management will also review, approve and monitor petty cash receipts and expense reports.
- A weekly report for voided receipts and refunds are reviewed and approved by the Coordinator, Supervisor or Manager.

- All staff has individual logins and are trained annually.

IMPLEMENTATION DATE:

November 2018

Exhibit A – 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. The results can be projected to the entire population.