CITY AUDITOR'S OFFICE

Cash Handling Controls and Accountability
Fiscal Year 2012/13

January 24, 2013 **AUDIT REPORT NO. 1303**

CITY COUNCIL
Mayor W.J. "Jim" Lane
Suzanne Klapp
Virginia Korte
Robert Littlefield
Linda Milhaven
Guy Phillips
Vice Mayor Dennis Robbins

January 24, 2013

Honorable Mayor and Members of the City Council:

Enclosed is the audit report, *Cash Handling Controls and Accountability, Fiscal Year 2012/13*. This audit, included on the 2012/13 Audit Plan, is performed periodically to evaluate the City's cash handling controls and accountability through unannounced cash handling audits at several locations across City operations.

Overall, City staff at the selected locations are properly handling and accounting for cash receipts. Some locations can improve their controls and compliance with Administrative Regulation requirements. As well, the Finance & Accounting Division can provide additional oversight and monitor compliance with cash handling requirements.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

Sharron Walker

Sharron Walker, CPA, CFE
City Auditor

Audit Team:

Lai Cluff — Senior Auditor
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Brad Hubert — Internal Auditor

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EXECUTIVE SUMMARY

This audit of *Cash Handling Controls and Accountability* was included on the Council-approved FY 2012/13 Audit Plan. Unannounced audits of various cash handling locations were performed to determine accountability for the City's cash handling, including compliance with related Administrative Regulations (AR) 268, *Cash Handling*, and AR 270, *Petty Cash*.

From the City's 52 cash handling locations, we selected seven based upon factors such as deposit volume, proportion of voids/refunds, and length of time since the location's last cash handling audit. This year's seven sites are facilities and programs within the Community Services, Public Works, and Public Safety divisions.

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 documented supervisory reviews, more limited access to cash drawers and safes, and proper separation of responsibilities to lessen the risk of theft, loss, or fraud.

Finance & Accounting can improve adherence to certain AR requirements by ensuring the Division annually trains City cashiers, performing the required cash handling verifications on an unannounced basis, and clarifying the requirement for timely petty cash reconciliations. In addition, the Division should more formally issue and monitor the use of official manual receipts, explore alternatives for petty cash reimbursement checks, and annually review granted AR exceptions to determine whether a continued business reason exists.

As each audit was completed, we provided specific recommendations to Division management for the location. The overall findings and recommendations for the seven locations are summarized in this report.

BACKGROUND

The term *'cash handling'* is used to encompass the controls and processes related to accounting for and safeguarding all negotiable instruments, whether in cash, check or electronic form of tender. In fiscal year 2011/12, staff throughout the City collected approximately $440 million for various fines, fees, services, and products. This amount excludes payments received electronically through the City's online or automated telephone systems.

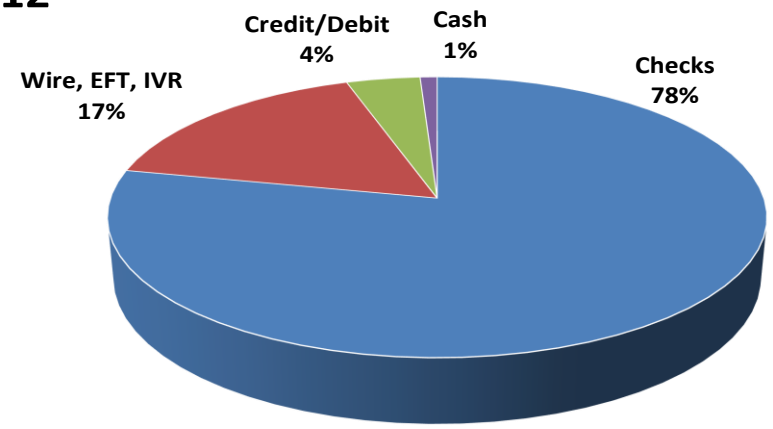
The centralized Remittance Processing program, which processes about 65% of the City's mailed-in and electronic customer payments, was most recently audited by the City Auditor's Office in 2011 (Audit Report No. 1110).

Overall, as shown in Figure 1, the City's cash handlers received about 78% in check form; 17% through wires, electronic funds transfers, or interactive voice response (IVR); 4% through credit or debit card transactions; and only about 1% in cash.

Asset misappropriation is the most common type of occupational fraud. Asset misappropriation includes theft of cash receipts, cash on hand, and inventory.

SOURCE: Association of Certified Fraud Examiners, *2010 Report to the Nation on Occupational Fraud and Abuse*.

Figure 1. Receipts by Type FY 2011/12



Source: Auditor analysis of FY 2011/12 Remittance Processing, iNovah and CLASS deposit reports.

The City's Customer Service, Court, and Development Services receive the greatest proportion, about 39%, of receipts excluding the centralized Remittance Processing program.

OBJECTIVES, SCOPE, AND METHODOLOGY

An audit of *Cash Handling Controls and Accountability*, including unannounced audits of various cash handling locations, was included in the FY 2012/13 Audit Plan approved by the City Council. The primary audit objective was to determine accountability for the City's cash handling, including compliance with related Administrative Regulations (AR) 268 — *Cash Handling* and AR 270 — *Petty Cash*.

For this fiscal year, we conducted unannounced cash counts at the following seven locations:

Location	Department	Division
Mustang Library	Library Systems	Community Service
El Dorado Aquatic & Fitness Center	Parks & Recreation	Community Services
Granite Reef Senior Center	Human Services	Community Services
Paiute Neighborhood Center	Human Services	Community Services
Fleet Management	Fleet Management	Public Works
Solid Waste	Solid Waste	Public Works
30-Day Tow	Police	Public Safety

Employees at more than 50 locations throughout the City handle cash and other negotiable instruments. Therefore, we selected locations based upon risk factors such as deposit volume, proportion of voids/refunds, and length of time since the location's last cash handling audit.

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 unannounced cash counts, we also reviewed four change funds and three petty cash funds.

As part of each unannounced audit, we:

- Counted all cash on hand (including cash, checks, and debit/credit payments) and reconciled to transaction records.
- Verified that change and petty cash funds balanced to the amounts authorized by the Finance & Accounting Division.
- Compared the location's written cash handling procedures to City AR requirements.
- Interviewed management and staff regarding procedures and reconciliations.
- 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 & Accounting can improve oversight and compliance with AR requirements.

We conducted this audit in accordance with generally accepted government auditing standards as required by Article III, Scottsdale Revised Code, §2-117 et seq. 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. Audit work took place in July, November, and December 2012.

FINDINGS AND ANALYSIS

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

This year, seven locations were selected for unannounced cash handling audits. Five sites balanced exactly to their authorized petty cash and/or change fund amounts, while two sites had minor discrepancies ($0.25 and $0.07). Cash handling controls at the audited sites were generally operating appropriately, but the following improvements can be made at some locations:

A. Supervisory review of cash balancing documents, particularly voided or refund transactions, are not consistently recorded. In some locations, the credit card system is not linked into the cashiering system, and occasionally refund transactions are not entered into both systems timely. Supervisory review can help ensure issues are addressed, such as excessive or undocumented voids or out of balance transactions.

B. At some locations, the number of employees with access to safes seemed unnecessary, and some dual-control safe features were not operating properly. Further, some locations did not change safe combinations when authorized persons left City employment.

C. More than one employee was allowed to use the same cash register or drawer at the same time without a mitigating control, such as individual cashier codes.

D. Some locations had unofficial "off-the-shelf" manual receipts for use when the cashiering system was not available. AR 268 requires the use of official City of Scottsdale manual receipts that are pre-numbered to provide a method of ensuring accountability for customer payments.

E. At one location, some receipts come via mail, but the mail is not opened in dual custody. This location allows the same employee to receive payments and make certain rebate requests, which does not provide proper separation of responsibilities. To provide a better check and balance process, payments and rebates should instead be directed to the Remittance Processing address.

F. Two separate petty cash funds are maintained at the North Corp Yard. Based on review of the transaction volume and amounts, one petty cash fund appears sufficient.

Recommendations:

Division management should:

A. Require supervisory reviews of cash balancing documents and related void, refund, and other documentation.

B. Limit the number of employees with safe access to the minimum that is operationally feasible. As well, follow AR 268 requirements to keep dual-control safes in working order and change combinations when applicable.

C. Limit cash drawer access to one employee at a time or establish a mitigating control that maintains individual accountability when multiple cashiers are assigned to a single cash drawer. Further, cash drawers should be balanced at shift changes to maintain individual accountability.

D. Replace any unofficial manual receipt books with official City of Scottsdale pre-numbered receipt books, but retain the unofficial receipt books in accordance with any applicable records retention requirements.

E. Consider directing all mail-in receipts to the City's centralized Remittance Processing.

F. Consolidate the two North Corp Yard petty cash funds.

2. Improvements can be made in complying with requirements and providing oversight.

A. AR 268 § 5.11 provides that the Finance & Accounting Division is responsible for randomly performing *unannounced* verification of cash handling procedures. However, some cash handlers mentioned that the reviewers called in advance to ensure the cash handler would be working. Announced site visits are less useful as they allow a cashier to make corrections or conceal fraud prior to the review.

B. AR 268 § 4.36 requires that the City's cash handlers annually take cash handling training, which will be made available in a Web-based group setting and on an individual basis as needed. During FY2011/12, Finance & Accounting did not provide formal cash handling training nor did the applicable operating divisions. AR 268 § 4.0 states the specified cash handling procedures must be adhered to by all cash handling departments, both to protect employees and ensure cashiers' due diligence. Therefore, as well as being required, comprehensive initial training and periodic refresher training can help ensure cash handlers accurately understand their responsibilities and the City's approved processes.

C. AR 270 § 3.0 requires the City's petty cashiers to reconcile their petty cash funds and request reimbursement as needed or at least once every 2 months. During FY2011/12, only one of the 21 petty cashiers requested reimbursement once every 2 months and for some, as many as 5 months passed between petty cash reimbursements.

D. Issuance and use of the manual receipts can be better controlled. During FY2011/12, Finance & Accounting issued about 70 official City of Scottsdale manual receipt books, noting them on an informal handwritten log. However, these receipt books are sometimes not issued in numerical order and the log does not always note the receiving location. Once the manual receipt books are issued, there is no additional monitoring of their use. In addition, some City cash handling areas are using unofficial "off-the-shelf" manual receipt books rather than official City receipts. This increases the risk of customer payments not being accounted for in the City's records. AR 268 § 4.6 provides that all manual receipts must be used in numerical order, accounted for at the end of each day, and any missing or voided receipts must be explained.

E. AR 268 § 5.0 provides that Finance & Accounting, in conjunction with any City department that collects revenue, is responsible for enforcing the related policies

and procedures. As of July 2012, Finance & Accounting has granted more than 80 exceptions to AR 268 cash handling requirements without documentation of mitigating controls or alternate limits to protect both the City and cash handling staff. For example, an exception has been granted to allow 13 sites to have more than $1,000 in the cash drawers but new limits were not specified for the sites. Granting exceptions without ensuring controls or limits are in place, increases the risk that receipts will not be properly safeguarded, recorded in the City's financial systems or timely deposited, and that reconciliations or management oversight will not effectively detect errors. As well, the exceptions are not reviewed annually to ensure there is a continuing business reason for them.

F. Finance & Accounting issues petty cash reimbursement checks made payable to the individual petty cashiers. The petty cashiers must take these checks to Accounting or a bank to cash them and personally transport the cash back to the City worksite. AR 268 § 6.8 provides that cash should not be personally transported offsite by employees unless emergency situations deem this necessary. Instead, the AR states, locations needing change or change funds should make arrangements with the Accounting Department.

G. Voids/refunds are still not required to be specifically monitored. Effective July 1, 2012, Finance & Accounting revised AR 268 to address most recommendations in the previous cash handling audit. However, the revisions did not include the recommended tracking and monitoring of voids and refunds. Requiring the number and amount of refunds and/or voids processed to be tracked in the daily balancing documents can help identify any problematic trends.

Recommendations:

Finance & Accounting management should:

A. Ensure cash handling verifications are performed on an unannounced basis.

B. Provide cash handling training in a variety of formats, such as classroom, Web-based, print, etc., and settings, such as group or individual, to enhance understanding of and compliance with the City's cash handling requirements. Then monitor whether the City's cash handlers attend training at the AR-required frequency.

C. Clarify the reconciliation and reimbursement frequency in AR 270 or work with department management and petty cashiers to ensure the 2-month frequency is enforced.

D. Use a formal log that is signed by the staff receiving the receipt books or specifically documents the staff or area that will be using them. Annually or at the time of each cash handling verification, record the next available receipt number in the location's manual receipt books to allow comparison to the City's cash receipting systems. Also, ensure any unofficial "off-the-shelf" manual receipt books are replaced with the official pre-numbered receipt books.

E. Ensure any AR exception granted has established a mitigating control or limit to reduce the associated risks. In addition, the granted exceptions should be reviewed on an annual basis to determine if there is a continuing business need.

F. Explore alternative ways to replenish petty cash funds without requiring the petty cashiers to go offsite to cash checks.

G. Revise the over/short form to require void and refund totals and follow-up with department management on unusual refund/void activity.

MANAGEMENT ACTION PLAN

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

Recommendations:
Division management should:

A. Require supervisory reviews of cash balancing documents and related void, refund, and other documentation.

B. Limit the number of employees with safe access to the minimum that is operationally feasible. As well, follow AR 268 requirements to keep dual-control safes in working order and change combinations when applicable.

C. Limit cash drawer access to one employee at a time or establish a mitigating control that maintains individual accountability when multiple cashiers are assigned to a single cash drawer. Further, cash drawers should be balanced at shift changes to maintain individual accountability.

D. Replace any unofficial manual receipt books with official City of Scottsdale pre-numbered receipt books, but retain the unofficial receipt books in accordance with any applicable records retention requirements.

E. Consider directing all mail-in receipts to the City's centralized Remittance Processing.

F. Consolidate the two North Corp Yard petty cash funds.

MANAGEMENT RESPONSE:

1. Community Services

Management agrees with the audit findings and the following controls and consistency of practice will be implemented based upon audit recommendations:

- Supervisory reviews of cash balancing documents, including credit card transactions, will be conducted and documented regularly.
- The number of employees with safe access will be limited and dual custody features will be utilized on safes. In addition, safe combinations will be changed upon employee termination.
- Cash drawers will be balanced at shift change.
- Site-specific cash handling procedures/handbooks will be updated and staff will be trained regularly regarding proper procedures for cash handling procedures, including use of manual receipts.
- Sensitive information will be redacted from copies of documentation.

RESPONSIBLE PARTY: Jan Cameron, Parks, Recreation and Human Services Director and Carol Damaso, Library Director

COMPLETED BY: 4/30/2013

2. Public Safety

We are in agreement with your findings related to the review and approval of daily accounting of cash business. We have implemented your suggestions related to this matter. Our supervisor now reviews transactions and approves daily activity.

RESPONSIBLE PARTY: Alan Rodbell, Police Chief and Public Safety Executive Director

COMPLETED BY: 12/31/2012

3. Public Works

Public Works will collaborate with Remittance Processing on efforts to have all receipts sent directly to Remittance Processing. A process will be established between the departments to ensure funds are credited correctly. Also, the North Corp Yard will consolidate to one Petty Cash fund.

RESPONSIBLE PARTY: Derek Earle, Acting Public Works Executive Director

COMPLETED BY: 3/31/2013

2. Improvements can be made in complying with requirements and providing oversight.

Recommendations:
Finance & Accounting management should:

A. Ensure cash handling verifications are performed on an unannounced basis.

B. Provide cash handling training in a variety of formats, such as classroom, Web-based, print, etc., and settings, such as group or individual, to enhance understanding of and compliance with the City's cash handling requirements. Then monitor whether the City's cash handlers attend training at the AR-required frequency.

C. Clarify the reconciliation and reimbursement frequency in AR 270 or work with department management and petty cashiers to ensure the 2-month frequency is enforced.

D. Use a formal log that is signed by the staff receiving the receipt books or specifically documents the staff or area that will be using them. Annually or at the time of each cash handling verification, record the next available receipt number in the location's manual receipt books to allow comparison to the City's cash receipting systems. Also, ensure any unofficial "off-the-shelf" manual receipt books are replaced with the official pre-numbered receipt books.

E. Ensure any AR exception granted has established a mitigating control or limit to reduce the associated risks. In addition, the granted exceptions should be reviewed on an annual basis to determine if there is a continuing business need.

F. Explore alternative ways to replenish petty cash funds without requiring the petty cashiers to go offsite to cash checks.

G. Revise the over/short form to require void and refund totals and follow-up with department management on unusual refund/void activity.

MANAGEMENT RESPONSE:

A. Previously these verifications were scheduled in advance; however, beginning in April 2012, this practice was stopped. All verifications are now performed on an unannounced basis and follow up work is conducted by Accounting staff for all significant exceptions. COMPLETED BY: 4/30/2012

B. The Web based group training referenced in AR 268 § 4.36 was never developed. This language will be removed from the AR until such time the training exists. Currently, Accounting staff provides cash training in group settings or one-on-one as requested. As well, the Cash Handling Training Manual is available on the City's intranet. Accounting's goal is to develop and deliver training in a range of formats and frequencies that allows for attendance by all city cash handlers over the course of one year. This is more feasible than holding a single training class on an annual basis for all employees. Accounting will maintain training records for these sessions and make them available to department managers. AR 268 § 5.1 states that proper cash handling training prior to an employee beginning their position is the responsibility of management. Therefore, department managers or their designees should be responsible for monitoring their operational needs and requesting training when warranted. COMPLETED BY: AR update completed by May 2013; improved cash training outreach and documentation will begin in July 2013

C. Accounting staff will reinforce the 2-month requirement and evaluate locations that are not in compliance. Evaluation of fund activity could result in the reduction or elimination of the fund or replacement with a procurement card. COMPLETED BY: 6/30/2013

D. Receipt books will be issued sequentially and an electronic log indicating the location and staff the books were issued to will be maintained. Keeping this log electronically will facilitate periodic reconciliation. Accounting staff will address the use of unofficial receipt books upon detection, but this awareness is the responsibility of department management. COMPLETED BY: 1/31/2013

E. The Accounting Director will review and approve or deny all exceptions to AR 268 on an annual basis. Approval will be based on documented business needs. COMPLETED BY: 6/30/2013

F. A cost effective alternative to the current practice is not currently available. Given that there are no documented losses of petty cash replenishment funds and the low dollar amount involved, we believe the level of risk for fraud or loss of these funds under the current process is de minimis. Management feels this very low risk is tolerable for the sake of efficient, cost effective operations.

G. Documentation and monitoring of voids and refunds are addressed in AR 268 under § 3 and § 4. Controls include requiring written documentation for the cause of the void or refund and signature of the approving manger or supervisor. Monitoring daily cash handling activities, including voids and refunds, is most effective at the point of origin and is the responsibility of management onsite. Subsequent monitoring of voids and refunds by Accounting staff provides little assurance or additional control since we are dependent upon the departments to report this data to us.

RESPONSIBLE PARTY: Joyce Gilbride, Accounting Director

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