



CITY AUDITOR'S OFFICE

Cash Handling Controls and Accountability, FY 2015/16

April 8, 2016

AUDIT REPORT NO. 1611

CITY COUNCIL

Mayor W.J. "Jim" Lane
Suzanne Klapp
Virginia Korte
Kathy Littlefield
Linda Milhaven
Guy Phillips
Vice Mayor David N. Smith



April 8, 2016

Honorable Mayor and Members of the City Council:

Enclosed is the audit report for *Cash Handling Controls and Accountability, FY 2015/16*, which was included on the Council-approved FY 2015/16 Audit Plan. This audit is performed periodically to evaluate the City's cash handling controls and accountability through unannounced cash handling audits at several locations across City operations.

This year, we focused our audit on decentralized and smaller cash collection points. As a result, this report reflects analysis performed at 40 of the 55 cash handling sites.

Overall, City staff at the audited locations are generally handling and accounting for cash receipts appropriately. However, improving controls at some locations could help prevent errors or irregularities or make their detection easier. As well, Accounting Department oversight can be improved, and consistent forms and processes within departments could ease accountability.

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

Sincerely,

A handwritten signature in blue ink that reads "Sharron Walker".

Sharron E. Walker, CPA, CFE, CLEA
City Auditor

Audit Team:

Cathleen Davis, CIA - Senior Auditor
Brad Hubert, Internal Auditor
Dan Spencer, CIA - Senior Auditor

TABLE OF CONTENTS

AUDIT HIGHLIGHTS	1
BACKGROUND	3
Figure 1. Composition of Deposited Receipts, FY 2012/13 and FY 2014/15	3
Table 1. Audited Cash Handling Locations by Division/Department	4
OBJECTIVES, SCOPE, AND METHODOLOGY	5
FINDINGS AND ANALYSIS	7
1. Improving controls at some locations could help prevent errors or irregularities or make their detection easier.	7
Table 2. Key Areas for Cash Handling Improvement	7
2. Accounting Department oversight can be improved.	10
MANAGEMENT ACTION PLAN	13



AUDIT HIGHLIGHTS

Cash Handling Controls and Accountability

April 8, 2016

Audit Report No. 1611

WHY WE DID THIS AUDIT

The audit was included on the Council-approved FY 2015/16 Audit Plan to review cash handling processes and controls for effectiveness and compliance with related Administrative Regulations (ARs).

BACKGROUND

Cash handling encompasses the controls and processes to account for and safeguard monies received in cash, check or electronic form. AR 268 provides the required controls for the City's cash handling staff, while AR 270 specifies controls for staff with petty cash funds.

During FY 2014/15, staff at 55 locations throughout the City collected approximately \$532 million for various fines, fees, services and products representing about 90% of the \$594 million in revenues received by the City during the fiscal year.

Auditors made unannounced visits at 40 cash handling locations.

City Auditor's Office

City Auditor 480 312-7867
Integrity Line 480 312-8348
www.ScottsdaleAZ.gov

WHAT WE FOUND

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

Cash handling controls at the 40 audited sites were generally operating appropriately, but improvements can be made at some locations. Specifically:

- Several aspects of individual accountability are not being maintained.
- Deposits are not prepared daily and receipts from multiple days are combined for deposit.
- Supervisory reviews are not consistently recorded.
- Access to some safes is not sufficiently restricted.
- Some locations do not immediately record transactions or do not have access to one of the City's cashiering systems.
- Segregation of duties in some programs is not adequate.
- Dual custody is sometimes not maintained for mail and honor box receipts.
- Cash handling practices and forms varied widely among different locations within some departments.
- Financial records the divisions produce are not on their Records Inventories with the associated retention requirements.

2. Accounting Department oversight can be improved.

Increased oversight and compliance with administrative regulations could improve cash handling accountability. Specifically:

- Cash handling training has not been provided to a majority of the City's current cash handlers.
- Accounting staff has not performed documented cash verifications since June 2012.
- Revoked AR exceptions have not been adequately communicated to cash handling locations.

WHAT WE RECOMMEND

1. Division management should require compliance with AR 268 *Cash Handling* and establish effective controls over other aspects of cash handling, such as consistent forms and formalized records retention.
2. The City Treasurer should ensure Accounting staff provides regular cash handling training, removes the requirement for unannounced verifications or ensures they are performed on a recurring basis, and communicates when AR exceptions are revoked.

MANAGEMENT RESPONSE

Division management generally agreed with the audit recommendations and will request exceptions in the limited situations when compliance is deemed infeasible. The City Treasurer's Office agreed with the audit recommendations.

BACKGROUND

For this audit, the term *'cash handling'* is used to encompass the controls and processes to account for and safeguard monies received, whether in cash, check or electronic form of tender. In the prior fiscal year (FY) 2014/15, staff at 55 locations throughout the City collected approximately \$532 million for various fines, fees, services and products. This represents about 90% of the \$594 million in revenues received by the City in FY 2014/15.

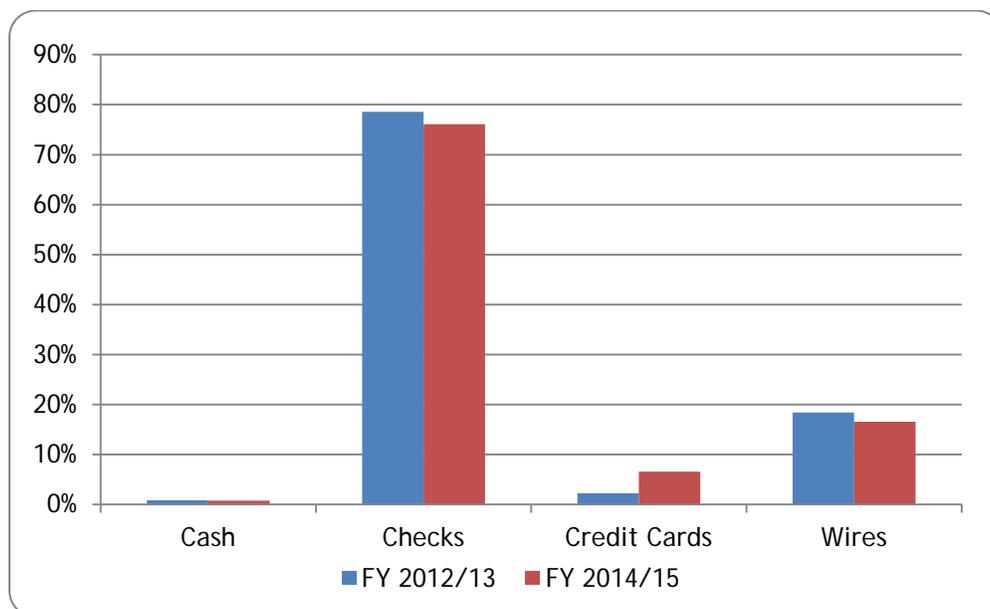
Asset misappropriation is the most common type of occupational fraud and includes theft of cash on hand, cash receipts and inventory.

SOURCE: Association of Certified Fraud Examiners, 2014 *Report to the Nations on Occupational Fraud and Abuse*

The City's centralized Remittance Processing program handled the majority of the City's mailed-in and electronic customer payments in FY 2014/15, for a total of more than \$425 million. In the same year, the Tax & License program received payments of more than \$54 million, while Planning and Development Services staff handled nearly \$22 million and the City Court received more than \$12 million.

Figure 1 compares the composition of receipts for the most recently completed fiscal year during this audit (FY 2014/15) and the previous cash handling audit (FY 2012/13). As shown, the City's cash handlers received a slightly lower proportion of monies in the form of checks and wires, which was offset by a similar increase in credit card use, while receipts in cash maintained approximately the same proportions.

Figure 1. Composition of Deposited Receipts, FY 2012/13 and FY 2014/15



SOURCE: Auditor analysis of FY 2012/13 and FY 2014/15 iNovah, CLASS, and Remittance Processing reports.

Emphasizing decentralized and smaller collection points, auditors made unannounced visits at the 40 cash handling locations listed in Table 1.

Table 1. Audited Cash Handling Locations by Division/Department

<p>Administrative Services Information Technology</p> <p>City Attorney Civil Prosecution</p> <p>City Clerk</p> <p>Community & Economic Development Scottsdale Airport</p> <p>Community Services Administration</p> <p>Community Services - Human Services Adaptive Services Granite Reef Senior Center Paiute Neighborhood Center Via Linda Senior Center Vista del Camino Community Center Youth & Family Services</p>	<p>Community Services - Library Appaloosa Branch Arabian Branch Civic Center Branch Mustang Branch Palomino Branch</p> <p>Community Services - Parks & Recreation Cactus Aquatic & Fitness Center Chaparral Park Club SAR Fitness Center Eldorado Park Eldorado Pool Handlebar Helpers Horizon Park Indian School Park & Tennis Center Leisure Education/Facility Booking McDowell Mountain Ranch Park & Aquatic Center Mountain View Park & Community Center Scottsdale Ranch Park Scottsdale Sports Complex Youth Allocation</p>	<p>Public Safety - Police 30-Day Towing City Jail Police Records Police Special Events</p> <p>Public Safety - Fire Fire Headquarters</p> <p>Public Works Capital Projects Management Fleet Management</p> <p>Water Resources Administration Hualapai Water Campus</p>
---	--	---

SOURCE: Auditor fieldwork performed January to March 2016.

OBJECTIVES, SCOPE, AND METHODOLOGY

An audit of *Cash Handling Controls and Accountability* was included on the City Council-approved fiscal year (FY) 2015/16 Audit Plan. The audit objective was to review cash handling processes and controls for effectiveness and compliance with related Administrative Regulations, which were primarily AR 268 *Cash Handling* and AR 270 *Petty Cash*.

For this fiscal year, we conducted unannounced cash counts at 40 locations in the following divisions:

Division	Locations
Administrative Services	1
City Attorney	2
City Clerk	1
Community & Economic Development	1
Community Services	26
Public Safety	5
Public Works	2
Water Resources	2

Employees at 55 locations throughout the City handle cash and other negotiable instruments. Therefore, we selected locations primarily based upon the risk factors of geographical proximity and length of time since the location's last audit.

As part of each unannounced audit, we:

- Counted all cash on hand (including cash, checks and debit/credit card payments) and reconciled to transaction records.
- As part of the cash count, determined the amount of gift cards held on-site and reviewed the associated recordkeeping.
- Verified whether change and petty cash funds balanced to the amounts authorized by the Accounting Department.
- Judgmentally selected a sample of recent closing/cash balancing reports to review for daily reconciliations, evidence of dual custody, and documentation and approval of refund and void transactions.
- Interviewed applicable staff regarding cash handling procedures and practices.
- 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. Additionally, Accounting Department oversight can be improved and consistent forms and processes within departments could ease accountability.

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 from November 2015 to March 2016.

FINDINGS AND ANALYSIS

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

Cash handling controls at the 40 audited sites were generally operating appropriately, but improvements can be made at some locations. AR 268 *Cash Handling* provides general policies and procedures for cash handling and is intended to assist City employees in:

- properly recording cash and related revenues into the general ledger
- ensuring adequate controls are in place to deter fraud
- providing complete back-up documentation needed for audit purposes
- safeguarding City assets
- limiting employee liability in the event of a loss

Table 2 summarizes the number of locations where cash handling controls and AR 268 compliance can be improved to better protect City monies and the employees who are responsible for them. AR 268 requirements were applicable to 33 of the audited sites.

Table 2. Key Areas for Cash Handling Improvement

AR 268 <i>Cash Handling</i> Requirement	Number of Locations
Cash Balancing - Change funds should be counted at the beginning and end of every shift and cash balancing should be performed at the end of every shift by two employees in dual custody.	23
Register Accountability - Employees should be individually responsible for their own cash register or drawer.	12
Timely Deposits - Deposits should be prepared daily and sent to the bank in accordance with the armored car schedule.	12
Refund and Void Approval - Written documentation and supervisor approval are required for refund and voided transactions.	7
Safeguarding Cash - Access to the safe should be limited and dual custody safe features should be used, if available.	6
Immediately Record Transactions - All sales or transactions should be immediately accounted for using the City's automated systems.	6

SOURCE: Auditor observation and analysis of City cash handling practices.

A. While cash handling controls at the audited sites were generally operating appropriately, the following improvements can be made at some locations:

1. Several aspects of individual accountability are not being maintained. Cash balancing in dual custody is not performed at the end of every shift, including counting change funds. Further, at some locations, employees were allowed to share a cash register or drawer without a control in place to maintain individual responsibility for the transactions. Individual accountability is needed to be able to assign responsibility in the event of loss or error.
2. At several locations, deposits are not prepared daily and receipts from multiple days are combined for deposit. For example, while a Community Services Division location is generally open seven days a week, deposits are only prepared on Monday through Friday mornings. Therefore, Friday, Saturday and Sunday receipts are combined and prepared for deposit on the following Monday morning.

Further, several locations do not deposit available receipts with each armored car pickup. For example, one location with armored car pick up available two times per week did not prepare a deposit for 42 days. At that time, the deposit totaled more than \$7,200.

3. Supervisory reviews of cash balancing documents are not consistently recorded. Also, some locations did not maintain written explanations and documented supervisory review for refund and voided transactions. Supervisory reviews should ensure issues are addressed, such as excessive or undocumented voids, refunds or cash over/short situations.
4. At some locations, more employees than necessary had access to the safe. Some dual-control safes were not being used properly for the control to be effective. Further, some locations did not change safe combinations when authorized persons left City employment or changed positions.

Restricting access to cash and cash equivalents in the City safes can help to reduce the risk of loss. Also, limiting the number of employees with access to a safe can help control employee liability.

5. Three locations do not immediately record transactions and three other locations do not have access to either of the City's cashiering systems. Unrecorded transactions represent a significant risk of undetectable loss.

- One location receives monies through the mail but does not immediately record the cash. Additionally, cash transmittals are sometimes not submitted to Accounting for up to 28 days after the monies were received.

Who did it?

At one City location, 11 staff had access to the safe, which was not a dual custody safe. Key to the front door also unlocks room with the safe. At times, there was not dual custody when counting monies, reconciling and preparing the deposit. Armored car picks up weekly.

3 deposits bags are missing from the locked safe - \$700 in cash and checks.

The location:

Notified department management, Police, Risk, Human Resources and Accounting of the loss.

Interviewed staff.

Contacted customers requesting checks be reissued. City to pay stop payment fees on the missing checks.

- Two locations with regularly occurring receipts do not have access to the City's point-of-sale system. Rather, one of the locations uses manual receipts and the other location does not provide customer receipts.
- Three other locations have access to the City's automated point-of-sale system, but do not immediately record transactions. Rather, these receipts are recorded up to 24 days later.

AR 268 requires that each receipt must be immediately recorded. After being recorded, an explanation and supervisory oversight is necessary for any amount that is deleted. In all situations where it is operationally feasible, mailed customer payments should be directed to the City's Remittance Processing address.

B. Other cash handling controls can be improved that are not addressed in the AR 268 requirements.

1. For four programs, one employee has been assigned to handle all aspects of each program, including establishing the amount due, receiving the customer payment, and recording, reconciling and depositing the receipt. Another two programs periodically have this situation.

Proper segregation of duties provides that certain incompatible duties be separated, including authorization or approval of transactions, custody of the related assets, and recording or reporting the related transactions. This separation of duties prevents any one employee from being able to control or modify all aspects of a transaction. Establishing proper separation of duties reduces the risk of error and misappropriation.

2. At a couple locations, mail that is known to regularly contain receipts is opened by a single employee. At other locations, the honor box receipts are retrieved by a single employee. When the customer is not present and monies have not yet been recorded, dual custody handling reduces the risk of misappropriation.
3. In some departments, cash handling practices and forms varied widely among the department's different locations. Consistency in written procedures and forms could help staff improve controls over cash receipts and increase compliance with AR 268.
4. Record retention requirements for the financial records that the divisions produce are not on their Records Inventories. The State's Records Retention Schedule GS 1017 provides that financial records (such as credit card authorizations, cash transaction records, etc.) must be retained for 3 years after the fiscal year created or received. The City's records retention policy requires each division to maintain a Records Inventory listing all the record types maintained and the length of time to be retained. Including financial records on each division's Records Inventory would help ensure staff awareness.

At applicable locations, we also reviewed compliance with AR 270 *Petty Cash*, which provides the City's policies and procedures to ensure compliance with Internal Revenue Service and City procurement policies as well as cash accountability. At the 12 petty cash locations we audited, the petty cashiers were complying with AR 270 requirements.

As part of this audit, we provided management with the specific details on their locations' findings. To minimize risk to the City's cash handlers, the detailed findings are not included in this public report.

Recommendations:

Division management should:

- A. Require compliance with AR 268 *Cash Handling* or request an exception from the Accounting Department. Specifically:
 1. Require that employees perform cash balancing at the beginning and end of each shift and that dual custody is maintained and documented during cash handling processes. Further, limit cash drawer access to one employee at a time.
 2. Ensure deposits are prepared daily before the start of the next business day and sent to the City's bank in accordance with the location's armored car schedule.
 3. Require documented supervisory review of cash balancing documents and related void, refund and other unusual transactions.
 4. Require staff to use dual-control safes properly, change combinations periodically or when authorized staff change, and limit the number of employees with safe access to the minimum that is operationally feasible.
 5. Require that all transactions are immediately recorded and monies are immediately placed in the register. Also, the cash handling locations without direct access to the City's cashiering systems should work with the City Treasurer's Office to get access or redirect customer payments to Remittance Processing when feasible.
- B. Establish effective controls over cash handling, including:
 1. Proper segregation of duties for receiving, reconciling and depositing cash transactions.
 2. Dual custody of mail and honor box receipts.
 3. Consistency in cash handling procedures and related forms.
 4. Record retention requirements for the related financial records.

2. Accounting Department oversight can be improved.

Increased oversight and compliance with administrative regulations could improve cash handling accountability. The Accounting Department, within the City Treasurer's Office, is responsible for accounting internal controls and has established AR 268 *Cash Handling* and AR 270 *Petty Cash* to specify requirements for the City's cash handlers.

- A. Cash handling training presented by the City Treasurer's Office has not been provided to a majority of the City's cash handlers. As evidenced in the site-specific findings, several cash handling locations were not familiar with the internal control and accounting requirements established in AR 268.

AR 268 states that City employees with cash handling duties must take the cash handling training provided by the City Treasurer's Office. However, since July 2013,

the City Treasurer's Office has only held 4 cash handling trainings. Some of the 87 employees attending these training sessions are no longer employed with the City, and some are no longer cash handlers. As a result, only 49 of the estimated 330 current cash handlers (or 15%) have received formal training since July 2013, and only half of those since July 2015. The City Treasurer's Office currently has two cash handling trainings scheduled for March 2016.

- B. AR 268 states that the City Treasurer's Office is responsible for performing periodic unannounced verification of change funds and cash handling procedures. The City Treasurer's Office is responsible for establishing the AR 268 requirements and last updated them in July 2014. However, the Accounting staff has not performed any documented unannounced cash verifications since June 2012.
- C. Revoked AR exceptions have not been adequately communicated to cash handling locations. City staff is required to comply with AR 268 requirements unless the Accounting Department specifically approves an exception. To request an exception, a department must submit a description of the business reason for not following AR 268. The Accounting Department reviews these exceptions annually to determine if they will be continued.

At a few locations, cash handling staff stated they had certain exceptions that were not included on the Accounting Department's approved list. Improving communication related to AR requirements can increase compliance with these policies and procedures.

Recommendations:

The City Treasurer should ensure Accounting staff:

- A. Provides regular cash handling training to enhance City staff understanding of and compliance with the requirements.
- B. Removes the requirement for unannounced verifications from AR 268 or ensures they are performed on a recurring basis.
- C. Communicates to the affected area when an AR exception is revoked and works with the area to develop effective controls and procedures to ensure compliance.

MANAGEMENT ACTION PLAN

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

Recommendations:

Division management should:

- A. Require compliance with AR 268 *Cash Handling* or request an exception from the Accounting Department. Specifically:
 1. Require that employees perform cash balancing at the beginning and end of each shift and that dual custody is maintained and documented during cash handling processes. Further, limit cash drawer access to one employee at a time.
 2. Ensure deposits are prepared daily before the start of the next business day and sent to the City's bank in accordance with the location's armored car schedule.
 3. Require documented supervisory review of cash balancing documents and related void, refund and other unusual transactions.
 4. Require staff to use dual-control safes properly, change combinations periodically or when authorized staff change, and limit the number of employees with safe access to the minimum that is operationally feasible.
 5. Require that all transactions are immediately recorded and monies are immediately placed in the register. Also, the cash handling locations without direct access to the City's cashiering systems should work with the City Treasurer's Office to get access or redirect customer payments to Remittance Processing when feasible.
- B. Establish effective controls over cash handling, including:
 1. Proper segregation of duties for receiving, reconciling and depositing cash transactions.
 2. Dual custody of mail and honor box receipts.
 3. Consistency in cash handling procedures and related forms.
 4. Record retention requirements for the related financial records.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

- A. Division management generally agreed to either comply with AR 268 *Cash Handling* or request an exception from the Accounting Department. Specifically:
 1. Division management generally agreed that employees will be required to perform cash balancing at the beginning and end of each shift, dual custody will be maintained and documented during the cash handling process, and access to cash drawers will be limited to one employee at a time. Two departments may request a compliance exception from Accounting as one department has some

locations where only one staff opens the facility and another department indicated daily cash balancing may not be feasible.

2. Division management generally agreed that deposits will be prepared daily before the start of the next business day and sent to the City's bank in accordance with the location's armored car schedule. Two departments indicated deposit preparation daily and/or as frequent as scheduled armored car pickups might not be feasible so they may request a compliance exception from Accounting.
 3. Division management generally agreed that documented supervisory reviews of refund and void transactions would occur. One department indicated the refunds will be reviewed by management twice monthly.
 4. Division management agreed that dual-control safes will be used properly, combinations will be changed periodically or when authorized staff change, and the number of employees with safe access will be limited to the minimum that is operationally feasible.
 5. Division management generally agreed that transactions should be immediately recorded and monies immediately placed in the register. Two departments may request a compliance exception from Accounting as immediately recording transactions in the City's cashiering system may not be feasible.
- B. Division management generally agreed to establish effective controls over cash handling. Specifically:
1. Division management agreed that proper segregation of duties for receiving, reconciling and depositing cash transactions will be implemented.
 2. Division management agreed that dual custody of mail and honor box receipts would be maintained.
 3. Division management agreed that consistency in cash handling procedures and related forms would be improved through determining best practices and requiring department-wide cash handling forms and procedures.
 4. Division management agreed to add record retention requirements for the related financial records in the Division's records inventory.

RESPONSIBLE PARTY: Division management

COMPLETED BY: 12/31/2016

2. Accounting Department oversight can be improved.

Recommendations:

The City Treasurer should ensure Accounting staff:

- A. Provides regular cash handling training to enhance City staff understanding of and compliance with the requirements.
- B. Removes the requirement for unannounced verifications from AR 268 or ensures they are performed on a recurring basis.

- C. Communicates to the affected area when an AR exception is revoked and works with the area to develop effective controls and procedures to ensure compliance.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

- A. A computerized training course will be developed based on requirements of AR 268 to be taken on an annual basis by all cash handlers. In the interim, citywide training will be offered periodically as it is currently. As well, individual site training will be provided when requested or deemed necessary by Accounting staff.
- B. Unannounced cash handling verifications are a good control and should remain in AR 268. These verifications will be performed on a recurring basis in the future.
- C. Additional communication and guidance will take place with departments prior to July 1, 2016 regarding exceptions to AR 268. Any exceptions revoked or not approved will be thoroughly explained to ensure an understanding of the city's cash handling expectations and requirements.

RESPONSIBLE PARTY: Accounting Director

COMPLETED BY: 12/31/2016

City Auditor's Office

7447 E. Indian School Rd., Suite 205
Scottsdale, Arizona 85251

OFFICE (480) 312-7756
INTEGRITY LINE (480) 312-8348

www.ScottsdaleAZ.gov/auditor

Audit Committee

Councilwoman Suzanne Klapp, Chair
Councilmember Virginia Korte
Councilwoman Kathy Littlefield

City Auditor's Office

Kyla Anderson, Senior Auditor
Lai Cluff, Senior Auditor
Cathleen Davis, Senior Auditor
Brad Hubert, Internal Auditor
Dan Spencer, Senior Auditor
Sharron Walker, City Auditor



The City Auditor's Office conducts audits to promote operational efficiency, effectiveness, accountability, and integrity.