



CITY AUDITOR'S OFFICE

Cash Handling Controls and Accountability

March 7, 2019

AUDIT REPORT NO. 1906

CITY COUNCIL

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March 7, 2019

Honorable Mayor and Members of the City Council:

Enclosed is the audit report for *Cash Handling Controls and Accountability*, which was included on the Council-approved FY 2018/19 Audit Plan. This audit was conducted to review cash handling processes for effectiveness and compliance with administrative regulations. While the audit is on the approved audit plan, the cash handling reviews are performed at the selected locations on an unannounced basis.

Overall, cash handling controls were generally operating appropriately at the selected locations. Process improvements were primarily needed in certain intermittent situations, such as using a third-party payment processing site to receive online payments, managing a special event's receipts, and limiting non-cash handling sites from processing occasional transactions.

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:

Kyla Anderson, CIA, CLEA – Senior Auditor
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AUDIT HIGHLIGHTS

Cash Handling Controls and Accountability

March 7, 2019

Audit Report No. 1906

WHY WE DID THIS AUDIT

The audit was included on the Council-approved FY 2018/19 Audit Plan to review cash handling processes and controls for effectiveness and compliance with related Administrative Regulations (AR).

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.

During FY 2017/18, staff at 41 locations throughout the City collected approximately \$330 million for various fines, fees, services and products. This represents about 46% of the \$714 million in revenues received by the City during the fiscal year. Other revenues collected by third parties, such as the state Department of Revenue, are deposited directly to the City's bank account.

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WHAT WE FOUND

Use of a third-party payment processing site has not been subject to control procedures.

PayPal accounts were set up for certain City programs to accept online payments. However, this payment method has not been subjected to the same internal control requirements as other payment types. Further, user access controls can be improved for these accounts.

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

Cash handling controls at the 12 audited sites were generally operating appropriately, but improvements can be made at a few locations. We found:

- Two locations do not perform dual custody cash balancing.
- For a City special event, AR 268 requirements were not consistently applied and wristband revenue controls can be improved.
- Staff at two City locations perform cash handling duties without sufficient training or experience, and their access to the POS system could be further restricted.
- One location does not maintain appropriate segregation of duties over reservations and associated receipts.
- Some facility reservations are not recorded in a reservation system.

WHAT WE RECOMMEND

We recommend department management work with the City Treasurer's Office to ensure appropriate oversight and compliance with AR 268 *Cash Handling*.

MANAGEMENT RESPONSE

The departments agreed with the recommendations. Further, they will work with the Accounting department for cash handling training and procedures and will comply with AR 268. As well, user access controls have been or will be adjusted.

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 fiscal year (FY) 2017/18, staff at 41 locations throughout the City collected approximately \$330 million for various fines, fees, services and products. This represents about 46% of the \$714 million in revenues received by the City in FY 2017/18.

The City's centralized Remittance Processing site handled the majority of the City's mailed-in and electronic customer payments in FY 2017/18, a total of more than \$50 million. In the same year, the Planning and Development Services staff handled almost \$22 million, the City Court received more than \$18 million and the Tax and License site received payments of more than \$13 million.

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, *Report to the Nations 2018 Global Study on Occupational Fraud and Abuse*

As Table 1 illustrates, deposited receipts reflect a 27% increase in amounts collected through electronic payment types for FY 2017/18 compared to FY 2014/15, the previous cash handling audit period. Three years ago, cash and checks comprised more than three-quarters of monies collected by City staff. Last year, they represented slightly more than half.

Table 1. Changes in Composition of Deposited Receipts

	FY 2014/15	FY 2017/18	Change
Cash and Check	\$408,615,000	\$174,275,000	↓ 57%
Credit Card and Electronic Transfer ¹	\$122,986,000	\$155,596,000	↑ 27%
Total	\$531,601,000	\$329,871,000	↓ 38%

¹ Electronic transfer includes wire transfers, ACH (Automated Clearing House) and EFT (Electronic Funds Transfer) receipts.

Note: Receipts decreased from FY 2014/15 to FY 2017/18 largely due to third parties collecting transaction privilege taxes and mailed utility payments.

SOURCE: Auditor analysis of FY 2014/15 and FY 2017/18 ActiveNet, Clover, iNovah and Remittance Processing reports.

In late 2016, the City contracted with a third-party for lockbox services to process utility payments received through the mail. These utility payments were previously processed internally by Remittance Processing. Further, in January 2017, the state Department of Revenue assumed administration and collection of transaction privilege taxes. These tax and license collections previously received directly from City businesses are now collected by the state Department of Revenue and subsequently wired to the City's bank account.

OBJECTIVES, SCOPE, AND METHODOLOGY

An audit of *Cash Handling Controls and Accountability* was included on the City Council-approved fiscal year 2018/19 Audit Plan. The audit objective was, at selected locations, to review cash handling processes and controls for effectiveness and compliance with Administrative Regulation 268 *Cash Handling*.

For this fiscal year, we conducted cash handling audits at the following 12 locations:

Location	Department	Audit Scope
Chaparral Park	Parks & Recreation	Special event analysis
Civic Center Branch	Library Services	Analysis of PayPal use
Community Assistance Office	Human Services	Unannounced cash handling audit
McDowell Sonoran Preserve	Parks & Recreation	Unannounced cash handling audit
Operation Fix It	Planning & Development	Analysis of PayPal use
Pinnacle Peak Park	Parks & Recreation	Unannounced cash handling audit
Scottsdale Cares	Human Services	Analysis of PayPal use
Scottsdale Sports Complex	Parks & Recreation	Unannounced cash handling audit
Scottsdale Stadium	Parks & Recreation	Unannounced cash handling audit
Sports Field Reservation Office	Parks & Recreation	Segregation of Duties analysis
WestWorld RV Office	WestWorld	Unannounced cash handling audit
WestWorld Feed and Bedding	WestWorld	Unannounced cash handling audit

Employees at 41 locations throughout the City handle cash and other negotiable instruments. Therefore, we selected locations primarily based upon risk factors such as the amount of on-site transactions, the amount of cash and checks handled, and past audit results.

As part of the unannounced audits, we generally:

- 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 authorized amounts.
- Judgmentally selected a sample of recent closing/cash balancing reports to review 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.

We also assessed use of PayPal accounts at all locations currently accepting payments through this method and reviewed point-of-sale system access levels at select locations.

City staff at the selected locations were generally accounting for and handling cash transactions appropriately. However, improving controls at a few of these locations could help prevent errors and irregularities or make their detection easier. Also, compliance with AR 268 *Cash Handling* and oversight controls for PayPal accounts can be improved.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Audit work took place over the period of June 2018 to February 2019.

FINDINGS AND ANALYSIS

1. Use of a third-party payment processing site has not been subject to control procedures.

PayPal accounts were set up for certain City programs to accept online payments. This payment method has not been subjected to the same internal control requirements as other payment types. Access controls for some locations are not based on the least privilege principle.

A. The Accounting technology staff set up three PayPal business accounts for certain programs to accept online payments, including:

- A generic **City of Scottsdale** account for election-related fees and a special event.
- **Operation Fix-It** account for online donations.
- **Scottsdale Cares** account for online donations and for electronic payments for bottled water at a City special event.

Compliance with AR 268 *Cash Handling*, including daily cash balancing in dual custody and appropriate segregation of duties, has not been enforced for these accounts.

1. Daily cash balancing and depositing is not completed for the three PayPal accounts. The program staff must manually transfer funds from the PayPal account to the City's banking account. As shown in Table 2, although the accounts received customer payments on 13 to 28 days each, staff transferred funds from the accounts to the City's banking account only 2 to 3 times during calendar year 2018.

Table 2. PayPal Account Transactions and Transfers, CY 2018

	Customer Transaction Days	Transfers	Total Transfer Amount
City of Scottsdale	22	3	\$2,570
Operation Fix It	28	3	\$7,983
Scottsdale Cares	13	2	\$195

Note: The transfer amount is net of PayPal's processing fees which averaged between 3.3% and 4.1%.

SOURCE: Auditor analysis of CY 2018 PayPal reports.

AR 268 requires daily cash balancing and deposits. Further, other electronic payment methods, such as Authorize.net, automatically deposit to the City's bank account, so the transactions are included in daily recordkeeping, balancing and reconciliations.

2. Some users' access levels may exceed their day-to-day business needs. For two of these accounts, the programs have users with access that includes the ability to edit the PayPal profile information. User access to adjust the PayPal account settings should be limited to staff who do not have access to adjust customer accounts and daily reconciliations.

Access controls should enforce segregation of duties and be based on the least privilege principle.¹

3. The City's primary third-party electronic payment processor, Authorize.net, is used by most City departments and programs who provide online transactions. The benefit of also establishing a few PayPal accounts is not clear, particularly given the lack of oversight controls. Alternatively, a single PayPal account controlled by Accounting may provide better oversight.

AR 268 *Cash Handling* states that the City Treasurer's Office in conjunction with any City department that collects revenue is responsible for enforcement of the cash handling policies and procedures. The City Treasurer's Office is also responsible for review and approval of any exceptions that may be granted to AR 268 requirements.

- B. Through its Polaris integrated library system, Library Services uses PayPal's Payflow Payment Gateway to accept online payment of fines and fees. As individual online payments are received through Payflow, the payment amount and account information is recorded in Polaris and deposited to the Library's merchant account. Daily, these funds are transferred to the City's bank account and included in cash balancing reconciliations.

1. User access controls can be improved. Two Library staff may have excessive access to the Library's Payflow Payment Gateway account. Currently, three staff have system administrator access: two Community Services IT staff and a Library staff who is primarily responsible for the online payment and on-site cash handling reconciliations. In addition to system administrator access to the gateway account, the Library staff has access to the Polaris system, the ActiveNet system, branch change funds and daily receipts. Additionally, another Library staff, who serves as this individual's back-up, has full transaction access to the gateway.

Lack of proper segregation of duties increases the risk of loss due to error or misappropriation. Further, system access should be based on the least privilege principle.

2. In January 2019, four refunds were processed through the Library's gateway account. Three of the four refunds did not have documented supervisory approval.

Recommendation:

Department management should work with the City Treasurer's Office to ensure appropriate oversight and compliance with AR 268 *Cash Handling*, including daily cash balancing, segregation of duties and supervisory approval for refund transactions.

(continued on next page)

¹ The least privilege principle refers to providing only the system access necessary to perform one's job duties.

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

AR 268 *Cash Handling* provides general policies and procedures intended to guide City employees in:

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

The 12 audited locations were generally operating in compliance with AR 268 and cash handling controls. However, the following improvements can be made at a few of the locations:

- A. Two locations do not perform dual custody cash balancing, including counting change funds. The Accounting department approved the locations having an exception from the AR 268 requirement for dual custody balancing when two staff are not available when opening or closing. However, the stated compensating control of weekly supervisor verification of cash drawers and change funds was not being performed. Further, dual custody balancing could be completed while two staff are still on duty. This would limit the one-person cash balancing to the few instances when only one staff member is available.
- B. For a City special event, AR 268 requirements were not consistently applied, and revenue controls can be improved.
- The beginning and ending change fund currency counts were not documented on each cashier’s daily cash balancing documents. As well, a single entry for transactions totaling \$530 in cash was entered into the point-of-sale (POS) system after the event ended rather than as individual transactions occurred. Staff explained that only one of the two service points had remote access to the POS system. AR 268 requires that each cashier must count the change fund at the beginning and end of every shift and each receipt must be immediately recorded.
 - Two refunds and two void transactions were processed for the event. While staff entered a note in the POS system to explain the purpose of the refunds, supervisor approval was not documented. Further, supporting documentation including supervisor approval was available for one void transaction but not the second one.
 - Controls over revenue collections did not provide reasonable assurance that monies were adequately safeguarded. The wristbands being issued were not prenumbered and tracked for reconciliation to revenues and deposits. Rather, management relied on the cash handlers’ entries into the POS cash register system to determine how much had been collected. Based on the recorded entries, sales totaled more than \$3,000. For future events, better controls are needed to provide assurance that all monies received are properly accounted for and deposited.

Tender Type	No. of Transactions	Amount
Cash	102	\$2,230
Credit Card	52	\$940
Total	154	\$3,170

With careful evaluation, cash handling controls can also be maintained for cashiering duties at special events.

C. Staff at some City locations perform cash handling duties without sufficient training or experience, and their access to the POS system could be further restricted.

- At two locations with very infrequent transactions, staff with limited cash handling training and experience were processing cash transactions. These two locations were not on the Accounting department’s list of cash handling sites, and the four staff were not identified by their department as cash handlers for Accounting’s mandatory cash handling training. Limiting cash handling duties to only those staff properly trained for the responsibilities limits the City’s and the employee’s risk.
- Supervisory reviews of cash balancing documents were not performed. One of the tested locations did not maintain documented supervisory reviews for each refund transaction. During FY 2016/17, this location processed 17 refunds in September and October. While the POS system had a note to explain the purpose of the refunds, supervisor approval of the refunds and the required daily cash balancing was not documented. Supervisory reviews are required to provide assurance that issues related to voids, refunds or cash discrepancies are addressed.

This location seldom handles cash transactions and was not familiar with the requirements. The Facilities Booking staff has agreed to work with the location to process its future transactions.

- One location unnecessarily retained sensitive financial information. The location processed one over-the-phone credit card transaction, then retained the park permit which included sensitive credit card information. AR 268 states that written customer debit or credit card numbers may not be retained after the transaction is complete unless for an official business purpose and must be secured always.
- POS access levels for some users may exceed their day-to-day business need. Access controls should enforce segregation of duties and be based on the least privilege principle. For example, six staff at three locations have supervisory and/or advanced POS permissions that exceed their day-to-day-business needs as the locations are not cash handling sites.

Location - Staff	Permissions
Location 1 - Senior	Supervisors - Advanced
Location 1 - Coordinator	Reservation - Advanced
Location 1 - Coordinator	Supervisors - Advanced
Location 2 - Coordinator	Supervisors - Advanced
Location 2 - Leader III	Supervisors - Basic
Location 3 - Supervisor	Supervisors - Basic

Implementing role-based access control policies would help ensure City staff had appropriate access based on business need and the least privilege principle.

D. One cash handling location does not maintain appropriate segregation of duties over reservations and associated receipts. One employee frequently handles all aspects of a particular program, including creating the reservation permit, establishing the amount due, receiving the customer payment, and recording, reconciling and depositing the receipts.

For proper segregation of duties, certain tasks should be performed by different individuals, including authorizing or approving transactions, custody of the related assets, and recording or reporting the transactions. This separation of duties prevents one employee from being able to control all aspects of a transaction and reduces the risk of loss through error or misappropriation.

- E. Some facility reservations are not recorded in a reservation system. Rather than using the department's reservation system, one location is using a spreadsheet and a calendar document to track reservations. According to the spreadsheet, there were more than 20 third-party events in FY 2017/18 and in FY 2018/19.

Computerized reservation software can offer more controls than a spreadsheet or calendar document. For example, with specialized software, access to modify reservation entries can be limited and the system can log any changes. A spreadsheet and a calendar document are very susceptible to change and increase the risk of loss through error or misappropriation.

Recommendations:

Department management should require compliance with AR 268 *Cash Handling*. Specifically, require supervisors to ensure:

- A. Cash handlers adjust shift duties to perform cash balancing in dual custody with both staff present signing the cash count documents.
- B. Cash handlers immediately record transactions in the POS system if operationally feasible. If not operationally feasible, management should work with the Accounting department to develop compensating controls and then request an exception to the specific AR 268 *Cash Handling* requirements. Additionally, supervisors should ensure wristband or similar items are prenumbered for comparison to sales, deposits and remaining wristband inventory on hand.
- C. Only appropriately trained staff perform cash handling functions, and POS system cashiering access is removed for locations that do not have trained staff. If these locations continue to perform cashiering, ensure they understand AR 268 responsibilities, particularly ensuring documentation, daily cash balancing and proper security for sensitive financial information.
- D. Proper segregation of duties for receiving, reconciling and depositing cash transactions.
- E. Use of a reservation system to manage these facility reservations.

MANAGEMENT ACTION PLAN

1. Use of a third-party payment processing site has not been subject to control procedures.

Recommendation:

Department management should work with the City Treasurer's Office to ensure appropriate oversight and compliance with AR 268 *Cash Handling*, including daily cash balancing, segregation of duties and supervisory approval for refund transactions.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

- A. Department staff are working with the Accounting department for appropriate training and procedures. Staff will incorporate procedures to comply with AR 268 related to cash handling and reconciliations. Also, department staff's user access to the PayPal account has been or is being adjusted to the essential functions for the account.
- B. The Library will have only one staff authorized with full access and other staff will have a lower level of access, therefore improving access controls. For the back-up person, management will evaluate the need for transaction authority to conduct business and adjust accordingly. Library management will review and remind supervisory staff to document supervisor review of refunds.

RESPONSIBLE PARTY: Department management

COMPLETED BY: April 30, 2019

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

Recommendations:

Department management should require compliance with AR 268 *Cash Handling*. Specifically, require supervisors to ensure:

- A. Cash handlers adjust shift duties to perform cash balancing in dual custody with both staff present signing the cash count documents.
- B. Cash handlers immediately record transactions in the POS system if operationally feasible. If not operationally feasible, management should work with the Accounting Department to develop compensating controls and then request an exception to the specific AR 268 *Cash Handling* requirements. Additionally, supervisors should ensure wristband or similar items are prenumbered for comparison to sales, deposits and remaining wristband inventory on hand.
- C. Only appropriately trained staff perform cash handling functions, and POS system cashiering access is removed for locations that do not have trained staff. If these locations continue to

perform cashiering, ensure they understand AR 268 responsibilities, particularly ensuring documentation, daily cash balancing and proper security for sensitive financial information.

- D. Proper segregation of duties for receiving, reconciling and depositing cash transactions.
- E. Use of a reservation system to manage these facility reservations.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

- A. If there is only one staff member closing in each office, in order to comply with dual custody in cash balancing at the end of the day, the offices will utilize each other's staff to sign off on closings and verify accuracy. Exception: there may be a time when the other office is not staffed at the end of the day and the closer will not have a staff member present to verify accuracy. The closer will sign on both lines and add an explanation for the exception. Also, the supervisor will perform a weekly, unannounced review of the cash drawers and change funds.
- B. Department management is exploring the cost to have an additional service point with remote access to the point-of-sale system. This would allow cashiers to enter into the system at the time of the transactions. Numbered wristbands will be used for future events where funds are collected for entry. Also, department management will ensure beginning and ending currency counts and supervisor approval for refunds are documented on event days in the future.
- C. Cash handling for these locations will now be performed by the Parks and Recreation department's Leisure Education and Facility Booking area. In addition, Parks and Recreation will review ActiveNet cashiering access specifically to remove access for locations that do not have trained staff and/or staff that do not need access for their day-to-day job duties.
- D. Department staff has implemented using other co-located staff for separation of duties for cash handling when permits are made for future dates.
- E. Department staff will explore options for a computer-based system to track this location's rental reservations, payments, and contract documents. The location's staff will secure all paperwork that would contain information until an alternative computer-based system can be put in place.

RESPONSIBLE PARTY: Department management

COMPLETED BY: June 30, 2019

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