

City Auditor's Office *Cash Controls Audit*

October 2019



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City Auditor's Office

October 8, 2019

Honorable Mayor and Members of the City Council:

The City Auditor's Office has completed the Cash Controls Audit. The purpose of the audit was to assess controls related to petty cash and change funds and ensure compliance with City policies and procedures.

Management's response to our audit findings and recommendations, as well as target implementation dates and responsibility, is included following the report.

We would like to thank staff from each of the departments reviewed for their full cooperation and assistance during the audit.

Lori Brooks Jaquess

Lori Brooks Jaquess, CPA, CIA, CGAP, CRMA
City Auditor

Attachment

c: Trey Yelverton, City Manager
Jim Parajon, Deputy City Manager
Gilbert Perales, Deputy City Manager
Jennifer Wichmann, Assistant City Manager
Mike Finley, Director of Finance/CFO

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Executive Summary

The City Auditor's Office has completed the Cash Controls Audit. The performance audit was conducted 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 objective. The audit objective was to assess the controls that are in place related to cash balances and ensure compliance with City policies and procedures.

The City Auditor's Office noted the following strengths related to cash handling:

- Written procedures for petty cash include requirements for reconciliation of fund balance, documentation of employee reimbursements and fund replenishment
- Written procedures related to change funds include requirements for preparation of daily deposits, reconciliation of fund balances and documentation of daily receipts/revenue
- Cash is properly secured when not in use

We noted potential opportunities for improvement in the following areas:

- Compliance with current policies and procedures
- Updating policies and procedures to reflect current operations/activities
- Maintaining an accurate listing of Petty Cash and Change Fund custodians and dollar amounts authorized
- Review of the number, dollar amount and use of petty cash funds and change funds

Details of audit findings, conclusions and recommendations are included in the following report.

Audit Scope and Methodology

The audit was conducted in accordance with generally accepted government auditing standards. The following methodology was used in completing the audit.

- Obtained and reviewed the Finance Department's current Petty Cash, Change Funds and Cash Handling policies and procedures
- Obtained a copy of the Petty Cash and Change Fund lists maintained by the Finance Department
- Selected a sample of Petty Cash and Change Funds for review
- Performed a surprise cash count of the funds at various selected locations
- Interviewed the fund custodian and/or supervisor to determine the current processes in place
- Prepared a list of exceptions and/or control weaknesses noted during the cash counts and interviews

Background

As of the end of May 2019, there were 28 Petty Cash funds with a total balance of \$9,575. These funds were established by the Finance Department and are currently used to reimburse City employees for one-time, emergency-type expenditures (expenditures for which going through the regular Purchase Order process would not be reasonable) or for certain recurring expenditures (reimbursement for personal vehicle mileage). Circumstances may arise during daily activities when an employee working in the field may need to expend his/her own money to purchase a small item or use their personal vehicle to ensure operations continue in an efficient manner. In such cases, the employee would obtain approval from a supervisor and incur the expense. The employee would then bring a receipt or documentation to a Petty Cash custodian to be reimbursed.

In addition, there are many departments within the City that collect money for various fines, fees, etc. or offer citizens the opportunity to purchase products/services from the City (i.e. Parks program registrations). Citizens may pay with credit card, debit card, check or cash. For those citizens that pay with cash, the City must have funds available to make change for the payments received. As a result, the City's Finance Department has established various Change Funds throughout the City. As of the end of May 2019, there were 70 Change Funds with a total balance of \$27,860. These funds are used for two purposes: 1) to make change for citizens who are purchasing a service/product or paying fees/fines to a City department; or 2) to provide change to the City's cash custodians/cashiers, when necessary.

The City's Finance Department is responsible for maintaining lists of the Petty Cash and Change Funds that have been authorized, including the name of the department, the dollar amount and the name of the custodian of the funds. It is the responsibility of the department, to which the funds have been allocated, to advise the Finance Department when changes occur (i.e. the dollar amount or name of custodian) to ensure that the lists are current and accurate.

Audit Results

Eleven Petty Cash funds (total value of \$6,235) and 21 Change funds (total value of \$17,600) were selected for review. For each of these funds, a surprise cash count was conducted, and the custodian and/or supervisor was interviewed regarding current procedures for cash handling.

Petty Cash Funds

When an employee spends his/her own money on a small dollar item that is necessary for the regular operations of the department, the employee must retain a copy of the receipt. The employee must then complete and sign a Petty Cash Voucher and attach the receipt. The voucher is then provided to the employee's Department Head for review and approval. Once the voucher is approved and signed by the Department Head, it can then be taken to a Petty Cash custodian and the employee reimbursed for the cost of the item (less sales tax). The custodian reviews the voucher and the receipt to ensure the information is correct and the form is completed accurately. Then the custodian signs the voucher and reimburses the employee.

When the custodian's fund starts getting low, he/she then requests replenishment. A Petty Cash Reimbursement Form must be completed and signed by the custodian, with each of the vouchers mentioned above attached. The form is then provided to the Department Head who must review the form for accuracy/completeness and is also required to sign the form. Once the form is completed, the custodian sends the form to the Finance Department at which time a check is printed (payable to the custodian). The custodian can then take the check to the bank and cash it to replenish the fund. During the review of Petty Cash activities, each of the steps noted above were performed appropriately, with no exceptions being noted.

During the audit, the reasonableness of the petty cash funds was reviewed. There were a few locations (i.e. Convention Center and Parks & Recreation) where the petty cash fund balance could possibly be reduced, or the petty cash fund eliminated. At these locations, the custodian did not request reimbursement of the fund regularly; therefore, the need for the fund or the dollar value of the fund is questionable.

It was also observed that the funds were properly secured when not in use. At each location, the funds were kept in a safe. The keys/combinations to the safes were properly secured, with only limited access to the funds. In each instance, the funds either had individual accountability (only one person with access) or very limited access (usually the fund custodian and 1 or 2 of the custodian's supervisors).

Change Funds

These funds are used for two purposes: 1) for employees with cashier responsibilities to give change to citizens making a cash payment; or 2) for supervisors who have the responsibility of providing change to the cash custodian/cashier, when necessary.

The custodian begins each day with a specific, authorized amount of money in the cash box. During the day, the custodian/cashier receives payments from citizens for activities related to the department. At the end of the day/shift, the custodian must reconcile to the point of sale

(POS) financial system being used within the department. There are various steps involved in the reconciliation process at the end of the day/shift:

- The custodian or supervisor runs a daily report from the POS system to provide information as to the total revenue received.
- The authorized beginning cash must be counted, verified and placed in the cash box for the next day's operations.
- For the remaining revenue, the custodian must reconcile (balance) the actual payments received (cash, checks, credit cards) to the financial report.
- The reconciliation is verified by a second person.
- The daily deposit must be prepared, verified and placed in the safe for next day pick up by the armored courier or for delivery to a courier pick-up location.

During the review of Change Funds, each of the steps noted above were performed appropriately with some exceptions being noted, which are included in the Detailed Audit Findings section of this report.

The Finance Department has established Petty Cash, Change Fund and Cash Handling policies and procedures to be followed by the departments. These policies and procedures were reviewed and tested during this audit to determine compliance. Listed below are some of the more relevant policy requirements tested:

Petty Cash

- The Department Head shall send a written memo to the Director of Finance requesting the establishment of the fund or when changes to the fund occur.
- The Finance Department will maintain a listing of all petty cash funds including the department location, custodian and the amount of the fund.
- Each petty cash fund will have one petty cash custodian responsible for disbursements. In the absence of the custodian, the Department Head shall make disbursements.
- Each petty cash fund will have an established dollar amount.
- Reconcile the petty cash fund monthly.
- Steps for employee reimbursement: 1) employee must complete and sign a Petty Cash Voucher; 2) employee must include a copy of the receipt in order to verify the purchase; 3) the Department Head and fund custodian must sign the petty cash voucher.
- Steps for petty cash reimbursement: 1) a Payment Authorization Form is completed on a monthly basis to reimburse the fund; 2) the form must be signed by both the custodian and the Department Head; 3) all employee reimbursement vouchers are attached; 4) the check to reimburse the petty cash fund is made payable to the fund custodian.
- Maintain the petty cash fund in a locked cash box. Always keep the cash box locked, except when disbursing cash. The petty cash custodian and the Department Head are the only ones to maintain or have access to the keys of the lock box. Always secure the keys

to the cash box to prevent unauthorized access. Secure the locked cash box in a safe place after hours and on weekends.

Change Funds

- Each change fund has one custodian designated by the Department Head.
- Change funds are authorized for a specific amount and should be maintained at that level.
- Cash receipts are not to build up in a change fund. Receipts are to be deposited on a timely basis.
- Change funds are to be stored in a limited access area when not in use. Only the Department Head is to have access to the employee's change fund in the event of their absence.
- Change funds are to be kept in locked boxes. The locked box is to be kept in a secure area.
- Only the custodian and the Department Head should maintain keys and have access to these funds.

Cash Handling

- The Supervisor/Manager of the area is responsible for monitoring cash receipt functions. The supervisor shall issue one cash drawer for each cashier. Cashiers are not permitted to share a cash drawer.
- The Department Head is responsible for maintaining a clear separation of duties. An individual shall not have responsibility for more than one of the cash handling components: cash collection, deposit preparation, or reconciliation.
- Only one cashier is allowed access to a cash drawer during a single shift.
- Complete a deposit/revenue report if revenue collected is greater than \$100.

During this audit, testing was completed to ensure compliance with these policies and procedures. Some deviations from policy and/or other control weaknesses were identified and are described in the Detailed Audit Findings section of the report.

Detailed Audit Findings

Petty Cash and Change Fund Lists Maintained by Finance Are Not Current

To properly safeguard the City's assets, an accurate inventory of the funds, including the names of the authorized custodians and the fund amounts should be maintained.

During a review of the Petty Cash and Change Funds lists obtained from the Finance Department, errors were identified. The lists included names of custodians who were either retired, terminated or had transferred to another department within the City; and they included inaccurate dollar amounts for some fund balances.

Although departments are responsible to notify the Finance Department when changes occur, we were unable to confirm that departments always make this notification.

The lack of monitoring and maintenance of current, accurate information could result in theft or loss of funds not being detected timely.

Recommendations:

- 1. The City Auditor's Office recommends the Finance Department perform a review and update the Petty Cash and Change Fund lists and maintain a current status in the future.***
- 2. The City Auditor's Office recommends the Finance Department consider communicating a reminder to departments to notify Finance when there is a change in the existence, assigned custodian or dollar amount of these funds, to help ensure a consistent current status. Departments should be diligent in timely reporting to Finance when changes occur.***

Control Weaknesses Were Noted in Various City Locations

The Finance Department has established policies and procedures related to cash handling. Some specific requirements are shown below.

Change Fund policy:

- Each change fund has one change fund custodian designated by the department head.
- Only the department head is to have access to an employee's change fund in the event of his/her absence.
- Only the change fund custodian and the department head should maintain keys and have access to these funds.

Cash Handling policy:

- The supervisor shall issue one cash drawer for each cashier. Cashiers are not permitted to share a cash drawer.
- Only one cashier is allowed access to a cash drawer during a single shift.

During audit testing, control weaknesses were identified in the following locations:

1) Water Utilities South Service Center and Animal Services

The change funds at these two locations are locked in a safe, which is in a locked closet. However, five employees at each of these locations have both a key to the closet and know the combination to the safe.

Each of the five employees at the South Service Center and at Animal Services may act as a cashier. When the first person arrives for work, he/she can get into the safe and access cash to begin daily cash transactions. If the manager or supervisor of the location is late, operations can begin immediately.

Good cash controls include limiting the number of individuals with access to cash on hand. In each of these locations, the number of individuals having both a key to the closet and knowledge of the safe combination is excessive. The Finance Department's Change Fund Policy states that only the Change Fund Custodian and the Department Head should maintain keys and have access to these funds.

2) Tierra Verde Golf Course, Texas Rangers Golf Course and Lake Arlington Golf Course

At each of these locations, once a change fund is placed into the register for use, there are multiple employees within the area that have access to the registers. Any of several employees may process transactions using the same change fund. If losses occurred due to theft, it would be difficult to determine who was responsible.

At each of the golf courses mentioned, there are two cash registers and two change funds used for cashiers to process transactions. During each day, Tierra Verde Golf Course and Lake Arlington Golf Course normally use only one register, while Texas Rangers Golf Course uses two registers. There are circumstances during the day where the cashier is out for a time (i.e. lunch, meetings, doctor appointment, golf lessons, etc.) and another staff member steps in and operates the register. Currently, there is not a separate change box for each employee who serves as a cashier at these locations; therefore, all employees at each location (4 employees) could possibly use the same cash fund during a day.

3) Police Records Division

Within the Police Records Division, there is one cash register with two cash drawers and two change funds for cashiers to process transactions. Two employees are assigned as cashiers and access the cash drawers using a unique code. There are other employees within the area that can also access the register by use of his/her unique code. Per the Police Records Division, the other employees are not to be at the counter unless assigned by the supervisor. During each day, the Police Records Division uses both cash drawers. There are circumstances during the day where a cashier is out for a time (i.e. lunch, meetings, doctor appointment, etc.) and another staff member can step in and process transactions using that same drawer. Although cashiers' transactions are recorded by way of their unique code, currently, there is not a separate change box for each employee who may serve as a cashier in the Records Division. Therefore, all

employees at that location (up to nine employees) could possibly use the same cash fund during a day. As such, if losses occurred due to theft, it may be difficult to determine who was responsible.

The above circumstances were noted as control deficiencies or weaknesses related to the Finance Department's Change Fund or Cash Handling policies and procedures. The CASH HANDLING POLICY: GUIDELINES indicate each department and/or division shall develop procedures that meet the unique structure of their area and those procedures should comply with the guidelines prescribed by Finance. We noted departmental cash handling policies/procedures are established by only some departments.

These situations described above may exist due to convenience or operational efficiency and/or due to staffing levels at these locations. However, the weaknesses identified could increase the likelihood of theft and the inability to identify the responsible party. *It is also important to note video monitoring systems at each of the locations is a secondary control and may help deter theft, since the video can be reviewed at any time.*

Recommendation:

- 3. The City Auditor's Office recommends that the Finance Department communicate with the departments where control weaknesses were identified, to provide a reminder of the established policies and their related responsibilities. In addition, these departments should provide Finance with a corrective action plan.***

The Finance Department Cash Policies and Procedures Need Updating

Policies and procedures should be reviewed on a regular basis for reasonableness and alignment with current practices.

The Policies and Procedures for Change Funds were updated in August 2007. The Policies and Procedures for Petty Cash were updated in August 2010. There is no reference date on the Cash Handling Guidelines; therefore, the date of any recent changes could not be determined.

The policies include department names and titles that are no longer used. Some policies may no longer be reasonable, such as the current requirement for a daily deposit if the amount exceeds \$100.

Possible inefficient operations and lack of consistency throughout the organization could result if policies and procedures are not updated regularly to reflect current conditions and environment.

Recommendation:

- 4. The City Auditor's Office recommends that the Finance Department review and update, as needed, the Change Fund, Petty Cash, and Cash Handling Policies and Procedures.***

Petty Cash and Change Funds Should be Reviewed

As noted earlier in the report, as of the end of May 2019, there were 28 Petty Cash funds with a total balance of \$9,575. Considering the current use of procurement cards throughout the City, the number of petty cash funds should be minimal. It was noted by staff that some petty cash funds were not frequently used and may not be needed. Also, it appears that the number and dollar amount of petty cash funds at locations may be excessive. For example, at one location there are three separate petty cash funds each in the amount of \$800. For one of these, only four requests for reimbursement had been received in the past year. Others noted requests for reimbursement from their funds may only occur one to two times per year.

The Petty Cash Policy states a petty cash fund is a cash reserve assigned to a custodian for City approved purposes to reimburse and advance cash for incidental purchases. During the audit, it was noted recurring expenses, such as employee reimbursement for personal use of their vehicles, were paid from petty cash. In most cases, these expenses would be more appropriately managed with the use of an employee expense reimbursement request and payment by check to the employee.

During the review, it was also noted that in some cases the number and dollar amount of change funds in an office or building may be excessive.

Recommendations:

- 5. The City Auditor's Office recommends that the Finance Department perform a review of the number, dollar amount, and use of petty cash funds and make adjustments as needed.***
- 6. The City Auditor's Office recommends that the Finance Department perform a review of the number and dollar amounts of change funds and make adjustments as needed.***

**CASH CONTROLS AUDIT
AUDIT RECOMMENDATIONS AND MANAGEMENT RESPONSE**

RECOMMENDATION	CONCUR/ DO NOT CONCUR	MANAGEMENT RESPONSE	RESPONSIBLE PARTY	DUE DATE
1. <i>The City Auditor's Office recommends the Finance Department perform a review and update the Petty Cash and Change Fund lists and maintain a current status in the future.</i>	Concur.	Reconciliations for both funds are completed and reviewed on a monthly basis by Finance. Lists are updated in accordance with the policies when departments submit requests to add or change custodians. Going forward, Finance will request that departments review and confirm assigned custodians and amounts on an annual basis.	Amy Trevino, Controller	Dec 2019
2. <i>The City Auditor's Office recommends the Finance Department consider communicating a reminder to departments to notify Finance when there is a change in the existence, assigned custodian or dollar amount of these funds, to help ensure a consistent current status. Departments should be diligent in timely reporting to Finance when changes occur.</i>	Concur.	This can be included in the annual request for departments to review and confirm assigned custodians and amounts.	Amy Trevino, Controller	Dec 2019
3. <i>The City Auditor's Office recommends that the Finance Department communicate with the departments where control weaknesses were identified to provide a reminder of the established policies and their related responsibilities. In addition, these departments should provide Finance with a corrective action plan.</i>	Concur.	Finance will communicate with departments found to be in non-compliance with policies and will provide a reminder of the requirements and responsibilities in the annual review/confirmation process at year end.	Amy Trevino, Controller	Dec 2019

RECOMMENDATION	CONCUR/ DO NOT CONCUR	MANAGEMENT RESPONSE	RESPONSIBLE PARTY	DUE DATE
4. <i>The City Auditor's Office recommends that the Finance Department review and update, as needed, the Change Fund, Petty Cash, and Cash Handling Policies and Procedures.</i>	Concur.	Finance will review and update the applicable policies and procedures, as needed.	Amy Trevino, Controller	Dec 2019
5. <i>The City Auditor's Office recommends that the Finance Department perform a review of the number, dollar amount, and use of petty cash funds and make adjustments as needed.</i>	Concur.	Annually, Finance will request that departments review and confirm assigned custodians, amounts and adjust as needed.	Amy Trevino, Controller	Dec 2019
6. <i>The City Auditor's Office recommends that the Finance Department perform a review of the number and dollar amounts of change funds and make adjustments as needed.</i>	Concur.	Annually, Finance will request that departments review and confirm assigned custodians, amounts and adjust as needed.	Amy Trevino, Controller	Dec 2019