

CONSENT CALENDAR

September 17, 2002

Office of the City Auditor

To: Honorable Mayor and  
Members of the City Council

From: Ann-Marie Hogan, City Auditor

Subject: PARKS RECREATION & WATERFRONT CASH RECEIPTS / CASH  
HANDLING AUDIT

RECOMMENDATIONS:

That Council request the City Manager report back to Council in March 2003, and again in July 2003, on progress made in implementing the Auditor's recommendations in the attached report.

BACKGROUND:

The *Citywide Survey of Cash Receipts/Cash Handling* presented to Council on February 19, 2002 by the City Auditor identified 95 cash handling locations citywide, including 19 Parks Recreation & Waterfront (PRW) locations that directly receive and handle approximately \$2.0 million in program revenue annually. "Cash handling" includes cash and cash equivalents (such as checks).

The Director of PRW requested an audit of cash receipts and cash handling operations in PRW, and the results are in the attached report. Eight of the nineteen PRW locations were selected for review.

The auditors reviewed internal controls over cash handling in the PRW locations. Internal controls over cash provide assurance that assets are safeguarded, and that financial transactions are appropriately and accurately accounted for. Areas reviewed included:

- Physical security of assets
- Procedures for review and reconciliation of accounting records
- Segregation of duties, which provides for separate accountability and responsibility for initiating and reviewing work, in order to prevent the commitment and then concealment of an error or irregularity

Many of the findings and recommendations identified during the audit were reported by PRW to the auditors as being either implemented or resolved. Findings and recommendations that apply to the entire City should be resolved or implemented over the next year by Finance and Information Technology.

Findings included:

- Inadequate physical safeguards over cash
- Lack of sufficient segregation of duties to allow for proper oversight of cash handling
- Lack of monitoring of timeliness of deposits, and controls over issuing receipts
- Lack of general policies and guidelines for handling cash. Cash handling throughout the City is inconsistent, increasing the risk of loss or misuse of City funds.
- Cash handling training is not conducted on a regular basis. As a result, personnel responsible for handling cash do not appear to be taking appropriate steps to safeguard City funds at program locations.
- Lack of formal Citywide procedures in place regulating the purchase or modification of application software affecting cash receipts and accounting systems.
- Cash handling staff has customer account access in FUNDS (the City's financial software). This gives program staff who handle cash the ability to delete or add customers, establish new customer charges and rates, and enter adjustments to customer accounts.

FINANCIAL IMPLICATIONS:

PRW reports having allocated additional staff resources in order to implement immediate improvements, as well as upgrading one position and incurring costs for equipment such as new cash registers. More comprehensive oversight by Finance and Information Technology over Departmental accounting software purchases and implementation may also require additional resources in those departments. Costs of these implemented and planned actions have not yet been determined.

Planning, organizing, and implementing a plan to train every individual in the City who performs or supervises cash handling duties will clearly require additional resources, both immediate and long-term. Based on information provided by the City's training officer, conducting a two day training for 300 people, with 15 people in each class, could cost between \$40,000 and \$120,000 for the first year, if performed by an outside firm.

PRW has 19 cash handling sites. Sending two employees from each location to training, including travel time from off-site locations, could easily cost over \$30,000 in staff time the first year.

Based on discussions with PRW management, it appears that, in order to fully implement our recommendations regarding segregation of incompatible duties and daily deposits at certain off-site locations such as swimming pools and recreation centers, additional staff time would be required. For example, the workload impact of requiring an employee from Parks administration to drive to each of the off-site locations every day so a second person can independently verify cash counts (as recommended in the Citywide procedures), could easily be a half time employee.

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Approved by:

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# City of Berkeley



## Parks Recreation & Waterfront Cash Receipts /Cash Handling Audit

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Presented to Council September 17, 2002

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**I. PURPOSE AND OBJECTIVE OF THE AUDIT**

Included in the City Auditor's fiscal year 2002 audit plan submitted to Council on June 26, 2001, were audits of internal controls over cash. The Director of Parks Recreation & Waterfront (PRW) requested that PRW be selected for a cash audit.

The purpose of this audit was to determine if the procedures and practices for receiving, handling, and depositing cash and cash equivalents at selected PRW program locations throughout the City of Berkeley are effective and to ensure that the money received is adequately safeguarded.

**II. SCOPE AND METHODOLOGY**

This audit was limited to the cash and cash equivalents handling practices at the following eight PRW locations:

1. Center Street (front desk).
2. Disabled Recreation.
3. Marina (operations).
4. Marina Nature Center and Adventure Playground.
5. King Swim Center.
6. Willard Swim Center.
7. Tuolumne.
8. Young Adult Project.

The audit process included:

- Obtaining and reviewing written procedures.
- Conducting interviews and walkthroughs of processes with personnel handling cash and cash equivalents at the locations.
- Evaluating procedures, practices, and physical safeguards in place.
- Reviewing deposit documentation on a sample basis.
- Evaluating corrective actions taken as a result of previous reviews of Citywide internal controls over cash.
- Reviewing Citywide Administrative Regulations.
- Reviewing corrective actions presented to the City Council related to prior audits of the City's internal controls over cash receipts.

The locations were selected based on information obtained from the *Citywide Survey of Cash Receipts/Cash Handling*, presented to the City Council on February 19, 2002 by the City Auditor, discussions with PRW administration staff, and auditor judgment.

Audit work was performed in accordance with Generally Accepted Government Auditing

Standards and was limited to those areas specified in the scope and methodology section of this report.

### III. BACKGROUND

The *Citywide Survey of Cash Receipts/Cash Handling* identified a total of 19 PRW locations that directly receive and handle approximately \$2.0 million in program revenue annually. Of the eight programs audited, the Health and Human Services (HHS) department previously administered six; exceptions were the two Marina locations. Program administration of the six locations was transferred to PRW effective September 2001.

### IV. FINDINGS AND RECOMMENDATIONS

#### PARKS, RECREATION & WATERFRONT

##### **Finding 1: Program Deposits To The Treasury Were Not Timely**

The audit found that deposits were not being made timely to the Treasury at five program locations. These five programs handle approximately \$1.6 million in revenue annually. Deposits totaling hundreds to thousands of dollars were not deposited daily.

The Finance Department's procedures for cash handling state: "deposits must be made daily to the Treasury unless, your deposit is a \$100.00 or less."

When deposits are not made timely the risk for loss or misuse of City funds is increased. In addition, this condition can result in a potential revenue loss because of delay in depositing funds into interest earning accounts. Also, this practice can result in program fees being recorded in the wrong accounting period, and is not compliant with the Finance Department's procedures for cash handling.

##### **Response From PRW Administration**

*Agreed. Given staffing resources, it is not always possible to make deposits on a daily basis in remote locations.*

##### **Recommendation 1.1:**

All program locations should begin to make deposits timely and in accordance with the Finance Department's procedures for cash handling.

##### **Response From PRW Administration**

*PRW has implemented policy in accordance with Finance Department procedures that require deposits over \$100 to be made on a daily basis whenever possible. It should be noted that some of the remote locations (e.g., Tuolumne Camps) might not always be able to physically deposit funds on a daily basis – as the money has a long way to travel back to the City. However – as soon as funds are logged in the main safes (Parks Administration, Recreation Administration, Marina Administration), deposits are made on a daily basis. No substantial additional cost or resources are anticipated for the implementation of this process. Workload will simply be altered to accommodate the requirement for daily deposits. However, if daily deposits are required in remote locations such as Tuolumne Camp, swim centers, and recreation centers, additional FTEs will be required. It is not yet known what the actual cost would be.*

**Finding 2: Cash Handling Duties Were Not Adequately Segregated**

The audit disclosed that cash handling duties were not adequately segregated at all locations. The person who was receiving cash would, at certain times, also be doing the daily cash balancing and preparing the deposit receipt.

For example, in one case the same person authorized reservations, recorded the reservations in the books of account, received the payments directly from the participants, and made the deposits of the payments to the Treasury.

Segregation of incompatible duties is generally accepted as an essential part of internal control procedures and practices. Segregation of duties reduces the risk of loss through errors or improper activity, by providing independent: a) verification of transactions, and (b) custody of related assets. No one person should be able to: a) authorize a transaction, b) record the transaction in the books of account, and c) ensure custody of the asset resulting from the transaction. Finance Department procedures for cash handling state that cash receipts should be verified to the cash count sheet by a second person.

In some cases this condition was the result of limited staff size and availability at the location; for example, when only one person is available; and/or, when duties must be shared during the day in order to serve program participants.

When duties are not properly segregated, there is a risk that individuals responsible for committing errors or irregularities can conceal them. This condition increases the risk for loss or misuse of City funds.

**Response From PRW Administration**

*Agreed.*

**Recommendation 2.1:**



Establish in practice and procedures that cash receipting and depositing duties be effectively segregated.

**Response From PRW Administration**

*Effective July 1, 2002, PWR has fully implemented practices and procedures that segregate cash handling duties to the greatest extent possible, in consideration of efficiency of operations and available resources. Additionally, PWR has reclassified a clerical position to an Accounting Office Specialist III effective July 21, 2002, to assist in specific cash handling operations and ensure proper funds reconciliation. Further segregation of duties at the remote locations such as the pools and recreation centers poses a more difficult task – as those locations are often staffed with a single individual. The cost to maintain a minimum of two staff persons in these situations could result in increased FTE. The actual cost is unknown.*

**Finding 3: Change Funds Were Not Properly Maintained**

Change funds were being used at five program locations. The change funds range from \$20 to \$100 and were oftentimes commingled with customer receipts. We noted that on some occasions when the change fund was either missing or depleted, it was inappropriately replenished with customer receipts or personal finances. Losses were not reported or recorded.

In addition, too many people have access to the change fund. In one location up to 60 people have access to the fund. The unrestricted access to the funds substantially increases the risk of misappropriation or unauthorized use of funds.

**Response From PRW Administration**

*PRW agrees that change funds should be better managed and access should be limited to specific staff. Regarding the above mentioned location, staff has been instructed to keep the change fund locked at all times and to restrict access to a limited number of staff.*

**Recommendation 3.1:**

Access to change funds should be restricted and limited. Change funds should be maintained separate from customer receipts. Any losses should be properly recorded and reported in accordance with City policies. Replenishment of change funds should be formally requested in accordance with City policies.

**Response From PRW Administration**

*Effective July, 1, 2002, PRW has implemented policy to ensure that change funds are managed in accordance with City policies. Access to funds has been limited to key personnel to reduce risk of loss.*

**Finding 4: Deposits To The Treasury Were Not Being Monitored**

The length of time deposits were held in the Parks administration drop safe could not be determined. The Parks administration drop safe is available for program deposits on a daily basis. Two of the eight programs reviewed used the Parks administration drop safe for deposits.

Since the deposits dropped in the Parks administration safe are still in transit to the Treasury, Parks administration should have a procedure to monitor deposit activity and to determine if deposits are being processed to the Treasury in a timely manner.

There were no controls established to monitor the drop safe deposit activity, including the further processing of deposits to the Treasury.

When deposit activity at the Parks drop safe is not monitored there is a risk that deposits to the Treasury would not be made timely, and this condition would not be detected.

**Response From PRW Administration**

*Agreed.*

**Recommendation 4.1:**

Establish a deposit log for the Parks administration drop safe. The log information should contain: the program identification, date the deposit was dropped, initials/name of the person dropping the deposit, and the date the deposit was made to the Treasury by Parks administration staff. Parks staff not responsible for processing and making the deposits to the Treasury should review the log on a regular basis.

**Response From PRW Administration**

*PRW established a deposit log effective 3/14/2002, which is verified daily to ensure timely deposits. Additionally, PRW has implemented the policy that all deposits collected for the Recreation Division shall be dropped daily into the safe at Parks administration. PRW administrative staff will deposit funds to the City Treasury within 24 hours. Administrative staff at the Marina deposits funds collected at the Berkeley Marina and Treasury deposits shall occur daily.*

**Finding 5: Deposits Were Not Verified To Revenue Accounts**

For one program, deposits were not being monitored and verified after deposit to the Treasury.

Program revenues for December 2001 through April 2002 were deposited to the Treasury, but were recorded to the wrong account. This was not corrected until May 2002, after the auditors questioned the lack of revenue for the program.

The Finance Department's procedures for cash handling state that after revenue is deposited to the Treasury: "every department"..."should verify that monies were credited to [the] proper revenue account and in the correct amount".

Not only is this practice not compliant with the Finance Department's cash handling procedures, but, as a result of not monitoring revenue after deposit with the Treasury, the program's revenue of \$44,983.00 was not properly recorded over a period of five months.

**Response From PRW Administration**

*Agreed.*

**Recommendation: 5.1:**

Revise procedures and practices to include that deposits to the Treasury will be subsequently verified for correct account codes and amounts.

**Response From PRW Administration**

*An adjusting journal reclassifying the program revenue to the proper account code was prepared by Parks administration on 5/02/2002. The error is primarily attributable to the merger of the Recreation Division into PRW and the resultant account code changes. PRW has implemented policy that all deposits are checked in the FUND\$ system on a weekly basis to ensure proper posting.*

**Finding 6: Physical Safeguards Over Cash Were Inadequate**

At one location, money kept in the cash drawer and large safe was not safe guarded. We found that the large safe contained approximately \$4,000.00 in key deposits. Also, based on a sample of receipts reviewed, the average amount of receipts in the cash drawer on a daily basis was over \$900.00.

Too many people have access to the cash drawer and large safe. As many as six people have access to the safe. Once opened each morning, the cash drawer and large safe are left unlocked all day.

The Finance Department's cash handling procedure requires a secured location to store and provide safekeeping of money, and that this location be locked at all times. The safeguards of having a locked drawer and safe are essentially defeated if they are left open.

In addition, people authorized to access the safe should be minimized. Allowing too many people access to the safe and leaving the safe and cash drawer unlocked significantly increases the risk for loss or misuse of City funds.

### **Response From PRW Administration**

*Agreed.*

### **Recommendation 6.1:**

The cash drawer and large safe should be locked until access is needed. The minimal number of people needed to operate the program should be authorized to access the safe. All others' access should be removed.

### **Response From PRW Administration**

*PRW has implemented a number of safeguards. Effective July, 1, 2002, safe procedures have been revised for all locations, which limit the number of staff with access to the safes. New safes were purchased for two locations, which reduce the need to open the door to deposit funds. Two locking cash drawers were installed, with access allowed for one person per drawer. A new cash register was purchased, with additional new registers planned.*

## **Finding 7: Inadequate Controls Over Maintaining And Issuing Receipts**

### ***Finding 7.1 Accounting for Receipts***

At one location the audit found:

- Voided or blank receipts with no documented description, explanation, or signature provided.
- Duplicate receipts (same numbers) issued on the same day, neither receipt was signed or initialed by program staff.
- No receipts log is maintained for numbered receipts.

These receipting practices are not compliant with the Finance Department's procedures for book receipts.

The Finance Department's procedures for cash handling state that: "when using a numbered receipts book the receipts must be used in numerical order and a log maintained in the department." "Any voids and cancellations must be noted and accounted for." "Under no circumstances is a duplicate receipt to be issued." In addition, these procedures require that

receipts must be completely filled out, including the date and signature of the person receipting the money.

When the controls over maintenance and issuance of receipts are not effective, the risk of loss or misuse of City funds is increased. When receipt numbers are not properly recorded or accounted for, it increases the risk that money can be received, and be receipted, without deposit to the City Treasury; and individuals responsible for committing errors or irregularities can conceal them.

### **Response From PRW Administration**

*Agree*

### **Recommendation 7.1:**

Revise the written procedures and practices to be in compliance with Finance's procedures for using receipts. Emphasize to staff the importance of not issuing duplicate receipts.

### **Response From PRW Administration**

*Effective July 1, 2002, PRW has implemented the procedure that Daily Total Sheets that log receipt numbers and the NCR copy of the receipts be maintained at each site. The department is currently working with IT and a private vendor to develop a computer program that will allow for printed receipts and transaction reports to eliminate the manual issuance of receipts. The department is hoping to have this implemented as soon as possible. In addition, PRW has installed credit card machines to reduce cash tendered.*

### ***Finding 7.2 Issuing Receipts***

Receipts at one location were not issued at the time of the transactions. The cash register used at the location did not have the capability of printing receipts for the transactions, or compiling a daily print out recap of the sales activity, which can be reconciled to the money received. Also, book receipts were not used for each transaction.

The Finance Department's procedures for accepting currency (cash or checks) state that: "cash register receipts and or book receipts are to be issued at the time of the transaction." Also, the Finance Department's procedures for cash handling require receipts to be used for cash balancing.

When receipts are not issued at the time of the transactions, the cash cannot be balanced to the amount of revenue recorded or received on a daily basis, this could result in errors in recording revenues, and is not compliant with the Finance Department's procedures for cash handling or accepting currency. The controls over the receipt of cash at this location are not effective; as a result, the risk of loss or misuse of City funds is increased.

**Response From PRW Administration**

*Agreed.*

**Recommendation 7.2:**

Replace the cash register with one that can provide a receipt at the time of the transaction, or provide written receipts.

**Response From PRW Administration**

*On July 1, 2002, Parks administration purchased a new cash register that can provide receipts at the time of the transaction, and a recap of sales at the end of the day.*

**Finding 8: Fees Collected Did Not Comply With The City's Rate Structure**

The cash registers used at the pools to record receipts, and to provide a daily record of revenue received for the programs, did not have the capability to record the revenue for all of the swim rates established for the swim programs. Fees were recorded at resident rates.

The City establishes fees for swim programs conducted at its swim centers. Separate fee rates are established for resident, nonresidents; and by program, such as, lap swims, and public swims.

As a result of not collecting the proper fees established for the swim programs, the revenues being collected were not accurately recorded for the swim programs conducted, were recorded at lower rates, and were not compliant with the rates authorized by the City.

**Response From PRW Administration**

*Agreed.*

**Recommendation 8.1:**

Develop a plan to ensure that all fees received are recorded in accordance with the City's approved rates.

**Response From PRW Administration**

*Parks administration is purchasing new cash registers for several locations that can accommodate all of the approved rate structures in effect at the Pools. It is anticipated that these registers will be purchased and installed by November 1, 2002.*

**Finding 9 Daily Cash Record Balancing Forms Were Not Being Properly Completed**

At one location staff signatures for the opening and closing cash balances were not consistently obtained on the Cash Record. The starting cash (change fund) amount was not always recorded and accounted for separately from the cash receipts on the Daily Cash Record in areas provided on the form. The amount of the starting cash recorded was not always \$50.00. Starting cash amounts of \$40.00 and \$100.00 were also recorded, and in some cases no amounts were recorded on the Cash Record.

The Daily Cash Record is not reviewed on a regular basis by the supervisor responsible for staff preparing the Daily Cash Record.

According to the program's written procedures, a Daily Cash Record is to be completed at the end of every day. Procedures require that the date, range of receipt numbers, and totals of checks and currency, and starting cash) amounts be recorded on the Cash Record. Staff initials are required on the Cash Record at daily closing, and opening of the cash drawer. Also, according to practices in place, a change fund of \$50.00 should be maintained.

As a result of not properly completing the Daily Cash Record, discrepancies in the receipt information recorded, starting cash amounts, and lack of staff signatures are not noted and resolved on a timely basis. When the Daily Cash Record is not properly maintained and supervised there is a risk that the individuals responsible for committing errors or irregularities can conceal them. This condition increases the risk for loss or misuse of City funds.

**Response From PRW Administration**

*Agreed.*

**Recommendation 9.1:**

Revise procedures for maintaining the Daily Cash Record to include more details on proper completion of the Cash Record, and regular supervisory review. Train staff on the proper use of the Cash Record.

**Response From PRW Administration**

*Effective July 1, 2002, PRW has implemented and reviewed with staff the appropriate policies and procedures regarding maintenance of a Cash Record.*

**Recommendation 9.2:**

Maintain separate records and custody of the change funds.

**Response From PRW Administration**

*Effective July 1, 2002, PRW has implemented and reviewed with staff the appropriate policies*

*and procedures regarding maintenance of a Change Fund.*

**Recommendation 9.3:**

Revise practices to require that all discrepancies on the Daily Cash Record should be resolved prior to the recount for deposit to the Treasury, and to include steps for resolving and reporting any discrepancies and/or losses.

**Response From PRW Administration**

*Effective July 1, 2002, PRW has implemented and reviewed with staff the appropriate policies and procedures regarding maintenance of a Daily Cash Record.*

**FINANCE**

**Finding 1 Finance: No Citywide Administrative Regulations Over Cash Handling.**

The Finance Department has not developed and implemented Administrative Regulations over cash handling activities.

The City of Berkeley Municipal Code Section 2.44.040 assigns the responsibility for the receipt and safekeeping of all City money to the Finance Department.

The *Review of Internal Controls Over Cash Receipts* presented to the City Council on May 19, 1992 by the City Auditor concluded: “There is a general lack of policies and guidelines for use by managers of those units with responsibility for handling cash.” Furthermore, this review recommended that cash handling policies be disseminated to staff. Finance concurred and developed a training program and cash handling manual. The training was completed and the manuals were distributed in December 1992. The training manuals have not been updated on a regular basis since the original training in 1992. Furthermore, the cash handling practices have not been established in Administrative Regulations for Citywide dissemination. Cash handling activity throughout the City is significant and controls over it need to be strengthened:

- The *Citywide Survey of Cash Receipts/Cash Handling*, presented to the City Council on February 19, 2002 identified 95 locations (in 18 departments) that handle cash and cash equivalents.
- This audit found inconsistent practices in place at six of the eight program locations reviewed, which effect the timeliness of deposits to Treasury, segregation of cash handling duties, authorization and use of change funds, monitoring of deposits, physical safeguarding and receipting of funds, and daily cash balancing.

As a result of the lack of Administrative Regulations over cash handling functions, program personnel responsible for handling money do not have effective, consistent, and updated guidance for safeguarding money received at program locations throughout the City. This



condition increases the risk of loss or misuse of City funds.

### **Response From Finance**

*Finance agrees with Finding 1.*

### **Recommendation 1.1 Finance:**

The Finance Department should establish and distribute Administrative Regulations (A.R.s) that address basic cash handling control areas, such as, segregation of duties, timeliness of deposits, provision for regular training of cash handlers, monitoring and tracking of revenue after Treasury deposits, and cash receipts record retention. In addition, we recommend that A.R.s be established for obtaining and using change funds, and for reporting thefts or losses of City money.

### **Response From Finance**

*The Finance Department agrees with Recommendation 1.1 and will fully implement it by the end of FY 2003. Implementation will include establishing, distributing, and enforcing Administrative Regulations (ARs) that address (1) basic cash handling control areas such as segregation of duties, timeliness of deposits, provision for regular training of cash handlers, monitoring and tracking of revenue after Treasury deposits; (2) cash receipts record retention; obtaining and using change funds; and (3) reporting thefts or losses of City money.*

### **Finding 2 Finance: Cash Handling Training Is Not Being Conducted On A Regular Basis.**

The Finance Department has not continued the Citywide cash handling training program for program staff that was established as a result of prior audits.

The *Review of Internal Controls Over Cash Receipts* presented to the City Council on May 19 1992 analyzed the results of eleven audit reports issued in 1990 and 1991 and concluded that the audits “identified significant weaknesses in cash handling practices.” In response to this review, the Finance Department implemented a cash handling training program to be offered on a quarterly basis and developed a cash-handling manual that was distributed to the attendees during the classes. These corrective actions were documented in a memorandum for City Council Information dated March 2, 1993. However, Finance has not maintained this training program on a regular basis as documented in the corrective actions memorandum. Cash handling activity throughout the City is significant and controls over it need to be strengthened:

- The *Citywide Survey of Cash Receipts/Cash Handling*, presented to the City Council on February 19, 2002 identified 95 locations (in 18 departments) that handle cash and cash equivalents.
- This audit found inconsistent practices in place at six of the eight program locations reviewed, which effect the timeliness of deposits to Treasury, segregation of cash

handling duties, authorization and use of change funds, monitoring of deposits, physical safeguarding and receipting of funds, and daily cash balancing.

As a result of not maintaining the cash handling training program, personnel responsible for handling money do not have current, effective, consistent and updated training on safeguarding money received at program locations throughout the City. This condition increases the risk for loss or misuse of City funds.

**Response From Finance**

*Finance agrees with Finding 2.*

**Recommendation 2.1 Finance:**

The Finance Department should re-establish and maintain the cash handling training program for cash handling staff on a Citywide basis as described in the corrective actions memorandum for City Council Information dated March 2, 1993. Training should be available quarterly, and include testing and certification of staff.

**Response From Finance**

*Finance agrees with Recommendation 2.1. Finance Accounting and Management Staff will immediately begin implementing on site cash handling assessments and trainings and will visit all programs identified in prior audits by March 31, 2003. Some preliminary visits will occur before March 31, 2003.*

*The City Manager has identified Cash Handling as a citywide critical initiative for FY03, with Finance as the lead. This will include: further development of cash handling policies and procedures; provision of procedure manuals and training to all City staff managing or performing cash handling activities; and enforcing these policies and procedures. Further development of Administrative Regulations and training programs will be part of the Cash Handling Initiative.*

**Recommendation 2.2 Finance:**

Employees who have not been trained, tested, and certified by Finance, should not be permitted to handle cash.

### **Response From Finance**

*Finance agrees with Recommendation 2.2 and will establish a schedule for citywide training and appropriate testing and certification of cash handling staff as part of the Cash Handling Initiative. This training will occur during FY 2003. The Director of Finance is considering an amendment to the BMC that would authorize the Department to execute this oversight in other departments. In the meantime, Finance will develop a procedure to notify Department Directors and the City Manager when there are indications that staff is not counting cash properly. This procedure will be developed and disseminated by December 31, 2002.*

## **FINANCE AND INFORMATION TECHNOLOGY**

### **Finding 3 Finance and I/T: Program Software Has Not Been Integrated With FUNDS.**

The Director of PRW requested the auditors make recommendations to resolve the on-going problem of integrating PC software in use at one program into the City's enterprise financial system FUNDS (HTE). The main objective of the integration was to reduce the work of maintaining two systems (HTE and the PC software) by program staff with the same customer information.

The program purchased the software in May 1999. Interviews with IT and program staff indicate that program management began consulting with IT regarding the purchase of the software in 1997. Finance staff indicated they were involved in this process in late 1998. Other information obtained indicates that IT and Finance staff began meeting with the software vendor on integration issues in June 1999.

Despite the time that the IT and Finance departments spent on the integration project over the last few years, we found that the software is still not integrated and the status of the project is not clear.

In many cases, program specific application software can help managers operate their programs more efficiently, and provide improved and/or expanded services. When program efficiency is increased or services are expanded beyond prior capabilities, the City and its citizens also benefit.

The audit found that there were no formal Citywide procedures in place describing processes for the initiation and management of projects relating to the purchase or modification of application software. It is apparent that the lack of effective procedures over these types of projects has resulted in City resources being expended over several years without resolution on this project.

Lack of effective procedures over the purchase or modification of software increases the potential for wasting the City's resources on costly incompatible systems or abandoned projects. In addition, departmental management needs formal procedures to document and to report on

project status, conclusions, and recommendations. Furthermore, there is risk that controls to ensure the integrity of the data in the accounting system, and to ensure that assets are protected against loss and misuse, may not be effectively established.

**Response From Finance and I/T:**

*Finance and I/T agree with the Finding 3*

**Recommendation 3.1 Finance and I/T:**

Develop and distribute an Administration Regulation (A.R.) over the acquisition and/or modification of vendor software requested by the City's programs. The A.R. should not only promote effectiveness but should also promote efficiency and should clearly define the entire process for purchasing new software or modifying existing software. The A.R. should stipulate that:

- All software related projects which require interface with HTE (purchase or modification) be reviewed by the FUNDS Policy Committee (the Committee).
- Approval of the Directors of IT and Finance and the Budget Manager be obtained in writing prior to acquisition or beginning of work on a project.
- The Committee will complete its evaluation and analysis of the Needs Analysis Report submitted by the requesting department and will provide, in writing, an approval or will list other plans of action to the requesting department director within 30 days.

**Response From Finance and I/T:**

*Finance and I/T agree with Recommendation 3.1. With I/T as Lead, an A.R. will be developed with Finance working on the financial requirements. This A.R. will be completed by 6/30/2003.*

**Recommendation 3.2 Finance and I/T:**

Identify current program projects which involve integration with HTE and include these for review by the FUNDS Policy Committee for evaluation and disposition.

**Response From Finance and I/T:**

*I/T and Finance agree with Recommendation 3.2 and I/T will provide this information to the FUNDS Policy Committee by 9/30/2002.*

**Finding 4 Finance and I/T: Cash Handling Staff Has Customer Account Access in FUNDS.**

Personnel with cash receipt and cash handling responsibilities at one location, also had user group access to the FUNDS miscellaneous receivable (MR) module. Through their user group access to MR, the program staff could perform the following customer account maintenance in MR in addition to their cash handling duties at the program location:

- Deleting or adding customers from the system.
- Establishing new customer charges and rates.
- Entering adjustments to customer's accounts.

Segregation of incompatible duties is generally accepted as an essential part of internal control procedures and practices. Segregation of duties reduces the risk of loss through errors or improper activity by providing independent verification of transactions, and independent custody of assets.

Finance Customer Service establishes user group authority for City personnel in MR based on requests by program management. In this case the program's staff was granted user group authority to provide certain customer service capabilities at the program location so the customer would not have to go to the Finance Customer Service office in town for all transactions. The program staff has the authority to initially set up a permanent customer in MR, compute the charge rate, and record the first month's fee and security deposit, at the program location. Once a customer is set-up in MR, Finance prepares the subsequent monthly billings and collects the fees. On occasion, adjustments to the customer accounts are necessary, and the program was given access to MR to enter these directly into MR from the program location.

When billing rates are changed or a customer's charges are adjusted, the transactions appear on an Adjustment Update Report. This report identifies the amount, the date, the description, and the program making the adjustment. A review of this report for June 24, 2002 revealed that a program staff member made two adjustments to customer accounts for charge reversals. Current procedures do not require that Finance Customer Service review the Update Report and follow up with departmental management on any improper or questionable adjustment transactions.

When personnel who have cash handling duties also have access to customer accounts in the MR system, there is a risk that individuals responsible for committing errors or irregularities can conceal them. This condition increases the risk for loss or misuse of City funds.

**Response From Finance and I/T:**

*Finance and I/T agree with Finding 4*

**Recommendation 4.1 Finance and I/T:**

Limit user group access to functions in MR that can change customer balances to program staff with no cash handling duties.

**Response From Finance and I/T:**



*Finance and I/T agree with Recommendation 4. Access for one employee has been removed. We will limit further access by 12/31/2002*

**Recommendation 4.2 Finance and I/T:**

Determine the feasibility (including IT cost and customer service considerations) of removing the program user group MR access to the following functions:

- Delete customer accounts (Customer Maintenance –General, Customer Master Maintenance).
- Make adjustments to customer accounts (Charge Entry).


**Response From Finance and I/T:**

*Finance  IT agree with Recommendation 4.2. and will determine the feasibility of removing the aforementioned user groups . Finance believes that the oval of user group in MR to “delete customer accounts” is feasible and it can be completed by 9/30/02. Regarding the removal of user group” to make adjustments to customer accounts”, the evaluation will be completed by 12/31/2002 to include HTE version.6.1 upgrade changes. In addition, Finance Customer Service, Treasury, Systems and Marina management will develop improved policies and procedures by 2/28/03.*

**Recommendation 4.3 Finance and I/T:**

If removing user group access, or limiting program staff access is not feasible, the Finance Customer Service billing section for this program should review the Adjustment Update Report on a regular basis and document any improper or questionable adjustments for departmental and program management information and action.

**Response from Finance and I/T:**

*ance and I/T agree with Recommendation 4.3 and, due to HTE version.6.1 changes, plan to phase the Adjustment Update Report review procedures in by 12/31/02.*

**V. CONCLUSION**

Parks Recreation & Waterfront

Cash receipting and handling policies and procedures at Parks Recreation & Waterfront program locations should be strengthened.

To correct this situation, Parks administration should take steps to implement or revise practices and procedures over cash handling activities to specifically address:

- Timely depositing of money to the Treasury.
- Segregation of cash handling duties.
- Verifying account coding and accuracy after deposit to the Treasury.
- Physical safeguarding of money received.
- Receipting of transactions and daily balancing.
- Use and maintenance of change funds.
- Ensuring that program fees collected at programs for services are compliant with rates established by the City.

Citywide: Finance and Information Technology

There were no Citywide cash handling procedures (Administrative Regulations) established, and the Finance Department has not continued the Citywide cash handling training program for program staff that was established as a result of prior audits. In addition, program application software was not integrated with FUNDS\$, and cash handling staff has customer account access in FUNDS\$.

To resolve these conditions the Finance Department should take the following steps:

- Establish and distribute Administrative Regulations that address basic cash handling control areas as detailed in the audit findings.
- Re-establish and maintain the cash handling training program on a regular basis for program staff Citywide.
- Require that only employees who are certified under the Finance Department's cash handling training program be allowed to handle cash.
- Establish and distribute an Administrative Regulation over the acquisition and/or modification of vendor software.
- Limit user group access to functions in MR that can change customer balances, to program staff with no cash handling duties.

Benefits and Costs

Implementation of our audit recommendations should strengthen internal controls over cash handling and accounting for cash throughout the City. However, this benefit is not without cost.

PRW reports having assigned additional staff time in order to implement immediate improvements, as well as incurring costs for equipment such as new cash registers. More comprehensive oversight by Finance and Information Technology over Citywide accounting software purchases and implementation may also require additional resources in those departments. Costs of these implemented and planned actions have not yet been determined.

Planning, organizing, and implementing a plan to train every individual in the City who performs or supervises cash handling duties will clearly require additional resources, both immediate and long-term.

Based on our previous survey of Citywide cash handling, there are over 90 cash handling locations in the City. Even if only an average of about three people per location were trained, this means training and certifying 300 employees. Assuming a five-year staff turnover in these particular positions, an average of 60 new employees would need to be trained annually.

Based on information provided by the City's training officer, conducting a two day training for 300 people, with 15 people in each class, could cost between \$40,000 and \$120,000 for the first year, if performed by an outside firm.

PRW has 19 cash handling sites. Based on discussions with PRW management, sending two employees from each location to training, including travel time from off-site locations, could easily cost over \$30,000 in staff time the first year.

PRW has stated that, in order to fully implement our recommendations regarding segregation of incompatible duties and daily deposits at certain off-site locations such as swimming pools, additional staff time would be required. For cash-handling sites such as pools and recreation centers, the workload impact of requiring an employee from Parks administration to drive to each off-site location every day in order to provide the necessary checks and balances, as well as daily deposit, could easily be a half time employee.

The City Auditor's Office recognizes that PRW requested this audit and commends them on their efforts to improve operations. We were impressed by the cooperation that we received from the three departments involved in this audit and we appreciate the assistance from the staff members and management in Parks Recreation & Waterfront, Finance, and Information Technology.