



Office of the City Auditor

CONSENT CALENDAR

May 16, 2006

To: Honorable Mayor and  
Members of the City Council

From: Ann-Marie Hogan, City Auditor

Submitted by: Ann-Marie Hogan, City Auditor

Subject: Audit: Follow-up Cash Receipts / Cash Handling Audit

RECOMMENDATION

Request the City Manager to report back by May 16, 2007, and every twelve months thereafter, regarding the implementation status of each audit recommendation in Follow-up Cash Receipts / Cash Handling Audit, until each recommendation is reported as fully implemented.

SUMMARY

As part of the City Auditor's fiscal year 2006 audit plan, a follow-up cash handling audit was performed. This audit looked at ten prior year audit recommendations from three cash receipts / cash handling audits issued during fiscal years 2003 and 2004. The prior audits had been conducted in Finance – Customer Service, Finance – Treasury, and at the Public Works Transfer Station. Follow-up was conducted on recommendations that management had earlier reported to Council as having been fully implemented. Recommendations selected for follow-up were those the auditor determined were of high importance, and those that the auditor thought may not have been fully implemented as reported. Audit follow-up revealed only one of the ten audit recommendation (10%) receiving a follow-up review had been fully implemented. Seven recommendations (70%) had only been partially implemented. In a number of instances, non-implementation, or only partial implementation of recommendations, resulted in some significant internal control weaknesses that could allow material errors and irregularities to go undetected. Weaknesses found included a lack of segregation of incompatible duties and a lack of supervisory review and approval of work.

Subsequent to audit fieldwork being completed, Finance and Public Works reported that all but one of the ten prior year audit recommendations that had received audit follow-up had been fully implemented. We commend Finance and Public Works for implementing these recommendations before this audit report was issued. Several of these recommendations significantly improve the internal control structure over the City's cash receipts. Recommendation 3 from the Finance – Customer Service Cash Handling Audit, which was not implemented, recommends that FUNDS authorization that gives the Customer Service cashiers the ability to perform specific duties that are incompatible with their cash receipting duties, be taken away. (FUNDS is the City's automated accounting system software.) Current authorization can give them the opportunity to conceal unauthorized cash receipting and billing activity,

including the theft of payments. Finance representatives have stated this recommendation has not been implemented primarily because of limited staff resources and limitations with the security structure in FUNDS. During audit follow-up, auditors also identified another area where Customer Service cashiers have incompatible cash receipt and billing authorization in FUNDS.

As part of the follow-up audit, surprise cash counts also were performed in Finance – Treasury and Finance – Customer Service (front counter cashier area). These reviews found no significant unidentified differences between the amount of money that should have been present and the amount of money actually present.

Our audit also looked at whether Finance was planning and conducting cash handling reviews and surprise cash counts in departments other than their own. Finance Department representatives stated these cash reviews were being planned and performed, and provided support documentation for this assertion. Our audit recommends Finance include some additional information in their reports, as well as a recommendation regarding report distribution. Finance has subsequently reported that they agree with this recommendation and have implemented it.

Lastly, the follow-up audit looked at whether Finance was planning and providing cash handling classes to City staff, as they had been in the past. The auditors found formal classes were not being provided and that Finance had no definite plans to resume providing classes in the future. Finance management explained that the individual in Finance responsible for developing and teaching the class had too much other work, preventing Finance from presenting the class. In response to our audit recommendation that the class be provided, Finance is now stating they will try to provide at least one formal cash handling class each fiscal year.

#### FISCAL IMPACTS OF RECOMMENDATIONS

Additional staff may be needed to implement some of the audit recommendations.

#### RATIONALE FOR RECOMMENDATIONS

Audit recommendations are intended to resolve the concerns identified above in the SUMMARY section of this report.

#### CONTACT PERSON

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Attachments:

1: Follow-up Cash Receipts / Cash Handling Audit

# City of Berkeley



## Follow-up Cash Receipts / Cash Handling Audit

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Presented to Council on May 16, 2006

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**I. OBJECTIVES OF THE AUDIT**

The objectives of this audit were to:

1. Follow-up on selected audit recommendations from previous cash receipts / cash handling audits performed by the Auditor's Office, and determine if they were fully implemented as reported to Council by the auditee.
2. Perform surprise cash counts at selected areas in the Finance Department to determine if there were cash or cash equivalents un-accounted for.
3. Determine if Finance is planning and conducting:
  - a. Cash reviews / surprise cash counts (in departments other than their own).
  - b. Cash handling classes.

This audit was scheduled to be performed as part of the fiscal year 2006 audit plan presented to City Council on June 28, 2005.

**II. SCOPE AND METHODOLOGY**

This audit primarily looked at cash receipts and cash handling activity at the time audit fieldwork was performed. Fieldwork started on surprise cash counts in January 2005, and on follow-up in late June 2005, and all fieldwork concluded in October 2005. The scope of this audit was limited to:

1. Following up on the current implementation status of selected recommendations (reported as fully implemented by the auditee) from the:
  - a. Customer Service Cash Receipts / Cash Handling Audit (Issued April 2003)
  - b. Cash Receipts / Cash Handling Audit – Treasury (Issued September 2002)
  - c. Transfer Station Cash Receipts / Cash Handling Audit (Issued July 2003)

The three audits selected for follow-up were judgmentally selected by the auditor from a total of five cash receipts audits issued by the Auditor's Office since fiscal year 2001. The recommendations selected for follow-up were those the auditor determined were of high importance, and those that the auditor thought may not have been fully implemented as reported by the auditee.

2. Conducting surprise cash counts at the Finance Customer Service Division front counter and at the Finance Department Treasury room. The surprise cash counts were limited to counting cash and cash equivalents to determine if the count was in agreement with supporting accounting records and documents. The auditors were also attentive to

instances where it appeared procedures were not being followed. However, the audit did not specifically include testing to determine if policies and procedures were being followed.

3. Determining if Finance was planning and performing surprise cash counts and cash reviews at City department locations (other than Finance) during the period January 2005 through December 2005.
4. Determining if Finance is providing cash handling classes to City employees that handle cash.

Methods used to complete this audit were primarily:

- Reviewing cash receipt / cash handling documentation and written procedures in the Finance and Public Works Departments.
- Discussing current cash handling procedures with City staff.

Audit work was performed in accordance with Generally Accepted Government Auditing Standards for a performance audit and was limited to those areas specified in the scope and methodology section of this report. The audit procedures for this audit were not designed specifically to detect fraud. However, some of the audit procedures were designed to identify weaknesses in policies and procedures that could allow fraud or abuse to occur and go undetected during the normal course of business.

<b>III. AUDIT RESULTS SUMMARY</b>
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**Audit Objective 1: Follow-up on selected audit recommendations from previous cash receipts / cash handling audits performed by the Auditor’s Office, and determine if they were fully implemented as reported to Council by the auditee.**

An audit follow-up was conducted on ten prior year audit recommendations from three cash receipts / cash handling audits issued during fiscal years 2003 and 2004. The prior audits had been conducted in Finance – Customer Service, Finance – Treasury, and at the Public Works Transfer Station. These recommendations had all been reported to Council as fully implemented. Audit follow-up revealed only one audit recommendation (10%) fully implemented. Seven recommendations (70%) were partially implemented. Attachment 1 in the back of this report summarizes this information. In a number of instances, non-implementation or only partial implementation of recommendations resulted in some significant internal control weaknesses that could allow material errors and irregularities to go undetected. Weaknesses

found included a lack of segregation of incompatible duties and a lack of supervisory review and approval of work. See Findings 1–3 for more information. The most significant occurrences were in Finance Customer - Service. (Finding 1)

**Audit Objective 2: Perform surprise cash counts at selected areas in the Finance Department to determine if there were cash and cash equivalents unaccounted for.**

Finance – Treasury Division

A surprise cash count in Finance – Treasury was performed on January 11, 2005. It included a review of the two petty cash funds, the change fund, and several deposits. The review found no significant unidentified differences between the amount of money that should have been present and the amount of money actually present. However, it did find that a Treasury employee had made a number of small dollar petty cash errors.

Finance – Customer Service Division (Cashiering Areas - Front Counter)

One of the five Finance - Customer Service front counter cashiers received a surprise cash count on May 11, 2005. A second received a surprise cash count on May 19, 2005. In both instances, the review did not identify any significant differences between the amount of money that should have been present and the amount of money that was actually present. The most significant concern identified was a support document from a prior day that was commingled in the current day's work for one of the cashiers. This indicated that this cashier probably did not follow Finance's written procedures, which require that she complete her reconciliation of the prior day's cash receipts before beginning another day of cashiering. This problem condition was later confirmed. (Finding 1 (1.1))

**Audit Objective 3: Determine if Finance is planning and conducting:**

- A. Cash reviews / surprise cash counts.**
- B. Cash handling classes.**

A. Cash Reviews / Surprise Cash Counts

In 2004 the Director of Finance agreed to perform approximately ten cash reviews per year in various City departments other than Finance. Finance Department representatives stated these cash reviews were being performed and provided audit reports to support this assertion. The reports indicated each review performed by Finance looked at internal controls over cash and each had significant findings and recommendations. Finance representatives also made available a work plan which documented Finance's intent to continue to perform cash reviews. This audit recommends Finance include some additional information in their reports, and that these reports be provided to the department directors in the departments where the reviews took place. (Finding 4)

B. Cash Handling Classes

It does not appear likely that Finance will be providing cash handling classes to City employees in the near future. The Deputy Director of Finance stated that the individual in Finance responsible for developing and teaching the class had too much other work to present the class during fiscal year 2005 or for classes to be scheduled beyond that date. He stated that sometime in the future, Finance planned to recruit volunteers to teach the class, with the analyst who previously taught the class. (Finding 5)

#### **IV. BACKGROUND**

Since fiscal year 2002, the Auditor's Office has issued five audit reports reviewing internal control structure over cash receipts and cash handling at various City department locations. The reason for performing these cash handling audits was to help ensure the City's cash and cash equivalents at various City department locations were adequately safeguarded and were accounted for. These audits identified several significant internal control problems pertaining to cash handling; recommendations were made to correct these problems.

Each of the five cash handling audit reports the Auditor's Office issued requested the City Council to direct the City Manager to periodically report back with the implementation status of the audit recommendations. Representatives from the audited departments actually prepare these status reports for the City Manager. The Auditor's Office maintains an in-house database in Microsoft Access with all audit reports issued over the last several years, including the five cash audits. This database identifies all audit recommendations for each audit, and the implementation status for each audit recommendation, as reported to Council by the auditee and the City Manager. The Auditor's Office periodically conducts follow-up audits to determine if the audit recommendations that were reported as fully implemented to City Council are actually implemented.

**V. FINDINGS AND RECOMMENDATIONS**  
**Implementation Status of Selected**  
**Recommendations From Previously Issued Audit**  
**Reports**

**Finding 1 Finance Had Not Fully Implemented Any of the Six Audit Recommendations From the April 2003 Audit Report Titled “Customer Service Cash Receipts / Cash Handling Audit” Included in This Follow-up Review. Four of the Six Recommendations Were Partially Implemented.**

Audit follow-up was conducted to determine if Finance had fully implemented six audit recommendations (1.1, 1.2, 2.1, 2.2, 2.3, and 3) from the April 2003 “Customer Service Cash Receipts / Cash Handling Audit report, as they had reported to Council. The follow-up found none of these six recommendations had been fully implemented. Most had been partially implemented. The Customer Service audit contains 23 recommendations. As of November 9, 2004, the City Manager had reported to City Council that 17 had been fully implemented. The current implementation status for each of the six recommendations that received a follow-up review are discussed below:

2003 Recommendation 1.1

In accordance with current written policies and procedures, a cashier should not begin cashiering until his or her \$200 start-up fund and reconciliation for the prior day’s cash receipts have together been reviewed and approved by a supervisor. Management should either adjust the hours the Customer Service counter is open, vary the scheduled work hours for cashiers, vary the hours that the cashier work at the counter, or implement any combination above, to provide cashiers with sufficient time to complete their prior day close out process with the supervisor before they begin cashiering.

(Follow-up Results) Implementation Status Of Recommendation 1.1

Recommendation 1.1 was not implemented. The Customer Service Manager stated that about 75% of the time cashiers were not reconciling their prior day’s activity before beginning a new day of cashiering. She stated this had been occurring since January 2005 because there was insufficient staff to implement this recommendation. The auditor’s review of deposit activity during the months of July and August 2005 identified three instances where a cashier’s work had not been reviewed and approved until after the cashier had worked for two complete days. In all three instances the supervisor was filling in for the Customer Service Supervisor. Allowing staff to cashier before the prior day’s cash receipts and change fund have been reconciled, then reviewed and approved by a supervisor, could allow errors and misappropriation of funds to go undetected.

***City Manager’s Response***

*Agree with the finding. Recommendation 1.1 is now implemented. Effective December 5, 2005, Customer Service Counter hours were changed to 9:00 am to 4:30 pm. Cashiers now reconcile their prior day's activity before beginning a new day of cashiering*

2003 Recommendation 1.2

Update the written policies and procedures that describe how the supervisor is supposed to review and approve each cashier's daily cash receipts reconciliation as follows:

- A. Require the supervisor to document the sample of Cash Receipts transactions reviewed and traced, and further require that she document the reason for any exceptions found.
- B. Require the supervisor to review payment support documentation on a sample basis to see if the payment collected by the cashiers appears correct. Require significant or recurring errors be brought to the attention of a manager, in writing.
- C. Require that all procedural updates have the written approval of the supervisor before staff implements them.

(Follow-up Results) Implementation Status Of Recommendation 1.2

Updated procedures did not incorporate recommendations 1.2A and 1.2B.

Recommendation 1.2C was partially implemented. The Customer Service Manager stated she had approved the updated written procedures, but that this approval was not documented. She also acknowledged that the updated procedure had not been incorporated into the rest of the written procedures for Customer Service Center Cash Handling. Implementation of recommendation 1.2 will help to insure adequate supervisory review and approval is taking place.

***City Manager's Response***

*Agree with the finding. Recommendation 1.2 is now fully implemented. Written procedures were updated in October 2005 incorporating the recommendations. They have been included in the Cash Handling procedures document and a copy has been given to each staff member after the Manager reviewed the procedure and documented the date of review and approval.*

2003 Recommendation 2.1

- A. Continue the recently implemented procedure requiring that a supervisor makes sure that parking ticket transaction count and amount totals in Parking Ticket System (PTS) reports and the City's financial accounting system (FUNDS) reports are in agreement, for each employee entering payment activity, on a daily basis.
- B. This activity should be documented.
- C. This new procedure should be incorporated into the written policies and procedures by February 28, 2003.

(Follow-up Results) Implementation Status of Recommendation 2.1

Part A and B of recommendations 2.1 were partially implemented. Discussions with Finance staff and a review of documents indicated supervisory review was not sufficiently documented and most likely was not taking place all the time. Additionally, the Customer Service Supervisor stated that the reconciliation of ticket transaction count in PTS and FUNDS was not being done (just dollars) because it was time consuming and she didn't have the time required. Since it appears a count would seldom disclose problems as long as dollar totals in both systems are in agreement, the auditors agree that no reconciliation of ticket count appears reasonable as long as one is performed when differences in dollar totals exist.

Written policies and procedures were not updated to describe the new supervisory review steps as 2.1C recommends.

***City Manager's Response***

*Agree with the finding. The recommendation is now fully implemented. The supervisor reconciles the total dollar amount on the PTS660-A report with the FUNDS Payment/Adjustment Edit and Posting. The count will not be reconciled since the FUNDS report captures dollar total and not individual citation count. Since the total dollar amount is reconciled, Finance believes this is adequate for control over parking system input. Effective October 2005, the supervisor now documents this activity by dating and signing the PTS660-A document. This procedure was added to the Cash Handling Supervisor Duty requirements document in October 2005.*

2003 Recommendation 2.2

Document that total parking ticket payments and payment adjustments in the Berkeley Parking Ticket System (PTS) are being periodically reconciled with like activity in FUNDS, the City's automated accounting system. This reconciliation should be available for review.

(Follow-up Results) Implementation Status of Recommendation 2.2

A significant step was taken toward the implementation of this recommendation. The Customer Service Manager prepares schedules that permit the comparing of monthly and annual parking ticket payment totals in PTS and FUNDS. Based on the parking ticket payment information in these schedules, and after some adjustments that the manager indicated were needed, the parking ticket payment total in PTS and FUNDS for fiscal year 2005 are close. They differ by approximately .2% to 2.5%, or \$19,000 - \$238,000. Because the Customer Service Manager did not readily make available documentation to support the smaller difference, the range is being reported. For fiscal year 2005, PTS reported payments totaling \$9,571,246.

The Customer Service Manager stated she did not believe that performing a reconciliation (rather than merely a comparison) would take a significant amount of additional work. Accordingly, she stated she would work with an analyst in her department, develop the reconciliation procedures, and perform periodic reconciliations. This will fully implement the recommendation.

***City Manager's Response***

*Agree with the finding. Recommendation 2.2 is now fully implemented. Previously the manager reviewed the monthly total in PTS and FUNDS and posted to an Excel spreadsheet which was reviewed with the Finance Director monthly. The Auditor has recommended additional reviews for the specific components of the total dollar amount such as web fees and jail fund expenses. This additional detailed step was implemented in October 2005 and is reviewed monthly.*

2003 Recommendation 2.3

A) Establish and implement a pre-approval or post review procedure which provides reasonable assurance that parking ticket fee adjustments and dismissals that are entered into the Parking Ticket System (PTS) are not erroneous or improper, and are properly documented. Those authorizing parking ticket dismissals and adjustments should have their work reviewed by his or her supervisor.

B) Procedures should identify how all review and approval is to be documented and should be incorporated into the written procedures.

(Follow-up Results) Implementation Status of Recommendation 2.3

Recommendation was not implemented. The Customer Service Manager is currently monitoring only monthly dismissal totals, which appear to fluctuate significantly. No review of individual parking ticket adjustments and dismissals is taking place. As a result, there is increased risk that inadequately documented or improper dismissals could go undetected or improper adjustments could go undetected. Written procedures covering the review procedures were requested but none were provided.

***City Manager's Response***

*Agree with the finding. Recommendation 2.3 is now fully implemented. Currently the manager reviews the monthly dismissal total in PTS and tracks the count and amount on an Excel spreadsheet for trend analysis. This is reviewed monthly with the Finance Director. The dismissal rate has been reduced from 7.1% in FY04 to 5.6% in FY05. An additional step was implemented in October 2005 that requires the Supervisor to review a minimum of 5 dismissals per employee monthly to verify that dismissals were not erroneous or improper and properly documented. Effective October 2005, the Supervisor now documents the results of this review monthly and retains the back up documents for 1 year. The Counter Staff Customer Service manual documents the requirements for dismissal including the type of approval and documentation required. The Supervisor requirements were added to the Cash Handling Supervisor Duty document in October 2005.*

### 2003 Recommendation 3

Remove the FUNDS\$ (City's automated accounting system) authorization that allows the Customer Service cashiers to:

- A. Enter Business License charges and charge adjustments into the Occupational License Module.
- B. Add, delete, and change payment plans in accounts receivable.
- C. Enter refunds and write-offs into the Miscellaneous Receivables Module.

Monitor cashier FUNDS\$ authorization to ensure that billing and cash receipting functions are not performed by the same employee.

### (Follow-up Results) Implementation Status of Recommendation 3

No aspect of this recommendation had been implemented, except for some limited monitoring, which is not effective. The Systems Accountant in Finance stated non-implementation occurred because of limited staff resources and limitations with the security structure in FUNDS\$.

Audit follow-up also identified yet another area where cashiers have incompatible FUNDS\$ authorization. All four cashiers are also currently authorized to enter charges, and possibly adjustments, into the Miscellaneous Receivables Module. This module is used to issue a large number of the City's billings. Authorizing cashiers to perform so many billing and cash receipt activities gives them many opportunities to conceal unauthorized activity in these areas, including the theft of payments.

As a measure to prevent the cashiers from being given inappropriate FUNDS\$ authorization, the Customer Service Manager stated she was careful to only request "Counter Authority" for them. However, this authorization is in fact giving the cashiers the ability to perform many incompatible duties. This is an unacceptable risk, given the resulting opportunities to conceal theft of payments.

***City Manager's Response***

*Agree with the finding. Recommendation 3 has not been implemented. Currently, the FUNDS system does not allow for separation of authorization of these duties. Cashiers are entering charges for specific payments that do not have a corresponding bill such as reprints of a Business License or a new dog license transaction. While both Finance and IT recognize that the situation has risks and is not consistent with desired levels of internal controls, full implementation of the strategy requires both: (1) analysis of each job to assess what authorities are appropriate to that job function; and (2) development of an "authorities group" that grants members of that group system access only for their specific job-related responsibilities. However, this is a monumental task requiring dedicated resources in both Finance and IT. To date, only the Cash Receipts module has received full analysis, with Miscellaneous Receivables, Occupational Licenses, and Utility Billing yet to be done.*

*Management is drafting a letter to H.T.E. identifying the security access and control management issues in FUNDS as fundamental flaws or shortcomings in the software, and asking them to address these issues in the base software. This letter will be completed no later than June 30, 2006. Since these same issues (e.g., segregation of duties, software and function access, etc.) permeate all FUNDS Modules, any audit findings related to them will be followed up by management as a whole within the group of technology and FUNDS issues rather than in separate audit reports in which the recommendations were originally made for each department or administrative function.*

**Follow-up Audit Recommendation for Finance**

- 1.1 Fully implement audit recommendations 1.1, 1.2, 2.1 (except part 2.1A pertaining to reconciliation of transaction count which the auditors dropped), 2.2, and 2.3 from the Customer Service Cash Receipts / Cash Handling Audit within three months from the date this report is presented to City Council. Fully implement recommendation 3, or an alternative that accomplishes the same objectives, as soon as possible.

***City Manager's Response***

*Agree with the audit recommendation. Recommendations 1.1, 1.2, 2.1, 2.2 and 2.3 have now been fully implemented. Only recommendation 3 (regarding inappropriate FUNDS authorization) is being reported at present as not implemented.*

**New Audit Recommendation for Finance**

- 1.2 Discontinue authorizing the Customer Service cashiers to enter charges and adjustments into the FUNDS Miscellaneous Receivables Module.

***City Manager's Response***

*Agree with the audit recommendation. We request the Auditor's Office incorporate this recommendation into recommendation 3 of the Customer Service Cash Receipts / Cash Handling Audit since both recommendations deal with inappropriate FUND\$ authorization concerns.*

**Finding 2 Finance Only Partially Implemented Audit Recommendations 6.4 from the September 2002 "Treasury - Cash Receipts / Cash Handling Audit".**

Audit follow-up found recommendation 6.4 from the "Treasury - Cash Receipts / Cash Handling Audit" report was only partially implemented. The Treasury audit contained 19 recommendations. As of April 19, 2005, Finance last reported to City Council that 18 had been implemented, including this recommendation.

2002 Recommendation 6.4

- A) Take away accounts payable entry authorization from all Treasury staff.
- B) Petty cash custodians should submit for fund replenishment using a voucher that has been reviewed and approved by the Treasury Manager.
- C) The replenishment check should be cashed at a nearby bank.

(Follow-up Results) Implementation Status of Recommendation 6.4

Part A of recommendation 6.4 was fully implemented. Part B of recommendation 6.4 was partially implemented. A reconciliation form, referred to as the "Petty Cash Replenishment" form, is prepared and signed by the Treasury Supervisor and a Treasury petty cash custodian. However, neither this form nor a completed voucher form is given to Finance - Accounts Payable (AP). Written procedures in Treasury do not state Finance AP should receive the "Petty Cash Replenishment" form. The current condition unnecessarily increases the risk that Finance AP may pay an unauthorized or erroneous petty cash replenishment request.

Replenishment checks are not being cashed at a nearby bank as recommended (part C). However, the basis for the procedure currently in place appears reasonable. The Deputy Director of Finance explained that it was not cost effective to have a Treasury employee go to the bank and cash a check that could be quickly cashed in Treasury (taking money from other City deposits) using dual custody (done by two employees). He also stated that cashing the check in Treasury was safer for City staff, since these employees would not have to carry cash from the bank to Treasury. Based on a reassessment of the risk identified with the audit recommendation and the current procedure, the auditors agree with the Deputy Director. Part C of recommendation 6.4 has been withdrawn. Written policies and procedures addressing the current procedure were requested but not provided.

***City Manager's Response***

*Agree with the finding. Recommendation 6.4B is now fully implemented. As of August, 2005, Treasury began submitting copies of the signed "Petty Cash Replenishment" form along with the original petty cash reimbursement forms (FN 046) and total tape, to the Accounts Payable Supervisor.*

**Follow-up Audit Recommendation for Finance**

2.1 Fully implement audit recommendation 6.4 (except part C which the auditors dropped) from the "Treasury – Cash Receipts / Cash Handling Audit".

***City Manager's Response***

*Agree with the follow-up audit recommendation. Recommendation 6.4 (except part C which the auditors dropped) is now fully implemented.*

**Finding 3      Public Works Only Partially Implemented Recommendations 2.2 and 3.1 from the July 2003 Transfer Station Cash Receipts / Cash Handling Audit.**

Audit follow-up was conducted to determine if Public Works had fully implemented audit recommendations 2.2, 3.1 and 4.1 from the "Transfer Station Cash Receipts / Cash Handling Audit" report, as reported to City Council. The follow-up found recommendation 4.1 was fully implemented and the other two were only partially implemented. The Transfer Station audit contained 20 recommendations. As of March 15, 2005, the City Manager had reported to City Council that all but one had been fully implemented. Information regarding the two partially implemented audit recommendations is provided below:

2003 Recommendation 2.2

- A) For each job classification or position that is involved with Transfer Station cash receipts, identify and document the duties each can and can't perform so that incompatible duties are adequately segregated. Incorporate this information into the written policies and procedures.
- B) If an employee must be authorized to perform incompatible duties, the mitigating control that will be in place to provide reasonable assurance that errors and irregularities are identified and corrected should be identified as well.

(Follow-up Results) Implementation Status of Recommendation 2.2

Part A was fully implemented. Part B was partially implemented. Written procedures authorize the Solid Waste Supervisor to work as a Weigh Master (cashier). However, since this individual supervises the Weigh Masters (cashiers), and reviews and approves their cash receipts work, if

he works as a Weigh Master, it appears he would be authorized to review and approve his own cash receipts activity. There is nothing in the written procedures stating this would not be the case. This lack of segregation of duties could allow errors and irregularities to go undetected. During the audit, Solid Waste Management clarified that this supervisor should only work as a Weigh Master in an emergency when there is no Weigh Master. In this situation, management stated that the Senior Solid Waste Supervisor would review and approve the cashiering work performed by the Solid Waste Supervisor. Commendably, Solid Waste developed draft procedures to this effect before this report was issued.

2003 Recommendation 3.1

- A) Management must clearly establish who is accountable for each error or irregularity that could occur.
- B) Cash receipts should not be brought to Treasury and deposited until the reviewer has provided evidence of his or her written approval. Written approval of the daily cash receipts reconciliation documentation and Treasury Deposit should not be given until the reviewer has found that all documentation has been provided, documentation is properly completed with required signatures and initials present, documentation contains no mathematical errors, and all the reviewer's questions have been satisfactorily answered. The reviewer should be a higher-level employee than those whose work they are reviewing, and have adequate knowledge on the subject of proper cash handling.

(Follow-up Results) Implementation Status of Recommendation 3.1

Part A of the recommendation was fully implemented. Part B was partially implemented. The Senior Solid Waste Supervisor does not always review the daily deposits and reconciliations before the deposit is delivered to Finance Treasury. A review of May and June 2005 Treasury Deposits identified seven instances where the Sr. Supervisor did not completed his review before the deposit was provided to Finance Treasury. The Sr. Supervisor stated that to give him time to do his review before the deposit was delivered to Treasury, he would have the deposit delivered in the afternoon, and he would review the daily deposit documentation in the morning.

**Follow-up Audit Recommendation for Public Works**

- 3.1 Fully implement recommendations 2.2 (only 2.2B not implemented) and 3.1 (only 3.1B not implemented) from the Transfer Station Cash Receipts / Cash Handling Audit.

***City Manager's Response***

*Public Works agrees with the follow-up audit findings. Recommendation 2.2 was fully implemented on April 27, 2006.*

*Regarding recommendation 3.1, an alternative was implemented. Since the auditor's follow-up in late June 2005, the Transfer Station staff have received additional cash receipts training. A 6-month pilot program was implemented by Finance in November 2005, and new cash receipt / cash handling procedures were put into operation. The deposits are counted dual custody (weigh master and supervisor) and bagged for pick-up, Brinks pick up deposits at Transfer station and information is recorded into FUND\$ Cash Receipts module by Supervisor and reviewed by Senior Supervisor. As a result, cash count errors no longer appear to be a problem, thereby eliminating the need for the review of cash by a third party (Senior Supervisor). This reduces the risk of the City's funds and guarantees timely deposits. The Senior Supervisor reviews the FUND\$ report, along with all supporting documents (signed register reports, deposit slips and credit card settlement reports) and approves. All signed paperwork is then forwarded to Finance Treasury for verification and posting.*

<p><b>VI. FINDINGS AND RECOMMENDATIONS</b> <b>Cash Handling Reviews and Cash Handling</b> <b>Training Provided By Finance</b></p>
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Background

In 2004 the Director of Finance informed the City Auditor that Finance would continue to have primary responsibility for conducting the on-site cash reviews in various City departments and would perform approximately ten cash reviews per year. She also agreed to notify the City Auditor in writing, on a regular basis, which locations would be reviewed. This would serve to help the auditors prioritize their own work. To test that these cash reviews were taking place, reports resulting from the Finance cash reviews performed during the six month period January through June 2005 were obtained. Finance representatives provided four reports indicating that cash reviews had been performed at seven locations. Finance also provided a work plan indicating they planned to continue performing cash reviews.

**Finding 4     A Few Concerns With the Finance Cash Review Reports**

The following concerns were identified with Finance's cash review reports:

1. They were not provided to the director of the department where the reviews took place. As a result, the directors may not be aware of these reports and would not be able to oversee that the recommended corrective actions in these reports took place.
2. None were dated or identified the date fieldwork was performed. As a result, it was not

apparent when the cash reviews were completed and when the reports were prepared or presented to the auditee.

3. Only one of the four reports clearly indicated that there had been a surprise cash count. Finance representatives stated that surprise cash counts had taken place at five of the seven locations covered in these reports. However, most of the time readers would not know this significant review step had taken place.

Lastly, Finance is not notifying the Auditor's Office regarding their planned and completed cash reviews. This information will help the auditors to prioritize their own workload.

### **Recommendation for Finance**

#### 4.1 Require cash review reports:

- Identify the date the review was performed.
- Be provided to the director of the department for each location reviewed.
- State when a surprise cash count was performed, and the results of this review step. Require each cash review performed by Finance include a surprise cash count, if feasible.
- Continue to report the weaknesses identified in the internal control structure.

No less frequently than annually, provide these reports to the Auditor's Office.

Additionally, before the end of each fiscal year, provide the City Auditor with a list of locations where Finance plans to conduct cash reviews the following year.

### ***City Manager's Response***

*Finance agrees with the finding. Recommendation 4.1 has been fully implemented. The cash review reports are now being dated to indicate when the review was performed. Department directors are to be provided with copies of the reports after Finance has worked with immediate staff in implementing recommendations. All cash review reports will include surprise cash count findings and recommendations. Finance will continue to provide assessments of any weaknesses found on cash handling locations. City Auditor's Office will be provided copies of the reports annually.*

### **Finding 5 Cash Handling Classes Are Not Being Provided By Finance**

It appears the Finance Department has no definite plans to provide formal cash handling classes. The Deputy Director of Finance stated the individual in Finance responsible for developing and teaching the cash handling class had too much other work assigned to provide the class during fiscal year 2005 or for classes to be scheduled beyond that date. He further stated that sometime in the future, Finance plans to recruit volunteers to teach the class with the individual who previously taught the class.

Berkeley Municipal Code 2.44.040 assigns the Finance Department the responsibility for a variety of functions, including "...the receipt and safekeeping of all City money." During fiscal year 2004 Finance issued a cash handling manual and provided formal cash handling classes to City employees that handled cash. The classes appear to be a good means of keeping the City's cash handlers familiar with City cash handling policies and procedures as well as educating them on how to establish a good internal control structure over cash receipts.

**Recommendation for Finance**

- 5.1 Provide at least one formal cash handling class each fiscal year. The employees that handle the most cash should attend this class first. Each year that Finance is not able to provide this class because they do not have the staff, along with other FUNDS or internal control training that couldn't be performed for the same reason, they should report this condition in writing to the City Manager annually.

***City Manager's Response***

*Agree with the recommendation; will implement by December 31 of each year.*

- 5.2 The City Manager should forward the above report from Finance to the City Council by March 31 of each year. Council previously requested the City Manager (on December 13, 2005) "To the extent possible, include an analysis of potential internal control impacts in future discussions of City budgets, as well as estimated costs for resolving them". Finance's report could be part of that annual analysis.

***City Manager's Response***

*Partially Agree with the recommendation; will implement an alternative. While management concurs that the Cash-handling Class and other FUNDS classes for end users are extremely valuable, they are one of many competing demands on limited resources. Forwarding the report from Finance during the annual budget development or adjustment period may imply that the City Manager is placing a higher priority on these demands for resources over other City needs, which may not be appropriate in that time period. Demands on City resources cannot be identified or prioritized until the point in time that Council is setting annual service delivery priorities and making resource allocation decisions.*

*In line with management's responsibilities, the City Manager will continue to address the administrative needs of the City as part of his annual budget presentation to the City Council; and will, to the extent possible, include an analysis of potential internal control impacts of the City Manager's budget recommendations, as well as estimated costs for resolving them.*

**VII. CONCLUSION**

Audit follow-up on ten audit recommendations (reported earlier by the auditee as having been fully implemented) found only one was fully implemented, and seven were only partially implemented. By not timely fully implementing audit recommendations, management is allowing the cash receipts / handling related risks identified in earlier audits to remain. Subsequent to our audit follow-up fieldwork, Finance and Public Works are reporting that all but one of the prior year audit recommendations that we found had not been fully implemented, have now been fully implemented. We commend Finance and Public Works for taking corrective action before this audit report was issued.

This audit also found Finance had not provided formal cash handling training during fiscal year 2005 and had no definite plans to provide the class in the future. This was a concern because most recent cash reviews performed by Finance or the Auditor's Office had found significant internal control weaknesses over cash handling operations. In response to one of the audit recommendations in this report, Finance is now stating they will try to provide at least one formal cash handling class each fiscal year. In our opinion, this class will help reduce the number of cash handling problems in the City departments.

Follow-up Cash Receipts / Cash Handling Audit

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Attachment 1

Prior Audits Selected For Follow-up Reviewed	Primary Dept. Audited	Number of Recommendations		Implementation Status of Recommendations Reviewed		
				Implemented?		
		Original Report	Follow-up Review	No	Partially	Fully
Customer Service Cash Receipts / Cash Handling Audit (Issued April 2003)	Finance	23	6	2	4	0
Transfer Station Cash Receipts / Cash Handling Audit (Issued July 2003)	Public Works	20	3	0	2	1
Cash Receipts / Cash Handling Audit – Treasury (Issued September 2002)	Finance	19	1	0	1	0
Total		62	10	2	7	1