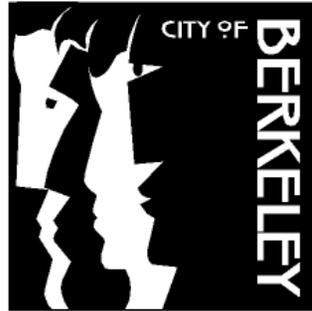# City of Berkeley

Customer Service – Cash Receipts / Cash Handling Audit

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I. EXECUTIVE SUMMARY

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We are presenting our audit of the Finance – Customer Service Division operations located at 2020 Center Street. This audit primarily looked at the procedures and practices being used by the cashiers at the front counter to receive, handle, and deposit cash, checks, and credit card payments, and identified our concerns during the period September 4, 2002, through December 17, 2002.

During the audit, three additional areas of concern were identified and reviewed. These three areas dealt with the adequacy of procedures designed to prevent and detect parking ticket system input errors and irregularities; the reasons why a recent accounting system software upgrade had so many problems; and concerns about a large and very old accounts receivable balance in the Miscellaneous Receivables Module. Audit work in these three areas was limited to inquiry or inquiry and review of records.

This audit report includes 12 audit findings, which address concerns in the following areas:
- Reconciliation of each cashier's daily cash receipts is not being adequately reviewed.(Finding 1)
- Prevention and detection procedures over erroneous parking ticket payment, adjustment, and dismissal entries have not been established.(Finding 2)
- Accounting software applications and functions given to cashiers and the cashiering supervisor sometimes allows them to perform tasks they should not perform.(Findings 3,5)
- Write-off of uncollectible accounts receivable is not being performed.(Finding 6)
- Physical safeguarding of payments and counter staff needs improvement.(Findings 7,8,10,11,12)
- Testing and debugging of accounting system software upgrades is not always adequate.(Finding 4)
- Written procedures addressing when and how to issue manual receipts (when the cash registers are not working) are not available.(Finding 9)

Most of the audit concerns identified in this report were reported to Finance Department management on October 24, 2002. In a number of instances, Finance reported back that they were using this information to begin developing corrective action, implementing corrective action, or both.

II. OBJECTIVES OF THE AUDIT

The objectives of this audit were to:

1. Identify concerns with the procedures used at the Customer Service front counter to receive, handle, safeguard, and deposit cash and cash equivalents.

2. Identify the major Cash Receipts / cash handling operations in Finance – Customer Service (2020 Center St. location only).

The City Manager and the Director of Finance requested this audit and it was scheduled to be performed in the Auditor's fiscal year 2003 audit plan.

III. SCOPE AND METHODOLOGY

The audit scope for the first objective was limited to the procedures and practices used by the cashiers at the Finance - Customer Service Division's front counter to receive, handle, and deposit cash, checks, and credit card payments at the time of fieldwork. Fieldwork for the first objective began on September 4, 2002, and concluded on October 15, 2002. Follow-up work, mostly discussions with the auditee pertaining to the information and records obtained earlier, was primarily performed through December 17, 2002.

The information used to complete the first objective was obtained primarily through:
- Discussion with Finance Department staff in the Customer Service and the Accounting Divisions.
- Observation of Customer Service operations.
- Review of the written "Customer Service Center Cash Handling Procedures".
- Review of accounting records and reports pertaining to front counter cash receipts / cash handling operations.

The audit scope for the second objective was limited to inquiry of the three Customer Service managers during the period June 17, 2002, through September 23, 2002. This inquiry was made to provide the auditors with general information about the Customer Service Division's structure and operations at 2020 Center Street. There are no audit findings or recommendations associated with this objective.

During the audit internal control weaknesses over parking ticket transactions, problems with a recent accounting system software upgrade, and identification of a large and very old accounts receivable balance in the Miscellaneous Receivables Module came to the auditor's attention. Audit scope was expanded to include a limited review of these areas. Fieldwork in these areas

was generally limited to inquiry or inquiry and a review of records and reports.

Audit work was performed in accordance with Generally Accepted Government Auditing Standards. Audit work was limited to those areas specified in the scope and methodology section of this report.

IV. BACKGROUND

Customer Service is a division of the Finance Department. Most Customer Service staff are located at 2020 Center Street. Units at this location are:
- Counter / Call Center Unit (Counter Unit)
- Administrative Unit
- Business License and Code Enforcement Unit
- Billing and Collections Unit

Staff in all four units handle payments. Office Specialist IIs work as cashiers in the Counter Unit. Cashiers are responsible for accepting and processing payments received from the public at the Customer Service front counter using automated cash registers. With these cash registers, the cashiers directly input cash receipts activity into the Cash Receipts Module of the City's automated accounting system, FUND$. Currently there are six cashiers available to work four cash registers. Generally four cashiers work the counter at one time. When the cashiers are not working at the front counter (cashiering), they answer customer questions and process payments at their workstations.

An Accounting Office Specialist III (classified as a provisional Accounting Office Specialist Supervisor until September 29, 2002), provides lead direction to the cashiers. Her main duties pertaining to the Counter Unit include:
- Reviewing and approving each cashier's daily cash receipts reconciliation.
- Reviewing and approving each cashier's Parking Citation payment entries into the automated Berkeley Parking Ticket System (PTS).
- Safeguarding cash and cash equivalents, keys, and important documents by means of a safe.

At the beginning of each day, each cashier signs out his or her locked moneybag from the supervisor, who has kept it locked in the safe. Each moneybag contains the cashier's prior day's cash receipts and the $200 change fund.

Next, written procedures require that each cashier reconcile his or her prior day's cash receipts before beginning cashiering or performing other duties. The cashier begins by printing out his or her Cash Edit Listing report from FUND$. This report is designed to identify and summarize all cash receipts activity performed by the cashier the day before. After this is done, source documentation for each type of transaction (marina berthing fees, false alarm fees, etc.) is totaled

(adding machine tapes are prepared), and reconciled with the edit report by the cashier. Additionally, currency, coins, checks, and credit card payments are totaled and compared with like information in the edit report.

Once this has been done, the supervisor reviews each cashier's reconciliation to make sure the Cash Receipts Edit Listing Report, cash and cash equivalents, and supporting source documentation are in agreement. If they are in agreement, the supervisor initials and dates the summary page of the edit report. As part of the review process, the supervisor recounts the currency and coins in the presence of the cashier to make sure all money is accounted for. Then both the supervisor and the cashier seal the prior day's tendered currency and a bank deposit slip for its deposit, in a pre-numbered plastic bank bag.

All cash receipts and most support documentation for these receipts are then placed in a courier bag, which is locked and placed in the Customer Service safe by the supervisor. Later in the day this locked courier bag is transported to Finance – Treasury for deposit. After the reconciliation process is complete, written procedures indicate that cashiers are to proceed to the front counter and begin their cashiering duties or perform other duties assigned.

The Parking Services Manager is responsible for managing the Counter and Administrative Units. She estimates that the Counter Unit accepts and processes between $2.2 – $8.9 million in payments annually, of which approximately $500,000 - $800,000 is cash. The other two accepted methods of payment are check and credit card. Payments are received for many City services, fees, and taxes, including parking tickets, parking permits, business license tax, marina berth rental fees, and residential rental and fire inspections.

V. FINDINGS AND RECOMMENDATIONS

Finding 1   Concerns Related to the Supervisory Review of Each Cashier's Daily Reconciliation

The following aspects of the supervisor's review of each cashier's daily cash receipts reconciliation are a concern:

A. Untimely Supervisory Review and Verification of Cash Receipts

Each cashier's $200 change fund and accompanying reconciliation (for the prior day's cash receipts) are not simultaneously reviewed and approved by the supervisor before the cashier begins another day of cashiering. This is contrary to the written procedures. As a result, the prior day cash receipts could be inappropriately used to offset change fund shortages, and current day receipts could be inappropriately used to offset prior day payment shortages.

The supervisor stated that this procedure is not being followed because cashiers are required

to begin cashiering at 8:00 a.m. with a 5:00 p.m. closing time. All cashiers work from 8:00 a.m. to 5:00 p.m. This leaves no time for them to complete their reconciliation before they go home each day, or the following morning before they start cashiering. This practice of inadequate review could allow misappropriation of funds to go undetected.

B. Payments Traced to the Edit Report Are Not Identified

The sample of each cashier's cash receipts supporting documentation that the supervisor traces to the Cash Edit Listing Report is not identified. The supervisor performs this step to ensure payments are being properly accounted for in the City's automated accounting system. Because this step is not being documented, there is no evidence to support that it is being performed, and to enable a manager to determine if it is being performed properly. Identification of the sampled items is not called for in the written procedures.

C. Payment Amounts Are Not Reviewed to See if They Appear Correct

Written procedures do not require the supervisor to review payment support documentation on a sample basis to determine whether payment amounts collected appear correct. The payment amount to be collected by the cashier is not always self evident on a billing remittance slip. As a result, significant or recurring cashiering errors may not be detected.

D. Alternate Review Procedure Not Approved

The method currently used by the supervisor to verify that actual total payments by check agree with what is reported in the Cash Edit Listing Report appears adequate. However, it is a less thorough review than what the written procedures require. It is a concern that a procedure for a less thorough review can be implemented without management's written approval. Written procedures require the supervisor to recount the checks that each cashier received, then compare this total with the dollar total for the checks in the Cash Edit Listing Report. The purpose of this procedure is to identify any discrepancy. Instead of recounting the checks, the supervisor is using the adding machine tape prepared by each cashier and testing the validity of this tape by tracing a small number of checks to this tape. Checks tested are not identified.

In addition to the above concerns, some of the "Customer Service Center Cash Handling Procedures" are outdated. As a result, staff may not perform tasks that management wants them to perform or may perform them improperly.

Recommendations for Finance

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 cashiers 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.

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:
- 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.
- 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.
- Require that all procedural updates have the written approval of the supervisor before staff implements them.

1.3 Update written policies and procedures to include only the current policies and procedures that have been approved by management.

City Manager's Response

Finance agrees with the audit findings and recommendations. Finance will be unable to fully implement recommendation 1.1 at this time. On a daily basis, the Customer Service Supervisor is verifying the $200 start up cash of the cashiers. However, due to staffing configurations it is not always possible for the cashiers to balance prior to starting the day. Finance is reviewing the recommendation and exploring an option to vary work schedules to allow staff the time needed to balance prior to beginning their other daily responsibilities. This cannot be implemented until it is discussed with the Unions and Human Resources.

The written policies and procedures have been updated to incorporate this new procedure. The policies and procedures were further updated to describe how the supervisor is supposed to review and approve each cashier's daily cash receipts reconciliation as approved by management.

Finding 2   Controls Over Parking Ticket System Input Are Not Adequate

Current procedures do not provide reasonable assurance that only legitimate parking citation payments, adjustments, and dismissals are correctly entered into the automated Berkeley Parking Ticket System (PTS) by the cashiers and other Customer Service staff. This could result in unauthorized parking ticket payments, adjustments, and dismissals going undetected, and loss of revenue to the City.

A. <u>No Reconciliation of Parking Ticket Payments in PTS and FUND$</u>

The cashiering supervisor stated that she traces approximately three payments per cashier, per day, from the cashier's reconciliation documentation to PTS. This review, and the identification of the payments traced, is not documented. In addition, this procedure is inadequate because it is not designed to detect fictitious payment entries.   It also is not a very effective method for determining if all payments received were entered into PTS. During the audit these concerns were brought to management's attention. Shortly afterwards corrective action was taken, according to the Parking System Manager. She reported that since late October 2002, a supervisor has been comparing parking ticket payment counts and amounts posted in the PTS "Payment/Adjustment Edit and Posting" report with the same information in the FUND$ "Cash Edit Listing" report. The manager also stated that this is being done to verify that all parking ticket transactions in FUND$ are posted in PTS. She also stated that this new procedure would be incorporated into the written policies and procedures by February 28, 2003. In addition to the cashiers, there are many other Customer Service staff who enter parking ticket payments, adjustments, and dismissals into PTS.

B. <u>No Review Procedure in Place for Parking Ticket Dismissals or Adjustment</u>

It is unclear whether Finance plans to have a supervisor review only parking ticket dismissals in PTS for appropriateness and adequacy of documentation, or whether adjustments that reduce ticket amounts will also be reviewed. Customer Service representatives acknowledged during the audit that they were still developing the process. Draft written policies and procedures addressing this area are not yet available. Management was unable to locate documentation supporting their statement that supervisory review of May and June 2002 parking ticket dismissals had been completed for all employees with PTS access on a sample basis. They stated that this had been the first period in which they had reviewed any dismissals or adjustments. Documentation that was available did not indicate that much review activity had taken place. Some ticket dismissal activity during the week ending July 19, 2002, reflected evidence of review. A very small number of May 2002 adjustments for one employee also indicated some evidence of review. If parking tickets can be dismissed without review, or if the amounts due can be reduced without review, there will be no procedure in place to identify irregular and erroneous adjustments and dismissals.

The auditor is also concerned that even the review procedure under discussion may not go far enough to detect erroneous or irregular adjustments and dismissals. Based on the proposed review criteria that the Parking Services Manager stated may be used, it appears that the reviewer would sometimes accept a brief, somewhat generic, explanation as an acceptable basis for an adjustment or dismissal, without tracing the explanation to supporting documentation. As a result, it would not be difficult for staff to utilize these generic explanations inappropriately. For example, ticket 00081625987 was issued for

unauthorized parking in a commercial zone. The $29 ticket was waived by Customer Service staff with a notation in PTS which stated "valid commercial permit until 2/03". The manager that reviewed the ticket, to make sure that it was appropriately waived, stated that she took no exception to the ticket being waived based solely on the explanation in PTS. She did not confirm that this vehicle, or its owner, had actually been issued a commercial parking permit although this information is available. The auditors are concerned that this type of review could permit Customer Service staff to use generic explanations to escape detection of inappropriate parking ticket dismissals.

During the audit the Parking Services Manager stated that written procedures would be developed by February 28, 2003, that would resolve the auditor's concerns.

C. Reviewer Assigned to Review Her Own Work

Nobody is reviewing the parking ticket dismissals and adjustments made by the Office Specialist III who reviews the dismissals input into PTS by all the other staff in Customer Service. She also is lead for the Administration Unit, periodically oversees the Counter Unit, and performs the parking ticket administrative reviews. Because she conducts the administrative reviews, she has the authority to dismiss and adjust parking ticket fees (or direct others to do so) based on information provided by the ticketed party or Public Works. During the audit Customer Service management acknowledged that parking tickets dismissed or adjusted by this lead Office Specialist III were not being reviewed. Management further stated that a Supervising Office Assistant was being hired and that one of her duties would be to review this employee's parking ticket dismissals and adjustments.

Recommendations for Finance

2.1   Continue the recently implemented procedure requiring that a supervisor makes sure that parking ticket transaction count and amount totals in the PTS and FUND$ reports are in agreement, for each employee entering payment activity, on a daily basis. This activity should be documented. This new procedure should be incorporated into the written policies and procedures by February 28, 2003.

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

2.3   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 PTS system are not erroneous or improper, and are properly documented. Those authorizing or reviewing parking ticket dismissals and adjustments should have their work reviewed by his or her supervisor. Procedures should identify how all review and

approval is to be documented and should be incorporated into the written policies and procedures.

City Manager's Response

Finance agrees with the audit findings and recommendations. Finance staff will now print out their "Payment/Adjustment Edit and Posting" (PTS660-A Report) on a daily basis when they have completed posting their parking citations. This report indicates the count and amount of transactions being posted. This will be compared to their "Cash Edit Listing" for verification that all parking ticket transactions were posted. This procedure was implemented during the audit.

Customer Service hired a Supervising Office Assistant and one of her duties is to review the Office Specialist's activities regarding dismissed and adjusted parking citations.

The written policies and procedures were updated to reflect these new procedures as well as to identify how all review and approval is to be documented

Finding 3   Cashiers Have Excessive FUND$ Authorization

Cashiers have authorization to FUND$ applications and functions that allow them to make entries that their supervisor stated that they shouldn't be performing. Some of the FUND$ applications and functions that the cashiers have authorization to use could allow them to conceal unauthorized or irregular billing and Cash Receipts activity. This audit included a review of the FUND$ authorization given to cashiers as of September 18, 2002.

In addition to each cashier receiving customer payments, and applying customer payments towards billings in the Cash Receipts Module in FUND$, they can also do the following:

A. Enter charges and billing adjustments into the Miscellaneous Receivables Module. (The City uses this module to bill, and to set up accounts receivable, for many different services and fees). The cashier's authorization was removed during the audit according to the Miscellaneous Receivables Module leader. (Senior Accountant in Finance.)
B. Enter charges and billing adjustments for Business License Tax in the Occupational Licenses Tax Module.
C. Add, delete, and change customer payment plans in accounts receivable.
D. Enter refunds and write-offs into the Miscellaneous Receivables Module.

Regarding A and B above, cashiers who have FUND$ authorization to input both payments and charges could use this authorization as a means to try and conceal irregularities, such as cash receipts that are not properly deposited. It appears that a similar risk exists with cashiers having authorization to add or change terms of customer repayment plans. The cashier's supervisor

stated that cashiers were not supposed to be performing any customer repayment plan related job duties or accounting entries. Regarding A above, Finance representatives stated that they took this FUND$ authorization away from the cashiers during the audit, October 7, 2002. Lastly, cashiers are not supposed to be initiating refunds and the write-off of accounts receivable in the Miscellaneous Receivables Module according to their supervisor, so it is not appropriate that they have authorization to perform this activity in FUND$.

Billing and cashiering (receiving payment for taxes and services billed) duties should always be segregated as an internal control to help prevent the concealment of unauthorized billing and cash receipting activity, such as the theft of payments.

Recommendation for Finance

3. Remove the FUND$ authorization that allows the Customer Service cashiers to:
    *   Enter Business License charges and charge adjustments into the Occupational Licenses Module.
    *   Add, delete, and change payment plans in accounts receivable.
    *   Enter refunds and write-offs into the Miscellaneous Receivables Module.
    Monitor cashier FUND$ authorization to ensure that billing and cash receipting functions are not performed by the same employee.

City Manager's Response

Finance agrees with the audit finding and recommendation. Recommendation was implemented on October 4, 2002. Since then, the 2nd and 3rd bullet point under Recommendation 3, were implemented March 2003 by transferring these functions to the billing division. However, there are unresolved HTE user access and operations issues that need to be further reviewed to determine alternatives. The recommendation under bullet 1 has unresolved HTE user access issues. This will be reviewed and an alternative developed by June 30, 2003.

Finding 4   Concerns With FUND$ Upgrade Installation

The City does not always timely or effectively test FUND$ software upgrades.
Software upgrades to the City's automated accounting system (FUND$) are not always adequately tested and debugged by the manufacturer, HTE Inc. (HTE). This puts a heavy burden on the City to test these upgrades and identify software problems. This is necessary so HTE can fix these problems before the City puts the upgrade into production.

On October 5, 2002, the City upgraded its FUND$ software to version V6.1. According to the Information Technology Department (IT) Senior Systems Analyst, this was a very significant upgrade. He stated that for some modules, as much as 70% of the programs were changed. The Finance Department Systems Accountant reported that when this upgrade was put into

production, it caused significant problems in the entire FUND$ application. One problem she reported was that some employees had inadvertently been given FUND$ authorization that they had not been authorized to have. This condition could allow unauthorized entries and irregularities to go undetected. The System Accountant and the IT Senior Systems Analyst also reported that some system settings had erroneously been changed by the upgrade. Specifically, several of the last number used fields (last customer number and last invoice number used) were affected. To illustrate the types of errors that were occurring, she explained that if the last customer number used before the upgrade had been 2000, the next available number should have been 2001. However, the system was erroneously showing an incorrect starting number like 501 after the upgrade. System problems such as these can result in accounting errors and confusion.

The Systems Accountant told the auditor that Finance and IT would review the appropriateness of employee FUND$ access after the other problems associated with the upgrade were resolved. The IT Senior Systems Analyst added that IT was currently in the process of developing a software security structure within FUND$ that would:

- Prohibit an employee from being authorized to use a number of incompatible functions.
- Provide programs that users could run to detect several different authorization concerns.

One or more of the following people, Finance's Systems Accountant, IT's Senior Systems Analyst, and Finance's Director, provided the following explanations as to why they felt the City sometimes had trouble with FUND$ upgrades:

Software Manufacturer (HTE) Problems

1. HTE does not fully test and debug their software upgrades. Software program features are not consistent and user friendly. Additionally, HTE does not provide clear and complete documentation describing upgrade changes.
2. HTE technology does not allow their software upgrades, and City modifications to HTE programs, to be moved from a test environment directly into production. To install an upgrade in the production environment, City programmers must duplicate the process used to establish the test environment, and this manual process can cause errors.

City Problems

1. Subsequent to the City testing the last upgrade, HTE made some software changes to fix certain problems. The City put these fixes into production without testing.
2. The City lacks a formal module leader structure within the City organization.
    a. There is no formal structure or authority that IT or another department has to require module leaders to follow a testing protocol and timetable. There is also no accountability for those that fail to carry out the testing protocol.
    b. Some module leaders are not qualified to be module leaders (lack the technical skills and qualifications). Minimum module leader qualifications do not exist. The module leader is a person who has responsibility over a software

application or module.
  c. There are no minimum training requirements for module leaders.
  d. Module leaders are often not correctly positioned within the organizational structure to properly perform module leader duties. Two modules do not have a module leader.
  e. Module leader duties are not acknowledged in applicable employee job descriptions. There is also a concern that the employees that perform significant module leader duties are not being adequately compensated for performing these duties.
3. Staff availability for software testing is a problem. Staff are too often busy performing other duties.
4. There is no single authority to make the "go or no go" decision when to implement a software upgrade. This has also affected the City's ability to stay on a testing and implementation timetable.

Recommendations for Finance and the City Manager

4.1   Establish a project in the Work Plan System for the purpose of removing incompatible FUND$ authorization given to employees. This project should be completed within one year from the time this report is issued. The review should cover the City's cash handlers first, and this part of the project should be completed within six months of this report being issued.

4.2   Finance should train supervisors and managers how to review the FUND$ authorization given to their staff for incompatible authorization.

Recommendations for Finance, Information Technology, and the City Manager

4.3   Finance and IT should continue with their plans to develop FUND$ security software designed to help prohibit employees from receiving incompatible FUND$ authorization, or to detect such authorization when it has occurred. This project should be formally established in the City's Work Plan System as a joint project for Finance and IT. A completion date, no more than one year from the date this report is issued, should be established.

4.4   Establish a formal module leader structure within the City that includes:
  a. One central authority that can require module leaders to follow the testing protocol and timetable, and determine when upgrades will get put into production.
  b. Minimal qualifications for module leaders.
  c. Minimum training requirements.
  d. Assigning module leader duties to employees high enough in the organizational

structure so that they can properly perform their module leader duties.
   e. Assigning a module leader to each module.
   f. Defining and incorporating module leader duties in pertinent job descriptions.
   g. Procedures to ensure staff are available for timely software (upgrade) testing and placement into production.

City Manager's Response

Finance and IT agree with the audit findings and recommendations; however; we are unable to implement some of the recommendations at this time. The authorization issue has been presented to the Financial System Policy group and both Finance and IT have started working on developing a plan to address FUND$ user access in order to identify incompatible authorization across modules and develop a FUND$ security monitoring system. The scope of this project is complex and involves 14 modules. Finance has already begun to address the City's Cash Handlers' access but there are other operating issues that must be considered. We anticipate the evaluation of the Cash Handlers' access to be completed by December 31, 2003.

Finance will develop a training program for supervisors and managers on how to review the FUND$ authorization given to their staff for incompatible authorization by March 31, 2004. Finance and IT will discuss with Human Resources establishment of a formal Module Leader structure in the City. IT and Finance can play an advisory role in this effort.

Finding 5   Cashiering Supervisor Has Too Much Access to FUND$, Money, and Records

The cashiers' supervisor has the ability to hide cash receipt errors and irregularities because she:
   • Has all of the FUND$ authorization that the cashiers have (see finding 3), plus the authorization to void payments and post cash receipts in the Cash Receipts Module.
   • Has access to all the cashiers' daily cash receipts because she can open the safe and all the locked cashiers' moneybags and cash register drawers.
   • Has FUND$ authorization to modify each cashier's Cash Edit Listing report after it has been reviewed and approved by herself and the cashier.
   • Has access to all the sealed and unsealed plastic pre-numbered bank deposit bags, and all the logs and records involving cash receipts.
   • Is not prohibited in the written policies and procedures to work as a cashier (although she states that she does not).
   • Performs work in the above areas that is not reviewed.

As a result, this individual could perform unauthorized tasks that could hide irregularities, such as the following:
   • Recording a downward adjustment of a business license tax charge and payment in the Occupational Licenses Module and the Cash Receipts Module in FUND$ to conceal

money that was not deposited in Treasury. The business license is issued to the business without a paid amount, so the business would not know that their payment had not been properly applied.

- Removing money from the plastic bank bags even though they are sealed with the cashier and supervisor present. The bag could be opened, money taken, and the contents placed in another bag, since nobody checks to make sure that the bag the supervisor and cashier seal together is the bag that is brought over to Treasury for deposit.

According to the Miscellaneous Receivables Module Leader, the cashiering supervisor's authorization to bill and make billing changes in the Miscellaneous Receivables Module was removed during the audit (October 7, 2002). Having this authorization was a serious internal control weakness. This supervisor continues to have this same billing and billing adjustment authorization in the Occupational Licenses Module.

Recommendations for Finance

5.1 Remove the cashiering supervisor's authorization to enter charges and charge adjustments in all FUND$ applications when she can also enter the payments or payment adjustments for these charges. If a supervisor can void payments, then he or she should not be authorized to receive payments or to enter payments into FUND$.

5.2 Require the cashiering supervisor to post each cashier's daily cash receipts in the Cash Receipts Module. Further require that both the supervisor and the cashier initial the report, indicating it is accurate and complete, before the report and the cash receipts are couriered to Treasury for deposit.

City Manager's Response

Finance agrees with the audit findings and recommendations; however, we are unable to fully implement the recommendation at this time. Recommendation 5.1 discusses issues with authorization for the Miscellaneous Receivables Module and Occupational Licenses Module, which may have application design issues. Both Miscellaneous Receivables and Occupational Licenses authorization issues will be reviewed and analyzed with an alternative developed by December 31, 2003.

Due to a lack of training and resources and to ensure proper internal controls, the Cashiering Supervisor is not posting each cashier's daily cash receipts in the Cash Receipts Module. However, the supervisor and the cashier are required to initial the report indicating it is accurate and complete, before the report and the cash receipts are couriered to Treasury for deposit.

Auditor's Disposition

Finance has implemented an alternative to recommendation 5.2 which the auditors find acceptable. The Deputy Director of Finance confirmed on March 21, 2003, that Customer Service has a new safe, and that the cashiering supervisor is no longer able to access the cash and checks in the safe, or in the drop safe, without a second employee (dual custody). See Finance's response to recommendation 10.2 for more information about the safe.

Finding 6   Uncollectible Accounts Receivable Are Not Being Written-Off

Accounts receivable in the Miscellaneous Receivables Module are not being written off when they become uncollectible. One of the reasons is that staff in the departments who generate the Miscellaneous Receivables revenue, and who are responsible for identifying uncollectible accounts and requesting that they be written-off, are not receiving accounts receivable aging reports from Finance.

As of November 12, 2002, approximately $2.5 million (58 percent) of the $4.3 million dollars in Miscellaneous Receivables was more than 390 days old. Approximately $1.1 million of the $2.5 million dollars is due from the Berkeley Unified School District (BUSD). Staff in the City Manager's Office said that this receivable is collectible and collection efforts were underway. The BUSD receivable is largely for sewer related charges.

The auditor's review of the rest of the accounts receivable more than 390 days old found that many are charges from as far back as 1991 – 1997. This is particularly true with the Marina charges and the Residential Rental Inspection Program charges. According to the Senior Accountant for the Miscellaneous Receivables module, the last time she remembers uncollectible receivables being written-off was in 1996, when Special Sewer charges that were less than $20 were written- off.

According to a Customer Service manager, because there are presently so many uncollectible customer accounts in Miscellaneous Receivables, Customer Service created several special accounts specifically so that these uncollectible accounts could be identified and so that:
- Accounts receivable aging reports could be produced excluding uncollectible receivables, allowing departments to see only the real receivables.
- The amount of Miscellaneous Receivables billings returned in the mail could be decreased.

Administrative Regulation (A.R.) 3.15, effective June 15, 2002, established the criteria and procedure for the write-off of uncollectible receivables. It assigns the City's department directors the responsibility for making write-off recommendations to Finance. Finance is responsible for ensuring that adequate documentation is provided or cited to demonstrate due diligence efforts were made to collect and that the rationale for the write-off decision is sound. If the write-off is approved by Finance, a summary memorandum regarding the write-off is prepared by the Director of Finance and submitted to the City Manager. His department in turn

submits this summary memorandum to the City Council, who in turn must approve the write-off by Resolution.

During the exit conference phase of this audit, which was held on February 13, 2003, the auditors and auditee management met and discussed the draft version of this audit report. At this time the Director of Finance announced that her staff was revising A.R. 3.15, and would submit their proposed changes to the City Manager for his approval on February 18 or 19. The most significant change would be that Finance would become responsible for identifying and writing off uncollectible accounts when they did the billing and collection efforts. The current A.R. assigns this responsibility to the departments that generated the revenue. Departments which do their own billing and collections would continue to be responsible for identifying and writing off these uncollectible accounts.

Recommendation for Finance and the City Manager

6. Finance and City departments should write-off all currently uncollectible accounts receivable within one year from the date that this audit report is issued, and do so in accordance with A.R. 3.15 or its planned revision. Finance should immediately begin providing the City Departments that generate Miscellaneous Receivables revenue with accounts receivable aging reports. Finance should also provide write-off guidance and training to these departments as necessary.

City Manager's Response

Finance agrees with the audit finding and recommendation. On February 18, 2003, the Administrative Regulation on the Write-off Policy was submitted to the City Manager's Office for his approval. Once the A.R. is approved it will be posted on iCOBWeb, the City's internal website.

Finance is working on having all currently uncollectible accounts receivable written off by December 20, 2003. On April 8, 2003, Finance will ask City Council to approve Finance's first group of uncollectible accounts for write-off.

Finding 7   Concerns Regarding the Prevention and Reporting of Missing Payments

On September 11, 2001, Finance reported four separate incidents of stolen City money to the Police Department. The first incident took place on April 5, 2001. The other three incidents took place on June 1, 2001, June 20, 2001, and September 11, 2001. A total of $4,016 in cash and $1,408 in checks were never recovered. The perpetrator or perpetrators of these crimes have also not been identified.

The following areas, related to these four incidents, are still concerns:

A. The first three incidents of stolen money were not timely reported to the Police Department. All four instances were reported on September 11, 2001, more than five months after the first incident occurred. Additionally, all four instances were not brought to the attention of the City Auditor until the auditors inquired into such matters as part of the recent cash audits. The December 1992 "City of Berkeley Cash Training Program" manual, used by Finance to train cash handlers citywide, requires that lost or stolen City funds be immediately reported by an employee to his or her supervisor, the Department Head, or both. It further states that the Department Heads will notify the Police and the City Auditor's Office, who will then prepare the necessary reports required by the City and the City's insurance company. Finance Department representatives have stated that there have been no further incidents of lost or stolen cash or cash equivalents involving Finance. Because the incidents of missing cash and cash equivalents were not timely reported to the Police Department and the Auditor's Office, their expertise in investigating crimes and identifying opportunities for preventing future thefts was not effectively utilized.

As a result of this audit, the City Manager sent department directors a December 5, 2002, memorandum reminding them of the "City of Berkeley Cash Training Program Manual" requirements regarding the reporting of lost or stolen cash and cash equivalents. The memorandum further stated that if cash or cash equivalents were stolen, the department head should notify the Police Department, Finance Department, and the City Auditor immediately. It also required that the City Manager be notified, as well as the Employee Relations Officer, who would handle the related insurance claim.

B. The City currently appears to rely on the following methods to identify applicants with a background that may not be appropriate for cash handling positions:
   - Reference checks.
   - Question 16 on the City's job application, which asks if the applicant has ever been discharged, or forced to resign from employment, or been convicted of a felony.

The auditors are concerned that this information alone may not be sufficient to identify job applicants that have an unfavorable background for cash handling positions. The Deputy Director of Human Resources stated that the City does not perform criminal background checks, as part of the hiring process, for cash handlers. She further stated that only Police Department applicants, sworn fire applicants, and camps and recreation applicants who will have supervisory control of minors, receive a background check before they are hired.

C. After the April 5, 2001, incident involving stolen money, a new internal control procedure was put in place in Customer Service, but it is not functioning properly. Specifically, Treasury staff are suppose to initial the "Treasury Transport Verification

Sheet" to document that they have received all of the sealed pre-numbered bank bags (filled with currency) sent over from Customer Service by courier. However, this is not consistently being done. After the delivery is made, the delivery log is returned to the cashiering supervisor in Customer Service and filed. The Cashiering Supervisor and courier do not ensure that Treasury staff always initials this record. The auditor reviewed the verification sheet for the week of September 2, 2002, and found that the Treasury representative's initials were not present on September 6. The auditor reviewed the following two week period and found a second instance in which the new procedure was not being followed. If there is a loss incident involving this money, and Treasury staff did not sign for all the pre-numbered bags they received, there will not be sufficient documentation to eliminate Customer Service staff as suspects.

Recommendation for Finance

7.1 When the courier returns from Treasury, the Customer Service cashiering supervisor should confirm that the "Treasury Transport Verification Sheet" was initialed by a Treasury representative indicating that all the sealed pre-numbered plastic bank bags that Customer Service sent over to Treasury were received unopened. If initials are not present, the courier should immediately be sent back to have this record initialed. If Treasury representatives refuse to initial the log, or indicate bags on the log were not received, this incident should immediately be reported to the appropriate Customer Service Manager and Director of Finance. This procedure should be incorporated into the written Customer Service Center Cash Handling Procedures.

Recommendation for Human Resources, City Manager and Finance

7.2 With the Human Resources Department as the lead department, the City should establish and implement a policy requiring background checks for all City employees that handle cash or other liquid assets. Policy development and implementation should involve input from, and coordination with, the departments of Finance, Police, and City Attorney's Office, and include any relevant review with affected bargaining units. We further recommend that this policy specifically identify the positions in the City that will be subject to a background check, along with the type and degree of background investigation each position requires. Finally, the policy should also identify the criteria for requiring background checks for any new positions that might be added to the City staff in the future.

Recommendation for the City Manager and Finance

7.3 Establish an Administrative Regulation (A.R.), or incorporate into an existing A.R., the City's policies and procedures regarding lost or stolen money, including disciplinary action for non-compliance. The A.R. should include the definition of a reportable instance of lost

or stolen cash or cash equivalents, who is to report the incident, and to whom they are to report the incident. Consistent with the City Manager's memorandum dated December 5, 2002, we recommend that incidents be immediately reported to the Police Department, Director of Finance, and City Auditor. We further recommend that these incidents also be reported to the City Manager and the Human Resources Employee Relations Officer.

City Manager's Response

Finance agrees with the audit finding and recommendation. The Customer Service cashiering supervisor now always confirms that the "Treasury Transport Verification Sheet" was initialed by a Treasury representative indicating that all the sealed pre-numbered plastic bank bags that Customer Service sent over to Treasury were received unopened. The updated procedures have been incorporated into the written Customer Service Center Cash Handling Procedures.

Human Resources also agrees with the audit finding and recommendation 7.2. Human Resources will be the lead on establishing and implementing a formal citywide written policy requiring background checks for all City employees that handle cash or other liquid assets by September 30, 2003.

Finding 8   Instance of an Improperly Secured Cash Register

A Customer Service cashier left work to take her child to the doctor, and she did not return as expected before the end of the business day. When she left work, she was still logged onto a computerized cash register. Additionally, the keys to her lockable moneybag and her cash register drawer were left in an unsecured location. In this situation, cash and cash equivalents in her cash register drawer, and cash register entry access, were not properly safeguarded. Money could have been stolen, and everyone in the office would have been a suspect.

Written procedures for the cashiers state, "If the employee leaves their work station for any reason he/she must make sure that the cash drawer is locked and the key is kept in their possession at all times. This includes any breaks and/or lunch." This procedure assumes that a cashier that has left their workstation will return before the end of the work day.

To prevent such an instance from happening again in the future, Customer Service management stated that they are now requiring cashiers to close out, and put their cash and cash equivalents in the safe, before they leave for a meeting or an appointment.

Recommendation for Finance

8.   Incorporate Customer Service management's corrective action taken during the audit into the written policies and procedures. That is, require the cashiers to close out, and put their cash and cash equivalents in the safe, before they leave their register for a meeting or an

appointment, regardless if they think they will be back later in the day.

To ensure that all cashiers, and their supervisor, have a copy of the written policies and procedures and know they must follow them, we further recommend that they each sign and date a statement acknowledging receipt of the written policies and procedures and agreeing to follow them. Management should retain a copy of these agreements.

City Manager's Response

Finance agrees with the audit finding and recommendations. Written policies and procedures have been updated, requiring cashiers to close out and put their cash and cash equivalents in the safe before they leave their register for a meeting or an appointment.

The updated written policies and procedures were distributed to the cashiers and supervisors on February 28, 2003.

Finding 9   No Written Procedures Documenting When and How to Issue Manual Receipts

Written policies and procedures do not address the issuing and processing of manual receipts by cashiers when the automated cash registers are not working. As a result, the public could be inconvenienced, and there is an increased risk of accounting errors and loss of money.

One of the Customer Service managers stated that manual receipts were very seldom issued. Because cashiers seldom write and process manual receipts, it may be difficult for them to remember how to do it properly. For example, cashiers may not know or remember that they are suppose to issue pre-numbered receipts sequentially, and retain a carbon copy of each receipt issued (an important internal control to ensure all receipted money is accounted for). Additionally, cashiers may be unclear on how to properly enter the manual receipts they issued into the automated cash register once it is working again. Finally, because written procedures do not state under what conditions manual receipts are to be issued, it may be unclear to the cashiers and their supervisor when manual receipts should be issued. As a result, the cashiers may decide to temporarily close the front counter rather than issue manual receipts, which may or may not be what management wants.

During the audit, one of the Customer Service unit managers stated that written procedures pertaining to manual receipts would be developed by February 28, 2003.
Recommendation for Finance

9. Update written policies and procedures to address when and how cashiers are supposed to issue and process manual receipts when the automated cash registers are not working.

City Manager's Response

Finance agrees with the audit finding and recommendation.   This procedure has not yet been written or implemented. The procedure will be implemented by June 20, 2003.

Finding 10   Too Many Employees Can Open the Safe

Six Customer Service employees have the combination to the safe in Customer Service. The six consist of two unit managers, two supervisors, and two collectors (Field Representatives). The auditor observed that cash, checks, credit card information, keys to all the cash register drawers, keys to each counter person's lockable moneybag, keys to each counter person's cubicle, keys to the lockable courier bags, keys to vehicles, and cash handling logs and records, are kept here. As a result, all six employees would be suspected if these items were missing or used for unauthorized purposes.

One of the Customer Service managers stated that the six employees were authorized to open the safe to:
- Ensure there was always someone available at the start and end of the day to open and close out the registers.
- Allow staff to have additional work schedule flexibility.

On November 26, 2002, subsequent to audit fieldwork being completed, one of the Customer Service unit managers informed the auditor that a new safe had been purchased. She stated that the new safe had an electronic keypad to identify each individual who went into the safe, as well as track the time they went in. That way, if six employees had the safe combination, all could be eliminated except those who opened the safe during the period in question. The concern is that with this new safe, there will probably always be at least two suspects, the one committing the irregularity, and the one who finds the irregularity. Additionally, because of the volume and variety of contents in the safe, it is probable that a theft or impropriety, such as an unauthorized duplication of a key, would go unnoticed for quite some time, increasing the pool of suspects.

The keys to the cash register drawers, lockable moneybags and courier bags, and workstation drawers and shelves, are not stamped "Do Not Duplicate". As a result, keys that should not be duplicated could more easily be duplicated. During the audit one of the Customer Service managers stated that Finance would take corrective action, and have these keys stamped "Do not duplicate". Please see Finding 11 for additional concerns regarding the cash register drawer keys.

Recommendations for Finance

10.1   Stamp all keys that should not be duplicated, "Do Not Duplicate", to help prevent unauthorized duplication. Re-key all the cashier moneybags, and give the sole key to the

cashier that the bag is assigned to.

10.2   Modify the safe so that it requires dual custody, a cashier and a supervisor, to open it.

City Manager's Response

A new safe has been installed that tracks who entered the safe and at what time. Dual custody is being practiced when the supervisor removes the prior day's money from the drop. We have implemented the following procedure and the written procedures will be updated to reflect these changes.

Safe Procedures:

1. *After balancing, the supervisor will drop the sealed moneybag back into drop door #1 in the presence of the OAII*
2. *Upon transport of the bags to Treasury, the supervisor and the OSIII in dual custody will open the safe and report the bags being transported.*
3. *From this point on the already documented procedures will take place.*

Finance does not agree with the recommendation that cashier's moneybags be re-keyed and the sole key given to the cashier to whom the bag is assigned. We feel it is important that the supervisor also retain a key. If for some reason an employee does not give the key back to a supervisor when leaving early etc. it would prevent the timely balancing and depositing of cash. Finance does agree with the recommendation that" Do not duplicate" be stamped on keys; however, this has not yet been implemented. It will be implemented by June 30, 2003.

Auditor's Disposition

It is the auditor's understanding that Finance has agreed to implement recommendation 10.1 and 10.2, except for the part of recommendation 10.2 regarding the re-keying of the moneybags. This is acceptable to the auditors since the dual custody safe requirement was implemented.

Finding 11   Money in the Cash Register Drawers Is Not Adequately Secured

It appears that it would be possible for any one of a large number of employees in Customer Service to have a cash register drawer key duplicated and then use the duplicate to steal City money from a locked but unattended cash register drawer. The Customer Service manager for the Counter Unit acknowledged that this could occur.

When a cash register is not being used, the cash register drawer key is left in the lock or inside the unlocked drawer so that it is available for the next cashier. Six Customer Service cashiers work at any one of the four cash registers. When a cashier leaves the cash register, such as to take a break or go to lunch, he or she locks the cash register drawer to safeguard the day's cash

receipts. At this time another employee could use a duplicate key to steal the money in the register. The till inside the cash register drawer does not have its own lid and can't be separately locked. However, the present till can be removed from the drawer and probably can be replaced with a till that can be locked.

Recommendation for Finance

11.   Each cashier should be assigned his or her own lockable till, and given the only key to open this till. When the cashier is not at the cash register, the till should be locked, and kept in the locked cash register drawer.

City Manager's Response

Finance agrees with this finding, but finds that this recommendation is not feasible given the current configurations of the workstations. However, Finance will build this into the new workstation when Customer Service relocates in November 2003.

Finding 12   Concerns Over Front Counter Employee Safety

The cashiering supervisor, and the Safety Committee representative for Finance, both stated that the current design of the front counter area did not provide adequate protection to the cashiers from a sometimes abusive public.

During the audit the cashiering supervisor stated that raising the height of the door leading to the employee work area, and raising the height of the front counter, would be her recommendations to improve safety for counter staff. She stated that staff were concerned that a troubled customer could easily jump over the counter or reach over to the other side of the locked entry door and enter their work area. The supervisor stated that to date they had not been robbed and no employees had been injured by a customer.

Customer Service representatives stated that they are scheduled to vacate their current location in June 2003 because their building is going to be torn down. For this reason, redesigning and rebuilding the counter area at the current location, or purchasing other costly safety improvements which the City can't easily bring to a new location, may not be a cost effective solution to the safety concerns.

After fieldwork in this area was completed, a Police Officer workstation was established in the Customer Service lobby. Police Officers have been working there 2 – 3 times per week according to management. There is no scheduled time, or number of hours per week, that they are there. The Occupational Health and Safety Coordinator reported to safety committee members at the December 11, 2002, Safety Committee meeting that the Police Officer workstation was working well.

Recommendation for Finance and Police

12. Continue the current level of police presence at the current Customer Service location until the division is moved.

    Design the Customer Service work area at the new location so that City employees and City assets are adequately safeguarded from any abusive members of the public and from theft. Consider having the Customer Service counter staff, the City's Safety Committee, and the Police Department, evaluate the new office layout and safety features for adequacy before they are purchased, built, and installed.

City Manager's Response

Finance and the Police Department agree with the audit finding and recommendation. The Police Department will continue to assist the Finance Department with an intermittent police presence at the current Customer Service location. Officers who have received training in Crime Prevention Through Environmental Design will assist the Finance Department by making design recommendations for any new Customer Service location.

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VI. CONCLUSION

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Most of the concerns that this audit identifies appear to be the end result of the Finance Department working to efficiently provide day-to-day services, which is important, but not placing enough emphasis on procedures designed to help ensure that cash receipts are adequately safeguarded and records are reliable and accurate (internal controls). This also is paramount to their function.

The audit found that Customer Service cashiers and their supervisor had too much access to assets and accounting records, that some duties were not adequately segregated, and work was not always adequately reviewed. It also notes that written procedures were not always followed, were sometimes outdated, and did not address how to issue manual receipts when the automated cash registers were not working. As a result of these concerns, errors and irregularities may not be timely detected. The audit found that Customer Service management had concerns about the safety of the staff in the front counter area from a sometimes abusive public. It also found that testing and debugging of accounting system software upgrades is not always adequate. Finally, the audit found that the City has not been writing-off uncollectible accounts receivable for many years.

Most of the audit findings identified in this report were reported to Finance Department management during the course of the audit.   In a number of instances, Finance used this information to quickly begin developing corrective action, implementing corrective action, or both.

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