



Office of the City Auditor

CONSENT CALENDAR
October 9, 2007

To: Honorable Mayor and
Members of the City Council

From: Ann-Marie Hogan, City Auditor

Subject: Audit: Marina Surprise Cash Count - Controls Over Cash Receipts Need Improvement

RECOMMENDATION

Request the City Manager to report back during January 2008 regarding the implementation status of each of the City Auditor's recommendations in the attached report, and to report back every six months thereafter, until all recommendations have been implemented.

SUMMARY

A surprise cash count was performed at the Marina Administration Office (Marina) to determine if the established change fund and the cash receipts in the cash drawer were present and accounted for. We also asked Marina staff fundamental questions about cash handling and accountability practices. Weak controls and non-compliance with City cash handling practices that came to our attention were noted. We did not conduct a comprehensive evaluation of internal controls over cash handling or perform detailed tests of compliance with the City's cash handling policies.

Audit fieldwork was conducted on July 18, 2007. The audit identified several significant internal control weaknesses with the Marina's cash receipt and cash handling procedures and practices. The audit report contains two findings and five recommendations.

The most significant audit concerns identified were:

- The cash drawer till on July 18, 2007, had not been closed out the prior day and inappropriately included two days of cash receipts. There was also an unexplained cash overage of \$23.41.
- Most of the Marina's cash receipt and cash handling practices had significant internal control weaknesses. Practices did not allow for individual accountability of cash receipt shortages and overage, or missing funds. Employees were allowed to perform incompatible duties and work was not reviewed and approved by a supervisor.

FISCAL IMPACTS OF RECOMMENDATION

Care was taken to make audit recommendations that appeared to be cost effective to implement.

CURRENT SITUATION AND ITS EFFECTS

If policies and procedures are left as they were at the time of the audit, there is very high risk that cash receipt errors and irregularities will occur and go undetected or, if detected, that no individual could be held accountable.

The Association of Certified Fraud Examiners "2006 ACFE Report to the Nation on Occupational Fraud & Abuse" states, "The typical organization loses 5% of its annual revenues to occupational fraud." This figure is based on the opinions of 1,134 Certified Fraud Examiners. Applying this five percent estimate to the Marina's reported calendar year cash receipts of \$248,673 would mean a loss of \$12,434 for that year, and as much as \$62,000 over a five-year period.

BACKGROUND

The Berkeley Marina is a division of the Parks, Recreation, and Waterfront Department. The Marina Administration Office is located at the Berkeley Marina at 201 University Ave. Staff at this location receive payments from the public for such things as the first month's berth rent from new month-to-month renters, berth deposits from new month-to-month renters, and berthing fees from visiting and temporary berthers. Fees are also received for launch ramp use and boat towing.

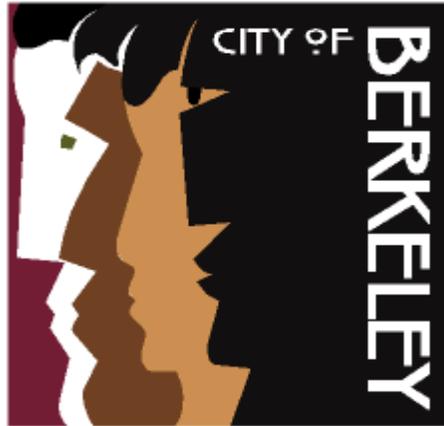
CONTACT PERSON

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Attachment:

- 1: Marina Surprise Cash Count Audit: Controls Over Cash Receipts Need Improvement

City of Berkeley



Marina Surprise Cash Count Audit: Controls Over Cash Receipts Need Improvement

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Presented to Council on October 9, 2007

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Marina Surprise Cash Count Audit: Controls Over Cash Receipts Need Improvement
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I. OBJECTIVES

The objective for this surprise cash count audit was to determine if the Marina Administration Office's established change fund and cash receipts¹ for the day of our visit were present and accounted for. As a sub-objective, the audit was to identify cash receipts and cash handling internal control weaknesses that came to the auditor's attention during the site visit.

The Auditor's Office scheduled a series of surprise cash counts as part of our fiscal year 2008 audit plan. The 2008 audit plan was presented to City Council on June 26, 2007. The Director of the Parks, Recreation and Waterfront Department (PRW) requested this audit.

II. SCOPE AND METHODOLOGY

The auditors performed a surprise cash count audit at the Marina Administration Office on July 18, 2007. At the time of our visit, cash receipts on-hand in the cash drawer were compared with the cash register reports to identify cash receipt shortages or overages. The established change fund was also counted to determine if all the cash in the change fund was present.

We asked Marina staff basic questions about cash handling and accountability practices, and noted concerns that came to our attention, which resulted in weak controls or non-compliance with the City's cash handling policies. We did not conduct a comprehensive evaluation of internal controls over cash handling or perform detailed tests of compliance with the City's cash handling policies. Our review was conducted in accordance with Generally Accepted Government Auditing Standards and was limited to those areas specified in the scope and methodology section of this report.

¹ "Cash receipts" include cash and cash equivalents such as payments by check and credit card.

III. RESULTS

Internal controls should provide “reasonable assurance” that assets are safeguarded.

The Marina Administration Office (Marina) cash drawer till had not been closed out the prior day and included two days of cash receipts. There also was an unexplained cash overage of \$23.41.

Most of the Marina’s cash receipt and cash handling practices had significant internal control weaknesses. Practices did not allow for individual accountability for cash receipt shortages or missing funds. Employees were allowed to perform incompatible duties² and work was not reviewed and approved by a supervisor.

IV. BACKGROUND

The Berkeley Marina is a division of the Parks, Recreation, and Waterfront (PRW) Department. The Marina Administration Office (Marina) is located at the Berkeley Marina at 201 University Avenue. Staff at this location receive payments from the public for services such as the first month’s rent from new month-to-month berthers, berth deposits from new month-to-month renters, and berthing fees from visiting and temporary berthers. Fees are also received for launch ramp use and boat towing. The Marina staff also sell a few items including electronic key passes to open dock gates.

The Marina uses a software program called Marina Program by Watch Captain to record sales and issue receipts. The day of the surprise cash count, July 18, 2007, the cash register report indicated the Marina had received \$1,271.64 in cash, check and credit card payments. For the prior day, it indicated \$242 in cash receipts. For the 2006 calendar year, the Marina Program indicated the Marina had cash receipts totaling \$248,673 of which \$51,106 was reported as cash. Safes located on the premises are used to secure the cash receipts.

Most of the Marina division’s revenue comes from berthing fees, which are billed and collected by the Finance Department. According to the Acting Harbor Master, the Marina Administration Office is not to accept payments for berthing fees that were billed by Finance.

V. FINDINGS AND RECOMMENDATIONS

² Authorization, record keeping, and asset custody (incompatible duties) should not be performed by the same employee to minimize the opportunities for a person to be able to perpetrate and conceal errors or fraud in the normal course of his/her duties.

Finding 1 A. Cash drawer till inappropriately included two days of cash receipts. B. There was an unexplained cash overage of \$23.41.

- A. The surprise cash count found the cash drawer till contained the cash receipts for two days and that the prior day's cash receipts had not been reconciled to the prior day's cash register support documentation. This is not considered to be a good business practice. It can make reconciling the cash receipts and cash receipts documentation more problematic. The cash receipts are also at greater risk of loss in the cash drawer than in the safe or if deposited in Finance Treasury.
- B. The audit also identified a cash overage of \$23.41. Cash overages identified during surprise cash counts are considered to be a strong indicator of weak controls over cash receipts. The Acting Harbor Master stated she did not know the reason for the overage. The overage couldn't be attributed to any single Marina employee because three Marina employees shared the same cash register till during the last two days. This practice is not in compliance with the City's cash handling guidelines, Administrative Regulation (AR) 3.20. The practice does not allow each employee to be held individually accountable for cash receipt errors or irregularities and is a significant internal control weakness.

A cash overage is just as significant a warning sign as a cash shortage.

It appears the method of payment (cash, check or credit card) identified in the cash register reports is too often incorrect. This can make it more difficult to reconcile cash receipts and locate errors and irregularities.

Lastly, the Acting Harbor Master told the auditors that the Marina had a \$50 change fund. However, Resolution No. 62,286 N.S., which authorizes the change funds throughout the City, did not appear to authorize a change fund for the Marina.

City Manager's Response
PRW agrees with the finding.

Recommendations for PRW

- 1.1 In accordance with A.R. 3.20, provide each cashier with a cash drawer till directly under his or her control at all times. If the access to a till changes during the day, management should establish a process that requires the person accepting responsibility for the till to count and sign for the amount of cash and cash equivalents being transferred to them. The policies and procedures to implement this recommendation should be included in the Marina's written policies and procedures for cash handling.
- 1.2 Before a cashier begins a new day of cashiering, require the following:
 - The cashier has reconciled the last day's cash receipts in his or her till with the cash register reports and support documentation.
 - Together the cashier and his or her supervisor have counted the cash receipts and agreed the cash count and reconciliation are accurate. Both should document in writing their agreement and approval.
 - Together the cashier and supervisor have secured the cash receipts, for example, by placing in a safe.The policies and procedures to implement this recommendation should be included in the Marina's written policies and procedures for cash handling.
- 1.3 Implement written policies and procedures which provide a reasonable assurance that the method of payment is consistently accurately recorded in the Marina Program cashiering software by the cashiers.

City Manager's Response

PRW agrees with all three recommendations and will implement them by October 31, 2007.

Recommendation for PRW and Finance

- 1.4 Obtain Council approval for the \$50 Marina change fund.

City Manager's Response

PRW and Finance agree with the recommendation and will implement it by December 4, 2007.

Finding 2 Internal controls over cash receipts were not adequate.

Several internal control weaknesses exist with the cash receipt and cash handling operations at the Marina Administration Office. They are discussed below:

A. Cashiering - Lack of Individual Accountability

Up to six employees were authorized to share the same cash drawer till throughout the day. Additionally, the key to open the cash drawer where the till was kept was accessible to everyone in the office. As a result, cash receipt shortages and overages probably would not be traceable to a single employee unless the error or irregularity was actually observed by another employee in the office. Also see Finding 1.

B. Staff Performed Incompatible Duties

The Office Specialist II that works as one of the cashiers usually performs the following tasks each day:

- Reconciles the sole cash drawer till (used by him and by the other cashiers) with the cash register reports.
- Inputs each day's cash receipts activity into the FUNDS\$ Cash Receipts module (so it is accounted for in the City's automated accounting system).
- Prepares the bank deposit slip, and seals the deposit slip and cash receipts in a tamper proof bank deposit bag for delivery to the bank.

None of the tasks he performs were reviewed at the Marina or Finance Treasury. As a result, there is significant risk that this individual could carry out errors and irregularities, and they would go undetected. The Acting Harbor Master and Marina Manager also appear to have the ability to perform all these incompatible tasks.

C. Inadequate Physical Safeguarding of Cash Receipts

➤ Safes

Any one of the six employees authorized to cashier could by themselves open the combination safe where the Marina change fund and temporary key deposits³ were kept. In such a situation, items missing from this safe will not be traceable to the responsible employee unless the incident was observed. Additionally, three Marina employees could by themselves open another safe (a drop safe) where cash receipts from prior days were kept until deposited. Although the Marina Manager stated this drop safe was capable of identifying who opened it, currently it appears this feature could not be used to identify the employee responsible for missing items. Since three employees were authorized to open the safe by themselves, it appears missing money could be attributed to the employee who was in the safe before the theft was report, and the

**Important
internal controls:**

- **Perform supervisory reviews and monitoring functions.**
- **Avoid incompatible duties.**

³ Acting Harbormaster estimated key deposits at \$200.

employee that was reporting the theft.

➤ Deposits

Cash receipts are not being deposited the next business day as required. According to the Acting Harbor Master, cash receipts were being deposited every one to two weeks. Administrative Regulation (A.R.) 3.20, City Cash Handling Policy and Guidelines, requires the Marina to deposit their cash receipts the next business day if their average weekly receipts total \$501 and above. For calendar year 2006, the Marina's automated cash register reports the Marina had average weekly cash receipts of \$4,782.

➤ Check Endorsement

Checks are not being restrictively endorsed upon receipt. The Acting Harbor Master stated the Marina did not have an endorsement stamp. A.R. 3.20 states checks should be restrictively endorsed with the City's bank account number as soon as they are accepted to preclude the possibility of them being deposited into anyone else's account.

➤ Counting of Cash Receipts

The Acting Harbor Master stated cash receipts were counted after business hours when doors were locked. However, cash receipts were sometimes counted in an area visible to people outside the building. A.R. 3.20 states cash handlers should be out of the sight of the public when counting / balancing cash.

Counting cash in a public area creates an employee safety risk.

With the exception of the last two concerns (Check Endorsement and Counting Cash Receipts), and concerns involving the drop safe, the concerns in finding 2 were brought to the attention of Marina management by Finance during the second half of fiscal year 2005.

Lastly, we were told by Marina staff that the written policies and procedures covering cash receipts and cash handling either did not exist or were outdated, and therefore were not being used. Written policies and procedures specific to the Marina are needed to help ensure staff perform cash handling procedures, including internal control procedures, as management intends for them to be performed.

Recommendations For PRW and Finance

2. Develop and implement written cash handling policies and procedures that correct

Important internal control: Establish good written policies and procedures.

all the internal control weaknesses identified in Finding 2. Marina management should provide these updated written policies and procedures to Marina staff and monitor staff work to help ensure the procedures are followed.

City Manager's Response

PRW and Finance agree with the recommendation and will fully implement it by October 31, 2007.

The cost of fraud cannot always be measured in dollars. If those responsible for fraud cannot be identified, damage to the reputation of innocent people cannot be quantified.

VI. FISCAL IMPACT

The Association of Certified Fraud Examiners "2006 ACFE Report to the Nation on Occupational Fraud & Abuse" states, "The typical organization loses 5% of its annual revenues to occupational fraud." This figure is based on the opinions of 1,134 Certified Fraud Examiners. Applying this five percent estimate to the Marina's calendar year cash receipts which total \$248,673 would mean a loss of \$12,434 for that year. Projecting the five percent estimate over a five-year period infers as much as \$62,000 in possible cumulative losses as a result of fraud.

VII. CONCLUSION

This audit identified several significant internal control weaknesses with the Marina's cash receipt and cash handling practices. If policies and procedures are left as they were at the time of the audit, there is very high risk of cash receipt errors and irregularities occurring and going undetected, or being detected, with no way to hold one individual accountable. Immediate implementation of the audit recommendations will significantly reduce this risk.

We would like to thank the Marina staff for their cooperation and assistance during the audit and acknowledge the willingness expressed by Parks staff to implement new procedures to improve internal controls over cash receipts.

