



Office of the City Auditor

CONSENT CALENDAR
November 6, 2007

To: Honorable Mayor and Members of the City Council
 From: Ann-Marie Hogan, City Auditor
 Subject: Audit: Nature Center Surprise Cash Count: Controls Over Cash Receipts Need Improvement

RECOMMENDATION

Request the City Manager to report back during February 2008 regarding the implementation status of each of the City Auditor's recommendations in the attached report, and to report back no later than every six months thereafter, until all recommendations have been implemented.

SUMMARY

A surprise cash count was performed at the Nature Center (which includes the Adventure Playground) to determine if cash receipts were present and accounted for at the time of our July 30, 2007 visit. A second follow-up visit was also performed on August 6. As part of the audit Nature Center staff were asked basic questions about cash handling and accountability practices. Weak controls and non-compliance with 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.

The audit identified several significant internal control weaknesses with the Nature Center's cash receipt and cash handling procedures and practices. The audit report contains five findings and seven recommendations. Parks, Recreation and Waterfront and Finance have already reported that more than half of the audit recommendations have been partially or fully implemented.

The most significant concerns identified during the audit were:

- The Nature Center Recreation Coordinator stated she had advanced the Nature Center some of her own money for the purpose of reimbursing staff for small purchases for the Center. This money was inappropriately kept in the Nature Center office cash register till. (Finding 1)
- Adventure Playground fees were sometimes partially or fully waived when customers stated they were low income and unable to pay. The Recreation

Coordinator stated that she had also bartered with some organizations that were unable to pay fees. There was no Council established criteria or authorization for this activity. (Finding 2)

- Cash handling procedures at the Nature Center office and the Adventure Playground had significant internal control weaknesses. For example, procedures did not allow for individual accountability of cash receipt shortages or overages. (Finding 3 and 4)

FISCAL IMPACTS OF RECOMMENDATION

It appears the direct fiscal impact of a misappropriation of funds at the Nature Center would be minimal given the amount of reported annual revenue. However, if inadequate internal controls allow a theft to occur without the means to establish accountability, damage to the reputation of innocent people, as well as the erosion of the public's confidence in government, cannot be quantified.

CURRENT SITUATION AND ITS EFFECTS

If policies and procedures are left as they were at the time of the audit, there is 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 the five percent to the total fiscal year 2007 cash receipts of \$34,962 (approximate) reported in Nature Center records, this would mean a loss of \$1,748 for that year, or \$8,740 over a five-year period.

BACKGROUND

The Nature Center is a unit in the Parks, Recreation and Waterfront Department's Marina Division. The Nature Center office is located at 160 University Avenue (the south side of the Berkeley Marina in Shorebird Park). The Nature Center also operates the Adventure Playground in Shorebird Park. Nature Center staff receive payments from individuals and organizations in the form of cash and checks for such things as Nature Center programs and Playground use.

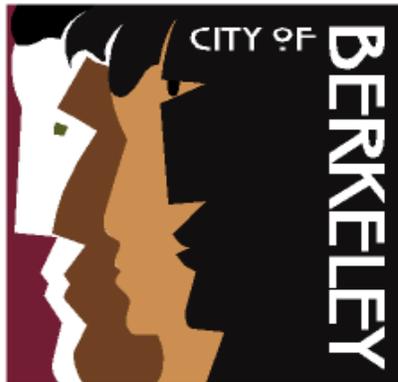
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Attachment:

1: Nature Center Surprise Cash Count Audit: Controls Over Cash Receipts Need Improvement

City of Berkeley



Nature Center Surprise Cash Count Audit: Controls Over Cash Receipts Need Improvement

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Presented to Council on November 6, 2007

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Nature Center Surprise Cash Count Audit: Controls Over Cash Receipts Need Improvement
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Nature Center Surprise Cash Count Audit

I. OBJECTIVE

The objective of our surprise cash count audit was to determine if the Nature Center's cash receipts¹ were present and accounted for at the time of our visit on July 30, 2007. As a sub-objective, the audit was to identify cash receipt 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. This audit was requested by the Director of the Parks, Recreation and Waterfront (PRW) Department.

II. SCOPE AND METHODOLOGY

The auditors performed a surprise cash count audit at the Nature Center on July 30, 2007. A second follow-up site visit was performed on August 6. At the time of our first visit, the cash receipts in the cash register till were compared with the cash register reports. The purpose was to identify cash receipt shortages or overages. The Nature Center did not have a change fund.

We also asked basic questions about cash handling and accountability practices, and noted practices 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 above.

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

III. RESULTS

Internal control concerns identified:

- **Incompatible duties.**
- **Inadequate physical safeguards over cash and cash equivalents.**
- **Lack of accountability.**
- **Lack of supervisory review and approval.**
- **Noncompliance with City policies.**

The cash register till in the Nature Center office had a \$10 cash overage on July 30, 2007, when the surprise cash count was performed. The Recreation Coordinator who manages the Nature Center stated this was her own money, which she had advanced the City to pay for future small Nature Center purchases. She stated that once her money was spent, she would go to Finance with the receipts and request reimbursement from Treasury petty cash. City Administrative Regulation 3.20 titled “Cash Handling Policy and Guidelines” prohibits the commingling of City and personal money.

The Nature Center’s cash handling procedures had significant internal control weaknesses. Procedures were not in place that would provide a reasonable assurance that all payments from customers were deposited in a City bank account. Procedures did not allow for individual accountability for cash receipt shortages or overages. The cash receipts work performed by employees was not reviewed and approved by their supervisor. The Recreation Coordinator who manages the Nature Center stated that a high employee turnover during the past year had overwhelmed her with having to provide extensive training. She also stated that the position that was charged with preparing the deposits was eliminated a couple of years ago, and that she did not have the time to assume these duties.

The Recreation Coordinator stated she also sometimes bartered when an organization was unable to pay a fee. In addition, a Playground drop-in fee² was sometimes partially or fully waived when customers stated they were unable to pay. She said that it had been her understanding that for the past 30 years Council insisted that low-income groups and individuals be accommodated at the Nature Center. However, she was not able to provide documentation authorizing the bartering activity or waiving of fees.

² The Nature Center manages Adventure Playground (Playground). A drop-in fee is charged if a child’s parent or guardian does not stay and watch the child, and Playground staff watch the child.

IV. BACKGROUND

The Nature Center is a unit of the Parks, Recreation and Waterfront (PRW) Department's Marina Division. The Nature Center office is located at 160 University Avenue (the south side of the Berkeley Marina in Shorebird Park).

Nature Center programs include low tide programs (exploration of the shoreline), animal programs (fish, birds, marine mammals), and providing information about the straw bale Nature Center building. Additionally, Nature Center programs offer research sailing and boating trips for students and teachers, and summer programs dedicated to marine biology, canoeing, safe boating skills, and water skiing. Fees for the programs are established by City Council.

The Nature Center also operates Adventure Playground (Playground). The Playground provides an outdoor facility where children can play and build creatively with hammers, nails, and saws. Use of the Playground is free for children accompanied by an adult. A "drop-in" fee (currently \$6) is charged when the adult does not stay with the child and Playground staff watch the child. Fees are also charged for groups of five or more children to play in the Playground. The fee for groups of 31-40 kids (the largest group) is presently \$132 for 2 hours.

All staff at the Playground are authorized to receive cash and checks for drop-in fees. Payments received are placed in a locked metal cash box (secured to a shelf) by means of a small hole on the top. A "Parent/Guardian Sign In & Out" log is used to document the arrival and departure of children dropped off and the payment of drop-in fees. For each drop-in customer, information recorded in the log includes the name of the child, the parent or guardian's name and telephone number, the time the child was dropped off and picked-up, and the fee paid. Staff initial the log where the payment is recorded to document the staff person who received the payment.

Cash and checks are also received at the Nature Center office where there is a cash register. According to the Recreation Coordinator, the cash receipts collected at the Playground are brought over to the Nature Center office and entered into the cash register once a week. At the Nature Center office, staff maintain a log used to record each cash register receipt issued. Information in the log for each receipt includes who the payment was from, check number if payment was by check, amount paid, and what was purchased. The total cash (excludes checks) received each week for drop-ins is a single entry.

Nature Center Surprise Cash Count Audit

During the summer when the Nature Center is busiest, the Recreation Coordinator stated cash receipts are usually deposited weekly. As part of the deposit process, Nature Center and Playground cash receipts are counted and compared with the cash register tape totals. For each deposit a "Daily Deposit" form is completed. The form documents the reconciliation of the cash register tape and monies collected. It also identifies the revenue codes to be used to account for the monies collected in FUND\$, the City's automated accounting system. Nature Center cash receipts that are to be deposited are placed in a drop safe located in the Marina Administration building by the Recreation Coordinator. A "Daily Deposit" form and other support documentation accompany the deposit. Marina Administration staff input the Nature Center's cash receipts into FUND\$ and deliver the payments to Finance Treasury for deposit. Cash receipt records at the Nature Center show the Nature Center had cash receipts totaling approximately \$34,962 for fiscal year 2007.

V. FINDINGS AND RECOMMENDATIONS

Finding 1 Cash Register Till Had a \$10 Cash Overage

The cash register till in the Nature Center office had a \$10 cash overage on July 30, 2007, when the surprise cash count was performed. The Recreation Coordinator stated this was her money, which she had advanced the City to pay for future small Nature Center purchases. As needed she would go to Finance with the receipts from these purchases and request reimbursement from Treasury petty cash.

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

The Recreation Coordinator explained that she had originally put \$20 of her own money into the cash register. She stated \$10 had been used to reimburse an employee for a receipted purchase from Urban Ore dated July 26, 2007. The receipt was in the cash register. There was no documentation to support the Nature Center had been advanced \$20 or that an employee had received \$10 as reimbursement for the Urban Ore purchase.

City Administrative Regulation (A.R.) 3.20 titled “Cash Handling Policy and Guidelines” requires staff to adhere to ten basic principles of cash handling. The sixth principle, “Commingling of Funds” states in part, “...employees are not permitted to advance funds to the City...”. The commingling of City money and an employee’s own money is not considered to be a good business practice because it increases the risk an employee may inappropriately identify City money as their own.

City Manager’s Response

PRW agrees with the finding.

Recommendations for PRW

1. Ensure that Nature Center staff comply with A.R. 3.20 and do not advance money to the City, or commingle their money with City money. The Department Director should inform staff that it is his expectation that Nature Center staff comply with the City’s established cash handling policy and guidelines.

City Manager’s Response

PRW agrees with the recommendation and will implement it by December 1, 2007. Finance will assist PRW with implementation of the recommendation. In particular, Finance will help PRW obtain a Council authorized petty cash fund, if it is decided one should be established.

Finding 2 No Council Established Criteria or Authorization for the Waiving of Fees

The Nature Center Recreation Coordinator stated that fees to use the Playground were sometimes partially or fully waived for individuals and organizations that stated they were low income and unable to pay the Council approved fee. The Recreation Coordinator stated Playground drop-in fees due from individuals claiming low income status were waived without these individuals providing documentation to support their low income status. The Recreation Coordinator also stated that she sometimes bartered with organizations that stated they were unable to pay a fee, for example, asking for materials such as wood for the Playground in lieu of money. If an organization requested a large fee be waived, and were not able to barter, the Recreation Coordinator stated she required the organization to provide a letter explaining why the fee should be waived.

If it is the City’s intent to waive fees then criteria should be established, formally approved, and applied equitably.

Nature Center Surprise Cash Count Audit

The Recreation Coordinator stated it had been her understanding that for the past 30 years Council insisted that low-income groups and individuals be accommodated at the Nature Center. However, she was not able to provide documentation that authorized the waiving of fees or bartering. The current procedure could result in fees being waived that Council does not want waived or fees being waived inequitably or inconsistently. The current procedure appears to provide little assurance that individuals or groups in the same situation will be treated the same. Additionally, there appears to be little or no formal review and approval of the fees waived, which could permit employees to inappropriately keep fees paid and incorrectly document or state fees had been waived.

City Manager's Response

PRW agrees with the finding.

Recommendation for PRW

2. If the City desires to waive all or a portion of a Nature Center fee, or allow bartering, the criteria should be pre-approved by Council. Waived fees and bartering activity should be reviewed for compliance with City policies and procedures.

City Manager's Response

PRW agrees with the recommendation and will implement it by December 1, 2007. Bartering is no longer being done. Finance will assist PRW with the implementation of this recommendation.

Finding 3 Internal Controls Over Cash Receipts at the Adventure Playground Were Not Adequate.

Several internal control weaknesses exist with the cash receipt and cash handling operations at Adventure Playground (Playground). They are discussed below:

A. Lack of Individual Accountability Over Cash Receipts

All eleven temporary hourly summer employees and an Activity Recreation Leader at the Playground were authorized to receive payments for Playground fees. Adequate procedures were not in place to hold each of these employees individually accountable for the money they collect.

Playground employees were responsible for recording drop-in activity in the “Parent/Guardian Sign in & Out” log. The log asks the employee to record the following information: child’s name, time the child was dropped off and time picked up, parent or guardian’s name and telephone number, and fee paid. The employee that receives the money and places it in the locked cash box is to write their initials by the fee paid to indicate they collected the fee. With this method, a cash shortage may not be identifiable to the responsible employee. If the money is not logged, it appears missing money would not be traceable to the employee that received it. If a payment was logged, but not initialed, it appears it may also not be possible to identify who collected the missing money.

We observed several logs that had not been properly or fully completed, and instances where the fee originally recorded had been altered. The Recreation Coordinator stated the logs were not being used to determine if cash receipts collected at the Playground were all present in the locked cash box.

B. Receipts Are Not Being Issued

Receipts were not issued at the Playground for the drop-in fees collected. If a receipt was requested, the requestor was informed they could get one at the Nature Center office. Requiring each customer be given a receipt is a good internal control to help ensure all payments received are correctly recorded. Signage reminding parents and guardians to always obtain a receipt may further increase the likelihood that all payments received are receipted. The seventh cash handling principle discussed in A.R. 3.20 states that a receipt must be given to the customer for every transaction.

C. Security Over Cash Receipts Needs Improvement

Checks were not restrictively endorsed when received at the Playground to preclude the possibility of them being deposited into a bank account other than a City of Berkeley bank account. A.R. 3.20, basic principle of cash handling number 8, requires all checks be restrictively endorsed with the City’s bank account number as soon as they are accepted.

Internal controls that need to be established:

- **Require that receipts be issued for all payments received.**
- **Avoid incompatible duties.**
- **Restrictively endorse checks immediately upon receipt.**
- **Provide adequate physical security over cash equivalents.**

The cash receipts at the Playground were also not adequately physically secured. Cash receipts were being dropped through a small hole in a metal box bolted to a shelf in a metal storage room. The container is accessible to all Playground employees and appears to be fragile enough to easily be pried open or pried off the shelf. The Recreation Coordinator stated the fees collected at the Playground were removed from the locked box for deposit once a week. Such a practice increases the amount of cash receipts at risk of theft.

City Manager's Response

PRW agrees with the finding.

Recommendations for PRW and Finance

- 3.1 Establish cash receipting and cash handling policies and procedures for the receipt of Adventure Playground fees that will make each employee responsible for the cash receipts they handle. Consider requiring all Playground drop-in fees be paid at the Nature Center office where a cash register receipt can be issued.

Alternatively, consider authorizing only one Playground employee at a time to receive payments and issue pre-numbered receipts. If this responsibility is transferred to another employee, management should establish a process that requires the person accepting responsibility for the cash receipts, and the employee relinquishing the cash receipts, to both count and reconcile the cash and receipts and document what was transferred.

- 3.2 Require all checks be restrictively endorsed with the City's bank account as soon as they are received.
- 3.3 Fees paid at the Playground should immediately be placed into a safe or other secure medium that can't be easily pried open or easily removed from the premises. Playground cash receipts should be moved to a more secure location at the end of each day.

City Manager's Response

PRW and Finance agree with the recommendations. All of them were implemented by September 14, 2007.

Finding 4 Internal Controls Over Cash Receipts at the Nature Center Office Were Not Adequate.

Several internal control weaknesses exist with the cash receipt and cash handling operations at the Nature Center office. They are discussed below:

Administrative Regulation 3.20 requires that each cash handler have a cash drawer under his/her control at all times.

A. Cash Register Till Was Being Shared

The Nature Center Recreation Coordinator and a Recreation Activity Leader share the cash register till. Although the Recreation Coordinator stated only she had the keys to operate the cash register and open the cash register drawer, two additional employees, including the employee that shares the cash register till with her, had access to these keys. Because three employees had access to the cash register keys, no employee was individually accountable for errors or irregularities involving the cash register or cash register till.

B. Payments Received Were Not Routinely Compared With Service Logs and Schedules To Identify Missing Cash Receipts

The Recreation Coordinator stated that the employee position that was charged with preparing the Nature Center cash deposits was eliminated a couple of years ago, and that she did not have time to reconcile cash receipts with cash receipts documentation. As a result, there was increased risk that cash receipts not entered into the cash register would go undetected.

C. Dual Custody Practices Over Cash Receipts Were Not Adequate.

The Recreation Coordinator appears to be largely reviewing and approving the deposits she helps prepare. The Recreation Coordinator stated that she reconciled the cash register tape and cash receipts with one of her subordinate employees. However, the Nature Center form completed to document this activity (titled "Daily Deposit"³) was only signed as having been completed by her. The Recreation Coordinator also stated she was the one that was placing the cash receipts, "Daily Deposit" form and cash register log into the Marina Administration drop safe. The Recreation Coordinator was involved in both the receipt and deposit of money and her work was not being reviewed by her supervisor.

Additional controls that need to be established:

- Timely deposits.
- Dual custody.
- Supervisory reviews and monitoring functions.

³ The Nature Center "Daily Deposit" documents: 1) the reconciliation of the cash register tape and monies collected 2) the accounting codes to be used to account for monies collected. This form is not prepared daily as the name implies.

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D. Security Over Cash Receipts Needs Improvement

After business hours, cash receipts were left in the locked cash register drawer. Although the Coordinator stated the building was locked at night, and was alarmed, a cash register drawer would not provide adequate physical security against theft after business hours. Other concerns with the cash register were discussed in concern 4A above.

Cash receipts were not being deposited timely. Nature Center cash receipt records indicate deposits this summer were being made no more frequently than every two weeks. A.R. 3.20, titled "City Cash Handling Policy and Guidelines", requires City locations with average weekly receipts of \$501 and above to deposit their cash receipts the next business day. Nature Center cash receipt records show the Nature Center received approximately \$34,962 during fiscal year 2007, or an average of \$672 per week.

E. Accounting Practices Need Improvement

The Recreation Coordinator stated that Nature Center staff were not verifying that Nature Center cash receipts were correctly accounted for in FUND\$. As a result, cash receipts that were not deposited by Marina Administration, or were incorrectly accounted for in the City's accounting system, FUND\$, could go undetected. During the audit, it came to our attention that a fiscal year 2007 Nature Center deposit dated July 13, 2006, for \$1,281 had been incorrectly accounted for as Public Works gas tax revenue.

It also appears that monetary donations were not being accounted for as donations. The Recreation Coordinator stated it was the policy to do so. The Nature Center deposit forms requests Nature Center donations be separately identified and accounted for. However, we observed that there were no small dollar deposits to the donation account. The auditors also noted the Daily Log for July 25, 2007, at the Playground reported a \$20 donation. However, the donation account did not reflect this donation. The Recreation Coordinator stated that the donation had been accounted for as a drop-in Playground fee.

City Manager's Response

PRW agrees with the finding.

Recommendations For PRW and Finance

4. Develop and implement written cash handling policies and procedures that correct all the internal control weaknesses identified in Finding 4. Provide these written procedures to staff. PRW management should monitor that these new procedures are being followed and this monitoring should be documented.

City Manager's Response

PRW and Finance agree with the recommendation. The recommendation has been partially implemented and will be fully implemented by December 1, 2007.

Finding 5 Nature Center Fees For Fiscal Year 2008 Were Not Authorized By Council Resolution

There was no Council Resolution authorizing the Nature Center fees for fiscal year 2008. A July 10, 2007, Action Calendar item was submitted to Council for this purpose. The item clearly stated the Nature Center fees that PRW would like Council to approve. However, the Resolution that resulted, Resolution 63,777 N.S., only approved Marina berthing fees and boating charges. It appears the exhibit with Nature Center fees was omitted from the proposed resolution by PRW in error.

City Manager's Response

PRW agrees with the finding.

Recommendation for PRW

5. Obtain a Council Resolution that authorizes fiscal year 2008 Nature Center fees.

City Manager's Response

PRW agrees with the recommendation. It was implemented on September 18, 2008.

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 \$34,962 that Nature Center records report were received during fiscal year 2007, would mean a loss of \$1,748. Projecting the five percent estimate over a five-year period infers as much as \$8,740 in possible cumulative losses as a result of fraud.

VII. CONCLUSION

This audit identified several significant internal control weaknesses with the cash receipt and cash handling procedures and practices at the Nature Center. Internal controls help safeguard assets, and promote compliance with City policies and procedures. If policies and procedures are left as they were at the time of the audit, in the auditor’s opinion, there is very high risk of cash receipt errors and irregularities occurring and going undetected, or being detected but not attributable to an individual. Immediate implementation of the audit recommendations will significantly reduce this risk. It appears PRW Administration and Finance staff expertise are needed for the development of adequate cash receipt and cash handling procedures for the Nature Center.

We would like to thank the staff at the Nature Center for their cooperation and assistance during the audit.

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 as well as the erosion of the public’s confidence in government cannot be quantified.