



CONSENT CALENDAR

Office of the City Auditor

September 17, 2002

To: Honorable Mayor and
Members of the City Council

From: Ann-Marie Hogan, City Auditor

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

RECOMMENDATIONS:

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

BACKGROUND:

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

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

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

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

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

Findings included:

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

FINANCIAL IMPLICATIONS:

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

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

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

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

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Approved by:

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