

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: Permit Service Center Surprise Cash Count: Need to Address Long Standing Security and Accountability Concerns

RECOMMENDATION

Request the City Manager to report back on or before May 15, 2008, and every three months thereafter, regarding the implementation status of the audit recommendations in the attached audit report until each recommendation is fully implemented.

SUMMARY

The objective of our surprise cash count was to verify that the Planning and Development Department's Permit Service Center's (Center) established change fund and the day's collection receipts were present and properly accounted for at the time of our visit on July 20, 2007.

We 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.

The Center's daily receipts were present and accounted for at the time of our visit. However, the Center's change fund was \$20 short. The Center's personnel stated that the \$20 was in a non-functional cash register that they could not open. We also identified the following areas where the Center needs to improve physical security over cash and cash equivalents, as well as accountability for collections:

- Eight employees who were authorized to collect cash shared the same password and FUNDS\$ identification to make entries to the FUNDS\$ Cash Receipts module.
- Employees collecting payments did not have their own separate cash drawers or change funds.
- The safe used to secure the change fund, daily receipts, and keys to the cash register had only one combination lock, and six employees held the combination. Thus any one of the six employees acting alone could open the safe.
- The safe was old and did not have a built-in feature for capturing the date and time it was opened, and by whom it was opened.

FISCAL IMPACT OF RECOMMENDATION

In fiscal year 2007, the Center collected almost \$875,000 in license, permit, and engineering fees. With over-the-counter remittances, the risk of theft and fraud is always present.

RATIONALE FOR RECOMMENDATION

Implementation of our recommendations will strengthen internal controls over the Center's change fund and daily collections, and thus reduce the risk of theft or fraud. Opportunity is a major factor in occupational fraud, and weak controls create opportunity.

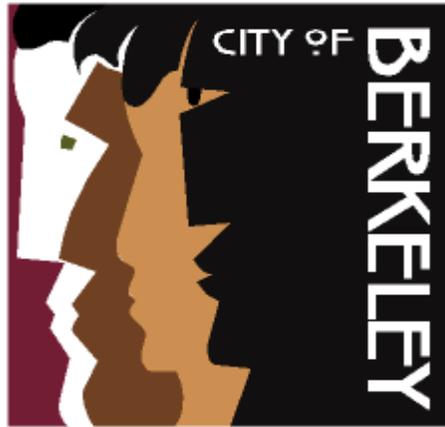
CONTACT PERSON

Ann-Marie Hogan, City Auditor, 981-6750

Attachment:

1. Permit Service Center Surprise Cash Count: Need to Address Long Standing Security and Accountability Concerns

City of Berkeley



Permit Service Center Surprise Cash Count: Need to Address Long Standing Security and Accountability Concerns

Prepared by:

Ann-Marie Hogan, City Auditor, CIA, CGAP
Teresa Berkeley-Simmons, Audit Manager, CIA, CGAP
Frank Marietti, Senior Auditor, CIA, CGAP, CFE
Jack Gilley, Auditor II

Presented to Council November 6, 2007

**Permit Service Center Surprise Cash Count:
Need to Address Long
Standing Security and Accountability Concerns**

TABLE OF CONTENTS

<u>Section No.</u>	<u>Section Title</u>	<u>Page No.</u>
I.	OBJECTIVE	1
II.	SCOPE AND METHODOLOGY	1
III.	RESULTS	1
IV.	BACKGROUND	2
V.	FINDINGS AND RECOMMENDATIONS	3
	Finding 1 The Change Fund Was Short \$20	3
	Finding 2 Need to Improve Physical Security and Accountability	3
VI.	FISCAL IMPACT	6
VII	CONCLUSION	6

I. OBJECTIVE

The objective of our audit was to determine whether the Planning and Development Department's Permit Service Center's (Center) established change fund and the day's collection receipts were present and properly accounted for at the time of our visit on July 20, 2007.

The Auditor's Office scheduled a series of surprise cash count audits such as this one as part of our fiscal year 2008 audit plan. The 2008 audit plan was presented to Council on June 26, 2007.

II. SCOPE AND METHODOLOGY

We conducted a surprise cash count audit at the Center on July 20, 2007. We also asked basic questions about cash¹ handling and accountability practices, and noted practices that came to our attention that 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.

III. RESULTS

The Permit Service Center's daily receipts were present and accounted for at the time of our visit. However, the Center's change fund was \$20 short. The Center's personnel indicated that the \$20 was in a non-functional cash register that they stated they could not open.² We also identified the following areas where the Center needs to improve physical security over cash and cash equivalents, as well as accountability for collections:

- The safe used to secure the change fund, daily receipts, and keys to the cash register had only one combination lock, and six employees held the combination. Therefore, any one of the six employees acting alone could open the safe.

Internal controls support accountability and stewardship of public resources.

¹ In addition to currency and coin, the term "cash" also refers to cash equivalents, such as checks, money orders, and vouchers issued for service.

² The Permit Service Center had two cash registers, one of which was functional on the day of our visit, and the other non-functional, according to Center personnel. See Finding 1 below.

**Permit Service Center Surprise Cash Count: Need to Address Long Standing
Security and Accountability Concerns**

- The safe was old and did not have a built-in feature for capturing the date and time it was opened, and by whom it was opened.
- Employees collecting payments did not have their own separate cash drawers or change funds.
- Eight employees who were authorized to collect cash shared the same password and FUNDS³ identification to make entries to the FUNDS\$ Cash Receipts module.

IV. BACKGROUND

The Center provides direct customer service to those seeking building permits and zoning information. Center staff review plans and issue electrical, plumbing, and mechanical permits. In addition, they issue zoning permits, and review land use design and applications for condominium conversion. The Center's staff uses the FUNDS\$ Cash Receipts module to record cash register receipts.

Management's commitment to establishing and maintaining effective internal controls is key to the City's control environment.

Council Resolution Number 62,286-N.S., dated November 18, 2003, established the current authorized limits for change funds. The Planning and Development Department was authorized change funds totaling \$200, which consisted of \$100 for Codes and Inspections, and \$100 for Zoning. In fiscal year 2007 the Center collected almost \$875,000 in license, permit, and engineering fees.

The Finance Department reviewed the Center's cash handling procedures in 2003 and conducted a surprise cash count in 2005. Finance's recommendations included:

- Look into providing separate registers for each staff that handles cash receipts (2005).
- Limit the number of staff that handles cash (2005).
- Each staff should record their transactions under their own "sign-in" for better tracking and accountability (2005).
- Provide separate cash drawers to each employee that receives cash (2003).
- Develop a log to track access to the safe (2003).

³ FUNDS\$ is the City's automated financial system, based on software provided and supported by Sungard HTE.

V. FINDINGS AND RECOMMENDATIONS

Finding 1 The Change Fund Was Short \$20

We found only \$180 in change fund cash, though the Center had authorized change funds totaling \$200. According to Center personnel, the remaining \$20 was in a cash register that was malfunctioning and could not be opened without assistance from Information Technology.⁴

Recommendation for Planning and Development

- 1.1 Evaluate the need for two cash registers, and if two registers are needed, ensure that the malfunctioning cash register is either repaired or replaced.

- 1.2 Confirm that the \$20 is in the malfunctioning cash register and that the full amount of the change funds is accounted for.

City Manager’s Response:

Permit Center staff agrees with the finding and the recommendations. The register has been repaired as of August 2, 2007, and the \$20 has been accounted for. The amount of change funds is checked daily. Recommendations 1.1 and 1.2 have been fully implemented.

Finding 2 Need to Improve Physical Security and Accountability

The Permit Service Center did not maintain adequate physical security over the change fund and daily receipts. There was inadequate accountability for almost \$875,000 in annual receipts. The safe used to secure the change fund, keys to the cash registers, and daily receipts, had only one combination lock, and six employees held the combination. Daily receipts were kept in the safe after business hours until the next business morning, when they were removed for deposit.

The safe was old and did not have a built-in feature for capturing the date and time, and by whom it was opened. Any one of the six individuals acting alone could open the safe without leaving a record that it had been opened. One of the six individuals is an employee of another division. This employee, unaccompanied, opens the safe each morning, removes the sealed bags containing prior day’s receipts and deposits slips without signing for them, and delivers the bags to Finance for deposit.

Control environment concerns identified:

- Noncompliance with regulations
- Inadequate physical safeguards over cash equivalents
- Lack of accountability

⁴ Since we conducted our surprise cash count late in the workday, we did not insist that the Center contact Information Technology to request assistance in opening the cash register.

**Permit Service Center Surprise Cash Count: Need to Address Long Standing
Security and Accountability Concerns**

Eight employees shared cashier duties but did not have separate cash drawers or change funds. This is contrary to Administrative Regulation 3.20 which requires that each cash handler have a cash drawer under his/her control at all times. The eight employees also shared the same user identification and password for access to the FUNDS\$ Cash Receipts module. As a result, management may not have been able to identify responsibility for a cash shortage or overage, had one occurred, to the correct individual.

At the end of each business day, two center employees count and reconcile the cash receipts for the day. However, the Center's written procedure for balancing the cash register only requires that one employee perform this function. The actual practice of dual count and reconciliation provides stronger control over the day's receipts.

Recommendation for Planning and Development

- 2.1 Coordinate with Finance to improve physical security over the change funds and daily receipts. Consider acquiring a new safe designed to provide dual custody. The new safe should accommodate separate unique combinations for each employee with access. It should also record the date and time opened, and by whom it is opened.

Alternatively, consider welding a hasp to the existing safe and procure a high quality padlock for the hasp. Employees who hold the combination to the safe should not hold the keys or combination to the padlock. The Center should maintain a record of when and who opens the safe.

- 2.2 Coordinate with Finance to improve accountability for the Permit Service Center change funds and collections. Possible improvements to consider include:
- a. Establish separate cash drawers, FUNDS\$ user identifications, and passwords for each employee that processes cash transactions.
 - b. Assign two staff (one per register) daily to perform the cash handling duties.
 - c. Hire a separate cashier.
 - d. Instead of opening at 8:00 a.m. consider opening at 8:15 or 8:30 to allow time to perform the morning cash handling duties with adequate safeguards, such as dual custody.
- 2.3 Update the written procedures for balancing the cash register to require two employees to count and reconcile cash receipts.

City Manager's Response:

Recommendation 2.1:

The Planning Department agrees with the recommendations to improve security at the safe. The Department does not believe that it is cost-effective to purchase a new safe to provide dual custody, which would cost \$12,000-\$15,000. A hasp was installed September 6, 2007. Procedures for dual custody have not been completed because there are a number of staff changes in process. Implementation will be completed by November 1, 2007.

Recommendation 2.2

The Planning Department agrees to continue to explore options to improve security with the Finance Director. There are not an adequate number of Permit Specialists to be assigned solely to cash handling and the Department does not want to reduce service by opening later each morning to provide each staff member time to perform cash handling duties.

The Finance Director has presented an option that would allow each Permit Specialist to enter cash receipts under their own user ID, to record their cash intake, and to maintain their own cash box. Finance and IT will be providing support in providing automation and technical assistance in making the balancing systematic and user-friendly. Finance and PSC staff will look into streamlining the current process to improve efficiencies and allow more time for balancing the edit listings. Finance will provide support to PSC staff during the implementation of these changes.

Planning and Finance will further explore this option and report back prior to May 15, 2008. Serious consideration will be given to both accountability and maintaining customer service, given the Permit Center's limited resources.

Recommendation 2.3

The Planning Department agrees with the recommendation. The procedures were updated as suggested on August 27, 2007. Recommendation 2.3 is fully implemented.

City Auditor's Comment

We cannot comment on the adequacy of corrective measures to address Recommendations 2.1 and 2.2 until the specifics are resolved. Providing for each Permit Specialist to maintain their own cash box should entail providing separate change funds. That provision should be specified in the May 15, 2008 status report.

VI. FISCAL IMPACT

The cost of fraud cannot always be measured in dollars. Improper activities erode the public's confidence in government.

The Association of Certified Fraud Examiners "2006 ACFE Report to the Nation on Occupational Fraud & Abuse" disclosed that the estimated percent of annual revenues that a typical organization loses as a result of fraud is five percent. This figure is based on the opinions of 1,134 Certified Fraud Examiners. The five percent estimate applied to the Center's almost \$875,000 in fiscal year 2007 collections infers a possible loss of about \$43,000. Projecting the five percent estimate over a five-year period infers as much as \$215,000 in possible cumulative losses as a result of fraud.

VII. CONCLUSION

Except for the \$20 shortage in change fund cash that Permit Service Center personnel stated was in a non-functional safe that could not be opened, the Center's change fund and daily receipts were present and accounted for at the time of our visit. However, the Center's physical security over cash and accountability for collections needs to be strengthened. This need was disclosed by Finance to the Center's management in 2003 and 2005. Management's implementation of the recommendations identified by Finance in 2003 and 2005 as well as the recommendations included in this report will reduce the risk of loss of cash by improving internal controls over the change fund and cash receipts.