



Office of the City Auditor

CONSENT CALENDAR
January 15, 2008

To: Honorable Mayor and Members of the City Council
From: Ann-Marie Hogan, City Auditor
Subject: Taxi Scrip Cash Count Audit – Controls Over Cash Handling Need Improvement

RECOMMENDATION

Request the City Manager to report back during or before March 2008 on the implementation status of the one remaining outstanding recommendation in the attached report.

SUMMARY

The auditors performed a surprise cash count audit at the Taxi Scrip counter located at Finance-Customer Service on September 11, 2007. The objective for this surprise cash count audit was to determine whether the Taxi Scrip Fund and supporting documentation of cash payments 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 observed during the site visit. The following control weaknesses were identified during the audit:

- The Taxi Scrip Fund was not properly maintained as an imprest cash fund.
- The fund was not being properly monitored or reconciled.
- The cash on hand did not reconcile to the Council authorized fund amount.
- The written procedures were not updated to reflect current practices.
- The procedure of counting cash under dual custody control was not being followed, and
- Whiteout was used to alter the log to record cash-in and cash-out from the safe.

FISCAL IMPACT OF RECOMMENDATION

The Taxi Scrip Fund, disbursed and was reimbursed by the City's General Fund and Measure B Paratransit Fund approximately \$100,000 in FY 07, according to the City's records. While the dollars at risk are small in this case, weak internal controls incur the risk of invisible costs such as damage to the City's reputation and employee morale, which cannot be measured in dollars.

RATIONALE FOR RECOMMENDATION

Implementation of our recommendations will strengthen internal controls over the cash handling of the Taxi Scrip Fund, and reduce the risk of fraud, theft, or abuse.

CONTACT PERSON

Ann-Marie Hogan, City Auditor, 981-6750

Attachment:

1. Taxi Scrip Cash Count Audit – Controls Over Cash Handling Need Improvement

City of Berkeley



Taxi Scrip Cash Count Audit – Controls Over Cash Handling Need Improvement

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Presented to Council on January 15, 2008

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Taxi Scrip Cash Count Audit – Controls Over Cash Handling Need Improvement

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Taxi Scrip Cash Count Audit – Controls Over Cash Handling Need Improvement

I. OBJECTIVES

The objective of this surprise cash count audit was to determine if the Taxi Scrip Fund and the documentation of cash payments 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.

II. SCOPE AND METHODOLOGY

The auditors performed a surprise cash count audit at the Taxi Scrip counter located at Finance-Customer Service on September 11, 2007. At the time of our visit, cash on hand was compared to the supporting documents and reports provided by the staff and supervisors who handled the Taxi Scrip Fund to identify cash overages and shortages. We also asked general questions about cash handling practices and noted concerns that came to our attention. We did not perform a comprehensive evaluation of the internal controls over the Taxi Scrip Fund 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.

III. RESULTS

Following are the results of our audit:

- The Taxi Scrip Fund was not properly maintained as an imprest cash fund.
- The fund was not being properly monitored or reconciled.
- The cash on hand did not reconcile to the Council authorized fund amount.
- The written procedures were not updated to reflect current practices.
- The procedure of counting cash under dual custody control was not being followed, and
- Whiteout was used to alter the log to record cash-in and cash-out from the safe.

IV. BACKGROUND

The Berkeley Taxi Scrip program is funded by transportation sales tax authorized by Measure B and the General Fund. The program, administered by the Housing Department, provides eligible senior and disabled residents with limited amounts of free scrip to pay for rides in conventional taxicabs, vans, and other selected vehicles. Taxi scrip collected from passengers may be redeemed for cash at Finance-Customer Service. On May 22, 2001, the Taxi Scrip disbursement fund was approved by Council Resolution 61,067 for an amount not to exceed \$5,000. On June 14, 2005, Council Resolution 62,932 increased the fund up to \$8,000, reportedly due to heavier demands for cash redemption.

To redeem taxi scrip for cash, taxi drivers are required to submit taxi scrip collected from passengers and scrip receipts signed by passengers. They are also required to complete a Taxi Provider Scrip Redemption Form certifying the amount of cash received from the City. The Taxi Scrip Fund is kept inside a safe. A Taxi Scrip In/Out Sheet, also locked inside the safe, is used to record the daily cash balance, incoming cash (replenishments), and outgoing cash (disbursements). In addition, replenishment requests are prepared by a supervisor and approved by a manager for each day's disbursements. The requests, together with other supporting documentation, are submitted to Accounts Payable for fund replenishment. Copies of the requests are kept inside the safe until the requested replenishments are received from Treasury.

V. FINDINGS AND RECOMMENDATIONS

Since the imprest cash fund was not properly maintained or reconciled, the opportunity for theft or fraud significantly increased.

Finding 1 The Taxi Scrip Fund was not properly maintained as an imprest cash fund and could not be reconciled.

It appears that the Taxi Scrip cash disbursement fund was set up as an imprest cash fund. An imprest system works on the basis that cash is replenished only for the amount disbursed. The system is designed to control fraud and theft by documenting how cash was spent and replenished. At inception, an authorized amount of cash is advanced to the fund. Disbursements are made from the fund until its cash balance falls below a predetermined level. The fund is then reimbursed for what was paid out; restoring the cash balance to the original authorized amount.

Taxi Scrip Cash Count Audit – Controls Over Cash Handling Need Improvement

The amount of cash on hand plus all unreimbursed payments should always equal the amount of the authorized advance. This reconciliation helps to detect missing cash in a timely manner.

On May 22, 2001, the City's Taxi Scrip Fund was established for a Council authorized amount of \$5,000. It appeared that initially \$3,000 was distributed to the fund and \$2,000 was added later. On June 14, 2005, Council approved an increase to the fund for an amount not to exceed \$8,000.

The Taxi Scrip Fund is administered by Housing, and the fund is located in Finance-Customer Service. At the time of audit fieldwork, Finance staff could not determine the amount that had been advanced to the fund. According to a Customer Service supervisor, additional money had been advanced to the cash fund, and Customer Service staff did not reconcile or track how much had been advanced.

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

In 2005, Finance-Accounting reconciled the fund to \$5,000 and identified a shortage of \$839. On September 11, 2007, the auditor reconciled the cash on hand to \$5,000. Based on information initially provided by Finance staff there appeared to be an overage of \$1,421.

On November 16, 2007, the auditor was notified that the Customer Service Manager had followed up on the overage identified during the surprise cash count. The Customer Service Manager stated that on April 26, 2005, Finance Customer Service staff met with Housing staff to try to reconcile discrepancies regarding the money on hand for taxi scrip redemption. Housing was unable to determine what caused the discrepancy between the \$4,100 counted in July 2003 at the time of transition of the redemption program to Finance and the \$5,000 recorded as originally released to them.¹ On Sept 19, 2006, Housing submitted a replenishment request of \$839.99 to make up for the cash shortage identified by the Accounting reconciliation, bringing the fund balance back to \$5,000. Housing also added \$1,500 to increase the Taxi Scrip Disbursement Fund to \$6,500. Based on this new information, it now appears that the fund currently has a \$79 cash shortage.

Typically, an overage or a shortage in an imprest cash fund is attributed to: (a) fraud or thefts, or (b) over or under-replenishment. Neither Finance-Customer Service staff nor Housing staff could explain the reason for the shortage.

¹ On November 26, 2007, Housing confirmed that they were not able to identify the cause of the shortage.

Taxi Scrip Cash Count Audit – Controls Over Cash Handling Need Improvement

Recommendations for Finance

- 1.1 Determine the cause for the Taxi Scrip Fund cash discrepancy.
- 1.2 Develop policies and procedures to properly maintain the Taxi Scrip Fund as an imprest cash fund. The following should be included:
 - A formal process to restore the fund to its authorized amount.
 - A formal process to ensure that partial reimbursements are discontinued. The fund should be fully reimbursed for authorized and documented disbursements.
 - A method to ensure the cash on hand plus all unreimbursed disbursements always equal the authorized fund balance or advance.
 - The process to ensure that the updated Taxi Scrip In/Out Sheet is completed and reflects a daily reconciliation and documents disbursements. (See Appendix A for a draft example of an updated Taxi Scrip In/Out Sheet.)
 - A procedure to ensure that any shortage or overage will be brought to the attention of the Customer Service Manager immediately for a timely investigation and resolution.
 - The process to ensure that loss or theft of City funds should be reported in accordance with Administrative Regulation 3.20.

City Manager's Response

Finance agrees with the finding and the recommendations.

- 1.1 *Will be implemented. Finance will review all taxi scrip documents for the last four years to identify any new discrepancies by December 31, 2007.*
- 1.2 *The following has been implemented:*
 - *Finance is currently able to meet the demands for redemption by taxi drivers with the current \$6,500 level and does not feel the need to replace the missing funds from the Finance budget.*
 - *Partial reimbursement has been discontinued since September 20, 2007.*
 - *Finance has decided to use the "revised Taxi Scrip In/Out Sheet" proposed by the auditor that reflects a daily reconciliation and the amount awaiting replenishment beginning December 1, 2007.*
 - *Staff will be directed to report shortages and overages to the Customer Service Manager for timely investigation.*
 - *Effective immediately loss or theft of City funds will be reported in accordance with Administrative Regulation 3.20.*

As of December 1, 2007, these steps have been included in the written procedures.

Finding 2 The Taxi Scrip cash handling procedures did not accurately reflect current practices.

Accurate and clear written procedures are needed to promote consistent performance and to help ensure success in completing assigned duties.

- (a) The current written procedures titled “Taxi Scrip In/Out Log Procedures” were not up to date. The written procedures indicated that three cash bags were used to store \$1,000 of Taxi Scrip money in each bag. The procedures also indicated that once the cash balance in a bag dropped to or below \$500, the bag was to be retired until it was replenished to \$1,000. According to a Customer Service supervisor, these procedures had been discontinued. She stated that only one bag was used for storing Taxi Scrip money.
- (b) Although each redeemed Taxi Scrip was voided by punching a hole on it, this control to prevent reuse was not included in the written procedures. Unclear procedures may result in actual practices that are not consistent with management’s intent. It may also result in inconsistent or poor performance, especially by employees who temporarily fill the position and rely on the written procedures for guidance to successfully complete the tasks.

Recommendation for Finance

- 2 Update the written procedures to reflect current practices. The procedures should be detailed enough so that someone not familiar with the process can successfully perform the task consistent with management’s intent. Include in the updated written procedures, the step of voiding taxi scrip immediately after it has been redeemed.

City Manager’s Response

Finance agrees with the findings and the recommendation.

Implemented. There are two sets of written procedures: “Taxi Scrip Procedures” and “Taxi Scrip In/Out Procedures”. The “Taxi Scrip Procedures” had been updated on June 2, 2005. As of December 1, 2007, Finance updated the “Taxi Scrip In/Out Procedures” to reflect current practices and incorporate it into the “Taxi Scrip Procedures”.

Finding 3 Cash deposited to the safe was not counted under dual custody control.

After the taxi scrip counter was closed, the field representative counted the cash that remained in the cash register. She recorded the ending cash balance on a "Taxi Scrip Counter Redemption Record Summary" form and put the cash in an unlocked cash bag. She gave the bag to one of the in-charge Customer Service supervisors who in turn simply placed the cash bag inside the safe. This was inconsistent with the written procedures that required cash-in or cash-out be counted together by both the supervisor and another employee, under dual custody control. When only one person performs a cash count, a shortage discovered later may not be traceable to the responsible employee. For example, if cash is missing it could have been taken by: (a) the field representative who counted the cash at the end of the day or (b) the supervisor who placed the unlocked cash bag in the safe. Because the amount being recorded is not witnessed or verified by a second person, both individuals in this example would be under suspicion and the person who is innocent might be falsely accused.

Lack of dual custody equals lack of accountability.

Recommendations for Finance

- 3 Cash should always be counted under dual custody control (the supervisor and another employee) as stated in the written procedures.

City Manager's Response

Finance agrees with the finding and the recommendation.

Implemented. Effective immediately staff will perform cash counts under dual custody.

Finding 4 Whiteout was used to change the amount recorded on the Taxi Scrip In/Out Sheet.

Whiteout was used to change the September 11, 2007, beginning cash balance, and the change was not initialed by staff. Since whiteout may be used to conceal irregularities or to falsify records, its use should be prohibited. The lack of an initial makes it difficult to identify the person making the change. It also makes it difficult to determine whether the change was properly authorized or was an irregularity.

Whiteout can be used to conceal irregularities.

Recommendation for Finance

- 4 Employees should be directed not to use whiteout on cash records. If an error is made, it should be crossed out with a single line, and the correct figure should be written in. The employee making the change and another employee witnessing or approving the change should both place their initials next to the change.

City Manager’s Response

Finance agrees with the finding and the recommendation.

Implemented. Effective immediately staff will not use whiteout on cash records.

VI. FISCAL IMPACT

In FY 07 the Taxi Scrip Fund disbursed and was reimbursed by the City’s General Fund and Measure B Paratransit Fund approximately \$100,000.

VII. CONCLUSION

The Taxi Scrip Fund was not properly maintained as an imprest cash fund. Cash on hand could not be reconciled to a constant authorized amount because staff was not properly monitoring or reconciling the amount that had been advanced to the fund. This condition provides opportunities for fraud and theft. On a going forward basis, a formal policy should be established to maintain the Taxi Scrip Fund as an imprest cash fund. At any point in time, cash on hand should be reconcilable to the amount that has been advanced. In addition, the controls over the Taxi Scrip Fund could be strengthened by requiring dual custody for cash counts, prohibiting the use of whiteout on cash records, and requiring initials on corrections.

We thank the Finance-Customer Service and Housing staff for their cooperation and assistance extended to us during the audit. We commend them on their responsiveness in following-up on and correcting identified concerns.

Weak internal controls incur the risk of invisible costs such as damage to the City’s reputation and employee morale, which cannot be measured in dollars.

Appendix A

TAXI SCRIP IN/OUT SHEET

Original Authorized Amount: _____ (Amount advanced to the fund)

Note: (a) Notify the Manager immediately for an investigation if Column J does not equal the authorized amount stated above.

(b) If additional cash, other than scrip reimbursement, is advanced to the fund, the “original authorized amount” should be increased to reflect the additional advance.

Date (A)	Beginning Cash Balance (\$) (B)	Employee Signature (Cash- Out) (C)	Supervisor Signature (Cash-Out) (D)	Amount of Scrip (\$) (E)	Date of Scrip Reimburse- ment from Treasury (F)	Replenish- ment (Reimburse- ment) from Treasury (\$) (G)	Ending Cash Balance (\$): Should Equal to Cash Count (H)	Unreimbursed Scrip (Total of all items on Col E that do not have a date on Col F) (I)	Must = Authorized Amount (Above) (J)	Employee Signature (K)	Supervisor Signature (L)
							(B)-(E)+(G)		(H)+(I)		