

AUDIT REPORT

CITY AUDITOR

Report Date:	June 30, 2019
Department:	Citywide
Subject:	Continuous Auditing of Cash Funds
Lead Auditor:	Kate Witek, Sr. Internal Auditor

OBJECTIVE

This audit is conducted to determine whether internal controls are in place and operating effectively to safeguard cash funds throughout the City.

SCOPE & METHODOLOGY

To accomplish our objective, we:

- Verified custodial agreements were current.
- Conducted unannounced site visits to test 28 change funds and 7 petty cash funds.
- Tested compliance with City and departmental cash handling policies.
- Examined petty cash fund replenishments.
- Analyzed revenue system users to test compliance with cash handling training requirements.

BACKGROUND & DISCUSSION

Benefits of the Continuous Approach to Cash Audits

The following are some key benefits of continuously auditing cash funds throughout the year:

- Errors and irregularities are more likely to be detected and addressed in a timely manner, which reduces the potential impact of losses.
- We are better able to evaluate the consistency of compliance with cash handling policies and procedures. The higher turnover typically associated with cash handling jobs can lead to inconsistent compliance and a breakdown of internal controls.
- More frequent interactions create opportunities to build productive working relationships between auditors and other City staff members. As a result, employees are much more likely to ask questions, share concerns, and engage in open dialogue with auditors, who can often help them find solutions.

Change Funds

Citywide there are 28 change funds used to conduct cash transactions with customers. These funds should never be expended or depleted for any reason and should always be equal to their

established values. Change funds range from \$40 to \$8,800, depending on the needs of the departments. However, they are used in the processing of roughly a million dollars in cash transactions per year, so it is essential that strong cash handling controls be in place to help prevent and/or detect losses. Each change fund has one or more designated custodians responsible for ensuring the fund is managed in accordance with City and departmental policies.

Petty Cash Funds

There are 14 petty cash funds, which are used to reimburse employees (up to \$100 per transaction) for authorized small purchases made with personal funds, or for personal vehicle mileage driven for City business. The total volume of petty cash transactions processed each year has decreased significantly in recent years, due to the increased use of procurement cards. However, there are still some types of transactions, such as mileage reimbursements, for which petty cash remains the most efficient payment method.

Revised Cash Handling Policy

Management Policy 210, Cash Handling, was recently updated to require more timely cash handling training for employees who handle cash or cash equivalents. The update prompted several City departments to contact the Accounting Division to identify cash handling activities, address compliance issues, revise internal policies, and complete required training. In one department, a previously unrecorded change fund was identified, accounted for, and brought into compliance.

CONCLUSION

In our opinion, internal controls are in place and operating effectively to safeguard cash and cash equivalents throughout the City. However, we identified a few instances of non-compliance with departmental policies, which should be addressed by management to reduce the risk of losses.

A brief summary of our findings and recommendations is included below. For additional details and management's responses, please see the attached Issue and Action Plans (IAP).

SUMMARY OF FINDINGS & RECOMMENDATIONS

- 1. Observation:** The Mesa Arts Center (MAC) box office change fund was not reconciled daily as required by department policy.

Recommendation: The MAC Box Office staff should count their change fund daily, at the opening and closing of each day, and each count should be verified by the Supervisor/Lead staff member on duty, as required by MAC Administrative Regulation 2.1.

- 2. Observation:** Parks, Recreation, and Community Facilities employees did not complete required cash handling training before handling cash receipts, and did not secure funds in a locked safe overnight.

Recommendation: PRCF management should implement improved internal controls to ensure all employees receive required cash handling training before handling monies. Also, employees should be reminded that removing cash from the safe overnight is a violation of City and departmental policies.

Issue and Action Plan # 1

Issue #1: The Mesa Arts Center (MAC) box office change fund was not reconciled daily as required by department policy.

Observation: When we conducted an unannounced cash count, the MAC box office change fund was \$42.05 short and had not been reconciled as required.

Criteria: Arts and Culture department Administrative Regulation 2.1.VII:

"The amount of the change fund shall be retained and counted 1) each day when the facility opens for business by the opening staff and 2) when the facility closes by staff member closing out. Cash shall be counted away from and out of the public's view and verified by a Supervisor/Lead staff member."

Comments: Although the shortage was small, it revealed that staff members had not performed a cash count at the end of the day. As a result, a discrepancy was not discovered for several days. Delays in identifying discrepancies make it more difficult to investigate them.

**Recommendations
and Management's
Action Plans:**

Recommendation #1-1: The MAC Box Office staff should count their change fund daily, at the opening and closing of each day, and each count should be verified by the Supervisor/Lead staff member on duty, as required by MAC Administrative Regulation 2.1.

Action Plan #1-1: Unfortunately, this error occurred during a weekend with 24 events and challenging schedules/workloads. We have reinforced to all Box Office staff the importance of following daily reconciliation procedures, with counting and documenting of each bank's cash at the start and end of the day. In addition to the manager or senior lead ensuring the end of day bank audits are completed and signed off, we have revisited our end of day procedures with all Box Office staff, and all of the staff have passed the annual Credit Card and Cash Handling training requirements. We have also implemented an additional weekly internal audit of all cash banks to provide a double check and short-term correction if we find any steps have been missed (this is a new procedure that was not part of the process before, but we have adjusted schedules to enable its addition for increased quality control).

Individual or Position Responsible: Andrew Douglas

Estimated Completion Date: Completed.

Issue and Action Plan # 2

Issue #2: Parks, Recreation, and Community Facilities (PRCF) employees did not complete required cash handling training before handling cash receipts, and did not secure funds in a locked safe overnight.

- Observation:**
- Three PRCF employees were handling cash before completing the required training.
 - One PRCF employee removed money from the safe overnight.

Criteria:

Parks, Recreation, and Community Facilities policy guideline 2.1:

"It is the responsibility of the Program Supervisor to ensure that certification for cash handling and credit card handling is completed before an employee handles any monies and/or credit card transactions.

... All cash, change funds, petty cash funds and receipts should also be secured throughout the day and retained overnight in a locked safe."

Comments:

Cash was not safeguarded from loss or theft.

Recommendations and Management's Action Plans:

Recommendation #2-1: PRCF management should develop and implement improved internal controls to ensure all employees receive required cash handling training before handling monies.

Action Plan #2-1:

- PRCF Program Supervisors will be requested to ensure all staff who handle cash are up to date on training and in staff meetings it will be reiterated that these trainings must to be up to date.
- A request will be made to Human Resources to add "Cash Handling Training" next to "Credit Card Handling" on the Supervisor Checklist.
- PRCF will require all cash handling for current employees to be completed in January each year and prior to any handling of funds by new employees.
- PRCF Guideline 2.1 will be revised to remove contradictory statements: "All employees who handle cash must take cash handling training within 90 days of beginning their cash handling duties..." and "...completed before an employee handles any monies..."

Individual or Position Responsible: PRCF Sr Fiscal Analyst in conjunction with Program Supervisors.

Estimated Completion Date: 7/1/2019

Recommendation #2-2: Employees should be reminded that removing cash from the safe overnight is a violation of City and departmental policies.

Action Plan #2-2: PRCF Staff will be sent the revised PRCF Guideline 2.1 and it will be reiterated that those that handle funds and their supervisors need to be aware of the policy and what it entails.

Individual or Position Responsible: PRCF Sr Fiscal Analyst in conjunction with Program Supervisors.

Estimated Completion Date: 7/1/2019