

AUDIT REPORT

Date:	June 25, 2020
Department:	Citywide
Subject:	Continuous Auditing of Cash Funds
Lead Auditor:	Kate Witek, Sr. Internal Auditor

OBJECTIVE

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

SCOPE & METHODOLOGY

We conducted this audit in accordance with Generally Accepted Government Auditing Standards, which require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of the audit was fiscal year 2020. To accomplish our objective, we:

- Conducted unannounced site visits to test change and petty cash funds.
- Verified custodial agreements were current.
- Tested compliance with City and departmental cash handling policies.
- Examined petty cash fund replenishments and cash balance reports.
- 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 29 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 13 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.

Current Year Audit

The City has 42 locations throughout the City where employees handle cash. In previous years, it has been the practice of the City Auditor's office to conduct unannounced audits on all change funds and a sample of the petty cash funds as the change funds have been determined to be an area with more risk and potential for loss. Due to the COVID-19 pandemic we were only able to complete cash counts at 17 of the 29 change funds and did not complete unannounced cash counts for any of the petty cash funds. However, the sites where we conducted counts are locations that we considered higher risk based on the amount of transactions, the amount of cash handled, and prior audit results. In addition, we reviewed petty cash replenishments, cash balance reports to identify areas of potential loss or fraud and system users to verify compliance with cash handling training requirements. Although we did not perform as many cash counts as previous years, we determined that along with the cash counts conducted and additional testing performed, we are able to provide an opinion on the internal controls in place to safeguard cash throughout the City.

CONCLUSION

Prior Year Issues:

Our 2019 report included 2 recommendations, both of which have been implemented, summarized in the following table:

Recommendation	Department	Implemented
Conduct daily reconciliations of box office change fund.	Arts and Culture	✓
Train staff prior to performance of cash handling duties.	Library Services	✓

Current Year:

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

CURRENT YEAR ISSUE AND RECOMMENDATION

Observation – Library Services employees did not complete required cash handling training within 90 days of handling cash.

Recommendation: Library services should implement improved internal controls to ensure all employees receive required cash handling training within 90 days of handling monies.

Issue and Action Plan #1

Issue #1: Cash handling training was not completed within 90 days.

Observation: Two Library Services employees were handling cash and did not complete required training within 90 days of starting cash handling duties.

Criteria: MP210, Section V (A) 4: "All employees who handle cash must take the cash handling training within 90 days of beginning their cash handling duties."

Comments: Without training, employees may unknowingly mishandle cash, putting the City at risk of loss or fraud.

Recommendation(s) and Management's Action Plan(s): **Recommendation #1-1:** Library management should develop and implement improved internal controls to ensure employees receive required cash handling training.

Action Plan #1-1: Written procedures will be changed to require new hires who handle cash and credit cards to be trained within 30 days of hire date instead of within their first 3 months. A spreadsheet tracking employee hire dates and training dates has been created. In addition to critical dates, it includes a column for supervisors to sign off once the new hire has been added to the monthly reminder spreadsheets that supervisors receive from Finance.

Individual or Position Responsible: Branch Operations Supervisor II at Main Library, Branch Operations Supervisor II at Red Mountain Library, Branch Operations Supervisor I at Dobson Ranch Library, and Librarian II at Express Library (if re-opened).

Estimated Completion Date: September 30, 2020