

City of Berkeley



Treasury – Cash Receipts / Cash Handling Audit

Prepared by:

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

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2180 Milvia Street, Berkeley, CA 94704 ♦ Tel.: (510) 981-6750 ♦ Fax: (510) 981-6760

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Attachment : Treasury Unit Accomplishments (Prepared by Finance)

I. PURPOSE AND OBJECTIVE OF THE AUDIT

The purpose of this audit was to identify the procedures used by Finance-Treasury Unit (Treasury) to receive, handle, safeguard, and deposit cash and cash equivalents, and identify any concerns with these procedures.

The City Manager and the Director of Finance requested this audit and it was scheduled to be performed in the Auditor’s fiscal year 2002 audit plan.

II. SCOPE AND METHODOLOGY

The scope of this audit was the cash receipts and handling operations in place in Treasury at the time fieldwork was performed. For purposes of our audit, cash receipts included cash equivalents, such as checks, credit card payments, Tele-check (check cashing service) payments, and wire transfers. In some instances, records and documents from 2001 were reviewed to test current procedures. Fieldwork began on March 4, 2002 and concluded on May 30, 2002.

The information used to perform this audit was obtained primarily through:

- Discussion with Finance Department staff in Treasury and the Accounting Division.
- Observation of Treasury operations.
- Review of “Office of the Treasury Written Procedures”.
- Review of accounting records and documents pertaining to cash receipts / cash handling in Treasury.

Audit work was performed in accordance with Generally Accepted Government Auditing Standards. Audit work was limited to those areas specified in the scope and methodology section of this report.

III. BACKGROUND

Treasury has a fiscal year 2002 budget of \$284,468 and is staffed with two Office Specialist IIs (OSII), a provisional Office Specialist III (OSIII), and an Acting Treasury Manager. The Treasury Manager retired during the course of the audit, on May 3, 2002.

Most of the cash and cash equivalents (cash receipts) that the City’s departments receive is brought to Treasury. Cash equivalents are checks, credit card payments, Tele-check payments, and wire transfers. Cash receipts are delivered to Treasury by City employees, mail or wire transfer. When City employees bring cash receipts to Treasury, they bring it to the Counting Room. The cash receipts are usually accompanied by a Treasury Deposit (TR) form, which is similar to a deposit slip, but identifies the accounts to be used to account for the cash receipts.

Cash receipts received from Planning- Permit Center and Finance-Customer Service are accompanied by FUNDS\$ cash receipts reports because these cash receipts have already been entered into FUNDS\$ by means of an electronic cash register. FUNDS\$ is the City's automated accounting system.

Most cash brought to the Counting Room is counted by an Office Specialist in the presence of the depositor. However, the cash received from Finance – Customer Service is counted by two Office Specialists. The depositor is not present. In both situations, the two individuals who count the cash initial the bank deposit slip to document that the cash was counted and that total cash reported on the bank deposit slip is correct. Immediately after this is done, the deposit slip and cash are placed in a plastic tamper-proof bank bag. The bag is sealed and placed in the safe. Some City department locations deliver their money to Treasury already sealed in plastic tamper-proof bank bags. The Treasury Manager and an Office Specialist must both be present to open the safe. Depositors are not to leave the Counting Room until the Treasury Manager arrives.

Before checks are placed in a tamper-proof bank bag, Treasury staff makes sure that depositors have prepared two adding machine tapes. The tape totals must agree with the check total on a TR or a cash receipts report. Once each day, an armed courier service employee picks up the tamper-proof bank bags and transports this money for deposit.

Treasury staff record most of the cash and cash equivalents that the unit receives into the Cash Receipts Module of FUNDS\$. Then a Cash Edit List Report is generated. Most cash receipts entry activity is reviewed for errors by another Treasury employee. The reviewer initials the Cash Edit List report to show that the review took place. Then the reviewer posts the cash receipts in the Cash Receipts Module, and a Cash Post Listing Report is generated. Posting automatically creates an Adjusting Journal Edit List Report in the general ledger.

At the end of each day, Treasury staff perform a reconciliation to make sure that the bank deposit total for the day is in agreement with total cash receipts reported in the Cash Post Listing and Adjusting Journal Edit List Reports. This reconciliation is documented in a schedule referred to as the Treasury Records of Deposit (TROD). The Treasury Manager initials and dates each Adjusting Journal Edit List Report to document that it reconciles with the TROD. The TROD and supporting documentation are sent to Finance- Accounting where they are reviewed and approved by the Deputy Director of Finance. The Deputy Director initials each Adjusting Journal Edit List Report, authorizing posting to the general ledger.

In addition to the duties just described, Treasury maintains a Taxi-scrip fund, a petty cash fund, and a change fund. A Taxi-scrip program, administered by Housing, provides for taxicab drivers to accept City of Berkeley Taxi-scrip coupons from disabled and elderly Berkeley residents as payment for a taxi ride, in lieu of cash. Taxicab owners and drivers redeem the scrip for its cash value at Finance – Customer Service. Treasury's Taxi-scrip fund is used to replenish the Taxi-scrip fund in Finance-Customer Service. Treasury's petty cash fund is used to reimburse

employees for City expenses of \$50 or less.

Treasury also tracks and accounts for City parking revenue from the two City garages and one parking lot that are managed by AMPCO System Parking. Treasury's staff are responsible for ensuring deposits of City parking revenue reported by AMPCO have been credited to the City's bank account. Treasury does not actually receive any money from these garages or the lot.

Treasury management stated that draft cash receipts / cash handling procedures that were provided to the auditor on March 4, 2002 had been in effect since September 2001.

IV. FINDINGS AND RECOMMENDATIONS

Some of the audit findings and recommendations in this report present more detail than typically provided in an audit report. This was done because it was felt that the Finance Department would find this additional information helpful to the Acting Treasury Manager since the long time Treasury Manager recently retired.

Finding 1: Concerns With Written Policies and Procedures

At the time fieldwork was performed written policies and procedures:

- Were implemented, but had not been approved and distributed to staff.
- Did not cover some important procedures performed by Treasury staff.
- In a few cases, written procedures were not being followed and appeared outdated.

Finance department management is responsible for establishing Treasury procedures that provide a reasonable assurance that cash and cash equivalents received in Treasury are adequately safeguarded, properly accounted for, and timely deposited. They are also responsible for establishing controls that provide a reasonable assurance that these procedures are followed. The best way to do this, and convey this to employees, is by providing staff with written policies and procedures that have been approved by management. One possible effect of not having written policies and procedures is that staff may unknowingly perform assigned tasks incorrectly. Another possible effect is that internal controls in place may be weakened so that they fail to timely detect unauthorized use of funds.

Concerns regarding the written policies and procedures are as follows:

- A. Treasury staff did not have written policies and procedures for the tasks they perform. Treasury management stated that the draft policies and procedures provided to the auditor on March 4, 2002 were the procedures that had been implemented on September 1, 2001.

The auditor reported the fact that Treasury staff did not have written policies and procedures to the Director of Finance on May 10, 2002. Treasury management reported back on May 13 that procedures would be given to all Treasury staff on May 15. The reason for the six month delay was not obtained.

The auditor was surprised to find out during the audit that written policies and procedures were still in the draft stage and had not been given to Treasury staff. The former Treasury Manager had incorrectly reported on September 18, 2001, as part of the Citywide Cash Receipts / Cash Handling Survey Report provided to City Council on February 19, 2002, that Treasury had written policies and procedures for cash receipts / cash handling.

- B. Treasury management has been in the process of creating written policies and procedures for Treasury, and although much has been accomplished, procedures are still incomplete. For example, they do not address the procedure for the preparation, review, and approval of the TROD (the daily reconciliation of bank deposits and FUND\$ Cash Receipts Reports), or the procedures for Taxi-scrip fund replenishment, processing of credit card payments, accounting for the large sums of money received from Alameda County, accounting for shortages and overages, and bank deposit verifications.
- C. Written procedures only partially address some important review and approval procedures that are being performed. For example:
 - 1. Written procedures require Treasury staff to review the cash receipts entry work performed by their co-workers for Miscellaneous Receipt billings (MR) and Refuse Billings (UP). However, procedures do not address other reviews being performed by Treasury staff for Treasury Deposits (TR), Business License Renewals (OR) and Business License Tax (OL). Additionally, although the reviewers are initialing the cash receipts reports that they review to document that the review took place, this is not addressed in the written procedures.
 - 2. Treasury management initials the Adjusting Journal Edit List Report to document that the report agrees with the TROD. However, this procedure is not in the written policies and procedures.
- D. Instances were observed where the written procedures needed updating. For example, procedures state that all checks not processed by the end of the day will be locked in the Treasury Manager's desk. Instead, they are being kept at the desk of various Treasury staff. Written procedures also state that all Office Specialists have a key to the vault utility closet. However, none of these staff have this key. Other instances were brought to the attention of Finance Department management by the auditor during fieldwork.

Recommendation For Finance

- 1. Provide Treasury staff with written policies and procedures that:

- Identify all tasks that the Treasury staff and Treasury Manager are to perform, and how they are to perform them. Provide sufficient detail so that a recently hired, qualified but untrained Treasury employee can perform assigned tasks without any assistance.
- Identify what work is to be reviewed for errors, the review procedure, and how the completion of the review process will be documented.
- Are approved by the Director of Finance.
- Are updated, as needed, in a timely manner.

Response From Finance

We agree with the finding and recommendation. We will fully implement the recommendation by October 31, 2002.

Although the Treasury procedures are substantially complete, revisions to some are still underway and others have yet to be drafted. These procedures will be prepared by the Acting Treasury Manager, under direction of the Deputy Director of Finance, and will be approved by the Director of Finance. We will complete these procedures and incorporate them into the Treasury procedures manual by October 31, 2002. In the future all procedures will be reviewed on an annual basis and/or at such time as there are substantive changes in operations. They will be updated as necessary.

The Acting Treasury Manager began drafting Treasury procedures in September of 2001, after observing the actual processes in which Treasury staff performed the work. As draft copies of these procedures were completed, Treasury staff was provided copies for review, input and discussion. After Treasury staff reviewed the draft procedures they were then submitted to the Deputy Director of Finance for review; these procedures were actually being used. All procedures completed to date, and approved by the Deputy Director of Finance, were incorporated into the Treasury manual on or around May 15th and each Treasury staff person is in possession of these procedures.

Procedures that are currently being drafted and are still work in progress are:

- *Preparation, review, and approval of the TROD*
- *Verification of bank deposits*
- *Accounting for the money received from Alameda County for tax remittances along with preparation of batches, and approvals.*

Procedures will be developed by October 31 and incorporated into the Treasury procedures manual for the following:

- *Processing credit card payments.*
- *Accounting for shortages and overages.*

- *Treasury review and approval of procedures.*
- *Update section on storing unprocessed checks at end of day.*

The vault closet is no longer used by Treasury Staff, and the keys to the vault closet were surrendered to the Administrative Secretary on July 25, 2002. The key procedures have also been revised to reflect this.

Finding 2 Work Sometimes Lacks Review / Evidence of Review

Work performed by Treasury staff sometimes lacked review, or evidence of review. When work is not reviewed, there is an increased risk that authorized procedures will not be followed and errors will go undetected.

The following supports such a condition:

- A. Cash Edit List reports were not always initialed by a Treasury employee that had not prepared the report (entered the cash receipts). The initials on this report document who reviewed the Cash Edit List report for errors and posted the entries. A review of Treasury activity on April 11, 2002 and April 18, 2002 found four such instances. The Acting Treasury Manager stated that he was not making sure that reviewer initials were present before continuing to process the work.
- B. Treasury management often had not initialed the Adjusting Journal Edit Lists to document that this cash receipts report agreed with the Treasury Records of Deposit Report (TROD). A review of Treasury activity on April 11, 2002 and April 18, 2002 found 29 such instances. Treasury management acknowledged that these reports should have been initialed, but reported having stopped recently due to time constraints. The TROD is used by Finance to document the daily reconciliation of cash receipts reports and deposits. The Deputy Director of Finance approved these 29 Adjusting Journal Edit Lists for posting in the general ledger without the Treasury Manager's initials, contrary to procedure. Neither the Treasury Manager nor Deputy Director of Finance sign the TROD to document their review and approval.
- C. Treasury management is involved in some daily Treasury operations. For example, management sometimes enters cash receipts into the automated accounting system. Treasury activity on April 11, 2002 and April 18, 2002 was reviewed and two such instances were noted. Treasury Management also routinely pays petty cash vouchers and disburses money from the Taxi-scrip fund. Our concern is that the work is not reviewed before leaving Treasury.

It appears that one reason that work is not always reviewed and approved in Treasury is because the unit is small, and is under pressure to provide the City with the daily services it offers. When

large volumes of work are received, or there is employee absenteeism, it becomes difficult to segregate duties so that work is performed and reviewed by different staff. A second reason appears to be that written policies and procedures do not adequately establish review and approval procedures, who will perform them, and how they will be documented.

Although there are controls outside of Treasury that might catch errors made by Treasury, they do not appear sufficient to mitigate Treasury's lack of internal controls, and to provide sufficient assurance that cash receipts are being properly accounted for. The primary control outside of Treasury is that the Deputy Director of Finance reviews and approves the TROD and supporting FUNDS cash receipts reports, which includes the Adjusting Journal Edit Lists. However, this review is more of a review for reasonableness designed to identify large dollar errors or concerns.

A bank reconciliation is also performed by an Accountant II in Finance – Accounting. The reconciliation should identify differences between monies deposited and monies accounted for in FUNDS, which is a very important review procedure. However, it would not identify other errors, such as money that was not deposited nor entered into FUNDS, or money that was posted to an incorrect account. Lastly, an additional control external to Treasury is that some departments review their accounts to make sure money was received and properly accounted for. However, the auditor's experience is that many departments do not perform this procedure.

Recommendations For Finance

- 2.1 Update procedures to specifically address where review and approval of work is to occur, how it is to be documented, and how it will be monitored to ensure it is done. Additionally, update procedures to address how work performed by Treasury management, such as cash receipts entry, will be reviewed before it leaves Treasury. Emphasize to Treasury management that they are responsible for ensuring that the work performed in Treasury is performed according to procedure and is correct before it leaves Treasury.
- 2.2 Consider having a backup OSII to cover for absences in Treasury.
- 2.3 The TROD should be signed and dated by Treasury management and the Deputy Director of Finance to document that they reviewed and approved it.

Response From Finance

We partially agree with the finding and fully agree with the recommendations. We will fully implement the recommendations by October 31, 2002.

We agree that the work sometimes lacked evidence of review, but we disagree that it occurred often or regularly. During the period in April 2002 when the Acting Treasury Manager was being trained, while he was also developing Treasury procedures from scratch and performing

some of his Assistant Management Analyst duties, he failed on two or three days to initial the Adjusting Journal Edit Lists after reviewing the work of Treasury staff. There were few, if any, instances where this happened before or after the training period. Because of the high level of frustration and crisis at that time, the Deputy Director did not return the work for initials but rather, called and received confirmation that the batches had actually been reviewed by the Acting Treasury Manager. This was done prior to the Deputy Director's review and approval of the entries for recording in FUNDS.

- 2.1 We agree that procedures should be revised to further address where the review and approval of work is to occur. These procedures will be completed and incorporated into the Treasury Procedures manual by October 31, 2002.*
- 2.2 We agree that the Treasury should consider having a backup Office Specialist II to cover for absences in the Treasury. We will identify if qualified and available Finance staff exists, and establish procedures for intra-departmental assistance by October 31, 2002.*
- 2.3 We agree that the TROD should be reviewed, approved, initialed, and dated by the Acting Treasury Manager and the Deputy Director of Finance to document they reviewed the work. This procedure was implemented on July 17, 2002 and will be incorporated into the Treasury Procedures manual by October 31, 2002.*

Finding 3: Excessive / Unnecessary Authorization to FUNDS Applications

Some City employees have excessive or unnecessary access to the applications and functions in the City's automated accounting system, FUNDS.

- A. Some Treasury staff have authorization to use applications and functions in FUNDS that are not necessary to do their job. In at least three instances, this authorization could allow unauthorized activity to go undetected. See A.1 and A.2 below for details.
 - (1) The Treasury Manager (retired during the course of the audit) was authorized to enter and approve requisitions for goods and services, and then receive them. When these duties are not segregated amongst employees, unauthorized purchases can go undetected. Policies and procedures are not in place to prevent an employee from having such access.
 - (2) Some Treasury staff have authorization to use applications and functions in FUNDS that are not necessary to do their job. In at least two instances, this authorization could allow unauthorized activity to go undetected. In one instance, both a provisional OSIII and the Acting Treasury Manager have access to applications and functions pertaining to Business License Tax that allow them to enter Business License Tax billing information, make adjustments, perform account maintenance, and enter payment when received. In the other instance, the Acting Treasury Manager can enter and adjust charges, and change, add, and

delete customer information in the Miscellaneous Receivable Module of FUNDS, and enter payment when received. The Miscellaneous Receivable Module is used to bill Marina Berthing fees, Dog License fees, Transfer Station Dumping fees, Health Inspection fees, Fire Inspection fees and False Alarm fees. When the same employee can perform these functions, unauthorized activity can go undetected. The Acting Treasury Manager stated that he had FUNDS authorization that he no longer needed because authorization he required-before his appointment as Acting Treasury Manager was not removed before he came to Treasury. Treasury management stated that they did not know why an OSIII was authorized to enter and adjust business license charges, since this employee has worked in Treasury for many years. The OSIII and the Treasury Manager assured the auditor that Treasury staff was not entering business license tax billing information. During the course of the audit, the Finance Department Director was notified regarding these and other FUNDS authorizations that Treasury staff had that did not appear to be necessary to perform their job.

- B. Too many (ten) City employees (including two programmers, two cash register operators in the Planning – Permit Service Center, and an OSIII) have complete access to all the cash receipt functions in FUNDS. Many of these employees do not appear to need all this access. There appear to be various reasons why these people have full authorization. As a result of this condition, many of these employees can perform tasks in the Cash Receipts Module that do not appear necessary to perform their assigned job duties.
- C. Too many (seven) City employees (Four programmers and three Finance Department employees) can give others access to the City’s cash receipt functions in FUNDS (Cash Receipts Module). Additionally, the four Information Technology programmers can give themselves and others access to any of the City’s FUNDS applications and functions, not just cash receipts. Also, a Systems Accountant in Finance can give access to the Cash Receipts and GMBA (general ledger) Modules, and is the Module Leader for GMBA.
- D. Programmers have direct access to the accounting system programs and files, and can implement program changes that they have developed. Generally, programmers should not have direct access to the accounting system programs and files. This is to help prevent unauthorized programming, unauthorized use of the system, or the implementation of program changes which have not been adequately reviewed and approved.

The controls that should be in place to prevent excessive access in FUNDS are not in place or are not functioning properly. As a result, there is increased risk that financial and accounting errors and irregularities will occur and not be timely detected.

Administrative Regulation (A.R.) 2.6 “City Property – Issuance and Retrieval” states:

“Supervisors are responsible for determining the appropriate level of access required for

each employee and for requesting authorization for that employee through Information Systems (with a cc to their Department Director).” It further states, “Information Systems will clear authorization for access to a specific module through the module leader and notify the supervisor and department director of approval.” The module leader for the Cash Receipts Module is the Treasury Manager. “Supervisors are responsible for maintaining a record of access and authorization given to an employee and ensuring that this access is discontinued prior to termination (or transfer if appropriate).... Supervisors must notify the Manager of Information Systems, (cc the Department Director), to cancel or modify access and/or authorizations for the terminated or transferring employee by e-mail, or other means.”

Recommendation For Finance and Information Technology

Design, write and implement policies and procedures that will effectively limit City employee FUNDS\$ access to only the FUNDS\$ modules, and only the functions and applications in each module, that they need to perform their assigned duties. Once these procedures are developed they should be referenced in an update to the existing A.R. 2.6.

- These procedures should ensure that every employee’s FUNDS\$ authorization is reevaluated each time the employee transfers to a different job or different location within the City.
- Additionally, these written policies and procedures should be designed to prevent City employees from being given FUNDS\$ authorization which would not provide for an adequate segregation of duties.
- The written policies and procedures should also state that, if FUNDS\$ authorization can’t be limited to provide an adequate segregation of duties, other compensating controls must be put in place and documented.

Response From Finance and Information Technology

We partially agree with the finding and agree to implement the recommendation.

A1. Policies and procedures to prevent such access will be strengthened.

A2 and B. Subsequent to receiving the Auditor’s draft in May, the Acting Treasury Manager’s inappropriate access to other applications was revoked. In addition, cash receipts access was revised and limited for PSC Register Operators and Treasury employees at the data entry level; additional supervisory controls for critical functions, such as for payment reversal and file maintenance were also implemented.

C: Finance and I/T agree that seven City employees may not be needed to have the security access. Finance disagrees that three Finance employees were too many during the audit period, because the third Finance employee was the Acting Treasury Manager, who was being trained

by the Treasury Manager. In addition, Finance views reasonable redundancy as necessary to improve performance and efficiency; what is needed is appropriate compensating controls to safeguard the City's system.

Regarding the Systems Accountant having access to GMBA and Cash Receipts, there was a separate response to the Auditor indicating she does not have any custody responsibility to City assets or responsibility over operations, accounting entries or records.

D: This finding can be corrected only if there are enough programmers to have segregation of duties and to monitor changes. A cost/risk assessment will be completed by June 30, 2003 to address this issue. Refer to response to recommendation.

It should be noted that the audited period was an unusual time for Finance: Treasury was short-staffed and the Office Specialist II needed temporary additional access; the out-going Treasury Manager was providing training for the new Acting Treasury Manager; the Treasury Manager was also the Cash Receipts module leader; and Customer Service was in the midst of a major restructuring.

Also during this period, action plans that Finance had initiated to improve FUND\$ awareness resulted in: a series of FUND\$ process trainings in May; continued discussions with Planning about Permit Service Center (PSC) register access, and the need to model PSC registers on those in Finance – Customer Service; and a change in the Cash Receipts system controls to preserve the data audit trail.

Response to recommendation:

- Finance and IT agree with the recommendation. Prior to revising A.R. 2.6, Finance and IT will complete a cost/risk analysis by June 30, 2003 to determine what is feasible and to identify the needed related compensating controls. Depending on the methodology selected, a project plan will be in place to revise A.R. 2.6.
- On a parallel track, Finance and IT will work with Human Resources and Payroll Audit staff to identify a methodology for monitoring employee access in FUND\$ as transfers occur.
- Effective immediately, the Systems Accountant will perform a monthly review of authorizations for Cash Receipts users and key Finance personnel, and report results to the Director of Finance on a monthly basis.

Finding 4: Duplication of Effort - Recounting of Cash

Treasury staff spend a significant amount of time counting cash that was, or should have been, counted by experienced City cash handlers and their supervisors before being brought to Treasury. This is not an efficient use of Treasury staff time. Counting cash a second time at a

different location increases the risk that all the money may not be deposited. Additionally, if a second cash count results in a change in the deposit total, there is always the concern that the second cash count may have been incorrect, not the first.

Every day, two Treasury Office Assistants spend a significant amount of time recounting the cash that Treasury receives from one of the City's largest cash depositors, Finance-Customer Service. This is the only instance where Treasury staff do not count the cash in the presence of the depositor. The cash is brought to Treasury in sealed plastic tamper-proof bank deposit bags, the same bags that are used to transport money to the bank or Brinks money centers. If Treasury's cash count comes up with a different total for a bag of cash, then the Cash Edit Report provided by Customer Service is changed to reflect Treasury's figure without any further review / approval by Finance – Customer Service representatives. Treasury staff stated that adjustments are not uncommon. This raises a concern regarding whose count was really correct, since both counts were done in the presence of two people. This concern was first raised in January when the Finance Department conducted an interdepartmental review of Treasury. Another City location that deposits a significant amount of cash, Public Works-Transfer Station, also has their cash recounted everyday by a Treasury Office Assistant. The recounting is done in the presence of the Transfer Station supervisor. The Transfer Station employees that originally received this cash and their supervisor should already have counted this money.

Treasury representatives stated that Treasury staff recounted cash from Customer Service because Customer Service was too often incorrectly reporting cash totals. The Treasury Manager, who recently retired, made the decision to let other locations deposit money without a recount in Treasury. These locations are the libraries, senior centers, HHS-Vital Statistics, and HHS-Clinics. These locations bring their cash and cash equivalents to Treasury in sealed tamper-proof bank bags.

Recommendation For Finance

4. Require Finance-Customer Service and the Public Works-Transfer Station to bring their cash to Treasury in sealed tamper-proof bank bags that are ready to be picked up by the City's armored car service. Treasury staff should not open these bags. Implement this same procedure for all locations that deposit a significant amount of cash. Finance Department management should establish what constitutes significant cash.

When bank adjustments indicate that a City location is not properly counting cash, notify the division manager or department director in writing (and copy the appropriate City Manager's Office representatives). In the written notification, recommend that the employee(s) responsible for the erroneous bank deposits receive cash receipts / cash handling training or have their cash handling duties taken away.

Response From Finance

We agree with the finding and recommendation; the recommendation has been partially implemented and will be fully implemented by October 31, 2002.

We agree with the recommendation requiring that Finance - Customer Service and the Public Works - Transfer Station bring their deposits to Treasury in sealed tamper-proof bank bags, which are ready to be picked up by the City's armored car services. The Finance - Customer Service Division began this procedure on July 24, 2002. Treasury will implement the same procedure for the Public Works - Transfer Station by October 31, 2002. These changes will be incorporated into the Treasury procedures manual.

The Treasury procedures manual will define what constitutes a significant amount of cash, and Treasury staff will identify all locations that meet this deposit threshold, and implement the same procedure for other affected departments or divisions by October 31, 2002.

When Finance identifies bank adjustments, managers or department directors will be notified in writing when bank adjustments are received and will indicate locations that may not be counting cash properly. This procedure will be completed by October 31, 2002.

Background – Taxi scrip Fund

The Taxi-scrip Program is part of the Housing Department's Paratransit Services. Subsidized Paratransit Taxi-scrip coupons are provided to Berkeley residents with disabilities and/or those 70 or more years of age, who use the scrip to pay for Paratransit or taxicab rides. On May 22, 2001 Council adopted a resolution that 1) allowed for Taxicab company owners and drivers to accept City of Berkeley Taxi-scrip coupons as payment for a ride, in lieu of cash and 2) established a cash-disbursement fund in an amount not to exceed \$5000 to redeem Taxi-scrip coupons.

Finance – Customer Service maintains a \$3,000 cash-disbursement fund that it uses to redeem the Taxi-scrip coupons. Treasury maintains a \$2,000 Taxi-scrip disbursement fund that is used to replenish the Taxi-scrip fund in Customer Service.

Finding 5: Treasury's Taxi-scrip Fund Is Unnecessary

Treasury unnecessarily maintains a \$2,000 Taxi-scrip fund. Additionally, there are concerns regarding how Treasury maintains and replenishes this fund.

- Treasury maintains a \$2,000 Taxi-scrip fund so that currency disbursed from the Customer Service's Taxi-scrip fund can be replenished. Customer Service generally disburses less than \$2,000 a week from their fund. If Customer Service kept the entire

\$5,000, the Taxi-scrip disbursement fund in Treasury would not be needed. Customer Service would submit their replenishment requests to Finance – Accounts Payable instead of Finance – Treasury. This would eliminate the additional staff time associated with Finance having to keep two Taxi-scrip disbursement funds instead of one.

- The Treasury Manager is too involved with the Taxi-scrip fund to independently review and approve this work before it leaves Treasury. Treasury management stated that they handle the disbursement of these funds. The auditor also observed one occasion where Treasury management had disbursed cash from the Treasury Taxi-scrip fund, then entered the replenishment request, creating the accounts payable entry. Treasury management stated that a Office Specialists usually entered this accounts payable entry, and Treasury management reviewed and approved their work. However, this segregation of duties is not included in the written policies and procedures. Without this segregation of duties, work is not reviewed before it leaves Treasury. Treasury management also stated that Treasury’s Taxi-scrip replenishment request was reviewed and approved by the Deputy Director of Finance in Finance-Accounting. However, the auditor found that the Deputy Director did not receive adequate documentation to conduct a proper review. For example, the Deputy Director does not receive the Tax-scrip redemption forms provided by the taxicab companies. As support documentation, he does receive the letters that Customer Service sends to Treasury asking for Taxi-scrip fund replenishment. However, these letters are not signed by a Customer Service representative such as a supervisor to authenticate them. They are also not always signed by a Customer Service representative to document Customer Service received the money they were requesting because Treasury sometimes requests replenishment for their fund before they actually give the money to Customer Service. As a result, errors or unauthorized activity could go undetected.
- Treasury does not maintain a journal to document cash receipts and disbursements from the fund. When the fund was audited, there was \$863.80 out of \$2,000 on hand, and no record of where the rest of the money had gone.
- The letter that Customer Service sends to Treasury, requesting replenishment for the Customer Service Taxi-scrip fund, does not clearly transmit and request information. For example, the letter does not clearly identify the replenishment period, is not signed by a Customer Service Representative authenticating and authorizing the replenishment, and does not clearly request the signature of the employee that receives the money.
- Treasury cashes the check to replenish their Taxi-scrip fund by replacing currency brought to Treasury with the replenishment check. This activity is documented on the TROD and the affected deposit slip. However, this activity was sometimes difficult to follow and is not a usual accounting practice.

Recommendation For Finance

5. Move the \$2,000 now in the Treasury Taxi-scrip fund to the Finance – Customer Service Taxi-scrip fund. Have Finance-Customer Service submit their Taxi-scrip fund replenishment request directly to Finance-AP using a voucher. The Customer Service Taxi-scrip fund

custodian would cash the replenishment checks at a local bank or at Customer Service using funds taken in at the Customer Service cash registers (as long as this activity can be adequately documented).

Response From Finance

We agree with the finding and recommendation and it has been implemented.

We agree with the finding. We agree that the Taxi-scrip Fund should have only one custodian and that it should not be Treasury. When Council authorized the establishment of the taxi-scrip reimbursement fund there was no precedent for taxicab participation or usage. The \$5,000 fund for reimbursing taxi-scrip for cash was divided between Customer Service and Treasury on a \$3,000 and \$2,000 split, to assure that funds would always be available. Customer Service and Treasury became custodians of this fund.

When the Treasury disperses money to Customer Service using the \$2,000 Taxi scrip petty cash fund on hand, the payout request forms are retained with the actual taxi scrip funds to account for the \$2,000. It is possible that Treasury staff had these documents outside of the Treasury counting room, while processing a check from Accounts Payable to replenish the funds. At no time were funds missing. It is now, the practice to keep original documents or copies of documents with the funds to reconcile petty cash fund to the \$2,000.

We agree that having two custodians of this fund is not necessary and the \$2,000 in Treasury was moved to Customer Service on August 7, 2002. However, we recognize this will create a problem for Customer Service and for any other City departments who replenish petty cash funds by receiving a check. Treasury has no cash on hand to cash these checks, and we are exploring solutions to this situation. Treasury authorizations have been changed to take away accounts payable entry authorization and this function will be transferred to the Accounts Payable Division.

Finance has determined that there are additional problems and challenges that have developed in the administration of Paratransit programs, including Taxiscrip distribution, sale and redemption, as well as the cash and asset management related to these programs. Finance will be convening an interdepartmental team to analyze and make recommendations for immediate corrective actions and future improvements to this situation within FY 2003.

Finding 6: Concerns Regarding the Petty Cash / Change Fund

Treasury's petty cash fund is not being properly maintained. The following was observed:

- Finance was unable to provide evidence of Council approval for Treasury's \$1,500 petty cash fund and \$500 change fund, as required by Administrative Regulation (AR) 3.13. The former Treasury Manager provided Resolution 53, 509 N.S. as authorization.

However, it only authorized a \$1,000 petty cash fund and a \$650 change fund. As a result, it appears that Treasury's petty cash fund and change fund are not funded for the Council authorized amount.

- Treasury was not maintaining a list of City employees authorized to approve petty cash voucher forms (requests for petty cash) as required by AR 3.13. As a result, Treasury employees were paying petty cash vouchers that had not been properly authorized. During the audit, this condition was brought to management's attention. Treasury management subsequently informed the auditor that Treasury had requested and been provided with authorized signatures from all but two departments.
- The petty cash journal, which is used to record all petty cash replenishment and disbursement activity, is not being properly maintained. For example, batches of several petty cash reimbursements were sometimes recorded as a single transaction, and a running cash balance was not kept in the space provided for this information. Also, the auditor's review of the April 30, 2002 petty cash replenishment request (covered 33 petty cash vouchers paid during the period April 4 through April 22) identified a \$21.26 petty cash voucher that had been paid on April 22 and had not been recorded in the journal. It was also observed that Treasury employee(s) that put the replenishment cash in the petty cash drawer are not identifying themselves in the column provided for this purpose.
- The petty cash replenishment procedure does not identify and include cash shortages. Treasury staff request fund replenishment based on the total dollar value of the vouchers paid, not a reconciliation of the vouchers, petty cash journal and cash on-hand. As a result, shortages can go undetected.
- Petty cash disbursement and replenishment duties are not adequately segregated. Treasury management and an OSIII were both observed to be inputting the accounts payable entries in FUNDS to replenish the Treasury petty cash fund. Both these employees also disburse petty cash funds when petty cash vouchers are submitted. The Acting Treasury Manager stated that he reviewed the AP Edit Listing report, but this activity was not documented on the two AP Edit Listings reviewed by the auditor. In fact, one of the AP Listings was prepared by Treasury management. The auditor also found that the Finance – Accounts Payable and Finance-Accounting staff who process the Accounts Payable Edit List and issued the replenishment check are not reviewing the support documentation and accounts payable journal. A review and approval procedure is not included in the written policies and procedures. As a result, errors or irregularities could go undetected.
- Petty cash vouchers are not always properly processed and expenditures are not always properly documented. As a result, abuse of Treasury petty cash can go undetected. The auditor reviewed 13 of 33 vouchers covering the replenishment request period April 4, 2002 through April 22, 2002.
 - Five vouchers had not been stamped "paid" in accordance with procedure to prevent their reuse. Three vouchers were for attendance at a seminar or training workshop. They did not include an Attendance and Travel Request Form, a Statement of Expense form, and documentation supporting attendance at the event, as required by Administrative Regulation 3.4.

- There were also two instances where the vouchers had not been signed by the employee that had received the cash as required by procedure.
- There was one instance where a receipt or canceled check was not provided to support that an expenditure had been made.
- There was also one instance where a meal was reimbursed, but the support documentation required under Administrative Regulation 3.4 had not been provided.
- Treasury procedures require Treasury staff to make sure accounts have sufficient funds before a petty cash voucher is paid. However, of the 33 vouchers in the April 30, 2002 replenishment request, the accounting system reported “Warning! Transaction exceeds account budget” for four. This indicates that this step is not being done, or is not always effective.
- All Treasury employees, including Treasury management, are disbursing Treasury cash funds. Having more than one employee with access to the petty cash fund increases the risk that petty cash will be taken for unauthorized purposes, and that the perpetrator will not be identifiable. Typically a petty cash fund has one custodian in order to prevent this problem.
- Replenishment checks for the Treasury petty cash fund are cashed in Treasury by replacing currency dropped off at Treasury with the replenishment check. This is not a recommended practice because it was sometimes difficult to document this activity.

Recommendations For Finance

- 6.1 Each Treasury Petty Cash Fund should have only one custodian, and it should not be Treasury management. Treasury management should periodically perform surprise reviews of the Treasury petty cash fund to ensure that procedures are being followed and all the petty cash is accounted for. Treasury management’s reviews should be documented.
- 6.2 The petty cash custodian(s) should be trained regarding how to perform their custodial duties. Training provided should be documented. Petty Cash written policies and procedures should be updated to address the audit concerns stated in the finding.
- 6.3 Finance should only maintain a petty cash and change fund for an amount authorized by City Council. This authorization should be readily available in Finance.
- 6.4 Take away accounts payable entry authorization from all Treasury staff. Petty cash custodians should submit for fund replenishment using a voucher that has been reviewed and approved by the Treasury Manager. The replenishment check should be cashed at a nearby bank.

Response From Finance

We agree with the finding and recommendations, the recommendation has been partially implemented and will be fully implemented by October 31, 2002.

- 6.1 *We agree that petty cash funds should have only one custodian, and it should not be Treasury Management. Treasury Management has in fact performed two surprise reviews of the Treasury Petty cash fund to ensure that procedures are being followed Petty Cash fund is accounted for. The Acting Treasury Manager performed a surprise audit on June 18th and another on July 15th and the Deputy Director of Finance and Finance Director were informed of the results of these surprise audits by e-mail. Periodic surprise audits of the petty cash fund will be routinely conducted by the Acting Treasury Manager and findings will be reported to the Deputy Director of Finance and the Director of Finance.*
- 6.2 *We agree. Training of petty cash custodians will be documented and Petty Cash written procedures will be updated by the Acting Treasury Manager to address the audit concerns and will be completed by October 31, 2002. Training will be incorporated into regular on-going training of Treasury staff, and will later be included in any Citywide training developed by Treasury for Cash Handling within FY 2003.*
- 6.3 *We agree. The Acting Treasury Manager was unable to provide documentation authorizing the current petty cash fund amounts. The Acting Treasury Manager under direction of the Deputy Director will seek Council Authorization for proper petty cash fund amounts by October 31, 2002.*
- 6.4 *We agree that Treasury staff should not have Accounts Payable authorization. This authorization has been changed immediately by the Systems Accountant.*

Finding 7: Incorrect Use of Shortage / Overage Account

For at least the last three years, the Finance department has been incorrectly accounting for Arlington Tax Street Light Assessment money and some court-approved settlements as a cash overage. Two entries to record cash shortages were also reviewed by the auditor. Concerns were found with both. The shortage/overage account should only be used to account for differences between actual cash or cash equivalents received versus what should have been received.

As of May 23, 2002 (almost eleven months into the City's 2002 fiscal year), Finance's shortage / overage account 010-3302-361-0198 reported an overage of \$42,786. Incorrect overage entries, which help comprise this overage balance, include Arlington Light tax money totaling \$14,044

and \$15,646 that Berkeley received as its part of its share of a court-approved settlement between the State of California and Toshiba. The Deputy Director of Finance stated that errors like these probably occurred because the now retired Treasury Manager may have been using this account when she did not know the correct account to be used.

Two of the larger entries to record shortages in the shortage/overage account during the current year were also reviewed. One of these entries, a \$144.18 shortage on October 25, 2001, should have been a \$100 shortage entry. The City had incorrectly accounted for a \$144.18 payment as a \$44.18 payment on February 9, 2001 and this was part of the adjusting journal entry to correct this error. The other shortage entry reviewed was a September 18, 2001 entry for \$370.07. It was a correct entry to the shortage/overage account. However, the supporting documentation for the entry was not adequate.

The problems with the shortage/overage account appear to exist because activity in this account is not being properly monitored. Responsibility for activity in the shortage / overage account is not always clear because both Treasury and Customer Service use the same shortage / overage account.

On June 27, 2002 the Acting Treasury Manager reported that the misapplied Arlington Tax Street Lighting tax had been corrected.

Recommendations For Finance

- 7.1 Prepare adjusting journal entries to correctly account for court settlement cash receipts that were incorrectly accounted for as a shortage / overage.
- 7.2 Have Treasury and Customers Service use their own shortage / overage account. When the shortage / overage account has a debit / credit balance of more than a pre-established amount, for example \$500, written policies and procedures should require this account be analyzed by the Treasury or Customer Service manager on a periodic basis, and the results and recommended corrective action reported in writing to the Deputy Director of Finance.
- 7.3 Provide staff with the written policies and procedures, training, and supervision needed to provide a reasonable assurance that shortage / overage activity is properly accounted for and monitored.

Response From Finance

We agree with the finding and recommendations, the recommendations have been partially implemented and will be fully implemented by October 31, 2002.

- 7.1 *We agree. Treasury will prepare the adjusting journal entry on August 2, 2002.*

7.2 *We agree. Customer Service Managers and Supervisors track any shortage/overages reported by Customer Service staff on Cash Edit Listings when verifying daily deposits. The establishment of a specific account for Customer Service would assist them in monitoring these incidences as reported and provides a better mechanism for these transactions to the Director of Finance/Deputy Director of Finance.*

An account was established by the Accounting Division on August 2, 2002, and the Treasury and Customer Service Manager will periodically review this account to determine whether the account has a debit or credit balance, and will report any recommended corrective actions, if necessary, to the Deputy Director of Finance.

7.3 *Treasury will develop written policies and procedures needed to provide reasonable assurance that shortage/overage activity is properly accounted for. Under the direction of the Deputy Finance Director, these procedures will be incorporated into the Treasury procedures manual and will be approved by the Director of Finance by October 31, 2002.*

Finding 8: Bank Deposit Errors By AMPCO

It appears that the City’s bank account is too often being adjusted because AMPCO System Parking, which operates two of the City’s parking garages and one of its lots, makes cash deposits that do not agree with the deposit slip. This is an indicator that AMPCO may not be properly safeguarding and accounting for City parking revenues. Finance Department management was asked what the City had done in the last 12 months to address this concern. A response was not provided.

Some deposit slips prepared by AMPCO overstate the cash being deposited; some understate the cash being deposited. During the month of January 2002, the bank made the following adjustments to the City’s bank account:

Center St. Garage	One deposit slip overstated cash by \$1
	One deposit slip overstated cash by \$38
Sather Gate Garage	One deposit slip understated cash by \$20
	One deposit slip understated cash by \$140

For the month of January 2002, \$201,623 was deposited by AMPCO for the two City parking garages and one City lot. Additionally, the auditor also observed that the February 6, 2002 deposit slip for the Center Street Garage overstated cash by \$216. The Treasury OS II responsible for making sure the money reported as deposited on the carbon deposit slips is reflected in the City bank statement stated that he was concerned about this problem, and had brought it to the attention of City and AMPCO management.

Recommendation for Finance

8. Through discussion with AMPCO management, and a review of AMPCO's written policies, procedures and record, Finance department representatives should seek to determine why AMPCO is making inaccurate cash deposits, and what has been done to correct this problem. As the contract administrator, Finance Department management should work within the means of the terms of the AMPCO contract to help insure that all City money that AMPCO receives is properly deposited. If it is determined that City money was lost or stolen, the Police and the City Auditor's Office should be notified in accordance with the procedure in the Finance Department's December 1992 City of Berkeley Cash Training Program manual.

Response From Finance

We agree with the finding and have implemented the recommendation.

We agree with the finding. The Deputy Director of Finance and the Accounting Division and Treasury staff had a series of meetings with the Senior Management Analyst in charge over the off-street parking operations, who, in turn, has had a series of meetings with AMPCO since May. The AMPCO Berkeley Area Operations Manager has attended the latter meetings to discuss deposits prepared by AMPCO. It was determined that there was one AMPCO employee who was making frequent math errors on deposit slips. AMPCO has reassigned this employee to non-cash handling responsibilities.

The Senior Management Analyst who oversees the off-street parking operations requires that AMPCO staff provide City staff with the daily cash register/automated machine tapes, daily revenue reports and daily deposit slips, and to reconcile all three documents on a daily basis. The Berkeley AMPCO Operations Manger indicated that AMPCO would comply with this requirement. Upon receipt of this information Treasury staff will verify and reconcile this information against daily bank deposits. Treasury staff reports that as a result of these meetings with the Berkeley Area Operations Manager, the deposits process has greatly improved and bank errors have significantly declined.

Background – Business License Tax

Annual Business License Tax (BLT) renewal payments are due no later than February 28 each year if penalties and interest charges are to be avoided. As a result, Finance receives a large volume of BLT payments around this time each year. An employee from Finance-Purchasing picks up the mailed BLT payments and many other payments at the Post Office, and delivers them to Treasury. The BLT payments and Dog License fee payments are identified by Treasury

staff by the color of the payment envelope, and placed in an out box. A Finance-Customer Service employee brings them to Customer Service. In Customer Service, the gross receipt information on the payment remittances that is received with the BLT payments is entered into the City's Occupational License Module. This module is part of the City's automated accounting system. It is used to record the amount of BLT each business must pay to renew their business license. The checks and remittances are then brought back to Treasury where an OSII enters the BLT payments into the Cash Receipts Module of the City's automated accounting system. This is done to account for the BLT payments.

Finding 9: Business License Tax Payments Too Often Not Timely Deposited

Business License Tax (BLT) renewal payments that are received by mail are too often not timely deposited and accounted for by Finance. Additionally, it appears that the flow of BLT payments and Dog License fee payments that the City receives by mail could be improved.

- A. On May 6, 2002, the auditor observed approximately thirteen-inches of checks and remittance statements for BLT in Treasury. The checks had issue dates ranging from January 2002 through early April 2002. This indicates that BLT payments are not always timely deposited and accounted for by Finance. These BLT payments had already been processed by Finance-Customer Service and were awaiting entry into the Cash Receipts Module, and deposit, by Treasury. Accompanying Post-IT-Notes indicated that BLT payments and documentation had been brought to Treasury in batches during the period April 17, 2002 through May 2, 2002. The time it takes Treasury staff to account for and deposit BLT payments is not tracked.

The auditor's review of Treasury work performed on April 11, 2002 and April 18, 2002 identified two instances where it took Treasury staff at least 12 days and 20 days respectively to enter BLT renewal payment information once the entry process began. Treasury management stated that the 12 and 20 days did not include the time this Business License payment documentation may have been in Treasury or Customer Service waiting to be processed. Treasury management stated that these delays probably occurred because there was nobody available to review and approve the Cash Receipts Module entries.

It is a concern that Finance can't show how much time it is taking for them to account for and deposit BLT payments even though there are strong indications that there is a problem in this area. When BLT payments are not timely deposited, the City loses the time value of money. The time value of money is the interest that this money would have earned if it had been deposited close to the date that it was originally received. Additionally, if the City takes too long to deposit this money and issue business licenses, this may worry and/or annoy businesses. The December 1992 City of Berkeley Cash Training Program manual prepared by the Finance Department states on page eight that deposits must be made daily unless the deposit is less than \$100. Finance is not following its own guidelines.

- B. During the audit it also came to the auditor’s attention that BLT payments and Dog License fee payments that the City receives by mail are first brought to Treasury, separated from the other payments received by mail, then forward on to Finance-Customer Service. Treasury staff identifies the BLT payments and Dog License fee payments by the color of the return envelope. It appears it would be more efficient if the BLT payments and Dog License payments were first sent to Customer Service instead of Treasury. The current practice increases the risk that payments may be lost. It also probably delays processing in Customer Service by a day or two.

Recommendations For Finance

- 9.1 The time it takes Finance to account for and deposit Business License Tax renewal payments should be tracked, on a sample basis, over a period of time. If payments are not being accounted for and deposited within one week, a written report should be prepared for the Director of Finance (carbon copy the City Auditor) that addresses where delays are occurring, why they are occurring, and recommended corrective action. Determine whether more resources are needed on an intermittent basis to provide better service and avoid interest income losses.
- 9.2 Business License Tax payments and Dog License fee payments that are received by mail should be delivered directly from the Post Office to Customer Service.

Response From Finance

We agree with the finding and recommendations.

Finance agrees with finding. Finance recognizes that renewal payments received by mail are not always timely deposited. On an annual basis, almost 14,000 Business License applications and payments are processed, most of them during the height of the renewal period from January 1st to March 31st. Before Treasury can enter and deposit the payments, each of these renewals must be updated in the individual business license record in the Occupational License (OL) module in FUNDS. This procedure includes confirming that the fees paid with a renewal correspond to those owed, as well as entering other miscellaneous license data that may be necessary for that account. It is only after this step is completed that Treasury can process payments. While the example of delayed payment processing in the finding is accurate this is not entirely under the control of Treasury.

The Finance Director is working with all relevant staff to define an improved business license payment process for the up-coming renewal period; and another work group under the leadership of the Acting Treasury Manager is reviewing long-term options for all remittance processing. This group is expected to have a specific recommendation by March 31, 2003.

- 9.1 *Finance agrees with this recommendation and has a procedure already in place that partially addresses it. The Director of Finance received weekly status reports on the progress of business license renewals from both Customer Service and Treasury. In addition, during the 2002 renewal process, all Business License payments exceeding \$1,000 were identified and processed as expeditiously as possible, with the joint objectives to function efficiently and avoid loss of interest income. During the 2003 renewal process, a sample of Business License Tax renewal payments will be tracked and documented for a period of time. By April 30, 2003, a report will be given to the Finance Director on delays observed in processing these payments, and recommendations for implementation of corrective action during the 2004 renewal period. Corrective action within resources available during the 2003 renewal period will be implemented as soon as possible.*
- 9.2 *Finance agrees with this recommendation. Dog License payments will be delivered directly to Customer Service, by way of the City's internal Mail Service, by September 30, 2002. Business License payments will be delivered directly to Customer Service, by the Mail Service, in the 2003 renewal period.*

Background – Counting Room

The Counting Room is where City employees come to deposit City money in Treasury - Finance. Depositors enter the Counting Room through a door to make their deposits. If the door is closed, depositors wait outside the door until Treasury staff are available to assist them.

The safe in the Counting Room requires two keys to open. The Treasury Manager has the key to one lock and two of the Office Specialists have a key to the other lock.

Finding 10: Concerns Regarding the Counting Room

The Counting Room location, design, and policies and practices, could be improved so that money brought to Treasury for deposit is better safeguarded, and the Treasury Manager is less inconvenienced.

The following concerns were noted:

- The public is not restricted from entering the Counting Room during business hours. The Counting Room door is often closed, but not locked. As a result, unauthorized people can enter the Counting Room when cash is out, or when nobody is in the room, which is quite common. There are no windows or surveillance cameras in the Counting Room that would allow Finance Department staff to observe or tape what is going on in the Counting Room if the door is closed. The Counting Room is located next to an emergency exit that is not alarmed. As a result of these conditions, City money and Treasury staff do not appear to be adequately safeguarded.

- To help insure that all cash brought to the Counting Room is deposited into a City bank account, the Treasury employee in the Counting Room is supposed to ask the depositor to stay in the room until the Treasury Manager arrives. Together, an Office Specialist and the Treasury Manager place the bagged cash into the safe. However, this internal control procedure is probably not as effective as management had intended. The only way depositors become aware of this procedure is if Treasury staff tells them, Treasury staff being the very people that the depositors are suppose to watch. There is no sign etc. to let depositors know about this procedure. As a result, this internal control procedure may not be followed.
- Every time cash is received or disbursed in the Counting Room, dual custody procedures require that the Office Specialists call Treasury management so that the safe in the room can be opened. The auditor observed that this procedure occurs quite frequently. It appears that this practice would be disruptive to Treasury management.

Recommendation For Finance

10. By way of a memo from the Finance Department and signage in the Counting Room, notify depositors that they are to stay in the Counting Room until they see their cash has been locked in the safe.

Immediately begin keeping the Counting Room door locked when cash is out or when the room is unattended. As soon as practical, install a service window and counter, and keep the door locked at all times. Consider installing a surveillance camera.

Reduce the number of trips Treasury management has to make from their desk to the Counting Room. Consider enlarging or moving the Counting Room so the Treasury Manager can move his desk into the Counting Room, or closer to the Counting Room. Alternatively, consider use of a drop safe to reduce the number of trips the Treasury Manager has to make to the counting room.

Response From Finance

We agree with the finding and recommendation.

We agree with the finding. The Director of Finance, the Deputy Director, and the Acting Treasury Manager are cognizant of the Counting Room location, design, and policies and practices, and agree that improvements can be made to further safeguard deposits being made. The Counting Room door is kept closed and locked when unattended. Under no circumstances is cash left out in the room unattended. Finance agrees that by way of a memo from the Finance Department and by posting signage in the Counting Room, depositors will be notified they must stay in the Counting Room until they verify their deposit has been locked in the safe. The memo from Finance and signage notifying depositors to stay in the room until cash is locked up will be completed no later than October 31, 2002.

Prior to this audit, the Finance Department was reviewing options for improving the Counting Room. These improvements may include acquiring a drop safe, replacing the existing wood door with a glass door, installing a service counter or acquiring office furniture suitable for a Counting Room. Finance is also exploring whether or not a surveillance camera or digital keypad access door can be installed. Any improvements to the Counting Room and or the acquisition of a new safe are expected to be complete by October 31, 2002.

Finding 11: No Procedures For Disposition Of Old Signature Plates, Expired Credit Cards, Damaged Coins

Locked in a large combination safe are:

- An envelope with expired credit cards
- Many old signature stamps (For signing checks)
- Approximately seven canvas bags filled with foreign coins, damaged coins, and slugs from parking meters.

It appears that these items are in the vault because Finance does not have a procedure for their proper disposition. Such a procedure was not included in Treasury's written policies and procedures. Proper and timely disposition of these types of items on an ongoing basis is important to protect the City from their unauthorized or unintended use.

During the course of the audit, the Acting Treasury Manager reported that the credit cards had been destroyed at the direction of the Director of Finance.

Recommendation For Finance

11. Develop and implement written policies and procedures which address the timely and proper disposition of items such as signature plates, credit cards, and damaged and foreign coins.

Response From Finance

We partially agree with the finding and recommendation; the recommendation has been partially implemented and will be fully implemented by October 31, 2002.

We partially agree with the finding. In 1998, the Finance Department stopped manually counting coins from the City's parking meters. At that time, Brinks Armored Car Services began picking up, counting, and processing the coins from the City's meters. These coins are counted at the Brinks Currency Center and Brinks discards any foreign or damaged coins. At that same time, the Treasury Division no longer had the opportunity to acquire any damaged or foreign

coin; therefore implementing written policies, which address the timely and proper disposition of such items, is not a part of the Treasury operations.

The Treasury no longer acts as the custodian of gasoline credit cards although the function is still in Finance, in the Purchasing Division. The Purchasing Division will complete written procedures for disposition of expired credit cards by October 31, 2002.

Treasury Staff destroyed old signatures plates on July 23, 2002, and written procedures for destroying name plates have been reviewed by the Director of Finance and Deputy Director, and incorporated in the Treasury Procedures Manual on July 23, 2002 (see attached).

V. CONCLUSION

Treasury is a small unit in Finance, with only four staff, who are under a lot of pressure to provide the City with the daily services that it offers. Primarily, Treasury is responsible for the accurate and timely entering of most of the City's cash and cash equivalents (checks, credit cards, etc.) into the City's automated accounting system, and for safeguarding cash and cash equivalents until they are picked up by an armored car service.

The small size of the Treasury, and the pressure to provide service, can make it difficult for management to adequately segregate duties, review and approve work, and complete work in a timely manner. When Treasury is not fully staffed, or when there is an abnormally high volume of work, it becomes even more difficult. Decisions made to get the job done, such as reassigning work to another employee, can cause problems. For example, the Treasury Manager sometimes ends up doing some of the work, compromising his ability to later perform an independent review and approval of the work. In addition, any compromise of internal controls, such as segregation of duties and documentation of supervisory review, may increase the risk of unauthorized use of City funds, and the inability to ascertain responsibility.

The audit identified concerns pertaining to written policies and procedures, review of work, Counting Room security, Treasury Petty Cash Fund practices and procedures, Treasury Taxiscip Fund practices and procedures, excessive / unnecessary access to FUNDS\$, recounting of cash, untimely deposit of Business License payments, and improper use of the shortage/overage account.

The Finance Department was pro-active during the audit, implementing some of the audit recommendations before the report was issued, and considering and discussing the possible implementation of others. We commend them on their efforts and thank them for their courtesy and cooperation during the audit.

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