

Cash Count Audit

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April 16, 2013 Report 201303

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Authorization

We have conducted an audit of Cash Counts. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

Objective

The objective of the cash count audit is to determine if the City's cash funds are in compliance with the City of Garland's Financial Policies and Procedures and City Directives.

Scope and Methodology

We conducted this compliance audit in accordance with Generally Accepted Government Auditing Standards. Those standards 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.

This year's scope is to perform cash counts on one-third of the petty cash (PC); change drawer funds (CDF) and coin and bill accepters (CBA's) located in the City of Garland. All accounts were counted in FY 2012. Subsequent discussions with the Audit Committee concluded Internal Audit would perform one-third of the City's cash funds every year. (See Exhibit A for sampling methodology)

To adequately address the audit objectives and to describe the scope of our work on internal controls, we:

- Reviewed the City's:
 - Accounting Cash Handling Procedures Directive # 1
 - Accounting Prohibited Expenditures Directive # 9
 - Accounting Petty Cash Directive # 11
 - Standard Operating Procedure (SOP) 1124-011
- Conducted surprise counts of petty cash, change funds and coin and bill accepters
- Reconciled the balance for funds per Accounting to Internal Audit's count
- Observed funds were secured
- Inquired if Petty Cash Custodians had reviewed Policy and Procedures
- Verified overages/shortages were recorded
- Inquired if each Petty Cash replenishment check was issued only to the Petty Cash Custodian
- Verified if a Petty Cash Reimbursement Log was maintained

- Inquired if the Petty Cash Custodian is the only person with access to the funds
- Reviewed for the following:
 - Pre-numbered vouchers
 - Original itemized receipts
 - Management approval on documentation
 - Prohibited expenditures
 - Receipts did not exceed the \$75 limit per transaction
 - Split reimbursements
 - Advances
- Observed to verify if:
 - Change funds were secure
 - Change fund checks in the drawer were endorsed and deposited daily
 - CBA's funds were secured and deposited daily

Any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed are stated in the Opportunities for Improvement section starting on page 4.

Overall Conclusion

The 45 cash drawers counted had no significant overages/shortages. All 7 Petty Cash accounts reviewed were in balance and the 4 Coin and Bill Accepters reviewed were in working order with no issues noted. However, two weaknesses were identified:

- 1. Petty Cash Policy and Procedures have not been updated since 2000.
- 2. One department did not endorse and deposit funds in a timely manner.

Background

Petty Cash

The current Petty Cash Directive, which allows departments to reimburse employees for expenses of \$75 or less, was issued on September 18, 2000. The Accounting Department is responsible for setting up the petty cash for departments, how much money is issued, and maintaining a current list of petty cash custodians for each department.

When an employee makes a purchase of \$75 or less, the employee can get reimbursed through their department's or Financial Service's petty cash funds. The employee is responsible for submitting an original itemized receipt before reimbursement can be made.

Per Accounting Directive #1, Cash Handling Procedures; Accounting Directive #11, Petty Cash, and Standard Operating Procedure #1124-011, petty cash custodians are responsible for obtaining original receipts from employees and issuing a receipt with the employee's name, account number and a brief description of the reimbursement. At the end of the month, the petty cash custodian is required to reconcile their petty cash, submit all receipts with vouchers to the Financial Services Department and process a request for a check so they can replenish their petty cash.

In FY2012, there was a total balance of \$12,400 in Petty Cash funds.

Change Drawer Funds

Various departments throughout the City take in monies for fees and services provided such as permits, inspections, utility payments, registration fees, admissions, etc. The change drawer funds are used to make change readily available for those customers paying for fees and services. Departments are responsible for reconciling their monies and for preparing cash reports. Most departments take their deposits to the Accounting office to be picked up by Loomis Armored car service. A total of 13 department change funds were reviewed and counted for this audit.

In FY2012, there was a total balance of \$17,903.04 issued by Finance in change funds.

Coin and Bill Accepters (CBA's)

There are four library branches, South, North, Central and Walnut Creek located throughout the City that operate a total of 11 CBA's. Patrons pay \$.15 for online Internet printing using printers designated for that purpose and pay for the use of photocopy machines. The printers and photocopiers are equipped with coin boxes to accept payment and the revenue is deposited into two separate revenue accounts. The CBA's have their own replenishment system tubes that are automatically replenished within the box. The tubes contain a maximum of \$20 in quarters, \$3.65 in nickels, and \$10.60 in dimes, for a total of \$34.25 for each CBA. The CBA's accept coins and bills up to \$5. As customers deposit coins into the machines, the tubes are automatically refilled. The coin overflow from the replenishment tubes and the bills are collected, counted and deposited. The CBA's revenue for the Central library is deposited on a daily basis.

The amounts that were used to start-up and maintain the change in the bill changers is \$376.75 in total for all 11 accounts. Four CBA's were reviewed for this audit which totaled \$137.

In FY2012, there was a total of \$24,878.46 collected in internet/printer revenue and \$9,323.51 in copier revenue.

Opportunities for Improvement

During our audit we identified certain areas for improvement. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the Opportunities for Improvement section presented in this report may not be all-inclusive of areas where improvement might be needed.

Finding # 1

Condition (The way it is)

Directives and SOP's addressing Petty Cash and cash drawers have not been updated since 2000. The prior two audits, numbered 201102 dated November 2011 and 0716 dated August 2006, recommended updates. Audit #0716 recommended Finance Directive #1, Cash Handling Procedures be updated. Audit #201102, recommended Finance Directive #1, Cash Handling Procedures; Finance Directive #11, Petty Cash; and Finance Petty Cash Standard Operating Procedure (SOP) #1124-011 be updated.

Due to Directives and policies not being updated, we noted the following weaknesses while auditing petty cash:

- Directives and SOP's for Petty Cash had not been reviewed by one of seven Petty Cash Custodians interviewed. A documented accountability for Petty Cash Custodians has not been established.
- There were instances in which multiple Petty Cash personnel have access to Petty Cash.
- Vouchers are not always pre-numbered.
- Reimbursements did not always have an approval.
- Split purchases were made to stay within the \$75 limit.

Criteria (The way it should be)

Updated formalized comprehensive Directives and Standard Operating Procedures (SOP's) to guide decisions and achieve rational outcomes should be written to assist in objective decision making. They should be operational in nature and can be objectively tested.

Effect (So what?)

- Accountability and responsibility have not been established.
- Vouchers which are not pre-numbered may allow improprieties.
- Reimbursements without an immediate supervisor approval could allow improprieties, especially in areas which make reimbursements for various departments. The Petty Cash Custodians have no way of knowing if reimbursements are appropriate without approval.
- Split purchases circumvent the \$75 limit on single transactions.

Cause (Difference between condition & criteria)

Management has not implemented past recommendations.

Recommendation

Update and put into practice Directives and SOP's governing the City's cash funds.

Management Response

Financial Services concurs with the recommendations. Finance Directive #1, Cash Handling Procedures, Finance Directive #11, Petty Cash and the Finance Petty Cash Standard Operating Procedure (SOP) #1124-011 will be updated.

Action Plan

Financial Services staff will modify each document and will forward the revised documents to the City Manager for approval.

Implementation Date

March 15, 2013

Finding # 2

Condition (The way it is)

A surprise change fund count was performed on 34 change drawers. One out of 34 (3%) did not have checks endorsed and they additionally had not been deposited daily. The checks had been held as long as two weeks at our review and totaled \$2.636.85.

Criteria (The way it should be)

Accounting Directive 1, Cash Handling Procedures 1.3 states, "Each day's receipts will be deposited intact no later than the following business day."

Accounting Directive 1, Cash Handling Procedures 1.5 states, "Upon receipt, all checks shall be properly endorsed, "City of Garland, Bank One Texas NA, Dallas, TX, for deposit only, XXXX (name) Department".

Effect (So what?)

Fraud could take place when checks are not immediately endorsed with the City of Garland's name and deposited daily.

Cause (Difference between condition & criteria)

The cash drawer custodian had failed to endorse the checks and make the deposit.

Recommendation

All checks must be immediately endorsed and deposited daily.

Management Response

Concur

Action Plan

Checks will be endorsed immediately upon receipt and will be deposited no later than the following business day.

Implementation Date

Immediately

EXHIBIT A

Sampling Methodology

We utilized the Google Maps website at maps.google.com to create a map showing all account locations throughout the City. A cluster of 45 cash accounts in one area was selected to keep travel to a minimum. The 45 accounts consisted of:

- 7 Petty Cash accounts
- 34 change drawer funds
- 4 coin and bill acceptors