



REPORT TO COUNCIL City of Sacramento

915 I Street, Sacramento, CA 95814-2604
www. CityofSacramento.org

Staff Report
April 3, 2007

Honorable Mayor and
Members of the City Council

Title: Presentation of the internal audit report, *The Revenue Division's Cash Controls*

Location/Council District: City-wide

Recommendation: Receive and file the *Revenue Division's Cash Controls* internal audit report. Additionally, the Finance and Parks and Recreation Departments will report back to the Mayor/City Council within six months regarding the status of implementing audit recommendations.

Contact: Martin Kolkin, City Auditor, 808-5704

Presenters: Martin Kolkin

Department: City Manager's Office

Division: Internal Audit

Organization No: 0310

Description/Analysis

Issue: The attached internal audit report, *The Revenue Division's Cash Controls*, highlights areas for improving management oversight and cash controls.

It is my opinion that:

- 1) The Revenue Division has a fundamentally sound system of cash controls. However, opportunities exist to strengthen and add internal controls, implement best practices, automate manual processes, and re-examine outdated business practices; and
- 2) The Parks and Recreation Department's cash handling controls and the financial managerial oversight structure requires significant improvement to correct design and operational deficiencies.

Representatives of the Parks and Recreation Department took immediate action to increase cash controls and hired the Macias Consulting Group to assist in revising the financial oversight structure and to further improve internal cash controls.

The audit lists two categories of finding with ten recommendations for improvements. Management action has been taken on all recommendations; refer to the *Executive Summary* on page 7.

Due to the serious nature of the control weaknesses in the Parks and Recreation Department, the City Auditor recommends a follow-up cash controls audit.

Policy Considerations: The City Auditor's presentation of the *Revenue Division's Cash Controls* internal audit is consistent with the City's core values of fiscal responsibility and accountability.

Environmental Considerations: The audit report do not constitute a project subject to the provisions of the California Environmental Quality Act (CEQA) under the general rule (Section 15061 (b) (3)) that CEQA applies only to projects that have the potential for causing a significant effect on the environment.

Rationale for Recommendation: *The Revenue Division's Cash Controls* audit report, issued by the City Auditor, highlights areas for improving management oversight and cash controls. The report was discussed in detail with both the Finance and Parks and Recreation Departments. The City Auditor recommends that as the final step of the process, within six months, the Finance and Parks and Recreation Departments report back to the Mayor/City Council regarding the status of implementing the audit recommendations.

Financial Considerations: No additional financial considerations

Emerging Small Business Development (ESBD): No goods or services are being purchased as a result of this agreement.

Respectfully Submitted by: 
Martin Kolkin
City Auditor

Recommendation Approved:

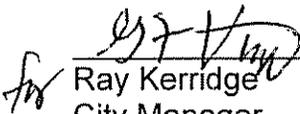

Ray Kerridge
City Manager

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Attachment 1

Background: In accordance with the approved Audit Workplan for calendar year 2007, the City Auditor completed a limited scope examination of the Revenue Division's cash control activities, which included a review of petty cash.

The purpose of this audit was to evaluate the Revenue Division's cash control activities and assess the adequacy of the Parks and Recreation Department's cash control activities.

Additionally, the Internal Audit Division's long-term goal is to perform a cash review for all areas of the City that collect cash. The Revenue Division was selected for initial audit examination due to the centralized cash collection nature of the division. Audits of other municipal cash collections will be performed in the future.

Attachment 2



OFFICE OF THE
CITY MANAGER

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CALIFORNIA

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March 20, 2007

Honorable Mayor, City Council Members, and City Manager:

The Sacramento City Auditor has completed a limited scope audit of the Revenue Division and the Parks and Recreation Department's cash controls. This examination was conducted in accordance with the City Council's core values and guiding principles of fiscal responsibility and accountability, as well as applicable standards contained in Government Auditing Standards, issue by the Comptroller General of the United States, with the exception of a peer review.

This report provides the Mayor, City Council, and the City Manager with an objective evaluation of the Revenue Division's cash control activities and an assessment of the adequacy of the Parks and Recreation Department's cash control activities.

In my opinion:

- The Revenue Division's cash handling and collection process is a dependable system of internal cash controls that relies heavily on manual controls. However, numerous opportunities exist for strengthening controls, implementing best practices, automating manual processes, and re-examining existing businesses practices; and
- The Parks and Recreation's Department's cash handling controls and financial managerial oversight structure requires significant improvement to correct design and operational deficiencies. The Parks and Recreation Department obtained a consultant and made significant progress in identifying and correcting these deficiencies.

No instances of internal theft, fraud, or illegal activity were discovered during the course of our review of the Revenue Division. A theft discovered by the Parks and Recreation Department was fully examined by Parks and Recreation staff and turned over to the Police Department. Audit conclusions were discussed in detail with the City's Finance Director, the Director of Parks and Recreation, and the Revenue Manager. The written responses to this report are included in the Appendix. I appreciate the courtesy, cooperation, and professionalism of the Finance and Parks and Recreation Departments.

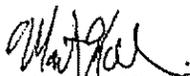

Martin J. Kolkin
City Auditor

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Report Number 2007-01

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Executive Summary
The Revenue Division's Cash Controls
Recommendations Table
Report Number 2007-01

The City Auditor reached the following conclusions regarding cash controls for the City's Revenue Division and the Parks and Recreation Department:

- 1) The Revenue Division's cash handling and collection process is a dependable system of internal cash controls that relies heavily on manual controls. However, numerous opportunities exist for strengthening controls, implementing best practices, automating manual processes, and re-examining existing businesses practices; and
- 2) The Parks and Recreation Department's cash handling controls and the financial managerial oversight structure requires significant improvement to correct design and operational deficiencies. Representatives of the Parks and Recreation Department took immediate action to increase cash controls and hired the Macias Consulting Group to assist in revising the financial oversight structure and to further improve internal cash controls.

City Auditor's Recommendations	Action Taken by Management	Estimated Completion Date
1. Improvements to the Revenue Division's Cash Collection and Handling, including:	Action taken is noted by each recommendation	Completion dates noted below:
1A. Increase Accountability for cash and credit receipts:	Action taken is noted by each recommendation	Completion dates noted below:
1A-1. Require that: <ul style="list-style-type: none"> a Cashiers close out cash drawers nightly; b Only one cashier can use a single cash drawer per shift; c Cash is counted in dual custody; and d The use of signatory transmittals for all custody exchange of cash (refer to pg 3). 	The Revenue Manager concurred	<ul style="list-style-type: none"> a. Completed b. Completed c. July 31, 2007 d. July 31, 2007

City Auditor's Recommendations	Action Taken by Management	Estimated Completion Date
<p>1A-2 Perform daily reconciliations of:</p> <ul style="list-style-type: none"> • The cash and credit receipts & the bank deposits; and • The bank deposits & the general ledger entries <p>Establish separation of duties between the cashiering function, the bank deposit preparation, and the reconciliation of cash and credit receipts and bank deposits (refer to pg 4)</p>	<p>The Revenue Manager stated that the Finance Department, the Revenue and Accounting Divisions, will develop a process of daily bank and general ledger reconciliations. He further stated that implementation of the City's new financial system would include a function to automate these daily reconciliation processes.</p> <p>The Revenue Manager also concurred with the establishment of separation of duties. However, he noted that his division will face compliance challenges given its existing resources</p>	<p>May 31, 2007 Process Development</p> <p>July 31, 2007 Implementation</p> <p>January 31, 2008 ECAPS Automation</p> <p>July 31, 2007</p>
<p>1A-3 Update policies and procedures for lockbox keys, periodically change locks on vaults and lockboxes, maintain cash in secure area at all times, and require annual cash handling training (refer to pg. 5)</p>	<p>The Revenue Manager concurred. However, he expressed some concerns about potential impacts to customer service with the implementation of additional internal control processes, such as lockbox key custody assignments</p>	<p>July 2007 Process Development</p> <p>January 31, 2008 Implementation</p>
<p>1A-4 Replace manual process with electronic spreadsheets, system databases, and other technological advances to increase productivity (refer to pg. 6)</p>	<p>The Revenue Manager concurred. He noted that numerous changes related to increased use of technology are now in process</p>	<p>May 31, 2007</p>
<p>1B. Petty Cash Internal Control Improvements:</p>	<p>Action taken is noted by each recommendation</p>	<p>Completion dates noted below:</p>
<p>1B-1 Define purpose and uses of petty cash (refer to pg. 6)</p>	<p>The Finance Director agreed to work with the City Manager's office and review the API governing petty cash.</p>	<p>May 31, 2007</p>

<p>1B-2 Establish operating practices that significantly restrict the usage of petty cash to small and nonrecurring expenses, specifically not for the reimbursement of normal and reoccurring operating expenditures, such as monthly bus pass or food for meetings expenditures (refer to pg 7).</p>	<p>The Finance Director agreed to work with the City Manager's office and review the API governing petty cash</p>	<p>May 31, 2007</p>
<p>1B-3 Stop providing employee check cashing services and advances of petty cash (refer to pg 9).</p>	<p>The Finance Director agreed to review this practice</p>	<p>Complete a practice review by May 31, 2007</p>
<p>1B-4 Other Petty Cash Concerns:</p> <ul style="list-style-type: none"> a Obtain approval, as required for petty vouchers in excess of \$100 (refer to pg 10); b Do not reimburse petty cash requests in which an individual approves a transaction and requests or receives reimbursement for that same transaction (refer to pg 10); and c Do not reimburse petty cash request without sufficient documentation. A credit card receipt alone, without invoice or receipt detail, is not sufficient documentation (refer to pg 10) 	<ul style="list-style-type: none"> a. The Revenue Manager concurred. However, he stated that until a new method for transit reimbursement is developed, the Revenue Division will accept petty cash reimbursements over \$100 to comply with the negotiated transit reimbursements within labor agreements b The Revenue Manager concurred. c. The Revenue Manager concurred, but emphasized the need for training and outreach to departments 	<ul style="list-style-type: none"> a. March 31, 2007 b. April 30, 2007 c. July 31, 2007
<p>1C Update Written Procedures in Division's <i>Cash Handling Manual</i> for:</p> <ul style="list-style-type: none"> • Internal Controls • Cash Shortages and Overages • Counterfeit Money <p>(refer to pg 11)</p>	<p>The Revenue Manager concurred</p>	<p>October 31, 2007</p>

<p>2. The Parks and Recreation Department needs to continue improving both the design and operation of departmental cash controls (refer to pg 11).</p> <p>Due to the serious nature of this control weakness, a follow-up audit is recommended.</p>	<p>Representatives from the Parks and Recreation Department noted that immediate action had been taken to improve cash controls. Additionally, the services of Macias Consulting Group had been obtained to provide recommendations for improving financial oversight and internal cash controls</p>	<p>Completed Comprehensive training sessions on cash reconciliations, receipt procedures, deposit preparation.</p> <p>March 31, 2007 Consultant's study and recommendations to be completed.</p> <p>March 31, 2007 "CLASS" Reservation System to be installed at additional community centers.</p> <p>April 30, 2007 Automate credit card processes and increase security and reporting of information</p> <p>May 31, 2007 Establish timeframes, costs and deliverables to implement recommendations from the consultant's study including policies, procedures, systems, personnel, equipment</p> <p>January 31, 2008 Implement and test recommendations to improve cash controls and handling procedures</p> <p>January 31, 2008 Identify funding needs to continue system, staffing and equipment improvements including additional modules of the "CLASS" registration software.</p> <p>February 28, 2008 Measure and test departmental cash handling systems and procedures.</p>
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Preliminary Section

The Revenue Division's Cash Controls

Report Number 2007-01

INTRODUCTION

In accordance with the approved Audit Workplan for calendar year 2007, the City Auditor completed a limited scope examination of the Revenue Division's cash control activities, which included a review of petty cash.

At the request of the Department Director of Parks and Recreation, the scope of the audit was expanded to include an assessment of departmental controls over cash handling.

This examination was conducted in accordance with the City Council's core values and guiding principles of fiscal responsibility and accountability, as well as applicable standards contained in Government Auditing Standards, issued by the Comptroller General of the United States, with the exception of a peer review.

OBJECTIVES

This report provides the Mayor, City Council, and the City Manager with an objective evaluation of the Revenue Division's cash control activities and an assessment of the adequacy of the Parks and Recreation Department's cash controls activities.

Control Activities Defined

Control activities are the policies and procedures that help ensure that management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's control objectives¹.

Additionally, the City Auditor's long-term goal is to perform a cash review for all areas of the City that collect cash. The Revenue Division was selected for initial examination due to the centralized cash collection nature of the division. Audits of other municipal cash collections will be performed in the future.

AUDIT SCOPE

The internal audit report is intended for the information and use of the Mayor, City Council, City Manager, and City Management.

¹ Codification of Statements on Auditing Standards, AU Section, 3 19 41

Revenue Division

The audit included, but was not limited to the following:

- Physical observations of operations, practices, procedures, and internal controls;
- Reviews of manuals, handbooks, policies, procedures, and practices;
- Analytical examinations of financial data;
- Testing, examination, and verification of general ledger revenue receipts;
- Examination and verification of petty cash disbursements. The month of June 2006 was selected for testing. A universe of 264 petty cash disbursements, totaling \$10,147, occurred during June 2006. A sample of 72 transactions or approximately 27% of the universe was selected, totaling \$4,289, by using a 95% confidence level and 10% confidence interval;
- Review of Labor Agreements; and
- Interviews and discussions with personnel from the Revenue Division, Human Resources Department, the Accounting Division, the Parks and Recreation Department, and the City Manager's Office.

Parks and Recreation Department

The Director of Parks and Recreation requested an assessment of departmental internal controls over cash handling following the discovery of thefts during fiscals 2005 and 2006, with an estimated loss of approximately \$15 thousand.

The City Auditor sampled cash handling controls at the Natomas Service Center, Clunie Community Center, the Pannell Meadowview Community Center, and the Coloma Community Center in order to assess the adequacy of cash controls.

Additionally, the City Auditor reviewed the methodology and reasonability of the Parks and Recreation Department's estimate of cash losses.

CITYWIDE RAMIFICATIONS

Although this audit report focused upon the Revenue Division and the Parks and Recreation Department, conclusions regarding cash handling have relevance for all municipal departments that collect cash.

Conclusions
The Revenue Division's Cash Controls
Report Number 2007-01

The City Auditor reached the following conclusions regarding cash controls for the City's Revenue Division and the Parks and Recreation Department:

- 1) The Revenue Division has a fundamentally sound system of cash controls. However, opportunities exist to strengthen and add controls, implement best practices, automate manual processes, and re-examine existing business practices; and
- 2) The Parks and Recreation Department's cash handling controls and financial management structure require significant improvement to correct design and operational deficiencies.

The City Auditor noted that representatives of the Parks and Recreation Department took immediate action to increase cash controls and hired the Macias Consulting Group. The consulting group was hired to provide recommendations for revising the financial oversight structure and recommending improvements to cash controls. As previously noted in the scope section of this report, the assessment of cash controls was performed at the request of the Department Director.

1. REVENUE DIVISION'S CASH COLLECTION AND HANDLING

The City Auditor determined that the Revenue Division's cash handling and collection process is a dependable system of internal controls that relies heavily on manual controls. The following opportunities for strengthening controls, implementing best practices, automating manual processes, and re-examining existing businesses practices were noted:

1A. Increase Fixed Accountability for Cash and Credit Receipts

Fixed accountability establishes specific responsibility for cash and credit receipts at every stage of the collection, recording, and depositing process. Individuals cannot be held accountable when a clear path of responsibility has not been established and communicated.

1A-1. Cash and Credit Card Activity Not Closed on a Daily Basis

Best practices dictate that all cash and credit collection activities are closed on a daily basis, cash is counted under dual custody at the end of each cashier's shift, and cash custody is transferred using transmittal documentation. These practices immediately identify errors and irregularities, while fixing responsibility for cash and credit receipts at all times.

The Revenue Division's practice is to have the cashiers count their cash and close their cash drawer the next business day, since most cashiers' shifts ended at 5 pm. A cash drawer also remained open through the next business day to record the previous business day's "drop box" receipts. In addition, sharing of cash drawers was observed. Also, transmittal documents were not used during custody transfers of cash.

1A-1. Recommendation

The City Auditor recommends that the Revenue Manager or his representatives require that all business activity to be closed out by each cashier on a daily basis, permit only one cashier per cash drawer, count cash under dual custody at the end of each shift, and obtain transmittal documentation when cash custody is transferred.

1A-1. Status of Corrective Action

The Revenue Manager stated that his division would take the necessary action to implement this recommendation, including ensuring that cashiers no longer share a cash drawer. He added that operational hours and processes would be changed to facilitate the daily close out of business transactions. However, the Revenue Manager noted that numerous operational, scheduling, and managerial oversight obstacles would need to be overcome in order to fully implement this recommendation.

1A-2. Reconciliations

1A-2a. Daily Receipts, Bank Deposits, and the General Ledger are Not Reconciled by the Revenue Division

The daily reconciliation of cash and credit cards receipts to bank deposits provides a fundamental control that validates that all receipts are deposited on a daily basis. Divisional verification of the deposit in the general ledger ensures that revenue information is recorded correctly in the City's financial system by the responsible division. Also, an appropriate separation of duties within the reconciliation processes² ensures an independent verification of these basic controls.

Revenue Division personnel do not reconcile the daily receipts of cash and credit card receipts with bank deposits and the daily revenues are not verified to the general ledger. Instead, the Revenue Divisional staff relied on the Accounting Division's monthly reconciliation of cash, performed on a citywide basis. However, an error or irregularity made on during the month might not be discovered for as long as eight weeks because of the lag time in performing the citywide monthly cash reconciliation. Additionally, the Accounting Division's reconciliation does not match deposits with the cash receipts documents held by the Revenue Division, a key internal control element of the reconciliation process.

² The reconciliation must be performed by an individual independent of the collection and the deposit process.

1A-2b. Inadequate Separation of Duties for the Daily Cash Counts and Receipt Reconciliation

Separation of duties is the managerial control of assigning different people the responsibilities for authorizing transactions and then recording the results of those transactions. This control reduces the opportunity of any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of an individual's duties.

The daily receipts are counted and reconciled to the cash receipts reports by the same individual, a "Balancer". Since the Balancer counts the cash and compares the results to the daily cash receipts report, the individual is in a position to commit and conceal errors or irregularities while exercising normal job duties. As previously noted, the daily cash receipts report and the daily bank deposit were not reconciled. Additionally, responsibility for cash was not fixed between the cashier and the Balancer. As a result, employees cannot adequately protect themselves against false accusations of errors or theft.

1A-2. Recommendation

The City Auditor recommends that the Revenue Manager or his representatives perform daily reconciliations of cash and credit card receipts to the bank deposits records and that the daily revenues be verified to the City's financial system. Access to bank records could be obtained on a read only basis over the internet.

The City Auditor also recommends that the Revenue Manager or his representatives establish a clear separation of duties between the cashiers, the individual preparing the bank deposit, and the individual performing the reconciliation process of the daily cash receipts reports and the bank deposits.

1A-2. Status of Corrective Action

The Revenue Manager stated that a new function would be created in order to provide adequate separation of duties for the daily bank deposits. The Revenue Manager added that a process to reconcile the daily cash and credit receipts to the bank deposit is under development. He also noted that the City Treasurer's Office is assisting with online access to the bank account.

1A-3. Increase Safeguards Over Cash

The City Auditor noted numerous areas where safeguards over the physical security of cash can be increased, including

- Updating divisional policies and procedures for lockbox keys;
- Limiting access to lockboxes, particularly during non-business hours;
- Periodically changing of locks on the vaults and lockboxes;
- Maintaining cash in secure area at all times; and
- Requiring employees to attend annual cash handling training.

1A-3. Recommendation

The City Auditor recommends that the Revenue Manager or his representatives update divisional policies and practices over lockbox keys, limit access to lockboxes, periodically change locks on vaults and lockboxes, maintain cash in a secure area at all times, and require annual cash handling training.

1A-3. Status of Corrective Action

The Revenue Manager concurred.

1A-4. Greater Use of Technology to Increase Productivity

The City Auditor noted extensive use of manual systems for balancing, documenting, filing, and tracking purposes by Revenue Divisional staff. Manual systems lack the efficiency of electronic processing and increase the risk of keying or transposition errors.

1A-4. Recommendation

The City Auditor recommends that the Revenue Manager or his representatives use electronic spreadsheets, system database information, and other technological advances to increase productivity.

1A-4. Status of Corrective Action

The Revenue Manager concurred. He stated that numerous changes related to the increased use of technology are being implemented and are expected to increase productivity. The Revenue Manager stated that the new financial system is expected to replace most of his division's manual processes, but changes would be made immediately to increase efficiency.

1B. Petty Cash Review

Traditionally petty cash funds pay for small and incidental expenditures for which the issuance of a formal check would be either too costly or time consuming.

By design, petty cash reimbursements bypass the normal system of managerial controls. The risks presented by decreased scrutiny of these expenditures are intended to be offset by a greater increase in operational efficiency. It is critical to note that although small dollar purchases, petty cash expenditures present a greater risk of misuse or abuse due to the decreased level of scrutiny.

1B-1. Purpose and Usages of Petty Cash Not Defined in the City's Administrative Policy Instructions ("APIs")

A clearly defined petty cash definition establishes the acceptable usage of petty cash expenditures. Best practices commonly dictate that petty cash pay for small disbursements of an unpredictable nature in which a conventional payment request would not be cost effective, specifically excluding normal or reoccurring operating expenses.

The API governing petty cash reimbursements, API 2, *Petty Cash Funds*, does not define or establish the specific purpose of petty cash. The API also does not prohibit reimbursements for normal and reoccurring operating expenses, such as monthly bus passes, food purchases for meetings and negotiations, and travel expenditures.

The audit sample determined that approximately 70% of the items examined were normal or reoccurring operating expenses, which do not fit the best practices for petty cash.

**Categories of the
Sample of Petty Cash
Reimbursements for June 2006**

Reimbursement Description	\$	Percentage
Food for Meetings/Negotiations	\$1,543	36%
Employee Bus Passes	1,443	34%
Miscellaneous	1,303	30%
Total Petty Cash Sample	\$4,289	100%

As previously noted, petty cash reimbursements present a greater risk of misuse and abuse due to normal internal controls being lifted in the interest of increased operation efficiency. However, most operational expenditures are required to use the City's established payment systems. The City's debit card, accounts payable, and payroll system have long established internal controls to protect the City's interests and to reduce the risk of misuse and abuse.

1B-1. Recommendation

The City Auditor recommends that the Finance Director work with the City Manager's Office to revise the City's APIs governing Petty Cash Funds, including establishing the purpose of petty cash and type of expenses eligible for reimbursements. The City Auditor additionally notes that the City's debit cards, accounts payable system, and payroll system are well suited for normal payment of reoccurring operational expenditures.

1B-1. Status of Corrective Action

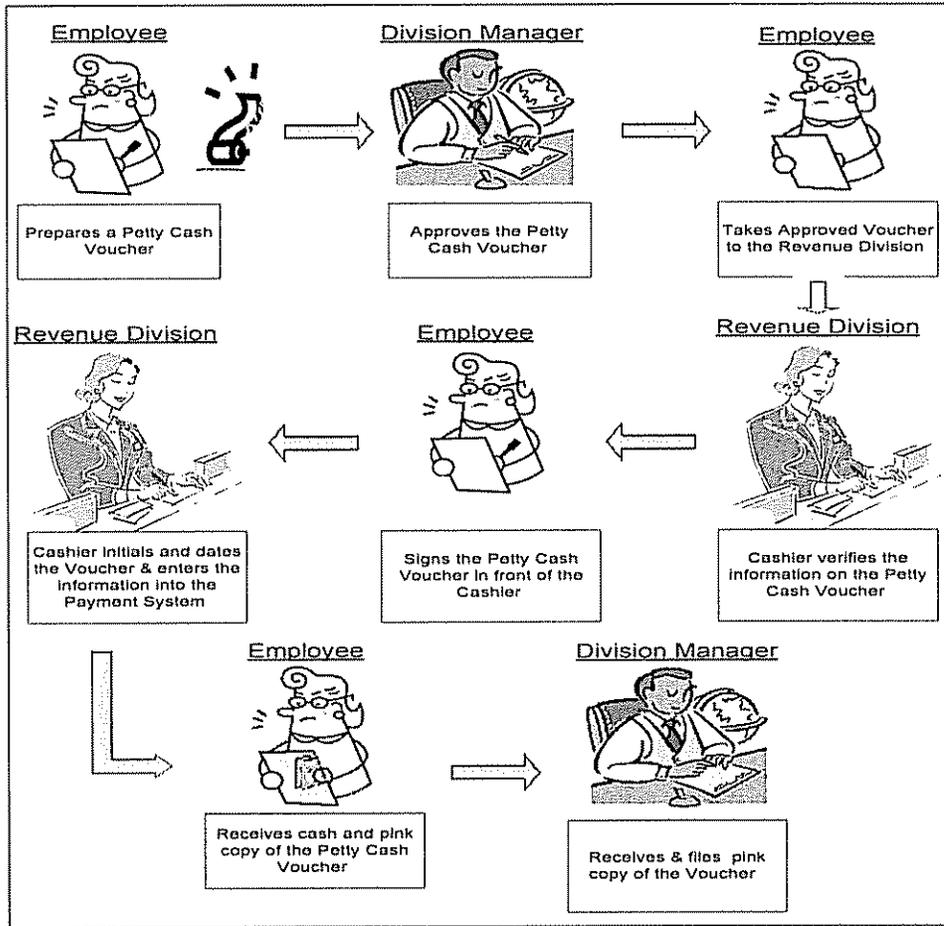
The Finance Director noted that his Department is currently working on major revisions to the City's APIs. The Finance Director agreed to work with City Manager's Office to include within these revisions an updated petty cash policy addressing the purpose and use of petty cash.

1B-2. Labor Intensive Process for Petty Cash Reimbursements

The City's petty cash reimbursement process involves a highly labor intensive process in order to provide employees with rapid expenditure reimbursement.

The Revenue Division's petty cash reimbursement process is not inherently more cost-efficient than the City's debit card, accounts payable or payroll system (refer to the Flowchart of Petty Cash Process). The significant advantage of the City's petty cash reimbursement process is that employees are immediately reimbursed with cash rather than waiting for the issuance of a check.

Flowchart of Petty Cash Process



Source: Revenue Division Operating Practices

1B-2. Recommendation

Given the highly labor intensive process of petty cash reimbursements, the City Auditor recommends that the Finance Director or his representatives establish practices that significantly restrict the usage of petty cash to small and nonrecurring expenses, specifically not for the reimbursement of normal and reoccurring operating expenditures.

This recommendation includes revising longstanding practices of reimbursing employees for monthly bus passes or food provided at meetings, which are normal and reoccurring operating expenses.

1B-2. Status of Corrective Action

The Finance Director agreed to work with City Manager's Office to include within scheduled API revisions, an updated petty cash policy addressing the purpose and use of petty cash. Additionally, the Finance Manager agreed to reexamine existing processes for the reimbursement of monthly bus passes and payments for food provided at meetings.

1B-3. Discontinue Outdated Petty Cash Practices

The Revenue Division provides several employee services that are not in the best interest of the City.

1B-3a. Cashing of Employee's Personal Checks

The Revenue Division provided the service of cashing employee's checks.

This practice does not support the core functions of the Revenue Division and unnecessarily places the City at risk of nonpayment and provides opportunity for employee check cashing fraud. The City Auditor notes that the lobby of City Hall has an automated teller machine ("ATM") and numerous banks and credit unions, within a three block radius, available for cashing checks.

1B-3b. Cash Advances of Petty Cash

The Revenue Division allowed employees to receive cash advances, with supervisory authorization, prior to making petty cash purchases. Later, the employee would be required to return with a receipt of the actual expenditure and complete the transaction cycle by either receiving or paying any outstanding balance.

The intent of petty cash is to provide reimbursement, not advances of funds to employees. The Revenue Manager acknowledged the process frequently required contacting employees with cash advances to return with a receipt of the actual expenditure and complete the process by receiving or paying any outstanding balance.

1B-3. Recommendation

The City Auditor recommends that the Finance Director direct the Revenue Manager to discontinue the practices of cashing employee's personal checks and providing cash advances from petty cash.

1B-3. Status of Corrective Action

The Finance Director concurred.

1B-4. Other Petty Cash Concerns

1B-4a. Missing Approval for Petty Cash Vouchers in Excess of \$100 for Monthly Bus Passes

The audit sample noted 6 of 72 transactions, approximately 8% that were paid without obtaining the required prior approval for petty cash reimbursements in excess of \$100. All these 6 transactions were for monthly bus pass reimbursements.

API 2, Petty Cash Funds, Section 3.2, require prior approval in writing by either the Director of Finance or Accounting Manager or Revenue Manager, or their designees.

Monthly bus reimbursements are paid to eligible employees who utilize Sacramento Regional Transit District or other authorized public transportation. The Revenue Manager noted that the monthly reimbursement rate had been increased from \$100 to \$120 in the current labor agreements. The Revenue Manager also acknowledged that this reimbursement practice was not consistent with API 2.

1B-4b. Inadequate Separation of Duties for Approving and Receiving Petty Cash Reimbursements

As previously noted, separation of duties reduces the opportunity of any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of an individual's duties.

However, the audit sample noted 9 of 72 transactions, approximately 12.5%, in which an individual approved a transaction in which they requested or received reimbursement. The individuals in these transactions were in a position to both perpetrate and conceal errors or irregularities. Although the City Auditor did not locate problems within these transactions, inadequate internal controls existed to assure management that during the normal course of business those problems would be located.

1B-4c. Credit Card Receipts Provided Insufficient Documentation

Documentation provides the primary support for expenditures. A credit card receipt provides the total spent, not the details of a billing document or invoice. As a result, the credit card receipt alone does not provide sufficient documentation of expenditures.

However, the audit sample noted that 8 of 72 transactions, approximately 11%, in which credit card receipts were accepted as sufficient documentation.

1B-4. Recommendation

The City Auditor recommends that the Finance Director or his representatives:

- (a) apply the requirements of API 2 for prior approval of petty cash

reimbursements in excess of \$100; (b) not reimburse petty cash requests in which an individual approves a transaction in which he requests or receives reimbursement; and (c) do not accept credit card receipts in place of required documentation.

1B-4. Status of Corrective Action

The Finance Director concurred. He stated that the best vehicle to provide employees with monthly bus pass reimbursements would be determined.

1C. Update Written Procedures

The Revenue Division's *Cash Handling Manual* does not address internal controls, cash shortages and overages, and counterfeit money procedures.

1C. Recommendation

The City Auditor recommends that the Revenue Manager update his Division's *Cash Handling Manual* to include internal controls, cash shortages and overages, and counterfeit money procedures.

1C. Status of Corrective Action

The Revenue Manager concurred.

2. PARKS AND RECREATION DEPARTMENT'S CASH COLLECTION AND HANDLING

The Director of Parks and Recreation requested an assessment of departmental cash handling controls following the discovery of a series of thefts during fiscals 2005 and 2006, with an estimated loss of approximately \$15 thousand.

The City Auditor determined that the Parks and Recreation Department's design and operation of cash controls required significant and immediate improvement to correct design and operational deficiencies, including physical controls, separation of duties, information processing, and managerial oversight of controls. However, the City Auditor noted that the pilot test of the new electronic Parks and Recreation computer system, "CLASS Reservation System", used at the Coloma Community Center, demonstrated strong internal cash controls.

The Director of the Parks and Recreation Department took immediate action to increase cash controls and hired the Macias Consulting Group to provide recommendations for revising the financial oversight structure and significantly improving internal cash controls.

Additionally, Parks and Recreation staff's estimate of approximately \$15 thousand in theft appeared reasonable. Estimates were used because inadequate records were available to assess the actual losses.

The Parks and Recreation Department indicated that the following actions were planned or already taken to immediately increase cash controls:

- Completed comprehensive training sessions on daily cash reconciliations, cash receipts procedures, deposit preparation, and detailed training in policies and procedures;
- Retained Macias & Gini Consulting Group to perform comprehensive assessment of cash controls and handling procedures for fee based programs, expected results to be received by March 31, 2007;
- As of March 31, 2007, the Class Reservation System will be installed at the South Natomas, Pannell, and Belle Coolegge Community Centers;
- Completed the implementation of a deposit custody log;
- Completed fixing accountability for cash receipts;
- On an on-going basis, perform unscheduled auditing of program rosters to spot check enrollment of program participants;
- New program enrollment procedures;
- As of April 30, 2007, launch E-Business and online class registration, with credit card processing;
- As of May 31, 2007, establish timeframes, costs and deliverables to implement recommendations from the consultant's report, including policies, procedures, systems, personnel, equipment will occur;
- As of January 31, 2008, implement and test to improve cash controls and handling procedures;
- As of January 31, 2008, identify one time and ongoing funding needs to continue new systems, staffing and equipment improvements, including additional modules of the "CLASS" registration software; and
- As of February 28, 2008, measure and test departmental cash handling systems and procedures.

2. Recommendation

The City Auditor recommends that the Director of the Parks and Recreation take appropriate actions to increase internal cash controls, including examining the consultant's recommendations for structural and procedural changes.

Additionally, due to the serious nature of the control weaknesses, the City Auditor recommends a follow-up cash controls audit.

APPENDIX A
Finance Department's Response



FINANCE DEPARTMENT
REVENUE DIVISION

CITY OF SACRAMENTO
CALIFORNIA

CITY HALL
915 I STREET, ROOM 1201
SACRAMENTO, CA
95814-2686

REVENUE ADMINISTRATION
(916)808-5724

March 12, 2007

MEMORANDUM

TO: Marty Kolkin, Internal Audit Manager

FROM: Brad Wasson, Revenue Manager *BW*

SUBJECT: Response to Internal Audit of Revenue Division Cash Controls

Thank you for your review of the Revenue Division's cash controls in report number 2007-01 and the opportunity to comment upon your findings/ recommendations. Your team was very professional and came up with some important recommendations.

I was very pleased that you found our system accurate, free from fraud, and dependable. We are looking forward to improving cash controls and cash handling procedures consistent with your recommendations.

The Revenue Division is committed to quality customer service and continuous improvement in addition to solid cash controls. Our itemized responses in your report consider all these factors for implementation. Should we encounter major obstacles implementing a specific recommendation, we will notify your team.

Response Concurred by:

Russ Fehr
Director of Finance

APPENDIX B
Parks and Recreation Department's
Response



DEPARTMENT OF
PARKS AND RECREATION

CITY OF SACRAMENTO
CALIFORNIA

915 I STREET
FIFTH FLOOR
SACRAMENTO, CA
95814-2997

DIRECTOR'S OFFICE

PH (916) 808-8958
FX (916) 808-7643

March 9, 2007

MEMORANDUM

TO: Martin Kolkin, Internal Audit Manager

FROM: Cassandra Jennings,  Interim Director

RE: Response to City Auditor's Review of the Department of Parks and Recreation's Cash Collection and Handling Controls

The Department of Parks and Recreation is committed to improving financial managerial oversight and cash handling controls and has made significant progress to date in identifying and correcting deficiencies. This continues to be a high priority project for the Parks and Recreation. Fee based programs are one of the primary sources of revenue for Recreation programs, totaling more than \$8.3 million annually and collected from customers in amounts from 50 cents to over \$1,000 at approximately 100 locations.

With guidance and input from Macias and Gini Consulting Group, the City's Finance Department and the City's Auditor, Department staff will work to implement recommendations to continue to strengthen collection and control policies and procedures. Implementation will focus on: 1) centralizing and minimizing collection of fee revenue to the extent possible; 2) ensuring organizational infrastructure provides necessary assurance of proper cash handling and recording; 3) consistent application of fee collection and reporting processes and authority/process to determine fee discounts and waivers; 4) reviewing City's financial systems to ensure proper identification of revenue source type and by individual program; 5) further utilizing technology to better track revenues, collections, and provide timely and accurate fee collection, participant tracking and billing methods; 6) the safeguarding of cash and physical security of staff accepting fee payments, and 7) developing a performance-based management system to routinely monitor cash flow and effectiveness of controls.

The Department of Parks and Recreation will continually measure and test revenue compliance and cash handling systems and procedures, and participate fully in future audit processes.

