



GARLAND

INTERNAL AUDIT

Cash Count Audit

December 16, 2015

Report 201507

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Overall Conclusion

Internal Audit (IA) performed surprise cash counts of 15 citywide locations. No significant overages or shortages were noted during the counts. City Directives were, for the most part, followed. However IA identified the following areas for improvement:

- IA was unable to reconcile vending inventory and income for the Parks and Recreation Department.
- No review is occurring of high-risk transactions such as cash refunds and voided transactions in the Parks and Recreation system.
- A number of issues were noted at aquatics sites (i.e. staff using the same login, and staff stating they were not familiar with City policies) which can be rectified with additional training.
- At one location, the safe password had not been changed after an individual with access left City employment.
- Two of the funds counted lacked sufficient oversight because they were not counted regularly and did not maintain any log of the reconciliation.
- Several departments are using independently obtained charge cards other than the City's approved P-card. Although no improprieties were identified, greater controls are required to prevent possible future violations.

In addition to the cash counts, a follow-up was conducted regarding previous recommendations for updates to Finance Directives for cash handling. These were determined to be partially implemented.

Authorization

We have conducted an audit of the Cash Count Audit. 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(s)

- Objective 1: Determine whether administration of the City's cash funds is in compliance with the City of Garland's Accounting Policies and Procedures as well as Directives
2: Determine the security of the City's cash funds

Scope and Methodology

IA conducted this performance 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.

The scope was to perform cash counts on one-third of the petty cash and change funds located in the City of Garland. Discussions with the Audit Committee concluded that IA would perform a count of one-third of the City's cash funds every year, beginning in 2013 and continuing in succession through 2015. Remaining this year were the funds for:

- Parks and Recreation Aquatics (4 locations)
- Parks and Recreation Administration Office and Recreation Centers (7 locations)
- Economic Development
- Olinger Power Plant

When performing site visits, additional issues were noted regarding maintenance of vending inventory and funds, issuance and tracking of cash refunds at Parks and Recreation locations, and a city-wide issue of the use of departmental charge accounts other than the City's P-card. Therefore the scope of this audit was expanded to explore these issues in more detail.

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

- Reviewed the City's:
 - Accounting Cash Handling Procedures Directive # 1 ("Accounting Directive #1") - Obj. 1
 - Accounting Prohibited Expenditures Directive # 9 ("Accounting Directive #9") - Obj. 1
 - Accounting Petty Cash Directive # 11 ("Accounting Directive #11") -Obj. 1
 - Standard Operating Procedure 1124-011 ("SOP1124-011") – Obj.1
- Inquired with Finance if previous recommendations regarding cash handling policies and procedures had been implemented (Obj. 1)
- Conducted surprise counts of petty cash and change funds in order to determine if all funds are accounted for (Obj. 1 & 2)
- Reconciled IA's count with daily deposit information, CLASS reports, and City bank statements and GL (Obj. 1)
- Determined how information is communicated between the Parks and Recreation system and the Finance System (Obj. 1)
- Observed if funds were secured (Obj. 2)
- Inquired if those responsible for handling cash had reviewed Policies and Procedures as well as Directives (Obj. 1)
- Verified whether overages/shortages were recorded (Obj. 1)
- Determined if the correct petty cash custodian was on record and receiving reimbursement checks (Obj. 1)
- Verified if a petty cash reimbursement log was maintained (Obj. 1)
- Inquired if the petty cash custodian is the only person who had access to the funds (Obj. 2)
- Reviewed the following:

- Original itemized receipts as required by the directive (Obj. 1)
- Management approval on documentation (Obj. 1)
- Prohibited expenditures (Obj. 1)
- Receipts did not exceed the \$75 limit per transaction (Obj. 1)
- Verified if:
 - Change funds were secure (Obj. 2)
 - Change fund checks in the drawer were endorsed and deposited daily. (Obj. 1 & 2)
- Inquired about the process for maintaining and tracking vending inventory and funds (Obj. 2)
- Attempted to track funds received for vending from intake to deposit in the correct account (Obj. 2)
- Compared information on vending expenditures with information on vending deposits to determine if the program was operating at a loss (Obj. 2)
- Inquired with Finance, City departments, and City manager regarding spending on warehouse club charge card (Obj. 1)
- Reviewed numbered transactions and receipts to determine if gaps were present/accounted for (Obj. 2)
- Determined if refunds were being tracked in the Parks and Recreation system. (Obj. 2)

To assess the reliability of electronic cash reports produced by departments, IA interviewed cash custodians, performed cash counts, reviewed for any gaps in transaction numbers, and compared cash information with actual deposits. As a result of our testing, we determined that the data was sufficiently reliable for the purposes of this report.

Based on the audit work performed, any deficiencies in internal control that are significant within the context of the audit objectives are stated in the Opportunities for Improvement section starting on page 7. Additionally, follow-up on previous recommendations for City directives is located on page 16.

Background

Some factors are common to all cash handling throughout the City⁽¹⁾. A designated custodian is required, and pre-numbered receipts must be issued. A reconciliation of the funds must be done periodically, and any overages or shortages must be reported. Funds must be kept in a secured location and each day's receipts must be deposited by the next business day. Cash drawer and petty cash funds must not be comingled. All employees who handle cash are required to attend Cash Audit Training, which is offered by Finance at least bi-annually through the City's training program COGU⁽²⁾. Four classes have been held to date, with a total of 78 attendees⁽²⁾. Beginning in November 2015, employees who handle cash and their Managing Director are required to sign a Cash Handling Custodian Agreement, which outlines key cash-handling policies and procedures, and confirms the employee has received and understood them⁽¹⁾.

Change 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 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. For some locations, this is a cash register which is used as a point of sale for all transactions. However for Parks and Recreation, this fund is used to make change. Otherwise, rather than collecting payments in a register, payments are deposited directly into a safe⁽³⁾. Daily deposits are made by either by taking the funds directly to the bank, or having the funds picked up by an armored car service.

As of September 2015, there was a total balance of \$18,531.75 issued by Finance in change funds⁽⁴⁾.

Petty Cash

The current Petty Cash Directive, which allows departments to reimburse employees for expenses of \$100 or less, was issued on November 1, 2015. The previous directive which was in place during our site visits contained a limit of \$75 or less. The Finance Department is responsible for distributing and documenting the petty cash for departments and maintaining a current list of petty cash custodians for each department.

When an employee makes a purchase, the employee can get reimbursed through the petty cash fund for their department, Financial Services, or any other City petty cash fund. The employee is responsible for submitting an original itemized receipt before reimbursement can be made. Accounting Directive 9 lists items for which reimbursement is prohibited, such as alcohol, party and gift items, or flowers.

Per Accounting Directives #1 and #11, as well as, SOP #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. Quarterly, or more frequently if needed, the petty cash custodian is required to reconcile their petty cash fund, submit all receipts with vouchers to the Financial Services Department and process a request for a check so they can replenish their petty cash fund.

As of September 2015, there was a total balance of \$13,787.61 in petty cash funds⁽⁴⁾.

Although some departments have petty cash funds available for purchases, the City's preferred method of payment is the Procurement Card, or P-card, which should be used in lieu of petty cash where possible^(5,6).

(1) COGU - Cash Audit Training

(2) Laura Lozier, Workforce Engagement Program, Training, & Development Assistant

(3) Keith Reagan, Parks Business Supervisor

- (4) Judy Hearne, Financial Services Accounting Supervisor
- (5) Purchasing Directive 1 - Purchasing Policies and Procedures
- (6) Accounting Directive 11 - Petty Cash

Management Accomplishments*

- 1) Awards and Recognition:
 - a) The Recreation Division received the Learning Resources Network Management Practices.
 - b) Award for development of a policy/procedures manual based on PRCAD's vision.
 - c) The Recreation Division received the Jeff Ellis and Associates, Inc., "Platinum International Aquatic Safety Award" for the 2014 season.
 - d) Athletics/Aquatics Coordinator Eric Anderson and Recreation Center Coordinator Brian Gaddis graduated from the first Texas Recreation & Park Society Leadership Academy.
 - e) Athletics Coordinator Eric Anderson received the 2014 Texas Amateur Athletics Federation Service Award for his contributions to TAAF.
 - f) Christmas on the Square received the Award of Excellence for Best Recurring Event by the Texas Association of Municipal Information Officers.
 - g) PRCAD's web site and marketing efforts have been recognized by Texas Recreation & Park Society.
- 2) Parks and Open Spaces
 - a) Garland was recertified as a Tree City USA and partnered with Garland Power & Light for the City's. "Tree Power" program which gave away 500 trees to Garland residents for energy conservation and beautification.
 - b) Filling in the Downtown Square pool and fountain has improved pedestrian circulation and activity space for special events.
 - c) Lighting added for two fields at Audubon Park Soccer Facility – providing for more games in south Garland due to ability to play at night.
 - d) Partnered with Transportation Department to develop Garland's first Bike Plan, a component of the update to the Garland Thoroughfare Plan.
 - e) Acquired a 3.16-acre parcel as an addition to the Spring Creek Greenbelt.
- 3) Recreation
 - a) Christmas on the Square attendance has increased from 3000 in 2013 to approximately 8000 in 2015.
 - b) As part of July is Parks and Recreation Month, staff developed a "Family Night Out" event with children's activities, stage bands, and fireworks.
 - c) Outdoor Festival was held for the second time in conjunction with Healthy Living Expo. Longtime co-sponsor Bass Pro Shops provided outdoor activities ranging from archery, outdoor cooking, kayaking to promote outdoor recreation and education to event participants.
 - d) Provide financial assistance for programs and activities so Garland residents of all income levels can participate in the life enhancing benefits provided by the department.

*Please note that "Management Accomplishments" are written by the audited entity and that Internal Audit did not audit or verify its accuracy.

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 (Obj. 2)	
CONDITION (THE WAY IT IS)	Vending machines are maintained independently by each recreation center, who handle purchasing inventory, stocking machines, and performing cash deposits independently. A review of the reconciliation process at the recreation centers indicated the spreadsheets maintained by each center contained errors, and regular inventory checks were not performed. IA attempted to perform our own reconciliation of inventory purchases and vending revenue for a sample of recreation centers (Exhibit A), and was unable to do so. A thorough central review is not maintained by Parks and Recreation.
CRITERIA (THE WAY IT SHOULD BE)	Appropriate tracking and control of vending inventory and monies collected should be in place to determine if inventory and revenue are properly accounted for.
CAUSE (DIFFERENCE BETWEEN CONDITION & CRITERIA)	According to management, the vending program was initially started at one center, and then rapidly expanded to other centers without considering a department-wide tracking system.
EFFECT (SO WHAT?)	The loss or theft of vending inventory or funds could go unnoticed. Additionally, the vending machines operated by the recreation centers could be operating at a loss.
RECOMMENDATION	Parks and Recreation Management should: <ol style="list-style-type: none"> 1. Track/reconcile vending inventory and revenue. 2. Routinely analyze expenditures on vending items and the profit obtained from selling them.
MANAGEMENT RESPONSE	Concur
ACTION PLAN	Center supervisors are currently using Excel spreadsheets to track vending machine merchandise inventory and reconcile inventory weekly. In May 2016, PRCAD will implement an automatic point of sale system to track

inventory. Vending merchandise is offered as a service to center guests and is priced to recover product cost. Recreation Manager and Business Manager will routinely analyze profit from sales.

IMPLEMENTATION DATE	May 2016
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FINDING # 2 (Obj. 2)

CONDITION (THE WAY IT IS)	No review of the Parks and Recreation system is occurring for high-risk areas including: cash refunds, voided and cancelled transactions, and zero-dollar transactions.
CRITERIA (THE WAY IT SHOULD BE)	High-risk transactions such as refunds, voids, cancelled transactions, and zero-dollar transactions should be regularly reviewed by management for appropriateness.
CAUSE (DIFFERENCE BETWEEN CONDITION & CRITERIA)	Management is not easily able to review high-risk areas due to system reporting limitations. These functions were not considered when the original system was put into place.
EFFECT (SO WHAT?)	Inappropriate activities could go undetected.
RECOMMENDATION	<p>Parks and Recreation Management should include reporting capabilities into the new system when implemented in May 2016 to allow for proper analysis of high-risk transactions.</p> <p>A procedures should be put in place for regular reviews of these reports to detect irregularities.</p>
MANAGEMENT RESPONSE	Concur
ACTION PLAN	PRCAD will develop a weekly process to review all cash refunds, and voided, cancelled and zero-dollar transactions by the managers. PRCAD will run all transactions through the new POS system other than online transactions. This will assist with future gap analysis.
IMPLEMENTATION DATE	May 2016

FINDING # 3 (Obj. 1 & 2)

**CONDITION
(THE WAY IT IS)**

The following issues were noted at the aquatics centers:

- Logins: At two aquatics centers, during the site visits, IA observed multiple cashiers were using one login. At all aquatics centers, according to staff, if they needed to step away, they would remain logged in but have a manager watch the register.
- Petty Cash: Cash advances are being processed for petty cash. Staff members are not keeping a log of petty cash transactions. At one location, the petty cash fund was not counted regularly.
- Checks: At all aquatics centers, staff were unaware checks should be endorsed immediately. At three locations, staff were unsure of how to process a check because they had never received one.
- Daily Deposits: One out of three aquatics locations tested (Exhibit A) was not making daily deposits.

**CRITERIA
(THE WAY IT SHOULD
BE)**

- Cashiers should complete transactions under their own unique logins to help detect irregularities.
- Petty Cash SOP 1124011 states petty cash be paid as reimbursements, "the petty cash custodian shall maintain a petty cash voucher book to record all expenditures," and "monthly, the petty cash custodian shall reconcile petty cash."
- Finance Directive 1 states "upon receipt, all checks shall be properly endorsed."
- Finance Directive 1 states "Each day's receipts will be deposited intact no later than the following business day."

**CAUSE
(DIFFERENCE
BETWEEN CONDITION
& CRITERIA)**

- The policies and procedures manual used by the aquatics centers does not address these cash handling issues.
- Staff are unaware of City directives, including petty cash and cash handling, and do not attend City Cash Audit training.
- The individual who conducted cash handling training for the aquatics staff stated s/he had not received cash handling training from the City.

**EFFECT
(SO WHAT?)**

At aquatics locations there is confusion regarding policies and procedures. Not all City directives are being followed, which increases risk for theft and abuse of funds.

RECOMMENDATION	Parks and Recreation Management should: <ul style="list-style-type: none"> • Implement specific cash handling policies and procedures for aquatics centers in line with City Directives. • Ensure staff is appropriately trained.
MANAGEMENT RESPONSE	Concur
ACTION PLAN	Parks and Recreation will complete the following: <ul style="list-style-type: none"> • The Business Manager will work with each manager to train staff on correct cash handling procedures and documentation of all processes. • Eliminate petty cash at pools.
IMPLEMENTATION DATE	May 2016

FINDING # 4 (Obj. 1 & 2)

**CONDITION
(THE WAY IT IS)**

The following were noted at the recreation centers:

1. At one recreation center, the password to the safe had not been changed after a staff member with access left City employment.
2. At one location, no regular verification or review of the change fund occurred.

**CRITERIA
(THE WAY IT SHOULD
BE)**

1. According to the National Industrial Security Program Operating Manual from the Department of Defense [5-309(b)]: Safe passwords shall be changed upon "the termination of employment of any person having knowledge of the combination, or when [access] has been... revoked."
2. The City's Cash Audit Training states cash handlers should "reconcile frequently," and "maintain proper documentation."

**CAUSE
(DIFFERENCE
BETWEEN CONDITION
& CRITERIA)**

1. The manual could not be located to change the safe.
2. Management believed two individuals were reconciling the fund. Due to the small size of the fund, a log was not considered.

**EFFECT
(SO WHAT?)**

1. Failure to change safe passwords with staff turnover could compromise all funds stored within the safe.
2. Failure to verify a fund frequently and maintain documentation of the verification makes it difficult to detect improprieties.

RECOMMENDATION

Management should:

1. A. Ensure the password at the recreation center is changed or the safe is replaced.
B. Develop procedures for changing safe password when staff with access leave or access is revoked.
2. Verify the change fund regularly and maintain documentation.

**MANAGEMENT
RESPONSE**

Concur

ACTION PLAN

Parks and Recreation will complete the following:

-
- Staff was unable to change the safe combination and safe was replaced.
 - Safe operation procedures were added to the Recreation Staff Operations Manual.
 - New processes have been implemented and all change fund and petty cash are counted and documented by two staff members.

IMPLEMENTATION	1/5/16
DATE	

FINDING # 5 (Obj. 1 & 2)

**CONDITION
(THE WAY IT IS)**

- IA's review of warehouse club charge cards revealed:
1. At least three departments throughout the City are using a warehouse club's charge card.
 2. One terminated employee's access had not been cancelled from the department's warehouse club charge account.*

*upon notification from IA, the department immediately cancelled that person's card and access to the account.

**CRITERIA
(THE WAY IT SHOULD
BE)**

1. A. Purchasing Directive 1 states "[t]he Procurement Card is the preferred method of payment for purchases up to \$3,000" (4.1.3). It additionally states decentralized purchases made by Department Purchasing Coordinators may be made "up to \$3,000 using a Department Purchase Order, Payment Request, or Procurement Card" (4.1.1).
B. Appropriate guidelines should be in place for departments regarding the criteria for procuring charge cards other than the City's P-card.
2. Departmental controls should be in place for City charge cards to ensure appropriate and timely removal of users.

**CAUSE
(DIFFERENCE
BETWEEN CONDITION
& CRITERIA)**

1. The warehouse club does not accept the City's P-card, but departments stated the warehouse club is cheaper than other vendors.
2. A. The department monitoring was not sufficient to detect the terminated employee's access had not been revoked.
B. There are not any City directives, policies, or procedures available for charge cards other than the City's P-card.

**EFFECT
(SO WHAT?)**

1. Departments could obtain charge cards which may not have appropriate controls in place (i.e. allowing unauthorized users, and making purchases that are not in line with City directives). This could allow prohibited or improper expenditures to occur.
 2. Employees who have left the City or have had access to the charge card revoked could make unauthorized purchases.
-

RECOMMENDATION	<ol style="list-style-type: none"> 1. City Manager’s Office should develop a directive regarding the procurement of any charge cards other than the City’s P-card. 2. Departments utilizing a warehouse club charge card should develop appropriate internal controls, including (but not limited to): approval, addition, and timely deactivation/removal of users; approval of purchases; purchasing limits; and regular review of the account.
MANAGEMENT RESPONSE	Management concurs.
ACTION PLAN	<ol style="list-style-type: none"> 1. The City will develop a policy. 2. Department will develop procedures to improve internal controls and revise to match any future policies.
IMPLEMENTATION DATE	March 31, 2016

FOLLOW-UP (Obj. 1)

IA conducted a follow-up to previous recommendations to update Finance Directives and Standard Operating Procedures (SOP) regarding cash handling:

**CONDITION
(THE WAY IT IS)**

1. Finance Directive 1 Section 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"". The City currently uses J. P. Morgan Chase Bank.
2. Finance Directive 1 Section 1.8 states "All departments that prepare a departmental cash report for submission to Customer Service will send daily a copy of each cash report along with a legible copy of any supporting receipts to Internal Audit." This is no longer a requirement.
3. Finance Directive 11 and SOP 1124-011 state: "At the end of each month, the petty cash custodian/accounts payable associate shall process an accounts payable invoice in the finance system to replenish the petty cash balance." This is no longer a requirement by Finance.
4. Petty cash custodians are required to submit detailed original receipts with each replenishment. This was not required in the original Directives.
5. Petty cash custodians are required to use pre-numbered petty cash voucher booklets approved by finance. This is not specified in the directive.
6. Petty cash advances for non-travel purchases are prohibited. Advances were not addressed in the original Directive 11, SOPs, or Directive 9 Prohibited Expenditures.
7. There are no requirements for cash handling custodians to review the Directives and SOPs and sign a "Cash Handling Custodian Agreement Form" upon assignments.

RECOMMENDATION

1. Ensure that Accounting Directive #1, Section 1.5 is updated to reflect the current bank name.
 2. Ensure that Accounting Directive #1, Section 1.8 stating "to send daily a copy of each cash report to Internal Audit" is removed from policy.
 3. Revise SOP #1124-011 to require Petty Cash Custodians to reconcile petty cash funds on a monthly basis and request replenishment on an as needed basis, instead of monthly.
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4. Petty cash custodians must submit detailed original receipts (with the exception of expense report receipts, a copy will be sufficient) with each replenishment request to Finance.
 5. Petty cash custodians should use standardized pre-numbered petty cash voucher booklets approved by Finance that include the name of the person receiving the petty cash, who the petty cash is for, the custodian's name and signature, the amount, the date and the purpose.
 6. Petty cash advances for non-travel related purchases are prohibited.
 7. Revise the Accounting Directive #1 and SOP #1124 to require all cash custodians to review the cash handling authoritative pronouncements and sign a "Cash Handling Custodian Agreement" form upon assignment.
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**MANAGEMENT
RESPONSE**

Management concurred with all recommendations in September 2014, April 2013, and August 2009.

ACTION PLAN

September 2014:

- Directive #1 is in the process of being updated.
- SOP #1124-011 will be updated to reflect monthly reconciliation submitted to Finance and replenishment of fund will be as needed.
- The Finance Department will meet with petty cash custodians and obtain input related to petty cash backup individuals. Based on input from the custodians and Finance, changes will be updated in the related directives and SOPs. Possible changes include no disbursements made if custodian is out of the office and obtaining petty cash disbursement from the Finance Department if disbursement is needed immediately.
- Possible cash handling class can be offered on an annual basis.
- A custodian agreement is in the process of development.

April 2013

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

August 2009

- The Petty Cash Directive #11, and Petty Cash Directive #1 will be updated and sent to the City Manager for approval by September 18, 2009.
- Cash handling training documentation will be developed and training classes will begin in September 2009.

FOLLOW-UP

IA inquired with the Finance Managing Director and Finance Accounting Supervisor regarding the status of the updates to the directives. We confirmed the new directives were published November 1, 2015, and reviewed the directives to determine if previous recommendations had been implemented. The updated directives were approved November 1, 2015. The directives include language regarding the Cash Handling Custodian Agreement, but this form is not yet in use. All other recommended changes have been made.

IMPLEMENTATION

Partially implemented.

Exhibit A – Sampling Methodology

Vending – Global procedures were identified for all recreation centers following site visits to all locations in September 2015. Then a sample of four out of six recreation centers were examined in more detail. These were judgmentally selected based on vending volume. We also ensured at least one recreation center from each Recreation Center Supervisor was selected. These were examined from September 1 through September 21, 2015, as this was the most recent time period for which purchasing and deposit information was available. The results can be projected to the entire population.

Aquatics Centers – All four aquatics centers were visited for surprise cash counts in July 2015. Of the four locations, daily transactions were examined for three. These were judgmentally selected based on the amount of deposit variance shown in the Parks and Recreation Senior Accounting Technician’s monthly reconciliation. These were examined for the month of July 2015, because this was the month of the surprise cash counts. The results can be projected to the entire population.