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CASH COLLECTIONS PERFORMANCE AUDIT

JANUARY 2015

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AUDIT SERVICES DEPARTMENT

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To: Audit Services Oversight Committee
From: Dr. Germaine Brewington, Director
Audit Services Department
Date: January 26, 2015
Re: Cash Collections Performance Audit
(January 2015)

The Department of Audit Services completed the report on the Cash Collections Performance Audit dated January 2015. The purpose of the audit was to examine the cash collection processes, procedures and controls at locations throughout the City of Durham and assess their adequacy.

This report presents the observations, results, and recommendations of the Cash Collections Performance Audit. City management concurs with the recommendations made. Management's response to the recommendations is included with the attached report.

The Department of Audit Services appreciates the contribution of time and other resources from employees of the Departments of Finance, Public Works, Solid Waste, City/County Inspections, Parks and Recreation, General Services, and the Durham Police Department in the completion of this audit.

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BACKGROUND INFORMATION

Seven departments at the City of Durham routinely collect cash on the City's behalf. According to NCGS §159-25(4), the Finance Officer "shall receive and deposit all monies accruing to the local government or public authority, or supervise the receipt and deposit of money by other duly authorized officers or employees." The City Council has designated the Finance Director as the City's Chief Financial Officer.

Finance Policy FP 303-1 titled "Cash Handling – City Cash" provides overall guidance for cash handling. According to Policy FP 303-1, only persons who are certified by the Chief Financial Officer (CFO) shall receive and handle City cash on a regular basis in the scope and course of their employment. In addition, all cash received should be: 1) promptly delivered to the CFO (or designee) or the City's cashiering facility; or, 2) when so authorized, deposited to the credit of the City in a City depository designated by the CFO. The delivery or deposit must be made within twenty-four (24) hours or the next banking day after receipt of the funds. Upon authorization from the CFO or his designee, the Department may elect to make deposits only when the monies on hand amount to as much as two hundred fifty dollars (\$250.00). In any event a deposit of all monies on hand shall be made on the last business day of the month.

City Cash – the term applies to currency, coin, checks, credit and debit card payments, other electronic payment media and other negotiable instruments payable in money to the City.

Statement of Account - is used by some departments to serve as a receipt/deposit statement.

Cash collection and cash handling practices were examined at the Departments of: Finance, Solid Waste, General Services, City/County Inspections, Parks and Recreation, Public Works, and the Durham Police Department.

EXECUTIVE SUMMARY

Purpose

The purpose of the audit was to examine the cash collection processes, procedures and controls at locations throughout the City of Durham and assess their adequacy.

We 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 and 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.

Results in Brief

Overall, adequate controls existed over cash collections at the City of Durham. However, opportunities for improving controls were identified in the following areas:

- Pre numbered receipts were not used at various cash collection locations. Pre-numbered receipts are a strong control to ensure all receipts collected are deposited intact.
- Some departments, with regard to depositing funds on a timely basis, need to comply with Policy FP 303-1;
- Management needs to strengthen oversight over voided transactions; and
- Departments should reconcile revenues per the LDO system to revenues per the general ledger, especially where limited segregation of duties is an issue.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

The objectives of the audit were to determine if:

- Controls are adequate to ensure cash collected is equal to cash deposited;
- Cash collections/receipts are deposited in accordance with City Policy FP 303-1;
- Adequate segregation of duties exist;
- Management oversight throughout the collection and deposit process is adequate;
- Adequate controls exist to safeguard cash/receipts from loss/errors and irregularities; and
- Employees who handle cash on behalf of the City are adequately trained.

Scope

The scope of the audit included examining the City's current cash collection processes, policies, procedures and controls in the cashiering section and other collection points throughout the City.

Methodology

Audit Services Department staff performed the following procedures to accomplish the objectives of the audit:

1. Reviewed policies and procedures pertaining to cash collections;
2. Identified all locations that collect cash;
3. Obtained and reviewed North Carolina General Statute §159-32;
4. Interviewed various City personnel responsible for handling cash;

OBJECTIVES, SCOPE AND METHODOLOGY

5. Performed unscheduled cash counts at various locations throughout the City;
6. Performed site visits to observe and document cash collection procedures in practice;
7. Verified a sample of deposits to ensure they were made on a timely basis in accordance with policy FP 303-1;
8. Verified management oversight throughout the collection and deposit process;
9. Reviewed the storage/safeguarding controls over cash collections; and
10. Reviewed the appropriate cash handling training materials.

During the audit, staff also maintained awareness to the potential existence of fraud.

AUDIT RESULTS

Overall adequate controls over cash collections existed at most of the seven departments that routinely collected cash. A well-designed set of internal procedures can provide reasonable assurance that significant theft of cash receipts and record keeping errors will be properly managed or detected. The seven Departments where cash collection practices were examined included the Departments of: Finance, Solid Waste, Public Works, General Services, City County Inspections, Parks and Recreation, and the Durham Police Department. These seven Departments collected a considerable amount of cash on a daily basis. Lack of adequate controls can increase the risk of cash receipts being misappropriated without detection. Opportunity for strengthening controls existed in some departments. Following is the summary of the results of audit procedures performed at each Department.

Finance Department

Adequate controls existed over the cash collection processes at the Central Cashiering location of the Finance Department. Audit Services staff performed an unscheduled cash count at the Central Cashiering location. No exceptions were noted.

A control deficiency was noted. One Cashier's office receipts printer/validation machine was not functioning properly at the Central Cashiering location. The validation stamp serves as the official method to determine the legitimacy of the transactions. Without the validation stamp, there is an increased possibility for payments to be falsified. The deficiency was corrected prior to the end of field work.

Some departments directed citizens to pay for services at the Central Cashiering location. Citizens were provided a Statement of Account by the respective departments, which showed the amount owed to the City. Once the citizen remitted the payment to Central Cashiering, the Statement of Account was processed through the validation machine to automatically date, time stamp and to document the: amount collected, cashier, and code for the transaction validated. A part of the Statement of Account was returned to the citizen to serve as the receipt of payment.

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The Business License Unit of the Finance Department also collected cash on a regular basis. Adequate controls existed over the collection of receipts received at this location.

Department of General Services

Cash receipts were collected at the Beechwood and Maplewood Cemeteries by the General Services Department staff. Cash collected at the Beechwood Cemetery was delivered to the Maplewood Cemetery to be deposited. Audit Services staff performed an unscheduled cash count at the Beechwood and Maplewood Cemetery locations. No exceptions were noted.

The Maplewood Cemetery staff did not consistently deposit cash/checks in accordance with City policy FP 303-1. Per policy, “the delivery or deposit must be made within twenty-four hours or next banking day after receipt. Upon authorization from the Finance Officer or his designee, the Department may elect to make deposits only when the monies on hand amount to as much as two hundred fifty dollars (\$250.00). In any event a deposit of all monies on hand shall be made on the last business day of the month.” Cash collected could get lost/displaced/stolen the longer it is in the lockbox/safe versus being promptly deposited. Out of 10 sampled days, receipts for eight days were not deposited in accordance with Policy FP 303-1. The practice was to deposit cash on a weekly basis, regardless of the dollar amount.

In addition, the locations used a Statement of Account to serve as a receipt; however, the Statement of Account is not pre-numbered. Pre-numbered receipts should be issued for all monies when received. Pre-numbered receipts can help reduce the risk of theft or misappropriation of cash. Pre-numbered receipts facilitate the monitoring process which helps ensure all cash collected is deposited intact.

City County Inspections Department

Overall, adequate controls existed over collections of receipts received by the City County Inspections Department. Audit

AUDIT RESULTS

Services staff performed an unscheduled cash count at the Central Cashiering location. No exceptions were noted.

A control deficiency however, was noted. A lack of segregation of duties existed. One Permit Technician could collect cash, process the application in the LDO system, send the deposit to Central Cashiering for processing and reconcile the processed Statement of Accounts to ensure all checks received were deposited. The same Technician could also enter the fees received in the LDO system, and process voids and adjustments. Two other employees functioned as this Technician's back up and were alternate transaction processors. Lack of segregation of duties can foster an environment that provides opportunity for fraud. Proper segregation of duties aids in mitigating the risk of fraud. In smaller operations, it may not be feasible to entirely segregate all of the cash-related duties. In these circumstances, the department may rely on increased monitoring as a compensating control to mitigate the risk for misappropriation of cash. A written standard operating procedure existed that required management to reconcile revenue per the LDO system to revenue reported in the general ledger to ensure all receipts collected were deposited. Adequate management oversight existed at the City County Inspections Department to mitigate risk created as a result of lack of segregation of duties.

The Department also used Statements of Account to serve as receipts. However, the Statements of Account were not pre-numbered. The City County Inspections Department did not accept payment in currency at the location. Therefore, the risk of not using pre-numbered receipts was reduced.

Department of Parks and Recreation

The Department of Parks and Recreation had 15 separate locations that collected cash on a full time basis and an additional six locations that collected cash on a seasonal basis. Audit Services staff performed unscheduled cash counts at 11 Parks and Receptions Department collection locations. No exceptions were noted. The Department had written standard operating

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procedures to guide staff in the collections process. Adequate controls existed over cash collections at the various cash points.

An area for improvement was noted as it related to monitoring the voided transactions. The written procedures did not call for a review of voided transactions. Transactions were voided without management approval and/or immediate review by management. As a result, the Department was at an increased risk that employees could fraudulently void transactions and improperly handle funds received from the customers. Requiring supervisor review of voided transactions will reduce the opportunity for false refunds or theft of cash. Employees were directed to document the reason for the voided transaction in the CLASS system. Management should update its standard operating procedure as it relates to cash collection procedures and review voided transactions on a consistent basis.

Police Department

The Fiscal Services Division of the Police Department receives money in the form of cash, checks, money orders, and cashiers' checks from numerous sources. These sources include, but are not limited to, checks from the Clerk of Court, payments from officers for badges or lost equipment, and checks from vendors for gold buying permits.

The Police Department staff did not consistently deposit cash collected in accordance with City Policy FP 303-1. Per Policy, "the delivery or deposit must be made within twenty-four hours or the next banking day after receipt. Upon authorization from the Finance Officer or his designee, the Department may elect to make deposits only when the monies on hand amount to as much as two hundred fifty dollars (\$250.00). In any event a deposit of all monies on hand shall be made on the last business day of the month." Cash receipts could get lost/displaced/stolen the longer the receipts are in the lockbox/safe versus being promptly deposited. The deposits appear to be made once or twice a week.

Several control deficiencies were noted. A lack of segregation of duties existed. The persons collecting cash, prepared the deposit,

AUDIT RESULTS

sent the deposit to Central Cashiering for processing and reconciled the processed Statement of Accounts to ensure all checks received were deposited. Lack of segregation of duties can foster an environment that provides opportunity for fraud. Proper segregation of duties aids in mitigating the risk of fraud. In smaller operations, it may not be feasible to entirely segregate all of the cash-related duties. In these circumstances, the department may rely on increased monitoring as a compensating control to mitigate the risk for misappropriation of cash. There was no management oversight over the collections/deposit process.

In addition, the Police Department also used Statements of Account, which were not pre-numbered, to serve as receipts.

While no misappropriation of funds was found during the course of this audit, a lack of segregation of duties, a lack of management oversight and a lack of pre-numbered receipts to ensure, via a reconciliation process that all monies can be accounted for, created an environment where fraud could occur.

Department of Public Works

The Engineering Services section of the Public Works Department routinely collected monies through mail and in person for water and sewer service applications, frontage fees, inspection fees, and water and sewer permit fees. The Engineering Technicians processed these payments. The front desk staff also accepted payments for Fire Flow, Utility Excavation Permits, and Storm Water Drainage fees. Payments in currency were usually accepted by the front desk staff.

Control deficiencies were observed. One deficiency noted was a lack of segregation of duties. The persons collecting cash at the front desk also prepared the deposit, sent the deposit to Central Cashiering for processing and entered the receipt of payment into the LDO system. Lack of segregation of duties can foster an environment that provides opportunity for fraud. Proper segregation of duties aids in mitigating the risk of fraud. In smaller operations, it may not be feasible to entirely segregate all

of the cash-related duties. In these circumstances, the department may rely on increased monitoring as a compensating control to mitigate the risk for misappropriation of cash. A mitigating control implemented by the Department of Public Works required the deposits prepared by persons working at the front desk be reviewed by another staff person. Second, the Department used Statements of Account, which were not pre-numbered, to serve as receipts. This process has a built-in risk that all receipts collected may not be deposited intact and a management review of such deposits would not be sufficient to detect this type of misappropriation because of the use of receipts that are not pre-numbered.

A lack of segregation of duties combined with a lack of pre-numbered receipts places the Engineering Services Section at a higher risk for misappropriation of assets because it collects cash currency. Several other Departments that are located in City Hall such as the City County Inspections Department and the City County Planning Department opted not to collect currency and if a customer wished to pay with currency, they were requested to process the payment at the Central Cashiering Location in City Hall. Following this practice would allow the Department of Public Works to decrease its risk of exposure.

The Public Works Department also receives checks from Construction Security Escrow agreements. Audit staff reviewed the process of securing the checks received. The Engineering Services Division staff developed a data base to track performance bonds, Escrow Agreements, and lines of credit. The database helps track the expiration dates of active bonds in order to facilitate the management process. Audit Services staff did not perform tests to determine if the management process is functioning as intended.

Department of Solid Waste

The Solid Waste Department had two cash points. Staff located at the Solid Waste Scale House and the Solid Waste Administration building collect cash receipts on a regular basis.

Solid Waste Scale House:

Overall, adequate controls existed over collections of receipts received by the Solid Waste Scale House staff. A control deficiency was noted in that procedures at the Solid Waste Scale House allow for transactions to be voided without management approval and/or immediate review by management. Processing fictitious void transactions is a common type of cash register manipulation that cashiers use to misappropriate funds from their organizations. According to management, it is not feasible for the Assistant Disposal Manager to be present at the Scale House to approve voided transactions at the time of occurrence. As a result, the Department is at an increased risk that employees could fraudulently void transactions and improperly handle funds received from customers. Management did not review voided transactions on a consistent basis. The Daily Cash Report outlined the number of voids by staff person. However, the Monthly Scale House report did not capture this information. Requiring supervisory review of voided transactions will reduce the opportunity for false refunds or theft of cash.

Solid Waste Administration:

The Solid Waste Administration Division collected fees for yard waste carts, recycling bins and other services. The collection point only accepts checks and credit card payments. Checks and credit card payments were processed through the Elavon payment processing machine.

Adequate controls existed over the cash collections process.

Conclusion

Overall adequate controls existed over cash collections at the City of Durham. However, opportunities for improving controls were identified in the following areas:

AUDIT RESULTS

- Pre numbered receipts were not used at various cash locations (The Public Works Department, Police Department, General Services Department and the City County Inspections Department). Pre-numbered receipts are a strong control to ensure all receipts collected are deposited intact. Especially in areas where lack of segregation of duties exists, it can serve as a monitoring tool to ensure all sequential receipts are accounted for;
- Management needed to strengthen oversight over voided transactions at the Solid Waste Scale House location of the Solid Waste Department; as well as the Parks and Recreation Department. In addition, the Police Department should incorporate management oversight over the collections/deposit process as part of their operating procedures; and
- The Department of Public Works could strengthen monitoring controls by reconciling revenues per LDO to revenues per the general ledger. In addition, they could reduce their overall risk exposure as a result of a lack of segregation of duties in combination with lack of pre-numbered receipts by not accepting payment in currency.

In addition, the Police Fiscal Services Unit and the Cemetery collections location at the General Services Department did not make deposits in accordance with Policy FP 303-1.

RECOMMENDATIONS

Recommendation 1

The Finance Department should strengthen controls at the departments where the risk exists that cash collected will not be deposited intact. These departments include the Public Works Department, Police Department and General Services Department. Suggested controls include:

- Considering the cost benefit of issuing pre-numbered receipts to all departments that use Statements of Account and requiring the departments to reconcile the sequential order of the pre-numbered receipts to ensure all cash collected is deposited intact;
- Requiring customers of the Engineering Services Division [front desk area specifically] to submit currency payments at the Central Cashiering location. In addition, require the department to segregate duties and reconcile the LDO system to the MUNIS system to ensure all funds are deposited intact;
- Implementing management oversight controls at the General Services and Police Departments to ensure funds collected are deposited intact.

Recommendation 2

The General Services Department should ensure deposits are made in accordance with Finance Policy FP 303-1.

Recommendation 3

The Police Department should ensure deposits are made in accordance with Finance Policy FP 303-1. In addition, the Police Department should establish management oversight over the collections and deposit process as part of their normal operating procedures. Also, segregation of duties should be considered.

RECOMMENDATIONS

Recommendation 4

The Department of Solid Waste's Scale House function should, on a regular basis, review a report that shows the voided transactions. Also, voids should be captured on a monthly basis to analyze trends.

Recommendation 5

The Department of Parks and Recreation should incorporate a review of voided transactions as part of their standard operating procedures.

MANAGEMENT'S RESPONSE



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Memo to: Germaine F. Brewington, Director of Audit Services
From: David Boyd, Finance Director
Date: 1/20/2015
Subject: Management's Response
Cash Collections Performance Audit (January 2015)

The following is the management's response to the Cash Collections Performance Audit dated January 2015.

Recommendation 1:

The Finance Department should strengthen controls at the departments where the risk exists that cash collected will not be deposited intact. These departments include the Public Works Department, Police Department and General Services Department. Suggested controls include:

- Considering the cost benefit of issuing pre-numbered receipts to all departments that use Statements of Account and requiring the departments to reconcile the sequential order of the pre-numbered receipts to ensure all cash collected is deposited intact;
- Requiring customers of the Engineering Services Division [front desk area specifically] to submit currency payments at the Central Cashiering location. In addition, require the department to segregate duties and reconcile the LDO system to the MUNIS system to ensure all funds are deposited intact;
- Implementing management oversight controls at the General Services and Police Departments to ensure funds collected are deposited intact.

Management's Response:

We concur. Management is in full agreement with the recommendation. Staff intends to take a broader look at the cash collections procedures and policies in all departments and implement any changes necessary to improve controls. Suggested controls will be evaluated as part of this review. Dan Shulman, Finance Department, Financial Analyst will coordinate this evaluation. Identified changes will be implemented by April 2015. A report of all changes will be provided to the Director of Audit Services at that time as well.

Recommendation 2:

The General Services Department should ensure deposits are made in accordance with Finance Policy FP 303-1.

Management's Response:

We concur. Management is in full agreement with the recommendation. Staff intends to take a broader look at the cash collections procedures and policies in all departments and implement any changes necessary to improve controls. Suggested controls will be evaluated as part of this review. Dan Shulman, Finance Department, Financial Analyst will coordinate this evaluation. Identified changes will be implemented by April 2015. A report of all changes will be provided to the Director of Audit Services at that time as well.

Recommendation 3:

The Police Department should ensure deposits are made in accordance with Finance Policy FP 303-1. In addition, the Police Department should establish management oversight over the collections and deposit process as part of their normal operating procedures. Also, segregation of duties should be considered.

Management's Response:

We concur. Management is in full agreement with the recommendation. Staff intends to take a broader look at the cash collections procedures and policies in all departments and implement any changes necessary to improve controls. Suggested controls will be evaluated as part of this review. Dan Shulman, Finance Department, Financial Analyst will coordinate this evaluation. Identified changes will be implemented by April 2015. A report of all changes will be provided to the Director of Audit Services at that time as well.

Recommendation 4:

The Department of Solid Waste's Scale House function should, on a regular basis, review a report that shows the voided transactions. Also, voids should be captured on a monthly basis to analyze trends.

Management's Response:

We concur. Management is in full agreement with the recommendation. Staff intends to take a broader look at the cash collections procedures and policies in all departments and implement any changes necessary to improve controls. Suggested controls will be evaluated as part of this review. Dan Shulman, Finance Department, Financial Analyst will coordinate this evaluation. Identified changes will be implemented by April 2015. A report of all changes will be provided to the Director of Audit Services at that time as well.

Recommendation 5:

The Department of Parks and Recreation should incorporate a review of voided transactions as part of their standard operating procedures.

Management's Response:

We concur. Management is in full agreement with the recommendation. Staff intends to take a broader look at the cash collections procedures and policies in all departments and implement any changes necessary to improve controls. Suggested controls will be evaluated as part of this review. Dan Shulman, Finance Department, Financial Analyst will coordinate this evaluation. Identified changes will be implemented by April 2015. A report of all changes will be provided to the Director of Audit Services at that time as well.