



CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR

Audit of Citywide Cash Handling

Project No. AU07-017

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EXECUTIVE SUMMARY

As part of our annual audit plan, we conducted an audit of citywide cash handling procedures and operations. We performed the audit to determine whether:

- Adequate internal controls for cash handling were in place and operating.
- Previous audit and review recommendations were implemented.

RESULTS IN BRIEF

Significant actions were taken to improve organizational controls over cash handling operations. The Finance Department centralized operating controls. As of February 2008, all fiscal planning managers reported directly to the Finance Department. During the audit, the Finance Department worked with other departments to reconcile differences in change funds between cash on hand and amounts recorded in the City's accounting system. Moreover, nothing came to our attention that indicated City funds were missing. However, we did identify opportunities to further strengthen internal controls over cash handling operations.

RECOMMENDATIONS

We recommend that the Finance Department:

- Ensure operating procedures are updated to fully implement the City's Administrative Directive 8.1 – Cash Handling.
- Appoint an individual with custodial responsibility over citywide change funds.
- Perform periodic verifications of change funds; including unannounced spot checks.
- Implement procedures to periodically recertify the accountability and need for change funds.

Management personnel of the Finance Department agree with our reported conclusions and recommendations. Their verbatim response is in Appendix B on page 9.

BACKGROUND

During fiscal year 2007, the City of San Antonio recognized more than \$1.5 billion in revenue, with approximately 80 percent from property taxes, sales taxes, and utilities. The remaining 20 percent (or about \$293 million) consisted of customer payments for traffic fines, rental fees, birth certificates, health services, overdue library books, and other services the City provided.

Twenty of the City's departments were involved in collecting the payments at 147 locations throughout San Antonio. These departments have 287 cash drawers available for collections of which 146 drawers are continuously in use. Change funds amount to approximately \$87,000.

The City's Administrative Directive 8.1 (Cash Handling) provides internal control standards for departments to help ensure that cash collections are adequately accounted for, properly safeguarded, and promptly deposited.

Because of their liquidity, cash and cash equivalents are always susceptible to misappropriation, which gives rise to the need for effective internal controls. However, management should always consider whether the benefits of selected controls outweigh the related costs.

SCOPE AND METHODOLOGY

The scope of the audit was October 2006 through January 2008.

We performed unannounced cash counts for a sample of 21 locations from 12 departments responsible for generating approximately \$220 million in revenue for the City. We judgmentally selected the sample from 20 departments with revenue totaling about \$293 million. We reviewed various documents, including departmental cash handling procedures, end-of-day reports, check payments, credit card receipts, and cash register tapes. We compared actual change fund balances with the balances shown in the City's accounting system. We also interviewed change fund custodians or their supervisors at the various locations. Testing criteria was based on Administrative Directive 8.1, as well as departmental procedures. We verified the implementation of prior audit and review recommendations.

We performed the audit from September 2007 to June 2008 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. Our audit included tests of internal controls that we considered necessary under the circumstances.

STAFF ACKNOWLEDGMENT

Barry Lipton, CPA, DABFA, Deputy City Auditor
Denis Cano, CPA, CIA, CISA, Audit Manager
Bill Racca, CIA, CFE, CGAP, Auditor-In-Charge
Danny Zuniga, CIA, Auditor
Bruce Coleman, CIA, Auditor
Tanya Rodriguez, Auditor

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATION A – Internal Control Issues Over Cash Collections

At 18 of the 21 locations included in our audit, we identified the need to strengthen at least one internal control. The controls that require strengthening were in the areas of receiving and processing, safeguarding assets, management oversight, segregation of duties, department policies and procedures, and training. The conditions occurred because the various departments did not fully implement internal controls in compliance with the City’s Administrative Directive 8.1. The absence of strong controls could result in the misappropriation of liquid assets.

At the request of the Finance Director, we provide details of our observations at the various audit locations in Appendix A (page 6).

RECOMMENDATIONS

- A. We recommend that the Finance Department ensure that operating procedures are updated to fully implement Administrative Directive 8.1.

OBSERVATION B – Change Fund Amounts Differ from the City’s Accounting System

Change fund amounts at 10 of 21 audit locations did not agree with the amounts reported in the City’s accounting system:

Department	Location	Cash on Hand	Reported in SAP	Difference
Customer Service/311	Valley View Shopping Center	\$ 1,100	\$ 800	\$ 300
	Las Palmas	1,000	-	1,000
	South Park	1,300	-	1,300
Development Services	One Stop Center	1,750	1,500	250
Library	Main	420	525	(105)
Downtown Operations	Parking Division ¹	15,000	-	15,000
	Spanish Governor’s Palace ¹	100	-	100
Public Works	Parking Division ¹	-	15,000	(15,000)
Parks & Recreation	Spanish Governor’s Palace ¹	-	100	(100)
	Botanical Gardens ²	2,750	750	2,000
	Municipal Athletics Office	1,000	-	1,000
Health	Immunization Center	200	100	100

¹ We determined that the \$15,000 change fund for Downtown Operations’ Parking Division and the \$100 change fund for the Spanish Governor’s Palace are incorrectly reported in the City’s accounting system under Public Works and Parks and Recreation, respectively.

² Parks and Recreation’s Botanical Gardens did not return to the Finance Department a \$2,000 temporary increase in the change fund received during 2005 for use during a major exhibition. Botanical Gardens should have returned the funds upon completion of the exhibit on December 4, 2005. Because of our audit, the Gardens turned in the monies on May 30, 2008. In addition, the \$2,000 was incorrectly reported in SAP as petty cash, instead of a change fund.

Administrative Directive 8.1 provides that departments should maintain internal controls for change funds similar to those needed for petty cash funds. Administrative Directive 8.5 (Petty Cash), section V.D.10 requires department directors to ensure that funds are properly accounted for at all times. Section V.E.7 requires custodians to verify and reconcile the funds weekly. The variances we identified were undetected because the Finance Department did not consistently verify change funds or periodically recertify the accountability and necessity for change funds. As a result, the City's \$87,000 in change funds was not fully controlled.

RECOMMENDATIONS

We recommend that the Finance Department:

- B.1 Appoint an individual with custodial responsibility over citywide change funds.
- B.2 Perform periodic verifications of change funds; including unannounced spot checks.
- B.3 Implement procedures to periodically recertify the accountability and need for change funds.

APPENDIX A – Details of Internal Control Issues Identified

The following information details our audit results for the six internal control areas we reviewed at 21 locations: receiving and processing, safeguarding assets, management oversight, segregation of duties, department policies and procedures, and training. We evaluated the adequacy of each location's internal controls in these areas. Although our results showed that physical security controls over cash and other liquid assets were generally appropriate, 18 locations could strengthen at least one control.

Receiving and Processing. Receiving and processing procedures at 11 locations were not adequate. At some locations, more than one receiving and processing control was absent. Four locations did not restrict access to cash drawers to one person, six locations did not restrictively endorse checks upon receipt, and three locations did not maintain a log of checks received through the mail. One location used part of its change fund for petty cash purposes. Employees were reimbursed from the change fund for arts and crafts supplies purchased for children activities sponsored by the City. In addition, there were three checks in January 2008 amounting to \$25,500 that should have been deposited in November 2007.

Safeguarding Assets. Certain safeguards were absent at 13 locations. At some locations, more than one safeguard was absent. At three locations, safe combinations had not been changed after employees resigned or were terminated. Three locations did not reconcile, pre-number, or safeguard their manual receipts. Nine locations did not use, properly place, or monitor video surveillance cameras.

Management Oversight. Personnel at eight locations did not perform periodic counts of cashier funds. At four of these eight locations, supervisors did not approve voided transactions.

Segregation of Duties. Six locations did not have key cash handling responsibilities separated. At two locations, the same person received payments through the mail and either posted transactions to the Municipal Accounts Receivable Receipt System or prepared the deposit. At four other locations, the same person receiving payments was also involved in either the closeout or the reconciliation process. Moreover, no independent verification of daily collections occurred.

Department Policies and Procedures. Cash handling policies and procedures were not prepared or updated at nine locations. Six locations did not have written departmental procedures. At two other locations, departmental procedures did not provide guidance for handling daily overages and shortages, including disciplinary action for repeat occurrences. At another location, procedures did not address overpayments received through the mail.

Training. Cash handlers at six locations did not receive the required cash handling training. According to Administrative Directive 8.1, cash handlers should be provided with the necessary guidance and training to help ensure that cash collection activities are executed as City Management intended.

Following is a graphic representation of our results for the 21 audit locations:

Matrix of Internal Control Issues Identified by Location	Locations																			
	Health Immunization Ctr	Vital Statistics	South Flores Health Clinic	Library Main	Library Great Northwest	Library Westfall	Downtown Ops Riverbend	Downtown Ops St. Mary's	311 Las Palmas	311 Southpark Mall	311 Valley View	Aviation Parking	Municipal Court	Conv Sports & Entertainment	Parks Botanical Gardens	Municipal Athletics Office	Asset Management	Finance Revenue/Collections	Animal Care Services	Development Services
Receiving and Processing																				
More than 1 person had access to the cash drawer			**	**	**			*												
Checks were not restrictively endorsed upon receipt		**				*	*	*		*				*						
No log for incoming checks		*		*											*					
Inappropriate use of change fund					*															
Deposits were not timely															*					
Previous day's deposit was used for change at an off-site event																	*			
Safeguarding of Assets																				
Safe combinations not changed when employees are terminated or leave			*		**												*			
Manual receipts not reconciled, pre-numbered, or safeguarded		**			*									*						
No surveillance video used, properly placed, or monitored	**	**		*	*	*		*		**	**			*						
Fees/rates not posted				**				*	*											
No sign providing contact information when a receipt is not received by customer				*	*			*	*			*		*						
No mechanism for controlling admissions (receipts not reconciled to admissions count)														**						
<p>* = Observation noted. ** = Similar observation noted in a previous report.</p>																				

Matrix of Internal Control Issues Identified by Location	Locations																			
	Health Immunization Ctr	Vital Statistics	South Flores Health Clinic	Library Main	Library Great Northwest	Library Westfall	Downtown Ops Riverbend	Downtown Ops St. Mary's	311 Las Palmas	311 Southpark Mall	311 Valley View	Aviation Parking	Municipal Court	Conv Sports & Entertainment	Parks Botanical Gardens	Municipal Athletics Office	Asset Management	Finance Revenue/Collections	Animal Care Services	Development Services
Management Oversight																				
No periodic cash counts		**	*		*	*		*	*				*				*		*	
Voids do not require supervisor approval						*		*					*					*		
Segregation of Duties																				
Incompatible responsibilities	**	*	*	*		*		*												
Department Policies and Procedures																				
No written procedures				**	**	**		*					*					*		
Incomplete procedures		**	*												*					
Training																				
Staff have not attended cash handling training				*				*	*	*						*		*		
<p>* = Observation noted. ** = Similar observation noted in a previous report.</p>																				

APPENDIX B – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

City Auditor
San Antonio, Texas

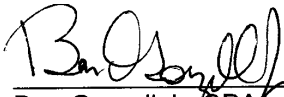
RE: Management’s Corrective Action Plan for the Citywide Cash Handling

Finance Department Management has reviewed the audit report and has developed the Corrective Action Plans below corresponding to the recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person’s Name/Title	Completion Date
A	Internal Control Issues Over Cash Collections	4			
	Ensure that operating procedures are updated to fully implement Administrative Directive 8.1.	4	Accept	Troy Elliott, Assistant Finance Director	October 31, 2008
	<p><u>Action plan:</u></p> <p>On February 1, 2008 the City implemented a Centralized Financial Services Model. This model creates a direct financial reporting relationship between the Finance Department and the Fiscal Planning Managers (FPMs) and Fiscal Operations Managers (FOMs) that work and are located in each City Department. These positions now operate under the direct supervision of the Finance Department and provide control over the department resources responsible for the fiscal management of each department. This model facilitates the implementation of any necessary corrective actions, introduction of new standards and enforcement of existing directives such as Administrative Directive 8.1. A required training will be held on September 19th for all FPMs and FOMs on the requirements of Administrative Directive 8.1. Upon conclusion of the training the FPMs and FOMs will evaluate their respective departments operating procedures and make the necessary adjustments to become compliant with the requirements of the Administrative Directive.</p>				
B	Change Fund Amounts Differ from the City’s Accounting System	4			
B.1	Appoint an individual with custodial responsibility over citywide change funds.	5	Accept	Margaret Villegas, Assistant Finance Director	October 31, 2008

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
B.2	Perform periodic verifications of change funds; including unannounced spot checks.	5	Accept	Troy Elliott, Assistant Finance Director	Completed
B.3	Implement procedures to periodically recertify the accountability and need for change funds.	5	Accept	Troy Elliott, Assistant Finance Director	October 31, 2008
<p>Action plan:</p> <p>The Finance Department has appointed Mike Martinez, Collections Manager as the individual with custodial responsibility over citywide change and petty cash funds. This role complements his current duties and the new responsibilities will be fully transferred to him by October 31st.</p> <p>In the Reorganization of the Finance Department, a new group was created called Compliance and Resolution with the responsibilities of monitoring departmental compliance and to assist departments in identifying resolution to control issues. An annual work plan is developed which includes periodic and unannounced verifications of change and petty cash funds. In the current fiscal year the Compliance and Resolution Group has completed 43 verifications of change and petty cash funds.</p> <p>Procedures will be implemented by October 31st to periodically recertify the accountability and need for petty cash and change funds.</p>					

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.


 Ben Gorzell Jr. CPA
 Director,
 Finance Department


 Pat DiGiovanni
 Deputy City Manager