



CITY OF SAN ANTONIO

P. O. BOX 839966
SAN ANTONIO, TEXAS 78283-3966

Audit of the City Clerk's Cash Handling and Revenue Controls Audit # AU06-013

August 18, 2006

Leticia Vacek, City Clerk
Office of the City Clerk

We have completed an audit of the Cash Handling and Revenue Controls at the City Clerk's Office. The objectives of the audit were to determine the adequacy of internal controls regarding cash handling activities and assess compliance with applicable City of San Antonio (COSA) policies and procedures.

Cash collections for fiscal year 2005 totaled \$25,842 and \$17,509 for the ten months ending fiscal year 2006.

Although the audit did not reveal issues that would need to be reported through an audit report, other less significant control issues, or opportunities for improvement, are listed below.

- Separate incompatible duties in the cash handling process
- Perform daily reconciliations of collections, that includes independent verification
- Restrict access to the petty cash and change funds to the custodian and a designated back-up
- Deposit collections weekly, and daily during January and February when there is an increase in activity
- Develop cash handling Departmental procedures to be used in addition to citywide policies and procedures
- Secure the key to the petty cash box at all times
- Ensure petty cash advancements are properly approved and settled within two working days
- Change the vault combination

The observations and recommendations in this letter are for your information and do not require a written response.

We would like to express our thanks and appreciation to you and your staff for the assistance and cooperation provided to the audit team during this audit. Their assistance enabled us to accomplish our objectives in a timely manner.

Should you have any questions or concerns regarding any of the observations addressed during this audit, please do not hesitate to contact us. We will be glad to assist you in any way possible.

Sincerely,

Handwritten signature of Mark S. Swann in black ink.

Mark S. Swann CPA, CIA, CISA
Interim City Auditor

DETAILED OBSERVATIONS AND RECOMMENDATIONS

The following recommendations were made as a result of observations noted during the audit. These observations were obtained through interviews with staff, a walk-through of processes and limited testing.

Conditions:

1. Separate incompatible duties in the cash handling process

There is a lack of segregation of duties in processing cash collections. The Senior Accounting Clerk handles cash collections, makes deposits, performs reconciliation procedures, and is able to initiate the voiding of transactions. In addition, the employee's immediate supervisor also serves as the back up, while performing customer service duties and accepting payments.

Inappropriate segregation of duties exists when one employee is allowed to handle all aspects of a process from beginning to end. When inadequate segregation of duties exists, an employee has the ability to perform and conceal errors and/or fraud.

2. Perform daily reconciliations of collections, that includes independent verification

The City Clerk's Office does not perform daily reconciliation procedures to verify that all fees collected are deposited for the day. The custodian performs an "End of Day" process every two weeks, which includes a comparison of funds collected for that period to the amount of receipts recorded in the ERM/SAP System. However, there is no independent verification made to ensure that all payments received for the day are properly posted in the general ledger and deposited in the bank account.

Timely reconciliation and independent verifications are key control activities of an organization to ensure proper safeguarding of its assets.

3. Restrict access to the petty cash and change funds to the custodian and a designated back-up

There are no cash handling internal controls that restrict access to daily collections and petty cash funds to one individual. The Senior Accounting Clerk is the custodian to the petty cash and change fund in the City Clerk's Office. Currently, cash collections are kept in a change fund box until they are deposited. In the absence of the custodian, two employees have access to the boxes' contents during the day. According to COSA's Cash Handling Policy and Procedures, access should be limited.

4. Deposit collections weekly, and daily during January and February when there is an increase in activity

Cash collections, ranging from approximately \$64 to \$7,800 during fiscal year 2006, were deposited twice a month. According to staff, this is common practice for the Department. However, COSA's Cash Handling Policy and Procedures require that cash collections be deposited within twenty-four hours of receipt or a reasonable time period, depending on the practicality and security of the funds.

5. Develop cash handling Departmental procedures to be used in addition to citywide policies and procedures

The City Clerk's Office is responsible for establishing procedures to ensure effective administration and efficient operations for its cash handling activities. However, the Department currently does not have formal written procedures to address this critical function.

Without formal procedures to guide employees, the Department may not be providing adequate guidance for those employees tasked with carrying them out. As a result, this critical function may not be performed as intended by Management.

6. Secure the key to the petty cash box at all times

The custodian (i.e., Senior Accounting Clerk) keeps in her possession the only key to the petty cash box during business hours. However, after hours, this key is kept together with the petty cash box inside the vault. Several Departmental employees, aside from the custodian, have access to the vault.

This practice is not in compliance with COSA's Cash Handling Policy and Procedures. Only assigned personnel should have access to the key and/or funds.

7. Ensure petty cash advancements are properly approved and settled within two working days

Currently, the City Clerk's Office supports petty cash activities for all Departments located at City Hall. Accordingly, these Departments obtain petty cash advances and/or reimbursements through the City Clerk's petty cash custodian. However, the custodian does not maintain a listing of employees authorized to approve petty cash advancements/reimbursements. Thus, employees could perform petty cash purchases that may not be approved.

A random sample of 47 petty cash transactions was selected for testing to determine the appropriateness of expenditures. It was noted that eight of the petty cash advances tested exceeded two business days. In addition, 33 of the 47 advancements tested did not reflect the settlement date.

Although not yet approved, the City's Administrative Directive (AD) 8.5 "Petty Cash Policy" requires submission of purchase receipts to the petty cash custodian within two working days. This AD has been in circulation for several years and is widely followed by City Departments.

8. Change the vault combination

According to staff, the combination to the vault has not been changed in recent memory; therefore it is possible that past employees may still have knowledge of the combination. COSA's Cash Handling Policy and Procedures require that the combination to the vault be changed within five (5) business days after the departure of these employees.

Risk:

Weaknesses in internal controls may risk exposure of City funds held at the City Clerk's Office to misappropriation and/or fraud without being detected in a timely manner. Also, there is no assurance that all collections due to the City are deposited.

Recommendations:

The City Clerk should implement the following internal control procedures:

- Separate incompatible duties in the cash handling process (i.e., collections, recording, depositing, and reconciliation procedures)
- Perform daily reconciliation of revenue collected with amounts deposited, including supervisory or independent review
- Develop cash handling procedures specific to the Department to provide guidance to City Clerk employees in the performance of their duties
- Improve security of funds held at the City Clerk's Office by changing the vault combination, placing the key to the petty cash box in a separate and secured location, restricting access to City funds to the custodian and a designated back up
- Ensure petty cash expenditures are stamped "paid" along with the date and initials of the custodian for appropriate processing of petty cash expenditures within two business days

It is also recommended that deposits be made at least weekly. During the months of January and February, when a cyclical increase of collection activities occurs, deposits should be made daily.