



GARLAND

INTERNAL AUDIT

Cash Count Audit Follow-up

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City Auditor:

Jed Johnson, CIA, CGAP

Major Contributor:

Ashvi Patel

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Executive Summary

Internal Audit (IA) performed a follow-up review at Department A based on previous cash count audit findings and recommendations. A surprise cash count was conducted at all four locations under Department A on December 12, 2018. At the time of the count, Department A collected \$938 in cash and the combined shortage for all the locations was \$1.

IA also performed an analysis to evaluate the total number and amount of overages and shortages that occurred during the period of October to December 2018. In comparison to the previous analysis, Department A has made cash handling improvements. The total overage from October/2018 through December/2018 was \$95.25 and the total shortage for the same period was \$120.13.

IA validated if the six recommendations from the prior cash count were implemented. Based on our review, five of the six recommendations were fully implemented and one was not implemented.

IA's review of the deposit log resulted in the following:

1. During the testing period, deposits were held for over six days in two instances. The amounts of these deposits were \$30,093.48 and \$35,256.23, respectively.
2. Keyword search fields, such as date and amount, are not entered in the recording system, thus creates challenges in searching or tracking deposits.

Authorization

This audit follow-up was conducted under the authority of Article IV, Section 8 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

Objective

This review is a follow-up of the "Cash Count Audit" report issued on October 15, 2018. The objective was to determine if Department A implemented previous audit recommendations.

The original audit objectives were to:

1. Verify whether the administration of the City's cash funds is in compliance with the City of Garland's Financial Policies, Procedures and Directives.
2. Determine if cash is secured.

Scope and Methodology

IA conducted this audit follow-up in accordance with Generally Accepted Government Auditing Standards. Those standards require that IA 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. IA believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

The scope of the audit follow-up was October to December 2018.

In order to determine if previous recommendations were implemented, IA:

1. Conducted a follow up surprise cash count on December 12, 2018 simultaneously at all four Department A locations.
2. Performed a walkthrough to observe if keys were removed from the registers.
3. Inquired with cashiers to assess whether the previous recommendations were implemented.
4. Obtained and the reviewed the bank deposit log to verify if deposits were timely.
5. Conducted an overage and shortage analysis based on a three month period from October to December 2018.
6. Randomly selected four transactions from the overage and shortage log and traced to Bank Statements to verify that funds were deposited timely.
7. IA interviewed the Operations Financial Coordinator of Department A to gain an understanding of how deposits are completed.
8. Obtained bank statements and reconciliations from Finance and met with the Finance department to understand the tracking of the deposit log and bank deposit slips to the bank statements.
9. Obtained updated policies and procedures from management, Point of Sale (POS) screen shots, and employee cash handling agreements.

For data reliability purposes, IA validated that the systems, applications, databases, processes, and individuals did not change significantly from the previous audit.

Background

Department A consists of four change fund locations. Change funds are used to make change readily available for those customers paying cash for fees and services. Various departments throughout the City receive cash for fees and services provided such as permits, inspections, utility payments, registration fees, admissions, copies, internet use. The Finance Department is responsible for distributing and recording the change fund for departments and maintaining a current list of change fund custodians for each department. A Cash Handling Custodian Agreement must be signed by employees handling cash and their Managing Director. A designated Custodian is required to keep funds secure and pre-numbered receipts must be issued. Each department is responsible for reconciling their cash and for

preparing daily cash reports. Daily deposits are made either by taking the funds to a centralized location or having the funds picked up by an armored car service.

Audit Follow-up and Opportunities for Improvement

The section below includes the original opportunities for improvement and management response from the previous audit dated October 15, 2018, the audit follow-up results and the new opportunities for improvement.

This review was not intended to be a detailed study of every relevant system, procedure and transaction. Accordingly, this report may not be all-inclusive of areas where improvement might be needed.

Original Opportunities for Improvement

CONDITION (THE WAY IT IS)

Department A consists of four change fund locations that will be noted as Location 1, Location 2, Location 3 and Location 4 for purposes of this report.

The cash count at Locations 1 and 2 revealed an overage of approximately \$10 and \$6, respectively. IA reviewed the overage and shortage log and identified several unreconciled items during prior months. Consequently, the scope was expanded to analyze data from January/2018 through June/2018 of all four locations.

The table below displays the total *number* of overages and shortages that occurred at all four locations from January/2018 through June/2018:

Month	Jan	Feb	Mar	Apr	May	Jun	Total
# of Overages	46	31	65	59	60	67	328
# of Shortages	34	36	37	46	52	37	242

Source: Point of Sale (POS) System

The table below displays the combined *dollar amount* of overages and shortages that occurred each month from January/2018 through June/2018:

Month	Jan	Feb	Mar	Apr	May	June	Total
# of Overages	\$432.49	\$458.06	\$729.08	\$ 1,285.05	\$ 1,269.65	\$ 2,627.64	\$ 6,801.97
# of Shortages	\$(345.76)	\$(593.06)	\$(276.53)	\$ (710.02)	\$ (831.21)	\$ (956.10)	\$ (3,712.68)

Source: Point of Sale (POS) System

Additionally, IA analyzed *overall amounts* of overages and shortages based on individual departments to distinguish where improvement and additional training is required.

Monthly Summary-Count		
Department	# of Overages	# of Shortages
Location 1	58	81
Location 2	70	48
Location 3	85	76
Location 4	115	37
Total	328	242

Source: Point of Sale (POS) System

Monthly Summary-\$ Amount		
Department	# of Overages	# of Shortages
Location 1	\$603.35	(\$493.79)
Location 2	\$2,368.47	(\$654.04)
Location 3	\$1,470.04	(\$1,267.32)
Location 4	\$2,360.11	(\$1,297.53)
Total	\$6,801.97	(\$3,712.68)

Source: POS System

RECOMMENDATION

Management should:

1. Contact City's Finance Department to provide Cash Handling training.
2. Have all cashiers review Cash Handling Directives and sign the Cash Handling Custodian Agreement.
3. Give cashiers read-only access to print transaction detail report, which will enable employees to reconcile ending balances and review the overage or shortages to identify errors if applicable.
4. Review daily reconciliation reports to identify root cause for overages and shortages.
5. Consider providing each employee individual tills so they can reconcile and verify ending balances at the end of their shift.
6. Ensure that keys are removed from the register and kept in secure area, such as a safe, since it is not necessary for the POS system to function.

MANAGEMENT RESPONSE

Concur

ACTION PLAN

1. A meeting with all cash handling employees was immediately held following the surprise audit to discuss the audit results and departmental changes going forward.
The Cash Handling Directive and Custodian Agreement was reviewed and distributed to all employees to sign and return.
2. Employees now have access to reviewing end of day reports and there is a second count by another employee to verify reconciliation. The new practice requires that

both employees must sign a cash ledger form which ensures the accuracies of the starting and closing tills.

3. Cash counts and point of sale transactions are being reviewed by management each day.
4. Discrepancies are immediately researched and feedback is provided to the employee.

The overall frequency and overage/shortage amounts has been significantly reduced since the date of the meeting and the implementation of these new processes.

5. Keys have been removed from all registers as recommended.
6. The department is researching various options to accommodate the recommendation of individual tills.

IMPLEMENTATION DATE

September 17, 2018.

Audit Follow-up

- A. A surprise cash count was performed at all four locations simultaneously on December 12, 2018. At the time out of the count, Department A collected \$938 in cash and the combined shortage for all the locations was \$1.
- B. An analysis of the three month overage or shortage was performed to assess if improvements have been made to cash handling. The total overage amount from October to December was \$95.25 and the shortage amount for the same period was \$120.13. The table below illustrates the number of monthly overages and shortages (\pm \$1) for the three month period that was reviewed.

Month	October	November	December	Total
# of Overages	10	8	4	22
# of Shortages	12	14	4	30

As shown above, Department A has made cash handling improvements and continuously making progress.

- C. IA further evaluated if previous recommendations were implemented.
 1. Departmental training was held on September 17, 2018 in which City Directives and policies were discussed. During this training, Cash Handling Custodian Agreements were signed by staff that handles cash. IA obtained and reviewed these agreements and verified they were signed by both employee and the Managing Director.

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2. Management gave employees access to print variance reports to balance their till. During the cash count, IA observed employees printing out reports at the end of their shifts.
 3. Department A established a new policy where employees must conduct the end of day reconciliation in the presence of another employee. Additionally, a cash ledger form has been developed that employees must sign upon completion of this count. Both were confirmed by IA during the cash count.
 4. Management implemented a daily review the cash count reports and Point of Sale (POS) transactions. Also employees are required to immediately contact management for a variance greater than \$5.
 5. Management did not implement the recommendation to provide employees with individual tills due to lack of space to secure additional tills.
 6. During the surprise visit, IA observed that keys were removed from the registers.

IMPLEMENTATION

1. Fully Implemented
2. Fully Implemented
3. Fully Implemented
4. Fully Implemented
5. Not Implemented
6. Fully Implemented

New Opportunities for Improvement

FINDING #1: INCONSISTENT DEPOSITS AND INSUFFICIENT DATA ENTRY

CONDITION (THE WAY IT IS)

IA's review of the deposit log and the system log resulted in the following:

1. During the testing period, deposits were held for over six days in two instances. The amounts of these deposits were \$30,093.48 and \$35,256.23, respectively.
2. Keyword search fields, such as date and amount, are not entered in the recording system, thus creates challenges in searching or tracking deposits.

CAUSE (DIFFERENCE BETWEEN CONDITION & CRITERIA)

1. Deposits are not made when the Operations Financial Coordinator is out the office.
2. Certain keyword fields are not mandatory to process deposits.

CRITERIA (THE WAY IT SHOULD BE)

1. The Finance Cash Handling Directive #1 states that "Each day's receipts will be deposited intact no later than the following business day.
2. The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government, Principle #16.05 states "Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. Ongoing monitoring may include automated tools, which can increase objectivity and efficiency by electronically compiling evaluations of controls and transactions."

EFFECT (SO WHAT?)

Internal control weaknesses over cash handling will increase the potential risk that:

- Funds may not be available for immediate use.
- Detection for inappropriate activities may not be timely.
- Insufficient data leads to limited audit trail and results in inefficiency.

RECOMMENDATION

Management should:

- Ensure deposits are made timely and in accordance with the City Directives.
- Obtain approval from the City Manager for any exceptions, if deemed necessary.
- Provide cross-training to employees to ensure continual cash handling activities in the events that the Operations Coordinator is not available.
- Verify adequate amount of information is input into the recording system upon entering the daily deposit information.

MANAGEMENT RESPONSE

Concur

ACTION PLAN

A meeting with the department's Operations Financial Coordinator was held to discuss options related to ensuring the deposits, from the four locations, are made each day. During the periods deposits were held for six days the employee responsible for the deposits was on vacation/holiday.

In order to overcome the challenges associated with daily deposits, the head golf professional will be responsible for daily deposits, when the financial coordinator is unavailable. If both the financial coordinator and head golf professional are unavailable during the work day the daily deposit will remain secured in the safe.

The current contract with the armored car service does not accommodate a seven day a week deposit pick up. Since Department A is open seven days a week and the armored car service only picks up four days a week an exception will be requested.

Information pertaining to the finance system financial fields will be completed going forward.

IMPLEMENTATION DATE

Immediately 03/01/19