



20 E Main St Suite 820
PO Box 1466
Mesa, Arizona 85211-1466

Date: November 4, 2013

To: Audit, Finance, and Enterprise Committee

From: Jennifer Ruttman, City Auditor

Re: Audit Report – Citywide Change Funds/Cash Handling

In accordance with the Council-approved Audit Plan, the City Auditor's Office has completed a citywide audit of cash change funds. The report is attached. Please don't hesitate to contact me if you have any questions.



20 E Main St Suite 820
PO Box 1466
Mesa, Arizona 85211-1466

AUDIT REPORT

CITY AUDITOR

Report Date:	November 4, 2013
Department:	Citywide
Subject:	Change Funds/Cash Handling
Lead Auditor:	Bill D'Elia

OBJECTIVE

This audit was conducted to determine whether adequate internal controls are in place and operating effectively to safeguard change funds throughout the City.

SCOPE & METHODOLOGY

To accomplish our objective, we:

- Conducted unannounced counts of 20 cash change funds throughout the City.
- Reviewed citywide and departmental cash handling policies and procedures.
- Interviewed City staff members.
- Performed other tests and procedures as necessary to meet the audit objective.

BACKGROUND

Due to the high vulnerability of cash, the City Council has asked our office to perform periodic audits to ensure the City is minimizing the risks associated with cash operations. The City primarily utilizes cash in two ways – petty cash and change funds. These two fund types differ in that change funds are used in the revenue receiving process, while petty cash funds are used for expenditures. Change funds should never be expended or depleted for any reason, and should be equal to their established value at all times. This audit focused solely on change funds.

There are 23 change funds used to make change during cash transactions with customers at 20 different locations throughout the City. Each change fund has one or more custodians, who are responsible for ensuring the fund is managed appropriately and safeguarded from loss. Management Policy 210 – Cash Handling (MP210) governs the use of these funds citywide and sets forth specific requirements designed to ensure there is individual accountability, separation of duties, physical security, reconciliation of accounts, and management oversight/monitoring. Departments are responsible for developing additional cash handling procedures that apply uniquely to their own operational requirements, and City policy requires that those procedures be approved by the Accounting division. Every employee who handles cash is required to fully understand and comply with both citywide and departmental cash handling policies and procedures.

CONCLUSION

Overall, we found a net variance of approximately -4% for all change funds counted. While this number does not represent a material loss to the City, and we found no evidence of fraud or theft, it is our opinion that the variances were due to a lack of due diligence by fund custodians combined with insufficient management oversight. For example:

- 2 custodians did not know how much cash they were supposed to have.
- 3 custodians could not locate their entire funds when asked to do so.
- Many custodians did not fully understand the City's cash handling policy (MP 210).
- The cash handling practices of these custodians, and several others as well, were not actively monitored or regularly reviewed by management.

Furthermore, we found that the Accounting division has not maintained the policy; has not worked with departments to develop and deliver cash handling training (which is required at least every 2 years); and has not taken an active role in ensuring that departmental cash handling procedures are adequate.

In our opinion, internal controls have not been enforced, leaving the City vulnerable to loss. Fortunately, we did not find that any significant losses have occurred. Our recommendations to reduce the risk of losses in the future are listed below.

RECOMMENDATIONS

We recommend that all departments with change funds do the following:

1. Reconcile all change funds daily to their established values, and immediately report and account for any overage or shortage that is discovered.
2. Manage all funds in a manner that maintains individual accountability at all times.
3. Immediately record all cash received in a point of sale system, and implement additional controls as needed to ensure all cash is recorded.
4. Submit departmental cash handling procedures to the Accounting Division for approval.
5. Ensure that employees who handle cash are trained and fully understand all applicable policies and procedures. These employees should be required to sign an annual acknowledgment (in conjunction with the PAF process), stating that they understand and agree to comply with these procedures.
6. Ensure that reconciliations and deposit preparations are periodically reviewed by management.

We recommend that the Accounting Division do the following:

1. Require all departments with cash handling operations to submit detailed written cash handling procedures to Accounting for approval.
2. Require prospective cash custodians to acknowledge receipt and understanding of a policy that clearly outlines their responsibilities regarding that fund.
3. Review and revise Management Policies 203 and 210.

MANAGEMENT RESPONSE

All of the impacted departments responded to our recommendations with corrective actions to ensure compliance with citywide and departmental policies in the future. In addition, the Accounting Division provided the following response:

The City concurs with the Audit recommendations and will ensure that process and procedures are in place over the safeguarding of change funds. Specifically we will work to ensure departments are following Management Policy 210- Cash Handling, that all change funds are reconciled on a daily basis, and that all cash received in the point of sale system is immediately recorded.

Management Policy 203 is in process of being updated. The update includes the separation of the policies that pertain specifically to Petty Cash and/or Change Funds. The updated policy will include reviewing Policy 203 on an annual basis with all Petty Cash and Change Fund Custodians.

In addition, the Accounting Division will update the cash handling training to include an acknowledgement of Management Policy 210 and will be obtaining and reviewing all cash handling policies for approval.