

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2016-001 The City did not have adequate oversight over cash receipting and small and attractive assets to safeguard public resources.**

#### *Background*

The City provides a variety of municipal services and collects revenues over the counter in various departments. During the audit period, Parks and Recreation collected \$1 million, the City Library collected \$57,440 and the City Clerk's Office collected \$47,048.

City management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance that public resources are safeguarded.

The City does not have policies regarding cash receipting or a small and attractive assets, which have been recommended in prior audits.

#### *Description of Condition*

##### **Cash handling**

City management did not provide adequate oversight to ensure routine cash handling procedures were followed.

We also identified the following issues:

##### *Parks and Recreation*

- The change fund is \$50 more than authorized by ordinance.
- There is no independent review of voids, no-sale transactions, refunds and adjustments.
- The Department does not require a unique login for each employee performing cash receipting responsibilities.
- The Department receives cash receipts from the Cemetery or Pavilion, but there is no log or receipt to record the fund transfers.
- We noted a \$52 shortage in a cash drop, and the Department did not retain the support for that day's activity. This was determined to be a loss.

- We tested 15 deposits totaling \$11,276 that the Department did not deposit within 24 hours as state law requires.

#### *City Clerk's Office*

- The Office does not have an automated cash receipting system and uses a manual receipt books and activity logs for cash receipting revenues from passport fees, business licenses, permits and event fees. During our review we noted that manual receipts are not used consistently.
- The Office did not adequately segregate duties. Staff who receipt cash also prepare deposits.
- Without system revenue reports or manual receipts for all transactions, we were unable to determine if all money received by the Clerk's Office was deposited intact and in the proper period, if at all. The City may not be able to determine if a fraud occurred or assign responsibility if one is detected.

#### *Library*

- The Library cannot reconcile collected revenues to system-generated reports since it implemented new receipting software in 2016. Variances occur on a consistent basis and are assumed to be the result of glitches in the new receipting software. The Library's receipting documentation does not provide an adequate record of funds collected to support the validity of receipts in accordance with state law (RCW 43.09.200).
- Deposits were not made within 24 hours as state law requires.

#### **Small and attractive assets**

City management did not provide adequate oversight to ensure routine procedures for safeguarding of small and attractive assets were followed. We selected three departments to determine if departments have established controls and found:

- The Parks and Recreation Department does not maintain a current small and attractive assets inventory list. This list should include unique identifiers such as serial numbers, assigned identification number and location of the equipment.
- The Information Technology inventory list was not complete, and some items on the list did not have a unique identification number.

- The Utility Department does not complete an inventory nor does it track purchase, surplus or disposal of small and attractive assets.

### ***Cause of Condition***

The City has delegated the responsibility for developing cash receipting and small and attractive asset processes to departments without city-wide policies. Departments have not spent the time necessary to establish a control system or procedures over cash handling and small and attractive asset tracking.

### ***Effect of Condition***

The City cannot ensure it is receiving all money due or that theft-sensitive assets are safeguarded for only City use. By having employees perform incompatible duties without adequate oversight and monitoring, the City limits its ability to assign responsibility should a loss in funds or assets occur. This also increases the risk that errors or irregularities could occur and not be detected promptly, if at all.

### ***Recommendations***

We recommend the City:

- Create written policies and procedures over cash receipting and small and attractive assets to ensure public resources are properly safeguarded
- Ensure cash receipting records, such as receipts and reservation logs, are retained, accurate and complete
- Perform reconciliations of receipts to deposits to ensure the mode of payment collected – cash or check – was deposited intact
- Implement a reconciliation between expected and actual revenues to identify and follow up on any variances
- Perform an independent review of reconciliations and monitor adjustments, refunds and voids to ensure they are properly supported and reasonable
- Implement recordkeeping procedures and a recurring inventory process over small and attractive assets

## ***City's Response***

### ***Cash Handling -***

*We acknowledge the need for written policies to ensure appropriate procedures are used consistently by all departments, to safeguard public assets and to protect our employees. Policies are expected to be drafted in early 2018.*

### ***Cash Handling in the City Clerk's Office***

*We are beginning the process of implementing an automated cash receipting system at the City Clerk's Office and plan to have it in service in early 2018. However, there are an abundance of records that detail the makeup, amounts and timing of cash received. For passports, the City Clerk's Office maintains a Passport Transmittal log for each day that details every single passport processed and all related fees paid. The details retained in the log are equivalent to receipts for our purposes. There is also a summary by month for each year indicating the number of passports and payments received. The 1,745 passports logged correspond to the \$43,625 recorded in the General Ledger.*

*Special Event and Street Closure Permits are tracked in a separate log. The log is supported by electronic and/or paper records for each application that includes fee paid. This is also equivalent to receipts for our purposes.*

*Other specialty licenses are listed on another log that is maintained and similarly supported with application details.*

*Receipt books are generally used to supply customers with receipts at their request. These have been retained for the full year's as well as all deposit tickets.*

*These records should be adequate to determine actual receipt of the monies, and whether or not they were deposited intact and in the proper period.*

*We don't think the cash management practices in this department warrant a finding.*

### ***Cash Handling at Library***

*Reconciling collected revenues to system generated reports has been a known issue and Library staff has pressed the vendor for a correction. Bibliotheca has recently upgraded the system in response, and since about the beginning of November 2017, this issue has been corrected.*

*As to deposits not made daily as required, this is true. It is also impractical as explained by the Library Director. Small staff, Saturday deposits, small dollar*

amounts – often less than \$5 in a given day all make it impractical to deposit daily. An exception to the daily deposit rule has been requested and granted in December 2017.

*We don't think the cash management practices in this department warrant a finding.*

### **Cash Handling at Parks**

*As to deposits not made daily as required, this is similar to the Library. There is cash receipting activity on the weekends making daily deposits impractical. An exception to the daily deposit rule has been requested and granted in December 2017.*

*The issues related to voids, no-sales, refunds, adjustments and unique logins are all elements that should be addressed in the cash receipting policy early 2018.*

*There is indeed no log – additional paperwork – to record the hand delivery of deposits from Cemetery or Pavilion to the Parks Department. There is also no indication of any of those funds being lost in transit. All of the other issues are relatively minor events of the type that is likely to happen in any given year in any control environment. One \$52 shortage out of \$1 million in receipts is a very small percentage.*

*We don't think the cash management practices in this department warrant a finding.*

### **Small and Attractive Assets**

*The use of an inventory has limited application in the control of small and attractive assets.*

*The value of an inventory lies in providing information regarding a loss in a manner that is timely enough and detailed enough to help fix responsibility or otherwise to provide valuable information to facilitate recovery of lost or stolen property by the Police or through insurance.*

*An example of timely information would be the counting of a petty cash box at shift change when transferring responsibility.*

*An annual, or even monthly inventory does absolutely nothing to help fix responsibility. More frequent inventories of small attractive assets are not likely to provide a benefit that justifies the cost.*

*Small and attractive assets by definition are valued at less than \$5,000. Given that the typical rate nationwide for Police recovery of stolen equipment is about 10% or less, there is little justification for spending significant Police resources – our expense – to even attempt recovery for items valued at less than \$1,000. The benefit would not be likely to justify the cost. As to recovery by insurance – we are self-insured with a deductible of \$5,000. There would be no insurance recovery for these assets.*

*Therefore an inventory has little or no practical value for us in the control of small and attractive assets.*

*A far more superior control for these things is to keep the theft-sensitive small assets under lock and key with controlled access. All three departments do this.*

*This does not warrant a finding. The departments are all exercising an appropriate level of care to safeguard public assets.*

### ***Auditor's Remarks***

In the 2014 and 2015 audits, we recommended the City establish written policies and procedures for cash receipting and small and attractive assets.

Cash and small and attractive assets are sensitive to theft or loss. That is why state law requires the establishment of written policies and effective internal controls to safeguard public property and funds. These policies and controls also protect public employees: In the event that internal controls are bypassed, effective controls help the City to identify the loss, assign responsibility, and take appropriate action regarding personnel who contribute to the loss of public property and funds.

This is especially relevant to the Parks Department, which processes a large amount of low dollar transactions (such as \$2 for every admission to open gym or classes that can cost \$40 or more) and has many part-time and seasonal employees. The City asserts there is no indication of funds being lost in transit, but without adequate controls and monitoring, the City cannot be sure it can identify losses or assign responsibility for those losses.

At the City Clerk's office, we found it difficult to trace daily revenues to the bank because employees use multiple logs and do not use manual receipts consistently. This indicates there is no oversight of these revenues and that a loss could occur and go undetected.

While the Library processes a smaller amount of low dollar transactions (such as overdue book fines that are 15 cents a day per item), the lack of accurate revenue

reports and of timeliness in deposit increases the risk that a loss of funds could occur and go undetected by management.

Our review of cash receipting across multiple departments indicates oversight and internal controls are not adequate City-wide to detect losses, ensure they are reported, and assign responsibility for the loss. In fact, our audit work shows that currently there's no way to know whether such losses may already have occurred.

We re-affirm our finding and will follow up on the City's response to our recommendations in the next audit.

### ***Applicable Laws and Regulations***

*Budgeting, Accounting and Reporting System (BARS) Manual – Accounting, Accounting Principles and Internal Control, section 3.1.3*

*Budgeting, Accounting and Reporting System (BARS) Manual – Accounting, Revenues, Cash Receipting, Deposits, section 3.6.120*

RCW 43.09.200 Local government accounting – Uniform system of accounting

RCW 43.09.240 Local government accounting – Public officers and employees - Duty to account and report – Removal from office – Deposit of collections

*Budgeting, Accounting and Reporting System (BARS) Manual – Capital Asset Management, section 3.3.8.40*