



Date: February 2, 2017

To: Bob Wingenroth, City Manager

From: Carol Holley, Internal Auditor 

Subject: Police Department Cash Handling Audit - Internal Audit Report No. 2017-1

As part of the FY2017 Annual Audit Plan, the Internal Auditor has completed the Police Department Cash Handling Audit. The audit report contains 21 opportunities to strengthen and enhance internal controls over the department's cash handling procedures.

Internal Audit extends its appreciation to the Police Department for their assistance throughout the audit.

Attachment

CC: Diane Arthur, Marketing & Communications Director
Lindsey Duncan, Finance Director
Robert Wingo, City Attorney
Terry Young, Police Chief

BACKGROUND:

In 2015, the Finance Department developed Cash Handling Policies and Procedures (Policy) to establish citywide best practices for handling cash and cash equivalents to minimized the opportunity for mismanagement or theft of City funds. It is the responsibility of each City department to understand and appropriately apply the policies and procedures. Departments may develop additional procedures to complement and strengthen controls over cash and cash equivalents.

The Police Department maintains a \$600 change fund and a \$500 petty cash fund. This is the City's only petty cash fund.

The Police Records Unit collects and process fees for various services provided to the public, including public records requests, fingerprinting, donations, crime scene photographs, and copies of vehicle collisions or investigation reports. During the period of July 1, 2016 to November 16, 2016, over 12,000 transactions totaling \$48, 528 were processed by PD in revenues. This consisted of \$18,196 in cash, \$13,905 in credit cards, and \$16,427 in checks.

OBJECTIVE:

- ◆ Determine whether administration of City cash funds are in compliance with City policies and procedures
- ◆ Assess whether City funds are adequately safeguarded and protected against theft and misappropriation

SCOPE & METHODOLOGY

The scope of the audit was for the period of July 1, 2016 to November 16, 2016 and included:

- ◆ Interviews with staff
- ◆ Observation of cash handing procedures
- ◆ Review of policies and procedures
- ◆ Review of petty cash supporting documentation
- ◆ Review of daily deposit supporting documentation
- ◆ Review of various Tyler cashiering reports
- ◆ Review of available security video surveillance recordings



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Conclusion:

On November 16, 2016, Internal Audit (IA) performed a surprise Police Department (PD) petty cash and cash drawer count. No overages or shortages were noted during the counts. IA noted areas where best practices were in place, such as :

- ◆ Formalized and documented petty cash and Record Unit Division cash handling policies that were available to staff via the internet
- ◆ Utilization of security video surveillance cameras in the cashiering area
- ◆ Issuance of a cash register receipt for all transactions processed

Audit observation, interviews, and testing identified four key areas in which to strengthen cash handling controls: segregation of duties, physical security, accountability, and reconciliation. The identified opportunities will further enhance current practices that are in place to secure and protect the PD's petty cash and cashiering operations.

IA extends its appreciation to the PD, Finance Department, and the Information Technology Department for their participation in the audit.

AUDIT HIGHLIGHTS:

- ◆ Cash handling duties should be adequately segregated to reduce the risk of potential errors or irregularities.
- ◆ Safety of staff and cash can be increased by using the bank's currency services to transport cash for replenishing the Police Records Unit change fund.
- ◆ Access to petty cash keys and the Police Records Unit safe should be limited to protect cash from unauthorized access.

Opportunities:

Criteria	Audit Observation	Opportunity	Management Action Plan
SEGREGATION OF DUTIES			
Finance Department Cash Handling Policies and Procedures (Policy) #20.f. – An individual staff member independent of cash receipting pro-	A Police Records Unit (Unit) cashier may prepare the deposit from daily receipts, open and close the daily cash register, reconcile the safe, and perform the opening procedures on the following day. Tasks may be	To prevent errors, fraud, or misappropriation of funds, one individual should not have authority over an asset, the documentation, and reconciliation.	Agree. PD and Finance Department will be working with each other to find a mutually agreeable solution that balances security and customer service.

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Criteria	Audit Observation	Opportunity	Management Action Plan
reconcile receipt records to cash collected to create the daily deposit count and the bank deposit slip.	completed in sole custody. Mitigating controls are not in place to reduce the risk associated with the lack of appropriate segregation of cash handling duties.	When inappropriate segregation of cash handling dues exists, mitigating controls are required to decrease the risk. Mitigating controls may include: <ul style="list-style-type: none"> ◆ Prohibiting access to the safe by the cashier ◆ Preparing deposits in dual custody ◆ Supervisory periodic review of supporting deposit documentation for trends 	Estimated completion date: 10/01/17
Police #20.d. – All voids must be processed by written documentation, which a supervisor must review and approve.	Unit cashiers void transactions without a supervisor or secondary review and approval. Documentation supporting the reason for voids is not always maintained. The supervisor does not periodically review and monitor the Tyler “Void Report” for trends and irregularities.	Voiding transactions can provide the opportunity for fraud or misappropriation of funds. The supervisor should utilize the Tyler “Void Report” to monitor and review voided transactions. Supporting documentation for all voids should be maintained.	Agree. Estimated completion date: 04/01/17
Policy #29 - No individual should have control of both the asset and the records of the asset.	One Unit staff member prepares the accounts receivable invoices for administrative services and vehicle usage related to off duty officers, receives the payments, functions as a cashier, and has the ability to adjust the invoice balance. The supervisor does not perform an independent review of the staff member’s work.	In absence of adequate separation of duties, mitigating controls are required to reduce the opportunity for error, fraud, or misappropriation of City assets. The supervisor should monitor, review, and reconcile the billing activity prepared by the staff member. If feasible, the billing portion should be relinquished to the Finance Department.	Agree. PD and Finance Department will be working with each other to find a mutually agreeable solution that balances security and customer service. Estimated completion date: 10/01/17

PHYSICAL SECURITY

Security surveillance cameras should be positioned to provide the optimum view of cash handling areas.	The security camera is not positioned to include a view of the safe or positioned to decrease staff’s ability to block the view of the cash register.	The Unit should review the positioning of the surveillance cameras to ensure optimum coverage of the cashiering area, to include the safe and a less restrictive view of the cash register.	Agree. PD and Finance Department will be working with each other to find a mutually agreeable solution that balances security and customer service. Estimated completion date: 10/01/17
Policy #4 – Cash must be stored in a secured location which may be accessed only by a limited number of authorized staff.	The Unit’s \$100 cash register change fund is stored in the unlocked cash register drawer after business hours. The primary weekly cashier verifies the funds at the end of the business day. Upon rotation of cashiers, the funds are not counted in dual custody and sign for.	Discontinue the practice of leaving the \$100 fund in the cash register after business hours. All change funds should be counted and signed for before they are relinquished to a different staff member.	Agree. PD and Finance Department will be working with each other to find a mutually agreeable solution that balances security and customer service. Estimated completion date: 10/01/17

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Policy #4.e. - Safe combinations should be changed twice a year and when staff turnover occurs.	The safe combination has not been changed in over two years. At least one turnover in staffing has occurred during this period.	The Unit should change the safe combination. The Unit should develop a process to ensure the safe combination is changed twice a year or when staff turnover occurs.	Agree. Estimated completion date: 02/01/17
The safe should be accessed in dual custody to decrease the potential of misappropriation of cash.	The safe is not always open in dual custody.	Staff should open the safe in dual custody to limit the potential of error, fraud, or misappropriation of cash. In absence of dual custody, mitigating procedures, such as video surveillance of the safe is necessary to limit the risk to cash.	Agree. PD and Finance Department will be working with each other to find a mutually agreeable solution that balances security and customer service. Estimated completion date: 10/01/17
Policy #4 – Cash should be accessed only by a limited number of authorized staff.	All Unit staff members (a total of eight) know the safe combination and routinely access the safe.	Reduce the number of individuals with access to the safe combination to the supervisor and two backup staff members. If feasible, the backup staff should not have other cash handling duties.	Agree. PD and Finance Department will be working with each other to find a mutually agreeable solution that balances security and customer service. Estimated completion date: 10/01/17
Policy #4 – Cash must be stored in a secure location which may be accessed only by a limited number of authorized staff.	Petty cash funds are not adequately restricted and protected from unauthorized access. Keys to the petty cashbox are kept in an unlocked desk in the same area as the petty cashbox.	To prevent the potential of unauthorized access to petty cash, the petty cash custodian should secure petty cash keys in a location separate from the petty cashbox. Access to the keys should be limited to the custodian and the backup custodian.	Agree. Purchasing a safe with the ability to change the combination every six months and an override physical key. Estimated completion date: 07/01/17
Key inventory listings should include a complete listing of all critical keys.	The petty cash keys are not included in the PD key inventory.	Include the petty cash keys in the PD key inventory to increase accountability over the control of the keys.	Agree. Purchasing a safe with the ability to change the combination every six months and an override physical key. Estimated completion date: 07/01/17
ACCOUNTABILITY			
Cash registers should not be shared in order to maintain accountability over transactions.	Seven staff members and the supervisor use one cash register.	Cash registers should not be shared. Mitigating controls should be implemented when cashiers must share registers. The supervisor should discontinue the practice of functioning as a cashier. Daily cashing records should be reviewed and monitored for trends, irregularities, and training opportunities.	Agree. PD and Finance Department will be working with each other to find a mutually agreeable solution that balances security and customer service. Estimated completion date: 10/01/17

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<p>Policy #8 – No employee may take City cash out of City secured sites without pre-authorization from the Revenue Manager.</p> <p>Policy #18 – A clear and unbroken chain of custody over cash must be maintained.</p> <p>Policy #20.g. – Staff may not hand-carry cash in bank bags off site.</p>	<p>Cash is released from the \$500 safe change fund to a volunteer or a Unit staff member without a signature or adequate documentation and in sole custody to transport to the bank to replenish the safe change fund.</p>	<p>To enhance the safety of personnel and cash, the Unit should discontinue the practice of staff transporting funds to the bank. The Unit should implement procedures to use the banking delivery service to obtain change.</p> <p>The Unit should use a change request form to track and monitor the currency flow to and from the safe.</p>	<p>Agree. PD and Finance Department will be working with each other to find a mutually agreeable solution that balances security and customer service.</p> <p>Estimated completion date: 10/01/17</p>
<p>PD ADM26 and ADM 31 identify the services provided by the Unit.</p>	<p>Two Police policies are inconsistent in referencing what services the Unit provides.</p>	<p>The Unit should review and update policies and procedures.</p>	<p>Agree. PD and Finance Department will be working with each other to find a mutually agreeable solution that balances security and customer service.</p> <p>Estimated completion date: 10/01/17 Also working with the Police Management Analyst on policy updates.</p>
<p>Accountability for cash funds should be documented with the Finance Department.</p>	<p>An audit trail documenting the assignment of custodianship of the petty cash fund and petty cashbox keys was not available.</p>	<p>The custodian’s accountability for cash funds should be demonstrated through the formalized signature documentation maintained by the Finance Department. The documentation should be updated with each change in custodian.</p>	<p>Agree. PD and Finance Department will be working with each other to find a mutually agreeable solution that balances security and customer service.</p> <p>Estimated completion date: 10/01/17</p>
<p>Policy #20.c. – Management must maintain a log of overages and shortages for identifying trends and evaluating staff performances unless supported by an automated system which provides the data.</p>	<p>Staff has not developed a policy and procedure for petty cash variances.</p>	<p>Clearly written policies and procedures provide guidelines on what staff can and cannot do, what activities are appropriate, and how policies are enforced. Staff should develop and document a procedure for reviewing cash variances.</p>	<p>Agree.</p> <p>Estimated completion date: 10/01/17</p>

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Resolution 2015-108 established the rates and fees for City services.	The City Council approved administrative rates for off duty officers are \$4 per hour and \$3 per hour for patrol vehicle usage. The actual rate billed for services is \$1 per hour.	The Unit should review Resolution 2015-108 and bill customers at the approved rates.	Agree. Estimated completion date 04/01/17.
Resolution 2015-108 established the rates and fees for City services.	The off duty service contracts reflect the incorrect rates for administrative fees and patrol vehicle fees.	The Unit should review Resolution 2015-108 and update the off duty service contracts to reflect the approved rates.	Agree. Estimated completion date 04/01/17.
Policy #20.f.i. – A second person must verify the daily deposit count and the deposit slip if the secured room is not covered by video surveillance.	The deposit verifier visually observes the deposit preparation without physically recounting the funds or initialing deposit paperwork.	To ensure the accuracy of daily deposits, the verifier should physically recount funds. The verifier should sign and date the deposit forms as evidence of the process.	Agree. PD and Finance Department will be working with each other to find a mutually agreeable solution that balances security and customer service.. Estimated completion date: 10/01/17
Policy #16 – Credit cards presented on-site for payment must be inspected for agreement with government-issued photo identification including the signatures.	Credit card payments are accepted without prior inspection of cards for signatures and agreement with government issued photo identification.	The Unit should reiterate to staff the importance of inspecting and agreeing credit cards to government photo identification in order to decrease the potential of identity theft.	Agree. PD and Finance Department will be working with each other to find a mutually agreeable solution that balances security and customer service. Estimated completion date: 10/01/17
RECONCILIATION			
PD ADM26 #III.C.3 - An audit of all monies received by the Unit will be conducted by the Finance Department on a quarterly basis. The audit results will be submitted to the Professional Standards and Training Division by the Records Unit Supervisor.	Quarterly audits of cash received and audit results are not prepared and submitted to the Professional Standards and Training Division as required.	The Unit should work with the Finance Department to ensure that the required quarterly audits and reports are prepared and distributed accordingly.	Agree. PD and Finance Department will be working with each other to find a mutually agreeable solution that balances security and customer service. Estimated completion date: 10/01/17
Policy #36 - Supervisors must be alert to unexpected changes in cash receipts, such as no sales, no currency, or revenue shifts.	Staff is underutilizing newly implemented Tyler cashiering reports.	The Unit supervisor should work with the Finance Department to obtain additional Tyler cashiering report training. The supervisor should use Tyler cashiering reports to monitor trends for irregularities and opportunities for cashier training.	Agree. PD and Finance Department will be working with each other to find a mutually agreeable solution that balances security and customer service. Estimated completion date: 10/01/17