



Date: April 4, 2017

To: Bob Wingenroth, City Manager

From: Carol Holley, Internal Auditor 

Subject: City Court Cash Handling Audit - Internal Audit Report No. 2017-2

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

Internal Audit extends its appreciation to the City Court for their assistance throughout the audit.

Attachment

CC: Diane Arthur, Marketing & Communications Director
Louis Frank Dominquez, Judge
Lindsey Duncan, Finance Director
Robert Wingo, City Attorney

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 of Surprise (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 City Court annually completes the Minimum Accounting Standards Compliance Checklist, which is intended to ensure the safety of public funds processed by the City Court. The tri-annual agreed upon procedures performed by external auditors identified one finding in 2014 and zero in 2012.

A \$1,000 change fund is maintained by the City Court. The City Court handles cases ranging from minor traffic violations to Class 1 misdemeanors. Transactions are processed by four court clerks. During the period of July 1, 2016 to December 31, 2016, the City Court collected \$876,754 in cash, checks, credit cards, and electronic transfers:

| Type | Amount | Total Number |
|---------------------------|-----------|--------------|
| Cash | \$246,122 | 1,673 |
| Checks | \$225,209 | 1,315 |
| Electronic Fund Transfers | \$ 22,405 | 84 |
| Credit Cards | \$383,018 | 2,474 |
| Totals | \$876,754 | 5,546 |

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 potential theft and misappropriation

SCOPE & METHODOLOGY

The scope of the audit was for the period of July 1, 2016 to December 31, 2016 and included:

- ◆ Interviews with staff
- ◆ Observation of cash handing procedures
- ◆ Random review of available video surveillance recordings
- ◆ Review of policies and procedures
- ◆ Review of December 2016 daily deposit supporting documentation



SURPRISE ARIZONA

INTERNAL AUDIT

City Court Cash Handling Audit

March 13, 2017

Conclusion:

On January 12, 2017, Internal Audit (IA) performed an unannounced City Court cash drawer count. No overages or shortages were noted during the counts. IA noted areas where best practices were in place, such as:

- ◆ Receipt issued for each transaction
- ◆ Cashiers do not share cash registers
- ◆ Cash funds are counted and signed for daily by the cashiers and custodian
- ◆ Mail-in payments are logged by one cashier and posted into the system by a second cashier
- ◆ Mail containing checks are opened in view of security surveillance cameras
- ◆ Voided transactions are reviewed by a supervisor and documented

City Court has established controls that are materially in compliance with City Policy. Funds are adequately safeguarded with opportunities for additional enhancements. Audit observation, interviews, and testing identified opportunities to strengthen policy activities in the areas of physical security and accountability that will further enhance current practices that are in place to secure and protect the City Court cash draw fund and cash handling operations.

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

AUDIT HIGHLIGHTS:

- ◆ Deposit preparation is prepared out of view of video surveillance cameras. Mitigating control such as preparing deposits in dual custody is partially practiced.
- ◆ Six management staff members have the safe combination. Keys to the safe compartments are stored in a visible area in one of the financial staff's office. Because the safe is sometimes accessed in sole custody without video surveillance, the keys should be kept in a secured location with limited access.

Opportunities:

| Criteria | Audit Observation | Opportunity | Management Action Plan |
|--|--|--|--|
| PHYSICAL SECURITY | | | |
| Dual custody control should be used to access the safe. In lieu of dual custody, the safe should be covered | The safe is located in an area that is not covered by a video surveillance camera. Content in the safe is not always accessed in dual custody. | Reduce the potential for misappropriation of funds by requiring dual custody when accessing the safe. In lieu of dual custody, install video | We concur. By May 12, 2017, the Court will have video surveillance cameras installed to monitor the Court safe. Until then, to |

| Criteria | Audit Observation | Opportunity | Management Action Plan |
|--|---|--|---|
| by a video surveillance camera. | Six managers know the safe combination. | surveillance cameras to monitor safe access. | comply with the dual custody requirement, two employees, such as the Financial Specialist and a Court Supervisor, must be present when accessing the Court safe . |
| PHYSICAL SECURITY | | | |
| Safe keys should be secured at all times to prevent unauthorized access to funds. | Keys for the safe compartments where the change fund is stored are placed within visible sight and unsecured in one of the financial staff's office. Because management may sometimes access the safe in sole custody where there is no video surveillance, the keys should be kept in a secure location. | Discontinue the practice of storing keys that provide access to cash in unsecured locations. Keys should remain in physical possession of the individual they are assigned to or stored in a secured location with limited access when not being used. | We concur. The keys are now stored in the Court safe at all times. To comply with the dual custody requirement, two employees, such as the Financial Specialist and a Court Supervisor, must be present when accessing the keys from the Court safe. By May 12, 2017, the Court will have video surveillance cameras installed to monitor the Court safe . |
| Cash should be counted out of view of the general public. | Cashiers count and reconcile their cash register funds in view of the general public. | Cashiers should lower the blind at their window before counting and reconciling their cash register. | We concur. Before counting and reconciling their respective cash drawer, the Court Clerk (cashier) will lower the blind at their window. This was effective February 27, 2017. |
| Policy #20.f. requires deposits to be processed in dual custody or covered by video surveillance until sealed in a secured bank bag and placed in the safe. | Funds from daily deposits are not always processed in dual custody or in view of video surveillance cameras until they are sealed in a deposit bank bag. | Discontinue the practice of preparing daily deposits in sole custody out of the view of video surveillance cameras. Deposits should remain in dual custody at all times until the deposit is sealed in a bank deposit bag. In lieu of dual custody, deposit preparation should occur under the view of video surveillance cameras. | We concur. To comply with the dual custody requirement set forth in City policy #20.f, two employees, such as the Financial Specialist and a Court Supervisor, will prepare the daily deposit together to ensure the deposit remains in dual custody and until the deposit is sealed in a bank deposit bag and placed in the Court safe. The dual custody procedure will remain until video surveillance cameras are installed to monitor the deposit preparation. Cameras will be installed by May 12, 2017. |
| Video surveillance cameras should provide an optimum view of cash handling areas. | A limited view of the middle section of the cashiering area is provided by video surveillance cameras. | Reassess the current positioning and location of video surveillance cameras and make the necessary adjustments or additions to ensure areas processing cash or cash equivalent transactions are adequately covered to limit misappropriate | We partially concur with reservation. The City's policy does not mandate such requirement for video surveillance cameras. While the camera referred to in this report does only capture a limited view of the middle section of the cashiering area, its |

| Criteria | Audit Observation | Opportunity | Management Action Plan |
|--|---|---|---|
| PHYSICAL SECURITY | | | |
| | | of funds and to enhance staff safety. | intended purpose was to increase personnel safety. This camera was provided from IT Security at no cost to the Court. The Court does not rely on this camera for internal control of cash transactions. We do agree that video surveillance cameras are ideal for strong internal controls and, as such, the Court has planned the installation of cameras in strategic areas that process cash and cash equivalent transactions by May 12, 2017. |
| ACCOUNTABILITY | | | |
| Mail containing payments should be removed from the external drop location in dual custody to enhance the safety of staff and mail-in payments. | Mail containing payments is retrieved from an external U.S. Postal mailbox by one individual. A container is not used to transport loose mail from the curb into the City Court facility. | Enhance staff safety and decrease the potential of misappropriation or loss documents by requiring two staff members to retrieve mail. Loose mail should be transported in a seal container or pouch. | We concur. Two Court Clerks (cashiers) are required to retrieve the mail from both the U.S. Postal mailbox and Court drop box. They are to place the mail in a tote bag that has a zipper enclosure when transporting the mail inside the Court building. This was effective January 13, 2017 . |