Got Cash?
Wanna Keep It?

Towing Operations
Cash Handling Procedures Audit

2010 Knighton Gold Award – Medium Shops

Office of the City Auditor

Long Beach, California

Why audit towing?

- Audit requested by Bureau Manager through Department Head
    - Learned Towing Bureau Manager was resigning abruptly
    - Red flag for fraud?
- $5 to 6 million in annual revenue (62% in Cash)
- Numerous hotline calls received regarding Towing personnel
- Last audit conducted in 2001
- Unique to have City-operated towing function
- Reputation of towing operations in general

Has this ever happened to you?

“We recommend that the audit take place on any given Tuesday in the month of March 2008.”

“It will be beneficial to have the procedures updated before…April 5, 2008.”

- Audit request, March 12, 2008

What criteria do we audit against?

Written policies and procedures

alone?

Section # 1 - Supervisor Reconciliation Procedures

The shift supervisor on duty opens the two front counter drop safes and collects all transaction receipts from the previous day, and any After Hours Release transactions. All receipts are placed in the Armored Courier Safe located in the locked money room. who has a key

how do they know there is a shortage/overage

The shift supervisor checks the e-mail, the safes, and the office mailbox for any notice of required transaction corrections, or adjustments. All minor corrections are made at this time. All shortages or overages are reported directly to the division superintendent. The shift supervisor runs a Payment Received Report from the Foxtow Data Base and verifies the report is complete. This report is initialed, and the report page count is indicated on the top of the first page. The Supervisor runs a Changes Report, and verifies all discounts or fee waivers are correctly authorized, and documented. This report is initialed, and the report page count is indicated on the top of the first page. The completed reports are placed in the money count room for the reconciliation.

how?

Does this mean performed a reconciliation?

by who?

how?

reconcile to Pay. Recd Rpt?

The shift supervisor counts both cash drawers and confirms both drawers have the required cash fund balance of $350.00 each.

Do they sign off that the reconciliation has been performed?

performs recon alone?

What is this?

Section # 2 - Service Fee Collection Procedures

The cashier is issued a drawer key by the shift supervisor and verifies the change fund money is correct and initials the cash count slip. The supervisor or shift lead initials cash count slip, and deposits in safe. The cashier logs into the Foxtow electronic cash drawer system.

what does this mean?

The cashier releases vehicles continually through out the day. Large cash transactions must be verified and dropped in the safe immediately. It is acceptable to lock several small cash invoices ($200.00 or less) in the cash drawer to conserve change money during a shift.

Over what amt?

How is the c/c entered into the system? Is there a receipt generated?

what is this?

A deposit log must be completed on weekends, holidays, nights, or anytime a supervisor is not available to reconcile the transactions at the end of a given shift. A copy of any invoice with payment type errors must be placed in the supervisor's mailbox for correction in the morning.

How often does this happen? and why?

what are these?

how?

what is 'invoice'?

who?

Cash Transactions - Immediately count all cash when received directly in front of the customer. Run the cash received through the money counter to confirm the amount, and to check for counterfeit bills. The money counter "Verify" and "SD" lights must be illuminated at all times. Make change from the cash drawer as needed, run the adjusted amount back through the money machine to confirm correct payment. Staple the money counter receipt to the invoice, attached the cash to the invoice with a paper clip to the invoice, fold the invoice in thirds, and place in the drop safe.

How is invoice generated

Does anyone observe / approve them?

why would 2 be dropped @ the same time?

Combined Cash Drops – When two or more cash invoices are dropped together there must be an itemized / initialed tape total, and a money slip attached to the packet.

what is this?

what is this?

Credit Card Transactions – Confirm the name on the credit card matches the name on the customer's identification card. Follow the credit card machine instructions and print two receipts.

How is the trans. entered into system? Is there an invoice generated from Foxtow?

Plan B…

- Document our understanding of the entire process and have Towing management review for accuracy
  - Preliminary overview from Towing management
  - Detailed interviews and walkthroughs with line personnel and management for the following 8 processes:
    - Cashiering
    - End of Day Process
    - Deposit Preparation
    - Credit Card
    - Computer Controls
    - Tow Truck Driver
    - Reconciliation Process
    - Physical Access & Security

We’re done…Aren’t we?

- Significant control deficiencies revealed through interviews and walkthroughs
    - No segregation of duties
    - Excessive number of employees may edit or delete records
    - No system edit report
    - Security measures not working
- No substantive testwork necessary!

The Ah Ha Moment

The Uh Oh Meeting

- No mitigating control surrounding release of vehicles
- No three-way reconciliation between physical inventory, manual records and system records
- Red flags concerning night supervisor

The night supervisor was responsible for what function?

A. Night cashier
B. Edit and/or delete customer records in computerized system
C. Release of vehicle to customer
D. Perform daily revenue reconciliation
E. Counts daily cash receipts
F. All of the above

Answer:

F. All of the above

What “red flag” indicator was disclosed to us about the night supervisor?

A. Previously convicted of a felony
B. Excessive levels of debt
C. Purchase of lavish toys / cars
D. Resistance to camera in money count room
E. Removed from previous duties as result of police investigation
F. Disgruntled about reduction in overtime

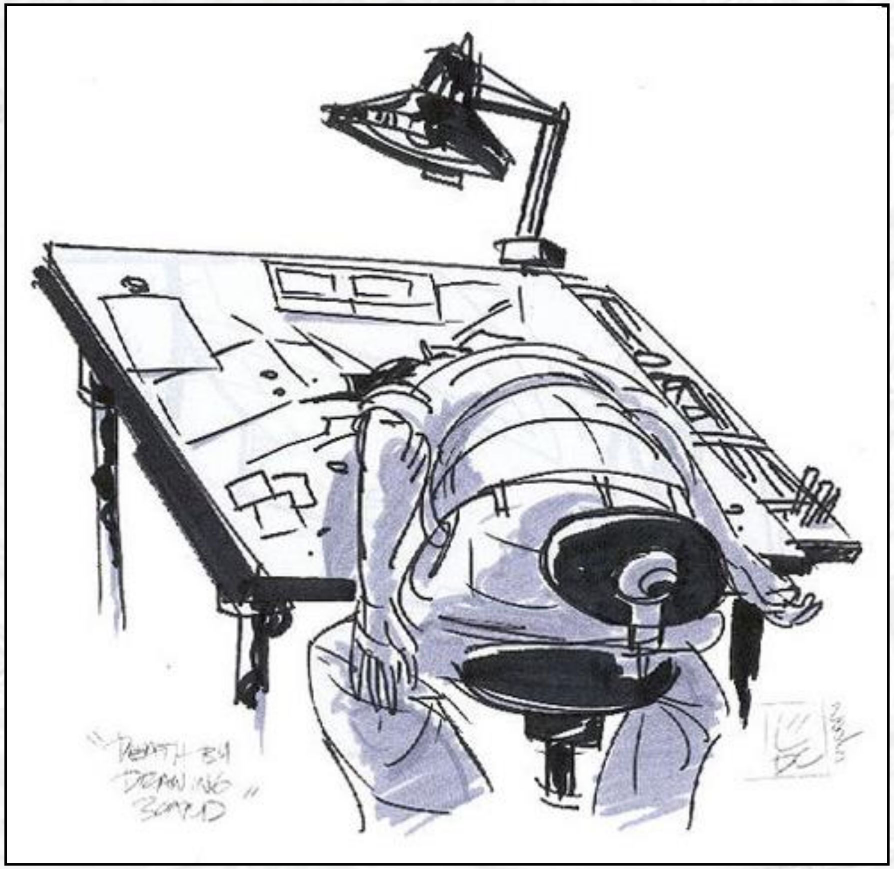
Answer:

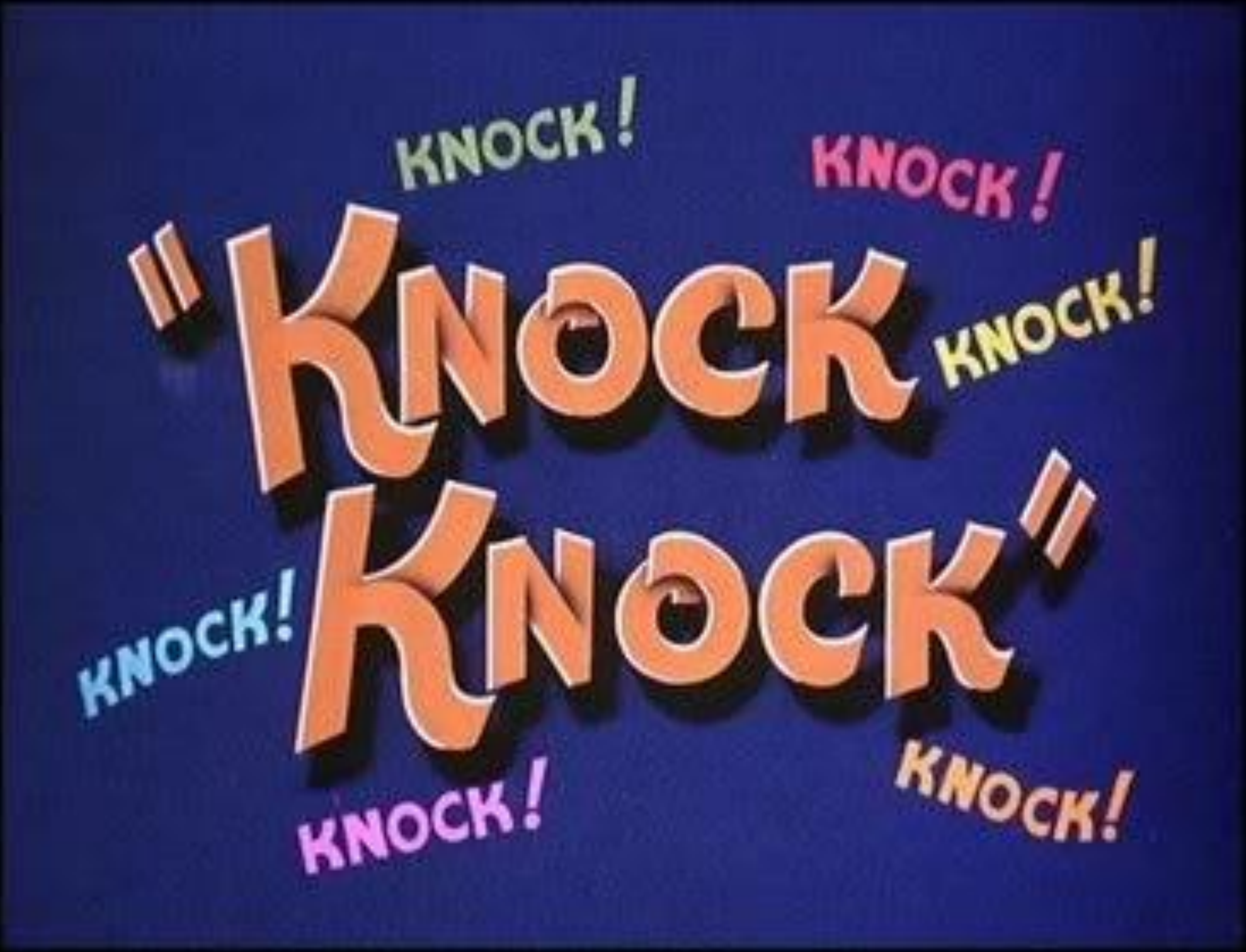
G. All of the above

“When auditors identify factors or risks related to fraud that has occurred or is likely to occur that they believe are significant within the context of the audit objectives, they should design procedures to provide reasonable assurance of detecting such fraud.”

- Government Auditing Standards 7.31

So…Now what?


"DEATH BY
DRAWING
BOARD"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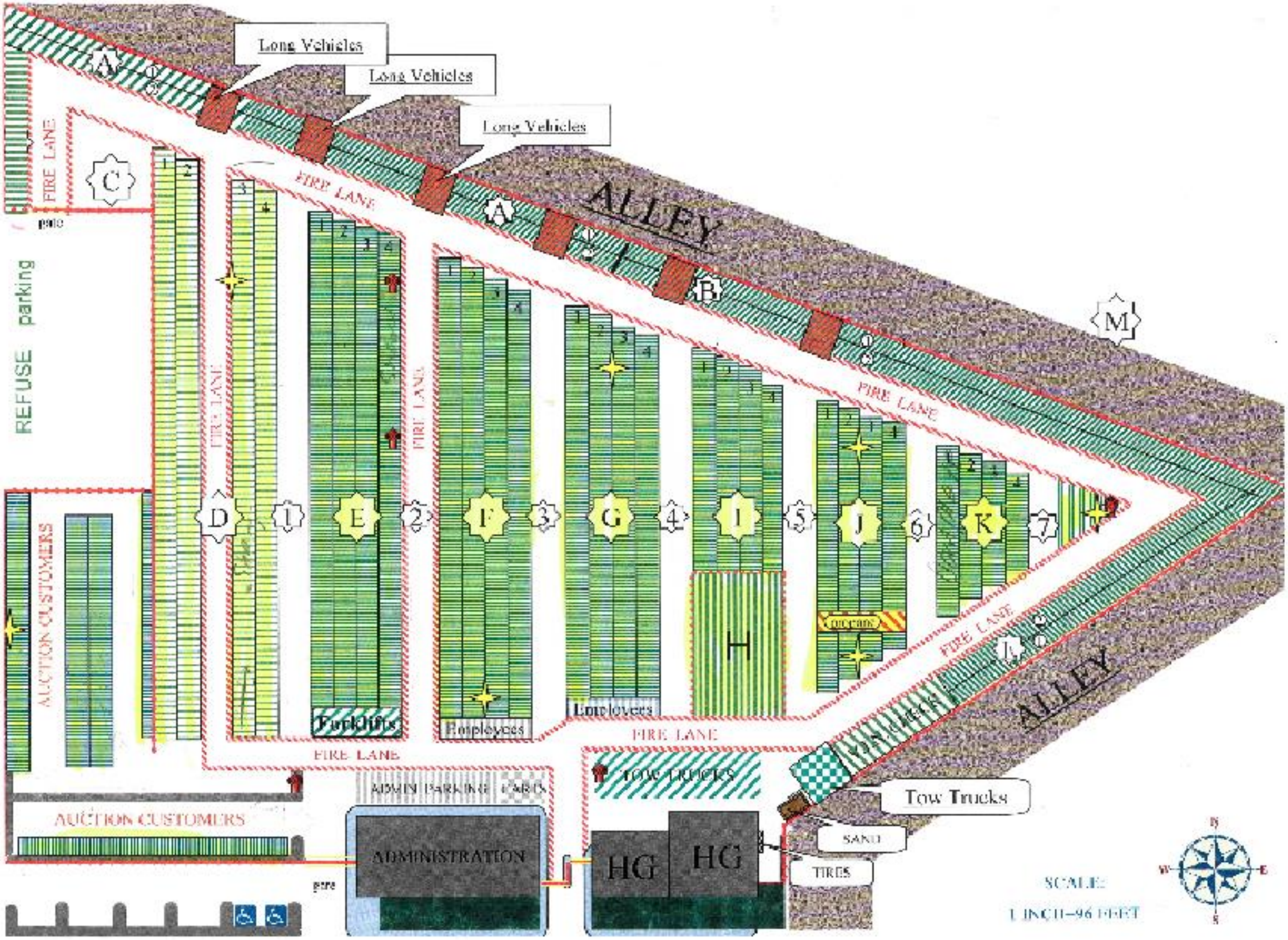
Never as simple as it seems

- Coordinating 8 staff to conduct inventory
- Count had to be completed in one day
- 1,600 current inventory computer records
- Size and setup of towing lot
- Multiple locations – towing lot, fire dept & airport
- 1,400 vehicles physically observed
- Observed motors, trailers, tags on ground
- Identifying information had worn off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patio
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Employees
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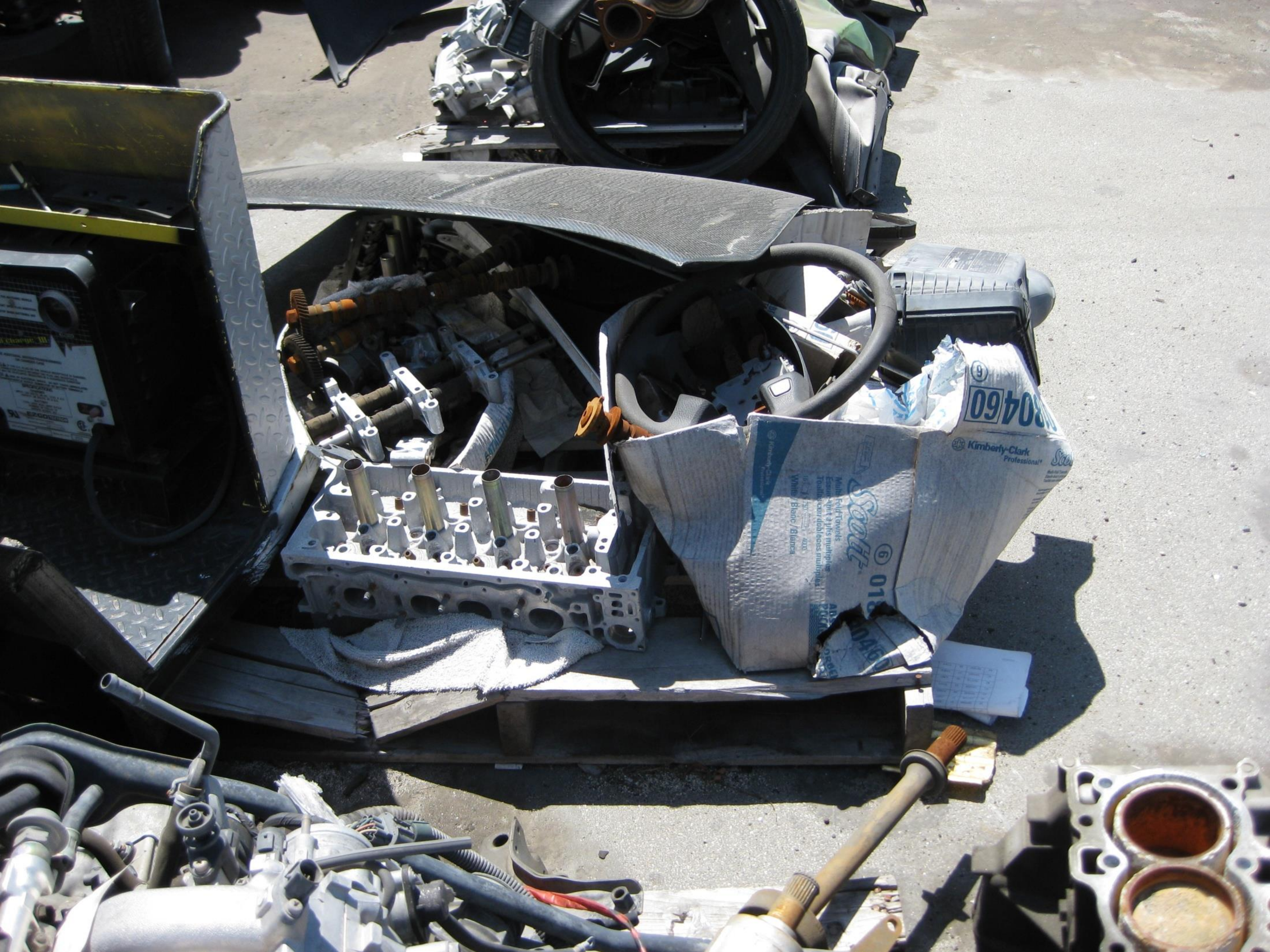
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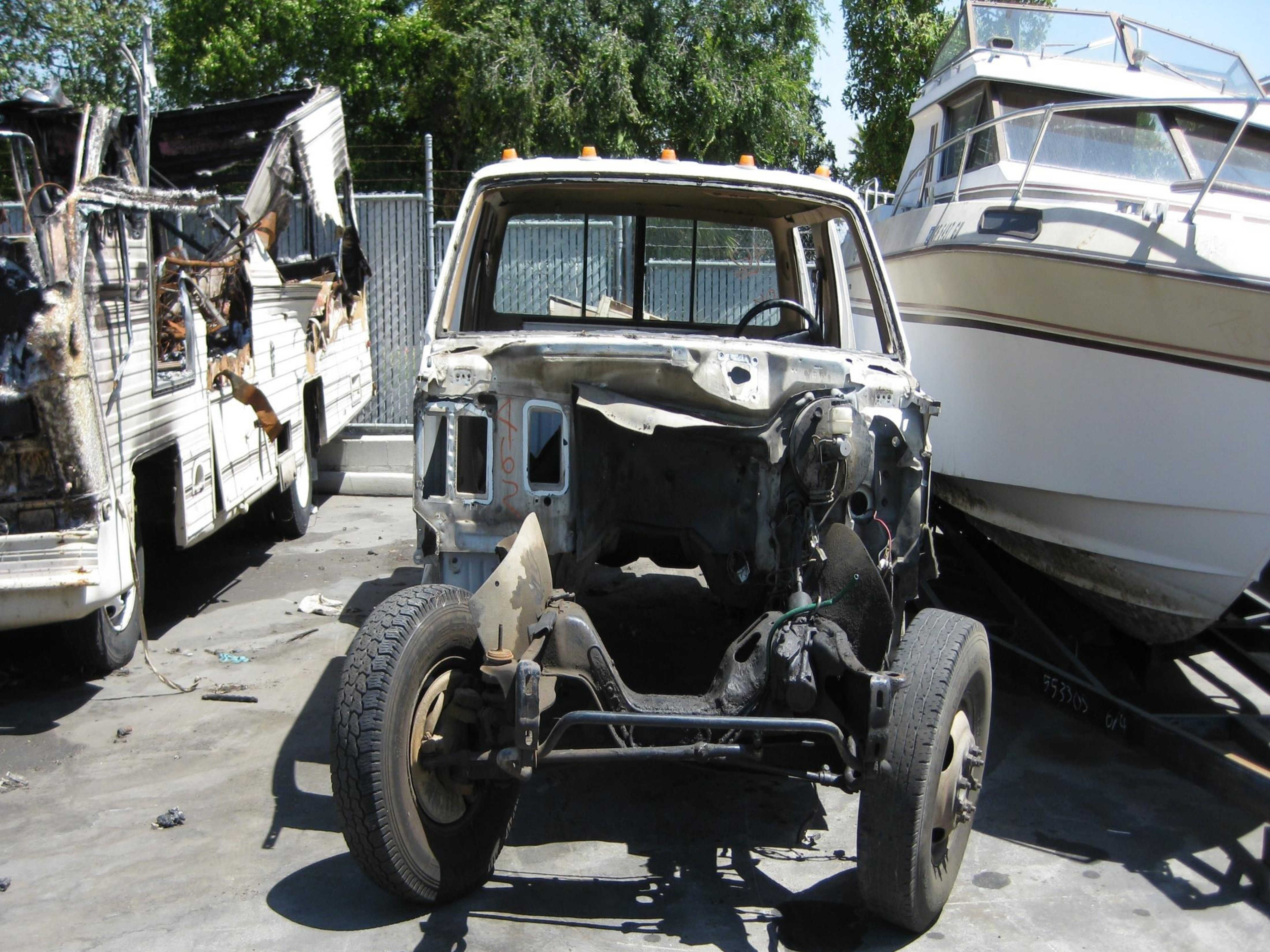
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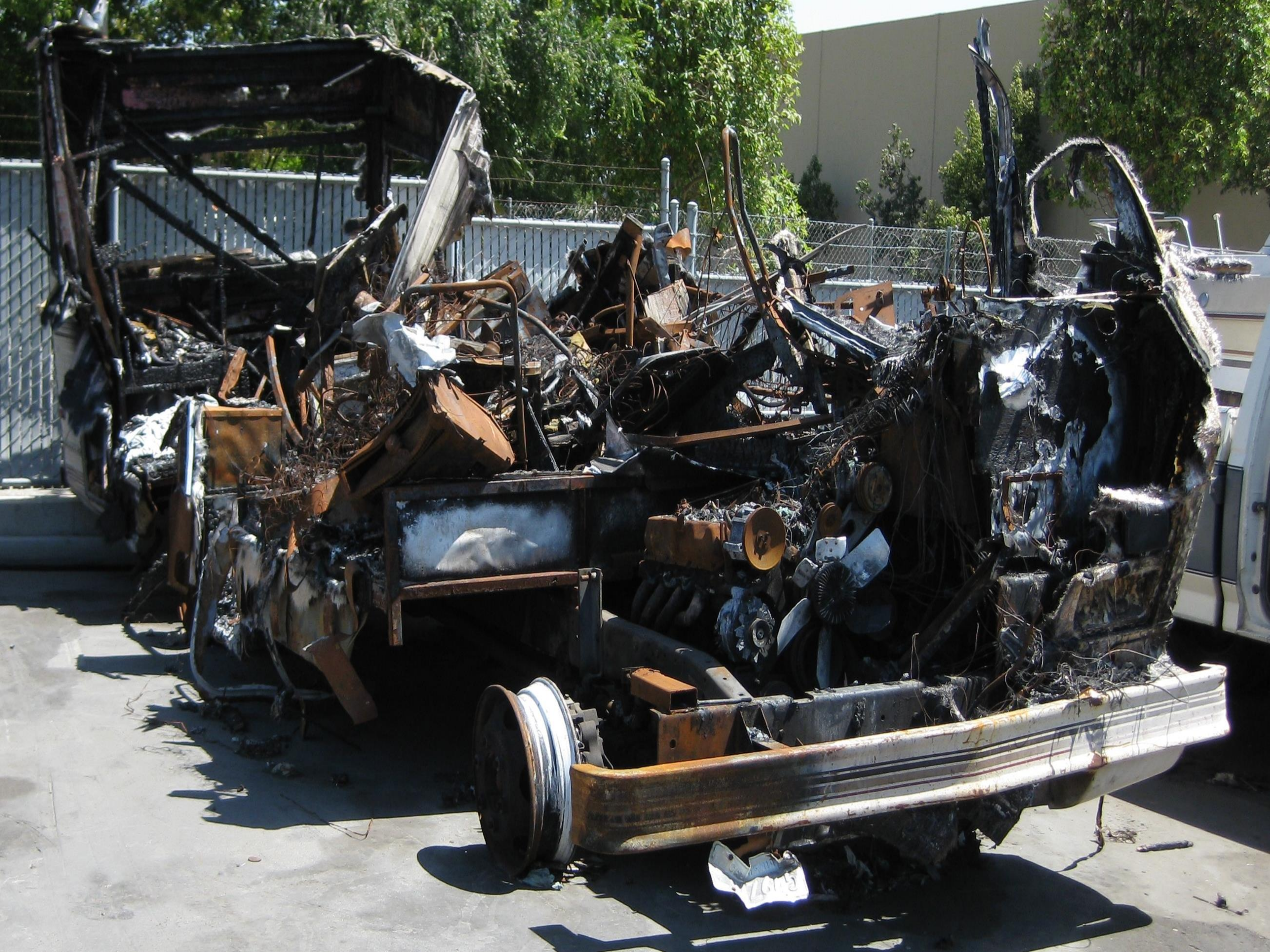

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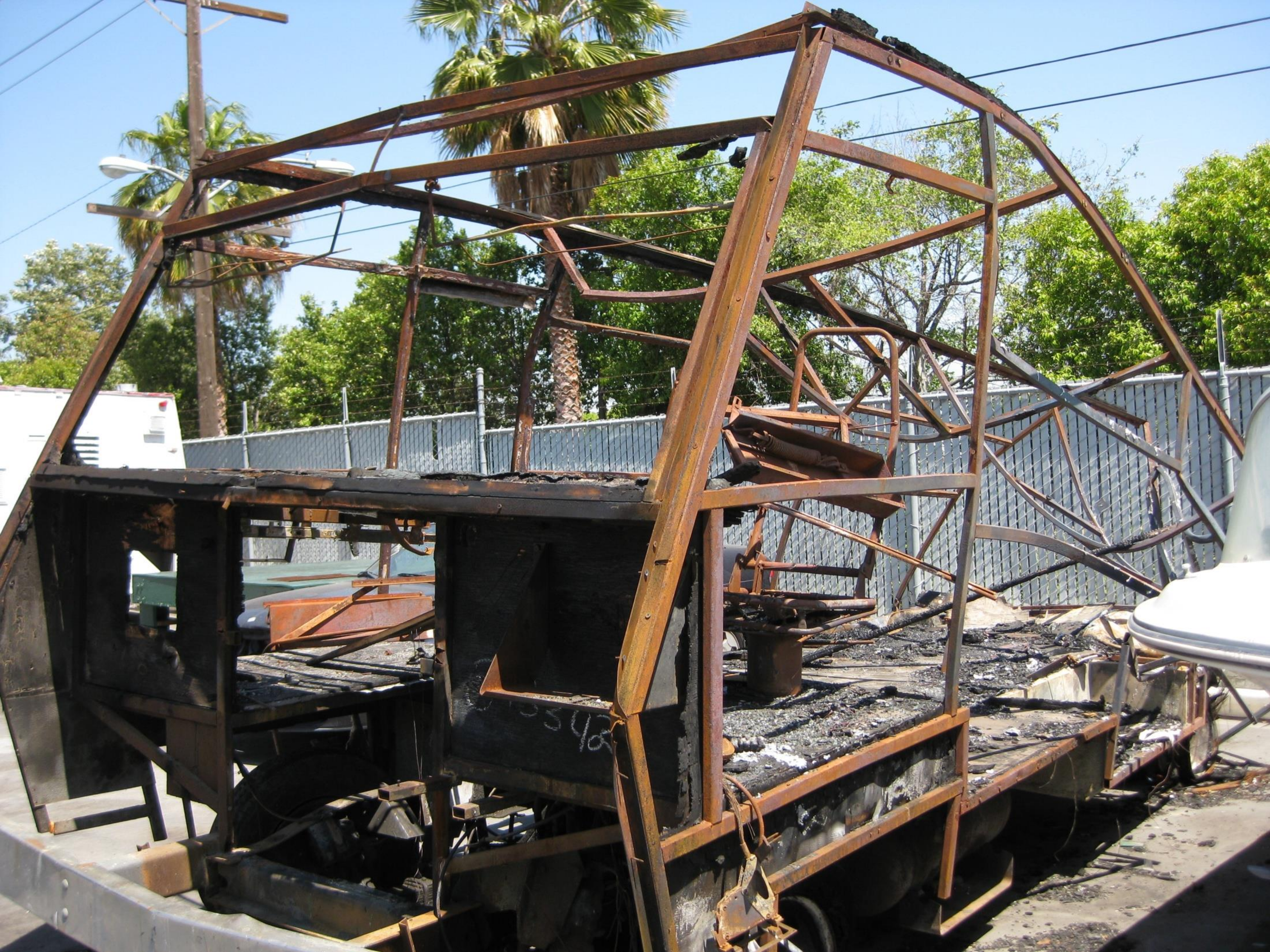
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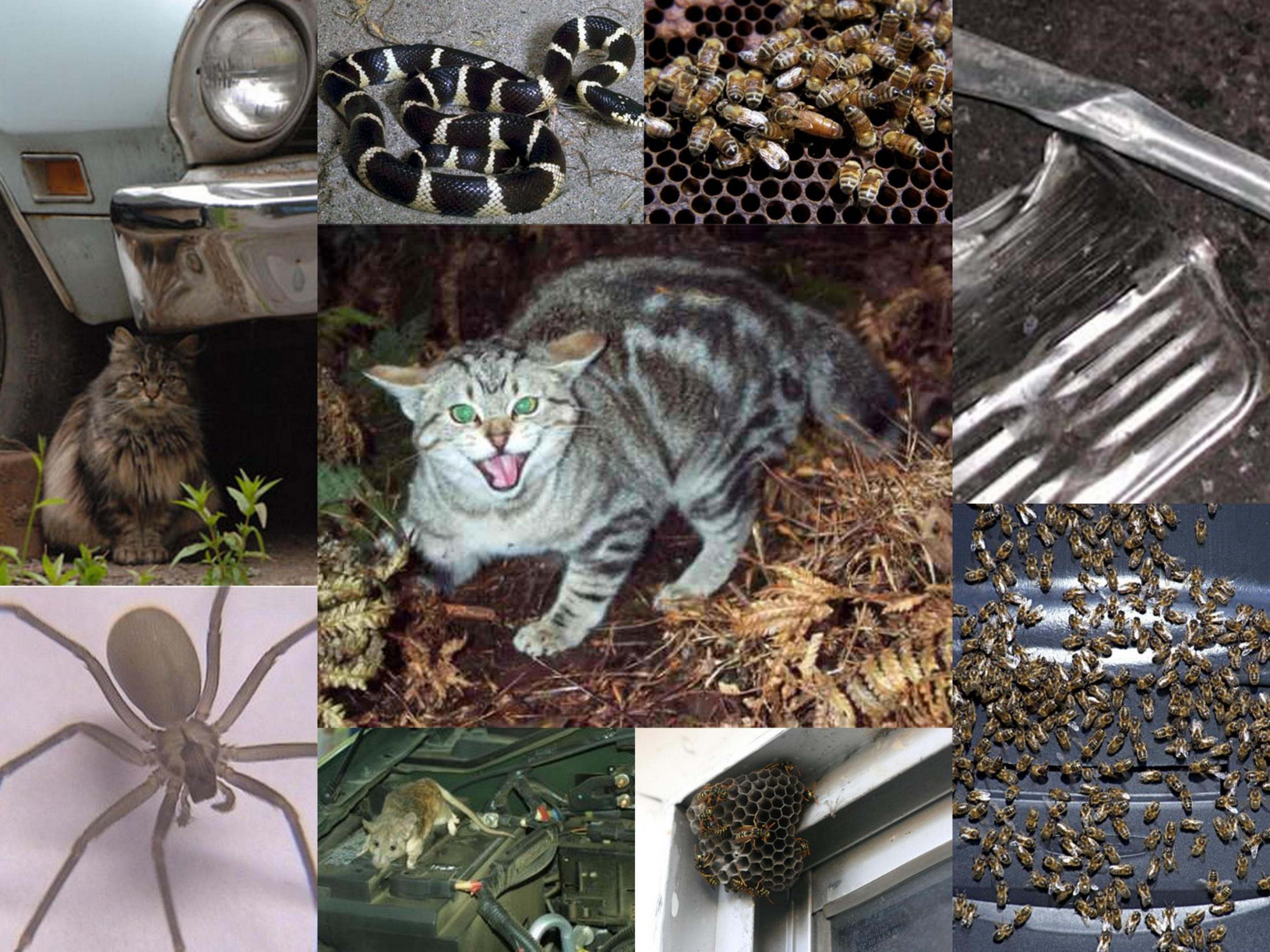


Reviewing manual records

- Reviewed 2,363 manual records
- Located cash stuffed inside folded invoices
- Pre-numbered invoices crossed out and re-numbered

More lessons learned…

- Hundreds of phantom cars in system
- Cancelled tow…or missing cash?
- Superintendent counts the cash alone
- “Fixing” records and disposing of original documents

What did we do with all this data?

- We compared
  - Computer system inventory records
  - Manual inventory records
  - Physically observed inventory
  - Cutoff inventory records
  - ….results were shocking!

More questions than answers

- Obtained entire database directly from vendor
- Used ACL to analyze data integrity
  - Missing invoice numbers
  - Duplicate invoice numbers
  - Deleted invoices
  - Unusual invoice status (lost, unknown, unassigned)
  - Vehicles in system but not physically observed
  - Vehicles observed but not in computer system

Nearing the finish line… again!

- 75 findings
- Brainstorming session to organize and rank findings
- What findings are “report worthy”?
- Drafted report outline based on critical nature of issues
- Exit conference

How do we get them to read it?

- How do we make them care?
- Why do internal controls matter?
- What are the consequences?
- How do we find the balance? (big picture vs. details)
- How do we make internal controls understandable?
  - Using hypothetical to help people understand
  - Mini-lessons on internal controls with examples
  - Ask non-auditors to proof read report

Report writing tips

- Know your audience
- Write at a 4th grade level
- Consciously simplify concepts
- Avoid technical jargon
- Use short words vs. long words
- Use examples
- Insert pretty pictures
- Juice up your titles

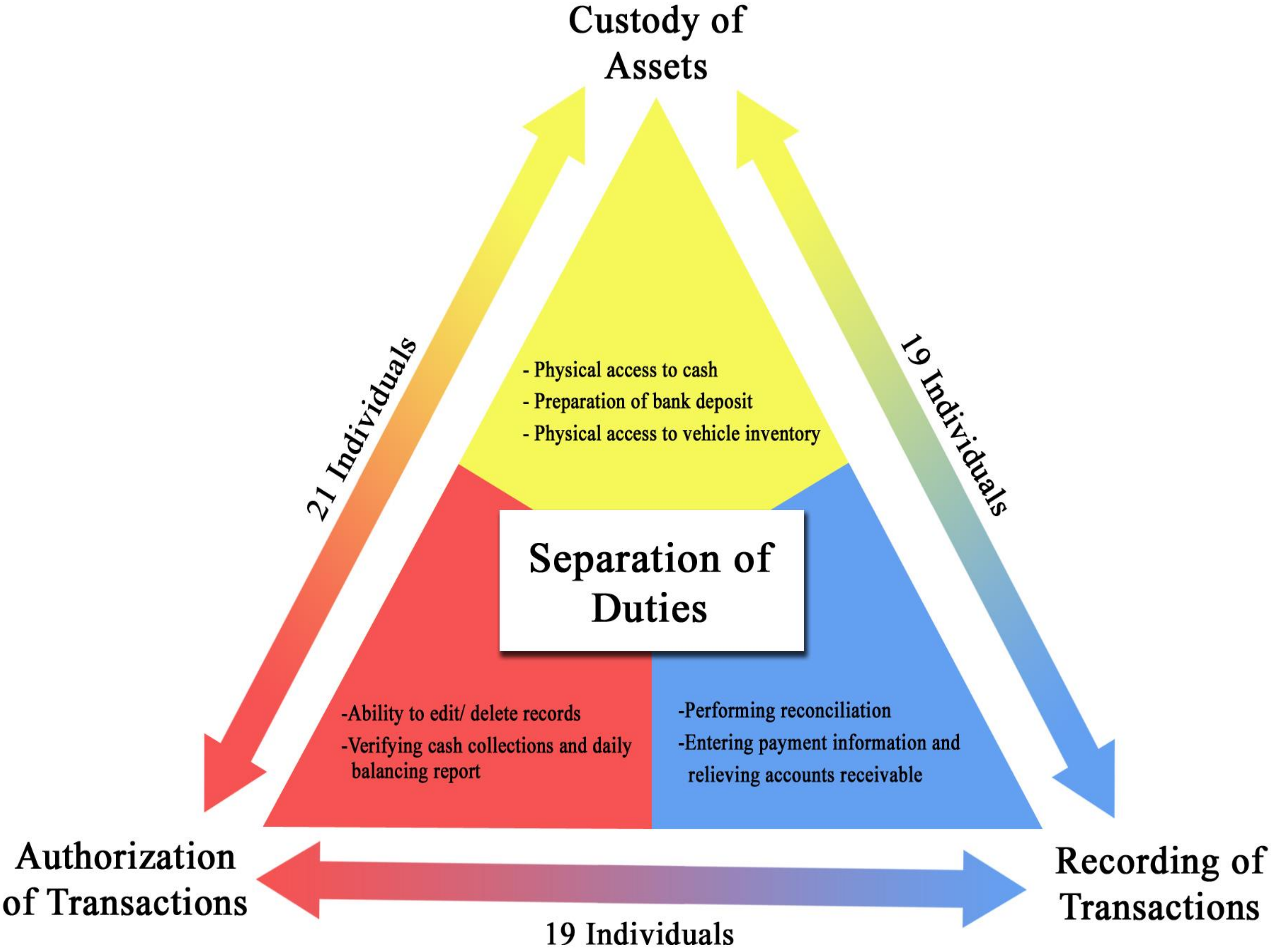
100 Word Sample

- Take 1st 100 words of any writing
- Step 1: Count number of one-syllable words
- Step 2: Count number of complete sentences
- Step 3: Multiply Step 2 by 3, then add to Step 1
- Goal is 80 (8th grade level)
- If below 65, then start over
- Higher the number, simpler the language

#1: Computer software allows employees to alter system records without detection; data integrity is compromised

- No history of altered or deleted records
- Excessive access to manipulate computer records
- Identified data integrity issues

#2: There is a prevalent lack of separation of duties, causing a high risk of fraud



Custody of Assets

- Physical access to cash
- Preparation of bank deposit
- Physical access to vehicle inventory

21 Individuals

19 Individuals

Separation of Duties

-Ability to edit/ delete records

-Verifying cash collections and daily balancing report

-Performing reconciliation

-Entering payment information and relieving accounts receivable

Authorization of Transactions

Recording of Transactions

19 Individuals

#3: Significant discrepancies were identified during physical inventory procedures

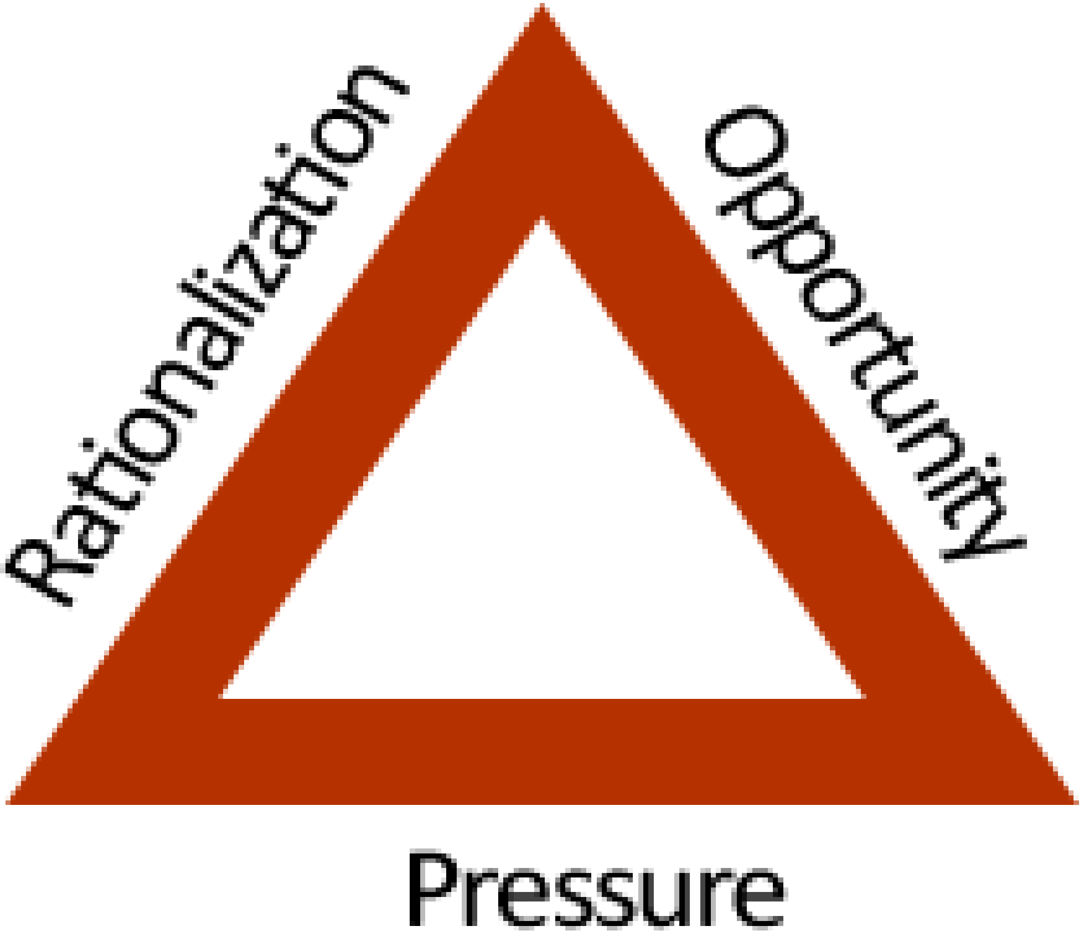
- Computer records for 168 vehicles that were not observed
- 73 vehicles observed had no computer and/or manual record
- Manual records for over 1,100 vehicles that were not on lot
- 80 License plate numbers in computer system did not match license plate on vehicle
- Physically observed vehicles without license plates, invoice numbers or other identifying information to reconcile them to computer records
- Vehicle loaned to Police for undercover operations

#4: Missing deposit highlights reconciliation deficiencies

- Last line of defense fails
- Stolen $30,000 deposit
- Management personnel not informed of discrepancy until one month later
- Bank reconciliation up to six months in arrears

#5: Other critical deficiencies

- Credit card procedures expose City to significant liability
- Weak controls surrounding physical access and security
- $83,000 not deposited timely


Rationalization
Opportunity
Pressure

Was the audit effective?

- 36 audit recommendations
  - Public Works implemented 84% of their recommendations by report issuance date
  - 21 individuals with access to both cash and computer editing is now down to 3 supervisors
  - 24 employees who could edit and or delete records without supervisor approval is now zero
  - 19 employees that perform all three critical business functions is now zero

“A sign of a great city is not one who pretends there are no problems, but one that seeks to identify what the problems are and then acts quickly to correct them. So, in that spirit, I want to thank…..the Director of Public Works for requesting this audit and…making great strides in [implementing] the recommendations…”

- Long Beach City Auditor Laura Doud

“All department heads with cash collection sites within their departments should review this audit, review the recommendations and implement them, so that we can ensure that all money is collected for the City.”

- Long Beach City Auditor Laura Doud

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