

Central Cashiering Revenue Performance Audit

*Internal control improvements made during
the audit must be carried forward in Central
Cashiering's future operations.*



Independence you can rely on

February 2019

Laura L. Doud
City Auditor

Hannah Morgan
Performance Audit Manager

Brenda Auner
Senior Performance Auditor

Jennifer Lopez
Performance Auditor



Report Highlights

Central Cashiering Revenue Performance Audit February 2019



In Fiscal Year (FY) 2018, Financial Management's Central Cashiering Section processed over \$436 million in various types of City revenue, which included payments from the public for services such as utility bills, parking citations, and business licenses, as well as departments' revenue deposits.

Main Audit Takeaway: While Central Cashiering has some controls in place, there are areas where controls could be improved to safeguard revenue and reduce risk for fraud, such as theft.

Key Findings

Physical Security & Surveillance:

- Cash, checks, and keys to safes and cash drawers are not always secured. We observed \$271,000 in unendorsed checks left out on an employee's desk while the employee was away.
- Processes such as sorting mail, preparing deposits, and counting cash are not always performed in view of a security camera.



Dual Custody:

- Mail-in payments are not sorted in dual custody or logged for tracking purposes.
- A daily secondary count is not conducted, and only one person is responsible for the \$4,500 change fund.

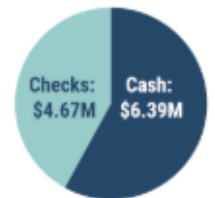


System Access & Staff Training:

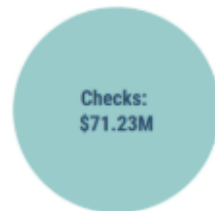
- Employee system access privileges are inappropriate or unnecessary.
- Staff do not receive annual training on revenue-handling controls, such as dual custody and segregation of duties.



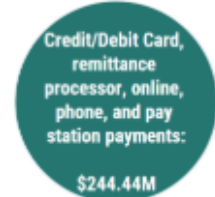
Central Cashiering Revenue FY 2018



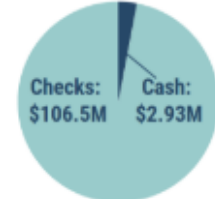
Mail-in Payment Revenue



Electronic Payment Revenue



Departmental Revenue



CITY AUDITOR'S RECOMMENDATIONS:

- Provide specific work areas for mail-sorting, deposit preparation and cash storage; and ensure that each work area is monitored by camera surveillance.
- Require dual custody to sort mail-in payments.
- Require change fund cash to be verified daily by a second party.
- Remove system access for employees who do not need it.
- Provide staff with annual revenue-handling training.

FINANCIAL MANAGEMENT DEPARTMENT'S RESPONSE:

Management agreed with all 15 audit recommendations, stating that many were implemented during the audit, which included: lock boxes for unendorsed checks, corrections to system access privileges, daily secondary count of the cash change fund, and revenue-handling training available Citywide.

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Executive Summary

Central Cashiering processed over \$436 million of City revenue in Fiscal Year 2018.

The Financial Management Department's Central Cashiering Section (Central Cashiering) oversees collection and processing of different types of revenue. Central Cashiering is responsible for accepting payments from the public for services such as utility bills, parking citations, and business licenses. Such payments are made in various ways: at the cashier windows in City Hall's lobby, at pay stations located throughout the City, through the mail, over the phone, and online. Central Cashiering is also responsible for processing other revenue collected by several City departments and depositing those funds to the bank. In Fiscal Year (FY) 2018, Central Cashiering processed over \$436 million in revenue.

Due to the financial scale of Central Cashiering's revenue handling operations, our office set out to evaluate whether controls and safeguards over revenue adhere to revenue-control standards and best practices. Strong safeguards are important to ensure that all revenue collected is deposited completely and timely to the City's bank accounts.

Segregation of duties is one of the key control concepts for handling revenue as it ensures that key components of handling revenue – custody, recording, and authorization – are not performed by one individual, minimizing the risk of fraud. Central Cashiering has succeeded in segregating these responsibilities to different employees throughout revenue processing.

During the audit, we tested a sample of revenue processed by Central Cashiering and found that all tested deposits were deposited completely and timely to the bank. However, we did identify the following weaknesses in Central Cashiering's internal controls that could be further improved:

Internal controls need strengthening.

- Assets such as cash, checks, daily deposits, and keys were not always physically secured;
- Processes such as sorting mail, preparing deposits, and counting cash were not always performed in dual custody or in areas within view of a security camera;
- Staff did not receive thorough revenue-handling training; and
- Users had unnecessary access to various revenue recording systems.

Management worked to make immediate improvements throughout the audit.

Despite the above preventative control weaknesses, there are several mitigating controls in place at Central Cashiering – along with segregation of duties – to help detect potential fraud, such as multi-level review, system report reconciliations, and the ability of customers to monitor their account payments. We also found that Central Cashiering management and staff are organized in documenting most aspects of Central Cashiering's operations, are highly receptive to recommendations, and are willing to make prompt changes based on our findings. During our fieldwork, Management made immediate efforts to purchase lock boxes to better safeguard checks and acquired a vendor to provide future internal control

and revenue-handling training. Additionally, Management worked with the Department of Technology and Innovation to correct user access levels.

In 2019, the Central Cashiering operation, along with all other City Hall staff, will move into a new City Center facility. Our recommendations are made to improve safeguards around the revenue, which includes physical security. Throughout the audit, Management took steps to implement our recommendations in their current facility, when cost appropriate. However, the audit recommendations are meant to also guide the Department in setting up an effective and secure operation in the new facility. Therefore, all recommendations, including those already implemented by Management, remain in the report since they will need to be addressed after the move.

We thank Management and staff at Central Cashiering for their collaboration, assistance, and cooperation during this audit.

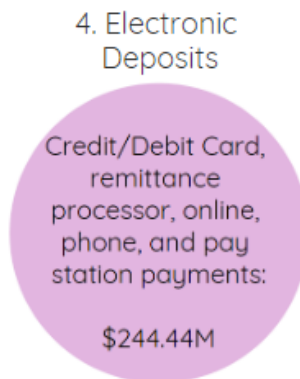
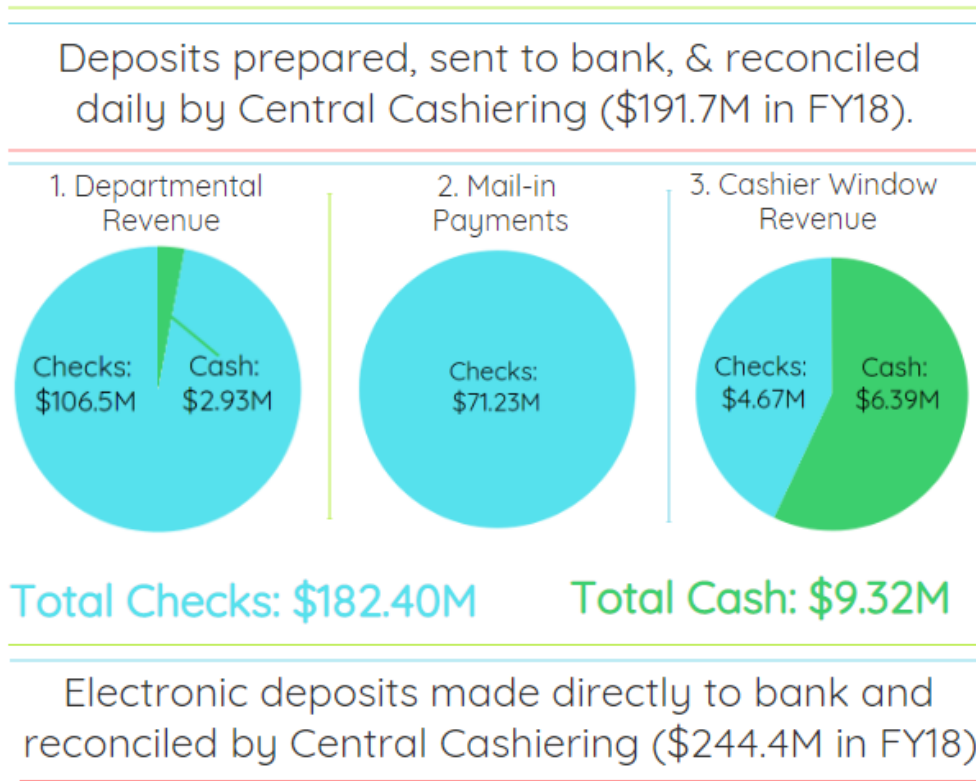
I. Background

Types of Payments

The Financial Management Department's Central Cashiering Section (Central Cashiering) accepts and processes various types of revenue for the City. In Fiscal Year (FY) 2018, Central Cashiering processed over \$436 million in revenue, approximately 3% more revenue than it processed in FY 2017. Figure 1 shows the types of revenue that are handled by Central Cashiering.

Figure 1.
Types of Revenue Handled by Central Cashiering

Central Cashiering deposits cash and check payments received from the public and collected directly by City Departments.



Located on the lobby floor of City Hall, the Central Cashiering office includes cashier windows where the public can pay different types of City bills, including: utilities, marine slips, parking citations, and business licenses. Central Cashiering creates a physical deposit for any cash and check payments received from the public, while credit card payments are processed electronically. City customers can also make payments in a variety of other ways, such as:

- Mail
- Online
- Telephone
- Automatic bank withdrawal
- At third-party operated pay stations throughout the City (for utility payments only)

Central Cashiering also accepts and processes revenue collected directly by City departments. Some of the departments who deposit money through Central Cashiering include the Library, Economic Development, Public Works, and Health Departments. Central Cashiering prepares daily bank deposits for all cash and checks received from the public and City Departments.

System Reconciliations

Electronic transfers to the bank are reconciled to ensure payment was applied to the correct account and deposited to the bank.

When customers mail payments to the City, Central Cashiering utilizes a machine called a Remittance Processor to automatically process those checks. The Remittance Processor opens mail, scans checks and bill stubs for customer account identification, and prints an endorsement line on each check to be deposited. For payments to be applied to the correct customer account, remittance must include a payment stub which provides the Remittance Processor with account information. Checks processed by this machine are deposited electronically to the bank. For this type of revenue, Central Cashiering is responsible for reconciling deposited amounts to system reports and creating a deposit receipt to be processed by the City's accounting personnel.

Similarly, when customers make payments online, over the phone, through direct withdrawal, or at a third-party pay station, payment is applied automatically to customer accounts and the revenue is wired electronically to the bank. Central Cashiering is responsible for reconciling deposit amounts to system reports for these different payment methods to ensure all funds are applied and deposited appropriately.

Because Central Cashiering accepts different types of revenue on behalf of the City, it utilizes multiple City systems to apply those payments to the correct department. Central Cashiering cashiers enter payments received in iNovah, a cashiering system that communicates with other host systems (a system that records revenue for a particular department or operation) throughout the City, and view customer account information in the other host systems; however, any questions regarding account activity or account maintenance are referred to the

department responsible for the accounts (i.e., Energy Resources, Financial Management, Development Services, etc.). Central Cashiering only applies payments already made to departments, and reconciles and deposits their revenue.

Segregation of Duties

Segregation of duties is one of the key components of revenue-handling internal controls because it ensures that the major steps in handling revenue – custody, recording, and authorization – are not performed by one individual, minimizing the risk of fraud. Essentially, segregation of duties makes it more difficult for fraud to occur, because it would require collusion among several employees responsible for different parts of revenue handling. Figure 2 below illustrates how the City's Central Cashiering operations align with proper internal controls of segregation of duties.

**Figure 2.
Segregation of Duties in Central Cashiering**

Step 1: Custody

- Employees from other departments collect revenue (City deposits).
- Two cashiers collect mail payments.
- Cashiers collect payments at cashier windows.



Step 2: Recording

Back office staff:

- Prepare City deposits.
- Prepare mail deposit if needed.

Lead:

- Prepares cashier's deposits.
- Reconciles all deposits to system reports.

Step 3: Authorization

Supervisor Reviews:

- City deposit documentation.
- Mail payment deposit documentation.
- Cashier deposit documentation.



II. Issues & Recommendations

Finding #1 *Assets – such as checks, cash and keys – are not always secured.*

The Central Cashiering office is located on the City Hall’s lobby floor. Access to the work area where the office is located requires City identification to pass through a locked door. The Central Cashiering office, which includes nine staff, is separated from other Financial Management personnel by a half-door that any City employee in the lobby work area can open.

In addition to Financial Management employees assigned to the lobby work area, other City employees access and utilize the work area on a daily basis. Public Works staff delivers meter coin change to the safe for deposit. Staff from other departments return checks that require research¹ or drop off mail that was mistakenly delivered to them. Additionally, interdepartmental mail is delivered by other City staff.

According to best practices in revenue handling control, assets should be safeguarded to prevent theft or misplacement of funds, and that such assets are best maintained in a vault or safe. Given that there are multiple people with access to the work area where Central Cashiering is situated, it is important that assets are always secured.

A. CHECKS

Unendorsed checks that cannot be processed immediately or require research are not maintained in a lock box or in an area under camera surveillance.

Mail that cannot be processed immediately is left unsecured and unendorsed until it can be processed.

It is not logged to document its receipt and chain of custody.

In FY 2018, Central Cashiering received over \$162 million in checks that came through the mail, a daily average of approximately \$644,000. After cashiers pick up the mail, it must be sorted to identify which mail can be processed by the Remittance Processor and which mail needs further handling. Figure 3 below explains the sorting process.

**Figure 3.
Mail Sorting Process**



¹ If remittance does not indicate an account number, or if the account number referenced is incorrect, staff attempts to identify the correct account to which to apply payment. At times, remittance is forwarded to another City employee (based on account type) if there is a duplicate payment or a problem with an account to determine how to proceed with payment.

Once sorted, mail in all three categories is not always secured:

1. Mail that can be put through the Remittance Processor is left near the machine until staff have time to process it. The Remittance Processor machine is used to automatically process mailed-in remittance. It opens mail, scans checks and bill stubs to apply payments to customer accounts, and prints an endorsement line on each check to be deposited.
2. Mail that the Remittance Processor cannot process as-is (i.e., irregularly sized envelopes that contain payments, or mail that is not a payment) is left at an employee's desk until staff have time to process it.
3. Mail that requires further research is left on another Central Cashiering employee's desk. When necessary, this staff member forwards this mail to other City department staff for additional research. If so, some of these checks are placed in mail slots located in the working area for one other City department staff to pick up. These checks could easily be taken from those mail slots, as they are out in the general work area, accessible to other City employees who also work there, as well as to other City employees who must pass through the area. Leaving these checks unsecured presents a possibility for checks to be misappropriated and creates a gap in the chain of custody. Further, these checks have not been endorsed with the City's bank account information, allowing for easier misappropriation.

Checks that require research by another Department are unendorsed and left in cubbies in the general working lobby area.

Unendorsed checks totaling \$271,000 were not under surveillance or in a lock box at the Research Desk.

During a surprise count, we observed \$271,000 in unendorsed mail remittance out on an employee's desk when that employee was away from their desk. There was additional mail also left out that we did not include in our count because the checks had the endorsement scan line printed on them, or the mail was unopened so we could not quantify the checks or determine what else was inside.

Recommendations:

Central Cashiering Management:

- 1.1 **Require staff to run eligible checks through the Remittance Processor immediately.**
- 1.2 **Purchase a safe or vault that has space for unprocessed and unendorsed checks so that they are physically secured and not accessible to unauthorized staff.**
 - a. **If purchasing a safe or vault is not feasible, maintain unprocessed and unendorsed checks in an area that can be surveilled by camera, or in a secured lock box.**

B. CHANGE FUND

A change fund of \$4,550 in cash is maintained at the Lead's desk.

Central Cashiering established a "change fund" of \$4,550 in cash and coin based on the volume of daily transactions. The change fund is maintained to provide change to cashiers for customer transactions as needed, and to replenish deposits when cashier shortages occur.

As shortages and/or overages occur, the Lead staff member updates the shortage/overage log, noting the amount of shortage or overage, the date, and the cashier involved. The amount noted in the log is utilized in conjunction with actual cash and coin to balance the change fund on a daily basis. When shortages reach \$25 or more, the Lead submits an imprest check request to a supervisor and the Financial Services Officer, along with cashier shortage reports to support the request, which is then forwarded to the Accounting Operations Division for fund replenishment.

Although some change fund coin is maintained in Central Cashiering's vault, the cash portion and some additional change is maintained in a cabinet at the Lead's desk. The cabinet, which has a lock, is made by the same manufacturer as the safe, and of a heavier grade of metal than a regular filing cabinet. However, this is not as secure as a safe.

Recommendations:

Central Cashiering Management:

- 1.3 Purchase a safe or vault that has space for the change fund to be maintained during the day.**
 - a. If purchasing a safe or vault is not feasible, maintain change fund in an area that can be surveilled by camera.**

C. KEYS

Keys to areas where cash and checks are maintained are left unattended at an employee's desk.

Central Cashiering deposited over \$109 million of revenue for other City Departments in FY 2018.

City AR 20-4 states that authorized employees with access to safes and/or cash register drawers should be instructed to maintain confidentiality of safe combinations and location of keys. Several areas throughout Central Cashiering require a key or password for entry:

- The City Deposit room, where over \$109 million in other City department deposits were accepted and processed in FY 18;
- The safes;
- The change fund drawer; and
- Cashiers' cash drawers.

Each cashier maintains a key to their respective cash drawer, and supervisors maintain keys to the safe, the change fund, and the City Deposit room.

Keys to secured areas – such as the City Deposit room, safes, and change fund drawer – are left unattended at supervisors' desks.

During fieldwork, we observed that when a back office staff was away from their desk, their keys were left unattended. It is important to note that the Central Cashiering office area can be easily accessed by non-Central Cashiering employees passing through the office area throughout the day. This creates an increased risk that anyone could grab keys and gain access to areas where money is kept (i.e., safes, change fund, and City Deposit room).

In addition, management does not maintain a record of key or combination assignments. It is important to maintain a list of key and combination assignments to ensure these assets are collected when staff members are no longer employees of Central Cashiering.

Recommendations:

Central Cashiering Management:

- 1.4 Ensure that staff who are assigned keys maintain those keys with them at all times while on-site or lock them up safely.**
- 1.5 Maintain an updated list of key and combination assignments to authorized personnel and update accordingly.**

D. SECURITY CAMERAS

Some key processes are not conducted in areas under camera surveillance.

Security cameras do not capture some key processes, such as mail-sorting and deposit preparation.

The Change Fund is also maintained outside of a camera's view.

Best practices state that when an individual is handling revenue, they should be seated in an area with camera coverage. Security cameras are situated throughout the floor, capturing areas such as the cashier's windows, the City Deposit room, the safes, and the Remittance Processor. Due to privacy concerns, management has not positioned cameras to capture an employee's personal workspace. However, key functions, such as deposit preparation and check sorting, take place at the employees' desks.

On average, approximately \$328,000 in cash and check deposits are prepared daily at an employee's desk. Keys and the change fund are also maintained at that employee's desk. It is important to ensure that assets such as checks and

cash are confined and maintained in areas where camera surveillance can take place. Moreover, deposit preparation and check sorting should be moved to an area captured by a surveillance camera. This would ensure that if any assets and/or cash were stolen, there would be camera footage to identify the person responsible for the theft.²

Recommendations:

Central Cashiering Management:

- 1.6 **Provide a specific area or areas for mail-sorting, deposit preparation and cash storage; and ensure that each area is monitored by video surveillance.**
- 1.7 **Ensure that the new Civic Center has designated secured spaces with security cameras in which mail-sorting, deposit preparation and cash storage processes will be performed.**

Finding #2

Staff do not handle cash in dual custody or in adherence with segregation of duties.

City AR 20-4 and best practices state that cash should be verified in dual custody. Best practices also state that individuals handling cash should be seated in an area with camera coverage, as discussed previously, which would mitigate the risk of theft or misplacement of cash or checks. However, we found that mail sorting is not done in dual custody or in view of a camera, and the change fund is not verified by a second party or maintained in view of a camera.

A. MAIL-SORTING

Staff do not sort mail in dual custody or maintain logs of checks that cannot be processed immediately.

Two cashiers pick up checks and mail from the drop box and mailboxes twice during the day; however, once the mail is taken back to the office, mail sorting and processing is only performed by one cashier. In the sorting process, the cashier separates the mail into various categories based on how it needs to be processed, and then distributes it as needed.

Mail is not logged or sorted in dual custody, which could allow for theft of City revenue.

Staff does not log all checks received through the mail. There is no log maintained to track checks that are distributed to back office staff or departments for research. It is important for mail to be logged, especially when it is sent out of Central Cashiering. Mail payments could be taken by the staff member processing the mail without detection because no one else is aware

² The Central Cashiering Supervisor, Financial Services Officer, and Bureau Manager have access to review security camera footage as needed. Footage is maintained for 30 days.

of which checks were received. Additionally, if no chain of custody is maintained, the City is open to lost revenue.

Recommendations:

Central Cashiering Management:

- 2.1 **Require dual custody to sort mail payments in order to ensure that unendorsed checks do not go missing during the sorting process.**
- 2.2 **Require staff to maintain a log of all checks that are sent to the research desk and to outside departments for research to ensure a chain of custody at all times.**
- 2.3 **Review the log periodically to ensure that other departments return checks to Central Cashiering for deposit.**

B. CHANGE FUND

Only one person is responsible for the change fund. The amount is not verified by another individual.

Although best practices state that cash should be handled in dual custody, only one employee is responsible for the change fund. That employee monitors the amount in the change fund to ensure that it balances to \$4,550, in conjunction with shortage and overage records that are maintained, as mentioned previously. Although system reports are reviewed and logged when shortages or overages occur, a second individual does not conduct a daily secondary count of the change fund or review shortage/overage logs to ensure that the balance is accurate. The sole custodian could skim money from the change fund without detection, given that there is no secondary review.

Recommendations:

Central Cashiering Management:

- 2.4 **Ensure that change fund cash and shortage/overage logs are verified daily by a second party.**

Finding #3

Staff do not receive annual internal control and revenue-handling training.

Understanding the importance of internal controls is crucial to an operations in which the staff is handling various types of revenue. Best practices indicate that revenue-handling training must be provided to staff at least annually.

As part of their onboarding process, Central Cashiering Management provides procedural training to new staff to help them understand their duties and the procedures to process payments received from customers. In addition to procedural training, staff receive a pamphlet on recognizing counterfeit currency, as well as system manuals that guide them through specific functions in the cashiering system. However, revenue-handling training that emphasizes the importance of internal controls over revenue is not provided.

While procedural training is helpful for day-to-day functions, it does not provide staff with in-depth understanding of internal controls and their importance. For example, while staff members are aware that they should pick up mail in dual custody, they do so as a safety precaution and because it is part of procedures. While those reasons are important, they should also understand that the main reason to collect mail in dual custody is to ensure that all checks collected are accounted for, are not misappropriated, and are eventually deposited.

Recommendations:

Central Cashiering Management:

- 3.1 Provide annual training on revenue-handling controls, such as dual custody, safeguarding cash/revenue, and segregation of duties.**

Finding #4

Staff have unnecessary or inappropriate system capabilities.

Central Cashiering management is responsible for working with the Technology and Innovation Department (T&I) to ensure that Central Cashiering staff has the appropriate permissions to the systems that it uses. Both T&I and Central Cashiering are responsible for understanding the different access groups and their corresponding permissions, as well as for defining the roles each user should have. However, we found that Central Cashiering staff members have access that do not align with their duties in five of the seven systems utilized.

A. TRANSACTION ADJUSTMENTS

Staff has the ability to adjust already finalized transactions in the cashiering system without supervisor approval.

Central Cashiering staff utilizes iNovah, a cashiering system, to enter and process payments. iNovah communicates with other “host” systems to apply payments to the correct customer accounts. The access for each user of iNovah is determined by his/her user group, which identifies the permissions and tasks the assigned staff member can perform.

Cashiering staff can adjust a finalized transaction without supervisory approval, which could allow them to pocket cash without detection.

As part of their group permissions in iNovah, Central Cashiering cashiers can adjust the dollar amount of a finalized transaction without requiring supervisor approval. An adjusted transaction bypasses the necessary control steps involved in voided transactions. When a transaction is voided, the cashier must obtain supervisor approval within the system to proceed with the void and must include the receipt initialed by the supervisor with a reason for the void with the closing documentation.

The iNovah system treats adjustments the same as it does voids, including the generation of a void receipt. Further, an adjusted transaction appears as a voided transaction on system reports, making it harder to differentiate between an adjustment and a void. In a fraudulent transaction, the cashier could adjust a transaction, take the excess cash, fabricate a valid reason in the system, and forge an approval signature on a receipt. Since voids are allowed and require supervisor approval, an adjustment may be masked as a void and not receive the level of scrutiny it should. As mentioned above, the ability to detect fraud is minimized as system reports represent adjustments as voids.

Being able to adjust a transaction after it is finalized and without supervisor approval provides cashiers the ability to modify payment amounts and pocket cash without being detected. There is not an operational need for anyone within Central Cashiering to have the system capability to adjust finalized transactions.³

Recommendations:

Central Cashiering and Technology and Innovation Management:

4.1 Delete the ability to adjust finalized transactions in iNovah.

B. ALIGNMENT WITH JOB DUTIES

Multiple staff have user access that does not align with their job responsibilities.

In addition to the specific user access issue in iNovah, Central Cashiering staff members have system access that do not align with the responsibilities of their positions in the various host systems. For example, cashiers do not all have the same access permissions although they perform the same duties. Additionally, some staff members have access from prior Financial Management positions that are no longer applicable (see Figure 4 on next page).

³ Although Central Cashiering staff had the ability to adjust finalized transactions, this was not regularly occurring. In a four-year period from January 2015 to January 2019 only two transactions were adjusted. The adjustments made were related to correction of application mistakes and not to adjust the dollar amount.

**Figure 4.
User Access Issues Identified in Systems**

System	System Description	Access aligns with staff duties
iNovah	Cashiering, general payment data.	N
Infor	Business License and alarm permits.	N
CC&B	Utility billing.	N
B&C	Billing and collections.	N
RescueNet	Ambulance billing.	N
RTL	Mail payment processing system.	Y
Data Ticket	Parking Citations processing system.	Y

Recommendations:

Central Cashiering and Technology and Innovation Management:

- 4.2 **Communicate and work together to understand different access levels in the different systems used by Central Cashiering and the permissions allowed under each one. Limit access levels that are appropriate for each staff position’s responsibilities.**
- 4.3 **Review system security access regularly.**

III. Objective, Scope, and Methodology

The objective of this audit was to assess internal controls surrounding multiple revenue sources collected and processed at Central Cashiering. The audit scope covered revenue reported in the first six months of Fiscal Year 2018, October 1, 2017 to March 31, 2018. To achieve this objective, we:

- Interviewed Central Cashiering staff involved in the cashiering operation;
- Analyzed a sample of system reports, Deposit Receipts, and bank statements;
- Traced a sample of revenue from collection to bank deposit;
- Observed daily revenue processing functions for cash and checks from in-person and mail payments;
- Observed staff prepare the daily bank deposits and reconciliations;
- Conducted a surprise cash count of the change fund; and
- Examined the systems involved in recording revenue and generating revenue reports.

Our original audit scope included observation and analysis of a third-party vendor's revenue controls at pay stations throughout the City, where residents can pay their utility bills. However, due to the vendor's contract language we were unable to conduct onsite observations and were limited to reviewing their self-reported revenue reports. During the audit, Central Cashiering hired a new vendor to take over pay station, online, phone, and walk-in credit card payment processing. A contract executed with the new vendor contains an audit clause to allow for future audits.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

The audit findings and recommendations are based on the scope period reviewed. Management must ensure that improvements made based on recommendations in this audit carry forward to their operations in the new Civic Center.

IV. Appendix

Management Response



Date: February 8, 2019
To: Patrick H. West, City Manager *PW*
From: John Gross, Director of Financial Management *JG*
For: Laura L. Doud, City Auditor
Subject: **Central Cashiering Revenue Performance Audit**

The Department of Financial Management (FM) would like to thank the Office of the City Auditor for their time and effort in conducting a thorough review of Central Cashiering's Revenue Performance Audit. We truly appreciate the dedicated staff from the City Auditor's Office for taking the time to understand the Central Cashiering Operation, and for conducting the review in a professional, productive, and collaborative manner.

FM agrees that improved systems are necessary to ensure adequate controls, and we are pleased to note cashiering activities are being appropriately segregated, deposits were correctly and timely deposited, and that no fraud or misappropriation was identified in the audit. FM agrees with all the recommendations included in the audit related to the improvement of internal controls in the following areas: physical security of assets such as cash, checks, daily deposits, and keys; handling of cash in dual custody and under camera surveillance; providing revenue-handling training for staff; and, ensuring appropriate system access for end-users.

FM is pleased to report that many recommendations provided through this audit have been resolved. The remaining audit recommendations will be implemented during calendar year 2019.

Once again, FM appreciates the City Auditor's efforts to help improve our business operation. We are confident that these recommendations will help to further improve our revenue management controls.

If you have any questions, please contact me at (562) 570-6427 or Amanda Hall, Manager of Commercial Services, at (562) 570-6242.

JG:AH:LF
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CC: TOM MODICA, ASSISTANT CITY MANAGER
KEVIN J. JACKSON, DEPUTY CITY MANAGER
REBECCA G. GARNER, ADMINISTRATIVE DEPUTY TO THE CITY MANAGER
ANDREW VIALPANDO, ASSISTANT TO THE CITY MANAGER
AMANDA HALL, COMMERCIAL SERVICES BUREAU MANAGER

MANAGEMENT RESPONSE AND ACTION PLAN

Financial Management, Commercial Services Bureau

Central Cashiering Revenue Performance Audit

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
1.1	Require staff to run eligible checks through the Remittance Processor immediately.	H	7	Agree	Financial Management	Cashiering will make it a priority to process checks through the remittance processors. However, staffing levels as well as varying in-person customer traffic predicate the time at which checks are processed on the remittance processors.	June 2018
1.2	Purchase a safe or vault that has space for unprocessed and unendorsed checks so that they are physically secured and not accessible to unauthorized staff.	M	7	Agree	Financial Management	Unprocessed checks are placed under security camera surveillance. Any checks that remain unprocessed and unendorsed are secured in a safe or alternate location not accessible to unauthorized staff at the end of each business day.	November 2018
1.2.a.	If purchasing a safe or vault is not feasible, maintain unprocessed and unendorsed checks in an area that can be surveilled by camera, or in a secured lock box.	H	7	Agree	Financial Management	Refer to 1.2 above.	November 2018
1.3	Purchase a safe or vault that has space for the change fund to be maintained during the day.	L	8	Agree	Financial Management	Management is exploring the possibility of purchasing a new safe for the new Civic Center that has space for the change fund. In the mean time, the change fund will be locked in a safe like file cabinet.	July 2019
1.3.a	If purchasing a safe or vault is not feasible, maintain change fund in an area that can be surveilled by camera.	H	8	Agree	Financial Management	The change fund will be maintained in an area under camera surveillance in the new Civic Center.	July 2019
1.4	Ensure that staff who are assigned keys maintain those keys with them at all times while on-site or lock them up safely.	H	9	Agree	Financial Management	Cashiering staff maintains personal possession of their keys at all times or locks them up safely.	October 2018
1.5	Maintain an updated list of key and combination assignments to authorized personnel and update accordingly.	M	9	Agree	Financial Management	The Cashiering Supervisor maintains and updates a list of key custody and/or safe combination assignments for authorized Cashiering staff.	October 2018
1.6	Provide a specific area or areas for mail-sorting, deposit preparation and cash storage; and ensure that each area is monitored by video surveillance.	H	10	Agree	Financial Management	Mail sorting and cash storage are in a location monitored by camera surveillance. Management will ensure that all three functions will be monitored by camera surveillance in the new Civic Center.	July 2019
1.7	Ensure that the new Civic Center has designated secured spaces with security cameras in which mail-sorting, deposit preparation and cash storage processes will be performed.	H	10	Agree	Financial Management	Management will ensure that all three functions will be monitored by camera surveillance in the new Civic Center.	July 2019
2.1	Require dual custody to sort mail payments in order to ensure that unendorsed checks do not go missing during the sorting process.	H	11	Agree	Financial Management	Management agrees with control of unendorsed checks and keeps them under camera surveillance as they are processed in view of staff. Dual custody, which will require additional staff, will be considered should the budget permit.	September 2019
2.2	Require staff to maintain a log of all checks that are sent to the research desk and to outside departments for research to ensure a chain of custody at all times.	H	11	Agree	Financial Management	Cashiering staff maintains a log for checks that are emailed to departments for research. Management will explore practical ways to track checks sent to the research desk.	February 2019

MANAGEMENT RESPONSE AND ACTION PLAN

Financial Management, Commercial Services Bureau

Central Cashiering Revenue Performance Audit

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
2.3	Review the log periodically to ensure that other departments return checks to Central Cashiering for deposit.	M	11	Agree	Financial Management	Cashiering staff maintains a log for checks that are emailed to departments for research. The Cashiering Supervisor reviews the check log to ensure that departments respond to research inquiries for timely processing of checks.	February 2019
2.4	Ensure that change fund cash and shortage/overage logs are verified daily by a second party.	H	11	Agree	Financial Management	The change fund is verified twice daily. Verifications are performed by two different staff members, with the Supervisor verifying once a day. The Supervisor will also conduct random audits, and retain a copy of the audits at the Supervisor's desk.	February 2019
3.1	Provide annual training on revenue-handling controls, such as dual custody, safeguarding cash/revenue, and segregation of duties.	M	12	Agree	Financial Management	Cash Handling Training will be conducted on February 6 and 7, 2019, and annually in the future.	February 2019
Recommendations to Central Cashiering and Technology and Innovation Management:							
4.1	Delete the ability to adjust finalized transactions in iNovah.	H	13	Agree	Financial Management	Management worked with Technology and Innovation to limit the ability to adjust finalized transactions in iNovah to only the Cashiering Lead and Supervisor.	February 2019
4.2	Communicate and work together to understand different access levels in the different systems used by Central Cashiering and the permissions allowed under each one. Limit access levels that are appropriate for each staff position's responsibilities.	M	14	Agree	Financial Management	Management will review system access and permissions regularly with Technology and Innovation Management to ensure access levels are appropriate based on roles and responsibilities.	June 2019
4.3	Review system security access regularly.	M	14	Agree	Financial Management	Refer to 4.2 above.	June 2019

Priority

H – High Priority - The recommendation pertains to a serious or materially significant audit finding or control weakness. Due to the seriousness or significance of the matter, immediate management attention and M – Medium Priority - The recommendation pertains to a moderately significant or potentially serious audit finding or control weakness. Reasonably prompt corrective action should be taken by management to address L – Low Priority - The recommendation pertains to an audit finding or control weakness of relatively minor significance or concern. The timing of any corrective action is left to management's discretion.

Yellow areas - to be completed by the department



Long Beach City Auditor's Office

333 W. Ocean Blvd., 8th Floor, Long Beach, CA 90802

Telephone: 562-570-6751

Website: CityAuditorLauraDoud.com

Like us at facebook.com/LongBeachCityAuditor

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CITY AUDITOR'S FRAUD HOTLINE 1-888-FRAUD-07