



OFFICE OF THE CITY AUDITOR

TO: Mayor and Council Members
THRU: Margaret Krym, City Auditor *MK*
FROM: Kathy Magaw, Assistant City Auditor *CM*
DATE: August 19, 2013
SUBJECT: Cash Handling Audit – Imprest Funds Follow up Action Items

The Cash Handling Audit – Imprest Funds report was issued June 29, 2010. There were nine recommendations that resulted from this audit that Management agreed to implement. As of this memo, we have verified that implementation of all action items have been completed.

At the time that the original audit was completed, staffing in the Financial Services Department was changing and this caused some delays in their ability to respond to some of these action items quickly. However, by October 31, 2010, staff had implemented and we had verified five of the nine recommendations. We can now report that the remaining four are implemented as well.

The following five action items were implemented prior to October 31, 2010:

Agreed Upon Action Item #1:

The Financial Services Department staff created a current Master Database of all Imprest Funds (Subsidiary Ledger) including the verified balance, the name of all the custodians, and the location of the funds. This agreed upon action has been implemented and the risk has been mitigated.

Agreed Upon Action Item #2:

The Financial Services Department reconciled the cash on hand to the balances reported in the general ledger, and made the necessary adjustments to the general ledger to reflect the actual cash balances on hand. This agreed upon action has been implemented and the risk has been mitigated.

Agreed Upon Action Item #5:

The Department of Financial Services was able to review all Petty Cash Funds and eliminate any that were not necessary to achieve best practices with the City's business activities. This agreed upon action has been implemented and the risks have been mitigated.

Cash Handling Audit-Imprest Funds Follow up Action Items

August 19, 2013

Page 2 of 4

Agreed Upon Action Item #7:

The Department of Financial Services was able to review all Change Funds and eliminate any that were not necessary to achieve the City's business activities. This agreed upon action has been implemented and the risks have been mitigated.

Agreed Upon Action Item #8:

The Parks and Recreation Department developed a Departmental Standard Procedure for vending machines to include the inventory and deposit processes.

The Parks and Recreation Department has addressed this risk, however the risk may still exist for other areas in the City where vending machines are present. We suggest that the Parks and Recreation policy be applied to all areas in the City.

The two following action items were implemented in 2012:

Agreed Upon Action Item #3:

Financial Services determined to eliminate all Petty Cash Funds throughout the City and allow employees to purchase City items under AR #69 (Employee Reimbursements) with P-cards. This agreed upon action has been implemented and the risks have been mitigated.

Agreed Upon Action Item #6:

The Financial Services Department has implemented the P-card program by phasing departments in one at a time. The P-cards have eliminated the need for Petty Cash Funds. This agreed upon action has been implemented and the risks have been mitigated.

The two following action items were implemented in July 2013:

Change Funds and Cash Drawers are Imprest funds that are still in use within the City. We had recommended in Agreed Upon Action Item #4b that a policy governing their custody was absent and that each Custodian and their Supervisor should be required to read and sign a form to evidence their awareness of the responsibilities of their roles involving cash. Forms evidencing custody and understanding of responsibility should be kept current and a chain of custody be maintained until cash is returned to Financial Services when a staff member resigns and/or transfers to another department.

In April 2012, Financial Services contacted the City Auditor's Office reporting that there had been an incident of a cash shortage. This particular incident is discussed below as it is related to the follow-up work we conducted in the Cash Handling – Imprest Funds Audit.

We were informed that the \$100 Petty Cash Fund from Customer Billing Services (CBS) was missing and could not be located. At the time, CBS was in the process of relocating from their Pine Island location to the City Hall. The Customer Billing & Assessment Manager stated that he verified the \$100 cash balance was present and gave

Cash Handling Audit-Imprest Funds Follow up Action Items

August 19, 2013

Page 3 of 4

instructions for it to be transported to City Hall with a police escort. Subsequently, the \$100 fund could not be located.

Our purpose in reviewing instances of cash loss is to identify possible internal control weaknesses so they may be strengthened and prevent future losses. In this case, we believe that a chain of custody form would have assisted in identifying who was responsible for this \$100 Petty Cash Fund at the time of its disappearance. At the time, however, there was no policy requiring documentation of the Chain of Custody and therefore no evidence that funds had been exchanged.

We also found that there was no documented evidence indicating that the listed custodian was aware of his/her responsibilities for the fund. Had the custodian been required to sign a document indicating his/her understanding of the custodian responsibilities and required accountability for the cash, he/she may have been more hesitant to release the cash without a transfer signature.

This example illustrates the risks associated with transferring cash without proper documentation.

The Financial Services Department has acted to correct these weaknesses. Today they have a current listing and accounting of all Cash Drawers and Change Funds with the names of the custodians who maintain and are responsible for them. The "Chain of Custody" form has been implemented and is being maintained by the Cashier Supervisor in Financial Services. In addition, the Chain of Custody form documents that the custodians have read and acknowledged the City of Cape Coral's Cashier Policy and Procedures Manual and that they have agreed to be accountable for the fund.

These control improvements are a part of the implementation of Agreed Upon Action items #4a and #4b.

Agreed Upon Action Item #4a:

The Financial Services Department had a written policy for Cash Drawers and Change Funds for the cashier's office in Financial Services. They agreed to expand this policy to address and include all City Departments.

Implementation of guidance and appropriate controls over Cash Drawer and Change Funds has been on-going and now does require periodic reconciliation of all Cash Drawers and Change Funds to the general ledger.

A listing for all Cash Drawers and Change Funds has been created; this listing provides business units, object, and sub accounts used to reconcile the general ledger. The listing also includes the name of the responsible person and the dollar amount that is being kept on hand. This agreed upon action item has been implemented and the risks have been mitigated.

Cash Handling Audit-Imprest Funds Follow up Action Items

August 19, 2013

Page 4 of 4

Agreed Upon Action Item #4b:

The Financial Services Department will train the Custodians and Supervisors on the policies and procedures, and issue certificates to confirm an individual has attended the training. The individuals will sign a form as evidence he/she is aware of the responsibilities of his/her role.

We had **recommended** implementing a "Chain of Custody" form that would require the assigned staff member to sign and be responsible until the Cash Drawers and Change Funds have been returned to Financial Services Department. This form has been implemented and is being maintained by the Cashier Supervisor, Financial Services Department. This agreed upon action item has been implemented and the risks have been mitigated.

We would like to thank all the Financial Services Department staff for their efforts to complete these actions and eliminate or mitigate the risks associated with them.

Kathy Magaw is available to respond to any questions or concerns at 242-3381 about the information contained in this document.

C: **John Szerlag, City Manager**
 Dolores Menendez, City Attorney
 Rebecca van Deutekom, City Clerk
 Victoria Bateman, Financial Services Director
 Stephen H. Pohlman, Parks and Recreation Director
 Laura Tanner, Debt Treasury Manager
 Bill Boyd, Customer Billing & Assessment Manager
 Lisa Nalepka, Accounts Payable Supervisor
 Carol Kenny, Cashier Supervisor
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