



## CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

June 3, 2013

The Honorable City Council  
Palo Alto, California

### Special Advisory Memorandum - Cash Handling Controls

This is an informational report and no action is required.

The Office of the City Auditor has prepared the attached Special Advisory Memorandum (SAM) for your review and consideration.

The purpose of this SAM is to inform the City Council of the non-audit service we provided to the Administrative Services Department (ASD) at their request. The objective was to identify opportunities for improvement and to assist ASD in strengthening the City's internal controls over cash handling to mitigate the risk of errors or misappropriation at the City's cash handling facilities.

Based on our review of City policies and procedures, we identified some gaps between the current City requirements and controls commonly expected to be in place to mitigate the associated risks. For the development of this SAM, we worked closely with ASD and their input is reflected in this document.

This service was also intended to provide additional guidance to facilitate implementation of the remaining recommendations related to the Audit of Citywide Cash Handling & Travel Expenses issued in September 2010. We will perform a limited review of the recommended actions during our annual follow-up of the audit recommendations.

I would like to thank ASD for their time, consideration, and cooperation in the development of this SAM. Should you have any questions, please contact my office at your convenience.

Respectfully Submitted,

Jim Pelletier  
City Auditor

#### ATTACHMENTS:

- Attachment A: Special Advisory Memorandum - Cash Handling Controls (PDF)

Department Head: Jim Pelletier, City Auditor





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## Office of the City Auditor SPECIAL ADVISORY MEMORANDUM

### Guidance for Improving Citywide Cash Handling Controls

The Honorable City Council  
Palo Alto, California

The purpose of this special advisory memo is to inform the City Council of the non-audit service we provided to the Administrative Services Department (ASD) at their request. The objective was to identify opportunities for improvement and to assist ASD in strengthening the City's internal controls over cash handling to mitigate the risk of errors or misappropriation at the City's cash handling facilities.

#### BACKGROUND

In September 2010, the Office of the City Auditor (OCA) issued the Audit of Citywide Cash Handling & Travel Expenses, which identified internal control weaknesses in the City's cash handling policy and procedures. The City of Palo Alto Municipal Code Section 2.28.120 requires the City Manager to establish written procedures for the proper handling and safekeeping of cash by City employees.

During our annual audit recommendation follow-up process, ASD reported that the following recommended actions had been taken:

- Revision of the Cash Handling Manual (Policy and Procedures 1-03/ASD, June 2011) to cover all areas of cash handling.
- Improvement of the cash handling oversight program which includes training and surprise visits to cash handling facilities.

#### About SAM's

The Office of the City Auditor issues Special Advisory Memos (SAM's) to provide important information to the City Council and City Management in a quick and flexible manner. SAM's are prepared in coordination with relevant City Departments and are utilized for timely communication of limited reviews or evaluations.

City Auditor  
Jim Pelletier, CIA

Senior Performance Auditor  
Yuki Matsuura, CPA, CCSA, CRMA

As of June 2012, certain recommendations remained outstanding including the recommendation to ensure that all cash handling facilities have adequate procedures to safeguard receipts. Additionally, we found that the cash handling oversight program, while improved, could be further enhanced to provide effective and efficient oversight, documentation, and follow-up to ensure compliance. We provided some suggestions during the follow-up process, and ASD subsequently requested that we provide additional guidance to facilitate implementation of the remaining recommendations related to cash handling.

As of February 2013, the City had 20 authorized cash handling facilities. See the table below for the total receipts and number of line items recorded in SAP for FY2013 including cash, check, and credit card.

FY2013 YTD Receipts (Cash, Check, Credit Card) by Facility  
(July 2012 through February 2013)

Dept	Cash Handling Facility	YTD Receipts	# Line Items
Police	Animal Services	\$859,152	359
	Police Records-Public Counter <sup>1</sup>	-	
CSD	Aquatics (Rinconada & JLS)	\$174,929	485
	Art Center	\$135,152	174
	Children's Theater	\$115,548	243
	Cubberley Community Center (CC)	\$933,153	287
	Foothills Park	\$11,366	13
	Junior Museum and Zoo	\$120,240	195
	Lucie Stern CC	\$1,017,136	316
	Mitchell Park CC <sup>2</sup>	-	
	Parks	\$15,061	19
Planning	Development Center <sup>3</sup>	\$10,231,646	166
Library	Main Library	\$40,939	459
	Children's Library	\$19,631	423
	Downtown Library	\$8,919	275
	Mitchell Park Library	\$26,888	431
	College Terrace Library	\$4,192	133
ASD	Processing Center	\$58,976,567	246
	Revenue Collections	\$14,562,506	1,419
Utilities	Utilities Customer Service	\$37,877,183	501
Total		\$125,130,206	6,144

<sup>1</sup> Included in Revenue Collections as cash receipts are brought over to Revenue Collections for processing

<sup>2</sup> No cash received due to closure for renovation

<sup>3</sup> Includes cash received by Fire Department



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### SCOPE & METHODOLOGY

We worked with ASD to conduct a limited scope review to:

- Identify cash handling controls currently required by ASD by reviewing the following:
  - Cash Handling Manual (June 2011) which sets forth minimum standards for the handling of cash within the City that are required to be incorporated into a department's own written cash handling procedures.
  - Petty Cash Policy (Draft revision provided by ASD) which provides responsibilities for each department and ASD revenue collections over petty cash.
  - Travel Arrangements and Expense Reimbursement (August 2012) which provides procedures for the authorization of travel and payment of travel expenses for City employees and requires City employees to follow the Petty Cash Policy for certain travel reimbursement requests.
- Identify control gaps and opportunities for improvement to close the gaps including identification of additional expected controls
- Develop a list of expected cash handling controls that includes controls required by ASD as well as additional controls identified by OCA
- Evaluate the existing controls performed at ASD and at a sample of three cash handling facilities (Revenue Collections, Lucie Stern Recreation, and Animal Services) against the list of expected cash handling controls by:
  - Inquiring with staff performing controls
  - Observing staff performing controls
  - Inspecting the facility and applicable documents or records

This was a limited scope review not conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). A majority of the information presented in this memo is based on staff representations that were not independently validated. It is ASD management's responsibility to evaluate the adequacy and results of the services performed and to design, implement, and maintain internal control.

Our focus was on over-the-counter transactions involving cash and checks, and did not review procedures related to electronic and online transactions.

### RESULTS

Based on our review of City policies and procedures, we identified some gaps between the current City requirements and controls commonly expected to be in place to mitigate the associated risks. We have included a checklist at the end of this memo. We developed this checklist to document expected cash handling controls that include controls required by ASD as well as additional controls identified by OCA. The checklist includes the following information:

- **Category** to allow grouping of controls by function or activity so that the adequacy of the controls can be assessed at that level.
- **Reference** to indicate the relevant City policy and procedures. As much as possible, we used the exact language found in the referenced document to describe the control; however, we also restated controls to simplify and/or clarify the required activity. It was noted "N/A" where the control is not required in the current City policies and procedures. They represent additional controls we identified to fill the control gaps.
- **Control Owner** to indicate who is responsible for performing the control. This column can be modified to document the division, function, staff position, or staff name, to further clarify the roles and responsibility.



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Based on our evaluation of the existing controls at ASD and at 3 of 20 cash handling facilities, we identified opportunities for improvement that can be grouped into four types:

- 1) Additional controls currently not a City requirement
- 2) Current City requirement not being followed due to lack of awareness
- 3) Current City requirement not being followed because the department/facility accepts the risk of not implementing those controls relative to the likely impact and available resources
- 4) Controls not designed and/or not operating effectively

Among the control gaps that we believe require corrective actions are:

- Reconciling items in the monthly reconciliation of cash receipts to bank deposits are not adequately followed up for timely resolution. Reconciling items as of November 2012 included over \$170K in returned checks without sufficient supporting documentation.
- The timeliness of deposits is not monitored adequately to ensure that deposits made by facilities located outside City Hall are made the next business day as required by the Cash Handling Manual unless otherwise approved by ASD.
- Shortages and overages reported by cash handling facilities are not consistently tracked and adequately addressed to prevent similar incidents from happening in the future. They were not always accurately recorded and many appeared to be clerical errors rather than true shortages and overages.

Departments should be fully familiar with City policies and procedures applicable to their cash handling processes and ensure that required controls are in place to mitigate the risk of errors or misappropriation. These controls include:

- Supervisory reviews
- Safeguarding of collected funds
- Segregation of duties

Each authorized cash handling facility is required to have its cash handling procedures reviewed and approved by ASD.

### RECOMMENDED ACTIONS

We recommend that ASD take the following actions:

- 1) Evaluate the adequacy of the information we provided regarding control gaps and incorporate appropriate controls in the City policies and procedures.
- 2) Evaluate the adequacy of the suggested actions and take appropriate steps to address the identified control weaknesses.
- 3) Finalize and distribute the revised Cash Handling Manual and Petty Cash Policy to City departments and cash handling facilities for implementation. We suggest that required activities and terminology be defined and used consistently across multiple documents to enhance clarity and communication.
- 4) Create a checklist of expected cash handling controls similar to the one included at the end of this memo and distribute to all cash handling facilities. Although the diversity of City operations makes it difficult to require a Citywide set of detailed procedures, certain control activities generally apply to all situations. Benefits of such checklist include:
  - a. Sets the expectation and increases awareness of control responsibility both at the Citywide level and at the facility level.



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- b. Allows each facility to perform a self-assessment to evaluate the adequacy of existing controls and to ensure that required controls are included in their cash handling procedures.
  - c. Assists ASD in strengthening its oversight. ASD can use the checklist when conducting site visits to evaluate and monitor the adequacy of the controls at each facility and to document and communicate corrective actions.
- 5) Follow up with all authorized cash handling facilities to ensure the adequacy of their Desk Procedures Manual.

### **NEXT STEPS**

No response to this memo is required. We will perform a limited review of the recommended actions during our annual follow-up of the recommendations for the Audit of Citywide Cash Handling & Travel Expenses.

Respectfully submitted,

Jim Pelletier  
City Auditor

cc: Executive Leadership Team

Control No.	Expected Cash Handling Controls	Category	Reference	Control Owner	
1	Written procedures for the proper handling and safekeeping of cash by City employees are established by the City Manager.	Policies, Procedures, Desk Manual	City of Palo Alto Municipal Code Section 2.28.120	ASD	
2	Desk Procedures Manual concerning all aspects of the departmental cash handling policies and procedures is maintained including contingency procedures for coverage due to the absence of the regularly designated staff member.	Policies, Procedures, Desk Manual	Cash Handling Manual (III, IV-E.a)	Depts	
3	Verbal approvals must be obtained prior to purchase in accordance with the department's internal approval process to ensure the item is solely for City use and is appropriate in nature.	Petty Cash	Petty Cash Policy (draft)	Depts	
4	Internal approval process covering reimbursement of one-day travel, night meetings, overtime meals, and miscellaneous purchases has been developed for petty cash purchases.	Petty Cash	Petty Cash Policy (draft)	Depts	
5	Verifies the authorization signature on the Petty Cash Reimbursement Form against the signature records.	Petty Cash	Petty Cash Policy (draft)	ASD	
6	Review the Petty Cash Reimbursement Form to ensure that all requirements have been met.	Petty Cash	Petty Cash Policy (draft)	ASD	
7	Process all reimbursements using the CORE cash receipting system to ensure recording in SAP and provide cash only to the individual whose name and signature is on the form.	Petty Cash	Petty Cash Policy (draft)	ASD	
8	A petty cash purchase exceeding \$150 must be purchased through normal procurement channels and will not be reimbursed.	Petty Cash	Petty Cash Policy (draft)	ASD	
9	Verifies annually that each department head maintains an updated authorized signature card for petty cash reimbursement. Verifies that all approvers are management staff.	Petty Cash	Petty Cash Policy (draft)	ASD	
10	When not in use, funds are stored in the office safe.	Working Fund	N/A - Currently not required by the City	Depts	
11	Individual responsibility for the custody of working fund is documented including when the responsibility is transferred due to a shift change.	Working Fund	N/A - Currently not required by the City	Depts	
12	A single employee is assigned a specific cash tray with a specific working fund balance and is prohibited from sharing it with other employees.	Working Fund	N/A - Currently not required by the City	Depts	
13	Working funds may not be used to cash personal checks, make personal loans, advance travel funds, or for the purchase of any supplies.	Working Fund	Cash Handling Manual (IV-B.1.a)	Depts	
14	All voids and refunds are reviewed and approved in writing by the department management or designee, via signature on the SAP print-out of the voided transaction.	Cash Receipts	Cash Handling Manual (IV-B.1.p)	Depts	
15	Receipts must be given for all transactions	Cash Receipts	Cash Handling Manual (IV-B.1.i)	Depts	
16	Cash handlers are to be in sole possession of their cash drawer or cash box keys and ensure that no funds are left unattended or unsecured.	Cash Receipts	Cash Handling Manual (IV-F.7-8)	Depts	
17	At the end of the business day, all cash is secured in a locked safe.	Cash Receipts	Cash Handling Manual (IV-B.1.k)	Depts	
18	Each cashier balances his/her register activity at the end of his or her business shift.	Cash Receipts	Cash Handling Manual (IV-B.1.m)	Depts	



Control No.	Expected Cash Handling Controls	Category	Reference	Control Owner	
19	The following elements are verified before a check is accepted from a customer: <ul style="list-style-type: none"> <li>• Payable to the City of Palo Alto</li> <li>• Currently dated</li> <li>• Properly signed by the presenter</li> <li>• The numeric and written amounts</li> </ul>	Checks	Cash Handling Manual (IV-B.2.b)	Depts	
20	All checks are restrictively endorsed immediately upon receipt.	Checks	Cash Handling Manual (IV-B.2.b)	Depts	
21	A daily reconciliation of all back-up documentation (receipts, permits, class registration, invoices, etc.) to a transaction report generated by the cashier system is performed by a person who did not process the transactions.	Reconciliation, Recording, and Deposits	Cash Handling Manual (IV-C.1-2)	Depts	
22	Account numbers are pre-determined in the cashier system to prevent coding errors.	Reconciliation, Recording, and Deposits	N/A - Currently not required by the City	Depts	
23	All cash receipts must be recorded in SAP on the same day the reconciliation/deposit is processed.	Reconciliation, Recording, and Deposits	Cash Handling Manual (IV-E.a)	Depts	
24	All monies received are deposited into the banking system by the next regular working day following the day of receipt. Exception must be approved by ASD.	Reconciliation, Recording, and Deposits	Cash Handling Manual (III, IV-D.a)	Depts	
25	The department supervisor or designee verifies that the amount on the deposit paperwork agrees to the reconciliation report and initials the paperwork.	Reconciliation, Recording, and Deposits	Cash Handling Manual (IV-D.b)	Depts	
26	Collections are secured in the department safe until deposited.	Reconciliation, Recording, and Deposits	Cash Handling Manual (IV-F.1)	Depts	
27	Deposits are picked up by the City's authorized armored courier service in accordance with the schedule approved for each facility.	Reconciliation, Recording, and Deposits	Cash Handling Manual (IV-D.c)	Depts	
28	Deposit documentation is submitted to the Accounting Division within three business days. Exception must be approved by ASD.	Reconciliation, Recording, and Deposits	Cash Handling Manual (III, IV-E.a)	Depts	
29	A G/L member reviews and initials each cash receipt batch after verifying that the SAP document matches the deposit backup. A log is kept to track when a batch is received. The batch is then posted by the Senior or Accountant in the G/L group.	Reconciliation, Recording, and Deposits	General Ledger Cash Receipts Processing Procedure	ASD	
30	Validated cash receipt batches are reconciled to the bank deposit records on a daily basis.	Reconciliation, Recording, and Deposits	N/A - Currently not required by the City	ASD	
31	When possible, safes and vaults are accessed under dual control – meaning two employees should be present each time the safe or vault is opened.	Office Safes	Cash Handling Manual (IV-F.13)	Depts	
32	Access to secure locations via keys or combinations is given to a minimum number of employees whose functions require access to cash.	Office Safes	Cash Handling Manual (IV-F.14)	Depts	
33	Locks and safe combinations are changed whenever there is an employee turnover or security may have been compromised.	Office Safes	Cash Handling Manual (IV-F.17-18)	Depts	
34	Each department must maintain a record of each person given the safe combination, dates the combination was changed, and the reason for the change by using the Key and Safe Access Issuance Log.	Office Safes	Cash Handling Manual (IV-F.20)	Depts	

Cash Handling Control Review Checklist

Attachment A

Control No.	Expected Cash Handling Controls	Category	Reference	Control Owner	
35	All staff members involved in cash handling receive proper training and annually review the Cash Handling Manual and facility's approved cash handling procedures. A signature log signed by each staff member acknowledging the training and review of the procedures is maintained by the department.	Employee Training & Security	Cash Handling Manual (V)	Depts	
36	Cashiers are protected behind some barrier and provided with an emergency alarm.	Employee Training & Security	N/A - Currently not required by the City	Depts	
37	A charge of \$25 is imposed on the maker of a returned check and a form letter is sent to the maker.	Returned Checks Tracking	N/A - Currently not required by the City	ASD	
38	A returned check file is maintained as the accounts receivable record.	Returned Checks Tracking	N/A - Currently not required by the City	ASD	
39	A sign is displayed at appropriate cashier counters warning the public that all checks returned for any reason will have a \$25 penalty imposed.	Returned Checks Tracking	N/A - Currently not required by the City	Depts	
40	Unresolved discrepancies of \$50 or higher must be submitted to the Supervisor of Revenue Collections within one business day.	Shortage/Overage Reporting	Cash Handling Manual (IV-C.3)	Depts	
41	All cash shortages and overages are recoded in SAP regardless of the amount and predetermined text codes are used to report the reasons.	Shortage/Overage Reporting	N/A - Currently not required by the City	Depts	
42	All shortages and overages are reviewed, tracked, and resolved as appropriate.	Shortage/Overage Reporting	N/A - Currently not required by the City	ASD	
43	The GL Cash Balance is reconciled to the bank statements monthly. Reconciling items are reviewed and resolved in a timely manner.	Monthly Reconciliation	N/A - Currently not required by the City	ASD	
44	The GL cash receipts are reconciled to the GL deposits monthly. Reconciling items are reviewed and resolved in a timely manner.	Monthly Reconciliation	N/A - Currently not required by the City	ASD	
45	Training and Monitoring	Site Visit/Monitoring	N/A - Currently not required by the City	ASD	