

INTERNAL AUDIT REPORT

Audit of Cash Handling



Assignment 10340
October 19, 2016

Conclusion

The Cash Handling Policy & Procedures ¹ was found to be reasonably satisfactory but could be improved. Departmental implementation of the policy could be stronger.

This report includes eight recommendations, all of which are Priority Two ². There are no recommendations that are Priority One ³ or Priority Three ⁴. The Controller-Treasurer Department will implement all eight recommendations by June 2018. The Internal Audit Division plans to perform a follow-up audit on the recommendations in the following fiscal year, FY18-19.

During the audit, suggestions were provided to the Controller-Treasurer Department and were implemented. This is commendable. Areas covered were:

- Requirements for monitoring to prevent and detect theft of cash for mail-in payments
- Guidance for cash transportation
- Information on the proper forms of identification for payment acceptance
- Updates to the current US Secret Service Form 1604 sample and provision of the Secret Service link for departments to obtain most current form for reporting counterfeit currency
- Clarified expectation on timeframe for reporting cash shortage/overage
- Update to current IRS Form 8399 sample and provide IRS website link for departments to obtain most current form for reporting received cash payment over \$10,000
- Update County Cash Over or Short form to reflect correct phone number and format.

¹ *County of Santa Clara Controller-Treasurer Department, Cash Handling Policy & Procedures, revised June 1, 2015*

² This would be the intermediate priority level. Recommendations include in this level would include recommendations that would result in moderate (\$50,000 to \$250,000) increases in revenue or decreases in expenditures. Also included would be recommendations to make changes in local policy through amendments to existing County ordinances and policies and procedures. In addition, Priority 2 recommendations would include recommendations to revise existing departmental or program policies and procedures that would result in improved service delivery, increased operations efficiency, greater program effectiveness, improved control over the safeguarding of assets or the accuracy and completeness of financial data.

³ This would be the highest priority level. Priority 1 recommendations would address issues of noncompliance with federal, State and local laws, regulations, ordinances and County Charter. In addition, this priority level would also include recommendations that would or could result in significant (\$250,000 or more) increases in revenue or decreases in expenditures. This will include significant weaknesses in internal controls. Lastly, recommendations to make significant changes in Federal, State, or local policy through amendments to existing laws, regulations and policies would also be included.

⁴ This would be the lowest priority level. Recommendations included in this level would address program related policies and procedures that would not have a significant impact on revenues or expenditures, but would result in modest improvements to service delivery, operational efficiency, or program effectiveness.

Background

The County handles cash at numerous locations for a wide variety of transactions, including receiving money for services and paying for goods and services received. The Controller-Treasurer has centralized responsibility for providing guidance to County departments; therefore, the Controller-Treasurer Department issued the *County of Santa Clara Controller-Treasurer Department, Cash Handling Policy and Procedures*. Departments are expected to follow the policy or seek an exemption from the Controller-Treasurer for deviation from the Cash Handling Policy and Procedures. Topics covered in the policy are:

- Receipt Documentation
- Deposit of Payments
- Bank Accounts
- Change, Imprest and Petty Cash Funds
- Return Checks
- Cash Overages and Shortages

To understand the extent of cash handled at departments, County departments were surveyed. Results are in Table One.

Table One Cash Handling by Department				
Cash Activity Frequency	Monthly Cash Activity Amount			
	Under \$10,000	\$10,000 - \$50,000	\$50,000 - \$100,000	Over \$100,000
Never	5	-	-	-
Daily	2	2	1	12
Weekly	2	-	1	1
Monthly	2	-	-	1
Varies	2	-	-	1
Total Departments	13	2	2	15

Objective This audit's objective was to evaluate the Cash Handling Policy and Procedures for effectiveness, including determining if internal controls are appropriate. Also, the project was to determine compliance with existing policy at the departmental level.

Scope and Methodology This audit was initiated in July 2014 from the FY15 approved audit work plan. Fieldwork was concluded by July 2016. The audit was based on the June 2015 Cash Handling Policy and Procedures. In September 2016, subsequent to completion of fieldwork, an updated policy was issued with minor changes. It was not considered in the audit.

Methodology utilized to complete this audit included:

- Surveying County departments to determine extent of cash handling activity
- Asking County departmental staff for suggestions on the Cash Handling Policy and Procedures
- Benchmarking the Cash Handling Policy and Procedures against the practices of other governments
- Evaluating risks and controls based on the Cash Handling Policy and Procedures
- Testing key controls
- Developing a policy compliance tool and a risk assessment tool
- Analyzing three departments for compliance with the Cash Handling Policy and Procedures.

We conducted this audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*. We discussed this report's draft copy with the Controller-Treasurer Department prior to issuing this final report. Attached to this report is the department's formal response.

We appreciate the staff of the Controller-Treasurer Department and the three selected departments for their effort and cooperation through the audit.

Signature on file

Rebecca Haggerty 
Internal Audit Manager
October 19, 2016

Attachment:
Response from the Controller-Treasurer Department

Findings and Recommendations

Finding One The County Policy could be improved.

The County policy, *County of Santa Clara Controller-Treasurer Department, Cash Handling Policy & Procedures*, (Cash Handling Policy and Procedures) is prepared by the Controller-Treasurer Department and is to be followed by the County departments. The coverage tends to be detailed and is intended to cover most scenarios. However, County cash handling operations can vary greatly, and deviations may be appropriate. As such, the policy allows County departments to request exemptions of the Controller-Treasurer for deviation from the Cash Handling Policy and Procedures. The 50-page Cash Handling Policy and Procedures includes the following sections:

- I. General Information
- II. Internal Controls
- III. Receipt Documentation
- IV. Deposit of Payments
- V. Bank Accounts
- VI. Change, Imprest and Petty Cash Funds
- VII. Return Checks
- VIII. Cash Overages and Shortages

In general the Cash Handling Policy and Procedures addresses business risks and benchmarks favorably against other governments' policies. The Cash Handling Policy and Procedures is adequate but could be improved. We identified numerous suggestions which are detailed in Attachment A. The changes include overall/general thoughts (for example, adding flowcharts and moving topics between sections) and detailed section-by-section changes (for example, improving physical safeguards and updating reconciliation procedures).

Recommendation 1.1 The Controller-Treasurer Department shall revise the Cash Handling Policy and Procedures to provide guidance that ensures adequate internal controls to address cash handling risks while also being flexible enough to address the uniqueness of each department's cash handling scenario. Examples of possible improvements are included in Attachment A. (Priority 2) [Expected June 2017]

Recommendation 1.2 The Controller-Treasurer Department to review the Cash Handling Policy and Procedures for updates bi-annually. (Priority 2) [Expected June 2018]

Finding Two County departments struggle to comply with policy provisions.

The audit evaluated compliance at three departments: one each of high, medium and low extent of cash handling. Although mainly in compliance, each of the selected departments struggled to comply with the at least several policy provisions. None of the three departments had requested an exemption from policy provisions.

The Controller-Treasurer has centralized responsibility to provide policy direction. It seems appropriate that the Controller-Treasurer would also monitor compliance with the Cash Handling Policy and Procedures and provide guidance on policy implementation. Topics to include in a monitoring program are:

- ✓ compliance with the Cash Handling Policy and Procedures,
- ✓ internal controls over cash handling, and
- ✓ approval/denial of policy deviation requests.

Recommendation 2.1 The Controller-Treasurer Department to follow-up with the three departments to finalize the evaluation of compliance with the Cash Handling Policy and Procedures, finalize the analysis of internal controls over cash handling, and approve or deny requests for policy deviations.
(Priority 2) [Expected June 2017]

Recommendation 2.2 For each County department that handles cash, the Controller-Treasurer Department to evaluate compliance with the Cash Handling Policy and Procedures, analyze internal controls over cash handling, and approve or deny requests for policy deviations once per every two fiscal years.
(Priority 2) [Expected June 2018]

Recommendation 2.3 The Controller-Treasurer Department to provide training to County departments on the Cash Handling Policy and Procedures updates made pursuant to this audit.
(Priority 2) [Expected June 2017]

Recommendation 2.4 The Controller-Treasurer Department to provide training on the Cash Handling Policy and Procedures to County departments at least once each fiscal year.
(Priority 2) [Expected June 2018]

Recommendation 2.5 The Controller-Treasurer Department to provide self-assessment tools to County departments, for example a policy compliance checklist and a risk and control matrix.
(Priority 2) [Expected December 2017]

Recommendation 2.6 The Controller-Treasurer Department to require County departments have employees involved in cash handling sign a statement that they have read and understood the Cash Handling Policy and Procedures.
(Priority 2) [Expected June 2017]

Attachment A
Recommended Changes to the County Cash Handling Policy and Procedures

A. General

1. Revisit and confirm which policy provisions are required versus optional.
2. Reconfigure document to separate policy statements from procedural detail.
3. Provide flowcharts and screen prints to better explain processes.
4. Revisit and confirm situations when approval to be obtained from the Controller-Treasurer versus the Finance Agency Director.
5. Include provisions for a small department scenario, for example alternatives to segregation of duties because small departments struggle to comply due to limited staffing. Consider implementing.
6. Provide guidance on how extensive departmental policies and procedures should be in order to effectively coordinate with the County policy and procedure. There is confusion on how much policy and procedure the departments should have given that the departments intend to follow the Cash Handling Policy and Procedures. Each of the three departments audited had their own internal procedures: one was intended to substitute for the Cash Handling Policy and Procedures but had significant deficiencies. Another was relatively limited, similar to a desk procedure. The third was somewhere in between and focused on the department's cashiering system in addition to cash handling practices.
7. Move the information in Section II, Internal Control, to topical sections. Gives one point of reference. This will eliminate thoughts that these actions will be taken solely for internal control purposes.
8. Require County departments to develop a secret word phrase for duress situations.

B. Section I: General Information

1. Clarify *Section I General Information F Unannounced Cash Reviews* to indicate whether the cash review is for the change/imprest fund balances or of all cash, including receipts.

C. Section II: Internal Control

1. Change *Section II Internal Control C Physical Safeguards* to require the Controller-Treasurer to periodically evaluate the appropriateness of physical facilities at cash handling locations.
2. Change *Section II Internal Control C Physical Safeguards 1* to remove nightly safe security as a requirement. Instead consider requiring physical security without specifically requiring a safe.
3. Change *Section II Internal Control C Physical Safeguards 3 re Office* to reflect "...keys and badges to office doors should be restricted to the minimum number of responsible employees".
4. Change *Section II Internal Control C Physical Safeguards 3* to require that no replacement keys will be made; lock and key to be replaced instead.
5. Clarify *Section II Internal Control C Physical Safeguards 7* related to transportation of cash to differentiate between currency and checks. Possibly a point 'f' should be included "type of cash, i.e. checks, currency, etc.
6. Clarify *Section II Internal Control D Accountability*. This section is confusing because it does not distinguish counter cash handling from mailed in checks and petty cash. Consider changing it to reflect that this section applies to cashiering/customer receipt areas only and excludes mailed in checks and petty cash. Consider moving this portion to Section III-Receipt Documentation or IV-Deposit of Payments.
7. Clarify *Section II Internal Control E Payment Acceptance 7* which discusses verifying identification when receiving payment by check. It needs to be clarified as to which scenario it applies to: personal in person checks, mailed checks, business checks, governmental checks, etc.

8. Clarify *Section II Internal Control E Payment Acceptance 7* as to whether this applies to checks delivered by another party or received in the mail. The Cash Handling Policy and Procedures (II. E. 7. c) states that "the cashier must examine a driver's license before accepting payment... other type of identification" and (II.E.7.f) the payer's name and address must be verified by agreement to the driver's license or other identification" . However, both of these are preceded by "It is recommended...(II.E.7).
9. Clarify *Section II Internal Control E Payment Acceptance 7* to define that this pertains to walk-in customers only (pertains to Section II. E. 7c, e, f, g).
10. Include in *Section II Internal Control E Payment Acceptance 7* a requirement that the Controller-Treasurer Department provide County departments with State issued identification () booklets to assist cashiers in evaluating ID's from different states.
11. Move *Section II Internal Control E Payment Acceptance 7*. possibly to *Section III Receipt Documentation* or *Section IV Deposit of Payments*.
12. Move *Section II Internal Control E Payment Acceptance 10* to *Section III Receipt Documentation* or *Section IV Deposit of Payments* with cash deposits.
13. Clarify *Section II Internal Control E Payment Acceptance 12* as to whether this addresses currency only or all cash (checks, etc.).

D. Section III: Receipt Documentation

1. Require Controller-Treasurer monitoring for compliance with Federal reporting requirements for cash payments exceeding \$10K discussed in *Section III Receipt Documentation B Cash Received - Over \$10,000*.
2. Clarify *Section III Receipt Documentation C Control of Unused Receipts 8* regarding periodic inventory on the type of investigation, including which investigative procedure to use and who should the investigation be escalated.
3. Explicitly explain whether *Section III Receipt Documentation A General* addresses receipts to be provided for mail in payments, especially where a County revenue contract is the case.
4. Explicitly explain whether *Section III Receipt Documentation D Preparing Receipts*, addresses receipts to be provided for mail in payments, especially where a County revenue contract is the case.
5. Revisit *Section III Receipt Documentation E Voided Receipts*. If it solely relates to paper receipt books, explicitly state. If it is intended to relate to all receipt types, revisit the expectations to ensure it is flexible for all receipt types.
6. Revisit *Section III Receipt Documentation F Cash Registers* to confirm or reduced the amount of detail. County operations use a variety of cash registers and cashiering systems, each with unique features. Sections that should be specifically revisited include:
 - ✓ 3e: - a tape locked in a cash register: Determine if this level of detail is necessary. If so, reconsider the explanation to ensure it is flexible for the wide variety of cashiering systems in use in the County.
 - ✓ 3f: - required notations on a detail audit tape: /Revisit as not all County systems utilize a detail audit tape, thus a department cannot make notations.
 - ✓ 3h: - initialing cash register voids: Determine if this level of detail is necessary. If so, reconsider the explanation to ensure it is flexible for the wide variety of cashiering systems in use in the County.
 - ✓ 3j: - supervisor must clear cash register totals at the end of the business day. This is a very specific feature that may not provide flexibility for the wide variety of cashiering systems used throughout the County. Instead, reconsider that supervisor must ensure that cash register totals has been cleared for the day's business.
7. Reconsider *Section III Receipt Documentation F Cash Registers 3k* that requires same day reconciliations in all cases to allow reconciliations to be performed the next business day with adequate mitigating controls in place.

8. Remove *Section III Receipt Documentation subsection I Electronic Funds Transfer* because there is another policy discussing the same topic. Instead include a reference to the other policy, *Acceptance of Electronic Fund Transfer Payment Methods*. This is valuable as it is a good practice to have only one policy per topic.
9. If retained, clarify *Section III Receipt Documentation I Electronic Funds* to address simple situations such as a department receiving infrequent wire transfer deposits (example: one per week).

E. Section IV: Deposit of Payments

1. Consolidate *Section IV Deposit of Payments B Internal Control* to be included within the content of the Section – not a separate section. This will eliminate thoughts that these actions will be taken solely for internal control purposes.
2. Revisit *Section IV Deposit of Payments* to consider allowing flexibility in deposit timeframes, possibly including a reasonable explanation.
3. Reconsider *Section IV Deposit of Payments D Deposit Reconciliation*. It appears to duplicate information in sections B and C.
4. Suggest inserting a reference into *Section IV Deposit of Payments: B.2*, to the sample reconciliation at Exhibit E.
5. Update *Section IV Deposit of Payments: B.1.d*, regarding bank deposit reconciliations to indicate that this is all deposits, including those made via the County treasury.

F. Section V: Bank Accounts

1. Clarify to indicate that it applies to all types of bank accounts, including depository, check writing, both.
2. Suggest using the phrase "stand-alone" accounts, since this seems to be the terminology used in the County for accounts separate from the main County bank account
3. Add to *Section V Bank Accounts B Authorizing Procedures*, provisions for account set up initiated by the Controller-Treasurer's Department (as opposed to initiated by the department). For example, a depository account initiated by the Controller-Treasurer Department does not need to be justified with providing info in B.1.a-f.
4. Update *Section V Bank Accounts C General Controls 5* re reconciliations to include a requirement to perform a reconciliation of the department expected cash receipts and balances to total amounts.
5. Update *Section V Bank Accounts C General Controls 5* for current banking practice. Since SAP general ledger entries are received from the bank, at least for deposits, the type/amount of bank-to-book reconciliations are reduced.
6. Update *Section V Bank Accounts C General Controls 7* regarding submitting bank reconciliations to the Controller-Treasurer Department to define that this is only required for disbursement accounts, as per the current Controller-Treasurer's General Accounting Unit's practice.

G. Section VI: Change, Imprest and Petty Cash Funds

1. Segregate section into two sections: change/imprest funds and petty cash funds. Many departments no longer have petty cash, given use of P-Cards, employee vendor reimbursements, and other means of purchasing. During the audit, one department was confused as to how much of this applied given that it only had a change fund, not petty cash.

2. Add a discussion of alternative ways to pay for items such as P-Card and Employee vendor reimbursement. Using the alternatives may reduce or eliminate the need for petty cash thereby reducing workload and increasing efficiency.
3. In *Section VI Change, Imprest, and Petty Cash Funds C Imprest/Petty Cash Funds 9* regarding the Controller-Treasurer annual certification include a requirement that the annual petty cash certification includes an attestation that the funds listed are a comprehensive and complete listing of all of the petty cash/change funds in the department and that no other funds exist.

H. Section VII: Returned Checks

1. In Section VII Returned Checks A. General, add a requirement that departments evaluate trends of number and amount of not sufficient funds (NSF) checks received and the reasons for these in order to identify and implement business improvements.

I. Section VIII: Cash Overages and Shortages

1. In Section VIII Cash Overages and Shortages F Cash Shortage-Counterfeit Currency add a requirement that departments evaluate trends of number and amount of counterfeit monies received and the reasons for these in order to identify and implement business improvements.

J. Exhibits

1. Suggest updating *Exhibit E, Bank Reconciliation*, to reflect current banking practices for providing journal entries from the bank to the SAP general ledger.

County of Santa Clara

Finance Agency
Controller-Treasurer



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DATE: October 27, 2016
TO: Rebecca Haggerty, Internal Audit Manager
FROM: George P. Doorley, Assistant Controller-Treasurer
SUBJECT: **Response to Audit of Cash Handling**

A handwritten signature in blue ink, appearing to be "G. Doorley", is written over the "FROM:" line of the header.

Thank you for the opportunity to review and respond to the Internal Audit Report: Audit of Cash Handling issued October 19, 2016. I agree with the eight recommendations and have initiated implementation projects. I am attaching the Controller-Treasurer's formal response (Exhibit A) to the eight recommendations which I understand will be included in the final report.

The Controller-Treasurer Department will prepare an action plan to address the recommendations, as well as the observations and suggestions for improvement, contained in the report. I plan to have the action plan finalized by November 30, 2016 and will provide you a copy at that time.

We appreciate the efforts and good work of the Internal Audit Department on this project and believe they will assist County operations in improving internal control measures.

Recommendation 1.1	The Controller-Treasurer Department shall revise the Cash Handling Policy and Procedures to provide guidance that ensures adequate internal controls to address cash handling risks while also being flexible enough to address the uniqueness of each department's cash handling scenario. Examples of possible improvements are included in Attachment A. (Priority 2) [Expected June 2017]
Response 1.1	The Controller-Treasurer Department agrees with the recommendation of revising the Cash Handling Policy and Procedures to provide guidance that ensures adequate internal controls to address cash handling risks while also being flexible enough to address the uniqueness of each department's cash handling scenario.
Recommendation 1.2	The Controller-Treasurer Department to review the Cash Handling Policy and Procedures for updates at least once each fiscal year. (Priority 2) [Expected June 2018]
Response 1.2	The Controller-Treasurer Department agrees that cyclical review and revision on a biannual basis of the Cash Handling Policy and Procedure is appropriate.
Recommendation 2.1	The Controller-Treasurer Department to follow-up with the three departments to finalize the evaluation of compliance with the Cash Handling Policy and Procedures, finalize the analysis of internal controls over cash handling, and approve or deny requests for policy deviations. (Priority 2) [Expected June 2017]
Response 2.1	The Controller-Treasurer Department agrees with this recommendation to follow up with the three departments to finalize the evaluation of compliance with the Cash Handling Policy and Procedures, finalize the analysis of internal controls over cash handling, and approve or deny requests for policy deviations.
Recommendation 2.2	For each County department that handles cash, the Controller-Treasurer Department to evaluate compliance with the Cash Handling Policy and Procedures, analyze internal controls over cash handling, and approve or deny requests for policy deviations once per every two fiscal years. (Priority 2) [Expected June 2018]
Response 2.2	See response to 2.1.
Recommendation 2.3	The Controller-Treasurer Department to provide training to County departments on the Cash Handling Policy and Procedures updates made pursuant to this audit. (Priority 2) [Expected June 2017]
Response 2.3	The Controller-Treasurer Department agrees with this recommendation to provide training on the Cash Handling Policy and Procedures to County departments.

- Recommendation 2.4** The Controller-Treasurer Department to provide training on the Cash Handling Policy and Procedures to County departments at least once each fiscal year. (Priority 2) [Expected June 2018]
- Response 2.4** See response to 2.3
- Recommendation 2.5** The Controller-Treasurer Department to provide self-assessment tools to County departments, for example a policy compliance checklist and a risk and control matrix. (Priority 2) [Expected December 2017]
- Response 2.5** The Controller-Treasurer Department agrees with the recommendation to provide self-assessment tools to County departments.
- Recommendation 2.6** The Controller-Treasurer Department to require County departments have employees involved in cash handling sign a statement that they have read and understood the Cash Handling Policy and Procedures. (Priority 2) [Expected June 2017]
- Response 2.6** The Controller-Treasurer Department agrees with the recommendation to require County departments to have employees involved in cash handling sign a statement that they have read and understood the Cash Handling Policy and Procedures