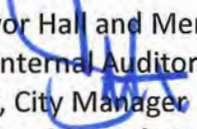


To the members of the:
CITY COUNCIL
Date 12/19/19 CA x CC x
CM x COO x DCM (3) x

Council Memorandum

Dec. 19, 2019


To: Honorable Mayor Hall and Members of the City Council
From: Brigid Okyere, Internal Auditor
Via: Scott Chadwick, City Manager
Re: August 2019 Citywide Cash Count, Report 2020-01

This memorandum provides information related to the August 2019 Citywide Cash Count, Report 2020-01.

Background

On Nov. 12, 2019, the City Council approved the Internal Audit Plan for fiscal year 2019-20 that included a citywide cash count.

Discussion

The attached report summarizes the results of the August 2019 Citywide Cash Count, Report 2020-01. The scope of the audit included performing unannounced cash counts at city facilities with cash funds during August 2019 and reviewing a selection of historical employee cash reimbursement documents from fiscal year 2018-19 for compliance with city policies.

I would like to thank city management and staff for their cooperation during this audit.

Next Steps

I am available to discuss this report with you individually at your convenience. I plan to provide a brief summary of the report results at the next City Council meeting I attend, likely in April 2020.

Attachment: A. August 2019 Citywide Cash Count

cc: Elaine Lukey, Chief Operations Officer
Celia Brewer, City Attorney
Barbara Engleson, City Clerk
Laura Rocha, Deputy City Manager, Administrative Services
Kevin Branca, Finance Director
Kyle Lancaster, Parks & Recreation Director
Heather Pizzuto, Library & Cultural Arts Director
Neil Gallucci, Police Chief
Vicki Quiram, Utilities Director

Administrative Services Branch
Internal Audit Division

1635 Faraday Avenue | Carlsbad, CA 92008 | 760-602-2429 t



Citywide Cash Count
August 2019
REPORT

December 2019

Internal Auditor
Brigid Okyere, CPA



TABLE OF CONTENTS

INTRODUCTION

Scope and Objectives	1
Methodology	1
Overall Conclusion.....	1
Background	2

AUDIT RESULTS

Cash Count Results	4
Employee Cash Reimbursements Review	6
Conclusion	8

SUMMARY OF RECOMMENDATIONS	9
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INTRODUCTION

Scope and Objectives

Perform unannounced cash counts at city facilities with cash funds during August 2019. Determine if the petty cash and change funds issued to departments are properly accounted for. Identify if additional procedures or best practices can improve current cash controls and safeguarding of cash. Review city policies and test historical cash reimbursement documents from fiscal year 2018-19 for compliance with those policies.

Methodology

- Examined city records, including the June 2017 internal audit cash count and information from the city's accounting system, to determine the amount of the city's petty cash and change funds;
- Performed unannounced cash counts at all city facilities with petty cash or change funds and compared to city records to identify cash overages and shortages;
- Obtained and reviewed applicable citywide and departmental policies and procedures;
- Interviewed city employees regarding petty cash and cash handling practices;
- Judgmentally selected sixteen cash reimbursements to review for compliance with city policies and procedures; and
- Followed up on recommendations from June 2017 internal audit cash count.

This audit was a limited review of controls over petty cash funds; accordingly, no conclusion is provided on the overall adequacy of cash controls or internal controls in other areas of operations within the departments reviewed.

Overall Conclusion

Three of the city's cash funds varied from the city's records. City departments can improve certain aspects of their cash handling practices to better safeguard cash. Internal controls for cash reimbursements were not always effective to ensure compliance with the city's policies. The Finance Department's oversight of the city's cash funds could be further improved by updating policies and providing training.

Background

Departments use cash at various facilities located throughout the city. As of August 2019, the city had sixteen facilities with recorded cash funds totaling \$10,405, as shown in Table 1 below.¹ The city uses one account to record the total amount of cash funds outstanding at all facilities citywide, including both petty cash and change funds. Prior internal audit records demonstrate how the total is divided across city facilities. In general:

- A change fund is a separate amount of funds used to make change during daily operations.
- A petty cash fund is a small amount of cash kept at a city facility for minor expenditures, such as office supplies. An employee submits a form with proper supporting documentation signed by an approving official and is reimbursed by petty cash.

Table 1: City Departments and Facilities with Petty Cash and Change Funds as of August 2019

City Department and Facility	Petty Cash Fund	Change Fund
City Manager's Office		
Carlsbad City Hall	X	
Community & Economic Development Department*		
Tyler Court Senior Apartments	X	
Finance Department		
City of Carlsbad Faraday Center (cashier)		X
Library & Cultural Arts Department		
Carlsbad City Library		X
Carlsbad City Library Learning Center		X
Georgina Cole Library		X
Parks & Recreation Department		
Alga Norte Aquatic Center		X
Calavera Hills Community Center		X
Harding Community Center	X	X
Leo Carrillo Ranch Historic Park		X
Monroe Street Pool		X
Pine Avenue Community Center		X
Stagecoach Community Center		X
Carlsbad Senior Center		X
Police Department		
City of Carlsbad Public Safety and Service Center	X	X
Utilities Department		
Carlsbad Municipal Water District (CMWD)	X	
Total	5	13

Source: June 2017 cash count, August 2019 cash count, and the city's accounting system.

Privileged and Confidential Information: The dollar amount of cash held at each facility is withheld from the report for security reasons.

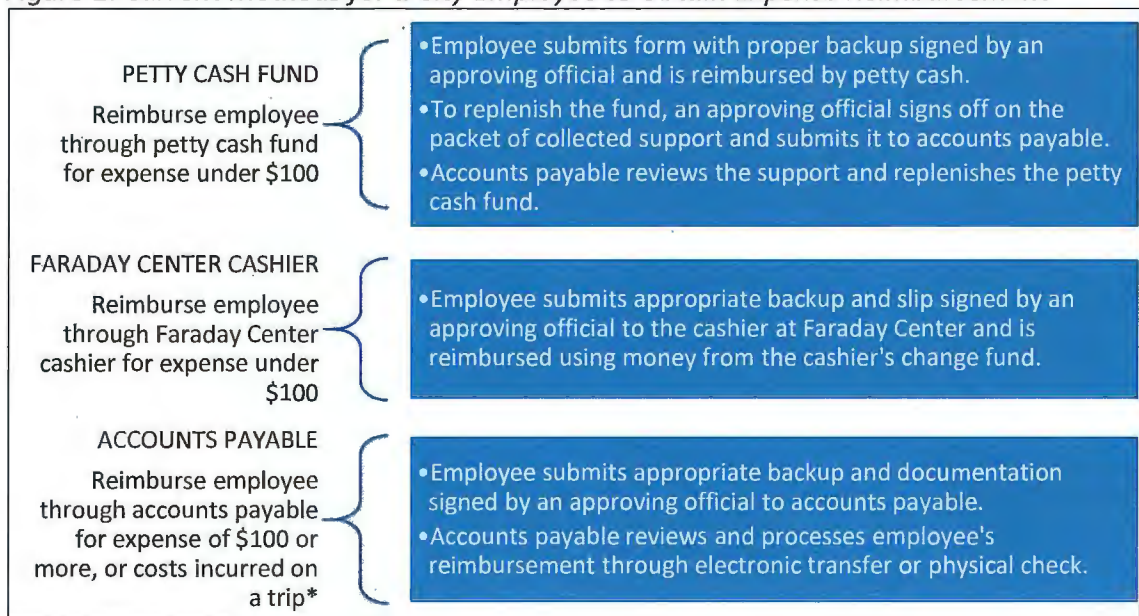
*The Community & Economic Development Department is responsible for the contract with the management company for Tyler Court Senior Apartments; the management company oversees its petty cash.

Because in certain cases it is neither practical nor desirable to use a purchase requisition, a city employee may purchase an item that costs less than one hundred dollars and receive cash reimbursement from either: 1) one of the departments' petty cash funds or 2) the Faraday Center

¹ Prior to any adjustments made as a result of the August 2019 cash count.

cashier. In practice, employees also submit other employee expenses for reimbursement through these two methods, such as for mileage costs to travel to other city facilities. The Finance Department primarily administers the city's reimbursement process but relies on approving officials in each department to perform decentralized reviews of purchases. For items that cost one hundred dollars or more, or for costs incurred during a trip, employees submit reimbursement requests to the accounts payable staff in the Finance Department (accounts payable) for review and payment. See Figure 1 below for a description of these various employee expense reimbursement methods.

Figure 1: Current Methods for a City Employee to Obtain Expense Reimbursement



Source: The city's Administrative Order No.12, purchasing policies and procedures manual, and the Finance Department's cashier procedures.

*Employees may submit reimbursements under one hundred dollars to accounts payable at their discretion.

AUDIT RESULTS

Cash Count Results

The internal auditor performed unannounced cash counts during August 2019 at city facilities with cash funds. During each visit, the internal auditor physically counted the cash and compared it to the city's records to identify overages and shortages. Additionally, the internal auditor performed work to identify the cause of variances and asked about cash handling processes at each facility. See Table 2 for a summary of the results and subsequent report text for an explanation of each variance.

Table 2: Summary of City Facilities with Cash Fund Variances

City Department and Facility	Variance*	Cash Fund Type	Reason for Variance	City's Response
Parks & Recreation Department				
Pine Community Center	\$200	Change Fund	Unknown	Adjusted Records
Stagecoach Community Center	\$(672)	Change Fund	Alleged Theft	Investigated & Adjusted Records
Senior Center	\$200	Change Fund	Unknown	Adjusted Records

Source: August 2019 cash count, June 2017 cash count, the city's accounting system, and department records.

*Noted variances greater than ten dollars.

Variances at the Pine Community Center and Senior Center

The Pine Community Center had an additional \$200 change fund not identified in the city's accounting or prior internal audit records. When asked about this variance, Pine Community Center's current recreation supervisor asserted he took over management of this fund in September 2018, at which point it contained \$700. Of this amount, he kept \$200 for Pine Community Center events and deposited the rest. However, because there is no record that anyone established this fund in the city's accounting records, this deposit incorrectly reduced the city's total account balance.

Additionally, a Parks & Recreation Department senior management analyst asserted that she counted \$1,020 in the fund now held at Pine Avenue two years prior in June 2017. Parks & Recreation Department staff currently employed with the city could not provide an explanation for the apparent \$320 decrease from June 2017 to September 2018, when the current recreation supervisor took over the fund. The personnel who previously managed this fund are no longer employed with the city.

Similarly, the Senior Center had an additional \$200 change fund not identified in the city's accounting or prior internal audit records. For both the Pine Community Center and Senior Center, it is unclear who established the additional change funds, when, and using what cash. It is possible that staff created the change funds by collecting cash receipts and not recording the revenue or depositing the cash. This goes against the Parks & Recreation Department's policy requiring staff to immediately record all revenue. Further, the fact that Parks & Recreation Department staff can potentially avoid recording and depositing revenue, without the knowledge of the Finance Department, indicates a larger problem—staff could also potentially misappropriate cash using the same process. Therefore, leadership from the Finance and Parks & Recreation departments should meet to discuss whether current controls over cash receipts are adequate and implement necessary improvements.

Given the examples at both the Pine Community Center and Senior Center, the Finance Department should also require that all departments obtain its approval to establish and make changes to cash funds so it can monitor them and ensure proper recordkeeping. In the past, the internal auditor maintained a list of facilities with cash funds and their associate balances. Moving forward, the Finance Department should maintain this list to preserve the internal auditor's independence. To increase accountability, the Finance Department should expand this list to track designated custodians and ensure it is updated.

Variance at the Stagecoach Community Center

Stagecoach Community Center's change fund for special events contained significantly less cash than recorded due to alleged theft by a part-time employee with safe access. Stagecoach Community Center keeps its cash in two different safes: one for daily use and another for special events. The recreation supervisor responsible for special events asserted she last counted the cash on May 20, 2019 after her last event with no issue. However, on Aug. 8, 2019, the recreation area manager identified a small discrepancy in the cash used daily, prompting the recreation supervisor to count the cash for special events and identify a significant \$607 shortage. The following morning on Aug. 9, 2019 she identified an additional \$65 missing from special events.

That morning, the staff notified both Parks & Recreation Department leadership and the internal auditor of the shortage. The internal auditor counted the cash that afternoon and confirmed the total shortage of \$672 in special events. Together with the Human Resources and Police departments, the city investigated the alleged theft and ended the suspected employee's appointment with the city within a week of identifying the shortage. The Police Department submitted this case to the San Diego District Attorney's Office. The excess cash not regularly used for special events at Stagecoach Community Center has since been deposited.

Although the Parks & Recreation Department employees who identified the shortage should have immediately notified leadership the first day they identified it, as required by the department's policy, this incident demonstrates the city's overall swift response and cooperation. To ensure the city reduces its overall risk exposure and encourages employees to promptly identify and report suspected theft and loss, the Finance Department should do the following:

- establish a citywide method for employees to report suspected theft or loss of cash;
- prohibit departments from maintaining large cash funds not used in the normal course of business; and
- require that appropriate staff count cash funds at least monthly and reconcile to their authorized balances; records should be kept for a reasonable period.

Further, departments should implement stronger controls around access to cash funds. In general, there is no requirement that departments maintain an updated list of staff with access to areas containing money (i.e. keys to petty cash boxes, codes to safes). This increases the risk that current staff can access money inappropriately and terminated staff may retain access to restricted cash. As an example of a good practice, an administrative employee with the Library & Cultural Arts Department maintains a comprehensive list of staff with access to each area of safekeeping and require staff to sign safe confidentiality agreements that are kept on file. The Finance Department should require that all facilities with cash implement a similar practice for those with safe access.

Additional Observations

Internal controls for the Library & Cultural Arts Department's copy and self-check machines could be improved. These machines operate separately from the city's cashiering system; thus, library staff must manually track and record cash transactions. One administrative employee at each library collects, tracks, records, and deposits cash receipts from these machines. However, the principle of segregation of duties recommends dispersing critical functions of a process to more than one person to help manage fraud and error risks. Therefore, the Library & Cultural Arts Department should create procedures to ensure cash receipts from its libraries' copy and self-check machines are recorded and deposited appropriately. As of October 2019, the Library & Cultural Arts Department had started creating procedures to strengthen internal controls for this process.

Employee Cash Reimbursements Review

The city's records indicate the city reimbursed employees in cash for over \$10,500 through three of its four departmentally-managed petty cash funds and over \$9,700 through the Faraday Center cashier during fiscal year 2018-19.² These petty cash funds may be used to reimburse employees from various departments. For example, the Police Department's petty cash fund at the Safety Training Center may process reimbursements for both the Police and Fire departments. The internal auditor judgmentally selected four reimbursements processed at each of the three departments' petty cash funds and the Faraday Center cashier, for a total of sixteen, and assessed compliance with the city's policies and procedures. Although all sixteen items appear reasonable and for city business purposes, there were several areas of noncompliance with city policies:

- A Utilities Department employee received reimbursement through the department's petty cash fund for over \$50 to pay for lunch with a new employee as part of the city's peer advisor liaison (PAL) program; however, a flyer for this program states that the maximum reimbursement allowed is \$30. An employee from the City Manager's Office asserted she sends an email containing this flyer to employees when assigning them a PAL.
- Despite the city's purchasing policies and procedures manual limiting cash reimbursements to items that cost less than \$100, three reimbursements exceeded this threshold. For example, a Police Department employee received a reimbursement of \$99.99 through the Police Department's petty cash fund for sunglasses that cost \$101.05. Additionally, the Utilities Department used its petty cash fund to reimburse an employee for \$200 for food for an all-hands meeting (60+ attendees) but split the reimbursement into multiple reimbursements.
- An employee of the City Manager's Office twice received an incorrect reimbursement for mileage costs through the petty cash fund maintained at City Hall. The city's travel guidelines and procedures state that mileage reimbursement requests should not cross calendar years to avoid issues with changing reimbursement rates. However, the employee's mileage reimbursements crossed calendar years and were partially calculated using the wrong year's mileage rate. The dollar amount of the miscalculation was insignificant.

² Tyler Court Senior Apartments' petty cash fund is managed by an outside management company. Therefore, it is excluded from this review. Additionally, Harding Community Center obtained its petty cash fund at the end of fiscal year 2018-19; therefore, it had no reimbursements during the review period.

- Three Police Department employees attended the Pala shooting range and received reimbursement through the Police Department's petty cash fund for these training costs. Although the amount reimbursed agrees with the prices posted on Pala's website, the employees did not include a valid receipt or appropriate documentation as required. One of these employees also inappropriately signed as the approver of his own expense reimbursement. This indicates the employee processing the reimbursement did not verify the appropriateness of the approving signature.
- Three Police Department employees received reimbursement for out-of-state travel expenses through the Police Department's petty cash fund, despite the city's travel guidelines and procedures requiring that these expenses be processed through accounts payable and with an appropriate travel log form.
- Several reimbursements either did not have an approving signature or had a signature from someone not designated as an approving official, as required by the city's purchasing policies and procedures manual. According to the Finance Department, approving officials are those who have filled out an authorization form that accounts payable maintains for each department.
- Several mileage reimbursements for employees in the City Manager's Office and City Clerk's Office did not include support for the mileage claimed—such as a printout from Google Maps—for non-standard travel destinations, as required by the city's travel guidelines and procedures. For these items, the mileage claimed appears reasonable.

Based on assertions from employees, the noncompliance may have occurred because employees did not know the actions were noncompliant, thought it was acceptable because the Finance Department did not take issue in the past, and been uncertain as to who is considered an approving official. For the items reviewed, it appears requiring an approving official to review and sign off on a reimbursement request was not an effective internal control to ensure reimbursements complied with city policies and procedures. Additionally, there is evidence that the Faraday Center cashier processing employee cash reimbursements did not have an updated list of approving officials to reference prior to August 2019. Therefore, the cashier could not verify reimbursement requests were signed by an approving official before processing them.

To ensure the city continues to reimburse employees for appropriate and allowable business expenses, the Finance Department should train staff who oversee cash funds, approving officials, and Faraday Center cashiers, at least annually. As illustrated throughout this report, cash transactions are inherently risky and susceptible to theft and errors. The Finance Department stated it has considered, but not implemented, a comprehensive cash training program because it relies on departments to train their employees and the Finance Department has historically trained employees as it implemented new systems or system upgrades. However, this training could reinforce that only approving officials designated through the list maintained by accounts payable can approve expense reimbursements and that petty cash fund custodians are responsible for ensuring employees submit appropriate documentation before processing reimbursements. If instances of policy noncompliance continue, the Finance Department can consider whether it will instead eliminate or consolidate petty cash funds as appropriate.

Further, given the complexity of the city's travel guidelines and procedures and noncompliance noted above, the Finance Department should disallow petty cash reimbursements for these costs. Instead, it should require that employees submit all reimbursements for costs covered under the travel policy—including miscellaneous meals and mileage—to accounts payable.

Conclusion

A citywide cash policy covering the findings and recommendations throughout this report could strengthen cash controls. Although some departments have their own cash handling policies, without one comprehensive city policy staff at different facilities may diverge in how they handle cash and risk doing so inappropriately. The Finance Department stated it has provided informal cash handling guidance to departments and does not have a citywide policy, allowing departments to establish their own practices. However, the Finance Department should create a formal policy covering both petty cash and general cash handling to ensure that important internal control processes are established and communicated to departments.

RECOMMENDATIONS SUMMARY

SUMMARY OF CURRENT RECOMMENDATIONS

Finance Department and Parks & Recreation Department

Recommendation #1: To ensure that cash receipts are appropriately collected, recorded, and deposited at Parks & Recreation Department facilities, leadership from both the Finance and Parks & Recreation departments should meet to discuss whether controls are adequate and implement necessary improvements by March 2020.

Management's Response:

Finance Department: We agree and will implement the recommendation.

Parks & Recreation Department: We agree with the report and will implement the following:

- Maintain a comprehensive list of staff with access to each area of safekeeping.
- Have those staff with access to each area of safekeeping sign a safe confidentiality agreement that will be kept on file.
- Meet with the Finance Department to discuss whether controls are adequate and implement necessary improvement(s) by March 2020.

Finance Department

Recommendation #2: The Finance Department should create one policy covering both petty cash and general cash handling procedures to strengthen internal control and address the findings and recommendations mentioned throughout this report, as summarized below, by the end of fiscal year 2019-20:

- Require that all departments establish and make changes to cash funds with the approval of the Finance Department.
- Establish a citywide method for employees to report suspected theft or loss of cash.
- Prohibit departments from maintaining large cash funds not used in the normal course of business.
- Require that appropriate staff count cash funds at least monthly, reconcile to their authorized balances, and keep a record for a reasonable period.
- Require that facilities with cash maintain a current list of all employees with access to cash (i.e. lock box or safe) and have employees sign safe confidentiality agreements kept on file. As part of this requirement, instruct managers with responsibility for cash funds to limit safe access and avoid granting access to part-time employees.
- Establish that only approving officials as designated by accounts payable's signature authorization form have the authority to sign both petty cash and expense reimbursements and custodians must ensure employees have received appropriate approvals before processing reimbursements using petty cash.
- Require that employees submit all reimbursements for costs covered in the travel guidelines and procedures, including miscellaneous meals and mileage, to accounts payable.

Management's Response: We agree and will implement the recommendation.

Recommendation #3: The Finance Department should maintain a comprehensive list of all facilities with authorized cash funds, their authorized amounts, and their designated custodians by January 2020 to strengthen departmental accountability and its ability to monitor cash funds.

Management's Response: We agree and will implement the recommendation.

Recommendation #4: The Finance Department should coordinate cash training at least annually for those who oversee cash funds, cash fund custodians, departments' approving officials, and Faraday Center cashiers, by the end of fiscal year 2019-20.

Management's Response: We agree and will implement the recommendation.

Library & Cultural Arts Department

Recommendation #5: The Library and Cultural Arts Department should implement controls to help ensure that cash receipts from the self-check and copy machines are recorded and deposited appropriately by February 2020.

Management's Response: We agree and will implement the recommendation.

SUMMARY OF PRIOR RECOMMENDATIONS FROM JUNE 2017

Previously, the city's internal auditor reported audit results informally to members of city management. A formalized process did not exist to ensure the internal auditor's recommendations were implemented. However, the recommendations included in the prior internal auditor's most recent June 2017 citywide cash count were relevant to the conclusions made in this report. Therefore, the current internal auditor followed up on all four recommendations from the previous June 2017 report and included the results below.

Prior Recommendations Not Implemented

Prior Recommendation #1: The prior cash count report for June 2017 recommended that Alga Norte Aquatic Center implement controls to ensure that entrance fees are collected and immediately entered into the recreation activity management software system for all individuals using the facility. The recommendation suggested that because the facility already has ticket booths with turnstiles available, using these features and then comparing the number of patrons entered per the turnstiles to the total fees collected could be one way of evaluating whether total fees per the system agrees to the total of people that entered the facility. The recommendation suggested that pre-numbered wristbands could also be used for this purpose. In its June 2017 response, Parks & Recreation Department staff stated that it would not use the ticket booths and turnstiles for this purpose due to undesirable environmental conditions within the ticket booths, such as the temperature within the booth.

Follow-up Assessment: During the cash count visit in August 2019, the internal auditor noticed staff using the ticket booth. The facility's recreation area manager stated that the air conditioning was repaired approximately May 2018 and Alga Norte Aquatic Center uses the ticket booths for inflatable rentals and large special events. Additionally, she asserted that pool staff perform reconciliations and issue wristbands for inflatables. Given this information, the Finance and Parks & Recreation departments should consider this new information and what impact it could have in the recommended meeting to strengthen controls around cash receipts.

Prior Recommendation #2: The most recent prior cash count report for June 2017 recommended that citywide cash handling policies and procedures be issued and that all individuals handling cash be trained on these policies and procedures.

Follow-up Assessment: As of August 2019, the city does not have formally documented citywide policies and procedures and has not provided training to all individuals handling cash. This is included in the list of current recommendations based on the conclusions reached in this report.

Prior Recommendations Implemented

Prior Recommendation #3: Library & Cultural Arts Department management appropriately adjusted the recorded cash balance at the Carlsbad City Library to reflect the amount of cash on hand, as recommended in the June 2017 internal audit cash count.

Prior Recommendation #4: Library & Cultural Arts Department management reduced the amount of cash in all the self-service machines at the city's three libraries based on their needs, as recommended in the June 2017 internal audit cash count.