

CITY OF ALBANY

Office of Audit and Control

Performance Audit

of the City's

Cash Handling Procedures

Audit Report

November 2015

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PREFACE

The Office of Audit and Control exists to provide oversight, transparency and public accountability as a means to improve City services. This performance audit is a part of that function.

When the Office of Audit and Control takes on an audit client and, absent evidence of misconduct, that client addresses the audit's findings; it is our commitment to support and encourage their use of the audit process to improve their operations.

This audit was conducted with the full cooperation of various City departments and the administration and Treasurer's Office have committed to addressing its findings.

The proper use of the audit findings in these circumstances is to provide for oversight of the resulting changes and as the basis for informed public policy discussions.

Given that the City's management has given their full cooperation, it would be unfair and damaging to the audit process for this audit's findings to be used for political gain. As such, the Office of Audit and Control will view the political use of this audit's findings as detrimental to our mission.

We thank the many City departments involved for their cooperation and commitment.

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Executive Summary

The adequacy of the City's cash handling processes varies widely.

OAC recommends strengthening and properly documenting controls.

It is important for the departments to make sure that their procedures and policies are in agreement with the recently released City-wide policy.

The City collects payments for a wide variety of services, fines, fees and taxes. For obvious financial reasons it is critical that payments be promptly, accurately, and securely deposited in the proper City bank account. This audit was an examination of the City's policies and procedures for ensuring that payments made with cash or checks are handled properly.

This audit found that the adequacy of the City's cash handling processes varied with many offices having adequate controls and others lacking.

The City of Albany accepts payments for services and fees at various offices, facilities and events. This decentralization enables the public to pay for services or fees at the department with which they are doing business. This practice provides good customer service, but it creates increased risks of accidental loss or intentional misappropriation, making strong policies all the more important.

During this audit, the Treasurer's Office disseminated a set of written city-wide cash handling policies to all departments. We applaud this effort and are encouraged that the Treasurer's Office took action when issues were identified. It is now important for each department to make sure that their procedures and policies are in agreement with the city-wide policies.

This audit report recommends strengthening controls over cash handling. Specific recommendations include improving existing written and non-written policies and procedures, writing policies and procedures where they do not exist, improving security, and providing training. Twelve departments in the City accept payments.

Findings:

1. Three departments out of twelve have not regularly deposited checks within ten days of receipt as required by state law.
2. Five departments out of twelve do not have adequate physical security or safeguards to protect payments.
3. Three departments out of twelve are not using restrictive deposit endorsement stamps on checks.
4. One department out of twelve did not issue receipts or keep a record of receipts for certain small transactions.
5. Six departments out of twelve do not have written departmental cash handling procedures.

Background

This audit was initiated because of the subject's importance and because the Office of Audit and Control (OAC) staff became aware of two instances of significant mishandling of checks. Approximately 100 checks were lost at the Department of Buildings and Regulatory Compliance and a small stack of months-old checks were found in the City Clerk's office. Both of these occurrences were rectified without material financial damage to the City, but they did necessitate that OAC staff set aside other work to conduct this audit.

Decentralization of cash handling enables the public to pay for services or fees at the department they are doing business with.

Cash handling operations are spread throughout City departments. Departments accept payment for items or services such as property taxes; permits; parking citations; recreation fees; water; licenses; and facility rentals. Payments are made in person, by mail, or online. In some cases third party vendors process credit card payments or provide software to City departments for payment processing. Cash handling policies and procedures vary among departments.

General principles for managing cash call for:

- Organizational structure and sufficient staffing to segregate incompatible responsibilities such as authorizing transactions, recording transactions, maintaining custody of assets, and reconciling assets with records of transactions.
- Physical safeguards to protect cash, checks and money orders.
- Employees trained in cash handling techniques.
- Management oversight at a level appropriate for the specific cash handling environment.
- Timely deposit of payments.

Scope, Objectives and Methodology

Question to be answered:

Does the control environment adequately prevent accidental loss or intentional misappropriation of payments to the City?

OAC reviewed the policies and procedures for all City of Albany departments that accept payments. The objective of this review was to determine whether the control environment adequately prevents accidental loss or intentional misappropriation.

OAC reviewed departmental procedures in June, July and August of 2015.

The City of Albany Cash Handling Policy was distributed by the City Treasurer on June 22, 2015. OAC did not review compliance with the City of Albany Cash Handling Policy because the policy had just recently been distributed and OAC was reviewing current departmental procedures.

This performance audit was conducted in accordance with generally accepted government auditing standards (GAGAS) issued by the U.S. Government Accountability Office (GAO). 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 our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

Most City departments have established procedures for cash handling and adequately safeguarding assets.

Our office performs two charter-mandated non-audit services which pose potential threat to our independence, as defined by the GAO's Government Auditing Standards 2011 Revision (3.33-3.58). These non-audit services are: 1. the responsibility to affirm the validity of all accounts payable and claims prior to payment of same by the City Treasurer, and 2. the appointment of the City Auditor to the Board of Estimate and Apportionment, a board which approves all budget transfers. As these are charter-mandated duties, the management functions they represent are unavoidable. OAC has determined these non audit activities do not impact OAC independence for this audit.

Audit Results

Most City departments have established procedures for cash handling and safeguard assets adequately. The City Treasurer distributed the Cash Handling Policy to all Departments on June 22, 2015. Departments reported that they had not seen this policy or any City policy prior to this.

Findings:

1. Three departments out of twelve have not regularly deposited checks within ten days of receipt as required by section ten of General Municipal Law and second class cities law N.Y. TWN. LAW § 29 : NY Code - Section 29.

Some departments held checks for weeks and, at times, for months. Holding onto checks and cash can result in accidental loss or intentional misappropriation or checks being returned for insufficient funds. Inadequate department procedures, turnover of staff, inadequate training and lack of oversight were causes of held checks. State law requires City money to be deposited within ten days of receipt. Checks were in fact lost as a result of being held and not deposited. OAC identified the issue when a refund request was submitted for OAC approval when the original payment had not been deposited.

2. Five departments out of twelve do not have adequate physical security or safeguards to protect receipts.

Some departments do not have a way to secure receipts until they are deposited. Securing receipts limits unauthorized access before they can be deposited in the bank. Opportunity for loss or theft is created when cash is not physically secured.

3. Three departments out of twelve are not using restrictive deposit endorsement stamps on checks.

Checks should be restrictively endorsed as soon as they are received. Not restrictively endorsing checks creates an opportunity for misappropriation of receipts. Immediately limiting the negotiability of checks ensures that checks received can only be deposited into the City of Albany bank account. This finding was caused by a lack of updated stamps and training.

4. One department out of twelve does not issue receipts or keep a record of receipts for one of their small cash transaction activities.

Where no other evidence satisfactory for the purpose of audit and reconciliation is available, a serially press-numbered duplicate receipt form should be issued for any cash, checks, or money orders received. One copy should be provided to the customer and one copy should be

retained for audit purposes. A lack of receipts for transactions creates additional opportunity for misappropriation of funds and makes accurate accounting more difficult. This finding was caused by a lack of procedures and training.

5. Six departments out of twelve do not have written departmental cash handling procedures.

A well-designed set of control procedures can provide reasonable assurance that significant thefts of cash receipts and significant record-keeping errors will be prevented or detected. Written procedures help with staff training and enable departments to maintain operations during unexpected staff changes.

Recommendation 1 All cash, checks and money orders should be deposited daily as required by the City of Albany Cash Handling Policy.

Recommendation 2 Payments to the City should be physically secure until they are deposited in the bank.

Recommendation 3 Each affected department should obtain a City of Albany restrictive deposit endorsement stamp from the City Treasurer and should restrictively endorse checks as soon as they are received.

Recommendation 4 A serially press-numbered duplicate receipt book should be procured and used to give receipts and maintain receipts for small fees that are not recorded on a cash register or other transaction record. Duplicate receipt forms provide an audit trail for moneys received when the amounts collected cannot be confirmed by other records, such as tax bills or billing stubs and remittance advice.

Recommendation 5 Departmental cash handling procedures should be documented in writing and adhere to the requirements of the City of Albany Cash Handling Policy distributed by the City Treasurer June 22, 2015.

APPENDIX



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DARIUS SHAHINFAR
CITY TREASURER

Memorandum

To: Leif Engstrom, City Auditor

From: Darius Shahinfar, City Treasurer 

Re: Response to Cash Handling Performance Audit

Date: November 20, 2015

In accordance with the Albany City Charter, the Office of Audit and Control conducted an audit of the City's cash handling procedures. The audit contained 5 Findings and Recommendations. Below, please find our office's response to the OAC findings.

Our office agrees with the findings and recommendations of this audit. As stated in the Audit, the Cash Management Policy was previously distributed City-wide. Additionally, City departments were generally comporting with this Policy prior to the distribution of it and prior to the issuance of this Audit. The issues that provided the impetus for this Audit were related largely to employee turnover. Furthermore, it is important to make clear that the City was not a victim of any fraud and did not suffer any material financial losses.

Finding 1 Response:

Departments have been re-instructed not to hold on to checks for deposit but to deposit or forward for deposit daily. This has also done on an ad hoc basis as circumstances warrant.

Finding 2 Response:

Departments have reviewed their procedures and have implemented or are implementing improved physical safeguards of receipts.

Finding 3 and 4 Responses: Restrictive “for deposit only” endorsement stamps and serial receipt books have been issued to all relevant revenue collection points that did not already use them.

Finding 5 Response: The Treasurer’s office is in the process of assisting in the creation, review and collection of written departmental cash handling procedures to ensure comportment with law and City policy.

We extend our thanks to the OAC for the thoroughness of their work, and look forward to providing any additional information that they might need or request.