

October 27, 2008

**Internal Audit Report 2008-12**  
**Building Safety Division Cash Controls**  
**Development Services Department**

**Introduction.** The Building Safety Division (Division) is a part of the Development Services Department. The Division collects revenues not only for its own services but for the Right-of-Way Division, Land Use Enforcement Division, and other Municipal Agencies. Cash and credit card receipts include processing fees associated with building and construction permits, licenses, inspections and plan reviews as well as other Municipal payments such as PeopleSoft account receivables and tax foreclosures. According to the Division, nearly \$10.3 million was collected by the Division in 2007.

**Objective and Scope.** The objective of this audit was to determine whether the Building Safety Division had proper cash controls in place, and if these controls were in compliance with Municipal Policy and Procedure (P&P) 24-1, Collecting, Securing, Depositing and Reporting Cash. To accomplish our objective, we performed a surprise cash count, verified that deposits were made timely, and reviewed Cashier Daily Summary Reports (CDSR) for completeness. We also reviewed and tested Building Safety Division's online permit transactions for accuracy.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of July through August 2008. The audit was requested by the Administration.

**Overall Evaluation.** Cash control procedures were generally satisfactory. However, we did identify some non-compliance issues with P&P 24-1. For example, we found that unscheduled cash counts were not performed, the cashier training class was not attended, and some deposits and reconciliations were not performed timely. In addition, the number of Division employees who performed cashiering duties was excessive. Finally, cash documentation with customers' credit card payment information was placed in an open unsecured area.

## **FINDINGS AND RECOMMENDATIONS**

### **1. Cash Controls Not in Compliance With P&P 24-1.**

- a. Finding.** The Division's cash control procedures did not always comply with P&P 24-1. Non-compliance with applicable policies and procedures may weaken the cash control environment and may result in possible irregularities. Specifically, we found the following:

- **Unscheduled Cash Counts Not Performed** - Supervisors did not perform unscheduled cash/check counts and reconciliations for each cashier on a monthly basis. According to P&P 24-1, "The supervisor of each collection location must perform an unscheduled cash/check count and reconciliation for each cashier at least once per month. Results of this procedure should be maintained in a file by the supervisor." Lack of unscheduled cash counts may lead to inadequate preventive controls, decreased personal accountability by each cashier, and risk of misappropriations.
- **Cashier Mandatory Training Class Not Attended** - In the past twelve months, seven of nine Division employees who handle cash had not attended the annual mandatory cash handling and reporting training. P&P 24-1 requires that "...at least annually, all cashiers and their supervisors attend

training sessions on cash handling and reporting procedures conducted by the Finance Department/Treasury /Cash Management Section”.

- **Cashiers Not Sub-Totaling Register Activity and Not Reconciling Cash Collected** - Cashiers did not subtotal cash register activity and reconcile cash collected when there was a change of cashiers. P&P 24-1 requires each cashier, when relieved from the cash register, to “. . . take a reading of the register to get a sub-total of cash collected and count all cash.” It further states, “This must be done each time there is a change of cashiers unless there are separate cash drawers for alternate or relief cashiers.” Separate cash drawers were not provided for each cashier.
- **Deposits Were Not Made Daily** - Deposits were not made on a daily basis. Specifically, five of 30 deposits tested were made one to four working days after the CDSRs were prepared. For example, one CDSR was prepared on 1/3/2008, but the revenue was deposited four working days later on 1/9/2008. P&P 24-1 states “All Agency Heads shall ensure that . . . cash received by their agency is immediately secured, accounted for, and deposited on a DAILY basis”.
- **Cash Handling Documents Were Not Reconciled Timely** – CDSRs were not prepared, verified and signed by a supervisor in a timely manner. Specifically, twenty-two of 30 CDSRs tested had different dates showing when the CDSRs were prepared, verified and signed by a supervisor. For example, one CDSR was prepared on 1/3/08, verified on 1/9/08, and signed by a supervisor on 1/11/08. P&P 24-1 states “Each cashier must fill out a Cashier Daily Summary Report to reconcile payments received to other daily documentation. Reconciliation of documentation to cash received and cash receipts shall be performed DAILY by the cashier, alternate cashier or

supervisor, verified and signed by the supervisor and forwarded to Cash Management.”

- **CDSRs Were Not Submitted Daily** -The CDSRs were not sent to Cash Management/Treasury on a daily basis. P&P 24-1 states, “Send the white copy of the Cashier Daily Summary Report to Treasury/Cash Management on a DAILY basis. Each cashier operating a cash register during the day must complete a Cashier Daily Summary Report”.

- b. **Recommendation.** The Director of the Development Services Department should ensure that cash controls at the Building Safety Division comply with P&P 24-1.
- c. **Management Comments.** Management stated, “We concur with all of the report findings.

**“Unscheduled Cash Counts Not Performed –**

“Explanation:

“Supervisor was not aware that unscheduled cash counts were to be completed on a monthly basis.

“Action:

“Now that the area supervisor has been made aware of this monthly requirement per Policy and Procedure 24-4, these will be conducted on a unscheduled monthly basis.

**“Cashier Mandatory Training Class Not Attended –**

“Explanation:

“The Treasury Department has announced several Cashier Training Classes in the past two years; though all of those classes have all been cancelled prior to scheduled

date. No makeup classes have been scheduled. The supervisor of the Permit Management area had scheduled staff to attend those classes, both levels I and II, when the announcements were made via email.

“Please take note that all of the staff members of the Permit Management area, with the exception of one new hire, have attended prior cash handling and reporting training sessions covering 24-1.

“The staff members that are handling the money in the Permit Management area have the knowledge and understand Policy 24-1. Where we are out of compliance is only in the aspect of ‘on at least an annual basis’.

“Action:

“The supervisor of the Permit Management area has made contact with the Cash Management Supervisor, in an effort to schedule a site specific Cash Handling and Reporting training session.

**“Cashier Not Sub-Totaling Register Activity and Not Reconciling Cash Collected-**

“Explanation:

“Because of the way the cash cage was laid out and internal procedure was created by previous supervisors, this action can not be satisfied. All users that have an individual ID’s and passwords, but operate out of the same cash drawer.

“Action:

“Without reinvesting in a redesign of our cash cage and its function-ability, we will not be able to reach a resolution as called out in Policy and Procedure 24-1.

**“Deposits Were Not Made Daily-**

**“Explanation:**

“Deposit for January 2, 2008 was made at 4 days

“Deposit for January 8, 2008 was made at 1 day

“Deposit for February 20, 2008 made at 3 days

“Deposit for February 22, 2008 made at 4 days

“Deposit for February 27, 2008 made at 1 day

**“Action:**

“As of July 1<sup>st</sup>, 2008, this process has been modified due to the supervisor recognizing that deposits were not being made on a daily basis.

“At that time, the morning money process was changed. It was modified in such a way that at the beginning of each business day the supervisor or the person placed in acting for the Supervisor, pulled the reports, closed the previous day’s business, counted the till and prepared to deposit.

“This changed served multiple purposes. It clarified a union contract issue in regards to supervisors doing AMEA members work; It kept the supervisor aware of any inconsistency issues with the cash handling done by employees of this area and guaranteed that the deposits were made in a timely manner.

“Once the daily deposit was completed and prepared for pick up, all the duties remaining to complete that cash management process (the writing the cash receipts and preparing the Cash Daily Summary Report) were then given to a permit clerk for completion.

**“Cash Handling Documents Were Not Reconciled Timely-**

**“Explanation Part 1:**

“Due to the nature of the work in the Permit Management area, not any one person is sitting at a desk throughout the day. This has contributed to the delay of the verification process.

“It has been stressed to the staff of the Permit Management area, that as a verifier, you are not just a signature. As the verifier of the CDSR, it is that person’s responsibility to verify the accuracy of all the documents attached to, and the preparation of the CDSR itself. It has also been stress that it is very important that they take the time, without interrupt to verify the accuracy of the preparation.

“Stressing this importance has shown a great improvement in the Quarterly Error Report prepared by the Treasury/Cash Management department.

“Workload levels due to short staffing have also contributed to this deficiency.

**“Explanation Part 2:**

“Regarding 24-1 stating ‘each cashier’ must fill out a CDSR to reconcile payments received to other daily documentation.

“At this time and because of how the Permit Management area receives and processes its funds; it is not possible for each of the cashiers to prepare individual CDSR’s to reconcile daily work.

“This area has one cash register, with one cash drawer.

“When this area’s cash cage and cash handling process was developed, each cashier was given a password protected ID to process their transactions through the cash

register. Even though there are up to nine possible staff members processing transactions through this cash register and operating out of one cash drawer, all transactions are summarize to one report and one CDSR prepared for all that is processed through the cash register.

“Action - Addressing Explanation #1:

“Through this audit process the supervisor of the Permit Management area has learned of the written exception process that can be obtained per 24-1, I- Objectives, #5 and will be prepared to ask for this written exception in the future.

“Action - Addressing Explanation #2:

“The supervisor of the Permit Management area will work with the Director of the Division to correct this deficiency.

**“CDSRs Were Not Submitted Daily-**

“Explanation:

“As mentioned previously, in addressing the Cash Handling Documents Were Not Reconciled Timely; due to the nature of the work in the Permit Management area, not any one person is sitting at a desk throughout the day. This has contributed to the delay of this process as well.

“Action:

“Through this audit process the supervisor of the Permit Management area has learned of the written exception process that can be obtained per 24-1, I- Objectives, #5 and will be prepared to ask for this written exception in the future.”

**d. Evaluation of Management Comments.** Management comments were generally



responsive to the audit findings and recommendation.

2. **Number of Cashiers Excessive.**

- a. **Finding.** The number of Division employees who performed cashiering duties was excessive. We identified nine different Division employees who performed cashiering duties. All cashiers worked out of one cash register drawer to receive payments. As a result, accountability for the cashiering function was diffused. According to P&P 24-1, the Municipality's policy is ". . . to identify and attach responsibility and accountability for Municipal transactions involving the collection, securing, depositing, and reporting of cash". The P&P further states "The number of authorized personnel should be limited to maintain maximum security control."
- b. **Recommendation.** The Director of Development Services Department should consider reducing the number of Building Safety Division employees who are allowed to perform cashiering duties by having a dedicated cashier position.
- c. **Management Comments.** Management stated, "We concur with all of the report findings."

**"Number of Cashier Excessive-**

**"Explanation:**

"The Internal Auditor's have a thorough understanding of this area cash handling procedures.

**"Action:**

"The supervisor of the Permit Management area will work with the Director of the Department to research a resolution to this deficiency."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Customer's Credit Card Information Was Not Protected.**

- a. **Finding.** Cash documentation with customers' credit card payment information was placed in an open unsecured area. This credit card documentation showed the full credit card numbers and expiration dates of multiple customers and was placed in an open box on a desk. Payment Card Industry Data Security Standard states, "Any physical access to data or systems that house cardholder data provides the opportunity for individuals to access devices or data and to remove systems or hardcopies, and should be appropriately restricted." It also states, "Physically secure all paper and electronic media (including computers, electronic media, networking and communications hardware, telecommunication lines, paper receipts, paper reports, and faxes) that contain cardholder data."
- b. **Recommendation.** The Director of the Building Safety Division should ensure that staff store all sensitive customer information in a secured area.
- c. **Management Comments.** Management stated, "We concur with all of the report findings."

**"Customer Credit Card Information Was Not Protected-**

"Explanation:

"Unbeknown to the area supervisor, staff member that was processing the cash receipts moved the completed CDSR to her work station; the unsecured location that is mentioned; though this location was a place where only employees would and possibly could have access. The completed CDSR's were not in a location where the public could access.

“Action #1:

“Once the area supervisor discovered that they were located in an unsecure location, they were relocated to the same locking office as the safe.

“Action #2:

“Effective October 1<sup>st</sup>, 2008 the Supervisor of the Permit Management area discontinued the use of the Point of Sale (POS) machine and began processing all credit card transactions through Cybersource.

“It is because of the continued use of the POS machine; specifically the batch report that shows all captured transaction for the end of day, is the reason that the completed CDSR’s are to be kept in a secure location. The batch report produced by the POS machine discloses all sixteen digits of credit cards along with the expiration date and is attached to the completed CDSR.

“The security issue would be eliminated by exclusively using Cybersource. Cybersource encrypts the credit card numbers as well and the expiration dates.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

**Discussion With Responsible Officials.** The results of this audit were discussed with appropriate Municipal officials on September 10, 2008.

Audit Staff:  
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