

FOLLOW-UP REPORT

Citywide Cash Handling Practices Audit

December 2017

**Office of the Auditor
Audit Services Division
City and County of Denver**



**Timothy M. O'Brien, CPA
Denver Auditor**



The Auditor of the City and County of Denver is independently elected by the citizens of Denver. He is responsible for examining and evaluating the operations of City agencies and contractors for the purpose of ensuring the proper and efficient use of City resources and providing other audit services and information to City Council, the Mayor, and the public to improve all aspects of Denver's government.

The Audit Committee is chaired by the Auditor and consists of seven members. The Audit Committee assists the Auditor in his oversight responsibilities regarding the integrity of the City's finances and operations, including the reliability of the City's financial statements. The Audit Committee is structured in a manner that ensures the independent oversight of City operations, thereby enhancing citizen confidence and avoiding any appearance of a conflict of interest.

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Audit report year: **2016**



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December 7, 2017

Brendan Hanlon, Executive Director
Department of Finance
City and County of Denver

Re: Audit Follow-Up Report

Dear Mr. Hanlon,

In keeping with generally accepted government auditing standards and the Audit Services Division's policy, as authorized by D.R.M.C. § 20-276, our division has a responsibility to monitor and follow-up on audit recommendations to ensure that audit findings are being addressed through appropriate corrective action and to aid us in planning future audits.

This report is to inform you that we have completed our follow-up effort for the Citywide Cash Handling Practices audit issued September 22, 2016. Our review determined that the Department of Finance has adequately implemented most of the recommendations made in the audit report. However, other recommendations that were agreed to be implemented by March 2017 are still in progress, and despite the Department of Finance's efforts, auditors determined that the risk associated with one of the audit team's initial findings has not been fully mitigated. As a result, the division may revisit these risk areas in future audits to ensure that appropriate corrective action is taken.

For your reference, this report includes a highlights page that provides background and summary information on the original audit and the completed follow-up effort. Following the highlights page is a detailed implementation status update for each recommendation.

This concludes audit follow-up work related to this audit. I would like to express our sincere appreciation to you and to personnel with the Department of Finance and the Cash, Risk and Capital Funding Division who assisted us throughout the audit and follow-up process. If you have any questions, please feel free to contact me at 720-913-5000 or Yvonne Harris-Lott, Internal Audit Supervisor, at 720-913-5086.

Denver Auditor's Office

A handwritten signature in black ink, appearing to read "Timothy M. O'Brien".

Timothy M. O'Brien, CPA
Auditor



Citywide Cash Handling Practices December 2017

Status

The Department of Finance has implemented 9 of the 13 recommendations made in the September 2016 audit report. The department partially implemented two recommendations and has not implemented an additional two recommendations.

Background

The Department of Finance oversees the City's cash handling functions. Cash handling includes the following activities: cash receipting, change funds, deposits and reconciliations and petty cash. Regulations governing cash handling include Fiscal Accountability Rules, Denver Revised Municipal Code and agency-specific policies and procedures.

Purpose

The audit sought to determine whether the City has sufficient controls in place to ensure cash receipts are handled appropriately, accurately, securely, and timely; whether it has sufficient oversight of the cash handling function; and whether there are processes and procedures in place to evaluate an agency's ongoing need for petty cash funds.

REPORT HIGHLIGHTS

Highlights from Original Audit

The City and County of Denver's Department of Finance (the Department) oversees cash handling in the City. The Department's Cash, Risk and Capital Funding (CRCF) Division oversees the City's cash receipting practices. As part of their oversight responsibilities, CRCF tracks and audits change funds Citywide to ensure compliance with the City's Fiscal Accountability Rules (FARs) and related procedures. Change funds are used by City agencies to make change for customers who pay fines, fees, and taxes with cash. Additionally, the Controller's Office within the Department has oversight responsibility for the City's petty cash funds, which allow City agencies to pay for small incidental expenses.

Finding 1 discusses various cash handling controls and practices the Department has implemented to help ensure that cash receipts and change funds are processed and tracked appropriately. However, we identified six areas where additional improvements can be made to the Department's oversight activities of cash receipting. First, CRCF does not maintain a comprehensive list of all agencies and locations with cash handling responsibilities. Second, the Department does not have an accurate total of receipts collected Citywide. Third, Change Fund Custodians do not receive formal training on their custodial duties. Fourth, CRCF could strengthen controls related to its site visits, and improve internal control practices with systematic follow-up with agencies that do not confirm annual reviews of their procedures. Fifth, we found that while the FARs provide considerable guidance, some guidance is obsolete, unclear, and not aligned internally between FARs and related procedures. Finally, CRCF could improve its follow-up of annual change fund status reports.

Finding 2 discusses areas where the Department could improve its governance of petty cash. First, the Controller's Office lacks sufficient supporting documentation for some petty cash funds. Second, Petty Cash Custodians may not receive adequate training to perform their duties. In addition, we identified a requirement to audit petty cash funds that does not align with best practices and may be unnecessary due to the low total dollar amount in the City's petty cash funds.

Findings at Follow-up

The Department of Finance implemented 9 of the 13 recommendations made in the 2016 audit report. Of the recommendations regarding the Department's cash handling oversight, 8 of 9 have been fully implemented and 1 has been partially implemented. Of the recommendations regarding oversight of petty cash funds, 1 of 4 has been fully implemented, 1 was partially implemented due to the City's conversion to Workday, and 2 have not been implemented.

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Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
FINDING 1: The Department of Finance’s Governance Framework for Cash Receipting, While Improved, Contain Gaps in Oversight Practices		
<p>1.1 The Department of Finance should develop a methodology for identifying all cash receipting agencies and locations throughout the City. In addition, CRCF should include all receipting locations, including those without change funds, in its oversight practices such as its site visit reviews.</p>	<p>As part of its new methodology, Cash, Risk and Capital Funding (CRCF) leverages information from several sources—such as the City’s Comprehensive Annual Financial Report, the Mayor’s Budget Book, and bank deposit data—to identify and develop a more comprehensive list of City agencies handling payments, including those without change funds. Furthermore, CRCF has developed an internal policy that requires a designated staff member to perform an annual review of the receipting locations to help ensure CRCF maintains a current list. Lastly, CRCF updated its site visit plan, which includes visiting cash receipting locations without a change fund in the plan.</p>	<p>Implemented</p>
<p>1.2 The Department of Finance should pursue opportunities to obtain receipting information directly from the systems used by agencies that do not utilize ECS. More complete and accurate receipting information would assist in tracking and implementing CRCF’s goals.</p>	<p>CRCF now requires agencies that do not use the Enterprise Cashiering Solution (ECS) to report receipting information on a monthly basis. Auditors verified this by reviewing a monthly receipting report for two agencies that do not utilize the ECS system. CRCF uses its receipting locations list in conjunction with this process to ensure all non-ECS agencies submit monthly receipting information.</p>	<p>Implemented</p>

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
<p>1.3</p>	<p>The Department of Finance should develop training for change fund custodians that, at a minimum, encompasses internal control requirements included in the Fiscal Accountability Rules. The Department could consider providing this training through CityU, the City’s online training resource. Furthermore, the Fiscal Accountability Rules should be updated to include the training requirement.</p>	<p>Implemented</p>
<p>1.4</p>	<p>The Department of Finance should reassess its CRCF Cash Handling Review checklist and develop more detailed review steps to document and evaluate agency change fund procedures.</p>	<p>Implemented</p>

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
1.5	<p>The Department of Finance should direct site visit reports to the appropriate level of management.</p>	<p>Partially Implemented</p>
1.6	<p>The Department of Finance should develop and document follow-up procedures with time deadlines for completion. In addition, follow-up measures should include an implementation schedule for agency management rather than deferring until the next change fund site visit.</p>	<p>Implemented</p>
1.7	<p>The Department of Finance should review its objectives for site visits and finalize the draft site visit plan incorporating methodology that takes into account available Department resources.</p>	<p>Implemented</p>

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
<p>1.8</p>	<p>The Department of Finance should review Rules 2 and 3 [of Fiscal Accountability Rules 3.3 and 3.4, respectively] and related procedures and forms for consistency, clarity, and alignment, including the removal of obsolete, inconsistent, or incorrect references to the FARs. In addition, subsequent reviews should be conducted annually with updates occurring no less frequently than every three years.</p>	<p>CRCF reviewed and updated Fiscal Accountability Rules 3.3 - Change Funds, and 3.4 - Receipts and Deposits, for clarity and alignment, removed incorrect references, and assigned responsibility for ongoing review to specific CRCF personnel. Both Fiscal Accountability Rules have been finalized and can be found on the City's website.</p> <p>Implemented</p>
<p>1.9</p>	<p>The Department of Finance should review its quarterly change fund reporting and annual certification processes, align FAR 3.3 with Change Fund Procedures, develop a mechanism to facilitate timely reporting by agencies, and maintain documentation of agency compliance with FAR 3.3.</p>	<p>The Department of Finance updated the annual change fund review process and combined it with a newly developed receipting survey to be completed annually. To help ensure agencies provide timely reporting, the Department developed a formal annual review policy which includes the necessary timelines for reporting. Auditors reviewed the documents to ensure compliance with Fiscal Accountability Rule 3.3.</p> <p>Implemented</p>

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
FINDING 2: Petty Cash Oversight Could Be Enhanced		
<p>2.1 The Department of Finance should retain the Petty Cash Authorization Forms that initially establish a petty cash fund, and subsequent forms that support the current fund amount and custodian. If needed, Department staff should follow up with agency personnel to ensure accurate petty cash records.</p>	<p>The Department of Finance’s response indicated it would not retain Petty Cash Authorization Forms beyond the two years required by the City’s retention policy. However, the Department completed a reconciliation of all petty cash accounts, updated the petty cash master list, and has a current Petty Cash Account Form for each agency on file.</p>	<p>Implemented</p>
<p>2.2 The Department of Finance should develop a process for periodically conducting an analysis of petty cash information such as the turnover rate. To better focus its efforts to reduce the risks associated with the funds, this should include a process for identifying which funds or agencies will be reviewed more closely and what oversight activities will be applied.</p>	<p>The Department of Finance will continue to obtain petty cash confirmations each year and has begun the process for updating Fiscal Accountability Rule 3.2 pertaining to petty cash funds. Due to the City’s conversion from PeopleSoft to Workday, this update has not been completed. Furthermore, the proposed rule does not include guidance on the type of petty cash analysis that agencies should perform or the oversight activities that the Department will perform.</p>	<p>Not Implemented</p>
<p>2.3 The Department of Finance should provide training on petty cash requirements and procedures for petty cash custodians. The Department could consider providing this guidance through CityU, the City’s online training resource.</p>	<p>The Department of Finance is in the process of updating rules and procedures surrounding petty cash training. This effort has been delayed due to the City’s conversion from PeopleSoft to Workday.</p>	<p>Partially Implemented</p>

Recommendations: Status of Implementation

2.4	Recommendation	Auditee Action	Status
	The Department of Finance should recommend that the Denver City Council remove the provision from the Denver Revised Municipal Code which specifies that the independent Audit Committee annually audit petty cash imprest funds.	The Department of Finance has not reviewed the Denver Revised Municipal Code or submitted a request for changes to City Council.	Not Implemented

Conclusion

While the Department of Finance has implemented 9 of the 13 recommendations made in the Citywide Cash Handling Practices audit report, five have yet to be acted upon or fully implemented. Specifically, two recommendations have not been implemented and two recommendations have been partially implemented. One of the recommendations that has been partially implemented is delayed due to the City's conversion to a new accounting system. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure that appropriate corrective action is taken.

On behalf of the citizens of the City and County of Denver, we thank staff and leadership from the Department of Finance for their cooperation during our follow-up effort and their dedicated public service.