

AUDIT REPORT

Citywide Cash Handling Practices

September 2016

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



Timothy M. O'Brien, CPA
Denver Auditor



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September 22, 2016

AUDITOR'S REPORT

We have completed an audit of Citywide Cash Handling Practices. The purpose of the audit was to evaluate the efficiency and effectiveness of the City's internal controls, policies, and procedures related to cash handling processes. This included assessing the Department of Finance's oversight of the City's cash receipting function. In addition, we conducted a high-level evaluation of the governance structure around the City's petty cash funds to assess controls and determine whether procedures are in place to evaluate an agency's ongoing need for petty cash funds.

As described in the attached report, our audit revealed that the Department of Finance has improved controls around cash receipting in recent years, including consolidating a large percentage of cash receipts at two locations with strong controls. However, the Department's governance framework could be strengthened to provide greater oversight to the City's cash handling practices. Additionally, we determined that petty cash records, policies and procedures need improvement.

Through enhanced oversight of the cash received by all agencies with cash receipting responsibilities and updated policies and procedures, the Department of Finance will be able to ensure that all cash receipts are secured and handled appropriately, accurately, and in a timely manner.

This performance audit is authorized pursuant to the City and County of Denver Charter, Article V, Part 2, Section 1, *General Powers and Duties of Auditor*, and was conducted in accordance with generally accepted government auditing standards. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We extend appreciation to the Department of Finance and the personnel who assisted and cooperated with us during the audit.

Denver Auditor's Office

A handwritten signature in black ink, appearing to read "Timothy M. O'Brien", is written over a horizontal line.

Timothy M. O'Brien, CPA
Auditor



Citywide Cash Handling Practices September 2016

Scope

This audit evaluated the efficiency and effectiveness of the City's internal controls, policies, and procedures related to cash handling processes, and assessed the adequacy of the Department of Finance's oversight of the cash receipting function. We also evaluated the governance structure around petty cash funds in the City.

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

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 Fiscal Accountability Rules (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.

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INTRODUCTION & BACKGROUND

Cash handling refers to all processes and systems involved in receiving and distributing money in retail establishments, banks, and other organizations that may have the need to exchange cash with the public. Although most financial transactions of this nature can be handled electronically, the City and County of Denver (the City) does conduct certain transactions with actual cash. For purposes of this audit, “cash” represents bills and coins. As such, cash handling encompasses the collection and deposit of cash that the City receives from customers, as well as the change funds that City agencies use to make change for customers who pay with cash. It also encompasses petty cash funds, which are used for disbursing cash for small incidental agency expenses. To minimize the risk of theft and fraud associated with these processes and funds, it is essential that the City have appropriate controls in place.

Cash Handling in the City and County of Denver

The Department of Finance (the Department) has governance and oversight responsibility for the City’s cash and cash handling practices. This responsibility includes the design of controls to help ensure that cash is adequately managed, secured, deposited, and reconciled. Since the City’s cash receipting activities are decentralized, the Department has developed several mechanisms to help ensure that money received by City agencies is handled and processed consistently and appropriately. These mechanisms include Citywide policies and procedures, approving and monitoring change funds, and on-site visits to agency locations to assess the procedures in place.

Currently, the City processes payments for more than 900 types of assessments charged to the public. These assessments include, but are not limited to, the following:

- Sales tax, such as retail, liquor, and marijuana
- Property tax
- Fines, such as for late vehicle registration, parking citations, and criminal court procedures
- Fees, such as for vehicle towing, court administrative fees, and various types of permits

Payments for these assessments can be made in person, by mail, or online. The City accepts payment in the form of cash, checks, debit and credit cards, and bank transfers such as Automated Clearing House (ACH) and Electronic Funds Transfer (EFT). In an effort to minimize the labor costs and risks associated with in-person cash payments, such as security threats and the risk of misappropriation or theft of funds, the Department has been working to encourage the public to make payments online, through the City’s lockbox, or by transfer of funds through electronic means.¹ For example, in the past few years, the Department has worked to expand payment options (e.g., credit and debit cards) for certain City services, such as permitting. Additionally, in 2014, the City began waiving transaction fees for customers paying by credit or debit card in an effort to encourage residents and businesses to pay their taxes, fees, bills, and fines online. In 2015, cash receipts, as previously defined, totaled approximately \$87 million.²

¹ Lockbox is a service provided by banks (or other 3rd parties) to organizations for the receipt of payment from customers. Under the service, the payments made by customers are directed to a special post office box, rather than going to the organization. The bank will then go to the box, retrieve the payments, process them and deposit the funds directly into the organization’s bank account. Source: www.investopedia.com/terms/l/lockboxbanking.asp.

² This amount excludes cash receipts processed by Denver International Airport (DIA) of \$247,442.

Different agencies within the City use different receipting systems to process cash receipts. These systems include, but are not limited to, the City's Enterprise Cashiering Solution (ECS), ActiveNet (a parks and recreation center management software), EZLinks, and, as reported by the Department, Excel spreadsheets maintained internally by different agencies.^{3,4} Through continued efforts to unify the receipting process, the Department is attempting to launch ECS Citywide. Use of ECS by all agencies, rather than a use of a variety of systems across the City, would give the Department greater visibility into all receipts processed, regardless of their point of origination. Although this plan aligns with one of the Department's 2016 strategies, there are a few agencies with business needs that require a receipting system that offers more functionality than ECS provides. For example, the Department of Parks and Recreation (DPR) needs a receipting system with scheduling capabilities that allows for the scheduling of tee times at any of the City's golf courses. Since ECS does not currently have scheduling functionality, DPR continues to use its own receipting system. CRCF reported that, as of the end of 2015, there were fourteen agencies using ECS as their cash receipting system for all or some portion of their activities.

Citywide Cash Handling Policies and Procedures

Cash, Risk and Capital Funding (CRCF) is the specific unit that oversees cash handling.

The Cash, Risk and Capital Funding (CRCF) division is the specific unit within the Department that oversees the City's cash handling practices. In accordance with the division's goals, CRCF is responsible for managing "the secure and efficient collection, deposit, disbursement, tracking and reconciliation of funds." CRCF carries out these duties in accordance with the City's internal control

framework, which includes the Fiscal Accountability Rules (FARs) and related procedures. FARs set the parameters for the fiscal activities of the City. Certain FARs and associated procedures were established to assist personnel charged with receipting and cash handling responsibilities. Below are the FARs applicable to cash handling.

- **FAR 2.4: Separation and Rotation of Duties** – Requires that certain functions be divided so that no one person has control over an entire process or fiscal activity and that the functions or job assignments should be changed periodically
- **FAR 3.3: Change Funds** – Authorizes and defines the parameters for change funds for those agencies that accept cash payments from the public
- **FAR 3.4: Receipts and Deposits** – Outlines the City's policy for the acceptance, processing, depositing, and accounting of customer receipts

In addition to the above rules, the Department employs other mechanisms to help ensure that cash is handled and processed appropriately. Examples include, but are not limited to the following:

- Internal reporting to monitor the amount and types of tender received throughout the City. CRCF compiles monthly Citywide receipting information from several sources, including

³ ActiveNet is a recreation management software used municipal parks and recreation centers. This software tool supports online registration for memberships and activities as well as facility reservations. For more information about this software, see ActiveNet's website at: <http://www.activenetwork.com/solutions/active-net/recreation-management-software>.

⁴ EZLinks is a software tool used by golf courses for course management to include course reservations and processing the sale of golf equipment. For more information about this software tool, see EZLink's website at: <https://www.ezlinksgolf.com/city-of-denver-case-study>.

reports from the ECS system and an analysis of bank deposit data. This information is used to monitor ECS implementation efforts, monitor progress towards reducing cash transactions, and identify receipting locations subject to their oversight.

- CRCF requires the Change Fund Custodians to submit quarterly and annual certifications stating the agency's change fund balance as well as the name and contact information of the Change Fund Custodian. Annual certifications also include an attestation related to the Custodian's annual review of the agency's cash handling procedures.
- CRCF also performs annual site visits to a sample of agency locations that have change funds. These site visits include a review of cash handling policies and procedures in place at the location, a surprise cash count of the change fund, and an assessment of the custodianship and security of the change fund. These visits help ensure that agency locations are operating in accordance to established Citywide policies and best business practices.

Agencies with cashiering responsibilities can develop their own internal cash handling procedures; however, agency procedures must contain, at a minimum, all elements of the above referenced FARs.

What Are Change Funds?

As defined by FAR 3.3, a change fund is the "cash issued to an agency for the purpose of making change for customers conducting cash transactions with the agency." At the end of 2015, CRCF reported a total of 119 change funds located throughout the City with a collective balance totaling approximately \$85,000.

In accordance with FAR 3.3, all agencies that maintain a change fund must designate an employee to oversee and monitor the agency's change fund. This employee (referred to as the "Change Fund Custodian") is responsible for allocating the change fund(s) into specific amounts for every cashier station, ensuring that the change fund is counted and reconciled every day the fund is accessed, and ensuring that the change fund is secured at all times.

As part of its oversight role, CRCF is responsible for approving requests in three different areas: first, the establishment of change funds; second, increases and decreases to an agency's change fund balance; and third, closure of existing change funds. CRCF also tracks and audits change funds Citywide to ensure compliance with relevant FARs and procedures.

What Are Petty Cash Funds?

Unlike change funds, petty cash funds are not part of the receipting process. Rather, they are used for nominal agency expenses not to exceed \$125. There are three specific rules and regulations that govern the City's use and management of petty cash funds. They include the following:

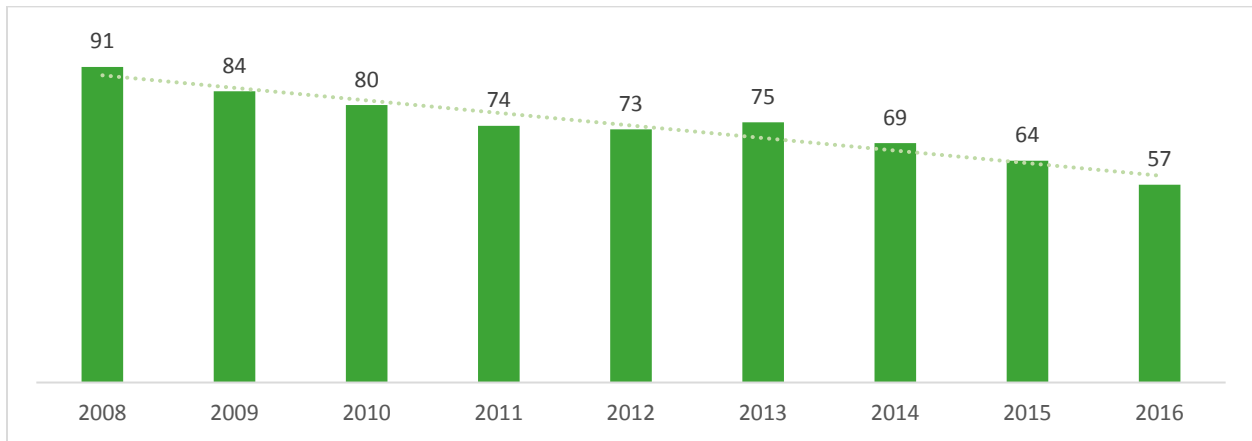
- **FAR 2.4: Separation and Rotation of Duties** – Requires that functions should be divided so that no one person has control over an entire process or fiscal activity and that the functions or job assignments should be changed periodically

- **FAR 3.2: Petty Cash and Imprest Funds** – Defines the parameters for the use of petty cash for small incidental expenses or refunds⁵
- **Denver Revised Municipal Code (D.R.M.C.) §20-23: Petty Cash Revolving Fund** – Outlines the City’s requirements for the maintenance and audit of petty cash funds

Each agency that maintains a petty cash fund must designate a Petty Cash Custodian to manage and monitor petty cash transactions, fund replenishment, and physical security of cash in the fund.

Since the advent of the City’s purchasing card program, the continued need for petty cash funds has decreased. As shown in Figures 1 and 2, there has been a steady decline in the number and total balance of petty cash funds.

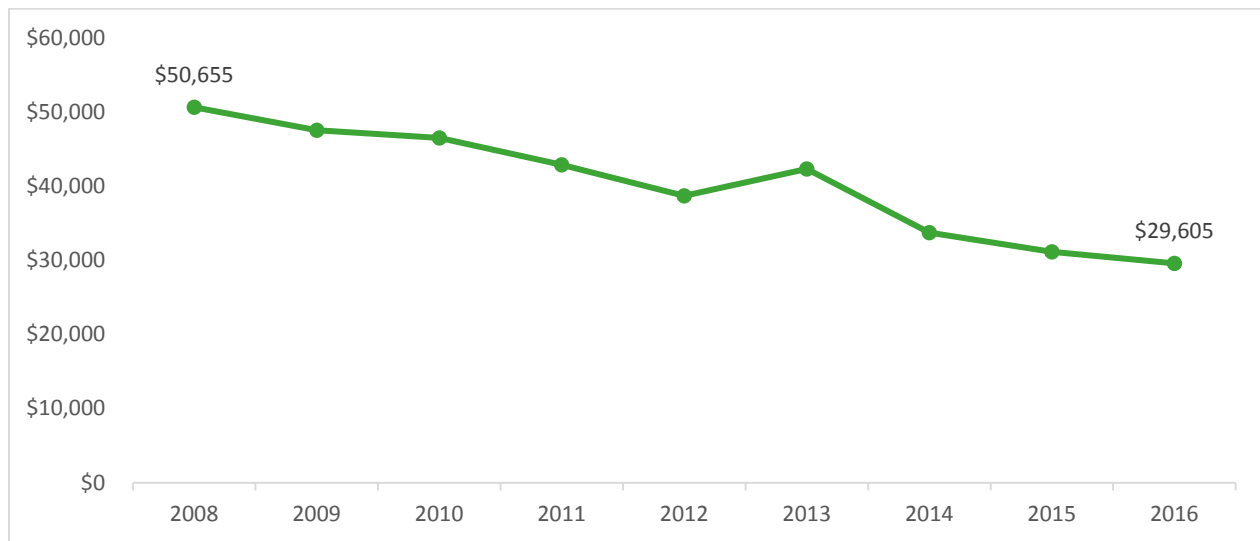
FIGURE 1. Number of Active Petty Cash Accounts, 2008 – 2016



Source: City Controller’s Office.

⁵ FAR 3.2 defines imprest fund as a checking account established to allow payments for small, incidental expenses of nominal amounts. For the purposes of this audit, we considered imprest funds to be part of petty cash funds.

FIGURE 2. Total Amount in All Active Petty Cash Funds, 2008 – 2016



Source: City Controller's Office.

SCOPE

The scope of the audit was to evaluate the efficiency and effectiveness of the City's internal controls, policies, and procedures related to cash handling processes, as well as to assess the adequacy of the Department of Finance's oversight of the cash handling function. Additionally, we evaluated the governance structure around the City's petty cash funds.

The scope of the audit excluded a review of cash handling procedures at Denver International Airport (DIA). Furthermore, the scope excluded an evaluation of controls for credit or debit card transactions, electronic payments such as ACH or EFT as well as payments made online or mailed to the City's lockbox.

OBJECTIVE

The objectives of the audit were to determine whether:

- The Department of Finance has sufficient controls in place to ensure that cash receipts are secured and handled appropriately, accurately, and timely
- The Cash, Risk and Capital Funding Division has sufficient oversight of the cash handling function to adequately manage the secure and efficient collection, deposit, tracking, and reconciliation of Citywide receipts
- Processes and procedures are in place to evaluate the agency's ongoing need for petty cash funds

METHODOLOGY

We applied various methodologies during the audit process to gather and analyze information pertinent to the audit scope and to assist with the development and testing of audit objectives. Methodologies used for this audit included, but were not limited to, the following:

- Reviewing existing laws and rules related to cash handling
- Comparing the City's Fiscal Accountability Rules (FARs) and existing policy and procedures to industry best practices
- Identifying the population of agency locations that have cash handling responsibilities
- Testing for compliance with rules and regulations and alignment with industry best practice internal controls for a sample of cash receipting locations
- Reviewing the process by which the Cash, Risk and Capital Funding Division selects cash receipting locations at which to conduct site visits to monitor receipting activities, and assessing the site visit process and follow-up procedures
- Evaluating the Controller's Office's internal controls for monitoring petty cash funds
- Assessing the training provided to Change Fund Custodians and Petty Cash Fund Custodians
- Determining whether existing petty cash funds are still needed

FINDING 1

The Department of Finance's Governance Framework for Cash Receipting, While Improved, Contains Gaps in Oversight Practices

The Department of Finance (the Department) has implemented various cash handling controls and practices to help ensure that cash receipts are processed and tracked appropriately. The Department's Cash, Risk and Capital Funding (CRCF) Division monitors compliance with these controls through approval processes, certification activities, site visits, monthly reporting, and routine analysis. In assessing these practices, we determined that a majority of the City's cash handling practices align with industry best practices. However, we identified six areas where oversight practices could be strengthened.

Cash Receipting Practices Have Improved in Recent Years

Since its inception in January 2008, CRCF has made strides to implement oversight activities over the City's cash handling function. For instance, CRCF has:

- Developed policies and procedures to dictate the use of change funds and the processing of receipts and deposits;
- Established a methodology for approving and tracking change fund amounts and the employees responsible for custodianship of the funds;
- Implemented a site visit program to assess the procedures in place for a sample of change fund locations each year;
- Initiated the implementation of the Enterprise Cashiering Solution (ECS) system at a number of agencies in order to reduce manual receipting practices and to increase transparency, which it continues to champion; and
- Reduced the percentage of cash transactions, which inherently have more risk, by encouraging other forms of payment that are more secure. For example, CRCF has eliminated the convenience fees that used to be charged for credit card payments in an effort to encourage more payments to be made securely online instead of in-person with bills and coins.

During our audit, we noted two agencies that appear to have strong controls in place and have staff specifically assigned to cashiering duties. These two agencies, Taxpayer Services (TPS) and Community Planning and Development (CPD), process approximately 13 percent of the City's cash receipts. Specifically, according to reports provided by CRCF, TPS processed more than \$9 million in 2015, or just over 10 percent of Citywide cash receipts. CPD processed more than \$2 million in 2015, or just under 3 percent of Citywide cash receipts. Examples of the cash controls we observed include the following:

- Cash drawers are assigned to individual employees to ensure accountability
- Cash drawers are locked and controlled by cashiers during use
- Cash drawers are never allowed to exceed a certain dollar threshold
- All receipts and change funds are moved to a secure location at the end of the day

- Dual or independent cash counts are performed at the beginning and end of every shift
- Receipts are reconciled to the receipting system daily
- Armored car courier services are utilized to transfer deposits to the bank
- Records are maintained for all receipts and deposits
- All activity is recorded by security cameras

Although we found strong cash controls at the agencies noted above, we identified several areas where CRCF's oversight practices could be enhanced in order to strengthen cash handling throughout the City.

Gaps Exist in The City's Approach To Cash Handling Oversight

Although CRCF is tasked with overseeing cash receipting throughout the City, we found that its oversight activities do not extend to all City agencies that have cash handling responsibilities, and that the group lacks proactive follow-up procedures. This was apparent in six areas. First, the division does not have a comprehensive list of all agencies and locations with cash handling responsibilities. Second, CRCF does not have an accurate total of Citywide receipting amounts. Third, Change Fund Custodians do not receive formal training on their custodial duties. Fourth, audit site visits identified some receipting locations with significant internal control weaknesses. Fifth, while the Fiscal Accountability Rules (FARs) provide considerable guidance, we found that 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.

CRCF Does Not Have a Comprehensive List of All Receipting Agencies and Locations

We found that CRCF does not have a current, comprehensive, and reliable list of all agencies and locations throughout the City that have receipting responsibilities. CRCF management explained that compiling such a list is challenging due to the decentralized nature of cash receipting responsibilities. Further, agencies use a variety of receipting systems and other mechanisms to process receipts. Accordingly, it has been challenging for CRCF to identify all receipting points.

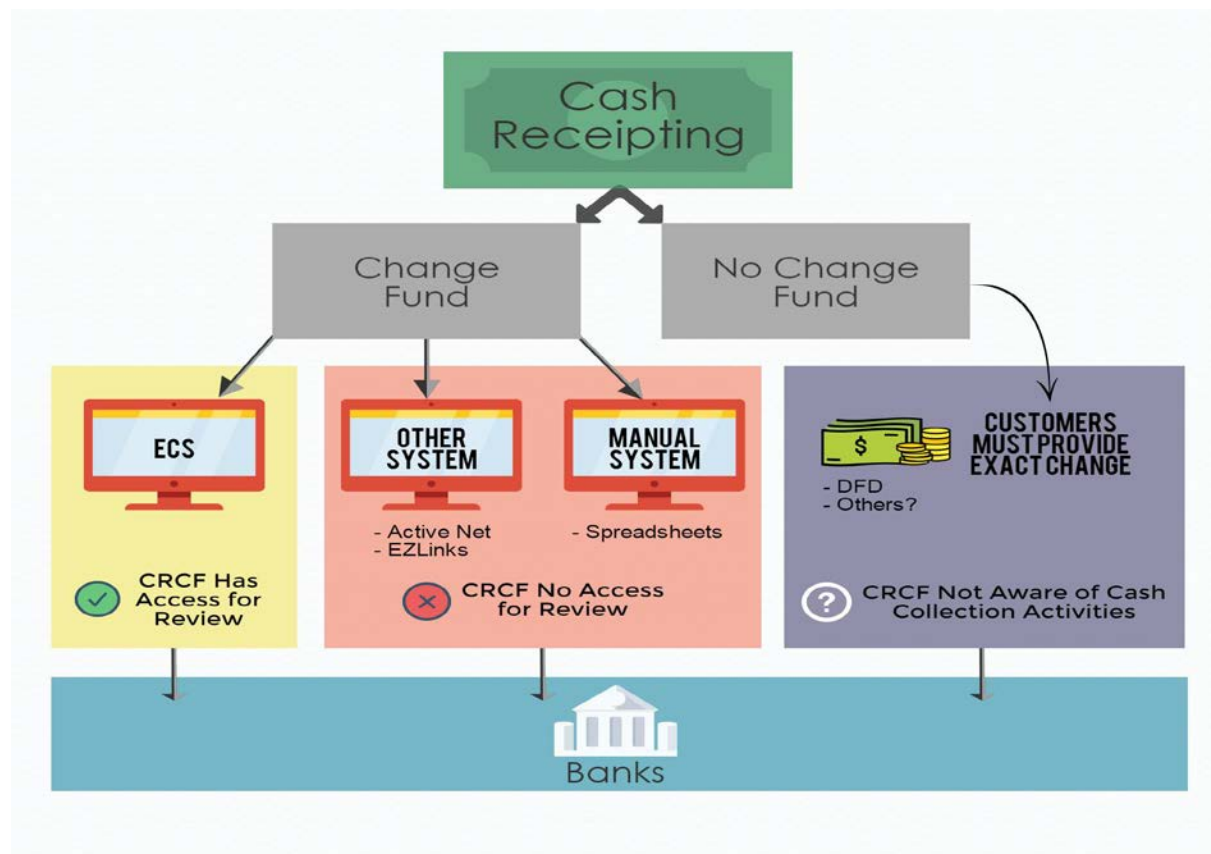
In conjunction with other initiatives, CRCF has created some partial lists of receipting agencies and locations. For example, in 2008, CRCF began compiling a list of receipting locations to assist with its initiative to implement ECS throughout the City. In the years since, the list has been used by CRCF as a general reference document, but was never completed or updated. In 2015, CRCF began updating the schedule again to show the status of ECS implementation and to identify opportunities for further ECS implementation. However, the schedule is still in the preliminary stages of being updated and is not complete or accurate. The other reports that CRCF provided for our review contain various aspects of receipting information but contain estimates as well as incomplete information. For instance, most of CRCF's lists only include agencies that have a change fund or agencies that use ECS to process cash receipts.

In the absence of a complete list of all receipting agencies and locations, we attempted to create our own. To do so, we first obtained from CRCF a listing of fines and fees by agency (Fee Schedule) that the City is authorized to charge the public. We compared the Fee Schedule to CRCF's list of agencies that have change funds (reference Appendix A for the list of agencies with change funds). This comparison revealed five agencies that have charge fees but do not have a change

fund. CRCF explained that one of those agencies—the City Attorney’s Office—only accepts online payments, which explains why it does not have a change fund. CRCF was unsure how the other four agencies collected their fines and fees. We selected one of those four agencies—the Denver Fire Department (DFD)—to determine how it collects its fees in the absence of a change fund. We interviewed a Financial Director at DFD and found that DFD collects receipts, including cash receipts, at a central DFD location. The Financial Director explained that the central location does not have a change fund and, as such, requires that customers who are paying with cash do so with exact change.

Without a comprehensive list of all receipting locations, CRCF cannot effectively carry out its cash handling oversight responsibilities. For example, CRCF cannot conduct a site visit at a location that it does not know to be a receipting location, such as DFD. The D.R.M.C. establishes that the Manager of Finance may adopt criteria and procedures regarding the receipt or collection of money. In addition, one of CRCF’s program goals, as reported in the City and County of Denver Mayor’s 2016 Budget, is to administer the City’s cash handling practices using best business practices. Without a comprehensive list of all receipting agencies and locations, CRCF is limited in its ability to implement its oversight of the receipt of money and cash handling at all receipting agencies and locations. This limited oversight could result in noncompliance with Citywide policies and best business practices. This increases the risk of theft, fraud, and misappropriation of funds. Figure 3 depicts the incomplete nature of CRCF’s oversight capabilities.

FIGURE 3. CRCF Flow of Cash Receipts



Source: City and County of Denver Office of the Auditor.

Additionally, in accordance with FAR 3.3 (Change Funds), City agencies that “accept cash payments from the public must have a change fund in order to provide change for customers.”

Accordingly, we recommend that the Department develop a methodology for identifying all cash receipting agencies and locations throughout the City. Potential methods for identifying receipting locations could include comparing fines and fee schedules to known receipting locations and conducting periodic Citywide surveys. In addition, CRCF should include all receipting locations, including those without change funds, in its oversight practices, such as its site visit reviews.

CRCF Does Not Have an Accurate Total of Citywide Receipting Amounts

In addition to CRCF not having a complete list of all agencies and locations that have receipting functions, CRCF also has limited data related to the dollar amount and types of tender received. CRCF tracks and reports performance measures that aim to reduce cash transactions by encouraging other forms of payments such as credit cards. Without sufficient data, CRCF is limited in its ability to track its performance towards these goals.

CRCF has access to the ECS system, which is used by several City agencies. CRCF obtains monthly data on the total receipts collected and types of tender received by those agencies that utilize ECS. However, CRCF has no access to data or reports from agencies that utilize other receipting systems, and therefore cannot obtain a complete and accurate picture of receipting amounts and types of tender for those agencies. Instead, CRCF performs a monthly review of bank deposits for the agencies that do not utilize ECS. According to a recent such report, approximately 45 percent of in-person receipts in 2015 were processed by agencies that utilize ECS, while the other 55 percent of receipts were processed by agencies that use other systems or mechanisms to process cash receipts.

We assessed this review methodology and determined that it has a weakness that may impair the

CRCF has not worked with agencies to obtain reports directly from their receipting systems.

accuracy of the information. Specifically, CRCF assumes the nature of a deposit based on the number of days it takes to clear. CRCF knows that cash deposits clear on the same day the deposits are made, and that check deposits often take one to two business days to clear, so they break out cash collections versus check collections accordingly. However, it is possible that a check deposit associated with the same bank at which the deposit is

made would clear on the same day, and therefore erroneously be classified by CRCF as cash.

While CRCF’s method of reviewing bank deposit information may provide a rough estimate of total receipts processed within the City, more accurate receipting information is housed within the various systems that are utilized throughout the City to process cash receipts. However, CRCF has not worked with those agencies to obtain reports directly from their receipting systems. For example, we spoke with accounting staff at the Denver County Courts, an agency that processes large volumes of receipts. They explained that their internally developed system has the capability of generating monthly reports that show receipting volumes by tender type. However, they noted that CRCF has not yet asked them to provide any such reports. Obtaining these reports would not only provide more accurate information, but it would also be a more efficient process compared to the current monthly process of analyzing bank deposit data.

According to the City and County of Denver Mayor's 2016 Budget, CRCF has performance measures that aim at reducing cash transactions by encouraging other forms of payment. Specifically, CRCF has goals to increase the percentage of collections made by credit cards, lockbox deposits, and online payments. Without a complete picture of receipting volumes and tender types, CRCF is limited in its ability to track performance towards these goals. In addition, without a comprehensive list of all receipting agencies, locations, and amounts by tender type, CRCF is also limited in its ability to identify risk areas and implement its oversight of Citywide receipting and cash handling practices. Therefore, we recommend that the Department pursue opportunities to obtain receipting information directly from the systems used by agencies that do not utilize ECS in order to have more complete and accurate receipting information to assist in tracking and implementing CRCF's goals.

Change Fund Custodians Do Not Receive Formal Training

Change Fund Custodians are essential to carrying out the proper administration of cash handling procedures. However, we found that these employees do not receive formal training on their custodial duties from CRCF. This is the case for initial training when personnel are first assigned custodian duties as well as for refresher training conducted periodically over time to ensure that custodians continue to be well-versed in the City's cash handling procedures.

When Change Fund Custodians are not trained, the risk of noncompliance with rules and misappropriation of funds increases.

CRCF does provide limited training related to cash handling. For example, CRCF will provide training for change fund custodians upon request. CRCF personnel may also provide impromptu training during site visits, but the content delivered in these situations relates to the site visit and therefore is narrowly focused. CRCF also provides training related to ECS when an agency implements enterprise cashiering.

When we asked why custodians do not receive formal training, CRCF reported that the agencies are responsible for training their respective custodians. However, CRCF does not require or verify that agencies are providing such training or verify that it is taking place. For example, the CRCF Cash Handling Review checklist that is completed during site visits to agencies with change funds does not confirm that the agency conducts training. The only reference to training on the checklist is a question asking whether the agency's training includes information on security and handling of credit card and bank account data.

We identified several guidelines indicating that the Department should be responsible for training. First, in accordance with the Standards for Internal Control in the Federal Government, also known as the Green Book, the Department is responsible for internal controls related to its functions, to help it achieve its objectives, which include administering cash handling activities.⁶ Specifically, the Green Book specifies that "[p]ersonnel need to possess and maintain a level of competence that allows them to accomplish their assigned responsibilities, as well as understand the importance of effective internal control."⁷ One of the ways such competence is gained is through

⁶ Standards for Internal Control in the Federal Government, also known as the Green Book, are promulgated by the Comptroller General of the United States and set internal control standards for federal entities that can be applied to other governmental agencies. Internal control is a process used by management to help an agency achieve its objectives.

⁷ Standards for Internal Control in the Federal Government, Section 4.04, page 30.

training. Audit work also included researching multiple sources of best practices for cash handling controls, and several of them identified proper training of employees with cash duties.

Without sufficient training, Change Fund Custodians may not be aware of or fully understand the FARs and their related procedural requirements. As a result, change funds may not be operated in accordance with the FARs. Custodians with no financial background may not fully understand the reason for certain requirements and controls. For example, the change fund rules require that custodial responsibilities be rotated to another employee for at least two consecutive weeks during each calendar year. Rotating duties enhances the segregation of duties, which is a key internal control that helps reduce the risk of error, misuse, or fraud by ensuring that no one individual controls all key aspects of a transaction. Without an understanding of the reason for a requirement, custodians may be less likely to adhere to it. Noncompliance with the FARs increases the risk for theft and misappropriation of cash funds. CRCF personnel stated that one of their challenges in monitoring change funds is the high turnover in the City positions that are often assigned custodian duties. Training is especially important when turnover in associated positions is high.

As a result, we recommend that the Department develop training for change fund custodians that, at a minimum, encompasses internal control requirements included in the FARs. The Department could consider providing this training through CityU, the City's online training resource. Furthermore, the FARs should be updated to include the training requirement.

CRCF Should Strengthen Controls Related to Site Visit Processes and Communications

CRCF conducts site visits in accordance with the FARs using a structured CRCF Cash Handling Review checklist. This checklist includes twenty-six questions covering general topics related to change funds, cash handling, and data security. Although we did not analyze the questionnaire in detail, we confirmed that the checklist does address some of the requirements included in the cash handling related FARs. However, as noted below, we identified four areas where site visit documentation and procedures could be improved.

Parks and Recreation Locations Not Following Several Cash Handling Procedures – Change fund site visit reviews are an important part of the internal control framework for cash handling. In conjunction with other FAR requirements, site visits help CRCF ensure that agencies managing the 119 known change funds are compliant and provide an opportunity to inform and educate custodians while helping to ensure the safety of City funds. However, with such a large number of change fund locations, CRCF is unable to conduct site visits as frequently as may be desirable.

We conducted walk-throughs at four City agencies to assess the cash handling procedures and controls in place. We found strong cash controls in three of those agencies: CPD, Taxpayer Services, and Denver County Courts. Those locations process large amounts of receipts and have staff that specialize in cashiering duties. However, we found internal control weaknesses at one of the selected agencies, the Department of Parks and Recreation (DPR). DPR has fifty-eight cash receipting locations, including recreation centers, outdoor pools, and golf courses, which perform relatively little receipting in comparison with the other high-volume receipting locations, such as CPD. Each DPR location processes a minimal number of receipts and heavily utilizes seasonal and on-call employees who do not specialize in cashiering functions. For instance, lifeguards at outdoor pools are responsible for cashiering duties in addition to their lifeguarding duties. We

conducted site visits to three DPR locations and found the following significant cash handling issues:

- **Segregation of Duties** – The same individual is sometimes involved with opening the cash drawer, collecting cash, reconciling receipts, and making bank deposits. FAR 2.4 dictates that functions should be divided so that no one person has control over an entire process. These duties should either be segregated among separate individuals or compensating controls should be in place, such as dual verifications by a second employee.
- **Cash Drawer Accountability** – The cashier drawer is operated by multiple employees throughout the day and no shift close-out procedures or counts are performed and documented in between cashier shifts. FAR 3.3 dictates that agencies should develop cashier close-out procedures. Multiple cashiers sharing the same cash drawer without documenting shift close-out procedures limits the accountability of the cash drawer.
- **Reconciliations** – The daily reconciliation of cash receipts to the receipting system reports is not properly documented. FAR 3.4 dictates that all receipts must be counted and reconciled by payment source at the end of each business cycle. Without sufficient documentation, the agency cannot ensure that the reconciliations are being performed timely and accurately. This limits the ability to identify and research cash overages and shortages.

We note that DPR does have written procedures that contain appropriate controls and guidance related to each of these areas; however, our site visits revealed that those procedures were not being followed adequately and, in one instance, the recreation center did not have a copy of the procedures on site. Such internal control weaknesses increase the risk for fraud, theft, and misappropriation of funds.

Review of Agency Procedures Should Be More Detailed and Better Documented – We reviewed documentation for a sample of eleven CRCF site visits to confirm that site visits were conducted in a reasonable manner and addressed all areas included on the CRCF Cash Handling Review checklist. We found that, for some visits, the procedures undertaken by CRCF were insufficient or inconsistently applied. For example, CRCF retained copies of agency procedures for some site visits but for others only recorded that the procedures were seen or available during the visit. In three cases, CRCF noted that the agencies did not provide documented cash handling procedures. However, based on work performed, we were able to obtain copies of the agency's cash handling procedures. As noted below, we identified several inconsistencies between site visit records and information provided to the audit team, as follows:

- In one case, even though the agency did not have procedures available for review during the site visit, the agency reported in its annual verification to CRCF that it had reviewed its procedures during the year.
- Two agencies did not report an annual review of procedures to CRCF. However, we became aware of existing agency change fund procedures as a result of other audit tests.
- We identified one particular recreation center that did not have cash handling procedures available for review on site; however, we received from the Department of Parks and Recreation a copy of procedures that are applicable to all recreation centers.

Based on these inconsistencies, it appears that CRCF does not consistently review agency procedures as part of their site visit process. Additionally, we believe that the site visit review would

be enhanced if it included a systematic and more detailed review of agency procedures, combined with a rigorous change fund status reporting process.

An agency's change fund procedures are important. CRCF is responsible for the authorization of the funds and custodians. However, it is the agency's responsibility to ensure compliance with the FARs and to safeguard City funds. Since CRCF's current procedures are limited to monitoring authorized funds and custodians, it needs to ensure that the agencies are fulfilling their responsibilities. Therefore, we recommend that the Department reassess its CRCF Cash Handling Review checklist and develop more detailed review steps to document and evaluate agency change fund procedures.

Reporting the Results of Site Visits Should Be Formalized – It is important to provide feedback to agency staff on the results of CRCF site visits to confirm good practices as well as highlight areas for improvement, when necessary. Although CRCF appears to provide verbal feedback to Change Fund Custodians at the conclusion of a site visit, no feedback is provided to agency management.

In addition to providing verbal feedback prior to leaving the agency site location, CRCF reported that it also provides formal feedback in writing to agency staff summarizing the results of the visit. To assess the written feedback, we reviewed six written reports for site visits conducted in 2015. Although we found that written feedback was provided to the Change Fund Custodians, we noted that the written reports documenting the results of the visits were not sent to agency management or submitted in a timely manner to the agency's Change Fund Custodian. In all cases, the reports were issued approximately five months after CRCF conducted its site visit. In one case, the report was issued eleven months after the site visit.

The reports appeared to address important points based on site visit documentation. However, for feedback to be of optimum use, reports need to be issued timely and to the appropriate level of agency management. While custodians should receive copies of all reports, to be effective, we recommend that the reports be directed to an appropriate level of management. By doing so, this will help ensure that follow-up actions are taken and will allow the agency to take corrective action for all other change fund locations within that agency. Therefore, we recommend that the Department develop and document site visit 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.

Site Visit Review Methodology Could Be Streamlined – CRCF initially reported that due to staff limitations, they have not been able to conduct as many site visits to ensure that all locations are visited within a reasonable time period. A review of change fund locations for the period of 2012 through 2015 did demonstrate that site visits were conducted in each year using a risk-based approach. At our request, CRCF provided the audit team with a draft of their upcoming site visit plan. This plan includes visiting all change fund locations using a risk-based approach for 2016 and a judgmental approach in subsequent years. Although this draft approach for selecting sites to visit appears reasonable, we believe CRCF should be reassess their plan as it may not be necessary to visit all change fund sites. When reassessing the plan, CRCF should take into consideration the size and number of change fund locations for each agency. Potential risks for misappropriation of funds or noncompliance with FARs can be higher at agencies with a large number of change funds, such as the Denver Public Library and the Department of Parks and Recreation. For example, the Denver Public Library has twenty-six branch locations each with a change fund, and the Department of Parks and Recreation has forty-six recreation centers and pools each with a

change fund.⁸ Combined, these two agencies have seventy-two locations and represent over 40 percent of the total change fund balance. CRCF could shift its site visit emphasis away from individual sites and towards ensuring agency accountability through reviewing and strengthening fund procedural controls. Such an approach would reduce the overall number of site visits required to accomplish the same goal. Agency management could take the feedback from one site visit and apply the lessons learned at other similar locations. This approach would also free up CRCF to conduct more frequent site visits at higher risk locations. Therefore, we recommend that the Department review its objectives for site visits and finalize the draft site visit plan incorporating methodology that takes into account available Department resources.

There Are Inconsistencies between Fiscal Accountability Rules, Department of Finance Rules, and Associated Procedures Related to Cash Handling

In assessing the City's established guidance for cash handling (FAR 3.4), we noted that it has not been updated since 2012. This FAR contains outdated and inconsistent information. For example:

CRCF is unable to ensure agency compliance with annual procedure reviews required by the FARs.

- FAR 3.4 and its Cash Handling Procedures refer agencies to two Manager of Finance Rules that relate to use of credit cards (Rule 2) and alternative forms of payment (Rule 6). However, CRCF reported that Rule 2, governing Credit Card Processing and Data Security Requirements and Rule 6 for Acceptance of Alternative Forms of Payment are both obsolete. CRCF reported that FAR 3.4 has not been updated because of the time and

effort required to change a rule.

- FAR 3.4 also includes contradicting information regarding the required timing of deposits. In one area of the FAR, the language indicates that deposits of cash and checks are required when the total deposits reach \$500 or once each week. Later in the same provision, the language indicates that deposits should be made when the total amount exceeds \$500 or daily. As a result, it is unclear if deposits are required on a daily or weekly basis.

Government Finance Officers Association (GFOA) best practices emphasize that communication is an essential component of a comprehensive framework of internal controls. The formal documentation of accounting policies and procedures is one method of communication that is particularly effective to help ensure adequate controls. In order to accomplish this, GFOA best practices recommends that accounting policies and procedures should be evaluated annually and updated periodically but no less than every three years. Changes in policies and procedures that occur between these periodic reviews should be updated in the documentation promptly as they occur. Therefore, we recommend that the Department work with the Controller's Office to review all FAR 2 and FAR 3 rules and related procedures and forms to ensure consistency and clarity. Specifically, we recommend 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.

⁸ The forty-six Parks and Recreation facilities with change funds includes recreation centers and swimming pools but excludes City golf courses.

CRCF Should Improve its Follow-up of Annual Change Fund Status Reports

CRCF has procedures in place to ensure that its internal practices and agency reviews adhere to FAR requirements, such as quarterly change fund reporting and verification of annual agency procedure reviews. However, we found that these practices could be improved by incorporating systematic follow-up with agencies that do not confirm that they have conducted annual reviews of procedures and clarification of FAR requirements.

Agencies are required to review their change fund procedures annually to ensure that they are in compliance with FAR 3.3.12 and report any updates to CRCF. At least once per quarter, the CRCF Change Fund Administrator (the Administrator) sends a memorandum to each agency custodian requesting the amount of the change fund, name of current custodian, and the custodian's telephone number. In addition, each year in the fourth quarter, the Administrator requests that agencies submit written verification certifying that they have reviewed their change fund procedures. We found that the Administrator is not following up timely with agencies that do not provide their quarterly or annual certifications.

We tested fourth quarter 2015 documentation submitted for 15 of the 119 change funds. Our review identified nine instances where Change Fund Custodians did not certify the annual review of their change fund procedures. CRCF staff reported that they follow up with agencies during site visits; however, CRCF does not perform site visits to every location each year. Based on work performed, it appears that there is no formal process to follow up with agencies to obtain annual certifications before year-end. This is important because fourth quarter submissions were received at varying times during December. While agency review can be conducted any time during the year, CRCF is unable to ensure agency compliance with the FARs prior to year-end.

We believe that this may occur for several reasons, including a lack of awareness of FAR requirements or requesting the verification from the wrong agency staff. Although CRCF is clear in its request that agencies are required to submit written verification of their annual review of change fund procedures, there may continue to be uncertainty. This is because the FARs are not in alignment with associated Change Fund Procedures. FAR 3.3.14 requires that an agency only report any updates to its procedures to CRCF. However, the Change Fund Procedures require an agency to submit written verification to CRCF that it has reviewed its change fund procedures at least annually.

We recognize that it is the agency's responsibility to adhere to FAR requirements. However, deferring the verification until the last quarter of the year may not allow sufficient time to be of service to the agency and allow for CRCF follow-up. Therefore, we recommend that the Department 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.

RECOMMENDATIONS

To enhance existing cash receipting controls, we make the following recommendations:

- 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.

Auditee Response: Agree - Implementation Date: January 31, 2017

Auditee Narrative: We are pleased that the Audit team recognizes the improvements the Cash, Risk & Capital Funding Division (CR&CF) has made to date with improving the oversight of the cash handling practices. The consolidated Department of Finance continues to be a relatively new department of the City with CR&CF being established in 2011. The identification of the universe of locations receipting transactions has been a daunting challenge due to agencies independently determining their business practices, which may change due to staff turn-over, changing roles, or other constraints. CR&CF has primarily used the change funds as well as banking information as the means to recognize the locations for agencies' business interactions. However, it is recognized that not all agencies that receipt transactions have a change fund. The Department of Finance agrees that developing a methodology to identify all locations handling payments, not just those with change funds, is an integral step in maintaining cash handling oversight. The CR&CF will work with other city finance staff to develop a methodology that will capture all locations and provide for the means to develop a comprehensive list of all receipting locations. As a result of this resource, CR&CF will expand its oversight of receipting locations to its routine cash handling reviews; including provision of necessary training to agency staff, evaluation of their procedures, and periodic onsite cash handling and receipting that include feedback to the agencies.

- 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.

Auditee Response: Agree - Implementation Date: December 31, 2016

Auditee Narrative: The Department of Finance recognizes the importance of data validity and transparency, and has seen extensive improvements with the implementation of the Enterprise Cashiering Solution (ECS) in many agencies. More detailed receipting information could be available for non-ECS locations from the agencies using other point-of-sale systems. Within staffing constraints, CR&CF will seek the receipting information from the agencies using non-ECS systems. Compilation of this data, along with ECS and bank reporting should more closely track receipting trends and objectives.

- 1.3 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.

Auditee Response: Agree - Implementation Date: March 31, 2017

Auditee Narrative: The Department of Finance has worked extensively with staff of many agencies to provide ongoing cash handling insight and guidance, but has not developed a formal, city-wide accessible training program because individual agencies have historically provided their staff agency-level training. We concur that a more comprehensive and consistent training program using other tools than personal contact will strengthen change fund and revenue receipting controls citywide. The recommendation to use CityU is an excellent platform for this training. CR&CF will develop training material based on Fiscal Accountability Rules, general Cash Handling Procedures, and best practices to be available on CityU. As noted the Fiscal Accountability Rules, specifically 3.3 —Change Funds will be updated to include this training requirement. The training of city staff will be added to CR&CF's Cash Handling Review checklist to include a report on compliance to the appropriate agency management.

- 1.4 The Department of Finance should reassess its CR&CF Cash Handling Review checklist and develop more detailed review steps to document and evaluate agency change fund procedures.

Auditee Response: Agree - Implementation Date: February 28, 2017

Auditee Narrative: As CR&CF's cash handling oversight functions have matured and evolved, so has the process and documentation used to oversee cash handling activities citywide. CR&CF agrees that further review and assessment of agency change fund procedures will help strengthen agency controls and competence. CR&CF will add systematic steps for evaluating agency change fund procedures for relevance and completeness to the Cash Handling Review checklist.

- 1.5 The Department of Finance should direct site visit reports to the appropriate level of management.

Auditee Response: Agree - Implementation Date: February 28, 2017

Auditee Narrative: CR&CF is revising the site visit report template, which will include feedback to change fund custodians and appropriate management. CR&CF concurs that the appropriate level of management should be included in the distribution of site visit reports, and will work to document the individuals in each agency who should receive these reports and follow up communications, if any.

- 1.6 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.

Auditee Response: Agree - Implementation Date: December 31, 2016

Auditee Narrative: The Department of Finance agrees that a more proactive follow up of implementation of recommendations is warranted. CR&CF will revise the Site Visit Report template that provides feedback to agencies, including findings and recommendations. Within staff constraints, follow up will be scheduled within 45 days of the completion of the initial review to evaluate, document and report agency compliance with FARs and business improvement recommendations.

- 1.7 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.

Auditee Response: Agree - Implementation Date: November 30, 2016

Auditee Narrative: With over 100 change funds citywide and staffing constraints, CR&CF has scheduled site visits based upon assessment of agency cash handling risk levels. CR&CF agrees that site visit objectives and plans should be reviewed and aligned with available Department resources, to include receipting agencies that do not have change funds.

- 1.8 The Department of Finance should review Fiscal Accountability Rules 2 and 3 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.

Auditee Response: Agree - Implementation Date: February 28, 2017

Auditee Narrative: With the expansion and evolution of City receipting systems and channels, CR&CF continues to develop relevant guidelines and procedures in conjunction with other Finance Department staff. We agree that Fiscal Accountability Rules 2 and 3 and associated procedures are due for review, and will work with Controller's Office and other City staff to update these for consistency, clarity, alignment, and removal of incorrect references. Review of these rules and procedures will become part of CR&CF's annual review of cash handling-related procedures.

- 1.9 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.

Auditee Response: Agree - Implementation Date: February 28, 2017

Auditee Narrative: CR&CF, in conjunction with other Department of Finance staff, works with agencies to collect information, reports and certifications used to assess adherence to FAR requirements. We agree the reporting, certification processes, and timely reporting by agencies should be updated. This process will include review and amendment of FARs and Procedures as appropriate with compliance documentation to be maintained by CR&CF.

FINDING 2

Petty Cash Oversight Could Be Enhanced

We conducted a limited review of the governance framework for petty cash funds in the City, and identified areas where existing control practices could be enhanced and updated. First, we found that the Controller's Office does not have supporting documentation for some petty cash funds. Second, Petty Cash Custodians may not receive sufficient training to perform their duties. Additionally, we identified a requirement regarding the annual audit of petty cash imprest funds that should be reassessed.

The Controller's Office Should Ensure Compliance with Petty Cash Records Requirements

When assessing the controls surrounding oversight of petty cash funds, we identified two areas for enhancement. First, we were unable to reconcile the list of petty cash funds with supporting documentation maintained by the Controller's Office due to missing authorization forms. Second, we believe the Controller's Office could better focus its oversight efforts to address higher risk areas without having to commit significant resources.

D.R.M.C. Section 20-23 and FAR 3.2 apply to petty cash funds in the City. The rules and accompanying Petty Cash Procedure serve as controls to help ensure the proper use and reimbursement of petty cash funds. Two controls are the use of an Authorization Form to establish and make changes to a petty cash fund, and the calculation of a turnover rate.

The D.R.M.C. requires the Department of Finance to maintain records of petty cash funds, including in whose custody the funds rest. Further, FAR 3.2 requires that agencies complete an Authorization Form to establish, abolish or change the custodian for a fund.

The turnover rate refers to how often the fund is replenished. This simple calculation is a measure of how much the fund is used in a given year.⁹ A low turnover rate means there are less frequent replenishments, and may indicate that the petty cash fund amount should be reduced. Conversely, more frequent replenishments associated with a high turnover rate may suggest that the fund limit should be increased. A high turnover rate is not a concern, but is an indication that the agency is using the fund, increasing the importance of other controls in place. FAR 3.2 identifies an optimal turnover rate as a rate between eight and twelve. Reference Appendix B for a list of all petty cash funds and examples of the turnover rate for funds included in our sample.

We obtained a list of petty cash funds from the Controller's Office and attempted to reconcile them to other supporting documentation maintained by the Controller's Office. We identified a number of discrepancies in the records, as detailed below.

- We found that the Controller's Office had no authorization forms for four of fifty-seven active funds and six of sixteen abolished funds tested. Overall, ten of the sixteen abolished funds had no documentation to support that the agency informed the Controller's Office of its intention to abolish its petty cash fund, as required.

⁹ The turnover rate is calculated by dividing total reimbursement in a year by the amount of the petty cash fund. For example, if an agency with a \$300 fund submits a total of \$2,500 in replenishments throughout the year, the agency's turnover rate will be 8.33 (\$2,500 divided by \$300).

- Most forms authorizing the original petty cash fund and petty cash custodian were not present. Specifically, fifty-four of fifty-seven active funds did not have the form authorizing the petty cash fund and custodian.
- We identified two instances in which the Petty Cash Custodian name on the list and the Petty Cash Custodian name on the authorization form did not match.
- One authorization form was not signed by the expending authority as required by FAR 3.2.
- There were only twenty funds for which the Controller's Office provided a Year End Questionnaire to compare to our turnover rate calculation. The turnover rate reported on thirteen (65 percent) of the twenty funds did not match the auditor's turnover rate calculation.
- There was no Petty Cash Fund Balance Confirmation form for one agency.
- There was a Petty Cash Fund Balance Confirmation form for one agency that is not on the petty cash fund list or in Controller's Office's records. A \$300 fund balance was reported on the Fund Balance Confirmation form. There is one reimbursement in 2015, indicating that this may indeed be an active fund.

This testing showed that we could not verify that some petty cash funds were appropriately authorized or abolished by the Controller's Office, as required by the Petty Cash Procedure that accompanies FAR 3.2. Further, fund amounts and custodians cannot be verified for all petty cash funds. Given the continued reduction in the number and amount in petty cash funds in the City, it is reasonable that the Controller's Office limit the resources it devotes to overseeing these funds. Ensuring the authorization forms support the petty cash listing is one way in which the Department can manage the oversight of petty cash with limited resources and minimal interaction with the agencies. Complete supporting documentation will help ensure an accurate petty cash fund listing, which in turn can help guide the Controller's Office's oversight efforts while limiting the resources needed to provide such oversight.

Our analysis also indicates that there are areas where the Controller's Office could focus its oversight efforts to address risks without having to commit significant resources. First, we found that a significant number of funds had a turnover rate below the optimal rate, and two had a turnover rate over thirteen. Only 30 percent of the rates reported on the Year End Questionnaire and 15 percent of the rates calculated by the auditor are within the optimal turnover range of between eight and twelve. Note that the Denver Public Library has twenty-six of the fifty-seven (46 percent) petty cash funds in the City. There is a petty cash fund for Accounting in the Central location, and a fund in each of the twenty-five library branches. Audit testing showed that the Central Library has a turnover rate over twelve and all but one of the branches have rates under seven, indicating an opportunity for the Controller's Office to work with the library to adjust its petty cash fund amounts.

Second, our analysis showed that there were seven funds with 2015 spend over \$5,000. Of these seven, four are the funds with the highest turnover rates. This suggests that the Controller's Office could target these agencies for evaluation and monitoring, and work with them to further reduce petty cash use. Generating a reliable list of petty cash funds by following up with agencies would help the Controller's Office conduct this type of analysis and better focus its oversight efforts.

To ensure that there is evidence to support the status of each petty cash fund as required by the D.R.M.C. and FAR 3.2, we recommend that the Department ensure it obtains and retains the authorization forms initially establishing the fund, and subsequent forms to support the current fund

amount and custodian. If needed, Department staff should follow up with agency personnel to ensure accurate petty cash records. Additionally, the Department 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.

The Controller's Office Does Not Provide Training to Petty Cash Custodians

We also found that the Controller's Office does not provide Petty Cash Custodians with training to ensure that all custodians are knowledgeable about their custodian duties and responsibilities. This includes initial training when personnel are first assigned custodian duties as well as for refresher training conducted periodically over time to ensure that custodians continue to be familiar with the City's petty cash procedures and requirements.

The Controller's Office reported that the agencies are responsible for training their respective custodians, and it does not require or verify that agencies are providing such training. However, as we discuss in the report section discussing weaknesses in the FARs, Controller's Office personnel reported that Petty Cash Custodians are confused at times regarding the process for abolishing petty cash funds. This supports the need for training or other guidance for petty cash custodians.

Petty Cash Custodians are essential to carrying out the proper administration of petty cash procedures. Therefore, we recommend that the Department provide training on petty cash requirements and procedures for Petty Cash Custodians. The Department could consider providing this training through CityU, the City's online training resource.

The D.R.M.C. Provision That Requires the City's Independent Audit Committee to Audit Petty Cash Funds Should Be Repealed

Finally, audit work revealed a requirement in the D.R.M.C. that should be repealed. Specifically, the D.R.M.C. requires that the City's independent Audit Committee audit petty cash imprest funds annually. D.R.M.C. Sec. 20-23 states that "At least once each year the audit committee shall audit the petty cash imprest funds without previous notification to the agency concerned."¹⁰

While this may have been an intentional change, in the current environment, it is not considered a role of an audit committee to conduct operational audits such as of petty cash imprest funds. Further, audit committees cannot perform their oversight role if they are in charge of conducting operational audits.

The requirement in the D.R.M.C. was established in conjunction with the 2006 changes that established the Department. One of the changes made to this section of the D.R.M.C. was to move responsibility for auditing petty cash imprest funds from the auditor to the audit committee. City Attorney's Office (CAO) personnel explained that this change was intentional because the Audit Committee oversees the City's external audit.

Although this rationale makes sense, operational functions such as conducting audits are not typically the responsibility of audit committees. We conducted research on the typical roles and responsibilities of audit committees and found a publication from the Institute of Internal Auditors, a global association for the internal audit profession, entitled "The Audit Committee: Purpose,

¹⁰ D.R.M.C. §20-23.

Processes, Professionalism." This publication summarizes an audit committee's role in governance, stating, "the audit committee should provide oversight of financial reporting, risk management, internal control, compliance, ethics, management, internal auditors, and the external auditors."¹¹

In light of this language, the CAO's rationale for the change makes sense. However, a question could be raised as to whether oversight of the external auditors qualifies as compliance with the petty cash audit requirement. Further, given the small amount in petty cash funds throughout the City, and the Controller's Office's ongoing efforts to reduce both the number of petty cash funds and the amounts in the funds that remain, an annual audit requirement no longer appears to be necessary. This perception results in the requirement not being a priority, and puts the City at risk of being out of compliance with D.R.M.C. requirements.

As a result, we recommend that the Department propose 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.

¹¹ The Institute of Internal Auditors, *The Audit Committee: Purpose Process Professionalism*, page 1.

RECOMMENDATIONS

To enhance existing controls over petty cash funds, we make the following recommendations:

- 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.

Auditee Response: Partially Agree - Implementation Date: December 31, 2016

Auditee Narrative: The Finance Department will do a reconciliation of all petty cash accounts and ensure we have a current Petty Cash Account Form for each and increase our review to maintain the documentation. However, we disagree that we should retain all forms. The City's retention policy is two years for Petty Cash Fund Account Forms. Once a new form is received, the old form is not considered a city record, it is archived, and then destroyed after 2 years.

- 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.

Auditee Response: Agree - Implementation Date: December 31, 2016

Auditee Narrative: We will continue to send out yearly confirmations to Agencies, however we do not feel that a turnover rate is a useful tool in analyzing risk associated with a petty cash fund. We will update the rule/procedure to clarify that the turnover rate is only a guideline for Agencies when considering a request in increase or decrease in a petty cash fund.

- 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.

Auditee Response: Agree - Implementation Date: December 31, 2016

Auditee Narrative: We will update the Fiscal Accountability Rule and procedure to ensure that it is clear and easy to follow. In addition, we will offer individual training to custodians who may have additional questions after reading the rule and procedure. We will consider a training on City U, understanding that the resources that would create this training are not in the Department of Finance and have a significant backlog on creating training videos.

- 2.4 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.

Auditee Response: Agree - Implementation Date: January 31, 2017

Auditee Narrative: The Department of Finance agrees that the DRMC provision requiring the Audit Committee to conduct annual petty cash audits was an unintended consequence when the municipal code was revised to reflect the creation of the centralized Department of Finance. A review of the DRMC to determine if other sections pertaining to the finance functions should be amended will be undertaken. The Finance Department will submit a request to the City Council to amend the DRMC for any identified sections needing amendment.

APPENDICES

Appendix A–2015 Change Fund Listing

AGENCY	# of Locations	2015 Balance
AVIATION (DIA)	5	\$ 4,240.00
CLERK AND RECORDER	2	\$ 2,020.00
COUNTY COURTS	2	\$ 5,300.00
ENVIRONMENTAL HEALTH	3	\$ 1,050.00
DENVER PUBLIC LIBRARY	33	\$ 12,162.20
PARKS AND RECREATION	58	\$ 25,005.00
PUBLIC WORKS	3	\$ 4,250.00
FINANCE	7	\$ 29,300.00
SAFETY	5	\$ 1,205.00
HUMAN SERVICES	1	\$ 500.00
	119	\$ 85,032.20

Source: Cash, Risk and Capital Funding 2015 Change Fund Ledger

Appendix B–Petty Cash Funds in the City as of June 2016

Agency	Fund Amount	2015 Turnover Rate	
		Reported by Agencies	Calculated by Auditors
1 Auditor's Office	\$250.00	2.83	2.83
2 Board of Adjustment - Zoning Appeals	\$280.00	4.53	4.53
3 City Attorney's Office	\$300.00	0.96	1.87
4 City Council	\$150.00	9.00	7.88
5 Civil Service Commission	\$100.00		
6 Clerk and Recorder	\$250.00	5.34	5.34
7 Community Corrections	\$75.00		
8 Community Planning and Development	\$200.00	5.57	5.57
9 County Court Administration	\$250.00	8.81	8.81
10 Denver Coliseum	\$500.00	5.47	6.42
11 Denver Public Library (26 locations)	\$5,600.00		
12 District Attorney	\$1,050.00	13.00	6.44
13 Election Commission	\$250.00		
Environmental Health (2 locations)			
14 Animal Control	\$900.00	3.00	2.29
15 Environmental Protection/Quality Division	\$400.00	8.56	8.56
16 Finance	\$300.00		
17 Fire Department - Operations	\$800.00	8.00	7.03
18 Head Start/Denver's Great Kids	\$600.00	8.00	6.76
19 Human Services - Cashier's Office	\$2,500.00	5.25	13.63
20 Mayor's Office of Workforce Development	\$8,000.00		
21 Office of Emergency Management	\$200.00		
Parks & Recreation (3 locations)			
22 Combined Fund	\$300.00	5.80	5.08
23 General Parks	\$700.00	13.73	15.36
24 Recreation	\$2,000.00	1.98	0.38
25 Police Department - Finance	\$1,000.00	12.35	12.35
26 Public Works (4 locations)	\$1,750.00		
27 Sheriff Department - Administration	\$200.00		
28 Theatres and Arenas - Administration	\$200.00	5.45	5.63
29 Treasury/Tax Compliance/Parking	\$500.00	4.36	3.49
Total amount in all Petty Cash funds		\$29,605.00	

Source: Agencies and petty cash fund amounts were taken from the list of petty cash funds from the Controller's Office. Agencies' turnover rates were taken from the 2015 Year-End Questionnaire that agencies submit to the Controller's Office on an annual basis. Auditors used the Petty Cash Fund Usage Worksheet and the PeopleSoft query noted on the worksheet to independently calculate each agency's turnover rate.

Note: Turnover rates are reported only for the twenty funds at agencies that submitted a Year-End Questionnaire in 2015 with a turnover rate.

AGENCY RESPONSE



DEPARTMENT OF FINANCE

BRENDAN HANLON
CHIEF FINANCIAL OFFICER

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September 1, 2016

Auditor Timothy M. O'Brien, CPA
Office of the Auditor
City and County of Denver
201 West Colfax Avenue, Dept. 705
Denver, Colorado 80202

Dear Mr. O'Brien,

The Office of the Auditor has conducted an audit of Citywide Cash Handling Practices.

This memorandum provides a written response for each reportable condition noted in the Auditor's Report final draft that was sent to us on August 12, 2016. This response complies with Section 20-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING 1

The Department of Finance's Governance Framework for Cash Receipting, While Improved, Contains Gaps in Oversight Practices

RECOMMENDATION 1.1

The Department of Finance should develop a methodology for identifying all cash receipting agencies and locations throughout the City. In addition, CR&CF should include all receipting locations, including those without change funds, in its oversight practices such as its site visit reviews.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	January 31, 2017	Alyssa Garrity Cash Administrator 720-913-9346

Narrative for Recommendation 1.1

We are pleased that the Audit team recognizes the improvements the Cash, Risk & Capital Funding Division (CR&CF) has made to date with improving the oversight of the cash handling practices. The consolidated Department of Finance continues to be a relatively new department of the City with CR&CF being established in 2011. The identification of the universe of locations receipting transactions has been a daunting challenge due to agencies independently determining their business practices, which may change due to staff turn-over, changing roles, or other constraints. CR&CF has primarily



used the change funds as well as banking information as the means to recognize the locations for agencies' business interactions. However, it is recognized that not all agencies that receipt transactions have a change fund. The Department of Finance agrees that developing a methodology to identify *all* locations handling payments, not just those with change funds, is an integral step in maintaining cash handling oversight. The CR&CF will work with other city finance staff to develop a methodology that will capture all locations and provide for the means to develop a comprehensive list of all receipting locations. As a result of this resource, CR&CF will expand its oversight of receipting locations to its routine cash handling reviews; including provision of necessary training to agency staff, evaluation of their procedures, and periodic onsite cash handling and receipting that include feedback to the agencies.

RECOMMENDATION 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.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	December 31, 2016	Alyssa Garrity Cash Administrator 720-913-9346

Narrative for Recommendation 1.2

The Department of Finance recognizes the importance of data validity and transparency, and has seen extensive improvements with the implementation of the Enterprise Cashiering Solution (ECS) in many agencies. More detailed receipting information could be available for non-ECS locations from the agencies using other point-of-sale systems. Within staffing constraints, CR&CF will seek the receipting information from the agencies using non-ECS systems. Compilation of this data, along with ECS and bank reporting should more closely track receipting trends and objectives.

RECOMMENDATION 1.3

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.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	March 31, 2017	Alyssa Garrity Cash Administrator 720-913-9346

Narrative for Recommendation 1.3

The Department of Finance has worked extensively with staff of many agencies to provide ongoing cash handling insight and guidance, but has not developed a formal, city-wide accessible training program because individual agencies have historically provided their staff agency-level training. We concur that a more comprehensive and consistent training program using other tools than personal contact will strengthen change fund and revenue receipting controls citywide. The recommendation to use CityU is an excellent platform for this training. CR&CF will develop training material based on Fiscal Accountability Rules, general Cash Handling Procedures, and best practices to be available on CityU. As noted the Fiscal Accountability Rules, specifically 3.3 – Change Funds will be updated to include this training requirement. The training of city staff will be added to CR&CF's Cash Handling Review checklist to include a report on compliance to the appropriate agency management.

RECOMMENDATION 1.4

The Department of Finance should reassess its CR&CF Cash Handling Review checklist and develop more detailed review steps to document and evaluate agency change fund procedures.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	February 28, 2017	Alyssa Garrity Cash Administrator 720-913-9346

Narrative for Recommendation 1.4

As CR&CF's cash handling oversight functions have matured and evolved, so has the process and documentation used to oversee cash handling activities citywide. CR&CF

agrees that further review and assessment of agency change fund procedures will help strengthen agency controls and competence. CR&CF will add systematic steps for evaluating agency change fund procedures for relevance and completeness to the Cash Handling Review checklist.

RECOMMENDATION 1.5

The Department of Finance should direct site visit reports to the appropriate level of management.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	February 28, 2017	Alyssa Garrity Cash Administrator 720-913-9346

Narrative for Recommendation 1.5

CR&CF is revising the site visit report template, which will include feedback to change fund custodians and appropriate management. CR&CF concurs that the appropriate level of management should be included in the distribution of site visit reports, and will work to document the individuals in each agency who should receive these reports and follow-up communications, if any.

RECOMMENDATION 1.6

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.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	December 31, 2016	Alyssa Garrity Cash Administrator 720-913-9346

Narrative for Recommendation 1.6

The Department of Finance agrees that a more proactive follow up of implementation of recommendations is warranted. CR&CF will revise the Site Visit Report template that provides feedback to agencies, including findings and recommendations. Within staff constraints, follow up will be scheduled within 45 days of the completion of the initial

review to evaluate, document and report agency compliance with FARs and business improvement recommendations.

RECOMMENDATION 1.7

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.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	November 30, 2016	Alyssa Garrity Cash Administrator 720-913-9346

Narrative for Recommendation 1.7

With over 100 change funds citywide and staffing constraints, CR&CF has scheduled site visits based upon assessment of agency cash handling risk levels. CR&CF agrees that site visit objectives and plans should be reviewed and aligned with available Department resources, to include receipting agencies that do not have change funds.

RECOMMENDATION 1.8

The Department of Finance should review Fiscal Accountability Rules 2 and 3 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.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	February 28, 2017	Alyssa Garrity Cash Administrator 720-913-9346

Narrative for Recommendation 1.8

With the expansion and evolution of City receipting systems and channels, CR&CF continues to develop relevant guidelines and procedures in conjunction with other Finance Department staff. We agree that Fiscal Accountability Rules 2 and 3 and associated procedures are due for review, and will work with Controller's Office and other City staff to update these for consistency, clarity, alignment, and removal of

incorrect references. Review of these rules and procedures will become part of CR&CF's annual review of cash handling-related procedures.

RECOMMENDATION 1.9

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.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	February 28, 2017	Alyssa Garrity Cash Administrator 720-913-9346

Narrative for Recommendation 1.9

CR&CF, in conjunction with other Department of Finance staff, works with agencies to collect information, reports and certifications used to assess adherence to FAR requirements. We agree the reporting, certification processes, and timely reporting by agencies should be updated. This process will include review and amendment of FARs and Procedures as appropriate with compliance documentation to be maintained by CR&CF.

AUDIT FINDING 2

Petty Cash Oversight Could Be Enhanced

RECOMMENDATION 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.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Partially Agree	December 31, 2016	Kelli Bennett Director of Accounting & Financial Reporting 720-913-5156

Narrative for Recommendation 2.1

The Finance Department will do a reconciliation of all petty cash accounts and ensure we have a current Petty Cash Account Form for each and increase our review to maintain the documentation. However, we disagree that we should retain all forms. The City's retention policy is two years for Petty Cash Fund Account Forms. Once a new form is received, the old form is not considered a city record, it is archived, and then destroyed after 2 years.

RECOMMENDATION 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.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	December 31, 2016	Kelli Bennett Director of Accounting & Financial Reporting 720-913-5156

Narrative for Recommendation 2.2

We will continue to send out yearly confirmations to Agencies, however we do not feel that a turnover rate is a useful tool in analyzing risk associated with a petty cash fund. We will update the rule/procedure to clarify that the turnover rate is only a guideline for Agencies when considering a request in increase or decrease in a petty cash fund.

RECOMMENDATION 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.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	December 31, 2016	Kelli Bennett Director of Accounting & Financial Reporting 720-913-5156

Narrative for Recommendation 2.3

We will update the Fiscal Accountability Rule and procedure to ensure that it is clear and easy to follow. In addition, we will offer individual training to custodians who may have additional questions after reading the rule and procedure. We will consider a training on City U, understanding that the resources that would create this training are not in the Department of Finance and have a significant backlog on creating training videos.

RECOMMENDATION 2.4

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.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	January 31, 2017	R.O. Gibson 720-913-9383

Narrative for Recommendation 2.4

The Department of Finance agrees that the DRMC provision requiring the Audit Committee to conduct annual petty cash audits was an unintended consequence when the municipal code was revised to reflect the creation of the centralized Department of Finance. A review of the DRMC to determine if other sections pertaining to the finance functions should be amended will be undertaken. The Finance Department will submit a request to the City Council to amend the DRMC for any identified sections needing amendment.

Please contact Alyssa Garrity at 720-913-9346 with any questions.

Sincerely,



Brendan J. Hanlon
Chief Financial Officer

cc: Yvonne Harris-Lott, CPA, Audit Supervisor