

Performance Audit

Department of General Services Cash Handling Practices and Procedures

February 2008

Durham County Audit Department

Durham County

Introduction

This audit of the Durham County Department of General Services (GS) cash handling practices and procedures was conducted pursuant to the September 12, 2005 Audit Department Charter which establishes the Audit Oversight Committee and the Audit Department and outlines the internal auditor's primary duties. The Audit Committee authorized this audit in October 2007.

A performance audit is an engagement that provides assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.¹

Audit Objective

This audit reports on GS's cash handling controls and practices. The report answers the following question:

- Are management controls for accounting, safeguarding, and depositing cash receipts adequate to mitigate inherent risks of cash handling, and
- Are controls adequate to assure that financial reports are reasonably accurate and reliable?

Scope and Methodology

I conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that I plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. I believe the evidence obtained provides a reasonable basis for the findings and conclusions based upon the audit objectives.

I conducted my fieldwork from January 10, 2008 to February 1, 2008. The audit covered GS's cash handling practices and procedures in place at the beginning of calendar year 2008. The audit included the cash management processes from the point revenue is generated to the

¹ Comptroller General of the United States, *Government Auditing Standards*, Washington D.C: U.S. Governmental Accountability Office, 2007, p.17

point revenue reports are submitted to the County's Finance Department. The practices and procedures audited included provisions for:

- Receiving cash,
- Recording cash transactions,
- Preparing and depositing receipts, and
- Reconciling deposits and receipts.

Audit methods included:

- Interviewing officials responsible for cash handling and employees engaged in the cash handling process.
- Reviewing current cash handling policy, procedures, and practices.
- Comparing GS cash handling practices with best practices established by several universities.
- Observing the cash handling operation.
- Randomly selecting and reviewing 30 of 259 vaccination transactions for proper receipting, recording, and deposit practices.

Background

GS is responsible for maintenance and repairs to County facilities and properties, solid waste efforts, project management services for capital projects, mail courier services, signage for county roads, and providing animal control services for the public. During the course of its business, GS manages several revenue sources. In fiscal year 2007, GS revenues amounted to \$613,423 from goods, services, and compliance efforts it provides. The exhibit below shows the sources of GS revenue for fiscal year 2007. It does not include solid waste sticker revenue collected by the tax office.

EXHIBIT 1 FY 2007 GENERAL SERVICES REVENUE

Service Category	FY 02007
ABC Store Rental	\$39,957
Stadium Rental	\$24,273
Solid Waste Stickers Sales	\$21,998
Operation Breakthrough (Property Rental)	\$18,775
Pest Control	\$3,476
Paper Stock, Recycle Bins, Filters	\$5,254
Animal License Fees	\$437,639
Shelter Fees	\$30,010
Civil Penalties	\$22,056
Vaccinations/Overdue Fees/Misc.	\$9,985
Total	613,423

Source: SAP reports for FY 2007

Findings and Analysis

Summary

GS completed, published, and implemented its written standard operating procedures in October 2007, for operations at its main office where it collects revenue for property rental and solid waste disposal permit sales. Written procedures were implemented at the same time at the Animal Control office where revenue for animal licensing, penalties for licensing violations, and vaccination operations are collected and handled. The written procedures include step-by-step procedures for receiving, recording, safeguarding, depositing, and reconciling cash transactions.

GS' written procedures set up a chain of control over cash handling; clearly identifying those responsible for supervision and management. Although the written procedures provided structure to the process, several opportunities for enhancements were discovered in the areas of sales. In the area of property rental, which includes, stadium rental, ABC stores, and Operation Breakthrough, the cash handling procedures and practices complied with best practices. For example, stadium rental contracts clearly defined payment terms and office records clearly established a trail from the rental contract or agreement through payment, recording and revenue deposits. Enhancement opportunities included:

- Inventory controls for solid waste disposal stickers,
- Control over traffic into the Animal Control Collections Officer's station, and
- Separation of cash handling duties at the Animal Control office.

In-Process Improvements Will Enhance Cash Handling Controls

GS is in the process of improving processes that will reduce the opportunity for fraud and abuse in its cash handling operations. According to subject matter experts, "opportunity" is a primary factor in incidences of fraud and other abuses. The findings below do not address potential risks for major fraud or material loss of county revenue in the short term; however, any loss of county property can be embarrassing and undermine public trust or may be criminal under certain circumstance. With that in mind, strengthening the following areas lessens the risk of errors, omissions, and wrongdoing and improves the reliability of financial reporting.

Inventory controls are being strengthened for solid waste stickers. GS reported revenue of approximately \$21,998 for solid waste disposal stickers it sold over-the-counter in 2007. It generated the sales revenue by providing solid waste disposal stickers to county, city, and non-county residents in order for them to use the County's solid waste disposal facilities. County, City, and non-county residents purchase stickers throughout the year at a prorated price established for each month in the calendar year. For example, in January a county

resident would pay \$85 for a sticker that would cost \$7.08 if purchased in December. In 2008, sticker value ranges are;

- County resident: \$85 - \$7.08
- City residents: \$65 - \$5.42
- Non county resident: \$140 - \$11.66

GS also provides stickers to county residents as directed by the County's Tax Department. These stickers are delivered by mail to County residents and the fees are collected by the County's Tax Department.

In November 2006, GS purchased 15,000 stickers from a printing service for sale in 2007. Approximately 13,500 of the stickers were mailed to County residents at the direction of the County's Tax Department. GS reserved approximately 1,500 stickers to sell to customers that walk into the office and purchase them.

GS had a system in place to record the sale, prepare and deposit sales revenue, and reconcile the deposits for the sticker sales; however, we discovered an opportunity to enhance sticker inventory control. Solid waste stickers do not have identifying marks or sequential numbers to distinguish them. When a sticker is needed for sale, the staff assistant takes one out of inventory and sells it to the customer. The transaction is recorded and funds are deposited and reconciled. At the end of the year, unsold stickers are disposed of at no value. Because stickers are not identified by sequential numbers, it was not possible to determine if all stickers were accounted for in the cash handling process. Best practices suggest inventory controls to assure that sales can be reconciled to the inventory. This is one of the steps to reasonably assure accurate financial reporting.

To strengthen controls over the process, I recommend GS develop a system to accurately maintain the sticker inventory. The system should allow for reconciliation of the inventory with sticker sales. GS officials indicated agreement with the recommendation and began a process to number its 2008 stickers and record the number on each receipt as sales are made. GS officials also indicated that future sticker orders will include sequential numbering printed on each sticker.

Animal Control enhancements include better control over traffic into its collections office. Animal control receives revenues from several sources. It sells pet licenses, collects penalties for animal violations, and provides pet vaccinations. In 2007, the office reported revenues of approximately \$499,690. Of that amount, \$350,985 was collected via a cash box operation with BB&T Bank for license fees billed to customers. The Animal Shelter deposited \$47,417 into Animal Control's account for services provided at the shelter. The remaining \$101,288 was a combination of walk-in-customer transactions and license payments rejected by BB&T Bank for various reasons such as invoice and payment discrepancies. The Animal Control manager estimates that approximately \$39,000 was collected from walk-in customers.

The automated cash operation system at Animal Control has many features to reference and cross-reference revenue transactions entered into the system. For example, the Office maintains an inventory of vaccination serum and the number of injections per customer is recorded in the receipting system. The Office can reconcile its serum inventory with sales receipt entries in the system. Additionally, the Office has a pre-pay system that assures that customers pay before their animals are vaccinated.

Similarly, the walk-in payment process for all services would benefit from a system to assure that all transactions are recorded and entered into the system. At the time of the audit, the walk-in licensing process, for example, allowed customers to pay for a license with currency or checks. During a walk in transaction, I observed that the Collections Officer takes the payment and enters the transaction into the automated system. The system generates and prints a receipt for the customer.

The system appeared to be working well, and based upon the information available, I did not see evidence of abuse or mismanagement, however, the Office did not have a method in place to determine if all transactions were entered into the system. The County does not issue numbered tags representing licenses that can be reconciled with revenue receipts thus leaving a "void" in controls over the process. Because cash handling fraud and abuse is often predicated upon opportunity, best practices suggest that processes be in place to mitigate the opportunity. I recommend that the Office develop a method to identify the purpose of traffic into the cashier's office to be maintained as a record to reconcile walk-in customers and transactions entered into the system.

The Office began designing a sign-in procedure similar to the vaccination system to record the purpose of visits to the Collections Officer station. This procedure will be used as a tool to reconcile the number of transactions with records in the system.

Separation of Animal Control Cash Handling Duties Enhanced Financial Controls. The written procedures for receiving, recording and depositing cash at Animal Control was an important step in assuring that transactions are handled without incidence of fraud and abuse. I reviewed a randomly selected sample of 30 of 259 vaccination transactions from October 2007 to January 30, 2008 to determine if the transactions were properly recorded. I did not find any errors or omissions in the cash recordings.

Although all the transactions reviewed were error free, the Office had an opportunity to provide an enhanced level of control by separating the duties of the Collections Officer position. The Collections Officer position is responsible for receiving cash, recording, depositing, and reconciling receipts and deposits. To bring this process into compliance with best practices, I provided the manager with a model cash handling

guide and recommended that the manager develop a cash handling process based upon concepts in that model. At the end of audit field work the Office was in the process of establishing control procedures that included separation of duties in the cash handling system.

Recommendation

The following recommendations identify improvements that will enhance cash handling controls. The recommendations are designed to decrease the risk of instances of fraud and abuse. I recommend GS:

1. Develop an inventory control method for solid waste disposal stickers that will allow for reconciling stickers removed from inventory with sales receipts.
2. Develop a system to assure that all revenue generating transactions at the Animal Control Office are reconcilable.
3. Develop procedures at the Animal Control office that will separate the duties of Office's cash handler.

APPENDIX 1
AUDIT RESPONSE – DEPARTMENT OF GENERAL SERVICES



COUNTY OF DURHAM
DEPARTMENT OF GENERAL SERVICES

MICHAEL O. TURNER
Director

DONALD W. HASSELBACH
Assistant Director

February 20, 2008

Mr. Richards Edwards
Internal Auditor Director
200 East Main Street
Durham NC 27701

RE: Official Written Response to the General Services Performance Audit Recommendations

Dear Richard:

Thank you for the time and energy you have spent over the past several weeks with my staff to examine and evaluate the Cash Handling Practices and Procedures of the Department of General Services.

Staff and I have reviewed the draft report you forward and “We Concur” with your findings.

The recommendations that you provided in the Performance Audit to “remove the opportunity and replace it with best practices” will be invaluable in helping our department to improve program performance, daily operations and contribute significantly to public accountability.

The following actions have been taken on the three (3) recommendations you listed on page eight (8) of the Performance Audit:

1. ***“Develop an inventory control method for solid waste disposal stickers that will allow for reconciling stickers removed from inventory with sales receipts”***

Actions Taken: On the second day of the audit, or January 10th, 2008, the 1,500 remaining solid waste stickers, for sale to county, city and non-county residents, were numbered and can now be reconciled against sales receipts. Consideration will also be given to the use of sequentially numbered solid waste stickers in the future.

2. ***“Develop a system to assure that all revenues generating transactions at the Animal Control Office are reconcilable”***

Actions Taken: On February 11th, 2008, a sign-in sheet was created for all walk-in customers to sign-in and to indicate the purpose of their visit, e.g. to pay for rabies shots, animal license fees, civil penalties, etc. In addition, a second sign-in sheet process has been implemented for the Office Manager (Gwen Beebe), the Collections Officer (Alberta Peterson) and the Administrative Assistant IV (Kathy Marsee) to reflect funds they individually collect.

3. ***“Develop procedures at the Animal Control Office that will separate the duties of Office’s cash handlers”***

Actions Taken: On February 12th, 2008, a “separation of duties” was implemented in the Animal Control Office. Specifically, the current Collections Officer (Alberta Peterson) was designated as the Primary Cash Handler and the Administrative Assistant IV (Kathy Marsee) was designated as the Depositor of funds collected. The Office Manager (Gwen Beebe) was designated as the alternate Cash Handler or Depositor in the absence of either Ms. Peterson or Ms. Marsee. In addition, the Office Manger will also review the “model cash handling guide” you provided before updating the cash handling process.

The final action to be taken in response to this performance audit will be the incorporation of the above referenced Actions Taken into the departments current Cash Handling Practices and Procedures Handbook for future reference.

The overall audit process was a learning experience to all General Services employees involved who provided you with the information you required and we will carry these “lessons learned” throughout our tenure with Durham County Government.

If you have any questions please do not hesitate to contact me at 560-0431.

Sincerely,


Director of General Services

CC: Michael Ruffin, County Manager
Wendell Davis, Deputy County Manager
Cindy Bailey, Animal Control Administrator
Deborah Booth Administrative Assistant
Gwen Beebe, Staff Specialist