

Internal Audit Report

Central Library Cash Handling Review



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Auditor's Conclusion

April 11, 2024

Internal Audit has completed the Central Library Cash Handling Review. We conducted this engagement as an addition to our 2024 Annual Audit Plan.

The audit objectives were to:

- Determine whether cash handling policies and procedures exist and if they follow leading practices.
- Determine if internal controls exist and operate as intended to safeguard cash receipts from loss.

To this end, Internal Audit:

- Performed cash counts,
- Reviewed processes,
- Reviewed policies, procedures, and leading practices,
- And other methods as needed.

Internal controls consist of all the measures taken by management to:

- Protect its resources against accidental loss, waste, fraud, and inefficiency;
- Ensure the completeness, accuracy, timeliness, and reliability of accounting and operating data
- Promote efficient and effective operations; and,
- Monitor the achievement of management's goals and objectives.

Based on the results of our engagement procedures, we conclude that cash handling policies and procedures are incomplete and do not always follow leading practices, and internal controls over cash handling are missing. We have detailed our issues and recommendations in this report's Findings and Recommendations section. We want to acknowledge the cooperation and work of the Library finance staff throughout this engagement.



Michelle Crawford, M.Acct., CIA, CFE, CRMA
City Auditor

Audit Profile

Audit Team

Michelle Crawford, M.Acct., CIA, CFE, CRMA – City Auditor

Sheree Van Buren, CIA, CFE – Reviewing Auditor

Scope

The scope of our work covered practices in place from January 1, 2023, through February 14, 2024, and cash on hand on January 18, 2024.

Background

City Leadership requested this engagement. The engagement focused on current practices at the Central Library Branch (The Library). The Library collects cash for copy and printer services, miscellaneous items, etc.

Findings and Recommendations

Issue 1 – Cash handling internal controls

The Library does not have adequate cash handling internal controls.

Segregation of duties

An important internal control for handling cash is segregating duties where possible. "Segregation of duties is the dividing of cash handling tasks and responsibilities among employees. No single employee member should control or have access to all the key processes of a cash handling transaction. Best practice is to minimize the number of people who handle cash before it's deposited."¹

At the Central Library, the same person could perform almost all the cash handling duties, including preparing the cash register for opening, receipting, closing out the register, completing the end-of-day forms, and counting the end-of-day cash (at the end of the day or the next morning).

Additionally, multiple employees use the register throughout the day. The register captures the individual employee receipting, however, when overages and shortages occur, it can be challenging to identify who made the error. Per the citywide cash handling policy and leading practices, the number of people using the same register should be restricted as much as possible.

Secondary reviews

There is no documented secondary review for voids and refunds. The citywide cash handling policy states, "A supervisor or designated employee should review and approve the voided transactions. Both the cashier and supervisor will print and initial the voided receipt and void form."

Timely reviews and documentation

Daily receipts are reconciled weekly by Library finance employees instead of daily. This practice segregates the duties; however, only performing reconciliations weekly decreases the likelihood of catching errors promptly and identifying the cause. The citywide cash handling policy states, "Balancing the day's business should be set at a certain time each day."

As part of the reconciliation process, Library finance employees investigate discrepancies. However, there is no log documenting the discrepancies and any employees involved, which can provide helpful information and identify when additional training is needed.

Documentation of the reconciliations should include the initials of the reviewer and any secondary reviewer when differences exist.

¹ Citywide cash handling policy definition.

A log should be used to track differences and explanations. Additionally, reconciliation duties should rotate regularly as staffing allows.

Per the citywide cash handling policy, "Department management is responsible for ensuring that effective controls are in place to collect and safeguard cash, deposit the cash timely, monitor cash balances, monitor designated cash handling employee activities, and accurately record/document the correct amount and type of cash collected and deposited in the City bank or Cashiers Office."

Recommendation

We recommend implementing internal controls, which should include:

- Segregation of duties and where they cannot be segregated, add controls such as secondary reviews;
- Where staffing allows, identify a primary employee to work on the cash register to limit the number of individuals using it;
- Library supervisors review voids and refunds for documentation daily and Library finance staff review for appropriateness weekly;
- Library finance employees rotate reconciliation duties and increase daily reconciliation frequency to at least twice a week as staffing allows;
- Library finance employees document reconciling differences in a log using it to identify additional training topics or individuals who may need refresher training; and
- Implement other internal controls as needed.

Management Response

LCS Management agrees with these recommendations and has started creating procedures for implementation.

Estimated Implementation Date: May 31, 2024

Business Contact: Deputy Director of Library and Cultural Services

Business Reviewer: Deputy City Manager

Issue 2 – Library procedures need updating

Library cash handling procedures are limited and do not address most elements of cash handling.

The library has procedures for using the cash register, balancing the register drawer, and processing refunds and voids. However, these procedures are lacking and do not address the most common areas of cash handling. The current procedures do not address most leading practices identified in the citywide cash handling policy. We highlighted some of the missing or incomplete procedures below.

Responsibilities

An employee is designated daily as the person in charge, including cash handling responsibilities. There are no procedures to document who assigns the designation, how someone is selected, the rotation of the duties, and the responsibilities.

A Library finance employee performs weekly reconciliations. No procedures document the process, responsibilities, and rotation of duties.

Balances

Library procedures do not document balances for cash in the cash register drawer or change funds.

Opening/Closing

Procedures for opening and closing, including responsibilities, are not documented. The City cash handling policy states, "Each location should have a set of written procedures for opening and closing business operations, which are on-site and accessible to each employee member."

Void/Refund

Responsibilities for reviewing voids and refunds and how the reviews are documented and retained.

Documented policies provide guidance and direction for employees and clearly outline responsibilities. The City Finance Office has developed a citywide cash handling policy for all departments to follow and incorporate into their procedures. The citywide policy assigns responsibility to Department management to ensure that policies and procedures are in writing and consistently applied so that cash handling processes work efficiently and effectively.

Recommendation

We recommend developing procedures that align with and incorporate citywide cash handling policies, including the areas mentioned above.

Management Response

LCS Management agrees with this recommendation.

Estimated Implementation Date: July 31, 2024

Business Contact: Deputy Director of Library and Cultural Services

Business Reviewer: Deputy City Manager

Issue 3 - Access to cash not adequately safeguarded

There are opportunities to safeguard cash better.

Access to the safes and the cash safe room could be better safeguarded. The safe combinations have not been changed in several years, and there has been employee turnover. City policy requires regular changes in safe combinations.

Due to access control issues, access to where the safes are located is not adequate. The City is aware of the access control issues from prior audits and is working on addressing them. Poor access control can result in individuals who do not need access to the cash areas gaining access. We continue to monitor the updates to access control and will monitor through prior audit recommendations.

Recommendation

We recommend changing the combinations of safes regularly and when employee turnover is high.

Management Response

LCS Management agrees with this recommendation.

Estimated Implementation Date: 9/30/2024

Business Contact: Deputy Director of Library and Cultural Services

Business Reviewer: Deputy City Manager

Issue 4 – Change funds

The Central Library has three change funds; only one may be needed. Additionally, the change funds should be reconciled regularly.

The employee safe contains a \$225 register change fund, and the Library finance employee safe contains a \$500 change fund. The \$225 change fund is to make change for the cash register and the \$500 change fund is to make change for the \$225 change fund. Additionally, a third change fund of \$500 in quarters is kept in the Library finance employee safe to use for the change machine.

The citywide cash handling policy states, "The Cashier's office should replenish or establish procedures for the replenishment of all City change funds." The risk of loss or theft increases when the amount of cash is higher. Three change funds may not be necessary to meet the library's needs.

The change funds are audited annually, generally upon request from the City Finance Department. More frequent reviews increase the likelihood of identifying discrepancies in balances promptly.

Recommendation

We recommend that Library finance employees only use one change fund and work with the Cashier's office to determine the appropriate balance and replenishment procedures. We also recommend auditing the change fund at least quarterly.

Management Response

LCS Management agrees with this recommendation.

Estimated Implementation Date: 9/30/24

Business Contact: Deputy Director of Library and Cultural Services

Business Reviewer: Deputy City Manager