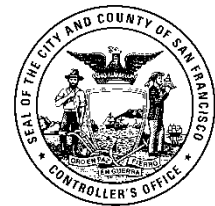


City and County of San Francisco

Office of the Controller – City Services Auditor

CITYWIDE CASH TRANSACTIONS:

**Combined Report of Six Audits
in Fiscal Year 2015-16,
Departments Need to Improve
Cash Handling**



February 23, 2017

**OFFICE OF THE CONTROLLER
CITY SERVICES AUDITOR**

The City Services Auditor (CSA) was created in the Office of the Controller through an amendment to the Charter of the City and County of San Francisco (City) that was approved by voters in November 2003. Charter Appendix F grants CSA broad authority to:

- Report on the level and effectiveness of San Francisco's public services and benchmark the City to other public agencies and jurisdictions.
- Conduct financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operate a whistleblower hotline and website and investigate reports of waste, fraud, and abuse of city resources.
- Ensure the financial integrity and improve the overall performance and efficiency of city government.

CSA may conduct financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

CSA conducts audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office. These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.

Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

For questions regarding the report, please contact Director of City Audits Tonia Lediju at Tonia.Lediju@sfgov.org or 415-554-5393 or CSA at 415-554-7469.

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City and County of San Francisco

Office of the Controller - City Services Auditor

**Citywide Cash Transactions:
Combined Report of Six Audits in Fiscal Year 2015-16,
Departments Need to Improve Cash Handling**

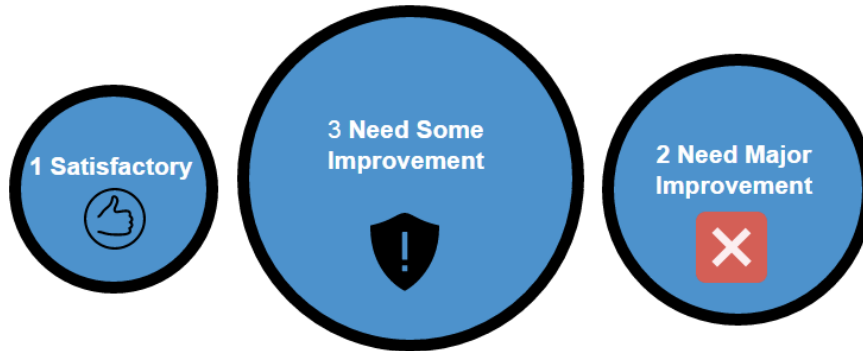
February 23, 2017

Why We Did These Audits






The Office of the Controller's City Services Auditor Division (CSA) audited the adequacy of cash-handling processes and controls at 12 cash collection points of six departments of the City and County of San Francisco (City). The six audits determined whether city departments have effective controls to accurately collect and safeguard cash and properly and promptly deposit the cash they receive. This is the sixth annual report in a series of annual cash transaction assessments and audits that CSA performs at selected city departments.

What We Found

Of the **six departments** audited, the cash handling processes at **1** are satisfactory, **3** need improvement, and **2** need major improvement.



The audits found that departments need to improve cash handling processes in the following areas:

 <p>Endorsement and/or depositing of cash receipts not performed in a timely manner</p>	 <p>Recording, tracking and reconciliation of cash need improvement</p>	 <p>Physical safeguarding of cash receipts needs improvement</p>
 <p>Training of staff in cash-handling procedures needs improvement</p>	 <p>Cash-handling duties are not appropriately segregated</p>	 <p>Some cash-handling policies and procedures are inadequate</p>
 <p>Departments do not have appropriate inventory controls over receipts or do not display signs informing customers that they may receive a receipt</p>	 <p>Recording of payments is delayed at one department by an average of 13 days</p>	 <p>Other procedures need improvement, including how fees are charged and publicized, overages are deposited, and credit card vendor services procured</p>

What We Recommended

The audits' recommendations for city departments to strengthen their cash-handling controls included:

- Deposit cash collected by the business day following its receipt or contact the Controller's Accounting Operations and Systems Division and the Office of the Treasurer and Tax Collector if other arrangements are needed.
- Establish procedures to reconcile all records of money received to amounts deposited in the bank to ensure that the correct amount of money was collected.
- Adequately segregate among different employees incompatible cash-handling functions.
- Create comprehensive departmental cash-handling policies and procedures.

Copies of the full report may be obtained at:

*Office of the Controller • City Hall, Room 316 • 1 Dr. Carlton B. Goodlett Place • San Francisco, CA 94102 • 415.554.7500
or on the Internet at <http://www.sfgov.org/controller>*



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

February 23, 2017

City Departments and Agencies:

The City Services Auditor Division (CSA) of the Office of the Controller (Controller) presents its annual report on the audits of citywide cash transactions for fiscal year 2015-16. CSA audited the adequacy of cash-handling processes and controls at twelve cash collection points of six departments of the City and County of San Francisco. The six audits determined whether city departments have effective controls to accurately collect and safeguard cash and properly and promptly deposit the cash they receive.

CSA classifies locations with stronger cash-handling processes as satisfactory and those with few instances of control weaknesses as needing some improvement. If significant control weaknesses exist, CSA determines that major improvement is needed. CSA concluded that cash-handling processes at one department were satisfactory, those at three departments need some improvement, and those at two need major improvement. The audits resulted in 80 recommendations for departments to consider. The departments concurred with 69 recommendations and partially concurred with the remaining 11, thus agreeing to implement CSA's recommendations.

CSA appreciates the assistance and cooperation provided by the management and staff of the audited departments. CSA will work with these departments to follow up on the status of the recommendations. Also, CSA will work with the Office of the Treasurer and Tax Collector and the Controller's Accounting Operations and Systems Division to maintain updated information regarding the condition of departments' cash-handling processes.

For questions about the report, please contact me at Tonia.Lediju@sfgov.org or 415-554-5393 or CSA at 415-554-7469.

Respectfully,

Tonia Lediju
Director of City Audits

cc: Board of Supervisors
Budget Analyst
Citizens Audit Review Board
City Attorney
Civil Grand Jury
Mayor
Public Library

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GLOSSARY OF TERMS

Cash	Any device that stores value and can be transferred between parties through a mutually agreed medium of exchange, such as U.S. currency, credit cards, debit cards, checks, and electronic fund transfers
City	City and County of San Francisco
Controller	Office of the Controller
CSA	City Services Auditor Division of Office of the Controller
Treasurer	Office of the Treasurer and Tax Collector

INTRODUCTION

Background

The Office of the Controller (Controller) issued *Departmental Guidelines No. 003-12, Cash Handling Guidelines*, to all departments of the City and County of San Francisco (City) in October 2011. In 2016 these guidelines were expanded upon and incorporated into the *City and County of San Francisco Office of the Controller Accounting Policies and Procedures, 2016 Edition* (Controller's Accounting Policies). These policies establish requirements for the handling of cash and are intended to instruct departments how to properly process cash receipts and post the revenue into the financial system.

City cash-handling guidelines cover nine control areas.

Cash is defined as any device that stores value and can be transferred between parties through a mutually agreed medium of exchange, such as U.S. currency, credit cards, debit cards, checks, and electronic fund transfers.

Departmental internal controls over cash receipts should address the control areas and key elements included in the Controller's Accounting Policies, which are summarized in Exhibit 1.

EXHIBIT 1 Controller’s Accounting Policies: Key Cash-Handling Elements

Control Area	Key Elements*
Written Procedures	<ul style="list-style-type: none"> • General information about sources of cash received and bank accounts, cash receipts processes describing methods of receiving payment and deposits, reconciliation of deposits, accounting procedures, and inventory control over receipt books, among others. • Each department must develop cash-handling policies and procedures for its specific operations. • Departments must maintain a list of all staff involved with various phases of the cash-handling process.
Segregation of Duties	<p>Enforce dual custody by implementing procedures that:</p> <ul style="list-style-type: none"> • Require at least two employees to be present to open the safe. • Prohibit employees responsible for collecting cash from preparing bank deposits. • Require that cash counts be conducted and cash acceptance be certified by two employees for armored courier shipments. • Require a supervisor to observe and verify each cashier’s cash count for end-of-day balancing.
Security	<ul style="list-style-type: none"> • Analyze the security needs of each cash collection point, which might include security cameras, security guards, and securing the safe and cash registers or point-of-sale systems. • Avoid counting cash in view of the public. • Secure buildings, facilities, and conveyances for incoming cash receipts. • Regularly change passwords to point-of-sale systems.
Tracking of Cash	<ul style="list-style-type: none"> • Perform and document beginning cash counts. • Implement a cash management system that assigns a separate cash drawer to each cashier so cashiers can be held responsible for cash overages or shortages.
Payment Collection and Depositing of Cash	<ul style="list-style-type: none"> • Require deposits of cash with the Office of the Treasurer and Tax Collector (Treasurer) or a city bank account no later than one business day after its receipt.
Inventory Control Over Cash Receipt and Register Books	<ul style="list-style-type: none"> • Develop an inventory control system for receipt books that includes, for example, use of pre-numbered receipts. • Implement policies and procedures related to customer receipt issuance to systematically account for sales transactions, including installing a cash register that generates sequenced receipts with transaction amount, date, time, quantity, and description.
Controls Over Credit Cards	<ul style="list-style-type: none"> • Ensure that customers always sign the merchant’s copy of the credit card receipt if more than \$25. • Ensure that customer credit cards are returned.
Reconcile Collections Daily	<ul style="list-style-type: none"> • Ensure that cash, checks, and credit/debit card collections on each cashier’s balance sheet match the cashier recap and note any discrepancies. • Ensure that a supervisor reviews and approves any adjustments to financial reports.
Train Cash-Handling Staff	<ul style="list-style-type: none"> • Ensure that employees are well-trained in important cash-handling functions by implementing a detailed annual training program.

*Note: The Controller’s Accounting Policies list all elements for each control area.

Source: Controller’s Accounting Policies

Twelve cash collection points at six departments were audited.

Based on a 2015 survey of city departments, there are 287 locations throughout the City that process cash for a variety of services. The Audits Unit of the Controller’s City Services Auditor Division (CSA) used a risk assessment process to determine the six departments at which it performed the cash transactions audits for fiscal year 2015-16. These departments collect cash for fees, sales, donations, and taxes.

Exhibit 2 summarizes the estimated revenue amounts collected by the six departments at the cash collection points audited.

EXHIBIT 2 Summary of 12 Collections Points at Six Departments Audited		
Department	Collection Points Audited	Fiscal Year 14-15 Collections*
Office of the Treasurer and Tax Collector	<ul style="list-style-type: none"> • 1155 Market Street • City Hall 	\$4,074,130,728 ^a
Department of Building Inspection	<ul style="list-style-type: none"> • Construction Permits • Finance/Accounting 	194,942,217 ^b
Department of Public Health	<ul style="list-style-type: none"> • Hazardous Materials and Waste Program 	3,526,358 ^c
Arts Commission ¹	<ul style="list-style-type: none"> • Galleries Program • Street Artists Program • Accounting 	1,626,884 ^d
Department of Animal Care and Control ²	<ul style="list-style-type: none"> • Shelter Services • Field Services • Pet Food Express 	675,810 ^e
Film Commission ³	<ul style="list-style-type: none"> • Film Commission Office 	593,928 ^d
TOTAL		\$4,275,495,925

Note: *Includes only the revenue of each audited cash collection point, not the entire department.

Sources:

- ^a Reported by Treasurer management
- ^b iPayment Tender Type Report
- ^c Provided by Public Health management from the Hazardous Environmental Health Database
- ^d The City’s financial system
- ^e Animal Care and Control’s Chameleon integrated case management system

¹ CSA focused the audit on the Street Artists Program, SFAC Galleries (Galleries Program), and the Accounting division, but employees of all programs that handle cash at the Arts Commission were interviewed regarding their internal controls.

² This audit also included the General Services Agency’s Central Accounting Office’s procedures for handling the Department of Animal Care and Control’s cash receipts.

³ This audit also included the procedures of the Office of Economic and Workforce Development’s Accounting Office for handling the Film Commission’s cash receipts.

Objectives

The objectives of the audits were to:

1. Develop and execute a systematic process to survey and monitor the City's cash receipt accounts and cash entry points to detect risks and irregularities that warrant further review.
2. Determine whether selected departments have adequate policies and procedures for handling cash.
3. Determine whether selected departments' cash collection points have adequate and effective controls to:
 - Collect the correct amount of cash.
 - Safeguard cash.
 - Ensure that all cash due to the City is properly and promptly deposited into authorized city accounts.

Scope and Methodology

CSA audited cash-handling policies and procedures affecting 12 cash collection points during July 2015 through June 2016.

For each department audited, CSA analyzed survey responses and selected one or more cash collection points to review.⁴

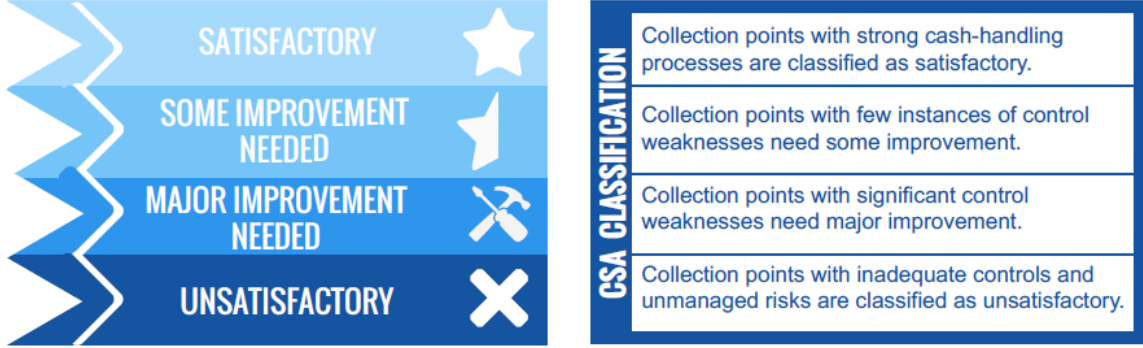
For each cash collection point, the team:

- Interviewed key departmental personnel about the procedures for collecting and handling cash receipts.
- Evaluated and verified existing security and controls for the handling of cash and recording of receipts.
- Had staff describe the collection process and recorded the description.
- Tested a sample of cash transactions in detail from fiscal year 2014-15.

⁴ For a complete list of survey items, see Appendix A.

CSA classifies collection points as shown in Exhibit 3.

EXHIBIT 3 **CSA Cash-Handling Process Classification**



Source: Auditor's analysis.

CHAPTER 1 – Cash-Handling Processes Need Improvement

Summary

The cash-handling processes at one of six departments are satisfactory, those at three need some improvement, and those at two need major improvement.

The audits resulted in overarching findings in nine areas of cash-handling controls outlined in the Controller’s Accounting Policies, with each finding applying to at least one cash collection point. Exhibit 4 summarizes the control areas at the six departments.

EXHIBIT 4 Overarching Findings by Department, Fiscal Year 2015-16

Finding	Department*					
	A Satis- factory	B	C Some Improvements Needed	D	E Major Improvements Needed	F
Lack of, or improvement needed to, written cash-handling procedures	✓	✓	✓		✓	✓
Lack of segregation of duties		✓	✓		✓	✓
Physical security of cash receipts needs improvement		✓			✓	✓
Tracking of cash needs improvement					✓	✓
Depositing of cash does not occur by the next business day		✓	✓	✓	✓	✓
Inventory controls over receipts need improvement					✓	✓
Collections are not appropriately reconciled		✓				✓
Cash-handling staff is not trained annually	✓		✓	✓	✓	✓
Recording of payments is delayed			✓			

Note: *Departments to which each finding applies are not identified due to the sensitive nature of the findings.


Source: Fiscal year 2015-16 cash transaction audit reports.


In addition to the findings of noncompliance with the Controller’s Accounting Policies, the audits found that departments need to better comply with city policies pertaining to fees, depositing of overages, collections of overdue accounts, check handling, vendor selection and documentation of gifts to public officials.


Finding 1.1


Departments did not comply with the Controller's Accounting Policies, raising the risk that cash will be mishandled or misappropriated.


By not following the Controller's Accounting Policies, departments risk that cash may be lost or misappropriated without detection. Exhibit 5 summarizes the internal control weaknesses in the six departments' cash-handling processes that stem from their failure to comply with the Controller's Accounting Policies and lists recommendations for improvement.


EXHIBIT 5		Internal Control Weaknesses Identified at Six Departments		
Weakness Identified	Finding	Risk to City	Controller's Accounting Policies	Recommendation
<p>Lack of, or improvement needed to, written cash-handling procedures</p> 	<p>Five departments' written cash-handling policies and procedures omit some procedures performed by the departments and/or are missing key procedures that would help reduce operating risks.</p> <p>One of the five departments' policies does not specify which entity is to track the fees owed and collect them.</p>	<p>Establishing an effective control environment sets the tone of the organization and helps ensure that cash handlers know the organization's procedures, including how to safeguard cash, without which cash is more likely to be mishandled.</p> <p>Written policies and procedures are:</p> <ul style="list-style-type: none"> • A formal communication of management's commitment to protecting the City's assets and providing instruction for carrying out management's directives. Essential to ensure that staff can effectively and consistently perform duties in adherence with documented guidelines. 	<p>Departments must develop, document, and communicate to staff procedures that reduce the risk of errors and irregularities and incorporate good internal controls. Departments should document cash-handling and cash receipt processes, including documentation of how they:</p> <ul style="list-style-type: none"> • Receive customer payments and how payments are deposited. • Reconcile deposits. • Research issues, such as checks returned from the bank. • Safeguard cash. • Process transactions. • Train staff on handling cash. 	<p>Departments should:</p> <ol style="list-style-type: none"> 1. Review and update their policies and procedures to ensure written manuals include procedures for all aspects of their cash-handling operations. The policies and procedures should be based on the City's Accounting Policies, issued by the Office of the Controller. 2. Document and enforce policies specifying which entity is to track fees owed and collect them.
	<p>One department inconsistently filled out or updated a form that impacted the amount of cash to be collected.</p>	<p>The department overcharged a customer \$100 because records were unclear.</p>		<ol style="list-style-type: none"> 3. Departments should standardize how information should be entered or updated on records of amounts owed.
	<p>One department does not consistently follow its written process to collect permit fees before the permit is issued.</p>	<p>By not collecting fees in advance of permit issuance, the department increases the risk that payment will not be received.</p>	<p>Management should monitor compliance with its own procedures and update them as needed if operational needs change.</p>	<ol style="list-style-type: none"> 4. Departments should ensure that staff adheres to policies regarding fee collections.


Weakness Identified	Finding	Risk to City	Controller's Accounting Policies	Recommendation
Lack of segregation of duties 	Two departments lack adequate segregation of duties over cash receipts. One of these departments allows one employee to be involved in multiple incompatible duties, including creating invoices, collecting payments, and recording payments in a log of checks received. At the other department, the same employee generates invoices and collects and tracks payments on the invoices. This employee also performs numerous other cash-handling duties.	Cash-handling duties, such as receiving cash, reconciling cash, depositing cash, and posting transactions, should be segregated among different employees to reduce the possibility of errors, theft, and mishandling of cash. Adequately segregating duties reduces the likelihood that errors, both intentional and unintentional, will remain undetected by providing for separate processing by different individuals at various stages of a transaction and for independent reviews of work performed.	Departments shall develop a plan of organization that provides segregation of duties appropriate for proper safeguarding of the City's assets. Key duties such as receiving cash, making deposits, and reviewing or auditing must be assigned to separate individuals to minimize the risk of loss.	5. Departments should review their cash-handling functions and ensure that incompatible duties are segregated where possible and update their written policies as necessary.
	At one department, the same individual responsible for collecting cash is allowed to void a transaction.		Departments should enforce dual custody and segregation of duties for handling and managing cash. Supervisors must review and approve any adjustments and verify that adjustments are appropriate and discrepancies are adequately explained.	6. Departments should ensure that all voids are performed and signed off by an employee not involved in the cash-handling process.

Weakness Identified	Finding	Risk to City	Controller's Accounting Policies	Recommendation
Lack of segregation of duties 	At two departments the record of payments received is stored on a shared drive and, according to management, can be edited by anyone in the department.	Allowing any employee with access to the drive to update or alter the record of payments received creates a risk that errors or misappropriation of cash could occur and remain undetected. The record could be fraudulently manipulated or changed in ways that cause unintentional errors, resulting in lost or misappropriated payments that cannot be detected.	All transactions should be accurately and properly recorded in department documents and systems. Also, according to the U.S. Government Accountability Office, access to records should be limited to authorized individuals, and accountability for the custody of records should be assigned and maintained.	7. Departments should restrict edit access to records to an employee or employees not responsible for handling cash in order to ensure that they limit the ability of staff to change records of expected and incoming payments, including payments received through the mail.
	One department uses single custody procedures for performing end-of-day reconciliations of cash receipts.	Separating cash-handling duties between or among two or more employees should be provided for and enforced to ensure that one employee does not have sole access to large sums of cash.	Departments should enforce dual custody procedures that require the supervisor to observe and verify each cashier's cash count for end-of-day balancing.	8. Departments should enforce dual custody procedures that require a supervisor to observe and verify each cashier's cash count for end-of-day balancing and require that both employees sign and date the end-of-day cash count form. The procedures should be based on the City's Accounting Policies, issued by the Office of the Controller.


Weakness Identified	Finding	Risk to City	Controller's Accounting Policies	Recommendation
<p>Lack of segregation of duties</p> 	<p>One department has not assigned or trained anyone to fulfill certain cash-handling duties when the regularly assigned staff is absent.</p>	<p>Not having a back-up can delay the timely delivery of cash collections for deposit, potentially resulting in the loss of interest earnings, especially if staff were to be absent from the office for an extended period. If an untrained employee were asked to take on this duty during an absence of the regularly assigned staff, cash-handling duties could be performed incorrectly because no other employees have been trained on the procedures that must be performed.</p>	<p>Departments should have back-up policies in case key employees are absent. Not only does this help ensure that deposits are made promptly, but it helps deter fraud so that the same employee does not always prepare collections for deposit.</p>	<p>9. Departments should assign and train more than one employee to handle key cash-handling procedures.</p>




Weakness Identified	Finding	Risk to City	Controller's Accounting Policies	Recommendation
Security around cash needs improvement 	<p>At two departments, cash or checks are stored in an unlocked space that is accessible to multiple people.</p> <p>At a third department, checks are stored in an unlocked mail bin, and are not secured in the lock box when they are not being processed for payment.</p>	<p>Failure to safeguard cash and checks in locked storage increases the risk that cash receipts or checks will be lost or misappropriated and that theft will go undetected. Cash receipts that are not properly safeguarded expose city assets to an unnecessarily high risk of loss or theft.</p>	<p>Security controls should exist whenever necessary to ensure that cash is properly safeguarded. Controls include securing cash drawers, limiting access to cash to authorized personnel, and installing security cameras in all areas where cash is handled.</p>	<p>Departments should:</p> <p>10. Ensure that cash receipts are stored securely at all cash-handling locations at all times, when in transit, and when not being processed. Access to cash should be limited to key personnel in accordance with the Controller's Accounting Policies.</p> <p>11. Ensure that the mail bin that contains mailed payments remains locked at all times when payments are not being processed, in accordance with the Controller's Accounting Policies.</p> <p>12. Use video surveillance to monitor the areas where cash is stored and counted.</p>
	<p>Multiple employees at two departments share one cash drawer.</p>	<p>Without separate cash drawers, individual employees cannot be held accountable for cash shortages or overages.</p>	<p>Departments should implement a cash management system that assigns a separate cash drawer to each cashier so cashiers can be held responsible for any cash shortages or overages.</p>	<p>13. Departments should implement a cash management system such that a separate cash drawer is assigned to each cashier.</p>



Weakness Identified	Finding	Risk to City	Controller's Accounting Policies	Recommendation
Security around cash needs improvement 	At one department, employees are not required to regularly change their passwords to the system where collection records are stored.	This increases the risk that unauthorized individuals will access records and may improperly edit them.	Departments should enhance systems to regularly prompt users to change their passwords.	14. Departments should require employees to regularly change their passwords every 60 to 90 days and not allow employees to reuse recent passwords.
	At one department, checks are not always endorsed immediately upon receipt.	Failing to provide proper safeguards, such as timely endorsements, unduly exposes the City's assets and customer information to potential loss or theft.	Departments must immediately endorse upon receipt checks, money orders, and other negotiable instruments that are being physically deposited, to prevent them from being negotiated or endorsed by someone other than the department.	15. Departments should implement and enforce a policy requiring staff to endorse checks immediately upon receipt.
	At two departments deposits are transported between buildings or to the bank by one unaccompanied employee.	This poses a safety risk to staff and increases the risk that cash receipts will be stolen.	Departments should ensure that employees transporting a large amount of cash, even in the form of checks, arrange for armored car delivery or be accompanied by another employee or security officer. If this is not feasible, departments should contact the Treasurer.	16. Departments should ensure that cash is transported in a locked cash bag to conceal and secure the cash and consider requiring another employee or a Sheriff's Department deputy to accompany the employee making the deposit. Where this is not feasible, departments should contact the Office of the Treasurer and Tax Collector to make appropriate arrangements.

Weakness Identified	Finding	Risk to City	Controller's Accounting Policies	Recommendation
<p>Tracking of cash needs improvement</p> 	<p>One department lacks adequate controls to track cash from receipt to deposit in the bank. The department does not maintain a record of the beginning-of-day cash count and does not maintain records of donations or records of aggregate receipts collected and submitted for deposit.</p>	<p>Not tracking cash collections makes it more difficult to ascertain whether cash was misappropriated and, if so, when this occurred. Further, tracking transactions throughout the collection process helps ensure that they are complete and accurately recorded</p>	<p>Employees should perform and document beginning counts of the cash put into the drawer. Further, according to the U.S. Government Accountability Office, all transactions and other significant events must be clearly documented, and the documentation should be readily available for examination.⁵ This applies to the entire process, or life cycle, of a transaction or event, from initiation, to authorization, and through its final classification in summary records.</p>	<p>Departments should:</p> <p>17. Require that employees document the counts of cash they put in the cash drawer at the beginning of each business day.</p> <p>18. Record and track donations received, including date received, customer identifying information (if provided), donation amount, name of employee who received the donation, and date donation is transferred from one agency to another.</p>
	<p>One department uses an employee's personal funds to start the cash drawers for a special event and reimburses the employee from the day's collections instead of using a city bank account to procure the balance for the change box. There is no documentation showing that a second employee verified the starting balance in the cash drawer or approved the reimbursement.</p>	<p>Improving cash-tracking procedures may enhance employee accountability, decrease misstatements, and detect the misappropriation of cash.</p>	<p>Departments should document the source of cash received, request a revolving funds account from the Controller's director of accounting operations, and implement a policy that requires approval of employee reimbursements.</p>	<p>Departments should:</p> <p>19. Restrict cash procurement to city bank accounts and document the source of all cash received. Where this is not feasible, consider requesting and implementing revolving fund accounts from the Office of the Controller to procure cash.</p> <p>20. Require managerial oversight and approval for all employee reimbursements.</p> <p>21. Not use employees' personal funds to make change.</p>


⁵ U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government*, U.S. Government Printing Office, Washington, DC, 2014.


Weakness Identified	Finding	Risk to City	Controller's Accounting Policies	Recommendation
<p>Tracking of cash needs improvement</p> 	<p>Three departments lack adequate controls and documentation for tracking and reconciling cash in the collection process, increasing the risk that errors or misappropriation of assets will go undetected.</p> <p>At one of these departments, wire payments do not include documentation to properly identify the program receiving the funds, which delays the recording of revenue.</p> <p>At two departments, the employees in charge of mail processing reported that they do not log checks received by mail.</p>	<p>Not maintaining documentation for tracking of cash prevents departments from being able to perform reconciliations, increasing the risk that errors or misappropriation of assets will go undetected.</p>	<p>City departments need to ensure that cash is tracked from the point it enters the department's custody to the point it is deposited. Cash and checks should be reconciled against receipts in dual custody. Also, cash handlers should prepare a list or spreadsheet of payments and endorse check payments received by mail.</p> <p>Also, mail-processing staff must prepare a list (preferably in dual custody) of payments received by mail.</p>	<p>Departments should:</p> <ol style="list-style-type: none"> 22. Ensure that all programs retain documentation of the amounts payable to the program, document when cash due is received, and periodically reconcile the records and research any outstanding or lost payments. 23. Establish procedures to reconcile all records of money received to amounts deposited in the bank to ensure that the correct amount was deposited. 24. Maintain logs of all payments received by mail, paid in person, and paid in the field, including the date received, amount, name of customer, and name of employee who collected the payment, and ensure that the list can only be edited by authorized staff. 25. Collaborate with the Office of the Controller's Accounting Operations and System Division's fund accountants to proactively identify incoming wire payments to improve timeliness and accuracy of collections. 26. Implement a system to require customers to submit all required documents with their payments to avoid delays in processing.


Weakness Identified	Finding	Risk to City	Controller's Accounting Policies	Recommendation
<p>Collections are not appropriately reconciled</p>   	<p>One department does not reconcile amounts when custody of cash receipts moves between persons or tracking systems. The department also does not perform monthly reconciliations between cash collections recorded in the City's financial system and in bank statements.</p> <p>One department does not reconcile the beginning and ending balances in the cash drawers to the total sales for the day and does not maintain an inventory showing the number of items sold to determine whether the correct amount of cash was received given the number of goods sold.</p>	<p>Not tracking and reconciling cash collections makes it more difficult for staff to ascertain whether cash is misappropriated and, if so, when the event occurred and what transactions are affected. Reconciling transactions throughout the collection process helps ensure that they are complete and accurately recorded. Without routine reconciliations between key cash systems of record, errors, discrepancies, or problems with balances may go undetected for an unreasonably long period. Also, allowing the system of record to be edited by employees handling cash increases the risk that cash could be lost or misappropriated without detection.</p>	<p>Departments must reconcile the cashier balance sheet and the cashier's recap and report discrepancies in the cashier's recap. Also, departments must have adequate control over inventory, including, but not limited to, inventory safeguarding, counting, dispensing, valuation, accounting, and recording.</p> <p>Also, according to city policy, issued by the Treasurer as Departmental Guideline No. 2014-1, city departments must reconcile their bank accounts monthly and submit monthly bank reconciliations via e-mail to the Cash Reconciliation Unit of the Controller's Accounting Operations and Systems Division no later than the tenth day of the following month. The cash-handling guidelines also require that cash reports be provided to staff with reconciliation responsibilities to perform such functions.</p>	<p>Departments should:</p> <p>27. Maintain a record of collections, and an inventory of goods including any goods on hand, sold and given away, and reconcile the record of collections against inventory records and the cash receipts recorded in the City's financial system.</p> <p>28. Implement and document a formal process to ensure that monthly reconciliations between cash per the City's financial system and per bank statements are performed and submitted to the Office of the Controller's Cash Reconciliation Unit no later than the tenth day of the following month.</p>

Weakness Identified	Finding	Risk to City	Controller's Accounting Policies	Recommendation
<p>Collections are not appropriately reconciled</p> 	<p>At one department, Accounting staff responsible for checking the count of collections against supporting documentation asks staff to change records in the event a discrepancy is identified.</p>	<p>Allowing the system of record to be edited by employees handling cash increases the risk that cash could be lost or misappropriated without detection.</p>	<p>Departments must ensure that a supervisor reviews and approves any adjustments to financial reports and verifies that adjustments are appropriate and discrepancies are adequately explained in the report.</p>	<p>29. Departments should require that management investigate all discrepancies between records of collections and the amount collected.</p>
<p>Depositing of cash does not occur by the next business day</p> 	<p>Contrary to city policy, three departments did not deposit checks within one business day. A fourth department does not deposit funds within the timeframe outlined by its policy.</p> <p>At two other departments, cash receipts are not delivered to the departments' Accounting divisions on a fixed schedule nor are they deposited within the next business day.</p>	<p>When departments do not deposit cash promptly, the City loses interest earnings. Although the amount of interest earned may be small, the interest can add up over time to significant totals. Also, delays in depositing cash increase the risk that it may be lost or stolen.</p>	<p>All cash received by any city officer or employee for, or in connection with the business of, the City, shall be deposited with the Treasurer or a city bank account no later than the next business day after its receipt or, if the department cannot fulfill this requirement, it should contact its fund accountant in the Office of the Controller's Accounting Operations and Systems Division to establish a schedule for completing deposits.⁶</p>	<p>30. Departments should adhere to the Controller's Accounting Policies and the Treasurer's Departmental Guidelines and deposit all cash receipts by the next business day. If other arrangements are necessary, the department should contact its fund accountant in the Office of the Controller's Accounting Operations and Systems Division to establish a different schedule and incorporate an agreed upon schedule into departmental policies and procedures.</p>

⁶ This is required by both the Controller's Accounting Policies and Procedures and processing of receipts guidelines. The latter were issued by the Treasurer as Departmental Guidelines #2014-1 (Treasurer's Departmental Guidelines).⁷ Office of Contract Administration, Rules and Regulations Pertaining to the San Francisco Administrative Code, Chapter 21.

Weakness Identified	Finding	Risk to City	Controller's Accounting Policies	Recommendation
<p>Inventory controls over receipts need improvement</p> 	<p>Two departments do not issue receipts to every customer.</p> <p>Two departments use noncompliant receipts, which are not pre-numbered and/or are not issued in sequential order.</p>	<p>Receipts provide a record of the transaction, so that customers have a record of what they paid and so that the department has a record of the revenue collected. Not issuing receipts makes tracking and recording transactions difficult. Further, it increases the risk that lost or misappropriated cash would go undetected.</p> <p>Without pre-numbered receipts issued for each transaction, departments would have difficulty tracking and recording transactions and identifying any errors, which increases the risk that lost or misappropriated cash would go undetected.</p>	<p>Departments should implement policies and procedures related to customer receipt issuance to systematically account for transactions. For transactions in the field, departments should use pre-numbered receipt books, which would help in reconciling transactions. The cash-handling guidelines further state that departments should develop an inventory control system for receipt books. Such a system would record receipt books used and returned based on the range of numbers preprinted on receipts in the books departments have in stock. Departments could then reconcile the sequentially numbered receipts to cash collected.</p>	<p>31. Departments should issue pre-numbered receipt books to the appropriate cash-handling employees, require that staff issues receipts for all transactions, and create an inventory policy for tracking and maintaining receipt books based on the Controller's Accounting Policies.</p>
	<p>One department does not have a sign that states receipts must be provided to customers.</p>	<p>Failure to post such a sign increases the risk staff will not provide receipts to customers for their payments, that customers will not ask for receipts, and that, consequently, staff may have a greater opportunity to misappropriate cash by writing and voiding fraudulent receipts.</p>	<p>Each transaction location must have a sign stating that customers must receive receipts for their payments.</p>	<p>32. Departments should post a sign at each transaction location stating that receipts must be provided to customers.</p>

Weakness Identified	Finding	Risk to City	Controller's Accounting Policies	Recommendation
<p>Cash-handling staff is not trained annually</p> 	<p>One department's cash-handling staff has not received formal cash-handling training.</p> <p>Also, three departments do not provide annual training in cash-handling procedures to staff or volunteers that handle cash and one department's cash-handling training records are inadequate.</p>	<p>A lack of annual training increases the possibility that staff will execute procedures that do not comply with the City's guidelines, which can lead to inconsistencies in practice, errors, or the inappropriate handling of cash.</p> <p>Also attendance at trainings will help departments ensure that staff is accountable for its job responsibilities and demonstrates management's commitment to establishing an effective control environment.</p> <p>Documenting the content of and attendance at all cash-handling trainings offered increases accountability for all cash-handling staff in the event of error, fraud, or misappropriation of cash, which could result in a loss of revenue and inaccurate cash balances.</p>	<p>Employees should be well trained on important cash-handling functions and departments should implement a detailed annual training program on cash-handling procedures and should document all training provided.</p>	<p>Departments should:</p> <p>33. Adhere to the City's cash-handling procedures and provide annual cash-handling training to all employees who handle cash and to any employees that may serve as back-up cash collection agents.</p> <p>34. Ensure that the records of all cash-handling trainings provided include the content of and attendance at each cash-handling training session.</p>

Weakness Identified	Finding	Risk to City	Controller's Accounting Policies	Recommendation
Recording of payments is delayed 	One department does not record receipts in the City's financial system in a timely manner. Delays ranged from 2 to 53 days and, on average, were 13 days.	Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or "life cycle" of a transaction or event, from the initiation and authorization through its final classification in summary records.	Cash receipt transactions should be recorded in the City's financial system at or about the same time the money is deposited but no longer than 15 days after the receipt of funds. ^a	35. Departments should adhere to the City's cash-handling guidelines by immediately recording all transactions at the time money is deposited, but no later than 15 calendar days after the receipt of funds. ^a

Note:


^a During the audit period the guidelines in effect (*Office of the Controller Departmental Guidelines No. 003-12, Cash Handling Guidelines*) stated that cash receipt transactions should be recorded in the City's financial system at or about the same time the money is deposited. This guidance has been incorporated into the *City & County of San Francisco – Office of the Controller Accounting Policies and Procedures, 2016 Edition*. These updated guidelines state that cash transactions should be recorded in the City's financial system on or about the same time as money is deposited, but no longer than 15 calendar days after the receipt of funds.

Sources:

- Auditor analysis and observation
- City & County of San Francisco – Office of the Controller Accounting Policies and Procedures


Finding 1.2 – Departments need to improve procedures for fee collection, depositing, delinquent collections, purchasing, and distribution of gifts.


Departments did not comply with city policies pertaining to transparent charging of fees, depositing of overages, collections of overdue accounts, contracting vendors and documentation of gifts to public officials. Not complying with these policies raises a variety of risks including that the public will be charged incorrect and inconsistent amounts, that cash will be mishandled, that money owed to the city will not be collected, and that reporting requirements for public officials will not be met. Exhibit 6 summarizes the policies that departments did not comply with, explains the risks that this results in, and lists the recommendations to address these weaknesses.


EXHIBIT 6 Departments' failure to comply with a variety of city policies creates risks that customers may be mischarged and that cash may be mishandled				
Weakness Identified	Finding	Risk to City	City Policies	Recommendation
Severely inadequate cash-handling controls 	<p>One department used a credit card processing vendor contracted in an employee's name, resulting in collections being remitted to an employee instead of the City.</p> <p>Also, the department has no written commitment from the processing vendor as to how quickly the vendor must transmit payment and no record of the amount of fees that the vendor is allowed to retain.</p>	<p>Contracting a credit card vendor in an employee's name raises the risk that funds will be misappropriated.</p> <p>Also, without documentation of the amount of fees a vendor is allowed to retain, departments cannot verify that it received the correct payment amount. This lack of oversight raises the risk that the full amount may not be transferred to the City in a timely manner.</p>	<p>Because the vendor services cost the department less than \$10,000 per year, the contract would have been subject to the City's delegated departmental purchasing authority. City rules⁷ require that, to use delegated departmental purchasing authority for purchases of less than \$10,000, departments must use city-compliant vendors. Also, Treasurer guidelines require departments to obtain the Treasurer's approval for all contract provisions for credit card services.⁸</p>	<p>Departments should:</p> <p>36. Follow city contracting guidelines.</p> <p>37. Only use the services of approved vendors contracted in the City's name.</p> <p>38. Ensure that any processing service they use only deposits funds into an authorized city bank account and does not remit the funds to employees, even for temporary holding.</p> <p>39. Ensure that its vendor agreements contain clear fee structures and payment schedules and that management reviews payments received for compliance with the agreement.</p>


⁷ Office of Contract Administration, Rules and Regulations Pertaining to the San Francisco Administrative Code, Chapter 21.

⁸ The Treasurer's Department Guidelines #2014-1 concern the management and processing of receipts throughout the City.

Weakness Identified	Finding	Risk to City	City Policies	Recommendation
<p>Charging of fees not consistent with master fee schedule</p> 	<p>One department charged fee amounts to customers that did not agree with the master fee schedules submitted to the Controller as part of the budget process or with the fee schedule on its website.</p> <p>The department's list of fees on the website is not current and does not reflect what is being charged to customers and they could not provide a current schedule of all fees charged for services.</p>	<p>This increases the risk that the public may be charged incorrect fee amounts. Also, leaving outdated fee amounts on the department's website may cause customers to be disappointed or angry when they learn that fees they must pay are higher than what they were led to believe. Further, if departments were to use incorrect fee amounts for budget projections, they may be unable to accurately determine how much revenue they should receive.</p>	<p>City departments are required to submit a summary of licenses, permits, fines, and service charges with their annual budget proposals. Policymakers then use departments' master fee schedule submissions to remain informed of fee levels and related levels of cost recovery.</p>	<p>Departments should:</p> <p>40. Ensure that any fee schedules posted on their websites include all of their fees for services and that only current, approved fee amounts are shown.</p> <p>41. Review and update the content of their master fee schedules before submitting them to the Office of the Controller as part of the budget process.</p>

Weakness Identified	Finding	Risk to City	City Policies	Recommendation
<p>Cash overages not deposited in accordance with city policy</p> 	<p>One department does not record or process overages during the end-of-day reconciliation process. If the representative performing the end-of-day reconciliation cannot determine the cause of the overage, he or she will store the overage in a plastic bag inside a translucent bin in a locked file cabinet and when the department cannot determine the cause of an overage, the office supervisor processes the overages as a donation.</p>	<p>Not depositing overages upon occurrence decreases potential interest earnings. Further, the process of storing overages in an area accessible to all cash handlers and using overages as a change fund increases the risk of cash being lost or stolen.</p>	<p>Depositing cash overages is described in the <i>Cash Difference/Overage Guidelines</i>, (cash overage guidelines), issued by the Controller as Departmental Guideline No. 005-14. According to these guidelines, departments must record cash overages as an increase in revenue as part of their daily recording of cash receipts in the City's financial system. The cash overage guidelines specify the accounts for recording cash differences in the City's financial system and require that departments complete a cash difference and overage report explaining the reason for each occurrence of a cash overage.</p>	<p>42. Departments should deposit cash overages according to the Office of the Controller's Departmental Guideline No. 005-14, <i>Cash Difference/Overage Guidelines</i>.</p>

Weakness Identified	Finding	Risk to City	City Policies	Recommendation
<p>Tracking delinquent accounts</p> 	<p>One department makes little effort to collect full payment from customers who have agreed to pay fees in installments.</p>	<p>The lack of effort to pursue unpaid collections poses a financial risk. For example, one payment plan totaled \$1,706. Not collecting payment from multiple customers could lead to significant revenue loss</p>	<p>According to the San Francisco Administrative Code, Article V, Section 10.38 and 10.39-1, every city department head must report to the Treasurer’s Bureau of Delinquent Revenue Collection all accounts receivable of more than \$300 that remain uncollected for more than 90 days. The code also states that, upon recommendation of the Bureau of Delinquent Revenue Collection (Bureau of Delinquent Revenue), delinquent accounts may be assigned for purposes of collection to a licensed collection agency.</p>	<p>Departments should:</p> <p>43. Develop the criteria to determine when to enter into payment plans, including clearly defining who has the authority to approve customers for payment plans and requiring that such decisions be documented and retained through full collection of the amount owed.</p> <p>44. Develop a policy for how long departments should attempt to collect from delinquent customers with payment plans. This duration should be at least 90 days. For delinquent customers with payment plans that exceed the policy’s duration and who are more than \$300 in arrears, submit the accounts receivable to the Office of the Treasurer and Tax Collector’s Bureau of Delinquent Revenue to pursue collection of the revenue owed.</p>

Weakness Identified	Finding	Risk to City	City Policies	Recommendation
<p>Distributing Free Items to Officials</p> 	<p>One department lacks a policy on and records of its distribution of free items to public officials.</p>	<p>This creates a risk of noncompliance with sections of the California Political Reform Act for the official accepting the gift and for the department.</p>	<p>According to the City Attorney’s <i>Good Government Guide, An Overview of Laws Governing the Conduct of Public Officials</i>, depending on how the official chooses to accept the items, the department may have to report the items as income received by the official on FPPC Form 802. Also, where the items are distributed for a “public purpose,” the agency distributing them must do so in accordance with a publicly available policy adopted by the agency.</p>	<p>Departments should:</p> <p>45. Where applicable, implement policies defining who can receive free items.</p> <p>46. Ensure that any gifts of monetary value to public officials are properly reported.</p>

CHAPTER 2 – Summary of Departments’ Responses to Findings and Recommendations

Summary

CSA’s findings and recommendations were widely accepted by the six departments audited.

Individual audits were favorably received by departments.

CSA made a total of 80 recommendations to departments, covering 47 topics. Each audited department generally concurred with CSA’s findings. Departments also agreed to implement most recommendations, considering them feasible.

CSA will continue to audit the cash-handling processes and controls throughout the City each fiscal year. CSA will also collaborate with the Treasurer to determine whether there have been major changes in departments’ cash-handling environments. This ongoing process will ensure that CSA properly assesses risks throughout the City. CSA will publish a report on the findings annually and continue to monitor all recommendations to ensure that departments properly address them.

City departments should continue to focus on improving their cash-handling procedures. Effective cash collection controls are beneficial in every operation, and there is no greater responsibility than safeguarding the money of the people of San Francisco.

APPENDIX A: CASH COLLECTION POINT SURVEY

CSA collected information from city departments about their cash collections using two categories of questions in a survey issued to 54 departments in June through August 2015. The information items and their categories are shown below.

Cash Collection Point Information

- Location name
- Purpose of collections
- Subobject code for cash receipts in City's financial system
- For each collection type (currency and coins, checks, credit cards, armored car pickups, and wire transfers):
 - Average dollar value collected per month
 - Average number of transactions per month
- For deposits of cash and checks:
 - Average number of deposits per month
 - Frequency of deposits
 - Number of bank account to which deposits are made
- For credit cards:
 - The merchant ID and frequency of deposit
- For armored cars:
 - Average value per pickup
 - Average number of pickups per month
 - Frequency of pickups

APPENDIX B: RISK ASSESSMENT CRITERIA

Criterion	Description
Monthly value of transactions	The value of a department's monthly collections. The higher the value, the higher the perceived risk.
Monthly frequency of transactions	The number of transactions in the department per month. The more transactions, the higher the perceived risk.
Payment methods	City departments use different methods to collect cash, and a department may use more than one method. Locations handling currency and coin face the highest risk, while those using only electronic funds transfers face the lowest risk. Handling a wide variety of instruments also raises risk because each instrument requires staff to properly carry out appropriate processes for that instrument.
Extent of centralization	The design and number of departments' cash collection points vary. The more locations, the higher the perceived risk.
Survey signals and previous audit	Some departments' answers to the survey questions indicated potential internal control weakness that required follow-up inquiry and investigation. The more such answers, the higher the perceived risk. Also, some departments had not been audited in a significant period, which increases the risk.

Source: Auditor's analysis.