



October 20, 2021

Performance Audit

CASH COLLECTIONS AUDIT

Parks and Recreation Department – Highland Pool

Report No. 21-110



CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT

City of Albuquerque - Office of Internal Audit

CASH COLLECTIONS AUDIT

Performance Audit

October 20, 2021

Audit #21-110

The audit objective was to determine whether the City of Albuquerque's Parks and Recreation Department— Highland Pool (Highland Pool) has adequate policies and procedures for handling cash receipts and whether cash collection points have adequate and effective controls to:

- Collect the correct amount of cash,
- Safeguard cash, and
- Ensure that all cash due to the City is deposited into authorized City accounts properly and in a timely manner.

Recommendations

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Parks and Recreation –
Highland Pool should:

- Consider developing a documented process that would assist with adhering to City Treasury's existing cash management policy and procedures
- Ensure cash handlers complete their training and become sub-custodians within one-month of their hire date
- Consider designating and training another employee to ensure cash deposits are always entered and recorded into the City's financial accounting system both timely and properly.

Executive Summary

While the audit found no reportable issues on Highland Pool's ability to collect the correct amount of cash, safeguard cash, and ensure cash is deposited into authorized accounts, several areas of noncompliance were noted. First, Highland Pool does not have a documented process to ensure cash handlers complete their training and receive authorization through the City of Albuquerque Department of Finance Treasury Division (City Treasury) to handle cash within one-month of their hire date as required. Secondly, they only have one designated employee to enter and record cash deposits into PeopleSoft Financials, (the City of Albuquerque's financial platform) causing delays in timely record-keeping.

Specifically, the audit found of the twenty-seven (27) cash handlers at Highland Pool, six (6) were collecting and verifying cash collections without Sub-Custodial Statements of Responsibility on file with City Treasury, and four (4) were collecting and verifying cash collections without having completed Cash Handling Training. Further, in a sample of twenty-five (25) cash deposits, five (5) cash deposits were not entered and recorded into PeopleSoft Financials within the required twenty-four (24) hours of receiving the cash.

Highland Pool agrees with the findings and recommendations made. The response of the department is attached as an appendix. OIA will work with the department to follow up on the status of the open recommendations made in this report.

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City of Albuquerque

Office of Internal Audit

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Accountability in Government Oversight Committee
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Audit: Cash Collections Audit
Parks and Recreation Department – Highland Pool
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INTRODUCTION

The Office of Internal Audit (OIA) conducted a performance audit of the Parks and Recreation Department – Highland Pool’s cash collection controls. The audit is included in OIA’s work plan for fiscal year 2021. The audit objective was to determine whether Highland Pool has adequate policies and procedures for handling cash receipts and whether cash collection points have adequate and effective controls to:

- Collect the correct amount of cash,
- Safeguard cash, and
- Ensure that all cash due to the City is deposited into authorized City accounts properly and in a timely manner.

Information pertaining to the audit objectives, scope and methodology can be found in **Appendix A**.

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BACKGROUND

All City of Albuquerque (City) departments that have cash collection points must adhere to the 2014 Cash Management Policies and Procedures Manual (Manual) and applicable Administrative Instructions, prepared by the Department of Finance and Administrative Services – Treasury Division (City Treasury).

The term “cash” includes, currency (cash and coins), checks, credit and debit cards, and electronic transfers and wires.

According to the Manual, the following internal controls should be implemented to capture adequate oversight of each specified cash handling control area, which are summarized below:

Control Area ¹	Key Policies and Procedures
Authorization of a Change Fund	<ul style="list-style-type: none"> ▪ Each department must have a Custodial Statement of Responsibility on file with City Treasury containing the following: <ul style="list-style-type: none"> ▪ Reason the change fund is necessary, ▪ Amount of the change fund, ▪ Name and Employee ID # of the primary custodian that is responsible for all funds, and ▪ A current cash handling certificate <p>Note: Sub-Custodial Statements of Responsibility should be filed with City Treasury should any other employees handle change funds.</p>
Written Policies and Procedures	<ul style="list-style-type: none"> ▪ Each department should establish their own cash handling procedures unique to their circumstances that minimally include the following: <ul style="list-style-type: none"> ▪ Authorization of person(s) to act as custodian, ▪ Guidelines for the safeguarding of funds, ▪ Procedures for usage of funds,

¹ Source - 2014 Cash Management Policies and Procedures Manual

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	<ul style="list-style-type: none"> ▪ Procedures for handling overages/shortages, including instructions on notifying the appropriate City authority in the event of a loss
Training	<ul style="list-style-type: none"> ▪ All City employees who handle cash are required to attend a Cash Handling Training every three (3) years. <p>Note: It is the responsibility of the department to notify the Treasury Division of the need for training employees that will be handling cash.</p>
Segregation of Cash Duties	<ul style="list-style-type: none"> ▪ Each department should enforce dual custody by ensuring the duties of collecting cash, maintaining documentation, preparing deposits, reconciling records and recording of deposits all be performed by different individuals.
Safeguarding	<ul style="list-style-type: none"> ▪ The following general guidelines should be followed to maintain the integrity of cash handling areas: <ul style="list-style-type: none"> ▪ Unauthorized persons are not allowed in areas where cash is handled, ▪ Large sums of cash should be counted and handled out of sight of the general public, ▪ Cash should never be unattended, ▪ Safes should be locked when they are not necessary to be in and out of
Reconciling cash	<ul style="list-style-type: none"> ▪ Each department should ensure these principles are followed in daily closing activities: <ul style="list-style-type: none"> ▪ All transactions are documented at least in duplicate (one copy to customer and at least one copy to remain in cash drawer for balancing). ▪ All cash activities balanced and reconciled at closing ▪ Verification of reconciliation by an outside party.
Depositing and Recording of cash	<ul style="list-style-type: none"> ▪ Each department must formally designate persons to receive, deposit and record cash to the city's financial accounting system within twenty-four (24) hours of receiving cash. Additionally, persons depositing cash must deliver the cash to the designated financial institution before the close of the business day.

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Highland Pool is 1 of 16 pools under the direction of the Parks and Recreation Department and has one cash collection point to conduct sales and make change for customers. The pool is open seven-days a week, offers recreational swimming, and has an approved change fund of \$100.00.

OIA tested multiple cash controls by performing a surprise cash count, determining whether cash handlers were properly trained, examining a sample of cash deposits to ensure cash was collected with accuracy, segregated duties existed, and if the depositing and recording of cash into the City's correct financial account occurred both timely and properly. Specifically, OIA examined the effectiveness of Highland Pool's process in training cash handlers on how to handle cash by tracing training completion dates to their hire date. Additionally, OIA traced cash receipts and deposits from their originated time to the time they were deposited and recorded into the City's account. In this testing, OIA examined Highland Pool's ability to collect the correct amount of cash, document and track cash, have an appropriate level of segregated duties, and deposit and record cash accurately and timely.

FINDINGS

The following findings concern areas that OIA believes could be improved by the implementation of the related recommendations.

1. TEN (10) OF THE TWENTY-SEVEN (27) CASH HANDLERS DO NOT MEET THE REQUIREMENTS AS DEFINED BY CITY TREASURY.

The audit found that out of twenty-seven (27) cash handlers at Highland Pool, six (6) were collecting and verifying cash collections without Sub-Custodial Statements of Responsibility on file with City Treasury, and four (4) were collecting and verifying cash collections without having completed Cash Handling Training.

According to the Manual, prepared by City Treasury, "The primary custodian is accountable for the fixed amount of change funds in their custody. If anyone other than the primary custodian handles these funds, a Sub-Custodial Statement of Responsibility should be completed and kept on file."

Per Highland Pool Management, the Head Pool Manager is the primary custodian and all other cash handlers act as sub-custodians. Currently, when an employee is hired or

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promoted into a cash handler position, the primary custodian will file a Sub-Custodial Statement of Responsibility with City Treasury within the employee's first pay period.

Additionally, according to Administrative Instruction (AI) NO: 2-6 Employee Cash Handling Training Program, "All City employees who handle City monies are required to attend a Cash Handling Training every three (3) years. It is the intent of the City to train all new cash handlers within the first month of their hire and/or appointment to the position. However, this does not relieve the departments from the responsibility of notifying the Treasury Division of the need for training employees who will be handling cash. Those employees not certified by the Treasury Division will not be recognized as official cash handlers and shall not handle City monies until completing the training course and receiving certification."

Per Highland Pool Management, when an employee is hired or promoted into a cash handler position, they are instructed to job shadow another cash handler that has already successfully completed Cash Handling Training for 1 to 2 weeks. Upon completion of job shadowing, the employee will be assigned to complete Cash Handling Training and become a certified cash handler through City Treasury. While the audit found no issues with the duration of job shadowing, Highland Pool does not have a documented process to ensure that employees in cash handler positions become official sub-custodians and certified by City Treasury within the first month of their hire date.

All cash handlers are crucial within the City as their duties include, but are not limited to, collecting cash from customers, performing cash handling operations according to established procedures, balancing and depositing daily cash sales, and recording deposits into the city's financial accounting system. Without adequate oversight to ensure cash handlers are qualified and certified to handle City cash, then the likelihood of cash handlers not utilizing best practices increases. For example, it could lead to inconsistencies in performing the daily cash reconciliations, the inability to identify discrepancies and errors, the mishandling of cash, and the misuse or theft of cash.

RECOMMENDATIONS:

The Parks and Recreation Department – Highland Pool should:

1. Consider developing a documented process that would assist with adhering to City Treasury's existing cash management policy and procedures.

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2. Ensure cash handlers complete their training and become sub-custodians within one-month of their hire date.

2. CASH RECEIVED AT HIGHLAND POOL IS NOT ALWAYS ENTERED AND RECORDED INTO THE CITY'S FINANCIAL ACCOUNTING SYSTEM WITHIN TWENTY-FOUR (24) HOURS OF RECEIPT.

In a judgmental sample of twenty-five (25) cash deposits, the audit found five (5) cash deposits were not entered and recorded into the City's financial accounting system within twenty-four (24) hours of receiving the cash. The delays ranged from 2 to 13 days.

According to Administrative Instruction (AI) NO: 2-8 Cash Handling, Depositing, and Recording of Public Monies, "Each City department receiving monies at authorized cash sites on behalf of the City shall formally designate persons to receive, deposit and record these monies into the city's financial accounting system within twenty-four (24) hours of receiving monies." Additionally, "Persons depositing public monies shall deliver such monies directly to the designated primary cash site before the close of the business day."

Currently, after a business day is complete, both a cashier and supervisor will count the daily cash sales and reconcile them to the General Ledger. The General Ledger indicates: Transaction Date, Payment Type, Receipt Number, Item Description, and Dollar Amount. Once all cash sales are accounted for, they will then balance the cash register back to its original starting amount. The supervisor will then prepare the bank deposit slip and place all cash into a clear and sealed deposit bag. The cashier and supervisor will both sign the deposit slip and the supervisor will deliver the deposit bag to the designated financial institution. According to Highland Pool Management, this daily reconciliation and deposit process is performed before the close of every business day under close observation of security cameras and is also documented on the standardized Parks and Recreation Daily Cash Report. The next business day, Highland Pool Management will re-examine the Daily Cash Report and ensure all cash totals are accurate by comparing them back to the General Ledger. Highland Pool Management will then enter and record the previous daily cash totals into the City's financial accounting system.

The audit found no issues in cash deposits being delivered before the close of every business day to the correct financial institution; no issues involving the segregation of cash duties; no issues with collecting the correct amount of cash; and no issues with safeguarding the cash. However, Highland Pool only has one designated employee to enter and record cash deposits into the City's financial accounting system, which caused

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the delays of record-keeping and the facility to be non-compliant with the Manual.

Not entering and recording cash deposits in a timely manner increases the risk of discrepancies. For example, if cash deposits are made at the close of every business day, but the actual recording of the deposit does not occur until days or weeks later, then the City's internal record-keeping of cash sales would not be current.

RECOMMENDATIONS:

The Parks and Recreation Department – Highland Pool should:

3. Consider designating and training another employee to ensure cash deposits are always entered and recorded into the City's financial accounting system both timely and properly.

CONCLUSION

By implementing the recommendations detail in this report, the Parks and Recreation Department – Highland Pool can improve its ability to more effectively administer, manage, and monitor its use of cash collections. The Department's response to the recommendations made are included in the APPENDIX B of the report. We greatly appreciate the assistance of the Parks and Recreation Department – Highland Pool that participated throughout this audit and made both their staff and requested documents readily available.

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APPENDIX A

OBJECTIVES

The audit objective was to determine whether Highland Pool has adequate policies and procedures for handling cash receipts and whether cash collection points have adequate and effective controls to:

- Collect the correct amount of cash,
- Safeguard cash, and
- Ensure that all cash due to the City is deposited into authorized City accounts properly and in a timely manner.

SCOPE AND LIMITATIONS

Our audit did not include an examination of all functions and activities related to Parks and Recreation – Highland Pool’s cash collection process. Our scope was limited to the objectives above. This report and its conclusions are based on information taken from Highland Pool’s Cash Handling Training records and a judgmental sample of revenue deposit records, and do not represent an examination of all related activities. The audit report is based on our examination of functions and activities through the completion of fieldwork on July 8, 2021, and does not reflect events after that date.

City management is responsible for establishing and maintaining effective internal control and complying with laws and regulations.

In performance audits, a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct (1) impairments of effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) noncompliance with applicable laws, regulations, standards, guidelines, and/or best practices. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) and existing control is not properly designed so that, even if the control operates as designed, the control objective is not met. In the performance audit requirements, the term significant is comparable to the term material as used in the context of financial statement engagements. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

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Our consideration of internal control was for the limited purpose described in our audit objectives and was not designed to identify all deficiencies in internal control. Therefore, unidentified deficiencies may exist. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

As part of the performance audit, we tested the City's compliance with applicable laws, and regulations. Noncompliance with these requirements could directly and significantly affect the objectives of our audit. However, opining on compliance with all provisions was not an objective of our performance audit and accordingly, we do not express an opinion.

We conducted this performance audit in accordance with generally accepted government auditing standards for performance audits, as prescribed in *Government Auditing Standards*, issued by the Controller General of the United States. 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.

METHODOLOGY

Methodologies used to accomplish the audit objectives include but are not limited to the following:

- Interviewed management regarding the policies and procedures for handling, collecting, safeguarding, depositing, and recording cash receipts;
- Reviewed and analyzed the City's Cash Management Policies and Procedures Manual and applicable Administrative Instructions;
- Tested all cash handlers to ensure:
 - Each were on file with City Treasury to act as sub-custodians,
 - Each successfully completed the required Cash Handling Training
- Tested a sample of twenty-five (25) revenue deposits to ensure:
 - Correct amount of cash was collected,
 - Appropriate levels of segregated cash duties existed,
 - Cash was safeguarded, and
 - Cash deposits were delivered and recorded to the correct financial institution and correct City account both properly timely and properly
- Perform a surprise cash count to ensure all cash was accounted for

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- Summarized all findings and provided the auditee with recommendations that will help to strengthen internal control and operating efficiency and effectiveness.

Recommendations and Responses

For each recommendation, the responsible agency should indicate in the column labeled *Department Response* whether it concurs, does not concur, or partially concurs and provide a brief explanation. If it concurs with the recommendation, it should indicate the expected implementation date and implementation plan. If the responsible department does not concur or partially concurs, it should provide an explanation and an alternate plan of action to address the identified issue.

Recommendation	Responsible Department	Department Response	OIA Use Only Status Determination*
Highland Pool should: 1. Consider developing a documented process that would assist with adhering to City Treasury's existing cash management policy and procedures. 2. Ensure cash handlers complete their training and become sub-custodians within one-month of their hire date.	Highland Pool	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur The City of Albuquerque Aquatics Division will update the position control file for every swimming pool to include a cash handling certification certificate as well as the sub-custodian form. The cells for this required information will be highlighted red if the field date is blank or if it has expired. <u>ESTIMATED COMPLETION DATES</u> Highland Pool estimates a completion date of 10/23/2021.	<input type="checkbox"/> Open <input checked="" type="checkbox"/> Closed <input type="checkbox"/> Contested

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Recommendation	Responsible Agency	Agency Response	OIA Use Only Status Determination*
3. Consider designating and training another employee, to ensure cash deposits are always entered and recorded into the City's financial accounting system both timely and properly.	Highland Pool	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur The Highland pool cluster has added the Outdoor Pool Supervisor to receive access and training to enter cash reports for the Highland pool facility. If the Head Pool Manager is off or is unable to complete the daily deposit, the Outdoor Pool Supervisor will perform the task of entering the cash deposit within 24 hours of physical deposit to the bank.	<input type="checkbox"/> Open <input checked="" type="checkbox"/> Closed <input type="checkbox"/> Contested
		<u>ESTIMATED COMPLETION DATES</u> Highland Pool estimates a completion date of 10/7/2021.	