




**CITY OF LAREDO, TEXAS
INTERNAL AUDIT DIVISION**

To: Honorable Mayor & Members of the City Council

CC: Robert A. Eads, City Manager
Rosario C. Cabello, Deputy City Manager
Kristina L. Hale, Assistant City Manager
Riazul I. Mia, Assistant City Manager
Rene C. Benavides, City Attorney

From: Veronica Urbano-Baeza, Internal Auditor 

Date: December 4, 2020

Subject: Friday Packet: Internal Audit Report(s) and/or Update(s)

Enclosed we are pleased to provide the following report(s) for your review and subsequent approval:

1. Cash Handling Policy Compliance Audit Report with Department Response: Municipal Court Department.

We would like to thank Municipal Court and Financial Services management and staff for their assistance during our audit. If you should have any questions regarding the enclosed report(s) submitted, please feel free to contact me at my office at (956) 790-1808. Thank you.

City of Laredo, Texas

Internal Audit Division



Cash Handling Policy Compliance Audit Report
with Department Response: Municipal Court
Department

October 27, 2020

**City of Laredo
Internal Audit Division**

**Cash Handling Policy Compliance Audit Report with
Department Response: Municipal Court**

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EXECUTIVE SUMMARY

In accordance with the Fiscal Year (FY) 2020 Annual Audit Plan, a Cash Handling Policy Compliance Audit was conducted of the Municipal Court Department. A summary of the audit objectives, results and recommendations follows.

The objective of this audit was to determine if all cash, checks, money orders and credit card payments received by the Municipal Court Department have been processed and deposited in accordance with the City of Laredo's (City) Cash Handling Policy. Additionally, source Cash Receipts Listing documentation was verified for reliability, reconciliation with general ledger entries and compliance with the City's Cash Handling Policy. Finally, an assessment of the monitoring and enforcement mechanisms was conducted in order to verify that proper internal controls are in place.

Municipal Court Department personnel tasked with processing, depositing and accounting for daily collections are complying with most of the requirements outlined in the City's Cash Handling Policy. Proper internal controls are in place and working when in full compliance with the policy. The following areas were noted as part of the audit results. We noted instances from the audit sample reviewed where voided receipts reflected by the cash receipting software were not included in the Cash Receipts Listing Reports submitted to the Financial Services Department. Additionally, there was one (1) instance noted where a voided receipt was missing the Supervisor's signature that authorized the voided transaction.

Based off of the results noted, we recommended that the City's Cash Handling Policy be followed; specifically that:

- Under the section titled "Separation of Duties at the Department/Division Level", Employee C – Preparation of the Cash Receipt Listing, item no. 4 states that "the Cash Receipt Listing should be supported by the duplicate copy of issued and voided receipts organized by receipt number, a copy of the Cash Count Sheet, a copy of the checks, money orders and credit card transactions received and the strip which is detached from the secured deposit bag."
- Under the section titled "Separation of Duties at the Department/Division Level", Employee B – Issuance of Receipts, item no. 2 states that "in case of error, the receipt should be marked "void" and the original and second duplicate copy should be attached to the Cash Receipt Listing in proper numerical order. The original receipt should have the signatures of the Supervisor authorizing the "void" transaction and the employee generating the receipt. For automated receipts, the receipt must be voided by the Supervisor."

Proper monitoring controls are being maintained by the Financial Services Department with random spot checks conducted on a monthly basis of the Cash Receipts Listing reporting submitted. Any violations noted are reported monthly to the corresponding department(s), the City Manager's Office and the Internal Audit Division.

Municipal Court Department's response to this audit can be found under Appendix A on page 4.

A more extensive report of all the audit results and recommendations can be found in the following report.

INTRODUCTION

In accordance with the Fiscal Year (FY) 2020 Annual Audit Plan, a cash handling policy compliance audit was conducted of the Municipal Court Department.

AUDIT OBJECTIVES

The objective of this audit was to determine if all cash, checks, money orders and credit card payments received by the Municipal Court Department have been processed and deposited in accordance with the City of Laredo's (City) Cash Handling Policy. Additionally, source Cash Receipts Listing documentation was verified for reliability, reconciliation with general ledger entries and compliance with the City's Cash Handling Policy. Finally, an assessment of the monitoring and enforcement mechanisms was conducted in order to verify that proper internal controls are in place.

AUDIT SCOPE AND METHODOLOGY

The sample time period selected for this review consisted of the Daily Cash Receipts Listing Reports maintained by the Municipal Court Department and submitted to the Financial Services Department for the two-week time period of April 6, 2020 through April 10, 2020 and April 13, 2020 through April 17, 2020. In order to achieve the audit objectives, we:

- Conducted interviews of the Municipal Court and Financial Services Departmental staff;
- Obtained an understanding of the City's most current Cash Handling Policy (with any applicable amendments);
- Obtained an understanding of any applicable internal department Overage/Shortage Policies to be followed in addition to the City's Cash Handling Policy;
- Conducted a review of the following audit support documents for Cash Handling Policy compliance test work and assessment of monitoring internal controls:
 - Sample of Cash Receipts Listing Reports consisting of receipts issued and voided (if applicable), copies of checks and money orders received (or DIY Remote Access Check Scanning Reports), credit card transactions received, Approved Cash Count Sheet, respective deposit slips and identification strip from corresponding deposit bag for the selected time period for both the Municipal Court and Financial Services Departments;
 - Cash Posting and General Ledger (G/L) Batch generation reports for the selected time period from both the Municipal Court and Financial Services Departments;
 - Electronic Settlement (Bank) Statement Reports for April 2020 from BBVA Compass Bank;
 - Financial Services Department issued Cash Receipts Policy Violations Report for April 2020; and,

- ExecuTime system generated audit reports (i.e. Employee Time Card Reports, Supervisor Audit Reports and Transaction Audit Reports) to verify the Municipal Court Department's collections staff attendance for the selected time period.

We conducted this audit from August 2020 to October 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives.

AUDIT RESULTS & RECOMMENDATIONS

MUNICIPAL COURT DEPARTMENT:

Finding #1

In our review for compliance with the procedures outlined for the issuance of receipts, there were twenty-seven (27) instances in our sample where voided receipts were not included in the Cash Receipts Listing Reports submitted to the Financial Services Department. Additionally, there was one (1) instance noted where a voided receipt (no. 575054, issued April 8, 2020), was missing the Supervisor's signature that authorized the voided transaction.

Recommendation(s)

Internal Audit recommends that the City's Cash Handling Policy be followed. Specifically:

- Under the section titled "Separation of Duties at the Department/Division Level", Employee C – Preparation of the Cash Receipt Listing, item no. 4 states that "the Cash Receipt Listing should be supported by the duplicate copy of issued and **voided receipts** organized by receipt number, a copy of the Cash Count Sheet, a copy of the checks, money orders and credit card transactions received and the strip which is detached from the secured deposit bag."
- Under the section titled "Separation of Duties at the Department/Division Level", Employee B – Issuance of Receipts, item no. 2 states that "in case of error, the receipt should be marked "void" and the original and second duplicate copy should be attached to the Cash Receipt Listing in proper numerical order. The original receipt should have the signatures of the Supervisor authorizing the "void" transaction and the employee generating the receipt. For automated receipts, the receipt must be voided by the Supervisor."

FINANCIAL SERVICES DEPARTMENT:

Internal Audit found no findings. The Financial Services Department continues to monitor all City departments submitting Cash Receipts Listing Reports through random spot checks for compliance with the City's Cash Handling Policy on a monthly basis. Proper monitoring mechanisms are in place through the monthly Cash Receipts Violations Reports sent out by the Financial Services Department to the corresponding departments, the City Manager's Office and the Internal Audit Division.

CONCLUSION

Proper internal controls are in place and working as deemed by the City's Cash Handling Policy; however, the area(s) noted above could use some improvement at the Municipal Court Department level.

With respect to the current City's Cash Handling Policy, we would also encourage/recommend that an update to the Cash Handling policy be considered. Our current Cash Handling Policy was updated in November 2016 and recently we've seen technological changes to some cash receipting software and triplicate receipt printers that make it challenging to remain in compliance with the requirements of the current policy and, in some instances, merit exceptions to the policy if not specifically addressed. Additionally, an update to the current policy would take into account new factors affecting our key internal controls.

Prepared By: <u>Bmedellin</u> <u>10/29/2020</u>		Reviewed By: <u>Veronica Urbano-Baeza</u> <u>10-29-2020</u>	
Bianca Medellin, Auditor I Date		Veronica Urbano-Baeza, Internal Auditor Date	
Report Issued To:		Response Required	Response Due Date
Ana Caballero-Rodriguez, Municipal Court Clerk		YES	Ten (10) Working Days from Receipt of Audit Report
Jose F. Castillo, Acting Financial Services Director		NO	Not Applicable
<p>All responses must be signed by the Department Director, addressed and submitted to the Internal Auditor with a copy to their respective Assistant/Deputy City Manager and City Manager, and include the following:</p> <ol style="list-style-type: none"> 1. Agreement with audit findings and recommendations or reasons for disagreement with audit findings and recommendations; 2. A description of the progress in resolving findings noted or plans for addressing findings noted; and, 3. An implementation schedule identifying specific steps to be taken and target dates for resolution of findings and/or implementation of corrective action taken. 			
Report Distribution: Robert A. Eads, City Manager Rosario C. Cabello, Deputy City Manager			

Appendix A – Department Response



City of Laredo
MUNICIPAL COURT OF RECORD

JESUS M. DOMINGUEZ
Municipal Court Judge
956-794-1680

MEMO

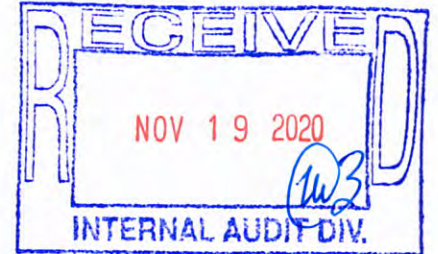
To: Veronica Urbano- Baeza, Internal Auditor

Cc: Robert A. Eads, City Manager
Rosario C. Cabello, Deputy City Manager
Bianca Medellin, Auditor I

From: Ana L. Rodriguez, Municipal Court Clerk *AR*

Date: November 19, 2020

Re: Response to Audit



In response to the Cash Handling Policy Compliance Audit Report dated October 27, 2020, please see response to finding below.

Finding #1

- Voided receipts were not included in cash receipts report
- One voided receipt was missing a Supervisor signature

Response #1

Voided Receipts not included

Every time an employee opens and closes a batch the system creates and auto-voids the opening transaction and a closing transaction. No cases or payments are affected during these system voids. The report identifies these transactions as "voided by system". Voids initiated by employees are noted with specific transaction and payment information. None of these 27 voids were employee initiated but rather system voids at batch open and batch close. System voids will be addressed with vendor, Tyler Tech, to see if there is a possibility that system voids not be listed together with employee voids to avoid confusion. See attached sample report.

Missing Supervisor signature

There was one voided receipt missing a Supervisor signature. Clerks have been reminded to ensure all voids are initiated by a Supervisor at the time of the transaction is voided.

If additional information is needed, feel free to contact me.

CASH COLLECTION RECEIPT REGISTER

PAGE:

REC #	DATE OPER	BATCH T#	TRAN SYS	APPLIED	TENDERED	CHANGE MH REF	VD NOTE
575031	4/08 LL	11919 002					Y VOIDED BY SYSTEM
✓575054	4/08 LL	11919 002					Y VOIDED BY SYSTEM
575076	4/08 LL	11919 002					Y VOIDED BY SYSTEM
575060	4/08 MJ	11921 004	001.0000 CTP	25.00CR	25.00CR	CK	Y VOIDED BY SYSTEM
575086	4/08 MJ	11921 004					Y VOIDED BY SYSTEM