




**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 and Acting City Attorney
Riazul I. Mia, Assistant City Manager

From: Veronica Urbano-Baeza, Internal Auditor 

Date: September 11, 2020

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

Enclosed we are providing the following report(s), notification(s) and / or update(s) for your review and subsequent approval:

1. Cash Handling Policy Compliance Audit Report with Department Response: Building Development Services Department; and,
2. Update on Audit and Accountability Committee appointments.

If you should have any questions regarding the enclosed report(s), notification(s) and/or update(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: Building
Development Services Department

September 9, 2020

**City of Laredo
Internal Audit Division**

**Cash Handling Policy Compliance Audit Report with
Department Responses: Building Development
Services Department**

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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 Building (Building) Development Services Department. A summary of the audit objectives, results and recommendations follows.

The overall objective of this audit was to determine compliance with the City of Laredo's (City) Cash Handling Policy and to evaluate if proper internal controls are in place for monitoring payment collection procedures.

Building 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; however, there were some areas noted that could use some improvement with the Building Department's process. We determined that:

- There was one (1) instance where a receipt was issued by an employee other than the corresponding teller of the cash receipts batch; and,
- There was one (1) instance where not all required Cash Receipts Listing report supporting documentation was submitted to the Financial Services Department nor maintained in the Building Department's file.

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

- Each employee who receives cash have a separate cash box or register drawer and is responsible for balancing his or her cash on hand at the close of each business day;
- Employees relieving cashiers for breaks or lunch must have their own cash drawer and must open individual receipt batches;
- Tellers utilize the "lock or log off" feature on their computers whenever they leave their workstations in order to avoid having other tellers issue receipts from cash batches that do not correspond to them; and,
- The required distribution of receipts be maintained with the original issued to the customer, the second duplicate sent to Financial Services with the Cash Receipts Listing report and the third duplicate retained by the receiving department.

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.

Building Department's response to this audit can be found under Appendix A on page 5.

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 Building (Building) Development Services Department.

AUDIT OBJECTIVES

The objective of this audit was to determine if all cash, checks, money orders and credit card payments received by the Building 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 Building Department and submitted to the Financial Services Department for the two-week time period of May 18, 2020 through May 22, 2020 and May 26, 2020 through May 29, 2020. In order to achieve the audit objectives, we:

- Conducted interviews of Building Development Services 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:
 - 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, an Approved Cash Count Sheet, respective deposit slips and identification strip from corresponding deposit bag for the selected time period from both the Building and Financial Services Departments;
 - Cash Posting and General Ledger (G/L) Batch generation reports for the selected time period from both the Building and Financial Services Departments;
 - Electronic Settlement (Bank) Statement Reports for May 2020 and June 2020 from BBVA Compass Bank;
 - Financial Services Cash Receipts Policy Violations Report for May 2020; and,
 - ExecuTime system generated audit reports (i.e. Employee Time Card Reports, Supervisor Audit Reports and Transaction Audit Reports) to verify the Building Department's collections staff attendance for the selected time period.

We conducted this audit from June 2020 to August 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

BUILDING DEPARTMENT:

Finding #1

In our test work conducted to reconcile receipts issued to collections deposited for the sample time period, we noted one (1) instance where a receipt was issued by someone other than the corresponding teller of that cash receipts batch. Specifically, receipt # 619192 (deposit # 05-20) was issued on May 28, 2020 at 15:25:49; however, the teller username identified on the receipt was out on leave (eight (8) hours) on May 28, 2020.

Recommendation(s)

Internal Audit recommends that the City of Laredo's (City) Cash Handling Policy be followed. Specifically, under the section titled "Separation of Duties at the Department/Division Level" (Employee B: Handling of Cash, Checks, Money Orders and Credit Cards), item no. 5 states that "each employee who receives cash should have a separate cash box or register drawer and should be responsible for balancing his or her cash on hand at the close of each business day. The employee is responsible for preparing the bank deposit slip and securing funds in a locked bank bag." Item no. 6 goes on to state that "*employees relieving cashiers for breaks or lunch must have their own cash drawer and **must open individual receipt batches.***"

Additionally, we would recommend that all tellers utilize the "lock or log off" feature on their computers whenever they leave their computer terminals in order to avoid having other tellers issue receipts from cash batches that do not correspond to them. It's important to keep in mind that a teller is always responsible for their collections batches until they submit their deposits, so any discrepancies or shortages become the responsibility of the teller identified on the receipt issued.

Finding #2

In our review for compliance with the submittal of all required supporting documentation on the Cash Receipt Listing Reports in our sample, there was one (1) instance where a receipt (no. 598749 (Deposit No. 05-13, dated May 19, 2020)) was not submitted in the Cash Receipts Listing Report to the Financial Services Department nor maintained on file with the Cash Receipts Listing copy housed at the Building Department.

Recommendation(s)

Internal Audit recommends that the City of Laredo's (City) Cash Handling Policy be followed. Specifically, under the section titled "Separation of Duties at the Department/Division Level (Employee B: Issuance of Receipts)", item no. 3 addresses the required distribution of triplicate copy receipts: "(a) the original receipt should be issued to the customer in receipt of over-the-counter payments, (b) **the second duplicate should be forwarded to the Financial Services Department for accounting purposes** as described in "Preparation of the Cash Receipt Listing" and (c) **a third duplicate receipt should be retained by the receiving department** in a permanently bound book for accounting / auditing purposes."

Observation #1

Out of nine (9) deposits reviewed from the sample time period selected, two (2) deposits, # 05-13 (dated 05-19-2020) and # 05-14 (dated 05-20-2020) did not comply with the "Preparation of the Bank Deposit" procedures pertaining to the daily credit card settlements of the City's Cash Handling Policy. Specifically, the credit card settlement reports were not submitted / closed until the following days for each of the deposits noted above. *It should be noted that the Financial Services Department had*

already noted and made the Building Department aware of the violation on their Cash Receipts Policy Violations report for the month of May 2020.

Recommendation(s)

Internal Audit recommends that the City's Cash Handling Policy be followed, and that all daily close out procedures are followed in order to ensure proper credit of revenue collected. Specifically, under the section titled "Separation of Duties at the Department/Division Level (Employee B: Preparation of the Bank Deposit)", item no. 1 states that "each Designated Supervisor is responsible to ensure that all cash, checks, money orders and **credit card transactions are balanced at the end of the day** for each employee with collections." Additionally, the Cash Receipt Listing Report, which is prepared by Employee C (in the Departmental Separation of Duties), utilized in the posting process in the I-Series (General Ledger) and submitted to the Financial Services Department "is prepared based on the receipts issued, copies of the checks, money orders and **credit card transactions received** and an approved Cash Count Sheet."

Observation #2

Out of a review of four hundred four (404) receipts in the selected sample for compliance with "Voided Receipt(s)" protocols as outlined in the City's Cash Handling Policy, there was one (1) instance on receipt no. 605421 (Deposit No. 05-16, dated May 22, 2020) where it's corresponding credit card transaction receipt(s) reflected a reversal rather than a void. It should be noted that the credit card transaction reversal did not have the collector's, the Supervisor's or the customer's signature authorizing the reversal. *It should be noted that the Financial Services Department had already noted and made the Building Department aware of the violation on their Cash Receipts Policy Violations report for the month of May 2020.*

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 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." **While the Cash Handling Policy does not have specific protocols for credit card transaction errors, the existing protocols for errors to cash receipts must be applied. Therefore, any errors to credit card transactions must be "voided" and not "reversed", and the "voided" credit card transaction must be signed by the collector, the collector's Supervisor and the customer.**


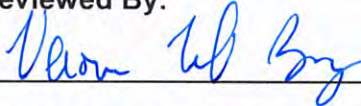
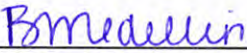
FINANCIAL SERVICES DEPARTMENT:

Internal Audit found no findings. The Financial Services Department continues to monitor all City departments submitting Cash Receipts 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 areas noted above could use improvement at the Building Department level. In addition

to the recommendations noted previously, we would strongly encourage the Building Development Services Department to obtain additional Cash Handling training from the Financial Services Department in order to further strengthen the required protocols as outlined in the City's Cash Handling Policy.

Prepared By:  08-25-2020 <hr/> Elia Y. Rodriguez, Auditor II Date	Reviewed By:  8-25-2020 <hr/> Veronica Urbano-Baeza, Internal Auditor Date
 8/25/2020 <hr/> Bianca Medellin, Auditor I Date	

Report Issued To:	Response Required	Response Due Date
Arturo Garcia, Building Development Services Director	YES	Ten (10) Working Days from Receipt of Audit Report
Jose F. Castillo, Acting Financial Services Director	NO	

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:

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
 Riazul I. Mia, Assistant City Manager

Appendix A – Department Response



CITY OF LAREDO

BUILDING DEVELOPMENT SERVICES DEPARTMENT

1120 San Bernardo Ave. Laredo, Texas, 78040 • Phone: 956.794.1625 • Fax: 956.795.2998



Memo

To: Veronica Urbano
Internal Audit Division

Date: September 8, 2020

From: Arturo Garcia, Building Director
Gerardo Pinzon, PE, Building Official

Re: **Response – Cash Handling Policy Compliance Audit Report of Aug 24, 2020**



Finding #1

In our test work conducted to reconcile receipts issued to collections deposited for the sample time period, we noted one instance where a receipt was issued by someone other than the corresponding teller of that cash batch.

Response:

1. A copy of The City of Laredo's Cash Handling Policy was printed and issued to each and every individual that receives cash. The policy was signed and dated.
2. Every individual that receives cash handles will maintain their own cash drawer and must close and keep in lock bank bag while they are out of their stations, including, but not limited to breaks, lunch and restroom.
3. Every individual that receives cash must log off or lock their computer station to avoid having any unauthorized person access their computer.

Finding #2

In our review for compliance with the submittal of all required supporting documentation on the cash receipt # 598749 Deposit number 05-13, dated May 19, 2020 was not included in the cash receipt listing report to Finance nor kept on file in the Department.

Response:

1. A copy of The City of Laredo's Cash Handling Policy was printed and issued to each and every individual that receives cash. The policy was signed and dated.
2. Due to COVID-19 restrictions to the building, employees operating the door security to restrict entrance to the building were also acting as runners for payment processing between the cashiers and the applicant. This might have been an oversight on our part due to the daily changes during the pandemic. Nonetheless, the use of runners is no longer an issue since we now are accepting payments online.

Observation #1

Two deposits, #05-13 (dates 5-19-2020) and #05-14 (dated 5-14-2020) did not comply with the "Preparation of the Bank Deposit" procedures pertaining to the daily credit card settlements of the cash handling policy.

1. A copy of The City of Laredo's Cash Handling Policy was printed and issued to each and every individual that receives cash. The policy was signed and dated.
2. Due to COVID-19 restrictions to the building, other methods of payment were been investigated to reduce the number of traffic to the building. One new process implemented was payment via Paypal. Unfortunately, this process had issues during the implementation of the process and there were times where payments had to be canceled and re-entered since the payments were never received. This caused the issue of not balancing correctly on a daily basis.

Observation #2

A deposit, #05-16 (date 5-22-2020) receipts did not correspond to the credit card reflecting a void and did not have a supervisor's or customer's signature.

1. A copy of The City of Laredo's Cash Handling Policy was printed and issued to each and every individual that receives cash. The policy was signed and dated.
2. Unfortunately, the cashier that had this mistake was new and did not follow the proper procedure due to inexperience. She was reversing the payment instead of voiding it. All employees, including the new cashier have been instructed in the proper protocol for credit card transaction error.

In addition to the abovementioned solutions, we have scheduled a training from the Finance Department on cash handling procedures. We wish to reiterate that our goal is to provide customer service, we are experiencing so many changes and modifications due to this pandemic but we will continue to address all problems and improve our cash handling process.

Should you have any questions, Please feel free to contact me.

Sincerely,