



Office of the City Manager

ACTION CALENDAR

April 1, 2014

To: Honorable Mayor and Members of the City Council
From: Ann-Marie Hogan, City Auditor
Submitted by: Ann-Marie Hogan, City Auditor
Subject: \$52,000 Theft: More Can Be Expected Without Citywide Changes in Culture and Procedures

RECOMMENDATION

Accept the recommendations in the audit report and request that the City Manager report back on October 7, 2014, and every six months thereafter until management reports full implementation of all recommendations.

SUMMARY

City work environments provide opportunities for employees to steal and conceal their theft. Multiple audits performed by a consultant and by us since 2002 included 179 recommendations to improve citywide cash-handling procedures. However, significant weaknesses continue to exist in how City staff handle cash, and thefts have continued to occur, including a theft of at least \$52,000 by a former employee. The thefts have involved cash, which is most vulnerable to theft; not revenue collected from taxes or grants, which is more difficult to steal.

As Council continues to cut oversight positions from the City budget in order to save programs and services, it reduces management's ability to ensure that the City collects the revenue it needs for operations. When these positions are cut from the City budget, management simply does not have the resources it needs to effectively monitor fiscal operations and follow best practices to protect City funds and staff. This results in losses that reduce the City's ability to offer the very programs and services that Council is attempting to save.

FISCAL IMPACTS OF RECOMMENDATION

The \$52,000 theft of Marina funds likely represents only a fraction of the money stolen. The former PRW employee's autonomy and access to multiple sources of revenue, as well as the thefts and fraud indicators at various PRW locations, all serve as signals that there is a pervasive problem in the City.

The Information Technology Department Director estimates that the City will need to invest \$300,000 in one-time costs to implement a general cashiering system, and \$15,000 to \$30,000 a year in recurring costs to support that system.

CURRENT SITUATION AND ITS EFFECTS

Management¹ has not established an environment that promotes strong cash-handling operations or ensures that operational goals are achieved, leaving City money vulnerable to theft and staff vulnerable to false accusations of theft.

BACKGROUND

The City performs thousands of dollars in business transactions every day that translate into services and programs for the Berkeley community. Making sure that these revenues are used as intended requires management to establish policies and procedures that protect City staff and money, and to define the roles of cash handlers.

ENVIRONMENTAL SUSTAINABILITY

We manage and store our audit workpapers and other documents electronically to significantly reduce our use of paper and ink. Two of our recommendations provide opportunities for management to support the City's environmental sustainability goals. Management can:

- Reduce the use of paper and ink by automating processes such as reconciliations through the use of a general, citywide cashiering system. (Recommendations 1.8)
- Reduce carbon footprints by providing online training so that travel to training destinations is not necessary. (Recommendation 1.10)

RATIONALE FOR RECOMMENDATION

Implementing our recommendations will help management protect City revenue from future theft and improve employee safety.

CONTACT PERSON

Ann-Marie Hogan, City Auditor, 510-981-6750

Attachment:

- 1: Audit Report: \$52,000 Theft: More Can Be Expected Without Citywide Changes in Culture and Procedures

¹ Throughout the audit, "management" specifically refers to the City Manager's Office, department directors, and deputy directors. We use "management" in general terms; however, there are managers who have established an environment that promotes strong cash-handling procedures, which helps ensure achievement of operational goals.

City of Berkeley Office of the City Auditor



\$52,000 Theft: More Can Be Expected Without Citywide Changes in Culture and Procedures

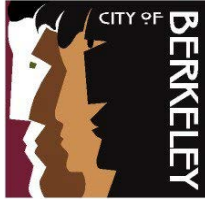
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Presented to Council April 1, 2014

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City Of Berkeley - Office Of the City Auditor

\$52,000 Theft: More Can Be Expected Without Citywide Changes in Culture and Procedures

April 1, 2014

Purpose of the Audit

We conducted this audit to quantify the total amount of Marina funds stolen by a former employee; identify weaknesses that allowed the theft to occur; and make stronger recommendations to ensure that appropriate procedures are implemented *citywide* to prevent future thefts of City funds.

Executive Summary

Weak cash-handling procedures are a longstanding citywide issue and make it difficult to identify and prosecute a criminal

City work environments provide opportunities for employees to steal and conceal their theft. Multiple audits performed by a consultant and by us since 2002 included 179 recommendations to improve citywide cash-handling procedures. However, significant weaknesses continue to exist in how City staff handle cash, and thefts have continued to occur. The thefts have involved cash, which is most vulnerable to theft; not revenue collected from taxes or grants, which is more difficult to steal. When theft is discovered, weaknesses in procedures and practices make it difficult for both the police and management to determine who stole the money. This impairs the City's ability to identify an employee who should be fired and prosecuted. It also means that honest employees become suspects in the theft. We reviewed cash-handling practices in Parks, Recreation, and Waterfront because of a theft of Marina funds, but know from the previous audits that cash-handling weaknesses continue to exist citywide. For example, we recently identified cash-handling weaknesses in our audit of the [Planning Department's Permit Service Center](#).¹

\$52,000 in Marina funds stolen; weak procedures

The City incurred a theft of at least \$52,000 because management² has not fully understood and implemented cash-handling procedures and has received insufficient guidance from Finance. Fortunately, a PRW employee identified a \$650 anomaly in cash-receipt records for the Marina. The employee followed city policy and reported it to management. The former PRW director confirmed the error to be a theft. The theft led to this audit and to us identifying the additional stolen funds.

Cutting oversight positions eliminates the very foundation needed to support programs

Exacerbating the problem are eliminations of City staff positions that are responsible for cash-handling and other fiscal activities. Council and management believe they must cut these administrative and oversight positions to save programs, but these staff provide the very foundation that allows the City to provide programs and services. Council must be willing to cut direct services to properly address fraud risks. Without the support administrative and oversight positions provide, the City lacks staff who have the skills needed to monitor fiscal operations. City budget

¹ http://www.cityofberkeley.info/uploadedFiles/Auditor/Level_3_-_General/A.1_RPT_Audit%20Report_Final_032514.pdf

² Throughout this report, "management" specifically refers to the City Manager's Office, department directors, and deputy directors. We are using "management" in general terms; however, there are managers who do understand and have implemented appropriate cash-handling procedures in some City departments.

reductions create more opportunities for theft and errors because there are no longer enough staff to ensure that employees cannot perform inappropriate combinations of activities that would allow them to commit or conceal theft.

Warning signs exist that there was or is more theft

Several red flags in PRW operations suggest that more theft may have occurred or may be continuing to occur:

- Boat launch revenue sharply declined for three consecutive years after PRW tripled the launch fee. See graph below.
- No boat launch revenue in August 2007 – a peak boating month.
- Thousands of dollars in refunds at the Tuolumne Camp store, which was essentially a concession stand.
- An employee mixed personal money with the City’s and provided a complex story explaining the resulting deposit error.
- The former employee who stole the \$52,000 performed work and had system access that should be divided among employees.

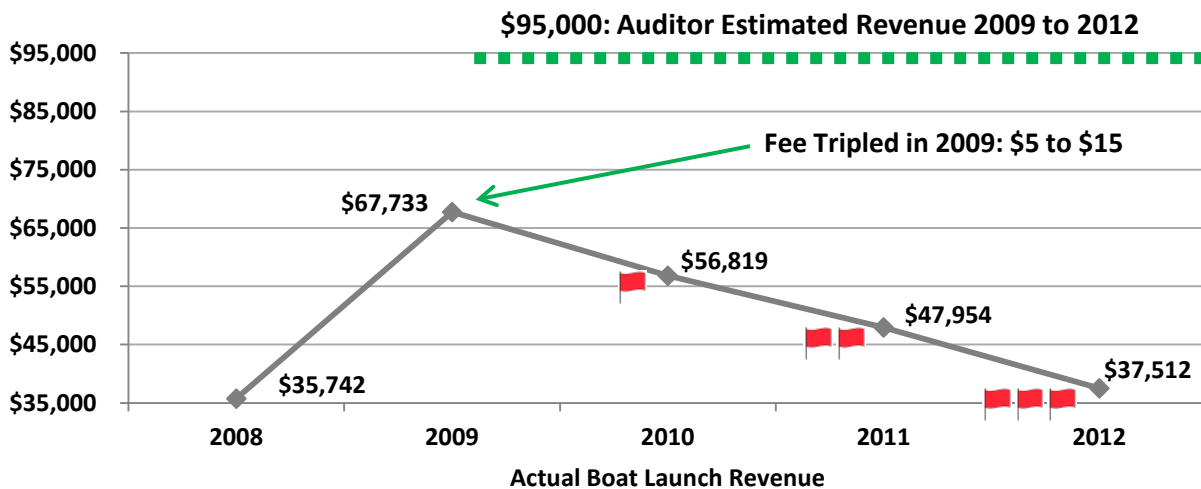
Recommendations

Changes in City culture, focus, job responsibilities, and budget policy are needed to protect City revenue from future theft. Council and management should place as much value on safeguarding assets as they do on providing programs and services, and communicate this importance to employees so they work in an environment that supports the City’s goals of maximizing revenues and providing programs and services while protecting City staff. Our recommendations provide a roadmap to:

- Strengthen the City’s cash-handling policies and procedures.
- Ensure that cash-handling staff understand and abide by the established policies and procedures.
- Require cash-handling supervisors to correct deficiencies in their cash-handling operations.
- Require Finance to be more proactive in providing citywide cash-handling guidance.
- Establish methods to ensure customers pay so the City receives all fees due for services provided.

We provided our recommendations to the City Manager and PRW management prior to publishing this audit to allow them to begin implementing changes as soon as possible. The City Manager has already provided direction to departments for improving cash-handling practices and PRW has begun revising its policies and procedures.

Marina Boat Launch Revenue Sharply and Continuously Declined After PRW Tripled Fees



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A full copy of the report can be obtained at:

http://www.cityofberkeley.info/uploadedFiles/Auditor/Level_3_-_General/A.2_RPT_PRW%20Cash%20Handling_Final.pdf

AUDIT OBJECTIVES

Significant weaknesses in procedures allowed a former employee in Parks, Recreation, and Waterfront to steal at least \$52,000 in cash from the City’s Marina fund. The former Parks, Recreation, and Waterfront Director requested this audit when the theft was discovered. We conducted this audit to quantify the total amount of Marina funds taken, identify the specific weaknesses that allowed the theft to occur, and make stronger recommendations to ensure that appropriate procedures are implemented on a *citywide* basis to prevent future thefts of City funds.

Our specific audit objective was to determine whether procedures over cash handling ensure accuracy of collections and deposits.

BACKGROUND

The City must protect its cash to continue to provide programs and services

Five principles for establishing policies and procedures

The City performs thousands of dollars in business transactions every day that translate into services and programs for the Berkeley community. Making sure that these revenues are used as intended starts with establishing policies and procedures that protect City staff and money, and defining the roles of cash handlers. This is accomplished through a framework of five basic principles:

1. *Control Environment* - Create an environment that promotes honesty, accuracy, and ethical standards.
2. *Risk Assessment* - Identify, evaluate, and analyze the risks related to achieving financial objectives.
3. *Control Activities* – Create policies and procedures to help staff achieve financial objectives.
4. *Information and Communication* – Identify, capture, and share data and information in a form and within a timeframe that allows employees to carry out their assigned duties.
5. *Monitoring* – Assess the quality of performance by reviewing activities and transactions for accuracy and reasonableness.

Known as the *COSO³ Internal Control-Integrated Framework*, the five principles aid an organization in designing, implementing, and assessing its policies and procedures for all aspects of its business and operating environment.

Defining cash – it’s more than currency and coins

Cash handling covers all methods of payment: cash, check, money order, payment card (credit or debit), wire transfer, traveler’s check, cashier’s check, and voucher. The City primarily accepts payment in the form of cash, check, and payment card, with cash being the most vulnerable to theft.

Protect cash and employees by using best practices

Cash-handling best practices can be separated into four categories:

1. *Separating Activities* – no one person has total responsibility for all cash-handling activities.
2. *Accountability, Authorization, and Approval* – cash is collected and recorded, and documented and secured; and staff who performed an activity can be identified.
3. *Security* – cash is physically protected and cash handlers work in a safe environment.
4. *Review and Reconciliation* – confirms cash was recorded correctly and deposited to the bank.

Management is faced with the following potential consequences if best practices are not used:

- theft and concealment of theft
- lost revenue
- misreported revenue
- unnoticed errors
- unsafe workplace
- harm to reputation
- inability to fully recover losses

A detailed table of best practices for each category is in Appendix D.

³ *The Committee of Sponsoring Organizations of the Treadway Commission* is a joint initiative of five private-sector organizations dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control, and fraud deterrence: <http://www.coso.org/>.

Fight theft by separating job assignments

One of management’s best tools for preventing theft is separating the activities in a process among employees. Doing so provides for checks and balances by placing tasks into four sections that mirror the best practices categories:

Custody of Cash & Other Assets	Recordkeeping
Authorization	Reconciliation

When setting the framework for cash-handling operations, management uses this tool to define cash-handler roles and responsibilities to make sure no one person can perform activities that would allow him or her to commit or conceal theft.

Appendix E provides examples of cash-handling matrices that help management in separating activities among employees.

No such thing as a perfect world – mitigating the risks

Scarce resources – people, money, and time – may prevent management from always using best practices. Through a risk assessment, management identifies the gaps in procedures to determine what else can be done to reduce or eliminate theft and loss, and provide employee safety. These mitigating activities are divided into three categories: ***preventing, detecting, and monitoring***. Mitigating activities work only when they are performed by a supervisor who has no involvement in accepting and recording cash. For example, a supervisor can detect problems by reviewing transaction reports when there is a single employee responsible for accepting, recording, and adjusting customer payments.

Employee thefts prompted past cash-handling audits

Thefts in 2001 and in 2007 prompted the two series of cash-handling audits that we issued in fiscal years 2003 and 2008. We focused on the practices and procedures that allowed those thefts to occur, but we did not investigate the thefts to quantify the total amounts stolen. The time spent on performing an in-

depth investigation to prove theft and quantify the amount stolen is so costly that it is likely greater than the cost of having a position responsible for managing and monitoring citywide cash-handling operations. While time consuming, this effort is necessary in order to identify and prosecute a thief. This amount of work can be avoided by dedicating resources to cash-handling oversight and to preventing opportunities for theft.

Over a decade of cash-handling audits: 129 recommendations

We have conducted a number of cash-handling audits over the past decade that focused on improving the methods and procedures City departments use to handle and safeguard cash. We made 129 recommendations and found that many of the same problems existed at multiple locations in different departments. Appendix C lists and provides links to our reports. Despite having made those recommendations and departments having reported most of them as implemented, reports of theft in City departments have continued to occur.

Consultant also made 50 cash-handling recommendations

An outside consulting firm, Harvey Rose Accountancy Corporation, issued a review of citywide cash-handling operations in 2002 and made 50 recommendations aimed at improving City cash-handling activities. The firm directed its recommendations to select departments responsible for cash-handling operations:

- City Manager’s Office
- Finance
- Health and Human Services
- Parks, Recreation, and Waterfront
- Public Works

179 total recommendations since 2002

The consulting firm’s recommendations were similar to those that we made over the past decade. Because we did not issue the report, we did not follow up on the action taken by management to address the concerns. Combined with our recommendations, City management has received 179 recommendations aimed at improving citywide cash-handling operations since 2002.

FINDING AND RECOMMENDATIONS

Finding 1: Revenue collection and monitoring: theft of at least \$52,000; other thefts; and sharp, unexpected revenue declines

The City incurred a theft of at least \$52,000 because management⁴ has not fully understood and implemented cash-handling procedures and has received insufficient guidance from Finance. Thefts of Parks, Recreation, and Waterfront money were a sign that a larger problem existed:

- 2001 – \$370 theft of Marina funds
- 2007 – \$175 theft of Willard Pool funds
- 2011 – \$650 theft of Marina funds

All three cases show history repeated. Parks, Recreation, and Waterfront (PRW) management was informed of the crimes and we conducted audits of PRW cash-handling practices after each theft. We performed the work and provided management with recommendations to improve its practices and procedures. Unfortunately, management did not take the appropriate action to prevent theft and protect innocent staff from false accusations of theft. This allowed at least two more thefts to take place in 2012 while this audit was in progress: \$45 at the James Kenny Recreation Center and \$55 at the Frances Albrier Community Center.

PRW employee took action and reported theft

A PRW employee discovered the \$650 Marina theft. While reviewing cash-receipt records, the employee found a suspicious error and investigated the problem. Once recognizing the error as possible theft, the employee followed city policy and immediately reported it to management who then took action to report it the Berkeley Police Department. By properly understanding that unusual cash-receipt entries require investigation, the PRW employee was able to help uncover the Marina theft.

\$650 only a portion of the \$52,000 stolen

Council and management have not fully understood that small thefts are a sign of a much more pervasive problem. Our extensive investigation of Marina funds in 2011 proved that the \$650 theft was only slightly more than one percent of the \$52,000 stolen. If

⁴ “Management” refers to the City Manager’s Office, department directors, and deputy directors. We are using management in general terms; however, there are managers who do understand and have implemented appropriate cash-handling procedures in some City departments.

we had done the same level of work in our 2003 and 2008 audits, we likely would have uncovered more theft.

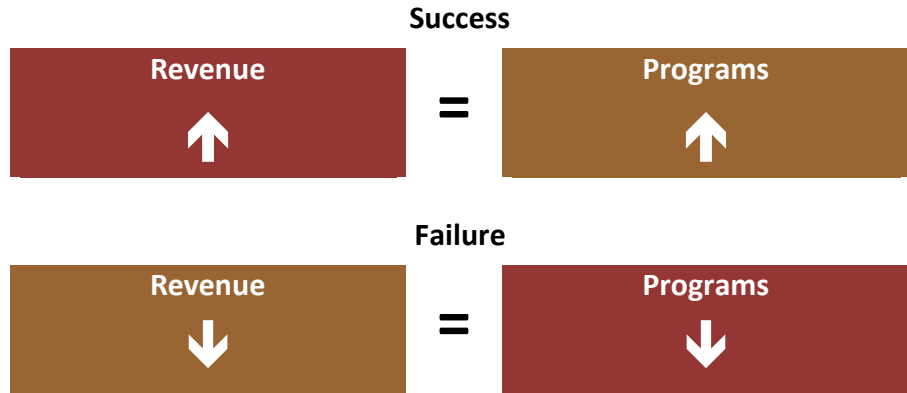
The Berkeley Police Department investigated each theft, but they were unable to identify the thief because the practices and procedures in place made everyone a potential suspect. This left the Berkeley PD with little to go on to pinpoint who actually stole the money and made innocent staff feel uncomfortable and falsely accused. It also means that the thief continued to work for the City and handle cash. Our extensive investigation of the \$650 theft at the beginning of this audit helped provide the police department with enough evidence to confirm that a former PRW employee was responsible for the \$52,000 theft. However, the former employee continued to work for the City for three months after the theft was initially reported because the BPD did not have the evidence it needed to identify the thief.

Significant effort made to provide Council and management with better guidance

In part, the problem lies with our recommendations not being detailed enough to help Council and management understand the meaning of “internal controls,” a common auditor phrase but one that requires explaining. To assist Council and management in gaining this understanding, we put a great deal of time and effort into this audit so that we could provide them with detailed information for making improvements. We believe it was worth the investment of our time to do a more comprehensive audit of citywide cash-handling operations rather than the short, quick audits we have done in the past.

We wrote this report to help Council and management understand what internal controls are and what they need to do to protect City cash and staff. Simply said, internal controls are the policies, procedures, and practices that help management and staff reach operational goals. What those goals are vary throughout the City depending on the program and activity. For cash-handling activities, the goal is to maximize City revenue. That cannot be done when opportunities to steal cash exist. The objective to maximize City revenue is intricately linked with the City’s objective to provide programs – one cannot succeed if the other fails:

If the City isn't protecting its revenue, it isn't protecting its programs



\$52,000 in Marina funds stolen: 80 times more than originally discovered

A former PRW employee stole over \$52,000 in cash from the Marina: \$48,000 from Marina activities and \$4,000 from the 2010 Kite Festival parking revenues. The employee committed the theft at PRW's administrative offices over a 15-month period before raising suspicions of theft. The employee was able to commit the crime and conceal it because of the level of trust and the access the employee had over Parks, Recreation, and Waterfront cash-handling and fiscal operations. Simple procedures such as reconciliations would have alerted management to the crime but no one was monitoring Marina deposits. To protect the City, the details of how the former employee was able to steal the money and hide that activity are not presented here; however, we provided that information to management.

\$52,000 is likely not all that was stolen

Equally as disturbing is that the \$52,000 is likely not all that was stolen. The practices and procedures in place highly suggest that the former employee had the opportunity to do more damage. The employee:

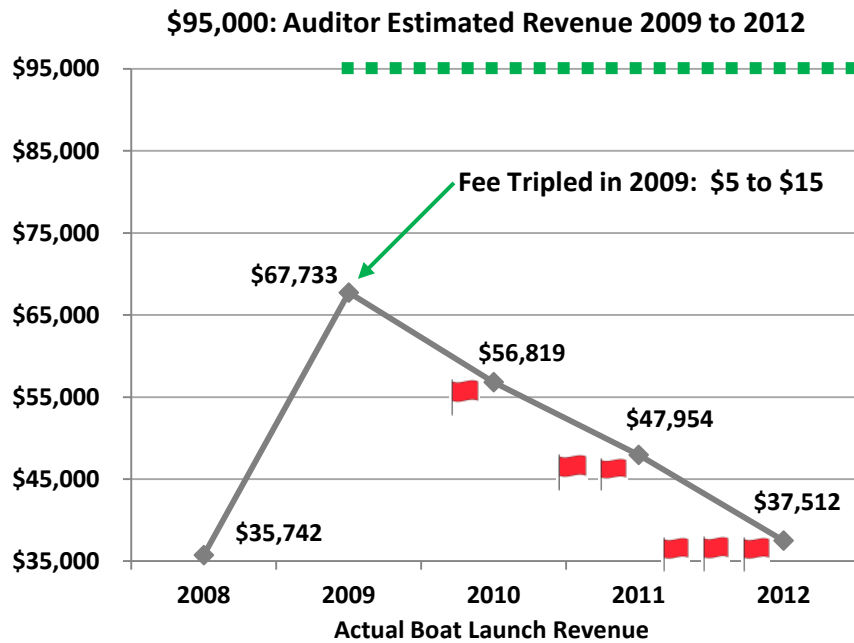
- Processed payments received for other funds at various times during the same period when Marina funds were missing.
- Had the ability to move funds from other sources to replenish funds taken.
- Had staff provide their passwords to the City's financial system so the employee could both perform and approve transactions.
- Had total autonomy, which involved procedures that should have been divided among different employees.

Our detailed investigation provided the Berkeley Police Department with evidence that the former employee committed the crime. Had we not done that work, the police would not have known who stole the money and would not have had the proof and evidence they needed for their investigation. Police detectives questioned several other PRW employees as a result of our initial audit work and have since cleared the case. No one else is suspected of being involved with this crime. The City was able to recover just over \$47,000 in stolen funds through its insurance provider.

Significant decline in revenue suggestive of more theft and problems with revenue collection

Boat launch revenues were \$169,000 less than could have been expected. This is a cumulative amount over a four-year period. PRW charges a small fee to boaters to launch their vessel at the Marina’s north dock. In early 2009, that fee increased from \$5 to \$10 and then to \$15, and PRW should have expected their launch revenues to increase consistent with the projections in its rate-increase proposal. Instead, the fees declined:

Revenue declined despite two fee increases; no action taken to reverse trend



Note: Our projection uses 2008 as the base year. The total collected that year was nearly \$36,000. We took into consideration that monthly and seasonal launch pass fees did not increase, that the first \$5 increase occurred in January 2009, and the second \$5 increase in July 2009. Our analysis considers all other factors as equal and calculates the expected revenue based on the number of single-day launch tickets we estimated were issued in 2008.

Evidence points to more theft or problems with collecting expected revenues

This downward trend is not due to the theft committed by the former PRW employee. That employee took money after it was recorded in the Marina's standalone accounting system, The Marina Program. The table above uses amounts recorded in that system, which means it reflects cash collected before the former employee stole the money. This picture tells us that there is evidence that someone else may have been and may continue to be stealing Marina funds. This could also be from a combination of other factors, for example:

- economic recession
- bad weather
- fee increases
- fluctuations in the recreational fisheries
- customer theft

There are no barriers in place to restrict boaters from accessing the launch ramp. This allows customers to launch without paying, and there are no staff onsite to monitor and ensure boaters pay to launch. There is a launch-ramp ticket machine next to the ramp that takes only cash. Marina staff said that boaters often insert wet bills, which causes problems with the bill feeder. When the ticket machine malfunctions, Marina staff place a notice on it directing boaters to the Marina Office to pay for their launch. The office is not located near the launch ramp and boaters might not make the effort to go to there and pay.

Zero dollars collected for boat launch tickets in August 2007 – highly unusual

Evidence suggests that the Marina has been losing launch revenue to theft since at least 2007:

- \$0 collected in August 2007 and January 2008
- \$5,000 less collected in July 2007 compared to July 2008
- \$19,600 less collected in total for 2007 compared to 2008

PRW did not enact any fee increases that would account for the change in revenues from 2007 to 2008, and discussions with management confirmed that the Cosco Busan oil spill and Marina construction projects in 2007 did not disrupt launch access: The oil spill closed the ramp for only a couple of days in November 2007 and the construction project did not cause any closures.

The Marina documents support that the low launch and missing revenue in 2007 is at least partially due to theft. We found gaps in launch ticket numbers and delays in preparing daily closeout forms, which are strong indicators that someone was hiding theft.

As mentioned, boaters could choose to launch their boats without paying because there are no barriers in place to prevent that from happening. However, this cannot fully account for the missing and serious decline in launch revenues in 2007: Given the amount of launch receipts at other times, it is extremely unlikely that not a single boater would go to the Marina Office to pay for a launch if the ticket machine is not working or that every boater would take advantage of the ease with which they can launch without paying.

Responsible cash handling includes monitoring revenue and taking action to reverse unexpected downward trends

While there are other factors that would prevent revenues from reaching \$95,000 or cause revenues to decline, it is highly suspect that launch revenue would decline \$10,000 a year for three consecutive years to the point that 2012 revenue was barely more than it was in 2008, before the fee increases. Discussions with PRW management and staff during our audit provided no indication that activity at the Marina has changed to such a degree as to explain the alarming and sharp decline in launch revenue. After we issued the draft audit, the new PRW Director provided examples of factors other than theft that could have contributed to the decline.

Marina fund expected to reach a deficit by 2016 – theft may be a contributor

Management reported that the Marina is not receiving enough revenue to cover the cost of operations and that the Marina fund is expected to reach a deficit by 2016. Council approved fee increases⁵ to reduce the expected deficit, but management has not addressed theft as a contributor to the decline in revenue. While the fee increases are justified to match economic factors, they do not remove management’s responsibility to ensure the City collects all of its revenue.

⁵ On May 21, 2013, Council approved increasing berth rental and special event parking fees, but launch fees remained the same. The fees went into effect July 1, 2013: http://www.ci.berkeley.ca.us/Clerk/City_Council/2013/05May/Documents/2013-05-21_Item_31c_Marina_Fee_Increases.aspx

Unexplained refunds and deposit error are signs of more problems

Tuolumne Camp transactions show thousands of dollars in store refunds – a very high volume for what was essentially a concession stand. The former camp manager reported that most of those refunds were corrections to sales. Campers were able to run tabs during their stay and pay in one lump sum before their departure. This practice increases the likelihood that customers will not pay for all of their purchases. When a cashier made an error, either over- or undercharging the customer by a portion of the total sales, the cashier used the refund mode to back out the entire transaction and then reentered it for the correct amount. This practice creates more work, gives a false impression of what was actually refunded, and could be used to hide theft. Camp staff also did “practice” refunds. This, too, creates a false impression of what was actually refunded. A true refund should record only an amount that was actually returned to a customer.

Refunds could be used to hide theft

PRW administrative offices were not aware of these refunds. The supporting documentation showed that not all corrections were entered back into the system and none were properly documented to explain for a reviewer why the refund was necessary. Refunds have the potential to be used to cover theft. Without a proper explanation, management cannot be sure they were legitimate.

Suspicious deposit error

An Echo Camp employee made a deposit error and explained that, in part, the error was a result of mixing personal money with the camp’s. Staff should never combine their own money with the City’s. Doing so makes it difficult to determine which funds belong to the City and is against City policy: Administrative Regulation 3.20 specifically states that employees are not permitted to mix City money with money from different sources.

The employee’s explanation of what happened was confusing and difficult to follow. It was a sign that the error was more than a simple mistake and possibly improper use of the City’s money.

Former employee used account adjustments to hide theft

The former employee who stole \$4,000 from the City's 2010 Kite Festival parking fees moved money within the City's financial system to hide that theft. The City's past practices allowed the employee to both prepare and approve an adjusting journal entry to move money from an unrelated account to the Kite Festival project account and cover the theft. Although Finance-Accounting gave final authorization for the adjustment, no one questioned that a secondary reviewer had not approved it. Accounting staff allowed the adjustment because "cash netted to zero," meaning that it did not result in unbalanced cash accounts. Accounting staff's opinion was that since the adjustment did not affect cash balances, there was no concern.

There is no oversight of adjusting journal entries when supervisors approve the entries they request

Finance updated the City's policy for preparing, reviewing, and approving adjusting journal entries in April 2013. Finance included a requirement for the person who approves the entry to be someone other than the person who prepared it. This creates a check for making sure the entry is appropriate. However, a common practice is for a supervisor to propose an adjustment and ask a subordinate to prepare the entry. That same supervisor then approves the entry. This practice defeats the purpose of separating the preparation and approval process because the supervisor is essentially approving his or her own adjusting journal entry.

It is unrealistic to expect support staff to monitor their boss

While it is true that the person preparing the adjusting journal entry should be capable of understanding whether the accounting is correct and identifying a bookkeeping error, it is unrealistic to expect subordinates to question their boss. Staff may not feel that it is their place to do so and may worry that the supervisor will retaliate if questioned. It is also unlikely that these employees will have a complete understanding of their department's operations and goals, making it much more difficult to identify an improper entry. For those reasons, employees may unwittingly prepare an adjusting journal entry that is being used to cover theft or other illicit activity.

Moving money in budgets could be a way to hide theft

Budget modifications are another potential way to conceal theft. The City uses these modifications to reflect budget changes that occur throughout the year, mostly for changes to planned expenditures. For example, damage caused by heavy rains may require staff to move money from an administration account to a landscaping account to cover the cost of unplanned services. Staff may do so as long as the move is within the same fund and does not affect salary and benefit accounts. The Budget Office procedures require a supervisor to sign off on expenditure modifications prepared by a staff member, but this does not always happen in practice.

A dishonest employee may see budget modifications as an opportunity to shuffle planned expenditures so that management does not notice when revenues fail to cover expenses. It is necessary in budgeting that there are enough expected revenues to cover planned expenditures. We did not find any evidence that this actually occurred, but management did not recognize that it was a risk to their operations and one that they should be monitoring.

Administrative staff are doing things right

It is important to acknowledge when things are done well. PRW's administrative staff follow cash-handling practices that help ensure that the City's money is accounted for:

- The division manager approves the work of the supervisor when the supervisor performs cash-handling tasks.
- Staff use tamperproof bags and moneybags to secure and transfer deposits to Finance.
- Staff review their work for accuracy, research errors, and seek assistance from their supervisor to correct mistakes.
- Staff and supervisors document adjustments to create evidence supporting the need for the correction.
- Staff count cash and prepare deposits with their supervisor present.
- Staff place their deposits in the safe with their supervisor present.
- Staff remove their deposits from the safe with their supervisor present before taking the locked moneybag to Finance.

Cash handling is not a focus of program-based staff whose primary work is to provide recreational opportunities at various locations throughout the City and in the Sierras. In contrast, cash handling is a focus for PRW's administrative staff who work in offices in downtown Berkeley that are designed for administrative work. The differences in both the location and design of the work facilities provide the administrative staff the opportunity to better understand best practices and allow them to establish an environment dedicated to cash-handling operations.

The root of the problem: poor guidance and lack of sufficient oversight

Poor guidance and insufficient oversight led to the problems discussed in this report. Despite knowing that money was stolen on multiple occasions and requesting assistance from Finance to assist in performing a risk assessment, PRW management did not evaluate its actual practices to identify risks and understand what is allowing for the thefts. This created an environment that does not promote strong cash-handling operations or ensure that operational goals are achieved, leaving both City money and staff vulnerable.

Too much trust allows management to be taken advantage of

A significant contributor to the poor environment is that management has not monitored those in charge of cash-handling operations. Instead, it fosters a culture of too much trust by allowing the work of those with fiscal responsibilities to go unchecked. This type of autonomy is what allowed the former PRW employee to steal from the City. While it is true that those in charge of daily operations must be trusted to get their work done, it is equally as important that what they do is understood and evaluated by management so staff are not given the opportunity to commit and hide theft. Monitoring also helps management verify that the work done results in their departments reaching their goals.

Another contributor to the poor environment is that Finance's cash-handling administrative regulation 3.20⁶ requires staff at each cash-handling site to develop their own practices and procedures. This requirement results in various procedures that are often little

⁶ City of Berkeley Administrative Regulation Number 3.20: Cash Handling Policy and Guidelines

more than how-to lists for closing registers at the end of a shift, or it results in no procedures at all. Some of PRW's site-specific procedures were written by someone who does not have an understanding of cash-handling requirements and best practices. In all instances where procedures do exist, they fail to explain to staff why they are performing certain tasks so that accountability, fiscal responsibility, and management's intent are understood. Staff need to understand why they do their work. If they do not, they may skip vital steps, making the City vulnerable to theft and loss. They may also compromise their safety. Staff may also feel the need to take shortcuts after having taken on additional work previously performed by others whose positions have since been eliminated through budget cuts. This makes it even more important to explain to staff what they should and should not do so they and the City remain protected when staffing levels are too low to follow best practices.

It is often more important to know what **not** to do than it is to know what to do

Management has difficulty providing oversight and establishing procedures because they are not experts in cash handling. They must rely on others with knowledge of and experience with the best practices for handling cash to provide direction and guidance. That knowledge and experience is in Finance. The department is responsible for:

Finance is looked to as the leader in cash-handling knowledge and experience

- establishing and enforcing the City's cash-handling administrative regulation;
- monitoring compliance with the City's cash-handling administrative regulation;
- providing cash-handling training; and
- providing a citywide cash-handling manual.

Unfortunately, the level of guidance Finance provides is not enough and lends itself to cash-handling errors:

Available guidance does not provide management the best level of assistance

- *Cash-Handling Regulation* – The administrative regulation makes cash handling a decentralized function. This results in varied practices throughout the City that are difficult to manage and monitor. It is written for staff who have a complete understanding of cash-handling requirements, not for those whose expertise lies in program management. It also puts the burden of developing cash-handling

Finance does not have enough staff to provide the necessary level of cash-handling training

procedures on individual departments, which do not have the level of knowledge needed for developing best-practice procedures.

- *Monitoring Compliance* – The issues cited in this report show that Finance has not ensured that departments follow cash-handling best practices or put mitigating procedures in place when limited resources prevent the use of best practices.
- *Cash-Handling Training* – Finance staffing levels have prevented the department from providing regular cash-handling training. The department committed to providing one training a year starting in 2013. This is not enough. Current staff need regular refreshers and new staff need the basics. Once-a-year training also fails to provide guidance to seasonal employees for summer programs. These individuals often have no experience with cash handling and, in fact, may not have any work experience.
- *Cash-Handling Manual* – Finance’s cash-handling manual does not help management understand the meaning of “internal controls.” It is written in broad terms with terminology best suited for those who already have an understanding of cash-handling requirements. It does not fully cover best practices or discuss the necessity of dividing cash-handling activities into stages to minimize the opportunity for theft, and it does not cover the use of mitigating procedures to reduce the risk of loss or theft when it is not possible or practical to separate tasks. It also lacks the “why” factor to help employees understand what is required of them so they know what do to, as well as what not to do.

Many cash handlers do not undergo a background check

The City’s hiring policy⁷ requires potential employees expected to handle cash to undergo a thorough background check. This includes a credit check and using fingerprint identification to check for a criminal history. The credit check helps identify people with

⁷ City of Berkeley Administrative Regulation Number 3.21: Policy for Hiring Employees Responsible for Cash Handling and Asset Management

financial problems or lavish lifestyles who might feel pressured to steal. *The 2012 Marquet Report on Embezzlement* reported that five years of data showed that nearly 55 percent of embezzlers stole money to support a lavish lifestyle and nearly 35 percent did so because of a gambling addiction that led to financial problems. In many cases, gambling was also part of the lavish lifestyle.⁸

Innocent employees at risk of false accusations of theft

Many job descriptions do not include cash handling as a regular duty though staff in the positions perform those tasks. This results in potential employees not being identified as individuals who should undergo a thorough background check before they are hired to handle cash. There are also a number of existing employees who handle cash but did not undergo the background check. They were grandfathered in because they held cash-handling positions before the City policy was adopted. This means there is potentially an employee with financial problems who handles City money and might feel pressure to commit theft to solve those problems. As this report reflects, it is possible that this person would also have total autonomy in performing his or her work. This puts other employees at risk of false accusations of theft.

Parks, Recreation, and Waterfront seasonal employees who might be expected to handle cash are not subject to credit checks before they are hired. This is most likely not necessary because many of these potential hires are young and have little to no credit history. However, this lack of exposure to fiscal responsibilities supports the need for the City to provide cash-handling training to inexperienced employees before they are expected to handle cash. The training should provide staff the ability to fully understand the policies, practices, and procedures necessary to safeguard City money. PRW does run a Live Scan check on potential seasonal hires to check for a criminal record because they will be working with children.

⁸ Marquet International, Ltd. ©, *The 2012 Marquet Report on Embezzlement*, May 14, 2013: http://www.marquetinternational.com/pdf/the_2012_marquet_report_on_embezzlement.pdf

“Fraud is not exclusively a management concern.

The responsibility to deter and detect fraud also is shared with other stakeholders including the board....”

- *Financial Executive*, November 2011⁹

Staffing shortages continue to be one of the underlying issues that cause problems with cash-handling activities:

- Those charged with oversight no longer have the time to monitor the work of others.
- Management is not able to separate cash-handling tasks among different employees because they do not have enough staff.
- Supervising positions intended to provide daily oversight and guidance no longer exist or perform the actual work they are meant to oversee.
- Those responsible for managing cash-handling activities are not able to get the guidance they need.
- Those responsible for providing citywide guidance cannot provide the level of assistance that is needed.

Staffing shortages exist because of eliminations of key administrative and oversight positions. Council and management sacrifice those positions in order to save programs, which ultimately results in them undermining their own efforts. The very programs Council and management are trying to save fall victim to lost revenues. In some cases, this loss is offset by fee increases that make the programs and activities less obtainable to those that want or need them.

PRW has lost 3.23 positions that helped with oversight and administration

Cuts to oversight positions have taken place citywide. In PRW alone, Council has eliminated 3.23 positions that provided administrative support or oversight. In 2003, the department had 35.01 such positions and by 2015 it will have 31.78. This includes reductions to full-time career positions, as well as hourly employees who primarily work at camps during the spring and summer. This places pressure on remaining staff to do more work and requires those without the necessary knowledge to perform work outside of their capabilities.

⁹ *Financial Executive* is published by Financial Executives International, an organization that exchanges ideas about best practices for senior-level financial executives to help provide insight for informed decision making: <http://www.financialexecutives.org/>

Good news – PRW management starting to take action

PRW management took a step towards fixing their cash-handling problems by hiring a new Senior Management Analyst. Her responsibilities include correcting the problems with PRW cash-handling operations, which she is addressing by performing a risk assessment and evaluating actual practices. One of her strengths is understanding the value of management’s role in monitoring staff, which she realizes includes her work.

Recommendations

The City Manager should, on a citywide basis:

Require cash-handling staff to read essential City policies and training materials

1.1 Require all City staff with cash-handling responsibilities to read the following immediately and at least annually thereafter, and new employees to read the documents prior to being assigned cash-handling tasks:

- Administrative Regulation 3.20, Cash Handling Policy and Guidelines
- Administrative Regulation 3.17, Fraud, Abuse and Misuse of City Resources
- The Basics: Cash Handling Training 101 – a PowerPoint presentation in the Finance section of Groupware

Require supervisors to verify cash-handling staff have read essential City policies and training materials and take action if those staff do not follow policies

1.2 Require each cash-handling supervisor to:

- instruct all staff reporting to her or him to abide by the requirements in the documents listed in recommendation 1.1.
- take appropriate disciplinary action when staff do not abide by the requirements.
- obtain written approval from the department director, after discussing the risks with Finance, to implement mitigating procedures when staffing levels do not allow full compliance with the requirements in those documents.

Require cash-handling supervisors to identify and address deficiencies in cash-handling operations and take action to correct them

1.3 Require cash-handling supervisors to identify requirements in the documents listed in Recommendation 1.1 that currently are not being followed and whether any of the cash-handling deficiencies identified by the Auditor’s Office and listed in Appendix F exist in each supervisor’s area of responsibility. Take immediate corrective action to ensure compliance with City cash-handling policies and to eliminate deficiencies listed in Appendix F.

Communicate the City’s commitment to maximize revenue by requiring department directors to monitor fiscal activity

1.4 Communicate with department directors the City’s commitment to reaching goals for revenue maximization by requiring departments to:

- Perform revenue trend analyses at a granular level to look for unexpected and unexplained changes in revenue by activity, for example, boat launch and camp registrations. The analyses should include year-to-year comparisons with detail by month so management can compare activity against prior years to see if it is consistent or reflects changes, such as fee increases.
- Work with Finance to investigate anomalies that signal theft or other significant problems affecting the City’s ability to maximize revenue and reach targets.
- Provide oversight of adjusting journal entries and nonroutine budget modifications so that someone does not both request and approve entries. Oversight options include:
 - Having a department manager approve entries that are requested by a supervisor but prepared by clerical staff.
 - Having another employee who does not directly report to the supervisor who requested the entry approve it, so long as that person has a reasonable understanding of departmental and City operations and enough authority to raise concerns about the entry.

- Having a manager not involved with adjusting journal entries and budget modifications sample nonroutine adjustments on a regular basis (for example, monthly) to check that the entries were for a legitimate need.
- Identify all positions with cash-handling responsibilities 1.5 Work with the Department of Human Resources to establish a list of all positions that have cash-handling responsibilities to identify positions that require background checks as part of the hiring process.
- Perform background checks on current cash-handlers, if possible 1.6 Establish a requirement to have staff who currently perform cash-handling activities undergo the same thorough background check that is required for potential new cash handlers, if they were grandfathered in after City established the requirement. Take immediate action to perform the background checks, if agreement is reached.
- Dedicate personnel in Finance to make citywide cash-handling improvements 1.7 Work with Finance to dedicate personnel to be responsible for citywide cash-handling improvements. The personnel should:
- Be classified at a sufficiently senior level to be able to provide definitive guidance to senior management on a reasonably equal footing.
 - Have a strong background in accounting, auditing, and policies, practices, and procedures for cash handling.
 - Excellent written and oral communication skills.
 - Be responsible for:
 - Giving guidance to staff in all City departments.
 - Rewriting cash-handling and related administrative regulations.
 - Developing standard citywide cash-handling procedures.
 - Providing ongoing cash-handling training and monitoring.
 - Enforcing cash-handling policies.
- Also see recommendations 1.9 to 1.13.

The Finance Department should:

Implement a general cash-handling system for citywide use

- 1.8 In collaboration with the Department of Information Technology, implement a general cash-handling system to serve as the city’s single portal for all cash-collection activities. Such a system would allow Finance to:
- Integrate with the City’s financial system, FUNDS\$, for automatic input of cash receipts.
 - Remove manual processes (e.g., reconciliations) and free up staff time to perform other cash-handling oversight activities.
 - Develop graphic workflow maps that can generate procedures for processing cash transactions, and identify the specific positions assigned to each step in the cash-handling sequence.
 - Use automated restrictions to prevent staff from processing cash transactions when they:
 - Have not taken the required cash-handling training.
 - Are not assigned to processing cash-receipt transactions.

Rewrite the cash-handling administrative regulation to make cash handling a centralized function in Finance

- 1.9 Rewrite Administrative Regulation 3.20, Cash Handling Policy and Guidelines to:
- Define the roles of the personnel dedicated to citywide cash-handling improvements. Also see recommendation 1.7.
 - Make it City policy that:
 - Cash-handling guidance and policy enforcement is a centralized function in Finance.
 - Finance is responsible for establishing a single set of citywide cash-handling procedures so that staff throughout the City use standard best practices. Also see recommendation 1.12.
 - Finance is responsible for providing guidance to departments in developing supplemental procedures to address activities that apply only to a particular location, for example, securing and monitoring boat launch revenues at the Marina. Also see recommendation 1.13.

- Department managers report in writing to the City Manager, with a copy to the Finance Director, the risk to revenue and staff when resource limitations prevent them from following cash-handling best practices.
 - Cash-handling training is mandatory for new cash handlers before they begin handling cash, at least every two years for current employees, and every five years for management. Also see recommendation 1.10.
 - Cash handlers read the documents as discussed in recommendations 1.1.
 - Supervisors perform the review of cash-handling operations as discussed in recommendation 1.3.
- Provide ongoing training to staff with cash-handling and fiscal operations responsibilities
- 1.10 Provide ongoing training to staff with cash-handling and fiscal operations responsibilities. Training can be accomplished using in-person and online formats and should include:
- General and supervisor sessions covering the City standards discussed in Administrative Regulation 3.20: Cash Handling Policy and Guidelines, and the citywide cash-handling procedures. Also see recommendations 1.9 and 1.12.
 - Site-specific sessions to cover supplemental procedures to City standards for cash-handling needs unique to different locations. Also see recommendation 1.9, 1.12, and 1.13.
 - New-employee sessions for employees hired for seasonal work and who may have no work or cash-handling experience.
 - Management sessions covering best practices and mitigating procedures, monitoring those in charge of fiscal operations, and identifying signs of theft.

Provide ongoing monitoring of cash-handling and fiscal operations

- 1.11 Provide ongoing monitoring of cash-handling and fiscal operations. This includes:
- Reviewing a sample of the work done by those with cash-handling oversight responsibilities to ensure they are not performing work for which they provide oversight.
 - Ensuring compliance with cash-handling policies and procedures.
 - Performing surprise cash counts and evaluations of actual practices.
 - Ensuring access to accounting systems, safes, and cash-handling locations is restricted to the minimum number of staff needed to perform authorized tasks, and that access is divided among enough staff to prevent an individual from being able to steal and conceal the theft.
 - Denying exceptions to daily deposits for departments that have known cash-handling deficiencies.
 - Reexamining cash-handling activities annually for all locations that have daily-deposit exceptions to ensure they continue to meet City standards.

Develop citywide cash-handling policies and procedures to replace the current, general cash-handling manual

- 1.12 Revise the cash-handling manual to create comprehensive, citywide cash-handling policies and procedures. These procedures should:
- Explain cash-handling policies, practices, and procedures in such a way that it can be understood by those who are not experts in cash handling.
 - Incorporate best practices for cash handling, which includes separating tasks among employees to ensure they cannot perform inappropriate combinations of activities that would allow them to commit or conceal theft. Also see Appendix D.
 - Describe mitigating practices that are acceptable for departments to follow when best practices cannot be used because of limited staffing, money, or time.
 - Explain **“why”**: why cash-handling activities are separated, why tasks must be performed so staff

understand the importance of their work, and why omitting steps could make the City vulnerable to theft and loss and compromise employee safety.

- Define the standard forms, equipment, and supplies staff are to use for cash-handling activities. For example, standard deposit forms, safes, cash registers, and tamperproof bags.
- Explain every employee’s responsibility to protect the City against fraud, abuse, and misuse, and report suspected or known fraud, abuse, and misuse in accordance with the requirements in Administrative Regulation 3.20, Cash Handling Policy and Guidelines.
- Require supervisors who do not accept and record cash to reconcile standalone accounting systems to the City’s financial system, FUND\$, and investigate variances.
- Explain that departments must provide Finance with assurance that a location requesting a daily-deposit exception, including exception renewals, has the ability to secure and protect City money from loss until it can make the deposit before Finance will approve an exception.
- Require daily-deposit exception approvals to have one-year expiration dates and for Finance to renew the exception before a department can continue with its exception to daily deposits.

All departments with cash-handling operations should:

Create supplemental procedures for site-specific cash-handling operations

- 1.13 Develop supplemental cash-handling procedures describing activities unique to site-specific operations to accompany Finance’s cash-handling manual. Obtain guidance from Finance to ensure that these procedures adequately protect cash and cash handlers. Also see recommendations 1.9 and 1.12.

The Parks, Recreation, and Waterfront Department should:

Install a launch-ramp ticket machine that accepts payment cards and use barriers to ensure boaters pay to launch

- 1.14 Install a launch-ramp ticket machine that accepts credit and debit cards for payment.
- 1.15 In connection with recommendation 1.14, install an access system such as barrier arms that open only after providing a paid ticket at the launch area to ensure boaters pay for a launch before using the ramp. This may require PRW to redesign the parking area to provide enough space for boaters to park their vehicles and trailers after they pay for the launch ticket and still have access to the amenities (boat-washing stations, etc.). The parking area should have a separate exit that opens by sensing that a vehicle has driven up to it so that boaters are not required to use a ticket to exit, since there is a likelihood tickets will get wet, which could cause machinery to malfunction.

Require customers to pay for their goods at the time of purchase

- 1.16 Require customers to pay for their goods at the time of purchase and cease the use of tabs at camps and other locations, if any, that allow for this practice.

The Budget Office should:

Reject budget modifications lacking signatures from preparer and approver

- 1.17 Enforce its budget modification procedures by requiring a signature on the support documentation from the supervisor who approves budget modifications, and reject budget modifications that lack signatures from both the preparer and approver.

City Manager's Response

The City Manager agreed with the recommendations. The full response is at Appendix B.

FISCAL IMPACT

\$5.4 million in PRW revenue is not well protected from theft

Parks, Recreation, and Waterfront collects over \$5.4 million annually in revenues for programs and services, and the risk is high that someone could steal from this money and conceal the theft. This is money collected directly from customers for recreational activities; it is not revenue collected from taxes and grants. Management uses different methods to protect those funds and ensure receipt of that revenue.

The \$5.4 million represents only a fraction of the money vulnerable. There are a number of other locations throughout the City where employees directly receive revenue, either over the counter or through the mail. Without citywide guidance, the practices and procedures put into place may not be strong enough to protect the City from theft and loss.

\$52,000 in theft is a sign of a larger problem

The \$52,000 theft of Marina funds likely represents only a fraction of the money stolen. The former PRW employee's autonomy and access to multiple sources of revenue, as well as the thefts and fraud indicators at various PRW locations, all serve as signals that there is a pervasive problem in the City.

The people who really know your business are the ones who work for you

The value of having dedicated staff to help establish strong policies and procedures, monitor performance, and provide guidance for cash-handling activities cannot be quantified. City personnel who fully understand city operations are able to quickly see problems by being present to observe operations, and are readily available to give management and cash-handlers help when needed. Unlike a consultant, these employees have a stronger commitment to the City, resulting in higher productivity and stronger citywide operations.

Investment in general cashiering system will free up staff time to perform other work

The Department of Information Technology estimates that the City will need to invest \$300,000 in one-time costs to implement a general cashiering system, and \$15,000 to \$30,000 a year in recurring costs. The one-time costs include both the labor needed to implement the software and the actual cost of the system. Recurring costs are for vendor maintenance fees, which are generally based on a percentage of software costs and will vary depending on the system the City chooses to purchase. The City will see the value of these costs through efficiency in automated processes that will allow staff to spend more time on other tasks such as oversight, and revenue-monitoring and revenue-generating projects.

CONCLUSION

No matter who is responsible for daily tasks, management is ultimately accountable

Berkeley's ability to continue to offer programs and services requires management to make immediate citywide changes to cash-handling policies, practices, and procedures. The practices of allowing supervisors to perform work without oversight and leaving it to those with limited cash-handling knowledge to establish procedures can no longer continue. Management must provide staff with consistent and clear cash-handling guidance so they can help their departments reach their revenue goals. It is true that management must be able to assign responsibility to employees to get work done on a daily basis, but it is management that is ultimately accountable for making sure the City collects all revenue due for program and services.

The City's best course of action is centralized oversight of cash-handling operations

A centralized source for all cash-handling guidance offers the best opportunity for the City to make improvements. It will provide management and employees consistent guidance that will help reduce errors and the risk of theft, and make cash-handling operations more efficient. It will also help ensure that staff are following City policies and using cash-handling best practices. Management will be able to turn to subject-matter experts who know what to do when best practices are not practical, instead of allowing for poor procedures that make it

possible for someone to commit and conceal theft. Having clear, concise, and consistent policies and procedures written by those skilled in cash management will help City management send a message that cash handling is important to the City's fiscal health.

An environment that promotes strong cash-handling practices protects employees

Management's failure to create an environment that supports strong cash-handling operations allowed a former employee's thefts to continue for well over a year before being discovered. It also placed innocent staff under scrutiny. They become subject to personnel and police investigations, which further erodes the environment because these employees become frustrated and angry. This is particularly true when employees have been performing work using the guidance and tools provided, yet those leave them vulnerable to false accusation.

Budget cuts continue to reduce management's ability to properly protect City funds and staff

As Council continues to cut oversight positions from the City budget in order to save programs and services, it reduces management's ability to ensure that the City collects the revenue it needs for operations. When these positions are cut from the City budget, management simply does not have the resources it needs to effectively monitor fiscal operations and follow best practices to protect City funds and staff. This results in losses that reduce the City's ability to offer the very programs and services that Council is attempting to save.

Management is already taking action to improve its cash-handling activities

We would like to thank Parks, Recreation, and Waterfront Services for its continued cooperation during this audit. We appreciate the steps that PRW management has already taken to improve its cash-handling activities. We would also like to thank the PRW staff who took action when identifying anomalies in cash receipts, which helped uncover theft. This demonstrated an understanding of the need to identify and report fraud to protect City funds.

We would also like to thank the City Manager's Office for recognizing a need to make citywide changes to improve how staff handle cash received for City programs and services.

APPENDIX A:

Scope and Methodology

We audited Parks, Recreation, and Waterfront’s cash-handling activities. We focused on the department’s policies, procedures, and practices for ensuring secure and accurate cash collections, deposits, and reporting. We included the City’s hiring practices for cash handlers in our review. We met with management and asked specific questions about their response to the theft of Marina funds to determine whether they took action after the theft was discovered to prevent further occurrences. We also asked management whether they evaluated their overall cash-handling practices and performed a risk assessment to understand and address weaknesses in cash-handling operations. We met with staff in Finance-Accounting; Budget Office; and Parks, Recreation, and Waterfront to understand the actual practices in use by those who have cash-handling or fiscal-operations responsibilities. We also visited five PRW locations to witness cash-handling operations.

We reviewed industry best practices for cash-handling operations and the *COSO Internal Control-Integrated Framework* to establish benchmarks. We compared those standards against:

- City administrative regulations
- PRW’s policies, practices, and procedures
- Finance’s cash-handling manual, training programs, and accounting practices

Detailed Examination of Transactions and Trend Analysis

We did an extensive review of Marina transactions from July 2009 to April 2011 to demonstrate that the reported theft of \$650 in January 2011 was a sign of a larger problem. We expanded our work to review select PRW transactions from July 2008 to May 2013. We limited our examination to weekend transactions and adjustments, which are more likely to identify theft:

- *Weekend transactions* – We used a sample size calculator¹⁰ and input a confidence level of 95 percent and a confidence interval of 5 percent to determine a sample size of 60. We used the individual transactions to identify the deposit batches recorded to the City’s financial system, FUND\$. We examined the support for each transaction in the batch to determine whether any was altered or missing information, and to ensure that each transaction was recorded to FUND\$ in the correct amount. We identified an unusually large number of refunds at Tuolumne Camp and we expanded our audit work to quantify the amount of refunds in our sample.
- *Adjustments* – We judgmentally narrowed our selection to identify adjustments coded as corrections or reversals, greater than or equal to \$1,000, and made during the employment period when the former PRW employee used adjustments to cover theft.

¹⁰ ACL data-analytics software: <http://www.acl.com/>

This resulted in 55 adjustments for review. We examined the explanations and support to determine whether the adjustments were reasonable and necessary. We did not review the support for nine of the adjustments because it is stored offsite. Instead, we met with Finance staff and traced the money within FUND\$ to provide ourselves with reasonable assurance that those transactions were valid and necessary.

We obtained all transactions recorded to the Marina Program to analyze fiscal performance at the Marina from January 1, 2007, to June 30, 2013. Our trend analysis showed unusual patterns in fiscal activity, including highly irregular activity in launch revenue. This prompted our review of launch tickets and related revenue support from April 1, 2007, to November 30, 2007.

Data Reliability

We assessed the reliability of FUND\$ data by reviewing them for reasonableness and completeness. We found the data fields were consistently populated as expected. We traced select data to source documents to determine if it was accurate. Our [FUND\\$ Change Management Audit](#)¹¹ disclosed that Information Technology has given its programmers unrestricted access to production files. At the time we used FUND\$ data for our audit, this had not been corrected and compromised data integrity. Since we did not find any variances between the data and the underlying source documents, we concluded that the data in our sample pool was not altered. We determined the data were sufficiently reliable for the purposes of our audit.

We assessed the reliability of the Marina Program to determine if we could rely on it as a basis for quantifying the theft of Marina receipts. We compared transactions recorded in original Marina Program reports to launch ramp receipts, FUND\$ records, and deposit documentation. We identified 72 instances of forged documentation and 56 instances of missing source documentation that occurred after the activity was recorded in the Marina Program. The variances between the receipts recorded in the Marina Program and those recorded in FUND\$ allowed us to reasonably conclude that there had been theft of Marina activity revenue. This also allowed us to conclude that the Marina Program data were sufficiently reliable for examining launch revenue and to perform a trend analysis.

Standards Compliance Statement

We conducted this performance audit 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 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.

¹¹ http://www.cityofberkeley.info/uploadedFiles/Auditor/Level_3_-_General/ChgMgmtReportFinalWeb.pdf

APPENDIX B

Audit Finding, Recommendations, and Management Response Summary

Audit Title: \$52,000 Theft: More Can Be Expected Without Citywide Changes in Culture and Procedures					
Finding and Recommendations	Lead Dept.	Agree, Partially Agree, or Do Not Agree and Corrective Action Plan	Expected or Actual Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary	
Finding: Revenue collection and monitoring: theft of at least \$52,000; other thefts; and sharp, unexpected revenue declines					
1.1	Require all City staff with cash-handling responsibilities to read the following immediately and at least annually thereafter, and new employees to read the documents prior to being assigned cash-handling tasks: <ul style="list-style-type: none"> ■ Administrative Regulation 3.20, Cash Handling Policy and Guidelines ■ Administrative Regulation 3.17, Fraud, Abuse and Misuse of City Resources ■ The Basics: Cash Handling Training 101 – a PowerPoint presentation in the Finance section of Groupware 	City Manager	Agree. The City Manager will issue a memorandum to all City Department Directors, and annually thereafter, directing them to assign all employees with cash-handling responsibilities to read the policies and regulations referenced in Finding 1.1. That same memorandum will direct that new employees with cash handling assignments will be provided copies of those documents in their first week of employment.	May 30, 2014	Initial Status: Memo distributed February 28, 2014

Audit Title: \$52,000 Theft: More Can Be Expected Without Citywide Changes in Culture and Procedures					
Finding and Recommendations		Lead Dept.	Agree, Partially Agree, or Do Not Agree and Corrective Action Plan	Expected or Actual Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
1.2	<p>Require each cash-handling supervisor to:</p> <ul style="list-style-type: none"> ■ instruct all staff reporting to her or him to abide by the requirements in the documents listed in recommendation 1.1. ■ take appropriate disciplinary action when staff do not abide by the requirements. ■ obtain written approval from the department director, after discussing the risks with Finance, to implement mitigating procedures when staffing levels do not allow full compliance with the requirements in those documents. 	City Manager	<p>Agree. The Memorandum to Department Directors noted in response to Finding 1.1 above will also include a directive that supervisors in each Department reinforce the requirements set forth in the documents referenced in Finding 1.1. With respect to disciplinary action, managers and supervisors will abide by the appropriate progressive discipline process as set forth in the various memoranda of agreement with the bargaining units.</p>	June 30, 2014	<p>Initial Status: Memo distributed February 28, 2014</p>
1.3	<p>Require cash-handling supervisors to identify requirements in the documents listed in recommendation 1.1 that currently are not being followed and whether any of the cash-handling deficiencies identified by the Auditor’s Office and listed in Appendix</p>	City Manager	<p>Agree. The City Manager will issue a Memorandum to all Department Directors that requests each Department to identify any cash handling deficiencies in its operations and to work with the Finance Department as needed to resolve those deficiencies as soon as possible.</p>	June 30, 2014	<p>Initial Status: Memo distributed February 28, 2014</p>

Audit Title: \$52,000 Theft: More Can Be Expected Without Citywide Changes in Culture and Procedures					
Finding and Recommendations		Lead Dept.	Agree, Partially Agree, or Do Not Agree and Corrective Action Plan	Expected or Actual Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
	F exist in each supervisor’s area of responsibility. Take immediate corrective action to ensure compliance with City cash-handling policies and to eliminate deficiencies listed in Appendix F.				
1.4	<p>Communicate with department directors the City’s commitment to reaching goals for revenue maximization by requiring departments to:</p> <ul style="list-style-type: none"> ■ Perform revenue trend analyses at a granular level to look for unexpected and unexplained changes in revenue by activity, for example, boat launch and camp registrations. The analyses should include year-to-year comparisons with detail by month so management can compare activity against prior years to see if it is consistent or reflects changes, such as fee increases. 	City Manager	Agree. The City Manager will issue a Memorandum to Department Directors with the information included in this Finding. The Memorandum will offer the assistance of the Budget Office with regard to processes for budget analyses and modifications should Departments need assistance in improving their processes.	June 30, 2014	Initial Status: Memo distributed February 28, 2014

Audit Title: \$52,000 Theft: More Can Be Expected Without Citywide Changes in Culture and Procedures				
Finding and Recommendations	Lead Dept.	Agree, Partially Agree, or Do Not Agree and Corrective Action Plan	Expected or Actual Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
<ul style="list-style-type: none"> ■ Work with Finance to investigate anomalies that signal theft or other significant problems affecting the City’s ability to maximize revenue and reach targets. ■ Provide oversight of adjusting journal entries and nonroutine budget modifications so that someone does not both request and approve entries. Oversight options include: <ul style="list-style-type: none"> ▫ Having a department manager approve entries that are requested by a supervisor but prepared by clerical staff. ▫ Having another employee who does not directly report to the supervisor who requested the entry approve it, so long as that person has a reasonable understanding of departmental and City operations and enough authority to raise concerns about the entry. 				

Audit Title: \$52,000 Theft: More Can Be Expected Without Citywide Changes in Culture and Procedures					
Finding and Recommendations		Lead Dept.	Agree, Partially Agree, or Do Not Agree and Corrective Action Plan	Expected or Actual Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
	<ul style="list-style-type: none"> ▫ Having a manager not involved with adjusting journal entries and budget modifications sample nonroutine adjustments on a regular basis (for example, monthly) to check that the entries were for a legitimate need. 				
1.5	Work with the Department of Human Resources to establish a list of all positions that have cash-handling responsibilities to identify positions that require background checks as part of the hiring process.	City Manager	Agree.	December 31, 2014	Initial Status: Partially implemented. The Department of Parks Recreation & Waterfront has identified all positions for which cash handling is a responsibility and provided that information to Human Resources on January 17, 2014. For any position identified as responsible for handling cash, background checks will be performed for the recommended candidates.

Audit Title: \$52,000 Theft: More Can Be Expected Without Citywide Changes in Culture and Procedures					
Finding and Recommendations		Lead Dept.	Agree, Partially Agree, or Do Not Agree and Corrective Action Plan	Expected or Actual Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
1.6	Establish a requirement to have staff who currently perform cash-handling activities undergo the same thorough background check that is required for potential new cash handlers, if they were grandfathered in after City established the requirement. Take immediate action to perform the background checks, if agreement is reached.	City Manager	Agree. Compliance with this Finding is dependent upon a meet and confer process with the affected Unions. The City Manager agrees to request that the Unions participate in a meet and confer process regarding this issue and agrees to report on the outcome of that process once concluded. The meet and confer process will also need to address the outcome should an existing employee undergo a background check that identifies an area of concern based on the Auditor’s recommendation, yet this employee has never received any disciplinary action during their tenure with the City.	June 30, 2015	
1.7	Work with Finance to dedicate personnel to be responsible for citywide cash-handling improvements. The personnel should: <ul style="list-style-type: none"> ■ Be classified at a sufficiently senior level to be able to provide definitive guidance to senior 	City Manager	Agree. Senior level staff in the Finance Department will be responsible for City-wide cash handling guidelines, training, oversight and final review of Department specific processes. The timing of the ultimate staff assignments is dependent upon successful implementation of other	June 30, 2015	

Audit Title: \$52,000 Theft: More Can Be Expected Without Citywide Changes in Culture and Procedures					
Finding and Recommendations		Lead Dept.	Agree, Partially Agree, or Do Not Agree and Corrective Action Plan	Expected or Actual Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
<p>management on a reasonably equal footing.</p> <ul style="list-style-type: none"> ■ Have a strong background in accounting, auditing, and policies, practices, and procedures for cash handling. ■ Excellent written and oral communication skills. ■ Be responsible for: <ul style="list-style-type: none"> ▫ Giving guidance to staff in all City departments. ▫ Rewriting cash-handling and related administrative regulations. ▫ Developing standard citywide cash-handling procedures. ▫ Providing ongoing cash-handling training and monitoring. ▫ Enforcing cash-handling policies. <p>Also see recommendations 1.9 to 1.13.</p>			<p>automated processes such as Accela for Business License Tax payments, Official Payments for on-line payments for various lines of business including building permits and implementation of an updated General Cashiering system that is vital to City-wide operations.</p> <p>The plan will be to utilize the Revenue Collection Manager in the Treasury Division, the Revenue Development Supervisor and a Revenue Development Specialist (to be hired), under the direction of the Finance Director to accomplish these responsibilities.</p> <p>The Finance Department restarted citywide cash-handling training on November 15, 2012, and will restart ongoing monitoring of cash-handling operations at all of the City's cash-handling sites, to ensure compliance with cash-handling policies and procedures, as soon as several technology upgrades are completed and personnel are available.</p>		

Audit Title: \$52,000 Theft: More Can Be Expected Without Citywide Changes in Culture and Procedures					
Finding and Recommendations		Lead Dept.	Agree, Partially Agree, or Do Not Agree and Corrective Action Plan	Expected or Actual Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
1.8	<p>In collaboration with the Department of Information Technology, implement a general cash-handling system to serve as the city’s single portal for all cash-collection activities. Such a system would allow Finance to:</p> <ul style="list-style-type: none"> ■ Integrate with the City’s financial system, FUNDS\$, for automatic input of cash receipts. ■ Remove manual processes (e.g., reconciliations) and free up staff time to perform other cash-handling oversight activities. ■ Develop graphic workflow maps that can generate procedures for processing cash transactions, and identify the specific positions assigned to each step in the cash-handling sequence. ■ Use automated restrictions to prevent staff from processing cash transactions when they: <ul style="list-style-type: none"> ▫ Have not taken the required cash-handling training. 	Finance	<p>Agree. To deal with the impact on cash-handling and cash reconciliations of other City departments upgrading their software, plans are already underway to procure centralized cashiering software. Centralized cashiering software is software that all kinds of other operating software, including financial, can integrate with seamlessly. It could allow the City to:</p> <ol style="list-style-type: none"> 1. Implement automated restrictions to prevent staff from processing , if they are not authorized or have not completed required training; 2. Automate input/output for receipting; 3. Drastically decrease the number of paper-based and manual processes (e.g., reconciliations), and free staff time to perform other work; and, 4. Help produce workflow maps to explain processing procedures. 	June 30, 2015	

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Finding and Recommendations		Lead Dept.	Agree, Partially Agree, or Do Not Agree and Corrective Action Plan	Expected or Actual Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
	<ul style="list-style-type: none"> ▫ Are not assigned to processing cash-receipt transactions. 		Currently, each of the new non-FUND\$ software has its own cashiering system. As software in operating departments is added or replaced, it causes additional cash balancing steps and results in an inefficient reconciliation process, and challenges data integrity. Centralized cashiering software can resolve these problems for the Finance Customer Service Counter and Accounting staff.		
1.9	<p>Rewrite Administrative Regulation 3.20, Cash Handling Policy and Guidelines to:</p> <ul style="list-style-type: none"> ■ Define the roles of the personnel dedicated to citywide cash-handling improvements. Also see recommendation 1.7. ■ Make it City policy that: <ul style="list-style-type: none"> ▫ Cash-handling guidance and policy enforcement is a centralized function in Finance. ▫ Finance is responsible for establishing a single set of 	Finance	<p>Agree. AR 3.20 will be revised to include the roles of the Finance staff dedicated to citywide cash-handling operations and the roles of City departments that manage cash-handling operations.</p> <p>The AR will be clear that Finance is responsible for providing guidance to departments by developing citywide cash-handling guidelines, and by providing guidance to departments' in the departments' development of supplemental procedures tailored to their cash-handling operations.</p>	June 30, 2015	

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Finding and Recommendations		Lead Dept.	Agree, Partially Agree, or Do Not Agree and Corrective Action Plan	Expected or Actual Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
	<p>citywide cash-handling procedures so that staff throughout the City use standard best practices. Also see recommendation 1.12.</p> <ul style="list-style-type: none"> ▫ Finance is responsible for providing guidance to departments in developing supplemental procedures to address activities that apply only to a particular location, for example, securing and monitoring boat launch revenues at the Marina. Also see recommendation 1.13. ▫ Department managers report in writing to the City Manager, with a copy to the Finance Director, the risk to revenue and staff when resource limitations prevent them from following cash-handling best practices. ▫ Cash-handling training is mandatory for new cash 		<p>The AR will also be revised to detail the mandatory training requirements and other steps required before employees can handle City cash.</p>		

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Finding and Recommendations		Lead Dept.	Agree, Partially Agree, or Do Not Agree and Corrective Action Plan	Expected or Actual Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
	<p>handlers before they begin handling cash, at least every two years for current employees, and every five years for management. Also see recommendation 1.10.</p> <ul style="list-style-type: none"> ▫ Cash handlers read the documents as discussed in recommendations 1.1. ▫ Supervisors perform the review of cash-handling operations as discussed in recommendation 1.3. 				
1.10	<p>Provide ongoing training to staff with cash-handling and fiscal operations responsibilities. Training can be accomplished using in-person and online formats and should include:</p> <ul style="list-style-type: none"> ■ General and supervisor sessions covering the City standards discussed in Administrative Regulation 3.20: Cash Handling Policy and Guidelines, and the 	Finance	<p>Agree. The ongoing cash-handling training will be modified to incorporate training specifically for new employees who may not have work experience, or unique cash-handling operations, and training specifically geared towards managers and their responsibilities for establishing, monitoring, evaluating, and adjusting internal control procedures.</p>	June 30, 2015	

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Finding and Recommendations		Lead Dept.	Agree, Partially Agree, or Do Not Agree and Corrective Action Plan	Expected or Actual Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
	<p>citywide cash-handling procedures. Also see recommendations 1.9 and 1.12.</p> <ul style="list-style-type: none"> ■ Site-specific sessions to cover supplemental procedures to City standards for cash-handling needs unique to different locations. Also see recommendation 1.9, 1.12, and 1.13. ■ New-employee sessions for employees hired for seasonal work and who may have no work or cash-handling experience. ■ Management sessions covering best practices and mitigating procedures, monitoring those in charge of fiscal operations, and identifying signs of theft. 				
1.11	<p>Provide ongoing monitoring of cash-handling and fiscal operations. This includes:</p> <ul style="list-style-type: none"> ■ Reviewing a sample of the work done by those with cash-handling 	Finance	Agree. After the Revenue Development Specialist position is filled, Finance will re-start the ongoing monitoring of citywide cash-handling operations. This review will include, among other things, monitoring	June 30, 2015	

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Finding and Recommendations		Lead Dept.	Agree, Partially Agree, or Do Not Agree and Corrective Action Plan	Expected or Actual Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
	<p>oversight responsibilities to ensure they are not performing work for which they provide oversight.</p> <ul style="list-style-type: none"> ■ Ensuring compliance with cash-handling policies and procedures. ■ Performing surprise cash counts and evaluations of actual practices. ■ Ensuring access to accounting systems, safes, and cash-handling locations is restricted to the minimum number of staff needed to perform authorized tasks, and that access is divided among enough staff to prevent an individual from being able to steal and conceal the theft. ■ Denying exceptions to daily deposits for departments that have known cash-handling deficiencies. ■ Reexamining cash-handling activities annually for all locations that have daily-deposit exceptions to ensure they continue to meet City standards. 		<p>for compliance with cash-handling policies and procedures, and the performance of surprise cash counts.</p>		

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Finding and Recommendations		Lead Dept.	Agree, Partially Agree, or Do Not Agree and Corrective Action Plan	Expected or Actual Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
1.12	<p>Revise citywide cash-handling policies and procedures. These procedures should:</p> <ul style="list-style-type: none"> ■ Explain cash-handling policies, practices, and procedures in such a way that it can be understood by those who are not experts in cash handling. ■ Incorporate best practices for cash handling, which includes separating tasks among employees to ensure they cannot perform inappropriate combinations of activities that would allow them to commit or conceal theft. Also see Appendix D. ■ Describe mitigating practices that are acceptable for departments to follow when best practices cannot be used because of limited staffing, money, or time. ■ Explain “<i>why</i>”: why cash-handling activities are separated, why tasks must be performed so staff understand the importance of their 	Finance	<p>Agree. The citywide cash-handling procedures will be revised to include the following:</p> <ol style="list-style-type: none"> 1. Detailed explanation of each of the policies or procedures , and their purpose 2. Best practices for segregating duties and responsibilities 3. Best practices for receiving funds 4. Best practices for custody of funds 5. Best practices for depositing funds 6. Best practices for reconciling funds 	June 30, 2015	

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Finding and Recommendations		Lead Dept.	Agree, Partially Agree, or Do Not Agree and Corrective Action Plan	Expected or Actual Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
	<p>work, and why omitting steps could make the City vulnerable to theft and loss and compromise employee safety.</p> <ul style="list-style-type: none"> ■ Define the standard forms, equipment, and supplies staff are to use for cash-handling activities. For example, standard deposit forms, safes, cash registers, and tamperproof bags. ■ Explain every employee’s responsibility to protect the City against fraud, abuse, and misuse, and report suspected or known fraud, abuse, and misuse in accordance with the requirements in Administrative Regulation 3.20, Cash Handling Policy and Guidelines. ■ Require supervisors who do not accept and record cash to reconcile standalone accounting systems to the City’s financial system, FUND\$, and investigate variances. 				

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Finding and Recommendations		Lead Dept.	Agree, Partially Agree, or Do Not Agree and Corrective Action Plan	Expected or Actual Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
	<ul style="list-style-type: none"> ■ Explain that departments must provide Finance with assurance that a location requesting a daily-deposit exception, including exception renewals, has the ability to secure and protect City money from loss until it can make the deposit before Finance will approve an exception. ■ Require daily-deposit exception approvals to have one-year expiration dates and for Finance to renew the exception before a department can continue with its exception to daily deposits. 				
1.13	Develop supplemental cash-handling procedures describing activities unique to site-specific operations to accompany Finance’s cash-handling manual. Obtain guidance from Finance to ensure that these procedures adequately protect cash and cash handlers. Also see recommendations 1.9 and 1.12.	All Departments	Agree. Each City cash-handling site will have specific procedures tailored to site-specific operations. Departments will obtain guidance from Finance regarding whether or not these procedures secure cash and protect cash handlers.	June 30, 2015	Initial Status: Partially implemented. PRW procedures are currently being revised and updated. Other City departments will respond at a later date.

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Finding and Recommendations		Lead Dept.	Agree, Partially Agree, or Do Not Agree and Corrective Action Plan	Expected or Actual Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
1.14	Install a launch-ramp ticket machine that accepts credit and debit cards for payment.	PRW	Agree. A new machine that accepts cash and credit cards has been purchased and installed at the Marina launch ramp.	February 1, 2014	Initial Status: Implemented.
1.15	In connection with recommendation 1.14, install an access system such as barrier arms that open only after providing a paid ticket at the launch area to ensure boaters pay for a launch before using the ramp. This may require PRW to redesign the parking area to provide enough space for boaters to park their vehicles and trailers after they pay for the launch ticket and still have access to the amenities (boat-washing stations, etc.). The parking area should have a separate exit that opens by sensing that a vehicle has driven up to it so that boaters are not required to use a ticket to exit, since there is a likelihood tickets will get wet, which could cause machinery to malfunction.	PRW	Agree. The PRW Department will design and install a barrier arm system in concert with the launch ramp ticket machine.	September 2014	Initial Status: Design and configuration options are under consideration. Approximate one-time construction and installation costs will be \$55,000; and annual costs for service and maintenance will be approximately \$10,000.

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Finding and Recommendations		Lead Dept.	Agree, Partially Agree, or Do Not Agree and Corrective Action Plan	Expected or Actual Implementation Date	Status of Outstanding Audit Recommendations and Implementation Progress Summary
1.16	Require customers to pay for their goods at the time of purchase and cease the use of tabs at camps and other locations, if any, that allow for this practice.	PRW	Agree. The Department agrees that there was some inherent risk in the practice of allowing campers at the Berkeley Tuolumne Camp to run tabs for purchases at the camp store. It was a much appreciated service that the BTC campers relied on to protect children at the camp from carrying sums of money for small purchases at the camp store. However, the Department is evaluating the risk and will propose an alternative, risk-mitigating action for the 2014 family camp.	May 1, 2014	Initial Status: The practice of allowing tabs occurred only at the Berkeley Tuolumne Camp. This practice has been suspended and risk-mitigating options for providing this service are under consideration for the summer 2014 camp season.
1.17	Enforce its budget modification procedures by requiring a signature on the support documentation from the supervisor who approves budget modifications, and reject budget modifications that lack signatures from both the preparer and approver.	Budget Office	Agree. All budget modifications should have two signatures, one signature not being that of the same person who prepared the modification in FUND\$. This dual signature policy will be enforced and the Budget Office will (1) reject budget modifications that do not contain dual signatures, and (2) ensure that one of the signatures is not that of the preparer of the budget modification.	February 13, 2014	Initial Status: Implemented. The importance of enforcing the dual signature policy has been reiterated to Budget Office staff.

APPENDIX C

Cash-Handling Audits from 2002 to 2009*

Department	Issue Date	Audit Title	Total Recommendations
Parks, Recreation, and Waterfront	September 17, 2002	Parks, Recreation, & Waterfront – Cash Receipts/Cash Handling Audit	20
Finance	September 17, 2002	Treasury – Cash Receipts/Cash Handling Audit	19
Finance	April 8, 2003	Customer Service Cash Receipts/Cash Handling Audit	23
Public Works	July 8, 2003	Transfer Station Cash Receipts/Cash Handling Audit	20
Finance	May 16, 2006	Follow-Up Cash Receipts/Cash Handling Audit	7
Parks, Recreation, and Waterfront	October 9, 2007	Marina Surprise Cash Count Audit: Controls Over Cash Receipts Need Improvement	5
City Manager’s Office	October 9, 2007	Animal Shelter Surprise Cash Count Audit: Controls Need Improvement	6
Planning and Development	November 6, 2007	Permit Service Center Surprise Cash Count: Need to Address Long Standing Security and Accountability Concerns	5
Parks, Recreation, and Waterfront	November 6, 2007	Nature Center Surprise Cash Count Audit: Controls Over Cash Receipts Need Improvement	7
Finance	January 15, 2008	Taxi Scrip Cash Count Audit – Controls Over Cash Handling Need Improvement	5
Public Works	November 18, 2008	Transfer Station Receipts: Additional Improvements Needed	6
Health Services	December 15, 2009	Mental Health Adult Clinic Surprise Cash Count: Client Funds Could Be Lost, Stolen, or Misused	6
Total:			129

*All reports are available at <http://www.cityofberkeley.info/ContentDisplay.aspx?id=7236>

APPENDIX D

Cash-Handling Best Practices

<p><i>Separate Activities</i></p>	<p>Have different people:</p> <ul style="list-style-type: none"> ▫ Receive and deposit cash ▫ Record cash payments to accounting systems ▫ Reconcile cash receipts to deposits and financial systems ▫ Bill for goods and services ▫ Follow up on collection of returned checks ▫ Distribute payroll and other checks
<p><i>Accountability, Authorization, and Approval</i></p>	<p>Ensure cash is accounted for, secured, and traceable to staff:</p> <ul style="list-style-type: none"> ▫ Record cash receipts at the moment received ▫ Keep money secure at all times ▫ Document transfers of money – physically and within accounting systems ▫ Give receipts to customers (regardless of whether they request one) ▫ Have cashiers create and use their own unique login identification ▫ Never share passwords, codes, or keys ▫ Give each cashier a separate cash drawer ▫ Require supervisors to witness preparation of and to verify deposits ▫ Require supervisors to approve voids and refunds at the moment they occur ▫ Have two people sign as witnesses of deposits added to and removed from a safe, and transported for deposit to the bank <p>When proper accountability exists, management can answer the four W’s:</p> <ul style="list-style-type: none"> ▫ Who has access to cash ▫ Why they have access to cash ▫ Where cash is at all times ▫ What has occurred from beginning to end of a transaction
<p><i>Security of cash and employees handling cash</i></p>	<p>Protect employees and cash:</p> <ul style="list-style-type: none"> ▫ Conduct background checks on all prospective cash handlers ▫ Conduct cash transactions in public view (in front of customer) and count cash out of public view

	<ul style="list-style-type: none"> ▫ Have two people conduct cash counts to verify reconciliations and deposits ▫ Restrict access to cash to as few people as possible ▫ Lock cash in a secure location, such as a safe ▫ Use tamperproof deposit bags and locking moneybags ▫ Provide passwords, combinations, and keys only to authorized employees ▫ Change passwords, combinations, and keys at least once a year and when there is employee turnover ▫ Minimize how much money is held overnight ▫ Use a buddy system when taking money from one location to another ▫ Install panic buttons in cash-handling locations ▫ Use security cameras to monitor cash-handling areas
<p><i>Review and Reconciliation</i></p>	<p>Confirm transactions are recorded correctly:</p> <ul style="list-style-type: none"> ▫ Record cash receipts when received ▫ Count, balance, and deposit cash receipts daily ▫ Compare receipts to deposit records ▫ Perform periodic surprise cash counts ▫ Review actual practices at least annually ▫ Update procedures to address gaps or improve operations ▫ Monitor trends; investigate unexpected trends and significant deviations from expected results (e.g., $\pm 5\%$)

APPENDIX E

Cash-Handling Matrices

Management can use the following matrices as guides in determining whether cash-handling tasks are properly separated among staff so that an employee is not given the opportunity to commit and conceal theft. Ideally, management should use the three-person matrix. When staffing limitations prevent that, management should use the two-person matrix to put detection procedures in place that would make it difficult for an employee to conceal theft.

Three-Person Cash-Handling Operation						
Best Practice						
	Accepts Payment	Prepares deposit	Reconciles receipts to deposit	Records deposit to GL	Makes cash deposit	Compares deposits to GL entries
Individual #1	X				X	
Individual #2		X				
Individual #3			X	X		X

Two-Person Cash-Handling Operation						
Mitigates Risk When Three-Person Operation is Not Possible						
	Accepts Payment	Prepares deposit	Reconciles receipts to deposit	Records deposit to GL	Makes cash deposit	Compares deposits to GL entries
Individual #1	X	X			X	
Individual #2			X	X		X

APPENDIX F

Problems Cited During Site Visits

We visited five PRW cash-handling locations during our audit and witnessed practices that either were actual problems or could lead to problems if not addressed. We are specifically not citing the location where we observed a problem because the focus needs to be on widespread cash management, not on fixing a problem only at the location where we saw it. We also reviewed cash-handling procedures that are or could be potential problems. Our goal is to provide management with information about the risks associated with the practices we witnessed so they can make informed improvements to protect cash and employees. We recognize that there may be established procedures that address the potential problem, but we did not witness those practices and so cannot form an opinion about their usefulness. Therefore, we are citing the issue to provide management with information to make informed decisions. Although we provide details to help management, this table does not list every possible risk or solution. It does, however, help management see the different methods it can use to reduce theft and error, including those that management may use to mitigate risks when best practices cannot be implemented.

CASH REGISTERS AND SECURITY		
Problem or Potential Problem	Risks	Best Solutions
Cash register key kept in register during operating hours.	<ul style="list-style-type: none"> ■ A cashier could inadvertently forget to turn the operating mode to “off” when he or she leaves the register momentarily. This would give others the ability to use the register to access the cash: employees not assigned to cashier, vendors onsite to do repairs, customers left unattended, and so on. This access makes it difficult to identify who stole money and prosecute the thief. It also makes honest people look guilty. ■ Someone other than the supervisor could switch from basic operating mode to void or programming mode. 	<ul style="list-style-type: none"> ■ A register should have two keys: one for regular cashiering operations and another for programming and voiding transactions: <ul style="list-style-type: none"> ▫ Only the supervisor should have the key to switch the register to programming and void modes. ▫ Only the cashier assigned to the register should have the operations key. The cashier should always put the register in the “locked” position and remove the key when walking away from the register. ▫ Lock all keys in a safe during nonoperating hours. <p>Why do this? – Management will know who has access to the cash and when. This will help them identify a thief and clear the name of innocent employees.</p>

CASH REGISTERS AND SECURITY		
Problem or Potential Problem	Risks	Best Solutions
Cash register not turned on until first transaction occurs.	<ul style="list-style-type: none"> ■ Staff may not have closed out the register at the end of the previous shift and those transactions will be included in the day's sales. This will cause the register to not balance at the end of the day. ■ Staff would not be aware of a register malfunction until a customer is present to pay. This could result in the customer walking away frustrated or provide an opportunity for staff to collect cash and not enter into the register. 	<ul style="list-style-type: none"> ■ Turn on the cash register as part of opening procedures. <p>Why do this? – Cash handlers are able to verify that the starting total is at zero and that the cash register is in proper working order before business begins.</p>
Cash register has quick release button allowing unrestricted access to cash drawer.	<ul style="list-style-type: none"> ■ Anyone near the register could steal cash: the cashier, other employees, vendors onsite to do repairs, customers left unattended, and so on. This access makes it difficult to identify who stole money and prosecute the thief. It also makes honest people look guilty. 	<ul style="list-style-type: none"> ■ Use cash registers that do not have a quick-release lever. - or - ■ Use a register that requires the cash drawer to be unlocked for this lever to work and keep the cash drawer locked when the register is unattended, even if only momentarily. <p>Why do this? – Management will know who has access to the cash and when. This will help them identify a thief and clear the name of innocent employees.</p>
Cashiers share cash register/drawer; others have access when cashier is on break or at lunch.	<ul style="list-style-type: none"> ■ One of the cashiers could steal money and management would not be able to determine which one. This access makes it difficult to identify who stole money and prosecute the thief. It also makes honest people look guilty. 	<ul style="list-style-type: none"> ■ Require a 1:1 relationship with a cash drawer and cashier. Management can: <ul style="list-style-type: none"> ▫ Use multiple registers and assign a specific employee to a specific register at the start of each shift. - or -

CASH REGISTERS AND SECURITY		
Problem or Potential Problem	Risks	Best Solutions
		<ul style="list-style-type: none"> ▫ Allow only one person to cashier throughout the day. - or - ▫ Assign cash drawers to individual cashiers and require a change in cash drawer when one cashier fills in while the other goes to lunch or takes a break – this is a standard practice used at grocery stores during shift changes. Cashiers should lock the lids on their individual cash drawers and keep their keys on a wrist key coil, then lock the drawer in a safe that physically cannot be opened unless two people are present to use their unique codes to open it. <p>Why do this? – Management will know who has access to the cash and when. This will help them identify a thief and clear the name of innocent employees.</p>
<p>Money kept under cash drawer overnight.</p>	<ul style="list-style-type: none"> ▪ An after-hours employee, contractor, or burglar could break open the cash drawer and steal the money. 	<ul style="list-style-type: none"> ▪ Do the daily close out / reconciliation for each cash drawer at the end of the business day, put each deposit in a tamperproof bag, and seal it. Combine the sealed tamperproof bags into a locking moneybag, lock it, and then: <ul style="list-style-type: none"> ▫ Deposit the money at the bank. - or - ▫ Put the moneybag in a drop safe that physically cannot be opened unless two people are present to use their unique code to open it. Transfer the deposit to the bank or Finance the next business day.

CASH REGISTERS AND SECURITY		
Problem or Potential Problem	Risks	Best Solutions
		<p>Why do this? – Management will know who has access to the cash and when. This will help them identify a thief and clear the name of innocent employees. This also secures money so that it cannot be taken during a burglary.</p>
<p>Staff sometimes leave the office door unlocked when they leave to attend to program activities.</p>	<ul style="list-style-type: none"> ■ A visitor, contractor, or other employee from another division/department could: <ul style="list-style-type: none"> ▫ Get access to the cash drawer, especially if the key is in the register and/or the cash drawer is not locked. ▫ Steal records with sensitive information or other city property. 	<ul style="list-style-type: none"> ■ Lock the office when unattended so that it is limited to only staff with necessary and assigned access. ■ Place an easy-to-read sign where customers will see it explaining why someone is absent and instructions on what to do. Include specific return times, e.g., be back in five minutes, not vague statements, e.g., be back shortly. <p>Why do this? – Management will know who has access to the cash, other city property, and customer information. This will help them identify a thief and clear the name of innocent employees. This also keeps sensitive materials from being stolen or seen by others.</p>
<p>Keys to cash register, safes, and/or money-collection systems are kept in open areas on hooks or in containers.</p>	<ul style="list-style-type: none"> ■ Anyone who enters the open area could get the keys and steal cash: other employees, vendors onsite to do repairs, customers left unattended, and so on. This access makes it difficult to identify who stole money and prosecute the thief. It also makes honest people look guilty. 	<ul style="list-style-type: none"> ■ Use cash registers that require two keys: one for the cashier for regular cashiering operations and one for the supervisor for programming and voiding a transaction. Then require cashiers and supervisors to keep their keys on a wrist key coil during their shift. ■ Use money-collection systems (for example, unattended ticketing machines) that require two keys for access. ■ Use a safe that requires two different codes to open it and, preferably, that can store multiple codes so that every cashier and supervisor has his or her own unique code, and:

CASH REGISTERS AND SECURITY		
Problem or Potential Problem	Risks	Best Solutions
		<ul style="list-style-type: none"> ▫ Lock the cash register keys in this safe during nonoperating hours. ▫ Lock the keys to money-collection systems in this safe until it is time to collect the money. ▫ Keep the backup key to the safe used for opening it if the batteries fail or someone forgets their code in the custody of a manager who does not have access to the location where the registers and safe are kept. ▫ Make it a clear policy that cashiers and supervisors should <u>never</u> share their codes and that doing so will lead to disciplinary action. ▫ Clear out an employee’s code as soon as he or she no longer requires access to the safe. ▫ Change codes at least annually. <p>Why do this? – Management will know who has access to the cash, other city property, and customer information. This will help them identify a thief and clear the name of innocent employees. This also keeps sensitive materials from being stolen or seen by others.</p>
Keys to cash register and/or safe not marked “do not duplicate.”	<ul style="list-style-type: none"> ▪ Staff could make copies of keys and either gain access to cash, other city property, and customer information when alone, or give the key to someone else for that purpose. ▪ Staff could make copies of keys thinking it is a good idea to have a spare and then management will not be aware of how many keys are in use. 	<ul style="list-style-type: none"> ▪ Mark all keys with “do not duplicate” to serve as a deterrent against making copies. ▪ Use safes that use codes rather than keys, require two different codes to open them, and, preferably, that can store multiple codes so that every cashier and supervisor has his or her own unique code, and: <ul style="list-style-type: none"> ▫ Keep the backup key to the safe used for opening it if the batteries fail or someone forgets their

CASH REGISTERS AND SECURITY		
Problem or Potential Problem	Risks	Best Solutions
		<p>code in the custody of a manager who does not have access to the location where the registers and safe are kept.</p> <ul style="list-style-type: none"> ▫ Make it a clear policy that cashiers and supervisors should <u>never</u> share their codes and that doing so will lead to disciplinary action. ▫ Clear out an employee’s code as soon as he or she no longer requires access to the safe. ▫ Change codes at least annually. <p>Why do this? – Management will know who has access to the cash, other city property, and customer information. This will help them identify a thief and clear the name of innocent employees. This also keeps sensitive materials from being stolen or seen by others.</p>
No panic buttons.	<ul style="list-style-type: none"> ▪ Employees are not able to call for help as soon as they need it. This increases the risk to their safety and makes it more likely that a thief or violent offender will get away. 	<ul style="list-style-type: none"> ▪ Install panic buttons at all sites that perform cash-handling functions. <p>Why do this? – This provides employees with better security and allows them to call for help faster without raising suspicion. This will also help the police catch the criminal.</p>
Cashiers are instructed to retain counterfeit money and fraudulent credit cards from customers trying to use them.	<ul style="list-style-type: none"> ▪ Employee safety is at risk. Someone intentionally using counterfeit money or a fraudulent credit card may become hostile and act violently. 	<ul style="list-style-type: none"> ▪ Have cashiers tell the customer that they believe the money or credit card is fraudulent and they are unable to accept it as payment. Offer to surrender it to police on the customer's behalf, but return the money or card to the customer if the customer declines the offer. ▪ Notify the police and submit a report, along with as much of the customer's information as possible.

CASH REGISTERS AND SECURITY		
Problem or Potential Problem	Risks	Best Solutions
		<ul style="list-style-type: none"> ▪ Ask the police what they recommend as further action to take to protect the City against the use of counterfeit bills and fraudulent credit cards, and to improve employee safety. <p>Why do this? – This improves employee safety.</p>
Cash register area (e.g., office) secured but unattended.	<ul style="list-style-type: none"> ▪ Customers will not understand where everyone is and will get frustrated because they need assistance or want to pay for a service. ▪ Customers could decide they will no longer use City services and programs because they believe the City provides poor service. ▪ Customers may justify not paying outstanding bills by saying, “no one was around when I went to pay my bill!” ▪ Customers may take other City assets that are at the facility. 	<ul style="list-style-type: none"> ▪ Hire dedicated cashiers who are not involved with program operations so that cash register areas are attended at all times during working hours by someone who has a good understanding of cash-handling practices. - or - ▪ For locations that have few transactions throughout the day, place an easy-to-read sign where customers will see it explaining why someone is absent and instructions on what to do. Include specific return times, not vague statements such as “be back shortly.” <p>Why do this? – The City will collect more revenue and keep customers from getting frustrated and upset, which reduces the number of complaints staff have to handle. Customers will be pleased with the service they received and may encourage others to use City services and programs.</p>
Safe requires only one person to open.	<ul style="list-style-type: none"> ▪ Staff could access the safe when alone and take the cash or other city property, and deny that they accessed the safe. Their ability to deny they accessed the safe is increased when keys can be duplicated and/or codes are shared: If suspected of 	<ul style="list-style-type: none"> ▪ Use safes that require two people to be present to open them using their own unique codes and, preferably, that can store multiple codes so that every cashier and supervisor has his or her own unique code, and:

CASH REGISTERS AND SECURITY		
Problem or Potential Problem	Risks	Best Solutions
	<p>theft, they can claim that many other people have a key or that they gave their password to others, which makes it difficult to prove their guilt (or innocence).</p> <ul style="list-style-type: none"> ▪ Makes it difficult to identify who stole money and prosecute the thief. It also makes honest people look guilty. 	<ul style="list-style-type: none"> ▫ Keep the backup key to the safe used for opening it if the batteries fail or someone forgets their code in the custody of a manager that does not have access to the location where the registers and safe are kept. ▫ Make it a clear policy that cashiers and supervisors should <u>never</u> share their codes and that doing so will lead to disciplinary action. ▫ Clear out an employee’s code as soon as he or she no longer requires access to the safe. ▫ Change codes at least annually. <p>Why do this? – Management will keep City money secure and know who has access to cash and other city property and when. This will help them identify a thief and clear the name of innocent employees.</p>
<p>Safe combination not changed periodically and/or after staffing change.</p>	<ul style="list-style-type: none"> ▪ Money and other city assets could be stolen because: <ul style="list-style-type: none"> ▫ More people have the code than necessary. ▫ A disgruntled employee no longer working for the City will know how to open the safe and find a way to take advantage of that fact. <p>This access makes it difficult to identify who stole money and prosecute the thief. It also makes honest people look guilty.</p>	<ul style="list-style-type: none"> ▪ Change combinations: <ul style="list-style-type: none"> ▫ At least once a year. ▫ Immediately after there are staffing changes. ▫ Immediately after someone who usually does not have access is given a temporary code, for example, to cover for someone on vacation. <p>Why do this? – Management will keep City money secure and know who has access to the cash and other city property and when. This will help them identify a thief and clear the name of innocent employees.</p>

CASH REGISTERS AND SECURITY		
Problem or Potential Problem	Risks	Best Solutions
<p>Staff who might transport money to Finance have key to moneybag.</p>	<ul style="list-style-type: none"> ■ The transporter could: <ul style="list-style-type: none"> ▫ Take out the deposit and alter it, including creating forged deposit documents to cover the theft. ▫ Claim to have been robbed while transporting the money and steal the City’s deposit. <p>This access makes it difficult to identify who stole money and prosecute the thief. It also makes honest people look guilty.</p>	<ul style="list-style-type: none"> ■ Moneybags should have no more than two keys: <ul style="list-style-type: none"> ▫ One kept by the final recipient of the moneybag, i.e., Finance or the bank. ▫ One kept at the cash-handling location in a safe that requires two people present to open it and retrieve the key to lock the moneybag. ■ Supervisors and cashiers should verify together that everything has been added to the moneybag before locking it. This will help prevent a need to reopen to the bag to add an item. Only in rare occasions should the moneybag need to be opened at the cash-handling location once it is locked. <p>Why do this? – Management will keep City money secure and know who has access to the cash and when. This will help them identify a thief and clear the name of innocent employees.</p>
<p>Safe combination given to supervisor who is not supposed to have access.</p>	<ul style="list-style-type: none"> ■ Provides the supervisor the opportunity to access the safe to steal cash. This access makes it difficult to identify who stole money and prosecute the thief. It also makes honest people look guilty. ■ Indicates that staff do not understand the risks involved with giving out their codes, e.g., they could be falsely accused of theft. ■ Indicates that staff believe that supervisors are allowed to have their subordinates’ combinations. 	<ul style="list-style-type: none"> ■ Under normal operating conditions, never share codes or combinations with anyone, not even a supervisor or manager. ■ In the case of an emergency, an employee may give his or her safe combination or code to the supervisor or manager, but the following conditions must be met: <ul style="list-style-type: none"> ▫ Supervisor or manager should state that there is an emergency. ▫ Supervisor or manager and employee should send a message to another manager or colleague describing what happened and when.

CASH REGISTERS AND SECURITY		
Problem or Potential Problem	Risks	Best Solutions
		<ul style="list-style-type: none"> ▫ Employee should change his or her combination or code as soon as she or he returns to work and, at that time, perform a check of cash with another person present to check for missing money. <p>Why do this? – Management will know who has access to the cash and when. This will help them identify a thief and clear the name of innocent employees. An employee will be protected from false accusations.</p>
<p>Staff have excessive access to the City’s financial system, and a backup cashier has full access to standalone accounting system (i.e., is the system administrator).</p>	<ul style="list-style-type: none"> ▪ Allows an employee to falsify records. He or she could: <ul style="list-style-type: none"> ▫ Move money in accounts to hide theft. ▫ Void or delete a transaction so that there is no record of it and pocket the cash. ▫ Adjust a customer’s account so that the customer pays less for services either as a favor for a friend or to steal the difference between what the customer paid and the adjusted amount. <p>Under these circumstances, management or other staff would not be able to detect the crime.</p>	<ul style="list-style-type: none"> ▪ For all accounting and recordkeeping systems: <ul style="list-style-type: none"> ▫ Put system restrictions in place so that the person given administrative access cannot perform actual transactions. ▫ Limit system access so that staff cannot perform tasks that would allow them commit and conceal theft, e.g., cashier cannot also perform voids. ▪ Have a manager review accounts to check for unauthorized adjustments. This can be done on a sampling and periodic basis, e.g., 10 different accounts every month. ▪ Have management perform periodic reviews of access reports on an irregular basis to ensure access is limited as required. Performing the reviews on an irregular basis helps catch someone who changes his or her access rights to perform illicit activity and then changes it back before reviews are done. <p>Why do this? – Management will be able to ensure that customers pay the correct amount due for services and programs, and that the City receives the revenue for the services and programs it provides.</p>

CASH REGISTERS AND SECURITY		
Problem or Potential Problem	Risks	Best Solutions
Too many people, including former employees, have keys and alarm codes to access cash-handling locations.	<ul style="list-style-type: none"> Someone could commit and hide theft, steal documents containing sensitive information (e.g., credit card numbers), or improperly use City facilities. Excessive access makes it difficult to identify someone who committed a crime and prosecute the offender. It also makes honest people look guilty. 	<ul style="list-style-type: none"> Allow only current employees who require access to cash-handling locations to have keys and alarm codes. This is accomplished by: <ul style="list-style-type: none"> Changing alarm codes at least once a year and whenever there are staffing changes. Stamping keys with “do not duplicate” as previously discussed. Obtaining keys from employees who leave the cash-handling function. <p>Why do this? – Management is able to restrict access to cash, sensitive information, and City facilities to only those that require the access to perform their work.</p>

CASH HANDLING		
Problem or Potential Problem	Risks	Best Solutions
Cash-handling operations allow one person to perform tasks that should be done with someone else present to verify the work (when counting cash, when dropping and retrieving from safe).	<ul style="list-style-type: none"> An employee is given the opportunity to commit and conceal theft. Employees could make mistakes that are harder to identify later. Honest employees may be falsely suspected of theft or error because no one else was around to verify that they followed procedures. 	<ul style="list-style-type: none"> Have two people jointly count cash and drop and retrieve cash to/from a safe. <p>Why do this? – Management reduces the opportunity for theft and staff can help catch errors early. Staff are protected from false accusations.</p>
Checks not endorsed upon receipt.	<ul style="list-style-type: none"> Anyone with access to the check could take it and deposit it into a noncity account, or reuse it. This is made more likely when some of the others problems cited above exist, 	<ul style="list-style-type: none"> Endorse all checks as soon as they are received with a “for-deposit-only” stamp that includes the City’s bank information, including account number, and identifies the City location where the check was received.

CASH HANDLING		
Problem or Potential Problem	Risks	Best Solutions
	e.g., deposits are kept under money drawers overnight and employees perform critical cash-handling activities alone.	Why do this? – Management ensures money is deposited into a legitimate City account and used for only City programs and services.
Damage deposit checks are not deposited; they are held and returned after event. (Customers are required to pay a deposit when renting City facilities to pay for any damages that may occur.)	<ul style="list-style-type: none"> ■ Check may not be valid and the City would not find this out until after the damage is done, which would make recovery more difficult. ■ Checks are more vulnerable to theft and misuse because someone could alter the checks as described in the previous box. The risk is even higher when checks are not immediately endorsed. ■ City accounting records are incomplete and misstated. 	<ul style="list-style-type: none"> ■ Record the check to the City’s accounting system and deposit the check. ■ Verify that the check cleared before allowing use of City facilities. ■ Allow for and encourage the use of payment cards to accept deposit payments so there is immediate verification that the customer has the funds to cover damages. ■ Use Accounts Payable to refund the deposit after assessing the facilities after the event and deducting what is necessary to cover damages. <p>Why do this? – Management ensures it collects money to pay for damages and provides an accounting trail of the transaction. Customer money is protected from theft.</p>
Checks are accepted made payable to the facility rather than the City of Berkeley.	<ul style="list-style-type: none"> ■ Bank may not accept the check and the City will not be able to collect for programs and services already rendered. 	<ul style="list-style-type: none"> ■ Accept only checks made payable to the City of Berkeley. ■ Provide an easy-to-see and read sign for customers at cashiering locations stating that checks must be made payable to the City of Berkeley. ■ Promote the use of payment cards to reduce the use of checks. <p>Why do this? – Management ensures that it collects the City’s revenue.</p>

CASH HANDLING		
Problem or Potential Problem	Risks	Best Solutions
No review and approval of voids at time they occur.	<ul style="list-style-type: none"> ■ An employee may create a fake void to steal cash. 	<ul style="list-style-type: none"> ■ Ensure cashiers cannot perform voids. ■ Require a supervisor to review a void at the time it occurs to validate its necessity. ■ Write a clear reason for the void on the register receipt and require both the supervisor and cashier to sign it. ■ Use cash registers that require a second key to go into void mode and allow only a supervisor or manager to have access to this key. ■ Write all voids in a journal and clearly and fully describe the reason for the void. <p>Why do this? – Prevents an employee from using voids as a way to steal cash. Helps management identify an employee that may need training or practices that need to be fixed because they cause errors.</p>
No change fund and no credit card capabilities; customers must be turned away if they do not have exact change.	<ul style="list-style-type: none"> ■ City loses revenue because customers are turned away. ■ Customers become frustrated or angry. ■ City is viewed as inefficient and outdated in its service delivery. 	<ul style="list-style-type: none"> ■ Require the use of change funds. ■ Provide payment card capabilities at all cash-collection sites. <p>Why do this? – City maximizes its revenue opportunities and provides better customer service. Customers are satisfied with the service they receive.</p>

CASH HANDLING		
Problem or Potential Problem	Risks	Best Solutions
No sign notifying customers that they are to receive a receipt and whom to call if they do not receive one; or a sign that notifies the customer that they should receive a receipt but does not state whom to contact if they don't.	<ul style="list-style-type: none"> ▪ Customers will not have proof of payment. ▪ An employee could charge a customer full price but record only a portion and pocket the difference. ▪ Customers will not know whom to contact if they are refused a receipt. 	<ul style="list-style-type: none"> ▪ Always hand receipts to customers after each transaction. Do not ask them if they want it first. ▪ Provide an easy-to-see and read sign at all cash collection sites telling customers they should expect to get a receipt and what number in the Finance Office to call if they do not get one. <p>Why do this? – Management reduces opportunity for theft and customers will have proof of purchase if they have problems with service or program delivery, or need a refund.</p>
Accounting receipts are not sequentially numbered.	<ul style="list-style-type: none"> ▪ An employee could steal cash by omitting transactions from the day's deposit and the missing transaction may not be found because management does not have an efficient way to identify gaps in receipts. 	<ul style="list-style-type: none"> ▪ Issue all receipts in sequential order. ▪ Review receipts to look for gaps. <p>Why do this? – Management reduces opportunity for theft.</p>
No user IDs associated with some transactions in Marina Program	<ul style="list-style-type: none"> ▪ Employees can hide theft and other inappropriate transactions, e.g., making adjustments to cover up an error. ▪ Management cannot identify who performed the work. 	<ul style="list-style-type: none"> ▪ Require systems to associate user IDs with all transactions. ▪ Immediately investigate any instances in which a transaction does not have a user ID associated with it and correct the problem. <p>Why do this? – Management is able to trace transactions to the employees that performed them and reduces the opportunity for theft or other inappropriate transactions.</p>
Transactions recorded in two systems: cash register and ActiveNetwork participant management software.	<ul style="list-style-type: none"> ▪ Employees do double the work. ▪ Chance of making an error increases by forgetting to add a transaction into the second system: 	<ul style="list-style-type: none"> ▪ Use the payment-acceptance capabilities in ActiveNetwork to capture and record all transactions so that there is only one point-of-sale system in use.

CASH HANDLING		
Problem or Potential Problem	Risks	Best Solutions
	<ul style="list-style-type: none"> ▫ Management gets two different sets of information. ▫ Activity records are incomplete. ▫ Customers are not signed up for the classes they paid for. ▫ Not enough staff are scheduled to cover programs. 	<p>Why do this? – Management will have more reliable information for budgeting and staffing needs. Customers will receive better service. Employees will be able to use their time to perform other important tasks.</p>
Reservation recorded but payment not accepted if only one employee in the office.	<ul style="list-style-type: none"> ■ City may not receive payment for services and programs it provides because: <ul style="list-style-type: none"> ▫ Customers never pay for the service or program. ▫ Increases opportunity for theft because an employee could pocket the money and claim that he or she did not receive the payment. 	<ul style="list-style-type: none"> ■ Accept payment at the time the reservation is made. ■ Use security cameras in cash-collection areas to monitor activity. <p>Why do this? – Management reduces the opportunity for theft and errors. The City receives the revenue it is due for programs and services.</p>
Payment cards are not accepted as form of payment.	<ul style="list-style-type: none"> ■ Customers attempting to pay their bills are turned away. This increases the likelihood that the City will not collect all its due revenue. ■ Increases the use of checks, which are a less reliable form of payment because customers may not have sufficient funds in their bank accounts. This increases the amount of work for Finance staff who have to adjust accounting records and reduces the amount of revenue the City collects for the services it provides. 	<ul style="list-style-type: none"> ■ Allow for the use of payment cards at all cash-location sites. <p>Why do this? – Provides better customer service, helps ensure that the City receives all its due revenue, and reduces the amount of work done to reverse checks because of nonsufficient funds.</p>

CASH HANDLING		
Problem or Potential Problem	Risks	Best Solutions
	<ul style="list-style-type: none"> Sends a message that the City is less sophisticated in its operations and is not able to provide the level of customer service expected because payment cards are a common form of payment. 	

CLOSE-OUTS AND DEPOSITS		
Problem or Potential Problem	Risks	Best Solutions
No completion of a daily closeout when there has been no activity.	<ul style="list-style-type: none"> Management does not have evidence supporting the lack of activity. An employee could claim there was no activity and steal the day's deposit. This is more likely when a location does not use sequential receipting and reconcile receipt numbers to account for transactions. 	<ul style="list-style-type: none"> Prepare closeout documents daily, even when no transactions were recorded, to show that there was no activity. <p>Why do this? – Management and employees have proof that there were no receipts and that no deposits are missing.</p>
Register not closed out; receipts left in cash register overnight.	<ul style="list-style-type: none"> An after-hours employee, contractor, or burglar could break open the cash register and steal the money. 	<ul style="list-style-type: none"> Close out registers every day and prepare the daily deposit. Secure all money in the safe overnight and during non-business hours. <p>Why do this? – Management reduces the opportunity for theft.</p>

CLOSE-OUTS AND DEPOSITS		
Problem or Potential Problem	Risks	Best Solutions
Daily closeouts not always done with a witness (e.g., a supervisor) present or not always signed by the witness.	<ul style="list-style-type: none"> ■ An employee could take cash from the deposit or make mistakes that go unnoticed. ■ Honest employees could be accused of theft when there is a cash shortage. ■ There is no verification that someone else was present to witness the daily closeout. 	<ul style="list-style-type: none"> ■ Require cashier and a supervisor to be present when counting cash: cashier should count the money and the supervisor should witness the count. ■ Have both parties sign off on the daily closeout documents. ■ Keep a list of signatures and compare those signatures against daily closeout documents to look for forgery. <p>Why do this? – Management reduces the opportunity for theft and receives assurance that the deposit is correct. Honest employees are protected from false accusations.</p>
Staff use their own money to cover shortages.	<ul style="list-style-type: none"> ■ Employees conceal theft and errors. ■ Management cannot identify theft and staff that need training. ■ Employees that do this feel its okay to take the City’s money later because they have covered shortages in the past. 	<ul style="list-style-type: none"> ■ Identify how much a cash drawer is over or short on a separate line on the daily cash-count form. ■ Clearly and fully document the reason for a shortage or overage. ■ Monitor cash shortages and overages to identify possible theft and training needs. ■ Discuss frequent shortages and overages with staff and supervisors to make it clear this is monitored and help identify and correct the problems that are causing the shortages and overages. <p>Why do this? – Management reduces the likelihood of theft, identifies staff who need training, and addresses practices and procedures that cause errors to occur. Employees understand that using the City’s money and replacing it later is still theft.</p>

CLOSE-OUTS AND DEPOSITS		
Problem or Potential Problem	Risks	Best Solutions
Daily activity report captures only cash and check transactions, not payment card transactions.	<ul style="list-style-type: none"> ■ Management has incomplete and fragmented information about the cash-handling activity performed at each site. ■ Management is not clear on how much work employees are doing because transactions are not associated with the location at which they perform their duties. 	<ul style="list-style-type: none"> ■ Document all cash-handling activity on a single report for each cash-handling location. <p>Why do this? – Management will have better information for monitoring cash-handling activity associated with each of its cash-handling locations.</p>
Tamperproof bags and locking moneybags not used to secure and transport deposits, or tamperproof bags used, but not as intended (e.g., bags not used in sequential order, bag numbers not recorded in log, no verification that no bags are missing, sealed bags opened to prepare bank deposits and FUND\$ entry).	<ul style="list-style-type: none"> ■ An employee could: <ul style="list-style-type: none"> ▫ Tamper with deposits before or during transit without raising suspicion. ▫ Claim to have been robbed while transporting the money and steal the City’s deposit. <p>This access makes it difficult to identify who stole money and prosecute the thief. It also makes honest people look guilty.</p> ■ Thieves are not deterred from robbing an employee. 	<ul style="list-style-type: none"> ■ Use sequentially numbered tamperproof bags to secure individual cashier transactions: place each cashier’s verified deposit in a tamperproof bag and seal it. ■ Use the tamperproof bags in sequential order and record each in a log with the deposit total. ■ Place all deposits into one locking moneybag for transport; keep the key with the person on the receiving end. ■ Have a supervisor not involved with cash-handling activities: <ul style="list-style-type: none"> ▫ Review the log for missing numbers and investigate gaps. ▫ Reconcile deposits to the City’s financial system and bank statements to the log. ■ Allow only Finance or the bank to open the tamperproof and moneybags. ■ Report evidence of tampering to management. <p>Why do this? – Management reduces the opportunity for theft. Locking moneybags serve as a deterrent because</p>

CLOSE-OUTS AND DEPOSITS		
Problem or Potential Problem	Risks	Best Solutions
		they cannot be easily opened. Tamperproof bags confirm that the deposit prepared by employees remained unchanged up to the point it was delivered to Finance or the bank.
No safe on site.	<ul style="list-style-type: none"> ■ Employees have no place to secure cash or other City property such as register keys. This creates an opportunity for someone to steal cash. 	<ul style="list-style-type: none"> ■ Install a safe at each cash-handling location. The safe design should: <ul style="list-style-type: none"> ▫ Be the same design at each cash-handling location so that management has a clear understanding of how it functions and can write one set of clear procedures for staff to follow in using the safe. ▫ Be able to store multiple codes so each cashier and supervisor has his or her own unique code, which only each individual knows. ▫ Require two people to be present to open the safe, with each using his or her own unique code. ▫ Includes a drop slot for staff to place deposits in until they can be transferred to Finance. ■ Keep the backup key for opening the safe in the custody of a manager who does not have access to the location where the safe is kept, to be used only if the batteries fail or someone forgets their code. ■ Make it a clear policy that cashiers and supervisors should <u>never</u> share their codes. ■ Clear out an employee's code as soon as he or she no longer requires access to the safe. ■ Change codes at least annually.

CLOSE-OUTS AND DEPOSITS		
Problem or Potential Problem	Risks	Best Solutions
		<p>Why do this? – Management reduces the opportunity for theft and will know who has access to the cash and other city property and when. This will help them identify a thief and clear the name of innocent employees.</p>
<p>Staff do not deposit receipts as often as required by A.R. 3.20.</p>	<ul style="list-style-type: none"> ▪ Increases the amount of cash vulnerable to theft. ▪ Decreases the amount of time the money is in the bank and available for use. ▪ Decreases the amount of interest the City earns. 	<ul style="list-style-type: none"> ▪ Deposit cash by the end of the business day or by the next business day at a minimum. ▪ Obtain an exception from Finance but only after Finance has determined that the average weekly receipts are low enough to warrant an exception, and has assurance that the location requesting the exception has the ability to secure and protect City money from theft and loss until it can make the deposit. <p>Why do this? – Management reduces the amount of money on hand, which reduces the money’s vulnerability to theft, increases how soon money is available for City use, and maximizes the amount of interest the City earns.</p>
<p>Daily deposits not compared to FUND\$ (City’s financial system) or other accounting systems.</p>	<ul style="list-style-type: none"> ▪ Management is not able to identify theft or other errors, for example, revenues recorded to the wrong account. 	<ul style="list-style-type: none"> ▪ Require someone who does not directly perform cash handling activities to reconcile all deposits to FUND\$ and standalone systems: <ul style="list-style-type: none"> ▫ Weekly for cash-collection locations with high levels of activity, e.g., \$500 or more collected daily. ▫ Twice a month for cash-collection locations with moderate levels of activity, e.g., \$200 to \$499.99 collected daily.

CLOSE-OUTS AND DEPOSITS		
Problem or Potential Problem	Risks	Best Solutions
		<ul style="list-style-type: none"> ▫ Monthly for cash-collection locations with low levels of activity, e.g., less than \$200 collected daily. <p>Why do this? – Management is able to deter theft and identify errors and theft should it occur.</p>
Staff closeout the register before the end of the business day because they do not have a safe onsite and must take deposit to another location before the close of business.	<ul style="list-style-type: none"> ▪ Employees could steal cash by bypassing the register for activity that occurs after the close out. ▪ Employees could forget to record the payment to the register entirely and deposits will not reconcile causing staff and management to spend time investigating the error. ▪ Receipts could be recorded to the following day, skewing actual activity. ▪ Employees may have to perform closeout procedures twice. 	<ul style="list-style-type: none"> ▪ Perform close outs after the end of the business day. ▪ Provide a safe at each location that handles cash as previously described. <p>Why do this? – Management will reduce opportunities for theft and errors.</p>
No safe access log.	<ul style="list-style-type: none"> ▪ Management does not have evidence that safes are accessed with both a cashier and supervisor present. ▪ Employees could bypass procedures and not have two people present when securing and removing money to/from the safe. 	<ul style="list-style-type: none"> ▪ Use access logs that record the date, time, and amount of deposit, and require both parties to be present when making the deposit or removing the deposit and to sign the log. ▪ Perform periodic checks to verify that the log is used as required and that two people are present when securing and removing the deposit to/from the safe. <p>Why do this? – Management is able to confirm that procedures are followed and that money is kept secure.</p>

STAFFING		
Problem or Potential Problem	Risks	Best Solutions
Staff lack qualifications for cash-handling activities and do not understand why they are asked to perform certain tasks.	<ul style="list-style-type: none"> Staff are more likely to make mistakes or bypass vital procedures, which puts the City’s money risk of theft or loss. They could also put themselves at risk of false accusations of theft and compromise their safety. 	<ul style="list-style-type: none"> Allow only staff with an understanding of cash-handling management to handle cash. Provide cash-handlers with training on cash-handling policies, practices, and procedures, including descriptions of why staff are required to perform certain tasks. Make it clear to staff that bypassing procedures increases the risk of theft or loss, could put them under scrutiny if money is stolen, or put their safety at risk. <p>Why do this? – Management has better assurance that cash handlers have the skills to perform the necessary tasks and that City money is protected. Staff are better able to prove their innocence when theft occurs and keep themselves from harm.</p>
Job descriptions do not cite cash handling as a responsibility and many cash handlers have not undergone a background check.	<ul style="list-style-type: none"> Potential employees expected to handle cash are not identified as individuals who should undergo a thorough background check before they are hired. Employees handling cash may have a criminal background in property theft or have fiscal pressures that would lead them to commit theft. 	<ul style="list-style-type: none"> Cash-handling responsibilities should be identified in job descriptions for all positions with those responsibilities. <p>Why do this? – Management will be able to identify potential employees who should undergo a thorough background check before being hired to handle cash. This helps prevent management from hiring someone who lacks the necessary integrity or aptitude to handle or manage cash, and enforce City policies to safeguard City assets and maximize revenue.</p>

STAFFING		
Problem or Potential Problem	Risks	Best Solutions
<p>Staffing reductions have eliminated positions responsible for handling cash and monitoring fiscal activities.</p>	<ul style="list-style-type: none"> ■ Theft is more likely to occur because: <ul style="list-style-type: none"> ▫ Management is unable to establish procedures that follow best practices for cash handling, which puts revenue at risk of theft, loss, and misuse, and put employees at risk of false accusations. ▫ Staff are expected to do work outside of their skill set or responsibilities. ▫ Staff are given too much access to cash and cash-handling operations. ■ The City loses the necessary support for ensuring it can continue to offer programs and services that address the needs of the public. 	<ul style="list-style-type: none"> ■ Provide for staffing levels that permit management to: <ul style="list-style-type: none"> ▫ Staff their operations with enough employees to ensure no one handles cash alone or has too much access to cash and cash management ▫ Ensure that supervisors are able to monitor cash-handling activities, while not also being required to perform the tasks they oversee. ▫ Staff are not expected to do work beyond their area of knowledge and responsibility. <p>Why do this? – Management is able to ensure that it enforces the City policies to safeguard City assets and maximize revenue. Staff are protected from false accusations and not required to do work beyond their capabilities.</p>