A Report to the Board of Supervisors

Countywide Audit

Random Cash Counts

Cash Handling Procedures at Selected County Locations Are Generally Adequate

June ■ 2006

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Maricopa County Internal Audit Department

Ross L. Tate
County Auditor

The **County Auditor** is appointed by the Board of Supervisors. The mission of the Internal Audit Department is to provide objective, accurate and meaningful information about County operations so the Board of Supervisors can make informed decisions to better serve County citizens.

Audit Team Members

Eve Murillo, Deputy County Auditor

Christina Black, Associate Auditor

Kimmie Wong, Associate Auditor

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June 15, 2006

Don Stapley, Chairman, Board of Supervisors
Fulton Brock, Supervisor, District I
Andrew Kunasek, Supervisor, District III
Max W. Wilson, Supervisor, District IV
Mary Rose Wilcox, Supervisor, District V

We have completed our Fiscal Year 2005-06 random cash counts of petty cash funds and one change fund at selected locations within seven departments. These limited scope cash audits were performed in accordance with our annual audit plan approved by the Board of Supervisors.

We are pleased to report no significant findings. However, some departments need to strengthen controls to safeguard cash and protect the safety of County employees. This report contains details of the issues, recommendations, and management's responses to our recommendations.

We have reviewed this information with the Administrator of the Superior Court Trial Courts, the Judicial Services Administrator of the Superior Court, and the Administrator of the Office of Legal Defender. We appreciate the excellent cooperation they provided. If you have any questions, or wish to discuss the information presented in this report, please contact Eve Murillo at 506-7245.

Sincerely,

Ross L. Tate

Ross L. Tate
County Auditor

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Executive Summary

We reviewed cash handling locations within the following departments: Juvenile Probation, Human Services, Legal Defender, Office of the Chief Information Officer, Public Defender, Telecommunications, and Superior Court. Illustrated below are examples of controls—or lack of controls—associated with cash handling activities.

No Locking Gate Latch

Locked Safe

Locking Cash Drawer

Issue 1 – Physical Safeguards (Page 3)

Although our Downtown Superior Court change fund review revealed no material shortages or overages, we found that the Court's Self-Service Center needs better physical safeguards for employees and cash. Missing safeguards risk employees' safety as well as increase the potential for cash losses. Superior Court should keep doors closed or locked between public areas and the Center's counter and offices. Superior Court management also should designate change fund custodians at the appropriate administrative level.

Issue 2 – Petty Cash Policy and Procedure (Page 5)

Our review of seven departments' petty cash funds (totaling $3,000) showed no unexplained material shortages or overages. Departments generally conformed to Department of Finance's Petty Cash Policy, although management should emphasize the importance of adherence to policy and procedure. Departments risk cash losses from fund commingling, missing documentation, untimely fund replenishment, and other nonconformance. The Office of Legal Defender should request an exception to the Petty Cash Policy for the purchase of legal documents.

Introduction

Background

We annually review cash funds to verify that departments handling cash have established and maintained controls to safeguard cash assets against waste, loss, and misuse. Cash handling weaknesses may result from insufficient training, weak supervision, or the lack of a back-up custodian, among other causes. Cash controls include practices recommended by the American Institute of Certified Public Accountants (AICPA) and required by the County Department of Finance (DOF).

The AICPA recommends the following cash handling safeguards:

- Cash collecting, receipting, and recording duties should be segregated adequately
- Cash should be documented by pre-numbered receipts or other equivalent means
- Cash should be deposited in a timely manner
- Cash on hand should be adequately secured
- Cash receipts should be balanced to cash collections on a regular basis

In addition to the AICPA recommendations, County departments are required to follow the DOF Petty Cash Administrative Policy (A2500):

- A Custodian is responsible for the petty cash fund. At any time, the Custodian must be able to account for the dollar amount of the fund with either cash or valid original receipts and vouchers.
- Petty cash funds and related documents must be kept in a secure, lockable compartment. Cash should be placed inside a safe or vault, if available, at the close of business. Keys and lock combinations should be restricted to the Custodian as well as an alternate person(s) as deemed appropriate by department management.
- Petty cash will not be used to cash any type of check or for personal loans
- The Custodian should disburse cash only when evidence of expenditure is presented

Issue 1 Physical Safeguards

Summary

Although our Downtown Superior Court change fund review revealed no material shortages or overages, we found that the Court's Self-Service Center needs better physical safeguards for employees and cash. Missing safeguards risk employees' safety as well as increase the potential for cash losses. Superior Court should keep doors closed or locked between public areas and the Center's counter and offices. Superior Court management also should designate change fund custodians at the appropriate administrative level.

Review Results

We reviewed all cash drawers, totaling $1,000, located at the Downtown Phoenix Superior Court Self-Service Center. We found one major and several minor control improvements were needed. The major improvement relates to physical access. Physical safeguards for the cash handling area exist, but are not used. Because of this, the public visiting the Court easily could walk behind the Self-Service counter. This access presents a risk to the Court cash-handling staff.

At the Self-Service Center, we observed the front access half-door was propped open. Further, the half-door lacks a lock or a self-closure spring. In addition, the back door is propped open between the Self-Service Center and the Domestic Violence waiting area. Unauthorized people could enter through the back entrance into the area where the cashier and safe are located.

We made several verbal recommendations concerning minor control improvements that were needed. We noted the following minor weaknesses:

- One cash drawer key is missing, and the Security Office does not have a spare key.
- DOF lists one cash Custodian, the Judicial Services Administrator, for the $1,850 Superior Court change fund, even though the monies are distributed to four Court locations: Southeast, Northwest, Northeast, and Downtown Phoenix. The Judicial Services Administrator is not the appropriate Custodian because he does not have physical control of the cash.
- In September 2005, two new regional courts opened. Superior Court increased the change fund from $1,850 to $2,450 to cover a new change fund location. Superior Court staff notified DOF of the changes but due to staff changes, DOF internal records were not updated at the time of our audit.

Recommendations

Superior Court management should:

A. Ensure that doors remain closed, and, if possible, locked between public access areas and the Self-Service Center counter and offices.

B. Designate change fund custodians at the appropriate administrative level and inform DOF of the designations.

DOF should keep County departments' change and petty cash fund records up-to-date throughout the fiscal year. (Note: DOF has since updated their change fund records for Superior Court.)

Issue 2 Petty Cash Policy and Procedure

Summary

Our review of seven departments' petty cash funds (totaling $3,000) showed no unexplained material shortages or overages. Departments generally conformed to Department of Finance's Petty Cash Policy, although management should emphasize the importance of adherence to policy and procedure. Departments risk cash losses from fund commingling, missing documentation, untimely fund replenishment, and other nonconformance. The Office of Legal Defender should request an exception to the Petty Cash Policy for the purchase of legal documents.

Review Results

Except for a policy issue in the Office of Legal Defender, our review showed that departments generally were handling cash as required. As DOF requires, staff secures petty cash funds in locked boxes. We found that cash counts, receipts, and reimbursements reconciled to total fund amounts. However, three out of eight cash drawers had small overages, which ranged from $1 to $11. Such small overages are not unusual in cash handling functions.

We made several verbal recommendations to departments concerning the following minor control weaknesses:

- One department occasionally uses the fund to make change, which is not allowed
- One department commingled other monies, such as bottled water collections, in the cash box and reimbursed $31 for Wal-Mart office supplies purchased, even though the County has an office supplies contract with a different vendor
- One department did not have proper expenditure documentation (authorization signatures, descriptions, or purchaser names) and did not request reimbursements in a timely manner (receipts were dated from 1999 to 2004)
- Three departments rarely use petty cash funds and should reduce cash kept on hand (resulted in a $1,000 reduction)
- One department did not use petty cash during the past two years and should close the fund ($200) due to non-use

The Custodian in the Office of Legal Defender routinely advances petty cash funds. This practice resulted in a $40 shortage when we counted cash. The practice does not comply with DOF's Petty Cash Policy that funds are to be used only for reimbursements. The Office of Legal Defender staff asserts that petty cash must be advanced so that employees can purchase legal documents. The documents cannot be purchased by P-Card, and checks cannot be issued in a reasonable timeframe.

Recommendation

The Office of Legal Defender should request an exception to the Petty Cash Policy from DOF for the purchase of legal documents. The policy exception for advances should include controls such as appropriate dollar and time limits.

Department Responses

AUDIT RESPONSE
Superior Court of Arizona in Maricopa County
May 25, 2006

Issue #1:
Swinging half-door to public counter was propped open and has no locking mechanism, and door from Family Violence Prevention Center to back area of Self-Service Center was also propped open.

Response: Concur. Since the counter was originally constructed as a Law Library public information counter, the need for a locked half-door was not great. And the door between the FVPC and SSC was kept open as a convenience for staff who transition throughout the day between the two areas.

Recommendation A: Install a locking mechanism on the half-door.

Response: Concur—will request installation through Maricopa County Facilities Management Department.

Target Completion Date: To be determined by MCFMD.

Benefits/Costs: Increased security for Self-Service Center staff and assets.

Recommendation B: Instruct staff to keep the half-door to the public counter and the door between the FVPC and SSC closed at all times.

Response: Concur

Target Completion Date: Completed

Benefits/Costs: Increased security for SSC staff and assets.

Issue #2:
One cash custodian is on record for all change funds at all Self-Service Center locations, which is not appropriate since he does not have physical control of the cash.

Response: Concur

Recommendation : Establish a cash custodian at each SSC location, and communicate list of new cash custodians to the Maricopa County Department of Finance.

Response: Concur--in process.

Target Completion Date: 7/01/06

Benefits/Costs: Greater accountability for all change funds throughout each SSC location.

Approved By :

Department Head/Elected Official	**Date** 5/26/06
Chief Officer	**Date** 5/26/06

Maricopa County
Department of Finance

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TO: Ross Tate, County Auditor

FROM: Shelby Scharbach, Deputy Finance Director

DATE: 5/10/2006

RE: Safeguards Audit Follow-Up – Random Cash Physical

Issue #1: Physical Safeguards – In September 2005, two new regional courts opened. Superior Court increased the change fund from $1,850 to $2,450 to cover a new change fund location. Superior Court notified DOF of the changes but due to staff changes, DOF internal records had not yet been updated at the time of our audit.

Recommendation: DOF should keep County departments' change and petty cash fund records up-to-date throughout the fiscal year. (Note: DOF has since updated their change fund records for Superior Court.)

Response: Concur—The Department of Finance has reviewed this issue. The Department conducts annual reconciliations of all Petty Cash and Change Fund balances as part of the year end closing process. During the year, when notifications are received, the Department will enter changes to the Petty Cash/Change Fund reconciliation spreadsheet. DOF concurs that these internal records will be updated throughout the fiscal year as they occur.

Target Completion Date: 5/10/2006 - Completed

Benefits/Costs: The benefits are the reduction in the risks associated with records being updated frequently. There are no costs associated with the implementation of this recommendation.

Approved By :

Department Head/Elected Official	Date 5/11/06
Chief Officer	Date 5/11/06
County Administrative Officer	Date 5/16/06

OFFICE OF THE
LEGAL DEFENDER

Robert Briney, Legal Defender
Max Bessler, Chief Administrator

MEMO

DATE: May 1, 2006

TO: Ross L. Tate, County Auditor

FROM: Robert Briney, County Legal Defender

RE: Petty Cash Audit Response

Issue #1:
Petty Cash Policy and Procedures: The Office custodian routinely advances petty cash funds.

Response: Concur. As part of our criminal defense, client's medical records, marriage and death certificates, various police and prison reports, and employment records are requested of various service and government agencies. Most of these agencies charge copying costs. These costs can range from $5.00 to $90.00. Rather than having staff members pay for these from their own pockets, the petty cash custodian, has been advancing them petty cash funds to pay for these costs. In each instance, these advances have been documented in anticipation of the necessary receipt. The use of advances has been limited to agencies that will not accept a credit card and where any delay in obtaining a payment voucher may jeopardize our client's defense and when the amount of the charges is less than $100.00. These cash advances are one of the most efficient ways to pay for records since they are relatively small amounts of money and do not require additional time and efforts by the finance department staff. Any records request for more than $100.00 is submitted to finance for a payment voucher. Our petty cash reconciliation has always balanced with each staff member providing the necessary receipt for reimbursement after the documents have been purchased.

Recommendation A: Request an exception to the Petty Cash policy

Response: Concur completed. As soon as the auditors raised the issue, I contacted the Finance Department to explain the issue. They were understanding of the situation and since have been working with us to revise the policy statement to permit such advances. The policy will provide safeguards by outlining under what circumstances advances will be made and the amounts and will detail the necessary paperwork to document such advances. According to a recent correspondence from the Finance

Department, they have rewritten the policy and hope to submit their proposal for an exception to Internal Audit the week of May 8, 2006.

Target Completion Date: Completed

Benefits/Costs: With an exception, the Office will continue to efficiently obtain medical records while ensuring the continued safety and integrity of our Petty Cash funds.

Approved By :

Department Head/Elected Official	**Date** 5/9/06
Chief Officer	**Date**
County Administrative Officer	**Date** 5/16/06