



TO: G. Wayne Oetken, Interim Chief Financial Officer
FROM: Stephen Carr, Director, Office of Internal Audit *SC*
DATE: July 31, 2012
RE: Review of Fiscal Control Cash Handling Audit Report

An Audit titled the "Review of Fiscal Control Cash Handling" was conducted for the 2011/2012 school year. The audit report contains information regarding the audit findings and recommendations. Enclosed are copies of the audit report and the response from the Fiscal Control Department.

If you have any questions concerning the information in this report, please call me at 725-5696.

c: Members, Board of Education
B. Kowba

email: Members, Audit Committee



Review of Fiscal Control Cash Handling

July 11, 2012

Introduction

The San Diego Unified School District's (district) Office of Internal Audit was asked to perform an audit of the control of cash for the Fiscal Control Department. This request was a result of a loss of \$500 in cash on June 19, 2012 by the Fiscal Control Cashier's Office. The review began on June 22, 2012, and included a review of documents from June of 2012. Contact was made with the district's Controller and Fiscal Control Department manager.

Background

The Fiscal Control Department maintains a safe for the overnight storage of cash and checks collected daily by the district Cashier. The safe is secured first by a numerical combination and secondly by a key. After the combination has been entered, the key is used to unlock and lock the safe. Each morning a bank deposit is prepared for the cash and checks collected the previous day. A beginning cash working fund of \$300 is secured daily in a cash register that is used to record the daily transactions. During the hours that the Cashier's Office is open, no cash is stored in the safe.

Several employees have been granted access to operate the cash register when the Cashier's Office is open. The responsibility for accepting cash and checks is shared by these employees. The cash register records transactions which are subsequently reconciled the next morning. The cash drawer and checks are secured in the safe when the Cashier's Office is closed.

Audit Scope and Objectives

The scope of this review included current Fiscal Control procedures in place during June of 2012. The specific objectives of this review were:

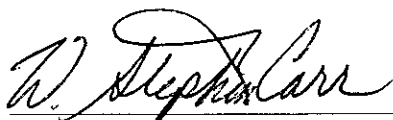
- To determine that the processing of cash is properly recorded and controlled.
- To determine that proper internal controls are in place for the processing of cash.

Audit Findings Summary

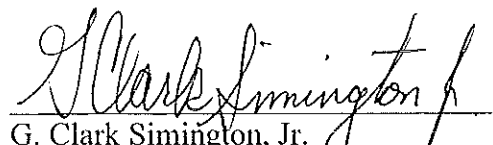
1. Cash and checks collected on a daily basis by Fiscal Control employees is removed from the safe, returned to the safe, and reconciled by one employee.
2. Four different employees have continuous access to the cash in the register when the cashier's office is open.
3. The safe used by Fiscal Control to store cash and checks was not properly secured as follows:
 - The key used to unlock the safe after the safe combination has been entered is not properly controlled.
 - The safe combination was not changed when employees with knowledge of the combination left the Fiscal Control Department.
 - The safe combination is shared by four employees and stored in a binder at the Fiscal Control manager's desk.
4. Effective procedures are not in place for verifying and securing large cash deposits.
5. Cash transactions entered into the register are not recorded exactly as to the amount of cash received and the amount of change returned.

Conclusion

Based on the audit scope and analysis performed by Internal Audit, internal controls are not sufficient for the processing of cash by the Fiscal Control Cashier's office. Reconciliation and storage of daily cash receipts was completed by one employee and not under dual control. This deficiency was immediately corrected by Fiscal Control management. Four different employees have access to the cash in the register during working hours and the individual code used for access to the cash register is a simple single digit that is known by other employees. Effective procedures are not in place for verifying and securing large cash deposits and the full functionality of the cash register is not utilized. The key used to unlock the safe after the combination has been entered is not properly secured, the safe combination is stored in a binder at the manager's desk, and the safe combination has not been changed for at least 10 years.



W. Stephen Carr
Director, Office of Internal Audit



G. Clark Simington, Jr.
Operations Audit Manager

Explanation of Findings

- 1. Cash and checks collected on a daily basis by Fiscal Control employees is removed from the safe, returned to the safe, and reconciled by one employee.**

The Fiscal Control Cashier's Office accepts cash and checks for various payments to the district. Payments are received throughout the day when the Cashier's Office is open. A cash register is used to record transactions and store the cash and checks received. Cash and checks collected by the Cashier's Office are reconciled to the transaction records the following morning. A working fund of \$300 is maintained in the cash drawer on a daily basis. The reconciliation process includes counting cash and checks received and preparation of a bank deposit for pick-up later in the day.

One employee was responsible for returning the daily cash drawer and checks received to the safe at night, removing the cash drawer and checks the following morning, reconciliation of the cash and checks, and preparation of the daily bank deposit. These processes should be performed by two employees under dual control.

The processing of cash and checks under dual control is an internal control intended to prevent financial losses to the district unless both employees performing the processing are in collusion.

Recommendation

Internal Audit recommends that Fiscal Control management ensures that cash and checks are returned to the safe, removed from the safe, and reconciled under dual control. Fiscal Control immediately implemented this recommendation beginning June 22, 2012.

- 2. Four different employees have continuous access to the cash in the register when the cashier's office is open.**

Four different Fiscal Control employees have been assigned access to the cash register in the Cashier's Office. All four of these employees have access to operate the cash register and have access to the cash and checks stored in the register throughout the day. Based on schedule and timing, any of these employees may accept payments of cash and checks during the open hours of the Cashier's Office. It may be necessary for multiple employees to operate the cash register during a single work day. Multiple employees should not be using the same cash fund.

Employees that use the cash register are assigned an access code that is used to identify the employee that processed a specific transaction. The access codes that were assigned to employees are simple one digit numbers like 1, 2, 3, etc. The Fiscal Control employees know that these simple one digit numbers were assigned to the employees that use the cash register. Cash register access codes should not be known by other employees, however, the cash register operating system only allows for access codes from 1 to 25.

Assignment of the cash fund to one employee is an internal control intended to minimize the number of employees that have access to the cash maintained by Fiscal Control.

Recommendation

Internal Audit recommends that the cash fund be assigned to a specific employee each day. However, if assigning the cash fund to one employee is not possible because of scheduling issues, management must accept the liability that any discrepancies in the amount of cash and checks may be difficult to attribute to a specific employee.

3. The safe used by Fiscal Control to store cash and checks was not properly secured as follows:

- **The key used to unlock the safe after the safe combination has been entered is not properly controlled.**

The Fiscal Control safe has both a combination and key locking system. After the combination has been entered a key is used to unlock and lock the safe. This key is stored in a filing cabinet drawer that is accessible to all Fiscal Control employees. An employee is not assigned to monitor the key and a record is not maintained for the use of this key.

- **The safe combination was not changed when employees with knowledge of the combination left the Fiscal Control Department.**

The combination to the Fiscal Control safe has not been changed in more than 10 years. Employees with knowledge of the combination have left the Fiscal Control Department or retired since the combination was changed. Current Fiscal Control management is not aware of the last time the safe combination was changed.

- **The safe combination is shared by four employees and stored in a binder at the Fiscal Control manager's desk.**

Four current Fiscal Control employees have the combination to the safe. The combination to the safe is also stored in a binder at the manager's desk.

Proper control of the safe combination and safe key is an internal control intended to minimize the number of employees that have access to the cash and checks stored in the safe.

Recommendation

Internal Audit recommends that a management employee or a designated person should control this key on a daily basis. A physical log sheet used to record initials or signatures for each employee that uses this key should be maintained. Internal Audit also recommends that the combination to the Fiscal Control safe be changed and a procedure adopted to change the safe combination when employees with knowledge of the combination leave the Fiscal Control Department. In addition, Fiscal Control management should perform an assessment to determine if it is necessary for four separate employees in addition to the manager to have the safe combination. The combination should be personally stored by employees where no other employees have access to the combination.

4. Effective procedures are not in place for verifying and securing large cash deposits.

A specific Fiscal Control procedure is not in place for acceptance of large amounts of cash. The Fiscal Control Cashier's Office accepts a total of more than \$1,000 in cash an average of five days a month. This cash is left in the cash register from the time of acceptance until the close of business hours.

A procedure for verifying and securing large amounts of cash is an internal control intended to confirm the amount of cash accepted by Fiscal Control employees during a cash transaction.

Recommendation

Internal Audit recommends that Fiscal Control management develop a formal procedure to count, record, and secure large amounts of cash. After verification, large amounts of cash should be secured in the safe for future processing.

5. Cash transactions entered into the register are not recorded exactly as to the amount of cash received and the amount of change returned.

Fiscal Control employees do not fully utilize the functionality of the cash register. Fiscal Control employees occasionally enter only the transaction amount and then manually make change. The cash register allows for entry of the amount of cash received and calculates the amount of change to be returned. This information becomes part of the history of the transaction and can aid in the research of discrepancies.

Use of the cash register function to document cash transactions is an internal control intended to record the amount of cash accepted and the amount of cash returned for future reconciliation.

Recommendation

Internal Audit recommends that Fiscal Control management ensure that all employees use the full functionality of the cash register.



San Diego Unified School District

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To: Stephen Carr
Director, Office of Internal Audit

RE: Response to Fiscal Control Cash Handling Audit Report

Dear Mr. Carr:

The reconciliation of the June 19, 2012 cash register showed a shortage of cash in the amount of \$500. Each staff member present after 4 p.m. on June 19, 2012 was asked to document what they saw, heard and who they waited on after 4 p.m. on June 19, 2012. Each employee has provided a statement.

Internal Audit was contacted to conduct an investigation. I met with Clark Simington on Friday, June 22, to discuss the cash shortage. Clark reviewed our processes, transaction tapes for the period June 15 – June 21, daily cash spreadsheet, cash tally sheet and courier pick up log. I met with Clark Simington on June 29, 2012 to go over initial recommendations and changes already in place.

Finding # 1 Cash and checks collected is removed from the safe, returned to the safe and reconciled by one employee.

Following the discovery of the shortage, two staff members retrieve the cash register drawer in the morning, put the register drawer away at night and lock the safe, and count and reconcile the cash register cash to the daily receipt documentation. It was stressed to staff that dual control is for their protection and no one should have single access to cash.

Finding # 2 Four different employees have continuous access to the cash register when the cashier's office is open.

A Fiscal Control Technician is the initial front desk counter person and handles cash transactions. If she is on the phone, on break, at lunch, out of the office, etc., there is an appointed person on a specific day to fill in. Each day, her back up handles cash transactions when she is away from her desk or on the telephone.

Clark and I discussed re-programming the cash register to give each user a unique, non-consecutive clerk number. After I reviewed the instructions for the cash register, I noted two things. The cash register tape, which is visible to all, does note the user's name and clerk number. Additionally, clerk numbers can only be programmed 1 – 25. The limited numbering and the visibility of clerk names and numbers was discussed with Clark Simington.

Finding # 3 The safe used to store cash and checks was not properly secured as follows:

a) The key used to unlock the safe is not properly controlled.

The safe key is now in a locked drawer. Three people have access to the key – the Fiscal Control Manager, an Accountant I and the Accounting Clerk. A log is kept of the date and time the key is used and initialed by the person accessing the key.

b) The safe combination was not changed when employees with knowledge of the combination left the Fiscal Control Department.

A request for work order was generated. Work order # 1-341308 was generated July 2 to Maintenance and Operations to change the safe combination. The safe and locks to manager's desk was inspected. The safe will be serviced and the combination will be changed on Monday, July 16. Additionally, new secure locks will be placed on my file cabinets so that the spare key to the safe can be secured.

c) The safe combination is shared by four employees and stored in a binder at the Fiscal Control manager's desk.

The new safe combination will be given to the three employees that have access to the safe. While the instructions to open the safe will be kept by the manager in a binder, the combination will not be documented in the binder.

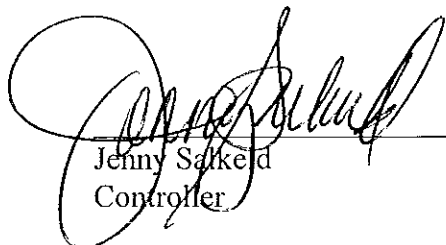
Finding # 4 Effective procedures are not in place for verifying and securing large cash deposits.

Two employees will count and verify cash received in excess of \$100. The amount of the cash will be documented. The cash will be placed in a sealed envelope and placed in the safe by one of the three individuals having knowledge of the safe combination.

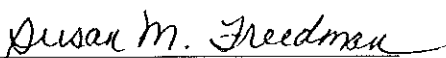
Finding # 5 Cash transaction entered into the register are not recorded exactly as to the amount of cash received and the amount of change returned.

It was communicated to staff that they need to enter the amount of money received. The process for doing this was shown to employees.

New processes and procedures were discussed with Fiscal Control staff one-on-one and in a staff meeting held July 19, 2012. A memo was compiled outlining cash handling procedures and expectations. Staff members were given the memo to read and sign confirming their understanding of cash handling procedures.



Jenny Sakke
Controller



Susan M. Freedman
Fiscal Control Manager