



## Cash Receipts and ACH Payment Process

### Internal Audit

September 2015

# **Bernalillo County Internal Audit Cash Receipts and ACH Payment Process**

## **Executive Summary**

### **SUMMARY OF PROCEDURES**

REDW performed an internal audit of the cash receipts and ACH payment process at Bernalillo County. Our internal audit focused on testing internal controls related to the cash receipting process, and whether those controls followed the County's processes. We also tested the outgoing ACH payment process.

We performed the following procedures:

- Obtained an understanding of the County's cash receipting process by reading Administrative Instruction No. AD 02;
- Selected a sample of locations and interviewed the personnel in charge of cash receipting to understand the location's cash receipting process;
- Selected a sample of cash receipt transactions during the year and tested that the County's policy related to receipting, depositing, and maintenance of supporting documentation was followed;
- Selected a sample of locations and tested the controls related to limiting access to monies;
- Selected a sample of outgoing ACH transactions and determined whether the vendor had a current, approved ACH form on file, that the payment matched the invoice and the amount and payee agreed to the ACH form.

### **SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS**

Throughout the course of our cash receipts interviews with the locations selected, we found the employees had put systems in place to receipt cash based on their location's needs. While these systems did not always include appropriate controls, the locations were willing and open to training in order to improve their cash receipting functions. Also, no exceptions were identified during the ACH payment testing as there were current, approved ACH vendor forms on file and all 22 payments tested matched the corresponding invoice amount and payee information.

Significant high or moderate risk observations are presented below:

- **Segregation of Duties** – The receipting, reconciliation, and depositing functions were not adequately segregated in three of the ten locations tested. One location tested had theft of cash occur during the year.
- **Administrative Instruction No. AD 02 Inconsistencies** – The Administrative Instruction has some requirements that do not align with the procedures being performed at the locations tested.
- **Cash Receipts Posted to Wrong Cash Desk** – During our testing we found two instances where an employee’s assigned cash desk location was not changed when the employee moved departments within the County.
- **Inadequate Documentation of Cash Reconciliations to Deposit** – The cash reconciliation process should be documented. One location tested did not have a reconciliation process and five transactions in other locations sampled did not have documentation of reconciliation.
- **Untimely Deposits** – Cash receipts should be deposited by the close of the next business day in accordance with State statute and County policy. We identified twelve transactions that were not deposited in a timely manner.
- **Checks not Endorsed** – Two locations tested did not have a stamp in order to endorse checks “for deposit only” once received.
- **Access to Cash not Restricted** – All employees were allowed to receive cash at one of the locations tested. At three other locations, all employees had access to the safe.

Further details on these observations, as well as management responses and additional lower risk observations, are included in the attached report.

REDW LLC

Albuquerque, New Mexico  
January 28, 2016

# **Bernalillo County Internal Audit Cash Receipts and ACH Payment Process**

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# **Bernalillo County Internal Audit Cash Receipts and ACH Payment Process Report**

## **INTRODUCTION**

We performed the internal audit services described below to assist Bernalillo County in evaluating compliance with policies and procedures relating to the cash receipts and ACH payment processes. Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants, Generally Accepted Government Auditing Standards, and the terms of our contract agreement for internal audit services. Since our procedures were applied to samples of transactions and processes, it is possible that significant issues related to the areas tested may not have been identified.

## **PURPOSE AND OBJECTIVES**

Our internal audit focused on evaluating and testing Bernalillo County cash receipting process and ACH payment processes. The primary objectives were to determine whether processes related to cash receipts and ACH payments reflected sound internal control, best practices, and compliance with Bernalillo County's policies and procedures. We assessed whether locations were following Administrative Instruction No. AD 02, and whether cash receipts were properly collected and recorded with adequate controls in place. We determine whether processes and controls over ACH and wire transfers were followed and whether there was adequate documentation supporting the transfer and changes to ACH payment information.

## **SCOPE AND PROCEDURES PERFORMED**

**Policies and Procedures and Interviews:** In order to gain an understanding of processes and controls in place over the cash receipting and ACH payment processes, we read written policies and procedures, researched applicable laws and regulations, and interviewed or received information from the following personnel:

- Chris Sanchez, Treasury Accounting Manager
- Crystal Trujillo, Treasury Assistant Accounting Manager
- Donny Daniels, ERP Lead Technician
- Lisa Sedillo-White, Purchasing Director
- Renita Elder, Purchasing Special Projects Coordinator
- Rita Gutierrez, Purchasing Administrative Assistant Senior
- Robert Martinez, Accounts Payable Manager
- Ryan Travelstead, Accounting Financial Administrator
- Monica Roybal, Legal Fiscal Officer
- Victoria Araujo, Legal Assistant
- Palmela Ortiz-Reed, Paralegal
- Rebecca Martinez, Bureau of Elections Administrator
- Carol Thomas, Bureau of Elections Administrative Officer III
- Juanita Maldonado, Sports Programs Administrative Officer I
- Ruth Smith, Sports Programs Administrative Assistant
- Mari Simbana, Zoning, Building, and Planning Permitting Center Manager
- Anabel Cadena, Raymond G. Sanchez Community Center Manager
- Lori Clark, Probate Court Administrator
- Adrienne Candelaria, Solid Waste Program Manager
- Ben Martinez, East Mountain Transfer Station Supervisor
- Deborah Pearson, East Mountain Transfer Station Fiscal Officer
- Lenore Buffington, Sheriff's Office Budget and Grant Accountant
- Terrie Montoya, Sheriff's Office Administrative Officer
- Felicia Henderson, Sheriff's Office Administrative Officer
- Misha Goodman, Animal Control Director
- Nicole Wiggins, Animal Control Administrative Assistant Senior
- Rosanna Garcia, Animal Control Administrative Officer III
- Amy Childers, Accounts Payable Manager

### **We performed the following testwork:**

**Cash Receipting:** We obtained a listing of all cash desks as of June 2015 and the associated cash collected during that fiscal year, and selected ten cash collection locations based on the number of transactions, average dollar per transaction and considering non-routine collection locations.

We interviewed those individuals responsible for the cash receipting process at each location and compared their process to the County-wide Administrative Instruction No. AD 02. For each location, we inquired about:

- The responsibility for cash collections being specifically included in the employee's job description.
- The restriction of cash collection to certain individuals.

- The back-up processes in place for when an employee in charge of cash collection or depositing is absent.
- The employees each having their own cash drawer.
- Whether cash is placed in a secure location once collected.
- The mail opening process.
- Whether a sign was posted reminding customers to obtain a receipt.
- Whether any known theft of cash has occurred at their location.

We then pulled a sample of 10% of transactions (up to ten) from the cash desk log for fiscal year 2015 and ten days of receipts from the location's day end closing reports during fiscal year 2015. Our combined samples resulted in the testing of 178 items. For each sampled item we tested that:

- A receipt was completed for the transaction.
- The amount on the receipt agreed to the related deposit.
- The deposit was made within 24 hours or the close of the next business day.
- The check was properly stamped as canceled.
- The cash receipt was properly recorded to the appropriate general ledger account and customer account, if applicable.
- Support for the transaction was maintained in accordance with County policy.
- The deposit was verified and agreed to the total of the individual receipts.
- Variances or issues were investigated and resolved timely, if applicable.

**Cash Discrepancies:** We obtained a listing of cash discrepancies impacting department receipts for fiscal year 2015 and selected a sample of 3 discrepancies (30% of population) and tested if they were addressed and resolved in a timely manner, including documentation throughout the resolution process.

**ACH Payments:** We obtained a listing of ACH payments made through for fiscal year 2015 and selected a sample of 22 ACH payments from a total of 96 vendors (based on 90% CL and 10% TD). We tested that the vendor had a current, approved ACH form on file, that the payment amount of the ACH matched the related invoice and the payee information agreed to the ACH form on file.

## **OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSE**

We identified the following weaknesses relating to Bernalillo County's processes:

### **1) Segregation of Duties**

Proper internal controls over cash receipting require segregation between the employees responsible for the cash collection, reconciliation, and depositing functions. Three of the ten locations selected had issues with segregation of duties with at least one of these functions. One location selected had theft of cash occur during the year of \$100 primarily due to lack of segregation of duties.

**Potential Risk: High** – Allowing one employee to have access to incompatible duties within the receipting process increases the risk of theft of cash or checks.

**Recommendation:** The County should ensure that duties are segregated for the cash collection, reconciliation, and depositing to the extent practical. For those locations where these duties cannot be adequately segregated due to employment levels or other issues, mitigating controls should be implemented to adequately address the risk of cash theft.

## **2) *Administrative Instruction No. AD 02 Inconsistencies***

The Administrative Instruction No. AD 02 had some requirements that did not seem practical given the decentralized nature of the County’s cash receipting process. Some of these policies appear focused more on those locations that receive cash on a frequent basis. Examples of these are as follows:

- Separate cash drawers are required in instances where multiple people can receive money. We found most locations did not have separate cash drawers set up and some did not have a cash drawer at all.
- Two people are required to be present when opening the mail related to cash receipts. In our interviews we found that locations were either not aware of this requirement or not following it.
- Cash handling is required to be specifically listed in the job description of all employees that collect cash. At most of the locations, cash receipting is just one of many things that employees do, and it seems impractical to have receipting listed in each of their job descriptions. Most employees interviewed considered cash receipting to be a part of the “other duties as required” section of their job description.

**Potential Risk: High/Moderate** – Without a policy that covers all receipting locations there is a risk that the locations will not have a process to follow which could lead to inappropriate or incorrect receipting or depositing.

**Recommendation:** An Administrative Instruction can only be truly effective if it represents the best policies and procedures given the County’s decentralized cash receipting environment. We recommend the County revise their Administrative Instruction and modify the policies and procedures, such as the ones listed above, that are not practical for the locations that accept cash less frequently.

## **3) *Cash Receipts Posted to Wrong Cash Desk***

Proper accounting controls require cash receipts to be posted to the location where they were received. We identified seven out of 178 transactions, or 4%, that were posted to the incorrect cash desk. It appears an employee receipting money in one department moved to a cash receipting role in another department. That employee was never transferred in the system to the appropriate cash desk. This resulted in revenue from two locations to be recorded to the incorrect department. These errors were not addressed by the County in a timely manner.

**Potential Risk: Moderate** – Revenue will be recorded to the wrong location causing inaccurate financial reporting which could lead to inaccurate budgeting and forecasting. These locations identified did not collect a significant amount of cash to cause material errors; however, this is a systemic issue that could result in larger discrepancies.

**Recommendation:** The County should implement a process to verify the employee’s cash desk is set up properly on those occasions where they move locations within the County.

#### **4) *Inadequate Documentation of Cash Reconciliation to Deposit***

According to Administrative Instruction No. AD 02, the record of daily cash receipting transactions must be retained for three years after the close of the fiscal year. Five of the 178 transactions tested, or 3%, did not have documentation to support the transaction was properly recorded. Additionally, proper internal controls require a reconciliation of the amounts receipted for the day to the amounts to be deposited. This reconciliation should be done by someone other than the person in charge of depositing the monies. We identified one out of ten locations tested did not have a process to reconcile the cash receipted to the amounts deposited; therefore, we were unable to verify the reconciliation occurred. We also identified five transactions which did not have documentation to show reconciliation occurred.

**Potential Risk: Moderate** – The supporting documentation including the receipt is necessary to reconcile the deposits for the day. Without reconciliation, there is a risk that the amount received does not agree to the amount deposited and would go unnoticed.

**Recommendation:** The County should provide additional training related to completing reconciliations and the record retention requirements.

#### **5) *Untimely Deposits***

The County’s Administrative Instruction No. AD 02 and State statute require all cash collected to be deposited within 24 hours or the end of the next business day. 12 out of 178 receipts tested, or 7%, were not deposited within the required timeframe. It did not appear that all locations interviewed were aware of the 24 hour requirement.

**Potential Risk: Moderate** – Failure to deposit timely not only violates State statute but also increases the likelihood of theft of funds. Cash was maintained in a secure location in all but one of the instances of untimely deposit noted above.

**Recommendation:** The County should provide training and explain the requirements for depositing cash within 24 hours. Additionally, locations should implement procedures to deposit all cash receipts within the prescribed time.

#### **6) *Checks not Endorsed***

The County’s Administrative Instruction No. AD 02, requires that all checks be stamped “for deposit only” once collected. During our test work we identified two of ten locations tested were not endorsing checks and did not have a stamp to endorse their checks before deposit.

**Potential Risk: Moderate** – Failure to follow the endorsement process increases the likelihood of checks being stolen and deposited in an inappropriate account.

**Recommendation:** The County should work with the locations to assure they have the appropriate check-endorsing stamp and ensure they follow County policy to stamp all checks once collected.

### **7) *Access to Cash not Restricted***

The County's Administrative Instruction No. AD 02 requires access to cash be restricted to only those employees involved in the cash receipting process. One out of the ten locations tested allowed all employees in the department to receive payments. In addition, at three of ten locations tested all employees in the cash receipting process had access to the safe.

**Potential Risk: Moderate** – Failure to restrict cash handling duties increases the likelihood that cash is stolen and reduces the chance of identifying the individual responsible.

**Recommendation:** The County should ensure that departments have restricted access to cash and cash collection to only specifically identified and trained individuals.

### **8) *Inadequate Employee Backup Process***

The County's Administrative Instruction No. AD 02 requires that all locations have a backup process in place when the primary employee responsible for cash receipting is absent. Two of the ten locations tested had backup processes in place; however, those processes caused cash receipts to not be deposited within the 24 hour period on multiple occasions. One out of ten locations tested did not have any backup process in place.

**Potential Risk: Low** – The risk of untimely deposits increases when an appropriate backup process is not in place which also increases the risk of theft of cash.

**Recommendation:** The locations should ensure a backup is in place and train the backup on the process to ensure they understand how to record transactions within the accounting system and that cash receipts must be deposited within 24 hours.

### **9) *Receipt Sign Not Displayed***

The County's Administrative Instruction No. AD 02 requires a sign be posted at all cash receipting sites reminding the customers to obtain a receipt for the transaction. Five of the ten locations tested did not have a sign posted. The County put this process in place to reduce the risk of employees collecting money and not posting it to the receipting/accounting system.

**Potential Risk: Low** – The receipt is a record of the cash collected and without that receipt cash is more likely to be stolen and not detected. The locations identified receive infrequent deposits.

**Recommendation:** The County should remind all departments of the need for a receipt sign and do a spot-check to verify compliance.

## Overall Management's Response

We concur with the auditor's comments and will create a corrective action plan to remediate the situation. The remediation plan will ensure that all addressed recommendations pertaining to Cash Receipts and ACH Payment processes are followed. The Administrative Instruction No. AD 02, Collection of Monies and Handling Requirements, will be amended to incorporate update(s) and additional controls. Cash Handling Process Flows will be developed to correlate with the Administrative Instruction No. AD 02. An Internal Control Questionnaire for Cash Handling will also be created to assist in analyzing departments that need assistance. We will start requiring the supervisors to perform surprise cash counts. In addition, a Change Drawer Distribution Log by Custodian will be created to track change drawer funds and will be centralized in the Accounting Office. Training will be provided to the departmental cashiers (including all areas identified in the observations above) on the amended Administrative Instruction for Collection of Monies and Handling Requirements, Cash Handling Process Flows, Internal Control Questionnaire, and the Change Drawer Distribution Log. The implementation of the remediation plan will be completed by June 30, 2016.

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This report is intended solely for the information and use of Bernalillo County management, the audit committee, members of the Board of Commissioners of Bernalillo County and others within the organization. However, this report is a matter of public record, and once accepted its distribution is not limited.

We discussed and resolved other minor observations with management and received excellent cooperation and assistance from the locations during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico  
January 28, 2016