

**CITY OF HAMILTON**

**CITY MANAGER'S OFFICE  
Audit Services Division**

<b>TO:</b> Chair and Members Audit, Finance and Administration Committee	<b>WARD(S) AFFECTED:</b> CITY WIDE
<b>COMMITTEE DATE:</b> September 9, 2013	
<b>SUBJECT/REPORT NO:</b> City-Wide Cash Handling Guidelines (AUD13031) (City Wide) (Outstanding Business List Item)	
<b>SUBMITTED BY:</b> Ann Pekaruk Director, Audit Services City Manager's Office	<b>PREPARED BY:</b> Ann Pekaruk 905-546-2424 x4469
<b>SIGNATURE:</b>	

**RECOMMENDATIONS**

- (a) That Appendix "A" attached to Report AUD13031, respecting City-Wide Cash Handling Guidelines, be approved;
- (b) That the Acting General Manager of Finance and Corporate Services be directed to create a corporate cash handling policy which incorporates the cash handling guidelines by calendar year end 2013; and
- (c) That the City Manager, General Manager of Community and Emergency Services, Acting General Manager of Finance and Corporate Services, General Manager of Planning and Economic Development, General Manager of Public Works and Medical Officer of Health be directed to provide to the Audit, Finance and Administration Committee an updated status with respect to implementing and incorporating the cash handling guidelines into departmental cash handling procedures within four months by March, 2014.

**EXECUTIVE SUMMARY**

A list of widely accepted cash handling guidelines recommended for City-wide policy use and to be incorporated within every department's procedures for handling cash payments is attached as Appendix "A" to the Report AUD13031.

***Alternatives for Consideration – See Page 3.***

**FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)**

**Financial:** Sound procedures and strong controls over the handling and safeguarding of cash reduce the possibility of loss or theft. Reconciling records and investigating and resolving discrepancies mitigate the risk of misappropriation of funds. There may be some cost associated with the purchase, installation and maintenance of safes and other security devices although such costs have not been determined.

**Staffing:** None.

**Legal:** None.

**HISTORICAL BACKGROUND (Chronology of events)**

On July 10, 2013 the Audit, Finance and Administration Committee put forth the following motion:

"That the Internal Auditor be directed to immediately commence a review of the cash handling policies, on a city-wide basis, and report to the Audit, Finance & Administration Committee with clear recommendations to assist in strengthening the security of all cash handling within the City of Hamilton."

**POLICY IMPLICATIONS/LEGISLATED REQUIREMENTS**

Various departmental and divisional cash handling policies and procedures.

### **RELEVANT CONSULTATION**

The cash handling guidelines included in Appendix “A” resulted from:

- Previous cash handling audits performed by Audit Services;
- Cash handling policies and procedures in place at other municipalities; and
- A corporate cash handling review performed by Deloitte & Touche and presented to the Audit and Administration Committee on October 29, 2007.

### **ANALYSIS / RATIONALE FOR RECOMMENDATION**

(include Performance Measurement/Benchmarking Data, if applicable)

Management is primarily responsible for ensuring appropriate internal controls are in place to safeguard cash from misappropriation. No corporate cash handling policy currently exists. As it would be difficult and impractical to stop accepting cash payments in all areas, some sections within each department have created separate policies and procedures to control cash handling processes in their respective areas and some sections have not taken any such initiative.

The Audit, Finance and Administration Committee directed Audit Services to review cash handling policies on a city-wide basis and provide recommendations to assist in strengthening the security of cash handling within the organization. A list of proposed City-wide cash handling guidelines is attached as Appendix “A” to the Report AUD13031.

The guidelines reflect internal controls that should be in place to reduce risks associated with the majority of cash handling processes. Adapted or additional processes and controls may be required to address specific risks or circumstances in individual areas.

### **ALTERNATIVES FOR CONSIDERATION**

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

The Committee may decide to add/delete/replace any of the cash handling guidelines. Each guideline contains one or more internal controls which address a specific cash handling risk. Guidelines which are removed or not implemented may expose the City to cash handling risk if appropriate compensating controls are not considered.

**ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN:**

**Strategic Priority #3**

Leadership & Governance

*WE work together to ensure we are a government that is respectful towards each other and that the community has confidence and trust in.*

**Strategic Objective**

3.4 Enhance opportunities for administrative and operational efficiencies.

**APPENDICES / SCHEDULES**

Appendix “A” to Report AUD13031

ap:ab

**APPENDIX "A"**  
**CITY OF HAMILTON**  
**CITY-WIDE CASH HANDLING GUIDELINES**

**PURPOSE**

The purpose of this document is to provide guidelines to:

- Promote proper and consistent cash handling practices across the organization;
- Establish a system of internal controls for cash handling to prevent mishandling of such funds; and
- Assist in strengthening the security over cash receipts within the City of Hamilton.

**SCOPE**

These guidelines should apply to all City of Hamilton operating departments with employees, staff, volunteers, students, elected officials, contractors, consultants, boards, agencies, commissions and business partners who accept cash funds on behalf of the City and whose financial transactions are captured within the City's financial systems.

These guidelines do not include controls pertaining to cheque payments, debit or credit card payments or the use of petty cash funds.

**DEFINITIONS**

Bonding of Employees – Agreement under which a bonding or insurance company guarantees payment of a certain amount as damages in the event that one or more employees covered in the agreement cause financial loss to the City.

Cash – Canadian and US currency (bills and coins).

Cashier – Employee, staff, volunteer, student, elected official, contractor, consultant, board, agency, commission or business partner assigned cash handling responsibilities.

PeopleSoft Financial System – Accounting software utilized by the City of Hamilton to record financial transactions.

Point of Sale System – A computer used in place of a cash register to record transactions, handle credit and/or debit payments and print receipts and reports.

Refund – Reimbursement to a customer for returned, cancelled or unsatisfactory goods or services after the original purchase transaction is completed.

Segregation of Duties – Internal control concept in which the same employee does not have responsibility for incompatible activities such as handling cash and recording and reconciling transactions.

Transaction Log – Manual record used to record transactions.

Voided Transaction – Reversal of an item entered into a cash register or point of sale system before the purchase transaction is completed.

## **CASH HANDLING GUIDELINES**

### **Segregation of Duties**

One employee given responsibility to collect cash, record transactions and/or reconcile daily cash activity has the opportunity to misappropriate cash and conceal the shortage in the accounting records.

No individual should have responsibility for both collecting cash and:

- Opening the mail;
- Depositing cash receipts;
- Recording or approving journal entries within the PeopleSoft Financial System;
- Performing bank reconciliations;
- Issuing invoices or posting payments within the PeopleSoft accounts receivable module;
- Initiating, approving or recording accounts receivable write-offs or other adjustments;
- Reconciling the numerical continuity of manual customer receipts, where applicable; and
- Using discretion as to whether a related charge will be levied and/or the amount of the charge.

Where segregation of duties is not practical, additional compensating controls and mitigation practices such as managerial oversight are required to reduce the risk of loss.

Cashiers should not carry out cash handling duties for at least one consecutive week per year. This may be accomplished through mandatory vacation, job rotation or other means. Such a routine may help to identify unusual or questionable practices of the regular cashiers.

### **Receiving and Recording Cash Payments**

An incomplete record of cash transactions and adjustments provides an opportunity to misappropriate cash and omit the shortage from the accounting records.

Counterfeit and mutilated currency is not legal tender and should not be accepted. A counterfeit detection device should be used to identify forged currency. Where it is not practical to purchase or use such equipment, cashiers should be adequately trained in using common security features to identify counterfeit money.

All cash payments should be entered into the cash register or point of sale system immediately upon receipt from the customer. Where it is not practical to use a cash register or point of sale system, the cash payment should be recorded using pen in a transaction log which documents at a minimum the date, amount, type and purpose of the payment received.

Adjustments made to standard prices (e.g. coupons, discounts or rebates) or fee waivers should be captured separately from the purchase price. Documentation supporting the adjusted price or fee waiver should be retained. Adjustments or fee waivers appearing on the cash register summary tape, point of sale system report or manual transaction log at the end of the cashier's shift should be reconciled to supporting documentation retained. Management should review and approve price adjustments and fee waivers by the following business day or at least on a monthly basis. Management should investigate inappropriate price adjustments and fee waivers or those for which no supporting documentation exists. The investigation should include an assessment of unusual patterns.

A receipt should be printed from the cash register or point of sale system and provided to the customer for all payments received. A manual receipt should be prepared where it is not practical to use a cash register or point of sale system. The cash register, point of sale system or manual receipt should indicate at a minimum the transaction date, sequential transaction or receipt number, purpose of the payment, amount received and type of payment.

Manual receipts should be issued from a sequentially pre-numbered receipt book in numerical order. Spoiled receipts should be marked "VOID" and retained in the receipt book. Management should account for the numerical sequence of receipt numbers on a quarterly basis and when a new receipt book is requested. At a minimum, manual receipts should be produced in duplicate – one copy is provided to the customer and one copy is retained in the receipt book for accounting purposes. Where it is not practical to issue manual receipts for small dollar transactions, additional management review and oversight is required to ensure cash receipts are complete.

All cash payments should be collected by the cashier at a central location. Where this is not practical (e.g. donation box, vending machine), two employees should collect and count the funds, document the count, initial the form and observe the cashier enter the funds into the cash register, point of sale system or manual transaction log. The initialed form documenting the count should be retained. Such sales appearing on the cash register summary tape, point of sale system report or manual transaction log at the end of the cashier's shift should be reconciled to the initialed form documenting the count. Management should investigate documented funds not recorded in the cash register, point of sale system or transaction log.

### **Refunds and Voided Transactions**

Lack of documentation and management oversight provides an opportunity to process an unfounded refund or void transaction for cash and misappropriate the funds.

Each department should develop and implement a refund policy as appropriate to its operations. Each policy should adhere to the following minimum requirements.

All refunds and voided transactions should have the following supporting documentation:

- Transaction date;
- Customer name, address, phone number and signature;
- Original customer receipt (where available);
- Reason for the refund or voided transaction;
- Amount and form of payment;
- Signature of the cashier issuing the refund or void; and
- Signature of the supervisor approving the transaction.

Total refunds and voided transactions appearing on the cash register summary tape, point of sale system report or manual transaction log at the end of the cashier's shift should be reconciled to the supporting documentation outlined above. Management should investigate refunds and voided transactions for which no supporting documentation exists.

Refunds should be returned using the same payment method as the original payment. For example, if the original payment was made using a VISA credit card, the refund must be returned to the same VISA credit card. If a cash refund will deplete all or part of the cash float, the refund should be requested by City of Hamilton cheque.



Cashiers should not have the ability to process a refund or voided transaction without management approval. Where it is not practical to obtain approval at the time of the transaction, management should review and approve refunds and voided transactions by the following business day or at least on a weekly basis. The review should include an assessment of unusual patterns.

### **Receipts Reconciliation**

Lack of management oversight and a proper receipts reconciliation process creates an opportunity to misappropriate cash and conceal the shortage.

Cash, cheque, debit and credit card receipts on hand should be counted and reconciled to amounts recorded in the cash register, point of sale system or transaction log at the end of the cashier's shift.

Cash appearing on the cash register summary tape, point of sale system report or manual transaction log covering the shift period should be compared to the actual amount of cash on hand once the float balance when utilized, is removed. Cash shortages or overages should be identified and explained. The receipts reconciliation should be documented, re-performed and reviewed by management and signed by both the cashier and management as evidence that the reconciliation is complete and accurate. Where it is not practical for management to review the receipts reconciliation, a second employee who did not participate in the particular cash handling activities may act on management's behalf.

Management should summarize cash shortages and overages by employee, date and amount. Management should review this summary at least on a monthly basis in order to identify trends or significant cumulative discrepancies.

Each operating department should define the dollar threshold for a significant single or cumulative cash shortage or overage. Significant shortages and overages should be brought to management's attention, investigated, documented and resolved. At a minimum, documentation should contain a description of steps taken to investigate the shortage or overage and what action (if any) was taken by management.

The float and cash awaiting deposit should be stored in a secure location with limited access. The cashier should not have access to cash awaiting deposit after the receipts reconciliation is complete.

## **Deposits**

Large amounts of cash stored on-site for an extended period of time provides an opportunity to misappropriate, skim or lap funds.

All funds should be deposited in tact. No cash receipts should be retained or expended to pay invoices or miscellaneous expenses, replenish petty cash or make loans or advances. Cash back for debit or credit card purchases should not be allowed.

Deposits should occur within 24 hours or the next business day of receipt of cash funds in order to limit the amount of cash stored on site. Where it is not practical to deposit cash on a daily basis, management should determine the dollar threshold for accumulated cash receipts that will trigger a bank deposit. At a minimum, deposits should occur on a bi-monthly basis. Cash awaiting deposit should be stored in a secure location with limited access.

Deposits that do not occur on a daily basis should be reconciled to the amount of cash receipts recorded for the days captured by the deposit. Cash appearing on the cash register summary tape, point of sale system report or manual transaction log covering the deposit period should be compared to the actual amount of cash on hand. Differences that were not previously identified as part of the receipts reconciliation process should be brought to management's attention, investigated, documented and resolved. The deposit reconciliation should be reviewed by management and signed by both the employee and management as evidence that it is complete and accurate.

A bank deposit slip should be prepared for the actual amount of cash on hand. The deposit amount should match the amount of cash appearing on the receipts reconciliation or deposit reconciliation. The deposit should be re-counted and bank deposit slip reviewed by management. The bank deposit slip should be signed by both the employee and management as evidence that the reconciliation is complete and accurate. At a minimum the bank deposit slip should be produced in triplicate – two copies are remitted to the bank with the deposit and one copy is retained by the department. The deposit and two copies of the bank deposit slip should be sealed in a bank deposit bag. The deposit should occur the same day on which it is prepared.

Bank deposits should be picked up by an armoured car service. Where armoured car service is not available, the deposit should be escorted to the bank by a City employee. Cash should not be sent through mail or inter-office mail for deposit.

Deposits picked up by an armoured car service should be recorded using pen in a pickup log which documents, at a minimum, the date, deposit bag number, deposit amount, initials of the City employee releasing the deposit and initials of the armoured car driver taking custody of the funds. The identification of the armoured car driver should be compared against a list of authorized personnel before releasing the deposit.

### **Bank Reconciliation**

Lack of a bank reconciliation process creates an opportunity to misappropriate cash from the bank deposit and not detect the discrepancy.

Funds deposited should be recorded in the PeopleSoft Financial System and reconciled to City bank statements at least on a monthly basis.

Point of sale system transactions should be automatically downloaded into the PeopleSoft Financial System. Manual journal entries are required to record cash register and transaction log activity into the PeopleSoft Financial System. Each department should forward pertinent documentation to Finance and Administration in order to prepare manual journal entries.

Finance Services/Finance and Administration should perform, document, review and sign off on bank reconciliations by the end of the month following the month being reconciled. Any discrepancies between funds deposited and bank activity should be investigated and resolved with assistance from the operating department.

### **Safeguarding Cash**

Inadequate physical security provides an opportunity to misappropriate cash from the float, daily cash receipts and/or bank deposit. It may be difficult to identify when and why cash shortages occur or the person responsible if access to cash is not limited.

Background checks should be performed on prospective cash handlers. Employees handling cash receipts should be bonded.

Cash should be kept secure at all times. This includes but is not limited to:

- Keeping all cash in a locked cash register, cash drawer or cash box;
- Locking the cash register, cash drawer or cash box when cash is left unattended;  
and
- Affixing cash registers and boxes to a fixed surface to prevent removal.

Physical access to the safe or storage areas where cash is kept should be restricted to a limited number of people. Access may be restricted by limiting those with access to keys or knowledge of the combinations. Access should be granted based on the employee's job duties.

Safe combinations should be kept in secure locations and records should be maintained listing those who have knowledge of the combinations. Safe combinations should be changed periodically or when there is a change in staff (e.g. termination, change in position, retirement, etc.).

For safes, lock boxes, filing cabinets or cash drawers with keys, all keys and copies must be kept secure and there should be a log to track the issuance of keys. When an employee leaves the employment of the City or changes responsibilities, all keys should be turned in. Operating departments should have a plan in place for re-keying safes / lockboxes periodically.

If security proximity cards are used to restrict access, the access listing should be obtained from Facilities yearly and reviewed by management to ensure only required personnel have access.

Security devices (e.g. cameras, alarm buttons, bullet proof glass) should be installed at locations where a considerable amount of cash is collected.

Cash should be counted in a non-public, secure area, out of sight.

### **Cash Float**

Continuous access to the cash float for an extended period of time without management oversight provides an opportunity to misappropriate, skim or lap funds.

A cash float is issued for the purpose of making change for a cash transaction. Money from the float should not be retained or expended to pay invoices or miscellaneous expenses, replenish petty cash or make loans or advances.

The cash float should be stored in a secure location with limited access at all times. Access to the cash float should be limited to the cashier and their direct supervisor during a given shift.

The cashier should count the cash float at the start and end of their shift. At a minimum, the float should be re-counted by management or their designate at the end of the cashier's shift as part of the receipts reconciliation process. Shortfalls in the float balance should be brought to management's attention, investigated, documented and resolved.

Management should conduct a surprise count on a periodic basis to reconcile the float balance. The count should be witnessed by another employee and the reconciliation documented and initialed by both employees. At a minimum, surprise counts should occur on a quarterly basis.

## **RESPONSIBILITIES**

The General Managers, in conjunction with departmental management, shall be responsible for:

- Ensuring that the above guidelines and internal controls are incorporated into cash handling procedures developed for and implemented in their respective service areas;
- Ensuring that cash handling procedures and related internal controls are in place and operating;
- Establishing additional procedures and controls required to meet specific departmental needs; and
- Ensuring that personnel who handle cash are informed of, understand and adhere to the provisions of departmental cash handling procedures.

Employees handling cash receipts are responsible for complying with cash receipt handling procedures developed for and implemented in their respective service areas.

The Director of Audit Services or designate is responsible for completing cash handling reviews of select departmental or service areas on a periodic basis to identify opportunities for improving and strengthening cash handling controls.