

CASH HANDLING INTERNAL AUDIT

PURPOSE

The purpose of this report is to advise the Audit and Risk Committee of the outcome of the internal audit of Cash Handling.

RECOMMENDATIONS

That the Audit and Risk Committee:

1. Receive the report; and
2. Note the outcome of the internal audit and the agreed corrective action.

BACKGROUND

1. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its strategic priorities and objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
2. The audit was completed as part of the approved 2017/18 internal audit programme.
3. The objective of the audit was to assess the effectiveness of PCC's processes to ensure all cash received is completely and accurately recorded, appropriately safeguarded, deposited intact on a timely basis and correctly accounted for in the general ledger.

SUMMARY

4. Internal Audit's opinion is management control is effective.
5. Processes are effective and appropriate for the different cash handling locations with a combination of manual and system based controls, for example:
 - documented policies and procedures are in place for the various locations, this documentation varies from detailed processes through to checklists and templates for daily and weekly procedures;

- access to cash recording systems is restricted to Council staff and where practical adequate segregation of duties is in place. Where optimal segregation of duties is not possible there is an independent review of records; and
 - all main sites have eftpos machines reducing the level of physical cash received.
6. Two low priority issues have been identified. One issue relates to the collection of cash (banking) from the landfill. The recommendation is to include the landfill in the syndicated security contract to reduce the operational costs of the landfill. And the other issue relates to verifying that all cash received for pay and display parking is banked intact.

ATTACHMENT

#5026621 – Internal Audit Report Cash Handling

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MANAGER INTERNAL AUDIT

Report approved by: Roy Baker
GENERAL MANAGER CORPORATE SERVICES AND CHIEF FINANCIAL OFFICER

Cash Handling

Internal Audit

July 2017

Executive Summary

Opinion on management control

Effective¹

This report details the audit observations and recommendations from the cash handling and receipting internal audit. The objective of the audit was to assess the effectiveness of PCC's processes to ensure all cash received is completely and accurately recorded, appropriately safeguarded, deposited intact on a timely basis and correctly accounted for in the general ledger. The audit background and scope is detailed in **Appendix A**.

Processes are effective and appropriate for the different cash handling locations with a combination of manual and system based controls, it was noted:

- documented policies and procedures are in place for the various locations, this documentation varies from detailed processes through to checklists and templates for daily and weekly procedures;
- access to cash recording systems is restricted to Council staff and where practical adequate segregation of duties is in place. Where optimal segregation of duties is not possible there is an independent review of records;
- all main sites have eftpos machines reducing the level of physical cash received;
- physical security measures are in place and through discussions with staff they are satisfied with the level of security provided;
- cash and receipts are reconciled on a daily basis at all sites receiving a high level of payments. For sites with less payments, eg nursery and branch libraries this is a weekly process or is done in response to the level of receipts;
- banking is reflective of the level of receipts with the front counter and landfill doing daily banking Monday through Friday, the arena has collections three times a week and cannons creek pool, pataka and main library have weekly collections or they can request a collection as required;
- Finance is responsible for reconciling the bank accounts using the cash returns submitted from all collection sites;
- all sites, except the branch libraries and nursery, use point of sale systems for the direct processing of receipts and posting of transactions to the general ledger. Branch libraries forward their cash to the main library for processing and the nursery's receipts are processed by the Front Counter.

Two low priority issues have been identified. One issue relates to the collection of cash (banking) from the landfill. The recommendation is to include the landfill in the syndicated security contract to reduce the operational costs of the landfill. And the other issue relates to verifying that all cash received for pay and display parking is banked intact.

Final report distribution list:

- Chief Executive
- General Manager – Corporate Services / CFO
- Chief Operating Officer - City & Community Infrastructure
- General Manager - Policy, Planning & Regulatory Services

¹ *The controls are in place and are working well. The controls are being performed in the manner for which they are designed to mitigate the risk. No or minimal scope for improvement has been identified.*

Audit Observations

The following table summarises the key issues identified for improvement during the course of the audit, **categorised according to their level of priority**. Audit observations are detailed later on in the report along with the associated risks, recommendations and managements' agreed action plans.

It is important to note that all changes and improvements that result from the audit should be fully documented, reviewed and approved.

Observations / Recommendations	High	Moderate	Low
1. Cash collection at the landfill <i>Opportunity to reduce costs for the collection and banking of cash from the landfill.</i>			✓
2. Pay and display parking <i>There is no independent or internal verification that all cash received is banked intact.</i>			✓

Priority Key

High Significant improvements required	Immediate corrective action is required (within 6 months). These recommendations relate to a serious weakness which exposes the Council to a material extent in terms of achievement of Council's objectives, financial results, operational efficiencies, legislative compliance or otherwise impair the Council's reputation.
Moderate Improvements are necessary	Corrective action is required (within 6 - 12 months). These recommendations relate to deficiencies that need to be addressed to meet expected standards of good practice. These include any control weakness which could undermine the system of internal control or operational efficiency.
Low Some improvements required	Corrective action is required, (12 to 18 months.) A weakness which does not seriously detract from the system of internal control or operational efficiency but will be beneficial to management to address.

Audit Observations

1. Cash collection at the landfill <i>Opportunity to reduce costs for the collection and banking of cash from the landfill.</i>		Low
<p>Council has negotiated a syndicated security contract (with Wellington City Council and Kapiti Coast District Council). The contract is from 1 January 2016 to 31 December 2018 and this may be further extended by two periods of up to two years each.</p> <p>The contract includes a cash collection service provided by Direct Security Services, who collect from all Council sites (requiring the service) except for the landfill. The landfill uses a different contractor at a higher cost to Council.</p> <p>The reason for omitting the landfill from the syndicated contract could not be established.</p>		
Risks <ul style="list-style-type: none"> • Lost opportunity for cost savings. 		
Recommendations Management should: <ol style="list-style-type: none"> Consider including the landfill cash collection into the syndicated security contract as soon as possible or at the time of renewal if the contract is renewed in December 2018. 		
Management action plan		Responsibility
a) Procurement will liaise with the Manager Solid Waste to determine the landfill requirements and whether (and when) they can be included in the syndicated security contract.		Procurement Administration Officer
		Due date
		31 Oct 2017

Audit Observations

2. Pay and display parking <i>There is no independent or internal verification that all cash received is banked intact.</i>		Low
<p>Council operates four pay and display parking machines at the parking areas on Hagley Street. An external contractor is tasked with collecting, counting and banking the cash from the machines.</p> <p>Cash collection and banking reports are provided to the parking and bylaws team. But these reports are not reviewed to ensure that they agree with the cash reports from the parking machines.</p>		
Risks <ul style="list-style-type: none"> Council is reliant on the external contractor's controls to ensure all cash received is banked intact, ie no independent or internal verification that all cash received is banked intact. 		
Recommendations Management should: <ol style="list-style-type: none"> Consider introducing random cash audits where cash banked by the external contractor is reconciled to the cash reports from the pay and display parking machines. 		
Management action plan		Responsibility
<ol style="list-style-type: none"> Random quarterly cash audits will be introduced to verify that all cash from the pay and display parking machines is banked intact. 		GM - PPRS
		Due date
		31 Oct 2017

Appendix A – Audit Background and Scope

Introduction

As per the agreed 2017/18 internal audit programme an audit on Council's cash handling processes was completed in August 2017.

Cash is received for a variety of fees, charges, facilities and services managed and provided by the Council, eg rates, hall hire, rubbish bags, pool access, libraries, infringements, resource consents, dog registration etc. The majority of cash is received at Council's Administration Building (Front Counter). Other collection points include:

- Libraries;
- Arena Aquatic Centre;
- Cannons Creek Pool;
- Pataka (including the Toi store);
- Dog pound;
- Nursery; and
- Landfill.

For the purpose of this audit cash includes cheque, eftpos and credit card payments.

Objectives

The audit assessed the effectiveness of PCC's processes to ensure all cash received is completely and accurately recorded, appropriately safeguarded, deposited intact on a timely basis and correctly accounted for in the general ledger.

Scope

The scope of the audit included:

- documented policies and procedures;
- access to cash recording systems;
- physical security measures in place;
- the recording, reconciling and banking of daily cash receipts;
- monitoring and authorisation of cash discrepancies and voided transactions;
- segregation of duties; and
- the processing of cash receipts to the general ledger.

Scope exclusions

The scope of the audit excluded:

- online / internet payments; and
- payments through third parties, ie NZ Post shops.