

**Hernando County Clerk of Circuit Court
Audit Services Department
Memorandum**

TO: Jana Murphy, Court Services Director
Paula Merritt, Court Services Coordinator
Beverly List, County Criminal/Traffic Supervisor
Amy Gillis, CPA, Finance Director

VIA: Karen Nicolai, CPA, Clerk of Circuit Court

FROM: Peggy Prentice, CIA, CISA, Audit Services Director

Copy: Douglas Chorvat, MIS Manager

SUBJECT: CCC Organization-Wide Efficiency of Cash Balancing Process –
County Criminal/Traffic Division

DATE: December 19, 2006

The Audit Services Department (ASD) was asked to assist the County Criminal/Traffic Supervisor with enhancing the Traffic Division's efficiency of daily cash balancing activities. To accomplish this goal, the ASD observed cash balancing activities, interviewed key employees, reviewed daily work, and obtained an understanding of the cash balancing processing steps. The ASD identified some potential areas for improvement and is recommending the following enhancements to the process:

I. File Room Photocopy Fees

The Central File Room charges customers a fee to photocopy documents/records. It appears that the average revenue for this activity is about \$30 per day. The Central File Room calculates the total fee amount which is written on a Post-It note and given to the customer along with the photocopy(s). The customer is instructed to pay the fee to a County Criminal/Traffic Division cashier.

Comment: The customer is given the photocopies prior to paying the fee. It is somewhat of an honor system. In addition, since this process lacks an audit trail, the cashier could intake the fee without recording it into the financial record (misappropriation of County assets).

Recommendation: Consideration should be given to requiring the customer to provide proof of fee payment (i.e., a receipt) before the customer is given the photocopy(s). To balance the workload, Central File Room employees should direct customers to the pay the cashiers located in Circuit Criminal or in the County Criminal/Traffic Division.

Jana Murphy's Management Response, July 2006: Management agrees. This recommendation was implemented. Customers are given a pay slip with the amount of money required to purchase the copies by the File Room. They are directed to pay either Circuit Criminal or County Criminal/Traffic based on which department has the fewest customers at the time. They then must show the receipt to the File Room before receiving their copies.

II. Telephone Acceptance of Credit Card Payment

Per management, when accepting credit card payments over the telephone, some cashiers require the credit card's SID (3-4 digit card validation) number while others do not. Management asked the ASD to clarify the Finance Department's requirements.

Comment: Per Finance Department management, the SID number is not required to process credit card transactions, and it is not recommended to obtain this information.

Recommendation: Consideration should be given to not obtaining SID numbers when processing credit card payments.

Jana Murphy's Management Response, July 2006: Management agrees. This recommendation was implemented and will be included in the County Criminal/Traffic policies and procedures.

III. Daily Cash Receipt Reports

When cashiers print automated records of cash receipt totals, the software system prints duplicate and unnecessary reports. The software does not allow the cashier to select print options.

Comment: It is inefficient to print documents that are not necessary. During fieldwork, the ASD and County Criminal/Traffic Division management worked with the MIS Department to make the necessary adjustments to the printing function.

Recommendation: Management should follow up with the MIS Department to ensure this request is fulfilled.

Jana Murphy's Management Response, July 2006: Management agrees. MIS has eliminated the duplication of daily cash reports.

IV. Manual Cash Receipt Calculations

The County Criminal/Traffic Division utilizes more than one software program to record cash receipts. These software programs are not linked with one another. Cashiers manually add up the totals from each financial software application to determine the total amount of cash received.

Comment: Manual calculations provide for human error and are inefficient. During fieldwork, the ASD and County Criminal/Traffic Division management worked with the MIS Department to write up a simplistic program that combines the cash receipt totals and to format this automated report to serve a dual function (an automated total cash receipt record and a cash balancing form). This could reduce paperwork and labor hours.

Recommendation: Management should follow up with the MIS Department to ensure this request is fulfilled.

Jana Murphy's Management Response, July 2006: Management agrees. A request has been submitted to MIS for this combined report. MIS estimates that it will take up to six months to write this report.

V. Cash Balancing Process

Some clerks/cashiers count their cash receipts and prepare their bank deposit prior to balancing their cash drawer change fund. The Finance Department requires any out-of-balance condition to be reflected in the bank deposit so that the cash drawer change fund maintains the given amount of cash.

Comment: It is inefficient and against policy to prepare the bank deposit before balancing the cash drawer change fund because if the clerk/cashier doesn't balance, s/he would have to repeat the bank deposit processing steps.

Recommendation: Consideration should be given to training clerks/cashiers on the appropriate chronological cash balancing steps in the Finance Department Cash Handling Policies and Procedures Manual. Clerks/cashiers should be directed to count out and segregate their cash drawer change fund amount from their cash receipts. The balance of their cash fund should then be compared to the automated cash receipts record. Any out-of-balance condition should be reflected in the bank deposit and reported to the appropriate level of management, and these procedures should be reflected in the County Criminal/Traffic Division's Policies and Procedures Manual as well.

Jana Murphy's Management Response, July 2006: Management agrees. New clerks are sent to Cash Handling training taught by the Finance Department. All clerks were reminded of the correct chronological cash balancing steps.

VI. Unreported Out-of-Balance Condition

During an observation, the ASD identified an out-of-balance condition (a \$6 overage) that went unreported and was not reflected in the bank deposit.

Comment: Although the out-of-balance condition was not a material amount, and the clerk/cashier cited that it was caused by not data inputting a payment, the concern is that unreported overages or shortages are inconsistent with policy and could lead to misappropriation of County assets.

It should be noted that during fieldwork the ASD brought this concern to management's attention. Management directed the clerk/cashier to report any out-of-balance condition.

Recommendation: Consideration should be given to adequately train clerks/cashiers and to ensure that they understand the procedure for handling out-of-balance conditions. Any out-of-balance condition should be reported to the appropriate level of management and should be reflected in the bank deposit.

Jana Murphy's Management Response, July 2006: Management agrees. Clerks receive cash handling training and are instructed that any and all out-of-balance conditions must be reported to management and reported in the bank deposit.

VII. Clerk/Cashier Training

Based upon observations, reviews of cash receipt records, and interviews with key personnel, it appears that some clerks who cashier do not yet have a full understanding of their job duties.

Comment: To provide some assurance that cash receipt and financial records are accurate and complete, management reviews all cash receipts and daily Traffic Distribution Reports (automated customer payment records) for any errors or omissions. Management performs this level of review because numerous errors have been identified (i.e., cashier did not indicate if the driver's license was cleared of suspension; cashier did not report Municipal Services Bureau (MSB) funds on the MSB report; or cashier did not indicate if the funds were supplemented). This time consuming management oversight control is cumbersome but may be minimized or eliminated as cashiers' working knowledge and experience becomes more developed and their work becomes more reliable.

Recommendation: Consideration should be given to continuing to utilize customer receipts and Traffic Distribution Reports to identify processing weaknesses. Once identified, management should enhance the process by going one step further by logging the errors/omissions, the name of the clerk/cashier responsible for the exception, and any corrective action taken. This log will provide management with a tool to pinpoint areas of concern and personnel who require additional training and development.

Jana Murphy's Management Response, July 2006: Management agrees. A log is now kept which identifies the name of the responsible cashier, the error and the corrective action that is taken. This will be used as a tool to pinpoint areas of concern and personnel who require additional training.

VIII. Preparation of Traffic/Misdemeanor Daily Worksheets

Traffic/Misdemeanor Daily Worksheets are prepared by clerks/cashiers at the end of their shift and are utilized in the cash balancing process. Based upon reviews of Traffic/Misdemeanor Daily Worksheets, it appears that some cashiers do not complete all applicable information on these worksheets.

Comment: Incomplete forms can lead to misinterpretation of the financial record.

Recommendation: Clerks/cashiers should complete all applicable line items on forms/reports before forwarding them into their supervisor.

Jana Murphy's Management Response, July 2006: Management agrees. Effective immediately, no lines will be left blank on the daily worksheets. Either a dollar figure, a zero or N/A will be inserted into each line item.

IX. Underpayments

If the payment received is less than the amount due and the shortage is less than \$1, the County Criminal/Traffic Division does not attempt collection. If the payment received is less than the amount due and the shortage is \$1 or more, the Division attempts collection by sending the payer a Notification of Fee Variance/Request For Information form letter. (*Note: the ASD did not find any threshold for materiality amount in the policies and procedures.*)

No attempt is made to refund the payer if the payment received is more than the amount due and the overage is less than \$5.

Comment: The collection and refund costs (labor, postage, paper, printing, recordkeeping, etc.) could exceed the dollar value of the accounts receivable/payable making these processes inefficient.

Recommendation: Using the cost benefit approach (and taking into consideration any applicable rules, laws, regulations, etc.), consideration should be given to adjusting the threshold of materiality for the collections and refunds processes to a reasonable amount, and the County Criminal/Traffic Division Policy and Procedures should reflect this decision.

Jana Murphy's Management Response, July 2006: Management agrees. Effective July 1, if the County Criminal/Traffic Department receives a payment on a Civil Citation which is short less than \$5.00 a day, they will not send the customer a Notification of Fee Variance letter. They will note the shortage on the deposit cover sheet with the receipt attached. This new procedure has been communicated to staff and will be included in the revised County Criminal/Traffic policies and procedures.

X. Cash Handling Policies and Procedures Manual

The Finance Department Cash Handling Policies and Procedures Manual details the procedures that cashiers should be following when reconciling their change fund and bank deposit at the end of each business day. The Cash Handling Procedures do not clearly state that the cashier's overage/shortage should be reflected in his/her bank deposit, however, this is implied. In addition, the Cash Handling Procedures Standard Out-Of-Balance Section does not direct the cashier to report the overage/shortage on the Cashier Overage/Shortage Worksheet.

Comment: The Finance Department Cash Handling Policies and Procedures Manual should clearly define the process a cashier should take when an overage/shortage occurs. If a procedure is only implied within the manual, a cashier cannot be expected to interpret the implied procedure consistently as others would.

Recommendation: The Finance Department Cash Handling Policies and Procedures Manual Standard Out-Of-Balance Section should be revised to clarify the processing of out-of-balance conditions.

Amy Gillis' Management Response, December 2006: The Standard Out-of-Balance section of the Cash Handling Policy and Procedure Manual directs cashiers in identifying areas where discrepancies may be found, and if not found, then to their supervisor for further assistance. However, Section III. B.1. specifically states that the Cashier Overage/Shortage Worksheet (Exhibit 13) be completed whenever there is an overage or shortage in the cash drawer. When this manual is next updated, consideration will be given to combining these sections, or providing a reference from the Standard Out-of-Balance section to the Accountability section. Additionally, we will ensure that it is clearly stated that the overage/shortage should be reflected in the deposit.

Although the ASD exercised due professional care in the performance of this project, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected. Specific areas for improvement are listed above.

If you have any questions, concerns, or need additional information in regard to the above, please do not hesitate to contact me at (352) 540-6235, extension 72384, or just stop by my office in Room 201.

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