

City of Annapolis
Cash / Negotiable Items
Financial Policy and Procedure Statement

Adopted Date: July 2011

Overview

The City of Annapolis annual operating budget exceeds \$90 million and the City collects the associated revenues at different departments, for example; at the Harbor Master, Recreation, Transit, Finance and other outside Departments, and receives payments via different payment methodologies, such as; cash/coin, negotiable instruments such as money orders and checks, and electronically. Accordingly, in order to properly safeguard cash receipts and cash in general, it is imperative that the internal environment of the City is sufficiently adequate. The fundamentals of strong internal controls are outlined below.

- Segregation of Duties - this is the concept of having more than one person required to complete a task, it is also known as dual control. The concept of this principle is that no individual shall have complete control over a task, or series of tasks. By doing so, segregation of duties diminishes the probability of fraud and equally important, errors from occurring which will result in the City's financial statements being misstated.
- Timely posting and deposits of all receipts – this is the concept that all transactions are posted daily, both to customer sub-ledgers and to the general ledger, thereby mitigating that payments are delayed, lost, or otherwise, miss-appropriated. Additionally, receipts should be deposited on a timely basis.
- Custodianship of assets and records – this is the oversight function of the City's assets and records. Assets need to be properly controlled and accounted for, thereby assuring that the City's assets are properly safeguarded.
- Authorization and approval of transactions – this is the concept that transactions are review by an appropriate person.

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- Retention of records – records and documents need to be maintained in order to substantiate transactions. Different documents have different retention cycles, and it is imperative that the City follows these retention cycles. Minimally, financial records should be maintained thorough the audit cycle of the previous fiscal year.
- Supervision or monitoring of operations – managers need to observe and review ongoing operational activity to ensure the operating environment is operating as designed.
- Physical safeguards – using cameras, locks, physical barriers such as vaults and cash boxes to safeguard the City’s assets.
- Top-level reviews-this involves analyzing actual outcomes as compared to organizational procedures and objectives.
- IT Security - usage of passwords, access logs, etc. to ensure access is restricted to authorized personnel.
- Controls over information processing-A variety of control activities are used in information processing. Examples include edit checks of data entered, accounting for transactions in numerical sequences, comparing file totals with control accounts, and controlling access to data, files and programs.

Essentially, the desire of a strong internal control environment is to have different employees involved during each step of the transaction flow, maintaining custodianship of City assets, including records/documents, approving and/or authorizing transactions and reconciling activity to records.

It should be noted that no matter how tight the internal control environment, fraud can not always be prevented, or detected on a timely basis. For example, if two or more people are in collusion, the probability of detecting fraud within an acceptable time period is greatly diminished.

This concern shall be addressed by implementing procedures that rotate employee responsibilities thereby reducing potential collusion from occurring, but equally important is the necessity that managers perform their due diligence during the hiring phase, such as conducting proper and thorough background checks including criminal background and credit checks for those employers who will handle cash receipts or disbursements, and sufficiently manage operations as necessitated by the internal controls as outlined above.

Scope

This Policy and Procedure statement shall apply to all departments that receive payments.

Procedures

The following procedures shall be followed to ensure that proper internal controls are implemented and followed by all departments handling any payments by; cash, coin, negotiable instruments, wire transfers or other electronic payments. When cash is referenced below, it shall include any and all forms of non-electronic receipts.

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Separation of duties

Managers shall separate cash handling duties by assigning functions to different employees whereby no single person has control over the entire cash / transaction process.

- Required Procedures, no person shall have responsibility for more than one of the following activities:
 - Receiving, recording and posting payments to the City's receivable sub-ledgers; e.g., the customer/tax-payer receivable files
 - Posting Payments to the general ledger
 - Depositing cash with the Bank or Currier
 - Reconciling cash receipts between the teller cash receipts control totals/journals, the general ledger and bank statements
 - Reconciling cash receipts between the general ledger and the bank statements
 - Overseeing the collection of returned checks
- Potential consequences if procedures are not followed:
 - Errors or irregularities may go undetected, or may not become detected within an unreasonable period of time
 - Lost or stolen receipts may occur
 - Inaccurate postings to customer accounts, and/or to the general ledger may occur

Timely Posting of Payments / Daily Closing Procedures

Transactions shall be properly accounted for by posting payments upon receipt, and depositing payments daily.

- Required Procedures:
 - All receipts shall be posted to the appropriate sub-ledgers the day the receipts are received. Payments that cannot be identified shall be posted to a "unapplied receipts account" and then reconciled and cleared by finance at least weekly
 - Upon receipt, all negotiable items shall be endorsed with a City "For Deposit Only" stamp that includes the depository bank account.
 - Upon receipt, all negotiable items shall be stamped with a teller stamp on the front of the negotiable item. The teller stamp is simply a number that identifies the teller. Once a number is assigned, it shall remain with that employee until the employee leaves City employment.
 - All receipts shall be deposited daily. Receipts received after 3:00 PM may be deposited with the following day's work.

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- If payments received after 3:00PM are deposited with the following day's work, a separate deposit ticket and teller report shall be prepared for that work- it can not be commingled with the following day's activity
- Deposits, cash, coin and negotiable items shall be placed in tamper-proof deposit bags. It is preferable that they be keyed deposit bags whereby the manager not having any cash duties and depository bank maintain sole custody of the keys
- A carrier shall be used to pick-up and deliver receipts to the bank daily. If for any reason the carrier is not available, or if a special run is needed, two or more persons shall accompany the run.
- It is imperative that an audit trail be established for each transaction. Accordingly, the following procedures shall be followed to ensure an audit trail exists.
 - In order to reconcile and trace activity, two part pre-numbered customer receipts shall accompany each transaction. The customer receipts shall be pre-numbered
 - The Manager shall maintain custody of the unused inventory of pre-numbered customer receipts and they shall be safeguarded in a safe or cash box similar to cash.
 - Daily, by teller and then aggregated by department/location, receipt activity classified by general ledger categories documented on the "teller proof sheet" and a "departmental proof sheet" will be proofed / reconciled to the daily deposit ticket(s) which shall then be reviewed by, verified and its accuracy attested to by the Manager. Therefore, it will be necessary for each teller to prepare a "teller proof sheet" which will then be aggregated onto the "departmental proof sheet." Therefore, each teller who received receipts shall be responsible for preparing a "teller proof sheet" for their individual cash/teller boxes.
 - Departmental Proof Sheets shall be emailed/faxed daily to the Finance Department. It shall be the responsibility of Finance to trace daily deposits to the bank accounts, thereby ensuring that departmental deposits are being made as required, and for the posted amounts
 - Departments shall follow the document retention schedules, minimally upon conclusion of the audit for the previous fiscal year, relative to maintaining and safeguarding customer receipts, deposit tickets, "proof sheets" and other daily work. This work shall be safeguarded in an appropriate location; e.g., the work can not be removed, altered or otherwise changed

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- Managers must approve all voided transactions, which shall be documented.
- All refunds shall be processed through accounts payables, and not by the departments.
- Potential consequences if procedures are not followed:
 - Lost or stolen receipts may occur – the longer receipts are held, the probability that the payments are not posted, or becoming lost or stolen, increases
 - Checks may become stale dated and therefore, difficult to replace if goods and/or services have already been provided
 - Checks may be returned for uncollected funds- the longer checks are held and not deposited, increases the probability that they will be returned
 - The City loses investment income- when receipts are not deposited, the city does not have the benefit of earning interest on those deposits. In an aggregate basis, the opportunity loss on un-deposited receipts can become material
 - Inaccurate postings to the general ledger may occur in the absence of reconciling and control documents
 - A unsafe working environment will develop which will expose employees

Custodianship of Cash and the safeguarding of assets

- Required Procedures:
 - All cash shall be maintained in a secured area; either in a vault, or in secured cash / teller boxes. Cash/ Teller boxes shall be secured in a vault or in a secured room/cabinet when not in use by the employee. If a room or cabinet is used, the oversight responsibilities shall be equivalent to those necessitated for the vault
 - Cash / Teller boxes shall be assigned to only one person and that person shall have sole access and custody responsibility for that cash box
 - Only one person shall have access to the vault; e.g., that place where cash is safeguarded. For example, if there is a vault which is used for other purposes, such as file retention, then cash shall be maintained in a secured location within the vault such as an additional cabinet, or smaller cash box / vault similar to that maintained in the Finance Department

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The oversight of keys and/or combinations should be limited and dual controls shall be maintained

- Whenever cash is transferred, between cash boxes and/or the vault, it shall be counted and verified by the employees responsible for their respective cash box and/or vault
- Extra keys to teller boxes shall be maintained by someone independent of cash operations
- Combinations to vaults should be changed annually, and when an employee leaves having knowledge
- Keys and combinations shall only be provided to authorized personnel
- In respect to the Transit Department, the bus drivers shall deliver the fare boxes which shall only be open when two employees are present. Access to the fare boxes shall be controlled by keys- only one person shall have access to the fare box keys at one time. The person maintaining control over the keys shall count the fare box contents which shall be verified by a second employee. A cash ticket will be prepared for each fare box which will complete and signed by the person counting the fare box, attested as to the accuracy by the verifier, who will also sign the cash ticket.

(Upgrade technology; kiosks – “charlie card” i.e., the Chicago Transit and Boston T, self counting fare boxes i.e. the, Pioneer Transit Authority or dual-key boxes

As above, all cash shall be counted daily and deposited daily. Any fare boxes not counted shall be maintained in a secured vault as outlined in this section. In essence, fare boxes will be treated as cash / teller boxes and treated accordingly.

Responsibility for counting and verifying the fare boxes shall be rotated regularly, minimally bi-weekly.

- Whenever it is necessary to open a cash box without the responsible employee present, or there is a transfer of responsibility of contents, the person assuming the responsibility of the contents shall count the contents, and a manager shall verify the count. Both parties shall attest to the accuracy and concurrence of the count by signing the cash transfer ticket

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- As part of the daily closing cycle, cash and negotiable items shall be counted each night before securing the contents
- Cash shall only be handled and counted in secured areas and out of view from the public

- Potential consequences if procedures are not followed:
 - When cash is not verified, the risk that cash may be inappropriately accounted for increases and therefore, the potential that theft will be undetected.

Miscellaneous

- Required Procedures:
 - Don't share passwords
 - Persons handling cash shall be bonded
 - Managers shall conduct surprise cash counts on a random basis. Each vault and cash/teller drawer shall be counted at least quarterly.