CITY OF STANWOOD
FINANCE COMMITTEE STAFF REPORT

ITEM NUMBER:	1
DATE:	March 26, 2015
SUBJECT:	Cash Receipting Policy
CONTACT PERSON:	Greg Thramer, Finance Director
ATTACHMENTS:	A – Resolution 2015-XX Adopting Cash Receipting Policy and Internal Controls B – Management Letter dated October 23, 2014 from the State Auditor Regarding Cash Receipting Concerns C – BARS Cash Receipting Guidelines prescribed by the State Auditor

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ISSUE

Should the city adopt Resolution 2015-XX that would create policies and internal controls over the cash receipting process?

RECOMMENDATION

The city should adopt Resolution 2015-XX that would create policies and internal controls over the cash receipting process as recommended by the State Auditor.

SUMMARY STATEMENT

During the last audit, the city received a management letter dated October 23, 2014 (Attachment B). One of the concerns stated by the State Auditor was stated as follows:

> *The City does not have formal policies or procedures establishing internal controls over cash receipting. Without standardized practices, the City cannot ensure cash is adequately safeguarded.*

The purpose of the attached resolution would be for city council to formally adopt a cash receipting policy and internal controls to address the State Auditor's concern and avoid

an audit finding. The remaining concerns and recommendations made by the State Auditor have all been implemented and/or remedied.

The proposed policy conforms to BARS Cash Receipting Guidelines prescribed by the State Auditor (Attachment C)

FINANCIAL IMPACT

There is no financial impact to the city to adopt the proposed resolution.

FINANCE COMMITTEE OPTIONS

1. Recommend council adopt Resolution 2015-XX adopting cash receipting policies and internal controls.
2. Do not recommend council adopt Resolution 2015-XX adopting cash receipting policies and internal controls.
3. Do not recommend council adopt Resolution 2015-XX adopting cash receipting policies and internal controls, and direct staff to address finance committee questions or areas of concern.

RECOMMENDED MOTION

"I move to recommend council adopt Resolution 2015-XX adopting cash receipting policies and internal controls."

Attachment A

CITY OF STANWOOD
Stanwood, Washington

RESOLUTION 2015-XX

A RESOLUTION OF THE CITY OF STANWOOD, WASHINGTON ADOPTING CASH RECEIPTING POLICIES AND INTERNAL CONTROLS

WHEREAS, cash receipting is a very important function of the City of Stanwood; and

WHEREAS, the Budgeting, Accounting and Reporting System (BARS) as prescribed by the State Auditor establishes certain policies and internal controls to safeguard the city's cash and cash receipting process; and

WHEREAS, as a part of their audit of the city's 2013 annual financial statements, the State Auditor issued a Management Letter dated October 23, 2014 recommending that the city formally adopt policies and internal controls over cash receipting; and

WHEREAS, Attachment No. 1 includes a summary of policies and internal controls over cash receipting that are in compliance with those prescribed by the State Auditor in its Budgeting, Accounting and Reporting System (BARS).

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF STANWOOD, WASHINGTON, AS FOLLOWS:

The city shall formally adopt a policy for cash receipting and internal controls as set forth in Attachment No. 1.

ADOPTED by the city council and **APPROVED** by the mayor this 8th day of January, 2015.

CITY OF STANWOOD

By_____
Leonard Kelley, Mayor

ATTEST:

By_____
Greg Thramer, City Clerk

Attachment No. 1

City of Stanwood
Cash Receipting Policy and Internal Controls

Cash Receipting

Check Acceptance

- No post-dated checks will be accepted.
- Checks are accepted for the amount owed only, no cash back will be given.
- No personal or other checks will be cashed for employees.
- All checks received must immediately be stamped with a restrictive endorsement. Checks arriving in the mail will be stamped immediately by the person opening the mail.
- No checks will be accepted for passport fees.

NSF Checks

- An NSF fee will be assessed on all returned checks.
- For NSF checks received on a utility account, the customer should be contacted immediately and given the opportunity to pay the amount of the NSF check plus the NSF fee by the close of the next business day or the water service will be shut off.
- For NSF checks not received on a utility account, the customer should be contacted, if possible, and given up to one week to replace the funds. If possible, action should be taken to revoke or hold the services that were provided. The bank the check is drawn on may be contacted to verify if there are sufficient funds for the check to clear if it is re-deposited. If the customer does not replace the funds within one week, then a 30 day letter should be sent to the customer notifying them that the balance due will be referred to a collection agency if it is not paid within 30 days. After the 30 day period, it should be forwarded to the collection agency.
- If the customer has a prior NSF check in the previous 12 months then the funds must be replaced with cash, credit/debit card, money order or cashier's check.

Security

- All receipts should be maintained in a secure location at all times. This includes locking cash drawers, locking cabinets or a safe.
- Each cashier should have their own cash drawer in order to establish individual accountability for the receipts they have collected.
- Only pre-printed and pre-numbered receipt forms are to be used. Voided receipts must be kept on file. Receipt forms must include the following information: payor, amount, type of payment (cash, check, credit card, etc.), purpose of payment and name of employee preparing the receipt.
- Cashiers may only make corrections to current day transactions. All corrections made the next day or later must be approved by the Finance Director or designee.

Reconciliation & Deposits

- Cash receipts will be reconciled and change funds accounted for on a daily basis. Any shortages or overages must be immediately reported to the finance director.
- Cash receipts must be recorded on the day collected, subject to normal daily cutoff procedures.
- All receipts are to be deposited intact and on a daily basis. Exceptions may be made to this policy, these will be provided in advance and in writing. In all cases deposits will be made at least on a weekly basis.
- All bank accounts must be reconciled on a monthly basis.

Petty Cash Funds

- All petty cash, other imprest funds and change funds must be authorized by ordinance or resolution. Any increases or decreases in such funds must also be authorized by the same process. Such authorization will designate a custodian for the fund. The finance director may delegate custodian responsibility for the fund.
- Petty cash disbursements may not exceed $50 per item. The finance director may authorize in writing disbursements over the $50 limit.
- A receipt must be issued for each disbursement. The date, amount, recipient, purpose and coding must be included. It must signed by the person receiving the money.
- No petty cash, other imprest fund or change funds may be used for personal cash advances or travel advances even for the purpose of conducting city business. These funds cannot be used for the purposes of cashing checks.
- Petty cash funds must be reconciled on at least a quarterly basis and be replenished at the end of the year to ensure that all expenditures are recorded in the proper budget year.
- Petty cash funds must be maintained in a location that is secure and locked.

Third Party Receipting

- Agreements with third party receipting providers must be documented by a written contract and sign a written assurance form that funds are held with proper safekeeping, theft protection, and that as required by Washington State Law, not to hold any funds for more than one week.
- Third party receipting providers must follow Payment Card Industry (PCI) requirements.
- The provider must remit funds electronically to the City's bank account within 24 hours, unless an exception has been granted for up to 5 days as specified in state law.
- The vendor may not hold back any part of the receipts except for returns or chargebacks which are standard to credit card processing and payment facilitator agreements. Any service fees charged must be separately billed.

PRELIMINARY DRAFT - Not Disclosable Under RCW 42.56.280

Washington State Auditor
Troy Kelley

October 23, 2014

Council Members
City of Stanwood
Stanwood, Washington

Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our financial and accountability audit of the City of Stanwood from January 1, 2012 through December 31, 2013. We believe our recommendations will assist you in improving the City's internal controls in these areas.

We will review the status of these matters during our next audit. We have already discussed our comments with and made suggestions for improvements to City officials and personnel. If you have any further questions, please contact me at (425) 257-2137.

This letter is intended for the information and use of management and the governing body. However, this letter is a matter of public record and its distribution is not limited.

We would also like to take this opportunity to extend our appreciation to your staff for the cooperation and assistance given during the course of the audit.

Sincerely,

Kristina Baylor

Kristina Baylor, Audit Manager

Attachment

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • TDD Relay (800) 833-6388

PRELIMINARY DRAFT - Not Disclosable Under RCW 42.56.280

Management Letter
City of Stanwood
January 1, 2012 through December 31, 2013

Cash Receipting

The City of Stanwood receipts funds for various items such as utility payments, citations and permits. The majority of receipts, deposits and reconciliations o are prepared at City Hall and the Police Department. The City receipted $3.4 million and $3 million during 2012 and 2013, respectively. We found:

- The City does not have formal policies or procedures establishing internal controls over cash receipting. Without standardized practices, the City cannot ensure cash is adequately safeguarded.
- Two cashiers share the same cash drawer and make one deposit at the end of the day. One of the cashiers performs the daily cash reconciliation, takes the deposits to the bank and counts the ending change fund. As a result, it would not be possible to assign accountability should a loss occur.
- The City does not consistently retain documentation to support adjustments or ensure they are reviewed by someone independent of the receipting process for validity and reasonableness. During the two months selected for testing, we identified 11 adjustments made without an independent review or supporting documentation.
- The City maintains a $100 change fund which is counted at the beginning of each day. If the amount does not match the ending amount from the prior day, the cashier makes an unmonitored adjustment to agree with the change fund to the receipting system.
- Mail is opened by one person and a remittance list of cash and checks is not prepared and reviewed by a supervisor. This increases the risk of misappropriation of checks and cash submitted through the mail.
- Receipts at the Police Department are not always deposited within 24 hours as required by state law (RCW 43.09.240), nor is a waiver in place allowing deposits to be made at least once a week. We tested deposits over a two week period during 2012 and 2013 and determined on five occasions, deposits were not made within 24 hours.

During our review, we noted the City's initiative to promptly take corrective action, however the lack of oversight and controls over cash receipting increases the risk that errors or irregularities could occur without being detected by the City in a timely manner, if at all.. In order to strengthen internal controls, we recommend the City:

- Establish formal, written policies or procedures over cash receipting to ensure cash receipts are adequately safeguarded and documentation is available to support all adjustments.
- Strengthen internal controls and establish appropriate segregation of duties over cash receipting or develop monitoring controls to compensate for this lack of segregation of duties.
- Assign each cashier their own drawer and change funds and change user access to disallow adjustments to beginning cash amounts.

PRELIMINARY DRAFT - Not Disclosable Under RCW 42.56.280

- Ensure all adjustments are authorized and reasonable by having someone independent of the receipting process review adjustments.
- Create procedures to ensure mail is opened by two individuals and a remittance list of cash and checks is reviewed by a supervisor.
- Deposit cash on a daily basis or obtain a waiver requiring deposits be made at least once a week, in compliance with state law (RCW 43.09.240).

In addition, the *Budgeting, Accounting and Reporting Systems (BARS)* manual provides helpful information on best practices for cash handling procedures and can be found at: http://www.sao.wa.gov/local/BarsManual/Pages/BARSManual_Cash_Accounting2.aspx, section 3.6.1 – Cash Receipting.

3. ACCOUNTING

3.6 **Revenues**
3.6.1 **Cash Receipting**

3.6.1.10 Cash receipting is a very important function of all governments. Listed below are requirements for deposits and receipt forms. Also provided are recommended internal control procedures for cash receipts. Internal controls are the responsibility of management.

3.6.1.20 Deposits

1. Every public officer and employee, whose duty it is to collect and receive payments due or for the use of the public, should deposit such monies collected or received by him/her with the treasurer of the local government once every 24 hours. The treasurer of the local government may at his/her discretion grant an exception where such daily transfers would not be administratively practical or feasible (RCW 43.09.240).

2. The daily deposits must be made intact and the composition of checks and cash must match the mode of payment listed on the deposit slip and related receipt forms.

3. Checks must be restrictively endorsed *For Deposit Only* immediately upon receipt.

3.6.1.30 Receipt Forms (manual or automated)

1. Receipt forms must be pre-numbered and imprinted with the name of the local government.

2. Receipt forms must include the following information:

   - Name of payor (address if feasible).
   - Amount received.
   - Mode of payment (cash, check, credit card, other).
   - Purpose of payment.
   - Name of employee who prepares receipt.

3. Generic receipt forms should not be used (e.g., Rediform, etc.).

4. In instances where cash is received at decentralized locations (e.g., police department, parks department, etc.), the local government treasurer may combine those receipts onto one treasurer's receipt. The treasurer's receipt should indicate the total amount received from each location as well as the appropriate account codes.

5. If a receipt is voided, the original and any copies of that receipt must be retained.

3.6.1.40 Internal Control

The following internal controls enable local governments to properly account for and safeguard cash receipts. These controls are recommended for all local governments.

1. Two employees should open the daily mail and prepare a list of cash and checks received (remittance list). This may not be feasible at departments/governments having limited staff. In such a case, the entity should implement a system of supervisory review of the remittance list and bank deposits.

2. The daily deposit may be prepared by the person who received the payment. The entity should implement a system of supervisory review of the remittance list and bank deposits to ensure deposits are made intact.

3. Checks received in the mail should be briefly reviewed for accuracy (e.g., proper payee, date, signature of payor, etc.). Checks with obvious inaccuracies should not be included in the deposit. In such a case, the entity should contact the payor and request that the payment be corrected or reissued.

4. The daily remittance list should be compared (reconciled) to daily deposit slips and to the cash receipts journal (or check register) on a regular basis. This should be performed by someone other than the employee who prepared the remittance list. Any shortage should be resolved.

5. A duplicate copy of the bank-validated deposit slip showing the composition of receipts should be retained by someone other than the employee making up the deposit.

6. A monthly bank statement reconciliation should be performed by an independent person who does not have cash custody or bookkeeping responsibilities over cash. Any differences that are identified during the monthly bank reconciliation should be researched and resolved.

7. The daily deposit should be delivered to the bank in the bank bags and should have locks or other tamper-proof devices.

8. Cash receipts should be properly protected during the operating day and secured in a safe or vault overnight. Access to the cashiering area should be appropriately restricted whenever possible.

9. Access to the safe or vault should be limited and combination should be changed periodically. In addition, the safe and vault combination should be changed after employees terminate employment.

10. If the entity utilizes cash registers, there should be only one change fund and one cash register (or drawer) per cashier. This enables the entity to affix responsibility for cash to a specific individual at all times.

11. Accounting manuals or policies should contain instructions for identifying cash receipts and for dating cash receipts journal entries for that day's receipts.

3.6.1.50 Receiving payment through third party vendors:

Local governments should establish contractual agreements for all arrangements where a third party vendor is directed to accept payments on behalf of the local government. The contract should

include details of the payment remittance process to support compliance with state law (RCW 43.09.240). Funds should be remitted through direct card settlement or EFT from the vendor to the local government's depository account.

The local government should adopt contracting policies that implement effective internal controls over funds collected through a third party vendor including safeguards to protect the funds from loss and contractual responsibilities for protecting credit card numbers and transactions.

Refer to the Local Government Performance Center, Third Party Receipting for additional guidance.

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