



OFFICE OF INSPECTOR GENERAL
City of Chicago



REPORT OF THE INSPECTOR GENERAL'S OFFICE:

***RECOMMENDATIONS TO IMPROVE CASH HANDLING
PROCEDURES IN THE DEPARTMENT OF FINANCE***

FEBRUARY 2012

I. EXECUTIVE SUMMARY

The Inspector General's Office (IGO) recently conducted an investigation (file #10-1704) into allegations of theft of funds at a Department of Revenue (DOR) collection facility. During the course of the investigation, the IGO discovered poor cash management practices that leave the City susceptible to asset loss. In particular, the IGO found that DOR had insufficient internal controls and did not properly separate the duties of cash collection and cash reconciliation at its City Hall payment site.

This report provides a brief summary of cash management practices that the IGO encountered in the now-concluded investigation and offers the following recommendations on possible ways to strengthen internal controls related to PSR cashier money handling, now overseen by the Department of Finance:

1. Payment Service Representatives (PSRs) should be prohibited from accessing their collection reports during cash bank reconciliation;
2. Computer restrictions should be created that require supervisor permission to provide change for over-tendered checks;
3. Supervisors should be required to verify PSRs' cash amounts at the beginning and end of each day; and
4. PSRs should be assigned different cash banks each day rather than use the same bank on consecutive days.
5. In addition to strengthening internal controls, the IGO also recommends that all video surveillance cameras at PSR work stations undergo regular, periodic, certified and documented inspection to ensure that they are functional.

II. BACKGROUND

A. Importance of Internal Controls

Strong internal controls are critical to the proper functioning of any organization, especially one that is involved in the daily collection of cash, checks and credit card payments. Strong internal controls help prevent and deter theft, and they assist in the detection of errors and fraud.

A key feature of an effective internal control system is the proper separation of duties. No one person should be responsible for more than one of the four types of functions: authorization, custody, record keeping, and reconciliation. Although a strict separation of duties can be difficult to implement in practice, this goal can be achieved by disseminating the tasks and associated privileges for a specific business process among multiple users.¹

¹ American Institute of Certified Public Accountants, "Members in Government Guide to Internal Control and Internal Control Services," 2009, http://www.aicpa.org/InterestAreas/BusinessIndustryAndGovernment/Resources/GovernmentResourceCenter/DownloadableDocuments/FINAL_Understanding_Internal_Control_Services_government.pdf (last visited December 23, 2011).

B. DOR Cash Handling Policies

DOR policies in place at the time of the IGO investigation (file #10-0704) required the following: (i) PSRs count their banks every day,² (ii) PSR banks contain exactly \$100 in cash at the start and end of each shift, no more and no less, (iii) PSRs are prohibited from giving change back for payments made with a personal check, and (iv) PSRs ensure their money drawers balance at the end of the day.³ If the drawer does not balance, PSRs must perform a first review. If the PSR cannot determine why the drawer does not balance then a supervisor must be notified to perform a second review. If the PSR and her supervisor cannot reconcile the drawer, it is reported to DOR's reconciliation unit and the PSR may be subject to progressive discipline.

III. IGO FINDINGS

During the investigation, the IGO found that the cash management practices at DOR's City Hall collection site violated several internal control principles, including the proper separation of duties. The following is a discussion of the four internal control weaknesses and one surveillance weakness that the IGO discovered during its investigation:

A. Lack of Separation of Cash Collection and Reconciliation Duties

DOR did not have effective processes for separating the cash collection and cash reconciliation duties. The IGO found that PSRs performed their own drawer reconciliations at the end of the day and were allowed access to their daily collection reports during the reconciliation process. PSRs were also permitted to review collection reports during their shifts without needing supervisor approval.

The daily reconciliation process is designed to detect errors and discrepancies that have occurred throughout the day. DOR practices undermine the integrity of the reconciliation process by allowing PSRs to reconcile their drawers at the same time that they review their daily collection reports. The practice of combining the cash collection and cash reconciliation processes presents an internal control weakness because PSRs are effectively reviewing their own work.

Permitting PSRs to reconcile their drawers provides them with an opportunity to conceal their errors or engage in theft. For instance, a PSR who discovers that she has collected too much cash during the day could simply remove the extra cash and retain it for personal purposes, without her supervisor ever being aware of the discrepancy. Likewise, a PSR whose drawer falls short of the proper amount of cash could simply replenish the insufficient balance with her personal money, again depriving the supervisor of the opportunity to document the error.

² A bank is cash and change that PSRs use at the beginning of the day and replace at the end of the day. The bank is kept in a bag.

³ In June 2011, the City began consolidating DOR and the Department of Finance (also called the City Comptroller) into a new Department of Finance. This report refers to DOR because the underlying investigation involved the conduct of a DOR employee prior to the consolidation. However, the recommendations are intended to apply to the Department of Finance section now overseeing revenue collection.

B. Lack of Computer Restrictions on Providing Change for Checks

DOR policy does not permit PSRs to provide change for over-tendered personal checks.⁴ However, this investigation revealed that DOR computer systems do not prevent PSRs from providing change for checks. This presents a control weakness for DOR as the department could lose revenue if a customer receives cash back for a check drawn on an account with insufficient funds.

C. Insufficient Bank Verification

As noted above, DOR policy requires each PSR to have \$100 cash in their bank at the beginning and end of the day. This investigation revealed that DOR supervisors do not perform regular reviews of the bank to verify correct amounts. This practice presents a control weakness due to a lack of independent review. By supervisors failing to verify the beginning and ending bank balances, DOR is susceptible to having errors remaining undetected. In addition, PSRs are provided with an opportunity to use the banks to conceal shortages and overages that may be found during the reconciliation process.

During the IGO investigation that prompted this report, a PSR told IGO investigators that she closed her drawer at the end of the day by only counting enough cash that needed to go into the daily deposit. The remaining cash was placed in her bank at the end of the day, without verification by the PSR or her supervisor that it totaled \$100. The PSR acknowledged that her bank balance was higher than \$100 for approximately three weeks and the error was not detected until a customer later complained about a payment not being applied properly. A supervisor review of the bank at the end of each day would have revealed the error on the same day that it occurred.

D. Lack of Randomization

The investigation revealed that PSRs are assigned the same bank bag each day. This practice presents a control weakness because errors can carry forward for multiple weeks, as noted above.

E. Non-Functional Point-of-Sale Video Surveillance Camera

While gathering evidence during its investigation, the IGO also found that the point-of-sale video surveillance camera at a cashier workstation was not working. A nearby camera was functional but did not capture all of the activity at the workstation. Video cameras are a valuable tool for investigating the source of cash handling discrepancies and should be maintained in working order.

IV. RECOMMENDATIONS

The IGO recommends that the Department of Finance review best practices for cashier money handling and reconciliation procedures and commensurate with these practices, establish

⁴ DOR policy does permit change to be made for traveler's or cashier's checks whose value exceeds the amount due.

a more effective control environment for PSRs, which may include adopting recommendations such as the following four practices:

A. Prohibit Access to Collection Reports during Drawer Reconciliation

PSRs should not be able to print out or review their own collection reports during their shifts. The collection reports should be accessible only to supervisors and the reports should not be given to the PSRs. PSRs should be required to perform their drawer reconciliations without reviewing the collection reports. Supervisors should verify closing balances against the collection reports and the PSRs should be required to acknowledge any discrepancies.

B. Create Computer Restrictions for Provision of Change on Checks

Computer restrictions should be created to prohibit PSRs from providing change for over-tendered checks. Supervisor authorization should be required to allow change to be given for checks, which can only be done for traveler's and cashier's checks per DOR policy.

C. Require Supervisor Verification of Bank

Supervisors should be required to verify that each PSR's bank contains exactly \$100 at the start and at the end of the shift. Any discrepancies should be documented and the source of the error should be reviewed.

D. Randomize Bank Assignment

If the aforementioned internal controls are not implemented, then at a minimum DOR should assign banks to PSRs on a random basis in order to help reveal bank balance errors soon after they occur. PSRs should not be permitted to have the same bank for consecutive days.

E. Ensure Operation of Point-of-Sale Video Surveillance Cameras

In addition to strengthening cash handling internal controls, the IGO also recommends that all video surveillance cameras at PSR work stations undergo regular, periodic, certified and documented inspection to ensure that they are functional.

CITY OF CHICAGO OFFICE OF INSPECTOR GENERAL

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MISSION

The Chicago Inspector General's Office (IGO) is an independent, nonpartisan oversight agency whose mission is to promote economy, efficiency, and integrity in the administration of programs and operations of City government. The IGO achieves this mission through:

- Administrative and Criminal Investigations
- Audits of City programs and operations
- Reviews of City programs, operations and policies

From these activities, the IGO issues reports of findings, and disciplinary and policy recommendations to assure that City officials, employees and vendors are held accountable for the provision of efficient, cost-effective government operations and further to prevent, detect, identify, expose and eliminate waste, inefficiency, misconduct, fraud, corruption, and abuse of public authority and resources.

AUTHORITY

The authority to produce reports and recommendations on ways to improve City operations is established in the City of Chicago Municipal Code § 2-56-030(c), which confers upon the Inspector General the following power and duty:

To promote economy, efficiency, effectiveness and integrity in the administration of the programs and operations of the city government by reviewing programs, identifying any inefficiencies, waste and potential for misconduct therein, and recommending to the mayor and the city council policies and methods for the elimination of inefficiencies and waste, and the prevention of misconduct.