

OFFICE OF THE CITY CONTROLLER



**ADMINISTRATION AND REGULATORY AFFAIRS DEPARTMENT
BARC CASH HANDLING PROCESSES
PERFORMANCE AUDIT**

Chris B. Brown, City Controller

Courtney E. Smith, City Auditor

Report No. 2017-06



**OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS**

CHRIS B. BROWN

December 15, 2016

The Honorable Sylvester Turner, Mayor
City of Houston, Texas

**SUBJECT: 2017-06 Administration and Regulatory Affairs Department (ARA)
BARC Cash Handling Processes Performance Audit**

Mayor Turner:

The Office of the City Controller's Audit Division has completed a performance audit of ARA's BARC cash handling processes. BARC's stated mission is to: "promote and protect public health and animal care through sheltering, pet placement programs, pet ownership education and animal law enforcement".

BARC collects fees for services and fines as allowed by City ordinance. Both cash and in-kind donations are received in support of the animal shelter throughout the course of the year. In FY2015, the Division received over \$1.6 million in revenue from licenses, permits, service charges, fines and other operating revenue.

Our primary audit objectives were the consideration of processes and internal controls related to:

1. Cash Handling; and
2. Revenue recognition and recording.

Our engagement scope included operations and transactions occurring during Fiscal Year 2015 and July through January of Fiscal Year 2016.

Based on the procedures performed during the audit, we noted the following:

- Adequate controls exist to safeguard the City's cash assets;
- Daily activity is reconciled with bank data each day; and
- Any discrepancies found in the daily activity reconciliation are resolved promptly.

We noted opportunities to enhance internal controls over recording cash receipts, management of petty cash funds, and gift cards as well as revenue recognition related to donations and fundraising activities.



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

CHRIS B. BROWN

We would like to express our appreciation to the management and staff of both BARC and ARA for their time and effort, responsiveness, and cooperation during the course of the audit.

Respectfully submitted,

Chris B. Brown
City Controller

xc: Tina Paez, Director, Administrative and Regulatory Affairs Department
City Council Members
Alison Brock, Chief of Staff, Mayor's Office
Kelly Dowe, Chief Business Officer, Mayor's Office
Harry Hayes, Chief Operations Officer, Mayor's Office
Valerie Berry, Assistant Director, Administrative and Regulatory Affairs Department
Shannon Nobles, Chief Deputy City Controller, Office of the City Controller
Courtney Smith, City Auditor, Office of the City Controller

TABLE OF CONTENTS

TRANSMITTAL LETTER.....	i
EXECUTIVE SUMMARY	1-4
INTRODUCTION	1
BACKGROUND	1-2
AUDIT SCOPE AND OBJECTIVES.....	2
PROCEDURES PERFORMED	2-3
AUDIT METHODOLOGY	3
CONCLUSIONS AND SIGNIFICANT ISSUES.....	3-4
ACKNOWLEDGEMENT AND SIGNATURES	4
DETAILED FINDINGS AND RECOMMENDATIONS.....	5-18
1. IN-KIND DONATIONS NOT DOCUMENTED AND RECORDED IN ERP SYSTEM TIMELY.....	5-6
2. ANNUAL RECONCILIATION BETWEEN SAP AND THE CHAMELEON SYSTEM WAS NOT PERFORMED.....	7-9
3. SIX (6) MISSING REVENUE RECEIPTS	10-11
4. FUNDRAISING ACTIVITY ROLES/RESPONSIBILITIES NOT CLEARLY DEFINED AND RESULTS NOT COMPREHENSIVELY REPORTED OR RECORDED	12-13
5. INVOICES GREATER THAN 30 DAYS OLD PRESENTED FOR PAYMENT FROM PETTY CASH FUND.....	14
6. GIFT CARDS NOT PROPERLY SECURED AND INVENTORIED	15-16
EXHIBITS.....	17-18
EXHIBIT 1 – ACKNOWLEDGEMENT STATEMENT	18

EXECUTIVE SUMMARY

INTRODUCTION

The Audit Division of the City Controller’s Office has completed its Performance Audit of cash handling controls and revenue recognition processes at Houston’s animal shelter division known as the Bureau of Animal Regulation and Control (BARC). BARC is organizationally placed under the Administration and Regulatory Affairs (ARA) Department of the City of Houston (City).

The audit considered the internal controls and processes related to cash handling; and revenue recognition and recording at the facility and any other collection points.

BACKGROUND

BARC’s mission is to promote and protect public health and animal care through sheltering, pet placement programs, pet ownership education and animal law enforcement. BARC collects fees for various services it provides as well as fines pursuant to City ordinance. The director is also authorized to receive donations on behalf of the shelter for use exclusively for the care and well-being of the animals within its care. The Division had revenues as follows for fiscal year 2015 and 2016 (through January 31, 2016).

Description	FY 2016 YTD (through January 31, 2016)	FY 2015
421 - Licenses & Permits	452,078.42	894,648.40
424 - Charges for Services	409,969.31	587,355.59
428 - Other Fines & Forfeits	100.00	150.00
432 - Interest/Investment Income	45,485.41	57,148.30
434 - Miscellaneous & Other	87,906.50	217,885.50
444 - Other Operating Revenues - Other	82,466.27	192,569.69
452 - Non-Operating/Misc. Revenues	2,724.61	3,196.78
490 - Transfers	9,608,849.00	10,090,460.00
Total	10,689,579.52	12,043,414.26

The shelter campus is located at 3200 Carr St. and consists of several buildings used to carry out its mission. There are three collection points at the facility, which consist of an adoption counter, evaluation counter and the licensing desk. The licensing desk primarily processes mail-in license renewals and online sales.

BARC uses a point of sale software application called Chameleon to record its transactions. Daily transactions are uploaded into the City’s operational system (SAP) at the close of business each day. These transactions are aggregated by account code in SAP with the detail of each transaction



Office of the City Controller
Audit Division

remaining in Chameleon. Summary documentation is submitted electronically by e-mail daily to Finance staff within the Administration and Regulatory Affairs (ARA) Department. The daily activity is reconciled with bank data daily by ARA and any discrepancies are resolved with BARC staff as needed. There is no periodic (monthly, annual) reconciliation between the systems; however, the Administrative Services Division within the ARA Department performs bank reconciliations.

There are additional collection activities performed by BARC. These involve fund-raising, cash, and in-kind donations. Periodically, BARC holds fundraising events to generate funds for its operations. For instance during the period under review, BARC held fund raising events to support the City's spay/neuter initiative as well as to transport several animals to Colorado for adoption there. In addition, BARC held outreach campaigns in one instance to solicit an adoption trailer and an on-going solicitation of various consumables for the animals on its web site. These activities are sometimes coordinated with others, such as the BARC Foundation, Proler-Southwest/Sims Metal Management, and Rescued Pets Movement (RPM). BARC management meets periodically with these organizations to plan upcoming needs and activities and coordinates roles for each.

AUDIT SCOPE AND OBJECTIVES

The audit objectives for this engagement were to consider internal control processes related to:

- Cash Handling; and
- Revenue recognition and recording

The Audit Division's original engagement scope was operations and transactions occurring during Fiscal Year 2015 and Fiscal Year-to-Date 2016 through January 31, 2016.

PROCEDURES PERFORMED

In order to obtain sufficient evidence to achieve engagement objectives and support our conclusions, we performed the following steps:

- Gained an understanding of the internal controls relating to the operations of BARC;
- Gained an understanding of the organizational structure of BARC and obtained information regarding the skills, knowledge, and experience of staff and key management personnel;
- Gained an understanding of the operations of the Chameleon and Deposit Web Application used to record the transactions of BARC;
- Inquired whether there were any incidents of passwords being compromised;
- Agreed the summary of information obtained from Chameleon and Deposit Web Application with the balance uploaded to the City's SAP to ensure completeness during the process of transfer;
- Obtained transactional level detail from Chameleon system and performed tests of transactions;



-
- Reviewed organizational structure to determine adequacy of segregation of duties;
 - Obtained information on bank reconciliation process as well as daily reconciliation process;
 - Performed a walk-through of collection areas to determine physical security;
 - Reviewed petty cash policies including support documentations for petty cash withdrawals and performed cash count;
 - Obtained an understanding of process used for accounting for non-cash (in-kind) donations/contributions;
 - Obtained an understanding of the accounting procedures for the sale of gift cards; and
 - Obtained an understanding of fund raising operations and related accounting procedures.

AUDIT METHODOLOGY

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and in conformance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of our work did not constitute an evaluation of the overall internal control structure of BARC or ARA Management is responsible for establishing and maintaining a system of internal controls to ensure that City assets are safeguarded; financial activity is accurately reported and reliable; and management and employees are in compliance with laws, regulations, and policies and procedures. The objective is to provide management with reasonable, but not absolute assurance that the controls are in place and effective.

CONCLUSIONS AND SIGNIFICANT ISSUES

We believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards. Our conclusion is aligned with the related Audit Objective for consistency and reference. For detailed findings, recommendations, management responses, comments and assessment of responses see the “Detailed Findings, Recommendations, Management Responses, and Assessment of Responses” section of this report.

CONCLUSION 1 – (AUDIT OBJECTIVE #1)

Consider the processes and internal controls related to:

- (a) Cash Handling; and
- (b) Revenue recognition and recording.

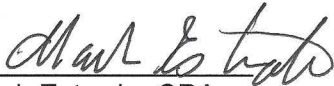
Based on the results of work performed and evidence obtained, we believe that adequate controls exist at BARC to safeguard the City’s cash assets. However, the results of our audit procedures

Office of the City Controller
Audit Division

identified opportunities for strengthening internal controls over recording cash receipts, management of petty cash funds, and gift cards (**See Findings #2, #3, #5 and #6**) and revenue recognition related to donations and fundraising activities (**See Findings #1 and #4**).

ACKNOWLEDGEMENT AND SIGNATURES

The Audit Team would like to thank the staff and management at both BARC and ARA for their cooperation, time, and efforts throughout the course of the engagement.



Mark Estrada, CPA
Assistant City Auditor IV



Olaniyi Oyedele, CPA
Audit Manager



Courtney E. Smith, CPA, CIA, CFE
City Auditor



DETAILED FINDINGS, RECOMMENDATIONS, MANAGEMENT RESPONSES, AND ASSESSMENT OF RESPONSES

**FINDING # 1 – IN-KIND DONATIONS NOT DOCUMENTED AND RECORDED IN ERP SYSTEM TIMELY
(RISK RATING = HIGH)**

BACKGROUND:

During the period under audit, BARC received in-kind donations in accordance with the terms of its operations. The receipt of in-kind donations from individuals and organizations helps BARC achieve their mission to promote and protect public health and animal care through sheltering, pet placement programs, pet ownership education and animal law enforcement.

Governmental Accounting Standards Board (GASB) Statement No. 72; *Fair Value Measurement and Application, Acquisition Value (Paragraph 79)*, donated capital assets should be measured at acquisition value. Acquisition value is the price that would be paid, 1) to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or 2) the amount at which a liability could be liquidated with the counterparty at the acquisition date.

FINDINGS:

During the course of our audit, we noted that the Department does not maintain a register to track non-cash donations. Similarly, we noted that the Department has not established procedures for the valuation, recognition, and recording of non-cash donations. Further inquiries revealed there is no citywide policy or procedures regarding acceptance and accounting for donated assets to serve as a guide for Department management and staff. We also noted that an in-kind donation amounting to approximately \$57,000 had not been recorded timely in the general ledger.

RECOMMENDATION:

We recommend that the Department establish procedures for the proper recording and recognition of donated assets in accordance with the requirements of GASB Statement No.72. In addition, in accordance with the provisions of IRS Publication 1771: *Charitable Contributions*, we recommend that the Department maintain a register of donors for any single contribution of \$250 or more, and provide a letter of acknowledgement.

Furthermore, we recommend that the Department, in conjunction with Finance Department and other relevant City Departments, initiate action towards developing a citywide policy and procedures to guide transactions involving donated assets and services. Such a process should at a minimum:

- Establish proper procedures for the recording and valuation of in-kind



Office of the City Controller
Audit Division

donations; and

- Maintain proper records for donated materials, services.

DEPARTMENT MANAGEMENT

RESPONSE:

Title for the donated trailer (vehicle) was transferred to ARA BARC on March 31, 2015. ARA recorded this asset on June 2, 2015 with a \$0 value. This error was corrected to its proper value on July 1, 2015. ARA is requesting Risk Rating is lowered to LOW due to evidence that in-kind donations are, in fact, documented and recorded in ERP system.

ARA will continue to record and recognize assets in accordance with Administrative Policy 4.7. – Fixed Asset Management. BARC will maintain a register of non-cash donations for any single contribution greater than \$250 and provide a letter of acknowledgment to the donor.

BARC has instituted a new policy of having all donations delivered at its facility to be processed in a single location where the donation is recorded and a receipt is given to the donor.

RESPONSIBLE PARTY:

Greg Damianoff

ESTIMATED DATE OF COMPLETION:

March 31, 2017

ASSESSMENT OF

RESPONSE:

Management's response sufficiently addresses the issues identified. However, the time lapse in failure to record the adoption trailer in the proper accounting period presented an accounting error, which resulted in the understatement of asset and revenues for FY2015 and a corresponding overstatement of assets and revenues for FY2016 in the amount of \$57,000 for the two fiscal years respectively. Such instance demonstrates a significant deficiency in internal control that requires top management attention regarding proper accounting for significant donated items.

In our opinion, this error emanated principally, from a lack of citywide policy and/or procedures regarding acceptance and accounting for donated assets. As a result and as previously stated, we recommend a policy framework be developed and adopted with consultation among the Finance Department, ARA Administrative Services and the Controller's Operations Division.



Office of the City Controller
Audit Division

FINDING # 2 – ANNUAL RECONCILIATION BETWEEN SAP AND THE CHAMELEON SYSTEM WAS NOT PERFORMED
(RISK RATING = MEDIUM)

BACKGROUND:

Administrative Procedures 4-8 (AP 4-8) Cash Handling Section 2.1 established procedures to ensure that all cash collections are recorded timely and accurately into the City's financial systems and to establish strong internal controls for cash collections to prevent misuse. Similarly, AP 4-8 Section 3.1 established a framework by which all departments shall develop departmental policy that governs accurate and responsible cash handling methods that is specific to each department's operations scope.

BARC collects fees from the public for various services it renders for animal adoption and related services. Fees are generally paid using cash, checks, and credit cards. BARC uses a point of sales software application called Chameleon to record its transactions. Daily transactions are uploaded into the City's operations system (SAP) at the close of business each day. These transactions are aggregated by account code in SAP with the detail of each transaction remaining in Chameleon. The daily activity of cash received is reconciled with the bank deposits by ARA staff and any discrepancies are resolved with BARC as needed.

During the course of the audit, we administered internal control questionnaires (ICQs) to assess the internal control established by management and currently in operation. We reviewed the ICQs for deficiencies in internal controls. We obtained the general ledgers as of June 30, 2015 and performed a reconciliation of the revenues recorded in the Chameleon and SAP.

FINDINGS:

We noted the following issues related to internal controls over processing revenues:

- BARC staff do not perform an annual reconciliation between revenue recorded in the Chameleon System and SAP. We performed reconciliation between the two systems as of June 30, 2015 and discovered a difference of \$1,377.22.
- Payments received via mail are not recorded on a log or register to prevent alterations.

RECOMMENDATION:

We recommend that management perform monthly and annual reconciliation of revenue receipts recorded in the Chameleon with the City's SAP to assure that revenues are complete and properly recorded.



DEPARTMENT MANAGEMENT

RESPONSE:

The City's SAP is the system of record for accounting, procurement, human resources, and payroll recording, tracking and monitoring. There are several external systems that interface for SAP. ARA BARC uses Chameleon as a tool for its adoptions, licenses, and information about animals in BARC's care. Chameleon is also a web application that is used to collect and record cash transactions only at BARC. A reconciliation is done daily to tie BARC's customer service representatives' cash drawers to Chameleon. Via an interface, Chameleon's daily collection is uploaded into SAP. An ARA accountant performs a reconciliation, which focuses on our money collected and matches the upload into SAP that ties to the deposit receipt to the bank. An ARA accountant reviews the bank account daily to ensure the transactions tie and takes corrective action immediately if there are discrepancies.

To track this annually would require an analyst to manually log entries in addition to the daily cash reconciliation. Since we have been reconciling Chameleon to SAP daily, an annual reconciliation of Chameleon and SAP would be redundant.

The difference of \$1,377.22 was determined to be due to other items that are entered into SAP but not in Chameleon including cash and check refunds, online donations, and ATM revenue and rebates. No cash or check refunds are provided at BARC. Credit card refunds are given at BARC as long as the original card used is provided for the refund. A credit card refund is also marked as such in Chameleon. Refunds are done through accounts payable. Online donations are processed via Authorize.net, which wires the donation to the bank. An ARA accountant reconciles this transaction to ensure that bank ties to SAP. ATM revenue and rebate transactions are processed monthly.

BARC will develop departmental standard operating procedures related to how payments received via mail are handled, in accordance with Administrative Policy 4.8.
– Cash Handling.

RESPONSIBLE PARTY:

Greg Damianoff/Adrienne Fadely

ESTIMATED DATE OF COMPLETION:

March 31, 2017

**ASSESSMENT OF
RESPONSE:**

We agree with ARA's commitment to develop department procedures regarding payments received via mail delivery.

Office of the City Controller
Audit Division



While audit procedures performed revealed that reconciliation of cash receipts is performed on daily basis, periodic reconciliation to agree total revenues (cash receipts and other non-cash receipts) recorded in SAP with the amount recorded in Chameleon would identify differences and assure completeness of recorded revenue.



Office of the City Controller
Audit Division

FINDING # 3 – Six (6) MISSING REVENUE RECEIPTS (RISK RATING = MEDIUM)

BACKGROUND:

Administrative Procedures 4-8 (AP 4-8) Cash Handling Section 2.1 established procedures to ensure that all cash collections are recorded timely and accurately into the City's financial systems and to establish strong internal controls for cash collections to prevent misuse. Similarly, AP 4-8 Section 3.1 established a framework by which all departments shall develop departmental policy that governs accurate and responsible cash handling methods that is specific to each department's operations scope.

Our review of BARC operations revealed that BARC receives cash from the public relating to animal adoption, licenses, permits, and other services. We performed audit procedures to determine whether revenues are complete, valid, and properly recorded. We obtained samples of revenue receipts and traced them to the general ledger. We also reviewed the sequence of revenue receipts issued from the Chameleon system to determine whether revenues were complete and accurate.

FINDINGS:

During the course of the audit, we noted six (6) revenue receipts that were missing from the sequence of revenue receipts recorded in the Chameleon for the period under review. BARC staffs were not able to account for these receipts. In addition, we noted several instances where receipts were not issued in sequential order.

RECOMMENDATION:

We recommend that BARC establish a process to account for incorrect or voided receipts as well as a process to detect gaps in the receipt sequence. Reconciliation activities should include documented reasons for missing receipts. We also recommend that management establish procedures to ensure that cash collections are recorded timely and accurately in accordance with the provisions of AP 4-8.

DEPARTMENT MANAGEMENT

RESPONSE:

The Chameleon database is used on a daily basis by all employees including, but not limited to the evaluation and adoption front counters, medical, the licensing area, as well as an online transaction system. Absolutely no users are able to delete receipts via Chameleon resulting in no receipts going "missing". A receipt will not be missing, only skipped, because it was never actually created in the system. This means no payment was received and no transaction was stored.

There are three reasons why a receipt number might get skipped, particularly with older versions of Chameleon and SQL Server:



Office of the City Controller
Audit Division

-
- Two users were storing a record at the same time. The older version of Chameleon used a method to update the sequencer. It would pull the new number, place the number on the record to be stored, update the sequencer table, and then store the receipt. So if it did that at the same time as someone else was storing a record, it may skip one as the update to the sequencer table happened twice but since the same number was pulled, one of them failed. However, the sequencer table was updated twice and one number used.
 - Any WebLicensing rejects may end up skipping numbers. In a similar fashion, the number is pulled, sequencer updated so the next person can use it, and then the record is stored. With a reject, the record is not stored in Chameleon until resolved by a CSR. The transaction is rolled back, but the sequencer update still happened.
 - If you got close to 999999, the sequencer may have been manually changed to a lower number. You'd typically see this when the numbers changed dramatically.

With the newer version of Chameleon and SQL Server, which BARC has been using since July 2016, the system uses a function to store the record and update the sequencer at the same time. We will continue to monitor and record instances where gaps in the receipt sequencer is identified and recorded.

RESPONSIBLE PARTY:

Greg Damianoff/Adrienne Fadely

ESTIMATED DATE OF COMPLETION:

December 15, 2016

**ASSESSMENT OF
RESPONSE:**

We agree with ARA's commitment to monitor and record instances where gaps in the receipt sequencer is identified and recorded. Closely monitoring the transactions for out of sequence receipt numbers can give management an opportunity to review data and determine the exact reason for anomalies in a timely manner.



Office of the City Controller
Audit Division

FINDING # 4 – FUNDRAISING ACTIVITY ROLES/RESPONSIBILITIES NOT CLEARLY DEFINED AND RESULTS NOT COMPREHENSIVELY REPORTED OR RECORDED (RISK RATING = MEDIUM)

BACKGROUND:

BARC engages in fundraising activities to provide additional funding for its operations. The services of third party entities are regularly engaged to provide support and other services during the fundraising activities.

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-225-45-17 states, “*an NFP may report net amounts for its special events if they result from peripheral or incidental transactions. However, so-called special events often are ongoing and major activities; if so, an NFP shall report the gross revenues and expenses of those activities. Costs netted against receipts from peripheral or incidental special events shall be limited to direct costs*”.

We performed procedures to determine whether proceeds from fundraising activities were complete, accurate, and properly accounted for. Our procedures were also designed to determine whether monies received were recognized and recorded in accordance with generally accepted accounting principles.

FINDINGS:

During the course of our audit, we noted the following:

- There is no formal written agreement between BARC and third party entities coordinating, sponsoring, or hosting fundraising activities on its behalf. An agreement would establish roles and responsibilities for all parties involved in the fundraising activities, as well as provide information regarding how monies received in connection with the fundraising activities are distributed and ensure any other related activities are properly accounted for. The lack of formal agreement could expose the City to potential liability and lawsuits.
- BARC staff could not verify the completeness of proceeds received from the fundraising activities. BARC staff did not collect, account for, or issue receipts for all funds raised nor did they receive comprehensive fundraising reports from the third party entities.
- Fundraising activities are not operated in a consistent manner. In two instances, BARC and Foundation staff collected proceeds and split the collections differently. At another fundraising event, a nonprofit entity collected and retained the proceeds for the purpose of transportation of BARC animals to Colorado for adoption.

We noted that Proler-Southwest/Sims Metals (Proler), a for-profit enterprise provided in kind contributions to BARC and assisted with fundraising activities by providing supplemental fees for discounted adoptions. During the period July 2014 through

January 2016, Proler provided to BARC, donations involving cash, in-kind, and fundraising activities approximated at \$150,000.

RECOMMENDATION:

We recommend that appropriate procedures be established for ensuring that proceeds from fundraising activities are complete and accurate and are properly recorded in accordance with GAAP.

In addition, we recommend that a written agreement be established between the Department and any third party engaged by the Department in connection with its fundraising activities. Such arrangement is necessary to avoid potential liability and lawsuits against the City. The Department is encouraged to liaise with the Legal Department for this purpose.

DEPARTMENT MANAGEMENT

RESPONSE:

As with all money related events and opportunities, ARA will continue to follow cash handling procedures set forth in Administrative Policy 4.8. – Cash Handling.

Previous attempts to obtain a formal agreement with Proler for fundraising activities have been unsuccessful. Proler's donations to BARC are tied to personal relationships and they refuse to formalize the arrangement, preferring to cease making donations to BARC if the issue is pressed. We will continue to strive for a Memorandum of Understanding (MOU) for joint operations so that each entity's roles and expectations are clearly defined. BARC will develop departmental standard operating procedures related to how BARC will handle fundraising events.

RESPONSIBLE PARTY:

Greg Damianoff/Ashtyn Rivet

ESTIMATED DATE OF COMPLETION:

March 31, 2017

ASSESSMENT OF

RESPONSE:

Management response sufficiently addresses the issues identified. We note that management has appropriately attempted to assess and address risk in this area and has taken responsibility for those risks it is willing to assume. Any additional guidance needed may be sought from the Legal Department.



Office of the City Controller
Audit Division

FINDING # 5 – INVOICES GREATER THAN 30 DAYS OLD PRESENTED FOR PAYMENT FROM PETTY CASH FUND (RISK RATING = LOW)

BACKGROUND:

Petty cash is a small fund of cash kept on hand maintained by a custodian for payment of small miscellaneous expenses. BARC maintains a petty cash account of \$300 that is typically used for expenses like, office supplies, postage and stationery costs. We performed a cash count and reconciled expenses paid out of petty cash to the balance outstanding. We obtained invoices used to support petty cash payments and reviewed them to determine whether payments are:

- For Immediate purchase needs of BARC; and
- Properly approved and authorized.

In general, we noted, based on work performed, that average number of days before purchases receipts were presented for payment was 27 days.

FINDINGS:

During the course of the audit, we noted several instances where purchase receipts (invoices) presented for petty cash payments were more than 30 days old. In one instance, we observed that an invoice presented for petty cash payment was 87 days old.

RECOMMENDATION:

As a best practice, we recommend that BARC set a maximum timeframe for invoices to be presented for payment from the petty cash fund. This minimizes the risk that documentation is lost, faded, or otherwise illegible and strengthens internal control over the fund. Normal timeframes in general business settings are 1 to 2 business days.

DEPARTMENT MANAGEMENT

RESPONSE:

ARA will ensure that petty cash payments are for immediate needs and supported by receipts and documents not more than 2 business days of purchase.

RESPONSIBLE PARTY:

Greg Damianoff/Charles Jackson/Jeanette Guy

ESTIMATED DATE OF COMPLETION:

October 3, 2016

ASSESSMENT OF

RESPONSE:

Management's response adequately addresses the issue identified.



FINDING # 6 – GIFT CARDS NOT PROPERLY SECURED AND INVENTORIED (RISK RATING = LOW)

BACKGROUND:

Gift cards are prepaid payment cards used as an alternative to cash for purchases within a particular store or related businesses. BARC sells gift cards that are redeemable at BARC locations for BARC products and services. The gift cards are printed on card stock, look like business cards, and are kept on top of the counter near the cash register. The gift cards are not pre-numbered and do not have a dollar amount printed on the card. The cashier manually writes the purchased dollar amount on the card at the time of purchase. This is an inexpensive way to help boost sales of BARC products and services.

We performed procedures to determine whether revenues from gift cards sales are recorded in accordance with GAAP. To properly record revenues arising from gift cards sales in accordance with GAAP, the following steps must be taken:

- (a) At the point of Purchase: a debit to cash and credit to liability is recorded
- (b) At the point of Redemption: a debit to liability and credit to revenue is recorded.
- (c) At Breakage, which is the point when the customer has an unexercised right to receive goods and services arising from the purchase of gift card. In accounting for revenue arising from a customer's nonrefundable prepayment for the right to receive goods or services in the future, FASB ASC 606-10-55-48; provides that:

"If an entity expects to be entitled to a breakage amount in a contract liability, the entity should recognize the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer. If an entity does not expect to be entitled to a breakage amount, the entity should recognize the expected breakage amount as revenue when the likelihood of the customer exercising its remaining rights become remote"

We also performed audit procedures to assess internal controls over gift cards to ascertain the total value of gift card sold and the balance outstanding.

FINDINGS:

We noted the following:

- Gift cards are not pre-numbered to allow the number or value of the cards to be logged or otherwise accounted for; and
- Gift cards are kept on the counter increasing the risk of theft and unauthorized use.

RECOMMENDATION:

Our recommendations are as follows:

- (a) Management should implement the use of pre-numbered gift cards in order to strengthen internal controls through proper inventory and assure revenue is complete, valid, and reasonable;

Office of the City Controller
Audit Division



(b) As gift card sales rise, management should seek the assistance of the Finance Department in the proper manner for accounting for gift cards; and

(c) ARA management should propose the inclusion of a gift card policy to the Finance Department.

DEPARTMENT MANAGEMENT

RESPONSE:

As of September 2016, BARC has decided to suspend its gift card sales.

RESPONSIBLE PARTY:

Greg Damianoff/Adrienne Fadely

ESTIMATED DATE OF COMPLETION:

September, 2016

ASSESSMENT OF

RESPONSE:

Management's decision to suspend gift card sales would eliminate any issues of internal control arising from gift card sales transactions for the duration of the suspension. However, if management reinstates gift card sales in the future, the recommendations identified above should be followed to ensure that appropriate internal controls are also implemented.

EXHIBIT 1

ACKNOWLEDGEMENT STATEMENT

ADMINISTRATION AND REGULATORY AFFAIRS

Acknowledgement Statement

Date: 12/14/16
JB

Chris B. Brown
City Controller
Office of the City Controller

SUBJECT: PERFORMANCE AUDIT OF BARC CASH HANDLING PROCESSES AND REVENUE RECOGNITION PROCESSES – ACKNOWLEDGEMENT OF MANAGEMENT RESPONSES

I acknowledge that the management responses contained in the above referenced report are those of the Administration and Regulatory Affairs (ARA) Department. I also understand that this document will become a part of the final audit report that will be posted on the Controller's website.

Sincerely,



Tina Paez, Director
Administration and Regulatory Affairs
Department

THIS PAGE INTENTIONALLY LEFT BLANK
