



**A Report to the Galveston  
City Council**

**Mayor**

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**City Auditor**

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Audit Report  
AU2015-2

## Cash Management Audit Report



### Report Summary

The City Auditor Department evaluated the design and operating effectiveness of the internal controls over cash management compliance as described in Appendix 1 – Administrative and Reporting controls and Appendix 2 – Accounting Controls Checklist. Also noted in the two appendices were internal controls in which opportunities may exist for the improvement of transparency, documentation, and timeliness over cash management compliance. The City Auditor Department has no findings to report in this audit and will make itself available to consult with the Finance Department should management choose to act upon improving any internal controls for enhanced transparency, documentation, and timeliness over cash management compliance.



**CASH MANAGEMENT AUDIT- FINANCE DEPARTMENT  
CITY AUDITOR**

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**AUDIT TEAM**

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**City of Galveston**  
**Cash Management Audit- Finance Department**  
**City Auditor Executive Summary**

November 10, 2015

**Background**

The City of Galveston receives cash, direct deposits, credit cards and checks daily from different sources. All funds received must be deposited into the City of Galveston depository accounts. These sources include a) taxes, fees, and assessments b) state allotments c) utility payments d) grants and other forms of financial aid e) licenses and permits f) accounts receivable payments and g) donations. The Finance Department must ensure receipts are properly deposited and recorded into the accounting system. Therefore the Finance Department is charged with establishing the internal control policies and procedures for cash management within the City of Galveston. In turn, the City Auditor Department is responsible for evaluating the design and operating effectiveness of those internal controls.

**Objective**

The objective of this report is to evaluate the design and operating effectiveness of the Finance Department's internal control framework over cash management relating to (1) accounting for and reporting transactions, (2)executing transactions, and (3)safeguarding assets. These objectives are further described below as:

(1)Accounting and Reporting - The objectives of internal controls over accounting and reporting for cash management are to ensure that transactions are properly recorded and accounted for in the accounting system.

(2)Executing Transactions - The objectives of internal controls over executing transactions for cash management are to ensure that transactions are executed in compliance with Federal, State and City laws and regulations.

(3)Safeguarding Assets - The objective of internal controls over safeguarding assets for cash management is to ensure that funds are safeguarded against loss from unauthorized use or disposition.

**Scope**

To evaluate the design and operating effectiveness of the three objectives of internal control over cash management the City Auditor Department identified and evaluated the basic components of each objective for the City of Galveston as described in the supplemental appendices and below:

(1)Administrative and Reporting

- a) Control Environment - The City of Galveston's control environment establishes the tone of an organization that influences the control consciousness of its personnel.
- b) Risk Assessment - Risk assessment is the City of Galveston's identification and analysis of relevant risks to achieving the organization's objectives.

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- c) Control Activities – The City of Galveston’s control activities are the policies and procedures that are performed by personnel that help ensure that management's directives regarding compliance are carried out.
- d) Information and Communication - The information and communication component includes the City of Galveston’s identification, capture, and exchange of information in a form and time frame that enable personnel to carry out their responsibilities.
- e) Monitoring Activities - Monitoring activities assess the City of Galveston’s quality of internal control performance over time.
- f) Defining the financial reporting process for the City of Galveston.
- g) Capturing and processing routine and nonroutine information for the City of Galveston.

(2)Accounting

- a) Rights and Obligations – All account balances properly reflect amounts collected or should have been collected by the City of Galveston.
- b) Valuation and Allocation – All account balances properly value and allocate amounts that individuals or agencies paid to the City of Galveston.
- c) Occurrence – All transactions occurred within the City of Galveston.
- d) Completeness – All transactions have been captured by the City of Galveston.
- e) Accuracy – All transactions have been accurately recorded by the City of Galveston.
- f) Cut-off – All transactions are recorded by the City of Galveston in the correct accounting period.
- g) Classification – All transactions are correctly classified by the City of Galveston.

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**Fieldwork Performed**

The City Auditor Department researched all known internal controls for the cash management within a local municipality and listed each internal control in two separate spreadsheets described and attached as Appendix 1 – Administrative and Reporting Controls Checklist and Appendix 2 – Accounting Controls Checklist. Each internal control listed in the spreadsheets was then evaluated to determine if the control design and operations of the control proved to be effective over cash management compliance at the City of Galveston. The City Auditor Department also noted if opportunities exist for the improvement of those internal controls.

**Audit Findings**

There are no findings for the City Auditor to report to The Mayor and The City Council for The City of Galveston. However, the City Auditor Department did note two areas that could improve speed and efficiency at the cashier windows: (1.) The cashiers open a separate cash batch for each pay type. Only one cash batch can be opened at a time and to change from one cash batch to another is not a fast process. Often times the cashiers will set aside payments received until they have enough time to open different cash batches and finishing executing transactions previously set aside. (2.) Each cashier must keep up with two separate cash drawers and two separate accounting systems throughout the day. A consolidation and reconciliation process between accounting systems would greatly improve speed and efficiency. The City Auditor Department will make itself available to consult with the Finance Department should management choose to act upon improving those internal controls for cash management compliance at the City of Galveston.

**Staff Conduct**

All staff acted in a professional and timely manner.

**City Manager's Response**

The noted areas for improvement are both reasonable and do indicate what the Manager considers weaknesses in the cash management process. The Finance Director has been instructed to make the necessary adjustments to either processes or procedures to address these deficiencies. At a minimum, additional compensating controls will be implemented until system upgrades or enhancements can be added. The Finance Director has been instructed to address these concerns and report back to the Manager within 90 days.

Appendix 1: Cash Management Administrative and Reporting Controls Checklist - Finance Department	Internal Control is Implemented and Effective	Documentation Could be Improved
<b>Processing Cash Receipts</b>		
1. Management reviews the cash receipts reports on a periodic basis and investigates significant variances from budgets and expected results.	X	
2. Delinquent receivables are reviewed.	X	
3. The receivables aging/subledger is reviewed and reconciled to the general ledger.	X	
4. There is adequate segregation of duties among those who:		
a. Collect accounts receivable.	X	
b. Open the mail or copy checks received.	X	
c. Prepare deposits.	X	
d. Deposit cash receipts.	X	
e. Post cash receipts to the receivables subledger.	X	
f. Review the receivables aging trial balance.	X	
g. Authorize write-offs of delinquent accounts.	X	
h. Independently investigate receivables discrepancies.	X	
i. Maintain or authorize receivables adjustments.	X	
j. Edit the receivables master file.	X	
k. Process customer service calls and complaints.	X	
l. Investigate discrepancies or issues related to revenue.	X	
m. Reconcile bank accounts.	X	
5. Cash receipts (restricted revenue) are deposited in separate bank accounts when legally or contractually required.	X	

Appendix 1: Cash Management Administrative and Reporting Controls Checklist - Finance Department	Internal Control is Implemented and Effective	Documentation Could be Improved
6. The city has a formal deposit policy that limits the city's allowable deposits and addresses the specific types of risk to which the government is exposed.	X	
7. Cash receipts are deposited intact promptly or stored in a secure location.	X	
8. Cash receipts are reconciled to general ledger postings daily.	X	
9. The entity uses a lockbox.	N/A	
10. Lockbox receipts are compared to remittances.	N/A	
11. Adjustments of cash accounts are approved and documented by the appropriate level of management or another appropriate person.	X	
12. Bank reconciliations are prepared and reviewed in a timely fashion.	X	
13. There is adequate segregation of duties among those who:		
a. Open the mail or copy checks received.	X	
b. Prepare deposits.	X	
c. Deposit cash receipts.	X	
d. Reconcile bank accounts.	X	
e. Investigate discrepancies or issues related to cash.	X	
f. Maintain the cash receipts journal.	X	
g. Post journal entries to the general ledger.	X	
14. Bank statements are received and reviewed by a responsible person other than the person who reconciles the bank account before being submitted for reconciliation.	X	

Appendix 2: Cash Management Accounting Controls Checklist - Finance Department		Internal Control is Implemented and Effective	Documentation Could be Improved
<b>1. Transactions / Events</b>			
a. All transactions occurred? (Occurrence)		X	
b. All transactions have been captured? (Completeness)		X	
c. All transactions have been accurately recorded? (Accuracy)		X	
d. All transactions are recorded in the correct accounting period? (Cut-off)		X	
e. All transactions are correctly classified? (Classification)		X	
<b>2. Accumulation of Balances</b>			
a. All account balances represent transactions that really occurred? (Occurrence)		X	
b. All account balances properly reflect amounts that individuals or agencies paid to the City of Galveston? (Rights and Obligations)		X	
c. All account balances represent all transactions? (Completeness)		X	
<b>3. Documentation</b>			
a. Senior management is involved in critical decisions and significant events so as to create an agency-wide history justifying subsequent actions and decisions?		X	
b. Transactions are traceable from inception through final reporting?		X	
c. Written policies and procedures exist for the day to day processes performed by employees?		X	
<b>4. Authorization / Approval</b>			
a. Authorization for all tasks is documented and clearly communicated to employees?		X	
b. Management approval exists that employees have executed tasks effectively?		X	



Appendix 2: Cash Management Accounting Controls Checklist - Finance Department	Internal Control is Implemented and Effective	Documentation Could be Improved
<b>5. Verification / Reconciliation</b>		
a. All money collected is reconciled on a daily basis to the accounting system?	X	
b. All money received is deposited to the bank account daily?	X	
c. Deposit slips are reconciled to the accounting system daily?	X	
d. Reconcile the report for unposted transaction daily?	X	
e. Bank statements are reconciled in a timely manner?	X	
<b>6. Separation of Duties</b>		
a. Individuals responsible for preparing the deposits do not open the mail?	X	
b. An independent person must review and approve the daily deposits?	X	
c. Individuals creating cash receipts do not deposit the cash?	X	
d. Individual responsible for the collection of money do not post cash receipts to the receivables subledger?	X	
e. Individuals making the deposits are not involved in the reconciliation of the bank?	X	
<b>7. Access / Security</b>		
a. Mobile items are locked within secure facilities?	X	
b. Receipts should be properly safeguarded until deposited?	X	
c. Key cards are utilized to limit access to facilities?	X	
d. Periodic physical inventories of cash are performed for verification of values and location?	X	
<b>8. Supervision</b>		
a. Employee work is approved at critical points to ensure quality and accuracy?	X	
b. Daily deposits are approved by the Finance Department?	X	
c. Supervisory reviews are documented?	X	