

**City of San Diego**

**AUDIT REPORT**

***CASH COUNT AND BANK  
RECONCILIATION AUDIT***

***KROLL REMEDIATION OF THE CITY'S  
BANK RECONCILIATION PROCESS***

**April 28, 2008**

**Internal Audit  
Eduardo Luna, CIA, CGFM, Internal Auditor**

**This Page Left Intentionally Blank**



THE CITY OF SAN DIEGO

April 28, 2008

Jay M. Goldstone, Chief Operating Officer  
City of San Diego  
202 C Street  
San Diego, CA 92101

Attached is our audit report regarding our Cash Count and Bank Reconciliation Audit, which covers the City's Kroll remediation efforts for the City's bank reconciliation process. Management's response to our audit report is attached after page 15. Internal Audit staff members that participated in the preparation of this report are Kyle Elser and Judy Zellers.

We would like to thank the City Treasurer, Comptroller, and San Diego City Employee Retirement System staff for the assistance they extended during our review. All of their valuable time and efforts spent on providing us information is greatly appreciated.

Respectfully submitted,

A handwritten signature in black ink that reads "Eduardo Luna".

Eduardo Luna  
Internal Auditor

cc: Mary Lewis, Chief Financial Officer  
Gail R. Granewich, City Treasurer  
Greg Levin, City Comptroller  
David B. Wescoe, SDCERS Administrator  
Mark Hovey, SDCERS Chief Financial Officer  
Elena Perez, Accounting Office Manager  
George Brister, Office Project Manger



# AUDIT REPORT

## **Executive Summary**

We audited the cash count and general ledger reconciliation processes. We performed a cash count on July 2, 2007 to verify that revenue is supported by proper documentation and is recorded in the correct fiscal year. Revenue documents totaling \$17,009,000 were verified during the cash count. We found the cash count satisfactory and no audit recommendations are necessary. Based on the audit work performed, we found the interim reconciliation processes are operating effectively. In a three month period, over 36,800 transactions exceeding \$2 billion were processed through the City bank accounts, excluding daily City investment transactions. On a test basis, we found:

- bank reconciliations were prepared timely and accurately;
- the differences between the general ledger and the bank were identified; and
- items identified and not reconciled within 60 days were immaterial.

However, based on our review we determined that internal controls could be further strengthened and the ease of review improved by updating and centralizing standards and policies, and improving documentation to enhance the clarity of the reconciliation process. We also found that:

- the ease of the reconciliation review remains somewhat cumbersome;
- the general ledger to Comprehensive Annual Financial Report (CAFR) reconciliation process is not fully documented;
- the city-wide cash receipt process is not fully automated; and
- a bank account separate from the city depository and controlled disbursement accounts has not been established for San Diego City Employees' Retirement System (SDCERS) daily operations.

We made the following six recommendations to improve internal controls.

1. The City Treasurer should formalize in writing the Treasurer's cash and reconciliation standards or policies and key controls that ensure policies are in place and effective. Retain policies in a central policy manual. As appropriate, communicate these policies to staff or City-wide.
2. The City Treasurer should document the supervisory review and approval process over bank reconciliations.
3. The City Treasurer should prepare supplemental schedules at June 30 each year to enhance the clarity of the Bank to AMRIS<sup>1</sup> reconciliation, pending the implementation of the Enterprise Resource Planning (ERP) system.
4. The Chief Financial Officer and the ERP Team should fully automate the cash receipt and reconciliation processes in the ERP system. Document the key controls in the automated system which will remediate the control weaknesses identified in the past. Additionally, reoccurring reconciling items should be clearly identified to ensure ERP is designed to minimize these.
5. The City Comptroller should create written procedures and identify the key controls in place that are used to verify the cash balances in the CAFR are accurate, beginning with the FY07 financial statements.
6. SDCERS, in conjunction with the City Treasurer, should establish a separate SDCERS bank account as soon as legally possible.

---

<sup>1</sup> AMRIS is an acronym that stands for Accounting and Management Resources Information System.

## **Introduction**

In accordance with the City Auditor's Fiscal Year 2008 Audit Workplan, we reviewed management's steps taken to remediate Kroll Items 84 and 85, the reconciliation of City's cash balances at the bank to the cash balances reported in the Comptroller's general ledger and Comprehensive Annual Financial Report (CAFR).

Our work was limited to those specific areas specified in the Objectives, Scope, and Methodology section of this report.

## **Background**

The objectives of the cash reconciliation processes are to verify that cash transactions at the bank are completely, timely, and accurately recorded in the accounting records for financial reporting purposes; to verify cash transactions recorded in the accounting records exist at the bank; and to ensure errors are corrected timely by the City or the bank. In order to reconcile cash, the Treasurer analyzes data from the Comptroller's general ledger and the bank.

The reconciliation process is complex in that there are five bank accounts and one general ledger cash account. In a three month audit period (May to July 2007), there were 36,849 bank transactions exceeding \$2 billion, excluding daily City investment transactions. The Treasurer keeps a cash ledger to identify which accounting general ledger transactions match the bank transactions, as shown in Chart 1 on the following page.

## CHART 1: City Treasurer Cash Ledgers, City Bank Accounts, and Reconciliations

COMPTROLLER'S GENERAL LEDGER	TREASURER'S CASH LEDGERS	CITY BANK ACCOUNTS	TREASURER'S RECONCILIATIONS	COMPTROLLER
A	B	C	D	E
<b>ACCOUNT 8010</b> [1 CASH GENERAL LEDGER ACCOUNT]	Posts cash transactions daily; Compare to bank daily & monthly	① Bank of America Depository	Identifies transactions leading to differences between the bank and general ledger balances for each of the 5 accounts. Reconciles total cash at the bank to total cash in the general ledger.	Annually, compares the General Ledger Account 8010 at June 30 to the cash reported in the City of San Diego Comprehensive Annual Financial Report [CAFR].
	Post cash transactions daily; Compare to bank daily & monthly	② Bank of New York Investments		
	Post cash transactions daily; Compare to bank at least monthly	③ Bank of America Accounts Payable Disbursements		
	Posts cash transactions daily; Compare to bank at least monthly	④ Bank of America Payroll & Pension Disbursements		
	Posts cash transactions daily; Compare to bank at least monthly	⑤ Bank of America Electronic Bill Presentation Returns		

- A** Comptroller's accounting staff reports daily cash transactions to Treasurer. The objective is to match accounting transactions which are in 1 general ledger account to the 5 different City bank accounts.
- B** Daily, Treasurer posts cash transactions to a cash ledger for each bank account. Also, the Treasurer compares the amounts posted on the Treasurer cash ledger to the general ledger amounts and identifies / reports differences.
- C** The bank transmits daily and monthly data to the Treasurer.
- D** The Treasurer identifies detailed transactions that are different between the bank and the City general ledger (deposits in transit, at bank and not at City, at City and not at bank, etc.) when reconciling the cash at the City to the cash at the bank.
- E** The City Comptroller reconciles the cash general ledger balance at June 30 to the cash reported in the City CAFR.

Source: Internal Audit.

## **City Treasurer With the Assistance of the Comptroller Has Taken Steps To Correct Past Internal Control Deficiencies**

The City Treasurer with the assistance of the Comptroller has implemented interim procedures for the short-term remediation of the bank reconciliation control deficiencies identified by Kroll<sup>1</sup>, KPMG<sup>2</sup>, Macias, Gini, and O'Connell<sup>3</sup>, and the Auditor & Comptroller (A&C)<sup>4</sup>. These reports identified internal control deficiencies in the bank reconciliation process and the verification of general ledger (accounting) cash balances. Specifically, the following control deficiencies were identified:

- Only 33 percent of the bank reconciliations were performed timely (within 45 days).
- Reconciling items were outstanding for several months due to lack of communication between A&C and Treasures, and due to lack of timely reconciliations.
- Although the City performed a three-way reconciliation between the bank, Treasurer, and general ledger, the general ledger cash balance was difficult to determine.
- The process for reconciling cash and investments was unduly cumbersome and lacked management review.

Kroll recommended:

- The City develops an improved reconciliation process, which is more automated, documented and complete. The revised process must support accuracy, timely completion, and improved ease of review, timely correction of errors, and enhanced communication between the Comptroller and the Treasurer.

The Treasurer took the following steps to remediate the Kroll findings:

- Documented the reconciliation process flow and key controls in the process.
- Assumed responsibility for reconciling the City cash at the bank to the general ledger, a process previously performed by A&C.
- Improved the monthly reconciliation policies and procedures to ensure reconciliations were completed accurately and timely.
- Improved communications with the Comptroller's and SDCERS' staff.
- Partnered with Comptroller's and SDCERS' staff to resolve the reconciling items that had been outstanding for several months and established procedures to resolve future reconciling items timely.

---

<sup>1</sup> Kroll Report, Issued August 8, 2006, page M-16.

<sup>2</sup> KPMG Independent Auditors' Report on Internal Control Over Financial Reporting for the year ended June 30, 2003, Issued March 12, 2007.

<sup>3</sup> Macias Gini & O'Connell Independent Auditor's Report on Internal Control Over Financial Reporting for the year ended June 30, 2004, Issued May 11, 2007.

<sup>4</sup> City of San Diego Annual Report on Internal Controls, Issued January 1, 2006.



Also, the Treasurer's staff has drafted a Cash Handling Manual to document cash handling standards and to train City staff in proper cash handling. The Cash Handling Manual addresses the Treasurer's policy directing departments to make deposits daily and account for deposits at least weekly, as required by Charter Section 86, and to research cash errors within five days.

The City Treasurer advised that the ERP system implementation will further automate and simplify the reconciliation process; however, in the short term the Treasurer planned to improve accurate and timely resolution of differences between the City's General Ledger system (AMRIS<sup>1</sup>) and the bank by revising the reconciliation process.

This revised process included:

- A policy to resolve reconciling items in a timely manner.
- Purchase of Treasury software to automate the reconciliation of the controlled disbursement bank accounts.

In August 2007, the Treasurer reported the short term reconciliation process as being fully remediated. We tested the reconciliation process as part of our review on internal controls. The results of this test and recommendations to further improve the reconciliation process are included in this report.

---

<sup>1</sup> AMRIS is an acronym that stands for Accounting and Management Resources Information System.

## **Audit Objective, Scope, and Methodology**

The purpose of our audit was to 1) verify revenues submitted to the Treasurer at June 30, 2007 were deposited at the bank and recorded in the correct fiscal year; and 2) confirm that management's short term plan effectively remediated the internal control deficiencies in the bank reconciliation process that were identified in prior audit reports. We performed a cash count on July 2, 2007 and examined reconciliations for the months of May, June and July 2007.

The following audit procedures were used to achieve the audit objectives:

- Counted fiscal year 2007 cash receipts deposited on July 2, 2007.
- Compared the totals from supporting revenue documents to: register reports for June 30<sup>th</sup>, fiscal year 2007 revenue collected on July 2, and bank deposits.
- Verified transactions on July 2 were deposited correctly to fiscal year 2007 based on the description on the documents.
- Reviewed prior audit findings and recommendations regarding the City's cash reconciliation process.
- Reviewed the timeliness of Treasurer's bank reconciliations.
- Tested the accuracy of reconciliation procedures.
- Evaluated the ease of review of the monthly reconciliations.
- Evaluated the process to identify differences between the bank and the accounting general ledger cash balance (account 8010) as of June 30, 2007.
- Made inquiries regarding the written procedures used to reconcile the general ledger cash balance to the cash balance reported in the City's CAFR.

We evaluated internal controls related to the audit objectives. Our review focused on controls related to the accuracy and timeliness of the bank reconciliation process and the recording of revenue in the correct fiscal year. We relied on bank reports and independently verified reconciliation data on a test basis. Our audit scope was limited to cash held in City bank accounts; therefore, it did not include a review of escrow accounts or funds held by trustees. Our conclusions on the effectiveness of the controls we reviewed are detailed in the following audit results.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, 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.

## **Audit Results**

We audited the cash count and general ledger reconciliation processes. We performed a cash count on July 2, 2007 to verify that revenue is supported by proper documentation and is recorded in the correct fiscal year. We found the cash count satisfactory and no audit recommendations are necessary. Based on the audit work performed, we found the interim reconciliation processes are operating effectively. On a test basis, we found:

- bank reconciliations were prepared timely and accurately, and were reviewed by management;
- the differences between the general ledger and the bank were identified; and
- items identified and not reconciled within 60 days were immaterial.

However, based on our review we determined that internal controls could be further strengthened and the ease of review improved by updating and centralizing standards and policies and improving documentation to enhance the clarity of the reconciliation process. We also found that:

- the ease of the reconciliation review remains somewhat cumbersome;
- the general ledger to CAFR reconciliation process is not fully documented;
- the city-wide cash receipt process is not fully automated; and
- a bank account separate from the city depository and controlled disbursement accounts has not been established for SDCERS daily operations.

### **The July 2, 2007 Cash Count Proved Satisfactory**

City revenue is to be recorded at the City Treasurer in accordance with City Charter Article VII and the San Diego Municipal Code Section §22.0706, which requires deposits be made daily, except under certain instances approved by Council. The Treasurer accepts prior fiscal year receipts until noon of the business day following June 30<sup>th</sup> and has procedures in place to ensure receipts between the two fiscal years are kept separate.

The count of Treasury cash and the fiscal year 2007 revenue collected by the Treasury cashier on June 30 and July 2 proved satisfactory. Based on the descriptions on the Daily Cash Receipts (deposit tickets), the revenue was properly recorded in the correct fiscal year. No audit recommendations were necessary related to the cash count performed.

## **Interim Reconciliation Processes Are Operating Effectively**

Our audit work revealed that Treasurer staff performed bank reconciliations timely and accurately; and that differences between the general ledger and the bank were identified. Reconciliations were completed within 45 days of month end, the standard established by the City Treasurer, and, on a test basis, we found no errors on the monthly reconciliations. We also found that items not resolved within 60 days were immaterial. The average value of items outstanding at month end for a period greater than 60 days was \$9,000. Treasurers has worked with the Comptrollers, SDCERS, and other City departments to resolve outstanding items timely. Adjusting entries between the bank and the Comptroller's general ledger were clearly identified at month end.

## **Standard Cash and Reconciliation Policies and Procedures Have Not Been Updated and Centrally Located In a Policy Manual**

We found that the Treasurer has some written reconciliation procedures, however, all Treasury cash and bank reconciliation standards and procedures have not been updated and may not reflect key process controls. We identified that some cash and reconciliation standards and procedures that are not retained in a centralized policy manual include the following:

- The Treasurer's budget document states bank account reconciliations will be completed within 45 days of month end;
- Verbally Treasurers, Comptrollers and SDCERS have agreed to resolve differences between the Treasury and Comptroller records timely.
- Although supervisory review of reconciliations has been performed timely, the supervisor's assertions when approving the reconciliation are not documented. Standardized review policies should include the objective of the review (define approval), the steps necessary to achieve the objective, and control points in the review process in order to promote a consistent level of supervisory approval.

In addition, the Treasurer can improve the clarity of the reconciliation process by updating policies and procedures, such as those involving the posting of transactions from different sources other than AMRIS. We found that detailed procedures do not clearly indicate the reasons why items are posted from different sources, the controls added by Treasurer's process, and why the posting source may routinely lead to differences between the AMRIS General Ledger and the Treasurer Cash Ledger.

For example, payments on accounts receivable are posted to the cash ledger by the Treasury when payments (cash, checks) are received; they are posted in AMRIS after the payment is applied properly in the accounts receivable system. These differences occur routinely due to the different posting processes. Had the Treasury procedures included a chart identifying the major types of these differences, the understanding of

reconciling items could be improved. Although Treasury staff advised the Treasurer Cash Ledger is expected to be eliminated by ERP, this demonstrates how clearly documented procedures could improve understanding of routine processes.

Some procedures did not identify controls and their purpose. Government Finance Officers Association recommends that accounting policies should explain the design and purpose of control-related procedures to increase employee understanding of and support for controls.

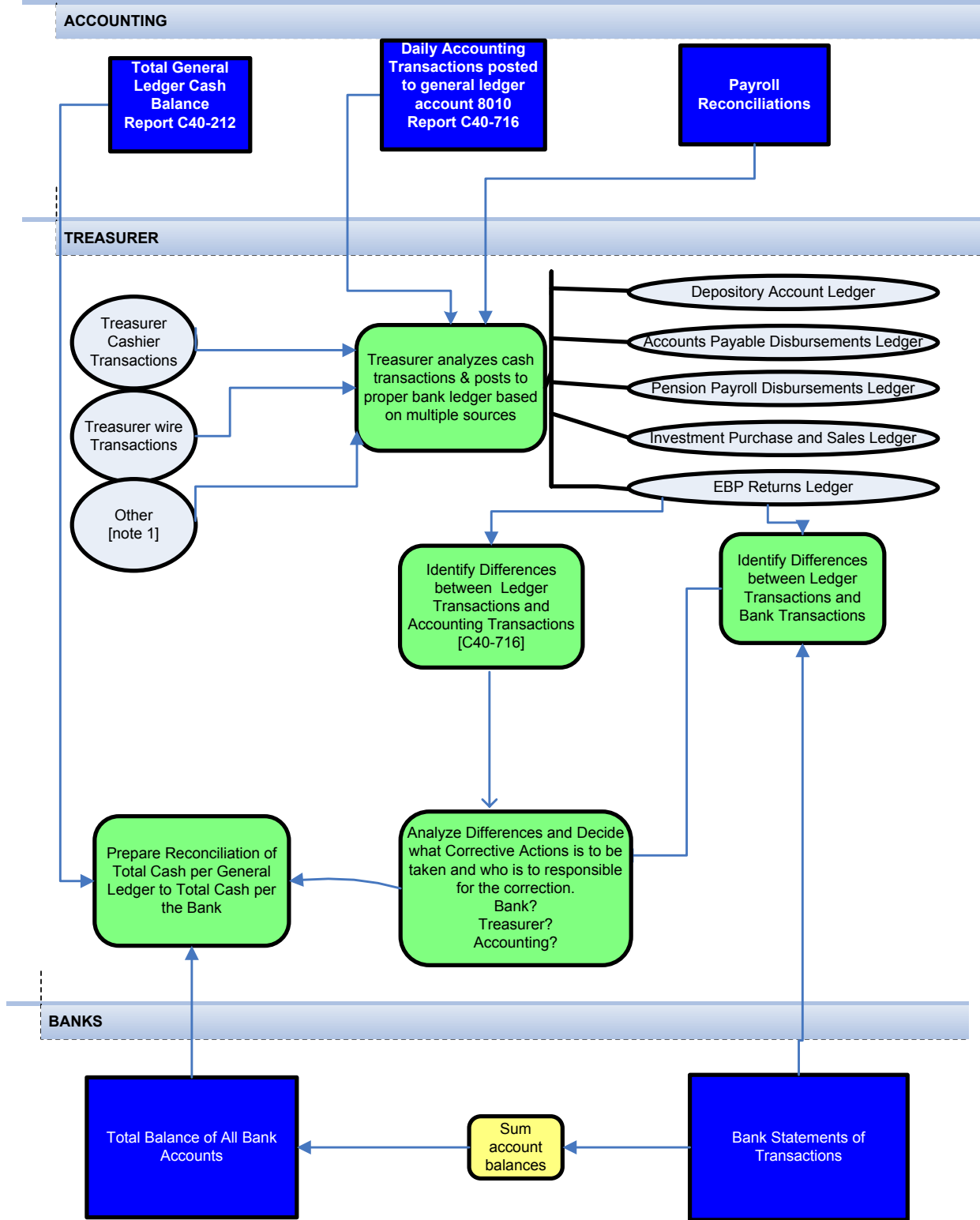
**Audit Recommendations:**

- 1. The City Treasurer should formalize in writing the Treasurer's cash and reconciliation standards or policies and key controls that ensure policies are in place and effective. Retain policies in a central policy manual. As appropriate, communicate these policies to staff or City-wide.**
- 2. The City Treasurer should document the supervisory review and approval process over bank reconciliations.**

**The Ease of Review Remains Somewhat Cumbersome**

The Kroll Report found the cash reconciliation process cumbersome and recommended revising the reconciliation process to facilitate ease of review. The Treasury staff has improved the bank reconciliation by documenting their process flow and adding a general ledger (AMRIS) to Bank reconciliation. Despite this change, the review process remains cumbersome due to the underlying manual processes at the City. Currently, seven reconciliations are performed monthly in order to verify that cash transactions at the bank match cash transactions in the City accounting records in AMRIS, as shown in the flowchart on page 11. On a daily basis, Treasury staff reviews investment activity, depository bank account activity, and cash accounting transactions.

# TREASURER'S RECONCILIATION FROM ACCOUNTING TO THE BANK



Source: Internal Audit.

Note 1: Other sources may include Federal Electronic Deposits, Past Due Collections, Business Tax, Pension Reconciliations, etc.

The reconciliation between the Bank and general ledger (AMRIS) references several subsidiary reconciliations. On a test basis, we found subsidiary schedule items were properly analyzed and carried forward to, or excluded from, the summary schedule. However, in order to verify that the summary schedule was complete, it was necessary to manually compare each item on the subsidiary schedules to the summary reconciliation.

For example, City posting adjustments to the Bank of America Depository account reconciliation (Bank to Treasurer Cash Ledger reconciliation) for the month ended June 30, 2007 are \$3,085,123.45. The City posting adjustments for the depository account on the summary June 2007 Bank to General Ledger (AMRIS) Reconciliation are \$495,465.72. It is necessary for the reviewer to examine a third reconciliation, the General Ledger (AMRIS) to Treasurer Cash Ledger Reconciliation, to identify the difference and its description.

The ease of review could be improved by:

- Clearly identifying which items are carried forward to, or excluded from, the summary schedule, Bank to AMRIS to minimize manual review; and
- Explaining why items on the subsidiary schedules are not on the summary schedule.

Supplemental schedules would improve clarity of Bank to AMRIS (general ledger) cash balances at June 30th and minimize manual reviews necessary to ensure the Bank to AMRIS cash balance is complete. A supplemental schedule of the differences between the reconciliations at year end may enhance the clarity of the Bank to AMRIS reconciliation. A sample schedule was provided to Treasury staff.

### **Audit Recommendation:**

- 3. The City Treasurer should prepare supplemental schedules at June 30 each year to enhance the clarity of the Bank to AMRIS reconciliation, pending the implementation of the ERP system.**

### **The City-wide Cash Receipt Process Is Not Fully Automated**

Recording City cash receipts at the bank into the accounting records involves many city-wide manual processes. Some of these manual processes are identified in Exhibit A. Manual processes contribute to the number of reconciling items requiring research by the Treasury staff. In May and July 2007, there were 346 and 467 reconciling items, respectively, in the Depository bank account at month end related to deposits in transit (deposits made at the bank by departments without Daily Cash Receipts (DCRs) being submitted to the Treasury). However, in June 2007, when departments were required to account for their deposits by June 30<sup>th</sup> for proper fiscal year 2007 revenue

recognition, the number of items not reconciled dropped to 155. This demonstrates the number of reconciling items that are likely due to delays related to manual processes at the department level. Although exception items requiring manual review will never be completely eliminated, an automated process to enter accounting data at the time bank deposit tickets are prepared would minimize these unnecessary reconciling items. Therefore, this would minimize inefficient use of resources at the Treasury. The ERP Team advised us that the scope of the automation of the cash receipt process has not been finalized.

All steps necessary to fully automate the cash receipt and reconciliation process and prevent reoccurring reconciling errors should be documented and clearly communicated to ERP Implementation Team to ensure manual operations are minimized. Reoccurring errors include invoices paid but not applied in AMRIS and payroll or pension transactions not recorded in AMRIS timely.

**Audit Recommendation:**

- 4. The Chief Financial Officer and the ERP Team should fully automate the cash receipt and reconciliation processes in the ERP system. Document the key controls in the automated system which will remediate the control weaknesses identified in the past. Additionally, reoccurring reconciling items should be clearly identified and minimized in ERP process.**

**The Comptroller's General Ledger to CAFR Reconciliation Process Is Not Fully Documented**

As a result of the Kroll recommendations, the Treasury added a process to verify that the accounting general ledger cash balances reconcile to the bank on the last calendar day of the month. However, additional procedures are necessary by the Comptroller staff to verify the accuracy of cash reported in the Comprehensive Annual Financial Report (CAFR). General ledger cash balances at year end may differ from the cash balances reported in the CAFR due to post closing entries and accounting regulations. After the Comptroller's staff documents their process and fiscal year 2007 reports are complete, additional testing will be necessary to conclude on cash reported in the CAFR.

**Audit Recommendation:**

- 5. The City Comptroller should document steps taken annually, and internal controls over the process, to verify that the cash balances in the CAFR are accurate, beginning with the FY07 financial statements.**



## **A Bank Account Separate Than the City Depository and Controlled Disbursement Accounts Should Be Established for SDCERS Daily Operations**

The City Treasurer recommended during the reconciliation review process that SDCERS establish a bank account separate from the City account. SDCERS has a separate investment account; however, cash is retained in the City's Depository account for day to day operations. Currently, SDCERS daily cash balance in the City depository account is based on postings to the general ledger, not the actual transfer of monies between SDCERS and the City bank accounts. In our opinion, a separate account would provide a more accurate picture of the SDCERS' daily cash balances for cash management purposes. In addition, some controls over cash receipts and disbursements may be unique to a pension plan. A separate account may lead to improved controls over items such as reoccurring stale dated pension checks. However, we recognize legal issues may need to be resolved prior to establishing a separate bank account for SDCERS daily operations.

### **Audit Recommendation:**

- 6. SDCERS, in conjunction with the City Treasurer, should establish a separate SDCERS bank account as soon as legally possible.**

## **Conclusion**

The City Treasurer's bank reconciliations and the City Comptroller's general ledger to the CAFR reconciliations are a key control at the City to ensure that the cash reported in the financial records is accurate. Cash transactions at the bank in a three month period totaled over \$2 billion, excluding investments. Kroll, Inc. made recommendations to enhance controls over the bank reconciliation process. The City Treasurer has short term procedures in place to implement the Kroll recommendations. However, we have made three recommendations to further clarify and document the Treasurer's process; one recommendation to document the City Comptroller's process; one recommendation to fully automate the cash receipt process when designing the ERP system; and one recommendation to separate SDCERS banking transactions from other City transactions.

## EXAMPLE OF MANUAL CASH RECEIPT AND RECONCILIATION PROCESSES

- Many deposits are submitted to the Treasury with a Daily Cash Receipt (DCR), a paper form. The DCR is manually prepared by departments, manually transmitted to the Treasury, and accounting information is manually keyed into the accounting system by Data Processing.
- Frequently, deposits are made directly to the bank and the DCR is submitted to the Treasury, and input into the accounting system, at a later date. Some timing differences between the bank and City accounting records require Treasurer's staff to take an additional step to notify departments if DCRs are not submitted timely.
- Errors in the DCR accounting information require the Comptroller's staff to contact departments and manually input corrections.
- City Payroll and San Diego City Employees' Retirement System (SDCERS) staff manually prepares and submits data to the Treasury that is used to reconcile payroll bank accounts.
- Investment staff manually inputs data into the investment accounting system, Sunguard, to generate a paper accounting document. Based on this, the Comptroller's staff identifies the correct fund and manually inputs data into the City journal voucher system.
- On a daily basis, accounting staff manually records the description of each cash transaction and transmits this information to the Treasury.
- Treasury staff manually posts cash transactions at the City to a ledger (spreadsheet) kept for each of the 5 bank accounts. Accounting posts all general ledger cash transactions to one general ledger account. Therefore, the Treasury staff identifies which bank account the cash should be posted to and keeps subsidiary ledgers of cash transactions and balances for each account.
- Treasury staff manually compares the daily accounting general ledger to the Treasury's daily cash ledger to identify discrepancies. After researching these, the Treasury staff communicates findings to departments.
- Treasury staff's process to prepare reports of reconciling items is partially automated through an access database; however, unmatched items are manually reviewed.



THE CITY OF SAN DIEGO  
MAYOR JERRY SANDERS

M E M O R A N D U M

DATE: April 25, 2008

TO: Eduardo Luna, Internal Auditor

FROM: Gail R. Granewich, City Treasurer  
Mary Lewis, Chief Financial Officer

SUBJECT: Response to Draft Internal Audit Report – *Cash Count and Bank Reconciliation Audit*

---

This memorandum responds to the Draft Internal Audit Report, *Cash Count and Bank Reconciliation Audit*, dated April 10, 2008. The purpose of the audit was to (1) verify revenues submitted to the City Treasurer at fiscal year ending June 30, 2007 were deposited at the bank and recorded in the correct fiscal year; and (2) confirm that management's short term plan effectively remediated the internal control deficiencies in the bank reconciliation process that were identified in prior audit reports.

The Draft Internal Audit Report concluded:

**The July 2, 2007 Cash Count Proved Satisfactory** – The count of Treasury cash and the fiscal year 2007 revenue collected by the Treasury cashier on June 30<sup>th</sup> and July 2 proved satisfactory . . . the revenue was properly recorded in the correct fiscal year. No audit recommendations were necessary related to the cash count performed.

**Interim Reconciliation Processes Are Operating Effectively** – Our audit work revealed that Treasurer staff performed bank reconciliations timely and accurately; and that differences between the general ledger and the bank were identified. Reconciliations were completed within 45 days of month end, the standard established by the City Treasurer, and . . . we found no errors on the monthly reconciliations. We also found that items not resolved within 60 days were immaterial.

Additionally, six recommendations were made to further strengthen internal controls. After careful consideration of these recommendations and in collaboration with the Comptroller and SDCERS where applicable, our responses to the audit recommendations are as follows:

*Audit Recommendation #1 – The City Treasurer should formalize in writing the Treasurer’s cash and reconciliation standards or policies and key controls that ensure policies are in place and effective. Retain policies in a central policy manual. As appropriate, communicate these policies to staff or City-wide.*

**Response:** Agree. The Office of the City Treasurer will formalize and centralize cash and reconciliation policies and procedures by September 30, 2008. In addition, cash handling policies and procedures will be communicated City-wide through a Cash Handling Training provided by City Treasurer staff and targeted to roll out during the training and implementation of the City’s new ERP system.

*Audit Recommendation #2 – The City Treasurer should document the supervisory review and approval process over bank reconciliations.*

**Response:** Agree. The City Treasurer’s supervisory staff reviews and approves all bank reconciliations monthly; this process will be clearly documented by September 30, 2008.

*Audit Recommendation #3 – The City Treasurer should prepare supplemental schedules at June 30 each year to enhance the clarity of the Bank to AMRIS reconciliation, pending the implementation of the Enterprise Resource Planning (ERP) system.*

**Response:** Agree. The Office of the City Treasurer will prepare supplemental schedules at June 30 each year to enhance the AMRIS to Bank reconciliation beginning fiscal year ending June 30, 2008.

*Audit Recommendation #4 – The Chief Financial Officer and the ERP Team should fully automate the cash receipt and reconciliation processes in the ERP system. Document the key controls in the automated system which will remediate the control weaknesses identified in the past. Additionally, reoccurring reconciling items should be clearly identified to ensure ERP is designed to minimize these.*

**Response:** Agree. The Chief Financial Officer supports the full automation of the cash receipt and reconciliation processes. We are currently working as a team to finalize ERP blueprints in both areas. As part of that process, we are documenting inefficiencies and reconciling issues in our current processes with the goal of minimizing any weaknesses by implementing the ERP system.

*Audit Recommendation #5 – The City Comptroller should create written procedures and identify the key controls in place that are used to verify the cash balances in the CAFR are accurate, beginning with the FY07 financial statements.*

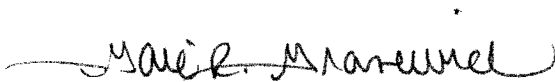
**Response:** Agree. The Comptroller is currently in the process of documenting period end financial reporting routines, including the year-end AMRIS to CAFR reconciliation process. The reconciliation process will be fully documented by September 30, 2008.

*Audit Recommendation #6 – SDCERS, in conjunction with the City Treasurer, should establish a separate SDCERS bank account as soon as legally possible.*

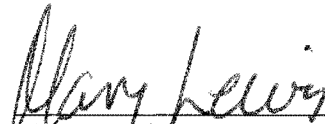
**Response [from SDCERS]:** Agree. Article IX, Section 144 of the City Charter provides that the Board of Administration has exclusive control of the administration of the retirement system funds, with the City Auditor and Comptroller having discretion to refuse retirement allowance payments in certain situations. As part of SDCERS' plans to implement its own general ledger and accounts payable module in January 2009, it is anticipated that two disbursement bank accounts will be opened by SDCERS from which to pay retirement checks and general operations accounts payable checks.

The Office of the City Treasurer, with assistance from the Comptroller and SDCERS, has accomplished its goal of reconciling AMRIS to the bank in an accurate and timely manner. Although our current processes are effective, we acknowledge further documentation of policies and procedures would clearly identify controls and their purpose as well as improve employee understanding and support for these processes.

Please contact us should you have any questions.



Gail R. Granewich  
City Treasurer



Mary Lewis  
Chief Financial Officer

GRG/ML/nlm

cc: Jay M. Goldstone, Chief Operating Officer  
Robbin Kulek, Treasury Operations Manager  
Greg Levin, Comptroller  
David B. Wescoe, SDCERS Administrator  
Mark Hovey, SDCERS Chief Financial Officer  
Elena Perez, ERP Project Manager