

TOWN OF GREENWICH INTERNAL AUDIT

Internal Audit Report Review of Internal Controls Over Cash, Petty Cash, and Client Assistance Handling in the Greenwich Department of Human Services

April 19, 2018

OBJECTIVE AND SCOPE:

The objective of this review was to evaluate existing internal controls over the accounting and safeguarding of cash, petty cash, and pre-paid client assistance cards (cash-equivalents) utilized in the Greenwich Department of Human Services (GDHS) Business Office (the Office), and to provide management recommendations as needed. The review was initiated after GDHS staff reported cash missing from the Office's safe. Internal Audit reviewed GDHS Office procedures in place as of July 2017.

BACKGROUND:

On July 5, 2017, GDHS staff discovered cash missing from a safe located in GDHS's Budget and Financial Systems Supervisor's (the Supervisor) office. The cash belonged to the Byram Archibald Neighborhood Center After-School Program (the BANC Program). Senior management immediately reported the missing cash to the Greenwich Police Department and a police investigation commenced. On August 29, 2017 the Supervisor confessed to the theft to police and was immediately placed on administrative leave by the Town. On September 13, 2017 the Supervisor was arrested and charged with second degree larceny (felony theft valued over \$5,000). The Supervisor was terminated from Town employment and the criminal case is currently pending in Stamford criminal court. Theft details, including amounts, have been withheld from this report pending final investigation and outcome of the case.

The BANC Program:

The BANC Program offers licensed after-school care to students attending New Lebanon Elementary School. The Program is operated on-site at the facility during the school year and is administered by GDHS under its Community Programs (CP). The CP offers an array of programs to support Greenwich residents meeting specific income eligibility guidelines. CP activities are supported by private donations, with the exception of the BANC Program. BANC Program activities are supported through the collection of pre-established registration fees and tuition from student families in exchange for after-school care.

In November 2016, Internal Audit completed a limited review of cash handling procedures employed by BANC Program staff on-site at the facility. During this time, the United Way of Greenwich functioned as CP's independent 501(c) fiduciary, ensuring donations would be tax deductible to its donors. It deposited CP's funds and, upon formal request, issued checks to pay program expenses. This arrangement worked well for CP except for when it came to the BANC Program. For successful day-to-day operations the BANC Program requires ready access to cash so it can continuously provide healthy snacks and furnish art and other activity supplies to its students. Its policy at that time was to retain all cash collected on-site for use to pay its regular operating expenses. Whenever cash on-site exceeded \$1,000, it was forwarded to the GDHS Business Office and stored in a plain envelope inside the safe in the Supervisor's office. BANC Program cash was also stored in the safe over the summer break. The Supervisor would distribute the cash back to the BANC Program upon formal, documented request. The BANC Program Director, not the Supervisor, was responsible for accounting for all BANC Program funds, including the cash retained both on and off site. The November 2016 review concluded that cash

controls on-site at the BANC Program were sound. The review did not involve interaction with either the Supervisor or the Business Office since its role as off-site custodian was outside of the scope.

In January 2017, The United Way of Greenwich announced it would no longer serve as CP's fiduciary. GDHS immediately began actively seeking a 501(c) replacement so CP could continue qualifying for tax deductible charitable gift donations. As of July 2017, GDHS management successfully established the *Greenwich Department of Human Services Fund, Incorporated* (the Fund). The Fund operates as its own independent 501(c) and enables CP to continue to offer charitable tax deductions to its donors while also offering more operating flexibility to CP itself. The BANC Program now manages its receipts and disbursements through the Fund's bank accounts and under its accounting procedures. No BANC Program cash is kept in the GDHS Business Office any longer.

METHODOLOGY:

On July 26, 2017, Internal Audit met with the Supervisor to obtain background information and details on the Office's internal controls over the reporting and safeguarding of cash and cash equivalents. Office documents were reviewed including petty cash reconciliations, purchase orders, and receipts, as well as manually completed inventory control sheets logging the distribution of pre-paid client assistance to GDHS case workers. On August 15, 2017, Internal Audit performed a "surprise" inventory of the contents of the safe in the Supervisor's office. The contents were counted and recorded in a spreadsheet, giving Internal Audit a definitive, point-in-time valuation from which to begin a forward accounting of its contents. On September 8, 2017, following the Supervisor's placement on administrative leave, Internal Audit returned to the Office to perform another inventory. Internal Audit then reconciled the August 15, 2017 inventory to this inventory to determine whether any discrepancies had arisen in the interim.

RESULTS:

Based on discussions with the Supervisor and other GDHS staff, it was learned that the Office did not separate duties among the custody, purchasing, reporting, and reconciling of petty cash and client assistance. All duties were performed by the Supervisor without any subsequent, third-party review. Controls over access to the safe located in the Supervisor's office were also determined to be lax. The safe was opened using both key and combination locks. Only the Supervisor knew the combination. The key was kept in the Supervisor's desk during business hours, or in a locking key safe after hours. When the Supervisor was on scheduled paid-time-off, she would set the combination dial so that other GDHS staff needed only the key to open it. When the Supervisor was out of the Office unscheduled, it was reported as often problematic for the staff to obtain all of the resources it needed. A small allotment of Client assistance cards is also kept in the Office in a small lock box held in the desk of the Supervisor's Administrative Assistant, as well as in locked desk drawers in the two Case Managers' offices. These were allotted in the event of an after-hour/weekend client emergency or if the Supervisor was unavailable. Internal Audit tallied these inventories as well and determined controls over distribution and accounting were adequate and subject to oversight by the Supervisor.

The Treasury Department authorizes a \$400 petty cash imprest fund to GDHS for its use in making small disbursements. Most of the disbursements reviewed were for GDHS clients needing emergency cash to meet expenses. Town petty cash policies were followed, expenditures were receipted, and no material discrepancies were noted. As of the date of this report the imprest balance has been reduced from \$400 to \$300 by request of the GDHS Commissioner.

Internal Audit’s reconciliation of the safe inventories performed on August 15, 2017 and September 8, 2017, adequately explained and accounted for all differences occurring from official Office activities in the interim.

Table 1 below shows the types and amounts of client assistance contained in the safe as of September 8, 2017.

TABLE 1:

| VENDOR | Unit Value | Number of Units | Total Value |
|--|-------------------|------------------------|--------------------------|
| Acme grocery stores | \$25.00 | 1 | \$25.00 |
| COSTCO (BANC Program) | \$100.00 | 5 | \$500.00 |
| Shop-Rite grocery stores | \$25.00 | 60 | \$1,500.00 |
| Shop-Rite grocery stores | \$50.00 | 21 | \$1,050.00 |
| Exxon gas stations | \$25.00 | 5 | \$125.00 |
| Shell gas stations | \$25.00 | 18 | \$450.00 |
| All Day Bus Pass– CT Transit | \$3.50 | 75 | \$262.50 |
| Dial-a-Ride-Transportation Association of Greenwich | \$5.00 | 155 | \$775.00 |
| Easy Access -Transportation Association of Greenwich | \$3.50 | 110 | \$385.00 |
| Share-the-Fare – Greenwich Taxi | \$1.00 | 540 | \$540.00 |
| <u>TOTAL</u> | | | <u>\$5,612.50</u> |

Internal Audit compared the client assistance physical inventory to the manually completed inventory control sheets used to log its distribution to case managers. These sheets were generated by the Supervisor when new lots of client assistance were purchased. Upon receipt, the Supervisor would list each individual card, identified by its unique, sequential serial number imprinted on it from the vendor, in a spreadsheet. Columns and rows were included so that the subsequent distribution date, client name, and the case manager signature could be manually input. As a result of this review, Internal Audit identified that two Shell gas station cards, valued at \$25 each, were not logged as distributed on the inventory control sheet and were not physically present in the safe. The reason for the discrepancy was never determined.

CONCLUSION:

The Office did not adequately separate duties between the custody, purchasing, recording, reporting and reconciling of client assistance and petty cash coupled with its approach to Office safe access and security created an environment where the Supervisor could potentially divert petty cash and client assistance cards to personal use and cover the theft by altering the records. As of

this date however, all BANC Program monies are now deposited and managed by the Fund and independent of the GDHS Business Office.

ACKNOWLEDGEMENTS:

Internal Audit wishes to express its appreciation for the cooperation and assistance extended to it by GDHS personnel during the course of this review.

OBSERVATIONS AND MANAGEMENT RECOMMENDATIONS:

Condition: Employee criminally charged with diverting Greenwich Department of Human Services (GDHS) assets to personal use.

Root Cause: Inadequate internal controls in the GDHS Business Office spanning three key operating areas.

Control Area 1: Physical Security and Custody of Assets:

- a. Safe used to secure assets was located in employee's office and accessible via a key and combination available only to that employee.
- b. Entire inventory of pre-paid client assistance contained in safe along with imprest petty cash fund and excess Byram Archibald Neighborhood Center (BANC) after-school program monies.

Management Recommendation 1:

- a. GDHS to acquire new, fireproof safe with battery powered digital lock and access tracking features to hold its imprest petty cash fund and a small, operating supply of client assistance.
- b. New safe to be secured in a locked closet with limited access just outside the Business Office area.
- c. GDHS to transfer custody of existing client assistance inventory to the Town's Finance Department (Treasury) for safekeeping, inventory logging and tracking, and distribution to GDHS business office employees.
- d. As of July 2017 all BANC Program money is now deposited and managed by the Fund.

Management Implementation Plan/Date 1:

- a) **Completed:** In February 2018, GDHS has acquired a new, fireproof safe with battery powered digital lock and access tracking features to hold its imprest petty cash fund and a limited supply of client financial assistance food/gas cards.
- b) **Completed:** In October 2017, the existing safe was relocated in the department's administrative area, outside of the Business Office, in a locked closet with limited staff access. The newly acquired safe, replacing the previous, will be operational when new Business Office Manager begins employment on March 5, 2018.
- c) **Completed:** In September 2017, the existing client financial assistance inventory consisting of: food cards, gas cards, taxi chits and bus passes is now in the Finance Department safe.
- d) **Completed:** As of July 2017, the GDHS Fund Board is operating and all BANC funds are in a GDHS Fund bank account.

Control Area 2: Separation of Employee Duties:

- a. Single individual was responsible for the purchase, custody, recording, tracking, and distributing client assistance.
- b. Same individual also responsible for custody, recording, reconciling and replenishment of petty cash fund.
- c. No reconciliations of records to petty cash and client assistance on-hand were ever performed by an employee outside the Business Office.
- d. Extending this amount of control to one individual with no additional oversight to compensate allows the person to easily conceal theft by altering the records.

Management Recommendation 2:

- a. Responsibilities over petty cash and pre-paid client assistance accounting cycles will now be separated among the Town's Finance Department, two GDHS Business Office employees, Employee 1 and Employee 2, and one GDHS Administrative Assistant, Employee 3.
- b. New acquisitions of pre-paid client assistance will be turned over to the Finance Department upon receipt. The Finance Department will be responsible for the custody, inventory recordkeeping and tracking, and the periodic distribution to the GDHS business office employees. Employee 1 will assume primary custody of the pre-paid client assistance and petty cash maintained on-site in GDHS. Employee 2 will act as back-up when Employee 1 is not available.
- c. Employee 2 will use individual, standardized, transmittal forms to record, by serial number, each type and amount of pre-paid client assistance inventory maintained in the Office. Each form will be kept bundled around the related pre-paid assistance in the safe.
- d. Employee 1 will distribute pre-paid client assistance and petty cash in GDHS upon written request. Each distribution will be recorded on the related transmittal form and include the client's name and be signed by the case worker and/or case manager.
- e. Employee 1 will give the written requests to Employee 2 for safeguarding in Business Office records.
- f. Employee 1 will give completed transmittal forms to Employee 2 for safeguarding in Business Office records.
- g. Distributions of petty cash will be receipted by Employee 1 using a pre-printed, two copy receipt book. One copy will be retained by Employee 2, and the second copy kept in the petty cash box until submitted to the Finance Department for reimbursement by Employee 2.
- h. New purchases of pre-paid client assistance will be prepared by Employee 2.

Control Area 2 (continued): Management Implementation Plan/Date 2:

The below changes have been in practice since September 2017:

- a) **Completed:** As recommended by the audit, the responsibilities over petty cash and pre-paid client financial assistance accounting cycles is separated among the Town's Finance Department, the two business office staff and the Commissioner's Assistant.
- b) **Completed:** New acquisitions of pre-paid client financial assistance is housed in the Finance Department's safe. The DHS business office Administrative Staff Assistant works with the Finance staff on maintaining the custody, inventory, recordkeeping and tracking of Client Financial Assistance.
- c) **Completed:** The DHS Business Office Manager uses a transmittal form to record the serial numbers for any Client Financial Assistance maintained in the Finance Department office.
- d) **Completed:** The Business Office Administrative Staff Assistant distributes the pre-paid client financial assistance and petty cash based on request and approval process. Each distribution is recorded and recorded on the transmittal form and includes the client's name is signed by the case manager.
- e) **Completed:** The Business Office Administrative Staff Assistant gives the written request to the Business Office Manager for filing in the business office records.
- f) **Completed:** The Business Office Administrative Assistant gives the completed transmittal forms to the Business Office Manager for filing in the business office records.
- g) **Completed:** The Business Office Administrative Assistant distributes petty cash and a receipt is created using a pre-printed, two-copy receipt book. One copy will be retained by the Business Office Manager and the second copy kept with petty cash until replenishment from Finance is needed.
- h) **Completed:** The Business Office Manager prepares new pre-paid client financial assistance purchases.

Control Area 3: Independent Spot Inventory and Reconciliations:

- a. No one independent of the Business Office performed regular reconciliations of petty cash and pre-paid client assistance contained in the safe to the supporting records.
- b. No one independent of the Business Office ever conducted unannounced, spot safe inventory.
- c. The performance of regular reconciliations by persons outside the Business Office helps detect irregularities and errors on a timely basis for further investigation and/or correction.
- d. Performing regular reconciliations and conducting surprise, spot inventories act to deter employee fraud and defalcation.

Management Recommendation 3:

- a. Employee 3, independent of the Business Office, will perform monthly reconciliations of safe inventory maintained by Employee 1 to the records kept by Employee 2. Employee 3 will document the performance of each reconciliation as well as document and explain all differences.
- b. Employee 3 will retain the documented reconciliations in their records.
- c. Employee 3 will also periodically perform an unannounced, “spot” inventories of safe contents and document the work and retain in their records.

Management Implementation Plan/Date 3:

- a) **Completed:** Beginning in September, 2017, the Commissioner’s Assistant has been completing monthly reconciliations of the safe inventory maintained by the Business Office Administrative Staff Assistant.
- b) **Completed:** The Commissioner’s Assistant retains documentation of these reconciliations.
- c) **Completed:** The Commissioner’s Assistant has performed the following reconciliations:

September 8, 2017 – Monthly
September 22, 2017 – Unannounced
October 4, 2017 – Monthly
October 19, 2017 – Unannounced
November 22, 2017 – Monthly
December 27, 2017 – Monthly
January 24, 2018 – Monthly
February 27, 2018 – Monthly

The Department of Human Services Board approved a Business Office Internal Control/Security Policy and Procedures on November 20, 2017.