

**CITY OF LOS ANGELES**  
INTER-DEPARTMENTAL CORRESPONDENCE

**DATE:** September 20, 2016

**TO:** Claire Bartels, Director  
Office of Finance

**FROM:** Georgia Mattera, Chief Deputy Controller  
Office of the Controller



**SUBJECT: LIMITED FISCAL REVIEW AT THE OFFICE OF FINANCE**

The Controller's Office conducted surprise cash counts at five of the Office of Finance (Finance) locations. The purpose of surprise cash counts is to ensure that collections and authorized petty cash/change funds are accounted for properly and adequate controls are in place over these funds. We also conducted a limited payroll review, which entailed an analysis of hours worked, overtime, bonuses, and mileage reimbursement for pay period 21, to ensure payments to sampled employees were properly supported.

Our audit was performed 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.

Overall Results

Our findings indicated that petty cash, change funds, and collections were properly accounted for and deposits were timely. Finance has adequate internal controls to ensure that reimbursements/disbursements are appropriate, authorized, and reconciled to the associated bank accounts; however, management should ensure that fund Accountability Receipts and fiscal policies are kept up to date. Regarding payroll, we found that the hours worked, overtime, bonuses, and mileage reimbursements paid were properly documented and are supportable. However, controls could be enhanced by maintaining parking authorization forms in the eligible employees' file and verifying home to headquarter (HHQ) mileage reported on Insurance Indemnity Card information.

### Department Response

A draft report was provided to your Department on August 23, 2016, and a Finance representative indicated general agreement with the findings and recommendations. Based upon the Action Plan you submitted to our Office on September 9, 2016, included as an attachment to this Report, we consider the four recommendations Implemented.

We appreciate the cooperation and assistance provided by Finance management and staff during our review.

### **OBSERVATIONS**

#### **Cash Handling**

It is the responsibility of each City Department to have effective controls to properly account for and safeguard cash and collections and, deposit all collections in a timely manner. Departments must develop cash handling procedures for their specific operations that reduce the risk of errors and irregularities and incorporate good internal controls, including segregation of duties. Department management should monitor compliance with these procedures.

Cash is defined as coin, currency, checks, electronic fund transfers, and credit card transactions. All cash received by any employee of the City for, or in connection with, the business of the City, shall be deposited with Finance or a City bank account.

Finance collects revenue from various sources including taxes, licenses, fees and permits which pay for numerous essential municipal services provided to City residents and businesses. Collections are received at its public counters (Monday through Friday), with checks deposited daily (through desktop deposit) into the City's Treasury bank account. Cash collections are picked up by armored truck and also deposited daily into the Treasury bank account.

Finance has five cash handling locations that include six \$200 change funds, three \$2,000 change funds and one \$10,000 cash drawer. Finance also has two revolving petty cash funds, with the authorized bank accounts totaling \$3,225 and cash on hand totaling \$900. These funds are used to make change and small unplanned purchases covering items of expenses, incidental services, materials and supplies.

During our surprise cash counts, we counted \$26,465 consisting of cash, coins and checks. This amount represented change funds of \$17,200, petty cash funds of \$900, and collections of \$8,365. No shortages or overages of petty cash/change funds were identified.

**Observation#1: Formal accountability for petty cash/change funds and timely updates to fiscal policies should be improved.**

Internal controls surrounding the two petty cash funds were sound. However, our review identified a newly assigned petty cash/change fund custodian who had not completed an Accountability Receipt. Upon notification to Finance's management, the custodian completed the required receipt and formally acknowledged responsibility for the funds.

We also identified a petty cash fund reimbursement (\$345) for food provided during a Department-wide staff meeting that exceeded Finance's stated policy reimbursement threshold of \$300. According to Finance's management, the policy should have reflected the revised \$500 threshold. Finance management indicated the policy has now been formally updated.

It also appears that the \$2,000 petty cash fund that is solely used to pay the Sheriff Department to serve subpoenas is insufficient. The subpoenas to appear at Small Claims Court are served to individuals with unpaid debts owed to the City. We noted that the account balance fell significantly below the replenishment threshold during the time period reviewed. Specifically, on March 16, 2016, the account balance reduced to zero after processing 15 check disbursement requests, and on May 5, 2016, the account balance reduced to \$160 after processing 14 check disbursement requests. According to Finance's management, this petty cash fund is new (January 2016), and the account balance will be monitored to determine if an increase is justified.

**Recommendations**

**Finance Management should:**

- 1.1 Ensure that designated petty cash/change fund custodians sign an Accountability Receipt, formally acknowledging responsibility for the funds.**

**1.2 Ensure all petty cash reimbursements are within the authorized allowable thresholds established by Finance's policies, the Controller's Manual, and the Los Angeles Administrative Code.**

**Payroll**

It is the responsibility of each Department to ensure accurate timekeeping and timely processing of payroll documents for its employees.

We conducted a payroll observation and testing of hours worked, overtime, bonuses, and mileage reimbursement paid to 20 employees. All hours worked, overtime, and bonuses received were properly supported. However, the review identified the need to periodically verify parking authorization and employee-reported indemnity card information.

**Observation#2: Retention of employee parking authorization forms and verification of reported HHQ Mileage is warranted.**

To receive reimbursement for parking, new employees assigned to a position requiring the use of their personal vehicle are required to complete the Citywide Commute Options & Parking Section Form, which is approved by the employee's supervisor and Finance's Personnel Officer. Upon approval, this Form is submitted to the Personnel Department's Commute Options and Parking Section. Finance's Payroll Section and Personnel Division do not keep copies of this Form or periodically verify that employees remain authorized to receive parking reimbursement. Finance contacted the Personnel Department's Employee Benefit Division to request copies of the approved Forms for the 20 mileage employees sampled, but only one was found. To address this issue, Finance management now requires the Forms for new employees to be filed with the employees' mileage documentation.

To be eligible for mileage reimbursement, Finance requires employees to complete indemnity insurance cards, which also documents their HHQ miles, driver's license expiration, and insurance coverage and expiration. Employees submit these indemnity insurance cards directly to Finance's Payroll Section for data input into the City's Payroll System (PaySR). If there are any changes in the HHQ mileage, driver's license or insurance coverage information, the employee is required to submit a revised indemnity insurance card directly to Finance's Payroll Section. Although Finance requires supporting documentation for reported insurance coverage and driver's license

information, it does not verify the reported HHQ mileage which could result in an employee being overpaid mileage if the HHQ information is underestimated.

Upon discussing this concern with Finance's management, the mileage submission requirements were enhanced. As of July 5, 2016, employees and immediate supervisors must validate all information submitted on bi-weekly Mileage Statement Forms. If there is a home address change, supporting documents (e.g., google maps, mapquest) reflecting the number of miles must be submitted to Finance's Payroll Section. If an employee's insurance or driver's license has expired, a photocopy of the new insurance declaration page or license must be submitted. These new requirements enhance existing controls when changes to reported information, such when an employee moves. However, an additional control to validate the initial HHQ mileage submitted on the indemnity insurance card is also warranted.

### **Recommendations**

#### **Finance Management should:**

- 2.1 Ensure newly approved employee parking reimbursement forms are maintained in the eligible employee's file.**
- 2.2 Validate the employee-reported HHQ mileage information on indemnity insurance cards.**

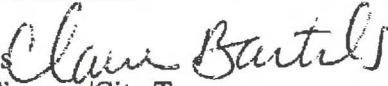


**ATTACHMENT - DEPARTMENT'S RESPONSE**

**CITY OF LOS ANGELES  
INTERDEPARTMENTAL CORRESPONDENCE**

**DATE:** September 9, 2016

**TO:** Siri Khalsa, Interim Director of Auditing  
Office of the Controller

**FROM:** Claire Bartels   
Director of Finance/City Treasurer  
Office of Finance

**SUBJECT: RESPONSE TO "LIMITED SCOPE FISCAL REVIEW AT THE  
OFFICE OF FINANCE"**

In response to the above-entitled report, attached is the proposed action plan that the Office of Finance is taking to address your recommendations.

If you have additional questions, please contact Todd Bouey, Assistant Director of Finance at (213) 978-1779 or Tiffany Liaw, Acting Departmental Chief Accountant at (213) 978-1742.

**cc:** Georgia Mattera, Chief Deputy Controller  
Todd Bouey, Assistant Director of Finance  
Chris Herrera, Director of Cash Management Service  
Tiffany Liaw, Acting Departmental Chief Accountant

Recommendations	Action Plans	Implementation
1.1 Ensure that designated petty cash/change fund custodians sign an Accountability Receipt, formally acknowledging responsibility for the funds.	All of the custodians' signed Accountability Receipts were on file at the time of audit except for one. The required form was completed during the audit. The respective Division Heads ensure that designated petty cash/change fund custodians sign an Accountability Receipt when the duty is first assigned.	June 2016
1.2 Ensure all petty cash reimbursements are within the authorized allowable thresholds established by Finance's policies, the Controller's Manual, and the Los Angeles Administrative Code.	Finance's petty cash policy has been updated and provided to the auditor during the audit to reflect the reimbursement threshold of \$500. As such, all petty cash reimbursements are within the authorized allowable thresholds established by Finance's policies, the Controller's Manual, and the Los Angeles Administrative Code.	Finance Policy has been updated in July 2016.
2.1 Ensure newly approved employee parking reimbursement forms are maintained in the eligible employee's file.	Effective August 2016, copies of the newly approved Citywide "Mileage Parking Permit Justification" forms will be provided from Personnel to Finance Payroll Section to be filed with each employee's mileage file.	August 2016
2.2 Validate the employee-reported HHQ mileage information on indemnity insurance cards.	A memo regarding Mileage Submission Requirements was issued on July 5, 2016 to remind mileage employees of their responsibilities in providing updated and accurate information for the auto indemnity card. If there is a home address change, supporting documents (e.g., Google Maps, Mapquest) reflecting the number of miles must be submitted to Finance's Payroll Section. Employees and immediate supervisors must validate all information submitted on bi-weekly Mileage Statement Forms.	July 2016