

**COUNTY OF SACRAMENTO
CALIFORNIA**

For the Agenda of:
January 24, 2017
“*Communications Received and Filed*” Item

To: Board of Supervisors
From: Department of Finance
Subject: Consolidated Utilities Billing And Service Cash Handling Review – For The
Period Of January 1, 2016 To March 31, 2016
Supervisory District: All
Contact: Joyce Renison, Assistant Auditor-Controller, 874-7248

RECOMMENDATION

Receive and file the attached agreed-upon procedures report, *Consolidated Utilities Billing And Service Cash Handling Review – For The Period Of January 1, 2016 to March 31, 2016*

Respectively submitted,

Ben Lamera
Director of Finance

Attachment 1: Consolidated Utilities Billing And Service Cash Handling Review – For
The Period Of January 1, 2016 to March 31, 2016

**COUNTY OF SACRAMENTO
INTERNAL SERVICES
DEPARTMENT OF FINANCE
AUDITOR-CONTROLLER**

Intra-Departmental Correspondence

November 28, 2016

To: Ben Lamera
Director of Finance

From: Hong Lun (Andy) Yu, C.P.A.
Audit Manager



Subject: **CONSOLIDATED UTILITIES BILLING AND SERVICE CASH HANDLING REVIEW – FOR THE PERIOD OF JANUARY 1, 2016 TO MARCH 31, 2016**

We have performed the procedures enumerated below for the County of Sacramento, Department of Finance, Consolidated Utilities Billing and Service (CUBS). These procedures were performed solely to evaluate CUBS's cash handling control procedures for the period of January 1, 2016 to March 31, 2016. CUBS's management is responsible for maintaining sufficient cash handling controls for CUBS. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. This report is applicable solely to procedures referred to below and is not intended to pertain to any of CUBS's other operations, procedures, or compliance with laws and regulations. The procedures we performed are summarized as follows:

- We reviewed CUBS's cash handling procedures.

Finding: We noted several concerns related to CUBS's cash handling procedures. See Attachment III, *Current Findings and Recommendations*.

- We reconciled daily deposits and cash on hand to the amounts reported on the Sacramento County Financial System (aka COMPASS).

Finding: The daily deposit did not reconcile to COMPASS. See Attachment I, *Summary of Deposits and Imprest Cash Counted* and Attachment III, *Current Findings and Recommendations*.

- We reconciled imprest cash on hand to the authorized amounts posted in COMPASS.

Finding: Imprest cash on hand agreed to the approved amount of \$900. See Attachment I, *Summary of Deposits and Imprest Cash Counted*.

- We determined the current status of findings and recommendations reported on CUBS prior cash handling review report for the month of March 2013, dated April 1, 2014.

Finding: The current status of the prior findings and recommendations for CUBS is at Attachment II, *Current Status of Prior Findings and Recommendations*.

We were not engaged to, and did not perform an audit or examination, the objectives of which would be the expression of opinions on CUBS's cash balances, financial schedules, compliance, or results of our procedures referred above. Accordingly, we do not express such opinions. This report relates only to the review of CUBS's cash handling procedures, and does not extend to CUBS's operations as a whole. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

CUBS's responses to the findings identified during our engagement are described in Attachment III, *Current Findings and Recommendations*. We did not perform procedures to validate CUBS's responses to the findings and, accordingly, we do not express an opinion on the responses to the findings.

This report is intended solely for the information and use of the Sacramento County Board of Supervisors, Sacramento County Treasurer, and CUBS's management. It is not intended to be and should not be used by anyone other than these specified parties. However, this restriction is not intended to limit distribution of this report, which is a matter of public record.

Attachments

Attachment I: *Summary of Deposits and Imprest Cash Counted*

Attachment II: *Current Status of Prior Findings and Recommendations*

Attachment III: *Current Findings and Recommendations*

cc: Members, Board of Supervisors
Assistant County Executive
David Villanueva, Chief Deputy County Executive
Britt Ferguson, Chief Financial Officer
Wendy Randolph, Chief, CUBS
Peggy Marti, Assistant Treasurer

COUNTY OF SACRAMENTO
DEPARTMENT OF FINANCE
CONSOLIDATED UTILITIES BILLING AND SERVICE
CASH HANDLING REVIEW
JANUARY 1, 2016 THROUGH MARCH 30, 2016
SUMMARY OF DEPOSITS AND IMPREST CASH COUNTED

DEPOSITS

<u>Deposit Permit Number</u>	<u>Deposit Date</u>	<u>Amount Tested</u> ⁽¹⁾	<u>Amount Posted by CUBS</u> ⁽³⁾	<u>Amount Posted by Treasury</u> ⁽²⁾	<u>Variance</u> ⁽⁴⁾
1300586814	02/02/2016	\$ 189,504.73	279,903.21	279,903.21	0.00
1300592011	03/16/2016	0.90	0.00	0.90	0.90
1300592022	03/17/2016	8,653.99	44,024.55	41,896.35	(2,128.20)
1300592040	03/17/2016	194.99	194.99	194.99	0.00
1300592050	03/17/2016	5,035.02	54,884.95	54,884.95	0.00
1300591634	03/18/2016	21,281.44	21,281.44	21,281.44	0.00

IMPREST CASH

<u>Imprest Cash Location</u>	<u>Date Counted</u>	<u>Imprest Cash Counted</u>	<u>Authorized Amount</u>	<u>Variance</u>
Cashier Drawer 1	03/15/2016	\$ 300.00	300.00	0.00
Cashier Drawer 2	03/15/2016	300.00	300.00	0.00
Safe	03/15/2016	300.00	300.00	0.00
Total		<u>\$ 900.00</u>	<u>900.00</u>	<u>0.00</u>

- (1) Amounts represent daily receipts recounted from review of checks, cash, and summary reports.
- (2) Daily receipts were agreed to amounts reported on the Sacramento County Financial System (a.k.a. COMPASS).
- (3) Amount was posted by CUBS for the Department of Waste Management and Recycling commercial DARP (Dump Accounts Receivable Program) accounts. CUBS receives and processes the payments on behalf of the Department of Waste Management and Recycling to its General Ledger.
- (4) Deposit was created by County Treasury to correct an incorrect payment posting by CUBS into its billing system. The actual payment totaled \$310.03 while CUBS incorrectly posted a payment of \$310.93, a variance of \$0.90 (\$310.93-\$310.03). See Finding Number 6 in Attachment III, *Current Findings and Recommendations*.
- (5) Visa and Master Card credit card transactions from the detailed daily transaction reports from March 15, 2016, totaling \$44,024.55 could not be agreed to the deposit into the County Treasury, totaling \$41,896.35 on March 17, 2016. The variance in the amount of \$2,128.20 could not be reconciled as CUBS does not reconcile payments between its detailed daily transaction reports and the Treasury postings. See Finding Number 7 in Attachment III, *Current Findings and Recommendations*.

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DEPARTMENT OF FINANCE
CONSOLIDATED UTILITIES BILLING AND SERVICE
CASH HANDLING REVIEW
JANUARY 1, 2016 TO MARCH 31, 2016
CURRENT STATUS OF PRIOR FINDINGS AND RECOMMENDATIONS

**FROM THE PRIOR CASH HANDLING REVIEW REPORT FOR THE MONTH OF
MARCH 2013, DATED APRIL 1, 2014**

Mail Receipt Control Log

Prior Comment

The Department of Finance, Consolidated Utilities Billing Service (CUBS) receives payments through the mail from its customers. Mail payments received at CUBS's office (9700 Goethe Road) were opened and posted to customer accounts by one staff member. The staff member did not prepare a mail receipt control log or a summary sheet to track all payments received through the mail. Also, the function of opening and processing mail payments was not performed in a secured location.

CUBS transferred payments received from customers to the County Treasury for processing daily. Payments and corresponding payment stubs were transferred to the County Treasury in locked bags. Because CUBS did not prepare and include a mail receipt control log or a summary sheet with payments transferred to the County Treasury, payments could go missing without being noticed, and CUBS was unable to reconcile customer payments received to customer payments transferred to the County Treasury.

Prior Recommendation

We recommended CUBS prepared a mail receipt control log or summary sheet to track all checks and other forms of payment received through the mail daily. When payments are received by CUBS, they should be opened in the presence of two individuals under a security camera and logged immediately. The log should include the name of the payee, the amount, and when the check was sent to the County Treasury. Before the payments were transferred to the County Treasury, mail payments should be reconciled to the mail receipt control log or summary sheet, which should then be signed by the staff members performing the reconciliation. Two copies of the mail receipt control log or summary sheet should then be placed with the payments and corresponding payment stubs in the locked bags, which were then sent to the County Treasury daily processing. Once the County Treasury received the deposit, CUBS should request the County Treasury to recount the payments and verify the information on the mail receipt control log or summary sheet, sign the original mail receipt control log or summary sheet, and return it to CUBS. Then, the deposit should be reconciled to the County Treasury's posting and confirmed to the mail receipt control log.

Prior Management's Response

This recommendation has been instituted for all checks received through US Mail and special courier.

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**FROM THE PRIOR CASH HANDLING REVIEW REPORT FOR THE MONTH OF
MARCH 2013, DATED APRIL 1, 2014 (CONTINUED)**

Current Status

It appears our recommendation has not been implemented. See Attachment III, *Current Findings and Recommendations*.

Suspense Account

Prior Comment

CUBS did not use a suspense account to hold customer payments received through the mail that require further research in order to determine how to apply the payments. A suspense account is a temporary holding account for customer payments whereby further determination is needed as to where and how to apply the payments. Once a determination was made as to where to apply the payments, monies were transferred from the suspense account and posted to the proper account or returned to the customer. CUBS' current practice was to return payments to customers if a determination cannot be made as to where to apply the payments. CUBS returned checks that were mailed to them incorrectly (mailed to the wrong organization), the amount noted on the check was not legible, and where to apply the payment could not be determine because payment information is not included with the check. And, as previously noted in the *Check Control* finding, CUBS did not prepare a mail receipt log or summary sheet to track payments received through the mail. Therefore, CUBS did not track payments mailed back to customers. Hence, CUBS was potentially exposing itself to the risk of losing customer payments and being unaware that such payments are missing. A suspense account would allow CUBS to hold customer payments until discrepancies concerning the payments can be resolved.

Prior Recommendation

We recommended CUBS used a suspense account for customer payments that require further research. CUBS should use COMPASS general ledger account #250100 (Customer Cash Clearing) to hold customer payments until discrepancies can be resolved. We further recommended CUBS logged all checks received as noted in the *Check Control* finding. Payments that could not be deposited into a suspense account because the checks were either not legible or mailed to CUBS incorrectly should be noted in the check control log so they can be tracked before being mailed back to customers. In addition, CUBS should update its cash handling policies and procedures regarding the use of a suspense account.

Prior Management's Response

A 2-month review of the checks received through the mail but returned for various reasons has shown that approximately 64% of these checks should not or cannot be cashed by County of Sacramento (account closed, not made payable to County of Sacramento, no signature, written

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MARCH 2013, DATED APRIL 1, 2014 (CONTINUED)**

amount missing, etc.). This leaves approximately 15-20 checks returned in a month because we are unable to identify an account for posting.

Additionally, CUBS is not exposed to losing customer payments or being unaware that such payments are missing as the customer's statement in the following billing period would show non-payment, generating customer inquiry regarding that payment. The customer will most likely be aware prior to the future invoice that their check had not been cashed, again generating customer inquiry. If CUBS were to cash the check but the payment is never identified for proper posting, the likelihood of the funds being returned to the original check maker is highly unlikely due to the time elapsed and lack of contact with the customer.

It is management's opinion that the time commitment to establish a process and monitor this account does not justify the minimal risk of lost payments that are returned for the above mentioned reasons. The charges for which those payments were made will remain on the account until valid payments are received. If the account remains delinquent, the delinquent amounts plus penalties are transferred to the secure tax bills in August of each year.

Current Status

It appears that our recommendation has not been implemented. See Attachment III, *Current Findings and Recommendations*.

Mail Slot

Prior Comment

CUBS did not provide a lock box for customers to make after hours payments. Instead, there was a mail slot for receiving after hours payments. Customer payments submitted through the mail slot were left on the floor, unsecured, until the first person arrived in the morning to gather the payments. However, CUBS is currently remodeling its business office to include a lock box. Building modifications were scheduled to be completed in June 2013.

Prior Recommendations

We recommended CUBS continued to include a lock box as part of its building improvements. We further recommended CUBS assigned authorized personnel to access the lock-box and update their cash handling procedures to reflect the changes. Until a lock box was installed, CUBS should designate an individual to be responsible for picking up mail payments submitted through the mail slot and preparing a receipt log before forwarding the payments to cashiering for processing.

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**FROM THE PRIOR CASH HANDLING REVIEW REPORT FOR THE MONTH OF
MARCH 2013, DATED APRIL 1, 2014 (CONTINUED)**

Prior Management's Response

A lock box has been installed near the new CUBS entrance and CUBS has been using it since June 2013.

Current Status

It appears our recommendation has been implemented.

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CURRENT FINDINGS AND RECOMMENDATIONS

CURRENT FINDINGS

1. Receipt Control Logs

Comment

The Department of Finance, Consolidated Utilities Billing Service (CUBS) receives payments in person, mail, special couriers (Federal Express, United Parcel Service), online, phone, and after hours lock box. Payments received from special couriers and lock box are opened, processed, and posted to customer accounts by one employee. The employee does not prepare a receipt control log or a summary sheet to track payments received from special couriers or the lock box.

As CUBS does not prepare and include a receipt control log or a summary sheet for special courier or lock box payments, payments could go missing without being noticed, and CUBS would be unable to reconcile customer payments received to customer payments processed.

Recommendation

We recommend CUBS prepare a receipt control log or summary sheet to track all payments received from special couriers and lock box. When payments are received by CUBS, they should be opened in the presence of two individuals under a security camera and logged immediately. The log should include the name of the payee, the amount, and when the check was sent to the County Treasury. Before the payments are transferred to the County Treasury, payments should be reconciled to the receipt control log or summary sheet, which should then be signed by the staff members performing the reconciliation.

CUBS's Management's Response

The lock box and special courier payments are considered over the counter payments. These payments are opened and posted immediately to the customer's account under the security cameras. CUBS uses live security cameras to monitor cash activities daily.

At the end of each business day, all over the counter payments are reconciled to the summary sheet, which is signed by the staff performing the reconciliation.

It is management's opinion that the time commitment to open these payments in the presence of two individuals and preparing a separate receipt control log, does not justify the minimal risk of lost payments for above mentioned reasons.

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2. Suspense Account

Comment

CUBS does not use a suspense account to hold customer payments received through the mail that require further research in order to determine how to apply the payments. A suspense account is a temporary holding account for customer payments whereby further determination is needed as to where and how to apply the payments. Once a determination is made as to where to apply the payments, monies are transferred from the suspense account and posted to the proper account or returned to the customer. CUBS's current practice is to return payments to customers if a determination cannot be made as to where to apply the payments. CUBS returns checks that were mailed to them incorrectly (mailed to the wrong organization), the amount noted on the check is not legible, and/or where to apply the payment cannot be determined because payment information is not included with the check.

During our review, we noted that one check payment in the amount of \$165.07 had no signature on the check. No record of the payment being received was documented as the payment was neither logged nor recorded as received at CUBS. The payment was subsequently returned to the customer. Per inquiry with a Utility Billing Services Representative at CUBS, up to four payments per day are received which has to be returned to the senders. CUBS is potentially exposing itself to the risk of losing customer payments and being unaware that such payments are missing. A suspense account would allow CUBS to hold customer payments until discrepancies concerning the payments can be resolved.

Recommendation

We recommend CUBS use a suspense account for customer payments that require further research. CUBS should use the Sacramento County Financial System (a.k.a. COMPASS) general ledger account #250100 (Customer Cash Clearing) to hold customer payments until discrepancies can be resolved. We further recommend CUBS log all checks received as noted in Finding Number 1, *Receipt Control Log*. Payments that cannot be deposited into a suspense account because the checks are either not legible or mailed to CUBS incorrectly should be noted in the check control log so they can be tracked before being mailed back to customers. In addition, CUBS should update its cash handling policies and procedures regarding the use of a suspense account.

CUBS's Management's Response

Payments requiring research is researched the same day and either the correct account is identified or the check is returned. The process to document checks that have been returned on a receipt control log has been implemented. Due to the fact that checks are either identified or returned the same day, management does not see the need to send any payments to the COMPASS suspense account.

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3. Check Endorsement

Comment

During our review of mail-in payments received and processed by CUBS for CUBS and Department of Waste Management and Recycling (DWMR) commercial accounts, we noted checks received by mail were not restrictively endorsed immediately upon receipt. By not restrictively endorsing checks immediately upon receipt, theft or misappropriation of funds could occur and not be detected in a timely manner.

Recommendation

We recommend that CUBS restrictively endorse all checks upon receipt.

CUBS's Management's Response

This recommendation has been implemented for all checks upon receipt.

4. Cash Handling Security

Comment

During our review of the cash handling operations, we noted several security issues described below.

- I. The cash safe is located in a locked storage room with room access granted to CUBS's accounting unit, supervisors, and managers. CUBS's supervisors, managers, and one Utility Billing Service Representative having access to the safe, with one person required to open the safe. During our observation, we noted the cash safe was unlocked. Accounting staff with access to the storage room but not authorized access to the safe could open the safe if left unlocked. Also, without a second individual present when opening the safe, theft or misappropriation of funds could occur.
- II. The deposit bag for the daily armored transport to County Treasury was stored on an unsecured counter, in view of CUBS employees and customers, while waiting for its daily pickup. CUBS is subject to potential theft of funds if the deposit bag is placed on an unsecured counter.
- III. The key used to unlock the external lockbox was stored in an unlocked desk, behind the cashiers. Any CUBS employee could obtain the key and open the lockbox and is subject to potential theft or misuse of funds if the key is left unsecured.

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Recommendation

We recommend CUBS enhance procedures over its cash handling operations to ensure the cash safe is locked, the daily deposit bag is stored in the locked safe until picked up by the armored transport, and the key for the external lockbox is stored in a secured location.

CUBS's Management's Response

The recommendation for enhancing our cash handling operations has been implemented. Two individuals are opening the safe in the morning and locking it after removing the locked drawer cash bags. The safe is kept locked during the day time.

The deposit bag for the daily armored transport is kept in the safe until pick up time.

The lockbox key is kept in the safe, which is located in a keycard limited access storage room.

5. Mail Payments

Comment

During our review of mail-in payments received and processed at CUBS for CUBS and DWMR commercial accounts, we noted one employee is receiving, posting, and processing the mail payments to the CUBS billing and payment system (a.k.a. FOCUS). In addition, we noted the mail log prepared was not reconciled to their respective deposits in FOCUS or to the County Treasury. By not reconciling the mail check log, theft or misappropriation of funds could occur and not be detected in a timely manner.

Recommendation

We recommend CUBS establish and implement procedures where a second individual is present when the mail is opened to retrieve the funds/documents. Funds should be recorded on a receipt log immediately with both individuals' signatures to ensure the funds are accounted. Also, the receipt log should be reconciled daily to the deposit amount on the FOCUS reports and in the County Treasury.

CUBS's Management's Response

DWMR Commercial mail-in payments are received, opened at the cash counting cubicle under the security cameras, and then posted to WasteWork Financial system (DWMR system for credit dump accounts) by assigned Senior UBSR. The recommendation for recording those payments on a receipt log, signing the log, and reconciling the log daily has been implemented.

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CUBS has implemented reasonable measures to prevent misappropriating of funds. However, it is management's opinion that the time commitment to open this mail in the presence of two individuals does not justify the minimal risk of theft or misappropriation of funds for above mentioned reasons.

6. Deposit Reconciliation

Comment

At the end of each business day, CUBS reconciles all cash and check payments received to closing reports generated from the FOCUS billing and payment system. Both the cashier and Supervisor sign the closing reports indicating the day balances to the payments received. The County Treasury proceeds to deposit the payments received at CUBS into the Treasury.

While processing CUBS's payments received on March 15, 2016, the County Treasury detected one check received at CUBS in the amount of \$310.03 that was incorrectly entered into the FOCUS billing and payment system as \$310.93, a difference of \$0.90. County Treasury had to adjust the original entry in FOCUS and COMPASS by \$0.90 to reflect the actual amount received of \$310.03. See Attachment I, *Summary of Deposits and Imprest Cash Counted* for detail of adjustment posted to COMPASS. CUBS did not identify the difference during its daily closing reconciliation. During review of January 2016 to March 2016 deposits, we identified 16 adjustments posted by the County Treasury, ranging from \$0.10 to \$1,620.10, due to incorrect amounts entered by CUBS. CUBS is subject to the potential risk that funds could be misappropriated or unaccounted for if payments are not reconciled properly.

Recommendation

We recommend CUBS strengthen and reinforce its daily closing reconcile process to ensure all payments received agree to the closing reports generated from the FOCUS system. Any differences should be investigated and resolved in a timely manner.

CUBS's Management's Response

The end of the day reconciliation process for check and cash payments is reviewed by two individuals, the clerk and the senior. Then, both the senior and supervisor sign the closing reports. Any discrepancies are investigated and resolved before the cash desk is closed for that day.

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7. **Credit Card Payment Reconciliation**

Comment

CUBS accepts credit cards, e-checks, bank drafts, and money gram payments from customers who pay via online or by phone. These payments are processed through a third party vendor. The vendor provides CUBS with a daily transaction report and a daily data file for CUBS to upload the payment information to the customers' accounts in the FOCUS billing and payment system. Then, the vendor deposits the customer payments to the County Treasury.

During our review, we could not agree Visa and Master Card credit charges totaling \$44,024.55 from the vendor's March 15, 2016 daily transaction report to deposit into the County Treasury totaling \$41,896.35. As a result, a variance in the amount of \$2,128.20 was noted (\$44,024.55 - \$41,896.35). We were not able to reconcile the variance because the detail deposit report from the third party vendor was not provided. Without performing payment reconciliations, misappropriation of funds could occur and not be detected in a timely manner. See Attachment I, *Summary of Deposits and Imprest Cash Counted* for deposit details.

Recommendation

We recommend CUBS obtain and reconcile the daily transaction reports and detail deposit reports from the third party vendor reports the County Treasury's deposit records to ensure the correct amount has been deposited. Any differences should be investigated and resolved in a timely manner.

CUBS's Management's Response

This recommendation has been implemented. CUBS obtains and reconciles the daily transaction reports and detail deposit reports payments from the third party vendor reports to the Sacramento County Treasury's deposit records to ensure the correct amount has been deposited.

All credit card and e-check payments received from the third party vendor are reconciled with a daily transaction report and a daily data file to ensure that correct payments have been posted to the customer's utility account.

It is CUBS practice to investigate and resolve any differences in a timely manner.

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8. **Repeat Findings**

Comment

We noted that Findings #1 and 2 of this attachment are repeat findings from the prior cash handling review report, see Attachment II, *Current Status of Prior Findings and Recommendations*. Proper internal controls dictate that these findings be resolved in a timely manner.

Recommendation

We recommend CUBS to implement all recommendations that are noted in this attachment.

CUBS's Management's Response

The previous recommendation for Finding #1 was implemented for all mail payments. See management response for Finding #1 of this report regarding payments for special couriers and the lock box.

See response for Finding #2 of this report regarding the use of a suspense account.