



22-03

# INTERNAL AUDIT REPORT

## Housing Cash Handling

**December 2022**

City of Sioux Falls Internal Audit Department  
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[siouxfalls.org/council/internal-audit](https://siouxfalls.org/council/internal-audit)

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## Introduction

This cash handling audit for the Housing Division was included as an assurance audit on the 2022 Annual Audit Plan. The purpose of the audit was to determine if cash collections are safeguarded, deposited in a timely manner, and accurately recorded. Controls are intended to provide reasonable assurance, but cannot guarantee, that fraud & errors will not occur. The audit focuses on controls to prevent fraud, waste and abuse as outlined in the Housing Division's Procedures, Finance Department's "Billing, Cash Receipts and Collections Policy," and best practices.

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## Background

Housing is a division of Planning and Development Services in the City of Sioux Falls. The division is dedicated to connecting people in Sioux Falls with resources to help ensure safe and sustainable living conditions. Housing aims to help ensure decent, safe, and sanitary living conditions through programs that assist with repairs and improvements. Some of the major programs to assist the community include Single-Family Rehabilitation, Neighborhood Revitalization, Rental Rehabilitation, Emergency Mobile Home Repair, and Public Safety Down Payment Assistance. These community development housing programs determine eligibility based upon income guidelines; depending upon the specific program, a certain percentage of the median family income is required.

To provide some additional context on the assistance provided to the community, the 2022 submitted and approved action plan will result in approximately: 35 single family houses rehabilitated, 6 mobile home units rehabilitated, 60 low-income households receiving case management and stable housing (for rapid re-housing through Inter-Lakes Community Action Partnership), 15 low-income households benefiting from accessibility modifications, and 3 low-income households with accessibility modifications to their rental units.

Some of these Housing Division programs are structured as a deferred payment loan due upon sale or discontinuance of occupancy, such as the Single-Family Rehabilitation program. This program provides a zero interest deferred loan. Types of eligible work under Single-Family Rehabilitation include repairs or replacements to: faulty plumbing, faulty heating system, faulty electrical, worn or leaking roof, storm or screen windows and doors, deteriorated stoops or stairs, necessary painting, insulation and winterization, and handicapped accessibility. Property owners who request financial assistance for rehabilitation work are provided with technical assistance as needed.

Applicants must allow a complete inspection of the property by a Housing Specialist prior to any work being started. A work write-up containing the description of the repairs to be financed by the program will be prepared by a Housing Specialist before the project can proceed. It is the responsibility of the homeowner to solicit bids from area contractors. After soliciting bids, the homeowner will select the contractor for the project and sign a mortgage with the City of Sioux Falls to secure funding. City of Sioux Falls Housing Division will provide a loan in the amount of the lowest bid. Typically, contractors provide invoices for actual repair costs for reimbursement and the City cuts a check at that time. No changes to the project will be made after the mortgage has been signed. There is no legal obligation until the contract and mortgage has been signed by the property owner. The Emergency Mobile Home Repair program is structured very similarly with up to \$5,000 available to any one mobile home during its lifetime.

The Rental Rehabilitation program is structured in a slightly different manner with additional restrictions for the maximum loan amount per rental unit (\$30,000) and per project (\$100,000). There are no loan origination fees or prepayment penalties for the Rental Rehabilitation program. Additionally, there is a three percent interest rate amortized. Payments begin on the loans on the first day of the seventh month following the loan signing.

Finally, a third type of assistance program is operated through the City of Sioux Falls. The Neighborhood Revitalization program allocates local and federal dollars to Affordable Housing Solutions, Inc., for the acquisition and development of affordable housing within the core areas of Sioux Falls. These funds are used to acquire and redevelop properties that have vacant, dilapidated, or unsafe structures that are contributing to a neighborhood's deterioration. The condition of these structures is such that renovation by a private owner may not be financially feasible. This program allows Affordable Housing Solutions the opportunity to acquire these sites for redevelopment. Sites are developed into affordable single family housing, or if appropriate, for the site into smaller townhome housing developments. Newly constructed homes are required to be owner occupied and available to households with incomes at or below 80 percent of the area median family income as established by Housing and Urban Development (HUD). This program aims to reverse the progression of deterioration in Sioux Falls' older neighborhoods, as well as provide more options to low-income homebuyers.

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## Objective

To determine if cash collections are safeguarded, deposited in a timely manner, and accurately recorded.

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## Scope

The audit scope included a review of the current Housing Division cash handling process, supporting documentation including deposit slips and journal entries, physical security of assets, segregation of duties, management reconciliation/monitoring, best practices, and policies and procedures as they are currently in place. The detailed testing of transactions covered the twelve-month period of January 1, 2021 through December 31, 2021.

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## Methodology

To test the operating effectiveness of internal controls over cash assets in Housing, we performed a number of activities including the following:

- Gathered and reviewed relevant documentation including:
  - Finance's Billing, Cash Receipts, and Collections Policy
  - Department cash handling policies and procedures
  - List of payment types accepted and methods of payment
  - Change fund details and custodian of record (N/A to Housing)
  - Petty cash fund balance information (N/A to Housing)
- Onsite observation of physical access and security
- Cash handling interviews and observations for compliance with City-wide policies, department procedures, and cash handling best practices
- Analysis of prepared deposits including comparison to receipts, transaction records and cash handling policies, procedures and best practices
- Interview regarding mail payment processing
- Analysis of management reconciliation supporting documentation
- Review of refund and adjustment process as applicable to the department
- Discussed the following cash handling activities during site visits and via survey:
  - City-wide and department practices, policies, and procedures for cash handling
  - Training
  - Segregation of Duties
  - System controls and access
  - Monitoring by management

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# Results

## **Policies and Procedures**

The policies and procedures governing cash handling both City-wide and at the department level were reviewed to ensure they were current, cohesive, and in line with best practices. We found that department policies and procedures overall were current, detailed and in writing to encourage compliance with best practices and City Policy. However, page 17 of the Housing Policies and SOPs only includes this limited information regarding deposit slips: "Loan repayments are received and recorded on the proper bank deposit slips. Deposit slips are sent to the Finance office who provides them to a courier for transport and deposit in the bank." There is a lack of detail concerning the proper procedure for completing deposit slips to comply with best practices and strengthen internal controls. The Deposits section of this audit report contains an issue titled "Deposit Slips Did Not Indicate Personnel Performing the Deposit" addressing that area. Please see that section of this report for further details.

## **Physical Security and Access**

The physical security and access to cash assets was reviewed for adequacy. Overall, we found Housing provides adequate physical security and restricted access to cash assets. Internal controls could be strengthened by improving secured storage for cash assets in the department.

### **Finding 1: Lack of Secured Storage for Cash Assets**

We found there is a lack of physical security for cash assets in the Housing Division throughout the business day. At the time of our observation, there were no cash payments or checks sitting on desks or unsecured. However, through interviews with all cash handling personnel in the department, it was verified that the following cash handling practices are in place in the Housing Division, demonstrating a need to strengthen internal controls over the physical security of cash assets.

None of the Housing Specialists currently maintain locked storage for checks during the work day. Checks are stored in file cabinets with the corresponding loan supporting documentation. During business hours, those file cabinets are not locked. To mitigate risk, they are locked when the Housing Specialist leaves for the night. Any un-deposited cash assets are locked in a secure drawer overnight if a staff member trained to do deposits is not available.

To maintain strong internal controls and comply with best practices, cash assets should be locked/stored in a secure location during business hours as well as overnight. The Housing Policies and SOPs document does not provide directions for secure storage of checks during business hours or overnight. The consequence of unlocked/unsecured storage of cash assets during business hours which could lead to potential fraud. This weakens internal controls and does not comply with best practices for the adequate physical security and restriction of access to cash assets. **See recommendation 1.**

### **Deposits**

A judgmental sample of deposits were tested to determine if they were performed by the Housing Division in a timely, secure, and accurate manner. Overall, we found that deposit slips are filled out accurately, timely, and according to the City and Department deposit procedure as well as best practices. However, a need to strengthen internal controls regarding the content of deposit slips was found.

### **Finding 2: Deposit Slips Did Not Indicate Personnel Performing the Deposit**

Detailed testing showed that deposit slips are completed without an indicator as to which employee is performing the deposit. Of the 44 deposit slips sampled, none of the 44 included the name, initials, signature, or employee number of the individual completing the deposit slip. Deposit slips should include an indicator on the slip as to which personnel completed the deposit slip (initials, name, signature or employee number) to comply with best practices for strong cash handling internal controls. Page 17 of the Housing Policies and SOPs only states, "Loan repayments are received and recorded on the proper bank deposit slips." Finance's "Billing, Cash Receipts, and Collections Policy," which governs cash handling practices City-wide, also does not mention specific instructions for completing deposit slips which is resulting in various different practices across the City.

The consequence of not including an indication as to which employee completed the deposit slip is weakened internal controls over cash handling which are critical to preventing fraud. There is also a lack of standardization in the deposit process since it is standard practice in other City departments to include the employee name at minimum for internal control. It can also create inefficiencies and difficulties if a deposit needs to be corrected due to errors or mistakes. **See recommendation 2.**

## **Segregation of Duties**

Segregation of duties was reviewed to determine if cash handling duties are properly segregated to ensure compliance with City policy and best practices for internal controls. Testing procedures for segregation of duties included a site visit, discussion with key personnel, documenting all roles and functions of relevant cash handling personnel in the division, and surveying the specific roles and duties each individual performs relative to cash handling. Those survey responses were then compiled into a matrix and reviewed for conflicts of segregation of duties.

### **Finding 3: Lack of Segregation of Duties for Deposits**

There are two specific areas where internal controls could be strengthened related to segregation of duties to decrease the risk of fraud, waste, and abuse while maintaining continuity of operations. Specific to Housing, the current practice is that if the Housing Technician is unavailable or out of the office, the embedded Finance Accountant completes the deposit slip for payments received. However, that accountant is the same person who later then prepares the monthly Munis journal entries for deposits. To comply with best practices and strong internal controls, the receipting function (deposit slips) and recording function (preparing and approving the journal entry) should be segregated. Additionally, there is currently no back-up person to prepare the monthly Munis journal entry for Housing division deposits if the embedded accountant is absent for an extended period of time or unavailable.

Page 17 of the Housing Policies and SOPs states, "Loan repayments are entered into Cursor Control as they are received and into IDIS monthly by one of the following listed in preferential order. The second and third options will only be used when the higher preferred recorders are unavailable. 1. Housing Technician, 2. Housing Program Specialist 3. Housing Division Accountant." The Housing Division Accountant is listed third on this priority list; however, current department practice is for the accountant to serve as the primary back-up. Page 17 of the Housing Policies and SOPs also states that the Finance Department Senior Accountant would serve as the back-up for the monthly Munis deposit journal entries; however, it was discussed at the Audit Entrance Meeting that this practice is not currently in place.

The consequence of not segregating the receipting function of preparing deposits and the recording function of entering/approving journal entries could lead to an increased risk of fraud. Additionally, the lack of a readily available back-up in Finance for completing the

journal entry creates a potential issue for continuity of operations since this function is required to close the books monthly. **See recommendation 3.**

### **Monitoring by Management (Reviewing/Reconciling)**

Internal Audit reviewed if the department's prepared deposit is reconciled by management regularly and if management investigates variations such as voids, no sales, refunds, or errors.

In terms of the department's prepared daily deposit, we found that it is reconciled by management at least monthly in several different detailed steps to ensure all collected funds are deposited. The division accountant conducts a thorough review and reconciliation of the prepared deposit as part of the preparation of the deposit journal entries in Munis. The accountant does an initial check of the coding on all the deposit slips and remit forms collected throughout the time period. Typically, twice a month she prepares the Munis journal entry for deposits. Utilizing reporting from the Housing CursorControl software, the prepared deposit is reconciled and any errors can be corrected in the appropriate software.

Additionally, we found that Housing typically does not have voids or refunds. If there are returned checks, they first go to Finance who notifies Housing. That is also a very rare occurrence in the Housing division. If there is a returned check, the payment would be voided in Cursor Control, and any needed journal entry would be created using the documentation from the bank/Finance. If a client would happen to overpay on a loan, the original receipt would document the overpayment and then a refund check is processed through Munis after allowing time for the original payment check to clear the bank. This is also a very rare occurrence in the Housing Division.

Overall, we found that Housing conducts proper management reconciliation regularly to ensure all collected funds are deposited. We also found that Housing conducts proper handling of refunds, errors, etc. in conjunction with Finance.

### **Training**

To conduct a thorough review of the Housing division cash handling practices, training related to cash handling was also reviewed. Testing procedures related to training included reviewing the tenure of the department employees performing cash handling duties, discussions with key personnel and delivering a training survey to all relevant department personnel. The survey found that the division Accountant and Housing Technician who regularly perform cash handling roles or back-up roles have been provided training. The supervisor and manager do not perform cash handling duties and as such have not been provided training. The Housing Program

Specialists noted that they have not received any formal cash handling training currently. It was noted in the segregation of duties section of this report they are supposed to be the primary back-up for deposits after the Housing Technician. This is formerly documented on page 17 of the Housing Policies and SOPs document. Implementing the Housing Program Specialists as back-up cash handling personnel for deposits would require additional training. See the issue and recommendations noted in the segregation of duties section of this report for additional information.

Overall, we found that personnel who currently handle cash are provided training on cash handling as well as relevant updates to policies or procedures as applicable.

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## Recommendations and Management Response

- 1 We recommend the Housing Division, in coordination with Finance, implement some type of secured storage available to employees during business hours to prevent unsecured cash assets. We also recommend that the Housing Policies and SOP's be updated to formally document the proper usage of secured storage to enhance the physical security of cash assets both during business hours and overnight.

*Management's Response: The Housing Division has increased physical security of cash assets during business hours and overnight. The Housing Division added physical, locked storage for the assets within the department. Additionally, all Housing Division employees and storage is located in a secure location with limited access.*

*Management Representative Responding: Logan Penfield, Housing Development Manager*

*Date of expected implementation: November 15, 2022*

2

We recommend that Finance establish a more detailed policy and procedure outlining the requirements for completing deposit slips to standardize best practices City-wide. The Housing Division internal policies and procedures should then comply with the over-arching Finance policy. We also recommend this updated policy include specific requirements to notate on the slip which employee completed the deposit, for example initials, signature, name or employee number to comply with best practices and strengthen internal controls. To avoid illegible handwriting issues, two indications such as initials and employee number could be utilized.

*Management's Response: Based on standardized practices from the beginning of 2022, this finding has been previously addressed and should be considered resolved.*

*To further strengthen controls, Finance implemented a new practice to standardize the submission of deposit slips to finance. The Employee completing the deposit slip is required to scan and email this daily deposit slip to [financear@siouxfalls.org](mailto:financear@siouxfalls.org). The housing department has complied with this control since February 2022.*

*This will be added to the City-wide financial policies for clarity among all departments.*

*Management Representative Responding: Cody Papke, Chief Accountant*

*Date of expected implementation: November 1, 2022*

3

We recommend that Housing Division staff other than the Accountant be designated and trained to complete deposit slips in order to maintain segregation of duties between the receipting and recording functions of cash handling. We also recommend that a back-up individual be designated and training provided to perform the journal entry in Munis for Housing deposits in case of an extended absence or unavailability.

*Management's Response: The housing department is now fully staffed and will continue to follow the Housing Policy SOP. If the higher preferred recorders are unavailable and the embedded accountant must process the daily deposit, the monthly entry into MUNIS will be processed by a Senior Accountant in Finance. The Senior Accountant along with the Chief Accountant and the Housing Business Analyst understand the procedures in place by the department accountant and would be adequately able to help practice his or her duties if that accountant was unavailable.*

*Management Representative Responding: Logan Penfield, Housing Development Manager and Cody Papke, Chief Accountant*

*Date of expected implementation: January 1, 2023*

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## Conclusion

Based upon our review of the Housing Division cash handling processes, it was determined cash collections are safeguarded, deposited in a timely manner, and accurately recorded. Additionally, a detailed reconciliation process is in place, which is a significant internal control strength for the division. There are also opportunities to strengthen controls and improve the overall process regarding the physical security and access to cash assets, deposit slip preparation process, and segregation of duties. The included recommendations will provide additional assurance to mitigate the risk related to cash handling in the Housing Division. No evidence of fraud, waste or abuse was detected. We would like to thank Housing and Finance for their assistance provided during this audit.

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## Authorization

The Sioux Falls City Council approved this audit by resolution and it was included as an Assurance Audit in the 2022 Annual Audit Plan. The Internal Audit Division operates under the authority of Sections 32.010 through 32.025 of the Sioux Falls Code of Ordinances.

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## Audit Standards

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

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## Statement of Independence

Internal Audit is administratively and operationally independent of the programs and departments it audits, both in appearance and in fact. The Internal Audit Manager is accountable to an Audit Committee appointed by the City Council per Section 32.022 of the Code of Ordinances of Sioux Falls, SD. It should be noted for transparency that the Housing Compliance Supervisor was formerly an Internal Audit employee; however, this does not present an independence issue according to the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors as none of the internal auditors who conducted this audit were previously Housing Division employees.

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## Distribution of Report

This report is intended for the information and use of the Mayor and City Council, management, and others within the City of Sioux Falls. However, the report is a matter of public record and its distribution is not limited.

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## Performed By

Emily Trujillo Rodriguez  
Internal Auditor