



**CUSTOMS DEPARTMENT  
FY 2014/15 UNANNOUNCED CASH AUDIT**

**Audit Report**

May 2015

**INTERNAL AUDIT UNIT  
CAYMAN ISLANDS GOVERNMENT**

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## I. EXECUTIVE SUMMARY

Under the Public Management and Finance Law, the Internal Audit Unit (IAU) is required to review the management systems of all ministries, portfolios, statutory authorities and government companies.

In accordance with the 2014-15 Audit Plan, the IAU recently conducted unannounced cash counts at the Customs Department.

### Summary of Cash Counts

In total, 19 daily cash collections and tills were audited during our cash counts. No exceptions were noted for 13 out of 19, or 68% of those collections/tills. Variances were noted for six cash pans; however, those variances were immaterial and an overall variance of [REDACTED] as shown in the below table, was determined as a result of our surprise counts:

Customs Cash Count Summary	IAU Count (inclusive of float)	Cashier's Records (inclusive of float)	Variance
TOTAL:	[REDACTED]	[REDACTED]	[REDACTED]

### Conclusion

Based on our cash audit we can conclude that the Customs Department has established adequate systems for the management of cash collections. However, as this system is heavily reliant on employees' performance, robust monitoring and review procedures are vital to ensure its effectiveness. Our audit identified a few instances of inadequate supervisory reviews for which we have recommended that these be investigated and relevant training and accountability measures established to ensure commitment to improvement.



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Doloris E. Gordon  
Director, Internal Audit

May 21, 2015



## II. INTRODUCTION

### Background

Section 29 of the Financial Regulations (2013 Revision) states that "A chief officer of a prescribed entity shall ensure that an appropriate system of internal controls operates within the entity and that that system is adequate to safeguard the entity or executive resources for which the prescribed entity is responsible."

Cash is highly susceptible to abuse; therefore, adequate controls should be established in all cash handling environments and processes. Such controls should include adequate segregation of duties, effective supervisory review procedures, timely deposit of funds collected, proper recording of cash transactions and safeguards to protect funds until they are deposited.

In implementing adequate internal control systems, the Customs Department has developed the H.M. Customs Policy Manual. Section 23.D of the Policy Manual specifically addresses cash collections procedures, including stipulating, among other things, that:

- All income or revenue to which the Department is entitled is received and receipted;
- Daily reconciliations of all transactions and floats are done and verified on the Cash Control Sheets (CCS) by the section supervisor;
- All monies are properly secured in the safe;
- All funds, including overages, are banked daily;
- All deposits slips are signed off by the Supervisor and the banker;
- Cashiers are responsible for any cash/cheque, debit or credit card shortages.

The procedure generally, is that cashiers collect funds which are receipted in the TRIPS System. At the end of the day, the cashiers record and reconcile their collections, which are then verified by supervisors.

### Audit Objectives and Scope

Our specific objectives were:

- To confirm the existence, accuracy and completeness of funds/collections in hand;
- To ensure that funds collected were adequately safeguarded until deposited; and,
- To determine whether the internal controls/systems in place for handling and managing cash are adequate.

The scope of the audit was cash collected during the period November 3 to 26, 2014, at the following locations:

- Customs Headquarters
- Courier section
- Seaport
- Airport



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REF: 1415-04

The Customs Airport Post Office (APO) collections point was specifically excluded from this cash audit, as collections at that location are handled through the Postal Services Department's cash handling systems.

### **Audit Methodology**

The audit methodology involved conducting unannounced cash counts at the above mentioned locations, and comparing total cash on hand to the receipts and system generated reports. In addition, observations and enquiries were made to assess the adequacy of controls over cash handling systems and processes.

### **Audit Criteria**

The Customs Department's cash collections procedures were measured against the requirements of the Public Management and Finance Law (2013 Revision), the Financial Regulations, the Customs Cash Control Sheet, the H.M. Customs Policy Manual, generally accepted accounting principles and best business practices.



### III. AUDIT REPORT

#### 1. Ineffective Supervisory Review

Section 29 of the Financial Regulations (2013 Revision) requires Chief Officers to "ensure that an appropriate system of internal controls operates within the entity and that that system is adequate to safeguard the entity or executive resources for which the prescribed entity is responsible." Moreover, the Cash Control Sheet (CCS), as developed by the Customs Department, requires End of Shift Supervisors (EoSS) to certify that the monies received reconcile with the amounts recorded and requires Supervisors to certify that the Daily Cash Received Reports agree with the Cash Control Sheet.

During our audit at the Airport location, we noted that the Cash Control Sheet for one of the cashiers was written up erroneously. While the total amount of collections was accurately recorded, we observed that the ten dollar collections were omitted on the CCS. We did note however, that despite the omission on the CCS, the correct amount was included in the deposit bag.

Although this error was made, it was not detected and corrected even after two levels of supervisory review. Effective supervisory review procedures that involve recalculations, cash recounts, or both, should have detected the omission of the ten dollar notes on the CCS. In this instance, two levels of review were ineffective, as the EoSS and the Supervisor both failed to detect and correct the error.

Management advised that significant efforts have been made to remind supervisors of their responsibility to prudently verify that revenue is accurately collected and recorded. Such efforts have included email reminders, the circulation of the updated "End of Shift Procedure" and pertinent excerpts from the Customs Policy Manual, and meetings to reiterate the policies and procedures.

Having noted that the most recent email reminder occurred on October 23, 2014, it is apparent that such mechanisms are ineffective in ensuring compliance.

We were further advised that a contributing factor may be that the Supervisors at Customs are trained as enforcement officers but are performing the duties of financial supervisors. Without appropriate training and experience in financial information and controls it may be difficult for the enforcement officers to effectively perform in the role of financial supervisors.

Ineffective supervisory review may result in errors or omissions going undetected, loss of revenue, and an increased likelihood of irregularities which may not be identified and corrected on a timely basis.

#### **Recommendation**

The Collector of Customs should ensure that Supervisors conduct the review process in accordance with the requirements of the Customs Policy Manual by:

- i) Instituting performance measures to facilitate accountability (specific to the review requirement) and;



- ii) Training Supervisors on their role in the review process.

Where Supervisors deviate or fail to comply with the stipulated requirements, the Collector of Customs should further ensure that they are held accountable in accordance with section 44 (3) of the PSML (2011 Revision).

### **Management's Response**

*The Collector of Customs will reinforce the role and responsibilities of the senior officers by providing retraining of the senior officers as well as including the measuring of the responsibility in the officers' performance agreement. The Assistant Collector of Customs responsible for the Section will be held accountable for the monitoring and ensuring of accuracy.*

**Implementation Date:** *June 30<sup>th</sup> 2015*

## **2. Unsecured Till**

Best business practices require that cash be secured in locked tills and/or drawers and ultimately stored in a vault or safe for safekeeping until it can be deposited.

During the cash counts at one of the collection locations, the IAU observed that the cash pan had no lock. Discussions with the Cashier revealed that the lock broke recently however they were cognizant of the importance of having a lock for the till.

Having a till with no locking mechanism or one which is defective exposes the Department to an increased risk of loss of funds.

### **Recommendation**

The Collector of Customs should ensure that the locking mechanism on the till is repaired or a suitable replacement is purchased.

### **Management's Response**

*The lock has been replaced.*

**Implementation Date:** *January 22, 2015 (IAU verified)*



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### 3. Currency Not Verified

The Cash Control Sheets (CCS), as developed by the Customs Department, requires that cash floats be verified at the beginning and end of each shift. The details of the verification are to be recorded on the CCS including the signature of the verifying Supervisor.

During the count at the Airport location, we noted that a sealed roll of one cents contained within the till (as part of the float) of one of the cashiers, was recorded as CI currency instead of US currency. Despite the roll being clearly marked as US currency, the Cashier had been recording it as CI\$.

We determined that the Cashier had only been transferred to the Airport location from Headquarters the week before, where the end-of-shift balancing procedures differ slightly from that at the Cashier's former location. The Cashier further advised that the cash pan was "inherited" from a former staff member, and she had never opened the roll to verify the currency.

In addition to the lack of currency verification, we also noted that the twice daily review and recount procedures performed by the Supervisor did not detect this discrepancy. This further demonstrated an ineffective supervisory review process as noted in finding #1 above.

Although the amount of cash involved is immaterial, we are concerned that the practice of not verifying sealed rolls of cash may lead to erroneous reports of shortages/overages in daily cash collections and floats, and could further result in irregularities and loss of funds.

#### **Recommendation**

The Collector of Customs should ensure that:

1. All monies received for float or upon handover is counted, including opening and counting all sealed rolls, and signed off by the issuing and receiving persons;
2. Cashiers are retrained on their responsibility to verify, count and properly record all currencies contained within their collections and floats;
3. Supervisors conduct the review process in accordance with the requirements of the Cash Count Sheet and the Customs Policy Manual by 1) instituting performance measures to facilitate accountability (specific to the review requirement) and 2) training Supervisors on their role in the review process. Where Supervisors deviate or fail to comply with the stipulated requirements, the Collector of Customs should further ensure that they are held accountable in accordance with section 44 (3) of the PSML (2011 Revision).

#### **Management's Response**

*The Collector of Customs will reinforce the role and responsibilities of the senior officers by providing retraining of the senior officers as well as including the measuring of the responsibility in the officers' performance agreement. The Assistant Collector of Customs responsible for the section will be held accountable for the monitoring and ensuring of accuracy.*





**Implementation Date:** *June 30<sup>th</sup> 2015*

#### 4. **Cash Overage**

Good business practices require that cash payments be carefully counted and recorded to minimize errors.

Subsequent to the start of the cash counts at the Airport location, a customer approached the counter to make a payment. Although the TRIPS report was already generated and did not include the customer's payment, we decided to review the payment as part of our cash audit.

Upon comparing the US\$ cash collected from the customer to the issued receipt, we noted that the customer had overpaid by US\$20.00. When asked about the discrepancy, the Cashier stated that two bills must have been stuck together at the time the cash was counted originally, as the extra US\$20.00 was not noticed.

The Cashier explained that every effort would be made to contact the customer and, if the attempts were unsuccessful, the funds would be deposited. The same was noted on the IAU Cash Count Sheet, which was acknowledged and signed by the Cashier.

#### **Recommendation**

The Collector of Customs should ensure that:

1. The excess US\$20.00 is returned to the concerned customer or deposited;
2. Cashiers, via written directive, are instructed to carefully count cash collections so as to minimize or eliminate the likelihood of errors in said collections;
3. In future, all overages are returned to customers where this can be determined or deposited to the bank account as an overage.

#### **Management's Response**

*The Assistant Collector for the section confirmed that the customer was contacted and the money recorded as overage and returned as per the policy of the Department. This is included in the Customs General Procedures – Section 23D – Systems of Internal Control that is circulated periodically as a reminder.*

**Implementation Date:** *November 26, 2014 (return of cash)*