

I. EXECUTIVE SUMMARY

In this review we assessed the adequacy of petty cash procedures used by selected custodians and determined the extent of compliance with approved City policy. The Office of Public Integrity selected 36 of the 91 authorized petty cash funds for detail testing. We selected all petty cash funds assigned to the Police and the Fire Departments and, a sample of funds assigned to other departments. This review established general compliance with petty cash guidelines. However, we noted the following findings that require management attention to improve compliance with City policy.

- ◆ Public Integrity noted that four petty cash custodians paid sales tax when reimbursing items purchased from petty cash. Although the amount of sales tax paid is immaterial, policy prohibits custodians from paying this tax.
- ◆ Public Integrity noted 16 occurrences in the Police/Office of the Chief fund that exceeded the \$30.00 maximum petty cash limitation. Additionally, we noted one occurrence in the DES/Special Service fund of a split purchase that, in total, exceeds the \$30.00 petty cash limitation.
- ◆ We noted that three of the 36 petty cash funds examined had excessive shortages or overages.

II. BACKGROUND, OBJECTIVES AND SCOPE

A. Assignment

The Office of Public Integrity periodically conducts surprise petty cash fund counts. In addition to a management request for this review, the current fiscal year work plan also includes this examination. Public Integrity examined 36 of the 91 authorized petty cash funds for detail testing. We conducted these counts between January 19, 2007 and February 15, 2007.

B. Background

Petty cash funds provide a cash reserve for relatively small purchases of items of an essential, but nonrecurring nature. Petty cash purchases are not intended for quantity purchases that departments should process through normal purchasing procedures. However, when properly utilized, a petty

cash fund alleviates the need for the Bureau of Purchasing to issue purchase orders for unanticipated, inexpensive items.

The Department of Finance issued the most recent City policy outlining petty cash guidelines in December 2000. To establish a petty cash fund these guidelines require the completion of a Petty Cash Order (PCO). The appropriate department head must approve the PCO, and the employee designated as the fund custodian must endorse it. Each custodian has direct responsibility for the maintenance and operation of their fund and compliance with City policy.

If a custodian transfers or leaves the employ of the City, department and administrative bureau heads are responsible for ensuring that the custodian returns the fund intact, that the custodian balances the fund, and that the Bureau of Treasury reissues the PCO to a new custodian. Any permanent changes in either fund amount or custodian require the completion of a new PCO. The Bureau of Treasury retains the PCO as the official record of the cash assigned to each custodian.

As of January 11, 2007 there were 91 PCOs on file in the Bureau of Treasury representing a total value of \$26,520.00. The average PCO was \$291.00. The largest individual funds include the Law Department and the Public Library (\$3,000.00 each), and the smallest funds include the Department of Finance, Records Management (\$25.00) and the Department of Environmental Services, Architectural Services (\$40.00). The following is a summary of the size and frequency distribution of all PCOs:

Petty Cash Orders Outstanding
As of January 11, 2007

<u>PCO Amount</u>	<u>Number of Funds</u>	<u>%</u>	<u>Value of Funds</u>	<u>%</u>
\$ 0-\$50	13	14.3%	\$ 615	2%
51-100	21	23.1	1,890	7
101-150	6	6.6	865	3
151-200	10	11.0	2,000	8
201-250	6	6.6	1,500	6
251-300	14	15.3	4,200	16
301-350	3	3.3	1,050	4
351-400	6	6.6	2,400	9
401-450	1	1.1	450	2
451-500	5	5.5	2,500	9
501-550	-	-	-	-
551-600	1	1.1	600	2
601+	<u>5</u>	<u>5.5</u>	<u>8,450</u>	<u>32</u>
	<u>91</u>	<u>100.0%</u>	<u>\$26,520</u>	<u>100%</u>

Although a petty cash fund is minor in relation to the budget and assets of a department, certain procedures of internal control must be observed to ensure the integrity of the City's liquid cash assets. This principle is the basis for conducting this review.

C. Objectives And Scope

This review assesses the adequacy of procedures used by selected custodians and determines compliance with approved City policies. The scope included an unannounced count of all petty cash funds within the Police and Fire

Departments and 25 additional randomly selected petty cash funds, as well as an examination of documentation supporting expenditures for propriety. Public Integrity selected the following petty cash funds for detail testing:

Petty Cash Funds Selected for Examination

<u>Fund Custodian</u>	<u>Fund Location</u>	<u>Fund Amount</u>
	DCD/Housing and Project Development	\$ 350
	DES/Architecture Services	100
	DES/Building Services	500
	DES/Engineering Services	40
	DES/Forestry	200
	DES/Operations	200
	DES/Safety & Training	100
	DES/Special Services	200
	DES/Water	200
	DES/Water	400
	DRYS/ Special Events	450
	DRYS/Administration	400
	DRYS/Public Market	75
	Emergency Communications	300
	Finance/Director's Office	50
	Finance/Purchasing	50
	Finance/Records Management	50
	Finance/Treasury	200
	Finance/Treasury	125
	Fire/Chief	400
	Fire/Supply Depot	300
	Fire/Training	300
	Fire/Training	200
	Law	300
	Library/Charlotte	100
	Library/Lyell	60
	Library/Sully	80
	Mayor/Net Office	100
	Office of Public Integrity	50
	Police/Animal Control	50
	Police/Animal Control	300
	Police/Auto Pound	50
	Police/Budget	500
	Police/Office of the Chief	1,000
	Police/Property Clerk	50
	Police/Tech Services	50
		<u>\$7,880</u>

Management is responsible for establishing and maintaining a system of internal accounting and administrative control. Fulfilling this responsibility

requires estimates and judgments by management to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of accurate, informative reports that are fairly stated.

Because of inherent limitations in any system of internal accounting and administrative control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any system evaluation to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

The recommendations presented in this report include the more significant areas of potential improvement that came to our attention during the course of the examination, but do not include all possible improvements that a more extensive review might develop.

III. RESULTS OF REVIEW

In general, the custodians of petty cash funds reviewed appear to comply with the City's Petty Cash Policy. However, we noted several findings that require management attention to improve compliance with the policy. The following chart summarizes each fund examined by Public Integrity, and the findings noted.

Review of Selected Petty Cash Funds
Summary of Audit Findings

<u>Fund Location</u>	<u>Number of Purchases Examined</u>	<u>Fund Balance Over/Under</u>	<u>Sales Tax Paid</u>	<u>Questionable Expenditures</u>		<u>Reimbursed Expenditures Greater Than \$30.00</u>
				<u>Number</u>	<u>Amount</u>	
DCD/Housing and Project Dev.	17		1			
DES/Architecture Services	10	No findings noted				
DES/Building Services	31	\$ 1.69	1			
DES/Engineering *	0	.10				
DES/Forestry	61	18.01	2			
DES/Operations	36	(13.20)				
DES/Safety & Training	11	No findings noted				1
DES/Special Services	25					
DES/Water (Hemlock)	69	(48.81)				
DES/Water	49	6.36	1			
DRYS/Special Events	61	.32		1	\$ 4.95	
DRYS/Administration	55	No findings noted				
DRYS/Public Market	16	43.47				
Emergency Communications	50	1.25				
Finance/Director's Office	3	No findings noted				
Finance/Purchasing	4	No findings noted				
Finance/Records Management	1	No findings noted				
Finance/Treasury *	0	(9.50)				
Finance/Treasury	4	No findings noted				
Fire/Chief	68	(7.76)				
Fire/Supply Depot	33	(.47)				
Fire/Training	28	(1.85)				
Fire/Training	41	1.00				
Law	12	No findings noted				
Library/Charlotte *	0	No findings noted				
Library/Lyell *	0	No findings noted				
Library/Sully *	0	No findings noted				
Mayor/Net Office	10	(1.00)				
Office of Public Integrity	6	No findings noted				
Police/Animal Control *	0	No findings noted				
Police/Animal Control	28	No findings noted				
Police/Auto Pound	0	(2.54)				
Police/Budget	28	2.92				
Police/Office of the Chief	51	.06				16
Police/Property Clerk	0	No findings noted				
Police/Tech Services *	0	No findings noted				

* Change Fund Only

A. Sales Tax Paid

The City is exempt from New York State sales tax and Petty Cash Policy prohibits the payment of this tax. As a result, items purchased from petty cash should not include payment for sales tax. Although in select instances, the payment of sales tax is sometimes unavoidable, occurrences should be infrequent.

Public Integrity noted five occurrences of the payment of sales tax by four petty cash custodians. Although the amount of sales tax paid is immaterial, petty cash custodians should comply with the policy and minimize the occurrences of sales tax paid.

◆ Recommendation

Fund custodians should consistently refuse to reimburse for the payment of sales tax.

The Accounts Payable Section of the Bureau of Accounting should not approve payment to reimburse fund custodians for sales tax paid.

B. Thirty Dollar Limitation Exceeded

The Petty Cash Policy establishes the maximum dollar amount for a purchase to not exceed \$30.00. Additionally, it states that the fund custodian should not accept receipts submitted for reimbursements that are greater than \$30.00 without approval of the Director of Accounting. Departments should process payments for purchases exceeding that amount by claim voucher. Allowing larger amounts to be reimbursed through petty cash funds creates the potential for abusing the purchasing system.

Public Integrity noted 16 expenditures in the Police/Office of the Chief fund that exceed the \$30.00 maximum allowable. These expenses all relate to food for Police Citizen Interaction Committee meetings and tickets to events requiring attendance by the Police Chief or his representatives. Although these expenditures exceed the \$30.00 maximum limitation for this fund, payment from petty cash for these particular types of transactions appears to be the most economical and efficient manner of handling them. Additionally, the Director of Accounting indicated that his authorization of the reimbursement vouchers demonstrates his approval of the expenditures.

Public Integrity also noted one purchase of the 25 examined in the fund assigned to DES/Special Services that exceeded the authorized allowance. The Bureau purchased donuts for a dry run with snow plow contractors and the amount was \$53.91. In this instance, the custodian circumvented the Petty Cash Policy and established purchasing procedures by splitting the purchase price, which exceeds the maximum petty cash expenditure allowed, into two smaller amounts totaling under \$30.00 each.

◆ Recommendation

Custodians in the Police Department/Office of the Chief and DES/Special Services should comply with Petty Cash Policy and restrict purchase amounts to the maximum permitted by the policy. Splitting purchases to circumvent the policy should be prohibited.

The Accounts Payable Section of the Bureau of Accounting should not reimburse any questionable expenditures or amounts that exceed the maximum allowed, unless they are approved by the Director of Accounting and the Director documents this approval.

Additionally, if the City administration considers the petty cash maximum limitation of \$30.00 insufficient, then it should amend the Petty Cash Policy to reflect the amount it considers sufficient.

The administration should also clarify the degree of authority given to the Director of Accounting to approve petty cash expenditures that exceed the maximum allowed by policy.

C. Excessive Overages/Shortages in Fund Balances

Public Integrity noted that three of the 36 petty cash funds examined had excessive shortages or overages. These include:

1) DRYS/Public Market - We noted an overage of \$43.47 in this fund. The fund custodian indicated that this overage occurred because she often makes purchases with her personal funds and neglects to take the funds from petty cash.

2) DES/Forestry - We noted an overage of \$18.01 in this fund. The fund custodian could offer no explanation for this overage.

3) DES/Water (Hemlock Lake) - We noted a shortage of \$48.81 in this fund. The count of this fund by Public Integrity initially indicated an overage of \$7.05. However, Public Integrity noted upon further review of documentation that the fund custodian was over-reimbursed \$55.86 for claims submitted in January and December 2006. The over-reimbursement was due to two petty cash vouchers, submitted by the custodian and approved for payment by the Bureau of Accounting, for which the amounts reimbursed to the custodian of the fund were greater than the total amounts of the receipts submitted to Accounting. It appears that this resulted because of clerical addition errors when preparing the vouchers for reimbursement.

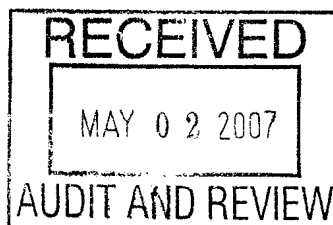
Consequently, the fund should have had an overage of \$55.86. When the overage of \$7.05, noted at the time of our count, is netted against the amount that should have been the overage, the result is a shortage of \$48.81. The petty cash custodian could offer no explanation of the difference.

◆ Recommendation

Petty cash custodians should exercise care and diligence in the maintenance of the petty cash funds assigned to them. Additionally, as the Petty Cash Guidelines state, custodians should reconcile the petty cash funds monthly and report to the City Treasurer immediately, any overage or shortage in the funds which exceed 10% of the fund amount.

IV. DEPARTMENTAL RESPONSE

Departmental responses to findings in this report follow.



Inter-Departmental Correspondence

To: Richard C. Vega, Director of the Office of Public Integrity
From: Vincent J. Carfagna, Director of Finance
Date: May 2, 2007
Subject: Review of Selected Petty Cash Funds

Thank you for the opportunity to review and discuss your recent audit of petty cash funds. Following is the Finance Department's formal response which is intended for inclusion in your final report is attached.

In response to the findings in this report, the Department of Finance will reissue the Petty Cash Policy with the following modifications:

1. In recognition of the inflationary increases that have occurred since the Petty Cash Policy was last updated in October 2, 1989, the Finance Department will increase the petty cash limit from \$30 to \$40. This is expected to reduce the number of cases where the current limit has been exceeded by small amounts.

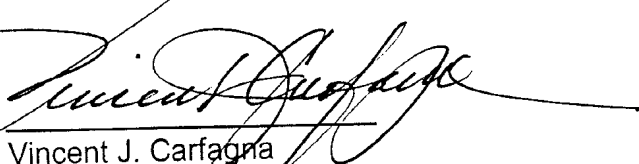
It is recommended that the Mayor, by memorandum, grant an exception to the Police Chief's Office to continue to operate with a \$50 petty cash limit for items permitted under the Refreshment and Meal Policy.

2. In addition, no exception would be allowed to the requirement for prior approval.

Sect D .1. would now read: "The maximum allowable expenditure for purchase is \$40. Receipts submitted for reimbursement greater than \$40 should not be accepted by the custodian without prior approval of the Director of Accounting, no exceptions.

3. Purchases that are broken into more than one receipt to stay below the petty cash limit, known as "split purchases," will be expressly prohibited.

4. Sales tax will not be reimbursed except for parking expenses or similar circumstances as determined by the Director of Accounting.

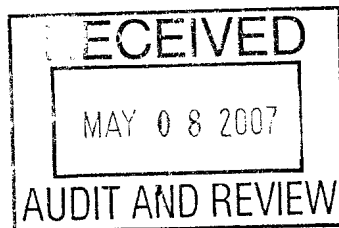

Vincent J. Carfagna
Director of Finance

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City of Rochester



Inter-Departmental Correspondence

To: Daniel Markese, Internal Audit
From: Paul M. Holahan, Commissioner of Environmental Services *P.H.*
Date: May 4, 2007
Subject: Review of Draft Audit - Selected Petty Cash Funds

I have reviewed the draft audit report for selected petty cash funds. The department has reviewed the results of the audit with all petty custodians who committed an action inconsistent with the policy.

The two most significant findings were addressed as follows:

1) Shortage in Bureau of Water/Hemlock Fund. The department acknowledges that the petty cash fund was short \$48.81. This shortage was a result of the fund custodian incorrectly paying out one of the receipts. Hemlock has field operations, and it was common practice for the custodian to advance money out of his own pocket in the field, and then submit the receipt for payment at a later date. This method of operation appears to have caused the shortage. The custodian will reimburse the fund in the amount of \$48.81. The review also noted that the petty cash custodian had reimbursed for the payment of sales tax. Both Water Bureau custodians will be counseled on these variances from the policy.

2) Reimbursement Limit Exceeded in Operations/Special Services Fund. The department acknowledges that the petty cash limit was circumvented by a supervisory employee who split a purchase in two and was then reimbursed for the two smaller amounts that exceeded the \$30 limit. The receipts were submitted to the petty cash custodian on two different days and therefore was missed. The custodian has been counseled to be more diligent in reviewing receipts. As an aside, the staff member who submitted the receipts is no longer employed by the City.

cc: Robert Morrison
Richard Saltrelli

