

CITY OF ROCHESTER
REVIEW OF PETTY CASH EXPENDITURES IN THE
DEPARTMENT OF HUMAN RESOURCE MANAGEMENT

Office of Public Integrity
Date: 02/01/2024
Contact: Tony Grugnale
Phone: (585) 428-7246

I. EXECUTIVE SUMMARY

In this review, the Office of Public Integrity (OPI) assessed the adequacy of procedures used by the petty cash custodians in the Department of Human Resource Management (DHRM) for the reimbursement of petty cash expenditures and determined the extent of compliance with City policy. This review established general compliance with petty cash expenditure and reimbursement guidelines. However, we noted the following finding that requires management attention to improve compliance with City policy.

- ◆ OPI noted two occurrences totaling \$1.00 where DHRM custodians reimbursed for purchases that included New York State sales tax.

II. BACKGROUND, OBJECTIVES AND SCOPE

A. Assignment

The Office of Public Integrity periodically conducts unannounced reviews of petty cash funds. At the request of the Deputy Mayor, petty cash fund expenditures in the Department of Human Resource Management were selected for detailed testing.

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 reduces 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 May 2014. 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 16, 2024 there were 83 PCOs on file in the Bureau of Treasury representing a total value of \$21,315.00. The average PCO was \$257.00. The largest individual funds include the Law Department and the Public Library (\$3,000.00 each), and the smallest funds are \$25.00 each.

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

The objectives of the review were to assess the adequacy of procedures used by custodians and determine compliance with approved City policies. The scope included a detailed examination of documentation supporting petty cash expenditures and reimbursements from May 1, 2023 through January 15, 2024. At the request of the Deputy Mayor, the Office of Public Integrity selected the petty cash fund of the Department of Human Resource Management for detailed testing.

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.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) and the International Standards for the Professional Practice of Internal Auditing. 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.

III. RESULTS OF REVIEW

In general, the custodians of the petty cash fund in DHRM appear to comply with the City's Petty Cash Policy. However, we noted a finding that requires management attention to improve compliance with the policy.

A. New York State 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 two occurrences totaling \$1.00 where the DHRM petty cash custodian reimbursed for expenditures that included New York State sales tax. 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.

IV. DEPARTMENTAL RESPONSE

The response of the Department of Finance to findings in this report begins on the next page.

From: Burns, Michael T. <Michael.Burns@CityofRochester.Gov>
Sent: Thursday, February 1, 2024 6:36 PM
To: Weir, Timothy <Timothy.Weir@CityofRochester.Gov>
Cc: Grugnale Jr., Antonio <Anthony.Grugnale@CityofRochester.Gov>
Subject: RE: Draft Audit Report - DHRM Petty Cash

Tim,

As we discussed yesterday, I am comfortable for this to be issued to OPI's internal files.

Please let me know if you have any questions.

Mike



Michael T. Burns, CPA
Deputy Mayor

Office of Malik D. Evans, Mayor
30 Church Street | Room 205A
Rochester, New York 14614
o: 585-428-8845 | m: 585-261-2200
michael.burns@cityofrochester.gov

From: Weir, Timothy <Timothy.Weir@CityofRochester.Gov>
Sent: Tuesday, January 23, 2024 4:25 PM
To: Burns, Michael T. <Michael.Burns@CityofRochester.Gov>
Cc: Grugnale Jr., Antonio <Anthony.Grugnale@CityofRochester.Gov>
Subject: Draft Audit Report - DHRM Petty Cash

Deputy Mayor,

Attached is a draft report regarding the requested audit of DHRM petty cash funds conducted by Senior Field Auditor Tony Grugnale.

- The scope included a detailed examination of documentation supporting petty cash expenditures and reimbursements from May 1, 2023 through January 15, 2024.
- In general, the custodians of the petty cash fund in DHRM appear to comply with the City's Petty Cash Policy. However, we noted a finding that requires management attention to improve compliance with the policy. OPI noted two occurrences totaling \$1.00 where DHRM custodians reimbursed for purchases that included New York State sales tax.

Please note this is a draft for discussion purposes only. In our normal audit process, the department head would review and, if no edits are requested, a department response would be sent to OPI and included in the final report.

Tony and I are available if you'd like to discuss further.

Best,

Tim

Timothy R. Weir, CPA, CFE
Director | Office of Public Integrity
City of Rochester | 585-428-6001

From: Burns, Michael T. <Michael.Burns@CityofRochester.Gov>
Sent: Wednesday, January 31, 2024 12:06 PM
To: Nichols, Rose M. <Rose.Nichols@CityofRochester.Gov>; Cepero, Fernan R. <Fernan.Cepero@CityofRochester.Gov>
Cc: Weir, Timothy <Timothy.Weir@CityofRochester.Gov>; Evans, Malik <Malik.Evans@CityofRochester.Gov>
Subject: Follow Up re: Petty Cash-Related Complaint

Good Afternoon,

After meeting with you both and in consultation with the Corporation Counsel, I offer the following path forward related to the above-noted matter:

- By February 9, an initial meeting should take place between Director Nichols and Deputy Director Cepero to discuss any disagreements in substance and approach regarding the matter raised in the complaint as it relates to petty cash, which matter we have covered during my meetings with you both;
- A subsequent meeting should take place by February 23 between both parties to discuss any disconnect between Deputy Director Cepero's expected and actual performance, supported by a documented performance review;
- Full reimbursement of all employees referenced within Deputy Director Cepero's complaint should occur, within 30 days, relative to the out-of-pocket expenses referenced in the complaint (accompanied by appropriate supporting documentation);
- By February 15, a review by OPI of a minimum of three months of DHRM petty cash activity for reasonableness and compliance with the City's Petty Cash policy should be conducted; and,
- Going forward, clear budgets should be established by DHRM for any events requiring outside purchases and a process ensuring approval before incurring expenses should be clearly communicated.

As each of the first three steps noted above are completed, please update me accordingly simply to confirm completion.

Thank you for your time and cooperation as we have worked collaboratively through this matter. If you have questions or require further information, please let me know.

Mike



Michael T. Burns, CPA
Deputy Mayor

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Rochester, New York 14614
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