

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 (OPI) selected 20 of the 97 authorized petty cash funds for detail testing. We selected the sample from funds within various City 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.

- ◆ We noted one occurrence in the Library where the custodian did not properly safeguard the assigned fund.
- ◆ We noted one occurrence in the Bureau of Finance, Parking and Code Violations fund of a purchase that exceeds the \$40.00 petty cash limitation. Additionally, we noted one occurrence in the DES/Operations/Parks fund of a split purchase that, in total, exceeds the \$40.00 petty cash limitation.
- ◆ OPI noted that one fund custodian reimbursed a personal expenditure totaling \$23.99.

II. BACKGROUND, OBJECTIVES AND SCOPE

A. Assignment

The Office of Public Integrity periodically conducts surprise petty cash fund counts. The work plan for the current fiscal year includes the examination of 20 funds. OPI conducted these counts between May 12, 2011 and May 25, 2011.

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 2007. 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 April 25, 2011 there were 97 PCOs on file in the Bureau of Treasury representing a total value of \$33,922.00. The average PCO was \$297.00. The largest individual funds include the Law Department and the Public Library (\$3,000.00 each), and the smallest funds include Information Technology, Application Services (\$25.00) and the Department of Environmental Services, Engineering Services (\$40.00). The following is a summary of the size and frequency distribution of all PCOs:

Petty Cash Orders Outstanding
As of April 25, 2011

| <u>PCO Amount</u> | <u>Number of Funds</u> | <u>%</u> | <u>Value of Funds</u> | <u>%</u> |
|-------------------|------------------------|---------------|-----------------------|---------------|
| \$ 1-50 | 13 | 13.4% | \$ 615.00 | 1.8% |
| 51-100 | 21 | 21.6 | 1,960.00 | 5.8 |
| 101-150 | 4 | 4.1 | 565.00 | 1.7 |
| 151-200 | 12 | 12.4 | 2,400.00 | 7.1 |
| 201-250 | 3 | 3.1 | 750.00 | 2.2 |
| 251-300 | 17 | 17.5 | 5,100.00 | 15.0 |
| 301-350 | 2 | 2.1 | 700.00 | 2.1 |
| 351-400 | 7 | 7.2 | 2,800.00 | 8.2 |
| 401-450 | 1 | 1.0 | 450.00 | 1.3 |
| 451-500 | 5 | 5.2 | 2,500.00 | 7.4 |
| 501+ | <u>12</u> | <u>12.4</u> | <u>16,082.00</u> | <u>47.4</u> |
| Total | <u>97</u> | <u>100.0%</u> | <u>\$33,922.00</u> | <u>100.0%</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 20 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>Department/Bureau</u> | <u>Amount</u> |
|---------------------------------|-------------------|
| DES/Water | \$ 200.00 |
| Library/Wheatley | 70.00 |
| Library/Lincoln Ave. | 100.00 |
| Library/Monroe Ave | 140.00 |
| Finance/Purchasing | 50.00 |
| Mayor/BHRM | 250.00 |
| DES/Engineering | 300.00 |
| DES/Equip. Services | 500.00 |
| DRYS/Admin./BIZ Kids | 400.00 |
| Fire/Chief | 400.00 |
| DRYS/Admin. | 200.00 |
| DRYS/Rec./Edgerton | 500.00 |
| Budget | 50.00 |
| Finance/Treasury | 200.00 |
| Police/Prop. Mngt./Prop. Room | 50.00 |
| DRYS/Rec/Athletics & Aquatics | 200.00 |
| Parks/DES/Operations | 400.00 |
| Mayor/Communications | 250.00 |
| Finance/Park. Violations Bureau | 300.00 |
| Cultural Commission | 75.00 |
| | <u>\$4,635.00</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>Department/Bureau</u> | <u>Number of Purchases Examined</u> | <u>Fund Balance Over/(Under)</u> | <u>Improper Expenditure</u> | <u>Inadequate Safeguards</u> |
|-----------------------------------|-------------------------------------|----------------------------------|-----------------------------|------------------------------|
| DES/Water | 36 | \$(2.01) | | |
| Library/Wheatley | * | 1.00 | | |
| Library/Lincoln Branch | * | 2.89 | | X |
| Library/Monroe Branch | * | No findings noted | | |
| Finance/Purchasing | 12 | 0.30 | | |
| Mayor/BHRM | 52 | No findings noted | | |
| DES/Engineering | 48 | No findings noted | | |
| DES/Equipment Services | 42 | 0.23 | | |
| DRYS/Administration/Biz Kids | 57 | (27.00) | | |
| Fire/Chief | 70 | (26.23) | X | |
| DRYS/Administration | 103 | No findings noted | | |
| DYRS/Recreation/Edgerton | 56 | (2.33) | | |
| Budget | 2 | No findings noted | | |
| Finance/Treasury | 22 | No findings noted | | |
| Police/Prop. Mgmt./Property Room | 0 | No findings noted | | |
| DRYS/Rec./Athletics & Aquatics | * | No findings noted | | |
| DES/Operations/Parks | 43 | (0.01) | X | |
| Mayor/Communications | 15 | No findings noted | | |
| Finance/Parking & Code Violations | 48 | 5.91 | X | |
| Cultural Commission | 11 | No findings noted | | |

* Change fund only, not used for purchases

A. Inadequate Safeguards

OPI noted that the petty cash custodian at the Lincoln Branch Library did not adequately safeguard her fund. She had the fund in an unlocked safe in an unlocked office.

Petty Cash Policy states that the custodian should be the only person with access to the petty cash fund, and the custodian should maintain the fund under lock and key to prevent unauthorized use.

◆ Recommendation

Petty cash custodians should adhere to Petty Cash Policy and should safeguard all petty cash funds under lock and key.

B. Limitation of \$40.00 Exceeded

The Petty Cash Policy establishes the maximum dollar amount for a purchase to not exceed \$40.00. Additionally, it states that the fund custodian should not accept receipts submitted for reimbursements that are greater than \$40.00 without approval of the Director of Accounting. The policy also expressly prohibits breaking down purchases into more than one receipt to stay below the petty cash limit. City policy requires departments to follow normal purchasing and payment procedures for purchases exceeding the \$40.00 limitation. Allowing custodians to reimburse larger amounts through petty cash funds creates the potential for abusing the purchasing system.

OPI noted an occurrence of a split purchase in the fund assigned to the DES, Bureau of Operations and Parks that, in total, exceeds the \$40.00 petty cash limit. The total purchase amount was \$40.97 and was split into two separate payment receipts of \$15.98 and \$24.99 to circumvent the petty cash policy. Both transactions occurred on the same cash register within minutes of each other.

Additionally, OPI noted a purchase in the fund assigned to Finance, Parking and Code Violations that exceeded the \$40.00 maximum expenditure allowance. The custodian of this fund reimbursed a receipt totaling \$50.00.

◆ **Recommendation**

Custodians in DES and Finance should comply with Petty Cash Policy and limit purchase amounts to the maximum permitted by the policy.

C. Questionable Expenditure Reimbursed

The City Petty Cash Policy disallows the reimbursement of “personal employee expenses” with petty cash. Examples of personal expenses stated in the policy include food for staff meetings, professional association lunch meetings, fines, parking violation tickets, and coffee. Additionally, the City’s Refreshment/Meal Expense Policy states that “City funds are not to be used to provide refreshments or meals during the conduct of City business” except for certain circumstances stated in the policy or with advanced written approval from the Mayor.

OPI evaluated compliance with this policy and observed one occurrence that violates the Petty Cash Policy. The custodian for the petty cash fund assigned to the Rochester Fire Department Chief’s Office reimbursed a questionable expense of \$23.99 for a cake for a City employee’s birthday.

◆ **Recommendation**

Custodians should comply with the Petty Cash Policy and not reimburse any personal unallowable expenses.