

CITY OF ROCHESTER
REVIEW OF SELECTED PETTY CASH FUNDS

Office of Public Integrity
Date: September 19, 2013

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 76 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.

- ◆ OPI noted three occurrences of split purchases. The total of each occurrence exceeded the \$40 petty cash limit and these purchases were split to circumvent petty cash policy. Additionally, we noted one occurrence in which the same petty cash custodian reimbursed a purchase that exceeded the \$40 maximum amount allowed for petty cash purchases.
- ◆ OPI noted that the Department of Environmental Services (DES) used petty cash funds for the purchase of food and refreshments for City employees working a DES inventory. This is an unallowable expense.
- ◆ OPI noted one petty cash fund with a shortage of \$398.27. The custodian did not have this fund properly secured as required by City policy.

II. BACKGROUND, OBJECTIVES AND SCOPE

A. Assignment

The Office of Public Integrity periodically conducts unannounced petty cash fund counts. The work plan for the current fiscal year includes the examination of 20 funds. OPI conducted these counts between June 6, 2013 and June 27, 2013.

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 May 29, 2013 there were 76 PCOs on file in the Bureau of Treasury representing a total value of \$25,072.00. The average PCO was \$330.00. The largest individual funds include the Law Department and the Public Library (\$3,000.00 each), and the smallest fund is Information Technology, Municipal Archives (\$25.00). The following is a summary of the size and frequency distribution of all PCOs:

Petty Cash Orders Outstanding
As of May 29, 2013

<u>PCO Amount</u>	<u>Number of Funds</u>	<u>%</u>	<u>Value of Funds</u>	<u>%</u>
\$ 1-50	11	14.5%	\$ 525.00	2.1%
51-100	28	36.9	2,700.00	10.8
101-150	4	5.3	565.00	2.2
151-200	9	11.8	1,800.00	7.2
201-250	2	2.6	500.00	1.9
251-300	6	7.9	1,800.00	7.2
301-350	1	1.3	350.00	1.4
351-400	2	2.6	800.00	3.2
401-450	1	1.3	450.00	1.8
451-500	1	1.3	500.00	2.0
501+	<u>11</u>	<u>14.5</u>	<u>15,082.00</u>	<u>60.2</u>
Total	<u>76</u>	<u>100.0%</u>	<u>\$25,072.00</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

The objectives of the review were to assess the adequacy of procedures used by selected custodians and determine 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>Custodian Name</u>	<u>Department/Bureau</u>	<u>Amount</u>
	DES/Water/Directors Office	\$ 300.00
	Library/Winton	100.00
	Library/Highland	100.00
	DES/Water	400.00
	Library/Wheatley	100.00
	Library/Lincoln Ave	100.00
	Finance/Treasury	125.00
	Police/Administration/Animal Control	300.00
	Police/Property Management/ Property Room	50.00
	Police/Property Management/Auto Pound	50.00
	DES/Office of Comm./Mt. Hope	100.00
	Mayor/Communications/Special Events	450.00
	Mayor/Communications	250.00
	DES/Mt. Hope Cemetery	80.00
	Mayor/BHRM/Safety & Training	100.00
	Finance/Parking & Code Violations	800.00
	Mayor/BHRM	100.00
	DRYS/Campbell Street	100.00
	DES/Equipment Services	200.00
	DES/Special Services	<u>100.00</u>
		<u>\$3,905.00</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 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

			Limitation of		Excessive Fund	
		Number of	\$40 Exceeded			Shortage/
		Purchases	And Split		Unallowable	Inadequate
<u>Name</u>	<u>Department/Bureau</u>	<u>Examined</u>	<u>Fund Balance</u>		<u>Purchases Made</u>	<u>Fund Maint.</u>
			<u>Over</u>	<u>Short</u>	<u>Expenses</u>	
	DES/Water	62			No findings noted	
	Library/Winton Rd	*			No findings noted	
	Library/Highland	*			No findings noted	
	DES/Water Stockroom	83		-2.24	X	X
	Library/Wheatley	*			No findings noted	
	Library/Lincoln Ave.	*		-2.45		
	Finance/Treasury	*			No findings noted	
	Police/Animal Control	44			No findings noted	
	Police/Property Room	0			No findings noted	
	Police/Auto Pound	1			No findings noted	
	DES/Cemeteries/Mt. Hope	9			No findings noted	
	Mayor/Comm./Special Events	19		-398.27		X
	Mayor/Communications	38		-4.98		
	DES/Cemeteries/Mt. Hope	0			No findings noted	
	Mayor/BHRM/Training & Safety	14			No findings noted	
	Finance/Parking Violations	*			No findings noted	
	Mayor/BHRM	44		-0.90		
	DRYS/Campbell St.	30			No findings noted	
	DES/Equipment Services	73			No findings noted	
	DES/Special Services	19			No findings noted	

* Change fund only, not used for purchases

A. Limitation of \$40.00 Exceeded And Split Purchases Made

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 (split purchases) 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 three occurrences of split purchases in the fund assigned to the DES, Bureau of Water. The total of each occurrence exceeded the \$40 petty cash limit and these purchases were split to circumvent petty cash policy. These include:

1. A purchase totaling \$79.00 that was split into two separate payment receipts of \$39.60 and \$39.40. Both transactions occurred on the same day with consecutive receipt numbers.
2. A purchase totaling \$78.30 that was split into two separate receipts of \$39.40 and \$38.73. Both transactions occurred on the same cash register within one minute of each other.
3. A purchase totaling \$95.00, split into four separate receipts each for \$23.75.

Additionally, OPI noted a purchase in this fund that exceeded the \$40.00 maximum expenditure allowance. The custodian of this fund reimbursed a receipt totaling \$49.47.

◆ Recommendation

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

B. Unallowable Expenditures

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 noted that the petty cash custodian in DES, Bureau of Water reimbursed food and refreshments for City employees. We noted five receipts totaling \$135.00 for food and refreshments. Four of the five

receipts were each \$23.75 for donuts and coffee all purchased at the same time and the fifth receipt was for \$40.00 for pizza. These purchases were consumed by City employees during the annual Bureau of Water stockroom inventory.

As a result of this review, management reimbursed the petty cash fund for the food and refreshment expenses and indicated that they will no longer provide food and refreshments for employees conducting City business.

◆ Recommendation

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

C. Excessive Fund Shortage and Inadequate Safeguards

Public Integrity noted a shortage of \$398.27 in the petty cash fund assigned to the Bureau of Communications, Office of Special Events. The fund custodian indicated that she was unaware of this shortage and could offer no explanation for it. Additionally, we noted that, at the time of the unannounced cash count, the fund was in an unlocked box in an unlocked desk drawer.

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.

As a result of this review, the custodian reported the loss to both Treasury and the Rochester Police Department.

◆ 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 Policy states, 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: Daniel Mastrella, Internal Audit/Office of Public Integrity

From: Paul M. Holahan, Commissioner of Environmental Services *P.H.*

Date: August 28, 2013

Subject: **Response to Petty Cash Audit – Bureau of Water**

I have reviewed the draft audit report from the review of selected petty cash funds and I concur with the findings relative to the Bureau of Water's petty cash transactions. The petty cash custodian has been counseled concerning the violations noted in the audit and has been instructed to follow the City's Petty Cash Policy provisions. My expectation is that there will be full adherence to the policy going forward.

Thank you for your continued work to improve department operations.

Cc: Robert Morrison, Director of Water
Mary Gaudioso, Assistant Commissioner



Inter-Departmental Correspondence

To: Dan Mastrella, Manager of Internal Audit, OPI

From: Gary Walker, Director of Communications

(Signature)

Date: August 16, 2013

Subject: Petty Cash Theft – Special Events Office

Apparently when the Office of Special Events was transferred from DRYS in 2009, a petty cash account followed the office. This was the second petty cash account in the Bureau of Communications.

In response to the discovery of an excessive fund shortage as a result of this audit, I directed that this petty cash account be closed. The primary Communications Bureau petty cash custodian will handle any petty cash needs of the Special Events Office.

I have also advised Special Events staff to lock the office, located in 203 A, each evening. There are a number of public evening events in the City Hall atrium which increase foot traffic near the entrance to the office.

