

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 16 of the 91 authorized petty cash funds for detail testing. At the request of the Bureau of Treasury we tested four specific custodial funds. We also selected a sample of 12 additional funds assigned to 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.

- Public Integrity noted one fund in Neighborhood and Business Development(NBD)/Commissioner's Office with a shortage of \$99.33. Additionally, this fund contained 10 unreimbursed receipts, totaling \$53.00, that were for purchases made over one year ago from the date we conducted the fund count.
- We noted one occurrence in the Department of Environmental Services, Special Services where the custodian did not properly safeguard the assigned fund.
- OPI noted that two fund custodians reimbursed personal expenditures totaling \$17.00.
- We noted an occurrence in the Bureau of Communications fund of a split purchase that, in total, exceeds the \$40.00 petty cash limitation.
- We noted two occurrences in which the custodian in possession of the petty cash funds do not match the Bureau of Treasury records.

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 16 of the 91 authorized petty cash funds for detail testing. We conducted these counts between March 3, 2010 and March 25, 2010.

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 March 2, 2010 there were 91 PCOs on file in the Bureau of Treasury representing a total value of \$27,015.00. 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 March 2, 2010

<u>PCO Amount</u>	<u>Number of Funds</u>	<u>%</u>	<u>Value Of Funds</u>	<u>%</u>
\$ 1 - 50	12	13.19%	\$ 565.00	2.09%
51-100	22	24.18	2,035.00	7.53
101-150	3	3.30	415.00	1.54
151-200	13	14.29	2,600.00	9.62
201-250	3	3.30	750.00	2.78
251-300	16	17.58	4,800.00	17.77
301-350	3	3.30	1,050.00	3.89
351-400	7	7.69	2,800.00	10.36
401-450	1	1.09	450.00	1.67
451-500	5	5.49	2,500.00	9.25
501 +	<u>6</u>	<u>6.59</u>	<u>9,050.00</u>	<u>33.50</u>
	<u>91</u>	<u>100.00%</u>	<u>\$ 27,015.00</u>	<u>100.00%</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 16 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>
	Library / Sully Branch	\$80.00
	DES / Street Maintenance	200.00
	NBD / Commissioner's Office	100.00
	Office of Emergency Communications	300.00
	DES / Special Services	200.00
	DES / Engineering Services	40.00
	NBD / Commissioner's Office	350.00
	NBD / Commissioner's Office	600.00
	DRYS / Carter Street Recreation	200.00
	RPD / Chief's Office	1,000.00
	DRYS / South Avenue Recreation	300.00
	Communications	250.00
	DRYS / Recreation Administration	300.00
	DES / Operations	400.00
	RFD / Supply Depot	300.00
	RPD / Technical Services	<u>50.00</u>
		<u>\$ 4,670.00</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>Name</u>	<u>Department/Bureau</u>	<u># of Purchases Examined</u>	<u>Fund Balances</u>		<u>Improper Expenditure</u>	<u>Inaccurate Treasury Records</u>	<u>Inadequate Safeguards</u>	<u>Outdated Expenses</u>	<u>Split Purchase</u>
			<u>Over</u>	<u>Short</u>					
	Library/Sully Branch	*		\$ 0.30		X			
	DES/Street Maintenance	34							
	NBD/Commissioners Office	18							
	OEC	41							
	DES/Special Services	18		0.02			X		
	DES/Engineering Services	*							
	NBD/Commissioner's Office	4							
	NBD/Commissioner's Office	33		99.33				X	
	DRYS/Carter Street	92		2.71					
	RPD/Chief's Office	68			\$15.00				
	DRYS/South Avenue	27	\$14.01						\$50.37
	Communications	23	3.84			X			
	DRYS/Administration	21		14.81	2.00				
	DES/Operations	112	0.73						
	RFD/Supply Depot	15							
	RPD/Tech Services	*		0.25					

* Change Fund Only

A. Excessive Fund Shortage And Outdated Receipts

Public Integrity noted a significant shortage of \$99.33 in the Neighborhood and Business Development, Commissioner's Office. The fund custodian indicated that this shortage occurred because she had lost a voucher including receipts that totaled this amount. Additionally, this same fund included 10 unreimbursed receipts totaling \$53.00 for purchases made over a year ago from the date of the cash count.

Petty Cash Policy states that the custodian should prepare a claim voucher for reimbursement on a regular basis. Petty cash funds and their corresponding disbursements require a clear accounting trail.

- Recommendation

Petty cash custodians should exercise care and diligence in the maintenance of the petty cash funds assigned to them. They should submit claim vouchers for reimbursement on a regular basis. 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.

B. Inadequate Safeguards

OPI noted a fund located in the Department of Environmental Services, Special Services that was not adequately safeguarded. The custodian had the funds in an envelope 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.

- Recommendation

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

C. Limitation of \$40.00 Exceeded By Splitting Purchase Amounts

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. City policy requires departments to follow normal purchasing and payment procedures for purchases exceeding the \$40.00 limitation. Allowing larger amounts to be reimbursed through petty cash funds creates the potential for abusing the purchasing system.

OPI noted an occurrence of split purchases that, in total, exceeds the \$40.00 petty cash limitation and was split to circumvent petty cash policy. One purchase examined in the fund assigned to the Bureau of Communications exceeded the \$40.00 maximum expenditure allowance. The total purchase amount was \$50.37, however, was split into two separate payment receipts of \$25.36 and \$25.01. Both transactions occurred on the same cash register within one minute of each other.

- Recommendation

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

D. 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 two occurrences that violate the Petty Cash Policy. The custodian for the petty cash fund assigned to the Rochester Police Department’s, Chief’s Office reimbursed a questionable expense of \$15.00 for a City employee to attend the retirement party of another City employee.

Additionally, the custodian of a fund assigned to the Department of Recreation and Youth Services, Field Administration, reimbursed herself on two occasions for food and beverage for personal consumption totaling \$2.00.

- Recommendation

Custodians should comply with the Petty Cash Policy and not reimburse any personal unallowed expenses, especially to themselves.

E. Unauthorized Custodians

OPI determined that the custodians of petty cash funds for both the Sully Branch Library and the Bureau of Communications do not agree to Bureau of Treasury records. That is, the persons designated on the PCO's as the custodians, are no longer the individuals in possession of the funds.

The City's Petty Cash Policy states that the designated custodian, who is identified on the Bureau of Treasury's records, is directly responsible for the maintenance and operation of the fund to ensure the security of the City's cash assets. The custodian should be the only person with access to the petty cash fund. Additionally, Petty Cash Policy requires a replacement PCO if there are any changes of the custodian. There is a potential for misuse of funds and a lack of accountability when more than one person has access to a fund.

- Recommendation

The custodian of record should maintain and operate the fund at the location on record with Treasury, or request a transfer of the fund to a new custodian.