

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.

- ◆ OPI noted one occurrence in which the custodian in possession of the petty cash fund did not match the Bureau of Treasury records.
- ◆ We noted one occurrence in the Department of Recreation and Youth Services (DRYS), South Ave Recreation Center where the custodian did not have the fund maintained on-site. The custodian co-mingled the petty cash fund with his personal funds in a personal bank account.
- ◆ OPI noted that three 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.

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 April 18, 2012 and May 28, 2012.

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 February 16, 2012 there were 97 PCOs on file in the Bureau of Treasury representing a total value of \$34,587.00. The average PCO was \$356.00. The largest individual funds include the Law Department and the Public Library (\$3,000.00 each), and the smallest funds include Information Technology/Municipal Archives (\$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 February 16, 2012**

<u>PCO Amount</u>	<u>Number of Funds</u>	<u>%</u>	<u>Value of Funds</u>	<u>%</u>
\$ 1-50	11	11.3%	\$ 515.00	1.5%
51-100	22	22.7	2,075.00	6.0
101-150	5	5.2	715.00	2.0
151-200	11	11.3	2,200.00	6.4
201-250	3	3.1	750.00	2.2
251-300	15	15.4	4,500.00	13.0
301-350	2	2.1	700.00	2.0
351-400	9	9.3	3,600.00	10.4
401-450	1	1.0	450.00	1.3
451-500	6	6.2	3,000.00	8.7
501+	<u>12</u>	<u>12.4</u>	<u>16,082.00</u>	<u>46.5</u>
Total	<u>97</u>	<u>100.0%</u>	<u>\$34,587.00</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>Custodian Name</u>	<u>Department/Bureau</u>	<u>Amount</u>
	Library/Central	\$ 650.00
	Library/Maplewood	100.00
	Library/Charlotte	100.00
	DES/Water	200.00
	Fire/Training	300.00
	City Council/Clerk	100.00
	Office of Public Integrity	50.00
	DES/Architectural Services	40.00
	Law	3,000.00
	DES/Building Services	500.00
	DES/Cemeteries/Riverside	100.00
	NBD	600.00
	DRYS/Recreation/South Ave.	300.00
	DRYS/Recreation/Flint St.	400.00
	OMB/311 Call Center	150.00
	NBD/Building & Zoning	100.00
	DES/Cemeteries/Riverside	80.00
	DRYS/Office of Employment	400.00
	DRYS/Recreation/Carter St.	400.00
	Information Technology	50.00
		<u>\$7,620.00</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**

Name	Department/Bureau	Number of Purchases Examined	Fund Balance		Inaccurate Treasury Records	Sales Tax Paid	Inadequate Fund Maintenance
			Over	Short			
	Library/Central	*		\$-1.83			
	Library/Maplewood	*		-1.00			
	Library/Charlotte	*	\$0.04				
	DES/Water	12		-0.05		X	
	Fire/Training	49	1.66			X	
	City Council/Clerk	13	No findings noted				
	Office of Public Integrity	9	No findings noted				
	DES/Architectural Services	0	No findings noted				
	Law	23	No findings noted				
	DES/Building Services	124	2.09				
	DES/Cemeteries/Riverside	6	1.00				
	NBD	34	No findings noted				
	DRYS/Recreation/South Ave.	44					X
	DRYS/Recreation/Flint St.	0	No findings noted				
	OMB/311 Call Center	24	0.35			X	
	NBD/Building & Zoning	*	No findings noted				
	DES/Cemeteries/Riverside	*	No findings noted				
	DRYS/Office of Employment	5			X		
	DRYS/Recreation/Carter St.	28	No findings noted				
	Information Technology	0	No findings noted				

* Change fund only, not used for purchases

A. Unauthorized Custodian

OPI noted that the custodian of the petty cash fund for the Department of Recreation and Youth Services, Office of Employment Opportunities does not agree to Bureau of Treasury records. That is, the person designated on the PCO as the custodian, is no longer the individual in possession of the fund.

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.

As a result of this review, DRYS personnel submitted a replacement PCO to Treasury that corrected this situation.

◆ 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.

B. Inadequate Fund Maintenance

Petty Cash Policy requires that petty cash custodians maintain their funds under lock and key in a secured location. Additionally, the policy states that "Petty cash funds must not be mixed with any other funds". Controls over petty cash are diminished when custodians store funds off-site or co-mingle them with other funds.

OPI noted that the custodian of the DRYS, South Avenue Recreation Center did not have the petty cash funds on-site at the time of our visit. The custodian indicated that he did not have the combination to the safe at the facility and did not want to leave the funds there unsecured. The custodian removed \$195.63 in petty cash funds from the facility and deposited them into his personal bank account, thereby co-mingling City funds with his own funds.

As a result of this review, the previous custodian of the fund provided the combination to the safe at the facility and the current custodian now has the petty cash fund secured on-site in the safe.

◆ Recommendation

Custodians should adhere to the City's Petty Cash Policy. They should secure all petty cash funds within the City facility and not co-mingled them with any other funds.

C. 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 three 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. We notified the custodians and their supervisors of this issue and they indicated that they would take corrective action.

◆ 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 Recreation and Youth Services to this report follows.



Inter-Departmental Correspondence



To: Daniel Mastrella, Manager of Internal Audit, OPI
From: Luis Burgos, Commissioner, DRYS
Date: September 4, 2012
Subject: Petty Cash Audit

Attached are the actions that we have implemented to improve petty cash management in the Bureau of Recreation.

LB:mh

Attachment



Inter-Departmental Correspondence

To: Luis Burgos, Commissioner
From: Anthony Jordan, Assistant Commissioner of Recreation
Date: August 30, 2012
Subject: Petty Cash Audit

A handwritten signature in black ink, appearing to be "AJ" or similar initials.

The following actions were taken to re-educate petty cash custodians:

1. We re-educated supervisors and custodians at a meeting held in July 2012 about the cash handling policy and responsibilities of staff on this matter (sign in sheet attached).
2. All staff was required to ensure safe and keys/combinations at their site worked properly.
3. We are asking staff to reconsolidate the fund once a month at a minimum; regardless of the cash amount on site.
4. Recreation management and administrative support staff have been trained to provide internal, regular audits of our petty cash custodians. This will occur twice a year.