

CITY OF ROCHESTER
REVIEW OF SELECTED PETTY CASH FUNDS

Office of Public Integrity
Date: October 21, 2015

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 10 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 finding that requires management attention to improve compliance with City policy.

- ◆ We noted one occurrence in the Department of Environmental Services (DES), Riverside Cemetery fund of a purchase that exceeded the \$40.00 petty cash limitation

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 10 funds. OPI conducted these counts between August 27, 2015 and September 22, 2015.

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 August 19, 2015 there were 76 PCOs on file in the Bureau of Treasury representing a total value of \$25,442. The average PCO was \$335. The largest individual funds include the Law Department and the Public Library (\$3,000 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 August 19, 2015

<u>PCO Amount</u>	<u>Number of Funds</u>	<u>%</u>	<u>Value of Funds</u>	<u>%</u>
\$ 1-50	12	15.8%	\$ 575	2.3%
51-100	27	35.5	2,620	10.3
101-150	5	6.5	715	2.8
151-200	8	10.5	1,600	6.3
201-250	2	2.6	500	2.0
251-300	6	7.9	1,800	7.0
301-350	1	1.3	350	1.4
351-400	3	3.9	1,200	4.7
401-450	1	1.4	430	1.7
451-500	1	1.4	500	2.0
501+	<u>10</u>	<u>13.2</u>	<u>15,152</u>	<u>59.5</u>
Total	<u>76</u>	<u>100.0%</u>	<u>\$25,442</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 10 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/Dir. Office	\$ 300
	DES/Water	400
	Finance/Treasury	125
	DES/Cemeteries/Riverside	100
	DES/Comm/Cemeteries/Riverside	80
	Finance/Parking & Code Violations	800
	DRYS/Commissioner's Office	50
	Mayor/BHRM	100
	DRYS/Admin/Biz Kids	200
	DES/Equipment Services	<u>200</u>
		<u>\$2,355</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.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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.

The recommendation presented in this report includes the more significant area of potential improvement that came to our attention during the course of the examination, but does 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 the following finding that requires management attention to improve compliance with the policy.

A. 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 prior approval of the Deputy Director of Finance. 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 a purchase in the fund assigned to DES, Riverside Cemetery that exceeded the \$40.00 maximum expenditure allowance. The custodian of this fund reimbursed a receipt for postage for \$62.30.

◆ Recommendation

All custodians should comply with Petty Cash Policy and limit purchase amounts to the maximum permitted by the policy.

IV. DEPARTMENTAL RESPONSE

The response of the Department of Environmental Services to this report follows.



To: Daniel A. Mastrella, Manager of Internal Audit
From: Norman H. Jones, Commissioner of Environmental Services
Date: October 8, 2015
Subject: **Results of Petty Cash Fund Audit**

A handwritten signature in black ink, appearing to be 'NHJ', located to the right of the 'From:' field.

I have reviewed the draft findings for the audit of the Building & Parks/Cemeteries petty cash fund. The audit noted that one transaction for postage exceeded the allowable petty cash expenditure limit of \$40.

To ensure policy compliance, the Petty Cash Policy has been reviewed with the appropriate staff at the cemetery. I am confident that all policy requirements will be abided by in the future.

Thank you for your continued work in ensuring departmental compliance with City of Rochester policies and procedures.

Cc: C. Mitchell Rowe, Director of Buildings & Parks