



City of Bowling Green

Internal Auditor's Office

Follow-Up Report on Petty / Departmental Cash Audit

Project# 2010-17

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Finalized: 07/12/10

Deborah Jenkins, CFE, CICA

Transmittal Letter

TO: Kevin D. DeFebbo, City Manager
Charles T. Hays, Audit Committee Member
David McKillip, Audit Committee Member
Jean Cherry, Audit Committee Member
James Martens, Audit Committee Member
Bruce Wilkerson, Commissioner and Audit Committee Member

CC: Senior Management Staff with departmental petty cash funds

FROM: Deborah Jenkins, Internal Auditor

Pursuant to the *Charter of the Internal Auditor's Office*, I hereby submit the follow-up report covering the Petty Cash / Departmental Cash of the City of Bowling Green. The objective of this follow-up report was to determine if management implemented the four (4) recommendations made in an earlier report, *Petty Cash / Departmental Cash Audit* (Project# 2008-27, finalized on October 7, 2008). The results of the *Petty Cash / Departmental Cash Audit*, which are contained within this report, have been discussed with management.

Results in Brief

Overall, the Petty Cash / Departmental Cash funds were appropriately secured and accounted for in compliance with policy. The four recommendations are considered to be implemented with a minor clarification to require submittal of the Petty Cash Reconciliation Form prior to issuing replenishment checks.

I would like to thank all of the various custodians and management for their cooperation and assistance during this follow-up.

Sincerely,

Deborah Jenkins, CFE, CICA
Internal Auditor

Objective

The objective of this follow-up report was to determine if management implemented the four (4) recommendations made in an earlier report, *Petty Cash / Departmental Cash Audit* (Project# 2008-27, finalized on October 7, 2008).

Scope

The scope of this audit included petty cash reimbursements from January 1, 2009 thru December 31, 2009 under the 2003 revision of the Consolidated Financial Policy Statement (Attachment A) as well as the "Petty Cash Fund Guidelines" issued by the Department of Finance and included as Attachment B.

Methodology

To meet the stated audit objective, I utilized the following methods to obtain and analyze the funds including, but not limited to:

- Performed surprise cash counts
- Reviewed randomized sample of petty cash reimbursements
- Performed analysis of the funds within the various departments
- Reviewed security and accessibility to the cash
- Compared actual counts to general ledger

Conclusion

Overall, the Petty Cash / Departmental Cash funds were appropriately secured and accounted for in compliance with policy. The four recommendations are considered to be implemented with a minor clarification to require submittal of the Petty Cash Reconciliation Form prior to issuing replenishment checks.

Results of the Follow-up Audit

Previous Observation and Recommendation:

1. Police should consolidate to one administrative petty cash fund.

Prior Auditor Recommendation

I recommend that the two petty cash funds be consolidated to a centralized custodian that is not the POE. The Records Division is centrally located and easy for all Police Department employees to request petty cash. This would also create the proper segregation of duties by segregating the custodian of petty cash from the POE requesting the reimbursement.

Prior Police Department Management Response

The Police Department can function effectively with a single Petty Cash Fund.

Sound money management practices would suggest that the department's POE should not be the manager of a Petty Cash Fund; however, the Records Division may not be the appropriate or optimal location for the management of a Petty Cash Fund.

It is my recommendation that the Police Chief should retain discretion in determining the appropriate person to manage the Petty Cash Fund.

Current Status: IMPLEMENTED

The Police Department petty cash custodian has been changed to an employee who is not a Purchase Order Employee (POE) and created proper segregation of duties. The Records Division petty cash has been closed.

2. Golf Division petty cash needs proper segregation of duties.

Prior Auditor Recommendation

The Golf Division should take steps to properly segregate the duties related to the petty cash fund or close the petty cash fund and receive reimbursements from another petty cash custodian within the Parks and Recreation Department.

Parks and Recreation Management Response

Although the point is now moot, consideration must be given because there is only one administrative employee in the division and most purchases were for small office-related items such as stamps. The transaction records were kept electronically and receipts were maintained. This was the only employee who utilized petty cash.

Current Status: IMPLEMENTED

The Golf Division petty cash fund has been closed and the division now obtains reimbursements from either the administrative office or the treasury office.

3. The Petty Cash Policy should be revised and there should be clear lines of management responsibility.

Prior Auditor Recommendation

A copy of the custodian's Reconciliation Form should be required to process replenishment requests for petty cash. The use of the new reconciliation form would:

- *ensure that the attached receipts and cash amount stated reconciles back to the approved balance;*
- *document that the custodian is conducting a monthly reconciliation of funds; and*
- *confirm any short/over amounts.*

In addition, any overages should be turned in to the Treasury Division each month to be deposited and the reason for the overage, if known, should be documented. This will help custodians maintain their approved amount and make monthly reconciliation easier.

The \$50 limit stated in the current Petty Cash Policy being tested should be enforced, or it should be revised with an appropriate dollar amount or the option to reimburse above \$50 with documented Senior Management approval. Custodians should not be allowed to use this fund to circumvent purchasing policy. Management should periodically monitor disbursements and any attempt to circumvent policy should result in appropriate disciplinary action.

Finance Department Management Response

Management agrees with the findings and recommends increasing the petty cash limit from \$50 to \$75 and allowing reimbursements over the limit on an individual basis, with the appropriate Senior Management's approval. The Finance Department will review petty cash reconciliations monthly and maintain up-to-date records of custodians and petty cash fund amounts. Senior Management will be responsible for approving changes, reviewing reconciliations and determining any reimbursements that do not qualify.

City Clerk Division Management Response

Although the store receipt was in the cash box documenting the amount and prior approval for the expenditure had been given by Management, a pre-numbered petty cash slip was not completed or attached at time of expense. Management accepts the findings as reported and has taken corrective action.

Fire Department Management Response

The overage of \$145.71 in the petty cash account is from the following:

One-hundred dollars is from Car 7. Car 7 was issued \$100.00 to keep and use for any after hour emergency. They returned the money to the custodian.

#2 The overage of \$45.71 is from the employees not accepting the change that is due to them. This practice has been discontinued.

Parks and Recreation Management Response

As mentioned, Golf has turned in their petty cash and will turn in their receipts at the main Parks Administrative Office. Cemetery Administration has split their \$100 petty cash as requested. They now have them in separate bank bags. One bag with \$40 is for petty cash and one bag with \$60 is used for change to patrons.

Regarding the overage of \$10.04- it is from stamps sold to either employees or the general public. When the overage reaches double figures, we deposit the money into Parks Other Income. That account number is 001-4111-403515.

Current Status: IMPLEMENTED

The petty cash reimbursement limit has been increased to \$75 and reimbursements above this amount require approval by their respective Senior Manager. The “Petty Cash Fund Guidelines” are included as Attachment B. A reconciliation form (Attachment C) has been created, however, only seven (7) of the fifteen (15) reimbursements tested included a reconciliation form within the supporting documentation on file in the Department of Finance when originally tested. Two (2) of the seven (7) reconciliation forms were immediately found within the Department of Finance where the forms were submitted but failed to be scanned into the system. The remaining five (5) were submitted by the departmental custodians after Internal Audit notified the Department of Finance that the forms were not included and they immediately requested the documentation from the applicable departments. The reconciliation form should be required by Finance as part of the backup attached to the reimbursement request **before** a replenishment check is approved.

- 4. Approved petty cash funds should be monitored periodically by Senior Management to ensure continued need and appropriate amount.**

Prior Auditor Recommendation

Senior Management should periodically determine the needs of their departmental petty cash funds and adjust accordingly. I would recommend setting a goal percentage of usage and try to adjust approved levels toward that goal percentage. I have provided a summary of the turnover analysis conducted in this audit as Attachment C. I will agree to conduct an annual turnover analysis along with my cash counts. This turnover analysis will be provided to the applicable Senior Manager for their determination of continued need and amount. The petty cash custodians should also have a standardized way to request an increase or decrease in funds if their needs change, with Senior Management approval, so that if there is a significant change in usage between the annual analyses an adjustment could be made.

Finance Department Management Response

The Finance Department also agrees that petty cash fund usage should be monitored and funding levels adjusted based on management consensus.

Current Status: IMPLEMENTED

A standardized form to request increase or decrease in petty cash funds has been created and included in Attachment C. A turnover analysis is included in this report as Attachment D. It was agreed that each applicable Senior Manager should determine if their petty cash levels were appropriate, rather than the Department of Finance trying to determine various departmental needs. The analysis has been provided to each applicable Senior Manager for their review.

Attachment A

Consolidated Financial Policy Statement
2003 Revision

SECTION VI. PETTY CASH

1. Petty cash funds shall be created only upon the approval of the City Treasurer.
2. Custodianship of each petty cash fund shall be assigned to a responsible person.
3. The amount of individual disbursements and maximum amount of total disbursements in any one transaction shall be restricted to a specified and reasonable amount as determined by the City Treasurer.
4. All disbursements from petty cash require the completion of a pre-numbered voucher in ink, supported by vendor documents and signed as received by a responsible employee other than the custodian.
5. Reimbursements shall be made by check payable to the custodian of the individual petty cash fund.
6. At reimbursement, vouchers for expenditures shall be reviewed by a responsible employee other than the custodian.
7. Petty cash system(s) maintained by the Police Department for investigative purposes may require special accounting and internal control procedures which must be reviewed and approved by the City Treasurer and Chief Financial Officer.

Attachment B

Petty Cash Fund Guidelines

Issued by the Department of Finance

Petty Cash Guidelines

- Adequate receipts and documentation must be maintained to support all transactions made from the Petty Cash Fund.
- The petty cash fund may not be used to circumvent City purchasing procedures.
- The Chief Financial Officer or designee may open, close, increase or decrease petty cash funds upon recommendation from the Internal Auditor and Senior Management.
- Under no circumstances should an individual keep City cash with their own personal funds, deposit City funds in a personal bank account or take City funds to one's home for safekeeping.

Duties of Petty Cash Custodian

1. Petty cash funds must be stored in a safe, locked location.
2. Accurate records of the fund must be kept by using the pre-numbered Petty Cash Receipt booklet and Petty Cash Receipt forms.
3. Petty cash funds may be used for purchases up to \$75.00, requests over that amount must be approved by the appropriate Senior Manager's signature.
4. Purchase receipts shall be stapled to the back of the Petty Cash Receipt form. At least once a month the receipts will be forwarded to a POE for P.O. issuance.
5. Petty cash funds must be reconciled by using the Petty Cash Reconciliation form as necessary. Overages or shortages must be noted and reconciled to the base amount of the petty cash fund.
6. Appropriate records must be maintained on a daily basis, as this petty cash fund is subject to audits, at all times, by the Internal Auditor.
7. The custodian will be personally accountable for the Petty Cash Fund until all of the funds and/or receipts have been submitted to the Finance Department and the account closed.

Establishing a Petty Cash Fund

- Complete the Petty Cash Form
- Obtain the appropriate Senior Manager's signature
- Forward the Petty Cash Form to the Accounting Division
- The custodian will be notified when a check has been issued to establish the petty cash fund

Increasing/Decreasing Petty Cash Fund

- Complete the Petty Cash Form

- Obtain the appropriate Senior Manager's signature
- Forward the Petty Cash Form to the Accounting Division and applicable cash funds (if decreasing) to Treasury with a copy of the Petty Cash Form
- The custodian will be notified when a check has been issued for the additional funds (if increasing)

Closing a Petty Cash Fund

- Complete the Open/Close Petty Cash Fund portion of the Petty Cash Form
- Obtain the appropriate Senior Manager's signature
- Forward the Petty Cash Form to the Accounting Division and remaining petty cash funds to Treasury with a copy of the Petty Cash Form
- Complete the Petty Cash Reconciliation Form to show a \$0 balance and forward to the Accounting Division

Attachment C

City of Bowling Green

Petty Cash Reconciliation Form

Forward completed form to the Accounting Division

A. Approved Petty Cash Fund Amount	\$ _____
B. Current Cash on Hand	\$ _____
C. Total amount of reimbursement payment invoices	\$ _____
D. Ending Petty Cash Fund Amount (B + C)	\$ _____
E. Over / Under (A - D)	\$ _____ *

Explanation

* Amounts over the Approved Petty Cash Fund amount must be **forwarded to Treasury with this form** and will be recorded as revenue

* Amounts under the Approved Petty Cash Fund amount will be reimbursed by a charge to the appropriate Miscellaneous Expense GL account, **documented by this form**, made payable to the petty cash custodian

Custodian Signature: _____

Date of Reconciliation: _____

CC: Accounting

City of Bowling Green

Petty Cash Form / Departmental Cash Form

Forward completed form to the Accounting Division

Open / Close / Increase / Decrease / Custodian Change

Department _____ Date _____

Current Petty Cash Amount \$ _____

Requested Change Amount* \$ _____

New Petty Cash Amount* \$ _____

*** For Petty Cash increases, answer the following:**

How many times during the last year has this petty cash drawer exceeded the petty cash amount? _____

How many times during the last year has more than one reimbursement been requested during any given month? _____

Current Custodian _____

Current Vendor Number _____

New Custodian _____

New Vendor Number _____

Location of Petty Cash Drawer _____

Explanation: _____

Senior Manager Approval _____ Date _____

Chief Financial Officer or designee Approval _____ Date _____

Updated by _____ Date _____

CC: Treasury
Accounting

Attachment D

Calendar Year 2009 Petty Cash Reimbursements

Parks and Rec. (Admin.) Anna Jones- Custodian

11	Total Reimbursements	\$2,444.99
	Petty Cash Approved Amount	300.00
	Average Turnover % per month	67.92%
	Maximum Monthly Reimbursement	285.59
	Minimum Monthly Reimbursement	158.98

Finance(Treasury) Judy Nash- Custodian

12	Total Reimbursements	\$2,408.38
	Petty Cash Approved Amount	400.00
	Average Turnover % per month	50.17%
	Maximum Monthly Reimbursement	287.93
	Minimum Monthly Reimbursement	161.19

Fire (Admin.) Teresa Kendall- Custodian

9	Total Reimbursements	\$1,200.48
	Petty Cash Approved Amount	200.00
	Average Turnover % per month	50.02%
	Maximum Monthly Reimbursement	187.64
	Minimum Monthly Reimbursement	59.84

BGPD (Admin) Beverly Pennington (1/1/09-4/16/09) and Wanda Palazzi (4/17/09-12/31/09)- Custodian

10	Total Reimbursements	\$948.61
	Less: Help Fund Amount	(507.00)
	Petty Cash Reimbursements	441.61
	Petty Cash Approved Amount	300.00
	Average Turnover % per month	12.27%
	Maximum Monthly Reimbursement	68.06
	Minimum Monthly Reimbursement	20.87

City Manager (City Clerk) Jennifer Portmann- Custodian

9	Total Reimbursements	\$687.26
	Petty Cash Approved Amount	400.00
	Average Turnover % per month	14.32%
	Maximum Monthly Reimbursement	140.85
	Minimum Monthly Reimbursement	15.00

Parks and Rec. (Cemetery) Beverly Fleenor- Custodian

3	Total Reimbursements	\$30.42
	Petty Cash Approved Amount	40.00
	Average Turnover % per month	6.34%
	Maximum Monthly Reimbursement	10.50
	Minimum Monthly Reimbursement	9.50