



Lexington-Fayette Urban County Government

Division of Internal Audit

INTERNAL AUDIT REPORT

October 24, 2003

TO: Teresa Ann Isaac, Mayor

FROM: Bruce Sahli, Director of Internal Audit

RE: Petty Cash Audit

Background

The Lexington Fayette Urban County Government currently has sixty-four active Petty Cash Funds. Petty Cash Funds are designed to enable a Department or Division within a Department to make small purchases without pre-approval by the Division of Purchasing. The Petty Cash Fund is established by the Department of Finance for a specific amount, and the fund is assigned to a custodian who is solely responsible for its activity and security. The custodians are instructed to disburse cash from the funds for government purchases not to exceed \$25, and to submit a Request for Reimbursement accompanied by the related original receipts at least every thirty days in order to replenish the fund.

Scope and Objectives

We conducted an audit of all Lexington Fayette Urban County Government Petty Cash Funds. The general control objectives of the audit were to determine:

- LFUCG Petty Cash Policies and Procedures were being adhered to.
- Petty Cash Funds were properly secured and safeguarded from loss.
- Proper accountability for the Petty Cash Funds exists on a consistent basis.
- Authorized amounts of Petty Cash Funds were consistent with expenditure levels.

Statement of Auditing Standards

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

Audit Opinion

In our opinion, the controls and procedures did not provide reasonable assurance that the general control objectives were being met.

Summary of Audit Findings

Adherence to Policies and Procedures

Nine Petty Cash Funds (14%) were short at least \$10.00 when compared with the authorized amount, the most significant being a shortage of \$62.84. The shortages generally occurred due to a lack of documentation when employees were reportedly given cash to make purchases. It is recommended Cash Advance Slips be provided to all Petty Cash custodians, which should be completed and retained with the Petty Cash Fund until the employee returns with the related purchase receipt.

Forty-four Petty Cash Funds (69%) did not use the Petty Cash Reconciliation Form or only completed the Form when issuing a Request for Reimbursement. As an indication for the need to comply with this procedure, eighteen Petty Cash Funds (28%) had cash variances of +/- \$5.00 on the date of their audit, and thirty-eight (59%) did not clear fund overages or shortages on the date of their last reimbursement request. Purchasing Procedures require the Petty Cash Fund be reconciled on any day during which there is activity. The reconciliation is an important control necessary to ensure the actual fund balance agrees with the related record of activity. Failure to comply with this procedure could result in the inability to identify Petty Cash shortages on a timely basis. It is recommended the requirements for completion of the Reconciliation Form be consistently adhered to.

Petty Cash Funds Secured and Safeguarded

Seventeen Petty Cash Funds (27%) were stored in unlocked cash boxes, and fourteen Petty Cash boxes (22%) were stored in unlocked storage units. Purchasing Procedures require the Petty Cash Fund be kept in a locked box or safe with access limited to the Custodian, and further states that the Custodian is personally responsible for the security of the Petty Cash Fund. It is recommended procedures related to Fund security be consistently adhered to.

The custodian for one Petty Cash Fund set up as a checking account was pre-signing some of the fund's checks with the payee and amount sections being left blank. The checkbook was unsecured on the date of this Fund's audit. These practices increase the risk of theft or misappropriation of funds. It is recommended checks be signed and all portions of the checks be completed only upon issuance, and that the checkbook be secured on a consistent basis.

Proper Accountability on a Consistent Basis

Each Petty Cash Fund is assigned to one custodian who is solely responsible for its security, fund balance, and related receipts and other documentation of activity. Typically, there is no other oversight of the Funds at their physical location. It is recommended that the Purchasing Procedures governing the Petty Cash process be amended to require a monthly review of each Fund by the Division Director or their designee. This review should include a count of Petty Cash funds on hand and verification that actual cash agrees with indicated balance on the Petty Cash Reconciliation Form, as well as an examination of fund security and purchase activity.

One Petty Cash Fund, which included both cash and a checking account, was over \$112.30. The cause of the overage could not be determined. Our review of the checking account's bank statements noted that the account was overdrawn \$84.91 in March 2002, overdrawn \$23.59 in June 2002, and overdrawn \$158.56 in March 2003, indicating checks were written during those three months with insufficient funds. Three other funds had combined cash and checks, but did not have issues with checking account activity. It is recommended Petty Cash funds become either cash or checking account to ensure proper reconciliation, and that the reconciliations occur on a monthly basis. If it is necessary to have both cash and checking accounts, the possibility of setting up two distinct Petty Cash funds to accommodate this need should be considered.

Four Petty Cash Funds were being commingled with other cash collections, including proceeds from a personal business (this appeared to be an unintentional error when the custodian cash the Petty Cash Reimbursement check and her business check at the same bank), collections for a flower fund, proceeds from public use of an office copier, and proceeds from the sale of stamps. Petty Cash funds should be kept separate from any other funds or collections to provide proper segregation and accountability.

Thirty Petty Cash Funds (47%) had purchase receipts with no employee signatures. Depending on the function of the various Divisions, Petty Cash Funds are often used for small general purchases such as food or small machine parts. Requiring signatures on the related receipts would provide improved confirmation that the purchases were for legitimate use. It is recommended the Purchasing Procedures governing the Petty Cash process be updated to include this requirement.

Nine Petty Cash Funds (14%) used checking accounts for the disbursement of funds. The custodians responsible for those accounts had not received copies of the related Bank Statements from Accounting for several months, making a full reconciliation of the Funds impossible. It is recommended copies of the related Bank Statements be provided to the appropriate custodians on a timely basis in order to facilitate monthly reconciliation of these Funds.

Fund Balance Consistent With Activity Level

Twelve Petty Cash Funds (19%) need to have their authorized amount reduced due to their inactivity and/or small reimbursement requests as compared to the authorized fund balance. A list of the funds recommended for reduction will be passed on to the Finance Department for consideration.

Department of Finance Management Response: The Department of Finance supports the findings of the Division of Internal Audit and concurs with the recommended changes. Specifically, the Division of Purchasing will incorporate the recommended changes to require the review of petty cash accounts by the Director once per month and to require signatures on petty cash receipts into the Purchasing manual. Additionally, the Director will be required to sign the monthly reimbursement requests. We would recommend implementing these changes with a mandatory training class for all petty cash custodians and Directors.

In the past the Department of Finance has performed audits of petty cash accounts upon receiving an application to change the custodian. Furthermore, the petty cash reimbursement requests are reviewed to ensure compliance with other purchasing and accounting procedures. The Department does not have the staffing capacity to perform routine petty cash audits beyond the current processes. Therefore, the Department will evaluate other options to ensure that existing policies are adhered to, including requiring additional self-reporting measures.