

CITY AUDITOR'S OFFICE



**AUDIT OF
FINANCE DEPARTMENT
ACCOUNTING OPERATIONS DIVISION
PETTY CASH FUNDS MANAGEMENT**

Report CW012-2122-01

August 30, 2021

RADFORD K. SNELDING, CPA, CIA, CFE

CITY AUDITOR

TABLE OF CONTENTS

BACKGROUND	1
OBJECTIVES	1
SCOPE AND METHODOLOGY	1
FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS	2
1. Improvements Needed to Petty Cash Fund Policy and Procedures	4
2. Incomplete Supporting Documentation	6
3. Incomplete Fund Management Documentation	8
4. Infrequently Used Petty Cash Funds.....	10
MANAGEMENT RESPONSES	11

**AUDIT OF FINANCE DEPARTMENT
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BACKGROUND

The Finance Department (Finance) oversees the administration of all city petty cash funds. Finance approves or denies requests for petty cash funds and is responsible for enforcing the city's Petty Cash and Change Funds Policies/Procedures FN305 (petty cash policy and procedures). Each department with a petty cash fund manages their funds and the fund custodian(s) and the department director are required to sign a custodial agreement agreeing to comply with the petty cash policies and procedures. According to the petty cash policy:

- Petty cash funds are used for making immediate and/or emergency cash payments and for payments of \$100 or less.
- Petty cash fund disbursements shall not exceed \$100 per occurrence. Employees shall not circumvent the policy by submitting multiple requests below the \$100 threshold.
- Petty cash funds shall not be used to circumvent purchasing or accounting procedures.
- Reimbursements from petty cash should only be made for an activity that is in compliance with the Nevada Revised Statutes, city codes, and policies.

Finance's Accounting Operations Division (Accounting Operations) manages four petty cash funds totaling \$25,000 (two \$5,000 funds and two \$7,500 funds). These funds are used for travel advances and to reimburse departments for qualifying petty cash expenditures. As needed, these funds are replenished in accordance with the petty cash policy and procedures.

OBJECTIVES

Our objectives in completing this audit were as follows:

1. Verify the existence of the four Accounting Operations petty cash funds.
2. Verify Accounting Operations' compliance with the city's Petty Cash and Change Funds Policy/Procedure (FN305) and determine whether the controls in place are adequate.

SCOPE AND METHODOLOGY

The scope of the audit was limited to disbursement transactions (reimbursements and advances) from the Accounting Operations' four petty cash funds during fiscal year 2020 (108 transactions) and disbursements made from each of the four petty cash funds since each of their last replenishments as of the date of our count of the funds on November 19, 2020 (10 transactions).

The scope of our work on internal control was limited to the controls within the context of the audit objectives and the scope of the audit. The audit methodology included:

- Conducting interviews with Finance management and staff

AUDIT OF FINANCE DEPARTMENT
ACCOUNTING OPERATIONS DIVISION
PETTY CASH FUNDS MANAGEMENT
CW012-2122-01
August 30, 2021

- Reviewing relevant regulations, standards, and city policies
- Analysis and detail testing of available data

We conducted this performance audit in accordance with generally accepted government auditing standards except for the requirement for an external peer review every three years. 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 last fieldwork date of this audit was May 5, 2021.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

The results of our audit procedures to each of our audit objectives are found below:

Objective 1:

Verify the existence and accuracy of Finance petty cash funds.

Conclusion:

The City Auditor's office performed a cash count of the Accounting Operations' four petty cash funds on November 19, 2020. The existence and accuracy of all four funds was confirmed during our count.

Objective 2:

Verify Accounting Operations' compliance with the city's Petty Cash and Change Funds Policy/Procedure (FN305) and determine whether the controls in place are adequate.

Conclusion:

We found that the current petty cash policies and procedures do not adequately address certain aspects unique to the Accounting Operations petty cash funds. We also identified reimbursements from the petty cash funds for expenses that were either not reimbursable using petty cash according to policy or not addressed in policy. (Finding #1)

We identified disbursement transactions with incomplete or improper supporting documentation. (Finding #2)

We identified deficiencies in the petty cash fund management documentation being maintained by the petty cash fund custodians. (Finding #3)

AUDIT OF FINANCE DEPARTMENT
ACCOUNTING OPERATIONS DIVISION
PETTY CASH FUNDS MANAGEMENT
CW012-2122-01
August 30, 2021

We identified that two of the four petty cash funds are being used infrequently and may be able to be reduced in amount or closed. (Finding #4)

Further training is required to ensure fund custodians are aware of all petty cash policies and procedures and that these policies and procedures are followed.

Contributors to this report included:

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1. Improvements Needed to Petty Cash Fund Policy and Procedures

Criteria

- **FN305 Petty Cash and Change Funds Policy/Procedure**

- Petty cash funds are used for making immediate and/or emergency cash payments and for payments of \$100 or less. (1d)
- Petty cash fund disbursements shall not exceed \$100 per occurrence. Employees shall not circumvent the policy by submitting multiple requests below the \$100 threshold. (1g)
- Petty cash disbursements shall not exceed \$100 per occurrence. Any attempts to submit multiple requests less than \$100 to be reimbursed for an amount greater than \$100 will be rejected. (E2ii)
- The custodian is required to deny a request if the original receipts, attachments, and signatures are not provided, or if the request is not reimbursable under city policy. (E8)

- **FN212 Gift Card Policy/Procedure**

City employees may purchase gift cards on a case-by-case basis provided the following conditions are met:

- a. Department director or division manager has determined a gift card purchase is necessary for official city business;
- b. Approval has been granted by original signatures from the department director or division manager and the Finance Department using the Gift Card Purchase Request form;
- c. Payment for gift cards may only be made with a city issued procurement card (P-Card) in accordance with FN605 Procurement Card Policy/Procedure. (1)

- **Nevada Revised Statutes (NRS) 372.325**

- The following entities are exempt from the computation of the amount of the sales tax the gross receipts from the sale of any tangible personal property to:
 4. Any county, city, district or other political subdivision of this State.

AUDIT OF FINANCE DEPARTMENT
ACCOUNTING OPERATIONS DIVISION
PETTY CASH FUNDS MANAGEMENT
CW012-2122-01
August 30, 2021

Condition

The Accounting Operations petty cash funds are different from department petty cash funds as follows:

- The Accounting Operations petty cash funds are used to reimburse employees from multiple departments for their petty cash expenditures. Therefore, the Accounting Operations petty cash funds custodians must review the appropriateness of the petty cash reimbursement requests from multiple departments rather than just from their own department as is done by the department petty cash fund custodians.
- The Accounting Operations petty cash funds are used to advance travel funds to city employees from all departments. Travel advances are not a typical petty cash fund expenditure and are not permitted from department petty cash funds.

Our audit included the review of 118 disbursements from the four Accounting Operations petty cash funds to determine whether they complied with the city's petty cash policy. We found that the current petty cash policies and procedures do not adequately address certain aspects unique to the Accounting Operations petty cash funds. We also identified reimbursements from the petty cash funds for expenses that were either not reimbursable using petty cash according to policy or not addressed in policy. The results of our testing are as follows:

- Travel advances are made from the Accounting Operations petty cash funds. Seventeen travel advances were identified that exceeded the petty cash transaction limit of \$100. While the city's travel policy states that Accounting Operations will provide travel advances, the city's petty cash policy does not identify these advances as an appropriate use of a petty cash fund.
- Five of the 118 reimbursements from the Accounting Operations funds exceeded the petty cash transaction limit of \$100.
- One reimbursement was for the purchase of a gift card. According to the city's gift card policy, gift cards are to be purchased using a city procurement card. Therefore, such a purchase would not be reimbursable with petty cash funds.
- Seven reimbursements included reimbursement for sales tax. The city is exempt from paying sales tax and employees are advised to share the city's tax exempt letter when making purchases so they are not charged sales tax. The petty cash policy does not address whether reimbursements for sales tax are permissible.
- Instances of reimbursement for tips were found. The petty cash policy does not provide any guidance on whether tips are eligible for reimbursement and whether there are any limitations to the amounts.
- The policy states that employees shall not circumvent the \$100 per occurrence limitation by submitting multiple requests below the \$100 threshold. This restriction needs to be more clearly defined.
- According to the policy, custodians are required to deny a request for reimbursement if the request is not reimbursable under city policy. As seen in our testing, exceptions were made. The petty cash policy does not address how transactions that are not reimbursable should

AUDIT OF FINANCE DEPARTMENT
ACCOUNTING OPERATIONS DIVISION
PETTY CASH FUNDS MANAGEMENT
CW012-2122-01
August 30, 2021

be handled and whether exceptions can be made. If exceptions can be made, the policy needs to address what additional approvals are required and how these approvals are to be documented.

Cause

- The petty cash policy does not adequately address procedures specific to the handling of the Accounting Operations petty cash funds and the reimbursement eligibility of certain transactions.

Effect

- Incomplete documented procedures on the use of the Accounting Operations petty cash funds.
- Expenses that are not reimbursable from petty cash funds according to policy are being reimbursed without documented evidence of Finance management approval.

Recommendations

- 1.1 Finance management should evaluate and address the testing results and policy deficiencies identified during the audit. Management should consider creating a separate policy and procedure for the handling of the Accounting Operations petty cash funds.
- 1.2 Finance management should provide training to the Accounting Operations custodians on the petty cash fund policy.
- 1.3 Finance management should evaluate whether travel advances should continue to be made from the Accounting Operations petty cash funds.

2. Incomplete Supporting Documentation

Criteria

- **FN305 Petty Cash and Change Funds Policy/Procedure (excerpts)**
 - Signatures of both the employee requesting reimbursement and the employee authorizing the request. (E1)
 - To request a petty cash reimbursement, the employee must...:
 - b. Submit the voucher with the corresponding original receipts attached. Acceptable receipts include an invoice, cash receipt or cash register tape.

AUDIT OF FINANCE DEPARTMENT
ACCOUNTING OPERATIONS DIVISION
PETTY CASH FUNDS MANAGEMENT
CW012-2122-01
August 30, 2021

- ii. Petty cash disbursements shall not exceed \$100 per occurrence. Any attempts to submit multiple requests less than \$100 to be reimbursed for an amount greater than \$100 will be rejected.
 - iii. Online receipts must show a detailed breakdown, by item, including purchase price, tax, shipping, etc. (E2)
 - The authorized approver who signed the *Request a Petty Cash or Change Fund* reviews and approves the reimbursement and prints and signs the *Request for Funds form* on the Authorized Dept. Approver's lines. (E3)
 - The fund custodian enters the paid voucher into the *Petty Cash Log* as each payment is made. (E6)
 - The custodian is required to deny a request if the original receipts, attachments, and signatures are not provided, or if the request is not reimbursable under city policy.
 - a. Original receipts must not be altered, e.g., whited out, scribbled out, or written over.
 - b. If the original receipt is not available, the employee must submit a written explanation, approved by the Department Director, or designee, to replace the missing receipt.
 - c. Original signatures (no signature stamps) are required on all petty cash documents. (E8)
- **FN208 Reimbursements Policy Procedure**
 - The Preparer is responsible for preparing the appropriate documentation to initiate the reimbursement within 14 days of the known need:
 - a. The *Request for Funds* form is available to be used for reimbursements to preparers with a threshold up to and including \$100.
 - b. Those reimbursements greater than \$100 should be entered on a Direct Payment Request (DPR). (Procedure 1)

Condition

Our audit included the review of the supporting documentation of 118 reimbursements made from the four Accounting Operation petty cash funds. We identified 11 transactions with incomplete or improper supporting documentation including:

- No itemized receipt
- Incomplete descriptions of the nature of the business expense
- Incorrect documentation used in the purchase of a gift card
- Reimbursements for expenses greater than \$100 that should have been processed using a Direct Payment Request form rather than petty cash as required by the city's Reimbursements policy

Cause

- Inadequate review of supporting documentation for reimbursement requests.

Effect

- Non-compliance with petty cash and reimbursement policies and procedures.

Recommendations

- 2.1 Finance management should provide additional training to fund custodians on the documentation that must be submitted prior to disbursement from their petty cash funds and the procedures to follow when the documentation is found to be incomplete.
- 2.2 Finance management should document and implement procedures requiring their enhanced review of the adequacy of the supporting documentation being accepted by fund custodians with each fund replenishment.

3. Incomplete Fund Management Documentation

Criteria

- **FN305 - Petty Cash and Change Funds Policy/Procedure (excerpts)**
 - Each department must maintain a Petty Cash Log showing cash issued. (B.4.)
 - The fund custodian enters the paid voucher into the Petty Cash Log as each payment is made. (E6)
 - The Director of Finance, or designee:
 - Reviews the signed *Petty Cash Log*, the *Petty Cash Reconciliation & Replenishment Form*, all original receipts, and all paid and master petty cash vouchers. (G2a)
 - Verifies that the *Petty Cash Log* and *Petty Cash Reconciliation & Replenishment Form* are reconciled. (G2g)
 - Signs the Petty Cash Log indicating that the review and verification were completed. (G2h)
 - If a permanent change of custodianship is required, the Department Director, or designee, must provide the following, in an email, to the Director of Finance:
 - i. Name and position of the new Petty Cash/Change Fund Custodian
 - ii. Name and position of the former Petty Cash/Change Fund Custodian
 - iii. Title of the fund; and
 - iv. Date the change of custodianship will be effective (D1a)

AUDIT OF FINANCE DEPARTMENT
ACCOUNTING OPERATIONS DIVISION
PETTY CASH FUNDS MANAGEMENT
CW012-2122-01
August 30, 2021

- A copy of FN305 Petty Cash/Change Fund Policy/Procedure should be kept with both petty cash and change funds for easy reference. (B3)

Condition

We identified the following deficiencies in the petty cash fund management documentation:

- The fund custodians are only completing petty cash logs when a cash replenishment is needed rather than as each payment is made as required by city policy.
- We reviewed the May, June, and August 2020 (the most recently performed) petty cash reconciliations completed by the custodians for replenishment of the petty cash funds. We noted that the petty cash logs were missing the required signatures.
- The Finance Director or designee is not informed of any permanent changes in custodians via email as required by policy. Instead, the Finance Director/designee is only informed verbally.
- During our cash count, we noted that a copy of FN305 is not kept with each petty cash fund as required by policy.

Cause

- Inadequate enforcement of petty cash fund management documentation policies.

Effect

- Non-compliance with petty cash policies and procedures.

Recommendations

- 3.1 Finance management should provide additional training to fund custodians on the documentation that must be maintained in managing their petty cash funds.
- 3.2 Finance management should document and implement procedures for periodically reviewing compliance by the fund custodians with the maintenance of petty cash fund management documentation.

4. Infrequently Used Petty Cash Funds

Criteria

- **FN305 Petty Cash and Change Funds Policy/Procedures (excerpt)**
 - The Finance Cashier staff will periodically review the activity of each petty cash fund. Petty cash funds that are not used enough to be replenished monthly may be recalled or reduced, e.g., the petty cash fund was funded with \$100.00 but after six months only \$20.00 was used. (C1)

Condition

During our audit we noted that two of the four funds were used infrequently and as a result did not need to be replenished monthly. For the first of the two funds, the last transaction occurred on October 19, 2020 and prior to that it was September 18, 2019, almost a year between transactions. For the second fund, the last transaction occurred February 2020, approximately ten months prior to our cash count date. Accordingly, these funds may be eligible to be recalled or reduced in accordance with the petty cash policy.

Cause

- Lack of periodic review of the activity of the petty cash funds by management to determine whether they should continue to be used, reduced, closed, or combined with another fund.

Effect

- Certain petty cash funds may no longer be needed due to infrequent use.

Recommendation

- 4.1 Finance management should implement procedures for periodically reviewing the disbursement activity of the Accounting Operations petty cash funds and evaluate whether the funds should continue to be used, reduced, closed, or combined with another fund.

MANAGEMENT RESPONSES

1. Improvements Needed to Petty Cash Fund Policy and Procedures

- 1.1 Finance management should evaluate and address the testing results and policy deficiencies identified during the audit. Management should consider creating a separate policy and procedure for the handling of the Accounting Operations petty cash funds.

Management Action Plan:

Management agrees with the recommendation and will create a separate policy and procedure for the handling of the Accounting Operations petty cash fund to address transactions, which are unique to Accounting Operations such as travel advances.

Estimated Date of Completion: September 30, 2021

- 1.2 Finance management should provide training to the Accounting Operations custodians on the petty cash fund policy.

Management Action Plan:

All Accounting Operations custodians attended in-person training on the petty cash fund policy and procedure on May 13, 2021. Finance management will facilitate refresher-training sessions to ensure compliance with the policy and procedures and to address any future changes to the “Petty Cash and Change Funds Policy/Procedure”.

Estimated Date of Completion: Completed

- 1.3 Finance management should evaluate whether travel advances should continue to be made from the Accounting Operations petty cash funds.

Management Action Plan:

Management will create a separate policy and procedure for the handling of the Accounting operations petty cash fund, which will delineate the process governing travel advances.

Estimated Date of Completion: September 30, 2021

2. Incomplete Supporting Documentation

- 2.1 Finance management should provide additional training to fund custodians on the documentation that must be submitted prior to disbursement from their petty cash funds and the procedures to follow when the documentation is found to be incomplete.

Management Action Plan:

All Accounting Operations custodians attended in-person training on the petty cash fund policy and procedure on May 13, 2021. Finance management will facilitate refresher-training sessions to ensure compliance with the policy and procedures and to address any future changes to the “Petty Cash and Change Funds Policy/Procedure”.

Estimated Date of Completion: Completed

- 2.2 Finance management should document and implement procedures requiring their enhanced review of the adequacy of the supporting documentation being accepted by fund custodians with each fund replenishment.

Management Action Plan:

Finance management will implement a monthly review of all petty cash forms and supporting documentation. This new procedure will be documented in a separate policy and procedure that will be created for the handling of the Accounting Operations petty cash funds.

Estimated Date of Completion: Implementation – May 31, 2021; New formal policy and procedure – September 30, 2021

3. Incomplete Fund Management Documentation

- 3.1 Finance management should provide additional training to fund custodians on the documentation that must be maintained in managing their petty cash funds.

Management Action Plan:

All Accounting Operations custodians attended in-person training on the petty cash fund policy and procedure on May 13, 2021. Finance management will facilitate refresher-training sessions to ensure compliance with the policy and procedures and to address any future changes to the “Petty Cash and Change Funds Policy/Procedure”.

Estimated Date of Completion: Completed

AUDIT OF FINANCE DEPARTMENT
ACCOUNTING OPERATIONS DIVISION
PETTY CASH FUNDS MANAGEMENT
CW012-2122-01
August 30, 2021

- 3.2 Finance management should document and implement procedures for periodically reviewing compliance by the fund custodians with the maintenance of petty cash fund management documentation.

Management Action Plan:

Finance management will implement a monthly review of all petty cash forms and supporting documentation. This new procedure will be documented in a separate policy and procedure that will be created for the handling of the Accounting Operations petty cash funds.

Estimated Date of Completion: Implementation – May 31, 2021; New formal policy and procedures – September 30, 2021

4. Infrequently Used Petty Cash Funds

- 4.1 Finance management should implement procedures for periodically reviewing the disbursement activity of the Accounting Operations petty cash funds and evaluate whether the funds should continue to be used, reduced, closed, or combined with another fund.

Management Action Plan:

A comprehensive review of the disbursement activity of the Accounting Operations petty cash funds for fiscal years 2019 through 2021 is currently underway. Management will evaluate the volume and amounts of transactions in the aforementioned period to determine whether any of the petty cash funds should be reduced, closed or combined with another fund.

Estimated Date of Completion: September 30, 2021