



**GARLAND**

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**INTERNAL AUDIT**

## **Cash Count Audit**

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## **Authorization**

Internal Audit (“IA”) conducted an audit of the Petty Cash and Change Drawer funds (CDFs). This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

## **Objective**

The objectives of the cash count audit were to:

1. Determine whether administration of the City’s cash funds is in compliance with the City of Garland’s Accounting Policies and Procedures as well as Directives.
2. Determine the security of Petty Cash funds and CDFs.

## **Scope and Methodology**

IA conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. 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 scope was to perform cash counts on one-third of the Petty Cash and CDFs located in the City of Garland. All accounts were previously counted in FY 2012. Subsequent discussions with the Audit Committee concluded that IA would perform one-third of the City’s cash funds every year, beginning in 2013 and in succession through 2015. We utilized the Google Maps website at [maps.google.com](http://maps.google.com), to create a map showing all account locations to be tested throughout the City. A cluster of 20 cash funds was selected to keep travel to a minimum. The 20 funds consisted of:

- 9 Petty Cash funds
- 11 CDFs

To adequately address the audit objectives and to describe the scope of our work on internal controls, we performed the following:

- Reviewed the City's:
  - Accounting Cash Handling Procedures Directive # 1 (“Accounting Directive #1”) - Obj. 1
  - Accounting Prohibited Expenditures Directive # 9 (“Accounting Directive #9”) - Obj. 1

- Accounting Petty Cash Directive # 11 (“Accounting Directive #11”) - Obj. 1
- Standard Operating Procedure 1124-011 (“SOP1124-011”) – Obj.1
- Conducted surprise counts of Petty Cash and change funds (Obj. 1 & 2)
- Reconciled Accounting’s ledger balance to IA’s count (Obj. 1)
- Observed if funds were secured (Obj. 2)
- Inquired if Petty Cash Custodians had reviewed Policies and Procedures as well as Directives (Obj. 1)
- Verified whether overages/shortages were recorded (Obj. 1)
- Determined if each Petty Cash replenishment check was issued only to the Petty Cash Custodian (Obj. 1)
- Verified if a Petty Cash Reimbursement Log was maintained (Obj. 1)
- Inquired if the Petty Cash Custodian is the only person who had access to the funds (Obj. 2)
- Reviewed the following:
  - Original itemized receipts (Obj. 1)
  - Management approval on documentation (Obj. 1)
  - Prohibited expenditures (Obj. 1)
  - Receipts did not exceed the \$75 limit per transaction (Obj. 1)
  - Split reimbursements (Obj. 1)
- Verified if:
  - Change funds were secure (Obj. 2)
  - Change fund checks in the drawer were endorsed and deposited daily. (Obj. 1 & 2)

To assess the reliability of electronic cash reports produced by departments, IA interviewed cash custodians, performed cash counts and reviewed for any gaps in transaction numbers. As a result of our testing, we determined that the data was sufficiently reliable for the purposes of this report.

Based on the audit work performed, any deficiencies in internal control that are significant within the context of the audit objectives are stated in the Opportunities for Improvement section starting on page 4.

### **Overall Conclusion**

No significant overages/shortages were identified in most of these areas. Fraud was detected in one area which led to initiate an investigation. A separate report was issued to communicate the results of this investigation to the City Council.

A few weaknesses were identified which are listed below:

- Accounting Directives #1 and #11, as well as, SOP #1124-011 have not been updated recently to reflect current business practices, provide guidance and evaluate compliance.

- During IA's count, two minor shortages were identified.
- Two departments were not making daily deposits
- The Accounting department's sub-ledger, which provides details of cash locations, custodian names, amounts and fund numbers, are not up-to-date.

## **Background**

### **Petty Cash**

The current Petty Cash Directive, which allows departments to reimburse employees for expenses of \$75 or less, was issued on September 18, 2000. The Accounting Department is responsible for distributing and documenting the Petty Cash for departments and maintaining a current list of Petty Cash Custodians for each department.

When an employee makes a purchase of \$75 or less, the employee can get reimbursed through their department's or Financial Service's Petty Cash funds. The employee is responsible for submitting an original itemized receipt before reimbursement can be made.

Per Accounting Directives #1 and #11, as well as, SOP #1124-011, Petty Cash Custodians are responsible for obtaining original receipts from employees and issuing a receipt with the employee's name, account number and a brief description of the reimbursement. At the end of the month, the Petty Cash Custodian is required to reconcile their Petty Cash fund, submit all receipts with vouchers to the Financial Services Department and process a request for a check so they can replenish their Petty Cash fund.

In FY2014, there was a total balance of \$12,650 in Petty Cash funds.

### **CDFs**

Various departments throughout the City take in monies for fees and services provided such as permits, inspections, utility payments, registration fees, admissions, etc. The CDFs are used to make change readily available for those customers paying for fees and services. Departments are responsible for reconciling their monies and for preparing cash reports. Most departments take their deposits to the Accounting office to be picked up by Loomis Armored car service.

In FY2014, there was a total balance of \$18,205 issued by Finance in change funds.

## Opportunities for Improvement

During the audit IA identified certain areas for improvement. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the Opportunities for Improvement section presented in this report may not be all-inclusive of areas where improvement might be needed.

### Finding # 1

#### Condition (The way it is)

Accounting Directives #1 and #11, as well as, SOP #1124-011 addressing Petty Cash and Cash Drawer funds have not been updated since June/1997, Sept/2000 and June/2000, respectively. Although many of these updates were recommended by IA in the past, revisions were not made.

The following inconsistencies are still found in these authoritative pronouncements:

#### Accounting Directive #1 –

1. Section 1.5 states “Upon receipt, all checks shall be properly endorsed “City of Garland, Bank One Texas NA, Dallas, TX, for deposit only XXXX (name) Department””. The City currently uses J. P. Morgan Chase Bank.
2. Section 1.8 states “All departments that prepare a departmental cash report for submission to Customer Service will send daily a copy of each cash report along with a legible copy of any supporting receipts to Internal Audit.” This is no longer a requirement.

#### SOP # 1124-011 –

1. Petty Cash Reimbursement section states “At the end of each month, the petty cash custodian/accounts payable associate shall process an accounts payable invoice in the finance system to replenish the Petty Cash balance.” This is no longer a requirement by Finance.

We also noted that there are no requirements for Cash Handling Custodians to review the above mentioned pronouncements and sign a “Cash Handling Custodian Agreement form” upon assignments.

In addition, neither Accounting Directive #11 nor SOP #1124-011 provides any guidelines about Petty Cash Custodian back-up assignments and their responsibilities.

#### Criteria (The way it should be)

Authoritative pronouncements should be updated to reflect current business practices, provide guidance and evaluate compliance.

**Effect (So what?)**

Lack of/outdated policies and procedures could lead to mis-handling of funds, lack of compliance, confusion and unnecessary work.

**Cause (Difference between condition & criteria)**

Management has not taken appropriate actions to revise these authoritative pronouncements.

**Recommendation**

Management should:

1. Ensure that Accounting Directive #1, Section 1.5 is updated to reflect the current bank name.
2. Ensure that Accounting Directive #1, Section 1.8 stating “to send daily a copy of each cash report to Internal Audit” is removed from policy.
3. Revise SOP #1124-011 to require Petty Cash Custodians to reconcile Petty Cash funds on a monthly basis and request replenishment on an as needed basis, instead of monthly.
4. Revise the Accounting Directive #1 and SOP #1124 to require all Cash Custodians to review the cash handling authoritative pronouncements and sign a “Cash Handling Custodian Agreement” form upon assignment.
5. Revise the Accounting Directive #11 and SOP #1124 to add guidelines in regards to the assignments and responsibilities of back-up Petty Cash Custodians.
6. Consider offering cash handling refresher courses periodically and require attendance from all Cash Fund Custodians.

**Management Response**

Management concurs.

**Action Plan**

Directive #1 is in the process of being updated.

SOP #1124-011 will be updated to reflect monthly reconciliation submitted to Finance and replenishment of fund will be as needed.

The Finance Department will meet with Petty Cash Custodians and obtain input related to petty cash backup individuals. Based on input from the custodians and Finance, changes will be updated in the related directives and SOPs. Possible changes include no disbursements made if custodian is out of the office and obtaining petty cash disbursement from the Finance Department if disbursement is

needed immediately.

Possible cash handling cash can be offered on an annual basis.

A custodian agreement is in the process of development.

**Implementation Date**

Changes to directives and SOP's will be submitted to Management by December 31, 2014.

## Finding # 2

### Condition (The way it is)

A surprise cash count was performed on 9 Petty Cash funds to ensure they were in compliance with Directives and SOP's governing the City's Petty Cash funds. Of the 9 Petty Cash counts performed, the following issues were noted:

1. One Petty Cash fund had a shortage of \$49.65.
2. City's Accounting Department had been issuing Petty Cash reimbursement checks to a prior Petty Cash Custodian, for almost a year at one location.

Note: This individual was still employed at this location and no shortage of amount was identified at IA's count.

### Criteria (The way it should be)

1. All Petty Cash fund should be accounted for. Any overage or shortage of funds should be investigated immediately.
2. The SOP # 1124-011 states, "Department Manager or Director shall send the Accounts Payable Supervisor a memo or e-mail identifying and authorizing the Petty Cash Custodian and Petty Cash Amount." Accounting Directive #11 states, "The Department Director shall notify the Accounting Office when the Petty Cash Custodian is changed."

### Effect (So what?)

1. A shortage could indicate improper use of the City's funds.
2. Potential misconduct could happen when the replenishment check is not sent directly to the designated Petty Cash Custodian.

### Cause (Difference between condition & criteria)

1. Multiple personnel had access to the Petty Cash fund.
2. The department did not notify Accounting about the Petty Cash custodian change. The petty Cash reimbursement check request was continuously initiated by the department under the prior Petty Cash Custodian's name.

### Recommendation

1. The Department Director should ensure that only authorized individuals have access to Petty Cash funds. Any shortages/overages should be investigated immediately to identify any control weaknesses.
2. The Department Director should notify the Accounting Department when the Petty Cash Custodian is changed.
3. Accounting should conduct periodic verifications (at least once a year) with

other City Departments in order to identify any discrepancies.

**Management Response**

Management concurs.

**Action Plan**

1. The Petty Cash Custodian will be the only person allowed access to the Petty Cash fund. No other employees will have access to this fund.
2. Per the City Directive #11, Department has notified the Accounting Office that the Petty Cash Custodian has changed.

Management has reviewed City Directive #1 – Cash Handling Procedures and City Directive #011 – Petty Cash with all Customer Service and Management personnel and will follow the directives.

3. Accounting will verify with other City Departments to identify amount and custodian have not changed on an annual basis.

**Implementation Date**

1. Effective Immediately
2. August 5, 2014
3. October, 2014

### Finding # 3

#### Condition (The way it is)

A surprise cash count was performed on 11 CDFs to ensure they were in compliance with Directives and SOP's governing the City's CDFs. We noted the following issues during the review:

1. Two CDF locations were not depositing their collections on a daily basis. The total amount and number of business days it was held during IA's count are listed below:

# of Business Days	Total Amount Held for Deposit
7	\$13,420.14
3	\$3,535.00

2. There was a \$20.00 shortage in one of the 11 change drawers.

#### Criteria (The way it should be)

1. According to Accounting Directive #1, Section 1.3, "Each day's receipts will be deposited intact no later than the following business day."
2. All CFD funds should be accounted for. Any overage or shortage of funds should be investigated immediately.

#### Effect (So what?)

1. Amount held will not be available for immediate use. Additionally, should a disaster or theft take place, multiple day's funds would be lost.
2. A shortage could indicate improper use of the City's funds.

#### Cause (Difference between condition & criteria)

1. One of these departments obtained a waiver from the City Manager. The waiver states, "staff will make every effort to make deposits twice weekly," However, our inquiry revealed that this was not taking place consistently.
2. According to Management, incorrect change may have been given to a customer.

#### Recommendation

Management should:

1. Ensure that each day's receipts are deposited intact no later than the following business day.

2.
  - A. Instruct all cash handlers to review Cash Handling Policies and Procedures as well as Directives.
  - B. Ensure that appropriate daily review and reconciliation is in place to identify any control weaknesses.

**Management Response**

Management concurs.

**Action Plan**

1. Daily deposits will be made by departmental employees.
2. Copies of City Directives concerning cash handling policies and procedures will be distributed to all clerical employees. Daily review and reconciliation is currently in place.

**Implementation Date**

1. Completed.
2. Completed directive distribution. Continue daily review and reconciliation.

## Finding # 4

### Condition (The way it is)

The Accounting Department's sub-ledger, which provides detail of cash locations, custodian names, amounts and fund numbers, are not up-to-date.

### Criteria (The way it should be)

SOP #1124-011 states, "The Accounts Payable Supervisor shall maintain a sub-ledger of Petty Cash Custodians, locations, and amounts."

Accounting Directive #11 states, "The Department Director shall notify the Accounting Office when the Petty Cash Custodian is changed."

### Effect (So what?)

Lack of appropriate audit trail. Inappropriate activities could go undetected.

### Cause (Difference between condition & criteria)

Lack of verification and communication between Accounting and other departments.

### Recommendation

City's Accounting Department should:

- Ensure that the sub-ledger of Petty Cash Custodians, locations and amounts is updated and maintained regularly.
- Conduct periodic verifications (at least once a year) with other City Departments in order to identify any discrepancies.
- Consider offering cash handling courses in order to make the departments' aware of the cash handling requirements.

### Management Response

Management concurs.

### Action Plan

Review sub-ledger on an annual basis to verify the custodians, locations, and amounts tie to GL and departmental records.

### Implementation Date

October, 2014