

AUDIT REPORT

CITY AUDITOR

Report Date:	June 30, 2017
Department:	Citywide
Subject:	Continuous Auditing of Petty Cash & Change Funds
Lead Auditor:	Kate Witek

OBJECTIVE

This audit was conducted to determine whether internal controls are in place and operating effectively to safeguard cash funds throughout the City.

SCOPE & METHODOLOGY

To accomplish our objective, we:

- Conducted unannounced site visits to test 25 change funds and 6 petty cash funds.
- Examined custodial agreements.
- Evaluated the effectiveness of internal controls.
- Tested compliance with City and departmental policies.
- Reviewed previous findings and corrective action plans.

BACKGROUND & DISCUSSION

Benefits of the Continuous Approach to Cash Audits

The following are some key benefits of continuously auditing cash funds throughout the year:

- Errors and irregularities are more likely to be detected and addressed in a timely manner, which reduces the potential impact of losses.
- We are better able to evaluate the consistency of compliance with cash handling policies and procedures. The higher turnover typically associated with cash handling jobs can lead to inconsistent compliance and a breakdown of internal controls.
- More frequent interactions create opportunities to build productive working relationships between auditors and other City staff members. As a result, employees are much more likely to ask questions, share concerns, and engage in open dialogue with auditors, who can often help them find solutions.

Change Funds

Citywide, there are 25 change funds, which are used to conduct cash transactions with customers. These funds should never be expended or depleted for any reason, and should be equal to their established values at all times. Change funds range from as little as \$40, up to \$8,800, depending on the needs of the departments. However, they are used in the processing

of roughly \$1 million in cash transactions per year, so it is essential that strong cash handling controls be in place to help prevent and/or detect losses. Each change fund has one or more designated custodians responsible for ensuring the fund is managed in accordance with City and departmental policies.

Petty Cash Funds

There are 14 petty cash funds, which are used to reimburse employees (up to \$100 per transaction) for authorized small purchases made with personal funds, or for personal vehicle mileage driven for City business. Petty cash funds are replenished as funds are depleted. The total volume of petty cash transactions processed each year has decreased significantly in recent years, due to the increased use of procurement cards. However, there are still some types of transactions, such as mileage reimbursements, for which petty cash remains the most efficient payment method. While these funds are included in our scope, the majority of our cash auditing efforts are directed toward the higher risk change funds.

CONCLUSION

FY 2017

In our opinion, internal controls are in place and operating effectively to safeguard petty cash and change funds throughout the City; and there were no material discrepancies in the cash funds we audited. However, there were a few departments in which we found minor internal control weaknesses related to various activities, including check handling, cash reconciliations, and safeguarding cash during transport. We made recommendations for improvement in each case; and management has agreed to implement them. We will continue to monitor these areas to ensure the issues are effectively resolved.

FY 2016 (follow-up)

Recommendation – Amend policies to require timely notifications

Last year, we recommended that management amend the citywide Petty Cash and Change Fund policies to specify an appropriate time frame in which departments must notify Accounting of a change in fund custodian. The notification process includes specific steps to ensure the new custodian is aware of and understands the applicable policies and procedures; therefore, timeliness is important.

Status – Partially implemented

The Petty Cash policy was amended to specify that Accounting must be notified within 5 business days of a change in custodianship. However, the Change Fund policy was not amended. We are continuing to recommend that management amend the Change Fund policy to add a specific time frame in which Accounting must be notified of changes in custodianship.