



20 E Main St Suite 820  
PO Box 1466  
Mesa, Arizona 85211-1466

Date: May 21, 2015

To: Audit, Finance and Enterprise Committee

From: Jennifer Ruttman, City Auditor

Subject: Audit of Cash Funds and Cash Handling

cc: Mayor and Council  
Michael Kennington, CFO  
Irma Ashworth, Finance Director

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed a citywide audit of petty cash funds, change funds and cash handling. The report is attached will be presented at the next scheduled meeting of the Audit, Finance & Enterprise Committee.

Please feel free to contact me with any questions or concerns.



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## AUDIT REPORT

CITY AUDITOR

<b>Report Date:</b>	<b>May 21, 2015</b>
<b>Department:</b>	<b>Citywide</b>
<b>Subject:</b>	<b>Petty Cash Funds, Change Funds &amp; Cash Handling</b>
<b>Lead Auditor:</b>	<b>Dawn von Epp</b>

### **OBJECTIVES**

This audit was conducted to determine whether:

- Adequate internal controls are in place and operating effectively to safeguard cash funds throughout the City.
- Corrective Action Plans (CAPs) from our 2013 audit have been effectively implemented.

### **SCOPE & METHODOLOGY**

To accomplish our objective, we:

- Conducted unannounced counts of 6 change funds and 15 petty cash funds (sample selected based on prior audit findings and/or the length of time since last audited).
- Reviewed citywide and departmental cash handling policies and procedures.
- Interviewed staff members.
- Performed other tests and procedures as necessary to meet the audit objectives.

### **BACKGROUND**

The most common types of cash funds used in City operations are change funds, which are used in the revenue process, and petty cash funds, which are used in the expenditure process. While most of these funds are maintained with very small balances, the amount of cash that passes through them each year is significant, as noted below. Therefore, cash handling controls must be adequate to protect not just the petty cash and change funds, but all cash handled in the course of City operations.

#### **Change Funds and Cash Handling**

There are 23 change funds used throughout the City to make change during cash transactions with customers. The total value of these change funds is \$28,765, but the total amount of cash that passes through them averages approximately \$1.9 million each year. Each change fund has one or more custodians, who are responsible for ensuring the fund is managed in accordance with City and departmental policies. A change fund should never be expended or depleted for any reason – it should be equal to its established value at all times.

Management Policies 203B–Change Funds and 210–Cash Handling govern the use of change funds citywide, with specific requirements designed to ensure there is individual accountability, segregation of duties, physical security, reconciliation of accounts, and management oversight/monitoring. Departments with staff who handle cash are responsible for developing additional cash handling procedures that apply specifically to their own operational requirements, and their procedures must be approved by the Accounting Division. These departments are also required to conduct audits of their own cash handling operations at least once per year. Additionally, every employee who handles cash is required to have biennial cash handling training, and must fully understand and comply with both citywide and departmental cash handling policies and procedures.

### **Petty Cash Funds**

There are 17 petty cash funds, containing a combined total of \$6,300, which are used throughout the City to reimburse employees for small expenditures (approximately \$50,000/year citywide). To comply with Management Policy 203A–Petty Cash Funds, each transaction must be less than \$100, and petty cash should only be used when no other procurement method is available or practical. The convenience and increased availability of procurement cards have substantially decreased the need for petty cash funds; however, there are some instances in which this may still be the most efficient and cost effective procurement method.

### **Prior Audit Findings**

During our 2013 audit, we found that several departments, including Parks, Recreation & Commercial Facilities; Arts & Culture; Business Services; and Financial Services/Accounting, needed to improve awareness of and/or compliance with policies governing petty cash, change funds, and/or general cash handling. In response, these departments developed specific action plans to address the findings.

## **CONCLUSION**

### **Prior Audit Findings**

The majority of the corrective actions planned in response to the 2013 audit were implemented in a timely manner. However, when this follow-up review was started (over a year later), the Accounting Division had not yet updated Management Policies 203 and 210 to reflect current processes, they had not conducted cash handling training, and they had not obtained and reviewed departmental cash handling procedures. As of this writing, however, the Accounting Division has completed the policy revisions and is actively working on completing the remaining corrective actions.

### **Current Audit Findings**

No material discrepancies were identified in any of the funds in our sample; however, the associated internal controls need improvement. Specifically, there continues to be a lack of awareness among employees and managers regarding the policies and procedures that govern cash funds and cash handling, and several departments have not fully complied with these policies. Examples of noncompliance included:

- Cash over/short amounts not recorded
- Petty cash purchases which should have been made using available procurement cards
- Employees who have not received required training
- Outdated policies & procedures
- Failure to obtain Accounting Division review/approval for cash handling procedures
- Inadequate oversight – self-audits not conducted as required by policy

Since noncompliance was found citywide, we did not obtain management responses from individual departments. In our opinion, a more comprehensive solution is needed to increase awareness and accountability citywide. To be effective, this will require a top-down approach. To that end, the City's Finance Director has taken steps to inform executive staff of the revised cash handling policy and has indicated that the Accounting Division will be auditing cash funds more regularly to ensure ongoing compliance.

### **Ongoing Oversight**

The City Auditor's office will be monitoring compliance with cash policies citywide throughout the 2015/2016 fiscal year, rather than waiting the usual 9-12 months to follow up. All findings will be reported to the Audit, Finance and Enterprise Committee.