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Date: August 15, 2011

To: Audit, Finance & Enterprise Committee

From: Jennifer Ruttman, City Auditor

Subject: Citywide Audit of Petty Cash and Change Funds – Final Report

cc: Kari Kent, Deputy City Manager
Trisha Sorensen, Acting Deputy City Manager
John Pombier, Acting Asst. to the City Manager
Alex Deshuk, Manager of Technology & Innovation
Linda Crocker, City Clerk
Frank Milstead, Police Chief
Harry Beck, Fire Chief
Cindy Ornstein, Arts & Culture Director
Randy Thompson, Communications Director
Diane Gardner, CIO
Heather Wolf, Library Director
Willie Black, Solid Waste Director
Marc Heirshberg, PRCF Director
Tammy Albright, Acting Housing & Community Dev. Director

The City Auditor's office has completed an audit of the City's Petty Cash and Change Funds. The final report, which includes a summary of responses from applicable departments, is attached. Please feel free to contact Dawn von Epp at x2403 or me at x3767 if you have any questions.

AUDIT REPORT

CITY AUDITOR

Report Date: August 15, 2011
Department: Citywide
Subject: Audit of Petty Cash and Change Funds

OBJECTIVE

The objective of this audit was to verify that the City's petty cash and change funds are adequately safeguarded and managed in accordance with Management Policies 203 (Petty Cash and Change Funds) and 210 (Cash Handling).

SCOPE & METHODOLOGY

To accomplish our objective, we:

- Conducted unannounced cash counts on 12 of the 19 petty cash funds and 8 of the 22 change funds throughout the City.
- Interviewed fund custodians, RC Managers and designated approvers.
- Reviewed petty cash reimbursements from July 1, 2010 through March 31, 2011.

BACKGROUND

During a 2009 citywide audit of petty cash and change funds, we found that:

- Some custodians had disbursed funds prior to obtaining the required approvals.
- Some petty cash purchases should have been made with procurement cards.
- One fund was not adequately safeguarded.

OBSERVATIONS

During this audit, we found the following examples of non-compliance with City policy:

- 3 custodians inappropriately advanced/reimbursed employees from petty cash funds prior to receiving the required approval. One of these was a repeated finding from the 2009 audit.
- 2 custodians were not replenishing their petty cash funds within 30 days.
- 1 custodian had a small change fund overage that had been identified but not deposited.
- On 2 occasions, purchases were split to circumvent the \$100 petty cash transaction limit.
- 1 department used petty cash to provide mileage reimbursements to a temporary employee.
- 1 custodian change was not properly documented; Accounting was not informed.
- Several custodians did not have adequate knowledge of relevant policies and procedures.
- Many petty cash purchases should have been made with procurement cards.

We also found that many cash funds have balances that are not appropriate to support the needs of their respective operations; some are too high and some are too low. This observation is based on an analysis of actual usage over a period of 9 months, taking into

consideration the requirement that funds be replenished within 30 days, so that transactions can be recorded in the proper accounting period. As such, each fund should be set at an amount that requires replenishment at least once, but not more than twice, per month. Specific recommendations for balance adjustments have been made to the respective departments.

CONCLUSION

While we found no balance-related discrepancies in the funds examined (except for the minor overage identified above), and no instances of failure to physically safeguard funds, we are concerned about both new and recurring instances of noncompliance with City policies. We believe the majority of these findings are due to fund custodians and managers not having adequate knowledge and understanding of Management Policies 203, 210, and 211.

RECOMMENDATIONS

Various recommendations were made to 10 different departments for 14 different funds. A summary of the recommendations and the departments' responses is attached as Appendix A.

We plan to perform a follow-up review in approximately 9 months, to ensure that all findings have been effectively addressed.

Appendix A Summary of Recommendations & Departments' Responses

Recommendation	Responses
The RC Manager or designee should approve all cash advances and reimbursements <i>before</i> they are disbursed from the fund.	AMY: Will comply. Housing: No longer applicable; fund has been eliminated. ITD: Will comply.
The petty cash fund custodian should submit all petty cash vouchers to Customer Service in a timely manner to ensure that the fund is reimbursed and the expenditures recorded within 30 days of the purchase date.	Communications: No longer applicable; fund has been eliminated. ITD: Will comply.
The RC Manager or designee should not approve, and the petty cash custodian should not accept, vouchers for purchases that have been split to circumvent the \$100 limit.	PRCF: Agree. Staff has been informed and will comply.
For purchases of less than \$100, petty cash should be used only when it is not possible, practical or permissible to use a procurement card. Unless otherwise contraindicated, employees who frequently make purchases of less than \$100 should be issued procurement cards.	AMNH: Agree. Procurement cards will be issued to the 2 applicable employees. AMY: No change. The department does not wish to issue procurement cards to part-time staff. Communications: Agree. The 2 applicable employees have been encouraged to apply for procurement cards. Fire: Agree. Will use procurement card when possible. Housing: No longer applicable; fund has been eliminated. MAC: Agree. Will comply and will issue additional procurement cards if necessary. Police: Agree and will comply when possible. PRCF: Agree and will comply. Red Mountain Library: Agree and will comply. Solid Waste: Agree. Applicable employees have applied for procurement cards.
The RC Manager should clearly communicate to the cash custodian and all other applicable employees the need to read, understand and comply with Management Policies 200, 203 and 211.	AMY: Will comply. City Clerk: Agree. Staff has been informed and will comply. Communications: No longer applicable; fund has been eliminated. Fire: Agree. Will review and comply. Housing: No longer applicable; fund has been eliminated. ITD: Agree. Will comply. MAC: Agree. Staff has been informed and will comply. PRCF: Agree. Staff has been informed and will comply.
The department should consider adjusting the petty cash fund balance to more appropriately meet their operational needs. <i>[Auditor's Note: Specific amounts were recommended to each department. However, the decision to increase or decrease a fund is a management decision, based on multiple operational factors. Therefore, we do not take issue with those who, having considered our input, have chosen not to adjust their fund balances at this time.]</i>	AMNH: Will reduce petty cash fund to \$100. AMY: No change; management will monitor & adjust if necessary. Communications: No longer applicable; fund has been eliminated. Fire: Disagree. No change needed due to close proximity of customer service office. Housing: No longer applicable; fund has been eliminated. ITD: Agree. Will reduce fund to \$250. MAC: Agree. Fund has been reduced to \$550. Police: No change. Management will monitor & adjust if necessary. PRCF: Agree. One fund has been increased to \$600; and the other decreased to \$100.

Appendix A Summary of Recommendations & Departments' Responses

Recommendation	Responses
The Convention Center change fund should be reconciled daily, and any overage or shortage should be recorded immediately. These reconciliations should be independently verified by PRCF admin staff.	PRCF: Agree and will comply.
Management should re-evaluate the total dollar amount maintained in the Convention Center change fund and, if appropriate, should reduce the balance to more appropriately match operational requirements.	PRCF: Agree. Change fund has been reduced.