



City of Bowling Green

Internal Auditor's Office

Petty / Departmental Cash Audit

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Transmittal Letter

TO: Kevin D. DeFebbo, City Manager
Charles T. Hays, Audit Committee Chair
Harold Wills, Audit Committee Vice-Chair
Jean Cherry, Audit Committee Member
James Martens, Audit Committee Member
Brian Strow, Commissioner and Audit Committee Member

CC: Senior Management Staff

FROM: Deborah Jenkins, Internal Auditor

Pursuant to the approved 2007/2008 Internal Audit Plan, I hereby submit my internal audit report covering the Petty / Departmental Cash of the City of Bowling Green. The objective of this audit was to 1) confirm the existence, amount, and current custodian of each of the petty/departmental cash funds; 2) determine that the reconciled cash balance in the department agrees to the general ledger; 3) determine that the Petty Cash Fund Policy is being adhered to, and 4) establish the validity for continued need and appropriate dollar level of the various funds.

This report includes background information to assist the reader in understanding the City's Petty / Departmental Cash procedures. The body of the report consists of observations, recommendations and management's responses to the recommendations.

Results in Brief

Overall, the Petty / Departmental Cash funds are appropriately secured and accounted for in compliance with policy. However, four recommendations have been identified to improve internal controls, efficiency, and monitoring of these funds. The four recommendations are as follows:

1. Police should consolidate to one administrative petty cash fund.
2. Golf Division petty cash needs proper segregation of duties.
3. The Petty Cash Policy should be revised and there should be clear lines of management responsibility.
4. Approved petty cash funds should be monitored periodically by Senior Management to ensure continued need and amount.

I would like to thank all of the various custodians and management for their cooperation and assistance during this audit.

Sincerely,

Deborah Jenkins, CFE
Internal Auditor

Background

The City of Bowling Green's Petty / Departmental Cash Program contains ten (10) separate petty cash accounts totaling \$3,150 and eight (8) departmental cash funds totaling \$7,200 for a total of \$10,350 of cash maintained within various departments of the City as of May 9, 2008. Petty cash funds are established by the Finance Department to provide a convenient and economical way to make small purchases. The departmental cash funds are established by the Finance Department for daily transaction change in the various departments which directly sell services or items to the citizens of Bowling Green. The Petty Cash Policy has been found under section VI of the Consolidated Financial Policy Statement with the last revision being June 2003, included as Attachment A.

In March 2007, the City created a separate position of Purchasing Agent within the City Clerk Division. In January 2008 the Purchasing Agent created a more thorough Petty Cash Fund Policy which was placed into a test period. All custodians were trained on the new test policy on January 17, 2008 which is included as Attachment B. This more detailed Petty Cash Fund Policy is still in a trial period and there are several guidelines and duties listed for the custodians to follow including:

- The petty cash fund may not be used for purchases over \$50.00
- The funds should be kept in a secured, locked location
- A receipt book must be maintained and be completed including account charged, date, department, purpose, custodian approval signature, and receiving employee signature
- Receipts should be forwarded to a POE for replenishment at least once a month
- Custodians are required to reconcile monthly and should complete the Petty Cash Reconciliation Form
- Any custodial changes, increase or decrease requests as well as open/close requests should be submitted with applicable form to the Chief Financial Officer for approval and copied to the Purchasing Agent for monitoring.

As a result of the test period, management has decided to maintain the Petty Cash Fund Policy within the Consolidated Financial Policy Statement. The policy is currently being reviewed by the Finance Department and the new guidelines listed under the test policy will be updated and blended into the next revision expected to be completed by the end of calendar year 2009.

Objective

The objective of the Petty Cash / Departmental Cash Fund Audit is to 1) confirm the existence, amount, and current custodian of each of the petty/departmental cash funds; 2) determine that the reconciled cash balance in the department agrees to the general ledger; 3) determine that the Petty Cash Fund Policy is being adhered to, and 4) establish the validity for continued need and appropriate dollar level of the various funds.

Scope

The scope of this audit included petty cash reimbursements from July 1, 2006 thru January 16, 2008 under the 2003 revision of the Consolidated Financial Policy Statement.

A separate test sampling was taken from January 17, 2008 thru May 1, 2008 in order to test the new Petty Cash Policy that is in a trial period. Also, surprise cash counts were conducted at various times throughout May and June 2008.

Methodology

To meet the stated audit objective, I utilized the following methods to obtain and analyze the funds including, but not limited to:

- Performed surprise cash counts
- Reviewed randomized sample of petty cash reimbursements
- Inquired about any exceptions with specific petty cash custodians
- Performed analysis of the funds within the various departments
- Reviewed security and accessibility to the cash
- Compared actual counts to general ledger

Observations and Recommendations

1. Police should consolidate to one administrative petty cash fund.

Observation

There are currently two different administrative petty cash funds with one located in the Records Division (\$100 approved) and one in the Administrative Division (\$200 approved); however, the Administrative Division fund is mainly used to reimburse the Records Division fund. According to the City's financial software, the last reimbursement requested by the Records Division custodian was in 2001.

Risk

The Administrative Division custodian is also the departmental POE who requests the reimbursements for the fund, which causes a lack of segregation of duties issue. Having one fund established that mostly reimburses the other is also inefficient.

Recommendation

I recommend that the two petty cash funds be consolidated to a centralized custodian that is not the POE. The Records Division is centrally located and easy for all Police Department employees to request petty cash. This would also create the proper segregation of duties by segregating the custodian of petty cash from the POE requesting the reimbursement.

Police Department Management Response

The Police Department can function effectively with a single Petty Cash Fund.

Sound money management practices would suggest that the department's POE should not be the manager of a Petty Cash Fund; however, the Records Division may not be the appropriate or optimal location for the management of a Petty Cash Fund.

It is my recommendation that the Police Chief should retain discretion in determining the appropriate person to manage the Petty Cash Fund.

2. Golf Division petty cash needs proper segregation of duties.

Observation

Of the eleven (11) disbursements selected with the assistance of a randomizer for the Golf Division, seven (7) disbursements contained either partial or complete reimbursements back to the custodian. The division was not using petty cash slips and no signatures were obtained at the time of reimbursement. The custodian is the division's only POE and processes her own reimbursement requests. In addition, the custodian is the only person with access to the funds, so if the custodian is out of the office, no one can obtain a reimbursement until the custodian returns to work.

Risk

To ensure proper internal controls and segregation of duties, no one should be the custodian of a cash account where they reimburse themselves without an approval signature at time of reimbursement, and also process their own reimbursement requests in the financial software. This could lead to a potential loss, error, omission, or fraud.

Recommendation

The Golf Division should take steps to properly segregate the duties related to the petty cash fund or close the petty cash fund and receive reimbursements from another petty cash custodian within the Parks and Recreation Department.

Noteworthy Accomplishment

The Golf Division petty cash fund unannounced cash count was conducted on May 6, 2008 and the division acted quickly by closing this petty cash account on May 15, 2008 to eliminate the segregation of duties issue. Golf employees may now request reimbursements at the Administration Office of the Parks and Recreation Department or in the Treasury Division of the Finance Department.

Parks and Recreation Management Response

Although the point is now moot, consideration must be given because there is only one administrative employee in the division and most purchases were for small office-related items such as stamps. The transaction records were kept electronically and receipts were maintained. This was the only employee who utilized petty cash.

3. The Petty Cash Policy should be revised and there should be clear lines of management responsibility.

Observation

Three (3) of the twenty-one (21) disbursement checks tested, after the January 17, 2008 training was conducted, contained reimbursements over the \$50 stated limit. The over the limit reimbursements included:

- \$50.44 reimbursed on 1/18/08 by City Clerk Petty Cash
- \$53.90 reimbursed on 1/31/08 by City Clerk Petty Cash
- \$64.00 reimbursed on 2/18/08 by Treasury Petty Cash

- \$51.05 reimbursed on 1/29/08 by Golf Petty Cash

Three (3) of the petty cash funds were over a combined total of \$170.43 when cash counts were performed, which included:

- \$145.71 in the Fire Department Petty cash (\$100 that was previously unaccounted for)
- \$10.04 in Parks and Recreation Administration Petty Cash
- \$14.68 in Parks and Recreation Cemetery Administration Petty Cash

One (1) reimbursement by Golf Petty Cash was used to obtain a \$38.11 money order, at a charge of \$1.05, to pay a vendor for two invoices that were “never forwarded” to the custodian. The vendor had been on and off of the City’s “Unavailable for Use” listing since 2005, according to the License Division of the City’s Finance Department.

Lastly, the City Clerk Petty cash box included a reimbursement for \$56.17 on 4/15/08 and no pre-numbered petty cash receipt slip had been completed as of 5/1/08 when the cash count was conducted.

Risk

A Policy which is not enforced and does not have clearly stated lines of management responsibility will lead to additional exceptions as employees perceive that it is not important to accurately follow policy.

Recommendation

A copy of the custodian’s Reconciliation Form should be required to process replenishment requests for petty cash. The use of the new reconciliation form would:

- ensure that the attached receipts and cash amount stated reconciles back to the approved balance;
- document that the custodian is conducting a monthly reconciliation of funds; and
- confirm any short/over amounts.

In addition, any overages should be turned in to the Treasury Division each month to be deposited and the reason for the overage, if known, should be documented. This will help custodians maintain their approved amount and make monthly reconciliation easier.

The \$50 limit stated in the current Petty Cash Policy being tested should be enforced, or it should be revised with an appropriate dollar amount or the option to reimburse above \$50 with documented Senior Management approval. Custodians should not be allowed to use this fund to circumvent purchasing policy. Management should periodically monitor disbursements and any attempt to circumvent policy should result in appropriate disciplinary action.

Finance Department Management Response

Management agrees with the findings and recommends increasing the petty cash limit from \$50 to \$75 and allowing reimbursements over the limit on an individual basis, with the appropriate Senior Management’s approval. The Finance Department will review

petty cash reconciliations monthly and maintain up-to-date records of custodians and petty cash fund amounts. Senior Management will be responsible for approving changes, reviewing reconciliations and determining any reimbursements that do not qualify.

City Clerk Division Management Response

Although the store receipt was in the cash box documenting the amount and prior approval for the expenditure had been given by Management, a pre-numbered petty cash slip was not completed or attached at time of expense. Management accepts the findings as reported and has taken corrective action.

Fire Department Management Response

The overage of \$145.71 in the petty cash account is from the following:

One-hundred dollars is from Car 7. Car 7 was issued \$100.00 to keep and use for any after hour emergency. They returned the money to the custodian.

#2 The overage of \$45.71 is from the employees not accepting the change that is due to them. This practice has been discontinued.

Parks and Recreation Management Response

As mentioned, Golf has turned in their petty cash and will turn in their receipts at the main Parks Administrative Office. Cemetery Administration has split their \$100 petty cash as requested. They now have them in separate bank bags. One bag with \$40 is for petty cash and one bag with \$60 is used for change to patrons.

Regarding the overage of \$10.04- it is from stamps sold to either employees or the general public. When the overage reaches double figures, we deposit the money into Parks Other Income. That account number is 001-4111-403515.

4. Approved petty cash funds should be monitored periodically by Senior Management to ensure continued need and appropriate amount.

Observation

A turnover analysis was performed on each of the petty cash funds within the City. The turnover percentages for the audit period are as follows:

- Fire- 60.26%
- Parks and Recreation- Administration- 32.06%
- Parks and Recreation- Cemetery- 20.55%
- Parks and Recreation- Golf- 33.51%
- Police Administration- 38.22%
- Police Records- 0.00% (no reimbursement since 2001)
- Police Confidential Funds- no analysis performed due to confidentiality and irregularity of fund needs
- City Manager- City Clerk- 31.66%
- Finance- Treasury 91.91%

Throughout the audit period, use of City credit cards had been increasing, which led to a decreased usage of the petty cash funds. The City of Bowling Green is now in the process of signing a new contract for procurement cards and the number being issued has been drastically reduced. This decrease in procurement card holders will potentially increase the usage of petty cash in the future.

Risk

Without usage monitoring, the approved petty cash funds could be at an inappropriate amount. This could lead to either increased work if the amount is too low to meet the current need or poses an unnecessary risk to the City's assets if the fund contains more cash than necessary.

Recommendation

Senior Management should periodically determine the needs of their departmental petty cash funds and adjust accordingly. I would recommend setting a goal percentage of usage and try to adjust approved levels toward that goal percentage. I have provided a summary of the turnover analysis conducted in this audit as Attachment C. I will agree to conduct an annual turnover analysis along with my cash counts. This turnover analysis will be provided to the applicable Senior Manager for their determination of continued need and amount. The petty cash custodians should also have a standardized way to request an increase or decrease in funds if their needs change, with Senior Management approval, so that if there is a significant change in usage between the annual analyses an adjustment could be made.

Finance Department Management Response

The Finance Department also agrees that petty cash fund usage should be monitored and funding levels adjusted based on management consensus.

Attachment A

SECTION VI. PETTY CASH

1. Petty cash funds shall be created only upon the approval of the City Treasurer.
2. Custodianship of each petty cash fund shall be assigned to a responsible person.
3. The amount of individual disbursements and maximum amount of total disbursements in any one transaction shall be restricted to a specified and reasonable amount as determined by the City Treasurer.
4. All disbursements from petty cash require the completion of a pre-numbered voucher in ink, supported by vendor documents and signed as received by a responsible employee other than the custodian.
5. Reimbursements shall be made by check payable to the custodian of the individual petty cash fund.
6. At reimbursement, vouchers for expenditures shall be reviewed by a responsible employee other than the custodian.
7. Petty cash system(s) maintained by the Police Department for investigative purposes may require special accounting and internal control procedures which must be reviewed and approved by the City Treasurer and Chief Financial Officer.

Attachment B

Petty Cash Fund Policy

Purpose

The Petty Cash Fund Policy has been created to provide guidelines for the appropriate establishment, use, and accountability of such funds. Procedures have been established to encourage effective administration and internal control of cash handling operations throughout the Departments of the City of Bowling Green.

Summary

The majority of petty cash funds are established to enable departments to make small, incidental purchases where a purchase order is not cost effective or a procurement card cannot be used. The amount of the petty cash fund is established at the time the fund is approved. Expenditures must meet the requirements of the City's Purchasing policies and may not be used to circumvent current purchasing procedures.

Any individual handling City cash is responsible to the City of Bowling Green for proper security and accountability. Due to the personal liability involved in performing cash handling functions, it is important that only authorized employees handle monies for City business. Employees are required to appropriately safeguard, account for and document all cash maintained on behalf of the City of Bowling Green. The cash should be maintained in a secure, locked device or some other location appropriately approved by the Chief Financial Officer.

Applicability

This policy is applicable to every City department involved in handling the City of Bowling Green's petty cash. Employees with any type of petty cash handling function are required to be familiar with the requirements of this policy.

Segregation of Duties

Cash handling operations must be subject to daily supervisory review and management. To minimize the potential for mistakes or misappropriation of cash, segregation is recommended. At a minimum the employee authorized to handle the cash should be different from the POE entering information for reimbursements. In departments where the separation of duties is not possible, strict individual accountability and thorough management supervision and review is required.

Petty Cash Guidelines

- Adequate receipts and documentation must be maintained to support all transactions made from the Petty Cash Fund.
- Correct account numbers must be used to allocate expenditures into the proper accounts.

- The petty cash fund may not be used to circumvent City purchasing procedures.
- The petty cash fund may not be used for purchases over \$50.00. Purchases over \$50.00 must be made by issuance of a P.O. or procurement card.
- A petty cash fund or custodian may be revoked at the discretion of the Chief Financial Officer.
- The amount of the petty cash fund may be reduced at the discretion of the Chief Financial Officer.
- If an employee leaves his or her work station for any reason, regardless of how briefly, cash must be appropriately secured in a locked place.
- For overnight storage and during other periods when cash is not being used, it should be kept in a safekeeping device, either a safe or locked container.
- Under no circumstances should an individual keep City cash with their own personal funds, deposit City funds in a personal bank account or take City funds to one's home for safekeeping.

Establishing a Petty Cash Fund

- Complete the entire top portion of the **Petty Cash Open/Close Request Form**. This form identifies the date of request, department making the request, amount of request, location, reason, responsible custodian, department head approval, and Chief Financial Officer's approval.
- Forward the Request Form to the Treasury Office and to the Purchasing Agent.
- Once the form has been reviewed and approved by the Chief Financial Officer, a check will be issued to the custodian to establish the petty cash fund.
- The custodian will be notified when the check is available for pick-up.

Duties of Petty Cash Custodian

Each petty cash fund established is specifically assigned to one individual who is designated as the fund custodian. This individual should have exclusive access to and control of the fund. In carrying out the duties assigned, it is the custodian's responsibility to understand and follow the procedures below:

1. Petty cash funds must be properly safeguarded. The custodian is personally responsible at all times for the appropriate and adequate safekeeping of these funds. The money should be kept in a secured, locked location and should never be commingled with an individual's personal funds or any other City funds. Only the custodian, one designated alternate custodian, and the department head should have access to the keys or safe combination.
2. The custodian is responsible for keeping accurate records of the fund. A Petty Cash Receipt booklet, to be ordered by departments, must be maintained. Each time monies are withdrawn from the fund, a petty cash receipt must be completed. This form shows the amount withdrawn, the account to be charged, the date, the department, the purpose, custodian

approval signature, and a signature of the individual who received the money.

3. The sales receipt shall be stapled to the back of the Petty Cash Receipt form. At least once a month the receipts will be forwarded to a POE for P.O. issuance.
4. Custodians are required to reconcile monthly, or more often depending upon the amount of activity involved and the dollar amount of the fund. The **Petty Cash Reconciliation Form** should be used for reconciliation.
5. The custodian should maintain appropriate records on a daily basis, as this petty cash fund is subject to audits, at all times, by the Internal Auditor.
6. The custodian will be personally accountable for the Petty Cash Fund until all of the funds and/or receipts have been submitted to the Finance Department and the account closed.
7. To change the custodian on a departmental petty cash fund, the newly appointed custodian must submit a **Petty Cash Change Request Form** to the Finance Department and to the Purchasing Agent. The form should be completely filled out including the department requesting the change; amount verified at time of change, proposed new location of petty cash box, the reason for custodial change, custodian releasing responsibility, new custodian accepting responsibility, and department head approval.

Closing a Petty Cash Fund

If it is determined that an existing petty cash fund is no longer needed, the custodian must close the fund. The remaining cash, a **Petty Cash Open/Close Request Form**, and any remaining checks will be taken to Treasury in the Finance Department. The bottom section of the form will be completely filled out including the department requesting to close petty cash, verified amount of petty cash, reason for closing petty cash, responsible custodian of petty cash, department head approval, and Chief Financial Officer's approval. A copy of the Petty Cash Open/Close Request Form will be forwarded to the Purchasing Agent. Supporting documentation will be forwarded to the Finance Department for reconciliation.

Overages and Shortages

Both overages and shortages should be noted and tracked by the custodian and then reviewed and certified by a department supervisor. A **Petty Cash Spreadsheet** is available. Significant amounts should be immediately reported to the Department Head

and the Finance Department. If there appears to be a growing pattern or anything unusual or strange about the overages and shortages, that information must be disclosed immediately.

Attachment C

Fire

Total Reimbursements	2,651.37
Petty Cash Approved Amount	200.00
Months Tested	22.00
Total Turnover	13.26
Average Turnover % per month	60.26%

Parks and Recreation- Administration

Total Reimbursements	2,115.95
Petty Cash Approved Amount	300.00
Months Tested	22.00
Total Turnover	7.05
Average Turnover % per month	32.06%

Parks and Recreation- Cemetery

Total Reimbursements	452.07
Petty Cash Approved Amount	100.00
Months Tested	22.00
Total Turnover	4.52
Average Turnover % per month	20.55%

Police-Administration

Total Reimbursements	1,681.50
Petty Cash Approved Amount	200.00
Months Tested	22.00
Total Turnover	8.41
Average Turnover % per month	38.22%

Police-Records

Custodian has not had reimbursement check cut since 2001. Police-Admin. Petty cash reimburses this custodian.

Parks and Recreation- Golf

Total Reimbursements	2,580.46
Petty Cash Approved Amount	350.00
Months Tested	22.00
Total Turnover	7.37
Average Turnover % per month	33.51%

City Manager-Clerks Office

Total Reimbursements	2786.35
Petty Cash Approved Amount	400
Months Tested	22
Total Turnover	6.97
Average Turnover % per month	31.66%

Finance-Treasury

Total Reimbursements	8088.34
Petty Cash Approved Amount	400
Months Tested	22
Total Turnover	20.22
Average Turnover % per month	91.91%

**Total funds expended during audit
period**

\$ 20,356.04