



City of
Corpus
Christi

**CA14-001
Financial Services
Petty Cash and Change Fund Accounting**

**Office of the City Auditor
Arlena Sones, CPA, CIA, CGAP
City Auditor**

December 10, 2013

Executive Summary

As part of our annual Audit Plan, we conducted an unannounced audit of the Financial Services Department, Petty Cash and Change Fund Accounting. The audit objective was to determine the accuracy of financial reporting for petty cash and change funds held by other City departments.

We concluded that the accounting of petty cash and change funds in the general ledger is inaccurate and incomplete due to the inadequacy of policy and procedures and the failure to enforce existing procedures.

The report contains six issues. Management of the Financial Services Department agrees with this report. See responses on in Appendix A.

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Petty Cash and Change Fund Accounting

Background

The City Auditor's Office conducted an unannounced audit of the Financial Services Department, specifically the accounting of petty cash and change funds. These funds are recorded in the general ledger in the PeopleSoft financial system of record.

Municipal Guidelines

In conducting our audit, we relied on the following authoritative guidelines to serve as criteria for the audit:

- City Policy F-2.0, Cash Management
- City Policy F-2.1, Petty Cash Funds
- City Policy F-2.2, Collection, Depositing and Personal Check Procedures

Audit Objective, Scope and Methodology

The audit objective is to determine the accuracy of financial reporting for petty cash and change funds.

Our scope of work included a review of policies and procedures related to cash funds and cash handling. We requested information from management of each department with a reported petty cash fund or change fund as to the dollar amount of funds held and the cash custodian(s) of each fund. We also asked each department without a recorded cash fund if they had one. We conducted a total of five cash counts to determine the accuracy of financial records. Interviews were conducted with Financial Services management as well as other City departments' management and staff.

We relied on general ledger data from the City's financial system of record, PeopleSoft. We did not audit the system general or application controls because the system is slated to be replaced within the year.

This audit report provides independent, objective analysis, recommendations, and information concerning the activities reviewed. The report is a tool to help management discern and implement specific improvements. The report is not an appraisal or rating of management.

City management is responsible for establishing and maintaining a system of internal controls to ensure assets are safeguarded, financial activity is accurately reported and reliable, and management and their employees are in compliance with laws, regulations, and agreements with other entities.

We conducted this 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 audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives.

Audit Conclusion

Accounting was found to be inaccurate and incomplete for petty cash and change funds. Financial Services had not updated the general ledger to reflect opened or closed petty cash funds or fund balance revisions.

Staff Acknowledgment

Jacey Reeves, Auditor
Sarah Arroyo, Management Analyst

Audit Results and Recommendations

A. General Leger Accounting

Financial Services Department is not maintaining complete and accurate financial records in the general ledger relating to petty cash and cashier change funds.

The general ledger reports the existence of 25 cash funds provided to 15 City departments. Eleven of the 25 are petty cash funds and the remaining 14 are cashier change funds. The following exceptions were noted.

- Three of the cash funds no longer exist:
 - Fleet closed its \$50 petty cash in 2012.
 - Police Department Chop Shop closed its \$87.94 account in 2010.
 - Parks & Recreation has no record of its \$100 petty cash account after 2005.

- Three of the cash funds have a different balance than reported in the general ledger:
 - Water Department increased by \$100 in 2013.
 - Storm Water increased by \$300 in 2005.
 - Waste Water reduced its balance by \$1,500 in 2011.
 - Cash counts were conducted for these three funds.¹

- Two cash funds were not reported in the general ledger:
 - City Attorney has had its account since 2009.
 - City Manager opened its account in 2013.
 - Cash counts were conducted for these two funds.²

These exceptions were generally caused by posting errors; however, the discrepancies remained undetected because the procedures for managing cash funds do not contain adequate controls and because management does not enforce the existing controls.

Recommendation: Financial Services should maintain accurate and complete financial records related to petty cash and cashier change funds in the general ledger.

¹ Funds for these three departments were found to be intact. Additional testwork was conducted for the Water Department. See the audit report CA14-002 Water Department, Sunrise Beach Cash Count.

² Funds were found to be intact for these two departments. The City Manager subsequently closed the fund established in his department.

Generally, an audit issue has a two-part recommendation. The first part corrects the issue and the second part corrects the root cause of the issue. The general ledger was corrected as each of these issues was brought to light so there is no further recommendation needed; however, discussion of the root causes and recommendations for corrections follow.

B. Policy and Procedure

Finance should be commended for the recent update to its policies and procedures; however, they had not been reviewed or revised since 2008.

Additionally, the written procedures for cash handling (F-3.0, F-4.0 and, F-5.0) are inadequate. For example, they do not define the proper use of cashier change funds. None of the procedures require any type of training for cash handlers. There are no procedures for opening, closing, or changing the balance of a cash fund. Additionally, procedures do not address internal controls such as tamper resistant deposit bags or physical security devices (i.e. video cameras at cashier locations).

Because of the inadequate procedures for cash handling, some departments do not understand the difference between a change fund and a petty cash fund and they use them interchangeably. The risk of error, abuse, and theft increases without the adequate procedures.

In cash counts conducted by Financial Services in the past, the department demonstrated a good understanding of internal controls related to cash funds; however, it is unknown why these controls were not integrated into its written procedures.

Recommendation: Financial Services should revise procedures related to cash funds to include more stringent internal controls. They should require mandatory cash handling training for all City employees with a cash function.

Financial Services should review all departmental policy and procedures annually to ensure they are up-to-date and working effectively.

C. Dormant Accounts

As stated above, three cash accounts had been closed for years. One of the reasons is that Financial Services does not monitor dormant (inactive) petty cash funds as stated in its procedures. Had Financial Services been monitoring the cash fund accounts annually, it would have detected the three closed petty cash funds.

The reason staff is unable to monitor the general ledger cash account activity is because of the way the petty cash transactions are posted. The problem is that petty cash expense and reimbursement transactions are not posted into the petty

cash general ledger account. Instead, the transaction is posted to a vouchers payable account. This leaves no record of activity (an audit trail) in the petty cash general ledger account; therefore, the activity (or dormancy) of an account cannot be monitored.

Financial Services does not want to change its accounting practices to create journal entries for petty cash transactions. It cites issues with the existing financial modules (H.T.E. and PeopleSoft). Both modules are slated for replacement at the end of the fiscal year.

Alternative measures were discussed including enforcement of the annual reporting required of departments with cash accounts. An account could be considered dormant and subject to closure if management did not provide the required annual report.

Recommendation: Financial Services Department should monitor dormant accounts. It should require the petty cash transactions to be posted into the petty cash general ledger account in the new financial system so that there is an audit trail of petty cash activity.

Until the new system is implemented, Financial Services could use the annual reporting required of departments with cash accounts as a means to monitor activity.

D. Cash Custodians

Financial Services does not annually update the cash custodians because it does not enforce annual reporting by departments with cash accounts. Had Financial Services required the annual update from the various departments, the three closed accounts could have been identified sooner.

Recommendation: Financial Services should maintain an up-to-date list of all cash custodians by enforcing the requirement for annual reporting by departments with cash accounts. It should close the cash funds of non-responsive departments.

E. Periodic Audits

Financial Services has not enforced its own policy for conducting periodic cash counts (F-2.1). The most recent documented cash count audit occurred in 2010. If periodic cash counts had occurred, the discrepancies between amounts held by the departments and the amounts reported in the general fund could have been detected and corrected sooner.

Recommendation: Financial Services should conduct periodic cash counts of cash funds or revise its policy. For example, Financial Services could require the

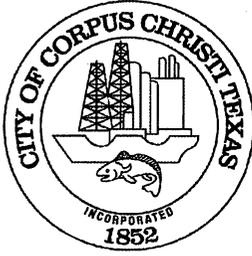
departments to conduct and provide documentation of their own cash counts along with the annual update of cash custodians.

F. Chart of Accounts

As mentioned in a previous cash count report (CA13-005 Health District) the current chart of accounts does not contain detailed information as to the existence of each cash fund. For example, the Library Department has six petty cash funds; however, the general ledger reports only the aggregated total of petty cash assigned to the department. Three other departments in the City maintain cash funds at multiple locations, but only one general ledger account exists for each department.

Recommendation: During the implementation of the new accounting system, Financial Services should create a general ledger account for each of the existing cash funds instead of reporting only the aggregated amount held by the department.

Appendix A Management Response



FINANCIAL SERVICES

Management Responses

November 15, 2013

Arlena Sones, CPA, CIA, CGAP
City Auditor
Corpus Christi, Texas

Re: Management Responses to Audit, CA13-001 Financial Services, Petty Cash and Change Fund Accounting

We have carefully reviewed the issues presented in the audit report and our plans to correct the issues are described below:

A. General Ledger Accounting

Financial Services Department is not maintaining complete and accurate financial records in the general ledger relating to petty cash and change funds.

Recommendation: Financial Services should maintain accurate and complete financial records related to petty cash and cashier change funds in the general ledger.

Generally, an audit issue has a two-part recommendation. The first part corrects the issue and the second part corrects the root cause of the issue. The general ledger was corrected as each of these issues was brought to light so there is no further recommendation needed; however, discussion of the root causes and recommendations for corrections follow.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	David Hedberg, City Treasurer	On-going
<i>Action Plan: During the exit interview, it was noted that there was one journal entry that needed posting for Municipal Court's change fund, and this journal entry will be posted by November 15, 2013. Overall by implementing the remaining recommendations, Financial Services will be in compliance with this recommendation.</i>		

B. Policy and Procedure

Procedures related to cash handling have not been reviewed or revised since 2008.

Recommendation: Financial Services should revise procedures related to cash funds to include more stringent internal controls. They should require mandatory cash handling training for all City employees with a cash function.

Financial Services should review all departmental policy and procedures annually to ensure they are up-to-date and working effectively.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Alma Casas, Assistant Director	October 2014
<i>Action Plan:</i> Financial Services updated its policies and procedures in October 2013 and will review them annually to ensure they are up-to-date and working effectively.		

C. Dormant Accounts

Financial Services does not monitor dormant (inactive) petty cash funds as stated in its procedures.

Recommendation: Financial Services Department should monitor dormant accounts. It should require the petty cash transactions to be posted into the petty cash general ledger account in the new financial system so that there is an audit trail of petty cash activity.

Until the new system is implemented, Financial Services could use the annual reporting required of departments with cash accounts as a means to monitor activity.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	David Hedberg, City Treasurer	Annually during the year-end closing process
<i>Action Plan:</i> As stated above, Financial Services will use the annual reporting required of departments with cash accounts as a means to monitor activity, and if the departments fail to send in their report, then it will be concluded that the account is dormant and the cash funds will be requested to be relinquished and deposited.		

D. Cash Custodians

Financial Services does not annually update the cash custodians because it does not enforce annual reporting by departments with cash accounts.

Recommendation: Financial Services should maintain an up-to-date list of all cash custodians by enforcing the requirement for annual reporting by departments with cash accounts. It should close the cash funds of non-responsive departments.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	David Hedberg, City Treasurer	Annually during the year-end closing process
<i>Action Plan:</i> As stated above, Financial Services will use the annual reporting required of departments with cash accounts as a means to monitor activity, and if the departments fail to send in their report, then it will be concluded that the account is dormant and the cash funds will be requested to be relinquished and deposited.		

E. Periodic Audits

Financial Services has not enforced its own policy for conducting periodic cash counts.

Recommendation: Financial Services should conduct periodic cash counts of cash funds or revise its policy. For example, Financial Services could require the departments to conduct and provide documentation of their own cash counts along with the annual update of cash custodians.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Alma Casas	Completed
<i>Action Plan:</i> The newly revised procedures dated October 15, 2013 state that the Internal Audit Department has the right to audit any cash fund. When the procedures are reviewed next year during the annual review, consideration will be given to changing the wording to say, "The Office of Internal Audit and/or Financial Services have the right to conduct cash counts."		

F. Chart of Accounts

The current chart of accounts does not contain detailed information as to the existence of each cash fund.

Recommendation: During the implementation of the new accounting system, Financial Services should create a general ledger account for each of the existing cash funds instead of reporting only the aggregated amount held by the department.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Martha Messer, Chief Accountant	August 1, 2014
<i>Action Plan: Accounting staff will ensure that each individual cash fund is listed separately in the chart of accounts of the new accounting system.</i>		

We are committed to correcting the issues in the audit report by implementing the action plans described above.

Sincerely,

Constance P. Sanchez
 Constance P. Sanchez, Director
 Financial Services

NOV 15 2013
 Date

Margie C. Rose
 Margie C. Rose
 Assistant City Manager

11.15.13
 Date

Ronald L. Olson
 Ronald L. Olson
 City Manager

22 Nov 13
 Date