

UNANNOUNCED AUDIT OF PETTY CASH AND CHANGE FUNDS

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CONTENTS

Executive Summary	2
Background and Objectives	3
Opportunities for Improvement and Management Responses	5
Appendix A: Segregation of Duties	12

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EXECUTIVE SUMMARY

As part of the Annual Audit Plan, the Clerk of Circuit Court and County Comptroller's *Internal Audit Department and Office of the Inspector General* conducted an unannounced continuous audit of Petty Cash and Change Funds. Continuous Audits have narrowly defined scopes, are conducted on a recurring basis to identify risks and test controls, and result in timely notification of gaps and weaknesses.

The audit found that Accounting Policies and Procedures are not consistently being followed throughout the County in regards to:

- Limiting change fund access,
- Ensuring that the Certificate and Receipt of Imprest Funds form is valid,
- Deposit procedures, and,
- Change fund use.

Non-compliance with Accounting Policies and Procedures results in a higher risk of misappropriation of cash and cash equivalents as well as inadequate records of who is accountable for transactions.



BACKGROUND AND OBJECTIVES

The Clerk of the Circuit Court and County Comptroller's *Internal Audit Department and Office of the Inspector General* has completed an unannounced audit of the County's petty cash and change fund. The audit was planned and conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The purpose of the audit was to review internal controls, evaluate compliance with applicable policies and procedures, and reconcile petty cash and change funds.

Background

Internal Audit completed an unannounced audit of the County's petty cash and change funds in May 2017, identifying five opportunities for improvement. In that audit, a sample of 24 of the 48 petty cash and change funds totaling \$13,023 in existence at that time was tested for compliance with the Accounting Policies and Procedures, Chapter 17.2 *Petty Cash* and Chapter 9.5 *Change Funds*. Chapter 17.2 *Petty Cash* provides the policy for establishing and making purchases from a petty cash fund. The document indicates that petty cash funds are established for the purpose of handling cash expenditures of a minor nature and are limited to purchases of \$100 or less. Chapter 9.5 *Change Funds* indicates that change funds are established for the purpose of making change where money is collected during transactions of County business.

Unannounced cash counts and cash control evaluations are continuous audits performed by the Internal Audit Department. Accordingly, an unannounced cash count was completed in April 2018, which included 24 of the 48 petty cash and change funds totaling \$13,023 as of March 15, 2018, located within various departments throughout the County.

Objectives, Scope and Methodology

In order to assist the County in meeting its stewardship responsibilities for the public assets and resources placed in its trust, an unannounced audit was performed of its petty cash and change funds.

The objectives of this audit were to determine if (1) internal controls over petty cash and change funds are operating effectively, (2) departments are in compliance with the Accounting Policies and Procedures, and (3) reconciled balance of funds agree to the amount recorded on the Certificate and Receipt of Imprest Funds.

To meet the objectives of the audit, the procedures performed included, but were not limited to, the following:

- Obtained an understanding of the Accounting Policies and Procedures as they relate to petty cash and change funds.
- Performed inquiries of County personnel.
- Evaluated internal controls related to segregation of duties and safeguarding the County's assets, specifically for petty cash and change funds.
- Reconciled a random sample of 24 out of 48 imprest funds, including one petty cash fund and 23 change funds, and compared the balance to the amount recorded on the Certificate and Receipt of Imprest Funds.
- Reviewed Cash Management training records maintained by Human Resources.
- Validated that the electronic document retention system (OnBase) is utilized to archive the approved Certificate and Receipt of Imprest Funds forms.
- Identified Opportunities for Improvement.



OPPORTUNITIES FOR IMPROVEMENT AND MANAGEMENT RESPONSES

The audit disclosed certain policies, procedures, and/or practices that could be improved. The audit was neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. As a result of the audit, observations and recommendations identified below are related to *Standards*:

- (Standard 2110) Communicating risk and control information to appropriate areas of the organization, and
- (Standard 2130.A1) The effectiveness of controls related to operations and programs, and compliance with policies and procedures.

The **Opportunities for Improvement** presented in this report may not be all-inclusive of areas where improvement may be needed. There were five *Opportunities for Improvement* identified as a result of the audit:

1. **Segregation of duties requirement**
2. **Certificate and receipt of imprest funds**
3. **Check endorsement and daily deposit**
4. **Usage of sealed deposit bags for daily receipts**
5. **Purpose of change fund**

1. Segregation of duties requirement

Observation

Accounting Policies and Procedures, Chapter 9.5 *Change Funds* and Chapter 17.2 *Petty Cash* state that “only the person designated the custodian is permitted access to the change fund, unless the use of compensating controls are authorized by the Finance Department of the Clerk of Circuit Court and County Comptroller.” A sample of 24 change and petty cash funds were selected and an unannounced cash count was performed for each one. During the counts, it was noted that 10 funds (42% of the sample tested) were accessible to individuals other than the designated custodian. (See Appendix A: Segregation of Duties)

Management advised during the prior audit that to account for the department-level operational restrictions in various areas, compensating control procedures had been developed and submitted to the Finance Department for approval. During the audit work, no evidence of approval by the Finance Department for exemptions to Accounting Policies and Procedures was provided.

Recommendation

To ensure a proper segregation of duties, mandate compliance with the Accounting Policies and Procedures, Chapters 9.5 and 17.2.

Management Response

To account for the department level operational challenges, procedures shall be submitted by each eligible department for review and approval by the Clerk Finance Department. We are currently waiting for the Clerk Finance Department to finalize a mechanism so that Management can submit department level compensating controls for approval.

2. Certificate and receipt of imprest funds

Observation

Accounting Policies and Procedures, Chapter 9.5 *Change Funds* and Chapter 17.2 *Petty Cash* states:

- “Once established, the Certificate and Receipt of Imprest Funds form will remain valid until one of the following takes places: ... custodian changes.”
- “Submit a new form if the amount, purpose, location, or custodian of the fund changes”, and

Accounting Policies and Procedures, Chapter 9.5 *Change Funds* states:

- “Submit the completed Sarasota County Certificate and Receipt of Imprest Funds form to the Director of Finance or the Accounts Payable Manager, to establish and authorize the amount of the change fund. The form must be submitted by the Executive Director and must designate who will be the custodian of the fund.”

During the review of the Certificate and Receipt of Imprest Funds form for the 24 sampled funds, the following instances of non-compliance was observed:

- One fund had a change in the custodian and the department failed to submit a new Certificate and Receipt of Imprest Fund form. The new custodian has been operating the fund since the beginning of March 2018.
- Sixteen Certificate and Receipt of Imprest Funds forms indicated that the custodian took receipt of the funds prior to approval by the Director of Finance or the Accounts Payable Manager.
 - Of those, seven indicated that the custodian also received the funds prior to the department director’s signature.

Recommendation

To ensure approval of fund custodians by the Departmental Director or Manager and the Clerk Director of Finance occurs prior to transfer of the funds, mandate compliance with the Accounting Policies and Procedures, Chapters 9.5 and 17.2.

Management Response

A Certificate and Receipt of Imprest Funds form for the change in custodian was processed and is currently stored in OnBase.

The Clerk Finance Department is revising the Certificate and Receipt of Imprest Funds form to ensure alignment with the policy. In order to achieve and maintain ongoing compliance with policies and procedures, we will immediately communicate any changes to management and staff and also update the online cash management training to reflect the revisions to the Certificate and Receipt of Imprest Funds form.

3. Check endorsement and daily deposit

Observation

Accounting Policies and Procedures, Chapter 9.2 *Business Center Receipt, Balance, and Deposit of Cash* states the following regarding checks:

- “Management is responsible for ensuring cash and checks are deposited daily, or per Office of Financial Management (OFM) approved department level procedures”, and
- “Stamp all checks received with the “For Deposit Only” stamp.”

The auditor identified that three departments in the sample tested use remote deposit for checks. This process allows for checks to be deposited into a bank account from another location, without having to physically deliver the checks to the bank.

During audit work on April 23, 2018, multiple checks were observed at one location that had been deposited remotely; however, they were not endorsed with the “For Deposit Only” stamp. Additionally, the auditor identified one check dated October 24, 2017 for \$100 that had not been stamped “For Deposit Only”, nor had it been remotely deposited. The fund custodian advised that it was unclear as to which permit number the payment was to be applied; therefore, the check was never processed. On June 6, 2018, the custodian reported that it was determined no permit was issued to the customer and that the check had been shredded by the department.

Recommendation

To ensure compliance with Accounting Policies and Procedures, Chapter 9.2 *Business Center Receipt, Balance, and Deposit of Cash*, each check should be stamped “For Deposit Only” when received and deposited daily, or in accordance with an OFM approved department level procedure.

Management Response

Staff is now endorsing all checks received with a “For Deposit Only” stamp. We will update the online cash management training and provide additional clarification regarding the daily deposit requirement as well as the endorsement stamp requirement for all checks, including checks processed using remote deposit.

4. Usage of sealed deposit bags for daily receipts

Observation

Accounting Policies and Procedures, Chapter 9.2 *Business Center Receipt, Balance, and Deposit of Cash* requires that all receipts be placed in sealed deposit bags on a daily basis. During the unannounced cash count, it was noted that one location had five days of receipts that, although separated by day, were not placed in sealed deposit bags.

Recommendation

To ensure proper safeguarding of county assets, mandate compliance with Accounting Policies and Procedures that require placing receipts in a sealed deposit bag daily.

Management Response

We will continue to communicate the sealed deposit bag requirement in order to achieve and maintain ongoing compliance with policies and procedures.

5. Purpose of change fund

Observation

Per Accounting Policies and Procedures, Chapter 9.5 *Change Funds*, “Change funds are established for the purpose of making change where money is collected during transactions of County business.”

During performance of the unannounced cash count on April 24, 2018, the auditor observed a change fund that was properly secured at the location indicated on the Certificate and Receipt of Imprest Funds. However, the custodian had been transferred to another location 13 miles away approximately 10 months before that date.

At the time of the cash count, the \$500 change fund was short by \$100. A voucher was observed indicating that the \$100 had been provided to another employee on February 1, 2018 for the purpose of making change at a special event occurring weekly, from February 7, 2018 through March 28, 2018. The employee is located at another location and as of May 21, 2018, the custodian reported that the \$100 had not yet been returned.

The custodian advised that the fund is used only for making change at two annual special events. One of the events occurs weekly for eight weeks at two separate locations and the other event occurs one day at one location. The custodian provides monies from the change fund to other employees prior to the event. Receipts from the events are recorded and deposited at the location where the employees are located.

It appears that the use of this change fund is not in accordance with the purpose outlined in Accounting Policy and Procedures.

Recommendation

To ensure compliance with the purpose of establishing change funds per Accounting Policies and Procedures, the \$100 should be returned to the custodian immediately and this change fund should be closed. When change funds are needed for a special event, a completed request to establish a change fund for that purpose should be submitted to the Finance Department.

Management Response

We are in agreement with the recommendation and are taking steps to ensure departmental compliance. We will continue to communicate the change fund requirements in order to achieve and maintain ongoing compliance with policies and procedures.



APPENDIX A: SEGREGATION OF DUTIES

The table below provides the department and location of the 24 petty cash and change funds sampled and counted. The 10 petty cash and change funds that were accessible by one or more persons other than the designated custodian are highlighted in blue. See page 6, Opportunity for Improvement No. 1, for the detailed observation.

Department	Location
Communications	1660 Ringling Blvd, Sarasota
Health and Human Services	2200 Ringling Blvd, Sarasota
Libraries and Historical Resources	1331 First St, Sarasota
Libraries and Historical Resources	260 N. Nokomis Ave, Venice
Libraries and Historical Resources	7112 Curtiss Ave, Sarasota
Libraries and Historical Resources	4675 Career Ln, North Port
Libraries and Historical Resources	100 Coburn Rd, Sarasota
Libraries and Historical Resources	2801 Newtown Blvd, Sarasota
Office of Financial Management	1001 Sarasota Center Blvd, Sarasota
Office of Financial Management	1001 Sarasota Center Blvd, Sarasota
Office of Financial Management	1001 Sarasota Center Blvd, Sarasota
Parks, Recreation, and Natural Resources	326 Nokomis Ave S, Venice
Parks, Recreation, and Natural Resources	509 Collins Rd, Nokomis
Parks, Recreation, and Natural Resources	2800 Newtown Blvd, Sarasota
Parks, Recreation, and Natural Resources	1300 S River Rd, Englewood
Parks, Recreation, and Natural Resources	6050 Longwood Run Blvd, Sarasota
Parks, Recreation, and Natural Resources	6700 Clark Rd, Sarasota
Planning and Development Services	1001 Sarasota Center Blvd, Sarasota
Planning and Development Services	1001 Sarasota Center Blvd, Sarasota
Planning and Development Services	4000 S. Tamiami Trl, Venice
Public Utilities	4000 Knights Trail Rd, Nokomis
Public Utilities	4000 Knights Trail Rd, Nokomis
SCAT	1525 1 st St, Sarasota
UF/IFAS Extension	6700 Clark Rd, Sarasota

