

AUDIT OF PETTY CASH & CHANGE FUNDS



Office of the City Auditor



EXECUTIVE SUMMARY

Honorable Mayor and Members of the City Commission:

This report presents the results of our audit of certain petty cash and change funds. The purpose of this audit was to determine if established policies and cash handling procedures are being adhered to, cash is properly safeguarded, and that the balances are appropriate for the purposes and uses of the respective petty cash and change funds. Our audit included unannounced counts of selected petty cash and change funds, observation of cash handling procedures, and other procedures we deemed necessary for the purpose of identifying opportunities for strengthening internal control and improving operating efficiency.

Our audit disclosed only two minor discrepancies in the amount of coin and currency counted on hand compared to their recorded amounts. However, we noted that cash handling practices varied among departments, were not uniformly applied in conformity with established policies and procedures and, in some cases, petty cash and change funds carried balances that were either excessive or unnecessary.

The accompanying pages describe the findings and our recommendations. A draft copy of this audit was circulated to the City Manager and Director of Finance.

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Background

The control and handling of cash is governed by The Financial Policies and Procedures Manual, which creates a general performance standard for city employees who collect and process cash. This contains basic principles and standards that departments are required to adhere to. An updated version of the Financial Policies and Procedures Manual, which incorporates changes made to the travel policy effective May 2020, is available, but does not appear to have been distributed throughout the City. A section of the manual covers the handling of petty cash and change funds. Custodians of both Petty Cash and Change Funds are required keep all monies in a safe & secure place, either under lock and key or in a combination safe.

Petty Cash is a small amount of funds in the form of currency and coin that is used to make small incidental purchases where normal purchasing methods are not practical. The most common method of accounting for Petty Cash is to use an imprest system, which consists of maintaining a fixed amount of funds for disbursement. The balance of Petty Cash is set when the fund is initially established, which is the maximum amount of cash that can be held at any time. The individual responsible for Petty Cash is the custodian. As expenditures are made, the custodian creates/receives a Petty Cash voucher and/or supporting receipt/invoice. At any given time, the total of cash on hand plus reimbursed vouchers must equal the original fund. When the fund runs low, the custodian requests the fund be replenished. The amount of this replenishment is equal to the expenditures paid through Petty Cash since the time of the last reimbursement. Typically, a check drawn against one of the City's checking accounts is issued, which the custodian will then take to the bank and cash to replenish the monies that have been paid out. The Petty Cash balance after replenishment reverts to its original imprest balance.

The Cash custodian is the keeper of the funds and has numerous responsibilities throughout the reimbursement process. This includes reviewing petty cash vouchers and attached documentation for accuracy and verifying the attached receipts sum to the total reimbursement request. The custodian is also responsible for dispensing cash and reconciling petty cash daily to ensure that available cash, reimbursed vouchers/receipts, and outstanding check requests equal the total authorized amount for the petty cash account. Finance policies and procedures prohibit the use of Petty Cash expenditures for any single item which exceeds \$50. In addition, Petty Cash cannot be used for purchases that are available through the regular purchasing process or on contract of blanket purchase orders and is not authorized for employee travel expenses.

Various departments throughout the City receive payments for fees and services provided. These include fees for permits, birth and death certificates, inspections, and registrations, and services for airport parking and admissions. Payments may be made, depending on the department or location, by cash, check, or via credit card. Change Funds are used to make change readily available for those paying in cash (currency and coin). Unlike Petty Cash, there is no replenishment of change funds. The balance of a change fund always remains fixed. Those departments that have change funds are responsible for reconciling their monies and for preparing cash reports. Change funds are balanced daily. The funds collected are required to be deposited into designated bank

accounts the following day. Receipts from collections are recorded in Logos, the City's accounting system.

Cashiers maintain custody of their Change Funds. A Change Fund of a department or function may be handled by multiple cashiers. For example, the Municipal Court Change Fund consists of nine bags and the Airport Change Fund is broken out into 13 bags. The Brownsville Metro (B-Metro) Change Fund consists of a change machine of \$800 which exchanges dollars for coin, a parking garage cash booth of \$700, and various other cashiers that maintain smaller balances. Change Funds should not be comingled with other funds. No purchases or disbursements should be made with Change Funds, and they should not be used to offset cash overages or shortages of other receipting activities.

Scope

The audit included review of cash handling procedures, adherence to established Finance policies and procedures of the City's Petty Cash and Change Funds, and unannounced counts of certain of these funds.

Objectives

The objectives of our audit were to determine that cash:

- Handling procedures conform to Finance policies and procedures.
- Funds are properly safeguarded.
- Is not comingled with other funds.
- Cash Shortages are adequately, monitored, reported, properly addressed.
- Balances are appropriate for their intended use.
- Surprise counts are periodically performed by management.

Methodology

In conducting this audit, we performed the following:

- Reviewed relevant City Finance policies and procedures.
- Reviewed receipts and cash on hand and compared to fund balances recorded in the LOGOS financial accounting system.
- Observed that cash was properly secured and safeguarded.
- Verified the custodian of the cash fund was the custodian of record.
- Cash funds were not utilized for prohibited uses, e.g., payroll, reimbursement of travel expenses, cashing of employee checks, etc.

- Performed analysis of cash balances in relation to monthly receipts for Change Funds to determine if there is cash in excess of immediate needs.
- Conducted unannounced counts of currency and coin for the following cash funds:

<u>Account Number</u>	<u>Account Description</u>	<u>Amount</u>
01-109-03	Municipal Court- Change Fund	2,900.00
01-109-0325	Municipal Court Juror- Change Fund	300.00
01-109-05	Building Inspections- Change Fund	450.00
01-109-09	Traffic/Engineering - Petty Cash and Change Fund	200.00
01-109-10	City Secretary - Vital Statistics -Change Fund	500.00
01-109-131	Parks Department (Pools)-Change Fund	300.00
01-109-15	EMS/Collections- Change Fund	100.00
01-109-34	Bldg Inspections Demolition Liens- Petty Cash	400.00
11-109-0110	Event Center- Petty Cash	200.00
61-109-1550	Airport- Change Fund	1,670.00
65-109-1211	B-Metro -Octavio Salazar - Change Fund	100.00
65-109-125	B-Metro- Parking Garage TVM	700.00
65-109-132	B-Metro -Kimberly Salvador- Change Fund	100.00
65-109-1510	B-Metro- Cash on Hand-Terminal Change	800.00
65-109-2311	B-Metro- PEM-CustomerServiceReps- Change Fund	200.00
66-109-08	Landfill-Change Fund	500.00

FINDINGS & RECOMMENDATIONS

Finding 1 – *Application of Cash Handling Procedures*

The process for handling of cash is not uniformly applied throughout the City and is generally not in accordance with established policies and procedures. We surveyed departments consisting of 29 petty cash and change funds and found that sixteen (16) of these had their own written policies and procedures, none of which conformed to the Financial Policies and Procedures Manual. In addition, we noted that three (3) could not provide any policies or procedures, written or otherwise, and two failed to respond to our inquiry, perhaps suggesting they as well could not provide any policy or procedure. Only B-Metro's eight (8) cashiers followed procedures for the handling of cash as established in the Finance and Policies and Procedures Manual.

It appears the updated Finance Policies and Procedures Manual has not been disseminated to departments and functions who handle cash. As a matter of fact, there is no evidence that the previous version of the manual was ever distributed. Moreover, except for B-Metro, when we inquired of the Petty Cash and Change Fund custodians concerning following established procedures, they were not even aware of the existence of a Finance Policies and Procedures Manual, let alone that they should adhere to it. Moreover, we note that in May, based on information they received, the Audit & Oversight Committee determined "there was a general lack of knowledge and noncompliance with existing City of Brownsville Financial Policies and Procedures," and that subsequently the Finance Department had committed to resolve this issue.

Recommendation

Ensure that policies and procedures that City personnel are required to follow are timely disseminated. This is an issue that is more pervasive than just cash handling and financial practices but should apply to all City policies and procedures. Accordingly, consider designating a directory or location in the City Network, Website, or intranet where all official policies and procedures can be accessed. In addition:

- Reemphasize to all areas handling cash that they must follow established policies and procedures and that if they develop their own or follow other practices, they do so at their own risk.
- Finance should provide training for custodians and cashiers involved in the handling of cash.

We have subsequently provided a copy of the Finance Policies and Procedures Manual to all petty cash and change fund custodians.

Finding 2 – *Independent Verification of Cash Balances*

During the performance of our unannounced counts of selected Petty Cash and Change funds, we discovered that there are no independent counts and verification of balances of these accounts. When custodians were asked the last time a count of their cash was conducted by a person outside some could not recall. Others indicated it had been several years, citing the previous internal auditor, Joe Chavez.

We also note that during the period when independent counts were not conducted, a \$2,200 discrepancy in the Airport Change Fund was discovered in 2019.

Recommendation

To ensure the integrity of cash balances, require Finance to conduct periodic surprise counts of Petty Cash and Change Funds. Cash is the most liquid asset and oversight of cash is important because of the potential for abuse.

Finding 3 – *Going Cashless*

Various departments and functions throughout the City receive payments for fees and services provided. These can be paid for in cash, by check, or via credit card. Many of these maintain Change Funds for use in making change for those paying in cash. Not handling cash allows for an increase in speed and efficiency, reduces the likelihood of errors, and decreases the potential for theft. Some studies suggest that households earning less than \$30,000 per year are more likely to use cash and might be unfairly impacted by eliminating the acceptance of payments in cash. Accordingly, many areas may not be conducive to going cashless.

According to the City Secretary, because of Covid-19, there is no counter service and the building is not accessible to the public. Citizen birth and death certificates are being processed by mail and are paid with money orders. Funeral homes submit their application either by mail or via facsimile and pay with company credit cards. Texas Alcohol Beverage Commission (TABC) beer and wine applications are being process by mail and are paid with a check or a money order.

Additionally, The Golf course maintains three Change Funds, one for admissions (\$400), one for food and beverage (\$200), and one for the pro shop (\$200). Nearly all admission fees are paid via a credit card.

Recommendation

Given the City Secretary does not currently accept cash and that appears to be working effectively, implement a policy to continue the cashless practice on a permanent basis and discontinue the Change Fund. Accordingly, the \$500 balance in the City Secretary's Change Fund should be

returned to Finance. In addition, discontinue the Golf course admission Change Fund, while still maintaining the food and beverage and pro shop Change Funds.

Finding 4 – Discontinuance of Petty Cash

There are currently only five (5) Petty Cash accounts, including one (1) which is comingled with that department's Change Fund. Petty Cash is a small amount of funds in the form of currency and coin that is used to make small incidental purchases. However, virtually every department has one or more procurement cards (P-Card) which eliminates the need to maintain Petty Cash.

The P-Card is a reasonable replacement for Petty Cash and has stronger controls. Managers have complete visibility over employee spending and using P-Cards eliminates Petty Cash logs, paperwork, and the risk of misappropriation of cash. In addition, these Petty Cash accounts have had, for some time, little or no activity.

Recommendation

Discontinue the use of Petty Cash. A review of Petty Cash activity reveals that accounts have, for some time now, had little or no activity.

Finding 5 – Excess Cash

Some Change Funds appear to have balances greater than needed for their cash handling transactions. For example, the City Secretary maintains \$500 in cash of which \$300 is separately accounted for as "backup." Additionally, the Airport maintains a Change Fund consisting of thirteen (13) bags, eleven (11) of which contain \$70 each. The Airport Change Fund balance is \$1,670, but only one \$70 bag per shift is being used. While parking activity is presently minimized during construction of the new terminal, the Airport is clearly holding a great deal more cash than it needs to function. Other Change Funds that may have excessive balances in relation to their intended use are the Library (\$885) and Building Inspections (\$450).

Recommendation

Review the balances of all Change Funds to determine if they are carrying excess cash. Change Fund amounts should be appropriate for the nature and extent of the operations which they are supporting. A good rule of thumb is to set the minimum balance based on an average of the daily cash transactions. Change Fund balances should be maintained at a level that is sufficient to facilitate ongoing operations and programs.

ADDENDUM

<u>Account Number</u>	<u>Account Description</u>	<u>Amount</u>
01-109-01	Finance- Petty Cash	100.00
01-109-34	Bldg Inspections Demolition Liens- Petty Cash	400.00
01-109-18	Grants-Petty Cash	100.00
11-109-0110	Event Center- Petty Cash	<u>200.00</u>
		800.00
01-109-09	Traffic/Engineering - Petty Cash and Change Fund	<u>200.00</u>
		200.00
01-109-02	Finance - Change Fund	100.00
01-109-03	Municipal Court- Change Fund	2,900.00
01-109-0325	Municipal Court Juror- Change Fund	300.00
01-109-05	Building Inspections- Change Fund	450.00
01-109-10	City Secretary - Vital Statistics -Change Fund	500.00
01-109-11	Police Register- Change Fund	50.00
01-109-120	Health - Code Enforcement - Change Fund	50.00
01-109-36	Health- Food Division- Change Fund	50.00
01-109-25	New Animal Shelter- Change Fund	100.00
01-109-131	Parks Department (Pools)-Change Fund	300.00
01-109-14	Library- Change Fund	885.00
01-109-19	Southmost Library- Change Fund	428.00
01-109-20	Library Reader's Mark- Change Fund	100.00
01-109-15	EMS/Collections- Change Fund	100.00
01-109-35	Sports Park- Change Fund	800.00
61-109-1550	Airport- Change Fund	1,670.00
65-109-1211	B-Metro -Octavio Salazar - Change Fund	100.00
65-109-125	B-Metro- Parking Garage TVM	700.00
65-109-126	B-Metro - Ester Balli- Change Fund	100.00
65-109-128	B-Metro- Daniela Gonzalez - Change Fund	100.00
65-109-130	B-Metro -Hiram Gonzalez -Change Fund	200.00
65-109-132	B-Metro -Kimberly Salvador- Change Fund	100.00
65-109-1510	B-Metro- Cash on Hand-Terminal Change	800.00
65-109-2311	B-Metro- PEM-CustomerServiceReps- Change Fund	200.00
66-109-08	Landfill-Change Fund	500.00
67-109-0315	Golf Recreation-Change Fund	400.00
67-109-0410	Golf Food & Beverage-Change Fund	200.00
67-109-0510	Golf Pro-Shop Cash Register- Change Fund	<u>200.00</u>
		12,183.00