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Audit Report

**AUDIT OF PETTY CASH FUNDS IN
SELECTED CIVILIAN DEPARTMENTS**

(Report No. A08-012)

Audit Report

May 16, 2008

City Auditor

Craig D. Kinton

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Executive Summary

The petty cash funds audited were physically safeguarded and with minor exceptions were used for intended purposes. Two of the ten funds audited had incorrect balances in the accounting system.

Unannounced petty cash reconciliations conducted by the City Auditor's Office identified four of ten petty cash funds which had balances that did not agree with the authorized amount; however, the audit did not identify any indications of intentional misuse of funds. The isolated instances of non-compliance with petty cash fund procedures can be primarily attributed to departments not conducting the required monthly reconciliations and quarterly audits.

Nine petty cash funds totaling \$15,300 were not used enough to justify the authorized amounts. One fund was properly maintained at an authorized amount of \$800.

The six civilian departments included in this audit maintained ten petty cash funds with authorized amounts totaling \$16,100, which represents 17 percent of the petty cash fund amounts authorized for all civilian departments. The City successfully implemented the purchase card program in calendar year 2003 and reduced the need for significant petty cash fund balances. A City Auditor report issued in March 2007 showed that City management designed the purchase card program internal controls to minimize the City's financial exposure to fraud, theft, and abuse.

Background Summary

The City of Dallas accounting system showed 81 petty cash funds with a balance totaling \$244,442 as of October 15, 2007.

Department	Number of Petty Cash Funds	Petty Cash Funds Balance
Civilian	71	\$ 95,987
Uniformed	10	\$ 148,455
Total	81	\$ 244,442

Petty cash funds are established for making purchases of material and supplies that are related to City business, but not on a City price agreement. Petty cash guidelines last revised in September 1995 provide that each transaction should not exceed \$100.

The purchase card program is a credit card transaction system used by City employees to purchase small dollar goods and services directly from vendors in accordance with established City guidelines.

Summary of Recommendations

We recommend the Interim Director of Financial Services / City Controller work with all civilian departments to ensure petty cash funds authorized amounts meet actual needs, emphasize the need to comply with all petty cash fund requirements, and ensure the funds are properly accounted for and accurately recorded in the city's financial accounting system.

Summary of Management’s Response

The Interim Director of Financial Services / City Controller prepared the responses for the three recommendations identified in this report. They agreed with the three recommendations and provided comments with corrective action plans, as well as implementation dates. The complete response is included as Appendix III to this report.

City Auditor’s Follow-Up Comments

After receiving management’s response, the City Auditor’s Office contacted the departments (Dallas Convention Center, Park and Recreation, and Public Works and Transportation) that had not timely submitted the petty cash fund balance reductions to the City Controller’s Office. The departments subsequently initiated action to reduce the authorized fund balances to the proper amount.

Summary of Objectives, Scope and Methodology

The audit objectives were to determine whether petty cash funds are properly accounted for, adequately safeguarded, and used for their intended purpose. The audit covered October 1, 2006 through September 30, 2007. This report includes audits of selected petty cash funds maintained by civilian departments.

To achieve our objectives, we identified petty cash fund account balances recorded in the City’s accounting system, conducted unannounced petty cash reconciliations, analyzed petty cash fund records and reimbursement vouchers, determined the fund usage, ensured the funds were safeguarded, and interviewed petty cash fund custodians and department management.

Audit Results

Overall Conclusions

Petty cash funds were physically safeguarded and with minor exceptions were used for their intended purpose. Unannounced petty cash fund reconciliations conducted by the City Auditor's Office identified fund imbalances, but no indications of intentional misuse of funds. The isolated instances of non-compliance with petty cash fund procedures can be primarily attributed to departments not conducting the required monthly reconciliations and quarterly audits.

Petty cash funds are established for making purchases, not exceeding \$100, of materials and supplies that are related to City business. The six departments with the ten selected petty cash funds included in this audit were authorized amounts totaling \$16,100. Nine of the petty cash funds, totaling \$15,300, were authorized higher dollar amounts than warranted based on actual fund usage. One fund was maintained at an adequate authorized amount.

Authorized petty cash fund amounts exceed actual needs

Five of six departments maintained higher petty cash fund balances than needed because required annual department assessments were not conducted to determine whether the authorized petty cash fund amounts should be changed. The five departments had nine petty cash funds with authorized balances totaling \$15,300. Analysis of the fund usage showed that requests for fund reimbursements did not occur monthly and the average reimbursement for the funds ranged from \$26 to \$625. The authorized balance of these funds ranged from \$200 to \$6,000. One department properly used its petty cash fund to justify maintaining the authorized amount of \$800.

For the protection of the petty cash fund custodian, to decrease the risk of theft and clerical errors, and to ensure funds are not sitting idle, the frequency of use and amounts of petty cash funds expended should be periodically reviewed and adjusted if necessary, to justify authorized balances. During the audit, the five departments were informed of the excessive fund amounts and agreed to reduce the fund balances.

Recommendation I:

We recommend the Interim Director of Financial Services / City Controller verify that requests were received from department directors to reduce the authorized amounts for the selected nine petty cash funds, ensure the reductions were properly recorded in the city's accounting system, and request all departments with petty cash funds, that were not included in this audit, to review the fund usage and inform the City Controller of any changes needed to the authorized petty cash fund amounts.

Management's Response

Agree. City Controller's Office has verified that, as of May 8, 2008, three petty cash fund requests were received for reduced authorized amounts, four petty cash fund requests were received for the same amounts as established in FY 2007, and two petty cash fund requests were not received. Reductions to four petty cash fund balances have been recorded in the City's accounting system and five petty cash fund balances remain the same amounts as established in FY 2007. The internal control accountant in the Controller's Office is following up on the outstanding items.

A memorandum from the Interim Director of Financial Services / City Controller was issued requesting all departments with petty cash funds that were not included in this audit to review the fund usage and inform the City Controller of any changes needed to the authorized petty cash fund amounts. Lance Sehorn will be the responsible manager with an implementation date of May 23, 2008.

City Auditor's Additional Comments

After receiving management's response, the City Auditor's Office contacted the departments (Dallas Convention Center, Park and Recreation, and Public Works and Transportation) that had not timely submitted the petty cash balance reductions to the City Controller's Office. The departments subsequently initiated action to reduce the authorized fund balances to the proper amount.

Reconciliations and audits are not always conducted by departments

Six departments assigned the ten selected petty cash funds did not comply with the requirement of monthly reconciliations and four of the departments with seven petty cash funds also did not perform the required quarterly audit. Department personnel did not always understand the difference between reconciliations and audits, some petty cash fund custodians did not have copies of the procedures, and the City's petty cash fund guidelines have not been updated since 1995.

Monthly reconciliations by the petty cash fund custodian's supervisor and quarterly audits by the department director or designee are the ongoing management monitoring controls designed to ensure petty cash funds are properly accounted for and used for their intended purpose. As a result of not complying with petty cash fund guidelines, the potential exists for improprieties and errors to go undetected. For example, we identified isolated instances in which petty cash fund:

- Custodians did not review petty cash receipts to ensure expenditures were properly authorized

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- Receipts either did not include all required signatures or included signatures which were not included on the authorized signature list, and petty cash receipts were missing or were not always pre-numbered
- Funds were used to make a purchase exceeding the \$100 maximum amount
- Funds in three departments did not have an alternate custodian designated and authorized signature lists were not maintained for funds in two departments

Recommendation II:

We recommend the Interim Director of Financial Services / City Controller issue a memorandum to all departments with petty cash funds to emphasize the need to comply with the current reconciliation and audit requirements and ensure that petty cash procedures are provided to the petty cash fund custodians.

Management's Response

Agree. A memorandum from the Interim Director of Financial Services / City Controller was issued to all departments with petty cash funds emphasizing a need to comply with the current reconciliation and audit requirements and ensure that petty cash procedures are provided to the petty cash fund custodians. Lance Sehorn will be the responsible manager with an implementation date of May 23, 2008.

Petty cash fund balances are not always accounted for accurately

Unannounced petty cash fund reconciliations conducted by the City Auditor's Office personnel identified that four of ten petty cash funds had balances that did not agree with the authorized amount. The four funds were in three departments and had shortages of \$8.00 and \$13.48, and overages of \$56.99 and \$10.08. Department management provided the following explanations for the fund imbalances:

- The receipt for the \$8.00 shortage was subsequently located by department management and provided to the City Auditor's Office
- The \$13.48 shortage had been previously identified by management and can be attributed to the Controller's Office not reimbursing ineligible items, such as sales tax, that were incorrectly paid by the petty cash custodian
- The petty cash custodian was present and had agreed to the \$56.99 overage identified in the unannounced cash reconciliation. City Auditor's Office staff was not present when management conducted a recount which identified a \$.01 shortage instead of a \$56.99 overage. Management attributed the difference to the Auditor's Office recording six rolls of pre-wrapped quarters and management's recount showing instead that there were six rolls of pre-wrapped pennies.

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- A reason could not be provided for the \$10.08 overage

Further, one department had two petty cash funds with incorrect authorized amounts reported on the City's financial accounting system. The financial accounting system showed a \$150 **deficit** for one fund, but department documents showed a \$650 authorized amount which matched the actual amount verified by the Auditors. The financial accounting system showed a \$750 **deficit** balance for another fund, but department documents show a \$2,750 authorized amount which matched the actual amount verified by the Auditors. These incorrect balances in the accounting system were caused by erroneous accounting entries in 2003. The City Controller was notified of these incorrect account balances and took immediate action to ensure the accounting system shows the verified account balances.

City guidelines show department directors are responsible for establishing and enforcing internal control procedures for the security and maintenance of their petty cash funds.

Recommendation III:

We recommend the Interim Director of Financial Services/City Controller request each department resolve the shortages and overages identified, ensure the petty cash authorized amounts recorded in the City's financial accounting system are accurate, verified, and agreed to the department's authorizing documents, and notify the City Controller of any needed changes.

Management's Response

Agree. A memorandum from the Interim Director of Financial Services / City Controller was issued to all departments with petty cash funds requesting each department to resolve shortages, overages, and deficits and to ensure authorized petty cash amounts are recorded in the City's accounting system at the proper amount and the City Controller duly notified of any changes. Lance Sehorn will be the responsible manager with an implementation date of May 23, 2008.

Background, Objectives, Scope and Methodology

Background

The City of Dallas accounting system showed 81 petty cash funds with a balance totaling \$244,442 as of October 15, 2007. The following table shows the number of funds and fund balances by department type:

Department	Number of Petty Cash Funds	Petty Cash Funds Balance
Civilian	71	\$ 95,987
Uniformed	10	\$ 148,455
Total	81	\$ 244,442

Objectives, Scope and Methodology

Our audit objectives were to determine whether petty cash funds are properly accounted for, adequately safeguarded, and used for their intended purpose. The ten petty cash funds selected for audits had authorized amounts totaling \$16,100 in these civilian departments: Sanitation Services, Aviation, Convention and Event Services, Park and Recreation, Street Services, and Public Works and Transportation. During the audit, each department director was notified of the audit results and agreed to take corrective actions.

This audit was conducted under authority of the City Charter, Chapter IX, Section 3, and in accordance with generally accepted government auditing standards, and covered the period of October 1, 2006 through September 30, 2007. We also examined certain records and transactions occurring before and after this period.

To achieve the objectives, we:

- Conducted unannounced petty cash funds reconciliations to ensure fund balances are accounted for accurately
- Analyzed petty cash account records and receipts, reimbursement vouchers, cashier designations, and randomly sampled transactions to evaluate compliance with petty cash fund procedures
- Reviewed actual fund usage and computed the time required to obtain reimbursement from the Controller's Office to determine if the funds were maintained at an acceptable level

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- Evaluated segregation of duties and other physical safeguarding measures
- Compared petty cash amounts to records maintained by the departments with the amounts recorded on the City's financial accounting system to verify the accuracy and consistency of petty cash fund balances
- Obtained an understanding of internal controls by reviewing petty cash guidelines, and interviewing petty cash custodians and / or alternate custodians, and department management

Major Contributors to This Report

Gary E. Lewis, CPA, CIA, Audit Manager
Rowena Zhang, CPA, CIA, Project Manager
Amy Carlin, Auditor
Eva Chen, Auditor
Gerard Mellody-Camacho, Auditor
Theresa Hampden, CPA, Quality Control Manager

Management's Response

Memorandum

RECEIVED
 MAY 08 2008
 CITY AUDITOR'S OFFICE



DATE: May 8, 2008

TO: Craig D. Kinton, City Auditor

SUBJECT: Response to Audit Report:
 AUDIT OF PETTY CASH FUNDS IN SELECTED CIVILIAN DEPARTMENTS

Our responses to the audit report recommendations are as follows:

Recommendation I:

We recommend the Interim Director of Financial Services / City Controller verify that requests were received from department directors to reduce the authorized amounts for the selected nine petty cash funds, ensure the reductions were properly recorded in the city's accounting system, and request all departments with petty cash funds, that were not included in this audit, to review the fund usage and inform the City Controller of any changes needed to the authorized petty cash fund amounts.

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

Verification of nine selected petty cash fund requests received in City Controller's Office (Accounts Payable)

Seven petty cash fund requests were received in Accounts Payable and two petty cash fund requests were not received. See table below:

Department	Petty Cash Fund Location	Authorized Fund Amount in FY07	Petty Cash Change Fund Request rec'd in AP FY08	Reduced petty cash amount	
				Y	N
Aviation	Dallas Executive Airport (0130/0004)	\$200	\$100	Y	
	Love Field (0130/0090)	\$1,200	\$100	Y	
Dallas Convention Center	Special Services (0080/0050)	\$1,000	\$1,000	N	
	Farmer's Market (0080/0259)	\$1,000	\$1,000	N	
Park and Recreation	Zoo (0001/0040)	\$6,000	Not received	---	
	West Region Office (0001/0077)	\$1,500	\$1,500	N	
Public Works and Transp.	Survey Services (0001/0375)	\$2,750	Not received	---	
	Parking Enf. (0001/P002)	\$650	\$650	N	
Sanitation	Sanitation Services (0001/P005)	\$1,000	\$600	Y	

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Three petty cash fund requests were for reduced amounts (i.e., Aviation and Sanitation); Six petty cash fund requests were for the same amounts as established in FY07 or were not received by Accounts Payable (i.e. Dallas Convention Center, Park and Recreation and Public Works and Transportation). See table above. The internal control accountant in the Controller’s Office is following up on the outstanding items above.

Nine selected petty cash funds proper recording in city’s accounting system

The nine selected petty cash funds were recorded in the city’s accounting system as follows:

Department	Petty Cash Fund Location	Balance in Petty Cash
Aviation	Dallas Executive Airport (Funds 0130/0004)	\$100 reduced from FY07
	Love Field (Funds 0130/0090)	\$100 reduced from FY07
Dallas Convention Center	Special Services (Funds 0080/0050)	\$1,000 same as FY07
	Farmer’s Market (Funds 0080/0259)	\$1,000 same as FY07
Park and Recreation	Zoo (Funds 0001/0040)	\$6,000 same as FY07
	West Region Office (Funds 0001/0077)	\$1,500 same as FY07
Public Works and Transp.	Survey Services (Funds 0001/0375)	\$1,250 reduced from FY07
	Parking Enforcement (Funds 0001/P002)	\$650 same as FY07
Sanitation	Sanitation Services (Funds 0001/P005)	\$600 reduced from FY07

The internal control accountant in the Controller’s Office is following up on the outstanding items above.

A memorandum from the Interim Director of Financial Services/City Controller was issued requesting all departments with petty cash funds that were not included in this audit, to review the fund usage and inform the City Controller of any changes needed to the authorized petty cash fund amounts.

Implementation Date
May 23, 2008

Responsible Manager
Lance Sehorn

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Recommendation II:

We recommend the Interim Director of Financial Services / City Controller issue a memorandum to all departments with petty cash funds to emphasize the need to comply with the current reconciliation and audit requirements and ensure that petty cash procedures are provided to the petty cash fund custodians.

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

A memorandum from the Interim Director of Financial Services/City Controller was issued to all departments with petty cash funds emphasizing a need to comply with the current reconciliation and audit requirements and ensure that petty cash procedures are provided to the petty cash fund custodians.

Implementation Date

May 23, 2008

Responsible Manager

Lance Sehorn

Recommendation III:

We recommend the Interim Director of Financial Services/City Controller request each department resolve the shortages and overages identified, ensure the petty cash authorized amounts recorded in the City's financial accounting system are accurate, verified, and agreed to the department's authorizing documents, and notify the City Controller of any needed changes.

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

A memorandum from the Interim Director of Financial Services/City Controller was issued to all departments with petty cash funds requesting each department to resolve shortages, overages and deficits and to ensure authorized petty cash amounts are recorded in the city's accounting system at the proper amount and the City Controller duly notified of any changes.

Implementation Date

May 23, 2008

Responsible Manager

Lance Sehorn

Sincerely,



Edward R. Scott
Interim Director of Financial Services/City Controller
C: