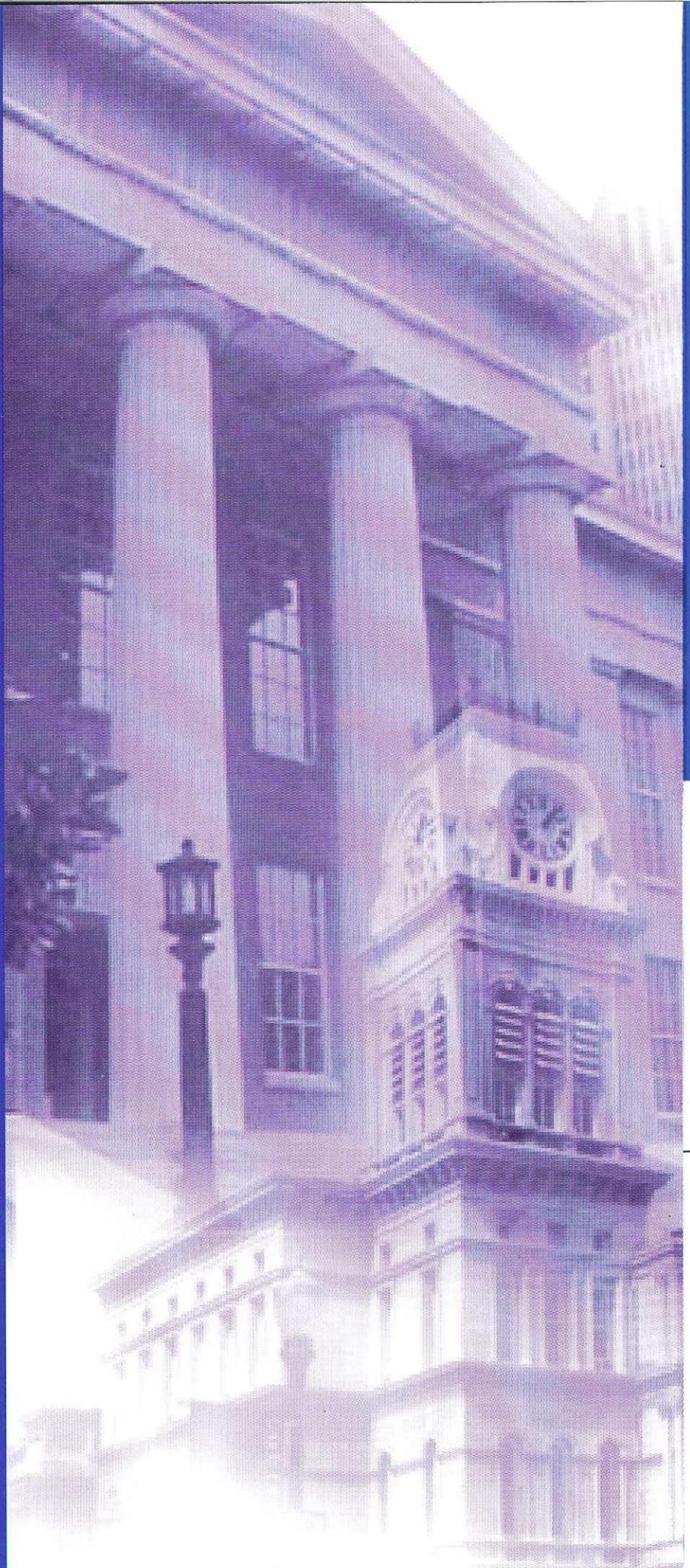




Greg Fischer
Mayor

Louisville Metro Council

The Office of Internal
Audit provides independent,
objective assurance and
consulting services
that adds value to and
improves Louisville
Metro Government.



Office of Internal Audit

Louisville Metro Government

Petty Cash and Cashiering Funds

Audit Report

Louisville Metro Government

Petty Cash and Cashiering Funds

October 2012



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Executive Summary

PROJECT TITLE

Louisville Metro Government-Petty Cash and Cashiering Funds

OBJECTIVE AND SCOPE

The objective was to obtain assurance that activity was processed appropriately and that internal controls were effective in mitigating certain risks. The primary focus of the review was the fiscal and operational administration of the Enterprise-wide petty cash and cashiering fund activity. This included how activity is processed, recorded, and monitored. This was a scheduled audit.

Testing included activity occurring through April of fiscal year 2012. The details of the scope and methodology of the review are addressed in the Observations and Recommendations section of this report.

INTERNAL CONTROL ASSESSMENT

NEEDS IMPROVEMENT

RESULTS

Some issues were noted with the administration of the petty cash and cashiering fund activity. As a result, the effectiveness of the internal control structure is impaired and needs improvement. Examples include the following.

Fund Reconciliation. Louisville Metro policies and procedures states that petty cash funds are to be reconciled semi-annually and cashiering funds are to be reconciled quarterly.

- Six of the eleven petty cash funds reviewed did not submit reconciliation documentation semi-annually as required.
- Five of the eight cashiering funds reviewed did not submit reconciliation documentation quarterly as required.

Fund Balance. There were instances where the total amount of cash and / or receipts on hand did not agree to the total amount on file with the Office of Management and Budget.

Termination or Transferring Custodian of Fund. There were two accounts where changes were made in the petty cash / cashiering fund custodians and those changes were not reported to the Office of Management and Budget in accordance with Louisville Metro policies and procedures.

Safeguarding of Funds. There were two instances in which the petty cash funds were not held in a secure location in accordance with Louisville Metro policy and procedures.



OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

GREG FISCHER
MAYOR

INGRAM QUICK, CHIEF AUDIT EXECUTIVE

JIM KING
PRESIDENT METRO COUNCIL

Transmittal Letter

October 3, 2012

The Honorable Greg Fischer
Mayor of Louisville Metro
Louisville Metro Hall
Louisville, KY 40202

Subject: Audit of Petty Cash and Cashiering Fund Activity

Introduction

In accordance with internal auditing best practices, an enterprise – wide review of petty cash and cashiering fund activity was performed. The objective was to obtain reasonable assurance that petty cash and cashiering fund activity was processed appropriately and that internal controls were effective in mitigating certain risks. The primary focus was on the operational and fiscal administration of the activity. A total of 19 funds at 11 agencies were selected for review. This included 11 petty cash funds and 8 cashiering funds.

The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the review, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

Scope

A thorough understanding of Louisville Metro's policies and procedures governing petty cash and cashiering funds was obtained in order to evaluate the internal control structure. This was achieved through interviews of key personnel; unannounced departmental cash fund counts and examination of supporting reconciliation documentation. This also included a review of activity posting to the financial system. Investigative funds (e.g., Narcotics funds) were not included in the review. All Louisville Metro departments with petty cash and cashiering funds were identified for analysis and testing purposes to determine compliance with policies and procedures and effectiveness of controls.

Testing of actual activity was through April of fiscal year 2012. The details of the scope and methodology of the review will be addressed in the Observations and Recommendations section of this report.

Opinion

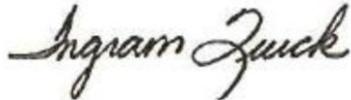
It is our opinion that the internal control structure for petty cash and cashiering funds needs improvement. The internal control rating is on page 6 of this report. This rating quantifies the opinion regarding the internal controls and identifies areas requiring corrective action. Opportunities to strengthen the internal control structure were noted. Examples include the following.

- **Fund Reconciliation.** There were some issues noted with the documented reconciliations of the petty cash and cashiering funds.
 - Six of the eleven petty cash funds reviewed did not submit reconciliation documentation semi-annually to the Office of Management and Budget as required by Louisville Metro policies and procedures.
 - Five of the eight cashiering funds did not submit reconciliation documentation quarterly to the Office of Management and Budget as required by Louisville Metro policies and procedures.
- **Fund Balance.** There were some issues noted with the cash / receipt balance of the petty cash and cashiering funds.
 - Two of the eleven petty cash funds reviewed did not have cash / receipt totals that agreed to the applicable fund amount on file at the Office of Management and Budget.
 - One of the eight cashiering funds reviewed did not have cash / receipts total that agreed to the fund amount on file at the Office of Management and Budget.
- **Termination or Transferring Custody of Funds.** There were some issues noted with the termination or transfer of custody of the petty cash and cashiering funds.
 - There were two instances where changes were made in the petty cash / cashiering fund custodians and those changes were not reported to the Office of Management and Budget in accordance with Louisville Metro policies and procedures.
- **Safeguarding of Funds.** There were some issues noted with the safeguarding of the petty cash and cashiering funds.
 - There were two petty cash funds in which the cash was kept in an unlocked desk drawer.

Corrective Action Plan

Representatives from the Office of Management and Budget have reviewed the results and have implemented corrective action to address the majority of the issues noted. Current corrective action and future correction action plans are included in this report in the Observations and Recommendations section. We will continue to work the Office of Management and Budget to ensure the actions taken are effective to address the issues noted.

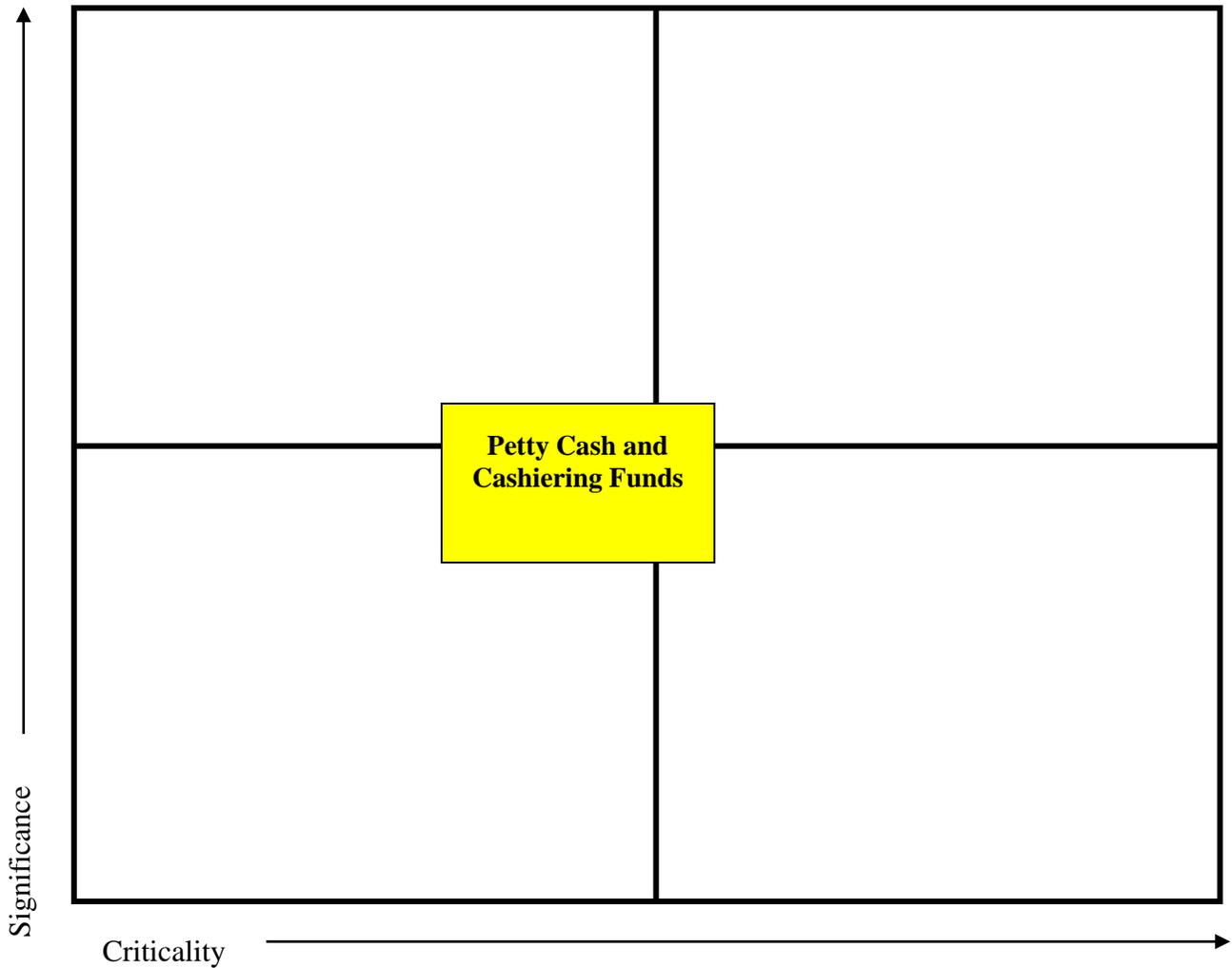
Sincerely,



Ingram Quick, CIA, CFE
Chief Audit Executive

cc: Louisville Metro Council Government Accountability and Ethics Committee
Director of Office of Management and Budget
Louisville Metro External Auditors

Internal Control Rating



	<u>Legend</u>		
<u>Criteria Issues</u>	<u>Satisfactory</u>	<u>Needs Improvement</u>	<u>Inadequate</u>
	Not likely to impact operations.	Impact on operations likely contained.	Impact on operations likely widespread or compounding.
<i>Controls</i>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<i>Policy Compliance</i>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<i>Image</i>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<i>Corrective Action</i>	May be necessary.	Prompt.	Immediate.

Background

Petty cash funds are established to allow departments to make immediate incidental purchases in small amounts (less than \$25). Petty cash is a minimal amount of cash held by an agency for immaterial day to day expenditures (e.g., postage due, fees to record documents). Revolving cashiering funds are a specific type of petty cash fund used to purchase change and provide a starting bank. The Office of Management and Budget oversees the petty cash and cashiering funds, while the individual department directors' assign a custodian over the funds.

As of April 30, 2012, Louisville Metro Government had a total of 133 Petty Cash and Cashiering funds totaling approximately \$32,800.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit has not performed any previous reviews of petty cash and cashiering funds for Louisville Metro Government.

III. Statement of Auditing Standards

The audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

An understanding of the internal control structure was obtained in order to support the final opinion.

V. Statement of Irregularities, Illegal Acts, and Other Noncompliance

The review did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected during the review that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. Views of Responsible Officials / Action Plan

A draft report was issued to the Office of Management and Budget on September 19, 2012. An exit conference was held at the Office of Management and Budget on October 1, 2012. Attending were Steve Rowland and Aimee Sapp representing Office of Management and Budget; and Ingram Quick and Catina Rivera representing Internal Audit. Final audit results were discussed.

The views of the Office of Management and Budget officials were received on October 1, 2012 and are included as corrective action plans in the Observations and Recommendations section of the report. The plans indicate a commitment to addressing the issues noted.

LMCO §30.36(B) requires Louisville Metro Agencies to respond to draft audit reports in a timely manner. It specifically states that

“The response must be forwarded to the Office of Internal Audit within 15 days of the exit conference, or no longer than 30 days of receipt of the draft report.”

The Office of Management and Budget’s response was provided within this required timeframe.

Observations and Recommendations

Scope

An enterprise-wide review of Louisville Metro Government's petty cash and cashiering fund activity was performed. The objective was to obtain reasonable assurance that petty cash and cashiering fund activity was processed appropriately and that internal controls were effective in mitigating certain risks.

An understanding of the petty cash and cashiering funds reviewed was obtained through interviews of key personnel. This included obtaining an understanding of policies and procedures. Documentation reviewed included Louisville Metro policies and procedures, Office of Management and Budget records and other supporting documentation.

All Louisville Metro departments with petty cash and cashiering funds were identified. A sample of petty cash and cashiering funds was judgmentally selected for review. The examinations included the reconciliation of individual petty cash and cashiering fund accounts, by verifying cash on hand and receipts; and verifying compliance with the policies and procedures for managing petty cash and cashiering funds. The review covered all petty cash and cashiering funds in existence as of fiscal year 2012 (April 2012). Investigative funds (e.g., Narcotics funds) were not a part of the review.

Internal Audit attempted to conduct unannounced cash counts of 19 funds at 11 departments. This included 11 petty cash funds and 8 cashiering funds. The review would not reveal all non-compliance issues because it was based on selective review of data.

Observations

Some issues were noted with the administration of the petty cash and cashiering fund activity. As a result, the effectiveness of the internal control structure is impaired and needs improvement. Specific results are as follows.

- **Fund Reconciliation.** Louisville Metro policies and procedures states that petty cash funds are to be reconciled semi-annually and cashiering funds are to be reconciled quarterly.
 - Six of the eleven petty cash funds reviewed did not submit reconciliation documentation to the Office of Management and Budget as required by Louisville Metro policies and procedures.
 - Five of the eight cashiering funds did not submit reconciliation documentation to the Office of Management and Budget as required by Louisville Metro policies and procedures.
- **Fund Balance.** The total amount of cash and / or receipts that the petty cash and cashiering funds physically has on hand should agree to the total amount on file at the Office of Management and Budget. There were instances where the total amount of cash and / or receipts on hand did not agree to the total amount on file with the Office of Management and Budget.

- Two of the eleven petty cash funds reviewed did not have cash / receipts totals that agreed to the fund amount on file at the Office of Management and Budget.
 - For one petty cash fund, the cash / receipt total was \$11.39 more than the fund amount on file at the Office of Management and Budget.
 - For the other petty cash fund, the cash / receipt total was \$1.15 less than the fund amount on file at the Office of Management and Budget.
- One of the eight cashiering funds reviewed did not have cash / receipts total that agreed to the fund amount on file at the Office of Management and Budget. The cash / receipts total was \$13 more than the fund amount on file at the Office of Management and Budget.
- **Termination or Transferring Custodian of Fund.** If a petty cash / cashiering fund is closed or when the funds are transferred to a new custodian, a “Request for Termination or Transfer of Petty Cash / Cashiering Fund” form should be completed and submitted to the Office of Management and Budget.
 - There were two accounts where changes were made in the petty cash / cashiering fund custodians and those changes were not reported to the Office of Management and Budget in accordance with Louisville Metro policies and procedures. Therefore, Internal Audit was unable to verify the cash on hand and receipts for these two accounts. The total fund balance of the two petty cash fund / cashiering fund accounts is \$700.
- **Safeguarding of Funds.** The petty cash fund should be held in a secure location and only be accessible by designated employees. There were instances in which the petty cash funds were not held in a secure location.
 - There were two petty cash funds kept in an unlocked desk drawer.

Recommendations

Appropriate Office of Management and Budget personnel should take corrective actions to address the issues noted. Specifics include the following.

- ✓ Submission of petty cash and cashiering funds reconciliation documentation should be routinely monitored to ensure that it is submitted on time in accordance with Louisville Metro policies and procedures. Any reconciliation documentation that is not submitted should be investigated further. This may assist the Office of Management and Budget in discovering any funds that have been transferred to new custodians or terminated without submitting the proper documentation.
- ✓ All petty cash and cashiering funds should be reconciled periodically and shortages / overages reported following normal Louisville Metro policies and procedures.
- ✓ Custodians should report any changes in petty cash / cashiering fund custodians to the Office of Management in accordance with Louisville Metro policies and procedures.
- ✓ Custodians should properly protect petty cash and cashiering funds from theft and loss. Petty cash and cashiering funds, along with their supporting documents, should be kept in a secure environment (e.g., locked drawer within the office) under limited access by designated employees. Under no circumstances should the custodian take the petty cash funds and records to their personal residence.
- ✓ Custodians should be properly trained and supervised to ensure effective accountability over funds.
- ✓ The limits for individual petty cash accounts should be reviewed periodically on the basis of frequency of petty cash replenishments. Frequent replenishments because of fund exhaustion may suggest that the petty cash limit should be increased. Conversely, if there are less frequent replenishments, the petty cash limit should be reduced.

Office of Management and Budget Corrective Action Plan

The Office of Management and Budget (OMB) will email custodians a reminder on the 1st of every month when quarterly and semi-annually reconciliations are due. The forms will be updated to include the type of reconciliation and the due date. In the past we have accepted the reconciliation for reimbursement as the quarterly reconciliation. OMB will require a separate reconciliation to be prepared regardless of whether or not reimbursement reconciliation has been prepared. We will require an employee from OMB to go out to the department quarterly and semi-annually to count the petty cash. The department must turn in a Quarterly Reconciliation for all Cashiering Funds by October 15, 2012. The Office of Management and Budget will perform a thorough review by November 15, 2012. For Petty Cash funds, the custodian must turn in a semi-annual reconciliation by January 15, 2013. OMB will review all reconciliations by February 15, 2013. This Corrective Action was implemented on September 21, 2012.

The Office of Management and Budget will update Policies & Procedures on how to handle overages and shortages. We will identify on the reconciliation the resolution for the shortages. General Accounting will update our internal spreadsheet to document when and how often we communicated with the department. This Corrective Action was implemented on September 28, 2012.

The Office of Management and Budget will update the Policies & Procedures to include language regarding changes in custodians. OMB will not issue any new funds to custodians who have not filled out proper paperwork. The quarterly reviews will catch changes in custodians if not previously reported. This Corrective Action was implemented on September 28, 2012.

The Office of Management and Budget will update Policies and Procedures to provide guidance to the departments on how to secure petty cash funds. The department will have to ensure policies are implemented. The quarterly site visits will help identify security issues. This Corrective Action was implemented on September 28, 2012.

The Office of Management and Budget will provide training and guidance to all new custodians plus hold an annual refresher. This Corrective Action was implemented on October 1, 2012.

The Office of Management and Budget will review balances in all petty cash accounts as well as replenishment requests. OMB will suggest increasing / decreasing petty cash funds or cancelling based on annual review of activity. Any petty cash account that has not been replenished for over a year will be closed out. The targeted date for implementation of this Corrective Action is November 15, 2012.

Office of Internal Audit

Phone: 502.574.3291

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