



Audit of Petty Cash

AYCHA SAWA
City Comptroller

CHARLES ROEDEL
Audit Manager

September 2022

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Aycha Sawa, CPA, CIA
Comptroller

Joshua Benson
Deputy Comptroller

Toni Biscobing
Special Deputy Comptroller

Richard Bare, CPA
Special Deputy Comptroller

September 6, 2022

Honorable Cavalier Johnson, Mayor
The Members of the Common Council

Dear Mayor and Council Members:

The attached report summarizes the results of the Audit of Petty Cash. The scope of the audit was:

- Petty cash activities from January 2021 through the audit's surprise petty cash counts for departments subject to Department of Administration oversight. Petty cash activities and funds relating to the Comptroller's Department were excluded for independence purposes.

The primary focus of the audit was to evaluate whether the internal controls in place over petty cash were designed adequately and operating effectively. The audit objectives were to determine if:

- Petty cash is properly accounted for, safeguarded, and monitored; and
- Petty cash users comply with Department of Administration petty cash procedures

The audit identified training opportunities to increase the knowledge of petty cash custodians and approving officers to consistently perform their responsibilities in accordance with the Petty Cash Procedures. While internal audit did discover one fund that was "short," no departments, divisions, or locations appeared to have misappropriation of assets. Additionally, petty cash was used to make purchases that were in accordance with the Petty Cash Procedures.

Appreciation is expressed for the cooperation extended to the auditors by personnel of Department of Administration Purchasing as well as personnel of the 22 departments, divisions, and locations audited.

Sincerely,

A handwritten signature in black ink that reads 'Charles Roedel'.

Charles Roedel, CPA, CIA
Audit Manager

CRR



Audit Report Highlights

Audit of Petty Cash

Why We Did This Audit

MHD self-reported a short during annual petty cash reporting and the Fraud Hotline received a petty cash-related allegation in 2020.

Objectives

The objectives of the audit were to determine whether:

- Petty cash is properly accounted for, safeguarded, and monitored; and
- Petty cash users comply with Department of Administration petty cash procedures

Background

The Department of Administration Purchasing Division administers petty cash fund creation, modification, termination, usage guidelines, and reporting. Guidelines are set forth in the Petty Cash Procedures section of the Purchasing Liaison Manual. Twenty-three departments, divisions, or locations have or had petty cash funds during the audit period.

Overview

Internal controls over the petty cash process that are supposed to be performed by the petty cash custodian and approving officer are not operating effectively. In particular, there were custodians who did not count petty cash as part of the annual reporting to Purchasing and there were approving officers who did not witness the annual petty cash count. While internal audit did discover one fund that was “short,” no departments, divisions, or locations appeared to have misappropriation of assets. Additionally, petty cash was used to make purchases that were in accordance with the Petty Cash Procedures.

Priority Findings

Annual Cash Counts: Six custodians did not count petty cash and 12 approving officers did not witness counting of petty cash.

Accountability: No custodians and alternate custodians are counting cash when responsibilities are transferred. Additionally, access to petty cash was not limited to the custodians in three departments and divisions.

Procedure Awareness: Seven custodians were not aware petty cash procedures exist. Two custodians did not understand replenishment to the authorized amount is required at the end of every year.

Approving Officer Role Assignment: The Petty Cash Procedures do not provide guidelines for who could be the approving officer, which has resulted in one approving officer being the same person as the custodian and other departments and divisions with approving officers at an unnecessarily high level.

DPW Fleet Services Short: Fleet Services had custodial turnover that resulted in subvouchers being discarded. Additionally, Fleet Services had not replenished for multiple years despite having petty cash expenses. As a result, DPW’s petty cash count was \$396.96 and could not be reconciled to its authorized amount of \$700.

(Other Findings and Recommendations can be found in the Audit Conclusions and Recommendations section of this report.)

I. Audit Scope, Objectives, and Methodology

Scope

The scope of the audit included petty cash activities from January 2021 through the audit's surprise petty cash counts for departments subject to Department of Administration oversight. Petty cash activities and funds relating to the Comptroller's Department were excluded for independence purposes.

Objectives

The objectives of the audit were to determine if:

- Petty cash is properly accounted for, safeguarded, and monitored; and
- Petty cash users comply with Department of Administration petty cash procedures

The audit was conducted 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 the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for the audit's findings and conclusions based on the audit objectives.

Methodology

Audit methodology included developing an understanding of the processes and controls over petty cash. The audit program was developed using criteria outlined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). These present a methodology for performing audits in accordance with professional standards as presented in Government Auditing Standards (also known as the "Yellow Book"), which was used as a reference and program development guide for the planning of this audit.

II. Organization and Fiscal Impact

The Department of Administration (DoA) Purchasing Division administers petty cash fund creation, modification, termination, usage guidelines, and reporting. Guidelines are set forth in the Petty Cash Procedures section of the Purchasing Liaison Manual. Twenty-three departments, divisions, or locations have or had petty cash funds during the audit period. Total value of the petty cash funds throughout the audit period was approximately \$10,000.

III. Audit Conclusions and Recommendations

Internal controls over the petty cash process that are supposed to be performed by the petty cash custodian and approving officer are not operating effectively. In particular, there were custodians who did not count petty cash as part of the annual reporting to Purchasing and there were approving officers who did not witness the annual petty cash count. While internal audit did discover one fund that was “short,” no departments, divisions, or locations appeared to have misappropriation of assets. Additionally, petty cash was used to make purchases that were in accordance with the Petty Cash Procedures.

Annual Cash Counts

Custodians should be counting petty cash and approving officers should be witnessing the count of petty cash in order to report accurate petty cash balances annually to Purchasing in accordance with the Petty Cash Procedures.

Finding: The custodian did not count cash before reporting the annual cash balance to DoA Purchasing in six departments and divisions audited. The approving officer did not witness the annual cash count in 12 departments and divisions audited.

Risk: Accurate cash balances may not be reported. Shorts could go undetected. *Risk Rating: Low*

Recommendation 1: Language should be added to the form used by departments to communicate the annual cash count to DoA Purchasing for custodians to attest to counting the cash at the time of reporting and the approving officer witnessing the cash count.

Accountability

Transitioning of custodial responsibilities without a corresponding count creates lack of accountability. Additionally, access to petty cash funds needs to be limited to the acting custodian. In the event of a short, the employee responsible for the short cannot be identified if multiple parties have had access to the petty cash funds since the prior count.

Finding: Counts are not performed when new custodians assume custodial duty and when responsibilities are handed over from the primary custodian to the alternate custodian to back.

Additionally, access to petty cash was not limited to the active custodian in three departments and divisions. Finally, changes to custodians and approving officers are not reported timely to DoA Purchasing.

Risk: Lack of accountability in the event of a short. *Risk Rating: Low*

Recommendation 2: Cash counts at the time of custodian transitions should be added to Petty Cash Procedures. Access to petty cash should be limited to the active custodian. Additionally, departments and divisions should report changes to custodians and approving officers as they occur.

Procedure Awareness

Internal Audit interviewed custodians to learn their understanding of the Petty Cash Procedures.

Finding: Seven custodians were not aware that Petty Cash Procedures exist. Seven custodians did not know the individual transaction reimbursement limit. Two custodians did not understand replenishment to the authorized amount was required every December.

Risk: Procedures may not be followed because expectations may not be understood. *Risk Rating: Low*

Recommendation 3: DoA Purchasing should provide training to existing custodians and approving officers and send them the Petty Cash Procedures annually. Additionally, departments and divisions should use the “train the trainer” approach to have custodians train successors and alternates.

Approving Officer Role Assignment

The Petty Cash Procedures specify the department head is ultimately responsible for petty cash, but does not provide guidelines for who can perform the approving officer responsibilities.

Finding: The Petty Cash Procedures do not specify guidelines for who can be the approving officer, which has resulted in people at unnecessarily high levels being approving officers and one instance of the approving officer and custodian being the same person.

Risk: Using the time of department/division heads when a duties could be delegated. Lack of segregation of duties. *Risk Rating: Low*

Recommendation 4: Guidelines for who should be the approving officer should be developed and communicated in the Petty Cash Procedures. The approving officer should be separate from the custodian.

Receipts

Receipts provide evidence that valid expenses occurred. Internal Audit reviewed all subvouchers during the audit period and related receipts.

Finding: Custodians accept copies of receipts. There was one instance of the same receipt being used for two separate reimbursements. Additionally, four custodians accepted order confirmations.

Risk: An employee could submit the same expense for reimbursement multiple times. An employee could place an order, get reimbursed based on an order confirmation, and cancel the order. *Risk Rating: Low*

Recommendation 5: Custodians should be provided originals of receipts. If an original receipt is not available, the approving officer should sign off on use of a copy of the receipt or order confirmation.

Fund Authorized Amounts

The Petty Cash Procedures specify authorized amounts should be approximately two months' worth of petty cash expenditures.

Finding: Funds with infrequent reimbursements have unnecessarily high balances. Five departments or divisions have authorized amounts greater than \$100 despite no expenditures from 1/1/2021 through the time of the surprise cash count.

Risk: Unnecessarily high impact in the event of misappropriation of assets. *Risk Rating: Low*

Recommendation 6: The annual reporting form should be clarified for departments and divisions to know how to lower authorized amounts when reimbursement activity does not justify current authorized amounts.

Department of Neighborhood Services (DNS) Satellite Location

Finding: DNS has one petty cash fund that is kept in two geographically separated locations.

Risk: Inaccurate reporting. *Risk Rating: Low*

Recommendation 7: DNS should create a subfund for the satellite location and annual reporting should specify information specific to the satellite location.

Fleet Services Short

Internal Audit performed surprise cash counts at the 22 departments, divisions, and locations within the audit scope. Internal Audit reconciled cash balances to authorized amounts by reviewing reconciling expenses.

Finding: DPW Fleet Services has an authorized petty cash amount of \$700, but had a count of \$396.96, which is a short of \$303.04. Annual counts of cash balances were not performed by the custodian and witnessed by the approving officer. Instead, “Current Petty Cash Amount” reported annually was the authorized amount. Replenishment was not requested at year end as required by the Petty Cash Procedures. Finally, the custodian retired and the invoices related to the last several years of petty cash expenses were not retained after the custodian’s retirement. A custodial handoff with training for the new custodian did not occur due to the custodian only giving two business days’ notice of retirement.

Risk: Short without accountability. *Risk Rating: Low*

Recommendation 8: The custodian should count petty cash annually with the approving officer witnessing the count. The amount reported for “Current Petty Cash Amount” should be the amount that was counted. The Petty Cash fund should be replenished at the end of every year in alignment with the Petty Cash Procedures. New custodians should be trained for the custodial responsibilities including being made aware of the Petty Cash Procedures. DPW Fleet should do a one-time

replenishment without the expectation that they submit corresponding receipts to get back to the authorized amount.

Intergovernmental Relations Replenishment

Finding: Intergovernmental Relations has been reporting a balance of \$74.77 since before the start of the audit period compared to the authorized amount of \$150.

Risk: Short without accountability. *Risk Rating: Low*

Recommendation 9: Intergovernmental Relations should do a one-time replenishment without the expectation that they submit corresponding receipts to get back to the authorized amount.

Tow Lot Fund Usage

Finding: Tow lot created a petty cash fund for the purpose of supplementing its cash drawers.

Risk: Treasury-type activity getting funded through Procurement. *Risk Rating: Low*

Recommendation 10: Tow lot should request an accounts payable voucher for a check that they could cash to fund their cash drawers instead of using petty cash to supplement their cash drawers.



Aycha Sawa, CPA, CIA
Comptroller

Joshua Benson
Deputy Comptroller

Toni Biscobing
Special Deputy Comptroller

Richard Bare, CPA
Special Deputy Comptroller

September 6, 2022

Honorable Cavalier Johnson, Mayor
The Members of the Common Council

Dear Mayor and Council Members:

With this letter, the Office of the City Comptroller acknowledges receipt of the preceding report, which communicates the results of the Audit of Petty Cash. I have read the report and support its conclusions. Implementation of the stated recommendations will help improve City processes.

As the City Comptroller, I was not involved in any portion of the work conducted in connection with the audit. At all times, the Internal Audit Division worked autonomously in order to maintain the integrity, objectivity, and independence of the audit, both in fact and in appearance.

Sincerely,

A handwritten signature in black ink, appearing to read "Aycha Sawa", with a long horizontal flourish extending to the right.

Aycha Sawa, CPA, CIA
Comptroller



Department of Administration
Purchasing Division

Cavalier Johnson
Mayor

Sharon Robinson
Director of Administration

Rhonda U. Kelsey
City Purchasing Director

September 1, 2022

Mr. Charles Roedel, CPA, CIA
Audit Manager

Dear Mr. Roedel,

This letter serves as the Department of Administration – Purchasing Division’s formal response to your correspondence dated August 22, 2022 as it relates to the Purchasing Division’s Action Plan based on the findings outlined in the Petty Cash Audit Report dated September 2022.

Recommendation 1: Language should be added to the form used by departments to communicate the annual cash count to DOA Purchasing for custodians to attest to counting the cash at the time of reporting and the approving officer witnessing the cash count.

DOA Purchasing Response: A table was added to the Petty Cash Sub-Fund Signature Authorization form on 08/29/2022 which requires the user department to report their current petty cash amount as well as identify who counted the petty cash. The table also has a section identifying the Approving Officer witnessing the cash count.

Implementation Date: August 29, 2022

Recommendation 2: Cash counts at the time of custodian transitions should be added to Petty Cash Procedures. Access to petty cash should be limited to the active custodian. Additionally, departments and divisions should report changes to custodians and approving officers as they occur.

DOA Purchasing Response: Purchasing will revise the Petty Cash Procedures to include language stating that access to petty cash should be limited to the active custodian. We will also revise the Petty Cash Procedures to reflect that departments/divisions should report changes to custodians and approving officers as they occur.

Implementation Date: December 31, 2022

Recommendation 3: DOA Purchasing should provide training to existing custodians and approving officers and send them the Petty Cash Procedures annually. Additionally, departments and divisions should use the “train the trainer” approach to have custodians train successors and alternates.

DOA Purchasing Response: Purchasing will provide a mandatory annual training class for all Petty Cash custodians, alternates, and approving officers. They will be sent a copy of the Petty Cash Procedures for review prior to training. We will also recommend, in training, that the departments/divisions use the “train the trainer” approach to have custodians train successors and alternates.

Implementation Date: December 31, 2022

Recommendation 4: Guidelines for who should be the approving officer should be developed and communicated in the Petty Cash Procedures. The approving officer should be separate from the custodian.

DOA Purchasing Response: Purchasing will revise the Petty Cash Procedures to provide clear guidelines regarding who should be the approving officer. We will also communicate that the approving officer should be separate from the custodian.

Implementation Date: December 31, 2022

Recommendation 5: Custodians should be provided originals of receipts. If an original receipt is not available, the approving officer should sign off on use of a copy of the receipt or order confirmation.

DOA Purchasing Response: Purchasing will revise the Petty Cash Procedures to include language that the custodian should be provided with original receipts, and if original receipts are not available, the approving officer must sign off on the use of a copy of a receipt or order confirmation.

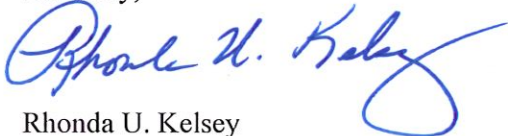
Implementation Date: December 31, 2022

Recommendation 6: The annual reporting form should be clarified for departments and divisions to know how to lower authorized amounts when reimbursement activity does not justify current authorized amounts.

DOA-Purchasing Response: Purchasing will revise the Petty Cash Procedures to include instruction on how to decrease authorized petty cash amounts when reimbursement activity does not justify current authorized amounts.

Implementation Date: December 31, 2022

Sincerely,



Rhonda U. Kelsey
City Purchasing Director



Erica R. Roberts
Commissioner

Kristen M. Reed
Operations Director

Department of Neighborhood Services

August 26, 2022

Charles Roedel
Audit Manager
Office of the Comptroller
City Hall, Room 404

RE: AUDIT OF THE DEPARTMENT OF NEIGHBORHOOD SERVICES PETTY CASH

Dear Mr. Roedel:

This is written in response to the recommendation made in the Audit of Petty Cash dated September 2022.

Recommendation 1:

- a) *DNS should create a sub-fund for the satellite location and annual reporting should specify information specific to the satellite location.*

DNS recognizes the importance of accurate accounting when maintaining a petty cash fund in accordance with the Department of Administration petty cash procedures. A sub-fund has been established for the 4001 S. 6th St location of the Dept. of Neighborhood Services as recommended. Petty cash custodian and alternate in both locations will be responsible for conducting the petty cash annual count and reporting.

Please direct any questions on the above response to the undersigned at extension 2543, or to Tanz Rome, Business Operations Manager, at extension 5041.

Sincerely,

Erica R. Roberts
Commissioner of Building Inspection

ERR/tr



Department of Public Works
Operations Division

Jerrel Kruschke, P.E.
Interim Commissioner of Public Works

Danielle A. Rodriguez, M.B.A.
Director of Operations

August 31, 2022^{*}

Charlie Roedel
Audit Manager
Office of the Comptroller

Dear Mr. Roedel;

With this letter, the Department of Public Works responds to two findings of the Audit of Petty Cash performed by the Comptroller's Office. The department's actions taken in response to the audit are below:

1) Audit Recommendation – Fleet Services Short:

The custodian should count petty cash annually with the approving officer witnessing the count. The amount reported for "Current Petty Cash Amount" should be the amount that was counted. The Petty Cash fund should be replenished at the end of every year in alignment with the Petty Cash Procedures. New custodians should be trained for the custodial responsibilities including being made aware of the Petty Cash Procedures. DPW Fleet should do a one-time replenishment without the expectation that they submit corresponding receipts to get back to the authorized amount.

- a. Department Action: DPW Fleet will do a one-time replenishment and close the petty cash account.

2) Audit Recommendation – Tow Lot Fund Usage:

Tow lot should request an accounts payable voucher for a check that they could cash to fund their cash drawers instead of using petty cash to supplement their cash drawers.

- a. Department Action: Tow Lot will request an accounts payable voucher for a check that will provide cash to fund cash draws instead of using petty case to supplement cash drawers.

Sincerely,

Danielle Rodriguez, M.B.A.
Director of Operations

C. Jerrel Kruschke, P.E.
Chuck Schumacher





Department of Administration
Intergovernmental Relations Division

Cavalier Johnson
Mayor

Sharon Robinson
Director of Administration

Kimberly Montgomery
Director of Intergovernmental Relations

August 26, 2022

Mr. Charles Roedel, Audit Manager
City of Milwaukee

Mr. Roedel,

This letter is Intergovernmental Relations Division's (IRD) response to finding #9 of the petty cash audit report. As of August 31, 2022, Intergovernmental Relations Division is reducing our authorized amount to zero (\$0), and authorizing the elimination of the fund.

Tobie Black is responsible for the implementation of this action plan. She will submit the signed Petty Cash Authorization form to DoA – Purchasing Division. In addition, submittal of the \$74.77 to the proper department.

If you have any questions, please feel free to contact Tobie Black at 286-5584, or myself at 414-286-8564.

Best,

Kimberly Montgomery
Director, Intergovernmental Relations Division