



JIM STRICKLAND  
MAYOR

EXECUTIVE DIVISION

TENNESSEE

March 20, 2018

Ms. Shirley Ford, Chief Financial Officer  
Finance Division  
125 N. Main, Room 368  
Memphis, TN 38103

Dear Chief Ford:

We performed random and unannounced petty cash counts for 53 service centers within the City of Memphis as part of our ongoing fraud deterrent activities. Our primary objective was to send the message to employees that the City will remain vigilant in the fight against fraud. Our secondary objectives were to verify the existence and accuracy of the petty cash fund and to verify that cash-on-hand and receipted expenditures agreed to the authorized fund amount for selected service centers.

To accomplish our objectives, we met with petty cash custodians, reviewed relevant documentation (policies, procedures, general ledger records, etc.), and conducted unannounced counts of the petty cash funds. The scope was limited to the petty cash fund balances totaling \$36,169.49 that were recorded on the City's General Ledger (GL) as of September 12, 2017.

### **Conclusion**

The administration of petty cash funds needs improvement. Seventy-two percent (38 of 53) of the petty cash funds we reviewed were inaccurately reflected on the GL. As a result, we verified petty cash funds totaling \$19,025. We also noted weaknesses related to the petty cash policy and inefficient record keeping.

### **Background**

Petty cash is used to provide immediate cash payment for expenditures such as emergency operating supplies, postage, package delivery services, reimbursement to department employees for approved out-of-pocket expenses and other small necessary operating expenses. The City's Petty Cash policy (Finance Policy and Procedures Manual, Chapter 4, Section 4) provides guidance for establishing and maintaining the petty cash funds.

Division management is responsible for submitting required documentation to Accounts Payable (AP) to establish the petty cash fund. The fund is established in the name of the employee approved by Division management to be the petty cash custodian. The custodian is responsible for ensuring the funds are properly safeguarded, maintaining adequate receipts to support cash disbursements, and submitting proper documentation to AP to replenish the funds. Additionally, AP maintains pertinent records (petty cash

authorization forms) that identify the custodian names, division, service center, and authorized fund amounts.

**Summary of Petty Cash Count Results**

Unannounced petty cash counts were performed during the period September 14 through October 4, 2017. On February 2, 2018, we recounted the petty cash funds with overages or shortages greater than \$10. For each count, we tallied the cash on hand, receipts, vouchers, and other supporting documentation pertinent to reimbursed expenditures. We also compared the sum of these items to the authorized petty cash fund amounts recorded on the petty cash authorization forms signed by the petty cash custodians and to the GL balance. The results of the unannounced counts for the 53 service centers with petty cash funds is denoted in Table 1 below.

**Table 1 – Summary of Petty Cash Count Results**

Total Number of Petty Cash Funds	GL Balance	*Authorized Petty Cash Fund Amount	Variance between GL Balance and Authorized Fund Amount	Comments
21	\$23,712.43	\$12,075.00	(\$11,637.43)	GL balance doesn't agree with authorized fund. Material overages noted for two funds.
17	\$5,507.06	\$0.00	(\$5,507.06)	No petty cash authorization forms found.
15	\$6,950.00	\$6,950.00	\$0.00	GL balance agrees with authorized fund. Material shortages noted for two funds.
<b>TOTAL</b>	53	\$36,169.49	\$19,025.00	(\$17,144.49)

*\* Authorized fund amount obtained from the petty cash authorization form signed by the custodian.*

NOTE: Overages and shortages greater than \$10 denoted as material.

*Detailed Breakdown of Table 1 Results*

- For the 21 petty cash funds depicted in Table 1, the GL balance did not agree with the authorized petty cash fund amount, resulting in a significant variance. However, we found GL notations for 15, indicating that the variances resulted from the posting of miscellaneous receipts and reclassing of funds due to service center restructuring. Although we found no GL notations for the remaining six, we believe that the variances were created in the same manner. Additionally:
  - We found material overages of \$25.52 and \$69.80 for two petty cash funds. The overages were attributed to the funds being commingled with other cash sources.
  - For one petty cash fund, we received the petty cash authorization form and cash receipt submitted to AP to close the fund. However, the GL reflected that the fund was still open.

- For the 17 petty cash funds depicted in Table 1, we did not find any petty cash authorization forms or evidence of petty cash fund transactional activity (in Oracle) to verify the existence of the funds. We also contacted pertinent personnel from each of the service centers and was informed that they did not have a petty cash fund. Due to the lack of sufficient evidence to substantiate their existence, we don't believe the petty cash funds currently exist.
- For the 15 petty cash funds depicted in Table 1, we found no discrepancies with the GL balance and authorized petty cash fund amount. However, we found material shortages of **\$15.31** and **\$58.93** for two. The shortages were attributed to missing expense reimbursement documentation.

*In addition to the discrepancies identified during the unannounced cash counts, we noted the following internal control weaknesses.*

- Nine petty cash funds contained receipts that were greater than 90 days. We found receipts with dates that ranged from March 2012 through June 2017 indicating funds that had not been replenished timely. Therefore, we questioned whether the petty cash funds are appropriate and necessary for current operational needs.
- For nine petty cash funds with recent service center restructuring, we traced each fund to its new service center to ensure proper accountability and could not confirm the final disposition for three.
- We noted an opportunity to improve the petty cash policy and procedures to enhance accountability over petty cash funds. The policy lacks guidance for timely replenishment, pertinent responsibilities, proper usage, record keeping and reporting requirements.
- Pertinent records maintained by AP (petty cash authorization forms) were not organized efficiently to confirm the distribution of petty cash funds by date, service center, custodian name, or any other practical method. Therefore, monitoring and tracking of petty cash funds cannot be performed effectively.

### **Recommendations**

The current petty cash program should be terminated and reestablished with improved guidance for administering, maintaining, and reporting petty cash funds. Each petty cash fund (totaling \$19,025) should be reconciled and the results, including actual cash funds, receipts and vouchers submitted to AP management to close out all funds. The GL should be updated accordingly to reflect the changes.

Divisions that wish to maintain petty cash funds should reapply under the terms of new guidelines, which should be added to the current petty cash policy:

- Specified time for petty cash replenishment (monthly, quarterly, etc.).
- Specific instructions regarding petty cash custodian responsibilities.
- Requirement that petty cash funds are adequately safeguarded from unauthorized access.
- Instructions for resolving petty cash overages/shortages.
- Examples of prohibited expenditures and/or practices (no commingling of funds, no personal use).

- Reporting requirements for Division management (quarterly unannounced petty cash counts, annual petty cash fund reconciliation).
- Specifications for efficient petty cash records management.
- Consequences of noncompliance (petty cash fund termination, disciplinary action).

The revised petty cash policy should be distributed to pertinent parties and training should be provided for new custodians as needed. Additionally, AP management should annually review petty cash records (petty cash authorization forms, unannounced petty cash count results, annual petty cash reconciliation documentation) to ensure proper accountability of funds, compliance with the petty cash policy and to identify questionable, unusual and underutilized petty cash funds.

The results of our unannounced petty cash counts have already been submitted to Division management. We are requesting your written corrective action plan by April 5th. The plan should include dates for implementation of corrective actions, responsible personnel, and/or justification for non-implementation.

Our review may not necessarily disclose all weaknesses related to petty cash fund administration. The work performed for our fraud deterrent activities does not constitute an audit under Government Auditing Standards. We appreciate the cooperation of Finance and Divisional management and staff during our review. If we can be of further assistance, please advise.

Sincerely,



Catrina McCollum, CFE, CICA, CMFO  
Project Manager

**APPROVED:**



Debbie Banks, CFE, CICA, CMFO  
City Auditor

- c: Jim Strickland, Mayor  
Doug McGowen, Chief Operating Officer  
Patrice Thomas, Deputy Chief Operating Officer  
Margaret Coleman, Deputy Director, Financial Management  
Candi Burton, Interim City Comptroller  
Myra Moses, Deputy Comptroller, Accounts Payable