



City of Cape Coral City Auditor's Office

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TO: Mayor and Council Members  
THRU: Dona J. Newman, City Auditor *DJN*  
FROM: Margaret Krym, Assistant City Auditor *MK*  
DATE: June 29, 2010  
SUBJECT: Cash Handling Audit – Imprest Funds

Attached you will find our report for the Cash Handling Audit – Imprest Funds.

We would like to thank Linda Senne, Interim Financial Services Director, Laura Tanner, Debt Treasury Manager and Lisa Nalepka, Accounts Payable Supervisor for their cooperation and assistance during this audit. We would also like to thank all the many Cash Custodians who generously gave their time to assist us in accumulating the needed data.

We will be happy to respond to any questions or concerns you may have about the information contained in this document.

xc: Carl Schwing, City Manager  
Dolores Menendez, City Attorney  
Rebecca van Deutekom, City Clerk  
Stephen Pohlman, Director Parks and Recreation  
Linda Senne, Interim Financial Services Director  
Laura Tanner, Debt Treasury Manager  
Lisa Nalepka, Accounts Payable Supervisor  
Audit Committee



# **City of Cape Coral**

## **Office of the City Auditor**

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### **Cash Handling Audit – Imprest Funds**

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**Date: June 29, 2010**

## Executive Summary

An imprest fund is a cash fund of a fixed amount established through an advance of monies and includes such funds as Petty Cash, Cash Drawers, and Change Funds. The purpose of this audit was to provide assurance that the City's imprest funds were intact and safeguarded.

To achieve this purpose we defined three objectives as follows:

- Objective 1: Provide assurance that the recorded amounts of cash on hand for imprest funds are present.
- Objective 2: Provide assurance that internal controls over these funds are present and effective.
- Objective 3: Provide assurance that the funds have valid business purposes and are sized appropriately.

Based on the results of our fieldwork, we are unable to provide positive assurance on any of these objectives.

When we learned that the Financial Services Department could not provide us with a current listing of imprest fund balances, with locations and custodian names we requested that Department Directors provide us with a listing of these funds within their control. The total of the fund balances provided to us and verified by us was \$29,739. On September 30, 2009, the City reported \$57,333 in the General Ledger for imprest funds. As of this report date, the Financial Services Department had not reconciled the variances between the total of the funds we verified and the General Ledger reported balance.

Although the imprest fund dollar amounts are not material to the City's Financial Statements, the impact of weakened controls over cash can present increased opportunity for fraud and communicate an unintended message to employees.

We found the City's Petty Cash Policy (Administrative Regulation #39) to be overly restrictive and often ignored. In addition, we found that although there is a Cash Handling Policies and Procedures Manual to provide guidance to cash handlers, there is no comprehensive policy to address overall management of Cash Drawers and Cash Reserve Banks. Also, there are no controls in place (or documented) governing cash activity in vending machines.

We found that many of the imprest funds are not being utilized efficiently and/or are no longer required.

The balance of this report will explain our work and recommendations in more detail.

## Background

The Cash Handling Audit was identified in the City-wide risk assessment performed during the summer of 2009, and was included in the 2010 approved Audit Plan.

An imprest fund is a cash fund of a fixed amount established through an advance of monies and includes such funds as Petty Cash, Cash Drawers, and Change Funds.

Early during our background work for the Cash Handling Audit we were advised by the Financial Services Department that the actual cash balances for imprest funds on hand were not currently reconciled to the booked General Ledger balances. Based on this information, we modified our intended scope to address the heightened risk that the General Ledger balances for imprest funds might be incorrect and the cash controls over them might be weakened. We also decided to postpone an audit of cash transactions to a later date.

Imprest funds exist throughout the City and the various departments provided us with a listing of 38 Petty Cash Funds, 41 Cash Drawers, and seven Change Funds. On September 30, 2009, the City reported \$57,333 in the General Ledger for imprest funds.

Although the imprest fund dollar amounts are not material to the Financial Statements, the impact of weakened controls over cash can present increased opportunity for fraud and communicate an unintended message to employees.

A prevalent theory, referred to as Cressey's Fraud Triangle, defines three elements which when present provide increased risk that fraud will occur. These elements are increased opportunity (existing when controls are weakened); increased internal and external pressure (existing when employees feel personal financial stress or are unreasonably pressured to perform); and rationalization (existing when employee morale / sentiment is low). These factors may be exacerbated by the City's reductions in staffing and current economic constraints and these factors may increase the City's exposure to risk. **Appendix A** illustrates this theory (It is an excerpt from a Seminar on Fraud Prevention and Detection presented by Ernst & Young entitled *The Perfect Storm for Fraud*).

We are not suggesting that fraud exists. However, in our current local economic environment, heightened awareness and alertness to the possibility is prudent.

## Purpose

The purpose of our audit work was to provide assurance that City imprest funds were intact and safeguarded.

## Scope

The scope of this engagement included the management and safeguarding of cash held in imprest funds in all City departments. The scope did not include the Charter Schools or the Community Redevelopment Agency.

## Audit Objectives, Findings and Recommendations

**Audit Objective #1: Provide assurance that recorded amounts of cash on hand are present.**

We cannot provide assurance that the balances reflected in the accounting records (General Ledger) represent the actual amount on hand.

The Financial Services Department was unable to provide a current detail subsidiary listing of custodians, locations, and amounts held in imprest funds throughout the City. Such a listing would provide detail support for the numbers presented in the City's financial statements. The Financial Services Department was well aware that it did not have the current specifics of these funds and they had developed a plan to obtain the detail information but stated that they lacked the manpower to accomplish it.

In our effort to establish a master listing of all imprest funds, we requested that Management from each department provide us with a listing of imprest funds within their control. Management provided a listing of 38 Petty Cash Funds, 41 Cash Drawers and seven Change Funds and we subsequently counted and verified the existence of the fund balances provided. The total of the fund balances provided to us and verified by us was \$29,739. On September 30, 2009, the City reported \$57,333 in the General Ledger for imprest funds. As of this report date, the Financial Services Department had not reconciled the variances between the total of the funds we verified and the General Ledger reported balance.

Staff responsible for accounting for these imprest funds advised us that they have allocated their limited manpower resources to more material and pressing priorities such as management of all the City's investments, assuring that cash is available to fund current expenditures, administering and overseeing the City's debt portfolio and debt-related cash and investment accounts. We were told that these salaried staff members are regularly working in excess of 40 hours a week.

When we physically counted the funds, we found several instances where the actual cash on hand differed from the confirmed balance provided by the department and that the actual Custodian was someone other than the one reported.

**Finding #1:** Management did not have a current reliable listing of imprest fund balances, with locations and custodian names identified. They also had not reconciled actual cash on hand to booked General Ledger balances.

**Recommendation #1:** We recommend that Financial Services Department create and maintain a Master Database of all imprest funds (Subsidiary Ledger) including the verified balance, the name of the custodian and the location of the funds.

**Management Response:**

*We acknowledge and concur with the City Auditor's observation. Specifically:*

*It was the Department of Financial Services' intent and plan to update the current database listing all the imprest funds prior to the financial management software system "go-live" date of August 13, 2009. However, due to staff eliminations this task was not completed.*

*During the time of the FY2008 budget reductions the Department of Financial Services eliminated the controller position and the cashier position that was approved as part of the supplemental budget for FY2008. These two positions were not budgeted for in FY2009 and are not in the FY2010 budget. We also eliminated an accounting assistant / payroll specialist position effective October 1, 2008 (FY2009 budget). The Department had to re-prioritize tasks and since the imprest funds are not material to the financial statements this task was deferred to a later date. The Department of Financial Services' allocated its limited staff resources to more material and pressing priorities such as management of all the City's investments, assuring that cash is available to fund current expenditures, administering and overseeing the City's debt portfolio, and debt-related cash and investment accounts.*

*While the Department of Financial Services' staff has exhibited the willingness and commitment to complete all the requirements of their prospective areas of responsibility, it is difficult to complete all tasks on a timely basis with limited staff resources. The Department of Financial Services will create a current Master Database of all Imprest Funds (Subsidiary Ledger) including the verified balance, the name of the custodian, and the location of the funds by September 30, 2010. The Department will strive to keep the Master Database current subsequent to September 30, 2010*

During their transition to the new General Ledger Software, JDE, Financial Services Department planned to reconcile actual imprest fund cash on hand to the General Ledger balances. It was their desire to adjust these balances to reflect actual cash but they indicated that they lacked the manpower to determine what the cash amount on hand actually was (as stated there are numerous imprest funds throughout all departments across the City). They also recognized that periodic reconciliation of cash on hand to the amount recorded in the General Ledger and unannounced cash count audits are necessary internal controls to maintain the accuracy of the General Ledger balances.

**Finding #2:** It appears that the General Ledger balances reported to be on hand are incorrect (although the misstatement is not material to the City Financial Statements taken as a whole).

**Recommendation #2:** We recommend that the Financial Services Department reconcile the variances between the cash we verified as existing and the recorded balances in the General Ledger. Further, that the General Ledger be adjusted to reflect the actual balances on hand.

**Management Response:**

*We acknowledge and concur with the City Auditor's observation.*

*The Department of Financial Services is committed to "Performance with Integrity". The Department aims to collect, analyze, and classify all data relevant to the City's finances. To do so, we must maintain detailed data on each transaction that affects the City and the City's asset, liability, and equity accounts. We routinely engage in numerous individual transactions involving many separate accounts.*

*The Department of Financial Services will reconcile the cash on hand to the balances reported in the general ledger, and will make any necessary adjustments to the general ledger to reflect the actual cash balances on hand at September 30, 2010.*

**Audit Objective #2: Provide assurance that internal controls over these funds are present and effective.**

We cannot provide assurance that the internal controls over imprest funds are present and/or effective.

During our visits to various department locations to verify imprest fund balances, we also interviewed the cash custodians and observed examples of fund activity and compliance to policy and internal controls. Subsequently, we selected a few locations and performed a more extensive review of controls. We also discussed the occasions of non-compliance with Management.

We found numerous instances of non-compliance to the policies and controls over Petty Cash. (Examples of non-compliance to Administrative Regulation #39 can be seen in **Appendix B.**) Some controls were not complied with because Management reported that they lacked the resources (time) to do the work. Others were found to be in conflict with Managements methods of operations and Management indicated that compliance would decrease their efficiency.

If Management has a policy, then it should be enforced and complied with. The lack of consistent enforcement communicates to staff that they are empowered to choose which policies and controls to follow. If they feel they have a rationale for non-compliance they may disregard the control. This weakens all of Management's directives.

**Finding #3:** Administrative Regulation #39 (Petty Cash) is not being consistently enforced. We found numerous examples of non-compliance to this Management directive.

**Recommendation #3:** We recommend that Management review this policy for the appropriate level of control and reasonableness and consider the cost and benefit of the policy in their analysis. Also, that they eliminate any portions which they do not then intend to enforce. The resulting policy should be one that is aligned with best practice and with Management's actual intended business activities.

***Management Response:***

*We acknowledge and concur with the City Auditor's observation.*

*The last time the Department of Financial Services updated Administrative Regulation #39 that establishes uniform policies and procedures for the use of petty cash funds and for replenishment of these funds was in September 2007. As previously mentioned, the Department of Financial Services' allocated its limited staff resources to more material and pressing priorities.*

*The Department will review Administrative Regulation #39 and update as necessary to achieve best practices with the city's business activities. The target completion date is December 31, 2010*

Financial Services Department has and maintains a *Cash Handling Policies and Procedures Manual*, which provides excellent guidance to Cashiers and Cash Handlers. However, this document is not a comprehensive policy and does not communicate Management's directives regarding the overall management, across all City departments, of Cash Drawers and Change Funds. For example, currently there is not a directive in place requiring periodic reconciliation of the cash balances held in these imprest funds to the General Ledger. Reconciliation is a strong control to ensure that the General Ledger balances are accurate.

**Finding #4:** There is no policy requiring that the Financial Services Department reconcile actual cash on hand in the various Cash Drawers and Change Funds throughout the City to the General Ledger balances on a periodic basis.

**Recommendation #4a:** We recommend that Management write a policy (for all City departments) that contains Management guidance and appropriate controls over Cash Drawers and Change Funds and that requires the actual balances in all imprest funds be periodically reconciled to the balances reported in the General Ledger.

***Management Response:***

*We acknowledge, but do not entirely concur with the City Auditor's observation.*

*The Department of Financial Services does have a written policy for Cash Drawers and*

*Change Funds for the cashiers' office located in City Hall and the cashiers' office located at Customer Billing Services.*

*The Department of Financial Services will expand this policy to address and include all City Departments. The target completion date is September 30, 2010. The Department of Financial Services will then train the other City Departments with a target completion date of December 31, 2010.*

**Recommendation #4b:** Once Administrative Regulation #39 has been revised and a policy addressing Cash Drawers and Change Funds created, we recommend that all participants in the process of managing imprest funds be trained and that each Custodian and their Supervisor be required to read and sign the resulting amended policies to evidence their awareness of the responsibilities of their roles.

***Management Response:***

*We acknowledge and concur with the City Auditor's observation.*

*The Department of Financial Services will train the Custodians and Supervisors on the policies and procedures, and will issue certificates to confirm an individual has attended the training. We will have the individual sign a form as evidence that he/she is aware of the responsibilities of his/her role. The target completion date is December 31, 2010*

**Audit Objective #3: Provide assurance that funds have valid business purposes and are sized appropriately.**

We cannot provide assurance that the current amounts in all imprest funds have valid business purposes or are sized appropriately.

Best practice suggests that departments should only have enough cash on hand to meet immediate needs. Cash sitting idle creates a temptation for misappropriation. If cash is not required to be on hand, it should be in the bank earning interest. Maintaining unnecessary cash funds increases the work involved with reimbursing, reconciling, and maintaining them and is therefore inefficient.

During our review of Petty Cash Funds, we obtained and reviewed documentation of the last two reimbursements in order to evaluate the Petty Cash Funds' average expenditures in a one month period and the number of months between reimbursements. We performed an analytical review of this data to determine average utilization of the various funds.

We found that nearly a third of the funds had gone from four to 24 months without needing reimbursement. We also found that for nearly 40% of the funds the average monthly usage was less than 10% of the imprest fund balance.

**Finding #5:** We found various Petty Cash Funds that were not being utilized and the cash on hand was idle.

**Recommendation #5:** We recommend that the Financial Services Department review the activity of all Petty Cash Funds and eliminate those that are not needed for valid business purposes. It may be possible to reduce the number of Petty Cash Funds by centralizing their locations and requiring multiple departments to share one fund.

***Management Response:***

*We acknowledge and concur with the City Auditor's observation.*

*The Department of Financial Services will review all Petty Cash Funds and eliminate any that are not necessary to achieve best practices with the city's business activities. The target completion date is September 30, 2010.*

Some departments have implemented Procurement Cards (P-cards) which have replaced the need for Petty Cash Funds. This was considered to be one of the benefits of the P-cards. The implementation of P-cards has not yet been extended to all departments and it is possible that in some of these departments a P-card might replace a currently existing Petty Cash Fund.

**Finding #6:** We found occasions where a P-card would assist in the reduction of Petty Cash Funds.

**Recommendation #6:** We recommend that, where appropriate, P-cards be considered to replace Petty Cash Funds.

***Management Response:***

*We acknowledge and concur with the City Auditor's observation that P-Cards will eliminate Petty Cash Funds. The Department of Financial Services has implemented the P-Card program by phasing departments in one at a time. However, not all departments have been issued P-Cards at this time due to the limited staff resources within the Department of Financial Services who provides the training on the policy and procedures surrounding the P-Cards, and training on the P-Card software program to personnel that are issued P-Cards. It is the Department of Financial Services' intent to have P-Cards issued to the appropriate personnel in each department by September 30, 2011.*

During our physical observation of the Cash Drawers and Change Funds, we found a Change Fund that was inaccessible to a Cashier and this Cashier had resorted to obtaining her change from another source. We also found a Cash Drawer that was not being used and consisted of one \$50 bill.

**Finding #7:** We found various Cash Drawers and Change Funds that were not being utilized and the cash on hand was idle.

**Recommendation #7:** We recommend that Management evaluate the need for all Change Funds and Cash Drawers and eliminate or consolidate all those that are not deemed to be necessary for serving customers.

***Management Response:***

*We acknowledge and concur with the City Auditor's observation.*

*The Department of Financial Services will review all Change Funds and eliminate any that are not necessary to achieve best practices with the city's business activities. The target completion date is September 30, 2010.*

### **Vending Machines**

As a service to our citizens and customers, the City provides drinks and various snacks in vending machines at locations throughout the City. Each vending machine contains a change fund, which is an imprest fund and the total of these Vending Machine Change Funds is included in the imprest fund total in the General Ledger. We did not count (verify) the amounts in the vending machines. We did observe some of the machines and reviewed the current process employed to collect cash from the machines.

In reviewing the controls over this cash we found that there were no written or documented policies and procedures for managing the activity of vending machines. Inventory is purchased, sales are made, money is collected and deposited, but Management has not documented any clear directives to include internal controls over these processes. Also, we were unable to determine if the activity of the vending machines is covering their cost because the accounting for these activities is comingled with other division activities.

When asked, the departments confirmed the existence of only 14 vending machines however, we are aware of the existence of others within the City.

At one location the monies are being collected from the vending machines and deposited by a single person without any means of verifying that it all is accounted for. There is no reconciliation between inventory of product going into the machines and cash sales receipts, therefore it is not possible to ensure that all monies are deposited.

The amount of money involved in the vending machines is small and we were told that assigning two staff members to perform the collecting and counting function detracts from the division's priority job responsibilities and does not provide a cost effective payback. However, employees may perceive that controls are weak and this perception creates an opportunity for misappropriation. Also, if it is determined that funds are short, it will be impossible to identify an individual responsible for the shortage.

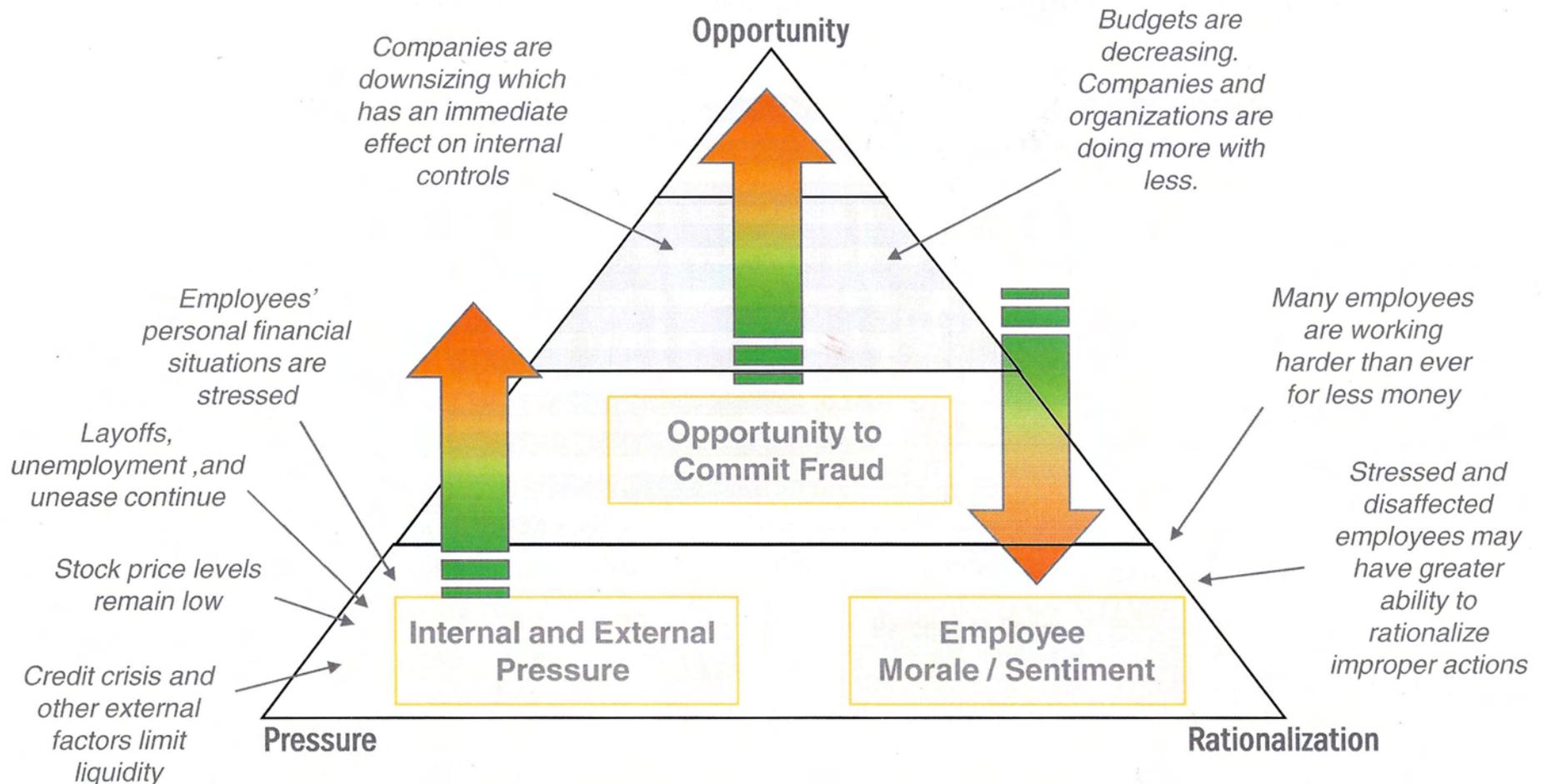
**Finding #8:** We found that the City does not have documented policies and procedures for managing the activity of vending machines and that controls over the vending machine cash were weak.

**Recommendation #8:** We recommend that the business activity of vending machines be analyzed, including all related costs, to determine profitability. If vending machine activity is contributing profit to the City then we recommend that effective business controls be implemented (including documented policies and procedures) to ensure that funds are safeguarded and accounted for, and associated costs are recovered. If this activity is not considered profitable, we suggest that the City consider contracting this activity to the private sector.

***Management Response:***

*All of the vending areas in Parks and Recreation have inventory and deposit procedures yet there is not a Departmental Standard Operating Procedure. A Departmental Standard Operating Procedure is being developed and will be implemented by July 15, 2010.*

# Current environment: *The perfect storm for fraud*



## **Appendix B – Examples of non-compliance to Administrative Regulation #39 – Petty Cash**

1. AR #39 requires, *“Unannounced audits validating petty cash funds will be conducted by Financial Services Department at least annually”*. These unannounced audits have not been performed.
2. AR #39 requires: *“The Custodian shall review the receipt for proof of payment, and complete a Petty Cash voucher recording the amount, date, purpose of purchase, project number, and account number.”* And *“All petty cash vouchers must have valid paid receipts attached for the exact amount to be reimbursed.”* And *“The Custodian shall reimburse the employee, having the employee sign the voucher as having received reimbursement. The Custodian shall also sign the same voucher approving the purchase and disbursement of funds.”* The account and project numbers were not always present on some of the petty cash vouchers. It was stated that some custodians waited until prior to the reimbursement to assign the numbers. Ten out of 38 of the locations did not have the petty cash vouchers with a receipt for proof of payment or the voucher recording the amount, date, purpose of purchase, project number, or account numbers were omitted. In some cases expenditures were represented only with Post-It notes with no names at all. This means that there were no signatures attached, e.g. the receiver of the cash, and the approver of the purchase.
3. AR #39 requires: *“At least once a month, the Custodian shall replenish the Petty Cash Fund for the money disbursed through the accounts payable system”* and *“At the end of each fiscal year, the Custodian shall submit a check request to replenish the petty cash fund within the first two weeks of the new fiscal year for reimbursements ending September 30<sup>th</sup>.”* For the period we reviewed, we found that 74% of the Petty Cash Funds had not complied with the policy requiring that Petty Cash Funds be reimbursement every month and some of the funds were not reimbursed at year end.

We found one case where the Custodian had “borrowed” \$60.00 for personal use. The Petty Cash Fund activity had not been reported or reimbursed for over seven months. No unannounced audits had been performed.

4. AR #39 requires: *“Custodians may not reimburse themselves without their Supervisors written approval.”* We found instances where the Custodian had been reimbursed without a Supervisor’s signature on the voucher.
5. AR #39 requires: *“A department's designated Certified Agency Buyer (CAB) can not be the Petty Cash Custodian without receiving an exemption from the Financial Services Director.”* We found Custodians who were also the department designated CABs without documented exemptions from Financial Services Department.
6. AR #39 requires: *“No other funds are to be placed in the petty cash box.”* We found minor instances in which there were other funds in the petty cash box.

## **Appendix B – Examples of non-compliance to Administrative Regulation #39 – Petty Cash**

7. AR #39 requires: *“A single petty cash purchase shall not exceed fifty dollars (\$50.00).”* and *“It is the Custodian’s responsibility to ensure no single cash purchase exceeds fifty dollars (\$50.00).”* We found that four of the 38 funds, or 11%, had expenditures that exceeded \$50.00. In a phone conversation with one of them we confirmed that they had not obtained prior approval from the Financial Services Department.
  
8. AR #39 requires: *“A “Petty Cash Custodian Change” form must be completed every time the responsibility of a petty cash fund is transferred to another employee. The form is to be signed and approved by the Department Director and forwarded to Financial Services Department along with a completed “Petty Cash Reimbursement” form.”* We found there was more than one person in control of some Petty Cash Funds. Some custodians indicated they had back-up in their absence or shared the responsibility. We found six funds controlled by more than one custodian. The transfer of the Petty Cash Fund to one custodian from another (for back-up, either temporarily or during Custodian’s absence) was not documented on a “Petty Cash Custodian Change Form.” When a fund is transferred without a dual count documenting funds on hand, accountability for the funds is lost.
  
9. AR #39 requires: *“All Custodians and their supervisors are required to receive training from Financial Services Department before assuming petty cash responsibilities.”* We found Custodians and their Supervisors who could not provide evidence of having been trained.