

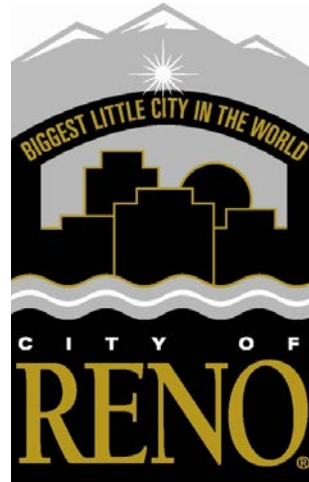
# **City of Reno**

## **A Report to the Reno City Council**

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# **AUDIT REPORT**

## **CASH HANDLING PART A – PETTY CASH TESTING**

**MAY 2017**

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**MISSION STATEMENT**

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To provide the City of Reno with an independent appraisal function designed to assist the Reno City Council, citizens, and City management in establishing accountability, transparency, and a culture of continuous improvement in City operations.

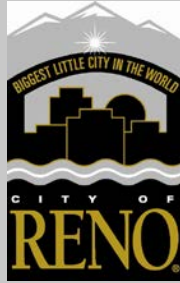
**THE INSTITUTE OF INTERNAL AUDITORS' STANDARDS COMPLIANCE**

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The audit was conducted in accordance with standards of the Institute of Internal Auditors (IIA); sans Standards 1310-1 through 1321. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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# Audit Highlights



Highlights of operational audit report on Petty Cash issued May 2017. City of Reno Internal Audit #17-03 Part A – Petty Cash.

## Purpose of Audit

To determine if the petty cash and change funds issued to departments are properly accounted for and to review the internal controls and security over the funds.

## Audit Recommendations

This audit report includes four recommendations for the Parks, Recreation, and Community Services Department related to proper cash handling procedures.

In addition, two recommendations are included for the Finance Department relating to cash issuance and tracking & monitoring.

*Note:* Subsequent audit report for #17-03 Part B – Cash Procedures & Testing will complete the audit's full scope and purpose.

For more information on this or other City of Reno internal audit reports, contact Emily E. Kidd at [kidde@reno.gov](mailto:kidde@reno.gov).

## CASH HANDLING – PETTY CASH

### BACKGROUND

The City of Reno's Management Policies and Procedures #402 Petty Cash and #407 Cash Handling Policy outlines City-wide standards for cash handling. At the start of fiscal year 2017, the Finance Department lists 26 active funds issued as either petty cash or as a change drawer. For several of the funds, the department has further separated the cash into smaller drawer amounts. The total number of petty cash and cash drawer funds was 45 at the time of the audit. Many of the 45 cash funds, 31%, are issued to the Parks, Recreation, and Community Services Department for use in their daily operations.

### OBJECTIVES AND SCOPE

The audit objectives include determining if the petty cash and change funds issued to departments are properly accounted for. Also, to determine if the internal controls in place over cash funds are proper.

### KEY FINDINGS

- ✧ On two occasions, the total fund issued was missing cash. One fund was missing 19% and one fund was missing 7% of the total amount issued to that departmental location.
- ✧ The petty cash and change fund tracking methodology can be improved. Oversight of the funds can be strengthened by adjusting the annual verification process to be a blind-review and by providing a supervisory review of that process.
- ✧ General cash handling procedures and best practices were not well understood by all of the employees handling cash during the audit review. Many of the exceptions are related to process errors and non-compliance with documented procedures.

## **BACKGROUND**

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Periodic testing of internal controls over cash handling is essential for a healthy functioning organization. Establishing written policies detailing cash handling controls is the first step to ensure processes are understood by employees when carrying out their day-to-day functions concerning cash handling. In addition, proper documentation and retention of cash control documents assist with monitoring compliance of internal controls.

The City has documented the standards for cash handling in Management Policies and Procedures (MPP) 407, Cash Handling Policy. Policies specific to petty cash funds are documented in MPP 402, Petty Cash. In addition to the criteria outlined in these two City policies, industry best practices for petty cash and change funds were considered during the audit including: proper safeguarding of funds, fund amount is appropriate for operational needs, and the cash less receipts on hand equals the authorized balance.

In 2013, the City of Reno’s Financial Advisory Board (FAB) expressed an interest in performing surprise cash counts of all petty cash and cash drawer balances. The counts were conducted by a Financial Senior Management Analyst and a FAB member in early 2013 for all funds. Unannounced counts were also conducted in 2014 on a spot check basis. An additional cash count was performed on three cash funds in January 2016. Each of the counts identified procedural controls that could be strengthened which were communicated after the review.

In an effort to report timely and begin recommendations, this Cash Handling Audit is divided into two sections, *Part A – Petty Cash* and *Part B – Cash Procedures & Testing*.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

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### **Objective**

The audit objectives include:

- To determine if the petty cash funds issued to departments are properly accounted for.
- To determine and evaluate the internal controls in place over petty cash security and use.

### **Scope**

The audit scope included unannounced cash counts of all funds issued to City departments and facilities. Issued funds included petty cash funds used for small departmental purchases and also cash drawer funds used for daily operations. Cash counts began on December 21, 2016 and most were completed within 7 days; the remaining three funds were counted in early 2017.

### **Methodology**

The review included tests of the accounting records and other auditing procedures, as was considered necessary. The tests included, but were not necessarily limited to these areas:

- Performing unannounced cash counts of petty cash and change funds;
- Reviewing cash and receipts on hand and comparing to balances recorded by Finance;
- Examination of petty cash tracking documents;

- Review of the oversight controls over petty cash; and
- Evaluation of the risk of fraud, waste, and abuse relative to the audit objectives.

All funds were counted and reviewed during audit fieldwork. Petty cash and change funds totaled \$20,700 as of December 21, 2016. Funds were issued to six City departments: Parks, Recreation, and Community Services; Police; City Clerk; Public Works; Municipal Court; and Community Development.

**Privileged and Confidential Information**

The location and amount of petty cash and change funds was withheld from the report for security reasons.

## AUDIT RESULTS

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### Petty Cash Testing

#### Unannounced Petty Cash Counts Identified Two Funds Missing Cash and Multiple Process Weaknesses

Internal Audit performed unannounced cash counts on all funds issued to City departments as documented and tracked by the Finance Department. General cash handling processes including security of funds and accuracy of the amount of the fund were reviewed during the count. Finance lists 26 active funds issued as either *petty cash* or *cash drawer*. For five of those funds, the department has further separated the cash into smaller drawer amounts. The total number of petty cash and cash drawer funds was 45 at the time of the audit. Of the 45 funds tested, four types of audit findings were noted: missing cash, policy compliance errors, an opportunity to strengthen tracking and monitoring controls, and petty cash issuance & use.

#### Missing Petty Cash

1. On two occasions, the cash fund for a separate Parks, Recreation, and Community Services (PRCS) location was short during the unannounced count. One fund was missing \$6.92 of the \$100 issued. One fund was missing \$37 of the \$200 issued (19%).

For the second fund, the location was issued a cash drawer of \$200. The cash was distributed to two register drawers of \$50 each and one *change fund* maintained locked in the supervisor's office. The supervisor indicated they use the change fund if the cash drawers are short at the end of the day. Documentation is not maintained when this occurs; thus audit is unable to corroborate the supervisor's statement. The supervisor's manager was informed of the missing cash the same day of the unannounced count. Information and documentation available at this time is insufficient to determine whether misappropriation of City funds occurred for the funds identified.

Using a change fund to reconcile cash drawers is not within best practices for cash handling; also, MPP 407, Cash Handling, states "Overages/Shortages [are] discrepancies noted between the physical count of daily cash receipts and reconciliation to amounts recorded by the cash register or computer summary information. Large discrepancies shall be documented and investigated by supervisory personnel." Documentation of overages/shortages should be documented on daily cash paperwork and entered into the financial system; there is a separate account designated for overs/shorts. We generated a report from the financial system of overs/shorts for PRCS from July 1, 2015 through December 31, 2016. Per examination of the report, just two overages and no shortages were noted for the second fund's location. During 18 months of activity it is reasonable to presume there will be many small dollar amounts of overages/shortages because the location transacts cash daily as a function of their operations and cashiering errors are not uncommon.

#### Recommendation:

We recommend the petty cash banks identified be reconciled and the cause for the missing cash be reviewed by management. In addition, we recommend the excess \$100 used as a change fund for the second fund be returned to Finance to eliminate the risk of staff using that fund to supplement shortages in the register drawers. Also, we recommend the overages/shortages be documented on the daily cash paperwork as intended by cash handling procedures.

### Noncompliance with Best Practices & Policies and Procedures

2. On one occasion, additional cash was on-hand in the supervisor's office. Supervisor indicated change is often needed due to the vending machines onsite. The change was in a prenumbered clear bank bag and was full on pennies with a \$5.85 notation on it. When queried how the daily cash balances if there is all that loose change, he indicated it is extra cash. Maintaining "extra cash" in this manner is not within best practices for cash handling and diminishes the influence of internal cash controls. The supervisor's manager was informed of the extra cash the same day of the unannounced count.

#### Recommendation:

We recommend the cash issued to the department and the actual cash on hand be balanced for this location. In addition, the prenumbered clear bank bags should be used for deposits only.

3. On one occasion, all cash was not locked-up when the unannounced cash count occurred. One cloth bank bag containing \$25 was on a desk in the facility's office. Management Policies and Procedures 402, Petty Cash, Section VIII B states "Petty cash funds are to be safeguarded in conformance with the city's Cash Handling policy #407." That policy, Section VII D.4. "Secure all cash when not attended during the day by locking cash registers, locking cash drawers, logging off computers, and keeping safes and vault doors closed and locked."

#### Recommendation:

We recommend cash be safeguarded as stated in policies and the employees working at the location identified be reminded of proper cash handling procedures.

### Tracking and Monitoring Controls Can Be Strengthened

4. On two occasions, the amount of petty cash documented by the department providing oversight to cash funds was not accurate. The Finance Department is responsible for administering the City's Petty Cash policy and Cash Handling policy per MPP 402 Section VII.A and MPP 407 Section VI.E. The petty cash that has been issued to City departments is documented on an Excel spreadsheet, the Petty Cash tracking spreadsheet, maintained and updated by Finance. Finance personnel indicated the funds are verified each fiscal year end via a letter sent to each department. Any changes are documented on the letter, signed by the cash custodian, and remitted to Finance for applicable updates to the spreadsheet.

One of the two funds was updated by the cash custodian at 2016 fiscal year end via a notation on the verification letter remitted to Finance on July 20, 2016; the Petty Cash tracking spreadsheet was not updated with the changes documented on the letter as of December 21, 2016. The second fund, a reserve account, has been an average of fifteen to ten dollars short of the amount documented on the tracking spreadsheet and verification letters since March 2013. Per inquiry with the cash custodian and examination of a bank reconciliation workbook for the account, the funds were reduced due to banking analysis fees that occurred in 2013. Per an examination of the account's bank statement as of June 30, 2016, the fund balance was \$8.59 short of the amount identified by Finance.

Recommendation:

We recommend the petty cash tracking spreadsheet be reconciled to reflect current funds on hand as identified. Also, the process to verify the funds at the end of each fiscal year should be altered to a blind-review, that is, the department should self-report the amount of the cash fund on hand rather than signing a form with the amount already filled-in by the oversight department. In addition, we recommend once the verification process is complete (all verification letters with notations remitted and the any changes updated on the Petty Cash tracking spreadsheet) that a supervisory review be performed and documented to reduce the likelihood of clerical errors and maintain the integrity of the document used to identify distributed City cash.

5. The Petty Cash tracking spreadsheet maintained by Finance is intended to track the City's cash distributed to departments, periodically assess the funds' balance, and assign a responsible employee (a cash custodian) to each fund. The cash custodian is responsible for the monitoring and, ultimately, the safeguarding and return of the cash to the City of Reno via the Finance Department. One PRCS employee is currently listed as the responsible employee of petty cash for all sixteen locations assigned to the PRCS Department. Per field observations and discussion with PRCS management, the employee does not work at six of the active locations nor does the employee provide managerial oversight of the staff handling the cash funds.

Recommendation:

We recommend PRCS management identify staff that is most appropriate for the cash custodian designation for the PRCS petty cash locations. In addition, the updated cash custodians should be communicated to Finance for updates to the Petty Cash tracking spreadsheet.

### Petty Cash Issuance & Use

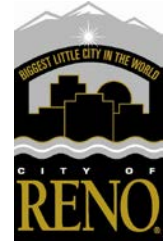
6. Petty cash is authorized "to permit departments to utilize individual petty cash funds to expedite reimbursements ..." per MPP 402, Petty Cash. Noted a petty cash fund issued to one department is greater than the need for quick access to cash per a review of the department's transactional history. The dollar amount of funds issued should be commensurate with the need for the cash in order to reduce the risk of misappropriation and errors. An analysis of the transaction history from July 1, 2015 through October 17, 2016 indicates the quarterly use of the funds ranges from \$100 to \$300 for that department.

Recommendation:

We recommend the petty cash be reduced to no more than \$300 for the location.



## CASH HANDLING - PETTY CASH – PRCS Management Responses



### Internal Audit recommendations via the Cash Handling – Petty Cash Audit Report distributed February 9, 2017.

(Numbering Convention: Sequence corresponds to the Audit Results as listed in the report.)

1. On two occasions, the cash fund for a separate Parks, Recreation, and Community Services location was short during the unannounced count. One fund was missing \$6.92 of the \$100 issued. One fund was missing \$37 of the \$200 issued (19%).

We recommend the petty cash banks identified be reconciled and the cause for the missing cash be reviewed by management. In addition, we recommend the excess \$100 used as a change fund for the second fund be returned to Finance to eliminate the risk of staff using that fund to supplement shortages in the register drawers. Also, we recommend the overages/shortages be documented on the daily cash paperwork as intended by cash handling procedures.

How will compliance will be measured, monitored, and assured?

PRCS will implement the recommendations from the audit. Management has reviewed the recommendations, and compliance will be achieved via the following:

- It will be clarified that PRCS Admin and Parks Maintenance have actual “petty cash” to be used for purchases.
- It will be clarified that the PRCS locations have “cash drawers” to be used for conducting financial transactions (i.e. facility drop-in use, rentals, program registration, etc.).
- It will be clarified that a “change fund” is not to be used to reconcile cash drawers.
  - If change is needed, staff is to exchange money at a financial institution by using the money from the facility’s “change fund” for smaller bills.
- All staff handling cash directly or managing programs that involve cash transactions must review cash handling policies:
  - City of Reno Management Policies and Procedures #407 – Cash Handling Policy
  - Parks, Recreation & Community Services – Cash & Deposit Handling Procedures (pursuant to #407)
- Training and orientation will also include review of policies as well as daily operations for over/under procedures.

When will the measures be taken?

The following measures have already been completed:

- Reduced the bank at one of the locations to \$150.
- Overages/shortages are documented on a daily basis.
- Review of mistakes is completed with appropriate staff and additional training is conducted as necessary.
- The daily cash reports have a specific line for over/short amounts.
- All issues should be resolved on the same day, at close of business.

What will be done to avoid the issue in the future?

- Training:
  - Staff will count their drawer bank at the start of their shift.
  - At the end of the shift, staff will count out the original drawer bank amount.
- PRCS will also implement an internal checks and balances. Staff from PRCS Admin will perform quarterly surprise audits on each facility.

**Internal Audit Note:**

*The audit recommendation includes the removal of \$100 used as a change fund for one location (site total during the audit was \$200). However, management responses indicate they have reduced the change fund by \$50 for a total site amount of \$150. The risk associated with allowing a change fund on hand at the location is reduced but not eliminated due to management's responsive measures; management has accepted the resulting risk level.*

2. On one occasions, additional cash was on-hand in the supervisor's office in a prenumbered clear bank bag. Maintaining "extra cash" in this manner is not within best practices for cash handling and diminishes the influence of internal cash controls.

We recommend the cash issued to the department and the actual cash on hand be balanced for this location. In addition, the prenumbered clear bank bags should be used for deposits only.

How will compliance will be measured, monitored, and assured?

PRCS will implement the recommendations from the audit. Management has reviewed the recommendations, and compliance will be achieved via the following:

- Clear bank bags will be used for deposits only.
- Any "found" money will be reported as an overage on a daily basis and a memo will accompany the daily cash report.

When will the measures be taken?

- Completed. Measures implemented immediately upon notification from auditor.

What will be done to avoid the issue in the future?

- Training and review of policies.

3. On one occasion, all cash was not locked-up when the unannounced cash count occurred.

We recommend cash be safeguarded as stated in policies and the employees working at the location identified be reminded of proper cash handling procedures.

How will compliance will be measured, monitored, and assured?

PRCS will implement the recommendations from the audit. Management has reviewed the recommendations, and compliance will be achieved via the following:

- Training will be conducted with all staff to ensure cash will be safeguarded appropriately as per policies and procedures.

When will the measures be taken?

- Immediately. Staff was made aware and instructed to take due care and follow proper cash handling procedures.

What will be done to avoid the issue in the future?

- Training and review of policies and procedures on a regular basis.

5. One PRCS employee is listed as the responsible employee of petty cash for all sixteen locations assigned to the PRCS Department. The employee does not work at six of the active locations nor does the employee provide managerial oversight of the staff handling the cash funds.

We recommend PRCS management identify staff that is most appropriate for the cash custodian designation for the PRCS petty cash locations. In addition, the updated cash custodians should be communicated to Finance for updates to the Petty Cash tracking spreadsheet.

How will compliance will be measured, monitored, and assured?

PRCS will implement the recommendations from the audit. Management has reviewed the recommendations, and compliance will be achieved via the following:

- Identify staff at specific site locations to be the cash custodian.
- Send a memo to Finance that communicates the designated cash custodians.

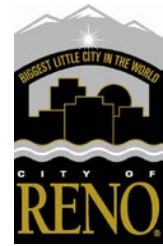
When will the measures be taken?

- Completed.

What will be done to avoid the issue in the future?

- Staff will complete an annual review and an updated memo will be sent to Finance as necessary.

## CASH HANDLING - PETTY CASH – Finance Management Responses



### Internal Audit recommendations via the Cash Handling – Petty Cash Audit Report distributed February 9, 2017.

(Numbering Convention: Sequence corresponds to the Audit Results as listed in the report.)

#### **4. On two occasions, the amount of petty cash documented by the department providing oversight to cash funds was not accurate.**

We recommend the petty cash tracking spreadsheet be reconciled to reflect current funds on hand as identified.

How will compliance will be measured, monitored, and assured?

*Procedures were followed and the petty cash tracking spreadsheet was reconciled between the general ledger and petty cash balance confirmations at June 30, 2016 showing no funds were missing. The difference was between the classification of cash on hand for petty cash and cashier drawers. When departments returned petty cash confirmations two departments indicated the mix of petty cash and cashier drawer funds needed to be adjusted without altering the overall cash balance. Appropriate training will be given to Finance Department staff so balances are more clearly listed on the internal petty cash tracking spreadsheet.*

When will the measures be taken?

*Appropriate training has already been given to finance department staff to correct the issue in the future.*

What will be done to avoid the issue in the future?

*The Accounting Manager will review the reconciliation as part of the annual external audit.*

Also, the process to verify the funds at the end of each fiscal year should be altered to a blind-review, that is, the department should self-report the amount of the cash fund on hand rather than signing a form with the amount already filled-in by the oversight department.

How will compliance will be measured, monitored, and assured?

*Petty cash balance confirmation will be altered to reflect the suggested blind-review positive confirmation.*

When will the measures be taken?

*Petty cash balance confirmation forms will be altered to reflect the suggested blind-review positive confirmation beginning with those to confirm balances at June 30, 2017.*

What will be done to avoid the issue in the future?

*The petty cash confirmation will be reviewed annually to determine if additional language should be included in the future and if existing language is sufficient.*

In addition, we recommend once the verification process is complete (all verification letters with notations remitted and the any changes updated on the Petty Cash tracking spreadsheet) that a supervisory review be performed and documented to reduce the likelihood of clerical errors and maintain the integrity of the document used to identify distributed City cash.

How will compliance will be measured, monitored, and assured?

*The Accounting Manager will review the petty cash reconciliation as part of the annual external audit.*

When will the measures be taken?

*The review will occur as part of the annual external audit.*

What will be done to avoid the issue in the future?

*The Accounting Manager will continue to monitor existing controls.*

**6. Noted a petty cash fund issued to one department is greater than the need for quick access to cash per a review of the department's transactional history.**

We recommend the petty cash be reduced to no more than \$300 for the location.

How will compliance will be measured, monitored, and assured?

*Petty cash for that department will be reduced to \$300.*

When will the measures be taken?

*When audit report is finalized, the Finance Department will take the necessary steps to ensure funds are returned the City's general cash balance.*

What will be done to avoid the issue in the future?

*Further action is not necessary.*