



JACKSON COUNTY

Oregon

Internal Audit Report

**Fiscal Year 2011-12
Petty Cash and Change Fund Audit**

September 2012

**Presented to the
Jackson County Board of Commissioners
By the
Internal Audit Program**

Audit Team

**Debbie Taylor, County Auditor
Tanya Baize, Senior Auditor**



**JACKSON
COUNTY**
Oregon

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To: Board of Commissioners
From: Debbie Taylor, County Auditor
Subject: Petty Cash and Change Funds 2011-12
Date: September 18, 2012

The attached audit report provides information concerning petty cash and change fund audits for certain departments. The audit was included in the fiscal year 2012-13 Internal Audit Plan as part of the work performed annually in support of the County's external audit and ongoing internal control and risk assessment work.

Audit results have been discussed with the department directors or managers who are responsible for the various petty cash and/or change funds. The results were also shared with the County's staff throughout the audit process.

cc: Audit Committee
Moss Adams, LLP
Shannon Bell, Finance Director
John Vial, Roads and Parks Director
Shane Hagey, Community Justice Director
Richard Whitlock, County Counsel
Kelly Madding, Development Services Director
Scott Fein, Deputy County Surveyor
Harvey Bragg, Interim Human Resources Director
Linda Strickland, County Administration Sr. Administrative Assistant

JACKSON COUNTY
Fiscal Year 2011-12 Petty Cash and Change Fund Report

Audit Authority

We conducted our audit in accordance with Codified Ordinance 218 pertaining to the County Auditor. The audit was included in the fiscal year 2012-13 Internal Audit Plan as part of the work performed annually in support of the County's external audit.

Background

As of June 22, 2012 the county had 57 petty cash and change funds at various locations throughout the County totaling \$16,431. Departments must report balances for these funds to Accounting as of the end of the day each June 30.th

Objectives

The objectives of our audit were to determine if:

- Internal controls over petty cash and change funds follow best practices; and
- Total of cash on hand plus receipts for petty cash funds, and total of cash, check, and credit transactions less sales for change funds, equal amounts recorded in the financial system.

Scope and Methodology

Our audit procedures included:

1. Performing an unscheduled visit to each selected facility;
2. Reviewing receipts and cash on hand and comparing to fund balances recorded in the financial system;
3. Verifying any petty cash replenishments requested but not yet received;
4. Reviewing fund security.

Funds were selected that had not been reviewed the previous year. Petty cash and change funds reviewed totaled \$6,140 and included the funds in the table that follows.

Surprise Cash Counts

Department/Program	Fund Type
Airport	Petty
Airport	Change
Board of Commissioners	Petty
Clerk Elections	Change
Clerk Recording	Petty
Clerk Recording	Change
Community Justice	Change
Community Justice	Petty
Community Justice	Petty – JAG
Community Justice- Juvenile	Petty
Community Justice- Juvenile	Change
County Administrator	Change
County Counsel Petty	Petty
Development Services	Petty
Development Services	Change
Development Services	Over/Short fund
Expo	Petty
Expo	Change
Human Resources	Change
Law Library	Change
Roads	Petty
Roads – Fleet	Change
Surveyor	Change
Witness Fee	Change

Internal Controls

We gained an understanding of internal controls over petty cash and change funds through discussions with fund custodians and other appropriate management staff.

Criteria

Criteria represent the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Jackson County does not have a written, countywide Petty Cash and Change Fund Policy; therefore, our criteria consisted of industry best practices for these types of funds.

Best practices for petty cash funds include:

- The fund is properly safeguarded;
- The amount is appropriate for operational needs;
- Disbursements are for authorized, legitimate purposes;
- The fund is periodically reconciled by independent staff;
- The custodian maintains a petty cash ledger reflecting activity;

- All purchases are supported by signed receipts or equivalent;
- The fund is properly reflected in the financial system; and
- Cash plus receipts equal the authorized fund balance.

Best practices for change funds include:

- The fund is properly safeguarded;
- The amount of the fund is appropriate for operational needs;
- Payments are controlled by an electronic receipting system or pre-numbered receipts;
- Deposits are prepared by an independent person;
- Checks are restrictively endorsed upon receipt;
- Voids are adequately documented;
- The fund is properly reflected in the financial system;
- Cash less receipts equal the authorized balance; and
- Cashing of personal checks is prohibited.

Privileged and Confidential Information

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

Compliance with Government Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit 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.

Audit Findings

In general, controls over petty cash and change funds appear to follow best practices. Minor exceptions are discussed below, none of which are considered a material weakness or a significant control deficiency.

Petty Cash

Properly Safeguarded

All petty cash funds reviewed were properly safeguarded.

Best practices for petty cash funds include adequate physical facilities to safeguard the cash from theft. All petty cash funds reviewed were appropriately stored in a locked drawer, cabinet, or safe with limited access.

Appropriate Amount

The amount of petty cash for the funds reviewed appeared to be appropriate except that the balance for the Community Justice Adult Program fund may be more than necessary, and the Board of Commissioners and County Counsel funds may no longer be needed, as they had no or very little use.

The amount of the fund should be appropriate for operational needs. This not only means that the fund should be large enough to prevent unnecessarily frequent replenishments, but also that excess cash should not be kept in the fund needlessly. Unnecessary cash is at an increased risk for misappropriation. The Board of Commissioner's petty cash fund has not been used since May of 2009. The custodian reported that she prefers to keep the petty cash fund as not everyone in the office has a purchasing card. However, two administrative staff members and the Library Business manager who is in the same office have purchasing cards, so it is likely that there would always be at least one staff member present with the ability to make an emergency purchase.

Similarly the County Counsel Office's petty cash has had very little use. During fiscal year 2011-12 it was used once for a US Post Office purchase, and twice for per diem reimbursements. The County recently began providing employees with the option of receiving travel and per diem reimbursements through electronic funds transfer, and four of the County Counsel staff members have purchasing cards with which to make emergency purchases such as the US Post Office purchase, so the fund may no longer be necessary.

The Community Justice Adult Program used to have two separate petty cash funds, one for the Adult Program, and one for the Justice Assistance Grant (JAG). It was later decided that a nonprofit firm would handle the JAG expenditures and the JAG petty cash was combined with the Adult Program fund. Normally a petty cash fund must be replenished several times a year to avoid running out of cash. This fund was replenished three times between July 2011 and May 2012, but even if it had not been replenished, the total expenditures during this time frame would not have depleted the fund, indicating that the amount of the combined fund may be more than is necessary.

Disbursements for Authorized Purposes

All petty cash purchases reviewed appeared to be for appropriate purposes.

The County's Purchasing Card Policy prohibits the purchase of items already under contract with the County, such as office supplies, which are under a contract with Office Max. An exception is allowed for items that are not available from Office Max, or in the event of an emergency. Purchases outside of the contract terms could violate the contract. Several office supply items were purchased from other vendors with petty cash funds, although the custodian reported an appropriate emergency situation in each case.

Fund Reconciled by Independent Staff

The Roads and Fleet petty cash funds have not been periodically reconciled by an independent staff member.

Petty cash funds should be periodically reconciled by a staff member other than the custodian. The Roads and Fleet petty cash funds have not been routinely reviewed by an independent staff member, although the Deputy Roads and Parks Director has indicated he will start reviewing the Roads and Fleet petty cash funds quarterly. Jackson County does not currently have a written, countywide petty cash policy requiring an independent review of petty cash. Lack of independent oversight increases the risk that funds could be misappropriated.

Petty Cash Ledger

Activity for each of the petty cash funds reviewed was reflected in a ledger, except for the Recording petty cash fund which is used solely to make change for the front office cash registers .

A petty cash ledger should be kept by the custodian reflecting all activity to provide accountability for the expenditures. The Recording petty cash fund is not used to make purchases as a normal petty cash fund, but rather to make change for the cash registers when they need smaller bills. Two staff members are involved whenever they need to make change. One staff member makes change for the other. The fund never needs to be replenished, but they do periodically need to exchange the large bills for smaller bills. A ledger was provided by the custodian for each of the other petty cash funds reviewed.

Signed Receipts or Equivalent

All petty cash receipts reviewed reflected the receiving staff member's signature except for the Development Services petty cash fund, which reflected the staff member's name, but not the signature.

Best practices recommend obtaining signed petty cash receipts for each purchase. Jackson County does not currently have a written, countywide petty cash policy requiring signed receipts to be obtained, but signed receipts increase accountability for these purchases. The Development Services petty cash custodian prints the name of the staff member receiving the funds on the receipt, but does not collect their signature. The custodian has agreed to start having staff members sign the receipt when they receive petty cash.

Properly Reflected in the Financial System

All petty cash funds reviewed were reflected in the financial system, although the Recording, Roads, Fleet, and Community Justice Adult Program funds could be more accurately classified.

The amount of each petty cash and change fund should be accurately reflected in the financial system. As mentioned previously, the Recording petty cash fund is really used as a change fund. A portion of the Roads petty cash is used as a change fund for the front office. It appears that this fund was created from the petty cash fund instead of requesting a new change fund from the Finance Department. The

fund at the Fleet office is reflected in the financial system as a change fund, although the fund is really used as a petty cash fund. This was most likely the result of a miscommunication when the fund was set up. In addition, the financial system reflects a Community Justice Adult Program petty cash and a JAG petty cash fund which have been combined into one fund. Incorrect petty cash and change fund balance information in the financial system creates confusion and reduces accountability over the funds.

Fund Balance

The petty cash fund plus receipts equaled the authorized fund balance except for the Community Justice Juvenile, Fleet, and Board Of Commissioners funds which were over or under by less than \$0.25.

Petty cash funds plus receipts should equal the authorized fund balance. On the day of the cash count the Juvenile fund was short by \$0.02, the Fleet fund was over by \$0.22, and the Board of Commissioners fund was over by \$0.13. It is not known what caused the shortage/overages, but they are not considered material.

Change Funds

Properly Safeguarded

All change funds reviewed were properly safeguarded.

Best practices for change funds include adequate physical facilities to safeguard the cash from theft. All change funds reviewed were appropriately stored in a locked drawer, cabinet, or safe with limited access.

Appropriate Amount

All change funds reviewed were an appropriate amount.

The amount of the fund should be sufficient to prevent a shortage of bills or coins for making change, but should also not be an excessive amount, as excessive cash is at an increased risk of being misappropriated. All funds reviewed appeared to be appropriate for operational needs.

Pre-Numbered Receipts or Equivalent

All change funds reviewed used either a cash register, electronic system, or pre-numbered receipts to record transactions.

All change fund transactions should be controlled by a pre-numbered receipt or other means so that all transactions can be accounted for. All change funds reviewed used appropriate means to account for transactions.

Deposits

Due to staffing limitations, deposits for the Surveyor and Human Resources funds are not prepared by an independent staff member.

To maintain appropriate separation of duties, no one person should have control of a transaction from beginning to end. For a change fund, this would mean that someone that processes payments should not prepare the deposit. This helps to prevent the payments from being misappropriated after they have been credited to the proper account, but before being deposited.

The Surveyor's deposit is prepared by a staff member who also processes payments. There is a limited number of staff in the office, and only one administrative staff member, making it difficult to implement proper separation of duties. The Human Resources photo copy deposit is also prepared by a staff member who processes payments. This fund has very little activity, with deposits totaling \$55.70 for July 2011 through May 2012. In these situations, compensating controls, such as periodic management review, can be implemented to reduce the likelihood that funds may be misappropriated.

Checks Restrictively Endorsed

All checks reviewed had been restrictively endorsed except for checks from the Elections Program, which are endorsed when processed through the Helion system by the Recording Program.

Best practices recommend restrictively endorsing checks upon receipt to reduce the likelihood that they could be misappropriated for personal use. The Elections checks are not immediately endorsed. This is because the receipts are forwarded to the Clerk's Recording Office¹ where the Recording Supervisor reviews the receipts and enters them into the Helion system, which automatically endorses the checks. The deposit is prepared by Recording staff, and a copy is forwarded to the Elections Manager. This situation has been noted previously, and as a compensating control, the Recording Supervisor accounts for all Election receipt numbers and is watchful for excessive voided receipts, as the receipt would have to be voided in order for the check to be misappropriated.

Voids

All staff interviewed reported that appropriate documentation was maintained for all voided transactions.

Voided transactions should require supervisory approval, and should be periodically reviewed by management. This increases accountability over voided transactions and helps to prevent staff from voiding transactions and misappropriating the

¹ The Recording and Elections Offices are located in separate buildings

payment. Jackson County does not have a written, countywide change fund policy requiring supervisory approval or management review of voided transactions. There were no voided transaction to examine in the change funds reviewed, but all staff reported that documentation is retained for all voids.

Properly Reflected in the Financial System

All change funds reviewed are properly reflected in the financial system, other than the Roads change fund created from petty cash discussed above.

The amount of each change fund should be accurately reflected in the financial system. All funds were properly reflected in the financial system other than the Roads front office change fund discussed above.

Fund Balance

The change fund less receipts equaled the authorized fund balance except for the Law Library, Surveyor, Recording, Roads, Human Resources and Witness Fee funds which were over or short by \$5.44 or less.

The amount of the change fund less receipts should equal the authorized fund balance. On the day of the cash count the Law Library was over by \$0.30, the Surveyor was over by \$0.15, one of the Recording change funds was over by \$0.20, the Roads change fund was over by \$0.25, the Human Resources change fund was over by \$0.10, and the Witness Fee fund was short by \$5.44. The Roads department was able to determine who the overage belonged to and returned it. Human Resources determined the \$0.10 overage was from a COBRA (Consolidated Omnibus Budget Reconciliation Act) insurance payment. It is not known what caused the other over/short amounts, but they are not considered material.

The Witness Fee fund was established in September 2009 for payment of witness fees due to those appearing as a witness for the District Attorney. When the fund is replenished, a round amount, usually \$500 or \$1,000 is requested. This does not necessarily bring the fund back to its balance of \$1,000. In addition, a running total of all deposits and disbursements since the fund was established is used for balancing, which complicates the process and may have contributed to the shortage.

Cashing of Personal Checks

All staff interviewed reported that the cashing of personal checks from the change fund was prohibited.

Staff should not be allowed to cash personal checks from the change fund. This practice would increase the risk of misappropriation. All staff reported that this practice is not allowed.

Recommendations

1. To improve controls over petty cash and change funds, the Finance Director should draft a written, countywide Petty Cash and Change Fund Policy requiring periodic independent review of petty cash funds, signed receipts for all petty cash disbursements, and supervisory approval and management review of change fund voids. The policy should be approved and signed by the County Administrator.
2. To enhance accountability and reduce the risk of misappropriation:
 - The Deputy Roads and Parks Director should periodically reconcile the Roads and Fleet petty cash.
 - The Development Services petty cash custodian should collect signed receipts for petty cash disbursements.
 - The Board of Commissioners should consider eliminating the Board of Commissioners petty cash fund.
 - County Counsel should consider eliminating or reducing the County Counsel petty cash fund.
 - The Community Justice Director should consider reducing the Community Justice Adult Program petty cash fund to a more appropriate amount.
 - The County Surveyor or other appointed independent staff member should periodically review the Surveyor deposits and account for all receipt numbers.
 - The Human Resources Director or other appointed independent staff member should periodically review the Human Resources deposits and account for all receipt numbers.
3. To improve accountability over petty cash and change funds the Finance Director should correct the fund classification inconsistencies noted in the report.
4. To simplify balancing of the Witness Fee fund, the Finance Director should require the fund to be replenished with an amount to bring the fund back to its recorded balance, so that subsequent reconciliations would only have to track disbursements since the last reconciliation.

Management Response

Finance - The Finance Director has agreed to work on the Petty Cash and Change Fund Policy, correct the fund classification inconsistencies noted in the report, and change the Witness Fee replenishment procedures.

Roads and Parks – The Roads and Parks Director has agreed to have an independent staff member periodically reconcile the Roads and Fleet petty cash funds.

Development Services – The Development Services Director has agreed to require the petty cash custodian to collect signed receipts for petty cash disbursements.

Board of Commissioners - The Board of Commissioner’s Office would like to keep the petty cash fund for one more year, and then if it has not been used they will eliminate the fund.

County Counsel – County Counsel has indicated that their petty cash fund is still necessary as it is sometimes used for items where a purchasing card is not accepted, such as for local bar association events or to obtain a subpoena when there is not time to request a check.

Community Justice – The Community Justice Director has agreed to reduce the Adult Program petty cash to a more appropriate amount.

Surveyor – The Deputy County Surveyor has agreed to have an independent staff member periodically review the deposits and account for all receipt numbers.

Human Resources – The Interim Human Resources Director has agreed to have an independent staff member periodically review the Human Resources deposits and account for all receipt numbers.