

Audit and Finance Agenda Item

Meeting Date: 9/8/11

Title of Item: Foothill College Cashiering Services Petty Cash/Change Fund Performance Audit

Background and Analysis:

The District contracted with an independent certified public accounting firm, Vavrinek, Trine, Day & Co., LLP, to perform an operational review, also known as a performance audit, of the Foothill College Cashiering Services petty cash/change fund. The performance audit report was presented to the Audit & Finance Committee at the June 2, 2011 Audit & Finance Committee meeting.

Staff have reviewed the findings and recommendations from the performance audit and agree with the auditors recommendations. As a result, the petty cash/change fund procedures have been updated to reflect the recommended changes. Management's response to each individual audit finding and recommendation is attached.

Recommendation: Information Only

Submitted by:	Kevin McElroy
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Is backup provided?	Yes

Foothill-De Anza Community College District
Foothill College Petty Cash/Change Fund Performance Audit
Management's Response
August 17, 2011

Audit Finding No. 1

Documentation of Procedures - Petty Cash Fund Procedures were in writing but did not include all processes. We have prepared the draft procedures attached based on interviews with the Registrar and the Petty Cash/Change Fund Custodian. The draft procedures attached are limited to the Petty Cash/Change Fund process by the Admissions and Records Office at Foothill College.

Recommendation

Management should review the draft procedures and our recommendations, determine any modifications that may be needed, and officially adopt procedures to provide a basis for auditing compliance and establishing accountability.

Management's Response

We agree with the audit finding. Management has reviewed the draft procedures and recommendations and has adopted the recommended changes. The Registrar has reviewed the changes with staff and has updated written procedures to reflect the changes.

Audit Finding No. 2

Distribution of Procedures - The Petty Cash/Change Fund Custodian does not have a copy of the *Petty Cash Fund Operating Procedures* issued by the District Accounting Office on February 23, 2005. If procedures are not communicated to affected management and staff, employees may be inclined to change procedures to accommodate workload and changing environment.

Recommendation

Management should verify that staff have received a copy of written procedures applicable to their position and ensure that the procedures are understood. Written confirmation of receipt is advisable.

Management's Response

We agree with the audit finding. A copy of the revised *Petty Cash Fund Operating Procedures* was sent to the Foothill College Registrar's Office, along with a written confirmation of receipt. The Registrar reviewed the procedures with the staff that handle petty cash and returned a signed confirmation of receipt to the District Accounting Office.

Audit Finding No. 3

The Petty Cash/Change Fund is counted two times a year by the Petty Cash Custodian and the Part-time Senior Cashier at the same time but independently. They each prepare a *Petty Cash Audit Form*, and identify and correct for any discrepancies and sign and date the forms. A copy of the forms is given to the Registrar for his/her review. However, the Registrar does not sign the Audit Form or otherwise denote approval of the count or the variance.

Recommendation

Review and approval of the Petty Cash Audit Form should be documented by the Registrar and the process should be documented in the written procedures.

Management's Response

We agree with the audit finding. The change has been reviewed with staff, and the petty cash audit procedure has been added to the written procedures. The petty cash audit form has been updated to include the registrar's signature after review.

Audit Finding No. 4

Fund Overages and Shortages - During the course of our review, we observed a Petty Cash count. Total cash and vouchers not submitted for replenishment totaled \$4,739.60; the established fund amount is \$5,000.00. We were told by the Registrar that approximately \$250 went missing between April and June 2009. The District Business Office and District Police are aware of the missing money. The Fund also fluctuates by smaller amounts from count to count. The *Petty Cash Audit Form*, used to count petty cash, does not contain a place for the prior count and calculation of the variances (overages and shortages) since the prior count.

District *Petty Cash Operating Procedures* state that "in the event of a theft, the loss must be reported to campus police." The procedures do not stipulate a dollar minimum that must be reported, nor require that a loss or shortage be reported to the District Business Office.

The District Accountant does confirm the existence of Petty Cash funds at year end; however, this process is not documented in the written procedures.

Recommendation

The prior petty cash count total and calculated variance should be added to the Petty Cash Audit Form to ensure that overages and shortages since the last count are documented and brought to the attention of the Registrar. Guidelines for dollar amounts that require immediate reporting to the District Police and Business Office should be established and documented in the written procedures. The District should replenish the petty cash fund and expensing the shortages at least annually.

Management's Response

We agree with the audit finding. The prior petty cash count total and calculated variance have been added to the Petty Cash Audit Form to ensure that overages and shortages since the last count are documented and brought to the attention of the Registrar. Shortages in the amount of \$100 or more are required to be reported to the District Police and to the District Accounting Office, immediately upon confirmation of the shortage. The district replenishes the petty cash fund at least annually; this process has been added to the revised *Petty Cash Fund Operating Procedures*. The shortage noted above was written off as of June 30, 2011.

Audit Finding No. 5

Voucher Verification Procedures - Prior to disbursing Petty Cash, the Petty Cash Custodian or his/her alternate, reviews the voucher and the receipt(s) to ensure that the amounts agree, that the expenditures were for the purpose for which the fund was authorized, and that the voucher was signed by the appropriate manager for the indicated budget code. If the receipt indicates it was paid by credit card, he/she verifies that it was not paid for by a District Procurement Card. If the reimbursement was for only a portion of the receipt, he/she verifies the calculation of the total to be reimbursed. No notation is made on the voucher or receipt indicating that the appropriate verification was performed.

Recommendation

Performance of the verification process should be documented on the voucher by the Petty Cash Custodian or his/her alternate when disbursing petty cash. This could be accomplished by initialing the specific information verified or utilizing a stamp to check off information verified.

Management's Response

We agree with the audit finding. The petty cash voucher has been updated to include a check off list of verification items as well as the signature of the processor. The change in procedure has been reviewed with staff, and written procedures have been updated to reflect this change.

Audit Finding No. 6

General guidelines specified in the District's *Petty Cash Funds Operating Procedures* state, "A petty cash fund serves as a revolving fund and may be established in a department when it can be demonstrated that a continuing cash advance should be kept on hand to permit the purchase of low-value (less than \$100) supplies." In reviewing procedures with the Petty Cash/Change Fund Custodian, we found that the fund is also used to reimburse employee meals under \$100. While food for meetings may be classified as supplies, restaurant meals are not.

Recommendation

District guidelines should be followed regarding permitted expenditures for petty cash reimbursement. If District Management deems employee meals are an allowable expenditure for petty cash reimbursement, the District's Petty Cash Funds Operating Procedure should be changed.

Management's Response

We agree with the audit finding. The District's Petty Cash Funds Operating Procedure has been revised to reflect that employee meals are not an allowable expenditure for petty cash reimbursement. Employee meals are reimbursed through District Accounts Payable, by submission of a Trip Voucher.

Audit Finding No. 7

Petty Cash Replenishment Procedures - The Part-time Senior Cashier reimburses Petty Cash Vouchers submitted by District employees. She also prepares and submits the *Petty Cash Replenishment Request*. The *Petty Cash Replenishment Request* form, containing the detail of all Petty Cash Vouchers reimbursed, is given to the Registrar for review along with the vouchers and receipt documentation. The Registrar compares the vouchers and documentation to the *Petty Cash Replenishment Request* and signs the last page of the form as evidence of approval. The Registrar gives the *Petty Cash Replenishment Request* form, vouchers and receipt documentation back to the Part-time Senior Cashier to process with Accounts Payable. The Part-time Senior Cashier sends an electronic copy of the *Petty Cash Replenishment Request* form to Accounts Payable prior to physically taking the hard copy of the form, the vouchers and documentation to the Accounts Payable clerk. The Petty Cash Replenishment Request form could potentially be altered between the time that it is reviewed and signed by the Registrar and the submission to Accounts Payable.

Recommendation

The Registrar should receive the electronic copy of the Request form from the Part-time Senior Cashier prior to his/her review of the form and the supporting documentation. After the review, the Registrar should email the electronic copy of the form directly to Accounts Payable.

Management's Response

We agree with the audit finding. The Registrar will, as recommended, email the electronic copy of the Petty Cash Replenishment Request form to Accounts Payable after review. This change has been reviewed with staff and written procedures have been updated to reflect the change.

Audit Finding No. 8

Control of Vouchers Processed but Not Submitted for Replenishment - Vouchers and receipts representing petty cash disbursements that have not been replenished are maintained on the desk of the Part-time Senior Cashier. A log is not maintained of the vouchers that have not been submitted to

Accounts Payable for replenishment. If a voucher was lost or misplaced, the petty cash fund would be short with no documentation of whether the shortage is due to a missing voucher or missing cash. Further, employees do not sign for, or otherwise verify, that they have received the cash reimbursement.

Recommendation

Vouchers and receipts that have not been submitted to Accounts Payable for replenishment should be maintained in the safe to prevent loss or misplacement. We also suggest that a log be maintained with the date, employee name, employee signature, and amount received, as proof the reimbursement was received by the employee and to ensure that if a voucher should become lost or misplaced, it can be traced. The log should be numbered and the number entered on the voucher for cross reference.

Management's Response

We agree with the audit finding. A petty cash log has been developed, and petty cash vouchers will be stored in the top of the safe. The change has been reviewed with staff and written procedures have been updated to reflect the change.

Audit Finding No. 9

Verification of Amount Transferred - The District *Petty Cash Funds Operating Procedures* require that when a petty cash fund is transferred to another custodian, the fund be counted at that time by the manager/administrator and the custodian relinquishing the fund and counted a second time by the manager/administrator in the presence of the new custodian. The Custodian Form is signed by both the new custodian and the manager/administrator and notes the date and the amount; however, the form does not confirm that the fund has been counted by the new custodian and the manager/administrator. In addition, the procedures do not require that the manager/administrator acknowledge the amount that he/she received from the custodian relinquishing the fund.

Recommendation

The Custodian Form should stipulate that the fund be counted by the new custodian and the manager/administrator together and that a copy of a Petty Cash Count Form be attached to the Custodian Form sent to the District Controller's Office. A separate form should be developed to confirm the transfer of petty cash from the custodian relinquishing funds to the manager/administrator. This form should also be sent to the District Controller's Office along with a copy of a Petty Cash Count Form. Both forms should be described and referenced as exhibits in the District Petty Cash Operating Procedures.

Management's Response

We agree with the audit finding. The Custodian Form has been revised and now stipulates that the fund be counted by the new custodian and the manager/administrator together and that a copy of a Petty Cash Count Form should be attached to the Custodian Form sent to the District Controller's Office. A separate form is in use (Change of Custodian Form) to confirm the transfer of petty cash from the custodian relinquishing funds to the manager/administrator. This form states that it should also be sent to the District Controller's Office along with a copy of a Petty Cash Count Form. Both the Custodian Form and the Change in Custodian Form are now described and referenced as exhibits in the District Petty Cash Operating Procedures

Audit Finding No. 10

Custodian Form - The Custodian Form for the new custodian includes the statement, "I understand that I am personally responsible for the dollar amount authorized in this fund". The Custodian of the Foothill Petty Cash/Change fund does not have authority to limit access to the fund and as noted in our finding below entitled *Safeguarding*, six employees have access to the fund

Recommendation

District Management should obtain a legal opinion on the wording of the acknowledgement statement in the Custodian Form.

Management's Response

We agree with the audit finding. The language in the Custodian Form has been modified to read, "I understand that I am responsible for the dollar amount authorized in this fund"; the word "personally" has been removed. As described in Management's Response to Audit Finding No. 4, shortages in the amount of \$100 or more are required to be reported to the District Police and to the District Accounting Office, immediately upon confirmation of the shortage. The District Police and District Accounting Office will follow-up with appropriate action.

Audit Finding No. 11

Safeguarding - The Petty Cash/Change Fund is kept in a safe. The safe contains two compartments with combination locks; the top safe and the bottom safe. Both compartments are kept locked at all times. The top safe contains ten change envelopes, with \$100 each, used as change funds for the cashiers in Admissions and Records and a cash box used to make change for cashiers during Admissions and Records Operating Hours and to make petty cash expense reimbursements. The cash box generally contains between \$1,000 and \$2,000 in currency and coins. Surplus change is kept in the bottom safe. This includes rolled coins and packets of \$1s, \$5s, \$10s and \$20s. The surplus change generally ranges between \$1,000 and \$2,000.

Six individuals have the combination to the top safe, which contains the change envelopes and the cash box, and four individuals have access to the bottom safe, which contains the surplus change. Since numerous individuals have access to the Petty Cash/Change Fund, it is difficult, if not impossible, to establish responsibility for a shortage or misappropriation.

Recommendation

The number of individuals with combinations to the safe should be reviewed to ensure that only those individuals who must have access for operational efficiency are authorized to have access. Since the safe is also used for Registration receipts, installation of a camera should be considered.

Management's Response

We agree with the audit finding. Management has reviewed the need for individuals to have access to the safe. It was determined that the part time cashier would no longer have access to the top compartment of the safe and both Admissions and Records Supervisors would no longer have access to the bottom compartment of the safe. The combination to both top and bottom compartments have been changed. We have also reduced the amount of money kept in the top compartment by \$1000. The change has been reviewed with staff and written procedures have been updated.