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Report No. 2019-23

TO: Gay Lancaster, Director
Contractor Licensing Department

FROM: Hector Collazo Jr., Inspector General/Chief Audit Executive
Division of Inspector General

DIST: Ken Burke, CPA, Clerk of the Circuit Court and Comptroller
Clairetha Harris, Chief Deputy Director, Finance Division
Jeanette Phillips, Director, Finance Division

SUBJECT: Unannounced Audit of the Contractor Licensing Department Petty Cash
and Change Funds

DATE: July 26, 2019

This letter serves to inform you that the Division of Inspector General has completed an unannounced audit of the Contractor Licensing Department Petty Cash and Change Funds on June 11, 2019.

The objective of our audit was to reconcile the Petty Cash and Change Funds and ascertain that the appropriate internal controls, safeguards, and policies and procedures are being followed, safeguarding the county funds under your departmental control.

Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and the *Principles and Standards for Offices of Inspector General*, and accordingly, included such tests of records and other auditing procedures as we considered necessary in the circumstances.

The Contractor Licensing Department Petty Cash and Change Funds reconciled to the authorized amounts. The department's internal controls and safeguarding of these funds are adequate, and the majority of the policies and procedures are being followed. We did note some deviation from policies and procedures related to the Change Fund. Our review of the Petty Cash Fund activity indicated the fund is not financially effective for the department. These issues are noted below.



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1. Not All Change Funds Are Counted Daily.

The Contractor Licensing Department maintains a \$150 Change Fund used solely for making change. This Change Fund is not counted daily in accordance with the Finance Division's Petty Cash and Change Fund Policy and Procedures. There are three other Change Funds for \$300 each, which are used at the customer service counter for daily transactions. Staff counts and balances these funds daily.

Staff is counting the \$150 Change Fund monthly, as they were not aware that the Change Fund used specifically to make change is to be counted daily. Non-conformance with policies and procedures increases the risk of improper use of funds. In addition, financial errors such as disbursing incorrect funds for change may not be detected timely.

The Finance Division's Petty Cash and Change Fund Policy and Procedures, Section VIII, state:

"At the beginning of each day the change fund should only contain the approved balance. At the end of each day the custodian shall deposit funds in excess of the approved change fund balance. The supervisor should verify the deposit and count the change fund."

In addition to conforming to policies and procedures, counting and balancing the \$150 Change Fund daily also ensures that the correct denomination of bills and coin are readily available to make change, the fund's intended purpose.

During our unannounced audit, the \$150 Change Fund contained no coin and the majority (93%) of the fund contained \$20 bills. The Change Fund cannot effectively serve its purpose to make change due to the lack of coin and presence of large denomination bills. The \$150 Change Fund should be utilized for its intended purpose or dissolved in accordance with the Finance Division's Petty Cash and Change Fund Policy and Procedures.

We recommend Management:

- A. Require the Supervisor to count and balance the \$150 Change Fund on a daily basis to comply with the Finance Division's Petty Cash and Change Fund Policy and Procedures.
- B. Utilize the Change Fund for its intended purpose of making change, or dissolve the fund in accordance with the Finance Division's Petty Cash and Change Fund Policy and Procedures.

Management Response:

- A. **Management Concurs.** The department has closed its Change Fund. The applicable forms have been sent to the Office of Management and Budget and Finance Division.

B. Management Concur. The department has closed its Change Fund. The applicable forms have been sent to the Office of Management and Budget and Finance Division.

2. There Is No Financial Need For The Petty Cash Fund.

There have been no petty cash disbursements for employee reimbursements or small purchases since July 22, 2016, almost three years ago. In addition, the last disbursement date (check issued) to replenish the Petty Cash Fund was on August 12, 2015, in the amount of \$10.69, almost four years ago. Therefore, within the past four years, fund activity has amounted to \$30.69 (\$20 unreimbursed receipt plus \$10.69 replenishment) or 10% of the authorized \$300 Petty Cash Fund. The disbursement amount is nominal in relation to the risk and time needed to maintain the fund.

The Finance Division's Petty Cash and Change Fund Policy and Procedures states that a petty cash fund is, *"Money on hand in the department to be used for small expenditures and to reimburse employees for incidental expenses incurred within the performance of their official duties."*

Maintaining a Petty Cash Fund that is rarely utilized is an inefficient use of resources. Staff time is required to count and reconcile the Petty Cash Fund and document the reconciliation on a log, which is currently being performed daily. The Finance Division's records state there have been two changes in the Primary Custodian over the past two years. A change in custodian requires completion of applicable forms to be submitted to the Finance Division. In addition, fund reconciliations by the newly appointed custodians must be completed, thus further increasing staff time to maintain the fund.

Management has not made the determination to dissolve the Petty Cash Fund. The cost to maintain the Petty Cash Fund exceeds the benefits. Staff time to count, balance, and document the petty cash reconciliation incurs costs for funds that are rarely utilized. Maintaining cash funds also increases the risk of improper use.

We recommend Management dissolve the Petty Cash Fund in accordance with the Finance Division's Petty Cash and Change Fund Policy and Procedures.

Management Response:

Management Concur. The department has closed its Petty Cash Fund. The applicable forms have been sent to the Office of Management and Budget and Finance Division.

We appreciate your staff's cooperation during this audit.