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Report No. 2020-07

TO: Megan Ross, Director
Utilities Department

FROM: Hector Collazo Jr., Inspector General/Chief Audit Executive
Melissa Dondero, Assistant Inspector General *M.D.*
Division of Inspector General

DIST: Ken Burke, CPA, Clerk of the Circuit Court and Comptroller
Jeanette Phillips, Chief Deputy Director, Finance Division
Steve Soltau, Section Manager, Utilities Plant Operations Division
Royce Rarick, Water Supply Manager, Utilities Plant Operations Division

SUBJECT: Unannounced Audit of the S.K. Keller Water Treatment Facility
Petty Cash Fund

DATE: March 18, 2020

This letter serves to inform you that the Division of Inspector General has completed an unannounced audit of the S.K. Keller Water Treatment Facility Petty Cash Fund (Petty Cash Fund) on February 26, 2020.

The objective of our audit was to reconcile the Petty Cash Fund 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 Petty Cash Fund reconciled to the authorized amount. The department's internal controls and safeguarding of this fund are adequate; however, there are non-compliance issues related to policies and procedures. These issues are noted below.



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1. The S.K. Keller Water Treatment Facility Petty Cash Fund Is Not Counted And Balanced Every Month.

The supervisor of the custodian or another designee does not count and balance the Petty Cash Fund monthly. The Petty Cash Fund is rarely utilized and, therefore, the fund is not counted and reconciled frequently for replenishment (see Issue No. 2 for further discussion). The custodian stated petty cash is counted and reconciled annually when disbursement receipts are required to be submitted to the Finance Division for fiscal year end. The Finance Division periodically sends a letter to all petty cash and change fund customers to confirm the balances of funds in their custody. The custodian stated the Petty Cash Fund is counted again when the notice of confirmation is received.

To ensure proper controls, an independent employee (non-custodial) in the department should verify the Petty Cash Fund balance monthly. The employee performing the monthly verifications should document completion on a log for proof of performance.

The Finance Division's Petty Cash and Change Fund Policy and Procedures states the following:

"At a minimum each fund should be counted and balanced monthly by the supervisor of the custodian or other designee."

Cash fund policies and procedures are controls that are designed to safeguard cash.

The custodian stated she was not aware of the requirement to have the supervisor or other designee count and balance the Petty Cash Fund monthly. Non-compliance with policies and procedures can increase the risk of misuse of the fund.

We Recommend Management require the supervisor of the Custodian, or appointed designee, to count and balance the S.K. Keller Water Treatment Facility Petty Cash Fund on a monthly basis to comply with the Finance Division's Petty Cash and Change Fund Policy and Procedures. The supervisor, or appointed designee, should document the review on a log that is retained for audit purposes.

Management Response:

Management Concurs. Management acknowledges that there was not a set monthly balancing and that the funds are very rarely used. Going forward, in keeping with item 2 below, management concurs with the plan to dissolve the Petty Cash Fund.

2. Management Has Not Recently Evaluated The Necessity Of The Petty Cash Fund.

Since the establishment of the \$300 Petty Cash Fund (fund) for the S.K. Keller Water Treatment Facility, the necessity of the fund for small expenditures and employee reimbursements for incidental expenses has declined. The petty cash custodian stated that most purchases are now made using County purchasing cards rather than disbursements from petty cash. The custodian also stated toll passes have been issued to employees and, therefore, toll fees are no longer reimbursed from the fund. We reviewed the payment history for replenishment of the fund for the period of October 1, 2015, through February 26, 2020. The table below depicts the date and amount of the disbursements to replenish the fund and the percentage of the total fund utilized for the time period.

| Disbursement Date | Amount | % Of Total Fund |
|--------------------|-----------------|-----------------|
| October 5, 2015 | \$35.29 | 12% |
| September 22, 2016 | \$22.29 | 7% |
| October 16, 2017 | \$35.98 | 12% |
| October 22, 2018 | \$3.52 | 1% |
| October 10, 2019 | \$10.00 | 3% |
| Total | \$107.08 | 35% |

As documented in the table above, within the last five years, the largest disbursement from the fund totaled \$35.98, 12% of the total authorized fund (\$300). The disbursement amounts are nominal in relation to the risk and time needed to maintain the fund.

The petty cash custodian explained the S.K. Keller Water Treatment Facility is a 24/7 operation. Therefore, in the event of an emergency, immediate access to cash funds may be necessary in the future. However, due to the restrictions on the use of the fund, management should consider alternative payment methods for emergency purchases such as requiring employees to use a County purchasing card instead.

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.*"

Management has not made the determination to dissolve or reduce the amount of the Petty Cash Fund due to having some activity in the 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 spent. Maintaining cash funds also increases the risk of improper use.

We Recommend Management evaluate the necessity of the Petty Cash Fund and determine if the fund should be dissolved or reduced in accordance with the Finance Division's Petty Cash and Change Fund Policy and Procedures.

Management Response:

Management Concurs. Management intends to move forward in the very near future with dissolving the Keller Petty Cash Fund.

We appreciate your staff's cooperation during this audit.