



Date: January 18, 2005
To: Rick Lusk, Finance Director
From: Internal Audit
Subject: Supply/Mail Room Petty Cash Review

Internal Audit conducted a surprise petty cash count and a cash-handling audit of the Supply Rooms' petty cash funds on December 9, 2004. The Supply Room maintains \$600 in its petty cash balance. The department uses \$500 of the funds to buy stamps that are sold to employees as a service. When all of the stamps are sold, the money is used to replenish the stamp supply. The remaining \$100 dollars is used to pay the postage due on mail.

Our review was conducted to determine whether funds were being properly safeguarded and whether accounting policies and procedures were being adhered to. Internal Audit also performed a thorough evaluation of the internal control structure to ensure strong accountability and stewardship over the funds. Below is a summary of our findings and recommendations to the department.

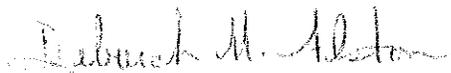
Findings:

- **The Supply Room has no written cash handling policies and procedures specific to the funds assigned to it.** The custodians of the cash appeared to have proper control over the petty cash and all monies could be accounted for. However, written cash handling policies and procedures can provide for strong internal control to ensure that the petty cash funds are being properly safeguarded at all times.
- **There were no review procedures in place to ensure accountability for the funds.** The supply room has two cash boxes and drawers keyed separately for each of the two custodians. The funds were secured at the time of our visit and duties appeared to be segregated properly in the department. However, no one other than internal audit ever performs a physical count of the departments' petty cash and stamp fund.
- **There were no month-end or year-end cutoffs being performed for the cash disbursements.** In Internal Audits' review of the postage due receipts and requests for reimbursement, we noted that June 2003 expenses totaling \$43.32 were not reported until October 2003. This represents 43% of the \$100 fund balance. While the petty cash fund for the postage due is not a material amount, the Supply Room should at a minimum be performing year-end cutoffs of expenses.

Recommendations:

- **The Supply Room should develop department specific written policies and procedures to ensure continued proper controls over the funds.** They should identify all tasks that are to be performed and how to perform them. The instructions should be detailed enough so that a recently hired employee could perform the task without any assistance. These procedures should be approved by Finance.
- **Review procedures should be performed and documented.** They should include the reconciliation process and a physical count of the funds. The person performing the requests for reimbursement can perform the review procedures.
- **At a minimum, year-end cutoffs should be performed and month-end cutoffs if possible.** All disbursements should be reported to Accounting and a reconciliation performed at the end of our fiscal year, June 30th. This will ensure that expenses are being recorded in the proper period.

We would like to thank Randall Lee, Shirley Hall and Ray Hobbs for the courtesy and cooperation shown to us during our review. Internal Audit requests a written response to our recommendations by February 1, 2005. If there are any questions or comments concerning the details of this review, please contact us at 373-2203.



Deborah Alston
Internal Audit Technician



Len Lucas
Internal Audit Director

cc: Mitchell Johnson, Deputy City Manager
Ben Brown, Assistant City Manager for Economic Development