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# The City of Winnipeg Audit Department

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Report on the petty cash  
control and procedures  
Public Works Department  
100 Main Street

April 1998

## Introduction and Executive Summary

In March 1998 the City of Winnipeg Audit Department was contacted by the Manager of Finance and Administration, Streets & Transportation Department, to request a review of the cash advance funds at 100 Main Street. The concern raised was that the petty cash fund (stated in the general ledger in the amount of \$200.00) and the change fund (stated G/L balance of \$150.00) were missing. Additionally, a journal entry was made to “write off” cash fund amounts totaling \$900.00 that were recorded in the General Ledger accounts of 1155 Pacific Avenue, but did not physically exist.

This report presents the findings and recommendations of the Audit Department’s review. The scope of the review was restricted to the cash funds control and maintenance procedures at the 100 Main Street location only. We did not extend our review to include any other branches of Public Works other than reviewing documentation in conjunction with the procedures performed at 100 Main Street.

Based on the discussions held with the appropriate staff at 100 Main Street, and a review of the various documents received during the course of the review, several issues were identified that need to be addressed by management. These items are summarized as follows:

- ***Inadequate control procedures have resulted in cash fund shortages that have gone unreported and accounted for over a year. General control procedures have not been followed, nor has the Department taken the appropriate action to rectify the situation.***
- ***Petty cash and change fund balances as stated in the general ledger are inaccurate and require adjustment to reflect the missing funds. Regular cash counts have not been performed, nor has any adjustment been made to properly state the account balances.***
- ***The restructuring of the Public Works Department and the associated roles and responsibilities may have had a negative impact on the risk and control environment of the department.***

The attached report summarizes the detailed findings of the review and recommends to management the necessary control procedures to address the identified problems.

## **Control over petty cash:**

Our review of the petty cash control methods and procedures at 100 Main Street indicated several internal control weaknesses that have resulted in inconsistent and improper treatment of these expenses. The inadequate control procedures have resulted in cash fund shortages that have gone unreported and unaccounted for over a year.

General accounting practices exist to establish controls over such items as petty cash funds within a department. Appropriate guidelines presently exist for the controlling, using and maintaining the petty cash funds within City of Winnipeg departments. Our review indicated that these guidelines have not been followed. Our findings are summarized below:

- No cash fund count sheets were prepared for the Finance Department for year end reporting purposes for 1995, 1996 and 1997.
- Out-of-balance and missing fund amounts were discovered during an attempted cash count at year end and again during our review.
- Improper assignment of responsibility (custodian) for the cash funds resulting in poor segregation of duties.
- Inadequately secured and stored petty cash box by person responsible.
- Apparent use of funds for “personal use” which contravenes established guidelines, as indicated by the discovery of an IOU for \$16.00 in the cash box.
- Fund shortages were not reported to senior management for review and follow-up.
- Poorly documented procedures for transferring responsibility for cash funds from one individual to another.

## **Recommendations:**

The Audit Department recommends that senior management immediately implement the following controls and procedures at 100 Main Street, and if appropriate at all other locations within the Public Works Department. These recommendations will ensure that the cash funds will be effectively controlled in the future, and in accordance with the Corporate Finance Department guidelines.

- Place cash funds in the custody of a full time employee who does not have access, or signing authority, to any other cash.

***Management response:** The Department has already made this change in custodianship and concurs with the recommendation.*

- Disbursements from the petty cash fund must be properly documented and for a valid business purpose. Receipts must include a description of the business purpose of the transaction, goods or services purchased, and the date.

***Management response:*** *Management concurs with the recommendation.*

- Maximum dollar amount for any single disbursement from petty cash must not exceed \$50.00.

***Management response:*** *Management concurs with the recommendation.*

- Vouchers and receipts plus the physical cash on hand must always equal the limit advanced. In addition to the regular reconciliation performed by the person responsible for petty cash, an appropriate Departmental representative must also perform periodic checks of fund balances.

***Management response:*** *Management concurs with the recommendation and has added additional checks into the process. As part of the normal month end process, a completed reconciliation of the petty cash fund will be sent to the Departmental controller.*

- Cash funds are not to be used for personal use.

***Management response:*** *Management concurs with the recommendation.*

- Cash funds should be maintained in a locked box. Secure storage in a locked cabinet or safe is ideal for after business hours. Keys to the cash box must be restricted to the custodian and the Division manager.

***Management response:*** *Management concurs with the recommendation and has taken steps to ensure that this recommendation is implemented immediately.*

- Proper segregation of duties must exist between the custodian of the fund and the supervisor or manager who must sign the cheque to replenish the fund.

***Management response:*** *Management concurs with the recommendation and has taken steps to segregate the duties of the custodian and the supervisor.*

- Discovery of an overage or shortage in a petty cash fund, requires an adjustment when a cheque request form is submitted to Accounts Payable for replenishment of the account. Include a voucher for the amount of the overage/shortage, signed by the Division manager.

***Management response:*** *Management concurs with the recommendation and has taken steps to bring the fund into proper balance.*

- Immediately notify the Division manager and/or Department head in the case of a significant shortage.

*Management response: Management concurs with the recommendation and has developed a protocol for custodians' of the petty cash fund to follow. This protocol will be reviewed with all custodians of petty cash.*

When the responsibility for petty cash is transferred from one individual to another (i.e. to change custodian) the following procedures must be performed:

- Reconcile the petty cash fund in the presence of the new custodian.
- Adjust any overage or shortage in the fund.
- Transfer the fund to the new custodian. The new custodian, old custodian, and the Department Controller must sign the reconciliation form.
- Notify the Department Head of the transfer of responsibility.

*Management response: Management concurs with the recommendation and has developed a protocol for this event. This protocol will be reviewed with all custodians of petty cash funds.*

### **Adjustments to petty cash advances:**

Several general ledger accounts are incorrectly stated and need to be adjusted. It became apparent during the review that the petty cash fund at 100 Main Street was not in balance to the stated general ledger (G/L) account, and that the change fund had not existed since November 1995. The following table summarizes the imbalances noted during attempted petty cash counts performed:

	G/L Balance	January 2/98 Count	April 16/98 Count	April 22/98 Count
Cash	\$200.00	\$0.03	\$29.95	\$46.41
Vouchers	N/A	\$0.00	\$82.14	\$49.03
IOU	N/A	\$0.00	\$16.00	\$0.00

It was further discovered during the review at 100 Main Street, that the stated cash fund (per G/L) at 821 Elgin in the amount of \$75.00 is also inaccurate. Accounting personnel have indicated that this fund has never existed since amalgamation in late 1995. This account should be adjusted accordingly.

## **Recommendations:**

In direct relation to the problems identified and the control recommendations made, management should consider the following as priorities in this area:

- Establish a petty cash custodian responsible for the maintaining the cash funds. This employee must be independent of other cash handling areas, and must not have signing authority within the Department.
- Adjustments must be made to correctly state the cash fund balances as they currently exist. We would suggest that the Department Controller do an independent count to accurately assess the fund balance. A write off and subsequent replenishment will then be required.

*Management response: The petty cash account will be adjusted during the next petty cash reimbursement with a charge to the cash shortage account to bring the fund to a level of \$200.00.*

## **Control environment:**

The current Public Works Department has been formed from two significant restructuring initiatives as part of the City of Winnipeg's reorganization plan. First, the amalgamation of a portion of Operations with Streets & Transportation in 1995 and second the recent restructuring that combined Streets & Transportation with parks and open spaces of the Parks and Recreation Department, and the Properties Management Branch of Civic Properties. These major changes in Department structure and the related reporting relationships can all have a significant impact on the risk and control environment of an organization.

Excerpts from control risk and fraud manuals identify the following as significantly affecting an organization's risk assessment, control environment, and the applicable control activities:

- Department restructuring
- Change in reporting relationships
- Management attitude
- Change in personnel

Throughout the course of the review, it became evident that the control and maintenance of the cash funds had been in question for quite some time, but no previous formal action was taken to address the potential concerns until such time that the Audit department was contacted in March 1998. The apparent existence of the problem persisted for well over a year. As well, inconsistencies in the year end reporting requirements for Corporate Finance were identified as follows:

- No cash counts were performed for 1995
- No count, or missing count information was performed for 1996
- No follow up of identified shortages or apparent missing cash funds
- Inconsistent performance and completion of cash count requirements.

### **Recommendations:**

We would suggest that the clear lines of authority and the appropriate reporting relationships need to be reinforced within the Department to make sure that the effect of the restructuring process is minimized, especially on the control environment. This would extend beyond 100 Main Street to include all Public Works offices to make sure a level of consistency exists across accounting practices. Although the review was limited to the cash fund practices, management should consider extending the review of internal controls over all areas of the financial accounting function to make sure this consistency, and that the adequacy of internal control, has been maintained after the reorganization.

*Management response: Management concurs with the recommendations as presented and has taken steps to implement many of them. Controls around petty cash have improved significantly as a result of quick actions taken by the department. The department is pleased that this independent review has validated the concerns raised by the department.*