



OFFICE OF THE
City Auditor

Investigation into the Misuse of Petty Cash

Final Report

August 12, 2008

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Investigation into Misuse of Petty Cash

1. Background and Introduction

The Office of the City Auditor (OCA) was requested by a City Branch (*Branch X*¹) to review an allegation of fraud and/or misconduct regarding a petty cash fund. According to the allegation an employee of *Branch X* with custody over a petty cash fund was suspected of using this fund inappropriately.

The control, establishment and reimbursement of petty cash funds are guided by procedures contained within the City of Edmonton Accounting Procedures Manual. This manual provides the general accounting practices and procedures for the City of Edmonton. Within this manual, Section 2.1 contains City Procedure 1.1. - Imprest Funds, which outlines petty cash procedures for all City Departments.

All civic employees are required to abide by and are directed by the City's Policies, Procedures and Directives and the Employee Code of Conduct.

The City of Edmonton is committed to the principles of corporate accountability, transparency, responsibility, and sound ethical operating practices. City Policy C522 – *Fraud and Misconduct – Reporting, Investigation and Whistleblower Protection* sets out the City's guidelines on reporting and investigating alleged fraud and misconduct. According to this policy, the City Auditor is responsible for investigating allegation of fraud and misconduct. In addition, the City Auditor is responsible for reporting the results of such investigations in accordance with Bylaw 12424, City Auditor Bylaw.

Our initial review of the circumstances around the petty cash fund in question focused on determining if indicators of fraud and/or misconduct were present and evaluating these indicators to determine if an investigation was warranted. Based on our initial review of the petty cash fund documentation, including documentation of a surprise cash count conducted by Management within *Branch X*, and interviews with a number of City of Edmonton staff, we determined that there were indicators of fraud and/or misconduct present that warranted further investigation within the context of the Fraud and Misconduct Policy.

2. Audit Objectives

Our objectives in this investigation were two-fold:

¹ This report does not reveal the identity of the Branch in order to maintain confidentiality. While the report outlines investigation results, it refers in generic terms to the Branch as "Branch X."

Our first objective was to:

- establish whether there is evidence that an incident of fraud or misconduct has occurred; and
- provide sufficient evidence for disciplinary or legal action if required.

Our second objective was to:

- identify potential control and process weaknesses; and
- provide recommendations to correct these weaknesses.

3. Audit Scope and Methodology

The investigation was performed in compliance with the Fraud and Misconduct Policy. As a result, our investigation focused on a review of petty cash procedures and practices, and interviews with key City of Edmonton staff as the City Auditor deemed necessary. The period under review was determined to be from January to May 2008.

As part of the investigation,

- We conducted a detailed analysis of the petty cash records and transactions conducted between January and May 2008
- We performed a reconciliation of the current petty cash balance and petty cash receipts to the authorized amount of the fund.
- We verified that each petty cash disbursement voucher was accounted for and accompanied by receipts and the appropriate approvals.

In addition, we reviewed the following documentation:

- City of Edmonton Accounting Procedure Manual – Section 2.1 – City Procedure 1.1 – Imprest funds (petty cash)
- City Policy C522 – Fraud and Misconduct – Reporting, Investigation and Whistleblower Protection.
- City of Edmonton's Employee Code of Conduct

We also gathered information on petty cash procedures and practices at *Branch X* to determine if they were functioning as intended or if there were potential control weaknesses (application, training, approvals, etc.). Furthermore, we verified compliance with these petty cash guidelines and City of Edmonton policies and procedures.

4. Observations

Misuse of Petty Cash Fund

There were a number of petty cash disbursement vouchers that were submitted and paid since January 1, 2008. We were able to determine that for these payments, they were authorized appropriately and accompanied by receipts. There were no issues or irregularities noted with these submitted expenditures or reimbursements.

However, our reconciliation of the petty cash fund determined that the amount of currency and coin plus the petty cash receipts in the fund did not equal the authorized amount of the fund. A total of **\$252.19** was unaccounted for.

The petty cash box contained four receipts without completed and signed disbursement vouchers attached. Upon further investigation, it became clear that these receipts had not been reimbursed. We also noted that *Branch X* had recently received complaints about the duration of reimbursements regarding this particular petty cash fund. These complaints were regarded as strange, because expenses should be reimbursed almost immediately upon submitting signed receipts to the custodian. Based on these observations, it became clear that not all receipts were reimbursed within a timely manner.

Since there was no documentation to account for the missing \$252.19, the employee responsible for the petty cash fund of *Branch X* was in non-compliance to both the City's Code of Conduct and to the City's Imprest Funds (Petty Cash) procedures. The City's Imprest Funds procedure, Section 3.02 (c) states that:

The disbursement of such funds shall pertain only to The City of Edmonton business. Petty cash funds are not to be used for cashing of payroll cheques, advances, or for personal IOUs.

While *Branch X* had some mitigating controls in place for monitoring the Petty Cash balance, in our opinion strict compliance to the following City's petty cash procedures would improve controls over petty cash funds in the future:

- Imprest funds should be reconciled at least once a month. (Section 3.02 (f))
- Receipts should be cancelled after reimbursement is made. (Section 2.01 (d)(v))
- There should be a reconciliation of funds by 2 employees before the funds are transferred to an alternate custodian. (Section 3.05 (a))

The petty cash fund at Branch X had an established amount of \$600. Since January 1, 2008, the fund had been replenished 3 times, and had a cash balance of approximately \$200 at the time of each reimbursement. This is an indication that the established petty cash float of \$600 may be too high.

Control and process enhancements

The City's petty cash procedure (Procedure 1.1 – Imprest Funds) as outlined in the City of Edmonton Accounting Procedure Manual was last reviewed in 1993 and contains a number of references to documents that no longer exist. In our opinion, the Finance Department should review and update the petty cash procedure.

The following enhancements to the procedures would strengthen the controls over petty cash and help prevent this type of incident in the future and should be considered as part of the revisions:

- **Spot checks or surprise cash counts** – A supervisor of each area that contains petty cash should conduct regular unscheduled surprise counts and retain documentation on the results of these counts. In addition, Finance should conduct additional surprise cash counts, but may also decide to focus on high risk areas.
- **Mandatory Custodian Rotation** – If practically possible custodian responsibility should be rotated on a regular basis, e.g. every 2 years. Within *Branch X*, the same individual had been the custodian of the petty cash fund for 9 years.
- **Petty cash disbursement vouchers** – City Procedure does not contain any provision about the use of petty cash disbursement vouchers.
- **Monthly reconciliations** - Sections 3.02 (f) and 3.03 (a) of the current Procedure require further clarifications.

5. Conclusions and recommendations

Based on our observations, we conclude that there is enough evidence to state that an incidence of fraud and/or misconduct as defined in City Policy C522 has occurred. As a result, we developed the following recommendation specifically for management of *Branch X*.

Recommendation 1	Action Plan
<p>OCA recommends management of <i>Branch X</i> address the petty cash violation by:</p> <ul style="list-style-type: none"> • Seeking advice from the HR Branch to ensure that this incident is handled in accordance with established City of Edmonton procedures related to investigations that could lead to the application of discipline. • Reinforcing the importance of the Code of Conduct within <i>Branch X</i>. • Updating, communicating and reinforcing the guidelines for the handling of petty cash funds within <i>Branch X</i>. • Ensuring compliance with City of Edmonton Accounting Procedures – Imprest Funds. • Determining the appropriate balance for the petty cash fund to avoid excessive cash floats. 	<p>Comments: Accepted</p> <p>The following actions have been taken by management of <i>Branch X</i>:</p> <ul style="list-style-type: none"> • Working with the Human Resources Branch, the employee involved has been disciplined appropriately. • The Code of Conduct and the Accounting Procedures – Imprest Funds have been reviewed with the appropriate staff. • The guidelines and forms for petty cash funds have been updated and communicated to the appropriate staff. Monitoring of petty cash funds will be occurring on a regular basis. • The balance for the petty cash fund has been decreased to reflect the currently monthly requirements. <p>Planned Implementation: Immediate</p> <p>Responsible Party: Branch Manager, <i>Branch X</i></p>

In addition, our investigation concluded that there were a number of opportunities to improve the controls over petty cash within the City of Edmonton. As a result, we developed the following recommendation for the Finance and Treasury Department.

Recommendation 2	Action Plan
<p>OCA recommends that the Finance and Treasury Department update City Procedure 1.1 – Imprest Funds. As part of this update, the Department should consider:</p> <ul style="list-style-type: none"> • Updating the procedure to make it current • Adding a section on the usage of petty cash disbursement vouchers • Adding the following controls: <ul style="list-style-type: none"> ○ Spot checks or surprise cash counts by department supervisors as well as Client Accounting Section ○ Mandatory custodian rotation (where possible) • Developing a communication strategy to advise affected staff and supervisors of the changes 	<p>Comments: Accepted</p> <p>The Finance and Treasury Department will review and update the City Procedure to make it current and add the suggested updates. There will also be a communication strategy to notify all affected areas of the changes. An e-mail will be sent to affected staff involved with Petty cash to let staff know of the upcoming procedure update and notification of spot audits which will be coordinated on a more frequent basis.</p> <p>Planned Implementation: January 2009</p> <p>Responsible Party: Branch Manager, Finance Branch</p>

We thank the management and staff of *Branch X* for their cooperation and assistance during this investigation.