



Fairfax County Public Schools Internal Audit Office

**Audit of Petty Cash Funds for Fiscal Years 2004 & 2005
Audit Report**

June 2006

"promoting an efficient & effective school division"

Executive Summary

Our review of petty cash accounts revealed that internal controls were adequate. Account balances and custodial records agreed to the information maintained by the Office of Finance and custodians, in general, appeared to be in compliance with Regulation 5210.5 School Board Petty Cash Funds with the exception of the following:

- Paid receipts are not being marked paid to prevent reuse
- Checks greater than 180 days outstanding have not been voided and added back to the fund balance

Our review also revealed areas where controls could be strengthened as follows:

- Petty cash fund levels appear to exceed the funds level needed
- Little guidance exists as to how petty cash funds are to be utilized
- With the ease of purchase afforded by procurement cards, the number of petty cash funds may decreased

The above items were included in a prior petty cash audit report. In addition, the Office of Finance implemented several prior recommendations thereby improving overall petty cash administration.

Background

Reimbursement for small expenditures is commonly accomplished by establishing a petty cash fund requiring that checks issued periodically to replenish the fund agree with the amount of disbursements from the fund. Section 22.1-123 of the Code of Virginia authorizes local school boards to establish petty cash funds to help principals and program managers make purchases. Petty cash funds shall be established at dollar levels consistent with user needs however they may not exceed \$2,000 per fund.

Fairfax County Public Schools has fourteen petty cash funds, ranging from \$250 to \$2,000, totaling \$16,750. Petty cash funds are measured both by their dollar value and the number of times they turn over in a given period. While petty cash funds totaled \$16,750, expenditures, July 2003 through June 2005, totaled \$189,110. Therefore, petty cash fund turnover was 11.29 times for the twenty-four months ended June 30, 2005.

The Office of Finance, Accounting section is responsible for monitoring the monthly report of transactions for each petty cash fund and consolidating these reports to present a single report to the school board for approval in accordance with section 22.1-123 of the Code of Virginia. In addition, Regulation 5210.5 requires annual audits of the funds which helps encourage compliance and promote a strong internal control environment.

Scope and Objectives

This audit was performed as part of our fiscal year 2006 Annual Audit Plan. The audit covered the period of July 2003 through June 2005, and our audit objectives were to determine that:

- Petty cash funds were being used in accordance with Regulation 5210.5
- The balance of funds on hand, checkbook balances, and unreimbursed vouchers agreed with Office of Finance and FAMIS records
- The primary and alternate custodian of record agree with that listed in the Office of Finance

Methodology

Audit methodology included a review and analysis of internal control procedures, petty cash vouchers, cash on hand, and checking account balances. Our audit approach included an examination of disbursements, records maintained in each department, and bank statements, interviews of appropriate employees; and a review of applicable regulations and procedures. We obtained a listing of authorized petty cash funds from the Office of Finance and therefore did not rely on system generated information.

The Fairfax County Public Schools Internal Audit Office is part of the Department of Accountability and reports to the Assistant Superintendent for that department. The Assistant Superintendent was not responsible for any of the petty cash funds reviewed. We report the results of our audits to the management of the department under review, the appropriate leadership team member, the Superintendent, and the Audit Committee, and reports are available to the public.

Findings, Recommendations, and Management Response

1. Receipts are not cancelled upon payment

Twelve of the fourteen petty cash custodians reviewed did not cancel receipts submitted for reimbursement. Petty cash expenditures submitted for reimbursement should always be supported by original documentation which is cancelled upon payment to prevent duplicate reimbursements. Receipts could be misplaced after payment or removed purposely to seek reimbursement for the same receipt more than once. This was also noted in the previous petty cash audit.

Recommendation: We recommend custodians cancel receipts submitted for reimbursement by stamping or writing "PAID" on each receipt after payment preventing the original receipt from being submitted again for reimbursement.

Management Response: The petty cash custodians were trained to stamp or write paid on each receipt submitted for reimbursement. The Office of Finance will:

- ask department financial liaisons to remind the petty cash custodian in their department/office to stamp the word “paid” on all original receipts that have been reimbursed by the petty cash accounts to avoid possible duplication of payment
- send an email to the petty cash custodians and their program managers reminding them to stamp or write “paid” on all original receipts that have been reimbursed by the petty cash accounts
- write a reminder article for the Department of Financial Services August newsletter, MoneyTalks requesting that original receipts are stamped with the word “paid” to confirm reimbursement

2. Outstanding checks exceed 180 days

There were twenty-four checks, totaling \$598 that exceeded 180 days outstanding. The checks were distributed among seven of the fourteen funds reviewed and were dated between 04/23/04 and 05/04/05. These outstanding checks reduce the amount of cash available for payment of expenditures and increase the turnover ratio for petty cash for that location.

Recommendation: We recommend that all checks exceeding 180 days outstanding be voided and added back to the fund balance in accordance with Regulation 5210.5.

Management Response: The Office of Finance will ask the department financial liaisons to remind the petty cash custodian in their department/office to stop payment and reissue all outstanding checks exceeding 180 days. In addition, the Office of Finance will continue to remind petty cash custodians to stop payment and reissue outstanding checks exceeding 180 days. Quarterly, the Office of Finance will send a follow-up memorandum to the program manager requesting them to ensure stop payments and reissues for outstanding checks exceeding 180 days have been completed.

3. Petty Cash Expenditures

There were several petty cash expenditures that could have been made via another purchasing method. While proper documentation was on file for each of the expenditures, the method of purchase and/or expenditure appears questionable. Expenditures were as follows:

- Reimbursement made to an employee for a County of Fairfax parking violation
- Payment to an outside vendor for \$575 exceeding the \$500 limit

A review of petty cash guidance from other educational institutions revealed examples of unauthorized expenditures which included, but were not limited to, fines and penalties, compensation for services rendered, out of county travel, and purchases where a purchase order should have been issued. Limiting petty cash to certain types of expenditures could decrease the need for petty cash in some departments and/or decrease the fund availability levels freeing up idle cash.

Recommendation: We recommend the Office of Finance review petty cash guidance and provide guidance to custodians regarding unauthorized expenditures. In addition, we recommend that petty cash expenditures not exceed \$500 in accordance with Regulation 210.5.

During the course of the audit the Office of Finance provided Internal Audit with a draft update of Regulation 210.5. This update included examples of prohibited items.

Management Response: The Office of Finance revised the Petty Cash Regulation to provide additional guidance to the custodians regarding unauthorized expenditures. The Office of Finance will reinforce the \$500 limit and inform employees that in an emergency situation, the Accounts Payable regular check process could provide next day turnaround. If circumstances should arise that requires us to process a check above the \$500 limit in less time, we will determine if the vendor will accept the credit card as a form of payment, if not we will seek other alternatives.

Other Observations

Due to the ease of purchase afforded by procurement cards, the scope of this audit included an inquiry to determine whether the petty cash funds maintained by the fourteen offices were still necessary. During the audit period the both the School Board and Safety and Security offices closed their respective petty cash funds. The twelve remaining offices stated that continued use of their petty cash funds would address their needs more efficiently than any other available option. However, based on the relatively low turnover funds, the ease of purchase afforded by credit cards and the availability of other methods of reimbursement, the continued need for petty cash funds is not apparent. In addition, one office maintains two \$2,000 petty cash funds and the turnover of the funds averaged 3.62 and 3.87 for the two year period reviewed. In addition, these appear to defy the intent of the \$2,000 limit imposed by state code.

We recommend that the Office of Finance review petty cash usage to determine the feasibility of keeping petty cash funds active and the reasonableness of the available fund levels. In addition, we recommend that offices be limited to one petty cash fund to remain within the intent of the limitations of state code.

Management Response: The Office of Finance will meet with the custodian and the program manager of each petty cash account to further investigate their need and fund level. The CFO will meet with the Assistant Superintendent of Special Services to facilitate the closing of the second petty cash account.