



Fairfax County Public Schools Internal Audit Office

Department of Financial Services
FCPS Administration Fund Petty Cash Audit for Fiscal Year 2006

March 2008

"promoting an efficient & effective school division"

Executive Summary

Our review of the Department of Financial Services' FCPS Administration petty cash fund revealed that internal controls were adequate. In general, expenditures appeared reasonable, properly approved, and supported by appropriate documentation. In addition, custodial records agreed with the information maintained by the Office of the Comptroller. The petty cash fund appeared to be in compliance with Regulation 5210.5 School Board Petty Cash Funds (effective 06-17-02). Three areas where controls could be strengthened in the future are:

- Care should be taken to identify updates to the petty cash regulation as they occur
- Procedures should be in place to ensure that the fund is properly balanced before a change in custodial duties is implemented
- Monthly reports should be submitted in a timely manner

Additionally, we are recommending that closure of the fund be considered.

The Department of Financial Services was in the middle of restructuring and reorganizing. The duties and responsibilities of employees were being reviewed and shifted during the period being reviewed and during the period the audit was being conducted.

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 disbursement 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.

The Office of the Comptroller 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, audits of the funds are conducted periodically to encourage compliance and promote a strong internal control environment.

The Department of Financial Services' FCPS Administration Petty Cash Fund was established for \$1,000. The petty cash fund was measured both by its dollar value and the number of times it turned over in a given period. For the period under review, expenditures totaled \$671.48, resulting in a petty cash fund turnover of 0.67 times.

Scope and Objectives

This audit was performed as part of our fiscal year 2007 Annual Audit Plan. The audit covered the period of July 2005 through June 2006 and was conducted in accordance with generally accepted government auditing standards. Our 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 the Office of the Comptroller and FAMIS records
- The custodian of record agreed with that listed in the Office of the Comptroller

Methodology

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

The FCPS Office of Internal Audit is free from organizational impairments to independence in our reporting as defined by generally accepted government auditing standards. We are organizationally part of the Office of the Superintendent and report directly to the Audit Committee. Organizationally, we are outside the staff or line management function of the units that we audit. 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. The custodian did not check for updates to the petty cash regulation

While the fund was in compliance with the regulation in effect during the audit period, the custodian was not aware that the regulation had been updated. In addition, the custodian was unaware that a best practices document governing incidental expenditures had been developed by the Department of Financial Services. Lack of knowledge regarding regulation changes may result in incidences of non-compliance.

Recommendation: The custodian should check the FCPS website periodically to ascertain whether the petty cash regulation has been updated.

Management Response: The petty cash regulation and other applicable regulations and best practices will be reviewed periodically by the primary and alternate petty cash custodians. It should be noted that in August 2007, management shared the Best Practices Expenditure Guidelines for Incidental Purposes with all accounts payable staff and provided training. Management will implement a communication and training protocol to improve knowledge and understanding of applicable policies and regulations by July 2008.

2. There were no turnover procedures in place to ensure a smooth transition during custodial changes.

While the petty cash fund is currently balanced, the fund was out-of-balance when transferred to the current custodian. Risk of errors or misuse of funds can be greatly reduced when proper turnover procedures are followed. In addition, signature cards need to be properly updated. Lastly, the currency and accuracy of bank reconciliations needs to be validated, as well as the presence of all unused check stock, before the new custodian assumes control.

Recommendation: With another anticipated custodial change planned in the near future, we recommend that procedures be implemented to ensure the fund is properly balanced prior to transferring fund responsibilities.

Management Response: Procedures relating to the transfer of custodian responsibilities will be developed and incorporated into the regulation by July 2008.

3. Monthly Reports Not Timely

Monthly reports for 8 of the 12 months reviewed were submitted 2 to 41 days late. Regulation 5210 requires that a monthly report of all petty cash fund activity be forwarded to the Department of Financial Services, Accounting Section, by the due date. The due dates are established at the beginning of each year by the Accounting Section and are typically around mid-month.

Recommendation: Monthly reports should be submitted on time in accordance with Regulation 5210, effective immediately.

Management Response: Monthly reports will be submitted timely to the Accounting section, effective immediately.

Other Observations

Petty cash funds were originally established when the methods of procurement were limited and usually required the use of a purchase order. With the implementation of the FCPS credit card program, there is an efficient, less time consuming alternative to petty cash. We did not find evidence that an alternate method would be inappropriate. Therefore, unless sufficient evidence can be provided to the contrary, we recommend that the Office of the Comptroller consider closing the petty cash fund.

Management Response: The Department of Financial Services maintains a petty cash fund for use by the Department of Financial Services, the School Board, and the Leadership Team. The petty cash fund is used to primarily to issue checks or reimburse employees for small dollar purchases that cannot be made via a procurement card. The Department of Financial Services will research the usage of its petty cash fund and the Department of Human Resources' petty cash fund to determine if one fund can accommodate the petty cash needs of the Gatehouse Administration Center by July 2008.