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Introduction

In accordance with the City Auditor's 2001-2002 Audit Workplan, we have completed the fourth in a series of ongoing audits of the City of San Jose's Cash Funds. In June 1998, the City Auditor released the first cash funds audit, "*An Audit of the Department of Parks, Recreation, and Neighborhood Services' Petty Cash and Change Funds*". We completed the second cash funds audit, "*An Audit of the City of San Jose Police Department Petty Cash, Confidential, and Flash Funds*", in January 1999. We issued the third audit, "*An Audit of the City of San Jose Fire Department's Petty Cash, Change, and Strike Team Funds*", in May 2000. This audit focuses on the petty cash and change funds of those departments in or in close proximity to City Hall. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Scope and Methodology section of this report.

The City Auditor's Office thanks the employees in all of the City Hall departments who gave their time, information, and cooperation during this audit.

Petty Cash And Change Funds In City Hall And In Close Proximity

There are 12 departments and offices in or in close proximity to City Hall (City Hall departments) with authorized petty cash and change funds. Exhibit 1 shows the department, location, type of fund, and amount of these petty cash and change funds.

Exhibit 1 City Hall Departments' Petty Cash And Change Funds

	Department/Office	Location		Type Of Fund	Fund Amount
1	Attorney	151 West Mission	1	Petty Cash	\$1,000
2	Auditor	800 North First	2	Petty Cash	\$700
3	City Clerk	City Hall	3	Petty Cash	\$400
	City Clerk	City Hall	4	Change	\$50
4	City Council	City Hall	5	Petty Cash	\$2,000
5	Mayor	City Hall	6	Petty Cash	\$1,000
6	City Manager	City Hall	7	Petty Cash	\$800
7	Finance–Accounting	City Hall	8	Petty Cash	\$400
	Finance–Administration	City Hall	9	Petty Cash	\$500
	Finance–Business License	City Hall	10	Change	\$50
	Finance–Risk Management	152 North First	11	Petty Cash	\$200
	Finance–Treasury	City Hall	12	Change	\$250
	Finance–Treasury	City Hall	13	Petty Cash	\$500
	Finance–Utility Billing Services	777 North First	14	Petty Cash	\$200
	Finance–Utility Billing Services	777 North First	15	Change	\$900
8	Human Resources-Employment Services	City Hall	16	Petty Cash	\$1,000
	Human Resources–Training	City Hall	17	Petty Cash	\$500
9	Information Technology	City Hall	18	Petty Cash	\$1,200
10	Planning, Building, Code Enforcement	City Hall	19	Petty Cash -Building	\$1,000
	Planning, Building, Code Enforcement	City Hall	20	Change-Building Permits#1	\$200
	Planning, Building, Code Enforcement	City Hall	21	Change-Building Permits#2	\$200
	Planning, Building, Code Enforcement	City Hall	22	Petty Cash-Planning	\$1,000
	Planning, Building, Code Enforcement	777 North First	23	Petty Cash-Code Enforcement	\$1,000
	Planning, Building, Code Enforcement	City Hall	24	Change-Planning Fees	\$100
11	Public Works	City Hall	25	Petty Cash	\$3,000
	Public Works	City Hall	26	Change	\$50
12	Retirement Services	1737 North First	27	Petty Cash	\$500
				Total Cash Funds	\$18,700

As Exhibit 1 shows, there are 27 petty cash and change funds located in 12 City departments. The authorized funds total \$18,700. While the monies in petty cash funds are expended and subsequently replenished, the amount of money in change funds should remain constant. In other words, because change funds are used only for making change, the amount of money in a change fund should neither increase nor decrease.

**Departments' Petty
Cash Fund
Expenditures
During 1999-00
And 2000-01**

City Hall departments processed about \$196,000 in petty cash expenditures through authorized petty cash funds during 1999-00 and 2000-01. Exhibit 2 below shows the two-year total.

**Exhibit 2 City Hall Departments' Petty Cash Expenditures
During 1999-00 And 2000-01**

Petty Cash Expenditures	
1999-00	\$95,318.80
2000-01	\$100,677.35
Two-Year Total	\$195,996.15

Exhibit 3 shows City Hall departments' cash expenditures during 1999-00 and 2000-01 by department.

Exhibit 3 Individual City Hall Department Petty Cash Expenditures During 1999-00 And 2000-01

Department/Office	Fund Amount	1999-00 Petty Cash Expenses	2000-01 Petty Cash Expenses	Two Year Totals
Attorney	\$1,000	\$10,029.97	\$9,619.99	\$19,649.96
Auditor	700	3,031.84	3,890.53	6,922.37
City Clerk	400	1,554.71	1,554.21	3,108.92
City Council	2,000	10,239.91	13,301.89	23,541.80
City Manager	800	7,725.51	10,387.26	18,112.77
Mayor	1,000	936.90	2,362.04	3,298.94
Finance-Accounting	400	965.00	655.41	1,620.41
Finance-Administration	500	1,010.99	448.13	1,459.12
Finance-Risk Management	200	787.00	679.53	1,466.53
Finance-Treasury	500	1,035.58	1,669.74	2,705.32
Finance-Utility Billing Services	200	230.48	14.81	245.29
Human Resources-Employment Services	1,000	1,561.10	1,534.85	3,095.95
Human Resources-Training	500	1,538.37	1,077.01	2,615.38
Information Technology	1,200	4,987.47	2,550.38	7,537.85
PBCE-Building	1,000	2,753.55	2,414.12	5,167.67
PBCE-Planning	1,000	3,877.94	4,845.64	8,723.58
PBCE-Code Enforcement	1,000	5,622.60	4,901.47	10,524.07
Public Works	3,000	34,894.46	36,660.97	71,555.43
Retirement Services	500	2,535.42	2,109.37	4,644.79
Totals	\$16,900	\$95,318.80	\$100,677.35	\$195,996.15

As shown in Exhibit 3 above, City Hall departments' petty cash expenses ranged from about \$200 to almost \$35,000 and about \$15 to nearly \$37,000 in 1999-00 and 2000-01, respectively.

Exhibit 4 shows each City Hall department's frequency of petty cash fund use – turnover rate or replenishment ratio - for 1999-00 and 2000-01.

Exhibit 4 City Hall Departments' Petty Cash Replenishment Ratios For 1999-00 And 2000-01

Department/Office	Fund Amount	1999-00 Petty Cash Expenses	1999-00 Replenishment Ratio	2000-01 Petty Cash Expenses	2000-01 Replenishment Ratio
Attorney	\$1,000	\$10,029.97	10.0	\$9,619.99	9.6
Auditor	700	3,031.84	4.3	3,890.53	5.6
City Clerk	400	1,554.71	3.9	1,554.21	3.9
City Council	2,000	10,239.91	5.1	13,301.89	6.7
City Manager	800	7,725.51	9.7	10,387.26	13.0
Mayor	1,000	936.90	0.9	2,362.04	2.4
Finance-Accounting	400	965.00	2.4	655.41	1.6
Finance-Administration	500	1,010.99	2.0	448.13	0.9
Finance-Risk Management	200	787.00	3.9	679.53	3.4
Finance-Treasury	500	1,035.58	2.1	1,669.74	3.3
Finance-Utility Billing Services	200	230.48	1.2	14.81	0.1
Human Resources-Employment Services	1,000	1,561.10	1.6	1,534.85	1.5
Human Resources-Training	500	1,538.37	3.1	1,077.01	2.2
Information Technology	1,200	4,987.47	4.2	2,550.38	2.1
PBCE-Building	1,000	2,753.55	2.8	2,414.12	2.4
PBCE-Planning	1,000	3,877.94	3.9	4,845.64	4.8
PBCE-Code Enforcement	1,000	5,622.60	5.6	4,901.47	4.9
Public Works	3,000	34,894.46	11.6	36,660.97	12.2
Retirement Services	500	2,535.42	5.1	2,109.37	4.2
Totals	\$16,900	\$95,318.80		\$100,677.35	

The replenishment ratios in Exhibit 4 display the funds' annual turnover rates. As Exhibit 4 shows, replenishment ratios for City Hall departments' petty cash funds were highest for three departments - the Department of Public Works, the City Attorney's Office, and the City Manager's Office - in both 1999-00 and 2000-01.

Exhibit 5 presents each City Hall department's petty cash expenses as a percentage of total City Hall department petty cash expenses in 1999-00 and 2000-01.

Exhibit 5 Each City Hall Department's Petty Cash Expenses As A Percentage Of Total City Hall Petty Cash Expenses In 1999-00 And 2000-01

Department/Office	Fund Amount	1999-00 Petty Cash Expenses	1999-00 Petty Cash Expense As A % Of Total	2000-01 Petty Cash Expenses	2000-01 Petty Cash Expense As A % Of Total
Attorney	\$1,000	\$10,029.97	11%	\$9,619.99	10%
Auditor	700	3,031.84	3%	3,890.53	4%
City Clerk	400	1,554.71	2%	1,554.21	2%
City Council	2,000	10,239.91	11%	13,301.89	13%
City Manager	800	7,725.51	8%	10,387.26	10%
Mayor	1,000	936.90	1%	2,362.04	2%
Finance-Accounting	400	965.00	1%	655.41	1%
Finance-Administration	500	1,010.99	1%	448.13	0.4%
Finance-Risk Management	200	787.00	1%	679.53	1%
Finance-Treasury	500	1,035.58	1%	1,669.74	2%
Finance-Utility Billing Services	200	230.48	0.2%	14.81	0%
Human Resources-Employment Services	1,000	1,561.10	2%	1,534.85	2%
Human Resources-Training	500	1,538.37	2%	1,077.01	1%
Information Technology	1,200	4,987.47	5%	2,550.38	3%
PBCE-Building	1,000	2,753.55	3%	2,414.12	2%
PBCE-Planning	1,000	3,877.94	4%	4,845.64	5%
PBCE-Code Enforcement	1,000	5,622.60	6%	4,901.47	5%
Public Works	3,000	34,894.46	37%	36,660.97	36%
Retirement Services	500	2,535.42	3%	2,109.37	2%
Totals	\$16,900	\$95,318.80		\$100,677.35	

As Exhibit 5 shows, the Department of Public Works, with the largest petty cash fund in City Hall, was the highest user of petty cash in both 1999-00 and 2000-01, with 37 percent and 36 percent, respectively, of total City Hall department petty cash expenditures.

Petty Cash Shortages Reported In 1999-00 And 2000-01

The Petty Cash and Change Funds procedure section titled “Shortages and Overages”, assigns departments responsibility for reporting cash overages and shortages in accordance with FAM Section 4.5 “Cash Overages and Shortages”. FAM Section 4.5 directs that cash shortages of \$50 or more must be reported within three working days in writing to the Director of Finance, City Manager, and City Auditor. In addition, the department must file a police report if theft is suspected. There were three reported petty cash shortages of \$50 or more in both 1999-00 and 2000-01 as shown below.

1999-00 Reported Shortages		2000-01 Reported Shortages		
#1	\$1,203.05	#1	\$1,760.00	
#2	934.25	#2	1,680.00	
#3	<u>242.90</u>	#3	<u>100.00</u>	
	<u>\$2,380.20</u>		<u>\$3,540.00</u>	Total <u>\$5,920.20</u>

Scope And Methodology

This report addresses the adequacy of internal controls over the cash funds authorized for City Hall departments. The objective of this audit was to determine whether City Hall departments are in compliance with City of San Jose’s Petty Cash and Change Funds procedures.

During the course of our audit we:

- Reviewed written policies and procedures;
- Interviewed Petty Cash and Change Fund custodians in the –
 - √ City Attorney’s Office,
 - √ City Auditor’s Office,
 - √ City Clerk’s Office,
 - √ City Council’s Office,
 - √ City Manager’s Office,
 - √ City Mayor’s Office,

- √ Finance Department,
 - Accounting
 - Administration
 - Risk Management
 - Treasury
 - Utility Billing
- √ Human Resources Department,
- √ Information Technology Department,
- √ Planning, Building, and Code Enforcement Department,
 - Building
 - Planning Administration
 - Code Enforcement
 - Planning Services
- √ Public Works Department, and
- √ Retirement Services Department;
- Assessed the security of funds;
- Examined the Cash Voucher Edit Lists departments prepared during 1999-00 and 2000-01 to request petty cash fund replenishments;
- Inspected all Petty Cash Reimbursement forms departments submitted during 1999-00 and 2000-01; and
- Reviewed documentation in the cash fund files that
 - √ authorized the funds and established the fund amounts,
 - √ appointed the fund custodians,
 - √ showed changes of fund custodianship,
 - √ recorded the results of the annual fund confirmation that the Finance Department requires, and
 - √ documented that periodic spot-audits of cash funds had been conducted.

We performed only limited testing of the various computer reports and databases we used during our audit. We did not review the general and specific application controls for the computer systems used in compiling the various computer reports and databases we used.

Finding I

The City Of San Jose City Hall Departments Are Generally In Compliance With Petty Cash And Change Fund Procedures But Improvements Are Possible

We found that San Jose City Hall departments' internal controls over their Petty Cash and Change Funds are generally adequate regarding (1) physical security of funds, (2) required custodianship and transaction documentation for each fund, and (3) the filing of annual petty cash and change fund confirmation memoranda with the Finance Department. However, we noted some noncompliance with procedures during our review. Specifically, we found the following:

- although the Finance Department implemented a prior audit report's recommendation to distribute a memorandum directing that departments comply with the Financial Administrative Manual (FAM) Petty Cash and Change Funds procedure, most City Hall departments are still not complying with specific procedures to (1) document the fund reconciliation when there is a change of custodianship and (2) periodically spot-audit all cash funds;
- three departments in 1999-00 and two departments in 2000-01 omitted the required charge account number from a significant number of their Petty Cash Reimbursement forms; and
- 16 funds' petty cash replenishment requests were not always timely.

In our opinion, the Finance Department should distribute another memorandum to all City departments specifically directing compliance with the FAM procedures to 1) document that a fund reconciliation was performed whenever fund custodianship changes, (2) periodically spot-audit all cash funds, (3) ensure that all required information is properly recorded on the Petty Cash Reimbursement forms, and (4) replenish their petty cash funds in accordance with procedures before they are approximately 75 percent expended. By so doing, internal controls over the funds will

be improved, security over the City's assets will be strengthened, and petty cash and change funds will be available when employees need to use them.

Assessment Of City Hall Departments' Compliance With Petty Cash And Change Fund Policies And Procedures

We assessed City Hall departments' compliance with FAM policies and procedures for petty cash and change funds. Specifically, we determined whether the 19 petty cash and 8 change funds under the 12 City Hall departments' control had:

1. A secure location and limited access;
2. A designated custodian;
3. A designated back-up custodian;
4. Required documentation – petty cash file, copies of policies and procedures;
5. Complete documentation – for each petty cash expense: purpose, charge code, date, supervisor's signature, sales receipt;
6. Supervisory review – of individual transactions and replenishment requests;
7. An Authorized Custodianship form on file;
8. A Change of Custodianship form on file, if necessary;
9. Documentation that the Change of Custodianship procedure was followed, if necessary;
10. Requested replenishment timely in accordance with procedures – i.e., request when fund is approximately 75% expended;
11. Performed the annual fund confirmation; and
12. Conducted periodic spot-audits – in accordance with FAM "General Cash Handling Guidelines".

Exhibit 6 is a summary of our assessment of City Hall departments' compliance with City of San Jose petty cash and change fund policies and procedures.

**Exhibit 6 Summary Of City Hall Departments' Compliance
With City Of San Jose Petty Cash And Change Fund
Policies And Procedures**

Compliance Items Tested		Number Of Funds In Compliance	Number Of Funds Not In Compliance
1	Secure Location and Limited Access?	26	1
2	Designated Custodian?	27	0
3	Designated Back-Up Custodian?	20	7
4	Required Documentation?	27	0
5	Complete Documentation?	24	3
6	Supervisory Review?	27	0
7	Authorized Custodianship Form on File?	25	2
8	Change of Custodianship Form on File?	24	3
9	Change of Custodianship Procedure Followed?	3*	16*
10	Timely Replenishment Requests?	3*	16*
11	Annual Fund Confirmation Performed?	27	0
12	Periodic Spot-Audit Performed and Documented?	4	23

* Applies to 19 petty cash funds only.

A shown in Exhibit 6 above, petty cash custodians entrusted with City cash funds were mostly complying with procedures to ensure the security and proper use of such funds.

Exhibit 7 presents the specific noncompliances by department and fund type for each of the 12 compliance items we tested.

Exhibit 7 Summary Of Compliance Items Tested By Department And Fund Type

DEPARTMENT/OFFICE	Fund Type*	COMPLIANCE ITEMS TESTED												Total "N"s
		1	2	3	4	5	6	7	8	9	10	11	12	
Attorney	PC	Y	Y	Y	Y	Y	Y	N	N	N	N	Y	N	5
Auditor	PC	Y	Y	Y	Y	Y	Y	Y	N/A	N/A	N	Y	Y	1
City Clerk	PC	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	N	2
City Clerk	CF	Y	Y	Y	Y	Y	Y	Y	Y	N/A	N/A	Y	N	1
City Council	PC	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	N	3
City Manager	PC	Y	Y	Y	Y	N	Y	N	N	N	N	Y	N	6
Mayor	PC	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	N	3
Finance-Accounting	PC	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	2
Finance-Administration	PC	Y	Y	N	Y	Y	Y	Y	Y	N	N	Y	N	4
Finance-Business Licenses	CF	Y	Y	N	Y	Y	Y	Y	Y	N	N/A	Y	N	3
Finance-Risk Management	PC	Y	Y	N	Y	Y	Y	Y	N/A	N/A	N	Y	N	3
Finance-Treasury	PC	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	1
Finance-Treasury	CF	Y	Y	N	Y	Y	Y	Y	Y	N	N/A	Y	N	3
Finance-Utility Billing Services	PC	Y	Y	N	Y	Y	Y	Y	Y	N	N	Y	Y	3
Finance-Utility Billing Services	CF	Y	Y	Y	Y	Y	Y	Y	Y	N/A	N/A	Y	N	1
Human Resources-Employment Services	PC	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	N	2
Human Resources-Training	PC	Y	Y	N	Y	Y	Y	Y	Y	N/A	N	Y	N	3
Information Technology	PC	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	N	2
PBCE-Building	PC	N	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N	3
PBCE-Building CF#1	CF	Y	Y	Y	Y	Y	Y	Y	Y	N/A	N/A	Y	N	1
PBCE-Building CF#2	CF	Y	Y	Y	Y	Y	Y	Y	Y	N/A	N/A	Y	N	1
PBCE-Planning	PC	Y	Y	Y	Y	N	Y	Y	Y	N	N	Y	N	4
PBCE-Planning	CF	Y	Y	Y	Y	Y	Y	Y	Y	N	N/A	Y	N	2
PBCE-Code Enforcement	PC	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N	2
Public Works	PC	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	N	3
Public Works	CF	Y	Y	Y	Y	Y	Y	Y	Y	N/A	N/A	Y	N	1
Retirement Services	PC	Y	Y	N	Y	N	Y	Y	N	N	N	Y	N	6
TOTAL NONCOMPLIANCES		1	0	7	0	3	0	2	3	16	16	0	23	

*PC=Petty Cash Fund

*CF=Change Fund

It should be noted that the single exception shown above to Compliance Item #1 – secure location and limited access – occurred in the Building Division of the Planning, Building and Code Enforcement Department. We observed that the safe door was closed but not locked and also that the petty cash box held within the safe was not locked. This noncompliance was of particular concern because in the City Auditor’s June 2001 “*Audit of the City of San Jose Building Division’s Cash*

Handling And Refund Process” we found that the Building Division safe was kept unlocked during the day. Accordingly, we advised that the Building Division ensure that Division staff follows all City guidelines regarding safe security.

Overall, petty cash custodians with responsibility for City Hall departments’ funds are keeping the funds secure and generally complying with most policies and procedures. However, we did identify some exceptions with compliance as shown above and discussed below.

**Noncompliance
With Two
Procedures**

This is the fourth in a series of cash fund audits, with a focus on the City’s Petty Cash and Change Funds. In each of the petty cash and change fund audits we conducted previously¹, and in our current petty cash and change fund audit of City Hall departments, we found identical problems in complying with two procedures. These are FAM Procedure 5.6 “Petty Cash and Change Funds”, Section 5.6.4. “Change of Petty Cash Custodian” and FAM Procedure 4.0 “General Guidelines for Cash Handling”, Section 4.0.4.2.7. “Periodic Spot-Audit”. As a result of a City Auditor recommendation, the Finance Department revised the City Of San Jose “Petty Cash And Change Fund Policy And Procedure” in November 2000.

The November 2000 Finance Department memorandum attached to the revised procedure states

In May 2000, the City Auditor issued a report regarding a department’s petty cash and change fund operations. It was recommended in the audit report that the Finance Department remind all departments to comply with established Petty Cash and Change Fund policies and procedures. Since the report was issued, the Finance Department has updated the policy (Finance Administrative Manual Section 5.6)....

See the complete memorandum at Appendix B.

Although the Finance Department implemented the audit report’s recommendation in distributing a memorandum to departments directing compliance with these procedures, we found that although compliance has improved, it is still not complete. As shown in Exhibit 6 above, we found that only

¹ The Department of Parks, Recreation, and Neighborhood Services, the Police Department, and the Fire Department.

three and four petty cash funds in 1999-00 and 2000-01, respectively, were handled in accordance with FAM Procedures Section 5.6.4 and Section 4.0.4.2.7.

The Change Of Custodianship Procedure Has Not Been Performed For Most Funds

We found only three of 19 custodianship changes were performed in accordance with procedures requiring reconciliation between the former and new custodian. Specifically, *“new and former Custodians should separately reconcile and verify the fund prior to submitting the Authorization form.”* The petty cash custodians in most departments stated that while they “sat down and counted” the petty cash funds with the outgoing custodian, they did not document the reconciliations. Most petty cash custodians said they did not perform the Change of Custodianship procedure because they were unclear on the proper procedure and how to document the reconciliation. As a result, only three petty cash funds showed documentation of the fund reconciliation when custodianship changed. An example of one department’s documentation of the fund reconciliation when custodianship changed is shown at Appendix C.

Periodic Spot-Audits Have Not Been Performed For Most Funds

The FAM Procedure 4.0 – Section 4.0.4.2 “General Guidelines for Cash Handling” directs City departments to perform spot-audits in all areas where cash is handled.

Specifically, this section states

7. A department must provide for periodic spot audits of all cash handling locations and field collections. An employee in the department’s administrative fiscal unit could perform such an audit. The results of these audits must be reported to the Department Director. Major exceptions must be reported to the Director of Finance and the City Auditor.

We found that petty cash fund custodians were generally not familiar with this procedure, unsure of the required frequency to spot-audit, and how to document a spot-audit. A spot-audit, unlike an annual fund confirmation, is an “unannounced audit”. Only certain City Hall departments’ funds have been subjected to periodic spot-audits. Specifically, only four of the 27 City Hall department petty cash and change funds we reviewed were subjected to periodic spot-audits in 1999-00 or 2000-01.

As noted above, although the Finance Department distributed a memorandum to City departments directing compliance with the FAM Petty Cash and Change Funds procedure, we found that, although compliance has improved, it is still not complete. In our opinion, the Finance Department should distribute another memorandum specifically addressing compliance with procedures regarding change of fund custodianship and periodic spot-audits.

**Incomplete
Documentation**

In order to obtain a petty cash reimbursement or advance, an employee must complete a Petty Cash Reimbursement form. For each petty cash expenditure, the purpose, charge code, date(s), and supervisor's signature are required on the form and an original sales receipt should be attached. We found that most departments filled out the Petty Cash Reimbursement forms completely. However, three and two City departments omitted the charge number on a significant number of their 1999-00 and 2000-01 Petty Cash Reimbursement forms, respectively. Exhibits 8 and 9 below summarize the results of our review.

**Exhibit 8 Petty Cash Reimbursement Form Information
Analysis For 1999-00**

Department/Office	Total Petty Cash Fund	Replenishment Requests In 1999-00	Amount	Number Of Petty Cash Forms	Forms Lacking Date	Forms Lacking Charge Number	Forms Lacking Supervisor's Signature	Forms Lacking Sales Slip
Attorney	\$1,000	33	\$10,029.97	643	0	2	0	0
City Auditor	700	9	3,031.84	107	0	0	0	0
City Clerk	400	10	1,554.71	51	0	0	0	0
City Council	2,000	11	10,239.91	238	0	0	0	0
City Manager	800	22	7,725.51	226	2	191	0	0
City Mayor	1,000	5	936.90	44	0	0	0	0
Finance-Accounting	400	3	965.00	26	0	0	0	0
Finance-Treasury	500	3	1,035.58	33	0	0	0	0
Finance-Risk Management	200	5	787.00	53	0	0	0	0
Finance-Administration	500	3	1,010.99	21	1	1	1	1
Finance-UBS	200	2	230.48	12	0	0	0	0
Human Resources	1,000	3	1,561.10	46	0	0	0	1
Human Resources	500	6	1,538.37	21	0	0	0	0
Information Technology	1,200	8	4,987.47	99	0	0	0	0
PBCE-Building	500	8	2,753.55	75	0	55	0	0
PBCE-Planning	500	10	3,877.94	128	2	22	0	0
PBCE-Code Enforcement	1,000	11	5,622.60	136	0	0	0	0
Public Works	3,000	21	34,894.46	636	0	1	0	0
Retirement Services	500	7	2,535.42	94	5	87	0	0
1999-2000 Totals	\$15,900	180	\$95,318.80	2,689	10	359	1	2

**Exhibit 9 Petty Cash Reimbursement Form Information
Analysis For 2000-01**

Department/Office	Total Petty Cash Fund	Replenishment Requests In 2000-01	Amount	Number Of Petty Cash Forms	Forms Lacking Date	Forms Lacking Charge Number	Forms Lacking Supervisor's Signature	Forms Lacking Sales Slip
Attorney	\$1,000	31	\$9,619.99	519	0	0	0	1
City Auditor	700	9	3,890.53	124	0	0	0	0
City Clerk	400	9	1,554.21	40	0	0	0	0
City Council	2,000	13	13,301.89	260	0	0	0	0
City Manager	800	30	10,387.26	248	3	177	0	0
City Mayor	1,000	3	2,362.04	76	0	0	0	0
Finance-Accounting	400	2	655.41	13	0	0	0	0
Finance-Treasury	500	4	1,669.74	24	0	0	0	0
Finance-Risk Management	200	4	679.53	33	0	0	0	0
Finance-Administration	500	1	448.13	15	0	0	0	0
Finance-UBS	200	1	14.81	2	0	0	0	0
Human Resources	1,000	4	1,534.85	51	0	2	2	0
Human Resources	500	3	1,077.01	12	0	0	0	0
Information Technology	1,200	4	2,550.38	43	0	0	0	0
PBCE-Building	1,000	4	2,414.12	53	0	4	0	0
PBCE-Planning	1,000	7	4,845.64	129	0	2	0	2
PBCE-Code Enforcement	1,000	7	4,901.47	141	0	0	0	0
Public Works	3,000	25	36,660.97	812	0	2	0	0
Retirement Services	500	5	2,109.37	65	0	61	0	0
2000-2001 Totals	\$16,900	166	\$100,677.35	2,660	3	248	2	3
Two-Year Totals		346	\$195,996.15	5,349	13	607	3	5

Our review of Petty Cash Reimbursement forms City Hall departments completed in 1999-00 and 2000-01 proved that most departments filled out the forms completely. However, we also found instances where required documentation was incomplete. In our opinion, the Finance Department should ensure that City Hall departments properly record all required information on the Petty Cash Reimbursement forms in accordance with City of San Jose petty cash procedures.

Requests For Replenishment Of Some Departments' Petty Cash Funds Have Not Been Timely

The petty cash procedure to request replenishment of petty cash funds states that replenishment should be requested before the fund is approximately 75 percent expended. Specifically, according to the FAM Petty Cash and Change Funds procedure, Section 5.6 - Reimbursement of Petty Cash Fund:

“When the fund is approximately 75% expended, Custodians shall:

- *Reconcile disbursements, outstanding cash advances and cash remaining in the fund to the authorized petty cash fund limit.”*

We reviewed the documentation City Hall departments submitted to request petty cash fund replenishment during 1999-00 and 2000-01. We found that City Hall departments did not always request replenishment of the petty cash funds in accordance with procedures. Exhibits 10 and 11 show our analysis of the timeliness of City Hall departments' requests for 1999-00 and 2000-01.

**Exhibit 10 Summary Of City Hall Departments' Compliance
With The Petty Cash Fund Replenishment Request
Procedure During 1999-00**

Department/Office	Total Petty Cash Fund	Number Of Replenishment Requests In 1999-00	Amounts Requested In 1999-00	Number Of Times The Petty Cash Fund Was More Than 75% Expended	Percent Of Petty Cash Expended When In Excess Of 75%
Attorney	\$1,000	33	\$10,029.97	1	88%
City Auditor	700	9	3,031.84	0	
City Clerk	400	10	1,554.71	0	
City Council	2,000	11	10,239.91	1	76
City Manager	800	22	7,725.51	1	79
City Mayor	1,000	5	936.90	0	
Finance-Accounting	400	3	965.00	2	84, 94
Finance-Treasury	500	3	1,035.58	1	78
Finance-Risk Management	200	5	787.00	3	81,77,87
Finance-Administration	500	3	1,010.99	2	88,100
Finance-UBS	200	2	230.48	1	79
Human Resources	1,000	3	1,561.10	0	
Human Resources	500	6	1,538.37	0	
Information Technology	1,200	8	4,987.47	0	
PBCE-Building	500	8	2,753.55	1	82
PBCE-Planning	500	10	3,877.94	5	88,96,98,79,95
PBCE-Code Enforcement	1,000	11	5,622.60	1	100 ²
Public Works	3,000	21	34,894.46	1	77
Retirement Services	500	7	2,535.42	2	93,89
1999-2000 Totals	\$15,900	180	\$95,318.80	22	

² This fund was 100% expended because the petty cash box containing \$934.25 was stolen. See Petty Cash Shortages Reported in 1999-00 and 2000-01, page 7 of this report.

Exhibit 11 Summary Of City Hall Departments' Compliance With The Petty Cash Fund Replenishment Request Procedure During 2000-01

Department/Office	Total Petty Cash Fund	Number Of Replenishment Requests In 2000-01	Amounts Requested In 2000-01	Number Of Times The Petty Cash Fund Was More Than 75% Expended	Percent Of Petty Cash Expended When In Excess Of 75%
Attorney	\$1,000	31	\$9,619.99	0	
City Auditor	700	9	3,890.53	1	83%
City Clerk	400	9	1,554.21	0	
City Council	2,000	13	13,301.89	0	
City Manager	800	30	10,387.26	1	80
City Mayor	1,000	3	2,362.04	2	100, 93
Finance-Accounting	400	2	655.41	2	79, 85
Finance-Treasury	500	4	1,669.74	3	77,92,98
Finance-Risk Management	200	4	679.53	3	100, 82,84
Finance-Administration	500	1	448.13	1	90
Finance-UBS	200	1	14.81	0	
Human Resources	1,000	4	1,534.85	0	
Human Resources	500	3	1,077.01	2	82, 85
Information Technology	1,200	4	2,550.38	0	
PBCE-Building	1,000	4	2,414.12	2	92,91
PBCE-Planning	1,000	7	4,845.64	4	84,86,83,80
PBCE-Code Enforcement	1,000	7	4,901.47	3	95,81,91
Public Works	3,000	25	36,660.97	1	84
Retirement Services	500	5	2,109.37	3	90, 88,99
2000-2001 Totals	\$16,900	166	\$100,677.35	28	
Two-Year Totals		346	\$195,996.15	50	

As Exhibits 10 and 11 show, in several cases in 1999-00 and 2000-01, City Hall departments did not request petty cash replenishment before the fund was approximately 75% expended. In our opinion, the Finance Department should ensure that City Hall departments adhere to the Petty Cash and Change Fund procedures regarding fund replenishment. Specifically, departments should request timely replenishment for petty cash funds, before the petty cash fund is no more than approximately 75 percent expended. By so doing, City Hall departments will maintain petty cash fund balances sufficient for petty cash purchases and advances and employees will have access to petty cash and change funds when needed.

We recommend that the Finance Department:

Recommendation #1:

Distribute a memorandum to all City departments specifically directing compliance with the FAM procedures to:

- **document that a fund reconciliation was performed whenever fund custodianship changes;**
- **periodically spot-audit all cash funds;**
- **ensure that all required information is properly recorded on the Petty Cash Reimbursement forms; and**
- **replenish their petty cash funds before they are approximately 75 percent expended. (Priority 3)**

CONCLUSION

We found that City Hall departments are generally in compliance with City of San Jose procedures regarding Petty Cash and Change Funds. In general, we found compliance regarding physical security of funds, custodianship and transaction documentation, and filing annual petty cash and change fund memoranda with the Finance Department. However, we noted some noncompliances with procedures during our review. Specifically, we found the following:

- although the Finance Department implemented a prior audit report's recommendation to distribute a memorandum directing that departments comply with the Financial Administrative Manual (FAM) Petty Cash and Change Funds procedure, most City Hall departments are still not complying with specific procedures to (1) document the fund reconciliation when there is a change of custodianship and (2) periodically spot-audit all cash funds;
- three departments in 1999-00 and two departments in 2000-01 omitted the required charge account number from a significant number of their Petty Cash Reimbursement forms; and
- 16 funds' petty cash replenishment requests were not always timely.

In our opinion, the Finance Department should distribute a memorandum to all City departments specifically directing compliance with the FAM procedures to 1) document that a fund reconciliation was performed whenever fund custodianship changes, (2) periodically spot-audit all cash funds, (3) ensure that all required information is properly recorded on the Petty Cash Reimbursement forms, and (4) replenish their petty cash funds in accordance with procedures before they are approximately 75 percent expended. By so doing, internal controls over the funds will be improved, security over the City's assets will be strengthened, and petty cash and change funds will be available when employees need to use them.

RECOMMENDATION

We recommend that the Finance Department:

Recommendation #1

Distribute a memorandum to all City departments specifically directing compliance with the FAM procedures to:

- **document that a fund reconciliation was performed whenever fund custodianship changes;**
- **periodically spot-audit all cash funds;**
- **ensure that all required information is properly recorded on the Petty Cash Reimbursement forms; and**
- **replenish their petty cash funds before they are approximately 75 percent expended. (Priority 3)**