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**April 14, 2016**

**Petty Cash Audit**  
**Executive Summary**

**BACKGROUND**

This Petty Cash Audit Executive Summary covers petty cash held countywide. The findings for all departments/offices have been consolidated into this executive summary in a generic fashion (i.e., excluding specific locations and amounts) for publication. Individual department/office reports will not be published, but the specific department/office findings have been communicated to the department heads/elected officials. Similarly, the management responses are a combination of all departments/offices impacted by the audit finding. Our office will continue to follow up with each department/office on the status of the audit points.

The audit covers petty cash and cash change funds/cash drawers. Petty cash is for immaterial expenses where it is impractical to process an accounts payable check or use a procurement card. A cash change fund/cash drawer is used to make change where money is collected during business transactions. Hereafter, the term “petty cash” refers to actual petty cash as well as the cash change funds/cash drawers.

Petty cash policies and procedures are adopted and approved by the Kane County (County) Board. The current petty cash policy is resolution number 02-221. The following are pertinent points from the current resolution:

- Petty cash has been established to pay disbursements for incidental department/office expenditures and pay disbursements for recurring department/office expenditures.
- Department/office petty cash policies and procedures are to be followed when starting, administering and ending the use of petty cash funds for small incidental cash purchases.
- The County’s policy is to create petty cash for a department/office when appropriate to improve operations based on providing availability of cash for small purchases of products and services where it is not practical or efficient to make the purchase through the normal process of a purchase order.

- When a department/office determines the need to establish petty cash, a resolution request providing justification of the petty cash account along with the amount requested, and designation of the custodian in charge should be submitted to the department/office's applicable committee, then moved to the Finance/Budget Committee.
- The petty cash balance is to be \$500 or less, unless approval for a larger amount has been obtained from the County Board.
- Petty cash should be maintained in a locked box or safe. Secure storage in a locked cabinet or safe is ideal for during and after business hours. Keys to the cash box must be restricted to the custodian and/or backup custodian.

## **SCOPE AND TESTING**

To locate all petty cash, we obtained a listing from the Finance Department and reached out to each of the departments/offices for a list of any cash maintained. The Finance Department defines petty cash as all accounts reimbursed through personal expense vouchers (PEV's,) including some off balance sheet checking accounts.

As of June 30, 2015, the County listed 45 petty cash accounts (15 petty cash and 30 cash change/drawer.) The accounts are maintained by 14 departments/offices throughout the County.

Our audit included a review of petty cash regarding the compliance with County Board policies and procedures, adequacy of the funds and documentation in support of expenditures. More specifically, the audit procedures included:

- Unscheduled visits to departments/offices with petty cash.
- Review of receipts and cash on hand which were cross referenced to actual balances recorded in the New World System (NWS).
- Verification and review of the handling of the petty cash for compliance with procedures, adequacy of the balance and documentation in support of expenditures.
- Review of security and custodian handling procedures for the safety of the petty cash.
- Review of the best practices in handling petty cash with custodian/backup custodian.

## FINDINGS/RECOMMENDATIONS

**Recommendation 1** - The audit review revealed several unreported petty cash amounts in various departments/offices. Also noted that some departments/offices closed their petty cash accounts, merged petty cash accounts or supported their petty cash accounts with off balance sheet accounts without notifying the Finance Department of such changes. **Recommend that departments/offices follow the guidelines set forth in the resolution when establishing any type of petty cash account and notify the Finance Department whenever a petty cash account is established, merged or closed within their department/office.** Finance will ensure that the account has been properly authorized by the proper committee per policy.

**Management Response** – The Finance Department has followed up with several departments/offices that have closed out their petty cash in order for Finance to update the balances in NWS.

**Recommendation 2** - Some accounts are lacking segregation of duties and/or controls over (1) the start and end cash count and (2) procedures for reporting cash overages/shortages. Without proper segregation of duties, internal controls can be compromised and the possibility for undetected cash errors or misappropriations increases significantly. Segregation of duties supports compliance with County Board petty cash policies and procedures. **Recommend that management segregate as many duties as possible in the cash receipt, cash disbursement and reconciliation process.** If adequate segregation of duties cannot be achieved given current staffing levels, management must document this rationalization and closely monitor these functions to ensure that the internal control vulnerabilities are minimized. An example of segregation of duties is having one person prepare the account reconciliation and another individual approve the reconciliation. **Recommend a timely cash reconciliation process be implemented with the proper support for cash variances.** If any cash differences exist, the cash differences should be immediately investigated and resolved with proper support. The department/office should work with the Finance Department to adjust the actual balance of the account.

**Management Response** - Departments/offices with overages/shortages will implement updated procedures and policies to reconcile differences in balances.

**Recommendation 3** - There are a few petty cash accounts that have no reported activity during the review period. **Recommend follow-up discussions within the departments/offices to determine the necessity of the petty cash account(s) and communication to the Finance Department if the account(s) is closed.**

**Management Response** – Upon future petty cash audits, a review as to the necessity of a petty cash account will be determined for each department/office.

**Recommendation 4** - There are some petty cash accounts with no assigned backup custodian. **Recommend assigning a backup custodian.**

**Management Response** – Departments/offices are in agreement to have an assigned custodian backup.

**Recommendation 5** – In some instances, expenses incurred in the petty cash account had not been processed in a timely manner through PEV reimbursement. Failure to process a PEV to reimburse the petty cash account results in the petty cash account not being replenished and the expenses not being recorded in NWS. **Recommend preparing a timely PEV to reimburse petty cash.**

**Management Response** – No response provided at this time.

**Recommendation 6** - Analysis of several petty cash accounts which operate exclusively as cash change/drawer accounts for patron purchases showed higher ending balances than amounts recorded to Finance Department. **Recommend that regular deposits be made to the Treasurer's Office to maintain the recommended balance.** Unnecessary cash is at an increased risk for safety and misappropriation.

**Management Response** – Of the responding departments/offices, these departments/offices have agreed to deposit amounts over the recommended balance to the Treasury in a more timely manner.

**Recommendation 7** - Our petty cash review reported that some departments/offices are using their account primarily for the reimbursement of employee mileage through a petty cash PEV. Per Kane County Financial policy regarding travel:

*With prior supervisor approval, employee travel on county business by private auto is reimbursable at the IRS mileage rate which is communicated to employees by the County Auditor. Mileage allowance is to compensate traveler for gas, oil, insurance and normal vehicle operating expenses. There is no mileage reimbursement for the trip from home to each employee's assigned workplace, which is defined as*

*commutation mileage. When the duties of the employee require travel from the employee's primary worksite to another worksite, mileage driven in private auto will be reimbursed at the internal revenue service rate. Travelers attending the same conference should carpool. County vehicles should be used whenever possible. Only reimbursement for out of pocket expenses when a private vehicle is used. Travelers using their personal vehicle must carry auto insurance equivalent to that maintained on county vehicles and must show evidence that their policy is in force.*

In order to have a permanent record in the County's financial system of the employee's reimbursement as well as standard, documented approvals, **recommend employee mileage reimbursement be processed through a PEV submitted by the employee.**

**Management Response** – Departments/offices will implement a PEV process for submission of mileage reimbursement.

**Recommendation 8** – Supporting receipts for petty cash reimbursements contained charges for sales tax. **Recommend that the County sales tax exempt letter be provided to employees shopping for department/office purchases with petty cash.**

**Management Response** – Departments/offices will ensure that the sales tax exempt letter is available and provided to employees when making County purchases.

**Recommendation 9** – The current petty cash policy has not been updated since 2002. **Recommend that an amended resolution be presented to the County Board to update current petty cash policies and procedures. The updated policy should address such updates as.... Periodic review of the Board of existing accounts and balances to ensure compliance with policy authorization. Finance should also evaluate how best to accumulate policies such as these (i.e., not included in detail in the County financial policies) for easy reference.**

**Management Response** – The Finance Department has provided the Auditor's Office with a draft resolution of Departmental Cash Drawer Policies and Procedures.

**Recommendation 10** – Due to custodian turnover and/or low volume of transactions in petty cash accounts, **recommend periodic training sessions for departments/offices with petty cash accounts to refresh department/office heads and custodians on County Board policies and procedures.**

**Management Response** – The Finance Department is working with the Auditor’s Office in providing periodic refresher training to departments/offices.

We would like to express our appreciation to all the departments/offices for their cooperation and generous assistance provided during their audit.

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "Terry Hunt".

Terry Hunt – Kane County Auditor

A handwritten signature in cursive script, appearing to read "Margaret Todd-Cave".

Margaret Todd-Cave – Staff Auditor