





Audit Report
Summary of Limited Scope Audits
Citywide Petty Cash/Change Funds
and
Scrap Metal Sales
June 27, 2018

City Auditor's Office
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Purpose and Scope

This report summarizes two separate, Limited Scope Audits (LSAs), which addressed narrowly defined issues.

-  Citywide Petty Cash and Change Funds – the audit addressed internal controls over petty cash and change funds, as well as their FY17 activity. Recommendations were provided to M&FS in February.
-  Scrap Metal Sales – the audit addressed procedures for recording sales of scrap metal in the Management & Financial Services, Water, and Transportation departments. Recommendations have been provided and are being implemented, with one exception.

We conducted these performance audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This report is intended for the use of the City Manager's Office, City Council, and all City departments.

Actions Taken and Planned

Audit recommendations are being addressed, with the effect of improving internal controls. Specifically:

- Petty Cash and Change Funds – Treasury has improved the procedures for sending and compiling annual fund confirmations from department custodians. Treasury has confirmed each fund's balance after a lapse of five months. Management & Financial Services (M&FS) staff agrees the Petty Cash Funds policy should be updated to better reflect current documentation requirements.
- Scrap Metal Sales – More detailed recording on the City's general ledger of sales is recommended. M&FS and Transportation agreed to have the City's general ledger include the detailed pick-up location, while Charlotte Water did not agree to the control, accepting the risk of possible loss, after considering the relatively minor amount of the revenue involved. Also, the M&FS, Water and Transportation departments agreed to require pick-up tickets from recycling companies.

Petty Cash and Change Funds

As addressed in the Petty Cash Funds policy (MFS 2), the City uses petty cash to pay for small expenses where it would be impractical to use the normal accounts payable process. Change funds are considered a type of Petty Cash, and are governed by the same policy. However, change funds are used solely to make change, not to pay or reimburse for expenses incurred. The Treasury division of M&FS is the City-wide administrator of these funds. Treasury maintains a master listing of all such funds, which must be verified annually.

- Petty Cash (for expenses) – At June 30, 2017, the City had 23 authorized petty cash funds totaling \$50,855. The petty cash custodians of each fund are assigned a unique vendor number to distinguish fund replenishments from normal employee expense reimbursements.
- Change Funds – At June 30, 2017, the City had 13 such funds, totaling \$84,495.

Auditors reviewed internal controls and verified the amounts on hand for selected funds. Department funding levels and the business use of petty cash were evaluated for adherence with City policies.

The Petty Cash Funds policy states “Expenditures to be reimbursed must be substantiated by an invoice, receipt, or other appropriate documentation.” Additionally, the Employee Travel and Reimbursements policy (MFS 18) requires that meal reimbursement requests include an approved Employee Reimbursement Form for Business Expense. Most meal reimbursements do not flow through petty cash, but the policy requiring documentation applies regardless.

Results

Auditors conducted site visits at 11 petty cash and four change fund locations, noting that physical access controls were adequate. Cash balances were verified as matching authorized amounts.

Documentation was found to be deficient, with numerous instances of missing or illegible receipts. Many receipts did not have required itemization and several meal purchases lacked any documentation. These deficiencies prevented reviewers from reviewing the business purpose and policy compliance of transactions.

During the audit period, the annual confirmation of balances had lapsed by five months. Treasury took corrective action during the audit.

Recommendations

1. The Petty Cash Funds policy should be updated to emphasize documentation requirements consistent with other City policies and to require meal reimbursements not exceed the GSA meal rate.

2. Treasury should verify fund balances annually, as required. As a part of this process, Custodians should be reminded to maintain legible documentation for all transactions.

Responses

1. M&FS concurs. The policy will be updated in FY19.
2. M&FS agrees. Appropriate procedural changes have been made to ensure fund balances are verified annually.

Scrap Metal Sales

Many City operations generate scrap metal, such as metal piping and guard railing. These operations include at least 25 shops within Water, Transportation and Management & Financial Services/Fleet Management.

Several metal recycling companies are used by the City to remove scrap metal. The companies pick up from various locations and send a check according to their individual agreements. (The agreements are informal; no contracts have been executed for these services.) The City collects an average of about \$34,000 per year in scrap metal sales revenue.

The City's Asset Recovery and Disposal Division (ARD), a division of Management and Financial Services/Finance/Procurement, coordinates the metal sales/recycling program. ARD receives the checks and makes deposits with a Department Cash Report to the Finance/Revenue Division.

Conclusion and Recommendations

While the amount of City revenues is low, the risk has long been recognized that scrap metal can be diverted for personal gain. That is, an employee can arrange to be personally paid for providing access to City scrap. (An incident over a decade ago – investigated and dealt with – involved an employee who received cash from a metal recycling company.) After our review of the general ledger (G/L) revenue activity and discussion of the program with ARD management, the following observations are noted, with accompanying recommendations:

- The entry made on the G/L for the deposits did not provide pickup location detail. The department was indicated, but not the particular shop. Each deposit should be recorded on the G/L to show the specific shop that generated the scrap metal sales revenue. That will allow reference to the G/L to readily determine the amounts and frequency of sales at each shop. There is an unused location field available in the Munis G/L package.
- The recycling companies should leave a ticket at shops when a pickup is made. The ticket would serve as a record of the pickup for later use in assuring a check was received.

- The ARD receives a report from the recycling company with the deposit check. The report shows detail of the locations and weights that were picked up. The report can be submitted with the deposit so it can be recorded and viewed on the G/L. Review of the report will help assure all pickups are accounted for in the deposit.

Responses

Management & Financial Services: Concurs with implementing the above recommendations.

Charlotte Department of Transportation: Concurs with implementing the above recommendations.

Charlotte Water: Concurs with implementing the last two of the above recommendations. For the first, Water opts to rely on other control procedures it presently utilizes.

- ✚ Internal Audit notes that the general ledger option recommended can be implemented at any time in the future should automated totals by location be desired. Water's adoption of two recommended actions is sufficient at this time.