

COUNCIL AUDITOR'S OFFICE

PROCEDURES SURROUNDING CITY IMPREST ACCOUNTS



Audit Conclusion

Based on the work performed, it appears that there is a structure in place to enable the imprest accounts to operate in a controlled environment; however, there are several improvements that need to be made to assist in ensuring a more secure environment. Specifically, we noted the following:

- a. Treasury is not monitoring the accounts to determine need for the imprest accounts and whether they need to remain open.
- b. Treasury was not adequately reviewing the paperwork filed by the departments documenting the reconciler and custodian. Specifically, we noted one instance where the custodian and reconciler were listed as the same employee.
- c. Treasury needs to be in contact with the departments on a more regular basis to ensure paperwork is being properly updated.
- d. There are improvements that should be made to the Treasury forms that would enhance the internal control environment surrounding the imprest accounts.
- e. Treasury needs to improve the record retention process surrounding Treasury authorization forms and the bank confirmations that substantiate the accounts are established in compliance with subsection 280.16 (1)(c) of the Florida Statutes.
- f. Treasury needs to update the Standard Procedures Manual for Imprest/Petty Cash Funds.

We performed a series of audits of imprest checking accounts located throughout the City. While performing these audits, we determined that there were overall issues that needed to be addressed by the City's Finance Department concerning the process for authorizing and monitoring these accounts. Therefore, we decided to issue this report specifically aimed at the overall internal control environment governing imprest accounts.

Imprest checking accounts are utilized to assist with the purchase of low priced items that are needed immediately and when it is not cost effective (and/or feasible) to issue a check in a normal manner. The imprest checking accounts are meant to assist and not circumvent the City's procurement and accounting code policies.

There are two divisions within the Finance Department that are involved with the monitoring of imprest accounts. The Treasury Division is tasked with approving imprest accounts, establishing applicable guidelines, and coordinating changes in authorized personnel on the account with the bank. The Accounting Division is tasked with reviewing the replenishment requests and authorizing them for reimbursement.

List of Previous Imprest Audits

1. Miscellaneous Bank Accounts - #698
2. Housing and Neighborhoods Department - #705

Procedures Surrounding City Imprest Accounts

April 25, 2011

Report #706

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AUDIT REPORT #706

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OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



April 25, 2011

Report #706

Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we examined the overall controls in place for the various imprest checking accounts that are maintained throughout the City Government.

We performed a series of audits of imprest accounts located throughout the City. While performing these audits, we determined that there were issues that needed to be addressed with the process behind authorizing and monitoring these accounts by the City's Finance Department. Therefore, we are issuing this report specifically aimed at the overall internal control environment governing imprest accounts.

There are two divisions within the Finance Department that are involved with the monitoring of imprest accounts. The Treasury Division is tasked with approving imprest accounts, establishing applicable guidelines, and coordinating changes in authorized personnel on the account with the bank. The Accounting Division is tasked with reviewing the replenishment requests and authorizing them for reimbursement.

Pursuant to City policy, imprest checking accounts are utilized to assist with the purchase of low priced items that are needed immediately and when it is not cost effective (and/or feasible) to issue a check in a normal manner. The imprest checking accounts are meant to assist and not circumvent the City's procurement and accounting code policies. Replenishment requests are reviewed by the City's Accounting Division prior to the replenishment being processed.

STATEMENT OF OBJECTIVE

The objective of the audit was to determine whether the City's Finance Department has sufficient controls in place surrounding the operation of the City's imprest accounts.

STATEMENT OF SCOPE AND METHODOLOGY

The scope of our audit was October 1, 2009 through September 30, 2010. To complete the audit, we conducted interviews with applicable personnel and performed the needed steps to ensure that we could draw a conclusion on our objective of the audit. Specifically, we:

- Obtained a listing from the City's Treasury Division of all City imprest checking accounts.
- Reviewed supporting documentation on file with the Treasury Division relating to the custodian, authorized signers, reconcilers and authorized amounts for the imprest checking accounts throughout the City.
- Conducted audits of the operations of various imprest accounts throughout the City. During our fieldwork, we:
 - Reviewed bank reconciliations.
 - Re-performed selected bank reconciliations.
 - Reviewed the process to issue checks from the accounts.
 - Obtained an understanding of the duties performed by the authorized signers, custodians and reconcilers of the account.
 - Reviewed support for disbursements from the accounts.

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objectives. Internal control is a process implemented by management to provide reasonable assurance that they achieve their objectives in relation to the effectiveness and efficiency of operations and compliance with applicable laws and regulations. An Internal Control Weakness is therefore defined as either a defect in the design or operation of the internal controls or is an area in which there are currently no internal controls in place to ensure that objectives are met. An Audit Finding is an instance where management has established internal controls and procedures, but responsible parties are not operating in compliance with the established controls and procedures. An Opportunity for Improvement is a suggestion that we believe could enhance operations.

Suggested Additional Audit Work

In limiting the scope of this audit, we did not pursue the following areas, and as such they should be considered for future audit work:

- The controls surrounding electronic funds transfers.
- A review of the overall controls that apply to petty cash and change funds, which are separate from the imprest checking accounts.

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit 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.

AUDITEE RESPONSES

Responses from the auditee have been inserted after the respective finding and recommendation. We received these responses from C. Ronald Belton, Chief Financial Officer, on October 14, 2011.

AUDIT CONCLUSION

Based on the work performed, it appears that there is a structure in place to enable the imprest accounts to operate in a controlled environment; however, there are several improvements that need to be made to assist in ensuring a more secure environment.

AUDIT OBJECTIVE #1

The objective of the audit was to determine whether the City's Finance Department has sufficient controls in place surrounding the operation of the City's imprest accounts.

Finding 1 – 1 *Issues with Reconciler and Custodian*

Per the paperwork on file with Treasury, the assigned reconciler and custodian of one of the imprest accounts was the same employee. Per City policy, the reconciler and custodian of an imprest account are not to be the same employee. Allowing the same employee to do both activities is a violation of basic segregation of duties.

Additionally, while performing our testing it became apparent that many of the employees in the departments were unsure of their responsibilities and how to properly perform the assigned function.

Recommendation to Finding 1 – 1

We recommend that:

- Treasury review the forms filed with their office regarding authorized signers, custodians, and reconcilers to ensure there are no violations of basic segregation of duties. If due to the limited number of personnel in an area these duties cannot be properly separated, Treasury should document in the file why this was allowed and what steps were taken to mitigate possible risks.
- Treasury add to the standard procedure manual a detailed account of the duties of the reconcilers, custodians and authorized signers on the imprest accounts. Treasury should

include information as to why it is important for these duties to be performed by different employees so that everyone understands why their role is important to the control structure.

- Each employee be required to sign-off that they have read and understand the standard procedure manual. Treasury should provide training of employees when they are first assigned to the various roles related to the imprest account.

Finance Department's Response to Finding 1 – 1

Agree Disagree Partially Agree

Treasury routinely reviews requests for Imprest/Petty Cash Account forms both initial request and change forms to insure segregation of duties between Fund Custodian and Reconciler. In the future Treasury will provide written documentation to any exceptions or unusual circumstances and include the separation of Signatories as well as Reconcilers from Fund Custodian in that review.

Treasury is currently in the process of updating the procedure manual for imprest accounts to include Reconciler and Check Signer functions and responsibilities along with the importance of separate functions and review. The Imprest/Petty Cash fund request and change forms have been updated to include an acknowledgement of reading and understanding Treasury's policies and procedures along with the responsibility that accrues to the assigned function.

Internal Control Weakness 1 – 1 *Lack of Periodic Monitoring of Accounts*

There are multiple accounts that we noticed during our audit with limited to no activity. The Treasury Division is not reviewing the accounts periodically to determine whether or not accounts need to be closed due to reduced usage over time. There is a risk of theft of public funds by allowing these accounts to remain open.

Other negative effects of not monitoring the accounts include one account actually operating as a checking account rather than an imprest account and other accounts not having monthly reconciliations. Both of these conditions result in the City being vulnerable to unneeded risk.

Recommendations to Internal Control Weakness 1 – 1

Treasury should review all imprest accounts once every year to determine whether the activity level in the account supports the authorized amount and whether or not the account should remain open. At the same time, the Finance Department should verify that the account is operating as intended.

Finance Department's Response to Internal Control Weakness 1 – 1

Agree Disagree Partially Agree

Treasury will institute a procedure to review the Imprest Checking Account statement for activity levels to determine status and funding levels. The Accounting Division will continue to review the reimbursement request for appropriate expenditures as directed in the Policy Statement and by reference, City Procurement Rules.

Internal Control Weakness 1 – 2 *Outdated Authorization Forms*

The Treasury Division is in charge of coordinating changes in authorized bank signature forms with the bank. Under the current system, it is the responsibility of the department to notify Treasury of changes; therefore, Treasury only knows changes need to occur when the department contacts them. This means that if the department fails to notify Treasury that a change needs to occur, it can be years before the bank signature forms are properly updated with the bank after an authorized signer leaves the employment of the City or moves to another function within the City government. During our audits of the imprest accounts, we noted instances where the bank signature cards were not being properly updated.

Furthermore, for some of the imprest accounts Treasury did not have any authorization forms on file. The only information that we could obtain related to authorized signers was from the bank.

Recommendations to Internal Control Weakness 1 – 2

Treasury needs to implement a proactive approach to the updating of the bank signature forms. To ensure that this information is accurately maintained, the Treasury Division should require the department to file the authorized user form with Treasury annually. Treasury could then compare this to the bank signature forms and determine whether any updating needs to occur. There will still be a risk of not being notified of a change that occurs within the year, but the recommendation from Finding 1-1 requiring employees to sign-off acknowledging their responsibilities should mitigate the issue.

The updating of the authorization forms annually should assist in the record keeping of these accounts. In addition, Treasury needs to determine if there is anything else that can be done to improve the process surrounding the filing and retaining of these records.

Finance Department's Response to Internal Control Weakness 1 – 2

Agree Disagree Partially Agree

Treasury has been polling account holders of record every two years for confirmation of Fund Custodians and Reconcilers. This electronic polling procedure will be increased in frequency to annually and expanded to include Check signers. Responses will be reviewed for any changes. Any departments that fail to respond or that report any changes will be required to submit the appropriate forms and documentation to affect the necessary changes to bank signature forms.

Internal Control Weakness 1 – 3 *Updating Policies for Imprest/Petty Cash Funds*

The City’s Standard Procedures Manual for Imprest/Petty Cash Funds has not been updated since July 2000. There is a policy in this manual stating that the City will purchase specific position treasury bonds to cover custodians responsible for imprest funds. The City has since changed its approach to this matter and currently purchases and maintains a blanket fidelity bond to cover employees. There is also a policy in the manual stating that single day travel reimbursement is an approved expenditure with the correct supporting documentation. There appears to be no reason why all travel is not processed through the Accounting Division via a check request. These are just two examples which indicate that the policy and procedure manual for imprest/petty cash funds needs to be updated.

Recommendations to Internal Control Weakness 1 – 3

Treasury should review the standard procedures manual for imprest/petty cash funds to see what aspects should be updated, added or removed.

Finance Department’s Response to Internal Control Weakness 1 – 3

Agree Disagree Partially Agree

The Imprest/Petty Cash policy is currently under revision to include changes and to expand on sections of responsibilities and actions required of assigned functions for Imprest/Petty Cash funds.

Opportunity for Improvement 1 – 1 *Improvements to the Authorization Forms*

The form establishing the custodian, reconciler, and authorized signers does not require the reconciler to sign the form acknowledging that they are being tasked with this duty. Additionally, the current authorized amount for the account is not listed on the form either. The employees should acknowledge duties and the authorized amount when taking any responsibility related to the account.

Recommendations to Opportunity for Improvement 1 – 1

The form should be re-formatted so that there is a space for the reconciler to sign off and also a place to fill in the authorized amount.

Finance Department’s Response to Opportunity for Improvement 1 – 1

Agree Disagree Partially Agree

The above suggested format changes have been made to the Request to Establish and the Request to Change Imprest/Petty Cash Fund forms. The new updated forms are waiting to be posted to the Portal at this time.

Opportunity for Improvement 1 – 2 *Issue with Record Keeping*

Florida Statutes Subsection 280.16 (1)(c) requires that each bank annually send a confirmation to public depositors recognizing each account identified as a Florida public deposit account. This confirmation provides proof of the protection of funds on deposit beyond that of the Federal Deposit Insurance Corporation (FDIC) by the Bureau of Collateral Management, an office of the State of Florida’s Division of Treasury. The City’s Treasury Division does not retain copies of the annual confirmation from the bank. If any of these imprest accounts is over the FDIC threshold and not protected by F.S. 280.16 (1)(c), the City would be at risk to lose the funds in excess of the FDIC threshold if there was a bank failure.

Recommendations to Opportunity for Improvement 1 – 2

Treasury should maintain a file of all of the confirmation forms required by Chapter 280. This should be added to the City’s Standard Procedures Manual for Imprest/Petty Cash Funds.

Finance Department’s Response to Opportunity for Improvement 1 – 2

Agree Disagree Partially Agree

Treasury maintains the Chapter 280, Qualified Public Depositor account forms that are current through 9/30/2010 and are in the process of being updated for new accounts through 9/30/2011. Annual confirmations from Wachovia/Wells Fargo are submitted and maintained electronically. Wachovia/Wells Fargo is a Qualified Depository for the State of Florida thus insuring that all City of Jacksonville accounts are appropriately reported as Governmental accounts.

Opportunity for Improvement 1 – 3 *Electronic Funds Transfer in Lieu of Checks*

Under the current practice, the Accounting Division issues a check made payable to the account custodian to replenish the imprest checking accounts. These checks have to be picked up by an employee and then taken to the bank for deposit. The City could be more efficient by making these payments via an electronic funds transfer.

Recommendations to Opportunity for Improvement 1 – 3

The City should replenish imprest checking accounts via electronic funds transfers.

Finance Department’s Response to Opportunity for Improvement 1 – 3

Agree Disagree Partially Agree

Treasury will submit the ACH request form to Accounting Division to convert Imprest/PettyCash fund replenishment vendor to ACH payment type. A notification of the change of payment type will be sent to the Fund Custodians when this change is activated by the Accounting Division.

We appreciate the assistance and cooperation we received from the City's Finance Department throughout the course of this audit.

Respectfully submitted,

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Council Auditor

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