



METRO

PETTY CASH CONTROLS & ANALYSIS (21-05)

Terry Follmer, VP of Internal Audit

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Executive Summary

The Petty Cash Fund Process Review project was added to the Fiscal Year 2021 Internal Audit Plan at the request of management. We performed an audit of the petty cash process to evaluate the efficiency and effectiveness of internal controls and to ensure the completeness and accuracy of the records, and compliance with applicable policies/procedures. The audit results, including the objective, scope, and conclusion, are as follows.

Background

The petty cash fund is used by employees of Capital Metro to be reimbursed for various small purchases (e.g. parking, supplies, etc.) that would otherwise not be convenient or possible using a Purchasing Card or Accounts Payable check. We analyzed the petty cash transactions for the last three years and noted there was about 72 transactions per year with the median reimbursement at \$28, with the smallest and largest amounts being \$1.96 and \$119.56, respectively. Additional analysis of the types and frequency of transactions can be found in Appendix 2, on pages 5 to 8 of this report. Currently, the custodian of the fund, Jose Sanchez, maintains a locked box of cash in his office within the Accounting Department which serves as the petty cash fund.

The current process is completely manual and time-consuming for both for the custodian and employees seeking reimbursement. To request reimbursement from the petty cash fund, an employee obtains and completes the request for reimbursement via the Petty Cash Request form and attaches the original receipt. In order to receive reimbursement, employees must physically travel to the 2910 office of the fund custodian to submit their documentation and receive cash reimbursement. Assuming the custodian approves the petty cash request, the employee receives reimbursement in cash. When the outstanding currency in the box drops to a balance of around \$100, the custodian submits a Check Request form to Accounts Payable to replenish the fund. A check will then be printed in the name of the custodian to restore the imprest fund balance back to the \$500 target amount. The custodian must travel to the bank to cash the check and this currency will be added to the cash box. The complete process flowchart can be found in Appendix 1 on page 4.

Audit Objective & Scope

The primary objective of this audit was to assess the design adequacy and operating effectiveness of the controls surrounding the petty cash process. Additionally, we were tasked to develop recommendations to make the process more efficient and transparent, including potential automation options. The scope included completing a flowchart of the process, performing data analytics of past transactions, and interviewing various personnel involved in the process.

Opinion

In our opinion the internal controls related to petty cash are adequate and are functioning as intended. Our surprise petty cash count showed that the process was operating effectively and there was no variance between the target imprest fund balance of \$500 and the sum of the receipts and currency. However, we did identify opportunities to make the process more efficient for both the petty cash

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custodian and employees. We recommend that management evaluate automating the workflow and consider using ACH reimbursement instead of maintaining a petty cash fund.

More details regarding the issues/risks and recommendations can be found below in the detailed audit report. This audit was conducted in accordance with the U.S. Government Accountability Office's Generally Accepted Government Auditing Standards (GAGAS) and the Institute of Internal Auditor's International Professional Practices Framework (IPPF). These 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 objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit was conducted by the following staff members in the Capital Metro Internal Audit Department:

- Terry Follmer, VP of Internal Audit (Project Lead)
- UT Audit Interns

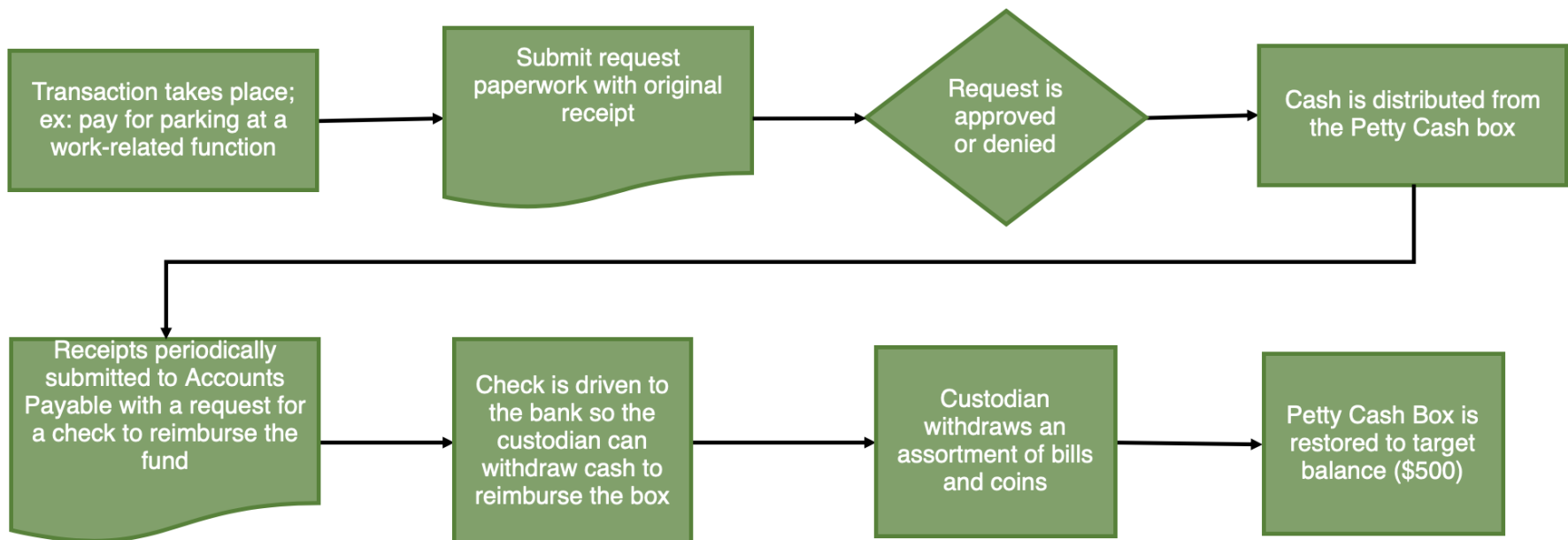
Recommendations to strengthen internal controls and improve accountability were provided to management in the audit report. Management agrees with the internal audit recommendations and has provided target completion dates, which are included in the detailed audit report below. A follow-up audit is performed semi-annually (i.e., May and November) to ensure management action plans for all issued audit reports are completed timely. We appreciate the cooperation and assistance provided to us throughout this audit.

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Issues & Risk	Recommendation	Management Action Plan
<p>1. <u>PETTY CASH VERSUS ACH REIMBURSEMENT</u></p> <p>We noted that the petty cash process is completely manual requiring extra time and travel for both employees as well as the fund custodian. We reviewed internal controls and process improvement opportunities and identified the following regarding the petty cash fund:</p> <ul style="list-style-type: none"> • Policy FIN-102 was last approved in January 2016 by the former President/CEO. • Some of the links within the policy that take you to forms and reports do not work. • Because there is no automated workflow and all the recordkeeping is manual, there was no database of transactions. • The petty cash fund requires the fund custodian to periodically travel to the bank to replenish the fund as well as employees must travel to the 2910 office to get reimbursed in cash. <p>If the petty cash fund was eliminated and replaced with ACH payment the cost per transaction is only 6 cents and all recordkeeping of individual transactions could be automatically captured in the AX accounting system rather than manual paper forms with no database.</p>	<p>The Controller should consider the following improvements:</p> <ol style="list-style-type: none"> a) Update FIN-102 policy to include functional hyperlinks and have policy approved by the current President/CEO of CapMetro. b) Evaluate on a cost-benefit basis replacing the manual reimbursement process with automated workflow using either AX and/or Outlook capabilities to streamline process and recordkeeping. c) Consider eliminating petty cash fund and instead reimburse employees via ACH payment. 	<p>Management will evaluate alternatives to streamline out-of-pocket reimbursements.</p> <p><u>Target Completion Date:</u> 5/1/2020</p>

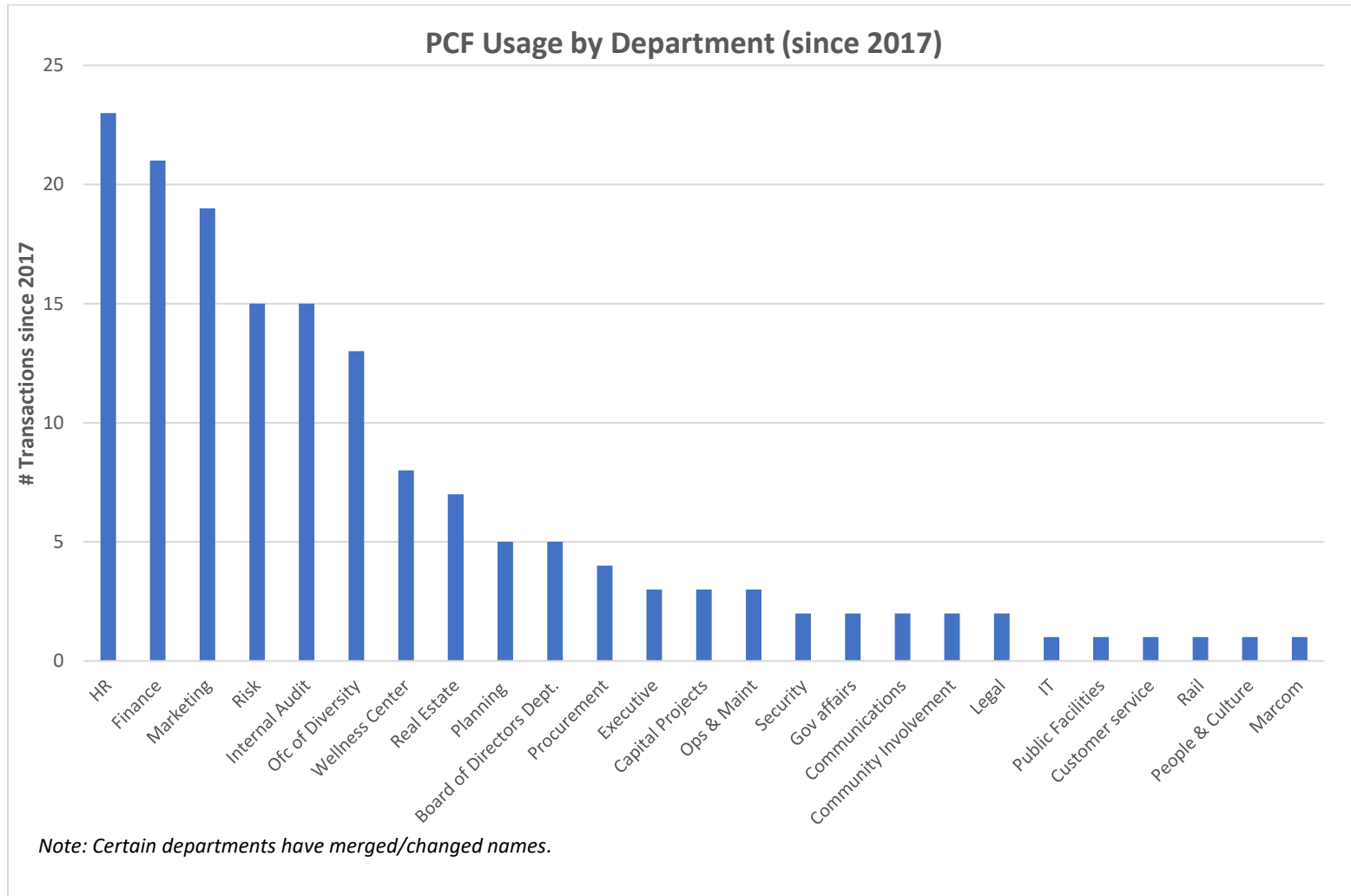
Appendix

1. Process Flowchart

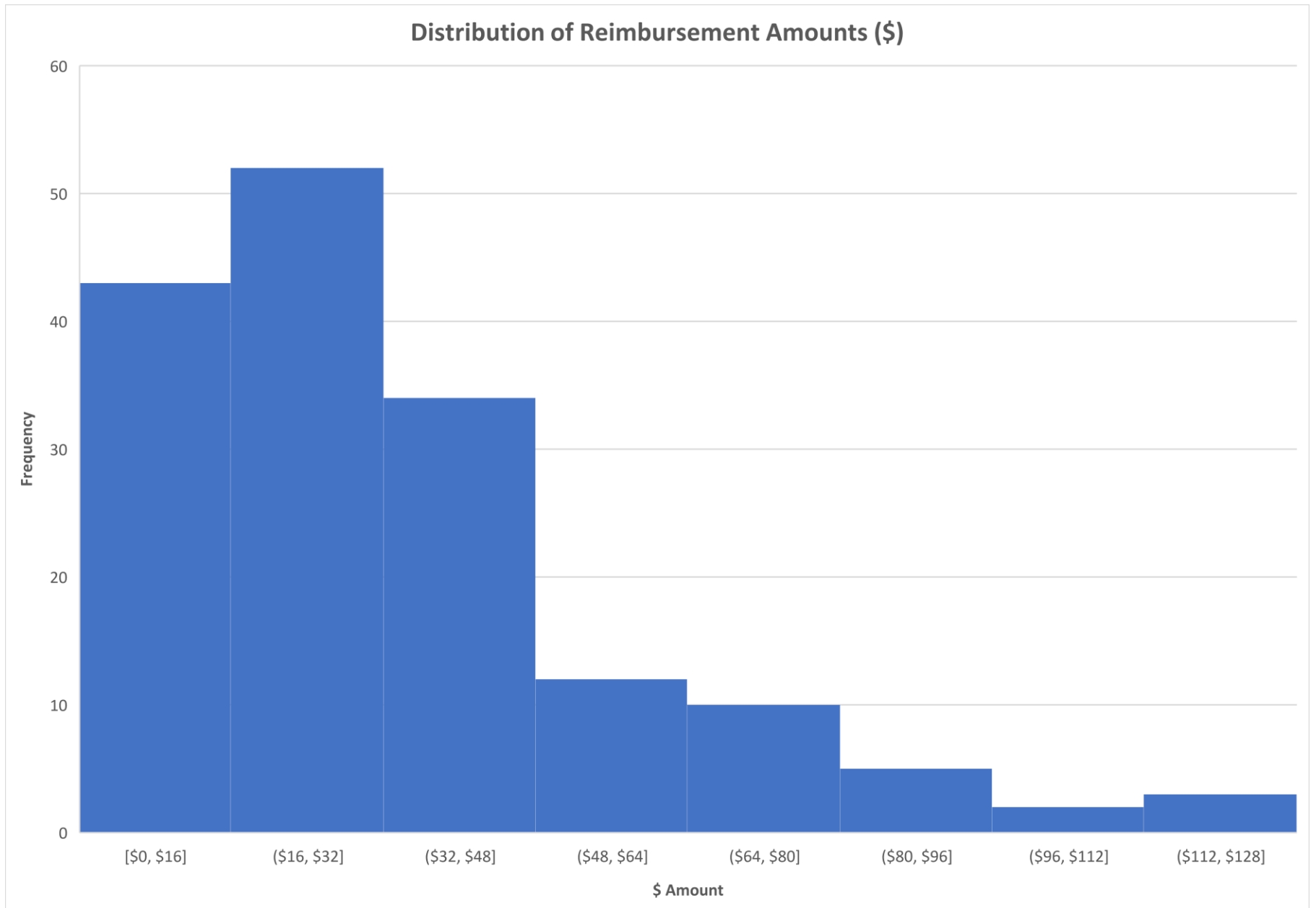


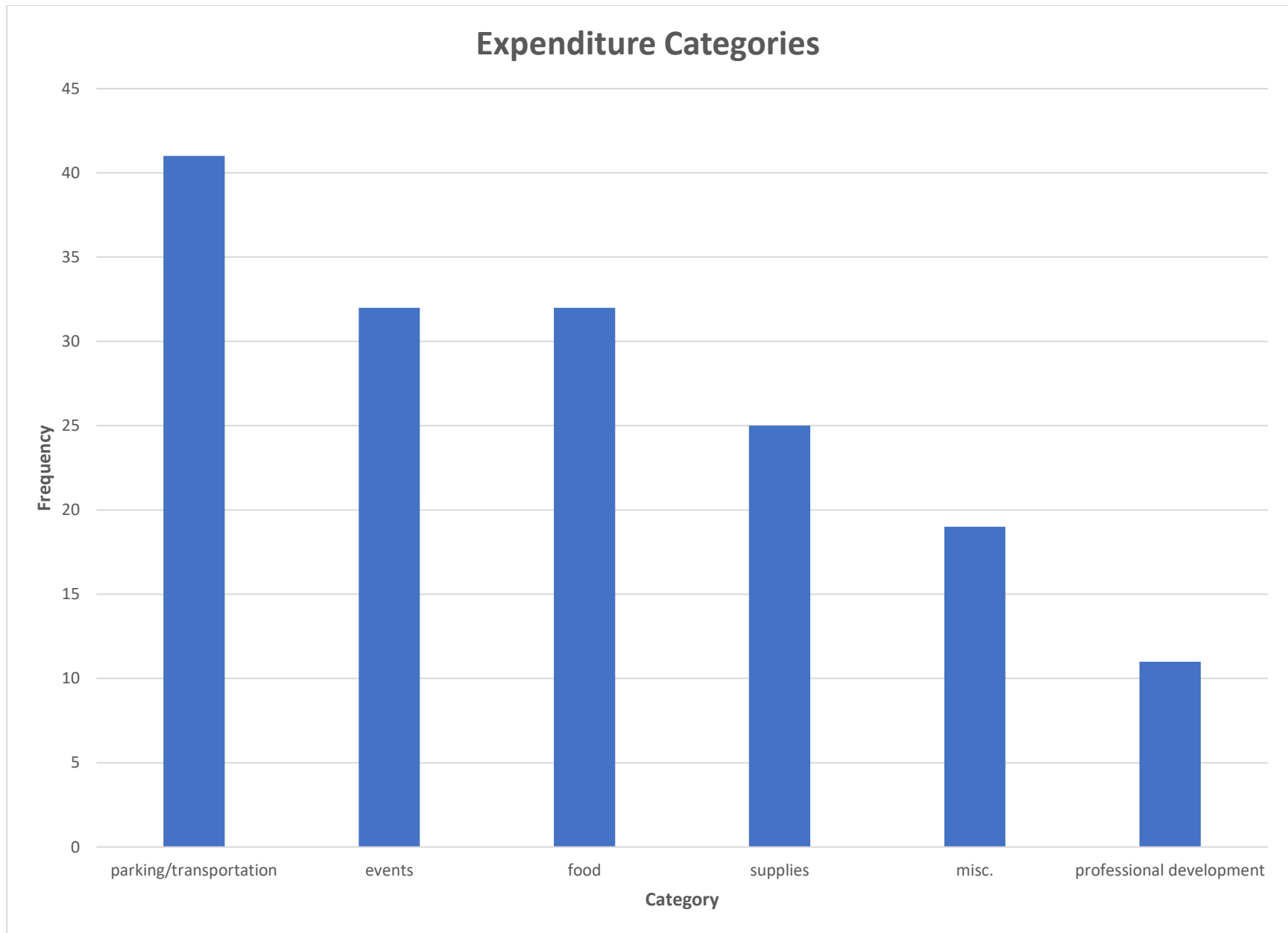
2. Data Analytics

Below are visuals that represent the current usage patterns of the petty cash fund, which can be relevant when determining the future status of the fund:

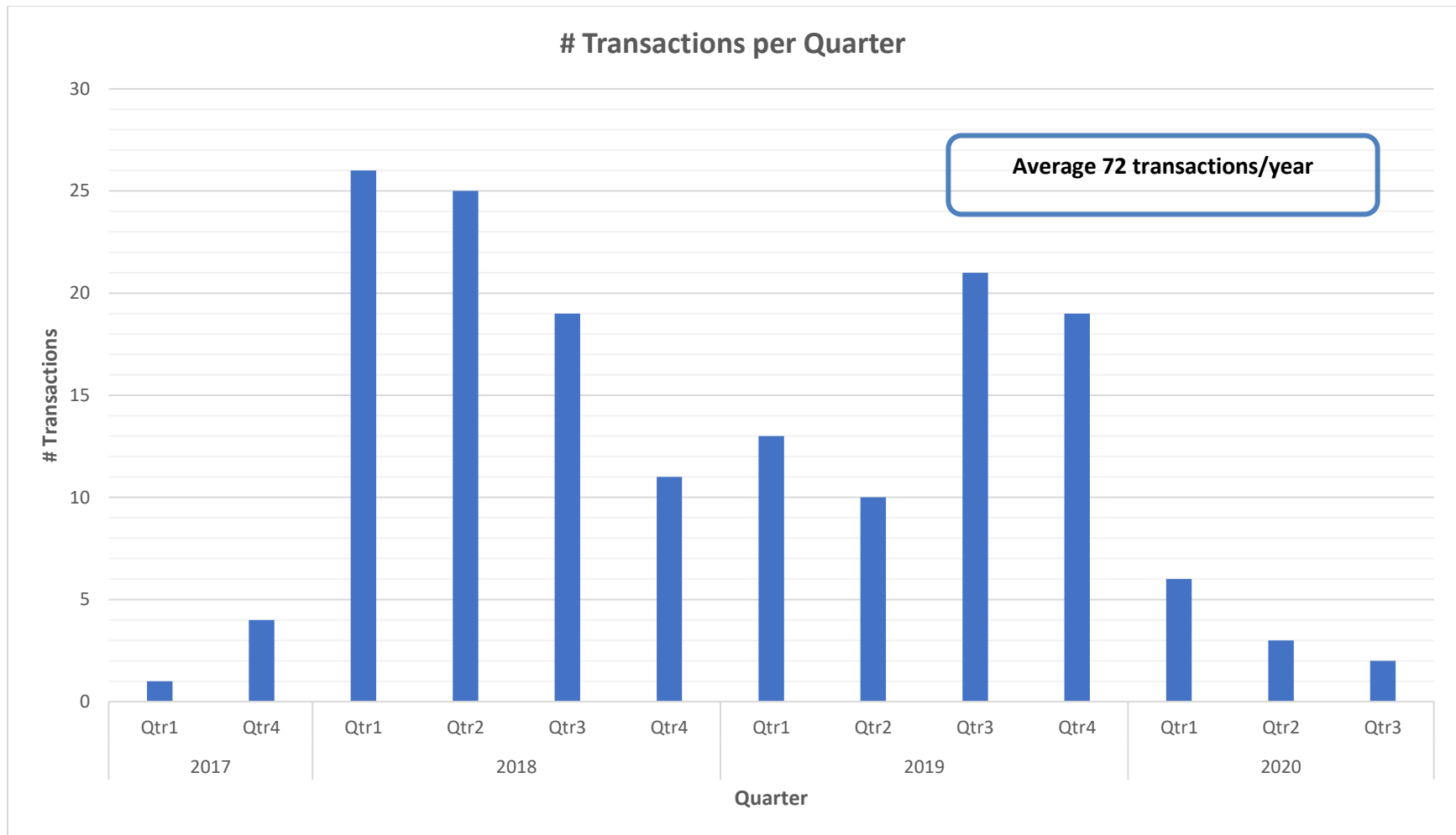


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ACH Payments Cost Analysis

The average number of Petty Cash transactions per year is about 72. This number includes 2018 and 2019, for which we have full years of data. According to Chase Bank cost information provided by Finance, each ACH batch transfer costs \$0.06. Thus, our estimated annual cost estimate of switching to an ACH transfer system is $72 * 0.06 = \mathbf{\$4.32}$.