



Office of the City Auditor

**Report to the City Council
City of San Jose**

**AN AUDIT OF THE CITY OF
SAN JOSE FIRE DEPARTMENT'S
PETTY CASH, CHANGE, AND
STRIKE TEAM FUNDS**

**The City Of San Jose Fire Department Is
Generally In Compliance With Petty Cash,
Change, And Strike Team Fund Internal
Controls**

**Report 00-03
May 2000**



CITY OF SAN JOSÉ, CALIFORNIA

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City Auditor

May 1, 2000

Honorable Mayor and Members
of the City Council
801 North First Street, Room 600
San Jose, CA 95110

Transmitted herewith is a report on *An Audit Of The City Of San Jose Fire Department's Petty Cash, Change, and Strike Team Funds*. This report is in accordance with City Charter Section 805.

An Executive Summary is presented on the blue pages in the front of this report. The City Administration's response is shown on the yellow pages before the Appendices.

I will present this report to the Finance Committee at its May 10, 2000, meeting. If you need additional information in the interim, please let me know. The City Auditor's staff member who participated in the preparation of this report is Robin Klenke.

Respectfully submitted,

Gerald A. Silva
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Executive Summary

In accordance with the City Auditor's 1999-2000 Audit Workplan, we have completed the third 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. This audit focuses on the City of San Jose Fire Department's cash funds. Specifically, we audited the Fire Department's Petty Cash, Change, and Strike Team Funds. 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.

Finding I The City Of San Jose Fire Department Is Generally In Compliance With Petty Cash, Change, And Strike Team Fund Internal Controls

We found that the San Jose Fire Department's (SJFD) internal controls over their Petty Cash, Change, and Strike Team 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:

- In the Bureau of Administrative Services (BAS) Petty Cash Fund:
 - ✓ There were a few exceptions (less than 2 percent) to the documentation required on the Petty Cash Receipt Form 100-32;
- In the Bureau of Education and Training (BET):
 - ✓ There was no alternate fund custodian for the Petty Cash Fund;

- ✓ Not all uses of petty cash were logged on the Petty Cash Disbursement Log;
- ✓ Replenishment of the Petty Cash Fund was not always timely and in accordance with procedures;
- In the Bureau of Support Services (BSS):
 - ✓ A procedure-required monthly count of the Strike Team Fund was not always performed; and
- In all Bureaus:
 - ✓ Although the SJFD properly completed and filed Change of Custodianship forms for each fund when the custodianship changed, documentation of a procedure-required reconciliation was not on file and
 - ✓ Periodic spot-audits of the cash funds were not performed and documented.

In our opinion, the SJFD should ensure that all required information is properly recorded on the Petty Cash Receipt Form 100-32. In addition, the SJFD should designate an alternate petty cash custodian for the BET Petty Cash Fund, record all disbursements in the Petty Cash Disbursement Log, and replenish the fund in accordance with procedures. Furthermore, the SJFD should perform the required monthly count of the Strike Team Fund. Finally, the Finance Department should distribute a memorandum to all City departments directing compliance with the Financial Administrative Manual procedures to 1) periodically spot-audit all cash funds, 2) prepare and file a Change of Custodianship form, and 3) document that a fund reconciliation was done whenever fund custodianship changes. By so doing, compliance with the SJFD's and other City departments' petty cash and change fund internal controls will be improved.

RECOMMENDATIONS

We recommend that the SJFD:

- Recommendation #1** **Designate an alternate petty cash custodian for the BET petty cash fund, record all disbursements in the Petty Cash Disbursement Log, and replenish the fund in accordance with procedures. (Priority 3)**

Recommendation #2 Bureau of Support Services perform the required monthly count of the Strike Team Fund. (Priority 3)

We recommend that the Finance Department:

Recommendation #3 Distribute a memorandum to all City departments directing compliance with the FAM procedures to:

- periodically spot-audit all cash funds and
- prepare and file a Change of Custodianship form and document that a fund reconciliation was performed whenever fund custodianship changes. (Priority 3)

Introduction

In accordance with the City Auditor's 1999-2000 Audit Workplan, we have completed the third 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. This audit focuses on the City of San Jose Fire Department's cash funds. Specifically, we audited the Fire Department's Petty Cash, Change, and Strike Team Funds. 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 the Fire Department's Bureau of Administrative Services, Bureau of Education and Training, Bureau of Fire Prevention, and Bureau of Support Services, who gave their time, information, and cooperation for this audit.

Background

City of San Jose Fire Department

The City of San Jose Fire Department (SJFD) is the second largest department in the City. The 1999-2000 Adopted Operating Budget allocates about \$87 million in General Fund monies to fund the SJFD's 808 full-time equivalents (FTEs). There are five SJFD programs or bureaus. These bureaus are (1) Administrative Services, (2) Field Operations, (3) Support Services, (4) Fire Prevention, and (5) Education and Training. The bureaus' daily operations may require cash transactions. The SJFD is authorized certain cash funds for this purpose.

SJFD Cash Funds

The SJFD maintains three types of cash funds. These are the Petty Cash, Change, and Strike Team Funds. Exhibit 1 shows the type, location, and amount of the SJFD cash funds.

Exhibit 1 Location And Type Of SJFD Cash Funds

Bureau	Type Of Fund	Fund Amount
Administrative Services	Petty Cash	\$2,500
Education And Training	Petty Cash	\$600
Fire Prevention	Change	\$140
Support Services	Strike Team	\$1,500
	Total Cash Funds	\$4,740

As Exhibit 1 shows, the SJFD has four cash funds – two petty cash funds, a change fund, and a Strike Team fund. The City of San Jose Financial Administrative Manual (FAM) contains policies and procedures governing the use of petty cash and change funds. In addition, the SJFD has written its own policies and procedures for their Strike Team Fund.

*City Of San Jose
And SJFD Policies
And Procedures*

City of San Jose Policies and Procedures

According to the City’s FAM Section 5.6: Petty Cash and Change Funds:

“It is the administrative policy of the City of San Jose to allot each department a specified sum of money designated as “Petty Cash” for direct acquisition of materials or supplies not available through Central Stores, including books and pamphlets, and for subscriptions, and meal reimbursements. Petty cash transactions may not exceed \$200.00, including sales tax, shipping and handling charges. Personal check cashing, change making and personal loans are not permitted from the petty cash fund.”

In addition, the Change Fund policy states:

“Departments are allotted a specified sum of money to be used as a “Change Fund” if their operations require such a fund.”

Further, the Petty Cash and Change Fund policy prescribes that:

“Department Directors are responsible for the security and maintenance of petty cash and change funds in their departments.”

SJFD Communications Policies and Procedures

The SJFD participates in mutual aid agreements with three other fire jurisdictions - Santa Clara County, Bay Area Intercounty, and Statewide Office of Emergency Services (Statewide OES). The participants in the agreements respond to fire emergency situations throughout the state. The SJFD is authorized a Strike Team Fund so cash is available for SJFD units' travel expenses. The Statewide OES reimburses the SJFD for expenses related to the emergency call-out. The SJFD has written policies and procedures for the use of Strike Team funds. According to Communication Policies and Procedures, Emergency Operations, Section No. 440: Auto Aid/Mutual Aid

“Strike Team Money Allocation

Upon approval of the Duty Chief or higher:

The Strike Team Leader or Unit Officer will respond to Communications to retrieve the cash necessary for a Strike Team response.

a. Returning money/receipts to Communications:

Upon returning from assignment, the Strike Team Leader shall return the remaining cash and receipts to Communications prior to the end of their shift...The Strike Team Money Log shall be filled out to document the return of the money, including all signature blocks.

b. Maintenance of the Strike Team Account

The Operations Supervising PSD or designee shall check the money in the safe every month and document the check in the log book. A second Senior or Supervisor will be required to count the money and sign the log book...Personnel who require Strike Team money shall forward all receipts and a written synopsis of expenditures to the Communications Operations Supervisor... ”

*SJFD Cash Fund
Expenditures*

SJFD Change Fund

The SJFD Change Fund of \$140 is used only for change in the Bureau of Fire Prevention. No expenditures are processed through this fund. As such, the amount of money in the Change Fund should always be \$140.

SJFD Strike Team Fund

The SJFD Strike Team Fund is used only when SJFD units incur travel expenses during an emergency call-out response. There has been little use of the fund since 1997. In August 1999, a Strike Team response required that the entire \$1,500 amount be withdrawn.

SJFD Petty Cash Funds

The SJFD has two petty cash funds, one located in the Bureau of Administrative Services (BAS) and the other in the Bureau of Education and Training (BET). Exhibit 2 shows the total expenditures processed through the BAS and BET petty cash funds during 1997-98 and 1998-99.

Exhibit 2 BAS And BET Petty Cash Expenditures During 1997-98 And 1998-99

Fiscal Year	BAS Petty Cash Fund Expenditures	BET Petty Cash Fund Expenditures	Totals
1997-98	\$18,547.84	\$5,624.09	\$24,171.93
1998-99	\$17,004.81	\$5,358.92	\$22,363.73
	\$35,552.65	\$10,983.01	\$46,535.66

As Exhibit 2 shows, the SJFD processed \$46,535.66 in petty cash expenditures through the BAS and BET petty cash funds during 1997-98 and 1998-99.

Audit Scope, Objectives, And Methodology

This report addresses the adequacy of internal controls over the cash funds in the City of San Jose Fire Department (SJFD). It includes a review of the SJFD's Bureau of Administrative Services (BAS) Petty Cash Fund, the Bureau of Education and Training (BET) Petty Cash Fund, the Bureau of Fire Prevention (BFP) Change Fund, and the Bureau of Support Services (BSS) Strike Team Fund. The objective of this audit was to:

- Determine whether the SJFD is in compliance with City of San Jose and SJFD policies and procedures pertaining to the department's Petty Cash, Change, and Strike Team Funds.

During the course of our audit we:

- Reviewed written policies and procedures;

- Interviewed SJFD personnel in the -
 - ✓ Bureau of Administrative Services (BAS),
 - ✓ Bureau of Education and Training (BET),
 - ✓ Bureau of Fire Prevention (BFP), and
 - ✓ Bureau of Support Services (BSS);
- Assessed the security of funds;
- Observed cash transactions;
- Examined the Petty Cash Reimbursement Vouchers the BAS and the BET prepared during 1997-98, 1998-99, and 1999-2000;
- Inspected all petty cash receipts submitted to the BAS during 1997-98 and 1998-99;
- Reviewed the documentation for the Strike Team Fund -
 - ✓ Logbook entries made between May 1997 and January 2000 and
 - ✓ Memoranda, receipts, and Petty Cash Reimbursement Voucher for August 1999 Strike Team response;
- 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, and
 - ✓ Recorded the results of the annual fund confirmation that the Finance Department requires.

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 reviewed.

Major Accomplishments Related To This Program

In Appendix B, the SJFD informs us of its major accomplishments regarding their cash funds.

Fire Department Cash Funds

Finding I

The City Of San Jose Fire Department Is Generally In Compliance With Petty Cash, Change, And Strike Team Fund Internal Controls

We found that the San Jose Fire Department's (SJFD) internal controls over their Petty Cash, Change, and Strike Team 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:

- In the Bureau of Administrative Services (BAS) Petty Cash Fund:
 - ✓ There were a few exceptions (less than 2 percent) to the documentation required on the Petty Cash Receipt Form 100-32;
- In the Bureau of Education and Training (BET):
 - ✓ There was no alternate fund custodian for the Petty Cash Fund;
 - ✓ Not all uses of petty cash were logged on the Petty Cash Disbursement Log;
 - ✓ Replenishment of the Petty Cash Fund was not always timely and in accordance with procedures;
- In the Bureau of Support Services (BSS):
 - ✓ A procedure-required monthly count of the Strike Team Fund was not always performed; and
- In all Bureaus:
 - ✓ Although the SJFD properly completed and filed Change of Custodianship forms for each fund when the custodianship changed, documentation of a procedure-required reconciliation was not on file and
 - ✓ Periodic spot-audits of the cash funds were not performed and documented.

In our opinion, the SJFD should ensure that all required information is properly recorded on the Petty Cash Receipt Form 100-32. In addition, the SJFD should designate an alternate petty cash custodian for the BET Petty Cash Fund, record all disbursements in the Petty Cash Disbursement Log, and replenish the fund in accordance with procedures. Furthermore, the SJFD should perform the required monthly count of the Strike Team Fund. Finally, the Finance Department should distribute a memorandum to all City departments directing compliance with the Financial Administrative Manual procedures to 1) periodically spot-audit all cash funds, 2) prepare and file a Change of Custodianship form, and 3) document that a fund reconciliation was done whenever fund custodianship changes. By so doing, compliance with the SJFD's and other City departments' petty cash and change fund internal controls will be improved.

**Assessment Of The
SJFD's Compliance
With Petty Cash,
Change Fund, And
Strike Team Fund
Internal Controls**

Our review of the SJFD's compliance with Petty Cash, Change Fund, and Strike Team Fund internal controls is summarized in Exhibit 3.

Exhibit 3 Summary Of The SJFD's Compliance With Petty Cash, Change Fund, And Strike Team Fund Internal Controls

Internal Control	BAS Petty Cash Compliance	BET Petty Cash Compliance	BFP Change Fund Compliance	BSS Strike Team Fund Compliance
Secure Location And Limited Access?	Yes	Yes	Yes	Yes
Designated Custodian?	Yes	Yes	Yes	Yes
Designated Alternate Custodian?	Yes	No	Yes	Yes
Required Documentation?	Yes	Yes	Yes	Yes
Complete Documentation?	No	No	Yes	Yes
Supervisory Review?	Yes	Yes	Yes	Yes
Change Of Custodianship Form On File?	Yes	Yes	Yes	Yes
Change Of Custodianship Procedure Followed?	No	No	No	No
Timely Replenishment Requests?	Yes	No	N/A	Yes
Annual Fund Confirmation Performed?	Yes	Yes	Yes	Yes
Periodic Spot-Audit Performed And Documented?	No	No	No	No

The results of our audit of each of the above funds is as follows.

Petty Cash Fund - Bureau Of Administrative Services (BAS)

The SJFD's primary petty cash fund of \$2,500 is located in the Bureau of Administrative Services (BAS). The fund is physically secure, with a designated fund custodian, alternate custodian, and limited access. The BAS retains two years of documentation in the petty cash file as procedures require. We reviewed documentation for petty cash expenditures for 1997-98 and 1998-99. During this time, the SJFD spent about \$36,000 on petty cash purchases. The Finance Department receives replenishment requests with original receipts attached from the petty cash custodian to restore the petty cash fund balance to its authorized level. Exhibit 4 shows the SJFD's

petty cash expenditures from the BAS Fund for 1997-98 and 1998-99.

Exhibit 4 The SJFD’s BAS Petty Cash Fund Expenditures For 1997-98 And 1998-99

1997-98			1998-99			Totals	
Batch #	Date	Amount	Batch #	Date	Amount	Batches	Amounts
1	8/13/97	\$1,014.22	1	8/11/98	\$982.14	2	\$1,996.36
2	9/4/97	1,670.24	2	8/28/98	1,492.62	2	3,162.86
3	9/11/97	512.28	3	9/21/98	1,008.29	2	1,520.57
4	9/18/97	1,108.72	4	9/25/98	373.83	2	1,482.55
5	10/6/97	1,062.39	5	10/6/98	513.35	2	1,575.74
6	10/23/97	879.56	6	10/8/98	546.97	2	1,426.53
7	12/8/97	1,443.82	7	10/21/98	973.43	2	2,417.25
8	1/20/98	1,779.65	8	11/5/98	1,173.40	2	2,953.05
9	1/30/98	608.67	9	11/17/98	774.71	2	1,383.38
10	2/5/98	713.43	10	12/22/98	904.75	2	1,618.18
11	2/10/98	870.70	11	12/22/98	959.37	2	1,830.07
12	3/10/98	917.18	12	2/11/99	1,635.09	2	2,552.27
13	3/27/98	1,165.29	13	2/24/99	731.17	2	1,896.46
14	4/21/98	811.73	14	3/12/99	341.80	2	1,153.53
15	5/18/98	1,131.53	15	4/12/99	743.97	2	1,875.50
16	6/12/98	1,255.22	16	4/28/99	654.59	2	1,909.81
17	7/9/98	1,387.51	17	5/13/99	1,489.34	2	2,876.85
18	7/9/98	215.70	18	6/3/99	962.13	2	1,177.83
			19	6/17/99	743.86	1	743.86
		\$18,547.84			\$17,004.81	37	\$35,552.65

As Exhibit 4 shows, the SJFD requested replenishment for \$35,552.65 in petty cash expenditures processed through the BAS petty cash fund. A total of 422 petty cash transactions occurred in 1997-98, for an average of 35 transactions per month. In 1998-99, a total of 394 transactions occurred for an average of 33 transactions per month.

Review Of Bureau Of Administrative Services Petty Cash Fund Expenditures

We reviewed all of the 816 BAS petty cash transactions from 1997-98 and 1998-99 to see if the BAS was in compliance with procedures for the use of the fund and that documentation was complete. Procedures require that the following information be provided on the Petty Cash Receipt Form 100-32 - the requester’s name, supervisor’s signature, description of the expense, a copy of the receipt documenting the expense, and a SJFD charge number.

Our review of the BAS petty cash fund revealed very minor noncompliances with procedures. Specifically, we identified

only 14 exceptions out of 816 transactions in 1997-98 and 1998-99. For 10 of the 14 exceptions (71 percent) dates were missing on the form. There were three instances when submittal of the receipt occurred more than a month after the expense was incurred. The fourth exception was a single instance of a petty cash transaction exceeding the \$200 limit by \$74. Specifically, the SJFD purchased a radio (\$169), antennae (\$25), and speakers (\$80) for the same SJFD fleet vehicle (#98252). The total cost of these items was \$274, which is \$74 over the \$200 limit. The SJFD submitted a separate Petty Cash Receipt Form 100-32 for each component. Subsequently, the SJFD learned that purchases of new or additional components for fleet vehicles are not an allowable use of petty cash. However, since the SJFD had already purchased and installed the components on the vehicle, the Finance Department authorized and reimbursed this petty cash purchase on a one-time basis. The SJFD understands that in the future it should coordinate this type of purchase with General Services' Fleet Management Division.

In conclusion, we found the SJFD to be in compliance with existing procedures for petty cash handling in the BAS 98 percent of the time. In addition, during our audit, we noted that the BAS has some additional petty cash controls in place. These are (1) a date stamp and (2) a form to notify staff that petty cash reimbursements are ready to be picked up.

In our opinion, the additional controls the BAS has put in place are beneficial to their petty cash handling process. SJFD staff is located throughout the City so individuals are not always able to travel to the BAS to either submit petty cash receipts or receive reimbursements. In conjunction with established policies and procedures, these additional controls help to ensure and document that the BAS receives petty cash receipts and reimburses personnel in a timely manner.

**Petty Cash Fund -
Bureau Of
Education And
Training (BET)**

The Bureau of Education and Training (BET) petty cash fund is \$600. During 1997-98 and 1998-99, BET petty cash expenditures were about \$5,600 and \$5,400 respectively, or about \$11,000 over the two-year period. Our review of the BET petty cash fund revealed that

- There is no alternate petty cash custodian for this fund;
- Not all petty cash disbursements were recorded on the bureau's log; and

- Requests for replenishment of this fund have not been timely.

Lack Of A Petty Cash Fund Alternate Custodian

According to the FAM, “*Petty Cash Fund Procedures and Guidelines – 5.6.3 Establishment or Change in Amount of Petty Cash Fund*

2. *The department must designate a petty cash custodian and alternates. Only the custodian and the alternates, in the absence of the custodian, shall have access to petty cash funds.”*

We found that there is no alternate petty cash custodian for the petty cash fund at the BET. As a result, staff may not have access to petty cash funds when they require them. In addition, staff may not be reimbursed in a timely manner.

In our opinion, the BET should designate an alternate petty cash custodian.

Not All Petty Cash Disbursements Were Recorded On The Bureau’s Log

The BET did not record all petty cash disbursements on the Petty Cash Disbursement log. According to the FAM, when employees receive reimbursement for petty cash purchases with or without a sales receipt

- 5.6.5.2 *The requester is reimbursed and signs the Petty Cash Disbursement Log maintained by the custodian.*

Similarly, for petty cash advances

- 5.6.7.3 *The petty cash custodian advances the amount requested and the requester signs both the Petty Cash Receipt and the petty cash disbursement log maintained by the custodian.*

We reviewed documentation for three petty cash reimbursement requests the BET petty cash fund custodian prepared and submitted on November 3rd and 23rd, 1999 and January 12th, 2000. Each petty cash expense was properly documented with a Petty Cash Form 100-32 and a copy of the original receipt. However, our comparison of the reimbursement request amounts with the entries on the BET Petty Cash Disbursement Log revealed that not all disbursements from the BET petty cash fund were recorded. Specifically, we found receipts of \$99.45, \$229.60, and \$192.20 for which there were no entries on the BET Petty Cash Disbursement Log. The petty cash fund custodian explained

that he occasionally makes petty cash purchases either with petty cash funds or with his own money but normally does not record the transaction on the Petty Cash Disbursement Log. It should be noted that the petty cash custodian informed us that he records all petty cash disbursements to other staff on the log and ensures that they sign the log when they receive petty cash. Thus, the petty cash custodian is the only BET employee who does not always make an entry in the BET Petty Cash Disbursement Log.

In our opinion, the BET petty cash custodian should record all petty cash disbursements in the Petty Cash Disbursement Log.

*Requests For
Replenishment Of
The BET Petty Cash
Fund 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 75 percent expended. According to the FAM Petty Cash and Change Funds procedure, Section 5.6.9 Reimbursement of Petty Cash Fund

- 1. Before petty cash funds are more than 75% expended, the fund should be replenished.*

We reviewed the documentation the BET submitted to request petty cash fund replenishment during 1997-98 and 1998-99. We found that 62 percent of the time the BET did not request replenishment of the petty cash fund in accordance with procedures.

Exhibit 5 shows the date, amount, and percent of the petty cash fund expended each time the BET submitted a request for replenishment.

Exhibit 5 Bureau Of Education And Training Petty Cash Fund Reimbursement Requests In 1997-98 And 1998-99

1997-98						
Batch #	Request Date	Replenishment Amount	Cash In Box	Receipts In Box	Total Petty Cash	Percent Expended
1	7/21/97	\$449.93	\$150.07	\$0	\$600	75%
2	8/6/97	554.02	45.98	0	\$600	92%
3	9/5/97	514.01	85.99	0	\$600	86%
4	10/9/97	532.50	67.50	0	\$600	89%
5	11/3/97	522.75	77.25	0	\$600	87%
6	12/1/97	551.44	48.56	0	\$600	92%
7	1/27/98	533.02	66.98	0	\$600	89%
8	3/27/98	563.00	37.00	0	\$600	94%
9	4/20/98	452.34	147.66	0	\$600	75%
10	5/12/98	500.29	99.71	0	\$600	83%
11	5/22/98	450.79	149.21	0	\$600	75%
		\$5,624.09				

1998-99						
Batch #	Request Date	Replenishment Amount	Cash In Box	Receipts In Box	Total Petty Cash	Percent Expended
1	6/17/98	\$504.19	\$95.81	\$0	\$600	84%
2	7/20/98	381.97	218.03	0	\$600	64%
3	8/27/98	437.93	162.07	0	\$600	73%
4	9/23/98	399.63	142.41	57.96	\$600	67%
5	10/29/98	433.66	166.34	0	\$600	72%
6	11/16/98	504.00	96.00	0	\$600	84%
7	11/23/98	595.53	4.47	0	\$600	99%
8	12/2/98	360.05	239.95	0	\$600	60%
9	1/4/99	210.89	389.11	0	\$600	35%
10	2/8/99	377.05	222.95	0	\$600	63%
11	3/5/99	345.87	254.13	0	\$600	58%
12	3/23/99	277.75	322.25	0	\$600	46%
13	6/16/99	530.40	69.60	0	\$600	88%
		\$5,358.92				

As Exhibit 5 demonstrates, 15 out of 24 times (62 percent) the BET petty cash fund was 75 percent or more expended before the petty cash custodian requested replenishment. In 1997-98, the BET submitted 11 replenishment requests. The petty cash fund was 75 percent to 94 percent expended at the time of each of these 11 requests. For four of 13 batches submitted in 1998-99, the BET fund was 84 to 99 percent expended at the time the request was made.

In our opinion, the BET should adhere to the Petty Cash and Change Fund procedures regarding fund replenishment. Specifically, the BET should ensure that replenishment requests for its petty cash fund are timely and that the petty cash fund level is no more than 75 percent expended before replenishment is requested. By so doing, the BET will ensure that the petty cash fund balance is sufficient for petty cash purchases and advances.

We recommend that the SJFD:

Recommendation #1

Designate an alternate petty cash custodian for the BET petty cash fund, record all disbursements in the Petty Cash Disbursement Log, and replenish the fund in accordance with procedures.

**Change Fund -
Bureau Of Fire
Prevention (BFP)**

The SJFD's Bureau of Fire Prevention (BFP) has a counter area the public may access to purchase permits, lock boxes, copies of fire reports and other fire safety items. The BFP accepts checks, credit cards, and cash in payment. Checks and credit cards tend to be used for the larger transactions with cash being more commonly accepted for the smaller transactions. The BFP keeps a change fund of \$140 to make change for cash purchases. Many of the over-the-counter cash transactions are for copies of fire reports for which the BFP charges \$.15 per page. Most fire reports cost the requester less than a dollar. The change fund custodian stated that the change fund amount of \$140 is always sufficient for the BFP counter needs.

We observed that this fund is secure. The change fund custodian keeps the money and any other documentation related to the change fund in a locked box in a combination safe. There is an alternate custodian for the fund. Only the change fund custodian or alternate custodian has access to the fund. Every weekday morning, the change fund custodian removes

the locked box from the combination safe, counts the fund amount, returns it to the locked box, and locks it in a filing cabinet drawer in the BFP counter area. The BFP uses a computer system running Quickbooks software to document transactions, provide customer receipts, and record and report on BFP revenues by type and amount on a daily and monthly basis.

Bureau Of Support Services (BSS) Strike Team Fund

The Bureau of Support Services (BSS) maintains the SJFD's Strike Team Fund. The \$1,500 fund is used to provide cash in advance for SJFD units' travel expenses when responding to fires in other jurisdictions. The Strike Team Fund is divided into four envelopes – two with \$500 each in them, one with \$300, and one with \$200. The BSS maintains a log to track money in and out of the fund. Each log page has the following column headings for required information:

- Date
- Strike Team/Order #/Request #
- Money [out]/in
- Dispatcher name/#/signature
- Line officer name/#/signature
- Receipts? Yes/no
- Balance

The log showed that there has been little use of the Strike Team Fund over the last two years. Specifically, between May 1997 and July 1999, there were no responses for which the BSS needed Strike Team funds. The BSS retained documentation and receipts submitted for responses in prior years. Our review of these records revealed no deficiencies.

In August 1999, the Strike Team log reflects the first use of the fund since 1997. The total fund amount of \$1,500 was withdrawn - \$1,300 on August 26th and another \$200 on August 30th. Supporting documentation for expenses was proper and complete. In conclusion, when Strike Team Funds were needed, proper procedures were followed to ensure the use was appropriate, all expenses were documented, and all reimbursements were received. However, we noted a single deficiency in the SJFD's maintenance of the Strike Team Fund. Namely, the required monthly count of the money in the safe was not always performed.

Strike Team Account Procedures Require A Monthly Count Of The Money In The Safe

According to the BSS’s Strike Team Fund procedure, whether there is use of the fund for a call-out response or not, the fund should be counted each month. The BSS Communication Policies and Procedures manual, Emergency Operations, Section 440: Auto Aid/Mutual Aid states

“b. Maintenance of the Strike Team Account

The Operations Supervising PSD or designee shall check the money in the safe every month and document the check in the log book. A second Senior or Supervisor will be required to count the money and sign the log book. Any outstanding balances will be noted and a memo forwarded to the Operations Supervisor.”

We found that the procedure to perform the monthly count has not always been followed. Specifically, the log book entries made in the BSS Strike Team Fund logbook between May 1997 and December 1999 showed that monthly counts were not performed 75 percent of the time. According to BSS records the monthly counts were performed only:

- Twice in 1996-97 – in May and June of 1997;
- Once in 1997-98 – in November of 1997;
- Twice in 1998-99 – in September of 1998 and June of 1999; and
- Thrice in 1999-2000 – in August, September, and December of 1999.

We recommend that the SJFD:

Recommendation #2
Bureau of Support Services perform the required monthly count of the Strike Team Fund.

All Funds – Compliance With Petty Cash Fund And Change Fund Confirmation Requirements

Annually, the Finance Department requires City departments to submit a confirmation memorandum for each authorized cash fund. Each department is required to report cash fund status as of June 30th. The department is to provide the fund location, name of the custodian, and the authorized fund amount. Cash on hand, receipts on hand, and any reimbursement in progress must reconcile to the total authorized fund amount. We found that the SJFD properly submitted the annual confirmation

memorandum to the Finance Department for each of their cash funds as of June 30, 1999.

**All Funds –
Noncompliance
With Two Required
Procedures**

This is the third in a series of cash fund audits, with a focus on the City’s Petty Cash and Change Funds. In each department we have audited thus far¹, including the SJFD, we have found identical problems in following two procedures. These are FAM Procedure 4.0 “General Guidelines for Cash Handling,” Section 4.0.4.2, 7 and FAM Procedure 5.6 “Petty Cash and Change Funds,” Section 5.6.4 “Change of Petty Cash Custodian.” We found that the SJFD was also not complying with these procedures.

Periodic Spot-Audit

Procedure to Spot-Audit Cash Handling Locations and Field Collections

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 the SJFD was 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 report, is an “unannounced audit.” The BET petty cash, BFP change, and BSS Strike Team funds have not been subjected to periodic spot-audits. According to the BAS fund custodian, the BAS conducts but does not document spot-audits of its fund. Specifically, any time a question or situation comes up, it is brought up to the supervisor and discussed immediately. The fund custodian commented that this was “like a spot-audit.” Even though this is a good practice, it is not the same as performing and documenting a periodic spot-audit of the fund. We found no documentation to support that the BAS did spot-audits.

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

*Change Of
Custodianship*Change of Custodianship Procedure

This procedure is specific to Petty Cash and Change Funds. According to the FAM Procedure 5.6 – Petty Cash and Change Funds, when there is a change in the custodianship of a petty cash or change fund both the prior and new custodian should reconcile the fund, document the reconciliation and keep the new custodian’s reconciliation in the petty cash file. We found that the SJFD properly completed and filed the Change of Custodianship form for each of the four funds when custodianship changed. However, we could not find any documentation of the dual reconciliation in the SJFD’s Petty Cash files. We found similar situations with the other two City departments we have audited so far.

A recent loss or theft from a City department’s petty cash fund illustrates the importance of following this procedure. In 1998, almost \$700 was either lost or stolen from a City department’s petty cash fund. The department investigated and confirmed that proper following of the change of custodianship procedure uncovered this discrepancy. Conversely, the department determined that the proper change of custodianship procedure was not followed when the cash fund was turned over at the previous change of custodianship. As a result, the department could not determine if the total authorized fund amount was turned over during the previous custodianship change. In conclusion, for this department, there were two changes of fund custodianship. The department did not follow the change of custodianship procedure when custodianship changed the first time. However, the department did follow the proper procedure the second time custodianship changed, and by so doing, found the \$700 shortage.

We recommend that the Finance Department:

Recommendation #3

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

- **periodically spot-audit all cash funds and**
- **prepare and file a Change of Custodianship form and document that a fund reconciliation was performed whenever fund custodianship changes.**

CONCLUSION

Our review revealed that the City of San Jose Fire Department is generally in compliance with internal control procedures over their Petty Cash, Change, and Strike Team Funds. Specifically, 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.

RECOMMENDATIONS

We recommend that the SJFD:

Recommendation #1 **Designate an alternate petty cash custodian for the BET petty cash fund, record all disbursements in the Petty Cash Disbursement Log, and replenish the fund in accordance with procedures. (Priority 3)**

Recommendation #2 **Bureau of Support Services perform the required monthly count of the Strike Team Fund. (Priority 3)**

We recommend that the Finance Department:

Recommendation #3 **Distribute a memorandum to all City departments directing compliance with the FAM procedures to:**

- **periodically spot-audit all cash funds and**
- **prepare and file a Change of Custodianship form and document that a fund reconciliation was performed whenever fund custodianship changes. (Priority 3)**

Memorandum

TO: Gerald Silva
City Auditor

FROM: Manuel Alarcon
Fire Chief

SUBJECT: Response to Petty Cash, Change, and
Strike Team Funds Audit

DATE: April 21, 2000

Approved

Ray Winer

Date

4/28/00

The Fire Department has reviewed the final draft report on *An Audit of the San Jose Fire Department's Petty Cash, Change, and Strike Team Funds*. We are generally in agreement with the results and the recommendations of the report. Additionally, we are very pleased that the recommendations and comments address minor lapses in documentation and process and that no misuse or loss of funds occurred. All of the recommendations have either been implemented or will be within the next few months. Specific responses to the audit recommendations are provided below.

Recommendation #1:

Designate an alternate petty cash custodian for the BET petty cash fund, record all disbursements in the Petty Cash Disbursement Log, and replenish the fund in accordance with procedures.

The Department concurs. The Bureau of Education and Training (BET) has identified an alternate petty cash custodian. BET has directed the petty cash custodian and alternate to record all disbursements in the petty cash log, as well as replenish the fund prior to it reaching a level that is no more than 75 percent expended. Spot audits will ensure that proper procedure is followed in recording and replenishing the Petty Cash Fund.

Recommendation #2:

Bureau of Support Services perform the required monthly count of the Strike Team Fund.

The Department concurs. The Fire Department's Bureau of Support Services has been directed to perform a monthly count of the Strike Team Fund. The Supervising Public Safety Dispatcher (PSD) for Operations shall check the Strike Team Fund monthly, documenting this and the findings in the logbook. A second Senior or Supervising PSD shall verify these findings and sign the logbook. Any discrepancies shall be noted and a memorandum forwarded to the Supervising PSD and the department's Fiscal Officer. (Funds verified previously and set aside in heat sealed envelopes, which have remained unopened, will be counted semi-annually.) On a semi-annual basis, the entire Strike Team Fund will be counted. A memorandum documenting the monthly counts and semi-annual findings will be forwarded to the department's Fiscal Officer. The Communication Policies and Procedures manual will be updated to reflect any changes to current policies.

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APR 28 2000

CITY AUDITOR

Gerald Silva
Response to Petty Cash, Change, and
Strike Team Funds Audit
April 21, 2000
Page 2

Recommendation #3:

(The Finance Department) distribute a memorandum to all City departments directing compliance with the FAM procedures to: periodically spot-audit all cash funds and prepare and file a Change of Custodianship form and document that a fund reconciliation was performed whenever fund custodianship changes.

The Department concurs. Although the Finance Department will address this issue on a city-wide basis, the Fire Department has issued an internal memorandum to all Bureaus responsible for Petty Cash, Change and Strike Team Funds directing that all funds shall be spot-checked periodically. Additionally, the Bureaus have been directed to complete a Change of Custodianship form whenever a change in custodian occurs, as well as perform a fund reconciliation.

In summary, the Department appreciates the effort that the Auditor's Office devoted to visiting the several sites that house our Petty Cash, Change and Strike Team Funds, as well as to the preparation of this report. We feel that the recommendations in this audit will further strengthen our ability to safeguard City funds.



Manuel Alarcon
Fire Chief, San Jose Fire Department

Memorandum

TO: Gerald A. Silva
City Auditor

FROM: John V. Guthrie
Director of Finance

SUBJECT: RESPONSE TO "An Audit of the City
of San Jose Fire Department's Petty
Cash, Change, and Strike Team Funds" **DATE:** 4/21/00

Approved

Ray Winer

Date

4/28/00

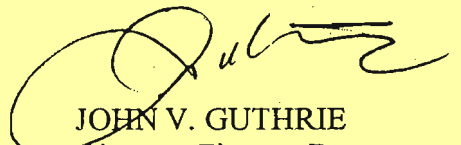
The Finance Department has reviewed the final draft report on *An Audit of the City of San Jose Fire Department's Petty Cash, Change, and Strike Team Funds* and generally agrees with the recommendations in the report. This audit report was also reviewed the Fire Department which has responded in a separate memo. This memo supplements the Fire Department's to specifically address Recommendation #3 regarding procedures in the Finance Administrative Manual (FAM):

Recommendation #3:

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

- *Periodically spot-audit all cash funds, and;*
- *Prepare and file a Change of Custodianship form and document that a fund reconciliation was performed whenever fund custodianship changes.*

The Finance Department concurs with the actions taken by the Fire Department to address this recommendation, and the Finance Department will distribute a memorandum to all departmental fiscal officers regarding compliance with petty cash procedures after the Finance and Technology Committee has accepted this report.


JOHN V. GUTHRIE
Director, Finance Department

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APR 28 2000
CITY AUDITOR

APPENDIX A

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

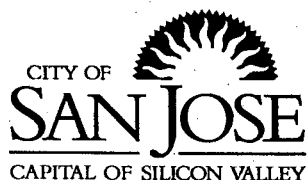
The City of San Jose's City Administration Manual (CAM) defines the classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class ¹	Description	Implementation Category	Implementation Action ³
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring. ²	Priority	Immediate
2	A potential for incurring significant fiscal or equivalent fiscal or equivalent non-fiscal losses exists. ²	Priority	Within 60 days
3	Operation or administrative process will be improved.	General	60 days to one year

¹ The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number. (CAM 196.4)

² For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of \$25,000 or more to be involved or for a potential loss (including unrealized revenue increases) of \$50,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its citizens. (CAM 196.4)

³ The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration. (CAM 196.4)



Memorandum

TO: Gerald Silva
City Auditor

FROM: Manuel Alarcon
Fire Chief

SUBJECT: Significant Management
Accomplishments: Funds Audit

DATE: April 7, 2000

The Fire Department administers three types of cash funds. They are the petty cash fund, change fund, and Strike Team fund.

There are two (2) petty cash funds in the department. The Bureau of Administrative Services, Fiscal Unit, administers one petty cash fund. It processes petty cash advances and reimbursements for all Bureaus, except for the Bureau of Education and Training. The fund total is \$2,500, which is replenished, as needed, through reimbursements processed by the Finance Department. Staff reconciles receipts and prepares an edit list. This document identifies the appropriate charge numbers based on the responsibility center numbers identified on the Petty Cash Receipt form (100-32) for advances and reimbursements. All documents are reviewed at the supervisory level and then forwarded to the Finance Department. The Bureau of Education and Training administers the second petty cash fund. The fund total is currently \$600. All fund transactions are processed and reviewed at BET. Requests for replenishment are sent to the BAS Fiscal Unit for preparation of an edit list and forwarding to the Finance Department.

The BAS Fiscal Unit administers the change fund for the Bureau of Fire Prevention (BFP). This change fund provides change to customers who purchase reports with cash from BFP. The change fund amount is \$140 and no transactions are processed through this fund.

The Communications Division of the Bureau of Support Services (BSS) administers the Strike Team fund. Its use is only for travel expenses related to mutual aid assistance outside the City of San Jose. The fund total is \$1,500. Its use is dependent upon whether large-scale disasters occur and whether the Fire Department's assistance is requested.

Some significant management accomplishments are as follows:

- All petty cash receipts are stamped with the date of receipt in BAS. The petty cash custodian also initials and dates the receipts, when paid. This allows staff to track payment processing time.
- The BAS Fiscal Unit staff developed a form for petty to notify recipients that their reimbursements are ready. Line staff are situated in 31 outlying locations, and on varying shifts. This form helps ensure that the staff members are notified that reimbursements are available for pick-up and avoids unnecessary delays in the employees receiving funds.

Gerald Silva

Significant Management Accomplishments:

Funds Audit

April 7, 2000

Page 2

- The department has made excellent use of the city's credit card program and makes every effort to ensure that program guidelines are followed. Over several years, this has eliminated the small dollar transactions that would have been processed through petty cash, otherwise.
- Where ongoing petty cash problems arise, BAS staff has met with key members of other Bureaus to review allowable expenditures and proper procedures.

Although not related directly to this audit, the department has implemented and continues to utilize recommendations made in a 1992 audit that ensure the separation of cash collection responsibilities. This is important to note because of the significant growth in revenues. Since 1992, BFP revenues have increased dramatically from \$250,000 to approximately \$1.5 million annually. This has resulted in not only additional revenue passing through the department, but also increased workload, as well as the level of responsibility for staff. BAS Fiscal Unit staff continues to exercise excellent control over the proper intake, recording and depositing functions to ensure the safeguarding of these revenues.

The Fire Department makes every effort to ensure that proper purchasing and cash handling procedures are followed for all funds. Staff will continue to maintain high standards in reviewing and processing all transactions.



MANUEL ALARCON

Fire Chief, San Jose Fire Department