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## **Special Examination of Petty Cash Management**

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# Special Examination of Petty Cash Management

## EXECUTIVE SUMMARY

The Director of Services and Systems of the Corporate Comptroller's Branch has requested a review of the current processes and accountability of petty cash management of the department mainly in the National Capital Region. The purpose of the examination was to review current practices and processes in the handling of petty cash and to assess the accountability of the staff in relation to the petty cash handling processes and ensure that proper controls are in place. Furthermore, the review team was to determine the type of service being provided and evaluate the need for such a service.

### *Summary of Findings*

- While petty cash custodians are generally following policies defined in Chapter 2-11 of the Treasury Board manual, specific policies, procedures and guidelines have not been formally communicated to them.
- From the listing of the 163 petty cash funds administered by the department, we noticed that one petty cash fund was in excess of the maximum limit of \$ 2,000.
- There was no activity in 29 of the 78 petty cash funds maintained in the National Capital Region. The number of replenishments requested by custodians varies greatly from one fund to another, as does the annual turnover of the various funds.
- Our review of the two petty cash funds maintained in headquarters in the Financial Services Division demonstrated that payments from petty cash are kept below the maximum permitted under Treasury Board Policy and are made for small miscellaneous payments when immediate settlement is required.
- There is no written documentation to identify eligible or ineligible expenses.
- The use of acquisition cards has significantly reduced the type and volume of expenses processed through petty cash. The expenses that are processed are for the most part for expenses that could not be incurred through the use of acquisition cards. Since acquisition cards cannot be used to obtain cash advances there will exist a continuing need for the use of petty cash funds.
- The petty cash funds that were reviewed in detail are kept in a locked box, which is in turn protected in either a combination safe or locked filing cabinet.
- The Manager, Physical Security and Emergency Planning recently prepared a report concerning the theft of funds in Headquarters Financial Services Division. One of the recommendations contained in that report was adopted. The remaining two recommendations should be given serious consideration by management.

# Special Examination of Petty Cash Management

## DETAILED REPORT

### 1. Background of the review

The Director of Services and Systems of the Corporate Comptroller's Branch requested a review of the current process and accountability of petty cash management.

The purpose of the examination was to review the current practices and processes in the handling of petty cash and to assess the accountability of staff in relation to petty cash handling processes and ensure that proper controls are in place. In addition, the review team was to determine the type of service being provided and evaluate the needs for such a service.

In carrying out the review, interviews were conducted with those individuals as indicated in Appendix 3.

The review focussed on determining the types of expenses reimbursed through petty cash, identifying the number of petty cash funds in use in the department, determining key statistics for headquarters relating to the volume of replenishments and annual turnover of these funds. We also reviewed the physical security that exists over the cash funds.

### 2. Current Procedures and Processes

The policy on petty cash management is defined in Chapter 2-11 of the Treasury Board Manual under the section entitled Program Management and Comptrollership dated October 1994.

In March of 1997 the firm of KPMG conducted a study of the control of cash and negotiable instruments. We obtained a copy of this study wherein were contained general and specific guidelines concerning petty cash.

According to policy, petty cash funds are to be used for making small miscellaneous payments when immediate settlement is required or when this method of payment is considered more cost-effective and no petty cash fund shall exceed \$ 2,000. No single expense reimbursement from petty cash shall exceed \$ 200. Internal guidelines appear to limit expenses to \$ 99.99, wherever possible.

#### *Observations*

- In reviewing the list of petty cash funds of the Department it was determined that one fund in the amount of \$ 3,000 exceeded the permissible limit.
- The specific policies, procedures and guidelines (documented by KPMG) have not been communicated formally to petty cash custodians.
- The procedure for voiding vouchers to ensure that they are not processed twice is inconsistently applied.
- There is no independent count of the money left on hand when the petty cash expense summary form is prepared although there have been some surprise counts conducted by headquarters finance staff.

### 3 Volume of Activities

The Department has 163 petty cash funds amounting to \$ 73,227.38 located in five regions, CRC and headquarters, including finance (see Appendix 1). The average petty cash fund maintained amounts to \$ 449.25. Petty cash funds in headquarters (including finance) account for 44 % of the total.

A sample of the more meaningful operating statistics that were obtained during the review of all headquarters petty cash funds is set out in Appendix 2. There was inactivity in 29 out of 78 funds during the past year of which 10 were new funds that were established. The average annual turnover of all petty cash funds was 3.6 times with a low of .3 times and a high of 7.8 times.

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A further review of the Petty cash custodians revealed that:

- the control list of custodians should be reviewed and updated more frequently (9 custodians could not be found in Lotus Notes and one custodian is from Vancouver while appearing on HQ's list);
- Some frequent users of the Petty cash in Financial Services did request their own Petty cash for the upcoming year. Based on that information, consideration should be given to reduce the value of both Petty cash maintained in the Financial Services Division.

### *Observations*

- A significant number of headquarters petty cash funds were inactive during the year. There does not appear to be any documented procedure to analyze activity on a regular basis.
- The annual turnover of funds is extreme from the low to the high end. The number of replenishments of a fund is also inconsistent and can vary greatly on an annual basis.
- There are two petty cash funds of \$ 2,000 maintained in head office finance on the second floor of the C.D. Howe Building. One fund has been replenished 18 times during the past year at an average replenishment of \$ 507 whereas the other fund has been replenished 5 times at an average of \$ 1,431. This indicates the lack of a uniform approach in the management of petty cash by custodians.

### **4 Types of Expenses Reimbursed**

The expenses of the two petty cash funds in financial services were reviewed in detail. Expenses primarily consisted of reimbursement of parking charges, hospitality (coffee, breakfasts and lunches), mileage, long-distance charges, office supplies, and low dollar conference registration fees.

### *Observation*

- There does not appear to be any listing used by or provided to custodians to identify eligible or ineligible expenses to be reimbursed from petty cash.

### **5 Use of Acquisition Cards**

We received several comments during the interview process that the types and volumes of expenses paid through petty cash funds have been reduced significantly through the use of acquisition cards. We reviewed whether the further use of acquisition cards could reduce or replace the necessity for the use of petty cash funds.

The expenses reimbursed for the funds that were reviewed in detail are, for the most part, expenses that could not be incurred through the use of acquisition cards. Since acquisition cards cannot be used to obtain cash advances there will exist a continuing need for the use of petty cash funds.

### **6 Physical Security**

The review team examined the physical security related to five petty cash funds. All of these funds examined are contained in a locked cash box which is kept in a combination safe or locked filing cabinet.

We also reviewed a recent report prepared by the Manager, Physical Security and Emergency Planning, which contained the following recommendations.

- The person responsible for reimbursing claims should remain at all times the person responsible for the money.

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- Consideration to use electronic access control to the space occupied by Financial Services during silent hours should be considered.
- An alarm system be installed to remotely monitor the activities during silent hours in the Cheque Distribution Office and the Vault room.

The first recommendation was adopted by the two petty cash custodians in Financial Services.

### **7 Recommendations**

- 1- The specific guidelines and procedures relating to petty cash should be reviewed, formalized and communicated to all petty cash custodians.*
- 2- Surprise petty cash counts should be conducted periodically by the financial services division and the results of these counts documented.*
- 3- Inactive petty cash funds should be reviewed and the need for continuing these funds should be determined. Furthermore, all funds should be reviewed on an annual basis to assess the number and level of individual funds.*
- 4- The amount of individual petty cash funds should be reviewed to determine that no fund exceeds the authorized limit of \$ 2,000.*
- 5- Management should establish a level at which point the petty cash funds should be replenished. The average turnover in headquarters finance is 3.59 times per year. In view of the current average percentage of funds available at replenishment for headquarters being 36 %, we recommend that the Department set a target for replenishment of funds when petty cash is at 30-35% of the fund amount.*
- 6 Consideration should be given to combining the two petty cash funds in financial services or reducing the amount of each fund. Based on the current activity one combined fund of \$ 2,000 would turnover 8.1 times and need to be replenished every 45 days. If each fund were reduced to \$ 1,000 turnover would be 9.1 times and 7.1 times respectively and replenishment would be every 40 and 51 days respectively.*
- 7 The recommendation of installing an alarm system in the Cheque Distribution Office and the Vault Room as made in the report by the Manager, Physical Security and Emergency Planning should be adopted. We understand that the estimated costs of these installations are approximately \$ 800. Management should also consider the recommendation of electronic access control as it pertains to the space occupied by Financial Services.*

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### APPENDIX 1

#### Summary of Petty Cash by Region or Unit

	<b>Number</b>	<b>Amount</b>
Finance-Atlantic	7	\$ 2,800.00
Finance-CRC	4	7,000.00
Finance-Ontario	28	12,450.00
Finance-Pacific	16	9,850.00
Finance-Prairies	11	5,150.00
Finance-Quebec	19	3,948.03
Headquarters-(including Finance)	78	<u>32,029.35</u>
<b>TOTAL</b>	<b>163</b>	<b>\$ <u>73,227.38</u></b>
<b>AVERAGE</b>		<b>\$ <u>449.25</u></b>

**SOURCE: Industry Canada Report**  
**Working Capital Advance-Detail**  
**Extracted From IFMS**

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### APPENDIX 2

#### Key Volume Statistics and Turnovers- Headquarters Petty Cash

Number of petty cash funds	78
Number of inactive funds	29
Total value of petty cash funds	\$ 32,029.35
Average value per petty cash fund	\$ 410.63
Total value of inactive funds	\$ 8,075.09
Total number of replenishments-active funds	183
Total value of replenishments	\$ 74,619.40
Average value per replenishment	\$ 407.76
Average annual petty cash turnover	3.6 times
Lowest annual turnover	0.3 times
Highest annual turnover	7.8 times
Average annual turnover in days	101.7 days
Average percentage of fund available at replenishment	36 %
Lowest percentage of fund available at replenishment	3 %
Highest percentage of fund available at replenishment	73 %

**SOURCE: Calculated Statistics Based on Listing of  
Petty Cash Reimbursement Cheques by Custodian  
Extracted from IFMS**



**APPENDIX 3**

**Listing of Interviews**

Nancy French- Manager, Financial Services

Jean Laughlin- Supervisor, General and Public Accounts

Marian Bird- Supervisor, Travel, Removal and Hospitality

Hélène Dumouchel- Travel Verification Clerk

Sharon Rafuse- Clerk- Financial Services

Hélène Martin- Manager, Administrative Services-Communications

Angèle Drolet- Accounting Services Officer- Canadian Tourism Commission

Gladys Fisher- Chief-Administrative Unit- Industry and Science Policy

Daniel Carrier- Manager, Physical Security and Emergency Planning