



HARFORD COUNTY, MARYLAND

Office of the County Auditor

April 30, 2014

Honorable Members of the County Council
Harford County, Maryland
212 S. Bond St., 2nd Floor
Bel Air, MD 21014

County Executive David Craig
Harford County, Maryland
220 S. Main St.
Bel Air, MD 21014

Dear Council Members and Mr. Craig:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of the Water & Sewer – Abingdon Office's Petty Cash.

The audit found cash on hand agreed to the expected amount and was appropriately secured. Our review of transactions showed that some transactions were missing adequate support. In particular, signatures confirming supervisor approval and employee receipt of cash was missing in some cases.

More detail about our audit methodology, procedures, findings and recommendations for improvement follows this letter. We would like to thank the members of management for their cooperation during the audit.

The audit team is available to respond to any questions you have regarding the attached report.

Sincerely,

Chrystal Brooks, CPA, CGFM, CIA, CISA, CGAP, CRMA
County Auditor

cc: Ms. Kathryn Hewitt, Treasurer
Mr. Timothy Whittie, Director of Public Works
Mr. Joel Caudill, Deputy Director for Water and Sewer
Ms. Charmane Dawson and Debbie Pilar, Petty Cash Custodians

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HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF PETTY CASH- WATER AND SEWER – ABINGDON OFFICE

Report Number: 2014-A-04

Date Issued: 04/30/2014

Audit Team:

Chrystal Brooks, CPA, CIA, CGAP, CISA, CGFM, CRMA
County Auditor

Laura Tucholski, CPA, CIA, CFE, CRMA
Auditor

BACKGROUND INFORMATION

INTRODUCTION

The department maintains a petty cash fund for reimbursing office expenses paid with cash. Primarily, the fund is used to reimburse employees for overtime meals. The petty cash fund is reconciled by the petty cash custodian when it needs to be replenished – approximately every 3 weeks.

REVIEW OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this review was to ensure that petty cash processes for the Abingdon Water and Sewer Office are in compliance with Petty Cash policies and ensure disbursement and replenishment transactions were approved and properly accounted for. The scope of this review was limited to reviewing the controls over the office's petty cash fund. The review did not include a complete evaluation of internal controls, but instead, relied on substantive testing to support conclusions. This lack of a complete review did not affect achievement of the audit objective.

The audit focused on activity during the period of June 1, 2013 through April 1, 2014. Our audit procedures included interviewing personnel, observation and testing. Specifically, we counted the cash on site, observed physical security and reviewed the supporting documentation for each petty cash expenditure and replenishment.

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The audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient 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.

REVIEW RESULTS

Harford County management is responsible for establishing and maintaining effective internal controls. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets and compliance with applicable laws, rules and regulations are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected.

Our procedures disclosed cash transactions were generally properly accounted for, but in some cases transactions were not fully supported by properly approved documentation. The petty cash funds on hand agreed to the expected amount. We observed that cash was appropriately secured and not easily accessible.

Areas for improvement are described in the Findings and Recommendations section of this report. Management has been provided an opportunity to respond to this report; the response provided is below.

MANAGEMENT RESPONSE

We thank Ms. Brooks for her thorough review of the petty cash box at the Abingdon Maintenance shop and for the feedback on the transactions that did not meet the standard. We have emphasized to staff the importance of ensuring that the receipts and disbursements are adequately documented and have instituted changes to help ensure that the records will be complete in the future.

FINDINGS AND RECOMMENDATIONS

Finding Number: 2014-A-04.01 Missing Approvals

Some Water and Sewer transactions were missing approvals.

Analysis: We sampled 8 of 20 petty cash replenishments to review supporting documentation for each transaction within the replenishment. Our expectation was that each transaction within the replenishment would be supported by a receipt and a petty cash request form that included

an explanation of the purchase, a supervisor's approval and acknowledgement of the employee's receipt of the cash.

Within each of the replenishments we sampled, we identified missing documentation. Specifically, we noted:

- 22 transactions without supervisor approval, including 9 meal tickets
- 18 transactions without employee acknowledgement of receipt of the cash
- 5 transactions that included sales tax (total sales tax expense for these was \$1.92)
- 17 reimbursements for tolls and retail purchases did not have an adequately documented purpose

For some of the transactions above, we noted that the employee acknowledgement signature was typed. This is an invalid confirmation because it was created before the cash was received. Further, we saw transactions that were signed by the cash custodian in place of the supervisor or employee.

Recommendation: We recommend the petty cash custodian only provide reimbursements when a properly completed request form has been provided and never for sales tax. We further recommend Water and Sewer setup an EZPass account for its vehicles. If an employee uses a personal vehicle, expenses should be reimbursed through the Accounts Payable process, not petty cash.

Management Response: Internal procedures have been modified. No vouchers will be processed without appropriate supervisor's signature. No vouchers will be processed without appropriate employee signatures. The cash custodian will no longer be signing off as employee or supervisor. Electronic signatures will no longer be acceptable or allowed. Sales tax will no longer be reimbursed.

Expected Completion Date: 04/24/2014