



Veterans Affairs
Canada

Anciens Combattants
Canada

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AUDIT OF PETTY CASH

Audit and Evaluation Division

Canada 

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EXECUTIVE SUMMARY

The *Accountable Advances Regulations (AAR)* permit departments to establish petty cash funds to assist in meeting specific operational needs. Each petty cash fund can be set up to a maximum of \$2,000; individual transactions shall not exceed \$200. Veterans Affairs Canada (VAC) currently has 78 petty cash funds in place. The Treasury Board Secretariat (TBS) Directive on Accountable Advances states that the petty cash funds should only be used when it is more cost-effective than using acquisition cards or staff travel cards.

The objectives of this audit were to assess the management control framework and to assess compliance with the *AAR* and the TBS Directive.

The scope included petty cash transactions during the fiscal period 2014-15 for 53 of the 78 petty cash funds; the audit excluded the 24 petty cash funds at Ste. Anne's Hospital and one at Audit and Evaluation Division.

The audit team observed that petty cash was being used for items that are considered appropriate as per the Regulations and Directive. The audit team also observed areas for improvement. Monthly reconciliations of petty cash funds, which would allow for timely detection of any cash shortages and appropriate corrective action, were not being conducted in the majority of the offices visited. Several petty cash funds were not used in 2014-15 and, in other instances, the funds were used for non-Veteran related purposes that could have been met using other means such as acquisition cards. The departmental policy on petty cash should be revised to fully align with Treasury Board (TB) regulations and the TBS Directive on Accountable Advances.

Overall, the activities relating to the management control framework and compliance were determined to require improvement. The audit team observed weaknesses that, when taken individually or together, are significant and may compromise the control objectives and sound management of petty cash funds.

Chief Audit Executive's Signature

Kim Andrews
Chief Audit Executive

Date: October 15, 2015

1.0 BACKGROUND

The *Accountable Advance Regulations* came into force June 1, 2009. Treasury Board Secretariat (TBS) Directive on Accountable Advances took effect on October 1, 2009, replacing the TBS Policy on Petty Cash.

Petty cash funds are standing accountable advances for the purposes of paying minor expenses when it is not practical to pay for them through other alternatives, e.g., travel card or acquisition card. The funds are to be established only when required, used only for the purpose for which they are issued, properly safeguarded, accounted for and accurately reported.

Each petty cash fund is to be set up based on the operational needs of the organization and to a maximum of \$2,000 per fund. Petty cash funds are issued to an individual who is an employee of the Government of Canada and who does not exercise financial authority. These staff are custodians of the funds and are personally responsible for the money issued to them. The responsibility centre (RC) managers monitor and approve the use of funds. Individual transactions from any one fund shall not exceed \$200. As of March 31, 2015, Veterans Affairs Canada (VAC) had 78 petty cash funds across the Department. The Directive states that the petty cash funds should only be used when it is more cost-effective than using acquisition cards (credit cards used to purchase goods and services) or travel cards (credit cards issued to employees to pay for travel expenses).

2.0 ABOUT THE AUDIT

2.1 Audit Objectives and Scope

The objectives of the audit were to:

- assess the management control framework, and
- assess compliance with the *Accountable Advances Regulations* and TBS Directive on Accountable Advances.

The audit criteria are provided in Appendix A.

The scope included petty cash transactions during the fiscal period 2014-15 for 53 of the 78 petty cash funds; the audit excluded petty cash funds at Ste. Anne's Hospital (24) and the Audit and Evaluation Division (1).

2.2 Methodology

This audit was conducted in conformance with the Internal Audit standards, as outlined by the Institute for Internal Auditors, and is aligned with the Internal Audit Policy for the Government of Canada, as supported by the results of the Quality Assurance and Improvement Program.

The audit methodologies used to provide assurance on the objectives are presented in Table 1 below.

Table 1 – Audit Methodologies

Methodology	Source
Interviews	Head Office, Field Operations, and Area Office staff were interviewed to obtain an understanding of the petty cash fund process and to assess compliance with governing authorities.
Cash count	Unannounced cash counts were completed for 12 custodians at 8 offices to confirm that all petty cash funds were accounted for and that the expenditures were an appropriate use of petty cash funds.
Documentation Review	Departmental policies and procedures were reviewed to ensure they aligned with governing authorities.
File Review	Petty cash reimbursements were reviewed to assess compliance with applicable policies and procedures.
Transaction Data Analysis	FreeBalance data and other relevant reports for the fiscal period 2014-15 were analysed to determine the types of expenditures processed through petty cash and to verify the continued need for petty cash funds.

3.0 AUDIT RESULTS

3.1 Establishment and Use

Control criteria: Petty cash funds are established only when required and used solely for the purpose for which they were issued

At the time of the audit, VAC had 78 petty cash funds in place, with a total value of \$22,800. The individual petty cash floats ranged in value from \$100 to \$2,000 with an average value of \$438. The audit team reviewed transactions associated with 29 funds that were used during the year being audited. All of the petty cash funds were established prior to the audit and the majority of them were established prior to the introduction of acquisition cards and travel cards.

An analysis of transactions revealed that 28 of the 53 funds had disbursements during 2014-15. In 2014-15 there were 301 disbursements from the 28 funds: 156 of them were directly to Veterans to assist them with a variety of urgent needs, mainly for the purchase of food and for travel, which are charged to the Department's benevolent funds. The remaining transactions were for other purposes, mainly office supplies and staff travel, as outlined in Table 2 below. While the audit found that the purchases made through petty cash were within the directive and regulations guidelines, non-Veteran purchases could have been made using acquisition cards or travel cards as per their respective policies. Petty cash funds should be limited primarily to Veteran-related transactions.

Table 2 – Petty Cash Disbursements by Type for 2014-15

Type	Number	\$ Amount (2014/2015)
Veteran-related	156	11,739
Office supplies	106	3,629
Hospitality	27	1,336
Awards	5	298
Training	3	200
Vehicle expenses	4	161
Total	301	\$17,363

Compliance criteria: Advances are replenished to their original value unless their use justifies a decrease, increase, or complete recovery

The audit did not observe that analysis was being conducted to determine if changes to the size of floats were required or if individual petty cash funds continue to be needed.

The RC manager should review the petty cash funds at least annually to determine if the funds are still required and in what amount to meet operational needs.

Compliance criteria: Funds should be set up in compliance with the TBS Accountable Advances Directive

The chapter on Petty Cash in the Department's *Financial Policy and Procedure Manual* (FPPM) does not fully align with the current *Accountable Advance Regulations* and related directive and guideline. The FPPM still refers to Departmental Bank Account cheques which are no longer in use in the Department. As well, it does not highlight other alternatives to the use of petty cash, e.g., acquisition and travel cards.

Recommendation 1

It is recommended that the Director General, Finance Division, work with Responsibility Centre managers to review their petty cash funds annually for the purpose of determining if the funds are still required and in what amount to meet operational needs. (Essential)

Management Response

Management agrees with this recommendation. The audit identified some petty cash funds that were not being used or were used for other purposes. Finance Division will work with Responsibility Centre Managers to either reduce or close these funds as appropriate. This work will be completed by March 2016.

Recommendation 2

It is recommended that the Director General, Finance Division, update the *Financial Policy and Procedures Manual – Part/Chapter 2-11 Policy on Petty Cash*. (Essential)

Management Response

Management agrees with this recommendation. The policy on Petty Cash will be updated by March 2016.

3.2 Safeguarding and Reconciliation

Control criteria: The petty cash funds are properly safeguarded, accounted for, and reconciled

Compliance criteria: Petty cash funds are properly safeguarded

Custodians are personally responsible and accountable for advances made to the petty cash fund and all acknowledged their responsibility by signing the Acknowledgement of Petty Cash Responsibilities form. When a custodian is changed, either the fund is closed and a new one is started in the name of the new custodian, or the cash is counted by both the former and the new custodian, and then transferred to the new

custodian. Financial Operations Section is informed of the change in custodian when they receive the completed Acknowledgement of Petty Cash Responsibilities form signed by the new custodian.

Petty cash funds are required to be stored in locked boxes and kept securely in a safe or in a locked storage cabinet. During the unannounced cash count visits, in all but one instance, the petty cash funds were properly safeguarded. The FPPM requires that two keys be maintained for each petty cash box. Some offices did not have a second key or the custodians did not know where a second key was held. In one office, no key could be located at the time of the cash count.

Compliance criteria: The custodian reconciles the funds as per the procedures

The Directive states that custodians should reconcile the petty cash funds weekly or monthly and provide a report to the RC manager on the fund balance. In the offices visited, except for one, cash counts by custodians were not consistently being performed, nor were results shared with the RC manager. This finding is consistent with evidence obtained from several other offices. Regular reconciliation would help ensure that any petty cash shortages are detected and corrected in a timely manner.

At the completion of the 12 petty cash counts, two funds had cash shortages and seven funds had cash overages ranging from \$0.01 to \$8.65.

- The fund in one office was short by \$37.20, which was replenished by the custodian at the time of the cash count.
- A second office was short by \$700. It took two weeks to resolve this shortfall. In this instance, the safe contained another locked cash box where \$500 was found, which the custodian was not aware of at the time of counting. As for the remaining \$200, a replenishment voucher was located in the office and confirmed by the Financial Operations Section. Subsequently, a second unannounced cash count was conducted and all moneys were accounted for.

If reconciliation is not done regularly, missing funds may go undetected for a period of time. There is a risk that funds will not be available to respond to a legitimate request, such as an urgent need of a Veteran.

Replenishment of petty cash is accomplished by completing a Petty Cash Statement form with supporting receipts. These were signed by both the custodians and the RC managers as per the FPPM. However, the audit did not observe evidence that cash was counted at the time of replenishment.

Recommendation 3

It is recommended that the Director General, Field Operations, ensure proper safeguarding and regular reconciliation and reporting of petty cash funds as per the departmental *Financial Policy and Procedures Manual*. (Critical)

Management Response

Management agrees with this recommendation. The Director General Field Operations will institute a practice of monthly reconciliation and reporting of petty cash funds as per the departmental Financial Policy and Procedures Manual, the reconciliation will be completed by two individuals. This will be in place by March 16, 2016.

3.3 Separation of Duties

Control criteria: Adequate separation of duties exists with respect to advances

Compliance criteria: Adequate separation of duties exists

In all offices within the scope of this audit, adequate separation of duties exists with regards to *Financial Administration Act* (FAA) Section 34 (verification of receipt of goods) and Section 33 (payment approval).

According to the *Accountable Advances Regulations* and TBS Directive, adequate separation of duties has two components: the custodian should not exercise Section 34 or Section 33; and a person should not remain as custodian over an extended period of time unless alternate controls, such as independent periodic verification, are implemented. Departmental policy does not define how long a person can remain as custodian and independent periodic verification was not being conducted. Without independent periodic verification of petty cash, kiting (temporarily removing cash for personal use and replacing it later before a count is done) can occur undetected.

Control criteria: The performance of account verification is done by someone with the delegated authority to do so; is accomplished on a timely basis and verifies the correctness of the payment requested

The audit observed that performance of account verification is performed by someone with the delegated authority to do so. Petty cash custodians attach supporting receipts and vouchers to the Petty Cash Statement for cash replenishments. They are sent to the Financial Operations Section where 100% pre-pay verification is performed by checking that all receipts comply with relevant regulations, policies and directives for petty cash and that the amounts are accurate and recorded properly, prior to replenishing any funds.

Control criteria: The payment and settlement is carried out by someone with proper delegation of authority and for the correct dollar amount and to the right vendor on a timely basis

Replenishment payments to petty cash fund custodians are performed by the Financial Operations Section, which reviews expenditure information in the Department's financial system (FreeBalance). Once verified, a person who has been delegated Section 33

(payment approval) authority approves the payment of expenditures. This information is sent electronically to Public Works Government Services Canada for a cheque release with individual cheques being paid to respective custodians for the approved amounts. The turn-around-time for processing cash replenishments is one week.

Recommendation 4

It is recommended that the Director General, Finance Division, develop and Director General, Field Operations, implement a policy to mitigate risks associated with employees remaining as petty cash fund custodians over an extended period of time. (Essential)

Management Response (Finance Division)

Management agrees with this recommendation. By March 2016, the policy on Petty Cash will be updated to require any funds with the same custodian for a period of greater than one year be subject to an annual independent verification.

Management Response (Field Operations Division)

Management agrees with this recommendation. Going forward, any funds with the same custodian for an extended period will be subject to annual independent verification.

3.4 Recording

Criteria: Accountable advances are accounted for in a timely manner as per Advances Regulations.

The audit observed that petty cash fund advances are accounted for at the end of the fiscal year through the custodian signing a Standing Advance Certificate acknowledging the amount of standing advance and that the funds are required for the purpose of petty cash disbursements.

3.5 Audit Opinion

Overall, the activities relating to the management control framework and compliance were determined to require improvement. The audit team observed weaknesses that, when taken individually or together, are significant and may compromise the control objectives and sound management of petty cash funds. Periodic reconciliations of petty cash funds were not being conducted which can result in undetected and uncorrected cash loss for a period of time. Several petty cash funds were not used in 2014-15 and, in other instances, the funds were used for non-Veteran related purposes that could have been met using other means such as acquisition cards.

Appendix A - Audit Criteria

Objective	Criteria*
Assess the management control framework	Accountable advances are established only when required and used solely for the purpose for which they were issued
	Accountable advances are properly safeguarded, accounted for, and reconciled
	Adequate separation of duties exists with respect to advances
	The performance of account verification is done by someone with the delegated authority to do so; is accomplished on a timely basis and verifies the correctness of the payment requested
	The payment and settlement is carried out by someone with proper delegation of authority and for the correct dollar amount and to the right vendor on a timely basis
Assess compliance with the <i>Accounts Advances Regulations</i> and Directive	Petty cash funds are set up in compliance with the Accounts Advances Directive
	Petty cash funds are properly safeguarded
	The custodian reconciles the funds as per the procedures
	Adequate separation of duties exists
	Accountable advances are accounted for in a timely manner as per Advances Regulations
	Advances are replenished to their original value unless their use justifies a decrease, increase, or complete recovery

* Audit recommendations have been developed to address the gaps identified by the audit team. All other audit criteria were determined to be fully met or partially met with only minor deficiencies.

Appendix B – Risk Ranking of Recommendations and Audit Opinion

The following definitions are used to classify the ranking of recommendations and the audit opinion presented in this report.

Audit Recommendations

Critical Relates to one or more significant weaknesses for which no adequate compensating controls exist. The weakness results in a high level of risk.

Essential Relates to one or more significant weaknesses for which no adequate compensating controls exist. The weakness results in a moderate level of risk.

Audit Opinion

Well Controlled Only insignificant weaknesses relating to the control objectives or sound management of the audited activity are identified.

Generally Acceptable Identified weaknesses when taken individually or together are not significant or compensating mechanisms are in place. The control objectives or sound management of the audited activity are not compromised.

Requires Improvement Identified weaknesses, when taken individually or together, are significant and may compromise the control objectives or sound management of the audited activity.

Unsatisfactory The resources allocated to the audited activity are managed without due regard to most of the criteria for efficiency, effectiveness and economy.