

**ADVISORY LETTER
OF THE
PETTY CASH FUNDS HELD BY THE
STATE OF NEBRASKA**

**FOR THE PERIOD JULY 1, 2001
THROUGH MARCH 31, 2002**

**This document is an official public record of the State of Nebraska, issued by
the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original
document and may be prohibited by law.**

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

TABLE OF CONTENTS

	<u>Page Number</u>
Transmittal Letter	1 - 2
Background Information Section	
Background	3 - 4
Summary of Comments	5 - 6
Procedures Performed and Comments and Recommendations	
Arts Council	7
Attorney General	7 - 9
Commission on Law Enforcement and Criminal Justice	9 - 10
Department of Education	10
Health and Human Services System	11 - 21
Historical Society	21
Public Service Commission	21 - 22
Department of Revenue	22 - 23
Department of Roads	23 - 28
State Patrol	28 - 29
University of Nebraska - Kearney	29 - 30
University of Nebraska - Lincoln	30 - 32
University of Nebraska - Medical Center	32 - 34
University of Nebraska - Omaha	34 - 36
Wayne State College	36

STATE OF NEBRASKA

AUDITOR OF PUBLIC ACCOUNTS



Kate Witek
State Auditor
kwitek@mail.state.ne.us

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

Dennis Meyer
Budget Coordinator
dmeyer@mail.state.ne.us

Mark Avery
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

Honorable Kate Witek
Auditor of Public Accounts
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509

Ms. Lori McClurg, Director
Department of Administrative Services
P.O. Box 94664
State Capitol, Room 1315
Lincoln, Nebraska 68509

Dear Mrs. Witek and Ms. McClurg:

In accordance with Neb. Rev. Stat. Section 84-304 R.S. Supp., 2000 we have performed certain procedures related to the objectives enumerated below for the Petty Cash Funds held by the State of Nebraska. We conducted those procedures in accordance with Statements on Standards for Consulting Services issued by the American Institute of Certified Public Accountants (AICPA) Management Consulting Services Executive Committee.

The scope was to evaluate certain procedures regarding the Petty Cash Funds held by the State of Nebraska for the period July 1, 2001 through March 31, 2002. The objectives were to:

1. Determine petty cash funds were properly authorized.
2. Determine petty cash funds were properly accounted for.
3. Determine petty cash funds were used in accordance with applicable State Statutes.

We performed certain procedures we considered necessary to meet the objectives enumerated above. Those procedures consisted primarily of obtaining an understanding of internal control procedures, conducting surprise visits to various agency locations, and testing transactions.

We reviewed 42 petty cash funds at 15 State agencies. Based on the procedures performed we noted incorrect petty cash fund authorizations on file with the Department of Administrative Services, infrequent replenishment of petty cash funds, and petty cash funds that were not properly accounted for.

P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

For more information on our comments and recommendations, see the Summary of Comments and the Procedures Performed and Comments and Recommendations sections of this letter.

This advisory letter is intended for the information of the Director of the Department of Administrative Services and the Auditor of Public Accounts; however, this advisory letter is a matter of public record and its distribution is not limited.

June 6, 2002


Assistant Deputy Auditor

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

BACKGROUND

Neb. Rev. Stat. Section 81-104.01 R.R.S. 1996 authorizes the executive head of any State agency to make application to the Director of Administrative Services and the Auditor of Public Accounts to establish and maintain a petty cash fund of not less than twenty-five dollars nor more than three hundred dollars at a specific location, whenever the need exists. Specific State Statutes authorize other petty cash funds to be established at various amounts and used for stated purposes.

The Director of the Department of Administrative Services and the Auditor of Public Accounts must approve the establishment of a petty cash fund. When approved, the Department of Administrative Services issues a warrant for the authorized amount to the agency. The funds to establish and replenish the petty cash fund are taken from the appropriate fund of the agency based on its purpose. When disbursements have been made and replenishment is deemed necessary, an accounting for all transactions is provided to the Department of Administrative Services.

The petty cash funds are used for various purchases based on the purpose of the fund and agency. They are used to make change and to make purchases. Purchases may include miscellaneous office expenses, emergency payments, court fees, travel advances, and refunds.

The following is the list of the petty cash funds held by the State of Nebraska as of March 31, 2002, grouped by agency.

Authorized Petty Cash Funds Held by the State of Nebraska
By Agency
As of March 31, 2002

Accountability and Disclosure Commission	\$	25
Department of Administrative Services		80
Department of Agriculture		425
Arts Council		250
Attorney General		300
Chadron State College		25,000
Department of Corrections		58,425
Commission on Law Enforcement and Criminal Justice		275
Commission for Deaf and Hard of Hearing		125
Department of Economic Development		50
Department of Education		50
Fire Marshal		50
Game and Parks Commission		33,550
Health and Human Services System		38,475
Historical Society		740
Department of Insurance		450

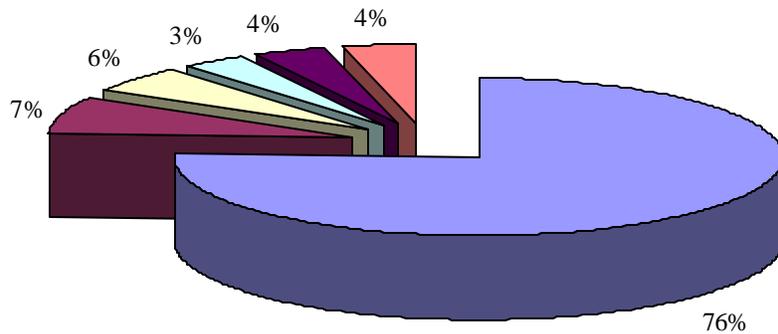
PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

BACKGROUND
(Concluded)

Authorized Petty Cash Funds Held by the State of Nebraska
(Concluded)

Library Commission	150
Department of the Military	300
Department of Motor Vehicles	400
Peru State College	25,000
Public Service Commission	300
Department of Revenue	6,050
Department of Roads	11,600
Rural Development Commission	125
State Patrol	18,000
Supreme Court	125
State Treasurer	1,000
University of Nebraska	200
University of Nebraska-Kearney	125,000
University of Nebraska-Lincoln	300,000
University of Nebraska-Omaha	175,000
University of Nebraska-Medical Center	178,000
Wayne State College	25,000
	<hr/>
Total Petty Cash Funds	<u>\$ 1,024,520</u>

Petty Cash Funds Held by the State of Nebraska Grouped by Major Agency



■ University of Nebraska ■ State Colleges ■ Corrections ■ Game & Parks ■ HHSS ■ All Other State Agencies

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

SUMMARY OF COMMENTS

In performing the procedures related to the advisory service objectives enumerated in our transmittal letter for the Petty Cash Funds held by the State of Nebraska, we noted certain matters involving the internal control and other operational matters that are presented here. Comments and recommendations are intended to improve internal controls, ensure compliance, or result in operational efficiencies.

1. **Arts Council:** No comments and recommendations were noted.
2. **Attorney General:** A lack of segregation of duties was noted and documentation was not available to support one of four checks tested.
3. **Commission on Law Enforcement and Criminal Justice:** The petty cash fund authorization on file with the Department of Administrative Services was not current for the Grand Island office.
4. **Department of Education:** No comments and recommendations were noted.
5. **Health and Human Services System:** Petty cash funds could not be located, petty cash fund authorizations on file with the Department of Administrative Services were not current, bank reconciliations were not being completed, and an inaccurate book balance was used for a bank reconciliation. We also noted a fund was used for an unauthorized purpose and two funds were not being used.
6. **Historical Society:** No comments and recommendations were noted.
7. **Public Service Commission:** No comments and recommendations were noted.
8. **Department of Revenue:** The petty cash fund authorization on file with the Department of Administrative Services was not current for the Norfolk office.
9. **Department of Roads:** Replenishments for the employee recognition funds were made infrequently and documentation was not available to support the approval of the purchase of food out of a Rewards and Recognition petty cash fund.
10. **State Patrol:** The petty cash fund authorization on file with the Department of Administrative Services was not current for the Fremont area and total petty cash funds for District 1 exceeded the petty cash fund authorizations.
11. **University of Nebraska-Kearney:** Cash on hand at the Student Union was \$105 long.
12. **University of Nebraska-Lincoln:** No comments and recommendations were noted.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

SUMMARY OF COMMENTS

(Concluded)

13. ***University of Nebraska-Medical Center:*** The total authorized cash funds as of March 31, 2002, used on the reconciliation of the petty cash fund did not agree with supporting documentation. The petty cash fund authorization on file with the Department of Administrative Services was not current and an unauthorized quick order-quick pay account was being used.
14. ***University of Nebraska-Omaha:*** The Cashiering Department maintained a total of \$13,500 in change funds for the cashiers, which appears to be excessive. Reimbursements for travel advances were issued to the employees rather than to the University.
15. ***Wayne State College:*** No comments and recommendations were noted.

More detailed information on the above items is provided hereafter. It should be noted this advisory letter is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this advisory letter were furnished to the agencies to provide them an opportunity to review the advisory letter and respond to the comments and recommendations included in this advisory letter. All formal responses received have been incorporated into this advisory letter. Where no response has been included, the agencies declined to respond. Responses have been objectively evaluated and recognized, as appropriate, in the advisory letter. Responses that indicate corrective action has been taken were not verified at this time.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

PROCEDURES PERFORMED AND COMMENTS AND RECOMMENDATIONS

1. Arts Council

On May 8, 2002, we performed certain procedures related to the petty cash fund at the Nebraska Arts Council (Council) on a surprise basis. Neb. Rev. Stat. Section 81-104.01 R.R.S. 1996 allows the Council to establish a petty cash fund of not less than \$25 nor more than \$300, whenever a need exists. Replenishments for disbursements made would be received from the State of Nebraska.

As of May 8, 2002, the Council was authorized for and maintained a \$250 petty cash fund. Based on discussion with management, disbursements from the fund included parking, postage, and miscellaneous purchases of less than \$3.

The following procedures were performed during our review of the petty cash fund:

- Counted cash on hand on a surprise basis.
- Obtained an understanding of internal controls over the petty cash fund.
- Selected two disbursements from the largest replenishment received from the State of Nebraska. The total amount of the replenishment was traced to supporting documentation, and the two disbursements selected were reviewed for reasonableness based on the fund purpose. Disbursements from the fund included office supplies, postage, hardware supplies, and car washes for the State vehicle. Replenishments for the period July 1, 2001 through March 31, 2002 totaled \$306.

Based on the above-mentioned procedures, no exceptions were noted related to the use of and procedures over the fund.

2. Attorney General

On May 16, 2002, we performed certain procedures related to the petty cash funds at the Office of the Attorney General (Office) on a surprise basis. Neb. Rev. Stat. Section 81-104.01 R.R.S. 1996 allows the Office to establish a petty cash fund of not less than \$25 nor more than \$300, whenever the need exists. Replenishment for disbursements made would be received from the State of Nebraska.

As of May 16, 2002, the Office was authorized for and maintained a \$300 petty cash fund, which consisted of \$15 in a change fund and \$285 in a checking account. Based on discussion with management, disbursements from the fund included court fees and emergency payments.

The following procedures were performed during our review of the petty cash fund:

- Counted all cash on hand on a surprise basis.
- Obtained an understanding of internal controls over the petty cash fund.
- Prepared bank/fund reconciliation as of March 31, 2002.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

**PROCEDURES PERFORMED AND
COMMENTS AND RECOMMENDATIONS**

2. **Attorney General** (Continued)

- Selected four disbursements from the check register for testing. The disbursements were traced to supporting documentation and reviewed for reasonableness. Disbursements included court filing fees. Disbursements for the period July 1, 2001 through March 31, 2002 totaled \$419.

Based on the above-mentioned procedures, the following exceptions were noted related to the use of and procedures over the petty cash funds:

1. Segregation of Duties

Good internal control requires procedures be in place to ensure no one individual can handle all phases of a transaction from beginning to end.

The custodian signed checks, prepared and approved the replenishment document, and prepared the fund reconciliation and bank reconciliation. There was no independent review of the activity in the petty cash fund.

We recommend the Office implement procedures to provide for an adequate segregation of duties or an independent review of the petty cash fund activity.

Agency Response: Due to the fact that the Attorney General's Office has had significant employee turn over in the Capitol office in the last year, we have not had the stability in our staff to segregate the duties of the petty cash fund. As of March 2002, we have hired a person who will be able to prepare the replenishment document as well as reconcile the bank statements.

2. Supporting Documentation

Good internal control requires documentation be on file to support all payments made.

Documentation was not available to support the issuing of 1 of 4 checks tested. A receipt, invoice, or court document was not on file to support the amount paid.

We recommend the Office maintain adequate documentation to support all payments from the petty cash fund.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

PROCEDURES PERFORMED AND COMMENTS AND RECOMMENDATIONS

2. Attorney General (Concluded)

2. Supporting Documentation (Concluded)

Agency Response: All petty cash checks are to be documented with a receipt and/or court document from the clerk of the court once the fee has been paid. Morrill County is one of the few counties in Nebraska who does not mail receipts for filing fees. A copy of the court document, however, was easily obtained and attached to the petty cash replenishment document.

3. Commission on Law Enforcement and Criminal Justice

On May 29, 2002, we performed certain procedures related to the petty cash fund at the Grand Island Law Enforcement Training Center on a surprise basis. Neb. Rev. Stat. Section 81-104.01 R.R.S. 1996 allows the Commission to establish a petty cash fund of not less than \$25 nor more than \$300, whenever a need exists. Replenishments for disbursements made would be received from the State of Nebraska.

As of May 29, 2002, the Commission was authorized for and maintained a \$200 petty cash fund. Based on discussion with management, disbursements from the fund included postage and miscellaneous supplies.

The following procedures were performed during our review of the petty cash fund:

- Counted cash on hand on a surprise basis.
- Obtained an understanding of internal controls over the petty cash fund.
- Selected a sample of disbursements from replenishments for the period. The total amount of the replenishments were traced to supporting documentation, and the disbursements selected were traced to supporting documentation and reviewed for reasonableness based on the fund purpose. The total replenishments for the period July 1, 2001 through March 31, 2002 were \$900. Disbursements from the fund included postage, film processing, laundry services, registration fees, and miscellaneous supplies.

Based on the above-mentioned procedures, the following exception was noted related to the use of and procedures over the fund:

1. Outdated Petty Cash Authorization

Nebraska Accounting System Manual PROC-085 requires a request for a change to a petty cash fund to be completed when the custodian is different, the authorized amount or use of the fund changes, or the location is revised. In addition, good internal control requires petty cash authorizations be kept current in order to prevent unauthorized use of the petty cash fund and to promote greater accountability of the petty cash fund.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

PROCEDURES PERFORMED AND COMMENTS AND RECOMMENDATIONS

3. Commission on Law Enforcement and Criminal Justice (Concluded)

1. Outdated Petty Cash Authorization (Concluded)

The petty cash fund authorization on file with the Department of Administrative Services of the State of Nebraska for the Grand Island Law Enforcement Training Center was not current. The custodian changed and the form was not updated.

We recommend the Commission implement procedures to ensure the correct information is included on the petty cash fund authorization form on file with the Department of Administrative Services.

Agency Response: I note you found one exception to the procedures for handling of the petty cash fund. In plain words, the person responsible for handling the fund (custodian) had changed but we had failed to report this on the Petty Cash Fund Application. Thank you for calling this to our attention. We are in the process of making the change with DAS.

We are of course not surprised you found none of the potential consequences identified in your letter by our failure to make the custodial change official by filing the required form. We are blessed with competent and conscientious employees. This of course means there was no loss or misuse of State funds or difficulty in locating the State's petty cash funds. There was accountability and internal control for the fund as you discovered when attempting to audit. Additionally, you found no unauthorized use of the petty cash fund. In summary, we were following proper procedure but we failed to make a name change on one of the State's many forms.

4. Department of Education

On April 24, 2002, we performed certain procedures related to the petty cash fund at the Nebraska Department of Education (Department) on a surprise basis. Neb. Rev. Stat. Section 81-104.01 R.R.S. 1996 allows the Department to establish a petty cash fund of not less than \$25 nor more than \$300, whenever the need exists. Replenishment for disbursements made would be received from the State of Nebraska.

As of April 24, 2002, the Department was authorized for and maintained a \$50 change fund located in the central accounting office.

The following procedures were performed during our review of the change fund:

- Counted all cash on hand on a surprise basis.
- Obtained an understanding of internal controls over the change fund.

Based on the above-mentioned procedures, no exceptions were noted related to the use of and procedures over the funds.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

PROCEDURES PERFORMED AND COMMENTS AND RECOMMENDATIONS

5. Health and Human Services System

We performed certain procedures related to the petty cash funds at the Health and Human Services System on a surprise basis. Listed below are the petty cash funds we reviewed by location, including a brief description of the use of each fund, its authorization, and the procedures performed during the review of the petty cash fund. **Following the procedures performed at each location are the comments and recommendations for Health and Human Services System (HHSS).** (Pages 17-21)

HHSS Project offices

The Project offices work with local child support enforcement. Neb. Rev. Stat. Section 81-3108 R.R.S. 1999 allows the Agency to establish petty cash funds at specific locations and maintain an amount not less than \$25 nor more than \$1,000, to be used for costs and fees related to the prosecution of support establishment, modification, and enforcement cases. Replenishments for disbursements made would be received from the State of Nebraska. We reviewed petty cash funds at the Fremont, Hastings, and Norfolk Project offices.

Fremont

As of April 30, 2002, the Fremont Project office was authorized for and maintained a petty cash fund in the amount of \$1,000.

The following procedures were performed during our review of the petty cash fund:

- Obtained an understanding of internal controls over the petty cash fund.
- Selected a sample of disbursements from the check register for the period. The disbursements were traced to supporting documentation and reviewed for reasonableness based on the fund purpose. Total replenishments for the period July 1, 2001 through March 31, 2002 was \$4,290. Disbursements from the fund included Sheriff's fees for serving papers such as a Petition to Modify, Petition for Support, Petition for Establishment of Paternity, and Order to Show Cause.

Hastings

As of May 3, 2002, the Hastings Project office was authorized for and maintained a petty cash fund in the amount of \$1,000. Disbursements from the fund for the period July 1, 2001 through March 31, 2002 totaled \$941. However, no replenishments were received from the State of Nebraska during the period.

The following procedures were performed during our review of the petty cash fund:

- Obtained an understanding of internal controls over the petty cash fund.
- Prepared a March 31, 2002 bank reconciliation and fund reconciliation.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

**PROCEDURES PERFORMED AND
COMMENTS AND RECOMMENDATIONS**

5. Health and Human Services System (Continued)

Norfolk

As of April 30, 2002, the Norfolk Project office was authorized for and maintained a petty cash fund in the amount of \$1,000.

The following procedures were performed during our review of the petty cash fund:

- Obtained an understanding of internal controls over the petty cash fund.
- Prepared a March 31, 2002 bank reconciliation and fund reconciliation.
- Selected a sample of disbursements from the check register for the period. The disbursements were traced to supporting documentation and reviewed for reasonableness based on the fund purpose. The total replenishments for the period July 1, 2001 through March 31, 2002 were \$2,847. Disbursements from the fund included Sheriff's fees for serving papers, and other court related fees for child support cases.

HHSS Statewide offices

Neb. Rev. Stat. Section 81-104.01 R.R.S. 1996 allows the Agency to establish a petty cash fund of not less than \$25 nor more than \$300, whenever a need exists. The authorization for this fund designates it to be used for the Enrich-a-Life program to make payments to or on behalf of individuals who do not qualify for other assistance. Replenishments for disbursements made would be received from the State of Nebraska. We reviewed petty cash funds at the Grand Island, Lincoln/Lancaster, Norfolk, North Platte, and Omaha Metro offices.

Grand Island

As of May 6, 2002, the Grand Island office was authorized for and maintained a petty cash fund in the amount of \$300. No activity related to the petty cash fund was noted for the period July 1, 2001 through March 31, 2002.

The following procedures were performed during our review of the petty cash fund:

- Obtained an understanding of internal controls over the petty cash fund.
- Prepared a March 31, 2002 bank reconciliation.

Lincoln/Lancaster

As of May 21, 2002, the Lincoln/Lancaster office was authorized for a petty cash fund in the amount of \$300. The petty cash fund had previously been terminated; however, the termination was not authorized through the Department of Administrative Services. The Nebraska Accounting System general document that closed out the petty cash fund was reviewed.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

PROCEDURES PERFORMED AND COMMENTS AND RECOMMENDATIONS

5. Health and Human Services System (Continued)

Norfolk

As of April 30, 2002, the Norfolk office was authorized for and maintained a petty cash fund in the amount of \$300. No activity related to the petty cash fund was noted for the period July 1, 2001 through March 31, 2002.

The following procedures were performed during our review of the petty cash fund:

- Reviewed bank statements for the period.
- Reviewed procedures and status of the account with the custodian.

North Platte

As of May 21, 2002, the North Platte office was authorized for a petty cash fund in the amount of \$300.

The following procedures were performed during our review of the petty cash fund:

- Confirmed amount, custodian, and location of petty cash fund as of March 31, 2002.

Omaha Metro

As of May 21, 2002, the Omaha Metro office was authorized for a petty cash fund in the amount of \$300.

The following procedures were performed during our review of the petty cash fund:

- Confirmed amount, custodian, and location of petty cash fund as of March 31, 2002.

Regional Centers

The Regional Centers are authorized by Neb. Rev. Stat. Section 83-130 R.R.S. 1999 to establish emergency revolving funds, not to exceed \$3,000, to be used as an emergency cash fund. Replenishments for disbursements made would be received from funds held by the State of Nebraska. We reviewed the petty cash funds at the Hastings and Norfolk Regional Centers.

Hastings

As of April 30, 2002, the Hastings Regional Center was authorized for and maintained a petty cash fund in the amount of \$3,000, including \$1,855 in a checking account and \$1,145 in change funds.

The following procedures were performed during our review of the petty cash funds:

- Counted cash on hand at the Business Office and Financial Responsibility Office on a surprise basis.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

PROCEDURES PERFORMED AND COMMENTS AND RECOMMENDATIONS

5. Health and Human Services System (Continued)

- Obtained an understanding of internal controls over the petty cash funds.
- Obtained and reviewed the March 31, 2002 bank and fund reconciliation.
- Selected a sample of disbursements from the reimbursements for the period. The disbursements were traced to supporting documentation and reviewed for reasonableness based on the fund purpose. The total replenishments for the period July 1, 2001 through March 31, 2002 were \$7,536. Disbursements from the fund included weekly allowances to the adolescents and various small purchases.

Norfolk

As of May 1, 2002, the Norfolk Regional Center was authorized for and maintained a petty cash fund in the amount of \$3,000, including \$2,080 in a checking account, a \$275 emergency cash fund, and four change funds, including \$500 for patient accounts, \$75 for the employees' dining room, \$50 for the canteen, and \$20 for the mailroom.

The following procedures were performed during our review of the petty cash funds:

- Counted cash on hand in the emergency cash fund and the patient accounts fund on a surprise basis.
- Obtained an understanding of internal controls over the petty cash funds.
- Obtained and reviewed the March 31, 2002 bank reconciliation and fund reconciliation.
- Selected a sample of disbursements from the check register for the period. The disbursements were traced to supporting documentation and reviewed for reasonableness based on the fund purpose. The total replenishments for the period July 1, 2001 through March 31, 2002 were \$6,659. Disbursements from the fund included payments to vendors, transportation for patients, patient meal expenses during transportation, postage due, court filings and fees, and a weekly allowance to indigent patients.

Youth Rehabilitation and Treatment Centers

The Youth Rehabilitation and Treatment Centers (YRTC) are authorized by Neb. Rev. Stat. Section 83-914 R.R.S. 1999 to establish emergency revolving funds, not to exceed \$6,000, to be used as an emergency cash fund. Replenishments for disbursements made would be received from funds held by the State of Nebraska. We reviewed the petty cash funds at the Kearney Youth Rehabilitation and Treatment Center.

Kearney

As of April 30, 2002, the Kearney YRTC was authorized for two petty cash funds totaling \$4,000. The Kearney YRTC maintained one petty cash fund in the amount of \$1,500, including \$1,465 in a checking account and \$35 in a change fund.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

PROCEDURES PERFORMED AND COMMENTS AND RECOMMENDATIONS

5. Health and Human Services System (Continued)

The following procedures were performed during our review of the petty cash funds:

- Counted cash on hand at the Business Office on a surprise basis.
- Obtained an understanding of internal controls over the petty cash funds.
- Obtained and reviewed the March 31, 2002 bank reconciliation.
- Selected a sample of disbursements from the reimbursements for the period. The disbursements were traced to supporting documentation and reviewed for reasonableness based on the fund purpose. The total replenishments for the period July 1, 2001 through March 31, 2002 were \$2,211. Disbursements from the fund included travel advances, small purchases, postage, and conference registrations.

Vital Statistics

Neb. Rev. Stat. Section 81-104.01 R.R.S. 1996 allows the Agency to establish a petty cash fund of not less than \$25 nor more than \$300, whenever a need exists. Neb. Rev. Stat. Section 71-612(4) R.S.Supp., 2000 authorizes the Agency to establish a petty cash fund and maintain an amount not less than \$25 nor more than \$1,000 to facilitate the payment of refunds to customers who have overpaid for services rendered by this office. Replenishments for disbursements made would be received from the State of Nebraska. We reviewed two petty cash funds for the Lincoln office and one petty cash fund for the Norfolk office.

Lincoln

As of May 6, 2002, the Vital Statistics office in Lincoln was authorized for and maintained two petty cash funds. The petty cash funds were a \$300 change fund and a \$1,000 checking account. The change fund is to be used to make change for customers who purchase copies of vital records. The checking account is to be used to provide refunds to customers.

The following procedures were performed during our review of the petty cash funds:

- Counted cash on hand on a surprise basis.
- Obtained an understanding of internal controls over the petty cash funds.
- Obtained and reviewed the March 31, 2002 bank reconciliation and fund reconciliation.
- Selected a sample of disbursements from the check register for the period. The disbursements were traced to supporting documentation and reviewed for reasonableness based on the fund purpose. The total replenishments for the period July 1, 2001 through March 31, 2002 were \$2,188. Disbursements from the fund included refunds to customers for overpayment of services rendered pertaining to vital statistics records.

Norfolk

As of April 30, 2002, the Vital Statistics office in Norfolk was authorized for and maintained a petty cash change fund in the amount of \$25.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

PROCEDURES PERFORMED AND COMMENTS AND RECOMMENDATIONS

5. Health and Human Services System (Continued)

The following procedures were performed during our review of the petty cash fund:

- Confirmed amount, custodian, and location of the petty cash fund as of March 31, 2002.

Lincoln – Central Office

Neb. Rev. Stat. Section 81-104.01 R.R.S. 1996 allows the Agency to establish a petty cash fund of not less than \$25 nor more than \$300, whenever a need exists. Replenishments for disbursements made would be received from the State of Nebraska.

As of May 23, 2002, the Central Office was authorized for and maintained a petty cash fund in the amount of \$300 to be used for the payment of court filing and copy fees and for emergency purchases.

The following procedures were performed during our review of the petty cash fund:

- Obtained an understanding of internal controls over the petty cash fund.
- Prepared the March 31, 2002 bank reconciliation and fund reconciliation.
- Selected a sample of disbursements from the check register for the period. The disbursements were traced to supporting documentation and reviewed for reasonableness based on the fund purpose. The total replenishments for the period July 1, 2001 through March 31, 2002 were \$881. Disbursements from the fund included court filing fees, copy fees for court files, postage, and a banquet reservation.

Nebraska Center for Children and Youth (NCCY)

Neb. Rev. Stat. Section 81-104.01 R.R.S. 1996 allows the Agency to establish a petty cash fund of not less than \$25 nor more than \$300, whenever a need exists. NCCY was authorized by Neb. Rev. Stat. Section 43-910 R.R.S. 1993 (repealed by 1996 Neb. Laws LB 1155, Section 121) to establish a cash fund and maintain an amount not to exceed \$550 to be used for emergency needs. Replenishments for disbursements made would be received from the State of Nebraska. We reviewed two petty cash funds for NCCY.

As of May 29, 2002, NCCY was authorized for a petty cash fund in the amount of \$300 to be used for the bi-weekly payment of allowances to residents at the NCCY and a petty cash fund in the amount of \$500 to be used for emergency needs. Both funds were set up as checking accounts. Those bank accounts were closed in April of 2000.

Based on the above-mentioned procedures, the following exceptions were noted related to the use of and procedures over the funds:

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

**PROCEDURES PERFORMED AND
COMMENTS AND RECOMMENDATIONS**

5. Health and Human Services System (Continued)

1. Terminated Petty Cash Funds - Lincoln/Lancaster Office, NCCY, and North Platte District Office

The Nebraska Accounting System (NAS) Manual, PROC-087, Request to Terminate a Petty Cash Fund, states the termination of a petty cash fund must be authorized through the use of the Petty Cash Fund Application.

During our testing of HHSS petty cash funds, we selected 13 funds to review and 4 funds to confirm. Of those funds, 4 petty cash funds could not be located. These included the locations of the Lincoln/Lancaster office, two funds for NCCY and the North Platte District Office.

Documentation was not available to support the termination of the petty cash fund at the North Platte District Office. The fund was still on the Nebraska Accounting System as of March 31, 2002.

The monies for the Lincoln/Lancaster office had been credited correctly to the parent fund, however the termination procedures on the Petty Cash Fund Application had not been completed and filed with the Department of Administrative Services.

When the monies were returned for the NCCY funds, the incorrect account was credited, leaving the petty cash fund on the Nebraska Accounting System. Also, the total deposited included only the checking account balances at the time of closing, and did not include any expended monies that were not reimbursed to the petty cash fund, as is required by the NAS Manual. The bank accounts for the NCCY funds were closed in April 2000. However, the authorizing statute for this petty cash fund had been repealed in 1996 (Neb. Rev. Stat. Section 43-910 R.R.S. 1993, repealed by 1996 Neb. Laws LB 1155, section 121).

We recommend HHSS properly terminate these funds by following the procedures outlined in the NAS Manual and ensure any monies are properly returned to the correct parent fund. We also recommend HHSS implement procedures to ensure all petty cash funds are properly accounted for and authorized.

2. Petty Cash Fund Unaccounted for - Kearney YRTC

NAS Manual, PROC-085, Request to Establish/Change a Petty Cash Fund, states any changes in the petty cash fund must first be authorized through the use of the Petty Cash Fund Application. This includes changes to the custodian, location, bank name and address, or account number. NAS Manual, PROC-087, Request to Terminate a Petty Cash Fund,

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

**PROCEDURES PERFORMED AND
COMMENTS AND RECOMMENDATIONS**

5. Health and Human Services System (Continued)

2. Petty Cash Fund Unaccounted for - Kearney YRTC (Concluded)

states the termination of a petty cash fund must be authorized through the use of the Petty Cash Fund Application. Good internal control requires petty cash authorizations to be kept current to prevent unauthorized use of the petty cash and to provide accountability for the funds.

The petty cash authorization forms filed with the Department of Administrative Services (DAS) show Kearney – YRTC as having two petty cash funds. We were able to verify only one fund; the other fund was unaccounted for. The Agency stated the fund was terminated and any monies were returned to the parent fund, however documentation was not available to support the termination. We also noted both funds were listed under the Department of Corrections, even though the YRTC was transferred to HHSS in January of 1997.

We recommend HHSS investigate the unaccounted for petty cash fund to determine the status and location of this fund. Upon resolution of the fund's status and location DAS should be notified of any resulting information which is contrary to the Petty Cash Fund Application on file with DAS. If the fund is found to have been terminated, HHSS should follow the procedures outlined in the NAS Manual, ensuring the authorization is properly terminated and that any monies are properly returned to the correct Parent Fund. We also recommend the petty cash funds be transferred from the Department of Corrections to HHSS.

3. Petty Cash Fund Authorizations - Grand Island Office, Hastings Regional Center, and Lincoln - Central Office

NAS Manual, PROC-085, requires a request for a change to a petty cash fund to be completed when the custodian is a different person, the authorized amount or use of the fund changes, or the location is revised. In addition, good internal control requires petty cash authorizations be kept current in order to prevent unauthorized use of the petty cash fund and to promote greater accountability of the petty cash fund.

The following locations had Petty Cash Fund Applications that listed an incorrect custodian: Grand Island office, Hastings Regional Center, and Lincoln – Central Office. The application for the Grand Island office also listed incorrect bank information.

We recommend HHSS implement procedures to ensure the correct information is included on the petty cash fund authorization form on file with the Department of Administrative Services.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

**PROCEDURES PERFORMED AND
COMMENTS AND RECOMMENDATIONS**

5. Health and Human Services System (Continued)

4. Bank Reconciliation - Fremont Project Office, Grand Island Office, and Lincoln-Central Office

Good internal control requires bank accounts be reconciled at regular intervals in order to maintain accountability over the funds.

The petty cash funds at the Fremont Project office, the Grand Island office, and the Lincoln – Central Office were not reconciled between the bank balance and the book balance. Furthermore, each of these funds could not be reconciled to the authorized amounts due to an unreconciled book balance.

The petty cash fund at the Hastings Project office had not been reconciled between the bank balance and the book balance since December 2001.

The lack of reconciliations results in a loss of accountability over the funds, and may result in the loss or misuse of State funds.

We recommend the custodians prepare a bank reconciliation for each period in which a bank statement is received. We also recommend the custodians prepare a fund reconciliation each time replenishment is requested. The reconciliations should be reviewed and maintained in accordance with the Agency's records retention schedule.

5. Unauthorized Use - Grand Island Office

Good internal control requires the monitoring of activity in the petty cash fund to prevent unauthorized use of funds.

The HHSS office in Grand Island had unauthorized activity in the petty cash fund. This activity was related to a Christmas Cheer Program. This is a private organization of individuals and private companies in the Grand Island area. They provide gifts and food to needy children and families. Christmas Cheer is not a program or organization of HHSS or the State.

The Grand Island office has another checking account called the Hall County Account. HHSS was unable to provide proper authorization for this account.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

**PROCEDURES PERFORMED AND
COMMENTS AND RECOMMENDATIONS**

5. Health and Human Services System (Continued)

5. Unauthorized Use - Grand Island Office (Concluded)

We recommend HHSS monitor the activity and use of the fund on a regular basis to ensure activity is authorized per fund authorization. We also recommend HHSS investigate the Hall County Account to determine proper authorization for this account.

6. Inaccurate Book Balance - Lincoln Vital Statistics

Sound accounting practices require that accounting methods be applied consistently. Good internal control requires that a review of reconciliations be completed.

During our testing of the Vital Statistics – Lincoln petty cash fund of \$1,000, the book balance on the fund reconciliation could not be traced to that balance on the check register used for the bank reconciliation. Two individuals were completing the fund reconciliation and bank reconciliation. Each individual was accounting for expired checks in a different manner, on the same check register.

This inconsistent application of an accounting method results in a loss of accountability over the funds, and may result in the loss or misuse of State funds.

We recommend HHSS determine a single method of accounting for the expired checks. We also recommend the custodian review both the bank and fund reconciliations to determine the petty cash fund is in balance.

7. Petty Cash Funds Not Used - Norfolk Vital Statistics, Norfolk Office

Good internal control requires monies no longer used as petty cash funds be returned to the parent fund in an expedient manner to minimize the risk of loss.

The Norfolk Vital Statistics office was authorized for and maintained a \$25 petty cash change fund; however, this fund had not been in use since January 2002. The cash was still on hand at the office as of April 30, 2002. The Norfolk office was authorized for and maintained a \$300 petty cash fund; however, the fund had no activity for the period July 1, 2001 through March 31, 2002. The balance of the checking account as of April 30, 2002 was \$3. Documentation was not available to support the \$297 difference between the authorized amount and the bank balance.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

PROCEDURES PERFORMED AND COMMENTS AND RECOMMENDATIONS

5. Health and Human Services System (Concluded)

7. Petty Cash Funds Not Used - Norfolk Vital Statistics, Norfolk Office (Concluded)

Maintaining an inactive fund results in an increased risk of loss or misuse of State funds, and the loss of interest revenue.

We recommend HHSS return these monies to the parent fund by following the procedures outlined in the NAS Manual, Proc-87, Request to Terminate a Petty Cash Fund.

6. Historical Society

On May 6, 2002, we performed certain procedures related to the petty cash fund at the Nebraska State Historical Society (Society) on a surprise basis. Neb. Rev. Stat. Section 81-104.01 R.R.S. 1996 allows the Society to establish a petty cash fund of not less than \$25 nor more than \$300, whenever the need exists. Replenishment for disbursements made would be received from the State of Nebraska.

As of May 6, 2002, the Society was authorized for and maintained \$100 in a change fund and \$75 in a petty cash fund. The change fund was used to provide change for patrons to make copies in the Library/Archive area. Based on discussion with management, disbursements from the petty cash fund included small expenses, parking, and miscellaneous building maintenance items.

The following procedures were performed during our review of the petty cash funds:

- Counted all cash on hand on a surprise basis.
- Obtained an understanding of internal controls over the petty cash funds.
- Selected four disbursements from the petty cash fund for testing. The disbursements were traced to supporting documentation and reviewed for reasonableness based on the fund purpose. Disbursements from the petty cash fund for the period July 1, 2001 through March 31, 2002 totaled \$65. Disbursements included gas and maintenance supplies.

Based on the above-mentioned procedures, no exceptions were noted related to the use of and procedures over the funds.

7. Public Service Commission

On May 16, 2002, we performed certain procedures related to the petty cash funds at the Public Service Commission (Commission) on a surprise basis. Neb. Rev. Stat. Section 81-104.01 R.R.S. 1996 allows the Commission to establish a petty cash fund of not less than \$25 nor more than \$300, whenever the need exists. Replenishment for disbursements made would be received from the State of Nebraska.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

PROCEDURES PERFORMED AND COMMENTS AND RECOMMENDATIONS

7. Public Service Commission (Concluded)

As of May 16, 2002, the Commission was authorized for and maintained a \$300 petty cash fund. Based on discussion with management, disbursements from the fund included postage, parking, and costs relating to investigations.

The following procedures were performed during our review of the petty cash fund:

- Counted all cash on hand on a surprise basis.
- Obtained an understanding of internal controls over the petty cash fund.
- Selected a sample of disbursements from one replenishment received from the State of Nebraska. Replenishments for the period July 1, 2001 through March 31, 2002 totaled \$77. The disbursements were traced to supporting documentation and reviewed for reasonableness based on the fund purpose. Disbursements from the fund included postage, seminar registration, and maintenance supplies.

Based on the above-mentioned procedures, no exceptions were noted related to the use of and procedures over the petty cash fund.

8. Department of Revenue

On April 30 and May 1, 2002, we performed certain procedures related to the petty cash funds at the Department of Revenue (Department) Norfolk and Grand Island offices on a surprise basis. Neb. Rev. Stat. Section 81-104.01 R.R.S. 1996 allows the Department to establish a petty cash fund of not less than \$25 nor more than \$300, whenever the need exists. Replenishment for disbursements made would be received from the State of Nebraska.

As of April 30, 2002, the Department's Norfolk office was authorized for and maintained a \$100 petty cash fund. The change fund was used to make change to taxpayers and to make small purchases such as postage and photocopies. Disbursements for the period July 1, 2001 through March 31, 2002 totaled \$5.

The following procedures were performed during our review of the petty cash fund:

- Counted all cash on hand on a surprise basis.
- Obtained an understanding of internal controls over the petty cash fund.

As of May 1, 2002, the Department's Grand Island office was authorized for and maintained a \$100 petty cash fund. The petty cash fund was used to make purchases of office supplies, postage, photocopies, and washing the State vehicle.

The following procedures were performed during our review of the petty cash fund:

- Counted all cash on hand on a surprise basis.
- Obtained an understanding of internal controls over the petty cash fund.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

PROCEDURES PERFORMED AND COMMENTS AND RECOMMENDATIONS

8. Department of Revenue (Concluded)

- Selected two transactions from one replenishment received from the State of Nebraska. The transactions were traced to supporting documentation and reviewed for reasonableness based on the fund purpose. Replenishments for the period July 1, 2001 through March 31, 2002 totaled \$93.

Based on the above-mentioned procedures, the following exception was noted related to the use of and procedures over the petty cash funds:

1. Petty Cash Fund Authorization

NAS Manual PROC-085 requires a request for a change to a petty cash fund to be completed when the custodian is different, the authorized amount or use of the fund changes, or the location is revised. In addition, good internal control requires petty cash authorizations be kept current in order to prevent unauthorized use of the petty cash fund and to promote greater accountability of the petty cash fund.

The petty cash fund authorization on file with the Department of Administrative Services of the State of Nebraska for the Norfolk office was not current. The custodian changed and the form was not updated.

We recommend the Department implement procedures to ensure the correct information is included on the petty cash fund authorization form on file with the Department of Administrative Services.

Agency Response: The Department of Revenue agrees that the custodian listed for the Norfolk petty cash fund was not current. A petty cash fund change form was submitted May 6, 2002 to update the custodian information. Our Finance area has primary responsibility for updating petty cash fund information. In the future, Taxpayer Services will assist the Finance area by notifying them of any changes in regional offices that may require custodian changes to the petty cash fund.

9. Department of Roads

We performed certain procedures related to the petty cash funds at the Department of Roads' (Department) Districts 1 through 4 offices and the Columbus maintenance office on a surprise basis. Neb. Rev. Stat. Section 81-104.01 R.R.S. 1996 allows the Department to establish a petty cash fund of not less than \$25 nor more than \$300, whenever the need exists. Replenishments for disbursements made would be received from the State of Nebraska.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

PROCEDURES PERFORMED AND COMMENTS AND RECOMMENDATIONS

9. Department of Roads (Continued)

Each District office maintains two petty cash funds, an office petty cash fund and a rewards and recognition petty cash fund. The office petty cash funds are to be used to make incidental purchases of less than \$10. The rewards and recognition petty cash funds are to be used to make purchases for the Department's Employee Recognition Program, including cake, supplies for parties, and awards for employees.

Following the procedures performed at each District location are the comments and recommendations for the Department of Roads. (Pages 26-28)

District 1

As of April 18, 2002, the District 1 office in Lincoln was authorized for and maintained both the office petty cash fund and the rewards and recognition petty cash fund in the amount of \$300 each.

The following procedures were performed during our review of the petty cash funds:

- Counted all cash on hand on a surprise basis.
- Obtained an understanding of internal controls over the petty cash funds.
- Selected a sample of disbursements from the office fund from the summary of all disbursements during the period. Disbursements from the office fund for the period July 1, 2001 through March 31, 2002 totaled \$642. The disbursements were traced to supporting documentation and reviewed for reasonableness based on the fund purpose. Disbursements from the fund included hardware, parking, car washes, shop materials, gas, and other miscellaneous supplies.
- Selected a sample of disbursements from the rewards and recognition fund from the summary of disbursements. Disbursements from the rewards and recognition fund for the period totaled \$306. The disbursements were traced to supporting documentation and reviewed for reasonableness based on the fund purpose. Disbursements from the fund included cake for a retirement party and awards for employees.

District 2

As of May 6, 2002, the District 2 office in Omaha was authorized for and maintained the office petty cash fund in the amount of \$150 and the rewards and recognition petty cash fund in the amount of \$300.

The following procedures were performed during our review of the petty cash funds:

- Counted all cash on hand on a surprise basis.
- Obtained an understanding of internal controls over the petty cash funds.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

PROCEDURES PERFORMED AND COMMENTS AND RECOMMENDATIONS

9. Department of Roads (Continued)

- Selected a sample of disbursements from the only replenishment for the office fund. The replenishment received from the State of Nebraska during the period July 1, 2001 through March 31, 2002 totaled \$132. The replenishment was traced to supporting documentation and the disbursements selected were reviewed for reasonableness based on the fund purpose. Disbursements from the fund included photo processing, lab materials, and hardware.
- Selected a sample of disbursements from one replenishment for the rewards and recognition fund. Replenishments received from the State of Nebraska during the period totaled \$315. The replenishment was traced to supporting documentation and the disbursements selected were reviewed for reasonableness based on the fund purpose. Disbursements from the fund included food and party supplies.

District 3

As of May 1, 2002, the District 3 office in Norfolk was authorized for and maintained both the office petty cash fund and the rewards and recognition petty cash fund in the amount of \$300 each.

The following procedures were performed during our review of the petty cash funds:

- Counted all cash on hand on a surprise basis.
- Obtained an understanding of internal controls over the petty cash funds.
- Selected a sample of disbursements from two replenishments for the office fund. The replenishments received from the State of Nebraska during the period July 1, 2001 through March 31, 2002 totaled \$1,199. The replenishments were traced to supporting documentation and the disbursements selected were reviewed for reasonableness based on the fund purpose. Disbursements from the fund included miscellaneous parts for equipment and office supplies.
- Selected a sample of disbursements from one replenishment for the rewards and recognition fund. Replenishments received from the State of Nebraska during the period totaled \$259. The replenishment was traced to supporting documentation and the disbursements selected were reviewed for reasonableness based on the fund purpose. Disbursements from the fund included awards for employees and food for an award ceremony.

District 4

As of May 1, 2002, the District 4 office in Grand Island was authorized for and maintained both the office petty cash fund and the rewards and recognition petty cash fund in the amount of \$300 each.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

PROCEDURES PERFORMED AND COMMENTS AND RECOMMENDATIONS

9. Department of Roads (Continued)

The following procedures were performed during our review of the petty cash funds:

- Counted all cash on hand on a surprise basis.
- Obtained an understanding of internal controls over the petty cash funds.
- Selected a sample of disbursements from one replenishment for the office fund. The replenishments received from the State of Nebraska during the period July 1, 2001 through March 31, 2002 totaled \$1,597. The disbursements were traced to supporting documentation and reviewed for reasonableness based on the fund purpose. Disbursements from the fund included postage and shop supplies.
- Selected a sample of disbursements from one replenishment for the rewards and recognition fund. Replenishments received from the State of Nebraska during the period totaled \$440. The disbursements were traced to supporting documentation and reviewed for reasonableness based on the fund purpose. Disbursements from the fund included awards for employees and food for an award ceremony.

Columbus - Maintenance Office

As of May 1, 2002, the Maintenance office in Columbus was authorized for and maintained a petty cash fund in the amount of \$200. The fund is to be used to make incidental purchases of less than \$10.

The following procedures were performed during our review of the petty cash fund:

- Counted all cash on hand on a surprise basis.
- Obtained an understanding of internal controls over the petty cash fund.
- Selected a sample of disbursements from the largest replenishment received from the State of Nebraska. The replenishments received during the period July 1, 2001 through March 31, 2002 totaled \$507. The replenishment was traced to supporting documentation and the disbursements selected were reviewed for reasonableness based on the fund purpose. Disbursements from the fund included photo processing and miscellaneous parts for equipment.

Based on the above-mentioned procedures, the following exceptions were noted related to the use of and procedures over the funds:

1. Infrequent Replenishments

NAS Manual PROC-086, Replenishing a Petty Cash Fund, Step 1.a., requires a review of the frequency of replenishments and a change to the petty cash fund if replenishment is too infrequent (less than every two months) or too frequent (more than once a month).

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

**PROCEDURES PERFORMED AND
COMMENTS AND RECOMMENDATIONS**

9. Department of Roads (Continued)

1. Infrequent Replenishments (Concluded)

The employee recognition petty cash funds at Districts 1 through 4 were each replenished only 1 or 2 times during the 9-month period July 1, 2001 through March 31, 2002. The total on hand at each location was \$300. Total replenishments out of the funds during the period ranged from \$250 to \$440. We also noted the District 2 office petty cash fund was replenished only once during the period.

We recommend the Department terminate the employee recognition petty cash funds at Districts 1 through 4. We also recommend the Department review the activity in the funds at all other locations to determine the need of the funds.

Agency Response: Your recommendation to eliminate the Rewards and Recognition petty cash funds in Districts 1 through 4 is one that I don't agree with. These petty cash funds were set up to segregate these very special purpose purchases. While their use may be infrequent, they serve as an important resource to make small dollar purchases to recognize our employees. As you pointed out in your observation, the rules and procedures that govern the use of these funds are unique to this program. I believe that segregating these funds helps insure proper compliance while providing a ready resource to our districts to make these related purchases. I have discussed this matter with Paul Carlson, the State Accountant and he has given me his verbal support to retain these petty cash funds. Accordingly, no action will be taken to eliminate these special purpose petty cash funds.

Auditor's Response: If the petty cash funds are not terminated, the authorized amounts should be decreased as stated in NAS Manual PROC-086, due to the limited frequency of replenishments.

2. Approval of Food Purchase

The Department of Roads Rewards and Recognition Program, Appendix C-5, requires authorization to be obtained prior to purchasing food and refreshments. The information is to be sent to the Human Resource Division of the Department to request authorization from the Department of Administrative Services.

District 2 in Omaha did not have documentation to support the approval of food purchases from the rewards and recognition petty cash fund.

We recommend the District maintain documentation to support the approval of food and refreshment purchases from the rewards and recognition petty cash fund.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

**PROCEDURES PERFORMED AND
COMMENTS AND RECOMMENDATIONS**

9. Department of Roads (Concluded)

2. Approval of Food Purchase (Concluded)

Agency Response: Your observation concerning the proper documentation for food purchases associated with our approved Rewards and Recognition Program is a concern that I share. Responsible District personnel will be instructed to follow the appropriate procedure of getting the proper approval before food purchases are made and retaining that documentation.

10. State Patrol

On May 24, 2002, we performed certain procedures related to the petty cash funds at the Fremont Area. Neb. Rev. Stat. Section 81-104.01 R.R.S. 1996 allows the Agency to establish a petty cash fund of not less than \$25 nor more than \$300, whenever the need exists. Replenishment for disbursements made would be received from the State of Nebraska.

As of May 24, 2002, this location was authorized for a \$100 petty cash fund, but maintained a \$200 petty cash fund. Based on discussion with management, these funds are used to make change when Carrier Enforcement Officers are collecting fines from motor carriers.

The following procedures were performed during our review of the petty cash fund:

- Reviewed the procedures for cash counts and documentation of the most recent cash count conducted for this location.
- Obtained an understanding of internal controls over the petty cash fund.

Based on the above-mentioned procedures, the following exceptions were noted related to the use of and procedures over the petty cash funds:

1. Incorrect Custodian

NAS Manual PROC-085 requires a request for a change to a petty cash fund to be completed when the custodian is different, the authorized amount or use of the fund changes, or the location is revised. In addition, good internal control requires petty cash authorizations be kept current in order to prevent unauthorized use of the petty cash fund and to promote greater accountability of the petty cash fund.

The petty cash fund authorization on file with the Department of Administrative Services of the State of Nebraska was not current. The custodian changed and the form was not updated.

We recommend the State Patrol implement procedures to ensure the correct information is updated on the petty cash fund authorization on file with the Department of Administrative Services.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

**PROCEDURES PERFORMED AND
COMMENTS AND RECOMMENDATIONS**

10. Nebraska State Patrol (Concluded)

2. Exceeded Authorized Amount

NAS Manual, PROC-85, states that any changes in the petty cash fund, including changes in the amount, must first be authorized through the use of the Petty Cash Fund Application.

The dollar amount issued to officers at this location exceeded the amount authorized. Also, officers had been added to this location without updating the petty cash fund authorization.

We recommend the State Patrol implement procedures to ensure the correct information is updated on the petty cash fund authorization on file with the Department of Administrative Services.

Agency Response to items 1 and 2 above: We are in the process of updating our petty cash fund application forms. These will be monitored and updated as required to ensure compliance.

11. University of Nebraska - Kearney

On April 30, 2002, we performed certain procedures related to the petty cash fund at the University of Nebraska-Kearney (UNK) on a surprise basis. Neb. Rev. Stat. Section 85-1,123 R.R.S. 1999 authorizes UNK to retain an amount not to exceed \$175,000 to make settlement and equitable adjustments to students, to carry on University activities contributing to the fund, and to provide for contingencies. Replenishments for disbursements made would be received from the State of Nebraska.

As of April 30, 2002, UNK maintained \$125,000 in petty cash. The fund consisted of \$118,775 in a checking account at Wells Fargo Bank and \$6,225 in change funds at various locations. The change funds were located at the Student Union, Lock Shop, Theatre, Athletics Department, and the Finance Department. Based on discussion with management, disbursements from the fund included travel advances for school-sponsored trips, emergency payroll, and conference registrations.

The following procedures were performed during our review of the petty cash fund:

- Counted all cash on hand at the Finance Department and the Student Union on a surprise basis.
- Obtained an understanding of internal controls over the petty cash fund.
- Obtained and reviewed the March 31, 2002 bank reconciliation for the Wells Fargo Bank account.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

PROCEDURES PERFORMED AND COMMENTS AND RECOMMENDATIONS

11. University of Nebraska – Kearney (Concluded)

- Selected a sample of transactions from two replenishments received from the State of Nebraska. Replenishments for the period July 1, 2001 through March 31, 2002 totaled \$181,687. The transactions were traced to supporting documentation and reviewed for reasonableness based on the fund purpose. Disbursements from the fund included travel advances for sporting events, bulk mail postage, refunds to vendors, and refunds to students.

Based on the above-mentioned procedures, the following exception was noted related to the use of and procedures over the fund:

1. Cash on Hand at the Student Union

Good internal control requires a periodic review of cash on hand to ensure all funds are properly accounted for.

Cash on hand at the Student Union did not agree to the Finance Department's records. The Finance Department's records showed \$1,600 in change at the Student Union. When the surprise cash count was performed, \$1,705 was on hand, for a total of \$105 long.

We recommend UNK perform a periodic review of the change fund at the Student Union to ensure all funds are properly accounted for. We also recommend UNK review the funds on hand at the Student Union to determine the appropriate amount and the disposition of the noted difference.

Agency Response: The University is implementing policies to perform a periodic review of the change fund at the Student Union to ensure all funds are properly accounted for. We have also completed a review of the funds held at the Student Union and conclude that the excess funds in the amount of \$105 should be recognized as Student Union revenue and have subsequently been deposited. The money, as mandated by the bond indenture for all Revenue Bond revenue, was transferred to the Bond Trustee.

12. University of Nebraska - Lincoln

We performed certain procedures related to the petty cash funds at the University of Nebraska-Lincoln on a surprise basis. Neb. Rev. Stat. Section 85-125 R.R.S. 1999 authorizes the University of Nebraska to retain a sum not to exceed \$475,000 to make advances to students who have financial aid in excess of tuition and fees, to make settlement and equitable adjustments with students, to carry on University activities contributing to the fund, and to provide for contingencies. The total amount authorized is split between two campuses; University of Nebraska-Lincoln (\$300,000) and University of Nebraska-Medical Center (\$175,000). Replenishments for disbursements made would be received from the State of Nebraska.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

**PROCEDURES PERFORMED AND
COMMENTS AND RECOMMENDATIONS**

12. University of Nebraska - Lincoln (Concluded)

As of April 19, 2002, the University of Nebraska - Lincoln maintained a total of \$300,000 on hand. The following is the breakdown of the funds held by the University.

<u>Checking - Revolving Funds</u>		
Bursar's Office	\$ 114,900	
Athletics Department	39,425	
Continuing Studies	6,400	
Financial Aid	500	
IANR Locations	4,350	
Expanded Nutrition Programs	1,100	
	<hr/>	166,675
<u>Cash - Change Funds</u>		
Bursar's Office	\$ 7,144	
Athletics Department	5,050	
Various Residence Halls	8,890	
Lied Center	900	
Love Library	1,222	
Parking/Garage	1,300	
Miscellaneous Locations	6,319	
	<hr/>	30,825
<u>Miscellaneous</u>		
UNL Student Union	\$ 24,000	
Visa/MasterCard Clearing Account	1,000	
Petty Cash Funds	1,050	
Funds Temporarily Invested	76,450	
	<hr/>	102,500
		<hr/>
		\$ 300,000
		<hr/>

The following procedures were performed during our review of the petty cash funds at the Bursar's Office on April 22-25, 2002 and at the Athletics Department on May 13, 2002:

- Counted all cash on hand at the Bursar's Office on a surprise basis.
- Obtained and reviewed March 31, 2002 bank/fund reconciliation for the Bursar's bank accounts and the Department of Athletics bank account.
- Obtained an understanding of internal controls over petty cash funds at the Bursar's Office and Department of Athletics.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

PROCEDURES PERFORMED AND COMMENTS AND RECOMMENDATIONS

12. University of Nebraska-Lincoln (Concluded)

- Selected ten replenishments received from the State of Nebraska into the Bursar's bank accounts. Replenishments were traced to supporting documentation and reviewed for reasonableness based on the fund purpose. The total for the replenishments received from the State to the Bursar's bank accounts for the period July 1, 2001 through March 31, 2002 was \$929,805. Disbursements from the accounts included travel advances (not including athletics), refunds to students, and emergency payroll payments.
- Selected two replenishments received from the State of Nebraska into the Athletics' bank account. Replenishments were traced to supporting documentation and reviewed for reasonableness based on the fund purpose. The total for replenishments received from the State to the Athletics' bank account for the period July 1, 2001 through March 31, 2002 was \$192,809. Disbursements from the account included payment to officials for sporting events and meal allowances for staff members traveling to sporting events.

Based on the above-mentioned procedures, no exceptions were noted related to the use of and procedures over the fund.

13. University of Nebraska - Medical Center

On May 8, 2002, we performed certain procedures related to the petty cash fund at the University of Nebraska-Medical Center (UNMC) on a surprise basis. Neb. Rev. Stat. Section 85-125 R.R.S. 1999 authorizes the University of Nebraska to retain a sum not to exceed \$475,000 to make advances to students who have financial aid in excess of tuition and fees, to make settlement and equitable adjustments with students, to carry on University activities contributing to the fund, and to provide for contingencies. The total amount authorized is split between two campuses; University of Nebraska-Lincoln (\$300,000) and University of Nebraska-Medical Center (\$175,000). All assets of the Nebraska Psychiatric Institute were transferred from the Department of Public Institutions to the University of Nebraska by 1975 Neb. Laws LB 466, Section 7. Prior to the transfer, the Nebraska Psychiatric Institute was authorized for and maintained a \$3,000 emergency revolving fund. Replenishments for disbursements made would be received from the State of Nebraska.

As of May 8, 2002, UNMC maintained a total of \$178,000 in petty cash funds, which consisted of \$13,080 in change funds and \$164,920 in a checking account. Based on discussion with management, the funds are used to make emergency payments such as payroll and conference registrations.

The following procedures were performed during our review of the petty cash funds:

- Obtained and reviewed the March 31, 2002 bank/fund reconciliation.
- Obtained an understanding of internal controls over petty cash funds.
- Obtained and reviewed the Change and Petty Cash Funds Report prepared by Internal Audit for the fiscal year ending June 30, 2001.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

**PROCEDURES PERFORMED AND
COMMENTS AND RECOMMENDATIONS**

13. University of Nebraska - Medical Center (Continued)

- Selected four replenishments received from the State of Nebraska during the period July 1, 2001 through March 31, 2002. The replenishments were traced to supporting documentation and reviewed for reasonableness based on the fund purpose. The total replenishments received during the period July 1, 2001 through March 31, 2001 was \$419,634. The replenishments included disbursements for conference registration, building maintenance/repair, insurance, lodging, consultant fees, and equipment.

Based on the above-mentioned procedures, the following exceptions were noted related to the use of and procedures over the fund:

1. Reconciliation of Cash Funds

The total authorized cash funds as of March 31, 2002 noted on the March reconciliation of the petty cash fund was \$13,130. Documentation provided by UNMC-Internal Audit showed the amount of authorized cash funds as \$13,080, for a difference of \$50.

We recommend UNMC implement procedures to ensure the authorized cash fund amount used to reconcile the petty cash fund is accurate.

2. Petty Cash Fund Authorization

NAS Manual PROC-085 requires a request for a change to a petty cash fund to be completed when the custodian is different, the authorized amount or use of the fund changes, or the location is revised. In addition, good internal control requires petty cash authorizations be kept current in order to prevent unauthorized use of the petty cash fund and to promote greater accountability of the petty cash fund.

The petty cash fund authorization on file with the Department of Administrative Services of the State of Nebraska was not current. The custodian changed and the form was not updated.

We recommend UNMC implement procedures to ensure the correct information is included on the petty cash fund authorization form on file with the Department of Administrative Services.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

PROCEDURES PERFORMED AND COMMENTS AND RECOMMENDATIONS

13. University of Nebraska - Medical Center (Concluded)

3. Quick Order - Quick Pay

UNMC has a Quick-Order Quick-Pay (QOQP) account that is being used much like a petty cash fund. Various departments on campus are given checks, which are used to make petty cash purchases. The QOQP is used to expedite payment to vendors when it would normally take too long to process a State warrant or to issue a check through the \$178,000 petty cash fund. Based on discussion with management the QOQP account was \$335,000. This is in addition to the authorized \$178,000 petty cash fund. Beginning in January of 2002, UNMC used the purchasing card program to make authorized purchases. UNMC was not able to provide proper authorization for the QOQP account.

We recommend UNMC revisit the need for the QOQP account. If UNMC determines the need to continue with the QOQP account, we would also recommend UNMC obtain proper authorization for the account.

14. University of Nebraska - Omaha

On May 7, 2002, we performed certain procedures related to the petty cash fund at the University of Nebraska-Omaha (UNO) on a surprise basis. Neb. Rev. Stat. Section 85-192 R.R.S. 1999 authorizes UNO to retain a sum not to exceed \$175,000 to make settlement and equitable adjustments to students, to carry on University activities contributing to the fund, and to provide for contingencies. Replenishments for disbursements made would be received from the State of Nebraska.

As of May 7, 2002, UNO maintained a total of \$175,000 in petty cash, which consisted of \$110,000 in a checking account at Wells Fargo Bank and \$65,000 in change funds. The change funds were located at the Cashiering Department, University Bookstore, Athletics Department, and various other locations. Change funds at the above-mentioned locations totaled \$41,835; the remainder of the \$65,000 was maintained at the vault in the Cashiering Department. Based on discussion with management, disbursements from the funds included travel advances, emergency payments, cash refunds to departments, COD vendor payments, and to make change for customers.

The following procedures were performed during our review of the petty cash fund:

- Counted all cash on hand at the Cashiering Department on a surprise basis.
- Obtained an understanding of internal controls over the petty cash fund.
- Obtained and reviewed the March 31, 2002 bank reconciliation and the March 28, 2002 vault reconciliation.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

PROCEDURES PERFORMED AND COMMENTS AND RECOMMENDATIONS

14. University of Nebraska – Omaha (Continued)

- Selected eight disbursements for testing that consisted of one emergency payroll, three miscellaneous expenses, and four travel advances. The total amount of activity related to emergency payments and miscellaneous expenses through the funds for the period July 1, 2001 through March 31, 2002 was \$399,537. Travel advances were given both in the form of cash or check and were estimated by management to be \$190,000 for the period. The disbursements were traced to supporting documentation and reviewed for reasonableness based on the fund purpose.

Based on the above-mentioned procedures, the following exceptions were noted related to the use of and procedures over the fund:

1. Change Funds at the Cashiering Department

The Cashiering Department maintained a total of \$13,500 in change funds for the cashiers. The Department had four cashier drawers with \$3,000 each and one drawer with \$1,500 in beginning cash. The cashiers also had access to the Vault Custodian, from whom they could receive change when needed. UNO did not have documentation available to support the need for the large amount of change funds being used.

We recommend UNO re-evaluate the need for the large balance in change at the Cashiering Department and determine if the amount is appropriate.

Agency Response: The amount of the 4 cashier drawers has been reduced from \$3,000 to \$1,500. We will determine if a \$1,500 balance or less is sufficient without causing a substantial increase in the change and currency transactions between the cashiers and the vault. Our goal is to find an appropriate drawer balance while efficiently using available resources.

2. Travel Advance Reimbursements

Travel advances were issued from the petty cash fund to the appropriate coach or sponsor. When the reimbursements for the actual expenses were issued by the State, the warrant was issued to the coach/sponsor rather than to UNO. Warrants were sent to UNO and maintained by the Vault Custodian until the employee picked them up.

The reimbursements could have been deposited in a more timely manner had they been issued directly to UNO because payments by the State to UNO are done through electronic transfers.

PETTY CASH FUNDS HELD BY THE STATE OF NEBRASKA

**PROCEDURES PERFORMED AND
COMMENTS AND RECOMMENDATIONS**

14. University of Nebraska – Omaha (Concluded)

2. Travel Advance Reimbursements (Concluded)

We recommend the reimbursement of travel advances be issued directly to UNO to ensure funds are deposited in a more timely manner.

Agency Response: Effective July 1, 2002, all travel advance reimbursements will be issued directly to UNO instead of the faculty/staff member requesting the reimbursement.

15. Wayne State College

On April 30, 2002, we performed certain procedures related to the petty cash fund at Wayne State College on a surprise basis. Neb. Rev. Stat. Section 85-316 R.R.S. 1999 authorizes the College to maintain an amount not to exceed \$25,000 out of which to make settlement and equitable adjustments with students, to make immediate payments for day-to-day operations, and to provide for contingencies. Replenishments for disbursements made would be received from the State of Nebraska.

As of April 30, 2002, the fund consisted of \$22,500 in a checking account at First National Bank of Wayne, and \$2,500 in change funds at various locations. The change funds were located at the Business Office, Recreation Center, and the Library. Based on discussion with management, disbursements from the fund included travel advances for school-sponsored trips, emergency payments, refunds to students, and postage.

The following procedures were performed during our review of the petty cash fund:

- Counted all cash on hand at the Business Office on a surprise basis.
- Obtained an understanding of internal controls over the petty cash fund.
- Obtained and reviewed the March 31, 2002 bank reconciliation and the April 16, 2002 petty cash fund reconciliation.
- Selected a sample of checks from two replenishments received from the State of Nebraska. Replenishments for the period July 1, 2001 through March 31, 2002 totaled \$87,727. The checks were traced to supporting documentation and reviewed for reasonableness based on the fund purpose. Disbursements from the fund included travel advances for sporting events, postage, and tuition refunds to students.

Based on the above-mentioned procedures, no exceptions were noted related to the use of and procedures over the fund.