



OFFICE OF THE INSPECTOR GENERAL
MONTGOMERY COUNTY MARYLAND

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INSPECTOR GENERAL

Controls Over Petty Cash and Store Gift Cards

Housing Opportunities Commission of Montgomery County
Resident Services Division

OIG Publication # OIG-20-005

NOVEMBER 26, 2019

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EXECUTIVE SUMMARY

Why We Did This Audit

We conducted this audit in response to a complaint we received alleging that petty cash and store gift cards were not properly managed within the Housing Opportunities Commission (HOC) of Montgomery County, Resident Services Division, Supportive Housing Program.

What We Found

We concluded that in many cases, disbursements from the Supportive Housing Program's petty cash fund fail to adhere to the HOC *Petty Cash Fund Guidelines*. In particular, (1) *Receipt of Petty Cash* forms lacked a signature indicating supervisory approval (or a designated location for that signature of approval to be placed) and were not always fully completed by staff; (2) Petty Cash purchases were made well after funds were disbursed, and *Petty Cash Reconciliation* forms were not always prepared on a monthly basis; and (3) Funds were sometimes used for disallowed purposes, such as the purchase of office supplies.

Additionally, we found the use of petty cash to purchase money orders intended to pay for housing application fees to have particular vulnerabilities. In particular, HOC should collect documentation evidencing that the money orders were used for the intended purposes. A receipt documenting that a money order was purchased is not adequate documentation of the use of funds. This was especially concerning considering that, as a practice, the Supportive Housing Program does not require written supervisory approval for the use of petty cash to pay housing application fees, a policy requirement.

In regards to the Supportive Housing Program's store gift card program, it generally appears to operate as described by HOC staff. A segregation of duties exists, as different employees are responsible for distribution and approval of the issuance of gift cards. Additionally, during the course of our audit, HOC instituted a policy to ensure that gift cards reach the intended client. However, written policies concerning program administration could be more robust, especially concerning inventory control practices and the reconciliation process.

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BACKGROUND

Introduction and Background

The Housing Opportunities Commission (HOC) of Montgomery County strives to provide affordable housing and supportive services to low and moderate income families and individuals in Montgomery County, Maryland. The HOC organization is divided into eight divisions and adopted an annual operating budget of \$264 million in fiscal year 2019.

The Resident Services Division provides a variety of services intended to maximize housing stability, promote self-sufficiency, and improve quality of life for its clients. This includes the Supportive Housing Program, which uses both federal and County funds to provide subsidized housing, case management, and intensive services to previously homeless individuals. Program funds may be used to help clients to live in a stable place, increase their skills or income, and gain more control over the decisions that affect their lives. Ongoing case management and supportive resources provided by the program include assistance in addressing critical needs such as furnishings, transportation, medication assistance, and child care. A significant portion of the program's housing units are permanent housing for adults with disabilities.

In July 2019, the Office of the Inspector General (OIG) received a complaint alleging that petty cash and store gift cards used by the Supportive Housing Program were not properly managed. The complainant stated that staff were able to access to petty cash funds and store gift cards, and there is no accountability.

Objectives, Scope, and Methodology

The objective of our audit was to determine whether HOC controls over petty cash and gift card usage were properly designed and effectively implemented. We reviewed current policies and procedures, interviewed relevant staff, and examined backup documentation for a sample of petty cash and gift card transactions drawn from transaction summaries prepared in the year preceding the complaint (June 2018-June 2019).

Our audit was conducted in accordance with the Association of Inspectors General, *Principles and Standards for Offices of Inspector General* (May 2014).

FINDINGS AND RECOMMENDATIONS

Petty Cash Funds

According to HOC staff, Supportive Housing Program petty cash funds are kept in a fire proof safe accessible only by the Resident Services Supervisor (Approver) and Management Analyst (Petty Cash Officer).

The *Petty Cash Fund Guidelines* outline the procedures for the establishment and operation of a petty cash fund within HOC, and the specific duties and responsibilities of the Petty Cash Officer and Approver. Prior to June 2017, these guidelines were included in their entirety within the HOC Procurement Policy manual. However, according to the HOC Director of Risk Management, in June 2017, when a new Procurement Policy manual was adopted, the bulk of the Petty Cash section was removed from the Procurement Policy manual and now stands as a separate policy document.¹

Petty Cash Fund Guidelines

The following controls are established within the *Petty Cash Fund Guidelines*:

Security:

- The petty cash fund, including cash and related documents, must be kept under lock and key at all times.

Use of Funds:

- Petty cash funds are to be used only for goods and services not addressed in other sections of the procurement manual. For example, office supplies are specifically described as an inappropriate use of petty cash. Similarly, food and beverages for staff meetings are specifically described as an appropriate use of petty cash.
- After the purchase is completed, the employee is to return all receipts and unspent cash to the Petty Cash Officer within one week.

¹ This is evidenced by the fact that the Supportive Housing Program Petty Cash Officer signed a certification attesting that she received the *Petty Cash Fund Guidelines* on August 10, 2017.

Reconciliation:

- At the end of each month, the Petty Cash Officer prepares a *Petty Cash Reconciliation* form, attaches all receipts, and forwards it to Accounts Payable for processing and replenishment of the fund.
- A *Petty Cash Reconciliation* form is required even in months where no activity takes place.

Segregation of Duties – Assignment of Responsibility

a. Supervisor/Department Head (approver)

- A Receipt of Petty Cash form must be signed/approved by a supervisor who has purchase requisition signing authority for the unit and is to include a description of the item to be purchased, an estimated cost, and the proper accounting (Yardi) code. Supervisory approval of the Receipt of Petty Cash form explicitly includes approval of the Yardi coding, the propriety of the goods or services purchased, the purchase amount, and also incorporates any limitations noted in the policy.
- A Petty Cash Reconciliation form is reviewed, in detail, by the approver, who approves the form, and ensures that it is submitted to Accounts Payable for processing each month.

b. Petty Cash Officer

Each petty cash fund is assigned to a Petty Cash Officer, who maintains physical control of the cash and all related documentation.

The Petty Cash Officer:

- receives and acknowledges the *Receipt of Petty Cash* form signed by both the approver and the employee and secures the form with the rest of the petty cash fund,
- disburses the cash for approved *Receipt of Petty Cash* forms,
- prepares the *Petty Cash Reconciliation* form on monthly basis,
- is not responsible for the Yardi coding or the appropriateness of the purchase, and
- is personally responsible for any shortages within their assigned petty cash fund.

Finding 1: Approver Documentation

HOC did not maintain documentation that those with designated roles regarding the administration of petty cash funds received a copy of the *Petty Cash Fund Guidelines*.

HOC has internally developed a document for relevant employees to sign acknowledging that they “received a copy of the *Petty Cash Fund Guidelines* for the Housing Opportunities Commission, Montgomery County, Maryland” (emphasis added). The HOC Director of Risk Management provided a copy of that document signed in January 2010 and again in August 2017 by the Supportive Housing Program Petty Cash Officer, a Management Analyst. The HOC Director of Risk Management was unable to locate a similar signed form for the Resident Services Supervisor who serves as the Supervisor/Department Head (approver) for the program and was unsure whether HOC asked supervisors to sign, acknowledging receipt of the *Petty Cash Guidelines*.

Recommendation 1

HOC should ensure that all employees and managers serving as Petty Cash Officers or Approvers for petty cash fund expenditures sign a document certifying that they have received a copy of the *Petty Cash Fund Guidelines*. That certification should be maintained by HOC and updated on a routine basis, including when there is a change to the policy. HOC may also want to consider adding an attestation to the certification indicating an employee’s intention to abide by the guidelines.

Finding 2: Control Implementation

HOC Resident Services Division, Supportive Housing Program failed to implement key controls and follow procedures as outlined in the HOC *Petty Cash Fund Guidelines*.

We obtained copies of *Petty Cash Reconciliation* forms dated between June 29, 2018 – June 30, 2019, which included 183 individual petty cash transactions disbursed over an 18 month period between February 2018 and June 2019. From those forms, we identified a sample of 30 petty cash transactions, for which we compared the administration of the Supportive Housing Program petty cash with the guidelines and procedures as described in the *Petty Cash Fund Guidelines*.

For each sampled transaction, we reviewed supervisory approvals, *Receipt of Petty Cash* forms, *Petty Cash Reconciliation* forms, transaction receipts, and any other backup documentation provided by HOC staff. Based on our review, we found a number of controls outlined within the HOC *Petty Cash Fund Guidelines* that were either missing or poorly implemented. Additionally, there were a number of instances in which transactions did not comply with established procedures. While we found no evidence of the theft or misuse of funds, the current operation of the petty cash fund leaves funds vulnerable to abuse.

A. *Receipt of Petty Cash forms were not always complete and routinely lacked required approvals from the Supervisor/Department Head responsible for the administration of the Petty Cash Fund.*

*Receipt of Petty Cash*² forms used by the Supportive Housing Program lack a signature indicating approval of the purchase to be made by the Supervisor/Department Head (Resident Services Supervisor), a policy requirement. Additionally, the form used by the Supportive Housing Program lacks a defined space for the approver to sign, even though a signature is required by policy.

According to the Resident Services Supervisor, requests for and approvals of petty cash disbursements are done via email for most types of purchases. However, oral authorizations are also permitted. The Resident Services Supervisor indicated that oral approvals are permitted in the specific case of housing application payments, due to the frequency of such requests and the urgency of need to apply for housing.

Of the 30 transactions tested, 15 were for housing application fees and 15 were for other types of purchases. None of the transactions included documented approval from the Resident

² The form utilized by the Supportive Housing Program is entitled *Petty Cash Receipt*. For continuity purposes we continue to refer to the form as a *Receipt of Petty Cash* form, as defined in the *Petty Cash Fund Guidelines*.

FINDINGS & RECOMMENDATIONS

Services Supervisor, and only one included an emailed request for the disbursement.³ Therefore, we conclude that all of the sampled transactions fail to comply with the *Petty Cash Fund Guidelines*, which require that a supervisor sign the *Receipt of Petty Cash* form in order to approve the Yardi coding, the propriety of the goods or services purchased, and the purchase amount.

At the same time, the *Receipt of Petty Cash* form was fully completed for only four of the sampled transactions. The other 26 forms were missing at least one relevant field, such as a signature from the Petty Cash Officer, the printed name of the employee receiving the funds, project number, accounting numbers, or the date that a transaction receipt was submitted.

Generally Accepted Accounting Principles (GAAP) recommend that businesses establish a segregation of duties between a custodian of a petty cash fund and the person who authorizes/approves disbursements of funds. Additionally, the rules recommend that a third person is assigned to perform the accounting functions, such as reconciling the petty cash on a monthly basis. Based on the documentation and policy provided to the OIG, it appears that HOC has established a segregation of duties between the petty cash custodian and the approver. We also conclude that an adequate segregation of duties likely exists in regards to the accounting function, as *Petty Cash Reconciliation* forms are transmitted to Accounts Payable for processing. However, while adequate policies exist, it does not appear that they have been properly implemented, as the Supportive Housing Program is not adequately documenting that the approver is appropriately reviewing/approving purchases prior to the disbursement of funds.

B. Petty cash purchases were made up to 143 days after funds were disbursed.

The *Petty Cash Fund Guidelines* state that petty cash is generally to be used for “minor dollar amount purchases, for which there is a legitimate, immediate need” and establishes two guidelines regarding timeliness. First, receipts and unspent cash are to be returned to the Petty Cash Officer within one week of purchase. Second, a *Petty Cash Reconciliation* form is to be prepared, approved, and sent to Accounts Payable on a monthly basis.

Overall, we found that timeliness is an issue concerning the administration of the Supportive Housing Program’s petty cash fund. Eleven of 30 sampled transactions included receipts dated more than seven days after funds were disbursed. Four of those extended 30 days or more (with one outstanding for 143 days). This means employees were disbursed cash for purchases which do not appear to be an “immediate need” for HOC. Therefore, an alternate purchasing vehicle may have been a more appropriate way to pay for the expense.

³ In this case, the employee requested the disbursement via email. However, backup documentation provided to the OIG does not contain evidence that the Resident Services Supervisor responded approving the request.

Furthermore, for the sample period, the Resident Services Division submitted only nine *Petty Cash Reconciliation* forms, which included transactions covering the 16 month period between February 2018 and June 2019. Based upon the documentation provided to the OIG, it does not appear that reconciliation is occurring on a monthly basis. Routine reconciliation assists those administering petty cash funds to identify and follow-up on outstanding disbursements and ensure funds are used as intended and according to policy.

C. Petty cash funds were used for purposes specifically identified as inappropriate within the Petty Cash Fund Guidelines.

The *Petty Cash Fund Guidelines* specifically state that office supply purchases are not a proper use of petty cash. However, a number of the purchases reviewed were described as office supplies or similar. The listed purpose for eight of the sampled transactions was described as either supplies, office supplies, inspection supplies, cleaning supplies, or school supplies. Additionally, the OIG identified two instances wherein separate HOC employees purchased approximately \$50 worth of similar "...supplies" at the same store within minutes of one another. Petty cash funds should not be used to circumvent HOC purchasing policies and are generally not to be used for any single item over \$50. Disbursements of cash in rapid succession for similar supply purchases creates the appearance that petty cash was inappropriately utilized.

Recommendation 2

HOC should take steps to ensure that the administration of petty cash within the Supportive Housing Program complies with written policies and guidelines, both in fact and appearance.

Finding 3: Support Documentation

HOC fails to collect and maintain supporting documentation demonstrating that Petty Cash funds disbursed for the payment of housing application fees were used for their intended purpose.

A. Housing Application Fees

The OIG identified housing application fees as a particular vulnerability concerning the use of petty cash funds. Of the 183 total transactions occurring during the sample period, 99 had housing application fees as the listed purpose. As previously stated, the Resident Services Supervisor often provides oral authorizations for these expenditures.

The OIG reviewed backup documentation for 15 housing application fee transactions during the sample period. All involved an HOC staff member purchasing a money order. While the Petty Cash Officer generally recorded the HOC client for which the application fee was intended on the *Receipt of Petty Cash* form, the backup documentation provided to the OIG generally did not include any evidence that the money orders were utilized to pay an application fee. Rather, for 14 of the 15 transactions, the HOC employee submitted a receipt documenting that a money order was purchased with no documentation of how the money order was spent (such as a receipt from the property management company). In one case, a copy of the money order itself but no receipt for its purchase was provided. This practice is inherently vulnerable to possible abuse, especially in light of the fact that the approval for such expenditures was not documented.

Recommendation 3

HOC should require documented proof that money orders purchased for housing application fees are used to benefit HOC clients.

Store Gift Card Program

During a discussion with OIG staff, the Director of Resident Services explained that store gift cards are used to address immediate, emergent needs of clients receiving case management services through the Supportive Housing Program. For example, gift cards may be used for food, clothing, or prescription costs. An inventory of gift cards is purchased in advance.

Store Gift Card Distribution Procedures

At the time of our initial visit to HOC, neither HOC as a whole nor the Resident Services Division maintained written policies and procedures concerning the store gift card program. However, HOC staff described the process for tracking and distributing gift cards both via email and during in-person interviews. We compared available documentation to the process as described by HOC staff.

According to HOC staff, store gift cards are kept in a fireproof safe accessible only by the Resident Services Supervisor and a Management Analyst. Staff in need of a gift card make a request via email to the Resident Services Supervisor (approver). That request must specifically include the client name, project code, gift card type, dollar amount, and rationale for why the client needs the card. The Resident Services Supervisor or her designee makes changes or suggestions and then approves or denies the request. A Management Analyst acts as the gift card officer, distributes the cards, and enters that distribution in tracking spreadsheets. Should the Management Analyst be out of the office when gift cards are needed, the Resident Services Supervisor may distribute the cards.

Store Gift Card Program Implementation

Tracking spreadsheets provided to the OIG showed 224 store gift cards issued to HOC staff during the sample period. We compared the transaction log and backup documentation with the procedures as described by HOC staff for a sample of 59 of those gift cards. We found that in most cases, other than a consistent lack of inclusion of a project code in emailed requests, the process generally mirrored that described by HOC staff. We did find a small number of instances wherein an email approving the issuance of a gift card was not included within the backup documentation for a particular tested transaction.

We note that HOC staff are routinely given a grouping of gift cards in the \$250 to \$300 range to purchase items to “restock” or “replenish” the client supply cabinet. It is unclear why gift cards are being utilized for this purpose rather than other payment methods, such as a purchase card.

Finding 4: Adequacy of Policy

When we began our audit, HOC lacked written policies and procedures governing the administration of store gift cards. A new policy developed during the course of our audit does not adequately address important procedures and controls concerning gift card usage and tracking.

For the audited period, the Resident Services Division did not have any written policies related to the distribution and tracking of store gift cards.

FINDINGS & RECOMMENDATIONS

We understand that during the course of our audit, the Supportive Housing Program has developed a written one-page policy document entitled *SHP⁴ Petty Cash and Gift Card Policy* which briefly describes the methodology for the approval and distribution of petty cash and gift cards and incorporates a new control requiring that clients sign a photocopy of the front and back of gift cards, denoting that they received them. Previously, HOC did not have a system in place to ensure that gift cards approved for client use were actually provided to the client.

Based upon our review of the new policy document, we determined that the policy should be expanded to ensure that adequate internal controls are in place to prevent program abuse. Specifically, the policy should be revised to address the following topics:

- A. Security – as gift cards can be used to purchase items similarly to cash, they should be kept under lock and key at all times, similar to petty cash.
- B. Appropriate Gift Card Usage – the policy should clearly document the purposes for which gift cards may be requested and used.
- C. Tracking – detail how gift card disbursements and inventory on hand will be tracked/logged, including associated backup documentation.
- D. Supervisory Review – expressly explain how and when the approver documents that they have reviewed transaction records and associated backup documentation to ensure that cards were distributed as intended.
- E. Inventory and Reconciliation – identify when and how reconciliation and inventory of gift cards should occur. Best practices require a segregation of duties between inventory custody, purchase authorization, and accounting activities. Therefore, reconciliation should either be performed or reviewed by someone other than the Management Analyst distributing the gift cards or the Resident Services Supervisor approving transactions. Similarly, a third party should routinely inventory the gift cards on hand to ensure that actual inventory matches the gift card log.

Recommendation 4

We recommend that HOC develop and distribute a more robust policy concerning the administration of the gift card program so that key procedures and controls may be memorialized in writing. HOC should require all employees and managers who distribute, track, and approve gift card transactions to sign a certification documenting that they have received and intend to abide by the policy. That certification should be updated on a routine basis, including when there is a change to the policy.

⁴ In this context SHP refers to the Supportive Housing Program.

EXECUTIVE DIRECTOR'S RESPONSE

The response from the HOC Executive Director to the final draft report is included in its entirety in Appendix A. The HOC Executive Director acknowledged and concurred with each of the audit findings.

HOC indicated that, pending discussion and review with the Commission, it intends to distribute updated petty cash guidelines and procedures and more detailed gift card guidelines and procedures by December 31, 2019. HOC also intends to conduct training on the updated guidelines and procedures by January 31, 2020.



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November 25, 2019

Megan Davey Limarzi, Esquire
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51 Monroe Street, Suite 802
Rockville, MD 20850

Re: Controls Over Petty Cash and Store Gift Cards – OIG Publication #OIG-20-005

Dear Inspector General Limarzi,

HOC acknowledges your audit report entitled "Controls Over Petty Cash and Store Gift Cards, Housing Opportunities Commission of Montgomery County, Resident Services Division" and thanks you for a thorough and thoughtful review.

The audit report highlighted the following four findings:

Finding 1: Approver Documentation: HOC did not maintain documentation that those with designated roles regarding the administration of petty cash funds received a copy of the Petty Cash Fund Guidelines.

Response to Finding 1: *HOC acknowledges and concurs with the audit finding. HOC will ensure that those with designated roles regarding the administration of petty cash funds sign a document certifying that they have received a copy of the Petty Cash Fund Guidelines. HOC will also conduct petty cash training for all new hires and executive staff bi-annually.*

Finding 2: Control Implementation: HOC Resident Services Division, Supportive Housing Program failed to implement key controls and follow procedures as outlined in the HOC "Petty Cash Fund Guidelines".

Response to Finding 2: *HOC acknowledges and concurs with the audit finding. In coordination with the Compliance and Finance Divisions, the Agency has updated petty cash guidelines and procedures. Training will be conducted to include all Agency divisions to ensure compliance with the written guidelines and procedures.*

Finding 3: Support Documentation: HOC fails to collect and maintain supporting documentation demonstrating that Petty Cash funds disbursed for the payment of housing application fees were used for their intended purpose.

Response to Finding 3: HOC acknowledges and concurs with the audit finding. In coordination with the Compliance and Finance Divisions, the Agency has updated the petty cash guidelines and procedures. The updated guidelines specify that all purchases, including housing application fees, must contain supporting documentation. Training will be conducted to include all Agency divisions to ensure compliance with the written guidelines and procedures.

Finding 4: Adequacy of Policy: When we began our audit, HOC lacked written policies and procedures governing the administration of store gift cards. A new policy developed during the course of our audit does not adequately address important procedures and controls concerning gift card usage and tracking.

Response to Finding 4: HOC acknowledges and concurs with the audit finding. In coordination with the Compliance and Finance Divisions, HOC will create and implement more detailed gift card guidelines and procedures, independent of petty guidelines and procedures. The procedures will describe the administration of gift card purchases, including distributing, tracking and approving gift card transactions. Training will be conducted to include all Agency divisions to ensure compliance with the written guidelines and procedures.

The implementation and training of the updated petty cash guidelines and procedures will be overseen by Ms. Darcel Cox, Chief Compliance Officer, and Ms. Cornelia Kent, Chief Financial Officer. Pending discussion and review with the Commission, the updated guidelines will be distributed Agency wide by December 31, 2019 and training will be completed by January 31, 2020.

HOC appreciates the efforts of the Office of the Inspector General. Please feel free to contact me if you have questions.

Sincerely,



Stacy L. Spann
Executive Director

cc: Darcel Cox, Chief Compliance Officer
Cornelia Kent, Chief Financial Officer
Gail Willison, Director of Risk Management

