



New York State Office of the State Comptroller
Thomas P. DiNapoli

Division of State Government Accountability

Controls Over Cash Advance Accounts

Office of Parks, Recreation and Historic Preservation



Report 2014-S-22

December 2014

Executive Summary

Purpose

To determine whether the Office of Parks, Recreation and Historic Preservation (Parks) needs its cash advance accounts and whether the money is properly accounted for and used for appropriate business expenses. The audit covers the period April 1, 2011 through June 30, 2014.

Background

Section 115 of the State Finance Law authorizes the establishment of cash advance accounts, which State agencies may use for petty cash, travel, and other funding needs such as confidential and change allowances. As of March 31, 2012, Parks was authorized to have 14 advance accounts with a total value of \$436,090, as follows: Petty Cash (including 10 “sub-accounts”) - \$185,000; Change Fund - \$246,590; Confidential Fund - \$1,500; and Travel Fund - \$3,000.

Key Findings

- Parks consolidated some of its authorized advance accounts by transferring the funds to an unrelated account, without notifying the Office of the State Comptroller (OSC) of the change.
- Two funds had shortages that originated prior to 2011, but Parks did not reconcile the discrepancies or report them to OSC as required by State law.
- Parks’ Petty Cash Account, which had not been reconciled in at least four years, contained \$5,000 more than OSC had authorized, and Parks officials were unable to explain or account for the surplus.
- Parks inappropriately used Petty Cash Account funds totaling over \$4,600 for employee payroll advances, which is prohibited by the Comptroller’s requirements established under Section 115.
- Parks did not routinely assess accounts for necessity or appropriate fund balances. The \$3,000 Travel Advance Account had been inactive for almost three years, and the Petty Cash Account (with a balance of \$185,000) was significantly overfunded.

Key Recommendations

- Establish, and adhere to, consistent accounting policies and procedures for all cash advance accounts, and strengthen the control environment to ensure processes and procedures are in compliance with State regulations and adhere to professional standards.
- Determine the source of the \$5,000 overage in the Petty Cash Account, and significantly reduce its balance to more closely reflect actual use.
- Discontinue the practice of allowing payroll advances from the Petty Cash Account.
- Close the inactive Travel Account and return the authorized balance to the State Treasury.

Other Related Audits/Reports of Interest

[Office of Children and Family Services: Controls Over Cash Advance Accounts \(2013-S-52\)](#)

[State Education Department: Controls Over Cash Advance Accounts \(2014-S-11\)](#)

State of New York
Office of the State Comptroller

Division of State Government Accountability

December 22, 2014

Rose Harvey
Commissioner
Office of Parks, Recreation and Historic Preservation
625 Broadway
Albany, NY 12207

Dear Commissioner Harvey:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage their resources efficiently and effectively. By so doing, it provides accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities, and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit entitled *Controls Over Cash Advance Accounts*. The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

Office of the State Comptroller
Division of State Government Accountability

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This report is also available on our website at: www.osc.state.ny.us

Background

Section 115 of the State Finance Law authorizes the establishment of cash advance accounts, which State agencies may use for petty cash, travel, and other funding needs such as confidential and change allowances. Advances are issued from agency appropriations, and the cash is transferred from the State Treasury to a local bank account for use by the agency. As of March 31, 2012, according to the Office of the State Comptroller's (OSC) Bureau of State Accounting Operations (Bureau), 246 entities (including State agencies and their subsidiary units, such as colleges, correctional facilities, psychiatric centers, etc.) oversaw 506 cash advance accounts, with a total value of about \$7.2 million.

Cash advance accounts are reimbursed periodically by vouchers audited and approved by OSC for payment out of the State Treasury. Section 115 describes general criteria for establishing these accounts such as: what they can be used for; that all accounts shall be audited by the Comptroller before reimbursement is made to replenish the accounts; and that if the Comptroller at any time determines the cash advance accounts are being used for other than authorized purposes, the Comptroller will direct the responsible party to return the funds. In accordance with Section 115, the Comptroller requires agencies to reconcile their cash advance accounts monthly and to conduct semi-annual reviews of their use of advance funds to determine the appropriate funding levels. In addition, OSC requires agencies annually to provide confirmation of the balances of all cash advance accounts (i.e., reconciliation records) to ensure they reconcile with the amount limits authorized.

According to the Bureau, as of March 31, 2012, Parks was authorized to have 14 cash advance accounts with a total value of \$436,090, as detailed in the following table:

Account Type	Amount
Change Fund Account	\$246,590
Petty Cash Account, including 10 "regional" sub-accounts	\$185,000
Travel Account	\$ 3,000
Confidential Account	\$ 1,500

Audit Findings and Recommendations

As a custodian of State funds, Parks is responsible for managing its cash advance accounts responsibly and protectively, enforced through the establishment of appropriate internal controls, and in accordance with accounting standards and State regulations. However, Parks has not routinely reconciled account balances and, for at least the past seven years, has not submitted the annual account confirmation to OSC. This resulted in the continuation of unreconciled discrepancies between the records maintained by OSC and by Parks in terms of the number of accounts that are currently active and the accounts' balances. We discussed this issue with Parks officials, and they agreed to file the OSC annual Cash Advance Account Confirmation and Reconciliations timely in the future.

In addition, Parks does not conduct periodic assessments to verify the need for and appropriate funding level of their advance accounts. As a result, Parks has continued to maintain accounts that either are no longer active and necessary for business purposes or are significantly overfunded based on actual use. Parks officials stated they will conduct yearly assessments of all cash advance accounts to determine if the accounts are still needed for business purposes and to ensure the balances for each are not excessive.

Across all Parks' cash advance accounts, we found a pattern of accounting errors (e.g., unexplained fund shortage/surplus), questionable procedures (e.g., inappropriate use of funds), and other risk elements (e.g., non-reconciliation of accounts, lack of process for disbursement, excessive funds). Based on these factors, we concluded that Parks does not exercise adequate fiscal oversight and has weak internal controls over process, monitoring, and risk. As a result, there is limited assurance that State funds are managed in compliance with State regulations, are properly accounted for and used appropriately, and are protected against misuse.

Overall Management of Accounts

Of the 14 cash advance accounts that OSC authorized for Parks' use, 10 were regional "sub-accounts" within its Petty Cash Account, used to advance funds to individual parks to meet miscellaneous expenses. In April 2010, Parks closed these 10 accounts and transferred the balance (totaling \$25,000) into its Change Fund Account. However, because Parks had not submitted account confirmations since at least 2007, OSC was unaware of this restructuring of accounts and reclassifying of funds, and the official records did not match the actual status of Parks' active accounts. When questioned, Parks officials stated they were unaware they had to communicate with OSC, although OSC annually sends a Cash Advance Account Confirmation and Reconciliation form to all agencies requiring them to reconcile and confirm the balance of all cash advance accounts. In addition, agencies are required to provide supporting detail such as copies of bank statements, listings of vouchers to be prepared, vouchers in process with OSC, and a list of outstanding checks.

Agency officials have certain discretion over the management of their advance funds. However, officials should notify OSC of the aforementioned changes to accounts' status and balances so

that pertinent records are accurate and up to date, all activity involving State funds is transparent and appropriate, and all accounts are reconcilable and managed responsibly.

Controls Pertaining to Specific Accounts

The lack of adequate oversight and internal controls within Parks has led to weakened monitoring and substandard accounting processes, compromising Parks' ability to accurately account for all cash advance funds and ensure they are being used economically, prudently, and for reasonable purposes and are sufficiently protected against misuse.

Change Fund Account

Parks maintains a Change Fund Account which individual State parks use for cash on hand to make change for payment transactions (e.g., visitor fees for park use). A portion of these funds are distributed to the parks at the start of the season and further "seasonal" allocations are made to certain parks during their peak tourism periods. As required, Parks reconciles the Change Fund monthly, and at the end of the season the individual parks return their allocations to the Change Fund Account. As a result, the account balance can fluctuate throughout the year. OSC records show the account contains \$246,590, whereas Parks, through bank reconciliations, indicates a balance of \$271,590 (\$212,020 in seasonal funds and \$59,570 in permanent funds).

The difference of \$25,000 (\$271,590 - \$246,590) resulted from Parks' transfer of money from the closed Petty Cash regional sub-accounts to the Change Fund Account, which OSC was not advised of (see prior discussion). That discrepancy notwithstanding, we determined the Change Fund Account (including both seasonal and permanent funds) is used for its intended purposes and is appropriately funded. Parks uses most of the money available, except for a small cushion (\$20,000) retained in the account to cover unexpected needs.

During the course of our audit, we noted Parks disburses funds from its Change Fund Account using handwritten checks. This process seems unnecessarily labor intensive and inefficient, especially given Parks' automated check-writing capabilities. Furthermore, we found Parks officials routinely write these checks payable to employees at the individual parks instead of the actual parks themselves. This practice increases the risk of fund misuse.

Petty Cash Account

State parks use Petty Cash to cover their minor expenses, which they later reimburse. OSC records indicate the account has \$185,000, whereas Parks, through bank reconciliations, shows a balance of about \$165,000, a shortfall of \$20,000. Parks explained that the difference stemmed from their closing of the ten regional sub-accounts and the transfer of the balances to the Change Fund Account. In support of their explanation, Parks provided us with copies of two checks (totaling \$25,000) documenting the transfer of funds. This is problematic because not only is the account unreconciled, but its balance is \$5,000 more than it should be (given the transfer of \$25,000). Further, Parks officials were unable to explain the excess balance.

Our audit of the account to find the source of the discrepancy identified an additional error - a \$614 shortfall. We were unable to ascertain how long the shortfall has existed, but determined Parks' Finance Department had been aware of it at least as far back as 2010. However, the Finance Department did not maintain documentation of the discrepancy, resolve it, or report it to OSC as required. Weak internal controls permitted a deficient accounting process to evolve, creating an environment that allowed the Finance Department to neglect routine reconciliation of the Petty Cash Account, as otherwise required by the Comptroller. Control weaknesses also enabled officials to ostensibly ignore discrepancies that did come to light and should have been resolved, as State standards dictate. Parks officials stated that, effective with the April 2014 bank statement, the Petty Cash Account will be reconciled monthly using a new process, and all shortfalls noted will be reported immediately to OSC.

In accordance with the requirements of the Comptroller, adopted pursuant to Section 115, use of petty cash advance accounts is subject to the following restrictions: (1) checks issued from the account cannot exceed \$250; and (2) the account cannot be used to cover lost payroll checks. We found six checks issued from this account, totaling over \$2,300, exceeded the \$250 limit. In addition, 10 checks totaling over \$4,600 were issued to cover lost employee paychecks. Although in each case the account was reimbursed once another paycheck was issued, this activity nevertheless represents a misuse of the account.

In response to our finding, Parks officials stated they were unaware of the limitations placed on this type of account. As administrator of the State-funded account, Parks has a fiduciary responsibility to ensure funds are used properly, for their intended purpose, and according to the regulations intended to protect these public monies. Parks officials advised us that the procedures used by staff have been updated to clearly reflect appropriate uses and limitations of Petty Cash funds.

We also found that Parks has not formally assessed the necessity for this account, nor the appropriateness of its balance amount. The account is authorized for a balance of \$185,000, but during the audit period the maximum amount issued for any given month was \$511.55, and total disbursements generally were less than \$3,000 per year. The account appears to be significantly overfunded, a factor that increases the risk of misuse. We recommended Parks review account transactions, determine an account balance that is more consistent with actual use, and return unneeded funds to the State Treasury. In response to our preliminary findings, Parks officials agreed the Petty Cash account was overfunded and indicated they would reduce its balance to \$40,000.

Confidential Account

State Park Police draw money from the Confidential Account when conducting investigations. These funds should be returned to the account when the specific investigation is completed. OSC records indicate this account is authorized for \$1,500, whereas Parks, through bank reconciliations, shows a \$1,185 balance. Parks officials believe the \$315 discrepancy pertains to a purchase related to an undercover investigation conducted in 2006. However, officials were unable to provide documentation supporting their belief or otherwise account for the discrepancy. Further, we found that Parks officials had been aware of the shortage since at least 2008, but did not

resolve it or report it to OSC as required.

Travel Account

Parks maintains this account to advance funds to employees to cover travel expenses. The account is authorized for \$3,000, and both OSC and Parks records reconcile to this amount. However, we found that Parks has no formal procedures in place to ensure appropriate disbursement of these funds. In addition, Parks has not assessed the necessity of this account although it has been inactive since 2011 (due primarily to the use of State-issued travel credit cards). Because there is no apparent business need for this account, it should be closed and the remaining balance returned to the State Treasury. In responding to our preliminary findings, Parks officials stated that they will close the account.

Recommendations

1. Establish, and adhere to, consistent accounting policies and procedures for all cash advance accounts, and strengthen the control environment to ensure processes and procedures are in compliance with State regulations and adhere to professional standards.
2. Reconcile all accounts monthly, as required by Comptroller guidelines.
3. Update OSC regarding any changes to cash advance accounts, and annually submit the confirmation of account balances.
4. Formally assess the feasibility and benefits of an automated check-issuing process for the Change Fund Account. If appropriate, develop and implement an automated issuing process.
5. Ensure that advance checks intended for individual parks are made payable to those parks (and not to employees of the parks).
6. Determine the source of the \$5,000 overage in the Petty Cash Account, and significantly reduce its balance to more closely reflect actual use.
7. With the exception of payroll advances to new employees, discontinue the practice of allowing payroll advances from the Petty Cash Account.
8. Close the inactive Travel Account and return the authorized balance to the State Treasury.

Audit Scope, Objectives, and Methodology

We audited Parks' controls over cash advance accounts for the period April 1, 2011 through June 30, 2014 to determine whether Parks needs these accounts and whether the money is properly accounted for and used for appropriate business expenses.

To accomplish our objectives, we reviewed bank account statements, copies of cancelled and voided checks, and agency-prepared bank reconciliations, and interviewed Parks personnel and administrators to obtain an understanding of internal controls relevant to cash advance accounts. In addition, we reviewed the available policies and procedures for advance accounts and performed our own account reconciliations for the most recent months available. We also analyzed the check registers for adherence to internal controls and appropriate use of funds.

For the Change Fund Account, we selected a judgmental sample of checks and traced payees to employee listings for individual parks/regions. For the Petty Cash and Travel accounts, we reviewed supporting documentation for all transactions to determine if funds were used appropriately.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Authority

This audit was performed pursuant to the State Comptroller's authority under Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

Reporting Requirements

We provided a draft version of this report to Parks officials for their review and comments. Additional information was provided with their response, which was considered in preparing this final report. Park's response is attached in its entirety to the end of this report. In their response, Parks officials concurred with most of our report's recommendations and indicated that certain steps have been or will be taken to address them. Also, our rejoinders to certain Park's comments are included in the report's State Comptroller's Comments.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Office of Parks, Recreation and Historic Preservation shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees,

advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

Contributors to This Report

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Vision

A team of accountability experts respected for providing information that decision makers value.

Mission

To improve government operations by conducting independent audits, reviews and evaluations of New York State and New York City taxpayer financed programs.

Agency Comments



New York State Office of Parks, Recreation and Historic Preservation

Albany, New York 12238
www.nysparks.com

Andrew M.
Cuomo
Governor

Rose Harvey
Commissioner

November 21, 2014

Mr. John Buyce, Audit Director
Office of the State Comptroller
110 State Street – 11th Floor
Albany, New York 12236-0001

Dear Mr. Buyce:

In accordance with Section 170 of the Executive Law, we are providing our comments to the draft audit report entitled "Controls Over Cash Advance Accounts" (2014-S-22). Our specific comments to the findings and recommendations can be found below:

Recommendation #1: Establish, and adhere to, consistent accounting policies and procedures for all cash advance accounts, and strengthen the control environment to ensure processes and procedures are in compliance with State regulations and adhere to professional standards.

Response: Procedures for the advance accounts have been updated to strengthen controls over the funds and enumerate required actions to comply fully with State regulations and OSC guidance.

Recommendation #2: Reconcile all accounts monthly, as required by Comptroller guidelines.

Response: Monthly reconciliations are required for all advance accounts and are specifically addressed in the revised procedures. The monthly reconciliations will be reviewed by a staff person who is independent from requesting or issuing payments from any of the advance accounts.

The draft audit report repeatedly states that the Petty Cash Account was not reconciled. Parks would like to clarify that although the reconciliation was not performed in a manner compliant with OSC guidelines, the account was reviewed monthly with all recorded transactions compared to the bank statement. Since April 2014, the Petty Cash Account has been reconciled on a monthly basis following the OSC recommended process.

Recommendation #3: Update OSC regarding any changes to cash advance accounts, and annually submit the confirmation of account balances.

Response: Parks recently filed the required Cash Advance Account Confirmation and Reconciliation form with the OSC Bureau of State Accounting Operations. The revised procedures for all advance accounts explicitly outline the process to (1) report account balance changes to OSC, and (2) complete the required annual confirmation.

An Equal Opportunity Employer/Affirmative Action Agency

Recommendation #4: Formally assess the feasibility and benefits of an automated check-issuing process for the Change Fund Account. If appropriate, develop and implement an automated issuing process.

Response: Prior to the 2015 operating season, Parks will assess the costs and benefits of converting to an automated check-issuing process for the Change Fund Account.

Recommendation #5: Ensure that advance checks intended for individual parks are made payable to those parks (and not to employees of the parks).

Response: The current practice of issuing checks from the change fund in the name of the Regional Business Office Administrator or Facility Manager is necessary due to the constraints of the banking industry. Our experience has been that a bank will not cash checks made payable to a park or regional office. Upon receipt of the draft audit report, Parks finance staff contacted KeyBank, the primary bank for New York State government, to determine if an alternate method is feasible, including the possibility of adding the park or region name on the payee line along with the employee's name. A KeyBank Associate who specializes in servicing public sector clients through the South Pearl Street location in Albany confirmed that the only way to provide cash from the Change Fund Advance Account is to issue a check made payable to the employee only. The numerous Parks employees who have checks issued in their names for the sole purpose of obtaining change funds are not authorized signatories on the Change Fund Advance Account. Therefore, those employees are unable to cash a check drawn on that account and made payable to the specific state park.

Although the current arrangement is not ideal, it is efficient and effective given the challenges which include not only the banking rules but the logistics of distributing more than \$200,000 over a large geographical area. A review of the available records will show that the employees have always remitted the change funds to the park business offices as required. Until a feasible business practice is designed that is equally as efficient and effective as the current process, Parks must continue issuing advance checks made payable to designated employees.

Recommendation #6: Determine the source of the \$5,000 overage in the Petty Cash Account, and significantly reduce its balance to more closely reflect actual use.

Response: Parks staff have exhausted all possibilities in determining the source of the \$5,000 overage in the Petty Cash Account. The Petty Cash Account was \$5,000 more than OSC's recorded balance dating back to at least 2010. The standard record retention period for payment bank account files is three years. It is likely that the documentation that could explain the \$5,000 difference was purged. Parks recently filed the Cash Advance Account Confirmation and Reconciliation form with OSC. The reported amount included the additional \$5,000.

Parks agrees with the recommendation to significantly reduce the Petty Cash Account balance. As reflected in the report, Parks will reduce the account balance to \$40,000 prior to the end of the 2014-2015 fiscal year. On an annual basis, each advance account will be reviewed to assess the necessity of the account and the appropriateness of the fund balance.

Recommendation #7: With the exception of payroll advances to new employees, discontinue the practice of allowing payroll advances from the Petty Cash Account.

Response: Following receipt of the draft audit report, Parks provided OSC with additional documentation for ten of the twenty checks written from the Petty Cash Account that OSC incorrectly reported as "issued to cover lost employee paychecks." The documentation for approximately \$9,000 of the \$13,000 reported showed that those ten checks were for employees returning to the payroll or employees who were adversely affected when their hours worked were not correctly entered into the payroll system. Per our interpretation of OSC's Guide to Financial Operations section XII.6.K, salary advances for new employees (including inactive employees returning to the payroll) and payments resulting from payroll processing errors are appropriate uses of Petty Cash Account funds.

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Comment
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Citing OSC's Guide to Financial Operations section XII.6.K, the revised procedures for the Petty Cash Account explicitly state what are, as well as what are not, permissible uses of Petty Cash funds.

Recommendation #8: Close the inactive Travel Account and return the authorized balance to the State Treasury.

Response: Parks agrees with the recommendation to close the Travel Advance Account and will do so prior to the end of the 2014-2015 fiscal year. Please note, within the Executive Summary on page 1 of the draft report, the balances of the Confidential Account and the Travel Account are transposed. The balance of the Travel Account is \$3,000 and that amount will be returned to the State Treasury in the near future.

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Comment
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Thank you for the opportunity to respond to the draft audit report. If you have any questions or concerns regarding our response or the additional information provided, please don't hesitate to contact me.

Sincerely,



Tracy Robbins, CIA
Director of Internal Audit

cc: Rose Harvey, Commissioner

State Comptroller's Comments

1. We reviewed and accepted the additional documentation provided in support of these ten checks valued at about \$9,000. We adjusted the final report accordingly.
2. The final report was adjusted to reflect these corrected figures.