

Internal Audit Service Center

**HCD Imprest Account
Performance Audit**

**Division of Housing and Community Development
February 7, 2022**



INTERNAL AUDIT TEAM

CITY AUDITOR

Debbie Banks, CFE, CICA, CMFO

AUDIT TEAM

Catrina McCollum, CFE, CICA, CMFO

Destiny Cash, Internal Auditor

Joyce Crutcher, Administrative Support

Credential Key:

ACRONYM	DESIGNATION
CFE	Certified Fraud Examiner
CICA	Certified Internal Controls Auditor
CMFO	Certified Municipal Financial Officer

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**JIM STRICKLAND
MAYOR**

EXECUTIVE DIVISION

February 7, 2022

Ashley Cash, Director
Housing & Community Development (HCD) Division
City of Memphis
170 N. Main Street, 3rd Floor
Memphis, Tennessee 38103

Dear Director Cash:

We have completed our performance audit of HCD's imprest account. The audit was requested by the former HCD Director. The audit was initiated at the beginning of the COVID-19 pandemic, which impacted our audit procedures. We also faced unique challenges as we transitioned to a remote work environment, resulting in audit delays. We appreciate the patience and understanding extended to us by your management and staff during this challenging time.

The objectives of this audit were to evaluate internal controls over the imprest account with respect to accountability and usage and to evaluate compliance with governing laws, regulations, policies and procedures. To accomplish our objectives, we interviewed pertinent management and staff to gain an understanding of the imprest account. We reviewed bank statements and tested Oracle transactional data for the imprest account. The scope of the audit included imprest account transactions for the period January 1, 2019 to June 30, 2020.

Based on our audit, we concluded that internal controls over imprest account fund accountability and usage is satisfactory. Segregation of duties exists regarding invoice processing, check request submission, and depositing for imprest account transactions. However, the process lacks written guidance regarding the aforementioned processes. Although there is no written guidance specifically for the imprest account, current controls provide reasonable assurance of compliance with applicable guidelines and pertinent accounts payable City policies.

We conducted this performance 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

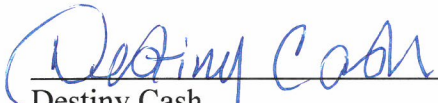
City of Memphis – Internal Audit
Division of Housing and Community Development
Imprest Account Performance Audit
February 7, 2022

audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Due to the limited scoping of this engagement, our audit may not necessarily disclose all weaknesses related to the imprest account. The following pages provide the details of our findings and recommendations.

Our audit process provides management with the option to submit a written response to the draft report for inclusion in the final report; or to submit a written response within 30 days after issuance of the final report. We presented you with the draft report on January 24, 2022. Your written response to the draft appears in full text in the appendix of this report. We will provide you with a populated corrective action plan that includes control deficiencies and recommendations from our audit. The document will contain relevant sections for documenting your planned corrective action, responsible party, and timeline for implementation. We will evaluate the response and the adequacy of corrective action during a follow-up review.

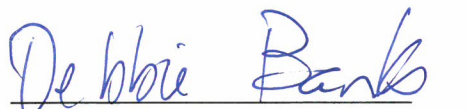
We appreciate the cooperation of HCD management and staff during our audit. If we can be of further assistance, please advise.

Sincerely,


Destiny Cash
Auditor-In-Charge


Catrina McCollum
Project Manager

APPROVED:


Debbie Banks, CFE, CICA, CMFO
City Auditor

- c: Jim Strickland, Mayor
- Doug McGowen, Chief Operating Officer
- Shirley Ford, Chief Financial Officer
- Chandell Ryan, Deputy Chief Operating Officer
- Mairi Albertson, Deputy Director, HCD
- Dywuana Morris, City Comptroller
- Harry Green, Senior Operations Administrator, HCD
- Latonya Alexander, Budget Accounting Manager, HCD

BACKGROUND

The background information provides relevant and pertinent information to assist the reader with gaining a reasonable understanding of the activity under review. Additionally, the information helps to provide the reader with the best possible context for which to understand the nature of audit findings, observations, and recommendations.

The Division of Housing and Community Development (HCD) coordinates programs funded through federal and state grants to assist Memphis's residents and neighborhoods. HCD provides assistance through Community Development Block Grant Programs (CDBG) and HOME grants to aid with the rehab of homes and construction work.

HCD utilizes an imprest account to assist with CDBG and HOME qualified projects. The account is primarily used to pay recordation fees and title searches. A check is typically written from the SunTrust checking account to pay for recordation fees and title searches. The custodian logs the fees and invoices on the Statement of Imprest Account Disbursement form. Imprest account funds are replenished through the City's check request process. The replenishment check is deposited into the SunTrust account after review from the HCD Accounting Manager or Senior Accountant.

HCD management is responsible for ensuring that the imprest account complies with pertinent guidance including the City's accounts payable policies and procedures, applicable Code of Federation Regulations (CFR), and Tennessee Code Annotated (TCA).

During the audit period (January 1, 2019 through June 30, 2020), the imprest account balance ranged from \$1,750.00 to \$2,410.00. In March 2020, the imprest account was transferred from HCD Finance to the HCD Accounting.

FINDINGS AND RECOMMENDATIONS

OBJECTIVE 1:

To evaluate internal controls over the imprest account with respect to accountability and usage.

FINDING 1:

Internal controls over imprest account fund accountability and usage are satisfactory.

We obtained and reviewed SunTrust bank statements from January 1, 2019 through June 30, 2020. We traced bank statement activities to support documentation (check requests, checks, and Statement of Imprest Account Disbursement) and Oracle documentation to confirm accuracy and completeness of transactions. We also compared the imprest account replenishment checks to the total bank deposits made to confirm deposit completeness. We noted the following:

IMPREST ACCOUNT FUND ACCOUNTABILITY

According to HCD management, the imprest account originated in 1995; however, the original bank account documents were not available. The bank has undergone several bank mergers since that time. Therefore, we could not determine whether the initial funds for the imprest account were City and/or grant funds. Furthermore, since the former imprest account custodian retired, minimum support documentation regarding the account was transferred to the new imprest account custodian.

Lack of written guidance

There is no written guidance and/or procedures for opening City bank accounts utilized as imprest accounts and establishing authorized signatory. According to the City's Finance Division management, an official authorization needs to be in place between the City and bank for authorized signatures. Currently, the HCD Budget Account Manager, and Senior Accountant have signatory authority for the imprest account. Furthermore, the imprest account has three custodians, HCD Budget Account Manager, Senior Accountant, and Senior Operations Administrator. City Finance Division management has no oversight of this imprest account. Bank statements are mailed directly to the HCD Budget Account Manager only.

There is no written guidance from the City to govern the activity and usage for actual imprest account transactions. However, the HCD imprest account does comply with the CFR, which states funds can be used to pay for supplies or services measured to be useful to the government. Moreover, best practices for imprest account state the funds should be used for small incidental routine expenses.

FINDINGS AND RECOMMENDATIONS

IMPREST ACCOUNT USAGE

Although Finance Division management uses the terms “imprest account” and “petty cash” interchangeably, there are significant differences in usage. Moreover, the general ledger lists the Transaction Description for petty cash as Imprest Account. According to the *Petty Cash and Start-up Cash Account Policy*, usage of petty cash is prohibited for recurring or routine expenditures. The imprest account was created to process recurring recordation fees and title searches. In addition, petty cash funds are typically kept on-site and the HCD imprest account consists of a bank account rather than an on-site cash fund.

Bank Deposits (Replenishments)

Based upon our bank deposit transaction testing, we noted that 10 of 12 bank deposit replenishments had adequate support documentation.

- Two deposits lacked support documentation (i.e. check request, statement for imprest account disbursements, etc.). Although the two deposits did not contain all of the appropriate support documentation, the amounts appeared to be consistent with other payment activity noted.
 - One deposit for \$606 was listed on the bank statements but did not have any support documentation in Oracle. Therefore, we could not determine if the replenishment check matched the deposit.
 - One deposit for \$750 listed on the bank statement did not contain any support documentation in Oracle. However, we were able to match the transactions in Oracle to the bank statement.

Note: After the exit conference, HCD management provided Internal Audit with the support documentation for the two deposits.

- We noted one exception with a replenishment check not listed on the bank statement and not deposited timely into the imprest account.
 - A replenishment check with combined transactions for January and February 2020 totaling \$473 was not deposited into the imprest bank account until April 2021. *Tennessee Code Annotated (TCA), Section 5-8-207, County officers – Securing funds – Mandatory accounts*, requires all funds to be deposited in the official bank account within three days. The delay in depositing funds weakens internal controls and increases the risk of fraud and misappropriation.
- We did not note any cash withdrawals from the imprest account other than the monthly check enclosure fee (\$5).

FINDINGS AND RECOMMENDATIONS

Imprest Account Check Transactions

Based upon our testing of 26 imprest account check transactions, we confirmed that all were submitted in accordance with the City’s check request process, and all were primarily for title searches and recordation fees. We also noted the following:

- All 26 imprest account check transactions were within CFR compliance and did not exceed \$500.
 - 24 of 26 contained all support documentation, which included copies of written checks, receipt of approved payment, and Statement of Imprest Account Disbursements.
 - Two (2) lacked support documentation, therefore, we could not determine if the transactions were reasonable. Support documentation is an integral part of the imprest account transactions process. Also, adequate support documentation ensures that before replenishments are issued, they are approved and easily reviewed to determine whether the expense is necessary and appropriate.
- The invoice for one check request listed the purpose as miscellaneous – MLF Clayborn Temple, LLC while the Statement of Imprest Account Disbursements listed the purpose as recording fees. The purpose listed on the invoice was not consistent with the other payments we reviewed.

Summary of Check Transaction Exceptions

Check Transaction Month	Check Number	Amount	Exception
January 2019	#2253	\$287.00	No support documentation
January 2019	#2254	\$458.00	No support documentation
November 2019	#2274	\$97.00	Purpose listed as miscellaneous charge

Note: After the exit conference, HCD management provided Internal Audit with adequate documentation to address the check transaction exceptions.

- We did not note any voided or cancelled checks for the imprest account.

FINDINGS AND RECOMMENDATIONS

Lack of Imprest Account Reconciliation

According to management, currently the imprest account is not being reconciled. Reconciliation should consist of reviewing reimbursement requests and comparing those amounts with actual bank deposits to ensure the full amount of reimbursements are deposited. Reconciling the imprest account will also aid in identifying unusual, questionable, or suspicious activity.

RECOMMENDATION(S):

- Finance Division Management should develop policies and procedures to ensure that bank accounts are not opened without proper authorization and oversight of the Finance Division and to mitigate potential fraud risk.
- HCD management should consult with Finance Division Management to obtain proper approval and adequate oversight of the imprest bank account. Furthermore, management should develop a written policy that specifically details the procedures, operation, and usage of the imprest account. The policy should include, but not be limited to:
 - Guidance to specifically differentiate imprest accounts and petty cash fund accounts
 - Guidance for department responsibility (Finance Division, service center, management, etc.)
 - Account purpose
 - Maximum single expenditure limits
 - Account balance limits
- HCD Management should ensure all replenishment checks are deposited into the imprest account timely and in accordance with TCA, Section 5-8-207. HCD management should also continue to ensure that imprest account transactions are supported by appropriate documentation (i.e. check requests, receipts, etc.) to maintain the integrity of the imprest account regarding replenishments. Support documentation should include accurate records of all account transactions.
- HCD management should ensure monthly reconciliations with the bank statements, and that the reconciliation is reviewed thoroughly by someone, preferable an individual in management, not involved in the imprest account transactions process and function. Ensuring different individuals responsibilities will reduce the opportunity to perpetrate and conceal errors or fraud. Management should also document the monitoring of the imprest account. HCD management should also properly investigate any discrepancies, within the imprest account.

FINDINGS AND RECOMMENDATIONS

OBJECTIVE 2:

To evaluate compliance with governing laws, regulations, policies and procedures.

FINDING 2:

Compliance with governing laws, regulations, policies and procedures is satisfactory.

We evaluated compliance with 19 significant attributes obtained from the *City of Memphis Petty Cash and Start-Up Cash Accounts Policy*, CFR Chapter 48 (Part 1413 and 13.305 Imprest Funds), TCA 5-8-207, *County officers - Securing funds – Mandatory accounts*, and imprest account best practices.

- Although 12 (63%) compliance attributes were based on the City’s petty cash policy, they were not applicable since the policy does not specifically address fund usage for imprest account activity.
- We noted no exceptions for four (21%) compliance attributes.
- We noted the following exceptions for the remaining three (16%) compliance attributes.
 - One replenishment check totaling \$473 was not deposited into the imprest bank account until April 2021. According to TCA 5-8-207, “every county official handling public funds shall be required to maintain an official bank account in a bank or banks within the state, and shall, within three (3) days after the receipt...deposit the funds”.
 - There are no written policies and procedures specifically for the imprest account. According to Finance management, imprest account and petty cash are used interchangeably, however, the *Petty Cash and Start-up Cash Accounts Policy* primarily addresses accounts created through the advancement of funds to an authorized custodian for small unanticipated purchases.
 - We found no evidence of routine monitoring of the imprest account to ensure that the imprest account is being utilized for intended purposes and maintained at appropriate levels. In addition, there is no process to identify, unusual, questionable or suspicious activity with the imprest account. Monitoring is an essential internal control tool in preventing and detecting fraud, waste, or misuse.

We noted opportunities for improvement related to support documentation maintenance:

- There were four instances where support documentation was not available for review (two deposit replenishments, two check transactions).

FINDINGS AND RECOMMENDATIONS

- There was one check transaction where the purpose was listed as miscellaneous charge which differs from the usual recordation fees and title searches.

Note: After the exit conference, HCD management provided Internal Audit with adequate documentation to address the opportunities for improvement.

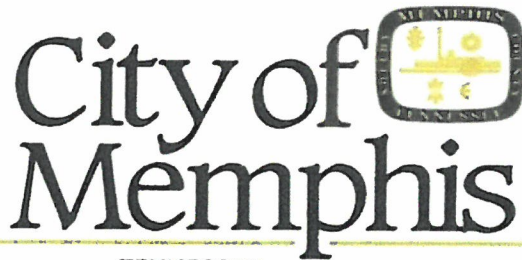
RECOMMENDATION(S)

HCD Management should ensure imprest account expenditures comply with applicable guidance (CFR), (TCA) and the City's accounts payable policies and procedures.

HCD Management should develop written policies and procedures for routine monitoring to timely detect unusual, questionable, or suspicious activity.

APPENDIX

Response from HCD Director



TENNESSEE

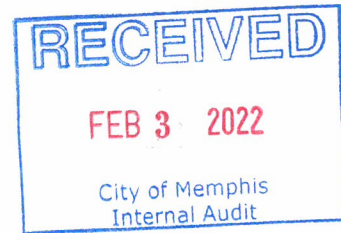
JIM STRICKLAND
MAYOR

ASHLEY CASH
DIRECTOR

**DIVISION OF HOUSING &
COMMUNITY DEVELOPMENT**

February 3, 2022

Debbie Banks
City of Memphis
City Auditor



RE: HCD Audit of Imprest Account

Dear Ms. Banks:

The Division of Housing & Community Development (HCD) appreciates the due diligence related to the audit of our Imprest Account. HCD acknowledges the needs for written policy and procedures that describe the nature, use, guidance and accounting of the Imprest Account.

HCD commits to working both internally and with the Division of Finance to develop policies and procedures that provide adequate guidance for all employees engaged in the use of the Imprest Account. The policies and procedures will be implemented and adhered to moving forward by all employees involved in the use of the Imprest Account. I look forward to our continued collaborations for best practices and process improvements.

Sincerely,

Ashley Cash
Director, Housing and Community Development