

OFFICE OF THE CITY CONTROLLER



MUNICIPAL COURTS ADMINISTRATION DEPARTMENT

**UNANNOUNCED PETTY CASH AUDIT
ACCOUNT NO. 0101**

Judy Gray Johnson, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

JUDY GRAY JOHNSON, CPA

October 2, 2003

The Honorable Lee P. Brown, Mayor
City of Houston, Texas

SUBJECT: Municipal Courts Administration Department-Unannounced Petty Cash Audit
Account No. 0101 (Report No. 03 -12)

Dear Mayor Brown:

The City Controller's Office Audit Division has completed an unannounced petty cash audit of the \$2,000 fund at the Municipal Courts Administration Department's (Department) for the period of June 1, 2002 through June 9, 2003.

The audit's objective was to assist management with the assessment of the adequacy of internal controls related to the overall petty cash process. Additionally, the financial related audit evaluated the Department's compliance with Administrative Procedure (AP) 5-3.

The report, attached for your review, concludes that internal controls over the safeguarding of the petty cash fund at the Department are inadequate. However, the auditors also concluded that controls are adequate to provide management with reasonable assurance that disbursements from the fund and replenishments are processed in compliance with AP 5-3. The findings and recommendations are presented in the body of the report and the views of responsible officials as to actions taken are appended to the report as Exhibit I.

We commend Department management for taking prompt action to address the recommendations noted in the report. We also appreciate the cooperation extended to our auditors by Department personnel during the course of their work.

Respectfully submitted,

Judy Gray Johnson
City Controller

xc: City Council Members
Sara Culbreth, Acting Chief Administrative Officer
Stephen O. Tinnermon, Chief of Staff, Mayor's Office
Barbara Sudhoff, Director, Municipal Courts Administration Department
Philip Scheps, Ph.D., Director, Finance and Administration Department

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CONTENTS

LETTER OF TRANSMITTAL 1
EXECUTIVE SUMMARY 1
SCOPE AND PURPOSE 2
CONCLUSION 2
INTRODUCTION 3

AUDIT FINDINGS AND RECOMMENDATIONS

I. UNEXPLAINED PETTY CASH SHORTAGE 3
II. PETTY CASH SECURITY 3
III. QUARTERLY VERIFICATIONS..... 5
IV. PETTY CASH IMPREST AMOUNT 5

VIEWS OF RESPONSIBLE OFFICIALS EXHIBIT I

EXECUTIVE SUMMARY

- On June 9, 2003 we conducted an unannounced audit of the petty cash fund maintained at the Municipal Courts Administration Department. The reconciliation revealed an unexplained shortage of \$21.12. AP 5-3, Section 5.3, states that the fund custodians are responsible for replacing any shortages not reported in a police report or resolved through disciplinary action against another employee.
- Petty cash is not adequately safeguarded. Employees other than the petty cash custodian had access to the safe in which the cash lockbox was stored, and the key to the petty cash lockbox was attached to the box.
- Quarterly verifications were not performed timely and consecutively, as required by AP 5-3.
- Our analysis of the petty cash fund usage revealed that the monthly usage over the period August 2002 through May 2003 averaged \$137. The highest monthly usage for the period was \$385. Based on our analysis, the current petty cash need of the department does not justify an established amount of \$2,000. The Department should be able to meet its petty cash needs with an established amount of \$500, if it replenishes the fund on a monthly cycle.

SCOPE AND PURPOSE

We have completed an unannounced audit of the \$2,000 Petty Cash Fund (Account No. 0101) at the Municipal Courts Administration Department for the period of June 1, 2002 through June 9, 2003. Our objective was to assist management with the assessment of the adequacy of internal controls related to the petty cash process. Additionally, the audit evaluated compliance with AP 5-3.

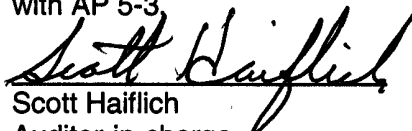
The scope of our work did not constitute an evaluation of the overall internal control structure of the Department. Our examination was designed to evaluate and test compliance with procedures and internal controls related to the petty cash fund. This was a financial related audit executed in accordance with Generally Accepted Government Auditing Standards.

Departmental management is responsible for establishing and maintaining a system of internal controls to adequately safeguard cash as an integral part of the Department's overall internal control structure. The objectives of a system of internal controls are to provide management with reasonable, but not absolute, assurance that petty cash is used in accordance with administrative procedures and is safeguarded against loss.

Due to the inherent limitations of any system of internal accounting controls, errors or irregularities may occur and not be detected timely. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with procedures may deteriorate.

CONCLUSION

Based on the results of our audit, we conclude that internal controls over the safeguarding of the petty cash fund at the Municipal Courts Administration Department are inadequate. However, we also concluded that controls are adequate to provide management with reasonable assurance that disbursements from the fund and replenishments are processed in compliance with AP 5-3.


Scott Haiflich
Auditor-in-charge


Charles Hao
Audit Manager


Steve Schoonover
City Auditor

INTRODUCTION

Administrative Procedure No. 5-3 (AP 5-3) entitled, Petty Cash Fund Policy & Procedures, was last revised on May 25, 1995. AP 5-3 established policies for creating and increasing a petty cash fund, disbursement from and replenishment of funds, changing the fund custodian or transferring the fund to a backup custodian, reconciling the fund balance, and closing out a petty cash fund.

AUDIT FINDINGS AND RECOMMENDATIONS

I. UNEXPLAINED PETTY CASH SHORTAGE

BACKGROUND

AP 5-3, Section 5.3, states that fund custodians are responsible for replacing any shortages not reported in a police report or resolved through disciplinary action against another employee.

FINDING

On June 9, 2003 we conducted an unannounced count and reconciliation of the petty cash fund. The reconciliation revealed a shortage of \$21.12 that could not be explained by the petty cash custodian.

RECOMMENDATION

We recommend that the Financial Services Division of the Municipal Courts Administration Department attempt to determine the cause of the currently unexplained shortage. If the cause of the shortage cannot be determined and appropriate action taken, we recommend that AP 5-3 be complied with, and the \$21.12 shortage be replaced.

II. PETTY CASH SECURITY

BACKGROUND

AP 5-3, Section 5.3, requires that petty cash custodians maintain adequate security over funds.

AP 5-3, Section 13, *Procedures for Changing the Petty Cash Custodian*, requires that the transferring custodian prepare a reconciliation. The new custodian is to verify the accuracy of the reconciliation before assuming responsibility for the fund. The reconciliation is to be completed on form PC-2, *Petty Cash Fund Reconciliation*. Signatures of the transferring custodian and new custodian are obtained on form PC-5, *Change of Petty Cash Custodian*, to formally transfer responsibility for the fund.

AP 5-3, Section 14, requires that specific steps be performed and documentation be prepared when transferring custody of the petty cash fund from the custodian to the back-up custodian. The custodian or an employee designated by the Approving Authority (in the custodian's absence) is required to reconcile the fund and document the reconciliation on form PC-2. If accurate, the back-up custodian takes custody of the petty cash fund with his/her signature on the form PC-2.

FINDING

Petty cash was not adequately safeguarded. At the time of our audit, the following conditions existed:

- The petty cash lockbox was stored in a safe in the office of the Administrative Assistant to the Municipal Courts Administration Department Director. However, employees other than the petty cash custodian had access to the safe, and the key to the petty cash lockbox was attached to the box.
- The petty cash custodian's office was located in a building adjacent to the building in which the petty cash lockbox is kept. The back-up custodian's office is located adjacent to the office in which the safe containing the petty cash lockbox is stored. The back-up custodian was familiar with the combination to the safe.
- Procedures for changing custodians, and transferring custody of the petty cash fund from the custodian to the back-up custodian were not followed. Discussion with the custodian revealed that a reconciliation was not performed when she originally took custody of the fund. Additionally, the custodian informed us that a reconciliation was not performed when she took a one-week vacation and the back-up custodian assumed responsibility for the petty cash fund.

RECOMMENDATION

We recommend that the department comply with AP 5-3 when changing custodians and transferring custody of the fund from the custodian to the back-up custodian, and back to the custodian. We also recommend that the petty cash custodian be in possession of the fund and have exclusive access to the fund at all times, rather than the fund being located in another office in a separate building.

III. QUARTERLY VERIFICATIONS

BACKGROUND

AP 5-3, Section 15, requires that petty cash funds be verified quarterly by an employee other than the custodian, back-up custodian(s), intermediate approving authority approving requests for petty cash, intermediate approving authority approving disbursements from petty cash, or the fund custodian's supervisor. The verifying employee is to complete form PC-6, *Petty Cash Verification Form*, and forward it to the General Accounting Section of the Controller's Office no later than ten (10) working days after the end of the quarter.

FINDING

A Financial Analyst in the department's Financial Services Division performs fund verifications. However, discussion with the fund custodian and review of past verifications revealed that verifications were not performed quarterly, as required.

RECOMMENDATION

We recommend that the department take steps to ensure that quarterly verifications are performed and reported to the Controller's Office on a quarterly basis, as required by A.P. 5-3 (Section 15.1 through 15.5).

IV. PETTY CASH IMPREST AMOUNT

FINDING

Excessive petty cash fund balances increase the City's exposure to loss through theft or misappropriation. Our analysis of the petty cash fund usage revealed that the monthly usage over the period August 1, 2002 through May 31, 2003 averaged \$137. Additionally, the highest monthly usage for the period was \$385. Based on the analysis, the current petty cash need of the department does not justify an established amount of \$2,000. The Department can meet its petty cash needs with an established amount of \$500, if it replenishes the fund on a monthly cycle.

RECOMMENDATION

We recommend that the Department take steps to reduce its petty cash fund balance from \$2,000 to \$500.

EXHIBIT I



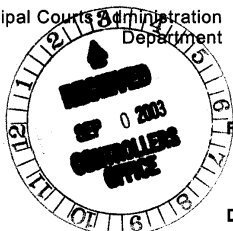
CITY OF HOUSTON

Municipal Courts Administration
Department

Interoffice

Correspondence
BS-S-01617

To: Judy Gray Johnson
City Controller



From: Barbara Sudhoff
Director

Date: September 8, 2003

Subject: **RESPONSE TO UNANNOUNCED PETTY CASH AUDIT**

This memorandum is to provide the Municipal Court Administration's plan of action responsive to the recommendations provided in the Financial Related Audit of Petty Cash Draft Report concerning the June 9, 2003 audit conducted by the City Controller's Office. Our response is as follows:

I. Unexplained Petty Cash Shortage

As recommended, the Financial Services Division of the Municipal Court Administration Department attempted – but was unable – to determine the cause of the \$21.12 shortage. In keeping with Petty Cash Procedure AP5-3, the \$21.12 will be replaced by the Petty Cash Custodian.

Further, to eliminate future incidents of undetermined shortages, we are implementing the audit recommendation to comply with AP 5-3, "to ensure that adequate security over petty cash funds is maintained by the Petty Cash Custodian." The safe containing the petty cash fund will be located in the office of the Petty Cash Custodian who shall have exclusive access to the fund at all times.

II. Petty Cash Security

We agree with and are implementing the audit recommendation, specifically, "...that the department comply with AP 5-3 when changing custodians and transferring custody of the fund from the custodian to the back-up custodian." And, ..."the petty cash custodian be in possession of the fund and have exclusive access to the fund at all times, rather than the fund being located in another office in a separate building."

III. Quarterly Verifications

We agree with and are implementing the audit recommendation, specifically, "to ensure that quarterly verifications are performed and reported to the Controller's Office on a quarterly basis, as required by AP 5-3 (Section 15.1 through 15.5)

IV. Petty Cash Imprest Amount

We agree with and are implementing reduction of the petty cash fund balance from \$2,000 to \$500.

If you have any questions or concerns or require any additional information, you may contact me at (713) 247-5680.

cc: Steve Schoonover City Auditor Controller's Office	Mark Stinnett Assistant Director Municipal Court Admin.	Olga Arnold Assistant Chief Clerk Municipal Court Admin.	Lucy Wierzbicki Petty Cash Custodian Municipal Court Admin.
Peter James Assistant Chief Clerk Municipal Court Admin.	Joellyn Champagne Assistant Chief Clerk Municipal Court Admin.	Gregory Prier Division Manager Municipal Court Admin.	Shari Saltzman Back-up Petty Cash Custodian Municipal Court Admin.

BS:SS\memjg3

**Views of Responsible
Officials**