

OFFICE OF THE CITY CONTROLLER



**BUILDING SERVICES DEPARTMENT
UNANNOUNCED PETTY CASH AUDIT
ACCOUNT NO. 0062**

Judy Gray Johnson, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

JUDY GRAY JOHNSON, CPA

September 19, 2003

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

SUBJECT: Building Services Department-Unannounced Petty Cash Audit
Account No. 0062 (Report No. 03 -18)

Dear Mayor Brown:

The City Controller's Office Audit Division has completed an unannounced petty cash audit of the \$3,000 fund at the Building Services Department's Design and Construction Division (Department) for the period of November 20, 2001 through June 10, 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 petty cash fund are adequate to provide management with reasonable assurance that this fund is safeguarded, disbursed and replenished in compliance with AP 5-3 except for the findings noted in the report. 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
Albert Haines, Chief Administrative Officer
Stephen O. Tinnermon, Chief of Staff, Mayor's Office
Larry Baker, Acting Director, Building Services Department
Philip Scheps, Ph.D., Director, Finance and Administration Department

CONTENTS

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

AUDIT FINDINGS AND RECOMMENDATIONS

I. EMPLOYEE DESIGNATIONS	4
II. APPROVALS	4
III. QUARTERLY VERIFICATION	5
IV. ADVANCE PURCHASE RECEIPTS	5
V. PETTY CASH IMPRESS AMOUNT	5
VI. VIEWS OF RESPONSIBLE OFFICIALS	EXHIBIT I

EXECUTIVE SUMMARY

- Building Services Department's signature authority list did not include the signature of the Intermediate Authority Approving Requests and the signature of the Intermediate Authority Approving Disbursements for the Design & Construction Division. There was no employee designated as Back-up Custodian or any independent employee designated to conduct unannounced petty cash verifications required by A.P. 5-3, Section 15 and Section 16.1.
- In 2 of 10 (20%) Petty Cash Advance/Reimbursement Transaction Forms, the Intermediate Authority Approving Requests also signed to approve disbursements on behalf of the Intermediate Authority Approving Disbursements.
- The Intermediate Authority Approving Requests and the Intermediate Authority Approving Disbursements also performed quarterly verifications of the Petty Cash Fund.
- The quarterly verifications of Petty Cash Fund were not completed on a consistent and timely basis for consecutive quarters in accordance with the stated policies and procedures per A.P. 5-3, Section 15.
- In 3 of 10 (30%) Petty Cash Advance/Reimbursement Transaction Forms examined, the purchase receipts for the Advances were not returned within three business days of receiving an advance as required by A.P. 5-3, Section 10.1.6.
- The Petty Cash Fund for Account No. 0062 had an average replenishment amount of \$608 with an annual turnover rate of 0.81 times. It indicates a need to reduce the fund balance from \$3,000 to \$1,000.

SCOPE AND PURPOSE

We have completed an unannounced audit of the \$3,000 Petty Cash Fund (Account No. 0062) at the Building Services Department's Design and Construction Division for the period November 20, 2001 through June 10, 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 Administrative Procedure 5-3 Revised Petty Cash Fund Policy & Procedures (A.P. 5-3).

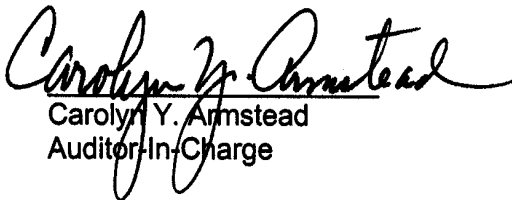
The scope of our work did not constitute an evaluation of the overall internal control structure of the Department. Our examination was designed to evaluate and test compliance with procedures and the adequacy of internal controls related to the petty cash fund. This was a financial related audit executed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

Department 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 are to provide management with reasonable, but not absolute, assurance that petty cash is used in accordance with administrative procedures and safeguarded against loss.

Because of inherent limitations in 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 because of 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 petty cash at the Building Services Department's Design and Construction Division are adequate to provide management with reasonable assurance that this fund is safeguarded, disbursed and replenished in compliance with A.P. 5-3 except for the findings presented in the body of the report.


Carolyn Y. Armstead
Auditor In-Charge


Charles Hao
Audit Manager


Steve Schoonover
City Auditor

INTRODUCTION

The Building Services Department (Department), assumed responsibility for the petty cash fund in the Design and Construction Division (Division), Renovation Section in August 2001 with a fund balance of \$6,000. The fund balance was then reduced to \$3,000 in November 2001, which is now the current fund balance.

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

AUDIT FINDINGS AND RECOMMENDATIONS

PETTY CASH FUND

BACKGROUND

A.P. 5-3, *Revised Petty Cash Policy & Procedures*, establishes policy governing the use of the petty cash fund and the procedures which, include the following:

- A.P. 5-3, Section 4.4 defines the Intermediate Authority Approving Disbursements from Petty Cash as the employee(s) designated by the Approving Authority to authorize disbursements from Petty Cash. This individual must be someone other than the Intermediate Authority Approving Requests for Petty Cash.
- A.P. 5-3, Sections 5.1 states that the Approving Authority is responsible for designating the employee that will be responsible for witnessing the accuracy of the Petty Cash Fund balance on a quarterly basis. The individual is not to be the Petty Cash Custodian, the Back-up Petty Cash Custodian, the Intermediate Authority Approving Requests for Petty Cash, and the Intermediate Authority Approving Disbursements from Petty Cash or the Custodian's supervisor. Additionally, an employee should be designated to periodically conduct unannounced audits of Petty Cash Funds to ensure the integrity and accuracy of these funds.
- A.P. 5-3, Section 10.1.6 states that an employee should return the purchase receipt to the Petty Cash Custodian within three business days of receiving an advance.
- A.P. 5-3, Section 15.2, requires that the verifying employee (designated by the Approving Authority) determines the accuracy of form PC-2, (*Petty Cash Reconciliation*), reviews the receipts and disbursements journal for accuracy and completeness, fills out form PC-6 (*Petty Cash Verification Form*), and forwards the completed original forms to the Approving Authority for review. The Approving Authority forwards the forms to the general Accounting Section of the Controller's Office no later than ten (10) working days after the end of the quarter.

I. EMPLOYEE DESIGNATIONS

FINDING

The signature of the Intermediate Authority Approving Requests and the signature of the Intermediate Authority Approving Disbursements for the Division were not listed and documented on the Department's signature authority list.

There was no employee formally designated by an Approving Authority as the Back-up Petty Cash Custodian, though the Division has an employee to substitute for the Petty Cash Custodian.

There was also no employee formally designated and documented on file to conduct unannounced petty cash fund verifications.

RECOMMENDATION

We recommend that the signature of all individuals designated, as Intermediate Authority Approving Requests and Intermediate Authority Approving Disbursements should be documented on the Department's signature authority list and kept on file for the Petty Cash Custodian to follow.

We also recommend that the Approving Authority formally designate a Back-up Petty Cash Custodian and an independent person to conduct unannounced petty cash verifications as per A.P. 5-3, Section 5.1. Their signatures should also be documented on file.

II. APPROVALS

FINDING

In 2 of 10 (20%) Petty Cash Advance/Reimbursement Transaction Forms (PC-7) examined, it was noted that the Intermediate Authority Approving Requests also signed on behalf of the Intermediate Authority Approving Disbursements. This is an internal control weakness by merging two roles into one.

RECOMMENDATION

A.P. 5-3, Section 4.4 indicates, the individual that is the Intermediate Authority Approving Disbursements must be someone other than the Intermediate Authority Approving Requests for Petty Cash. We recommend that the authority who approves the requests for petty cash should not sign on behalf of the authority who approves disbursements. Another person should be assigned and designated as Intermediate Authority Approving Disbursements when one is not available.

III. QUARTERLY VERIFICATION

FINDING

The Intermediate Authority Approving Requests and the Intermediate Authority Approving Disbursements also performed quarterly verifications of the Petty Cash Fund.

The quarterly verifications were not conducted on a timely and consistent basis from July 2002 through December 2002. The accuracy of the Petty Cash Fund must be verified timely and consecutively for every quarter.

Additionally, the PC-6 (Petty Cash Verification Form) examined during the audit from a quarterly verification was not completed and properly signed.

RECOMMENDATION

We recommend the Department designate an independent employee other than the Intermediate Authority Approving Requests or the Intermediate Authority Approving Disbursements to verify the Petty Cash Fund quarterly.

We also recommend the completed originals PC-2 (Petty Cash Fund Reconciliation) and PC-6 (Petty Cash Verification Form) are to be forwarded to the Approving Authority for review and approval as required by A.P. 5-3, Section 15. The Approving Authority forwards the forms to the General Accounting Section of the Controller's Office no later than ten (10) working days after the end of the quarter.

IV. ADVANCE PURCHASE RECEIPTS

FINDING

In 3 of 10 (30%) Petty Cash Advance/Reimbursement Transaction Forms (PC-7) examined, the purchase receipts for Advances were not returned to the Petty Cash Custodian within three business days.

RECOMMENDATION

We recommend that the Department requires all employees receiving advances to return the purchase receipts to the Petty Cash Custodian within three business days as stated in A.P. 5-3, Section 10.1.6.

V. PETTY CASH IMPRESS 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 replenishment history for the audit scope period indicated that the fund had a turnover rate of 0.81 times during the audit period, which is below a

normal turnover rate. The average replenishment amount was approximately \$608. Based on the analysis, the current petty cash need of the Department does not justify an impress amount of \$3,000.

RECOMMENDATION

We recommend that the Department take steps to reduce its petty cash fund balance from \$3,000 to \$1,000.

EXHIBIT I



CITY OF HOUSTON

Building Services Department

Interoffice

Correspondence

To: Judy Gray Johnson, City Controller
City Controller's Office

From: Larry R. Baker *L.R. Baker*
Acting Director

Date: August 28, 2003

Subject: Unannounced Petty Cash Audit
Account No. 0062

This memorandum responds to the audit findings and recommendations based on the unannounced audit of the \$3,000 Petty Cash fund (Account No. 0062) of the department's Design and Construction Division.

1. EMPLOYEE DESIGNATIONS

- The department issued a revised signature authority list to the Controller's Office on August 7, 2003, which includes all individuals designated, as Intermediate Authority Approving Requests and Intermediate Authority Approving Disbursement.
- The division completed a Petty Cash Acknowledgement Form to assign an official Back-up Petty Cash Custodian.
- The Division Manager responsible for our Financial Services Section has been assigned as the independent person to conduct unannounced petty cash verifications.

2. APPROVALS

- The department has assigned the Assistant Director of the section as the Intermediate Authority Approving Request with the other Assistant Directors of the division as back-ups.
- The department has assigned the Superintendent of the section as Intermediate Authority Approving Disbursements with the Division Manager as back-up.
- The signature authority list is being revised to reflect the aforementioned assignments.

3. QUARTERLY VERIFICATION

- As stated above, the Division Manager assigned as the independent person will verify the Petty Cash Fund quarterly. The June 30, 2003 quarterly report was verified and reviewed on July 14, 2003.
- The division will ensure that the quarterly report is submitted to the Controller's Office within ten (10) working days after the end of the quarter.

**Views of Responsible
Officials**

EXHIBIT I

Memorandum – Unannounced Petty Cash Audit
August 28, 2003
Page 2 of 2

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4. ADVANCE PURCHASE RECEIPTS

- The department will ensure that all purchase receipts are submitted within three (3) business days.

5. PETTY CASH IMPRESS AMOUNT

- The division agrees to reduce the Petty Cash Fund from \$3,000 to \$1,000.

If you have any questions, please call Ollie Schiller at (713) 437-6579 or me at (713) 247-2157.

Attachments

LB:OS:JS:js

cc: Steve Schoonover, City Auditor, City Controller's Office

*Views of Responsible
Officials*