

OFFICE OF THE CITY CONTROLLER



HOUSTON EMERGENCY CENTER

**UNANNOUNCED PETTY CASH AUDIT
ACCOUNT NO. 0071
FOR THE PERIOD OF JULY 1, 2003
THROUGH FEBRUARY 15, 2004**

Annise D. Parker, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

April 20, 2004

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Houston Emergency Center - Unannounced Petty Cash Audit
Account No. 0071 (Report No. 04-10)

Dear Mayor White:

The City Controller's Office Audit Division has completed an unannounced petty cash audit of the \$250 fund at the Houston Emergency Center (HEC) for the period of July 1, 2003 through February 15, 2004. 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 audit evaluated the HEC's compliance with Administrative Procedure (AP) 5-3.

The report, attached for your review, discloses that the \$250 fund was missing and concludes that internal controls over the safeguarding of the petty cash fund at the HEC are not adequate to provide HEC management with reasonable assurance that this fund is safeguarded, disbursed and replenished in compliance with AP 5-3.

We reported the missing funds to the Office of Inspector General (OIG) and the OIG is currently conducting an investigation. Draft copies of the matters contained in the report were provided to appropriate HEC officials. 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 appreciate the cooperation extended to our auditors by HEC personnel during the course of the audit.

Respectfully submitted,

Annise D. Parker
City Controller

xc: City Council Members
Anthony Hall, Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Sharon Counterman, Director, Houston Emergency Center
Judy Gray Johnson, Director, Finance and Administration Department

901 BAGBY, 5TH FLOOR • P.O. BOX 1562 • HOUSTON, TEXAS 77251-1562
PHONE: 713-247-1440 • FAX: 713-247-3181
e-mail: controllers@cityofhouston.net

CONTENTS

LETTER OF TRANSMITTAL	I
EXECUTIVE SUMMARY	1
SCOPE AND PURPOSE	2
SCOPE EXPANSION.....	2
CONCLUSION	3
INTRODUCTION	4
AUDIT FINDINGS AND RECOMMENDATIONS	
I. PETTY CASH SECURITY	5
II. VERIFICATION OF THE PETTY CASH JOURNAL	6
III. UNANNOUNCED VERIFICATION OF THE PETTY CASH FUND.....	6
IV. APPROVALS	7
V. QUARTERLY VERIFICATIONS.....	7
VI. REPLENISHMENT OF THE PETTY CASH FUND.....	8
VIEWES OF RESPONSIBLE OFFICIALS	EXHIBIT I

EXECUTIVE SUMMARY

- ❖ The loss of the \$250 Petty Cash Fund was facilitated by ineffective supervisory and management oversight of the review and verification process.
 - Houston Emergency Center's (HEC) petty cash was not adequately safeguarded. Individuals other than the petty cash custodian had access to the cash lockbox. The box was left in a vacant office out in the open at 601 Sawyer, when the custodian transferred to her new location in September 2003. On the auditor's arrival at the petty cash location it was revealed that the petty cash box was missing.
 - The custodian's Petty Cash Receipts and Disbursements Journal was unavailable because she stated the journal had been misplaced.
 - The auditor's found no indication that HEC management performed unannounced verifications of the Petty Cash Fund as required by the City's Administrative Procedure 5-3. Typically, frauds require a great amount of effort to conceal. Unannounced verifications/audits are an important control in detecting fraud because the perpetrator does not have time to cover-up the fraud.
 - In 5 of 5 (100%) Petty Cash Advance/Reimbursement Transaction Forms reviewed by the auditors, the Intermediate Authority Approving Requests also signed to approve disbursements on behalf of the Intermediate Authority Approving Disbursements.
 - The quarterly verifications of Petty Cash Fund were not completed on a consistent and timely basis in accordance with AP 5-3, Section 15.
 - Since HEC has not utilized the Petty Cash Fund in over two years, we recommend the fund not be replenished. In the event HEC management decides to keep the fund, the fund could be replenished, provided management agrees to implement the changes noted in this report, performs the review required by AP 5-3, and agrees to follow AP 5-3 in the future.

SCOPE AND PURPOSE

We have completed an unannounced audit of the \$250 Petty Cash Fund (Account No. 0071) at the HEC for the period of July 1, 2003 through February 15, 2004. 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 organization. Our examination was designed to evaluate and test compliance with procedures and internal controls related to the petty cash fund. This was an audit executed in accordance with Generally Accepted Government Auditing Standards.

Management is responsible for establishing and maintaining a system of internal controls to adequately safeguard cash as an integral part of the 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.


SCOPE EXPANSION

On February 16, 2004, we initiated an unannounced audit of HEC's Petty Cash Fund. As soon as it was discovered that the petty cash custodian could not locate the lockbox, the Audit Division notified the Office of Inspector General (OIG), and they initiated an investigation (HPD Incident Report Number 024966904-V).


Because of the apparent theft, AP 5-3 requires HEC and the City Controller's Office to take certain steps to replenish the fund. First HEC must perform a review of its Petty Cash internal controls and submit a copy of the Police report and a copy of the report on its Petty Cash internal controls to the City Controller's Office. Then the City Controller's Audit Division will perform an independent review of the internal controls, including improvements as a result of the theft, and report its findings. The City Controller's Office must then review the findings to determine whether controls are adequate to replenish the fund and recommend additional improvements, where necessary, to safeguard the fund.

CONCLUSION

Based on the results of our audit, we conclude that internal controls over the safeguarding of the petty cash fund at the HEC are inadequate. Since HEC has not utilized the Petty Cash Fund in over two years, we recommend the fund not be replenished. In the event HEC management decides to keep the fund, the fund could be replenished, provided management agrees to implement the changes noted in this report, performs the review required by AP 5-3 and agrees to follow AP 5-3.



Monika De Los Santos
Auditor-in-charge



Ken Teer
Audit Manager



Steve Schoonover
City Auditor

INTRODUCTION

Houston Emergency Center (HEC) has a \$250 Petty Cash Fund. According to Administrative Procedure No. 5-3 (AP 5-3) entitled, *Petty Cash Fund Policy & Procedures*, the fund should be used for payments of City business-related expenditures not exceeding the Petty Cash purchase limit of \$100. The Division's Approving Authority designated a Custodian to be responsible for managing and controlling the fund in accordance with AP 5-3. The Custodian's responsibilities, as listed in AP 5-3, include the following:

- Maintaining Cash Receipts and Disbursements Journal accurately
- Processing authorized disbursements
- Initiating requests to replenish and/or increase the fund
- Maintaining adequate security over the fund
- Replacing any shortages not reported in a police report or resolved through disciplinary action against another employee
- Reporting losses or thefts through the Approving Authority to the City Controller

The Approving Authority's responsibilities, as listed in A.P. 5-3, include the following:

- Determining the number and dollar amount of Petty Cash Funds needed
- Designating a Petty Cash Custodian and a Back-up Petty Cash Custodian
- Designating the Intermediate Authority(s) Approving **Requests for** Petty Cash and the Intermediate Authority (s) Approving **Disbursements from** Petty Cash
- Designating the employee responsible for witnessing the accuracy of the Petty Cash Fund balance on a quarterly basis
- Periodically designating an employee to conduct unannounced audits
- Ensuring that any and all discrepancies in, or findings related to, a Fund are resolved, if necessary, with either a Police report being filed and/or appropriate disciplinary action taken.

The City Controller's Annual Audit Plan for Fiscal Year 2004 includes unannounced petty cash audits. On February 5, 2004, the Audit Division received a request from the Financial & Technical Service (FTS) Division of the City's Controller's Office to audit the HEC's Petty Cash Fund. The petty cash coordinator in the FTS Division had not been receiving the appropriate paper work from the HEC's Petty Cash Custodian.

On February 16, 2004, the Audit Division initiated an unannounced audit of HEC's Petty Cash Fund. Upon the auditor's arrival at the Petty Cash custodians' office, at 5320 N. Shepherd, the custodian immediately stated the money was at 601 Sawyer, in her previous office. She insisted the auditor return the next day when she would have more time. The auditor stated that the cash needed to be counted on that day. Approximately one hour later the custodian accompanied the auditor and stated that her previous engagement was delayed. Upon arrival at her previous office at 601 Sawyer the custodian stated the cash lockbox was missing and she then called the building's management to file an incident report. The Audit Division notified the Office of Inspector General (OIG), and they will be further investigating the incident (HPD Incident Report Number 024966904-V).

Because of the apparent theft, AP 5-3 required HEC and the City Controller's Office to take certain steps. First HEC must perform a review of its Petty Cash internal controls and submit a copy of the Police report and a copy of the report on its Petty Cash internal controls to the City Controller's Office. Then the City Controller's Audit Division will perform an independent review of the internal controls, including improvements as a result of the theft, and report its findings. The City Controller's Office must then review the findings to determine whether controls are adequate to replenish the fund and recommend additional improvements, where necessary, to safeguard the fund.

AUDIT FINDINGS AND RECOMMENDATIONS

I. PETTY CASH SECURITY

BACKGROUND

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

The City Controller's Annual Audit Plan for Fiscal Year 2004 includes unannounced petty cash audits. On February 5, 2004, the Audit Division received a request from the FTS Division of the Controller's Office to audit the HEC's Petty Cash Fund. The Petty Cash Coordinator in the FTS Division had not been receiving the appropriate paper work from the HEC's Petty Cash Custodian. Further, we were unable to locate any evidence that the fund had been utilized since February 2001.

Upon the auditor's arrival at the Petty Cash custodians' office the custodian immediately stated the money was at 601 Sawyer, in her previous office. HEC started moving to its new location at 5320 North Shepherd in June 2003. We understand that the petty cash custodian worked out of the two locations until September 2003. Further, the custodian insisted the auditor return the next day when the custodian would have more time. The auditor stated that the cash needed to be counted on that day. Approximately one hour later the custodian accompanied the auditor and stated that her previous engagement was delayed.

FINDING

Upon arrival at her previous office at 601 Sawyer the custodian stated the cash lockbox was missing and she then called the building's management to file an incident report. The Audit Division notified the Office of Inspector General (OIG), and they will be further investigating the incident (HPD Incident Report Number 024966904-V).

RECOMMENDATION

Since there is no evidence that the fund has been used since February 2001, we recommend that the HEC close the petty cash account. In the event management decides to keep the account, we recommend that the petty cash custodian maintain adequate security over the fund, rather than leaving the fund in an empty office in a separate building.

II. VERIFICATION OF THE PETTY CASH JOURNAL

BACKGROUND

The Petty Cash Receipts And Disbursements Journal (Journal) is used to record all Petty Cash transactions and the Journal should either agree or reconcile to the Petty Cash Fund balance. In essence, it serves as a control over and a history of all Petty Cash Transactions

FINDING

AP 5-3 requires the Custodian to maintain an accurate Journal and requires that the Journal be verified for accuracy and completeness during the quarterly and unannounced verifications of the Petty Cash Fund Balance.

At the time of our audit, the auditor asked the Fund custodian to provide supporting documentation to support the balance of the fund. The fund custodian could not provide the requested documents or the petty cash journal, which she stated had been moved to the new location.

RECOMMENDATION

In the event management decides to keep the account, we recommend the Custodian maintain an accurate Journal, and personnel performing the quarterly verifications should be trained in verifying the accuracy and completeness of the Journal.

III. UNANNOUNCED VERIFICATION OF THE PETTY CASH FUND

BACKGROUND

Periodic verifications of Petty Cash are necessary to ensure that the cash entrusted to the custodian is adequately safeguarded and being used for the purposes intended by the City as required by A.P. 5-3. Section 16.

FINDING

HEC is responsible for performing quarterly as well as unannounced verifications of the Petty Cash Fund Balance.

We found no indication that the HEC performed unannounced verifications of the Petty Cash Fund. Typically, frauds require a great amount of effort to conceal. Unannounced verifications/audits are an important control in detecting fraud because the perpetrator does not have time to cover-up the fraud.

RECOMMENDATION

In the event management decides to keep the account, we recommend unannounced verifications be conducted of Petty Cash Fund Balance as required by AP 5-3.

IV. APPROVALS

BACKGROUND

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.

FINDING

We examined 5 Petty Cash Advance/Reimbursement Transaction Forms dated prior to February 14, 2001. There was no activity after that date. Auditors noted that the Intermediate Authority Approving Requests also signed on behalf of the Intermediate Authority Approving Disbursements. Adequate internal controls and procedures over petty cash funds are essential, and petty cash functions should be separated as practical as possible to minimize errors, irregularities and misappropriation of petty cash funds.

RECOMMENDATION

In the event management decides to keep the account, 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.

V. 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 Controller's Office no later than ten (10) working days after the end of the quarter.

FINDING

The quarterly verifications of Petty Cash Fund were not completed on a consistent and timely basis in accordance with the stated policies and procedures per A.P. 5-3, Section 15.

RECOMMENDATION

In the event management decides to keep the account, we recommend that steps be taken 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).

VI. REPLENISHMENT OF THE PETTY CASH FUND

BACKGROUND

When a theft of \$50 or more has occurred, Section 12 of AP 5-3 requires the Department to review its Petty Cash internal controls and submit a copy of the Police report and a report on its Petty Cash internal controls to the City Controller's Office. The City Controller's Audit Division is responsible for performing an independent review of the internal controls, including improvements as a result of the theft, and reporting its findings. The City Controller's Office then reviews the findings to determine whether controls are adequate to replenish the fund and recommend additional improvements, where necessary, to safeguard the fund.

FINDING

Allegedly, the cash lockbox was left in a vacant office for at least 5 months before it was discovered missing. The Approving Manager and the Custodian were not following procedures when they made a decision to stop monitoring the Petty Cash Fund. Essentially, there were no security controls in place at the time of the audit.

RECOMMENDATION

In the event HEC management decides to keep the fund, the fund could be replenished, provided management agrees to implement the changes noted in this report, performs the review required by AP 5-3 and agrees to follow AP 5-3 in the future. We further recommend that the Controller's Office Audit Division verify that HEC has implemented this recommendation within one year of the replenishment of the fund.

EXHIBIT I



CITY OF HOUSTON

Interoffice

Correspondence

To: Annise D. Parker, City Controller
City Controller's Office

From: Sharon Counterman, Director
Houston Emergency Center

Date: April, 2, 2004

Subject: Petty Cash Audit

Upon reviewing the Unannounced Petty Cash Audit and the Houston Emergency Center's (HEC) internal needs, the HEC management concurs with your recommendations. The Petty Cash Fund has not been utilized in over two years, therefore, the fund does not need to be replenished.

The Office of Inspector General is conducting an investigation of the incident. The matter has been taken up with the employee involved to ensure that this will not occur again.


Sharon Counterman, Director
Houston Emergency Center

Views of Responsible
Officials

cc; Steve Schoonver, City Auditor, City Controller's Office
Kenneth Teer, Audit Manager, City Controller's Office
Barbara Evans, Assistant Director, Houston Emergency Center
Dyanne Marks, Administrative Manager, Houston Emergency Center
John Bales, Executive Director, Mayor's Office of Public Safety & Drug Policy