

OFFICE OF THE CITY CONTROLLER



SOLID WASTE MANAGEMENT DEPARTMENT

**UNANNOUNCED PETTY CASH AUDIT
ACCOUNT NO. 0156**

Annise D. Parker, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

June 7, 2005

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Solid Waste Management Department
Unannounced Petty Cash Audit-Account No. 0156 (Report No. 05-22)

Dear Mayor White:

The City Controller's Office Audit Division has completed an Unannounced Petty Cash Audit of the \$1,000 fund at the Solid Waste Management Department (Department) for the period of July 1, 2004 through April 30, 2005. 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 Department's compliance with Administrative Procedure (AP) 5-3.

The report, attached for your review, concludes that the internal controls over the petty cash fund at the Department are adequate to provide management with reasonable assurance that the fund is adequately safeguarded, disbursed and replenished in compliance with AP 5-3, except for the finding presented in the body of the report. Draft copies of the matters contained in the report were provided to Department officials. The views of responsible officials as to actions being taken are appended to the report as Exhibit 1.

We appreciate the cooperation extended to our auditors by Department 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
Thomas Buchanan, Director, Solid Waste Management Department
Judy Gray Johnson, Director, Finance and Administration Department

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VIEWS OF RESPONSIBLE OFFICIALS – EXHIBIT I

SCOPE AND PURPOSE

We have completed an unannounced audit of the \$1,000 Petty Cash Fund Account No. 156 at the Solid Waste Management Department (Administration/Accounting Division) for the period of July 1, 2004 through April 30, 2005. 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 (AP 5-3).

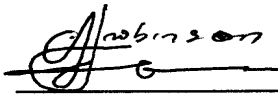
The scope of our work did not constitute an evaluation of the overall internal control structure of the Department. Our examination was designed to evaluate procedures and internal controls related to the petty cash fund, test for compliance therewith and provide recommendations for improvement where appropriate. This audit was 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 cash is safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal accounting control, 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 are adequate to provide management with reasonable assurance that this fund is properly safeguarded, disbursed and replenished in compliance with AP 5-3, except for the finding presented in the body of the report.



Ebenezer Robinson
Auditor-in-charge



Ken Teer
Audit Manager



Steve Schoonover
City Auditor

INTRODUCTION

The Solid Waste Management Department (Administration/Accounting Division) has a \$1,000 Petty Cash Fund. According to AP 5-3, 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 designates a Custodian to be responsible for managing and controlling the petty cash 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 petty cash fund
- Replacing any shortages not reported in a police report or resolved through disciplinary actions against another employee
- Reporting losses or thefts through the Approving Authority to the City Controller

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 or increasing a petty cash fund, disbursing from and replenishing the fund, changing the fund custodian or transferring the fund to backup custodian, reconciling the fund balance, and closing out the petty cash fund.

AUDIT FINDING AND RECOMMENDATION

I. PETTY CASH IMPREST AMOUNT

BACKGROUND

Prudent cash management practice suggests that cash on hand and/or petty cash fund should not exceed the current need of the department.

FINDING

Excessive petty cash fund balances increase the City's exposure to loss through theft or misappropriation. Our analysis of the petty cash replenishment history for the audit scope period indicated that the petty cash fund is currently replenished approximately once every three months. The fund turned over only 1.68 times during the audit period, which is below a normal turnover rate. The average replenishment was approximately \$559. Based on our analysis of the fund, the current petty cash need of the department does not justify an imprest amount of \$1,000. The Department should be able to meet its petty cash needs with an imprest amount of \$500.

RECOMMENDATION

We recommend that the Department take steps to reduce its petty cash fund balance from \$1,000 to \$500.

EXHIBIT I



CITY OF HOUSTON

Department of Solid Waste
Management

Interoffice

Correspondence

To: Annise D. Parker, City Controller

From: Thomas M. Buchanan, Director
Solid Waste Management Dept.

Date: May 26, 2005

Subject: UNANNOUNCED PETTY CASH AUDIT
ACCOUNT NO. 0156

I have reviewed the report of the Unannounced Petty Cash Audit of Account No. 156 conducted by your staff at our department. I agree with the findings and will instruct my staff to immediately comply with the recommendation.

Please contact Wiley Miller of my staff at 713-837-9183 if you have any questions.

A handwritten signature in black ink, appearing to read "Buch", written over a horizontal line.

Thomas M. Buchanan, Director
Solid Waste Management Dept.

**Views of Responsible
Officials**