

OFFICE OF THE CITY CONTROLLER



PUBLIC WORKS & ENGINEERING DEPARTMENT

SIGN ADMINISTRATION DIVISION

**UNANNOUNCED PETTY CASH AUDIT
ACCOUNT NO. 0138**

Annise D. Parker, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

August 25, 2005

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Public Works and Engineering Department-Sign Administration Division
Unannounced Petty Cash Audit – Account 0138 (Report No. 05-24)

Dear Mayor White:

The City Controller's Office Audit Division has completed an Unannounced Petty Cash Audit of the \$1,000 petty cash fund (Account No.0138) at the Public Works and Engineering Department's Sign Administration Division for the period of July 1, 2004 through May 19, 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 are adequate to provide management with reasonable assurance that the fund is properly safeguarded, disbursed and replenished in compliance with AP 5-3, except for the findings 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 I.

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
Michael S. Marcotte, Director, Public Works and Engineering Department.
Judy Gray Johnson, Director, Finance and Administration Department

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SCOPE AND PURPOSE

We have completed an unannounced audit of the \$1,000 Petty Cash Fund Account No. 138 at the Public Works and Engineering Department for the period of July 1, 2004 through May 19, 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).

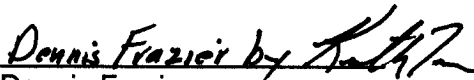
The scope of our work did not constitute an evaluation of the overall internal control structure of the Department. Our examination was designed to evaluate procedures and internal controls related to the petty cash fund, test for compliance therewith and provide recommendations for improvement where 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 this fund is properly safeguarded, disbursed and replenished in compliance with AP 5-3, except for the findings presented in the body of the report.


Dennis Frazier
Auditor-in-charge


Ken Teer
Audit Manager


Steve Schoonover
City Auditor

INTRODUCTION

The Public Works and Engineering Department (Sign Administration Division) has a \$1,000 Petty Cash Fund. According to Administrative Procedure 5-3 (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

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 FINDINGS AND RECOMMENDATIONS

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 0.74 times during the audit period, which is below a normal turnover rate. The average replenishment was approximately \$246. 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.

II. ADVANCES

BACKGROUND

According to Administrative Procedure No. 5-3 Revised (AP 5-3), Section 10.1, the employee should complete a signed PC-7 (Petty Cash Advance/Reimbursement Transaction) form before obtaining a cash advance from the Petty Cash Custodian.

FINDING

The employees do not complete a signed PC-7 form before obtaining a cash advance from the Petty Cash Custodian. Failure to comply with AP 5-3 circumvents the internal controls designed to ensure the proper review and approval of Petty Cash advances, and prevent loans being made for Petty Cash.

RECOMMENDATION

We recommend that the Department require a signed PC-7 form before issuing a cash advance.

EXHIBIT I



CITY OF HOUSTON

Public Works and Engineering
Department

Interoffice

Correspondence

To: Annise D. Parker,
City Controller

From: Director
Public Works & Engineering Department

Date: August 2, 2005

Subject: **UNANNOUNCED PETTY CASH AUDIT
ACCOUNT NO. 0138-SIGN ADMINISTRATION**

We have completed our response to your unannounced audit of the Department's Petty Cash Fund (Account No. 0138) for the period July 1, 2004 through May 19, 2005. We appreciate the following recommendations made by your auditors:

PETTY CASH IMPREST AMOUNT

Recommendation:

The Department should take steps to reduce its petty cash fund balance from \$1,000 to \$500.

Response:

We agree with the recommendation that the petty cash fund balance be reduced. On July 8, the petty cash fund was reduced from \$1,000 to \$500 as recommended. Completed documentation to reduce the fund, including \$500 deposit receipt as required by AP 5-3, paragraph 17.4 was forwarded to the Controller's Office. While section 17.4 deals with closing out a petty cash fund, AP 5-3 does not establish procedures for reducing fund. It is assumed the same general procedures will apply to a fund reduction as to a fund closeout. Our Internal Review staff will continue to analyze the quarterly cash replenishment history to determine an appropriate amount that meets Sign Administration's petty cash needs.

ADVANCES

Recommendation:

The Department should require a signed PC-7 form before issuing a cash advance.

Response:

We agree with the recommendation that employees should complete a signed PC-7 (Petty Cash Advance/Reimbursement Transaction) form before obtaining a cash advance from the Petty Cash Custodian, as stated in AP 5-3, paragraph 10.1.5. The petty cash custodian has been instructed to require a signed PC-7 form from employees requesting a cash advance. The petty cash custodian is also scheduled to attend an in-house petty cash training to bring her to standard with other PWE petty cash custodians.

*Views of Responsible
Officials*

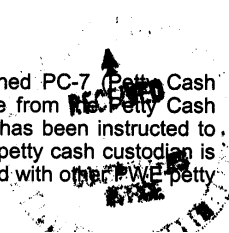


EXHIBIT I

If you have any questions, please contact Waynette Chan (713) 837-7128 or Godwin Okoro (713) 837-0347.

et: 11/11/06

8: 11/11/06


Michael S. Marcotte, P.E., DEE

MSM:GO:grh

c: Paul R. Nelson
Waynette Chan
Susan Luycx
Godwin Okoro

**Views of Responsible
Officials**