

OFFICE OF THE CITY CONTROLLER



**AVIATION DEPARTMENT
PETTY CASH AUDITS - ACCOUNTS 30 & 31
FOR THE PERIOD OF MARCH 1, 2000
THROUGH APRIL 18, 2000**

Sylvia R. Garcia, City Controller

Judy Gray Johnson, Chief Deputy City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

Sylvia R. Garcia

February 7, 2001

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

SUBJECT: Aviation Department
Petty Cash Audits - Accounts 30 and 31 (Report No. 00-34)

Dear Mayor Brown:

The City Controller's Office Audit Division has completed unannounced audits of two petty cash funds (Accounts 30 and 31) at the Aviation Department's Intercontinental Airport Houston (IAH) Terminal A and the Administration Building located at 16930 John F. Kennedy Boulevard (JFK). The audit covered the period of March 1, 2000, through April 18, 2000.

The audits' 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 audits evaluated the Department's compliance with Administrative Procedure (AP) 5-3, and applicable sections of APs 2-14 and 5-2.

Based on the results of our audits, the auditors concluded that controls over the petty cash funds at the JFK location (account 30) and IAH Terminal A (account 31) are adequate to provide management with reasonable assurance that these funds are properly safeguarded, disbursed and replenished in compliance with AP 5-3, except for the findings presented in the body of the report. 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 audits.

Respectfully submitted,

Sylvia R. Garcia
City Controller

xc: City Council Members
Albert Haines, Chief Administrative Officer
Cheryl Dotson, Chief of Staff, Mayor's Office
Richard M. Vacar, Director, Aviation Department
Philip Scheps, Director, Finance and Administration Department

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CONTENTS

LETTER OF TRANSMITTAL.....	i
EXECUTIVE SUMMARY	1
SCOPE AND PURPOSE	2
CONCLUSION	3
INTRODUCTION.....	4
AUDIT FINDINGS AND RECOMMENDATIONS	
I. INTERMEDIATE AUTHORITIES	4
II. PETTY CASH AUDITS	5
III. HAZARDOUS MATERIALS	5
VIEWS OF RESPONSIBLE OFFICIALS – EXHIBIT I	

EXECUTIVE SUMMARY

- The Petty Cash Custodians at both IAH Terminal A and the JFK Administration Building were not able to provide all current copies of the PC-4 forms to support signatures on the petty cash request forms.
- The Department is not conducting periodic unannounced audits of the petty cash fund.
- The Department purchased hazardous chemicals and materials without approvals from the HAZCOM Compliance Officer, the Administrator of Accident Prevention and Loss Control or the Risk Manager of the Personnel Department.

SCOPE AND PURPOSE

We have completed unannounced audits of two petty cash funds (Fund 501-Accounts 30 and 31) at the Aviation Department's IAH Terminal A and the JFK Administration Building for the period of March 1, 2000 through April 18, 2000. 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 the Department's compliance with AP 5-3 and applicable sections of APs 5-2 and 2-14.


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 \$4,000 and \$5,000 petty cash funds, test for compliance therewith and provide recommendations for improvement where appropriate. 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 are to provide management with reasonable, but not absolute assurance, that petty 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 audits, we conclude that controls over the petty cash funds at the Aviation Department's IAH Terminal A and JFK Administration Building are adequate to provide management with reasonable assurance these funds are properly safeguarded, disbursed and replenished in compliance with the AP 5-3 except for the findings presented in the body of the report.


Linda McDonald
Auditor-in-charge


Rudy Garcia
Audit Manager


Steve Schoonover
City Auditor

INTRODUCTION

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 the backup custodian, reconciling the fund balance, and closing out the petty cash fund.

AP 5-3 requires that each petty cash fund be verified on a quarterly basis, that such verification be documented on Form PC-6 and that Form PC-6 be filed with the Controller's Office no later than ten working days after the end of the quarter.

AP 2-14, Section 8.4, entitled Purchase, Use, Storage and Disposal of Toxic, Hazardous and Restricted Materials and Wastes, states that unless approved by the HAZCOM Compliance Officer, the Administrator of Accident Prevention and Loss Control or the Risk Manager of the Personnel Department, certain hazardous material purchases may not be made with petty cash.

AUDIT FINDINGS AND RECOMMENDATIONS

I. INTERMEDIATE AUTHORITIES

BACKGROUND

AP 5-3, Section 5.1, states that the Department's Approving Authority is responsible for designating the Intermediate Authority Approving Requests (request approval) for petty cash and the Intermediate Authority Approving Disbursements from petty cash (disbursement approval).

Additionally, the Intermediate Authority Approving Disbursements from petty cash must be someone other than the Intermediate Authority Approving Requests for petty cash.

Employees complete and sign form PC-4 authorizing them as either an Intermediate Authority approving requests for petty cash or an Intermediate Authority approving disbursements from petty cash. Copies of the PC-4s are distributed to the Controller's Office, to the petty cash custodian (custodian), to the Intermediate Authority and to the Department's Finance Division.

FINDING

The IAH Terminal A custodian and the JFK Administration Building custodian were not able to provide all current copies of the PC-4 forms to support signatures on the petty cash request forms. Also, a complete list of all employee names and

signatures authorized as Intermediate Authorities was not available at the time of the audit.

Adequate internal controls and procedures over petty cash are essential to prevent errors, irregularities and misappropriations of cash.

RECOMMENDATION

We recommend that the Department develop a master list of authorized names and signatures over petty cash transactions. A copy of the list should be forwarded to each custodian. The custodians should review and verify the authenticity of signatures by crosschecking the signatures on the PC-7 forms to the master list.

II. PETTY CASH AUDITS

BACKGROUND

Under AP 5-3, Section 5.1, the Approving Authority is responsible for periodically designating an employee to conduct unannounced audits of petty cash funds to ensure the integrity and accuracy of these funds.

FINDING

The Department has not performed any unannounced petty cash audits. The custodians stated that no unannounced audits have been performed of their respective funds since taking over the fund. The IAH Terminal A custodian received her fund in June of 1997 and the JFK Administration Building custodian received her fund in February 1998. Unannounced petty cash audits assist in assessing compliance with internal controls and procedures, detecting errors or irregularities timely, and ensure that proper safeguards are in place.

RECOMMENDATION

We recommend the Department comply with AP 5-3 and periodically appoint an employee to conduct unannounced audits of the petty cash accounts.

III. HAZARDOUS MATERIALS

BACKGROUND

AP 2-14, Section 8.4, states that departmental purchases of certain hazardous chemicals or materials with the petty cash fund is prohibited, unless such purchases are approved by the HAZCOM Compliance Officer, the Administrator of Accident Prevention and Loss Control or the Risk Manager of the Personnel Department. Listed among the hazardous materials are paint, fertilizer, and other similar products.

FINDING

The Department purchased hazardous materials without obtaining the required approvals. Five of the PC-7 forms tested were for hazardous materials purchases made at IAH. The Department made the five purchases without the proper authorization. Failure to comply with AP 2-14 exposes City employees to potential hazards that may result in injury and litigation against the City. Additionally, misuse and mishandling of the materials and chemicals may pollute the environment subjecting the City to fines due to violations of Federal, State and Local environmental laws and ordinances.

RECOMMENDATION

We recommend the Department comply with AP 2-14 and obtain the required approvals before purchasing hazardous materials. A copy of the approval should be attached to the PC-7 form.

EXHIBIT 1

CITY OF HOUSTON

INTEROFFICE CORRESPONDENCE

To: Ms. Sylvia R. Garcia
City Controller

FROM: Director of Aviation
Houston Airport System

DATE: January 9, 2001

SUBJECT: Management Response to Petty
Cash Audit

We have reviewed the January 5, 2001. draft report submitted by the City Controller's audit staff pertaining to the unannounced audits of two petty cash funds (\$4,000 and \$5,000) at the Aviation Department's IAH Terminal A and the JFK Administration Building. The following response is provided to address the findings and related recommendations presented in the audit report:

1. **Audit Finding:** The IAH Terminal A petty cash custodian and the JFK Administration Building petty cash custodian were not able to provide all current copies of the PC-4 forms to support signatures on the petty cash request forms. Also, a complete list of all employee names and signatures authorized as intermediate authorities was not available at the time of the audit.

Audit Recommendation: Develop a master list of authorized names and signatures and the custodians should review and verify the authenticity of signatures by cross-checking the signatures on the PC-7 forms to the master list.

Management Response: The Acknowledgement of Receipt of AP 5-2 and 5-3 Forms (PC-4) were last inventoried and fully accounted on August 1, 2000, by Aviation Finance, and a report was issued with copies of all current PC-4 forms to the Financial Reporting Division of the Controller's Office. Aviation will re-distribute copies of the PC-4 forms to the petty cash custodians along with the modified inventory list, renamed as master list, to reflect authorized signatures for reference purpose.

2. **Audit Finding:** The Department has not performed any unannounced petty cash audits. The IAH Terminal A custodian received her fund in June of 1997 and the JFK Administration Building custodian received her fund in February 1998.

Audit Recommendation: We recommend the Department comply with AP 5-3 and periodically appoint an employee to conduct unannounced audits of the petty cash accounts.

Management Response: Both petty cash funds were previously administered by Aviation Finance staff and the new custodians were trained on all aspects of the process. To closely monitor their performance, audit steps developed from the prior Petty Cash audit report and AP 5-3, Sec. 14 provisions were incorporated into the quarterly petty cash verification. Aviation will resume conducting plain cash counts on quarterly interval and perform audits separately on an unannounced periodic basis.

*Views of Responsible
officials*

MANAGEMENT REPORT RE PETTY CASH AUDIT 1.9.01.DOC

EXHIBIT 1

Ms. Sylvia R. Garcia
City Controller

-2-

January 9, 2001

3. **Audit Finding:** The Department purchased hazardous materials without obtaining the required approvals. Five of the PC-7 forms tested were for hazardous material purchases made at IAH.

Audit Recommendation: We recommend the Department comply with AP 2-14 and obtain the required approvals before purchasing hazardous materials.

Management Response: The items that were purchased - paint, hydraulic fluid, weed and feed, and a battery, were normally used on a regular basis and available at retail stores. The old Section 8.4 was deleted in the revised AP 2-14 dated June 1, 2000. To comply with the new AP 2-14, Aviation modified the PC-7 request form to require the HazCom. Compliance Officer's approval for any hazardous material purchases that are not pre-approved in the Material Safety Data Sheet (MSDS) Book.

Richard M. Vacar

RMV:RB:slh

cc: Mr. Richard Berrones
Ms. Myrna Warford
Mr. Cesar Dijamco
Central File

Views of Responsible
Officials