

OFFICE OF THE CITY CONTROLLER



HEALTH AND HUMAN SERVICES DEPARTMENT

**UNANNOUNCED PETTY CASH AUDIT
ACCOUNT NO. 0078**

Judy Gray Johnson, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

JUDY GRAY JOHNSON, CPA

January 31, 2003

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

SUBJECT: Health and Human Services Department
Unannounced Petty Cash Audit – Account 0078 (Report No. 02-27)

Dear Mayor Brown:

The City Controller's Office Audit Division has completed an unannounced petty cash audit of the \$3,000 fund at the Health and Human Services Department's Support Services Division (Department) for the period of July 01, 2001, through August 16, 2002.

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, as implemented, 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 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 being taken are appended to the report as Exhibit I.

We commend the Department for taking immediate actions on the recommendations identified in the report. Also, we appreciate the cooperation extended to our auditors by Department personnel during the audit.

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
M. desVignes-Kendrick, MD, MPH, Director, Health and Human Services Department
Philip Scheps, Ph.D., Director, Finance and Administration Department

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EXECUTIVE SUMMARY

- The Petty Cash Custodian at the Health and Human Services Department (Department) was not able to provide the audit team with a current approved list of authorized signatures used to verify the authenticity of the signatures on the petty cash request forms. However, the Department took a corrective action and prepared a current approved list of authorized signatures during the course of the audit.
- The Department has not restored a deficit of \$69.50 caused by theft. Previously, the Department's Revenue Supervisor had contacted the City Controller's Office to replace the missing fund. The City Controller's Office could not replace the missing fund since the Department did not produce a police report as required by AP 5-3 (12.1 through 12.5) or submit a report on its petty cash internal controls to the City Controller's Office.
- Our petty cash fund analysis indicates that the current imprest amount of \$3,000 is excessive and is not commensurate with the Department's petty cash needs.

SCOPE AND PURPOSE

We have completed an unannounced audit of the \$3,000 Petty Cash Fund (Account No. 0078) at the Health and Human Services Department's Support Services Division for the period of July 1, 2001 through August 16, 2002. 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 Department. Our examination was designed to evaluate and test compliance with procedures and internal controls related to the petty cash fund. 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 used in accordance with administrative procedures and is safeguarded against loss.

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 concluded that internal controls over petty cash fund at the Health and Human Services Department Support Services Division are adequate to provide management with reasonable assurance that this fund is adequately safeguarded, disbursed and replenished in compliance with AP 5-3 except for the findings presented in the body of the report.



Ebenezer Robinson
Auditor-in-charge



Kenneth Teer
Audit Manager



Steve Schoonover
City Auditor

INTRODUCTION

Health and Human Services Department's Support Services Division has a \$3,000 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

The Petty Cash Advance/Reimbursement Transaction Form (PC-7) is used to document the requisition and approval of petty cash funds for City business-related purchases. Employees requesting petty cash are required to obtain the signatures of the Intermediate Authority Approving Requests for Petty Cash and the Intermediate Authority Approving Disbursements from Petty Cash. Thereafter, the PC-7 Form is submitted to the Petty Cash Custodian to issue the requested amount from the fund. Periodically, the Custodian prepares reimbursement vouchers to be submitted to the City Controller's Office for replenishment of the fund.

AUDIT FINDINGS AND RECOMMENDATIONS

APPROVED LIST OF AUTHORIZING SIGNATURES

BACKGROUND

The Petty Cash Advance/Reimbursement Transaction Form (PC-7) is used to document the requisition and approval of petty cash funds for City business-related purchases. Employees requesting petty cash are required to obtain the signatures of the Intermediate Authority Approving Requests for Petty Cash and the Intermediate Authority Approving Disbursements from Petty Cash. Thereafter, a PC-7 Form is submitted to the Petty Cash Custodian to issue the requested amount from the fund. Then the Custodian cross-checks the signatures on the PC-7 forms against the approved list of authorizing signatures before processing the request.

City policy indicates that the Custodian is responsible for verifying the signature(s) on the PC-7 forms before making disbursements from the petty cash fund.

FINDING

The Petty Cash Custodian was not able to provide the audit team with a current approved list of authorized signatures at the time of the audit to verify signatures on the petty cash request forms.

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

RECOMMENDATION

We recommend that the Department should take steps to develop a master list of authorized names and signatures over petty cash transactions. A copy of the list should be forwarded to the custodian so that the Custodian can verify the authenticity of the signatures on petty cash request forms.

Corrective Actions Taken:

While this audit was in progress, the Custodian developed a master list of authorized names and signatures thereby implementing our recommendation.

RESTORING CASH LOST DUE TO THEFT

BACKGROUND

When a theft of more than \$50 occurs, City policy requires that the Department review its petty cash internal controls and submit a copy of a 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 of the Department, including any improvements made as a result of the theft. The City Controller's Office then reviews the findings to determine whether controls are adequate before replenishing the fund. It may also recommend additional improvements, if necessary, to safeguard the fund from future theft.

FINDING

The Department has not restored a deficit of \$69.50 caused by theft and that had been carried on the petty cash reconciliations for more than ten years. This item had previously been identified both by internal as well as external auditors, and the Department's Revenue Supervisor had contacted the City Controller's Office to replace the missing fund. The City Controller's Office could not replace the shortage since the Department did not produce a police report as required by AP 5-3 (12.1 through 12.5) or submit a report on its petty cash internal controls to the City Controller's Office.

RECOMMENDATION

We recommend that the Department comply with the procedures outlined in AP 5-3 (12.1 through 12.5) and restore the stolen amount and remove the item from the Department's petty cash reconciliation.

PETTY CASH IMPREST 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 petty cash fund is currently replenished approximately once every month (approximately twelve times a year). The fund turned over only 0.79 times during the audit period, which is well below a normal turnover rate. The average replenishment was approximately \$787. Based on our analysis of the fund, the current petty cash need of the Department does not justify an imprest amount of \$3,000. The Department can meet its petty cash needs with an imprest amount of \$1,500.

RECOMMENDATION

We recommend that the Department take steps to reduce its petty cash fund balance from \$3,000 down to \$1,500. A recommended time frame for implementation would be by March 31, 2003.

EXHIBIT I

CITY OF HOUSTON
INTER OFFICE CORRESPONDENCE

TO Judy Gray Johnson
City Controller

FROM M. desVignes-Kendrick, MD, MPH
Health and Human Services

DATE January 23, 2003

SUBJECT City Controller's Unannounced
Petty Cash Audit Report

Attached is the Houston Department of Health and Human Services' response to the subject report.

I wish to thank you for the courtesy and cooperation provided by the auditors. If further information required, please contact Monir Ibrahim at (713) 794-2990.


M. desVignes-Kendrick, MD, MPH
Director
Houston Department of Health
and Human Services

Xc: Earl Travis, Deputy Director
Monir Ibrahim, Division Manager-Internal Audit

Attachment
HDHHS Petty Cash Audit Report Response
City Controller's Petty Cash Audit Report

**Views of Responsible
Officials**

Houston Department of Health and Human Services
Response to the City Controller's Unannounced Petty Cash Audit Report

EXHIBIT I

Houston Department of Health and Human Services
Response to the City Controller's Unannounced Petty Cash Audit Report

FINDING 1
APPROVED LIST OF AUTHORIZED SIGNATURES

RESPONSE No action required, since corrective action took place during the audit.

FINDING 2
RESTORING CASH LOST DUE TO THEFT

RESPONSE We concur with the finding.

As mentioned to the auditors, we have been working to correct this problem for sometime, now. Therefore, we will follow the recommendation in order to resolve it.

FINDING 3
PETTY CASH IMPREST AMOUNT

RESPONSE We concur with the finding and will comply with the recommendation.

*Views of Responsible
Officials*