

OFFICE OF THE CITY CONTROLLER



AVIATION DEPARTMENT

**UNANNOUNCED PETTY CASH AUDIT
ACCOUNT NO. 0032**

Judy Gray Johnson, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

JUDY GRAY JOHNSON, CPA

March 7, 2003

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

SUBJECT: Aviation Department
Unannounced Petty Cash Audit – Account No. 0032 (Report No. 03-03)

Dear Mayor Brown:

The City Controller's Office Audit Division has completed an unannounced petty cash audit of the \$3,000 fund at the Aviation Department (Department) for the period of July 2, 2002 through January 15, 2003.

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, concluded 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 taken are appended to the report as Exhibit I.

We commend the Department for taking immediate action 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
Richard M. Vacar, Director, Aviation Department
Philip Scheps, Ph.D., Director, Finance and Administration Department

CONTENTS

LETTER OF TRANSMITTAL i
SCOPE AND PURPOSE 1
CONCLUSION 1
INTRODUCTION 2

AUDIT FINDINGS AND RECOMMENDATIONS

PETTY CASH IMPREST AMOUNT 2
SIGNATURES OF REQUESTING EMPLOYEES 3
VIEWS OF RESPONSIBLE OFFICIALS EXHIBIT I

SCOPE AND PURPOSE

We have completed an unannounced audit of the \$3,000 Petty Cash Fund (Account No. 0032) at the Aviation Department located at 7800 Airport Boulevard, Houston, Texas for the period of July 2, 2002 through January 15, 2003. 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.

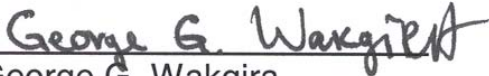
The scope of our work did not constitute an evaluation of the overall internal control structure of the Department. Our examination was designed to evaluate and test compliance with procedures and internal controls related to the petty cash fund. This was a financial related audit executed in accordance 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 at the Aviation Department 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.


George G. Wakgira
Auditor-in-charge


Kenneth Teer
Audit Manager


Steve Schoonover
City Auditor

INTRODUCTION

The Aviation Department (Hobby Airport) 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

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-and-a-half, which is well below a normal turnover rate. The average replenishment was approximately \$866. Based on the analysis, 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 \$2,000.

RECOMMENDATION

We recommend that the Department take steps to reduce its petty cash fund balance from \$3,000 to \$2,000.

SIGNATURES OF REQUESTING EMPLOYEES

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. AP 5-3, Section 10, requires completion of the PC-7 before advancing petty cash or reimbursing from petty cash.

FINDING

Three of 25 (12%) PC-7s tested did not contain signatures of the requesting employees. Adequate internal controls and procedures over petty cash funds are essential to prevent errors, irregularities and misappropriations of petty cash funds.

RECOMMENDATION

We recommend that the Department management ensures that all signatures are present on PC-7 forms (Requesting Employee, Intermediate Authorities Approving Requests For and Disbursements From Petty Cash, Custodian and Receiving Employee) before disbursements are made from the petty cash fund.

EXHIBIT I

CITY OF HOUSTON INTEROFFICE CORRESPONDENCE

TO: Ms. Judy Gray Johnson
City Controller

FROM: Director of Aviation
Houston Airport System

DATE: February 26, 2003

SUBJECT: Management Response to
Unannounced Petty Cash Audit

We have reviewed the February 14, 2003, draft report submitted by the City Controller's audit staff pertaining to the unannounced audit of the \$3,000 Petty Cash Fund (Account No. 0032) located at the Aviation Department, 7800 Airport Boulevard, Houston, Texas, for the period of July 2, 2002, through January 15, 2003. The following response is provided to address the findings and related recommendations presented in the audit report:

1. **Audit Finding:** The current petty cash need of the Department does not justify an imprest amount of \$3,000.

Audit Recommendation: We recommend that the Department reduce its petty cash fund balance from \$3,000 to \$2,000.

Management Response: In August 2002, the Houston Airport System evaluated and reduced four of its five petty cash funds by an average of 45%. The Hobby Airport petty cash fund level remained under observation to determine the appropriate cut. Account No. 0032 will be reduced 33% by February 28, 2003.

2. **Audit Finding:** Three of 25 (12%) PC-7s tested did not contain signatures of the requesting employees.

Audit Recommendation: We recommend that the Department management ensures that all signatures are present on PC-7 forms (Requesting Employee, Intermediate Authorities Approving Requests For and Disbursements From Petty Cash, Custodian and Receiving Employee) before disbursements are made from the petty cash fund.

Management Response: The three instances pertained to names printed, rather than signed by the requesting employees, for identification in the cash register. The designated Approving Authorities will ensure the requesting employees sign the PC-7 form.


Richard M. Vacar

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

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Views of Responsible
Officials