

OFFICE OF THE CITY CONTROLLER



PUBLIC WORKS AND ENGINEERING DEPARTMENT

**UNANNOUNCED PETTY CASH AUDIT
ACCOUNT NO. 0130**

Judy Gray Johnson, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

JUDY GRAY JOHNSON, CPA

March 28, 2003

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

SUBJECT: Public Works and Engineering Department
Unannounced Petty Cash Audit – Account No. 0130 (Report No. 03–05)

Dear Mayor Brown:

The City Controller's Office Audit Division has completed an unannounced petty cash audit of the \$3,000 fund at the Public Works and Engineering Department for the period of July 2, 2002 through January 30, 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 adequately safeguarded, disbursed and replenished in compliance with AP 5-3 except for the finding noted in the report. The finding and recommendation is 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 recommendation 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
Jon C. Vanden Bosch, Director, Public Works and Engineering Department
Philip Scheps, Ph.D., Director, Finance and Administration Department

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SCOPE AND PURPOSE

We have completed an unannounced audit of the \$3,000 Petty Cash Fund (Account No. 0130) at the Public Works and Engineering Department located at 7004 Ardmore Boulevard, Houston, Texas for the period of July 2, 2002 through January 30, 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.

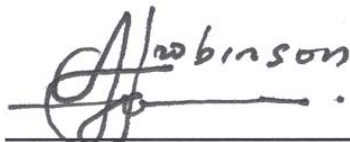
The scope of our work did not constitute an evaluation of the overall internal control structure of the Department. Our examination was designed to evaluate and test compliance with procedures and internal controls related to the petty cash fund. This was a financial related audit executed in accordance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



Ebenezer A. Robinson
Auditor-in-charge



Kenneth Teer
Audit Manager



Steve Schoonover
City Auditor

INTRODUCTION

The Public Works and Engineering Department (Water Production Maintenance) 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 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

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 five months. The fund turned over only 0.52 times during the audit period, which is below a normal turnover rate. The average replenishment was approximately \$785. 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 should be able to 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 to \$1,500.

EXHIBIT I



CITY OF HOUSTON

Public Works and Engineering
Department

Interoffice

Correspondence

To: Judy Gray Johnson
Office of the City Controller

From: Jon C. Vanden Bosch, P.E., Director
Public Works & Engineering Department

Date: March 18, 2003

Subject: Management Response to Unannounced
Petty Cash Audit - Account No. 0130

We have completed our response to your unannounced audit of the Department's Petty Cash Fund (Account No. 0130) for the period of July 02, 2002 through January 30, 2003. We appreciate the following recommendation made by your auditors:

PETTY CASH IMPREST AMOUNT

Recommendation:

The Department should take steps to reduce its petty cash fund balance from \$3,000 to \$1,500.

Response:

We agree with the recommendation that the petty cash fund balance be reduced. On March 3, 2003 documents were initiated by the department to reduce the amount to \$1,000, less than the amount recommended by the Controller's Office. Completed documentation to reduce the fund, including a \$2,000 deposit receipt as required by AP 5-3, paragraph 17.4 was forwarded to the Controller's Office March 17, 2003. While section 17.4 deals with closing out a petty cash fund, AP 5-3 does not establish procedures for reducing a fund. It is assumed these same general procedures will apply to a fund reduction as to a fund close out.

If you have any further questions, please contact Waynette Chan at (713) 837-0249 or Godwin Okoro at (713) 837-0347.


Jon C. Vanden Bosch

JV:ra

Cc: Gilbert Garcia
George Bravenec
Waynette Chan
Larry Homan
Godwin Okoro

**Views of Responsible
Officials**