

OFFICE OF THE CITY CONTROLLER



HOUSING AND COMMUNITY DEVELOPMENT DEPARTMENT

**UNANNOUNCED PETTY CASH AUDIT
ACCOUNT NO. 0113**

Judy Gray Johnson, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

JUDY GRAY JOHNSON, CPA

August 26, 2003

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

SUBJECT: Housing and Community Development Department
Unannounced Petty Cash Audit – Account No. 0113 (Report No. 03 –11)

Dear Mayor Brown:

The City Controller's Office Audit Division has completed an unannounced petty cash audit of the \$1,500 fund at the Housing and Community Development Department for the period of October 1, 2002 through June 9, 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 observation noted in the report. Draft copies of the report were provided to Department officials. The observation 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
Daisy Stiner, Director, Housing and Community Development 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 \$1,500 Petty Cash Fund (Account No. 0113) at the Housing and Community Development Department located at 601 Sawyer Street, Houston, Texas for the period of October 1, 2002 through June 9, 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.

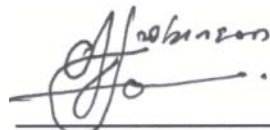
The scope of our work did not constitute an evaluation of the overall internal control structure of the Department. Our examination was designed to evaluate and test compliance with procedures and internal controls related to the petty cash fund. This was a financial related audit executed in accordance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



Ebenezer A. Robinson
Auditor-in-charge



Kenneth Teer
Audit Manager



Steve Schoonover
City Auditor

INTRODUCTION

The Housing and Community Development Department (Financial Services Section) has a \$1,500 Petty Cash Fund. According to Administrative Procedure No. 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 OBSERVATION AND RECOMMENDATION

PETTY CASH IMPREST AMOUNT

OBSERVATION

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 2.48 times (or 0.31 times a month) during the audit period, which is below a normal turnover rate. The average replenishment was approximately \$931. Based on our analysis of the fund, the current petty cash need of the Department does not justify an imprest amount of \$1,500. The Department should be able to meet its petty cash needs with an imprest amount of \$1,000.

RECOMMENDATION

We recommend that the Department take steps to reduce its petty cash fund balance from \$1,500 to \$1,000.

EXHIBIT I



CITY OF HOUSTON
Housing & Community Development
Department

Interoffice

Correspondence

TO Judy Gray Johnson
Controller

FROM Daisy A. Stiner, Director
Housing & Community Development

DATE August 6, 2003

SUBJECT Response - Petty Cash Audit Report

The Housing and Community Development Department (HCDD) is pleased that your audit concluded that the internal controls over petty cash at HCDD are adequate to provide management with reasonable assurance that this fund is in compliance with AP 5-3. HCDD will immediately comply with the recommendation to reduce the fund from \$1,500.00 to \$1,000.00.

We commend you on the expeditious manner in which this audit was performed.

A handwritten signature in black ink, appearing to read "Daisy A. Stiner".

Daisy A. Stiner, Director
Housing & Community Development Department

DAS/jj

Xc: S. Schoonover
K. Teer

*Views of Responsible
Officials*

