

OFFICE OF THE CITY CONTROLLER



MAYOR PRO-TEM OFFICE

**PETTY CASH FUND AND PURCHASING CARD AUDIT
FOR THE PERIOD
JANUARY 1, 2004 THROUGH MARCH 9, 2006**

Annise D. Parker, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

November 14, 2006

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Mayor Pro-Tem Office – Petty Cash Fund and Purchasing Card Audit
Report No. 2007-05

Dear Mayor White:

The City Controller's Office Audit Division has completed a Petty Cash Fund and Purchasing Card (P-card) Audit of the Mayor Pro-Tem Office (Office) for the period of January 1, 2004 through March 9, 2006. The audit objectives were to determine if the petty cash and P-card purchasing activities were valid, appropriate and properly approved, and that the petty cash fund was adequately safeguarded, disbursed and replenished. Additionally, the audit evaluated the Office's compliance with Administrative Procedures 5-2, 5-3, and Executive Order 1-42.

The report, attached for your review, concludes that the prior Mayor Pro-Tem's staff did not comply with the City's Administrative Procedures regarding the maintenance of records along with the proper documentation to support expenditures. Records related to petty cash and P-cards were inconsistent, incomplete, and in many instances nonexistent. Both the Legal Department and the Office have reviewed draft copies of this report.

We appreciate the cooperation extended to our auditors by the Legal Department and Office personnel during the course of the audit.

Respectfully submitted,

Annise D. Parker
City Controller

xc: City Council Members
Michael Berry, Acting Mayor Pro Tem
Anthony Hall, Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Arturo Michel, City Attorney, Legal Department
Charles A. Rosenthal, Jr., District Attorney, Harris County District Attorney's Office
Judy Gray Johnson, Director, Finance and Administration Department

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**AUDIT FINDING AND OUTCOME
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BACKGROUND

In March 2006 the Mayor Pro-Tem's Office staff (four employees) was placed on indefinite suspension for questionable activities. As a matter of diligence, the Legal Department and the City Controller agreed to an audit of the Mayor Pro-Tem's Petty Cash Account (Number 0050) and Purchasing Card (P-card) activity.

PURPOSE AND SCOPE

The objectives of our audit were to determine if the P-card and petty cash purchasing activities were valid, appropriate and properly approved, and that the petty cash fund was adequately safeguarded, disbursed and replenished. The audit evaluated compliance with *Revised Petty Cash Fund Policy & Procedures (AP 5-3)*, *Procurement Process (Revised) (AP 5-2)*, and with *Purchasing Card Policy and Procedures (EO 1-42)*, and its amendment dated April 9, 2001.

The scope of our work focused on the \$500 petty cash fund and the P-card activity in the Mayor Pro-Tem's Office located at 900 Bagby Street, Houston, Texas for the period of January 1, 2004 through March 9, 2006. Our scope also included: reviewing appropriate policies and procedures; interviewing employees; examining documents pertinent to the test period; and applying other audit procedures.

Prior to the onset of our fieldwork, the Harris County District Attorney's Office (DA's Office) seized the Mayor Pro-Tem files. Although most of the records had been confiscated by the DA's Office, we performed our own search of the Mayor Pro-Tem's files, and confirmed that we would need to go the DA's office and search the boxes of confiscated files so we could obtain the necessary documents to perform our fieldwork testing on petty cash and P-card activities.

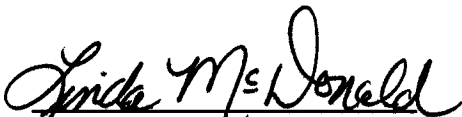
The scope of our work did not constitute an evaluation of the overall internal control structure of the Mayor Pro-Tem's Office. Our examination was designed to evaluate and test compliance with procedures and internal controls related to both the petty cash fund and the P-card activity, with focus on the purchasing activities being valid, appropriate and properly approved, and that the petty cash fund was adequately safeguarded, disbursed and replenished.

CONCLUSION

Because original and complete documentation was not available, it is our opinion that the Mayor Pro-Tem's Office did not comply with the City's Administrative Procedures regarding the maintenance of records along with the proper documentation to support expenditures.

The Mayor Pro-Tem's petty cash and P-card expenditures for the period audited were \$224 and \$3,181, respectively. Records related to petty cash and P-cards were inconsistent, incomplete, and in many instances nonexistent. Based upon the limited available documentation, it appeared that the types of items purchased were most likely valid and appropriate.

The former petty cash Custodian violated the City's Administrative Procedures by: removing \$160 from the petty cash fund without a proper advance authorization; removing more than \$100 for a single purchase; and, failing to perform quarterly fund reconciliations. The Mayor Pro-Tem's former P-card Coordinator violated the City's Executive Order concerning P-cards by not maintaining required documentation.



Linda McDonald
Auditor-in-charge



Richard Martinez
Audit Manager



Steve Schoonover
City Auditor

PETTY CASH FUND

The Mayor Pro-Tem's Office had a \$500 petty cash fund. According to AP 5-3, petty cash Custodians are required to keep certain essential documents such as: reconciliation reports, receipts, and transaction forms.

I. PETTY CASH IN FORMER CUSTODIAN'S POSSESSION

BACKGROUND

According to AP 5-3, *Section 10.1, Advances*: An employee must complete a Petty Cash Advance/Reimbursement Transaction (PC-7) in order to properly receive an advance from the petty cash fund. This documentation is to be kept on file by the Custodian. Additionally, the City's AP 5-2, *Procurement Procedures* states that a single petty cash purchase may not exceed \$100.

FINDING

In March 2006, the former Custodian met with the City's Chief Administrative Officer and the City's Legal Department and returned eight \$20 bills that she stated came from the petty cash box, and a petty cash replenishment check made out to her in the amount of \$224.06. The former Custodian advised the Legal Department that she removed the above-mentioned cash in order to purchase footrests for staff members. However, we were unable to locate a PC-7 form authorizing this advance and such a purchase would have exceeded the \$100 petty cash single purchase limit.

OUTCOME

The Legal Department furnished the City Controller's Audit Division the above proceeds for inclusion in our petty cash count. The replenishment check was cancelled by the City Controller's Office. Due to the ongoing investigation of the former Custodian, we verbally related these events to the Harris County Chief Investigator.

II. PETTY CASH – MISSING FUNDS

BACKGROUND

According to AP 5-3, *Section 12, Procedures for Restoring Cash Lost Due to Theft*, "When a theft of \$50 or more has occurred, the Approving Authority should notify the Police Department to investigate." Additionally, AP 5-3, *Section 4.7 Quarterly Verification of Fund Balance*, states that quarterly verifications of the fund balance are to be prepared and the results are to be reported to the City Controller's Office.

FINDING

According to the City Controller's Financial Reporting Division's records, the former Custodian was appointed in October 2004 and she only prepared one reconciliation during her 17-month tenure as Custodian. That reconciliation was dated February 10, 2006. The former Custodian did not report any shortages at that time.

In March 2006, after the removal of the Mayor Pro-Tem employees and prior to the appointment of the Acting Mayor Pro-Tem, a Legal Department employee was assigned to staff the Mayor Pro-Tem's office. The employee expressed concern about leaving the petty cash box in the Pro-Tem's offices unattended. The petty cash box was removed from the Mayor Pro-Tem's office to the Legal Department where it was kept in a locked cabinet. Neither the Acting Mayor Pro-Tem nor his representatives had possession of or exercised control over the petty cash funds during the time that funds were in the hands of the Legal Department.

On March 15, 2006, a cash count was performed at the Legal Department's office in the presence of representatives of the Legal Department, the Acting Mayor Pro-Tem, and the City Controller and it was determined that approximately \$54 was missing. The discrepancy was noted by the Legal Department and the petty cash funds were returned to the Acting Mayor Pro-Tem's representative.

On March 17, 2006, we performed a cash count at the Mayor Pro-Tem's office that consisted of the following items:

- Cash of \$222.22 (including the eight \$20 bills returned by the Former Custodian); and
- A replenishment check for \$224.06.

It was confirmed that approximately \$54 was missing. Since the former petty cash Custodian no longer worked for the City, it was not possible to obtain an explanation as to what might have happened to the missing funds. The acting Mayor Pro-Tem's representative stated that no one in the office could explain the shortage, and that they wanted to close out the petty cash account and discontinue its use.

OUTCOME

The petty cash fund was closed out on April 21, 2006. To comply with the above referenced policy, the Mayor Pro-Tem's Office alerted the Office of Inspector General (OIG) of the missing funds on May 12, 2006. A copy of the OIG's Letter of Complaint was subsequently provided to the Controller's Office on June 1, 2006.

III. MISSING DOCUMENTATION AND ORIGINAL RECEIPTS

BACKGROUND

According to AP 5-3, *Section 5.3, Fund Custodian*: “The Fund Custodian is responsible for managing and controlling the Fund ...”. Included as one of those responsibilities is “Maintaining the Cash Receipts and Disbursements Journal accurately”. The AP further states in *Section 8.2, Supporting Documentation for Petty Cash Purchases*, “All disbursements, with the exception of coin meter parking, parking in not attended lots and coin telephone expenses, must be supported by original receipts.”

FINDING

We were unable to find any required petty cash documentation in the Mayor Pro-Tem’s Office or the DA’s Office. However, we were able to obtain various copies of petty cash documentation from the Controller’s Office. These copies were not complete and we could not fully rely upon them to make the determination that they were following AP 5-3. Subsequently, the Acting Mayor Pro-Tem staff discovered a file containing petty cash documents and provided these to us on April 12, 2006. These documents were also copies and were identical to the documents we had already obtained from the Controller’s Office.

Because required petty cash documentation was not sufficiently available, we concluded that the Mayor Pro-Tem’s former petty cash Custodian did not comply with AP 5-3’s documentation retention requirements.

OUTCOME

As stated above, the petty cash fund was closed on April 21, 2006.

PURCHASING CARDS

The Mayor Pro-Tem’s office had two P-cards assigned to their staff. Additionally, one of the Mayor Pro-Tem staff was the City Council’s P-card Coordinator from January 1995 through March 2006, which made her responsible for monitoring all of City Council’s P-cardholders. While she was P-card Coordinator, there were as many as ten P-cards in use, including the two assigned to the Mayor Pro-Tem’s Office.

I. MISSING DOCUMENTATION AND ORIGINAL RECEIPTS

BACKGROUND

According to EO 1-42, *Section 17.0, Records Management*: “Departmental Purchasing Card Coordinators are required to maintain records of P-card transactions, purchase documents and reconciliations.

Records should be kept by billing cycle. The following records are to be kept at least two years before archiving:

- All documents, when required to justify the purchase.
- Cardholder's monthly detail and department summary report with receipts for each billing cycle with activity.
- Disputed item and all related documents (memos, forms, resolutions)".

FINDING

As with petty cash, we did not find any supporting P-card documentation at the Mayor Pro-Tem's office or the DA's Office. We were able, however, to obtain copies of P-card statements for the ten cards from the Finance and Administration Department's Strategic Purchasing Division (the section responsible for the city-wide administration of P-card activity). The statements provided allowed us to determine the amounts spent by the P-cardholders and a listing of the vendors used. It appeared from our review of the statements that the types of items purchased were most likely valid and appropriate. However, we were unable to review receipts that would have revealed the specific items purchased.

OUTCOME

Due to the lack of any supporting documentation, we concluded that the former P-card Coordinator did not comply with EO 1-42. Subsequent to our review, a new P-card Coordinator was assigned to manage City Council's P-card purchases.