

**OFFICE OF THE CITY CONTROLLER**



**LEGAL DEPARTMENT  
PETTY CASH AUDIT - ACCOUNT NO. 90  
FOR THE PERIOD OF OCTOBER 1, 1999  
THROUGH FEBRUARY 7, 2000**

**Sylvia R. Garcia, City Controller**

**Judy Gray Johnson, Chief Deputy City Controller**

**Steve Schoonover, City Auditor**



OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

SYLVIA R. GARCIA

January 16, 2001

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

SUBJECT: Legal Department  
Petty Cash Audit - Account 90 (Report No. 00-33)

Dear Mayor Brown:

The City Controller's Office Audit Division has completed an unannounced petty cash audit of the \$12,000 fund at the Legal Department for the period of October 1, 1999 through February 7, 2000.

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.

Based on the results of our audit, the auditors concluded that internal controls over the petty cash fund 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. 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 1.

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,

Sylvia R. Garcia  
City Controller

xc: City Council Members  
Albert Haines, Chief Administrative Officer  
Cheryl Dotson, Chief of Staff, Mayor's Office  
Anthony W. Hall, Jr., City Attorney  
Sara Culbreth, Acting Director, Finance and Administration Department

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## EXECUTIVE SUMMARY

- The petty cash fund was short \$107.90 during the surprise count conducted on February 7, 2000.
- Petty cash disbursements for litigation fees are not substantiated by receipts.
- The current imprest amount of \$12,000 is excessive and is not justified by departmental petty cash needs.
- The department is not conducting periodic unannounced verifications of the petty cash fund.

## SCOPE AND PURPOSE

We have completed an unannounced audit of the \$12,000 petty cash fund (Fund 100/Account 90) at the Legal Department for the period of October 1, 1999 through February 7, 2000. 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 procedures and internal controls related to the petty cash fund, test for compliance therewith and provide recommendations for improvement where appropriate. This was a financial related audit executed in accordance with Generally Accepted Government Auditing Standards.

Department 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 cash is safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are recorded properly.

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 are adequate to provide management with reasonable assurance this fund is properly safeguarded, disbursed and replenished in compliance with AP 5-3 except for the findings presented in the body of the report.

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George G. Wakgira  
Auditor-in-charge

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Rudy Garcia  
Audit Manager

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Steve Schoonover  
City Auditor

## INTRODUCTION

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.

AP 5-3 requires that each petty cash fund be verified on a quarterly basis, that such verification be documented on Form PC-6 and that Form PC-6 be filed with the Controller's Office no later than ten working days after the end of the quarter. It also states that "failure to return in a quarterly verification on a timely basis for two consecutive quarters in accordance with the stated policies and procedures will give the Controller the authority to audit and close the fund without advance notification."

AP 5-3 (13) allows departments to establish a "backup" custodian (an employee who can access a petty cash fund in the event that the primary custodian is unavailable).

## AUDIT FINDINGS AND RECOMMENDATIONS

### I. PETTY CASH SHORTAGE

#### BACKGROUND

The Legal Department maintains a \$12,000 petty cash fund. The fund consists of \$400 cash and \$11,600 in a bank checking account. The main reason for using a bank account is because the civil courts do not accept cash for court fees. Court fees are usually for small amounts. The City of Houston Administrative Procedure 5.3 (5.3) states "The Fund Custodian is responsible for replacing any shortages not reported in a police report or resolved through disciplinary action against another employee."

#### FINDING

The petty cash count that was performed on February 7, 2000 identified a shortage of \$107.90. On the basis of our testing we determined that the shortage existed at the time the fund was transferred to the current petty cash custodian. The shortage may be attributable to bank service charges that were not submitted for replenishment. Additionally, the Custodian does not reconcile the book(check) balance to the bank balance.

**RECOMMENDATION**

We recommend the Department review the petty cash bank statements for the 18 months prior to transferring the fund in an effort to identify any bank service charges that may have been omitted from previous replenishment requests. Any bank services charges identified should be submitted for replenishment. Management should also ensure that the custodian performs a bank reconciliation each month. Additionally, management should consider collecting the shortage from the prior petty cash custodian.

**II. PETTY CASH REQUEST FORMS**

**BACKGROUND**

AP 5.3 (10.1.1-10.1.4) states that a completed PC-7 (petty cash/check request form) form be signed and dated by the requesting employee, the Intermediate Authority Approving Requests for Petty Cash, the Intermediate Authority Approving Disbursements from Petty Cash, the petty cash custodian, and the person receiving the cash.

**FINDING**

In eight out of twenty (40%) request forms examined, the petty cash custodian signed prior to approval by the Intermediate Authority Approving Disbursements from Petty Cash.

Additionally, nine out of twenty (45%) request forms examined, were not dated by either, the person receiving cash, the person requesting cash and/or the Intermediate Authority Approving Disbursements from Petty Cash.

Dates are essential in determining if proper procedures and approval sequences are followed when processing replenishment requests.

**RECOMMENDATION**

Department management should take steps to ensure that all required procedures are followed when processing petty cash/checks request forms prior to disbursing petty cash funds. The petty cash custodian should not disburse funds until all required signatures are obtained. Management should also ensure that the custodian does not sign replenishment requests prior to receiving management approvals/signatures.



### **III. PETTY CASH DISBURSEMENTS**

#### **BACKGROUND**

AP 5.3 (8.2) states that 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**

The response to our internal control questionnaire indicates that original receipts are not attached for legal fees incurred at the courthouse. Instead, departmental copies of checks are used in lieu of original receipts from the courthouse. Check copies made out to valid vendor names can be used for the replenishment, but the original check can then be voided and substituted with one made out to the custodian or other payee. Using this method, the fund would still balance however, cash could be misappropriated.

#### **RECOMMENDATION**

Department management should take steps to ensure that all replenishment requests from the Controller's Office are supported by, at least, copies of original receipts from the courthouse. The receipt copies should include information stating that the receipt is a copy of the original receipt and identify the file where the original receipt is kept. In those situations where receipts cannot be obtained at all, copies of the negotiated checks, front and back, may be used as support when requesting replenishments. Additionally, the Department should consider requesting, from the Finance and Administration Department, a revision to AP 5-3 exempting them from providing original receipts due to the nature of the Department's operation.

### **IV. PETTY CASH IMPREST AMOUNT**

#### **BACKGROUND**

Prudent cash management practice suggests that cash on hand and/or petty cash fund should not exceed the current need of the department.

#### **FINDING**

An analysis of the petty cash replenishment history indicates that the fund is currently replenished approximately once a month. The fund turned over less than 0.44 times during the audit period and the average replenishment was approximately \$600. Based

on the analysis, the current needs of the department do not justify an imprest amount of \$12,000.

**RECOMMENDATION**

We recommend that the Department take steps to reduce the petty cash fund balance from \$12,000 down to \$8,000.

**V. PETTY CASH VERIFICATIONS**

**BACKGROUND**

The City of Houston's Administrative Procedure 5.3 (16) states that periodic announced and unannounced verifications (in addition to the required quarterly verifications) of the Fund must be conducted by the department and/or the City Auditor to ensure the integrity and accuracy of the Fund.

**FINDING**

The petty cash custodian stated that the Department has not performed any unannounced verifications of the petty cash fund since the fund was transferred to her.

**RECOMMENDATION**

The department should take steps to ensure that periodic unannounced verifications are done by individuals who are independent of the petty cash function.

# EXHIBIT 1



CITY OF HOUSTON

Legal Department

**Interoffice**

Correspondence

To: Sylvia R. Garcia

From: Anthony W. Hall, Jr.

Date: January 5, 2001

Subject: Petty Cash Audit

Attached herewith are the Legal Department's responses to the findings and recommendations that resulted from your audit of our petty cash fund operations.

## 1. Petty Cash Shortage

**Finding:** A shortage of \$107.90 was identified which existed at the time the fund was transferred to the present petty cash custodian. The custodian did not reconcile the book-to-bank balance.

**Recommendation:** Department should review bank statements for a period that included 18 months prior to the transfer of the petty cash fund to the present custodian to ascertain the reason for the shortage. Management should ensure that a book-to-bank reconciliation is executed monthly. Management should consider collecting the shortage from the prior petty cash custodian.

**Response:** A review of bank statements for the 18 months preceding the transfer of the petty cash fund to the present custodian was completed without uncovering the source of the shortage. As suggested by the auditors, it is likely that the source of the shortage would be a series of small charges such as monthly bank service fees for which reimbursement was overlooked. Since the petty cash account was not reconciled book-to-bank for at least the last eight years, these unreimbursed charges could have occurred at any time during that period. The amount of resources that would be required to fully audit the archived records does not provide for a favorable cost/benefit incentive.

The Legal Department invited the auditors to outline the best procedures for reconciling its petty cash account and has subsequently conducted such reconciliations. We will regularly reconcile the account book-to-bank in the future.

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Officials**

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## II. Petty Cash Request Forms

- Finding:** Eight out of twenty petty cash request forms examined were signed by the Petty Cash Custodian prior to approval by the Intermediate Authority Approving Disbursements from Petty Cash. Nine out of twenty request forms examined were not dated by either the person receiving cash, the person requesting cash and/or the Intermediate Authority Approving Disbursements from Petty Cash.
- Recommendation:** The Petty Cash Custodian should not disburse funds until all required signatures are obtained. Management should also ensure that the custodian does not sign replenishment requests prior to receiving management approvals/signatures.
- Response:** In fact, management has directed that the Petty Cash Custodian not sign or disburse funds prior to management approvals/signatures. However, because documents are standardly processed in batch on a daily basis, it is not unusual for one of the signatories to erroneously record the prior day's date on all of the current day's petty cash requests. Nevertheless, we agree that correctly dating the signatures does reflect well on procedural compliance. The Petty Cash Custodian and the Authority Approving Disbursement have been instructed to be more attentive to the dates entered on the request forms and to ensure that all dates are entered correctly wherever a place is provided.

## III. Petty Cash Disbursements

- Finding:** Original receipts are not attached for legal fees incurred at the courthouse. Instead, departmental copies of checks are used in lieu of original receipts. Copies of checks made out to valid vendors may be used to replenish the petty cash fund, but the original check may then be voided and substituted with one made out to the custodian or other payee. Using this method, the fund would still balance but cash could be misappropriated.
- Recommendation:** Copies of receipts from the courthouse should be attached to payment vouchers requesting replenishment of the petty cash fund. Whenever a receipt is not available, a copy of the negotiated check, front and back, may be used as support when requesting replenishments. The Legal Department should request that the Finance and Administration Department revise AP 5-3, exempting it

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from providing original receipts due to the nature of the department's operations.

Response: Historically, the petty cash custodian has submitted copies of checks payable to the courthouses as proof of expenditure. While we understand that receipts are preferable (and we will, henceforth, include receipts whenever they are available), procedures that have been in place for several years preclude misappropriation of funds via check switching. The department is only reimbursed for checks that have cleared the bank and for which the canceled checks have been returned in the monthly bank statements.

We will ask the Finance and Administration Department to revise AP 5-3 to exempt the Legal Department from providing receipts when unavailable and substituting copies of canceled checks as proof of payment.

## IV. Petty Cash Imprest Amount

Finding: The petty cash account is replenished once per month and the average replenishment is \$600. Upon this basis, the current needs of the department do not justify an imprest amount of \$12,000.

Recommendation: Reduce the petty cash fund balance from \$12,000 down to \$8,000.

Response: In actuality, the department's average reimbursement is closer to \$2,000. This notwithstanding, we believe that the imprest amount may be reduced to \$9,000 without adversely affecting the operations of the department.

**Views of Responsible  
Officials**

## V. Petty Cash Operations

Finding: Unannounced verifications of the petty cash fund have not been conducted since the transfer of the fund to the current Petty Cash Custodian.

Recommendation: Ensure that periodic unannounced verifications of the petty cash fund are performed by individuals who are independent of the petty cash function.

Response: The petty cash has been counted on a quarterly basis during the tenure of the current Petty Cash Custodian. Such counts were not:

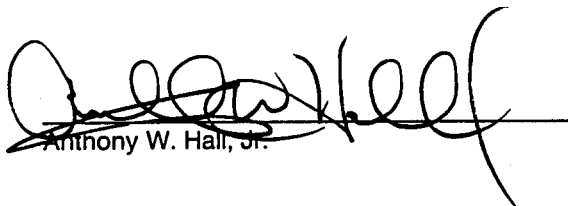
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unannounced, however. It should be noted that actual cash on hand is limited to \$400; the balance of the account is maintained in the checking account. We have designated a person to periodically conduct unannounced counts of the petty cash and have already initiated this practice.

In conclusion, I am pleased that the results of the audit did not find any material lapses that compromised the integrity of the operation of the department's petty cash fund. The procedures employed by the Petty Cash Custodian and her supervisor, in fact, prevent the misappropriation of funds. These procedures coupled with the implementation of the auditor's recommendations will provide for a stronger petty cash operation within the Legal Department. Most of the recommendations were implemented prior to receiving the final audit results.

If I may be of further assistance in connection with this matter, please advise me.



Anthony W. Hall, Jr.

AWH:hpm  
UAWKILESPETTY.WPD

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Officials**