

OFFICE OF THE CITY CONTROLLER



**CONVENTION AND ENTERTAINMENT
FACILITIES DEPARTMENT**

**UNANNOUNCED PETTY CASH AUDIT
ACCOUNT NO. 0042**

Judy Gray Johnson, City Controller

Steve Schoonover, City Auditor

January 23, 2003

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

SUBJECT: Convention and Entertainment Facilities Department
Unannounced Petty Cash Audit – (Report No. 02-26)

Dear Mayor Brown:

The City Controller's Office Audit Division has completed an unannounced petty cash audit of the \$3,000 fund at the Convention and Entertainment Facilities Department (Department) for the period of July 1, 2001 through August 15, 2002.

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 actions 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
Dawn Ullrich, Director, Convention and Entertainment Facilities 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. 0042) at the Convention and Entertainment Facilities Department (Department) for the period of July 1, 2001 through August 15, 2002. 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.

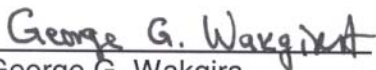
The scope of our work did not constitute an evaluation of the overall internal control structure of the Department. Our examination was designed to evaluate and test compliance with procedures and internal controls related to the petty cash fund. This was a financial related audit executed in accordance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

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 (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).

AP 5-3, Sections 15 and 16.1, require that each petty cash fund be verified on a quarterly basis and, periodically, on unannounced basis, and that such verifications be conducted by individuals, designated by the Approving Authority, and who are independent of the petty cash functions.

AUDIT FINDINGS AND RECOMMENDATIONS

I. QUARTERLY AND PERIODIC UNANNOUNCED VERIFICATIONS

BACKGROUND

The City of Houston’s AP 5-3, Section 15, states that the accuracy of the petty cash fund must be verified on a quarterly basis by an employee designated by the Approving Authority. The verifying employee must be independent of the petty cash functions. The Approving Authority should designate an employee other than the Fund Custodian, the Back-up Custodian(s), the Intermediate Authority Approving Requests for Petty Cash, the Intermediate Authority Approving Disbursements from Petty Cash or the Fund Custodian's supervisor to verify the accuracy of the Petty Cash Fund.

In addition, AP 5-3, Section 16.1, states that periodically, the Approving Authority will designate an employee other than the Fund Custodian, the Back-up Custodian(s), the Intermediate Authority Approving Requests for Petty Cash, the Intermediate Authority Approving Disbursements from Petty Cash or the Fund Custodian's supervisor to conduct unannounced verifications.

FINDING

The individuals conducting the quarterly as well as the periodic unannounced verifications are not independent of the petty cash functions. The employees conducting the quarterly and the periodic unannounced verifications have also been designated by the Approving Authority as Intermediate Authorities Approving Disbursements from Petty Cash.

RECOMMENDATION

The Department should designate individuals who are independent of the petty cash functions to perform quarterly as well as periodic unannounced verifications.

II. 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 1.49 times during the audit period, which is well below a normal turnover rate. The average replenishment was approximately \$1,486. 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 \$1,500 if it shortens its replenishment cycle by increasing its replenishment frequency from approximately two to four times a year.

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
Convention & Entertainment
Facilities Department

Interoffice

Correspondence

To: Judy Gray Johnson
City Controller

From: Dawn R. Ullrich, Director

Date: January 15, 2003

Subject: Management Response –
Unannounced Petty Cash
Audit

Your unannounced petty cash audit at the Wortham Theater for the period July 1, 2001 through June 30, 2002 resulted in two findings. Following are my responses.

1. Quarterly and Periodic Unannounced Verifications

We have designated two individuals, one as primary and one as back up, who are independent of the petty cash functions to perform quarterly as well as periodic unannounced verifications.

2. Petty Cash Imprest Amount

We concur and will take the necessary steps to reduce our petty cash fund balance of \$3,000.

If you need further assistance, please do not hesitate to contact Brenda Bazan of my staff at (713) 250-3645.

A handwritten signature in cursive script that reads "Dawn Ullrich".

Dawn Ullrich

cc: Brenda W. Bazan, Assistant Director, Convention & Entertainment Facilities Department

**Views of Responsible
Officials**