

**OFFICE OF THE CITY CONTROLLER**



**FIRE DEPARTMENT**

**UNANNOUNCED PETTY CASH AUDIT  
ACCOUNT NO. 0059**

**Judy Gray Johnson, City Controller**

**Steve Schoonover, City Auditor**



OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

JUDY GRAY JOHNSON, CPA

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

SUBJECT: Fire Department  
Unannounced Petty Cash Audit – Account No. 0059 (Report No. 02 -28)

Dear Mayor Brown:

The City Controller's Office Audit Division has completed an unannounced petty cash audit of the \$4,000 fund at the Fire Department's Permit Division (Department) for the period of July 1, 2001 through August 16, 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, concludes 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 finding noted in the report. The finding and recommendation 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 appreciate the cooperation extended to our auditors by Department personnel during the course of 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  
Chris Connealy, Chief, Fire 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 \$4,000 Petty Cash Fund (Account No. 0059) at the Fire Department's Permit Division (Department) for the period of July 1, 2001 through August 16, 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 conclude that internal controls over petty cash at the Fire Department's Permit Division 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.

  
Carolyn Y. Armstead  
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.

## 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 had a turnover rate of 2.84 times during the audit period, which is below a normal turnover rate. The average replenishment amount was approximately \$1,624. Based on the analysis, the current petty cash need of the Department does not justify an imprest amount of \$4,000. The Department can meet its petty cash needs with an imprest amount of \$2,500 if it shortens its replenishment cycle by increasing its replenishment frequency.

#### RECOMMENDATION

We recommend that the Department take steps to reduce its petty cash fund balance from \$4,000 to \$2,500.

# EXHIBIT I



## CITY OF HOUSTON

Fire Department

**Lee P. Brown**

**Mayor**  
Chris Connealy  
Fire Chief  
Fire Department  
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January 13, 2003

Judy Gray Johnson  
City Controller  
City of Houston  
901 Bagby  
Houston, Texas 77002

Dear Ms. Johnson:

This is in response to your unannounced petty cash audit and the sole finding that the size of the fund could be reduced. The use of procurement cards has minimized the need for petty cash and we concur with your finding.

We will reduce the fund amount to \$2,500.00 from it's current amount of \$4,000. In compliance with Petty Cash Fund Policy and Procedures, we will deposit the reduction of \$1,500.00 to the bank and book the appropriate balance sheet entry. We will forward copies to Chris Okeagu, of your office.

We appreciate the professional manner and constructive input from your staff.

Respectfully,

A handwritten signature in cursive script that reads "Chris Connealy".

Chris Connealy  
Fire Chief

Cc: John Bales, Sr. Executive Assistant to the Mayor  
Bob Bowers, Assistant Director  
Terry Acker, Auditor IV  
Gracia Rosslow, Deputy Director

cc: file

Council Members: Annise D. Parker, Gordon Quan, Shelley Sekula-Rodriguez, M.D., Michael Berry, Carroll Robinson, Bruce Tatro, Carol Mims Galloway, Mark Goldberg, Ada Edwards, Addie Wiseman, Mark Ellis, Bert Keller, Gabriel Vazquez, Carol Alvarado, Controller: Sylvia R. Garcia

**Views of Responsible  
Officials**