

OFFICE OF THE CITY CONTROLLER



**HOUSTON POLICE DEPARTMENT
PETTY CASH AUDIT - ACCOUNT NO. 119
FOR THE PERIOD OF JULY 1, 1999
THROUGH FEBRUARY 2, 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

November 20, 2000

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

SUBJECT: Houston Police Department
Petty Cash Audit - Account 119 (Report No. 00-31)

Dear Mayor Brown:

The City Controller's Office Audit Division has completed an audit of petty cash account No. 119 in the Houston Police Department for the period of July 1, 1999 through February 2, 2000. The purpose of the audit was to assist management with the assessment of the adequacy of internal controls related to the petty cash process and to evaluate compliance with the City's Revised Petty Cash Fund Policy and Procedures (AP 5-3).

The auditors concluded that the City's Petty Cash procedures as detailed in AP 5-3 are adequate, however ineffective supervisory and management oversight of the review and verification process facilitated the misappropriation of over \$21,000 and contributed to the delay in detecting the misappropriation. Draft copies of the matters contained in the report were provided to Department officials. The views of the responsible Department officials as to action taken or being taken are appended to the report as Exhibit 1.

We appreciate the cooperation extended to our auditors by Department personnel during the course of 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
C. O. Bradford, Chief of Police
Sara Culbreth, Acting Director, Finance and Administration Department

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EXECUTIVE SUMMARY

- ❖ The misappropriation of over \$21,000 was facilitated by ineffective supervisory and management oversight of the review and verification process.
 - The Houston Police Department (HPD) processed many petty cash disbursement and reimbursement transactions on the basis of the Intermediate Authorities' facsimile signature (rubber stamp). Such practices circumvent the internal controls designed to ensure the proper review and approval of Petty Cash transactions.
 - The Custodian's Petty Cash Receipts and Disbursements Journal was neither accurate or up to date as required in the City's Revised Petty Cash Fund Policy and Procedures (AP 5-3). Had HPD verified the Journal quarterly (as required by AP 5-3), the misappropriation would have been discovered earlier.
 - The procedures used by HPD to verify the Petty Cash Fund Balance did not include verifying the validity of the reconciling items listed on the PC-2. Had the validity of the reconciling items on the PC-2 been verified, the misappropriation would have been discovered earlier.
 - We found no indication that HPD performed unannounced verifications of the Petty Cash Fund as required by AP 5-3. Typically, frauds require a great amount of effort to conceal. Unannounced verifications/audits are an important control in detecting fraud because the perpetrator does not have time to cover-up the fraud.
 - HPD allowed the Custodian to distribute approved Quarterly Verification Reports rather than requiring the Approving Authority to distribute the Reports as provided by AP 5-3. This gave the Custodian the opportunity to substitute fictitious PC-2's before distributing the Quarterly Verification Report.
 - Excessive petty cash fund balances increase the City's exposure to loss through theft or misappropriation. HPD's average weekly petty cash transactions were \$2,088 in 1999. A petty cash fund balance equaling three to four weeks of transactions (\$7,500) is adequate to meet the department's needs and to allow time to reimburse the fund. Management should monitor future Petty Cash usage and periodically optimize the fund balance as the Department's needs and processes change.
 - The Controller's Office should consider replenishing HPD's Petty Cash Fund, provided Department management agrees to implement the changes noted in their report (including reducing the Fund amount to \$7,500), agrees to follow AP 5-3 and agrees to discontinue the use of signature stamps to approve petty cash related transactions and forms.

SCOPE AND PURPOSE

We have completed an unannounced audit of the Petty Cash (Fund 100/Account 119) at HPD's Budget and Finance Division for the period of July 1, 1999 through February 2, 2000. Our purpose was to assist management with the assessment of the adequacy of internal controls related to the Petty Cash process. In addition, 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 process. This was a financial related audit executed in accordance with Generally Accepted Governmental 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 the Petty Cash Procedures audit are to provide management with reasonable, but not absolute, assurance that Petty Cash is used in accordance with AP 5-3 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. 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.


SCOPE EXPANSION

On February 2, 2000, we initiated a surprise audit of HPD's Petty Cash Fund. As a result of the audit, but prior to its completion, the Houston Police Department's Internal Affairs Division (IAD) initiated an investigation of the Petty Cash Fund (Control Number 00-0262 and HPD Offense Report Number 14461100). We assisted IAD with their investigation and determined that over \$21,000 had been misappropriated. A separate Criminal Investigation Report related to our assistance was issued to IAD. The investigation led to the conviction of the Petty Cash Custodian.

Because of the misappropriation, AP 5-3 required HPD and the City Controller's Office to take certain steps. First HPD had to perform a review of its Petty Cash internal controls and submit a copy of the Police report and a copy of the report on its Petty Cash internal controls to the City Controller's Office. Then the City Controller's Audit Division had to perform an independent review of the internal controls, including improvements as a result of the theft, and report its findings. The City Controller's Office must then review the findings to determine whether controls are adequate to replenish the fund and recommend additional improvements, where necessary, to safeguard the fund.

CONCLUSION

Based on the results of our audit, we conclude the City's Petty Cash procedures as detailed in AP 5-3 are adequate, however ineffective supervisory and management oversight of the review and verification process facilitated the misappropriation of over \$21,000 and contributed to the delay in detecting the misappropriation. Further, the Controller's Office should consider replenishing HPD's Petty Cash, provided Department management agrees to implement the changes noted in their Internal Control Report (including reducing the Fund amount to \$7,500), agrees to follow AP 5-3 and agrees to discontinue using signature stamps to approve petty cash transactions and reports.


Steve Schoonover
City Auditor


Kenneth Teer
Audit Manager

INTRODUCTION

HPD's Budget and Finance Division has a \$25,000 Petty Cash Fund. According to 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 designated a Custodian to be responsible for managing and controlling the fund in accordance with AP 5-3. The Custodian's responsibilities, as listed in AP 5-3, include the following:

- Maintaining a Cash Receipts and Disbursements Journal accurately
- Processing authorized disbursements
- Initiating requests to replenish and/or increase the fund
- Maintaining adequate security over the 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.

The Petty Cash Advance/Reimbursement Transaction Form (PC-7) is used to document the requisition and approval of Petty Cash funds for City business-related purchases. Employees requesting Petty Cash are required to obtain the signatures of the Intermediate Authority approving requests for Petty Cash and the Intermediate Authority approving disbursements from Petty Cash. Thereafter, the PC-7 Form is submitted to the Petty Cash Custodian to issue the requested amount from the fund. Periodically, the Custodian prepares transaction packages to be submitted to the City Controller's Office for replenishment of the fund. The Custodian was aware of AP 5-3.

On February 2, 2000, we initiated a surprise audit of HPD's Petty Cash Fund. As a result of the audit, but prior to its completion, IAD initiated an investigation of the Petty Cash Fund (Control Number 00-0262 and HPD Offense Report Number 14461100). We assisted IAD with their investigation and determined that over \$21,000 had been misappropriated. A separate Criminal Investigation Report related to our assistance was issued to IAD. The investigation led to the conviction of the Petty Cash Custodian.

Because of the misappropriation, AP 5-3 required HPD and the City Controller's Office to take certain steps. First HPD had to perform a review of its Petty Cash internal controls and submit a copy of the Police report and a report on its Petty Cash internal controls to the City Controller's Office. Then the City Controller's Audit Division had to perform an independent review of the internal controls, including improvements as a result of the theft, and report its findings. The City Controller's Office must then review the findings to determine whether controls are adequate to replenish the fund and recommend additional improvements, where necessary, to safeguard the fund.

AUDIT FINDINGS AND RECOMMENDATIONS

I. USE OF SIGNATURE STAMPS

BACKGROUND

Petty Cash Advance/Reimbursement Transaction Forms (PC-7) are signed by the appropriate Intermediate Authorities to authorize disbursements from Petty Cash. Petty Cash Fund Reconciliation Forms (PC-2) are signed by the Intermediate Authority approving disbursements to authorize the replenishment of Petty Cash.

FINDING

The Petty Cash Custodian and HPD's Budget and Finance Division processed many disbursement and reimbursement transactions on the basis of the Intermediate Authority's facsimile signature (rubber stamp).

We were informed that the signature stamps are easily accessible to unauthorized persons because they are sometimes left unsecured on the Intermediate Authorities' desks inside open offices. At the time of our audit, the signature stamp of the Intermediate Authority approving disbursements was in the possession of the Petty Cash Custodian.

Such practices circumvent the internal controls designed to ensure the proper review and approval of Petty Cash transactions.

RECOMMENDATION

We strongly recommend that HPD discontinue the use of signature stamps to approve Petty Cash transactions. In accordance with AP 5-3, Intermediate Authorities should be required to sign the documents supporting the transactions.

II. VERIFICATION OF THE PETTY CASH JOURNAL

BACKGROUND

The Petty Cash Receipts and Disbursements Journal (Journal) is used to record all Petty Cash transactions and the Journal should either agree or reconcile to the Petty Cash Fund balance. In essence, it serves as a control over and a history of all Petty Cash Transactions.

FINDING

AP 5-3 requires the Custodian to maintain an accurate Journal and requires that the Journal be verified for accuracy and completeness during the quarterly and unannounced verifications of the Petty Cash Fund Balance.

At the time of our audit, the Journal was neither accurate nor complete. Spot checks going back a year indicated numerous transactions missing from the Journal. Because of the volume of HPD petty cash transactions, we did not consider it feasible to attempt to reconcile the Journal.

An inaccurate or incomplete Journal negates the control of having a detailed history of Petty Cash transactions that can be readily agreed or reconciled to the Petty Cash Fund balance and can indicate many things, including malfeasance.

This also indicates HPD's Inspection's Division had not verified the accuracy and completeness of the Journal during their quarterly verifications of the Petty Cash Fund Balance. Had the Journal been verified quarterly (as required by AP 5-3), the misappropriation would have been discovered earlier. We understand that the personnel performing the quarterly verifications lacked the ability to verify the accuracy and completeness of the Journal.

RECOMMENDATION

To ensure the Custodian maintains an accurate Journal, personnel performing the quarterly verifications should be trained in verifying the accuracy and completeness of the Journal.

III. VERIFICATION OF THE PETTY CASH RECONCILIATION

BACKGROUND

Periodic verifications of Petty Cash are necessary to ensure that the cash entrusted to the custodian is adequately safeguarded and being used for the purposes intended by the City.

FINDING

HPD's Inspection Division is responsible for performing quarterly as well as unannounced verifications of the Petty Cash Fund Balance. AP 5-3 requires the Custodian to complete a PC-2 (fund reconciliation form) and the verifying employee to determine the accuracy of the PC-2.

Determining the accuracy of the PC-2 is a two step process. First, the mathematical accuracy of the PC-2 must be verified. Secondly, the validity of the reconciling items listed on the PC-2 must be

determined. By reviewing several of the quarterly verifications performed by the Inspection's Division, we determined that the reconciling items were not always valid. For example, the Custodian had already received and negotiated Warrants (checks) for most of the replenishments listed on the PC-2 as voucher's-in-transit.

This indicates that the Inspection's Division did not verify the validity of the reconciling items listed on the PC-2. Had the validity of the reconciling items on the PC-2 been verified, the misappropriation would have been discovered earlier. We understand that the personnel performing the quarterly verifications lacked the ability to verify the accuracy and completeness of the Journal.

RECOMMENDATION

We recommend that Department management properly train personnel assigned to perform quarterly and unannounced verifications of Petty Cash Fund Balance.

IV. UNANNOUNCED VERIFICATION OF THE PETTY CASH FUND

FINDING

HPD is responsible for performing quarterly as well as unannounced verifications of the Petty Cash Fund Balance.

We found no indication that the HPD's Inspection's Division performed unannounced verifications of the Petty Cash Fund as required by AP 5-3. Typically, frauds require a great amount of effort to conceal. Unannounced verifications/audits are an important control in detecting fraud because the perpetrator does not have time to cover-up the fraud.

RECOMMENDATION

The Department should conduct unannounced verifications of Petty Cash Fund Balance as required by AP 5-3.

V. PETTY CASH VERIFICATION REPORTS

BACKGROUND

AP 5-3, Section 15.2 requires the verifier to "forward the completed original forms to the Approving Authority for review. The Approving Authority forwards the forms to the General Accounting Section of the Controller's Office no later than ten (10) working days after the end of the quarter and sends copies to: The Custodian, the Custodian's supervisor and the department's/office's administrative file section".

FINDING

The Custodian, not the Approving Authority, forwarded the Quarterly Petty Cash Verification Forms to the Controller's Office. At times, the Custodian forwarded to the Controller's Office a "Petty Cash Reconciliation" (PC-2) that differed from the PC-2 verified by the Inspections Division.

Had the Approving Authority rather than the Custodian forwarded the Quarterly Verification Forms, the Custodian would not have had the opportunity to substitute fictitious PC-2's.

RECOMMENDATION

Department management should follow the forwarding procedures as outlined in AP 5-3 and require the Approving Authority to forward the Quarterly Petty Cash Verification Forms to the Controller's Office.

VI. OPTIMUM PETTY CASH FUND AMOUNT

BACKGROUND

For many years, HPD has maintained a Petty Cash Fund of \$25,000. In October of 1998, HPD began using (P-Cards). P-Cards are credit cards (with a monthly chargeable amount of \$5,000 each) issued to employees to be used for "immediate need" purchases. P-Cards are often used to purchase items which, in the past, would have been purchased with Petty Cash. HPD has approximately 180 P-Cards assigned to employees.

FINDING

Excessive petty cash fund balances increase the City's exposure to loss through theft or misappropriation. We analyzed HPD's Petty Cash transactions for calendar years 1998 and 1999 and determined HPD's average weekly petty cash transactions were \$4,077 in 1998 and \$2,088 in 1999. We attribute the decrease in petty cash transactions to P-Card usage.

During 1999, the petty cash fund would have lasted 12 weeks without being reimbursed. A petty cash fund balance equaling three to four weeks of transactions is adequate to meet the department's needs and to allow time to reimburse the fund.

RECOMMENDATION

Department management should reduce the Petty Cash fund to \$7,500. Management should monitor future Petty Cash usage and periodically optimize the fund balance as the Department's needs and processes change.

VII. REPLENISHMENT OF THE PETTY CASH FUND

BACKGROUND

Section 12 of AP 5-3 requires the Department to review its Petty Cash internal controls and submit a copy of the Police report and a report on its Petty Cash internal controls to the City Controller's Office. The City Controller's Audit Division is responsible for performing an independent review of the internal controls, including improvements as a result of the theft, and reporting its findings. The City Controller's Office then reviews the findings to determine whether controls are adequate to replenish the fund and recommend additional improvements, where necessary, to safeguard the fund.

FINDING

We have reviewed HPD's report on its Petty Cash internal controls that was forwarded to the City Controller's Office, and we agree that HPD's oversight and verification was not thorough enough to discover the discrepancies.

RECOMMENDATION

We recommend that the Controller's Office consider replenishing HPD's Petty Cash, provided Department management agrees to implement the changes noted in their report (including reducing the Fund amount to \$7,500), agrees to follow AP 5-3 and agrees to discontinue the use of signature stamps to approve petty cash related transactions and forms. We further recommend that the Controller's Office Audit Division verify that HPD has implemented this recommendation within one year of the replenishment of the fund.

EXHIBIT 1

CITY OF HOUSTON

INTER OFFICE CORRESPONDENCE

TO: Sylvia R. Garcia
Controller's Office

FROM: C. O. Bradford
Chief of Police

DATE: November 6, 2000

SUBJECT: Response to Petty Cash
Audit Findings

Attached is the management response to the final draft of the recent audit of Petty Cash Account 119 of the Houston Police Department conducted by your office. There were seven findings, and these have been or are in the process of being corrected.

There were seven findings and our responses are summarized as follows:

1. **Finding** - The Houston Police Department processed many petty cash disbursement and reimbursement transactions on the basis of an Intermediate Authorities' facsimile signature (rubber stamp). Such practices circumvent the internal controls.

Response - The department has discontinued the use of signature stamps and/or facsimile signatures.

2. **Finding** - The Custodian's Petty Cash Receipts and Disbursements Journal was neither accurate or up-to-date.

Response - The Inspections Division of this department, which is responsible for- the quarterly verification, has incorporated additional review steps into their procedures to ensure compliance. Further, division personnel will be specifically trained in how to conduct the verifications by other personnel with audit experience. In addition, the supervisors over the custodians will be told that part of their oversight responsibilities is to ensure custodian journals are accurate and up-to-date.

3. **Finding** - The procedures used by HPD to verify the Petty Cash Fund Balance did not include verifying the validity of the reconciling items listed on the PC-2.

Response - The corrective action is described in the previous response.

4. **Finding** - There was no indication that HPD performed unannounced verifications of the Petty Cash Fund as required by AP 5-3.

Response- The department has added the requirement of at least two additional unannounced verifications to the operating procedures of the Inspections Division. Other unannounced audits may be conducted.

Views of Responsible
Officials

EXHIBIT 1

Sylvia R. Garcia

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5. **Finding** - HPD allowed the custodian to distribute approved Quarterly Verification Reports. This gave the custodian the opportunity to substitute fictitious PC-2's before distributing the Quarterly Verification Report.

Response - The department has changed its procedures, and the Chief or an executive level designee will forward the reports to the Controller's Office.

6. **Finding** - Excessive petty cash fund balances increased the City's exposure to loss through theft or misappropriation. A petty cash fund balance equaling three to four weeks of transactions (\$7,500) is adequate to meet the department's needs and to allow time to reimburse the fund.

Response - The department agrees with this finding.

7. **Finding** - The Controller's Office should consider replenishing HPD's Petty Cash Fund, provided department management agrees to implement the changes noted in their report (including reducing the Fund amount to \$7,500); agrees to follow AP 5-3 and agrees to discontinue the use of signature stamps to approve petty cash related transactions and forms.

Response - The department has agreed to this finding.

Please contact Larry Yium at 713-308-1778, if you have any questions or additional comments.



C. O. Bradford
Chief of Police

Views of Responsible
Officials

COB:pjg

Attachments

CC: Al Haines, CAO, Mayor's Office

EXHIBIT 1

Audit Findings, Recommendations, and Management's Responses.

NOTE: The findings and recommendations are copied verbatim from the auditor's report.

I. USE OF SIGNATURE STAMPS

FINDING

The Petty Cash Custodian and HPD's Budget and Finance Division processed many disbursement and reimbursement transactions on the basis of the Intermediate Authority's facsimile signature (rubber stamp).

We were informed that the signature stamps are easily accessible to unauthorized persons because they are sometimes left unsecured on the Intermediate Authorities' desks inside open offices. At the time of our audit, the signature stamp of the Intermediate Authority approving disbursements was in the possession of the Petty Cash Custodian.

Such practices circumvent the internal controls designed to ensure the proper review and approval of Petty Cash transactions.

RECOMMENDATION

We strongly recommend that HPD discontinue the use of signature stamps to approve Petty Cash transactions. In accordance with AP 5-3, Intermediate Authorities should be required to sign the documents supporting the transactions.

MANAGEMENT'S RESPONSE

The Department agrees with this finding. It has implemented this recommendation, as the enclosed memo demonstrates.

II. VERIFICATION OF THE PETTY CASH JOURNALS

FINDING

AP 5-3 requires the Custodian to maintain an accurate Journal and requires that the Journal be verified for accuracy and completeness during the quarterly and unannounced verifications of the Petty Cash Fund Balance.

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EXHIBIT 1

Audit Findings, Recommendations, and Management's Responses.

At the time of our audit, the Journal was neither accurate nor complete. Spot checks going back a year indicated numerous transactions missing from the Journal. Because of the volume of HPD petty cash transactions, we did not consider it feasible to attempt to reconcile the Journal.

An inaccurate or incomplete Journal negates the control of having a detailed history of Petty Cash transactions that can be readily agreed or reconciled to the Petty Cash Fund balance and can indicate many things, including malfeasance.

This also indicates HPD's Inspection's Division had not verified the accuracy and completeness of the Journal during their quarterly verifications of the Petty Cash Fund Balance. Had the Journal been verified quarterly (as required by AP 5-3), the misappropriation would have been discovered earlier. We understand that the personnel performing the quarterly verifications lacked the ability to verify the accuracy and completeness of the Journal.

RECOMMENDATION

To ensure the Custodian maintains an accurate Journal, personnel performing the quarterly verifications should be trained in verifying the accuracy and completeness of the Journal.

MANAGEMENT'S RESPONSE

The Department agrees with this finding. The Inspections Division of this Department is responsible for the quarterly verification. The Controller's audit staff has provided some procedures and techniques. These steps will be incorporated into the Inspections Division's standard operating procedures. Further, division personnel will be specifically trained in how to conduct the verifications by other personnel with audit experience. In addition, the supervisors over the custodians will be told of that part of their oversight responsibilities is to ensure custodian journals are accurate.

Views of Responsible
Officials

III. VERIFICATION OF THE PETTY CASH RECONCILIATION

FINDING

HPD's Inspection Division is responsible for performing quarterly as well as unannounced verifications of the Petty Cash Fund Balance. AP 5-3 requires the Custodian to complete a PC-2 (fund reconciliation form) and the verifying employee to determine accuracy of the PC-2.

EXHIBIT I

Audit Findings, Recommendations, and Management's Responses.

Determining the accuracy of the PC-2 is a two step process. First, the mathematical accuracy of the PC-2 must be verified. Secondly, the validity of the reconciling items listed on the PC-2 must be determined. By reviewing several of the quarterly verifications performed by the Inspection's Division, we determined that the reconciling items were not always valid. For example, the Custodian had already received and negotiated Wan-ants (checks) for most of the replenishments listed on the PC-2 as voucher's-in-transit.

This indicates that the Inspection's Division did not verify the validity of the reconciling items listed on the PC-2. Had the validity of the reconciling items on the PC-2 been verified, the misappropriation would have been discovered earlier. We understand that the personnel performing the quarterly verifications lacked the ability to verify the accuracy and completeness of the Journal.

RECOMMENDATION

We recommend that Department management properly train personnel assigned to perform quarterly and unannounced verifications of Petty Cash Fund Balances.

MANAGEMENT'S RESPONSE

The Department agrees with this recommendation. The corrective action is described in the previous response.

IV. UNANNOUNCED VERIFICATION OF THE PETTY CASH FUND

FINDING

HPD is responsible for performing quarterly as well as unannounced verifications of the Petty Cash Fund Balance.

We found no indication that the HPD's Inspection's Division performed unannounced verifications of the Petty Cash Fund as required by AP 5-3. Typically, frauds require a great amount of effort to conceal. Unannounced verifications/audits are an important control in detecting fraud because the perpetrator does not have time to cover-up the fraud.

RECOMMENDATION

The Department should conduct unannounced verifications of the Petty Cash Fund Balance as required by AP 5-3.

Views of Responsible
Officials

EXHIBIT 1

Audit Findings, Recommendations, and Management's Responses.

MANAGEMENT'S RESPONSE

The Department agrees with this recommendation. The Department has added the requirement of at least two additional unannounced verifications to the operating procedures of the Inspections Division. Other unannounced audits may be conducted.

V. PETTY CASH VERIFICATION REPORTS

FINDING

The Custodian, not the Approving Authority, forwarded the Quarterly Petty Cash Verification Forms to the Controller's Office. At times, the Custodian forwarded to the Controller's Office a "Petty Cash Reconciliation" (PC-2) that differed from the PC-2 verified by the Inspection's Division.

Had the Approving Authority rather than the Custodian forwarded the Quarterly Verification Forms, the Custodian would not have had the opportunity to substitute fictitious PC-2's.

RECOMMENDATION

Department management should follow the forwarding procedures as outlined in AP 5-3 and require the Approving Authority to forward the Quarterly Petty Cash Verification Forms to the Controller's Office.

MLANAGEMENT'S RESPONSE

The Department agrees with this recommendation. It has changed it procedures, and the Chief or an executive level designee will forward the reports to the Controller's Office.

VI. OPTIMUM PETTY CASH FUND AMOUNT

FINDING

Excessive petty cash Rind balances increase the City's exposure to, loss or through theft or misappropriation. We analyzed HPD's Petty Cash transactions for calendar years 1998 and 1999 and determined HPD's average weekly petty cash transactions were \$4,077 in 1998 and \$2,088 in 1999. We attribute the decrease in petty cash transactions to P-Card usage.

During 1999, the petty cash fund would have lasted 12 weeks without being reimbursed. A petty cash fund balance equaling three to four weeks of transactions is adequate to meet the department's needs and to allow time to reimburse the fund.

Views of Responsible
Officials

EXHIBIT 1

Audit Findings, Recommendations, and Management's Responses.

RECOMMENDATION

Department management should reduce the petty cash fund to \$7,500. Management should monitor future Petty Cash usage and periodically optimize the fund balance as the Department's needs and processes change.

MANAGEMENT'S RESPONSE

The Department agrees with this recommendation.

VII. REPLENISHMENT OF THE PETTY CASH FUND

FINDING

We have reviewed HPD's report on its Petty Cash internal controls that was forwarded to the City Controller's Office, and we agree that the HPD's oversight and verification was not thorough enough to discover the discrepancies.

RECOMMENDATION

We recommend that the Controller's Office consider replenishing HPD's Petty Cash, provided Department management agrees to implement the changes noted in their report (including reducing the Fund amount to \$7,500), agrees to follow AP 5-3 and agrees to discontinue the use of signature stamps to approve petty cash related transactions and forms. We further recommend that the Controller's Office Audit Division verify that HPD has implemented this recommendation within one year of the replenishment of the fund.

MANAGEMENT'S RESPONSE

The Department has agreed to these recommendations.

Views of Responsible
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