

CRISIS RESIDENTIAL UNIT #9210

Unannounced Petty Cash Audit

Audit Report No. CRU0107

January 26, 2007



**MENTAL HEALTH MENTAL RETARDATION
AUTHORITY OF HARRIS COUNTY**

Internal Audit Report

AUDITOR'S REPORT

Crisis Residential Unit

Unit #9210

Unannounced Petty Cash Audit

Harris County, Texas

Internal Audit Report

January 26, 2007

Henry E. Webb, CFE

Internal Auditor





MENTAL HEALTH MENTAL RETARDATION
AUTHORITY OF HARRIS COUNTY

January 26, 2007

Steven B. Schnee, Ph.D.
Executive Director
MHMRA of Harris County
7011 SW Freeway
Houston, TX 77074

Re: Crisis Residential Unit
Unannounced Petty Cash Audit - Unit #9210

Dear Dr. Schnee:

The Internal Audit Department has completed an unannounced petty cash audit of the \$400 Petty Cash Fund at Crisis Residential Unit, Unit #9210 for the period November 1, 2006 through January 18, 2007.

The review was designed to assist management with the assessment of the adequacy of internal controls related to the issuance, use, and control of the petty cash process. Additionally, the financial audit evaluated compliance with MHMRA Policy and Procedure **BUS-F/B: 16.1-16.3**.

Based on the results of the work, there were significant examples of non-compliance with **BUS-F/B: 16.1-16.3**. Accordingly, it was concluded that the controls over the use of petty cash do not provide management with reasonable assurance that the fund is adequately safeguarded, disbursed, and replenished in compliance with **BUS-F/B: 16.1-16.3**.

Internal Audit appreciates the cooperation extended by personnel during the course of the audit.

Respectfully submitted,

Henry E. Webb, CFE, Internal Auditor

Cheire Lee, Staff Internal Auditor

- Cc: Rose Childs, MSW, CSWM, Deputy Director, Mental Health Division
Kenneth Collins, LMSW, Deputy Director, Mental Retardation Division
Barbara Dawson, MSE, Deputy Director, Comprehensive Psychiatric Emergency Program Division
Daryl Knox, MD, Medical Director, Comprehensive Psychiatric Emergency Program Division
Sarah Flick, MD, Medical Director, Mental Retardation Services
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Jeanne Mayo, MS, JD, General Counsel
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Tom Hamilton, Ph.D. (Chairman)
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SCOPE AND PURPOSE

Internal Audit has completed an audit of the \$400 Petty Cash Fund Unit #9210, Crisis Residential Unit, for the period of November 1, 2006 through January 18, 2007. The 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 MHMRA Policy and Procedure **BUS-F/B: 16.1 – 16.3**.

The scope of the work did not constitute an evaluation of the overall internal control structure of the unit. The examination was designed to evaluate and test compliance with procedures and adequacy of the internal controls related to the petty cash fund. This was a financial related audit executed in accordance with Generally Accepted Government Auditing Standards (GAGAS).

Unit management is responsible for establishing and maintaining a system of internal controls to adequately safeguard assets in relation to the use of cash, which is an integral part of the unit’s overall internal control structure. The objectives of a system or plan are to provide management with reasonable, but not absolute assurance that the organization’s usage of petty cash is adequately controlled, and used in accordance with administrative procedures and is safeguarded against loss.

Because of inherent limitations in any system of internal controls, errors or irregularities may occur and not be detected in a timely manner. 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 the audit, Internal Audit concluded that internal controls over the use of Petty Cash Fund – Unit #9210, Crisis Residential Unit are inadequate to provide management with reasonable assurance that this fund is adequately safeguarded, disbursed and replenished in compliance with Policy and Procedures **BUS-F/B: 16.1 – 16.3**.

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Henry E. Webb, CFE
Internal Auditor

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Cheire Lee
Staff Internal Auditor

INTRODUCTION

The Crisis Residential Unit has a \$400 Petty Cash Fund. According to MHMRA Policy and Procedures, **BUS-F/B:16.1-16.3** provides guidelines for administrating the use of Petty Cash Fund. The Unit's Approving Authority designates a Custodian to be responsible for managing and controlling the petty cash fund. The Custodian's responsibilities include the following:

- Maintaining Cash Receipts and Disbursements Log accurately
- Processing authorized disbursements
- Initiating requests to replenish and/or increase fund
- Maintaining adequate security over the petty cash fund
- Replacing any shortages not reported in an incident report or resolved through disciplinary actions against another employee
- Reporting losses or thefts through the Approving Authority

BUS-F/B: 16.1-16.3 establishes 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 OBSERVATION AND RECOMMENDATION

Petty Cash Fund Accuracy

The cash on hand and reimbursed receipts should equal to the established Petty Cash Fund amount. Based on the audit results, total cash on hand and reimbursed receipts did not equal to the established Petty Cash amount. The fund balance was short by \$37.85. In reviewing the support documentation, it was noted that receipts were not consistently issued to employees for the reimbursements. Furthermore, cash transaction activity was not reconciled for fund accuracy on a frequent basis which is needed to ensure accuracy of the fund balance.

Recommendation

It is recommended that the following procedures be reviewed and adhered to in order to ensure accuracy of the Petty Cash Fund in accordance with Petty Cash Policy **BUS-F/B:16.1-16.3**:

- Reimbursements to employees for approved items will be supported by signed receipts from the authority/custodian.
- Timeline for petty cash reconciliation should be performed at minimum once per month.
- In the event the fund is lost or stolen, the custodian should be responsible for replacing the balance that was lost or stolen.

Management Response

“Proposed recommendations will be adopted. Any staff request for reimbursement must be approved by unit director who will ensure that receipts are signed by the custodian. The 37.85, the product of a missing receipt, will be replaced by the unit director.”

Auditor Response

Subsequent to the audit field work, a receipt for the amount of \$41.20 was submitted to the auditor after the Custodian verified with the employee that the receipt was reimbursed. However, during the onsite audit, the Custodian told the auditor that the receipt had not been reimbursed. The Unit Manager has made a request that the Petty Cash Fund be closed.

ATTACHMENT A
SUMMARY OF RECOMMENDATIONS
January 26, 2007

Unit: Crisis Residential Unit - Unit #9210		
Area: Unannounced Petty Cash		
Inherent Risk:	Low Moderate High	Control Environment: Well Controlled Acceptable Poorly Controlled
		Overall Risk: Low Moderate High
Type of Procedures: Audit		
Scope: * Using Internal Control Evaluation (ICEs) forms, documented the internal controls * Conducted a preliminary survey reviewing applicable policies and procedures, etc. * Interviewed various staff to obtain understanding of management controls * Examined detailed invoices/work orders, statements provided by the vendor, etc.		
Priority Rating:	Audit Recommendations:	
1	Issue receipts for all reimbursements.	
1	Perform monthly petty cash reconciliation to ensure accuracy.	
1	Replace missing funds.	
Follow-up: Within One year		

Priority Rating

1. Implement immediately (30 - 90 days) - Serious internal control deficiencies; or recommendations to reduce cost, maximize revenues, or improve internal controls that can be easily implemented.
2. Work towards implementing (6 - 18 months) - Less serious internal control deficiencies, or recommendations that can not be implemented immediately because of constraints imposed on the unit (i.e. Budgetary, technological constraints, etc.).
3. Implement in the future (2-3 years) - Recommendations that should be implemented, but that can not be implemented until significant and/or uncontrolled events occur (i.e. legislative changes, buy and install major systems, or require third party cooperation, etc.).