

FINANCE AND ACCOUNTING

PETTY CASH AUDIT

UNIT #1122 (Special Request)



MENTAL HEALTH MENTAL RETARDATION
AUTHORITY OF HARRIS COUNTY

Internal Audit Report

AUDITOR'S REPORT

Finance and Accounting

Unit #1122

Petty Cash Audit (Special Request)

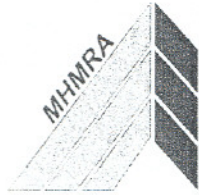
Internal Audit Report

September 27, 2004

Henry E. Webb, CFE

Internal Auditor





MENTAL HEALTH MENTAL RETARDATION
AUTHORITY OF HARRIS COUNTY

September 27, 2004

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

SUBJECT: Finance and Accounting-Unit #1122
Petty Cash Audit – Special Request

Dear Dr. Schnee:

Internal Audit has completed a petty cash audit of the \$800 fund for Finance and Accounting Unit #1122 for the period of August 8, 2003 through September 27, 2004.

The audit's objective was to assist management with the assessment of the adequacy of internal controls related to the petty cash process. Additionally, the financial related audit evaluated the Unit's compliance with the MHMRA Policy and Procedures **BUS-F/B: 16-1-16.3**.

Based on the results of the work, the auditor noted no significant examples of non-compliance with **BUS-F/B: 16-1-16.3**. Accordingly, the auditor concluded that the controls over the petty cash fund provide management with reasonable assurance that the fund is adequately safeguarded, disbursed and replenished in compliance with **BUS-F/B: 16-1-16.3**, except for the observation noted in the body of the report.

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

Respectfully submitted,

A handwritten signature in black ink that reads "Henry E. Webb".

Henry E. Webb, CFE
Internal Auditor

Cc: David Witt, MPA, CPA
Jeanne Mayo, JD
Eric S. Eaton, CPA
Rose Childs, Deputy Director, Mental Health Division
Kenneth Collins, Deputy Director, Mental Retardation Division
Audit Committee:
Tom Hamilton, Ph.D. (Chairman)
Jane B. Cherry
Paige M. Cokinos
Charles O. Buckner, CPA
Vicki S. Raynold, CPA

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SCOPE AND PURPOSE

Internal Audit has completed an audit of the \$800 Petty Cash Fund Unit #1122 Finance and Accounting for the period of August 8, 2003 through September 27, 2004. 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 Procedures **BUS-F/B: 16.1 – 16.3**.

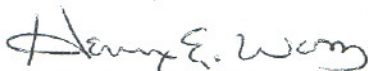
The scope of the work did not constitute an evaluation of the overall internal control structure of the Unit. The examination was designed to evaluate and test compliance with procedures and internal controls related to the petty cash fund. This was a financial related audit executed in accordance with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

Unit management is responsible for establishing and maintaining a system of internal controls to adequately safeguard cash as an integral part of the Unit'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 the review, Internal Audit conclude that internal controls over Petty Cash Fund – Unit #1122 Finance and Accounting are adequate 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**, except for the observation noted in the report.



Henry E. Webb, CFE
Internal Auditor

INTRODUCTION

Finance and Accounting Unit #1122, has a \$800 Petty Cash Fund. According to MHMRA Policy and Procedures **BUS-F/B: 16.1 – 16.3**, the fund should be used for payments of Agency business-related expenditures not exceeding the Petty Cash purchase limit of \$100. The Unit's Approving Authority designates a Custodian to be responsible for managing and controlling the petty cash fund in accordance with **BUS-F/B: 16.1 – 16.3**. The Custodian's responsibilities, include the following:

- Maintaining Cash Receipts and Disbursements Log accurately
- Processing authorized disbursements
- Initiating requests to replenish and/or increase the 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

TIMELY RECEIPT FOR DISBURSED FUNDS

Receipt or return of funds

The Petty Cash Custodian advanced funds (\$30) on July 12, 2004, as of the audit date, the party receiving funds has not produced receipts indicating what the funds were used for, or returned the original amount to the Custodian.

Policy and Procedures require that *"reimbursements to employees for approved items will be supported by signed receipts..."* and that *"all purchases were appropriate and within guidelines established within MHMRA Policy and Procedures."*

Recommendation

- It is recommended that the Petty Cash Custodian request receipts from staff member for funds advanced.
- It is recommended that the Petty Cash Custodian not advance additional funds to staff that have a history of receipts/funds outstanding for 15 days or longer.

ATTACHMENT A
SUMMARY OF RECOMMENDATIONS
September 27, 2004

Unit: 1122		
Area: Petty Cash Audit (Special Request)		
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 Evaluaiton (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 receipts, vouchers, and logs		
Priority Rating: 1	Audit Recommendations: * Unit Petty Cash Custodian require receipts/funds within a reasonable time frame (@15 days)	
Follow-up: 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, requires third party cooperation, etc.).