

A Compliance Audit of

# Certain State Agencies' and Universities' Petty Cash Funds



**Office of the State Auditor**  
**Lawrence F. Alwin, CPA**

August 1995

Report No. 95-148



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### Members of the Legislative Audit Committee:

Our statutory audit of selected agencies' and universities' petty cash funds did not identify any shortages, abuses, or unwarranted uses of petty cash. However, four out of the nine agencies audited had findings related to controls over petty cash and travel advance cash. Although these findings do not constitute a material weakness, they are considered significant to the operation of petty cash funds.

Our audit was intended to provide reasonable assurance regarding the adequacy of controls and compliance with statutory requirements governing the establishment and operation of petty cash funds. To achieve this purpose, we selected nine entities for review which represented 93 percent of the total statewide petty cash funds.

Management of each audited agency and university generally concurs with the recommendations in this report. We appreciate the courtesy and cooperation of management during the course of this audit.

Sincerely,

A handwritten signature in cursive script that reads "Lawrence F. Alwin".

Lawrence F. Alwin, CPA  
State Auditor

LFA/kob/enclosure

## Key Points Of Report

### A Compliance Audit of Certain State Agencies' and Universities' Petty Cash Funds

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#### Key Facts and Findings

- As of August 31, 1994, the Comptroller of Public Accounts reported the State's petty cash funds as \$3,552,167 for petty cash, \$2,307,272 for travel advance cash, and \$11,244,981 for imprest cash.
- Overall, controls were adequate over the State's petty cash funds. However, there was a lack of adequate controls over petty cash funds at the Texas Department of Transportation, Texas Department of Mental Health and Mental Retardation, Texas Education Agency, and Texas A&M University. These control weaknesses make it possible for errors, omissions, theft, and/or other abuse to occur and not be detected in a timely manner.

**Contact:**

Paul Hagen, Audit Manager (479-4760)

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*This audit was conducted in accordance with Government Code, § 403.250.*

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## Detailed Findings and Recommendations

**W**ith respect to the Texas Education Agency, Texas A&M University, Texas Department of Mental Health and Mental Retardation, and Texas Department of Transportation, certain controls over petty cash funds need to be improved, and other applicable laws and regulations need to be observed. The areas of improvement identified at the entities noted above are discussed in the following sections.

Section 1 - Texas Education Agency:

### **Improve Controls Over Travel Advance Cash**

The Texas Education Agency should improve controls over its travel advance cash, which was used to advance \$349,337.53 to employees in fiscal year 1994. The Agency has not reconciled the cash balance in its travel advance fund to bank statements since August 1994. Also, the Agency does not reconcile cash balances and amounts due to the imprest balance. The imprest balance is the total amount authorized for the fund, in which cash balances plus outstanding advances should equal the imprest balance. Additionally, there is no segregation of duties between record keeping and replenishment, as the person responsible for record keeping also receives fund replenishments.

These conditions expose the Agency to an unreasonably high risk of undetected errors or misappropriated funds. Agencies are responsible for establishing adequate procedures for safeguarding their assets.

#### Recommendations:

We recommend that the Agency improve controls by bringing its cash reconciliations up to date and implementing reconciliations of

the imprest balance. The Agency should also transfer the duty of receiving travel advance replenishments to an employee who does not have other travel advance fund responsibilities.

#### Management's Response:

*The Agency concurs with this finding. From mid-September through November of each year, staff responsible for reconciling the Travel Advance Fund must be pulled off regular duties to compile the Annual Financial Report (AFR). To ensure completion of the AFR by the due date, this unit works approximately 1,000 hours of overtime during this period. When the AFR is completed, regular duties resume. This condition had some impact on cash reconciliations not being completed in a timely manner. In addition, the position responsible for cash reconciliations has been vacant since December 1994. The Agency has hired and trained a temporary contracted employee to reconcile cash balances until the position is filled. Every effort will be made to ensure reconciliations are maintained on a current basis. In addition, the Agency Accounting Division will implement procedures to reconcile the imprest balance of the Travel Advance Fund. The duty of receiving travel advance replenishments has been assigned to an employee who does not have other travel advance fund responsibilities.*

## Detailed Findings and Recommendations

Section 2 - Texas A&M University:

### Improve the University's Controls Over Petty Cash and Imprest Cash

Several significant control weakness at the main office of Texas A&M University were identified.

- There were two instances when disbursements of petty cash were made to universities in Mexico and Germany for \$21,800 and \$34,320, respectively, without departmental approval. University Policy #4.1.2.16 requires departmental approval for such transactions.
- The only signature indicating receipt of goods and services for one of the transactions tested were voucher approval signatures of the University's Comptroller, who neither works in that area of operation, nor has first-hand knowledge that the goods and services were actually received.
- Detail expenditure listings supporting one of the vouchers exceeded the voucher total by \$5,151.66. The expenditures also exceeded the working fund balance because several months' expenditures were summarized rather than being submitted monthly in accordance with University Policy #3.2.1.
- The University operates a bank account outside the State, for which the University does not have an allocation of securities as collateral under a depository agreement. This is contrary to University Policy #3.2.1 which requires approval of the Executive Chancellor for Administration and submission of the annual

reconciliation of fund balance to the Executive Vice Chancellor.

#### Recommendations:

We recommend that Texas A&M University adhere to their established policies and procedures and other necessary controls required to adequately account for petty cash and imprest cash.

#### Management's Response:

*We concur with the findings and offer the following additional information and suggested action:*

*The first bullet deals with group payments to foreign Universities. Although no requisition was prepared, the group payments for tuition, room, and board to universities in Mexico and Germany are not biddable as the payments consist of student fees with the rate set by the foreign University. The educational programs for Texas A&M University students must be specifically matched with their course curriculum. The "group purchases" referred to in the finding are merely the funds collected from the students to cover fees at the foreign university which are forwarded to the foreign entity. There is no control enhancement by routing these agreements through the Purchasing Department. Therefore, the Director of Purchasing will be asked to authorize an exemption from current policy to allow department heads to approve these items.*

*The second and third bullets deal with the signature on the Texas A&M University voucher which reimburses the Mexico City Facility for expenses. The University issued a working fund to the Mexico City Facility and*

## Detailed Findings and Recommendations

*the voucher in question was reimbursing the Texas A&M University working fund. The reimbursement came from funds received from the Texas Department of Commerce in accordance with a contractual arrangement between that agency and Texas A&M University. While the University Controller does not have specific knowledge of the receipt of goods, the services of KPMG Peat Marwick in Mexico City have been acquired to closely monitor the transactions, calculate Mexican taxes, reconcile bank accounts, and file annual tax statements in Mexico. Monthly reports are provided to Texas A&M University for review. Procedures will be developed to provide the University Controller with assurance of receipt of goods. The issue relating to the amount reimbursing the University's working fund on a monthly basis is merely a timing issue. The amount of the working fund was based on estimated needs in the facility in Mexico City and are reimbursed based on actual expenses when reimbursement is received. Since it costs \$45 to wire funds to Mexico City, several months were funded at once. We will continue to closely monitor this issue to ensure that all working funds are cleared on a timely basis.*

*The fourth bullet dealing with Banca Serfin of Mexico City requires special dispensation from University policy. While it is true that no depository agreement was signed, the Mexican bank will not agree to the typical depository agreement with Texas A&M University. Verbal agreement was received from the Director of Treasury Services at the Texas A&M University System prior to opening the bank account in Mexico City and a written request for an exception to policy has been submitted. In order to minimize risk, cash transfers to the Center will be held to a minimum.*

Section 3 - Texas Department of Mental Health and Mental Retardation:

### Improve Controls Over the Department's Petty Cash and Travel Advance Cash

Several control weaknesses at certain facilities and the Central Office of the Texas Department of Mental Health Mental Retardation were identified.

- Supporting documentation and authorization was not maintained in nine percent of the vouchers tested.
- Recipients of petty cash or travel advance cash did not sign for such receipts in 18 percent of the vouchers tested.
- Review of transactions related to petty cash and travel advance cash were not performed on a regular basis.
- Of the total travel advance account balance of \$13,000.01, 50 percent of the amounts due to or due from employees have not been distributed or collected in a timely manner, with 22 percent of the total account balance outstanding for four months or more.
- Individuals at the facilities and Central Office are not being held fully accountable for lack of compliance with established policies and procedures.

When proper controls are not observed, there is a high risk that errors, omissions, or fraud can occur and not be detected in a timely manner.

## Detailed Findings and Recommendations

### Recommendation:

We recommend that management adhere to their established policies and procedures regarding internal controls over petty cash and travel advance cash.

### Management's Response:

*The Internal Control Task Force will be reviewing procedures and addressing the repercussions of not following established internal controls which includes petty cash procedures. Internal Audit has already stepped up its review of facilities' compliance with petty cash procedures.*

Section 4: Texas Department of Transportation

### **Strengthen Controls Over Travel Advance Cash**

The Texas Department of Transportation has more than \$38,000 in outstanding travel advance cash. The travel advances remain outstanding from fiscal year 1992 to the present. Three employees have 21 travel advances outstanding totaling more than \$3,600. These employees continued to receive additional travel advances.

The Department's policies on filing of travel vouchers are inconsistent. Employees who receive an advance have a specified length of time to file their travel voucher. One policy states the traveler has five days to file the voucher while another allows two weeks. During the testing of 30 advances, we noted that three vouchers were not filed within the two-week period. In addition, 12 advances were not dated, and compliance could not be determined.

Weak controls in travel advance funds create an opportunity for the misuse of state funds and abuse of the travel advance program. A risk exists that unused funds will not be reimbursed on a timely basis. Following and enforcing policies and procedures assists in the administration and control of the travel advance fund.

### Recommendation:

The Department should strengthen controls over travel advances. The policies and procedures addressing the approval of travel advances need to be reevaluated. Specifically, the Department should:

- Restrict employees with outstanding advances from receiving additional travel advance funds.
- Collect outstanding advances.
- Establish uniform time frames and procedures for submitting travel vouchers.
- Monitor and enforce compliance with travel policies.

### Management's Response:

*We are in the final stages of development of a major revision of the Department's Travel Manual that will include significant changes to the portion related to travel advances. The revised manual is scheduled for completion on April 28, 1995.*

**(State Auditor's Note:** Subsequent to April 28, 1995, management completed this manual.)

## Detailed Findings and Recommendations

*The revised manual will state that a travel advance check may not be issued if more than 30 days have passed since the end of a trip covered by a previous advance, and the employee has not closed that advance by submitting a travel expense account for that trip and a payment for any unused advance. It will explain and emphasize the responsibilities of the employee, the supervisor, and the related organization's management with regard to travel advances by stating that their signatures on an advance request certify that the advance is necessary, that the travel is for official TxDOT business, that the travel has all the necessary approvals, and that the advance request complies with TxDOT policies and procedures.*

*The revision advises the requestor that, if the expenses are less than the advance, a personal check or money order must be submitted for the difference to reimburse the Travel Advance Fund. This reimbursement must be submitted with the Travel Expense Account within two weeks after the last day of the travel, and it will be considered delinquent if it is not received within 30 days after the last day of the travel.*

*With regard to uniform time frames, the current travel manual and the current travel advance request form were developed at very different times, and were not properly coordinated and/or updated. The new manual will include a new travel advance request*

*form, and both the manual and the request form will show the same time frame information. The new request form will also contain more obvious and specific information regarding the responsibilities of the employee, the supervisor, and the managers with regard to the requested travel advance.*

*With regard to monitoring and enforcing compliance, we are taking the following actions:*

- We are preparing now a list of travel advance recipients that have not fully settled one or more advances. The lists will be sorted by district, division, and special office, and will be sent to the head of each such organization directing that the advance be cleared up immediately. These lists and directives will be distributed by March 17, 1995.*

**(State Auditor's Note:** Subsequent to May 17, 1995, management distributed the lists and directives.)

- Action similar to that described above will occur every month in the future.*
- We are developing new procedures to include in our travel advance program software that will alert the travel advance custodian immediately if a requestor has any outstanding advances.*

# Appendices

Appendix 1:

## Objectives, Scope, and Methodology

### Objectives

Our objectives were to:

- Provide reasonable assurance regarding the adequacy of the entities' internal controls over petty cash, travel advance cash, and imprest cash, and be alert for areas of fraud and abuse.
- Provide the Legislature with a special report regarding controls over petty cash, travel advance cash, and imprest cash.
- Verify compliance with laws and regulations that may have a material effect on the operation of petty cash, travel advance cash, and imprest cash.
- Comply with Government Code, § 403.250, which requires that "the State Auditor shall routinely audit state agencies for the proper use of petty cash accounts and promptly report shortages, abuses, or unwarranted uses of petty cash accounts to the legislature and the comptroller."

### Scope

The scope included consideration of the following:

- Internal control structures over petty cash, travel advance cash, and imprest cash
- Compliance with laws and regulations that could have a material effect on the operation of petty cash, travel advance cash, and imprest cash
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- Audit coverage of 85 percent or more of the statewide petty cash, travel advance cash, and imprest cash funds

### Methodology

The methodology used during our audit consisted of reviewing compliance with each entity's internal control policies and procedures regarding petty cash, travel advance cash, and imprest cash; gaining an understanding of the internal control structures over petty cash, travel advance cash, and imprest cash; and performing other procedures deemed necessary.

### Other Information

According to Government Code, § 403.250, the State Auditor is required to routinely audit state agencies for the proper use of petty cash accounts and promptly report shortages, abuses, or unwarranted uses of petty cash accounts to the Legislature and the Comptroller. Fieldwork was conducted from December 1994 through January 1995. The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

The audit work was performed by the following members of the State Auditor's staff:

- C.Y. Ihekwoaba, CPA (Project Coordinator)
- Paul Hagen, CPA (Audit Manager)
- Craig Kinton, CPA (Director)

## Appendices

We performed audit work at the following entities:

- Comptroller of Public Accounts
- Texas Education Agency
- Texas Employment Commission
- Texas Department of Health
- Texas Department of Human Services
- Texas Department of Mental Health and Mental Retardation
- Texas A&M University
- Texas Department of Transportation
- The University of Texas System

## Appendices

Appendix 2:

### **Background Information**

The State Auditor's Office is required by statute to audit the State's petty cash funds. "Petty Cash Funds" refers to a set amount of money held outside the State Treasury to be used for the purposes specified by Government Code, Subchapter K, §403.244. In accordance with the General Appropriations Act, Article V, § 34, "A state agency may expend petty cash funds in a manner consistent with the provisions of Sections 403.241 et.seq., Government Code.

Such amounts as are necessary for the efficient operation of state agencies are appropriated. All amounts should be drawn from appropriations where similar expenditures would be made." Accordingly, petty cash funds may be established for making change of currency, advancing travel expense money to state officers and employees, making small disbursements for which formal expenditure procedures are not cost-effective, or any similar purpose or combination of purposes a state agency considers prudent for conducting state business.

Copies of this report have been distributed to the following:

## **Legislative Audit Committee**

Honorable James E. "Pete" Laney, Speaker of the House, Chair  
Honorable Bob Bullock, Lieutenant Governor, Vice Chair  
Senator John Montford, Chair, Senate Finance Committee  
Senator Kenneth Armbrister, Chair, Senate State Affairs Committee  
Representative Robert Junell, Chair, House Appropriations Committee  
Representative Tom Craddick, Chair, House Ways and Means Committee

## **Governor of Texas**

Honorable George W. Bush

## **Legislative Budget Board**

## **Sunset Advisory Commission**

## **Administrative Officials of the following entities:**

Comptroller of Public Accounts  
Department of Criminal Justice  
Texas Employment Commission  
Department of Health  
Department of Human Services  
Texas Department of Mental Health and Mental Retardation  
Texas A&M University  
Department of Transportation  
The University of Texas System