

OFFICE OF THE CITY CONTROLLER



**HEALTH AND HUMAN SERVICES DEPARTMENT
CASH HANDLING PROCEDURES AUDIT**

Sylvia R. Garcia, City Controller

Judy Gray Johnson, Chief Deputy City Controller

Steve Schoonover, City Auditor

Report No. 00-40



OFFICE OF THE CONTROLLER
CITY OF HOUSTON
TEXAS

SYLVIA R. GARCIA

March 26, 2002

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

**SUBJECT: Health and Human Services Department
Cash Handling Procedures Audit (Report No. 00-40)**

Dear Mayor Brown:

The City Controller's Office Audit Division has completed an audit of the cash handling procedures at the Health & Human Services Department's Fifth Ward Multi-Service Center. The primary purpose of the audit was to assist management with the assessment of the adequacy of internal controls related to the overall cash handling process. In addition, the audit evaluated compliance with the City's Cash Handling Policies and Procedures (AP 2-17).

The report, attached for your review, concludes the City's Cash Handling Policies and Procedures as detailed in AP 2-17 are adequate. However, the cash handling procedures at the Fifth Ward Multi-Service Center, as currently implemented, are not adequate to provide management with reasonable assurance that cash collections and deposits are properly safeguarded and promptly deposited into the City's bank account. 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 I.

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
Oliver Spellman, Jr., Chief of Staff, Mayor's Office
M. desVignes-Kendrick, MD, MPH, Director, Health and Human Services Department
Philip Scheps, Director, Finance and Administration Department

HEALTH AND HUMAN SERVICES DEPARTMENT
CASH HANDLING PROCEDURES AUDIT

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EXECUTIVE SUMMARY

The mission of the multi-service centers is to protect, enhance, and promote the fundamental economic, political, environmental and psychosocial conditions of the City's communities. These services are provided by non-profit social service agencies and governmental agencies housed within the multi-service center.

The Fifth Ward Multi-Service Center collects approximately \$30,000 a year, of which about \$240.00 (or less than 1%) were in currency and coins, collected mainly for copies and fax charges, from walk-in customers. Checks or money orders paid the bulk of collections, mainly from rental charges. The rental rates are mandated by City Ordinance.

The City's Cash Handling Policies and Procedures (AP 2-17) dated November 21, 1997 was issued to all City departments to be used as guidelines for the cash handling process.

- Department management has not provided the Center's cash handling personnel with the AP 2-17. Lack of knowledge of AP 2-17 can result in inadequate safeguarding and inconsistent processing of cash collections/deposits.
- The Center uses general-purpose pre-numbered receipt books purchased directly from a vendor. Personnel neither obtain their receipt books from the Department's revenue section nor control the receipt books as required by AP 2-17. The practice of using uncontrolled receipt books increases the risk of misappropriation and employee theft.
- The lock box is not adequately secured during business hours; thus inadequate procedures exist to safeguard accumulated collections during business hours.
- The Center reconciles cash the following day rather than at the end of each day as required by AP 2-17. In addition, collections are not reconciled and transferred from one employee to another during shift changes. Without performing daily cash reconciliation, discrepancies and/or misappropriations may not be detected promptly. Additionally, without reconciling cash when shifts change, it may be difficult to determine the actual responsibility for cash overages/shortages.
- The Center does not always make timely deposits. During the seven months ended January 31, 2000, we noted fifteen instances of untimely transfers. Excessive accumulation of receipts increases the risk of misappropriation and theft.

SCOPE AND PURPOSE

We have completed an audit of the cash handling procedures at the Fifth Ward Multi-Service Center for the period of July 1, 1999 through February 17, 2000. Our purpose was to assist management with the assessment of the adequacy of internal controls related to the overall cash handling process. In addition, the audit evaluated compliance with the City's Cash Handling Policies and Procedures (AP 2-17).

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 cash handling process at the Fifth Ward Multi-Service Center. This was a financial related audit executed in accordance with Generally Accepted Government 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 a system of internal controls are to provide management with reasonable, but not absolute, assurance that cash collections and deposits are safeguarded against loss from unauthorized use or theft and that deposits are made promptly and recorded accurately in City bank accounts.

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.

CONCLUSION

Based on the results of our audit, we conclude the City's Cash Handling Policies and Procedures as detailed in AP 2-17 are adequate, however Department management has not been effective in communicating and implementing the procedures. The cash handling procedures at the Fifth Ward Multi-Service Center, as currently implemented, are not adequate to provide management with reasonable assurance that cash collections and deposits are properly safeguarded and promptly deposited into the City's bank account.

Kenneth Teer
Audit Manager

Joe Okigbo
Auditor-in-Charge

Steve Schoonover
City Auditor

INTRODUCTION

The mission of the multi-service centers is to protect, enhance, and promote the fundamental economic, political, environmental and psychosocial conditions of the City's communities. These services are provided by non-profit social service agencies and governmental agencies housed within the multi-service center.

The Fifth Ward Multi-Service Center collects approximately \$30,000 a year, of which about \$240.00 (or less than 1%) were in currency and coins, collected mainly for copies and fax charges, from walk-in customers. Checks or money orders paid the bulk of collections, mainly from rental charges. The rental rates are mandated by City Ordinance.

The City's Cash Handling Policies and Procedures (AP 2-17) dated November 21, 1997 was issued to all City departments to be used as guidelines for the cash handling process.

AUDIT FINDINGS AND RECOMMENDATIONS

I. CASH HANDLING POLICIES AND PROCEDURES

BACKGROUND

The City-Wide Cash Handling Audits performed by The City Controller's Office in June 1997, noted that the City did not have standardized Policies and Procedures regarding the collection, recording, depositing, and reporting of cash receipts at its cash collection locations. As a result, the City issued Administrative Procedure 2-17.

FINDING

Department management has not provided the Center's personnel that handle cash with AP 2-17. Lack of knowledge of AP 2-17 can result in inadequate safeguarding and inconsistent processing of cash collections/deposits.

RECOMMENDATION

We recommend that Department management obtain, distribute, and train its cash handling personnel on the City's Cash Handling Policies and Procedures (AP 2-17).

II. RECEIPT BOOKS

BACKGROUND

AP 2-17, Section 8 recognizes that it is not always practical to use a cash register to record and control cash receipts and outlines procedures to be used when a cash register is not used. Section 8B designates the Department's revenue section as being responsible for ordering, receiving, issuing, safeguarding, and accounting for the usage and inventory of pre-numbered cash receipts books. Further, Section 8 makes a designated supervisor responsible for performing

similar functions at the cash handling location. Such practices are necessary to properly control cash receipts.

FINDING

The Center uses general-purpose pre-numbered receipt books purchased directly from a vendor. Personnel neither obtain their receipt books from the Department's revenue section nor control the receipt books as required by AP 2-17. The practice of using uncontrolled receipt books increases the risk of misappropriation and employee theft.

RECOMMENDATION

In order to ensure cash receipts are adequately controlled, we recommend that the Department and the Center follow AP 2-17's procedures related to receipt books. The Department can obtain pre-numbered City receipts through the Controller's Office or procure receipts books through the City's normal procurement process.

III. CASH COLLECTIONS SECURITY

BACKGROUND

AP 2-17 Section 3B(1a) requires "... a secure location (i.e. locked box or in a locked cabinet or closet whose access is controlled by a supervising cashier) to safeguard undeposited collections".

FINDING

The lock box is not adequately secured during business hours; thus inadequate procedures exist to safeguard accumulated collections during business hours.

RECOMMENDATION

We recommend that accumulated collections be secured during office hours.

IV. DAILY RECONCILIATIONS

BACKGROUND

According to AP 2-17 Section 11B, a "daily cash reconciliation should be performed at the end of each day".

FINDING

The Center does not reconcile cash at the end of each day. Instead, Center personnel reconcile cash on the day following the collection date and it uses its own form rather than the Daily Reconciliation Form (CF-2). In addition, collections are not reconciled and transferred from one employee to another during shift changes. Without performing daily cash reconciliation, discrepancies and/or misappropriations may not be detected promptly. Additionally, without reconciling cash when shifts change, it may be difficult to determine the actual responsibility for cash overages/shortages.

RECOMMENDATION

We recommend that the Center reconciles cash as required by AP 2-17, and to ensure consistency, the Center should use form CF-2.

V. UNTIMELY DEPOSITS

BACKGROUND

AP 2-17 is not specific on the frequency of deposits. The Department's Cash Handling Procedure allows sites to deposit cash collections weekly or when the accumulated cash exceeds \$300, whichever occurs first.

FINDING

The Center does not make timely deposits. During the seven months ended January 31, 2000, we noted fifteen instances of untimely transfers as defined by the Department's procedures. Excessive accumulation of receipts increases the risk of misappropriation and theft.

RECOMMENDATION

The Center should make its deposits in accordance with the Department's procedure.

VI. CHANGE FUND

BACKGROUND

According to AP 2-17 Section 14B(1a), "a change fund should be assigned to each Cashier as turnover cash for daily transaction processing".

FINDING

The Center does not have a change fund; cash collections are used to make change. Consequently, ancillary services, such as copier and fax services, may not be available to walk-in customers when change is unavailable.

RECOMMENDATION

We recommend that the Department comply with AP 2-17 and provide the Center with a change fund in an amount appropriate to meet its service needs.

EXHIBIT 1



CITY OF HOUSTON
Health and Human Services
Department

Interoffice

Correspondence

To: Sylvia R. Garcia, City Controller
City Controller's Office

From: M. desVignes-Kendrick, MD, MPH
Health and Human Services


Date: February 1, 2002

Subject: Cash Handling Procedures Audit
Management Response

This report includes some valid and helpful recommendations that we appreciate. While we applied all recommended measures, we think that materiality was not considered in some of them. (See Attachment)


M. desVignes-Kendrick, MD, MPH
Director

Attachment

 cc: Earl Travis, Deputy Director, HDHHS
Bob Bowers, Assistant Director, F & A
Steve Schoonover, City Auditor, City Controller's Office
Monir Ibrahim, Audit Manager, HDHHS

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*Views of Responsible
Officials*

EXHIBIT 1

ATTACHMENT HDHHS RESPONSE TO THE CITY CONTROLLER'S CASH HANDLING PROCEDURES AUDIT

I. CASH HANDLING POLICIES AND PROCEDURES

BACKGROUND

The City-Wide Cash Handling Audits performed by The City Controller's Office in June 1997, noted that the City did not have standardized Policies and Procedures regarding the collection, recording, depositing, and reporting of cash receipts at its cash collection locations. As a result, the City issued Administrative Procedure 2-17.

FINDING

Department management has not provided the Center's personnel that handle cash with AP 2-17. Lack of knowledge of AP 2-17 can result in inadequate safeguarding and inconsistent processing of cash collections/deposits.

RECOMMENDATION

We recommend that Department management obtain, distribute, and train its cash handling personnel on the City's Cash Handling Policies and Procedures (AP 2-17).

HDHHS RESPONSE

Department management agrees with the recommendation and has taken corrective action.

II. RECEIPT BOOKS

BACKGROUND

AP 2-17, Section 8 recognizes that it is not always practical to use a cash register to record and control cash receipts and outlines procedures to be used when a cash register is not used. Section 8B designates the Department's revenue section as being responsible for ordering, receiving, issuing, safeguarding, and accounting for the usage and inventory of pre-numbered cash receipts books. Further, Section 8 makes a designated supervisor responsible for performing similar functions at the cash handling location. Such practices are necessary to properly control cash receipts.

FINDING

The Center uses general-purpose pre-numbered receipt books purchased directly from a vendor. Personnel neither obtain their receipt books from the Department's revenue section nor control the receipt books as required by AP 2-17. The practice of using uncontrolled receipt books increases the risk of misappropriation and employee theft.

*Views of Responsible
Officials*

EXHIBIT 1

RECOMMENDATION

In order to ensure cash receipts are adequately controlled, we recommend that the Department and Center follow AP 2-17's procedures related to receipt books. The Department can obtain pre-numbered City receipts through the Controller's Office or procure receipts books through the City's normal procurement process.

HDHHS RESPONSE

Department management agrees with the recommendation and has taken corrective action.

III. CASH COLLECTIONS SECURITY

BACKGROUND

AP 2-17 Section 3 B (1a) requires "... a secure location (i.e. locked box or in a locked cabinet or closet whose access is controlled by a supervising cashier) to safeguard undeposited collections".

FINDING

The lock box is not adequately secured during business hours; thus inadequate procedures exist to safeguard accumulated collections during business hours.

RECOMMENDATION

We recommend that accumulated collections be secured during office hours.

HDHHS RESPONSE

Department management agrees with the recommendation and has taken corrective action.

IV. DAILY RECONCILIATIONS

BACKGROUND

According to AP 2-17 Section 11B, a "daily cash reconciliation should be performed at the end of each day".

FINDING

The Center does not reconcile cash at the end of each day. Instead, Center personnel reconcile cash on the day following the collection date and it uses its own form rather than the Daily Reconciliation Form (CF-2). In addition, collections are not reconciled and transferred from one employee to another during shift changes. Without performing daily cash reconciliation, discrepancies and/or misappropriations may not be detected promptly. Additionally, without reconciling cash when shifts change, it may be difficult to determine the actual responsibility for cash overages/shortages.

Views of Responsible Officials

EXHIBIT 1

RECOMMENDATION

We recommend that the Center reconcile cash as required by AP 2-17, and to ensure consistency, the Center should use form CF-2.

HDHHS RESPONSE

Department management agrees with the recommendation and has taken corrective action. However, the current staffing level does not always allow the supervisor to be present at the close of the evening shifts. Therefore, on those occasions when the supervisor is not available at the close of an extended day, the reconciliation is postponed until it can be performed the following day in his/her presence.

V. UNTIMELY DEPOSITS

BACKGROUND

AP 2-17 is not specific on the frequency of deposits. The Department's Cash Handling Procedure allows sites to deposit cash collections weekly or when the accumulated cash exceeds \$300, whichever occurs first.

FINDING

The Center does not make timely deposits. During the seven months ended January 31, 2000, we noted fifteen instances of untimely transfers as defined by the Department's procedures. Excessive accumulation of receipts increases the risk of misappropriation and theft.

RECOMMENDATION

The Center should make its deposits in accordance with the Department's procedures.

HDHHS RESPONSE

Department management agrees with the recommendation and has taken corrective action. However, we would like to note that the finding erroneously states there were fifteen instances of untimely transfers (within one week/seven days as established by the department); the correct number is eleven.

*Views of Responsible
Officials*

VI. CHANGE FUND

BACKGROUND

According to AP 2-17 Section 14B(la), "a change fund should be assigned to each Cashier as turnover cash for daily transaction processing".

EXHIBIT 1

FINDING

The Center does not have a change fund; cash collections are used to make change. Consequently, ancillary services, such as copier and fax services, may not be available to walk-in customers when change is unavailable.

RECOMMENDATION

We recommend that the Department comply with AP 2-17 and provide the Center with a change fund in an amount appropriate to meet its service needs.

HDHHS RESPONSE

Department management agrees with the recommendation and has taken corrective action. However, it appears that the costs of establishing a change fund and meeting its accounting and administrative requirements greatly exceed the revenue generated by cash transactions, about \$175 in seven months. Therefore, the need for such fund will be reviewed and discussed with F&A within the following months.

*Views of Responsible
Officials*