

OFFICE OF THE CITY CONTROLLER



**CONVENTION AND ENTERTAINMENT FACILITIES
DEPARTMENT
CASH HANDLING PROCEDURES AUDIT**

Sylvia R. Garcia, City Controller

Judy Gray Johnson, Chief Deputy City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CONTROLLER
CITY OF HOUSTON
TEXAS

SYLVIA R. GARCIA

March 29, 2002

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

SUBJECT: Convention and Entertainment Facilities Department
Cash Handling Procedures Audit (Report No. 00-41)

Dear Mayor Brown:

The City Controller's Office Audit Division has completed an audit of the cash handling procedures at the Convention and Entertainment Facilities Department George R. Brown Convention 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 George R. Brown Convention 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
Dawn Ullrich, Director, Convention and Entertainment Facilities Department
Philip Scheps, Director, Finance and Administration Department

CONVENTION AND ENTERTAINMENT FACILITIES DEPARTMENT
CASH HANDLING PROCEDURES AUDIT

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EXECUTIVE SUMMARY

Both Exhibitor Services and the Sales Office handle cash at the George R. Brown Convention Center (the Center). The Center's procedures, as 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.

EXHIBITOR SERVICES

- The cashier performs most of the cash handling duties with little or no supervision. Separation of duties and supervisory oversight are not adequate to ensure the proper collections, reporting and safeguarding of revenues.
- Exhibitor Services' parking permit practices are inadequate to deter or detect the misappropriation and sale of unissued parking permits.
- No security protection is provided while transporting cash to the Cashier's Office.
- Access to undeposited collections is not restricted to a supervising cashier as required by the City of Houston's Cash Handling Policies and Procedures (AP 2-17 dated November 21, 1997). Five people have access to undeposited collections.
- Surprise audits of the change fund are not performed as required in AP 2-17.
- The daily cash reconciliation is reviewed and approved by a subordinate rather than a supervisor.

SALES OFFICE

- Sales Office personnel performing cash handling functions do not have AP 2-17. Lack of knowledge of AP 2-17 can result in inadequate safeguarding of cash collections/deposits.
- An Administrative Assistant performs most of the cash handling duties with little or no supervision. Proper supervision is necessary to ensure the proper collections, reporting and safeguarding of revenues.
- Access to undeposited collections is not restricted to a supervising cashier as required by AP 2-17. Further, deposits are placed at the receptionist's desks with other inter-office mails for messenger pick up, and the receptionist's desk is sometimes left unattended, thereby exposing the deposits to theft.
- The Sales Office does not maintain a log of deposits delivered by the messenger.

SCOPE AND PURPOSE

We have completed an audit of the cash handling procedures at the Center for the period of July 1, 1999 through February 14, 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 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 cash handling process at the 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 of this audit 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's 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 Center, as 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 Center operates two separate cash collection locations. Exhibitor Services collects payments for booth cleaning, parking permits, and periodically collects coins from coin operated lockers and vending machines. The Sales Office collects payments for facility rentals. The collections for a four-month period during our audit were \$43,078 and \$837,954, respectively.

Cashiers reconcile collections, prepare transmittals, and prepare logs listing the types of collections and their corresponding transmittal numbers. The collections and their corresponding transmittals are sent to the Convention and Entertainment Facilities' Central Accounting Office for deposit.

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

AUDIT FINDINGS AND RECOMMENDATIONS

EXHIBITOR SERVICES

I. LACK OF SEPARATION OF DUTIES AND SUPERVISORY REVIEW

FINDING

The cashier has access to the unissued parking permits, issues the parking permits, collects parking permit fees, prepares the cash reconciliation, and prepares transmittals. The cashier's functions are not reviewed and approved by supervisory personnel.

The Cashier's function lacks separation of duties essential to ensure the accuracy and integrity of information that is used to update the Department's accounting system. Since the cashier's work is not reviewed by supervising personnel, errors and omission may occur and not be detected. Furthermore, the absence of a supervisory review may encourage misappropriation and theft.

RECOMMENDATION

The duties performed by the Cashier should be separated as practical as possible to minimize errors and irregularities and supervisory review should be increased to ensure the proper collection, reporting, and safeguarding of revenues.

II. SAFEGUARDING AND ACCOUNTING FOR UNISSUED PARKING TICKETS

BACKGROUND

Exhibitor Services issues two types of parking permits, fee (Exhibitor) and courtesy (VIP and Ramp). The permits are pre-numbered, and

issued permits are valid through the date stamped on the permit. The only difference between an issued and an unissued permit is the date.

FINDING

The Center does not account for issued permits, reconcile issued permits to sales, or periodically inventory and account for unissued permits. Unissued parking permits are stored in a safe, and five people, including the cashier, have access to the safe and the permits. Further, the date stamp used by the Center to validate issued permits is a common stamp that is easily duplicated.

The Center's current parking permit practices are not adequate to deter or detect the misappropriation of unissued parking permits. Further, misappropriated permits could be easily sold, since the Center uses a common date stamp to validate the issued permits.

RECOMMENDATION

We recommend that access to unissued parking permits be restricted to no more than two employees who do not perform cash handling duties. All permits should be accounted for when issued, issued permits should be reconciled to sales, and periodic inventories of unissued permits should be conducted.

III. SECURITY RISK DURING TRANSPORT OF CASH

BACKGROUND

Exhibitor Services collects cash for parking permits and cleaning services during the set-up for and holding of exhibitions.

FINDING

The Center does not provide security protection to the Cashier while transporting cash. Further, the Cashier often crosses secluded areas of the hall while transporting cash. Such practices create unnecessary security risks for both the cashier and the collections.

RECOMMENDATION

To reduce the risk of theft and to increase the safety of the Cashier, we recommend that security personnel accompany the Cashier during cash transfers to and from the exhibition hall.

IV. SECURITY RISK OVER UNDEPOSITED COLLECTIONS

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". Further, AP 2-17 is not specific on the frequency of deposits.

FINDING

The Cashier stores daily collections in a safe located in the Center's office. At the end of an event, the collections and their corresponding transmittals are sent to the Convention and Entertainment Facilities' Central Accounting Office for deposit.

Some events last several days and substantial sums of monies have been accumulated in the safe before a deposit was made. Delaying deposits cost the City interest earnings from banks.

The safe and the collections are accessible to five employees, thus, access to undeposited collections is not controlled by a supervising cashier as required by AP 2-17 3B(1a). Consequently, the safe's effectiveness as a deterrent to theft and misappropriation is diminished.

RECOMMENDATION

We recommend that access to undeposited collections be restricted to a supervising cashier in order to minimize the risk of loss or misappropriation. We also recommend that the Center make deposits whenever accumulated collections exceed a specified amount.

V. CHANGE FUND SURPRISE AUDIT

BACKGROUND

The Cashier maintains a change fund of \$200.00 to be used for daily transaction processing. According to AP 2-17, the change fund must be verified at the end of each calendar quarter. In addition, AP 2-17 requires independent administrative personnel to conduct an unscheduled audit on all change funds at least twice a year.

FINDING

Independent unscheduled audits are not conducted in accordance with AP 2-17. Unannounced verifications/audits are important in controlling malfeasance and fraud.

RECOMMENDATION

We recommend that the department conduct unscheduled audits of change fund at least twice a year as required by AP 2-17.

VI. DAILY RECONCILIATION OF CASH

BACKGROUND

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

FINDING

Prior to our audit, the Cashier did not complete daily cash reconciliations as required by AP 2-17. On February 10, 2000, the cashier was instructed by the Contract Compliance Manager to perform a daily reconciliation. We noted that a subordinate reviewed and approved these daily reconciliations instead of a supervisor.

RECOMMENDATION

We commend the Department for taking prompt action on initiating a daily reconciliation. However, we recommend that a supervisor rather than a subordinate review and approve the daily reconciliation.

SALES OFFICE

VII. CASH HANDLING POLICIES AND PROCEDURES

BACKGROUND

The Cash Handling Audits performed by the City Controller's Office and issued on June 20, 1997, noted that the City of Houston 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 established Administrative Procedure 2-17.

FINDING

The Sales Office personnel performing cash handling functions do not have AP 2-17. Lack of knowledge of AP 2-17 can result in inadequate safeguarding of cash collections/deposits.

RECOMMENDATION

The Sales Office should obtain, distribute, and train its cash handling personnel on the City's Cash Handling Policies and Procedures.

VIII. LACK OF SUPERVISORY REVIEW

FINDING

The Administrative Assistant (AA) processes and logs mail-in payments. The AA's functions are not reviewed and approved by supervisory personnel, which could allow errors and omission to occur and not be detected. Furthermore, the absence of a supervisory review may encourage misappropriation and theft.

RECOMMENDATION

To ensure the proper collection, reporting, and safeguarding of revenues, a supervisor should review the AA's work.

IX. SECURITY RISKS OVER UNDEPOSITED COLLECTIONS

BACKGROUND

AP 2-17 Section 3B(la) 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 Sales Office has its own vault. Collections are placed in a locked moneybag. The moneybag is kept in the vault, which is also used to store the Center's booking catalogue. During office hours, the vault stays unlocked so that the employees can have easy access to the booking catalogue.

Deposits awaiting messenger pick up are placed in a moneybag and left on the receptionist's desk with other inter-office mail awaiting messenger pick up. We noted instances where the receptionist left the desk without properly securing the moneybag. Such practice exposes undeposited collections to theft.

The Sales Office's practices diminish the safe's effectiveness as a deterrent to theft and misappropriation.

RECOMMENDATION

We recommend that cash be kept within a locked compartment within the safe to minimize the risk of theft or misappropriation.

X. DELIVERY LOG

FINDING

Sales Office personnel do not maintain a log to record the messenger pick-up and delivery of the deposit to the Central Accounting Office. The absence of a log may create difficulties in tracking deposits by pick up and delivery times.

RECOMMENDATION

The Sales Office should maintain a log to properly monitor deposit deliveries.

EXHIBIT 1



CITY OF HOUSTON

Convention & Entertainment
Facilities Department

Interoffice

Correspondence

To: Sylvia R. Garcia
City Controller

From: Dawn R. Ullrich, Director

Date: 02/22/02

Subject: Management Response
Cash Handling Procedures -
GRBCC Audit

Your audit of the Convention & Entertainment Facilities Department's cash handling procedures at the George R. Brown Convention Center for the period of July 1, 1999 through February 14, 2000 resulted in ten findings. Following are my responses.

Exhibitor Services

I. Lack of Separation of Duties and Supervisory Review

We concur. Although complete separation of duties is not possible due to limited staff, supervisory review has been increased.

II. Safeguarding and Accounting for Unissued Parking Tickets

We concur. Procedures have been implemented requiring permits to be accounted for when issued, issued permits to be reconciled to sales, and periodic inventories of unissued permits to be conducted.

III. Security Risk During Transport of Cash

GRBCC management has considered requiring security personnel to accompany the Cashier during cash transfers to and from the exhibition hall but determined that it is not cost-beneficial to do so. As stated in your Introduction, cash collections for a four-month period during your audit were \$43,078. This amount was received by the GRBCC in small increments and history at the facility does not reflect any experience of loss or misappropriation.

IV. Security Risk Over Undeposited Collections

Presently, two (2) cashiers and three (3) members of GRBCC management staff have access to the safe that holds undeposited collections. Because the Convention Center runs a 24-hour operation, seven (7) days a week, we believe this to be the minimal amount of personnel needed in order to maintain efficient operations. We concur with the recommendation that deposits be made pertaining to accumulated collections.

V. Change Fund Surprise Audit

We concur.

*Views of Responsible
Officials*

EXHIBIT 1

VI. Daily Reconciliation of Cash

We concur and the recommendation has been implemented.

SALES OFFICE

VII. Cash Handling Policies and Procedures

We concur and the recommendation has been implemented.

VIII. Lack of Supervisory Review

We concur and the recommendation has been implemented.

IX. Security Risks Over Undeposited Collections

We concur and the recommendation has been implemented.

X. Delivery Log

We concur and the recommendation has been implemented.

If you need further assistance, please do not hesitate to contact me at (713) 437-5293.



Dawn R. Ulrich

cc: Brenda Bazan, Convention & Entertainment Facilities Department

**Views of Responsible
Officials**