

**OFFICE OF THE CITY CONTROLLER**



**FINANCE AND ADMINISTRATION DEPARTMENT  
FINANCIAL SERVICES DIVISION  
CASH HANDLING PROCEDURES AUDIT  
FOR THE PERIOD OF JULY 1, 2000  
THROUGH OCTOBER 31, 2000**

**Sylvia R. Garcia, City Controller**

**Judy Gray Johnson, Chief Deputy City Controller**

**Steve Schoonover, City Auditor**



Office of the City Controller  
City of Houston  
Texas

SYLVIA R. GARCIA

May 8, 2001

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

SUBJECT: Finance and Administration Department-Financial Services Division  
Cash Handling Procedures Audit (Report NO. 01-01)

Dear Mayor Brown:

The City Controller's Office Audit Division has completed a financial related audit of the Finance and Administration Department's Financial Services Division's cash handling procedures as they relate to the Transportation Section. The audit's objective was to evaluate the Department's compliance with the City's Cash Handling Policies & Procedures (A.P. 2-17) and to assess the adequacy of internal controls related to the overall cash handling process.

The report, attached for your review, concludes that the Department's internal controls over the cash handling procedures are adequate to provide management with reasonable assurance that these funds are properly safeguarded and managed in compliance with A.P. 2-17, except for the findings presented in the body of the report. The views of responsible department officials as to actions being taken are appended to the report as exhibit I.

We commend the Department for taking immediate action on the recommendations identified in the report. Also, 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  
Gerald J. Tollett, Acting Chief of Staff, Mayor's Office  
Philip B. Scheps, Director, Finance and Administration Department

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## **EXECUTIVE SUMMARY**

- Daily cash receipt journals are not reviewed and approved by supervisors.
- Receipt books are not inventoried and reconciled with the perpetual records. Additionally, receipt books are not issued in sequential order.
- The receptionist does not prepare a mail-in payment log and these payments are not identified on the daily payment receipt log. Therefore, the cashier supervisor is not able to reconcile mail-in payments.

## **SCOPE AND PURPOSE**

We have completed an audit of the Finance and Administration Department's Financial Services Division's cash handling procedures as they relate to the Transportation Section. The audit's objective is to evaluate the Department's compliance with the City of Houston's Cash Handling Policies & Procedures Administrative Procedure 2-17 (A.P. 2-17) and to assess the adequacy of internal controls related to the overall cash handling process. The audit scope period was July 1, 2000 through October 31, 2000.

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 Transportation Section. This was a financial related audit executed in accordance with Generally Accepted Government Auditing Standards.

Departmental 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 a system are to provide management with reasonable, but not absolute, assurance that cash is safeguarded against loss from unauthorized use or theft, and that transactions are executed in accordance with management's authorization and are recorded properly.

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 our audit, we conclude that internal controls over the cash handling procedures at the Finance and Administration Department's Financial Services Division's Transportation Section are adequate to provide management with reasonable assurance that these funds are properly safeguarded and managed in compliance with AP 2-17 except for the findings presented in the body of the report.

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George G. Wakgira  
Auditor-in-charge

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Rudy Garcia  
Audit Manager

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Steve Schoonover  
City Auditor

## INTRODUCTION

The Finance and Administration Department's Financial Services Division's Transportation Section (Transportation Section) operates on the City's behalf to collect fees and taxes related to the issuance of permits and licenses for transportation services including limousines, charter and sightseeing bus lines, school buses, taxicabs, and wrecker services. The Transportation Section received during Fiscal Year 2000 approximately \$1.9 million in fees and taxes in the form of personal and business checks, money orders, and cashier checks. Charges are determined according to the City's ordinance for each individual service provided. The majority of payments are received at three cashiers windows at 601 Sawyer. Other payments are received through the mail and in some instances, Regulatory Investigators will collect payments out in the field. The Regulatory Investigators are responsible for ensuring compliance with licensing requirements of "Vehicles for Hire" covered by Chapter 46 of the City of Houston Code of Ordinances.

Departmental cash handling procedures and/or task list indicate that the purpose of a fee payment should be noted on pre-numbered receipts by investigators when collecting fees at the service windows.

## AUDIT FINDINGS AND RECOMMENDATIONS

### I. MONTHLY CASH RECEIPTS RECONCILIATION

#### BACKGROUND

Permit and License fees collected daily are recorded on the CR Continuation Sheet form (CR). The CR form is designed to be reviewed and approved by supervisory personnel.

#### FINDING

The daily cash receipt journals are not reviewed and approved by supervisors. All fifteen CRs in our sample lacked supervisory approval. Supervisory approval and reconciliation procedures strengthen internal controls and may prevent or detect errors and irregularities.

#### RECOMMENDATION

We recommend that Department supervisory personnel review and approve CR forms before forwarding the forms to the Cashier's Office at 611 Walker for data entry.

### II. RECEIPT BOOKS

**BACKGROUND**

The Administrative Manager is responsible for receiving and issuing pre-numbered receipt books. As new receipt books are received, they are logged on to a receipt books log. The beginning and ending receipt numbers are noted on the log as receipt books are issued. Receipt books are kept in a safe when not in use.

AP 2-17 Section 8, requires that receipt books be inventoried monthly and reconciled with the perpetual records. Receipts are to be issued in sequential order, and spoiled receipts should be marked voided and retained in receipt books to evidence its spoilage.

**FINDING**

During the audit, management stated that receipt books are not inventoried and reconciled with the perpetual records. Additionally, our testing revealed that receipt books are not issued in sequential order. Monitoring controls are essential to prevent the misappropriation and use of receipts, which in turn may result in lost revenues to the City.

**RECOMMENDATION**

We recommend that the Department comply with AP 2-17 and inventory and reconcile receipt books with the Department's perpetual records. Additionally, the Department needs to establish procedures to ensure that receipt book are issued sequentially.

**III. MAIL-IN PAYMENTS**

**BACKGROUND**

The receptionist at the Transportation Section is responsible for receiving mail-in payments. The receptionist opens envelopes containing mail-in payments and time stamps the checks, money orders, or cashier checks received and delivers them to the cashiers at the service windows. The cashiers issue a receipt to the receptionist for each mail-in payment. The cashiers record the mail-in payment receipt number, check number, check amount, company name and transaction description on the daily payment receipt log along with receipts from walk in payments.

AP 2-17 Section 4, requires that mail containing payments be separated from other mail and that the mail-in payments are to be recorded in a daily mail-in payment log. Under AP 2-17, the Cashier Supervisor is responsible for reconciling the mail-in payments processed and recorded on the daily payment receipt log to the mail-in payment log.

**FINDING**



The receptionist does not prepare a mail-in payment log and mail-in payments are not identified on the daily payment receipt log. Therefore, the cashier supervisor is not able to reconcile mail-in payments. Identifying and reconciling mail-in payments strengthen internal controls and may prevent errors or irregularities.

**RECOMMENDATION**

We recommend that the Department comply with AP 2-17 and develop a mail-in payment log. Additionally, the cashiers need to identify the mail-in payments on the daily payment receipt log so that the Cashier Supervisor can reconcile mail-in payments processed and recorded on the daily payment receipt log to the mail-in payment log.

# EXHIBIT I



**CITY OF HOUSTON**

Finance and Administration  
Department

**Interoffice**

Correspondence

To: Sylvia R. Garcia  
City Controller

From: Philip B. Scheps, Director

Date: April 25, 2001

Subject: Audit of the Cash Handling Procedure  
of the Transportation Section

This is in response to the findings and recommendations reported in the draft audit of the Cash Handling Procedure of the Finance and Administration Department, Transportation Section.

We agree with each of your audit findings and have taken steps to comply with your recommendations. At this time, we believe we are in full compliance with the recommendations of your audit team.

Thank you for your thoughtful study.

A handwritten signature in black ink, appearing to read "P. B. Scheps".

**Philip B. Scheps, Director**

PBS/gih

cc: Ellis Milam, Division Manager, F&A Transportation

*Views of Responsible  
Officials*