

**OFFICE OF THE CITY CONTROLLER**



**PLANNING AND DEVELOPMENT DEPARTMENT  
CASH HANDLING/FIXED ASSET INVENTORY  
COMPLIANCE REVIEW  
FOR THE PERIOD OF JULY 1, 1998  
THROUGH JUNE 30, 1999**

**Sylvia R. Garcia, City Controller**

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

**Steve Schoonover, City Auditor**



SYLVIA R. GARCIA

OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

December 17, 1999

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

SUBJECT: Planning and Development Department (Report No. 99-13)  
Cash Handling and Fixed Asset Inventory – Compliance Audits

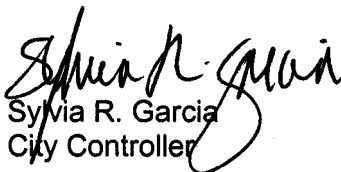
Dear Mayor Brown:

In accordance with the City's contract with McConnell, Jones, Lanier, and Murphy (MJLM), MJLM has completed compliance audits of cash handling and the fixed asset inventory of the Planning and Development Department. MJLM designed the cash handling audit to determine whether cash collection locations were in compliance with Administrative Procedure No. 2-17 (Cash Handling Policies and Procedures) and whether cash handling procedures and related internal controls were being followed. The objectives of the fixed asset inventory audit included determining whether the Department was in compliance with City and Department fixed asset policies and procedures related to tracking, reporting and safeguarding assets.

MJLM's report, attached for your review, noted that the Department was in compliance overall with both cash handling and fixed asset inventory policies and procedures. However, specific instances of noncompliance were noted and MJLM made recommendations that can help the Department improve compliance with both policies. The findings and recommendations are presented in the body of the report and the views of the responsible officials are appended to the report as Exhibit I.

We appreciate the cooperation extended to the MJLM auditors by Department personnel during the course of the audits.

Respectfully submitted,

  
Sylvia R. Garcia  
City Controller

xc: City Council Members  
Al Haines, Chief Administrative Officer  
Jorge Cruz-Aedo, Director, Finance and Administration Department  
Lonnie Vara, Director, Human Resources Department



**McCONNELL JONES LANIER & MURPHY, LLP**  
CONSULTANTS & BUSINESS ADVISORS

November 24, 1999

The Honorable Sylvia R. Garcia  
City Controller  
City of Houston  
901 Bagby, 8<sup>th</sup> Floor  
Houston, Texas 77002

Dear Controller Garcia:

I am pleased to present the final report of McConnell, Jones, Lanier, and Murphy's (MJLM) compliance audits of the cash-handling process and fixed-asset inventory of the City of Houston's Planning and Development Department. Our audits were conducted in accordance with the April 22, 1999 Engagement Letter between the City of Houston and McConnell, Jones, Lanier, & Murphy.

The objectives of the cash-handling audit were to determine whether cash collection locations were in compliance with Administrative Procedure 2-17 (Cash Handling Policies and Procedures), and whether cash handling procedures and related internal controls were being strictly adhered to in an efficient and effective manner.

The objectives of the fixed-asset inventory were to determine whether:

- The Department was in compliance with City and Department fixed-asset policies and procedures related to tracking and safeguarding assets;
- Fixed-asset reports were accurate and adequate;
- Procedures to transfer assets between Department divisions and City departments were operating effectively; and
- Methods to ensure the safeguarding of assets and assignment of accountability (custodianship) were in place and operating effectively.

Our report contains specific instances of noncompliance, and we have made recommendations that can help the Department improve its compliance with the cash-handling and fixed asset policies.

We are grateful for the cooperation of the Department's management team and staff personnel who assisted us during this compliance review.

Very truly yours,

Ira Wayne McConnell  
Managing Partner

**CITY OF HOUSTON  
PLANNING AND DEVELOPMENT  
DEPARTMENT**

**COMPLIANCE AUDITS OF THE CASH-HANDLING  
PROCESS AND FIXED-ASSET INVENTORY**

*Final Report*

**Submitted to:**

**Sylvia R. Garcia  
Controller, City of Houston**

**Submitted by:**

**McConnell, Jones, Lanier, & Murphy LLP  
11 Greenway Plaza, Suite 2902  
Houston, Texas 77046**

**November 24, 1999**

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## 1.0 EXECUTIVE SUMMARY

McConnell, Jones, Lanier, & Murphy (MJLM) completed compliance audits of the Planning and Development Department's (the Department) cash-handling process and fixed-asset inventory. The audits were conducted in accordance with the Engagement Letter between the City of Houston (the City) and MJLM dated April 22, 1999. This report commends the Department for exemplary practices and suggests recommendations for improving its compliance with the City's cash-handling and fixed-asset policies and procedures and consists of the following eight sections:

- 1.0 Executive Summary
- 2.0 Background
- 3.0 Audit Objectives
- 4.0 Audit Procedures
- 5.0 Audit Scope and Methodology
- 6.0 Conclusions
- 7.0 Findings, Commendations, and Recommendations
- 8.0 Appendices

The following is a summary of commendations and recommendations included in this report:

### ***Cash-Handling Process***

#### **Commendation**

The Department enhances customer service and strengthens financial controls by enabling customers to apply for and purchase permits via fax and the Internet.

#### **Recommendations**

- Require collection sites to use a counterfeit bill detector pen to test the authenticity of \$100 bills.
- Conduct workshops with cashiers to review cash-handling policies and procedures, and require cashiers to record pertinent information on each check by completing an information box they rubber stamp on each check.
- Require adequate segregation of duties among clerks with cash-handling responsibilities.
- Strengthen follow-up procedures for insufficient fund checks, and ensure that permit sales are suspended for customers with outstanding insufficient fund checks.
- Revise the insufficient fund check form letter to include a statement indicating that the customer must replace the insufficient fund check with a cashier's check or money order.
- Offer credit card services at the Dacoma, Kingwood, and 3300 Main-Sign Administration collection sites.
- Provide physical security for prenumbered receipt books at 611 Walker and 3300 Main-Development Services, and control access to the secured location.

- Require employees at 611 Walker and 3300 Main to record the bill of lading number on the deposit ticket, and require couriers to sign for moneybags picked up at satellite locations.
- Enforce cash-handling policy provisions that require quarterly verification and biannual surprise audits of change funds, and consider providing change funds at all locations.
- Count change-order cash immediately after the armored car service representative delivers the order and leaves, as required by the cash handling policy.

### ***Fixed-Asset Inventory***

#### **Commendation**

The Department uses available bar-code technology to automate and streamline the fixed-asset inventory process.

#### **Recommendations**

- Eliminate the practice of identifying asset transfers as inventory exceptions, and record the transfers as they occur.
- Coordinate with the Public Works and Engineering Department to transfer the Digital Vaxstation 4000 VLC workstations from the Public Works and Engineering Department to the Planning and Development Department.
- Confer with the Information Systems division of Finance and Administration to make program modifications to Advantage 2000 so that a report similar to the Advanced Purchasing and Inventory Control System's (ADPICS) Posted Receiving Report can be generated.
- Retain signed and dated copies of form F&A 097, *Request for Transfer of City Owned Items*, when disposed assets are transferred to Surplus and Salvage.
- File a police report within 30 days after an asset is discovered missing during the annual fixed-asset inventory.
- Document departmental receiving and tagging responsibilities, and provide a copy of the documentation to Finance and Administration's Material Management Division.
- Identify, track, and inventory modular workstations as required by the fixed asset policy or confer with Finance and Administration to adopt a policy to exclude workstations from the annual inventory and GFAMS.

## **2.0 BACKGROUND**

The mission of the Planning and Development Department is to assist citizens in creating a vibrant city in which to live, learn, work, and play. This mission is accomplished through the following divisions, which perform activities designed to assist with the development and improvement of Houston's infrastructure:

- Neighborhood Services
- Long-range Planning
- Development Services
- Management Services
- Economic Development and Revitalization
- Data Systems

The Neighborhood Services and Long-range Planning Divisions support neighborhood and redevelopment planning and implementation programs, including the preparation of demographic and socioeconomic reports.

The Development Services Division processes subdivision and development plats, reviews building permits and construction plans for compliance with City regulations, and implements the Historic Preservation Ordinance.

The Management Services Division provides fiscal and human-resource services to the Department as well as mapping and data services through its data systems component.

The Economic Development and Revitalization Division stimulates economic activity and job growth through tax abatements, tax increment financing, public improvement district financing, and enterprise zones.

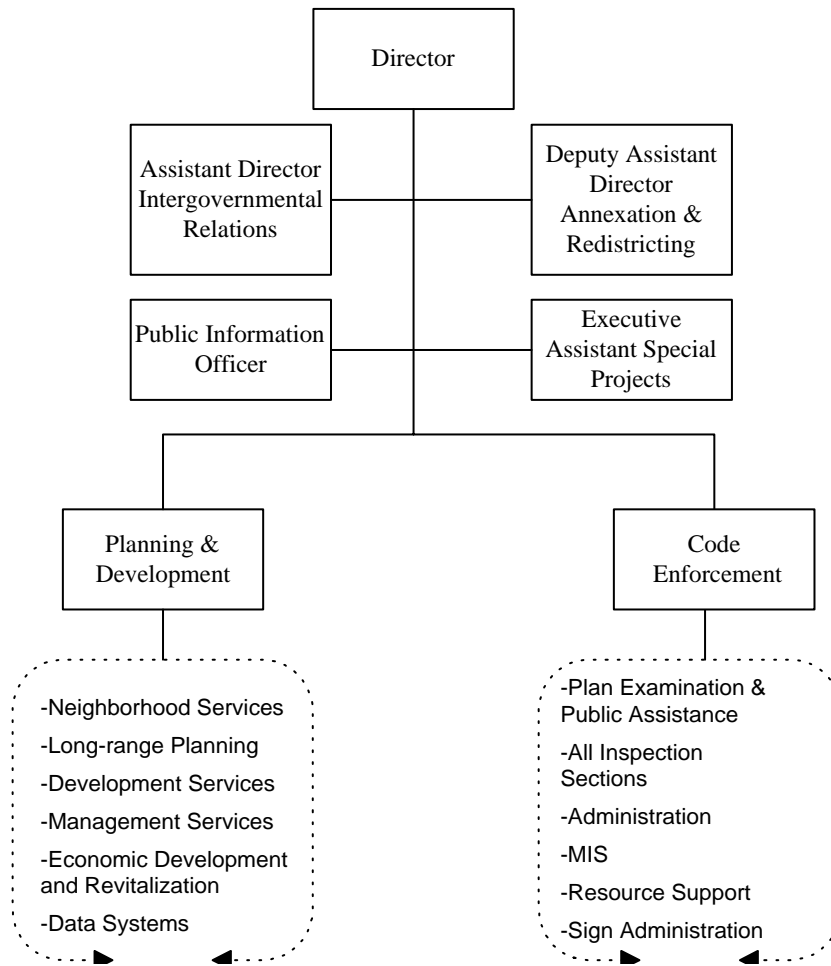
The Data Systems Division maintains and upgrades the City's Geographic Information System (GIS), a comprehensive database that is used to respond to mapping and data requests from all City departments.

On August 5, 1998, City Council approved the transfer of the Code Enforcement Division from the Public Works and Engineering Department to the Planning and Development Department. The purpose of this transfer was to consolidate planning and land-use functions within one department. Code Enforcement ensures that buildings and other structures built within the City are in compliance with the building code and that signs erected throughout the city comply with the sign code. The sign code requires the licensing of sign contractors as well as construction permits for new signs, operating permits for new and existing signs, and the impoundment and confiscation of signs found on the public rights-of-way.

**Exhibit 1** depicts the Department's organization.



**Exhibit 1  
Planning and Development Department**



Source: Planning & Development Department

**Cash-Handling Process**

In 1997, an accounting firm performed a review of Houston’s cash-handling procedures. The review contained a number of recommendations to strengthen and improve cash-handling controls and processes. The City used this report as the basis for A.P. 2-17, *Cash-Handling Policies & Procedures*. A.P. 2-17 standardizes policies and procedures related to collecting, safeguarding, depositing, and recording cash receipts throughout the City. The policy also outlines procedures for accepting and processing checks, money orders, and debit/credit cards. Each city department is responsible for implementing this policy within the context of its revenue-generating operations. Appendix 8.1 provides an overview of these policies and procedures.

The Planning and Development Department receives income from subdivision and development platting fees; construction plan application and review fees; sales of publications and ordinances; and sales of various inspection, building, and signage permits. As shown in **Exhibit 2**, 66 employees collect these fees through six collection points within the City.

Three collection sites are housed at 3300 Main: (1) Building Inspections, which includes the Plan Examining Division; (2) Development Services, which is a satellite collection site for 611 Walker; and (3) Sign Administration. These sites are referred to as 3300 Main-Building Inspections, 3300 Main-Development Services, and 3300 Main-Sign Administration in this report.

**Exhibit 2**  
**Planning and Development Department**  
**Revenue Collection Points**

Collection Point	Primary Revenue Source	Division	Cash Handlers
*3300 Main (Downtown Houston)	Construction and trade permits and inspections; Construction plan application and review.	Building Inspections	48
3300 Main (Downtown Houston)	Development plats	Development Services	5
3300 Main (Downtown Houston)	Sign permits	Sign Administration	8
611 Walker (Downtown Houston)	Subdivision plats, City maps, and related items	Development Services	1
3825 Dacoma (Satellite office in northwest Houston)	Construction and trade permits and inspections; Construction plan application and review.	Building Inspections	1
3915 Rustic Woods (Satellite office in Kingwood)	Residential trade permits	Building Inspections	3
<b>Total Cash Handlers</b>			<b>66</b>

Source: Planning and Development Department

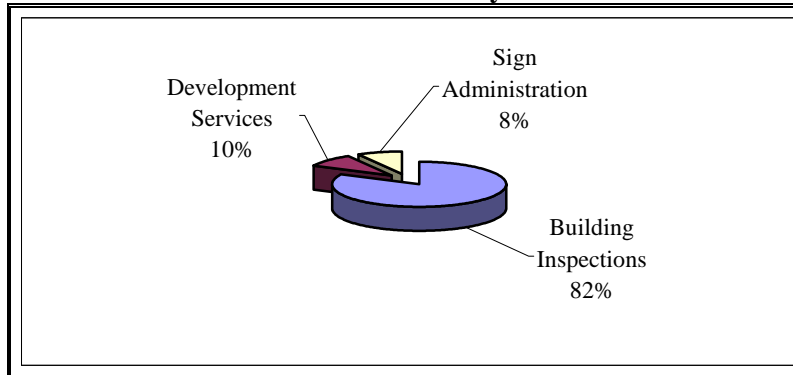
\* Includes the Plan Examining Division.

Three collection sites do not deposit their own collections. City employees at the Dacoma and Rustic Woods (Kingwood) locations collect and reconcile funds daily. The funds and reconciliation are picked up daily and delivered to 3300 Main, where they are included in the 3300 Main deposit. Development Services employees with offices at 3300 Main collect funds for development plats. Twice a week, an employee from 611 Walker picks up these funds, reconciles them to the receipts, and includes them in the 611 Walker deposit. An armored car service comes daily to 3300 Main and twice per week to 611 Walker to transport these deposits to the bank.

The Department uses the Integrated Land Management System (ILMS) to support its land-use management and permitting operations. ILMS is a land-use management and building permitting application that facilitates the review of land-use, building plans, and construction activity within the City to ensure compliance with local, state, and federal laws. The system has more than 700 online users. The information maintained on the system is available to these users 24 hours per day, 365 days per year.

Ninety percent of the Department’s fiscal 1998 revenues were generated from fees charged for building inspections and sign administration activity. **Exhibit 3** presents fiscal 1998 revenues by division. **Exhibit 4** presents actual revenues for fiscal year 1998 and budgeted revenues for fiscal years 1999 and 2000, by division. **Exhibit 5** presents historical trends for various performance and activity measures.

**Exhibit 3**  
**Planning and Development Department**  
**Fiscal 1998 Revenues by Division**



Source: City of Houston Budget

**Exhibit 4**  
**Planning and Development Department**  
**Revenues by Division**

Division	1998 Actual	1999 Budget	2000 Budget
Building Inspections	\$17,471,205	\$17,078,300	\$18,674,980
Development Services	\$2,037,289	\$1,878,427	\$2,245,538
Sign Administration	\$1,747,050	\$1,631,100	\$1,814,100
<b>Total</b>	<b>\$21,255,544</b>	<b>\$20,587,827</b>	<b>\$22,734,618</b>

Source: City of Houston Budget

**Exhibit 5**  
**Planning and Development Department**  
**Performance and Activity Measure Trends**

Activity Measure	Actual Fiscal 1997	Actual Fiscal 1998	Fiscal 1999 Year-to-Date*
Number of Permits Sold	108,591	119,100	93,969
Number of Permits Sold Online	192	3,053	8,353
Number of Days for Plan Review	8.38	7.61	7.75
Minutes per Inspection	31.77	32.03	36.05
Signs Collected from Rights-of-Way	64,437	81,289	81,189
Development Plats Reviewed	882	895	679
Subdivision Plats Reviewed	1,359	1,664	1,618
Plats Recorded	399	585	481

Source: Planning and Development Department

\*Through March 1999

**Fixed-Asset Inventory**

The City of Houston’s *Fixed Asset Management System Policies and Procedures Manual* (the policy) governs fixed-asset accounting for all City departments. The manual contains 17 policies and 14 procedures covering a variety of subjects related to fixed-asset recording, control, and management. The Finance and Administration Department is currently incorporating these policies and procedures, by reference, into the City’s Administrative Procedures manual. Appendices 8.2 and 8.3 provide a description of these policies and procedures.

The policy requires assets to be capitalized if their original cost is greater than \$5,000. Certain items with a value equal to or less than \$5,000 are not capitalized but are subject to control because of their sensitive, portable, or theft-prone nature. Such items include audiovisual equipment, communications equipment, handheld electronic devices, and computer equipment. Both capitalized and controlled assets are tracked on the City’s Government Fixed Asset Management System (GFAMS).

The Department’s fixed-asset inventory primarily consists of computers and computer-related equipment such as printers and scanners, communications equipment, audiovisual equipment, office furniture, and vehicles. **Exhibit 6** shows the Department’s fixed-asset activity from July 1, 1998 through March 31, 1999.

**Exhibit 6  
Planning and Development Fixed-asset Analysis  
July 1, 1998 through March 31, 1999**

<b>Division</b>	<b>Cost Basis 7/1/98</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Cost Basis 3/31/99</b>	<b>Net Book Value 3/31/99</b>	<b>Number of Assets 3/31/99</b>
Management Services	\$2,339,311	\$567	(\$213,100)	0	\$2,126,778	\$783,088	467
Development Services	451,130		(135,822)	0	315,308	42,430	140
Neighborhood Planning Services	199,329		(50,683)	0	148,646	9,888	72
Long-range Planning	470,366		(180,472)	0	289,894	43,059	108
<b>Total</b>	<b>\$3,460,136</b>	<b>\$567</b>	<b>(\$580,077)</b>	<b>\$0</b>	<b>\$2,880,626</b>	<b>\$878,465</b>	<b>787</b>

Source: Finance and Administration Department

**3.0 AUDIT OBJECTIVES**

**Cash-Handling Process**

The objectives of the cash-handling audit were to determine whether:

- Cash collection locations were in compliance with Administrative Procedure 2-17; and
- Cash-handling procedures and related internal controls were being strictly adhered to in an efficient and effective manner.

### ***Fixed-Asset Inventory***

The objectives of the fixed-asset inventory audit were to determine whether:

- The Department was in compliance with City and Department fixed-asset policies and procedures related to tracking and safeguarding assets;
- Fixed-asset reports were accurate and adequate;
- Procedures to transfer assets between Department divisions and City departments were operating effectively; and
- Methods to ensure the safeguarding of assets and assignment of accountability (custodianship) were in place and operating effectively.

## **4.0 AUDIT PROCEDURES**

### ***Cash-Handling Process***

To accomplish the audit objectives related to the Department's cash-handling process, MJLM employed the following procedures and techniques during April, May, and June 1999:

- Obtained an understanding of the City's cash-handling policies and procedures.
- Reviewed reports of citywide cash-handling audits conducted in 1997.
- Identified cash-collection sites and key staff with cash-handling responsibilities at those locations.
- Obtained an understanding of the types and volume of cash transactions processed at each collection site.
- Conducted interviews with key individuals with cash-processing responsibilities to obtain an in-depth understanding of internal controls over cash processing.
- Issued questionnaires to cash-handling clerks to test their knowledge of the City's cash-handling policies and procedures.
- Observed clerks as they processed transactions, noting whether or not they adhered to cash-handling procedures.
- Examined March and April 1999 daily cash reports and reconciliations.
- Examined the contents of bank deposits, insufficient fund check listings, armored car service bills of lading, cash-receipt vouchers, credit card income summaries, and other documentation to determine whether internal controls related to cash-handling and processing were in place and operating effectively.

### ***Fixed-Asset Inventory***

To accomplish the audit objectives related to the Department's fixed-asset inventory, MJLM employed the following procedures and techniques:

- Obtained an understanding of the City's fixed-asset policies and procedures.
- Interviewed the Department's Fixed Assets Coordinator (DFAC), Finance and Administration (F&A) staff responsible for oversight of the Department's fixed assets, and other staff with fixed-asset responsibilities to obtain an in-depth understanding of fixed-asset procedures.
- Reviewed documentation from the last physical inventory to determine compliance with fixed-asset inventory policies and procedures.
- Obtained a general understanding of the City's Government Fixed Asset Management System (GFAMS).
- Examined fixed-asset reports for accuracy and adequacy.
- Examined invoices, purchase orders, and other property records to determine the accuracy of fixed-asset reports and to determine if asset transfers and disposals were processed in accordance with City policy.
- Examined selected assets to verify their physical existence and to determine whether they were still in use.

## **5.0 AUDIT SCOPE AND METHODOLOGY**

### ***Cash-Handling Process***

In addition to performing audit procedures at each of the six collection sites, MJLM identified 130 specific requirements in the City's cash-handling policy and developed compliance-related questions from these requirements in order to test overall compliance with the policy. For example, the policy requires:

*“Cash collection sites accepting currency and coins should have... a secure location (i.e., a locked box or in a locked cabinet or closet whose access is controlled by a supervising cashier) to safeguard undeposited collections.”*

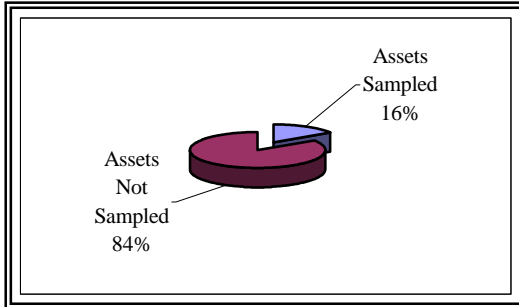
From this requirement, MJLM developed the question: “Does the collection site have a secured location (i.e., lock box, cabinet, closet, etc.) for undeposited collections to which a supervisor controls access?” Such questions were applied at each location with “yes” indicating compliance, “no” indicating noncompliance, or “N/A” indicating not applicable.

### ***Fixed-Asset Inventory***

MJLM obtained the Department's March 31, 1999 property listing and randomly selected 125 assets from a population of 787 assets. The net book value of these assets was \$575,718. Although the sample

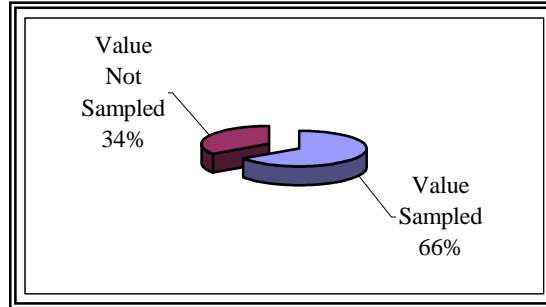
comprises only 16 percent of physical assets, it represents 66 percent of the net book value of fixed-assets in service as of March 31, 1997, as illustrated in **Exhibits 7 and 8**.

**Exhibit 7**  
**Summary of Assets Tested**



Source: MJLM Review Team

**Exhibit 8**  
**Summary of Net Book Value Tested**



Source: MJLM Review Team

MJLM applied specific audit procedures to the sample to determine the Department’s compliance with the City’s fixed-asset policies and procedures. Code Enforcement assets were excluded from the sample. At the Controller’s request, MJLM did not test these assets since they were still being tagged and inventoried at the time of review and had not been absorbed into the Department’s fixed-asset inventory.

MJLM grouped each of the City’s fixed-asset policies and procedures into one of the following four categories:

- Policies and procedures related to asset acquisitions.
- Policies and procedures related to the custodianship, accountability, and safeguarding of assets.
- Policies and procedures related to asset movement, control, and disposal.
- Policies and procedures related to reporting and records maintenance.

MJLM analyzed the policies and procedures in each category and developed 28 general questions from the categories. For example, a question from the asset acquisitions category was, “Based on the method of acquisition, was the proper value assigned to this asset?” Such questions were applied to each asset with “yes” indicating compliance, “no” indicating noncompliance, or “N/A” indicating not applicable.

**6.0 CONCLUSIONS**

**Cash-Handling Process**

Overall, the Department was in compliance with the City’s cash-handling policies and procedures during the review period. However, MJLM noted specific instances of noncompliance that are discussed in the Findings, Commendations, and Recommendations section of this report.

### ***Fixed-Asset Inventory***

Overall, the Department was in compliance with the City's fixed-asset policies and procedures related to the tracking and safeguarding of fixed assets during the review period, and fixed-asset reports were adequate and accurate. However, procedures to transfer assets between Department Divisions and other City Departments require strengthening to fully ensure the safeguarding of assets and proper assignment of accountability. Other specific instances of noncompliance are discussed in the Findings, Commendations, and Recommendations section of this report.

## **7.0 FINDINGS, COMMENDATIONS, AND RECOMMENDATIONS**

### ***Cash-Handling Process***

#### **FINDING**

The Department uses computer and communications technology to enhance customer service and strengthen internal controls over permit sales. Customers can apply for permits via fax or via computer using an online service named Online Permits. Online Permits allows customers to apply for permits using the Internet. The City of Houston subscribes to this service through a company that develops products and services for building and construction professionals worldwide. The service is one of the Department's first steps toward building an electronic marketplace based on the concept of less paper, faster, more efficient information exchange, better communication, and stronger financial controls.

Upon entering the website located at [www.onlinepermits.com](http://www.onlinepermits.com), the customer is welcomed and given the option to apply for a new permit, check the status of a permit application, or search for sold/approved permits. Several types of permit applications can be requested, including commercial and residential buildings, plumbing and fire sprinkling systems, electrical, and HVAC. New users must first set up a user profile, which consists of information automatically entered into the customer's permit application.

Customers may pay for permits purchased online either by credit card or through their Advanced Pay Account (APA). Permits applied for by fax may also be purchased through the APA. The APA is established with a minimum deposit of \$500.00 and allows customers to prepay their permit fees. The City monitors APA balances as permits are purchased. Once an online or faxed permit application is filed, the customer's account is debited for the permit amount and a copy of the permit is faxed to the customer while the original is mailed. Customers must replenish their APAs when their balance is reduced to \$150.00.

The ability to apply for and purchase permits via the Internet is a welcomed convenience for large-volume customers. As a result, the online service is growing rapidly in popularity. Online permit sales rose dramatically from 192 in fiscal 1997 to 3,053 in fiscal 1998, representing an increase of almost 1,500 percent.

#### **COMMENDATION**

**The Department enhances customer service and strengthens financial controls by enabling customers to apply for and purchase permits via fax and the Internet.**



**FINDING**

The City’s cash-handling policy requires collection sites that accept cash to mark \$100 bills with a counterfeit bill detector pen. The purpose of this requirement is obvious – to detect counterfeit currency. If the pen’s amber mark turns brown or black, the bill is suspect and must be turned over to the supervisor.

MJLM noted through observation that two of the six collection sites do not use the counterfeit pen consistently. In fact, one location does not have a counterfeit bill detector pen. A clerk at one of the sites told MJLM that failure to use the pen was due to their heavy workload. **Exhibit 9** presents those collection sites not in compliance with this requirement of the cash-handling policy.

**Exhibit 9  
Counterfeit Pen Compliance**

Collection site	Uses Pen	Does Not Use Pen Consistently
3300 Main-Development Services	Does not accept cash	
3300 Main-Building Inspections		☑
3300 Main-Sign Administration	☑	
611 Walker	No counterfeit marker pen	
3825 Dacoma		☑
3915 Rustic Woods-Kingwood	☑	

Source: MJLM

**Recommendation 1**

**Require collection sites to use a counterfeit bill detector pen to test the authenticity of \$100 bills.**

The Department should ensure that each collection site that accepts cash has an ample supply of counterfeit detector pens. Moreover, the Department should impress upon its cash-handling employees the importance of consistently testing the authenticity of \$100 bills.

**FINDING**

MJLM issued questionnaires to cash-receipt clerks at each collection site to test their knowledge of the procedures for accepting checks. Results were incomplete and inconsistent, revealing that cashiers may not be completely familiar with the policy’s requirements for accepting checks. For example, none of the respondents indicated that they ask for a customer’s driver’s license or that they write the license number on the check. Only five percent said they compare checks to the list of NSF checks before accepting them.

The cash-handling policy outlines procedures for accepting personal and business checks. Specifically, the policy requires that checks are:

- Written in ink not pencil.
- Written on preprinted drafts (i.e. not temporary checks).
- Payable to the “City of Houston.”
- Written only for the amount of payment (i.e., no cash back to the customer).
- Compared to the list of insufficient fund checks.
- Drawn on a United States bank.

In addition, the policy requires that cashiers request a picture I.D. for personal checks and that the I.D. number be written on the check. Moreover, checks are to be endorsed upon receipt. This requirement was not included on the questionnaire; however, we observed that cashiers do not endorse checks upon receipt.

**Exhibit 10** presents the percentage of respondents at each collection site who demonstrated knowledge of the policy’s requirements.

**Exhibit 10**  
**Percentage of Cashiers Demonstrating**  
**Knowledge of Check Acceptance Procedures**

Question:	What do you look for before accepting a check as payment?						
	1	3	1	4	28	5	42
Number of Respondents:	Dacoma	Kingwood	611 Walker	Development	Buildings	Signs	Combined
Written in ink	0%	0%	0%	0%	18%	20%	14%
Written on preprinted draft	0%	33%	0%	25%	43%	100%	45%
Payable to the “City of Houston”	0%	33%	100%	0%	29%	0%	24%
Written only for amount of payment	0%	33%	100%	75%	57%	0%	50%
Compare to the NSF check list	0%	0%	0%	0%	7%	0%	5%
Write ID number on the check	0%	0%	0%	0%	0%	0%	0%
Compare ID to check information	0%	0%	0%	0%	0%	0%	0%
Drawn on a U.S. bank	0%	0%	0%	0%	11%	0%	7%

Source: MJLM Questionnaire Responses

Unfamiliarity with check-acceptance provisions among cashiers is further supported by MJLM’s observations at the collection sites. **Exhibit 11** summarizes these observations.

**Exhibit 11**  
**Check-Acceptance Observations**

Collection Site	Observations
Dacoma	<ul style="list-style-type: none"> <li>Cashier did ask customers for I.D. for personal checks.</li> <li>Cashier did not review NSF list before accepting checks.</li> </ul>
Kingwood	<ul style="list-style-type: none"> <li>Cashier did ask customers for I.D. for personal checks.</li> <li>Cashier did not review NSF list before accepting checks.</li> </ul>
611 Walker	<ul style="list-style-type: none"> <li>Cashier did ask customers for I.D. for personal checks.</li> <li>Examined 89 check copies from the April 1999 deposits noting that the customer’s I.D. was missing on five checks. One check was not signed.</li> <li>Cashier did not review NSF list before accepting checks.</li> <li>Checks were placed in the safe and not endorsed until the deposit was prepared.</li> </ul>
3300 Main-Development Services	<ul style="list-style-type: none"> <li>Observed that cashier accepted checks without requiring I.D.</li> <li>Cashiers told MJLM that checks were accepted without requiring I.D. Cashiers began requesting I.D. after MJLM questioned this practice.</li> <li>Observed that checks were not endorsed upon receipt.</li> <li>Observed that cashiers did not receive a copy of the NSF list.</li> </ul>

**Exhibit 11 (Continued)  
Check-Acceptance Observations**

Collection Site	Observations
3300 Main-Building Inspections	<ul style="list-style-type: none"> <li>• Examined 211 checks from the 5/13/99 deposit noting that the customer’s driver’s license number was missing on one personal check and two money orders.</li> <li>• Examined 211 checks from the 5/13/99 deposit noting that three checks were not endorsed, one was not signed, and one had no payee.</li> <li>• Observed two cashiers who did not review NSF list before accepting checks.</li> <li>• Observed one clerk remove checks from the cash drawer to endorse them after they had been received.</li> <li>• Examined 10 checks from the 6/25/99 deposit noting that two checks were not endorsed.</li> </ul>
3300 Main-Sign Administration	<ul style="list-style-type: none"> <li>• Observed that a temporary business check was accepted on 5/12/99.</li> <li>• Observed that cashiers did not receive a NSF list.</li> <li>• Observed that checks were not endorsed upon receipt.</li> </ul>

Source: MJLM

**Recommendation 2**

**Conduct workshops with cashiers to review cash-handling policies and procedures, and require cashiers to record pertinent information on each check by completing an information box they rubber stamp on each check.**

The Department should schedule a half-day workshop with its cashiers to review cash-handling policies and procedures. Although each section of the policy should be reviewed, special emphasis should be placed on procedures for accepting personal and business checks. Moreover, the Department should require each cashier to stamp each check with a box containing information such as I.D. number and phone number, and a check box to indicate that the check has been reviewed for proper amount, signature, and other pertinent details.

**FINDING**

Two collection sites do not maintain adequate segregation of duties with respect to receiving and depositing collections. One of the basic doctrines of internal control is segregation of duties, which is accomplished by separating custodial and recordkeeping responsibilities for assets. For example, one employee should not be responsible for both collecting and recording cash to the cash-receipts journal.

MJLM noted at the 611 Walker collection site that an employee assumed the cash-handling duties of two employees who were on leave. As a result, the employee collected cash, reconciled the daily cash report, prepared the bank deposit, and prepared the deposit for pickup by the armored car service.

At the 3300 Main-Building Inspections collection site, MJLM observed a cashier accepting cash payments and later observed the same employee preparing the bank deposit. The employee, who at one time was solely responsible for preparing the bank deposit, is often called on to assist in preparing the deposit. However, since the employee is now responsible for cash collections, the duties are incompatible.

**Recommendation 3**

**Require adequate segregation of duties among clerks with cash-handling responsibilities.**

The Department should ensure that adequate segregation of duties is constantly maintained. Staff shortages often occur as employees take vacation, transfer to other positions, or change job responsibilities within the Department. Typically, duties and responsibilities shift. However, lapses in internal control caused by shifting duties and responsibilities can be avoided or eliminated through adequate planning.

**FINDING**

Three of the six collection sites do not have adequate follow-up procedures for insufficient fund checks (NSFs). The cash-handling policy outlines procedures for collecting NSFs. When the bank returns NSF checks to the City, they are forwarded to the originating departments, where they are entered into a returned check database or spreadsheet pending follow-up and collection. The issuer of the check receives a standard letter from the Department stating that the check was returned insufficient. The policy requires that copies of the form letter are kept on file and checked periodically. If no response is received within one week, a second notice is sent. If no response is received within two weeks, a third notice is sent. The objective of this provision is to establish adequate follow-up for NSF checks.

MJLM examined the NSF file at the 3300 Main-Building Inspections collection site and observed that the current status of insufficient checks was not being documented consistently. During follow-up interviews, the review team was told that the heavy workload precluded adequate follow-up on NSF checks. As of April 30, 1999, this collection site had 104 outstanding NSF checks with a value of \$18,758.12. These checks are summarized in **Exhibit 12**.

**Exhibit 12**  
**3300 Main-Building Inspections NSF Checks**

Collection site	Fiscal 1997 and Prior		Fiscal 1998		Fiscal 1999		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
3300 Main-Building Inspections	18	\$1,676.40	41	\$8,492.42	45	\$8,589.30	104	\$18,758.12

*Source: Building Inspections Division*

At 611 Walker, MJLM learned that second and third notices are not sent to customers with outstanding NSF checks. The Department’s policy is to suspend permit sales to customers with outstanding NSF checks and place their projects on hold until the NSF checks are honored. MJLM was told that the accountant responsible for NSF collection does not follow up with employees in Development Services, who are responsible for placing the holds, to ensure that they were placed. As a result, some projects remain active even though NSFs remain outstanding. **Exhibit 13** presents 611 Walker NSF checks outstanding as of June 4, 1999.

**Exhibit 13  
611 Walker  
NSF Checks Outstanding As of June 4, 1999**

Check Date	Check Amount
7/8/98	**\$250
1/19/99	**\$250
2/10/99	*\$250
11/14/97	\$250
3/22/99	\$150
11/25/97	**\$250
5/11/98	\$450
4/19/99	\$825
7/13/98	\$1,402
<b>Total</b>	<b>\$8,077</b>

*Source: Planning and Development 611 Walker*

*\* A hold was placed on this project on June 4, 1999.*

*\*\* Although NSF checks were outstanding, these projects remained active.*

**Recommendation 4**

**Strengthen follow-up procedures for insufficient fund checks, and ensure that permit sales are suspended for customers with outstanding insufficient fund checks.**

The Department should strengthen its NSF follow-up procedures for 3300 Main-Building Inspections and 611 Walker. Methods should be devised to periodically follow up on these checks. Suspending permit sales to customers with outstanding checks is an effective practice that should be supported throughout the Department and adequate follow-up done to ensure that the suspensions take effect.

**FINDING**

The cash-handling policy requires that a cashier’s check or money order replace NSF checks. The collection site sends a returned check form letter to the customer stating that the check was returned, the returned check fee, and the due date the check should be replaced. All collection sites except 3300 Main-Sign Administration inform the customer that a cashier’s check or money order must replace the NSF check.

**Recommendation 5**

**Revise the insufficient fund check form letter to include a statement indicating that the customer must replace the insufficient fund check with a cashier’s check or money order.**

To avoid confusion and time delays or the risk of receiving another NSF check, the 3300 Main-Sign Administration collection site should revise their returned check form letter.

**FINDING**

Three of the six collection sites do not accept credit cards. The credit card terminal at the Dacoma site needs to be repaired, the terminal in Kingwood needs to be connected, and 3300 Main-Sign

Administration does not have a terminal. Although the policy does not require collection sites to offer credit cards, the cards are a convenient payment option for customers that enhances customer service at these collection sites.

#### **Recommendation 6**

**Offer credit card services at the Dacoma, Kingwood, and 3300 Main-Sign Administration collection sites.**

The Department should repair the credit card terminal at the Dacoma site and connect the terminal at the Kingwood site. In addition, the Department should purchase a terminal for the 3300 Main-Sign Administration site. Once credit card services are available at these sites, the public should be notified through brochures and onsite bulletin boards.

#### **FINDING**

The cash-handling policy outlines procedures for using prenumbered receipt books to document collections when it is not practical to use a computer terminal or cash register. The policy requires that receipt books are physically secured and that access to them is limited to authorized personnel. All locations except Dacoma and Kingwood have prenumbered receipt books on hand. However, only two sites actually use prenumbered receipt books: 611 Walker and 3300 Main-Development Services. MJLM determined through inquiry and observation that receipt books at these collection sites were not being properly safeguarded. Instead they remained in open unlocked areas when not in use.

Access to receipts must be restricted since they represent evidence that a sales transaction has taken place. Unauthorized access to receipt books could result in forged sales receipts and fraudulent transactions.

#### **Recommendation 7**

**Provide physical security for prenumbered receipt books at 611 Walker and 3300 Main-Development Services, and control access to the secured location.**

The Department should ensure that prenumbered receipt books at these collection sites are secured in a safe or locked filing cabinet. Access to these secured locations should be restricted to authorized employees. In addition, the Department should provide Dacoma and Kingwood with prenumbered receipt books as a precautionary measure should the ILMS system go down.

#### **FINDING**

The cash-handling policy outlines procedures for documenting armored car pickup and transfer of deposits to the bank. Employees at 611 Walker and 3300 Main-Sign Administration keep a supply of prenumbered bill of lading forms on hand, which they complete before the armored car driver arrives. The policy requires that the bill of lading number be recorded on each deposit ticket. Employees summarize the deposit information on the bill of lading but do not record the bill of lading number on the deposit ticket, as required by the policy. As a result, no cross-reference is maintained between the deposit slip and the related bill of lading.

Furthermore, employees who pick up the deposit at the Dacoma and Kingwood satellite locations do not sign for the moneybag. Employees should sign for the moneybag to indicate the transfer of responsibility and accountability from the collection site to the courier.

**Recommendation 8**

**Require employees at 611 Walker and 3300 Main-Sign Administration to record the bill of lading number on the deposit ticket, and require couriers to sign for moneybags picked up at satellite locations.**

Employees who prepare deposits for armored car pickup should record the bill of lading number on the deposit slip as a cross-reference. Then it would be easier to locate the bill of lading in case of a discrepancy with the bank deposit. Moreover, city employees who pick up moneybags at satellite locations should sign a log showing information such as name, date, location, destination, and number of bags picked up.

**FINDING**

Change funds provide sufficient change for daily transaction processing. The policy outlines procedures for maintaining and reconciling these funds. They must be verified to the City Controller at the end of each calendar quarter, and surprise audits must be performed at least twice a year by independent administrative personnel within the division. Three of the six locations maintain change funds. Of these three, two did not verify change funds to the Controller each quarter during fiscal 1999 as required by the cash-handling policy, and only one had a surprise change fund audit. **Exhibit 14** presents a summary of the change fund audits conducted during fiscal 1999.

**Exhibit 14  
Fiscal 1999 Change Fund Audits**

Collection Site	Amount	Fiscal 1999 Quarterly Verification Dates				Surprise Audits
		Oct-98	Jan-99	Apr-99	Jul-99	
3300 Main-Building Inspections	\$3,000	●		●*		None
3300 Main-Sign Administration	\$100			●*		None
611 Walker	\$50	●	●	●		One

*Source: Collection Site Change Fund Audits*

*\* Actually performed in May 1999*

The Kingwood, Dacoma, and 3300 Main-Development Services locations do not have a change fund. The 3300 Main-Development Services location does not have a change fund because it does not accept cash.

**Recommendation 9**

**Enforce cash-handling policy provisions that require quarterly verification and biannual surprise audits of change funds, and consider providing change funds at all locations.**

The Department should enforce change fund audit policy provisions at those collection sites that are out of compliance, and closely monitor future compliance. In addition, as an enhancement to customer service, the Department should require all collection sites to accept cash and provide them with a minimal change fund.

**FINDING**

Periodically, the Department must submit a change order request to the bank. The purpose of these change orders is to convert large bills into smaller denominations, thereby providing sufficient change to facilitate daily sales transactions. The policy outlines procedures for ordering and receiving change through the armored car service. Upon delivery of the change order from the bank, a bundle count must be made in the presence of the armored car service representative. If the bundle count is correct, the armored car representative may leave, and the policy requires that the change fund be counted immediately.

MJLM noted that change funds are not counted at 3300 Main-Building Inspections after the armored car representative leaves, as required by the cash-handling policy.

**Recommendation 10**

**Count change-order cash immediately after the armored car service representative delivers the order and leaves, as required by the cash handling policy.**

Responsible employees at 3300 Main-Building Inspections should perform an immediate count of cash received in change orders to detect and correct discrepancies in the order.

***Fixed-Asset Inventory*****FINDING**

The Department takes full advantage of GFAMS technology to automate and expedite its fixed-asset inventory process. The Department affixes identification tags to capital and controllable assets upon receipt and places location tags in the door jam of every office and room. Cubicles adjoined by common panels form a single workstation. Location tags are affixed to the side of the light cabinet in one of the cubicles to identify the workstation as a single location. As the inventory takers enter a room or workstation, they use a handheld bar-code reader to scan the location code and the identification tags of each asset found at the location. Assets found at a location without a tag number are recorded manually on an inventory worksheet. After the inventory data is collected, it is automatically uploaded from the bar-code reader to GFAMS, where it is compared to current information in the fixed-asset database. GFAMS produces an exception report that shows assets found at the wrong location, assets found during inventory that are not in GFAMS, and assets in GFAMS that were not found during inventory. Those responsible for fixed assets use these reports to reconcile fixed-asset inventory and to make required adjustments.

**COMMENDATION**

**The Department uses available bar-code technology to automate and streamline the fixed-asset inventory process.**

**FINDING**

The Department is not in compliance with City policies and procedures related to the transfer of fixed assets. Policy 15, “*Transfer of Fixed Assets*,” requires that transfers be properly accounted for whether they are between departments or between divisions within departments. The purpose of this policy is to



provide timely reporting of fixed-asset transfers to ensure accountability, custodial responsibility, and accurate records. Procedure 9, “*Transfers of Fixed Assets*,” requires:

*“When an active asset in the possession of a City department or department organization unit (division; section) **changes custodial responsibility or is physically moved** from one location to another, a ‘transfer’ transaction shall be recorded in the GFAMS.”*

No fixed assets were transferred out of the Department during 1998-99. All transfers during the year involved assets transferred into the Department or among divisions within the Department. However, the Department did not record these transfers as they occurred, as required by the fixed-asset policy. The Department’s practice is to wait until the year-end inventory to account for assets that have moved during the year. When inventory is reconciled, these assets show up as location exceptions in GFAMS and are assigned new location codes based on where they were found during inventory. For example, in September 1998, the Public Works and Engineering Department transferred 43 computers to Planning and Development. Rather than recording the transfer immediately, the Department added the computers to GFAMS in June 1999, after the inventory. This practice, though more expedient than recording transfers in GFAMS as they occur, defeats the purpose of the transfer policy: *“to provide timely reporting of fixed asset transfers to ensure custodial responsibility, accountability, and the maintenance of accurate fixed asset records.”*

#### **Recommendation 11**

**Eliminate the practice of identifying asset transfers as inventory exceptions, and record the transfers as they occur.**

The risk that assets may be lost or stolen increases when transfers are recorded only once a year. Moreover, accountability and custodial responsibility are temporarily lost because transfers are not recorded promptly. The Department should immediately record assets that are transferred into the Department and impress upon appropriate employees the importance of completing proper forms and notifying the Department’s Fixed Asset Coordinator (DFAC) whenever assets move between divisions.

#### **FINDING**

For the past three years, the Department has been using three Digital Vaxstation 4000 VLC workstations that belong to the Public Works and Engineering Department. This equipment is used to run the Department’s Geographic Information System, which is a database of the City’s geographic, demographic, and land-use features. Public Works uses the same system but does not have a need for this particular equipment because their present system is a newer version. Since Planning and Development still uses the older version, Public Works agreed to loan them the workstations indefinitely.

The Department does not include the workstations in their annual inventory and is unsure whether or not Public Works does. As a result, responsibility for this equipment is divided. Public Works has recorded accountability for these workstations while Planning and Development has custodial responsibility. But, it is unclear which department is ultimately responsible for safeguarding this equipment since no formal agreement exists between the departments.

The City’s fixed-asset policy does not contain any provision for borrowing and loaning assets between departments. A GFAMS transfer is required when an asset changes organizational responsibility or is physically moved from one department to another. The effect of this policy is to fix both recorded and custodial accountability in one department, thereby avoiding confusion and questions about ultimate responsibility.

**Recommendation 12**

**Coordinate with the Public Works and Engineering Department to transfer the Digital Vaxstation 4000 VLC workstations from the Public Works and Engineering Department to the Planning and Development Department.**

Since it is clear that Public Works no longer has a need for these workstations, the Department should assume full responsibility for them and arrange to have them formally transferred. Once they have been transferred, the workstations should be tagged, assigned a location and custodian, and included in the Department's GFAMS inventory.

**FINDING**

In October 1998, the City converted from the Advanced Purchasing and Inventory Control System (ADPICS) to the Advantage 2000 system to integrate the City's core business systems for purchasing, personnel, payroll, financial transactions, and reporting. The ADPICS system generated a monthly report titled the Posted Receiving Report, which F&A distributed to all departmental fixed-asset coordinators. This report identified fixed assets purchased during the month that had not been entered into GFAMS. It served as an internal control to assist departments in capturing all fixed-asset purchases for entry into GFAMS. This report is not available with Advantage 2000. Although the report is not required by the fixed asset policy, the DFAC told the review team that the report was a valuable control that should be made available with Advantage 2000.

**Recommendation 13**

**Confer with the Information Systems division of Finance and Administration to make program modifications to Advantage 2000 so that a report similar to ADPIC's Posted Receiving Report can be generated.**

The Posted Receiving Report was a valuable control tool that should not have been eliminated when the City converted from ADPICS to Advantage 2000. Although the Department is not in violation of the policy for not using a report that is no longer available, the Department should confer with Information Systems to modify Advantage 2000 so that it generates a report comparable to the Posted Receiving Report.

**FINDING**

MJLM randomly selected 20 assets disposed of in fiscal 1999 to determine if they had been disposed of in accordance with the policy. The disposal policy provides that City assets may be disposed through the Surplus and Salvage Division of F&A, through department-conducted auctions, or through inter-departmental transfers. The Department disposed 18 of the assets in the sample through Surplus and Salvage and reported two as lost or stolen. As required by policy, the Department filed a police report for the lost/stolen assets.

Three forms must be completed when assets are disposed to Surplus and Salvage. **Exhibit 15** provides a description of each form.

**Exhibit 15**  
**Forms Required to Dispose Assets to Surplus and Salvage**

Form Name	Description
Request for Transfer of City Owned Items (Form F&A 097)	Describes the items to be disposed, location, fixed-asset number, date purchased, cost, and condition. The Department Director must approve.
Capitalization Form-Disposal/Transfers/Mass Updates-(Form FA-2)	Completed once items are approved for disposal. Used as the GFAMS input document to place the asset in disposed status on the department's GFAMS.
Transfer Summary Form	A GFAMS report showing departmental assets in disposed status. The sending department provides this summary upon disposal so that Surplus and Salvage can enter information about the disposed assets into its GFAMS.

*Source: City of Houston's Fixed-Asset Policies and Procedures Manual*

Upon delivery of disposed assets to Surplus and Salvage, a Surplus and Salvage employee signs Form F&A 097 indicating receipt of the property. City policy requires that the DFAC obtain a copy of the signed and dated F&A 097 as evidence that Surplus and Salvage received the property.

MJLM noted that the DFAC did not retain signed and dated copies of Form F&A 097 for the assets in the sample. Prior to requesting Form F&A 097 directly from Surplus and Salvage upon our request, the DFAC did not have independent verification that Surplus and Salvage had actually received the disposed assets.

**Recommendation 14**

**Retain signed and dated copies of Form F&A 097, Request for Transfer of City Owned Items, when disposed assets are transferred to Surplus and Salvage.**

If the DFAC does not obtain signed and dated copies of Form F&A 097 when assets are disposed to Surplus and Salvage, the Department will have no independent verification that Surplus and Salvage actually received the property. The DFAC should obtain signed and dated copies of Form F&A 097 and retain them in the Department's files.

**FINDING**

The Department does not file timely police reports for fixed assets discovered missing during the annual inventory. When an asset is not found during inventory, Procedure 11, *Physical Inventory*, requires the DFAC to attempt to locate it in another City department by reviewing the citywide "Missing Asset Report." If the asset is not located within 30 days, Procedure 10, *Retirement and Disposal*, requires the DFAC to file a police report.

The Department did not file timely police reports for eight assets in our sample. Two were discovered missing during the 1997 inventory, and six were discovered missing during the 1998 inventory.

**Exhibit 16** summarizes assets for which the Department filed late police reports.

**Exhibit 16  
Late Police Reports**

<b>Asset Number</b>	<b>Description</b>	<b>Date Discovered Missing</b>	<b>Date Police Report Should Have Been Filed</b>	<b>Date Report Filed</b>	<b>Months Late</b>
G004549	System computer with monitor	June 1997	August 1997	August 1998	12
G021658	35 mm camera with case	June 1997	August 1997	August 1998	12
G004026	Wang system computer with monitor	June 1998	August 1998	Not filed as of May 1999	10 as of May 1999
G004028	Wang PC280 with color monitor	June 1998	August 1998	Not filed as of May 1999	10 as of May 1999
G004029	IBM 5150 computer with monitor	June 1998	August 1998	Not filed as of May 1999	10 as of May 1999
G004030	IBM 5150 computer with monitor	June 1998	August 1998	Not filed as of May 1999	10 as of May 1999
G004031	IBM 5150 computer with monitor	June 1998	August 1998	Not filed as of May 1999	10 as of May 1999
G004095	Epson Equity 386 with monitor	June 1998	August 1998	Not filed as of May 1999	10 as of May 1999

Source: MJLM Review Team

**Recommendation 15**

**File a police report within 30 days after an asset is discovered missing during the annual fixed-asset inventory.**

The Department should immediately file police reports for those assets shown in **Exhibit 16** that were discovered missing in June 1998. In addition, if the search for assets discovered missing during the 1998-99 inventory proves unsuccessful after 30 days, the Department should file police reports.

**FINDING**

Procedure 3, *Numbering and Tagging Fixed Assets*, requires the DFAC to document asset receiving and tagging responsibilities for the department and provide a copy of the assigned responsibilities to F&A’s Material Management Division (MMD). Recently, the Department reorganized its receiving function and reassigned responsibility for tagging fixed assets from the DFAC to the central receiving clerk. MMD was not notified of this change, as required by the fixed-asset policy. With the addition of Code Enforcement assets to the Department, responsibilities for fixed-asset receiving and tagging will require another review and may require revision.

**Recommendation 16**

**Document departmental receiving and tagging responsibilities, and provide a copy of the documentation to Finance and Administration’s Material Management Division.**

The Department should document its receiving and tagging responsibilities, particularly since the addition of Code Enforcement assets will add more than 700 pieces of equipment and 197 vehicles.

**FINDING**

The Department does not track and cannot identify individual modular workstations during the physical inventory. Procedure #2 section I.C. of the policy lists modular workstations as an example of an asset system. The policy defines and describes general characteristics of asset systems and explains how such assets are to be recorded on GFAMS.

Although the Department has recorded workstations on GFAMS, MJLM could not physically locate these workstations because they have lost their separate identity. In fact, the cost of some workstations has been consolidated on GFAMS into one amount totaling \$299,636.

Typically, workstation panels are dismantled, interchanged, and reassembled when changes occur in cubicle configurations or when departments move to another building or floor. Consequently, workstations tend to lose their individual identity making them difficult to track and impossible to find using the fixed asset tag number.

In May 1997, the City’s external auditors responded to a question posed by F&A’s Asset Management Group regarding whether modular workstations must be tagged and inventoried as part of the annual inventory. The auditors reasoned that removal of these assets from GFAMS would not materially affect the City’s financial statements based on the value of modular workstations citywide. They believed sound the proposal to exclude workstations from inventory and remove them from the fixed-asset system.

However, the City has not adopted a policy to exclude workstations from inventory or to remove them from GFAMS. Until such a policy is adopted, the Department should comply with the existing policy, which requires City departments to account for modular workstations as asset systems and include them in the annual inventory.

As of March 31, 1999, the net book value of these workstations comprised 31 percent of the net book value of the Department’s fixed-assets. **Exhibit 17** presents a summary of these workstations.

**Exhibit 17  
Modular Workstations**

Asset #	Description	Cost	Book Value
4699	1-person workstation	\$4,726	\$1,865
4739	2-person workstation	\$8,725	\$3,443
4740	2-person workstation	\$7,816	\$3,084
4742	1-person workstation	\$3,454	\$1,363
4743	3-person workstation	\$12,360	\$4,878
4744	1-person workstation	\$3,726	\$1,471
4746	2-person workstation	\$8,997	\$3,551
4270	4-person workstation	\$13,541	\$5,344
4271	4-person workstation	\$13,996	\$5,523

**Exhibit 17 (Continued)  
Modular Workstations**

Asset #	Description	Cost	Book Value
4303	2-person workstation	\$2,272	\$897
4340	2-person workstation	\$5,907	\$2,331
4367	2-person workstation	\$7,271	\$2,869
4368	4-person workstation	\$12,633	\$4,985
4369	4-person workstation	\$12,451	\$4,914
4370	3-person workstation	\$4,726	\$1,865
4443	2-person workstation	\$7,271	\$2,869
4444	4-person workstation	\$13,178	\$5,201
21724	Modular Partitions	\$299,636	\$217,236
<b>Total</b>		<b>\$442,684.72</b>	<b>\$273,689.43</b>

Source: MJLM Review Team

**Recommendation 17**

**Identify, track, and inventory modular workstations as required by the fixed asset policy or confer with Finance and Administration to adopt a policy to exclude workstations from the annual inventory and GFAMS.**

The Department should comply with the City’s fixed asset policy and begin tracking and inventorying modular workstations. However, if the Department believes that the cost outweighs the benefits, since workstations are constantly disassembled, rearranged, and reassembled and easily lose their identity, it should confer with F&A to adopt a policy to exclude workstations from the annual inventory and remove their cost from GFAMS.

## 8.0 APPENDICES

### Appendix 8.1

#### Description of Cash-Handling Policies

Policy Section	Description
Accepting Currency and Coins	Outlines the procedure for accepting currency and coins as payment.
Accepting Personal Checks	Outlines the procedure for accepting personal checks as payment.
Accepting Business Checks	Outlines the procedure for accepting business checks as payment.
Accepting Money Orders, Cashier, and Travelers Checks	Outlines the procedure for accepting money orders, cashier checks, and travelers' checks for payment.
Accepting Debit/Credit Cards	Outlines procedures for accepting, processing, and reporting debit/credit card transactions for payment.
Receipt Books	Outlines the procedure for using prenumbered receipt books to document collections where it is not practical to use a cash register.
Customer Refunds	Outlines the procedure for issuing customer refunds when the customer is present.
Mail-In Requests for Customer Refunds	Outlines the procedure for issuing refunds to customers as a result of a mail-in payment exceeding the actual balance owed to the customer.
Daily Cash Reconciliation – Cashier	Outlines procedures for daily close out of the cash collection report process and the daily cash reconciliation.
Daily Cash Reconciliation – Senior Cashier	Outlines procedures for daily closeout of the cash collection process and daily cash reconciliation for the senior cashier.
Deposit Preparation	Outlines procedures for preparing the deposit and cash receipt forms.
Change Fund	Outlines procedures for maintaining and reconciling change funds.
Change Order	Outlines the procedure for processing change fund orders.
Armored Car Services – Deposit Pickup and Transfer	Outlines the procedure for documenting the armored car pick-up and transfer of deposits to the bank.
Armored Car Services – Change Order Procedures	Outlines the procedure for ordering and receiving change through armored messenger services.
Insufficient Funds Check Collection	Outlines the procedure for collecting payments and service fees on insufficient fund checks.
Surprise Audit of Change Funds	Outlines the procedure for a periodic, unscheduled audit of change funds.
Incorrect Change	Outlines the procedure for handling a claim of incorrect change.
Independent Verification of Cash Receipts and FMS Postings, including Balance Sheet Accounts	Outlines the procedure for ensuring that a department's cash receipts are timely and accurately deposited in the City's bank account and properly recorded in the appropriate City FMS account records.

Appendix 8.2

**Description of Fixed-Asset Policies**

<b>Policy Number</b>	<b>Policy Title</b>	<b>Description</b>
1	Organizational Responsibilities for Fixed Assets	Establishes the organizational roles and responsibilities of City departments and managers for fixed-asset management, control, accounting, and record keeping.
2	Fixed Asset Capitalization	Establishes the definition of fixed assets and the guidelines for their capitalization.
3	Fixed Asset Classification and Useful Lives	Establishes a structure for the classification of fixed assets and their associated useful lives.
4	Asset Systems	Establishes standards for distinguishing individual property units from asset systems.
5	Depreciation	Establishes policy guidelines for the depreciation of fixed assets and the accounting methods to be used.
6	Acquisitions Through Purchase	Documents the policy for recording the acquisition of a fixed asset through purchase.
7	Acquisition of Fixed Assets through Donation, Condemnation, or Eminent Domain	Establishes the policy for recording donated fixed assets and for acquiring fixed assets through eminent domain, condemnation, or tax foreclosure.
8	Capital Leases	Establishes standards for leases, which are required to be capitalized in accordance with FASB Statement 13.
9	Improvement and Betterment	Documents the standards for capitalizing or expending costs of improvements, betterments, and maintenance of existing assets.
10	Constructed Assets	Establishes policies related to accounting for capital outlays associated with constructed assets.
11	Grant Funded Assets	Outlines the special requirements imposed on fixed assets acquired in whole or in part through federal grant revenues.
12	Retirement and Disposal of Fixed Assets	Governs the removal of a fixed asset or controlled asset from the custodian department's records and accounts for the resulting gain/loss.
13	Assets and Tagging Fixed Assets	Ensures that capital and controlled assets are assigned asset numbers and are issued a fixed-asset tag for inventorying purposes.
14	Physical Inventory	Ensures the accuracy of departmental fixed-asset records and enforces the existing City ordinances requiring the reporting of annual fixed-asset inventories.
15	Transfer of Fixed Assets	Provides timely reporting of fixed-asset transfers to ensure custodial responsibility, accountability, and the maintenance of accurate fixed-asset records.
16	CAFR Reporting	Establishes guidelines for reporting fixed-asset information to assist in the preparation of the City's Comprehensive Financial Report (CAFR).
17	Records Maintenance	Defines the guidelines for maintenance, retention, and disposition of fixed-asset records.



Appendix 8.3

**Description of Fixed-Asset Procedures**

<b>Procedure Number</b>	<b>Procedure Title</b>	<b>Description</b>
1	Asset Valuation	Defines the methodology and organizational responsibilities for establishing total fixed-asset acquisition costs.
2	Asset Systems	Establishes the methodology for distinguishing asset systems from individual property units and establishing records for this type of asset.
2a	Controllable Assets	Establishes a standard list of commonly purchased items that do not meet the City’s capitalization policy, but are still assigned asset numbers and tracked in GFAMS in the same manner as other capitalized assets for control purposes.
2b	Asset Classes and Useful Lives	Identifies the standard asset classifications and associated useful lives to be used for recording assets and calculating depreciation in the GFAMS.
3	Numbering and Tagging Fixed Assets	Ensures that all capital and controlled assets are assigned asset numbers and issued a fixed-asset tag for identification and inventory purposes.
4	Acquisition Through Purchase	Establishes the methodology for capitalizing and recording fixed assets acquired through purchases from outside suppliers.
5	Acquisition Through Eminent Domain, Donation Confiscation, or Foreclosure	Establishes a methodology for valuing and recording fixed assets acquired through donation, confiscation, condemnation, eminent domain, or tax foreclosure.
6	Constructed Assets	Establishes a methodology for accumulating costs associated with construction projects and reporting these to the Controller’s Office and departments for recording in the GFAMS.
7	Improvements and Betterments	Establishes procedures for recording and accounting for costs of improvements, betterments, and maintenance expenditures to existing capitalized assets.
8	Depreciation	Establishes the methodology for calculating and recording depreciation of fixed assets.
9	Transfers of Fixed Assets	Establishes a methodology for transferring fixed assets between organizational units or physical locations within a City department or between different City departments.
10	Retirement and Disposal	Establishes the methodology for processing and recording retirements and dispositions of capital and controlled assets.
11	Physical Inventory	Establishes the methodology for conducting and reporting the periodic physical inventory of departmental fixed assets.
12	Period End Procedures	Establishes period end processing procedures and reporting requirements for the GFAMS.

# EXHIBIT 1



## CITY OF HOUSTON

Planning and Development Department  
Post Office Box 1562 Houston, Texas 77251 713/837-7701

Lee P. Brown, Mayor

CITY COUNCIL MEMBERS: Bruce Yates Michael J. Yarbrough Martha J. Wong Jew Don Bonev, Jr. Rob Todd Ray F. Driscoll Jean Kelley Felix Fraga  
John E. Castillo Annise D. Parker Joe Roach Orlando Sanchez Chris Bell Carroll G. Robinson CITY CONTROLLER: Sylvia R. Garcia

November 18, 1999

Ira Wayne McConnell  
Managing Partner  
McConnell, Jones, Lanier & Murphy  
11 Greenway Plaza, Suite 2902  
Houston, Texas 77046

Dear Mr. McConnell:

This letter is in response to the compliance audits of the cash-handling process and fixed-asset inventory of the Planning and Development Department. We have reviewed the final report and responses are as follows:

**Finding 1.**

The City's cash-handling policy requires collection sites that accept cash to mark \$100 bills with a counterfeit bill detector pen.

**Department Response:**

All employees of the department who handle cash have been issued a counterfeit bill detector pen. Emphasis was placed in previous training sessions concerning the policy requirement in using the pens and will be re-emphasized in future training sessions.

**Finding 2.**

MJLM issued questionnaires to cash-receipt clerks at each collection site to test their knowledge of the procedures for accepting checks. Results were incomplete and inconsistent, revealing that cashiers may not be completely familiar with the policy's requirements for accepting checks.

**Department Response:**

The Department has issued a copy of the cash policy to all cashiers, posted visual aids for cash handling and established training and review procedures for all cash handlers.

**Finding 3.**

Two collection sites do not maintain adequate segregation of duties with respect to receiving and depositing collections.

**Department Response:**

The 611 Walker collection site employee collected the cash and prepared the daily cash reconciliation, while another employee verified the daily cash reconciliation. The policy states that the cashier prepares

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the daily cash reconciliation and that a Senior Cashier reconciles it. There was no policy violation. During a staffing shortage due to emergency health problems, the deposit duties were not segregated. The department will ensure that segregation of duties is maintained for the deposits being prepared.

At the 3300 Main collection site, the responsibility of the cash reconciliation and preparing the bank deposit has been transferred to the Resource Support Service Section of Code Enforcement and is no longer a part of the Permit Section that is responsible for the collection of cash.

Finding 4.

Three of the six collection sites do not have adequate follow-up procedures for insufficient fund checks (NSFs).

Department Response:

NSF notices usually come after the platting process. The Department has developed procedures Services Section to handle NSFs on development plats and subdivision plats. Follow-up will be done after the NSF notices are sent. Permits and recordation will not be released until all fees are paid.

It is the City of Houston's intention to obtain a contract providing verification of checks and the collection of insufficient fund checks to assist the cash -handling departments. We have requested to be a part of this contract.

Finding 5:

The cash-handling policy requires that a cashier's check or money order replace NSF checks.

Department Response:

The Department advises customers that a cashier's check or money order is the means of replacing an insufficient fund check. However, we have revised our written form letter to reflect this information.

Finding 6:

Three of six collection sites do not accept credit cards.

Department Response:

This Department does not agree that a recommendation by the auditors for credit card services can be a finding. There is no City policy requiring provision of credit card services; however, Code Enforcement has established the ability at the Dacoma office to provide credit card services. We will establish the same services at Kingwood and 3300 Main – Sign Administration in the near future.

Finding 7:

The cash-handling policy outlines procedures for using pre-numbered receipt books to document collections when it is not practical to use a computer terminal or cash register. The policy requires that receipt books are physically secured and that access to them is limited to authorized personnel.

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**Department Response:**

The Department will ensure that pre-numbered receipt books are secured in a safe or locked filing cabinet.

**Finding 8:**

The cash-handling policy outlines procedures for documenting armored car pickup and transfer of deposits to the bank. The policy requires that the bill of lading number be recorded on each deposit ticket. Employees summarize the deposit information on the bill of lading but do not record the bill of lading number on the deposit ticket, as required by policy. As a result, no cross-reference is maintained between the deposit slip and the related bill of lading.

**Department Response:**

Employees at 611 Walker cross-reference the money bag number and cash receipt number on the daily cash report and on the copy of the cash receipt. The bill of lading number will be written on all deposit tickets to comply with City policy.

Code Enforcement has given instruction to 3300 Main-Sign Administration to record the bill of lading number on the deposit ticket along with the money bag number. We will establish a signature log for the couriers to sign when picking up moneybags at the satellite locations.

**Finding 9:**

Change funds provide sufficient change for daily transaction processing. The policy outlines procedures for maintaining and reconciling these funds. They must be verified to the City Controller at the end of each calendar quarter, and surprise audits must be performed at least twice a year by independent administrative personnel with the division.

**Department Response:**

The Department is currently performing quarterly audits and biannual surprise audits on all change funds. We are considering the benefits of establishing change funds at our satellite offices.

**Finding 10:**

The Department must submit a change order request to the bank. The purpose of these change orders is to convert large bills into smaller denominations, thereby providing sufficient change to facilitate daily sales transactions. The policy outlines procedures for ordering and receiving change through the armored car service. Upon delivery of the change order from the bank, a bundle count must be made in the presence of the armored car representative. If the bundle count is correct, the armored car representative may leave, and the policy requires that the change fund be counted immediately.

**Department Response:**

The Department has given instruction that this is the policy/procedure and should be followed at all times.

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**Finding 11:**

The Department was not in compliance with City policies and procedures related to the transfer of fixed assets. "Transfer of Fixed Asset." requires that transfers be properly accounted for whether they are between departments or between divisions within departments.

**Department Response:**

The Department will develop procedures to ensure that assets are recorded as they are transferred.

**Finding 12:**

The Department has been using three Digital Vaxstation 4000 VLC workstations that belong to the Public Works and Engineering Department. This equipment is used to run the Department's Geographic Information System, which is a database of the City's geographic, demographic, and land-use features. Public Works agreed to loan them the workstations indefinitely.

The Department does not include the workstations in their annual inventory and is unsure whether or not Public Work does. The City's fixed-asset policy does not contain any provision for borrowing and loaning assets between departments.

**Department Response:**

This Department will work with Public Works and Engineering to resolve this issue.

**Finding 13:**

In October 1998, the City converted from the Advanced Purchasing and Inventory Control System (ADPICS) to the Advantage 2000 system to integrate the City's core business systems for purchasing, personnel, payroll, financial transactions, and reporting. THE ADPICS system generated a monthly report titled the Posted Receiving Reports, which F&A distributed to all departmental fixed-asset coordinators.

This report identified fixed assets purchased during the month that had not been entered into GFAMS. It served as an internal control to assist departments in capturing all fixed-asset purchases for entry into GFAMS. This report is not available with Advantage 2000. The DFAC told the review team that the report was a valuable control that should be made available with Advantage 2000.

**Department Response:**

This Department does not agree that the auditors' recommendation about a report that is neither required by policy nor produced by this department can be a finding for this department. We have requested and inquired about the report and since that time have received it.

**Finding 14:**

MJLM randomly selected 20 assets disposed of in fiscal 1999 to determine if they had been disposed of in accordance with the policy. The disposal policy provides that City assets may be disposed through the Surplus and Salvage Division of F&A, through department-conducted auctions, or through interdepartmental transfers. The Department disposed 18 of the assets in the sample through Salvage and reported two as lost or stolen. As required by policy, the Department filed a police report for the lost/stolen assets.

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Upon delivery of disposed assets to Surplus and Salvage, a Surplus and Salvage employee signs Form F&A 097 indicating receipt of the property. City policy requires that the DFAC obtain a copy of the signed and dated F&A 097 as evidence that Surplus and Salvage received the property.

MJLM noted that the DFAC did not retain signed and dated copies of Form F&A 097 for the assets in the sample. Prior to requesting Form F&A 097 directly from Surplus and Salvage upon our request, the DFAC did not have independent verification that Surplus and Salvage had actually received the disposed assets.

**Department Response:**

The Department will comply with City policy and ensure that all F&A097 forms are signed upon assets being processed to Surplus and Salvage.

**Finding 15:**

The Department does not file timely police reports for fixed assets discovered missing during the annual inventory.

**Department Response:**

The Department will comply with City policy.

**Finding 16:**

Procedure 3, Numbering and Tagging Fixed Assets, requires the DFAC to document asset receiving and tagging responsibilities for the department and provide a copy of the assigned responsibilities to F&A's Material Management Division (MMD). Recently, the Department reorganized its receiving function and reassigned responsibility for tagging fixed assets from the DFAC to the central receiving clerk. MMD was not notified of this change, as required by the fixed-asset policy. With the addition of Code Enforcement assets to the department, responsibilities for fixed-asset receiving and tagging will require another review and may require revision.

**Department Response:**

The Department will comply with City policy.

**Finding 17:**

The Department does not track and cannot identify individual modular workstations during the physical inventory. Procedure #2 I.C. of the policy lists modular workstations as an example of an asset system. The policy defines and describes general characteristics of asset systems and explains how such assets are to be recorded on GFAMS.

**Department Response:**

Workstations were entered into GFAMS by the consultants who originated the GFAMS inventory. They were not purchased by this department, were never owned by this department and were disposed of by Public Works when the department moved from 1801 Main Street. The workstations were disassembled and reassembled as needed for parts at 1801 Main and were never tracked as an asset. This has been discussed with Finance and Administration who has been unable to resolve the issue.

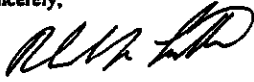
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If you have any questions or comments regarding the responses, please contact Marcia Wilson at (713)837-7732.

Sincerely,



Robert M. Litke  
Director

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