

OFFICE OF THE CITY CONTROLLER



HOUSTON FIRE DEPARTMENT

FIRE PERMITS DIVISION

CASH HANDLING PROCEDURES AUDIT

Annise D. Parker, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

April 28, 2004

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Houston Fire Department – Fire Permits Division
Cash Handling Procedures Audit (Report No. 04-08)

Dear Mayor White:

The City Controller's Office Audit Division has completed an audit of the Houston Fire Department's Fire Permits Division (Department) cash handling procedures for the period of July 1, 2002 through December 23, 2003. The audit's objective was to assist management with the assessment of the adequacy of internal controls related to the overall cash handling process. Additionally, the audit evaluated compliance with the Department's compliance with the City's Cash Handling Policies and Procedures (AP 2-17).

The report, attached for your review, concludes that internal controls over the cash handling procedures at the Department 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 noted in the report. The findings and recommendations are presented in the body of the report and the views of responsible officials as to actions taken are appended to the report as Exhibit I.

We commend the Department for initiating several of our recommendations prior to completion of the audit. We also appreciate the cooperation extended to our auditors by Department personnel during the course of the work.

Respectfully submitted,

Annise D. Parker
City Controller

xc: City Council Members
Anthony Hall, Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Hector Trevino, Acting Fire Chief, Houston Fire Department
Judy Gray Johnson, Director, Finance and Administration Department

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SCOPE AND PURPOSE

We have completed an audit of the cash handling procedures at the Fire Permits Division for the period of July 1, 2002 through December 23, 2003. The audit's objective was to assist management with the assessment of the adequacy of internal controls related to the overall cash handling process. In addition, the audit evaluated compliance with the City's Cash Handling Policies and Procedures (AP 2-17).

The scope of our work did not constitute an evaluation of the overall internal control structure of the Department. Our examination was designed to evaluate procedures and internal controls related to the City's cash handling procedures, test for compliance therewith and provide recommendations for improvement where appropriate. This audit was 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 disposition, 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 in a timely fashion. 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 Fire Permits Division 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



Ebenezer Robinson
Auditor-in-charge



Kenneth Teer
Audit Manager



Steve Schoonover
City Auditor

INTRODUCTION

The Houston Fire Department's Permits Division is located on the 1st floor at 1205 Dart Street. The Division receives remittances made by commercial enterprises for fire permits. The Fire Permits Division is responsible for collecting fees for fire prevention permits, alarm permits, fire watch (stand bys), Quartermaster-training materials and EMS-record fees. Total collection for the audit period was approximately \$4.3 million.

The Division employs approximately 14 employees. Fees are received in the form of coins, currency, credit cards, personal and business checks, money orders, and cashier checks. Charges are determined according to the fees set by City Council. Payments are received through renewals remitted by mail. Payments are also received through walk-in customers at the Division's cashier windows.

I. RECEIPTS BOOKS INVENTORY

BACKGROUND

AP 2-17, Section 8 recognizes that it is not always practical to use a cash register to record and control cash receipts and outlines procedures to be used when a cash register is not used. Section 8.B. requires that receipt books be inventoried monthly and reconciled with the perpetual records. Supervisory personnel are responsible for receiving and issuing receipts books. As new pre-numbered 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 with a combination lock when not in use.

FINDING

During the audit, management stated that there is no written documentation that receipts books are periodically reconciled with the perpetual records. Monitoring controls are essential to prevent the misuse 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 document the reconciliation of receipt books with the Department's perpetual records.

II. LACK OF SUPERVISORY REVIEW

BACKGROUND

According to A.P. 2-17 Sections 11 and 12, "The Cashier should sign the completed daily cash reconciliation report and submit it to the Senior Cashier or other administrative staff for review and approval prior to storage. Upon completion of verification/reconciliation the Daily Cash Reconciliation Form is signed by Senior Cashier."

FINDING

We noted the following conditions:

- The daily cash reconciliation prepared by the Cashiers are not reviewed and approved by supervisory personnel. All fifteen daily cash reconciliations (totaling \$254,214) in our sample lacked supervisory approval.
- There was no evidence of supervisory review on the Fire Permits Division's payment processing sheets.
- Moreover, there was no evidence of supervisory approvals on voided receipts.

Errors and misappropriations may occur and not be detected if the cashiers' work is not reviewed.

RECOMMENDATION

The completed daily cash reconciliation and payment processing sheet package prepared by the cashiers should be reviewed by supervisory personnel prior to storage or transfer for deposit.

If practical, supervisors should always approve voided transactions prior to processing; otherwise they should review and approve the voids after processing.

III. OVERAGE AND SHORTAGE REPORTS**BACKGROUND**

AP 2-17 Section 12.B. requires that an overage and shortage report be maintained to record any discrepancies noted during the daily reconciliation. The Fire Permits Division's cashiers perform a daily reconciliation on the department's print out tapes.

FINDING

The Fire Permits Division does not maintain overage/shortage reports as required in A.P. 2-17. The lack of this report may create difficulties in tracking cashiers who habitually incur overages/shortages.

RECOMMENDATION

The Fire Permits Division should comply with A.P. 2-17 by maintaining overage/shortage reports of discrepancies noted in the daily reconciliations.

EXHIBIT I



CITY OF HOUSTON
Fire Department



Bill White

Mayor

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Houston, Texas 77251-1562

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March 15, 2004

Annise D. Parker
City Controller
611 Walker
Houston, Texas 77002

Subject: Response to the report on Cash Handling Procedures Audit
at the Houston Fire Department (HFD) Permit Section

Dear Ms. Parker:

Please find below our response to the final draft report of subject audit.

Finding I Receipts Books Inventory

During the audit, management stated that there is no written documentation that receipt books are periodically reconciled with the perpetual records. Monitoring controls are essential to prevent the misuse or receipts, which in turn may result in lost revenues to the City.

HFD Response:

We agree with this finding; management has acknowledged there was no written documentation of periodic reconciliation of inventory of receipt books. Instead, receipt books on hand were verified with a log that was a perpetual record. Pursuant to AP 2-17 of the City of Houston's Cash Handling Policies and Procedures, HFD has started documenting monthly reconciliation of receipt books with the perpetual record.

Finding II Lack of Supervisory Review

We noted the following conditions:

- o The daily cash reconciliation prepared by the Cashiers are not reviewed and approved by supervisory personnel. All fifteen daily cash reconciliations (totaling \$254,214) in our sample lacked supervisory approval.
- o There was no evidence of supervisory review on the Fire Permits Division's payment processing sheets.
- o Moreover, there was no evidence of supervisory approvals on voided receipts.

Errors and misappropriations may occur and not be detected if the cashiers' work is not reviewed.

Council Members: Toni Lawrence Carol Mims Galloway Mark Goldberg Ada Edwards Addie Wiseman M.J. Khan Pam Holm Adrian Garcia Carol Alvarado
Mark Ellis Gordon Quan Shelley Sekula-Gibbs, M.D. Ronald C. Green Michael Berry Controller: Annise D. Parker

**Views of Responsible
Officials**

EXHIBIT I

**Response to Cash Handling Procedures Audit
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HFD Response:

We agree with this finding. The 1985 Revised Change Fund Policy and Procedures Statement provided that Form CF-2 (cash fund form) be used to reconcile cash funds. Since AP 2-17 did not designate use of a different form, HFD is now using CF-2 for cash reconciliation purposes. The cash fund form is duly signed by the custodian/cashier and verified by the supervisor. Deposits are verified and adding machine tapes are attached to the cash fund form for support and documentation. The cash funds were always reconciled and the supervisor always reviewed them; however, the prescribed form was not used and the supervisor was not required to sign the reconciliation previously.

Although not required in AP 2-17, HFD has required supervisor's approval on voided receipts for control purposes.

Finding III Overage and Shortage Reports

The Fire Permits Division does not maintain overage/shortage reports as required in AP 2-17. The lack of this report may create difficulties in tracking cashiers who habitually incur overages/shortages.

HFD Response:

We agree with this finding. Pursuant to AP 2-17, HFD has installed a log to document any overage/shortage that may be incurred by cashiers in the discharge of their functions. HFD has not experienced any overage or shortage in the last four years.

We hope we were able to clarify the concerns presented during the audit. Please call Gracia Rosslow at 713-247-8721 if you need more information.

Sincerely,



Hector Trevino
Acting Fire Chief

cc: Gracia Rosslow – Deputy Director 
 Flora Libunao – Administrative Manager, Internal Audit
 Diane Alcala – Administrative Manager, Permits

**Views of Responsible
Officials**