

OFFICE OF THE CITY CONTROLLER



**HUMAN RESOURCES DEPARTMENT
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

February 10, 2005

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Human Resources Department
Cash Handling Procedures Audit (Report No. 05-04)

Dear Mayor White:

The City Controller's Office Audit Division has completed an audit of the cash handling procedures at the Human Resources Department (Department) for the period of July 1, 2003 through June 30, 2004. 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 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 finding noted in the report. The finding and recommendation is presented in the body of the report and the views of responsible officials as to actions being taken are appended to the report as Exhibit I.

We appreciate the cooperation extended to our auditors by Department personnel during the course of the audit.

Respectfully submitted,

Annise D. Parker
City Controller

xc: City Council Members
Anthony Hall, Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Lonnie Vara, Director, Human Resources 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 Human Resources Department (Department) for the period of July 1, 2003 through June 30, 2004. 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).

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.

CONCLUSIONS

Based on the results of our audit, we conclude 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 finding presented in the body of the report.


George G. Wakgira
Auditor-in-charge


Kenneth Teer
Audit Manager


Steve Schoonover
City Auditor

INTRODUCTION

The Department is located at 611 Walker with its various divisions housed at the Garden-Level, in the first, fourth, and sixteenth floors. The Department employs approximately 110 employees. The major sources of cash include retirees insurance contributions, health benefits checks for the Consolidated Omnibus Budget Reconciliation Act (COBRA) and leave without pay, health benefits refund claim checks, Combined Municipal Campaign pass-through checks, defensive driving course money orders, copying fees for personnel records, travel advances, workers' compensation claim checks, and miscellaneous reimbursement checks. Total collection for the audit period was approximately \$10.5 million.

Retiree premiums, COBRA, and leave without pay charges are actuarially determined. Defensive driving and records copying charges are determined on a cost reimbursement basis and also in accordance with the rates set by City Council. Payments are in the form of wire transfers-in, personal and business checks, money orders, cashier checks, currencies, and coins.

RESTRICTIVE ENDORSEMENT OF CHECKS

BACKGROUND

The City of Houston's AP 2-17 states that checks should be restrictively endorsed upon receipt.

FINDING

During the initial walk-through of the cash collection points, we noted that the individuals authorized to collect cash all had restrictive endorsement stamps. However, we noted checks and money orders received from employee retirees, leave without pay, COBRA – dental, and life insurance premiums are not restrictively endorsed immediately upon receipt. They are endorsed after being held for several days just before they are forwarded to the Benefits Finance Division for deposit.

Checks and money orders could be stolen or misappropriated if they are not restrictively endorsed immediately upon receipt.

RECOMMENDATION

We recommend that checks and money orders be restrictively endorsed immediately upon receipt.

EXHIBIT I



CITY OF HOUSTON
Human Resources

Interoffice

Correspondence

To: Annise D. Parker
City Controller

From: Lonnie Vara
Human Resources Director

Date: February 3, 2005

Subject: Cash Handling Procedure Audit

Thank you very much for this audit. We would like to compliment your staff on their professionalism, courtesy and methodology.

We agree with your conclusion that internal controls over the cash handling procedures in our department are adequate to provide management with reasonable assurance that funds are properly safeguarded and managed in compliance with AP 2-12.

We had previously addressed the finding and are now in complete compliance.

Thank you for bringing this matter to our attention.

Should you have any questions please contact me at 713-837-9330 or Ramiro Cano at 713-837-9350.

LV

A handwritten signature in black ink, appearing to be "LV".

**Views of Responsible
Officials**