

OFFICE OF THE CITY CONTROLLER



HEALTH AND HUMAN SERVICES DEPARTMENT

**BUSINESS MANAGEMENT REVENUE SECTION
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

December 13, 2005

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Health and Human Services Department-Business Management Revenue Section
Cash Handling Procedures Audit (Report No. 05-21)

Dear Mayor White:

The City Controller's Office Audit Division has completed an audit of the cash handling procedures at the Health and Human Services Department's Business Management Revenue Section (Section) for the period of July 1, 2004 through March 31, 2005. The audit's objective was to assist management with the assessment of the adequacy of internal controls related to the Section's cash handling process. Additionally, the audit evaluated 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 Section are adequate to provide management with reasonable assurance that these funds are properly safeguarded and managed in compliance with AP 2-17 except for the findings noted in the body of the report. The views of responsible officials as to actions taken are appended to the report as Exhibit I.

We appreciate the cooperation extended to our auditors by Section 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
Stephen Williams, Director, Health and Human Services Department
Judy Gray Johnson, Director, Finance and Administration Department

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VIEWS OF RESPONSIBLE OFFICIALS – EXHIBIT I

EXECUTIVE SUMMARY

- ❑ Currently there are no internal controls over the parking garage cashiering function. Consequently, daily cash collections could be misappropriated and would not be detected timely.
- ❑ Receipt books were not being inventoried monthly and reconciled with the perpetual record by the Revenue Section as required by AP 2-17.
- ❑ Financial data needed for further analyses were being downloaded from the City's Advantage Financial Management System utilizing software, such as, Monarch when the same information can easily and more efficiently be downloaded utilizing the City of Houston's Oracle Data Mart.

The Section's employees computers located on the seventh floor are not configured to work with the server that runs the computerized cash register system. Configuring the server properly will facilitate and enhance the cash collection, recording, depositing, and analyses functions of the employees located on the seventh floor of the main building.

SCOPE AND PURPOSE

We have completed an audit of the cash handling procedures at the Health and Human Services Department (Department) Business Management Revenue Section (Section) for the period of July 1, 2004 through March 31, 2005. The audit's objective was to assist management with the assessment of the adequacy of internal controls related to the Department's cash handling process. In addition, the audit evaluated compliance with the City's Cash Handling Policies and Procedures (AP 2-17).

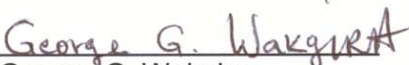
Our examination was designed to evaluate procedures and internal controls related to the City's cash handling procedures, test for compliance therewith and provide recommendations for improvement where appropriate. This was a financial audit executed in accordance with Generally Accepted Government Auditing Standards.

Departmental management is responsible for establishing and maintaining a system of internal controls to adequately safeguard cash as an integral part of the Department's overall internal control structure. The objectives of a system are to provide management with reasonable, but not absolute, assurance that cash is safeguarded against loss from unauthorized use or 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 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 presented in the body of the report.


George G. Wakgira
Auditor-in-charge


Kenneth Teer
Audit Manager


Steve Schoonover
City Auditor

INTRODUCTION

The Health and Human Services Department Business Management Revenue Section is located at 8000 North Stadium Drive. There are three cash collection sites at this location – Health Central, Parking Garage, and Vital Statistics. These sites collect fees related with the issuance of birth and death certificates, birth facts for individuals born outside Harris county, health permits, pool permits, immunizations, food handlers managers classes, and miscellaneous fees. Health Central also serves as the central depository of the Department for all the satellite cash collection sites located throughout the City of Houston. Charges are determined according to the fees set by City Council. Although payments are received through the mail at the Section's Office, the majority of payments are received at the cashier windows located at 8000 North Stadium Drive. Total collection of the Department for Fiscal year 2005 was approximately \$10.6 million.

The auditors performed the following procedures:

- ❑ Obtained a general understanding of the overall operations at the Revenue Section through inquires and observations.
- ❑ Reviewed previous audit reports on the cashiering operation of the Revenue Section.
- ❑ Interviewed key personnel involved in the cashiering operation.
- ❑ Conducted a walk-through of the cash registers area on the first floor and assessed the physical security around the cash registers area.
- ❑ Inquired if the cashiers had access to and were familiar with the City of Houston's Administrative Procedure 2-17.
- ❑ Obtained an understanding of the cashiering operation by inspecting and reviewing a sample of cash receipt documents.
- ❑ Selected and reviewed a random and judgmental sample of cash receipt records and documents.
- ❑ Verified the accuracy of the daily cash and check receipts logs and traced them to the daily bank deposit reconciliations.
- ❑ Traced the daily deposits to the City's Advantage Financial Management System (AFMS) and ensured they were all coded and posted accurately and in a timely manner.
- ❑ Traced the daily deposits to the City's bank account and ensured all the daily deposits were posted in the City's bank account accurately and in a timely manner.
- ❑ Discussed findings with the Revenue Section management.

I. LACK OF INTERNAL CONTROL OVER THE PARKING GARAGE OPERATION

BACKGROUND

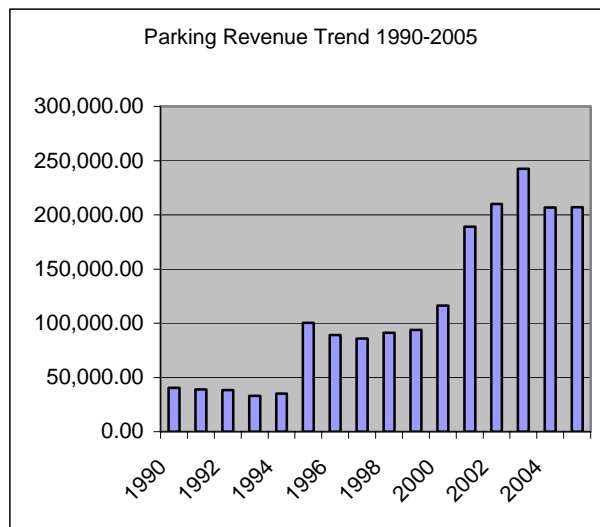
As parking patrons enter the parking garage that is located adjacent to the Department's main building at 8000 North Stadium Drive, the parking attendant issues parking tickets to them. When they are ready to check out, they present their parking tickets to the attendant and will be charged according to the number of hours they have been in the garage. The parking garage fees range from \$2 for less than one hour to \$6 for parking more than 2 hours. Its annual collection comprises of approximately 2% of the total annual fees collected by the Department.

We were informed by the Revenue Section management, who is currently operating the parking garage, that the parking garage used to generate only approximately \$50 thousand a year when the operation was contracted out

to parking management companies prior to 1995. The parking garage was operated by the security people at the main building between 1995 and 2000. This accounts for the sudden upward shift in revenues from 1994 to 1995. The parking garage has been operated by the Business Management Revenue Section since 2000.

The parking garage revenue trend for the period, 1990 through 2005, is depicted graphically below.

Year	Amount
1990	\$40,419.57
1991	\$38,974.09
1992	\$38,402.61
1993	\$33,065.36
1994	\$35,027.32
1995	\$100,223.96
1996	\$89,202.91
1997	\$85,851.80
1998	\$91,069.78
1999	\$93,918.47
2000	\$116,198.02
2001	\$189,109.24
2002	\$209,951.57
2003	\$242,508.29
2004	\$206,708.61
2005	\$207,125.32



Source: City of Houston Oracle Data Mart

FINDING

Currently there is neither physical control over the ingress or egress of cars nor accounting control over the cashiering function at the parking garage.

The garage equipment has been inoperable for several years. The employee gate is open at all times, and visitors can enter and leave without the parking attendant's knowledge. For instance, a visitor who enters the visitor gate can pull a ticket to enter and leave by the employee gate, and vice versa.

At the end of the daily shift, the parking attendant (cashier) submits the daily collections of currencies, coins, and checks along with the completed daily cash reconciliation form to the cashiers supervisor at the first floor of the main building. Detailed supporting documents, such as, a list of the paid parking tickets are not attached to the daily collections report. The auditors requested to see the parking tickets supporting the daily collections, but were informed that the parking tickets were not being retained and were being disposed of at the end of the day.

Daily cash collections could be misappropriated and would not be detected timely in the absence a physical and an accounting control over the cashiering function at the parking garage.

RECOMMENDATION

Department management needs to take immediate actions to ensure there is adequate physical control over the ingress and egress of cars both at the visitors and employee gates by installing ticket counters and video cameras at the parking garage.

Management needs also to establish adequate accounting control over the cashiering function by requiring daily reconciliation of the total number of paid tickets to the total number of cars captured by the ticket counters and reviewing them for reasonableness. The list of paid parking tickets showing the amounts collected also needs to be attached to the parking garage's daily cash reconciliations.

II. PRE-NUMBERED RECEIPTS NOT INVENTORIED MONTHLY

BACKGROUND

AP 2-17 (8.B.1.d) states, "Receipt books will be inventoried monthly and reconciled with the perpetual record by the revenue section. "

FINDING

Receipt books were not being inventoried monthly and reconciled with the perpetual record by the Revenue Section as required by AP 2-17.

RECOMMENDATION

We recommend that the pre-numbered receipt books be inventoried monthly and reconciled by someone other than the designated supervisory person assigned the responsibility for controlling and safeguarding the receipt books.

III. LACK OF ACCESS TO THE COMPUTERIZED CASH REGISTER SYSTEM

BACKGROUND

The Section is responsible for overseeing the Department's cash collections from the various sites dispersed throughout the City of Houston, and the Section serves as the central depository for all cash collections of the Department. The Section is also responsible for recording all cash receipts into the City of Houston Financial Management System (AFMS), and ensuring that all cash deposits are posted to the City's bank account.

From time to time the Section requires financial data to generate internal management reports related to its cash collections. Currently, since the Section does not have access to the City of Houston's Oracle Data Mart, it utilizes software, such as, Monarch to import data it needs for analyses from AFMS. In addition, the Revenue Section employees, with the exception of those located on the first floor, do not have access to the computerized cash register system. The employees have the necessary access permissions and passwords to access the cash register system, but their computers on the seventh floor are not configured to work with the server that runs the computerized cash register system.

FINDING

Financial data needed for further analyses were being downloaded from the City's Advantage Financial Management System utilizing software, such as, Monarch when the same information can easily and more efficiently be downloaded utilizing the City of Houston's Oracle Data Mart.

The Section's employees computers located on the seventh floor are not configured to work with the server that runs the computerized cash register system. Configuring the server properly will facilitate and enhance the cash collection, recording, depositing, and analyses functions of the employees located on the seventh floor of the main building.

RECOMMENDATION

Provide access to the City of Houston's Oracle Data Mart to the supervisory Revenue Section personnel located on the seventh floor of the main building. Instruct the Information Systems Administrator to configure the computers on the seventh floor to work with the server that runs the computerized cash register system.

EXHIBIT I



CITY OF HOUSTON

Health and Human Services
Department

Interoffice

Correspondence

To: Annise D. Parker
City Controller

From: 
Stephen L. Williams, Director
Health and Human Services Department

Date: November 30, 2005

Subject: **Cash Handling Procedures Audit
Management Response**

Enclosed please find the Health and Human Services Department's Management Response to the Cash Handling Procedures Audit.

If you have any questions or comments regarding this request, please call Sally Switek or Bob Bowers at (713) 794-9137 or (713) 794-9980, respectively.

Thank you.

**Views of Responsible
Officials**

xc: Stephen Schoonover, City Auditor, City Controller's Office
Bob Bowers, Assistant Director, Health and Human Services Department
Sally Switek, Chief Accountant, Health and Human Services Department

Enclosures

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EXHIBIT I

Health and Human Services Department
Business Management Revenue Section
Cash Handling Procedures Audit

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Officials**

EXHIBIT I

Health and Human Services Department
Business Management Revenue Section
Cash Handling Procedures Audit

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Officials**

EXHIBIT I

Health and Human Services Department
Business Management Revenue Section
Cash Handling Procedures Audit

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- Obtained an understanding of the cashiering operation by inspecting and reviewing a sample of cash receipt documents.
- Selected and reviewed a random and judgmental sample of cash receipt records and documents.
- Verified the accuracy of the daily cash and check receipts logs and traced them to the daily bank deposit reconciliations.
- Traced the daily deposits to the City's Advantage Financial Management System (AFMS) and ensured they were all coded and posted accurately and in a timely manner.
- Traced the daily deposits to the City's bank account and ensured all the daily deposits were posted in the City's bank account accurately and in a timely manner.
- Discussed findings with the Revenue Section management.

**Views of Responsible
Officials**

I. LACK OF INTERNAL CONTROL OVER THE PARKING GARAGE OPERATION

BACKGROUND

As parking patrons enter the parking garage that is located adjacent to the Department's main building at 8000 North Stadium Drive, the parking attendant issues parking tickets to them. When they are ready to check out, they present their parking tickets to the attendant and will be charged according to the number of hours they have been in the garage. The parking garage fees range from \$2 for less than one hour to \$6 for parking more than 2 hours. Its annual collection comprises of approximately 2% of the total annual fees collected by the Department.

We were informed by the Revenue Section management, who is currently operating the parking garage, that the parking garage used to generate only approximately \$50 thousand a year when the operation was contracted out

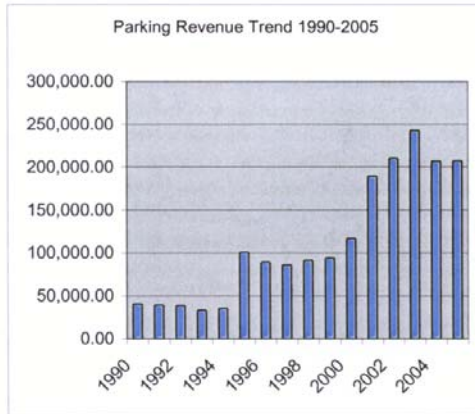
EXHIBIT I

Health and Human Services Department
Business Management Revenue Section
Cash Handling Procedures Audit

to parking management companies prior to 1995. The parking garage was operated by the security people at the main building between 1995 and 2000. This accounts for the sudden upward shift in revenues from 1994 to 1995. The parking garage has been operated by the Business Management Revenue Section since 2000.

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Source: City of Houston Oracle Data Mart

FINDING

Currently there is neither physical control over the ingress or egress of cars nor accounting control over the cashiering function at the parking garage.

The garage equipment has been inoperable for several years. The employee gate is open at all times, and visitors can enter and leave without the parking attendant's knowledge. For instance, a visitor who enters the visitor gate can pull a ticket to enter and leave by the employee gate, and vice versa.

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Views of Responsible Officials

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Health and Human Services Department
Business Management Revenue Section
Cash Handling Procedures Audit

RECOMMENDATION

Department management needs to take immediate actions to ensure there is adequate physical control over the ingress and egress of cars both at the visitors and employee gates by installing ticket counters and video cameras at the parking garage.

Management needs also to establish adequate accounting control over the cashing function by requiring daily reconciliation of the total number of paid tickets to the total number of cars captured by the ticket counters and reviewing them for reasonableness. The list of paid parking tickets showing the amounts collected also needs to be attached to the parking garage's daily cash reconciliations.

RESPONSE

The parking garage is currently undergoing extensive repairs that will be completed during FY06. New operational gates will provide physical control over the ingress and egress of visitors and employees cars.

A new fee computer and ticket machine will also be installed enabling us to track the sequentially numbered tickets in the computer and reconcile them to the daily revenue for the parking operations. The paid parking ticket list will be included in the daily cash reconciliation procedures.

II. PRE-NUMBERED RECEIPTS NOT INVENTORIED MONTHLY

BACKGROUND

AP 2-17 (8.B.I.d) states, "Receipt books will be inventoried monthly and reconciled with the perpetual record by the revenue section. "

FINDING

Receipt books were not being inventoried monthly and reconciled with the perpetual record by the Revenue Section as required by AP 2-17.

RECOMMENDATION

We recommend that the pre-numbered receipt books be inventoried monthly and reconciled by someone other than the designated supervisory person assigned the responsibility for controlling and safeguarding the receipt books.

RESPONSE

We have tightened procedures for the pre-numbered receipt books. In addition, responsibility for the inventory and reconciliation of receipt books will be assigned to a Business Management supervisor outside of the Revenue Section.

III. LACK OF ACCESS TO THE COMPUTERIZED CASH REGISTER SYSTEM

BACKGROUND

The Section is responsible for overseeing the Department's cash collections from the various sites dispersed throughout the City of Houston, and the

*Views of Responsible
Officials*

EXHIBIT I

Health and Human Services Department
Business Management Revenue Section
Cash Handling Procedures Audit

Section serves as the central depository for all cash collections of the Department. The Section is also responsible for recording all cash receipts into the City of Houston Financial Management System (AFMS), and ensuring that all cash deposits are posted to the City's bank account.

From time to time the Section requires financial data to generate internal management reports related to its cash collections. Currently, since the Section does not have access to the City of Houston's Oracle Data Mart, it utilizes software, such as, Monarch to import data it needs for analyses from AFMS. In addition, the Revenue Section employees, with the exception of those located on the first floor, do not have access to the computerized cash register system. The employees have the necessary access permissions and passwords to access the cash register system, but their computers on the seventh floor are not configured to work with the server that runs the computerized cash register system.

FINDING

Financial data needed for further analyses were being downloaded from the City's Advantage Financial Management System utilizing software, such as, Monarch when the same information can easily and more efficiently be downloaded utilizing the City of Houston's Oracle Data Mart.

The Section's employees computers located on the seventh floor are not configured to work with the server that runs the computerized cash register system. Configuring the server properly will facilitate and enhance the cash collection, recording, depositing, and analyses functions of the employees located on the seventh floor of the main building.

RECOMMENDATION

Provide access to the City of Houston's Oracle Data Mart to the supervisory Revenue Section personnel located on the seventh floor of the main building. Instruct the Information Systems Administrator to configure the computers on the seventh floor to work with the server that runs the computerized cash register system.

RESPONSE

The observation that downloading financial information through the City's Advantage Financial Management System and using Monarch to reconcile monthly revenue reports is less efficient than using the Oracle Data Mart should not be an audit finding. This is an opinion on the efficiency of the software. The Oracle Data Mart is very useful when information is needed on a daily or weekly basis. In this case, we are preparing monthly reports. Both methods provide the same information. We plan to continue using our method until the new City financial system, SAP, comes on line in six months. The cost of the license and the time required to train personnel on the Oracle Data Mart exceeds the benefit of changing software with such a short time frame before we again change software.

We agree that the revenue section on the seventh floor should have access to the computerized cash register system. The access has been requested multiple times, and we have been told that our network is not compatible with the

**Views of Responsible
Officials**

EXHIBIT I

Health and Human Services Department
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system. We are in the process of selecting a new computerized cash register system that will allow seventh floor access.

***Views of Responsible
Officials***