

OFFICE OF THE CITY CONTROLLER



HEALTH AND HUMAN SERVICES DEPARTMENT

**BUREAU OF ANIMAL REGULATION AND CARE
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

November 17, 2005

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Health and Human Services Department – Bureau of Animal Regulation and Care
Cash Handling Procedures Audit (Report No. 05-28)

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 Bureau of Animal Regulation and Care (Bureau) 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 Bureau'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 Bureau 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 commend the Bureau for taking immediate steps to implement our recommendations. We also 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
Stephen Williams, Director, Health and Services Department
Deoniece Arnold, Interim Bureau Chief, Bureau of Animal Regulation and Care
Judy Gray Johnson, Director, Finance and Administration Department

901 BAGBY, 8TH FLOOR • P.O. BOX 1562 • HOUSTON, TEXAS 77251-1562
PHONE: 713-247-1440 • FAX: 713-247-3181
e-mail: controllers@cityofhouston.net

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EXECUTIVE SUMMARY

- ❑ Daily bank deposit reconciliations are not verified by supervisory personnel. Errors or omissions will not be detected and corrected timely unless the daily bank deposit reconciliations are reviewed and verified by supervisory personnel.
- ❑ Approximately 15% of the cash register receipts issued were subsequently voided by the cashiers without supervisory approvals. We believe this volume of voids to be unacceptably high. Reasons for voiding the receipts were not noted on the receipts. However, by comparing the voided receipts to the replacement receipts, we were able to determine the reasons for the voids. Some of the reasons were incorrect fees charged, incorrect animal identification numbers, backup cashiers from other sections of the Bureau, incorrect method of payments (cash vs checks), incorrect receipt dates, and incorrect customer addresses. All of these are items that could easily have been corrected on the computerized cash registers prior to completing the transactions.
- ❑ Our review of the Chameleon database disclosed that there is not a clear-cut policy on granting access permissions to employees to the various functional areas. The Chameleon database has the capability to limit individual access only to functions related to their daily operations.

Currently there is a risk that employees from other sections of the Bureau may modify and update the computerized cash register transactions. However, we did not note instances of unauthorized access from other sections of the Bureau to the computerized cash registers.

- ❑ Adoption fees were incorrectly coded as deposit forfeitures into the City's general ledgers. This was because the Bureau was not performing a monthly independent verification of cash receipts to the total monthly postings in the Bureau's AFMS accounts as required by AP 2-17. Reports generated based on miscoded general ledger entries could be misleading.

SCOPE AND PURPOSE

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

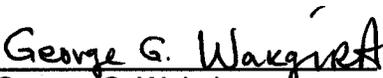
Our examination was designed to evaluate procedures and internal controls related to the City's cash handling procedures, test for compliance therewith and provide recommendations for improvement where appropriate. Our audit did not include a review of the operations of PetData, Inc, a Dallas-based contractor that collects license fees, other than verifying the accuracy of the total cash receipts and related supporting documents submitted to the City for deposit during the audit scope period. 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 Bureau'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 Bureau 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 Bureau of Animal Regulation and Care (Bureau) is located at 3200 Carr Street housed in buildings that also include a dome-like structure about a mile northwest of Eastex Freeway. The Bureau enforces city ordinances that require annual rabies vaccination, licensing of pets, and the City's ordinance that requires all dogs to be confined in a yard or on a leash. It also investigates animal bites and encourages spaying or neutering to control unwanted animal population. The kennel is open to the public 11:30 a.m. to 5:30 p.m. Monday through Friday and noon to 4 p.m. on Saturday and Sunday. Total collections for the audit period was approximately \$427,000 of which approximately \$264,000 was collected by the Bureau and approximately \$163,000 was collected by Pet Data, Inc.

The Bureau employs approximately 86 employees. Fees are received in the form of coins, currency, and personal and business checks. Credit cards are not accepted. Charges are determined according to the fees set by City Council. The majority of payments are received at the Bureau's cashier windows located at 3200 Carr Street. Payments are also received through the mail by Pet Data, Inc.

We performed the following procedures:

- ❑ Obtained a general understanding of the overall operations at the Bureau by reviewing documents published at its official website.
- ❑ Reviewed previous Health Department Internal Audit reports on the cashing operation.
- ❑ Interviewed key personnel involved in the cashing operation.
- ❑ Conducted a walk-through of the cash registers area 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 cashing 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.
- ❑ Obtained a listing of all cash register receipts issued during the audit scope period, including voided receipts, and reviewed them to determine if all cash register receipts were issued in sequential order and were all properly accounted for.
- ❑ Verified the accuracy of the daily cash and check receipts and traced them to the daily bank deposit reconciliations and cash register transaction summaries.
- ❑ 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.
- ❑ Confirmed the accuracy of the total license fees collected by PetData, Inc with its representative in Dallas, Texas.
- ❑ Verified the total amount of fees rung through the computerized cash registers during the audit scope period against the total amount of fees recorded in AFMS for the same period. for accuracy and reasonableness.
- ❑ Discussed findings with the Bureau management.

I. VERIFICATION OF DAILY BANK DEPOSIT RECONCILIATIONS

BACKGROUND

The City of Houston's AP 2-17 (11.B.III) states that "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." In addition, AP 2-17 (12.B.IV) states, "Upon completion of verification/reconciliation, the daily cash reconciliation form is signed by Senior Cashier."

FINDING

Daily bank deposit reconciliations were not verified by supervisory personnel.

Errors or omissions will not be detected and corrected timely unless the daily bank deposit reconciliations are reviewed and verified by supervisory personnel.

RECOMMENDATION

We recommend that the daily bank deposit reconciliations be reviewed, verified and signed by supervisory personnel as required by AP 2-17.

II. VOIDING CASH RECEIPTS

BACKGROUND

Pet owners come to the shelter located at 3200 Carr Street to obtain rabies vaccination for their dogs or cats, pick up impounded pets, or adopt animals. The pet owners complete application forms, provide picture identifications and make payments. Information about previously registered pets and their owners is already on the cash register database. So, when these pet owners arrive at the cash registers to make payments, the cashier will pull up their information from the database along with the invoice for the current services provided. The invoice will contain the date, cashier identification number, address of the pet owner, fee categories and amounts, method of payments (cash or check), animal number, rabies vaccination license number, and additional specific information on the pets. The invoice itself serves as cash register receipt. Sometimes, the information in the database may not be current or accurate. The cashier is expected to check the accuracy of the information listed on the invoice/receipt prior to completing the transactions.

On approximately 15% of the cash register receipts the auditors reviewed, the pre-recorded information on the invoices were not checked prior to completing the transaction. Consequently, the transaction and its receipt had to be voided and replaced by another receipt.

FINDING

Approximately 15% of the cash register receipts issued were subsequently voided by the cashiers without supervisory approvals. We believe this volume of voids to be unacceptably high. Reasons for voiding the receipts were not noted on the receipts. However, by comparing the voided receipts

to the replacement receipts, we were able to determine the reasons for the voids. Some of the reasons were incorrect fees charged, incorrect animal identification numbers, backup cashiers from other sections of the Bureau, incorrect method of payments (cash vs checks), incorrect receipt dates, and incorrect customer addresses. All of these are items that could easily have been corrected on the computerized cash registers prior to completing the transactions.

RECOMMENDATION

We recommend that the cashiers verify the information on the computerized cash register receipts is accurate before completing the transactions. Cashiers should obtain supervisory approvals prior to voiding cash register receipts.

III. ACCESS TO COMPUTERIZED CASH REGISTERS

FINDING

Our review of the Chameleon database disclosed that there is not a clear-cut policy on granting access permissions to employees to the various functional areas. The Chameleon database has the capability to limit individual access only to functions related to their daily operations.

Currently there is a risk that employees from other sections of the Bureau may modify and update the computerized cash register transactions. However, we did not note instances of unauthorized access from other sections of the Bureau to the computerized cash registers.

AP 2-17 does not address issues related to accessing computerized cash registers. However, prudent internal control procedures suggest that access to computerized cash registers should be limited only to functions related to the employees' daily operations.

RECOMMENDATION

Develop a policy to grant permissions-based access to employees only to those functions they need to perform their daily operations. Further, the Health Department should recommend to the Mayor that AP 2-17 be revised to restrict access to computerized cash registers.

IV. ADOPTION FEES NOT CODED PROPERLY

BACKGROUND

AP 2-17 (21) outlines procedures for monthly independent verification of cash receipts and Advantage Financial Management System (AFMS) postings. More specifically, AP 2-17 (21.B.III.a) states, "An employee (independent of the cash receipts and accounts receivable functions) will prepare a monthly formal reconciliation of total monthly cash receipts to total monthly deposits recorded in the FMS cash accounts...."

FINDING

Adoption fees were incorrectly coded as deposit forfeitures into the City's general ledgers. This was because the Bureau was not performing a monthly independent verification of cash receipts to the total monthly postings in the Bureau's AFMS accounts as required by AP 2-17. Reports generated based on miscoded general ledger entries could be misleading.

RECOMMENDATION

We recommend that the Bureau management work with the Finance and Administration Department to create a new revenue code to accommodate the recording of proceeds from adoption fees.

EXHIBIT I



CITY OF HOUSTON

Health and Human Services
Department

Bill White

Mayor

Stephen L. Williams, M.Ed., M.P.A.
Director
Health and Human Services
Department
8000 N. Stadium Drive,
Houston, Texas 77054-1823

T.713.794.9311
F.713.798.0862
www.houstonhealth.org

October 25, 2005

Annise D. Parker, City Controller
City Controller's Office
901 Bagby , Eighth Floor
Houston, Texas 77002

Ms. Parker:

The Bureau of Animal Regulation and Care submits the following responses to address the findings and recommendations identified during the City of Houston Department of Health and Human Services cash handling procedures audit.

FINDINGS AND RECOMMENDATIONS

FINDING I.

Supervisory personnel did not verify daily bank deposit reconciliations.

RECOMMENDATION

We recommend that the daily bank deposit reconciliations be reviewed, verified and signed by supervisory personnel as required by AP 2-17.

BARC RESPONSE

Concur. Supervisor reviews, validates and signs all daily bank deposit slips beginning July 28, 2005.

FINDING II.

The cashiers without supervisory approvals subsequently voided approximately 15% of the cash register receipts issued. We believe this volume of voids to be unacceptably high. Reasons for voiding the receipts were not noted on the receipts. However, by comparing the voided receipts to the replacement receipts, we were able to determine the reasons for the voids. Some of the reasons were incorrect fees charged, incorrect animal identification numbers, backup cashiers from other sections of the Bureau, incorrect methods of payments (cash vs. checks), incorrect receipt dates, and incorrect customer addresses. All of these are items that could easily have been corrected on the computerized cash registers prior to completing the transactions.

RECOMMENDATION

We recommend that the cashiers verify the information on the computerized cash register receipts is accurate before completing the transactions. Cashiers should obtain supervisory approvals prior to voiding cash register receipts.

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

BARC RESPONSE

Concur. Classes to train and instruct personnel to calculate and review data from customers before completing transaction and final entry into system were held on July 27, 2005. Policy, which requires that Supervisory approval must be obtained before voiding any cash register receipt, was implemented on July 28, 2005. Supervisor will monitor quarterly and determine error rate.

FINDING III.

Our review of the Chameleon database disclosed that there is not a clear-cut policy granting access permissions to employees to the various functional areas. The Chameleon database has the capability to limit individual access only to functions related to their daily operations.

Currently there is a risk that employees from other sections of the Bureau may modify and update the computerized cash register transactions. However, we did not note instances of unauthorized access from other sections of the Bureau to the computerized cash registers.

AP 2-17 does not address issues related to accessing computerized cash registers. However, prudent internal control procedures suggest, that access to computerized cash registers should be limited only to functions related to the employees daily operations.

RECOMMENDATION

Develop a policy to grant permissions-based access to employees only to those functions they need to perform their daily operations. Further, the Health Department should recommend to the Mayor that AP 2-17 be revised to restrict access to computerized cash registers.

BARC RESPONSE

Our Chameleon system is a database, which performs a computerized cash register function. The IT personnel limited access of specific revenue personnel to only those functions needed to perform their daily operations on August 1, 2005. A policy should be completed by November 1, 2005. We are in the process of evaluating Bureau wide access and limitations. The Chameleon consultant is working with us in this effort.

FINDING IV.

Adoption fees are incorrectly coded as deposit forfeitures into the City's general ledgers. This was because the Bureau was not performing a monthly independent verification of cash receipts to the total monthly postings in the Bureau's AFMS accounts as required by AP 2-17. Reports generated based on miscoded general ledger entries could be misleading.

RECOMMENDATION

We recommend that the Bureau management work with the Finance and Administration Department to create a new revenue code to accommodate the recording of proceeds from adoption fees.

BARC RESPONSE

Concur. A new code has been established and was implemented August 10, 2005.

If you have additional questions please contact Deoniece Arnold, RN, MBA, Interim Bureau Chief, Bureau of Animal Regulation and Care at 713-238-2182. Thank you for your assistance.

Sincerely,


Stephen L. Williams, MEd, MPA

Director
Department of Health and Human Services

COMMUNICATIONS
SECTION
AUG 10 2005



**Views of Responsible
Officials**