

OFFICE OF THE CITY CONTROLLER



**PARKS AND RECREATION DEPARTMENT
CASH HANDLING PROCEDURES AUDIT**

Sylvia R. Garcia, City Controller

Judy Gray Johnson, Chief Deputy City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CONTROLLER
CITY OF HOUSTON
TEXAS

SYLVIA R. GARCIA

July 9, 2002

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

SUBJECT: Parks and Recreation Department
Cash Handling Procedures Audit (Report No. 00-42)

Dear Mayor Brown:

The City Controller's Office Audit Division has completed an audit of the cash handling procedures at the Parks and Recreation Department. The primary purpose of the audit 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).

Although the report, attached for your review, concludes that the cash handling procedures at the Parks and Recreation Department, as implemented, are not adequate to provide management with reasonable assurance that cash collections and deposits are properly safeguarded and promptly deposited into the City's bank account, management has indicated that significant improvements have been and continue to be made. Draft copies of the matters contained in the report were provided to Department officials. The views of the responsible Department officials as to action taken or 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,


Sylvia R. Garcia
City Controller

xc: City Council Members
Albert Haines, Chief Administrative Officer
Oliver Spellman, Jr., Chief of Staff, Mayor's Office
Roy E. Wilson, Acting Director, Parks and Recreation Department
Philip Scheps, Director, Finance and Administration Department

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VIEWS OF RESPONSIBLE OFFICIALS EXHIBIT I

EXECUTIVE SUMMARY

The City's Cash Handling Policies and Procedures as detailed in AP 2-17 are adequate. However as implemented at the Parks and Recreation Department's Lee LeClear Tennis Center (LLTC), the Judson Robinson, Jr. Community Center (JRCC) and the Ballfield Reservation Section (BRS), the cash handling procedures are not adequate to provide management with reasonable assurance that cash collections and deposits are properly safeguarded and promptly deposited into City's bank accounts.

Lee LeClear Tennis Center

- The Cashiers perform most of the cash handling duties with little or no supervision. Separation of duties and supervisory oversight are not adequate to ensure the proper collections, reporting and safeguarding of revenues.
- The Cashiers are allowed to void and correct transactions or issue rain checks without supervisory approval. Voided transactions can be used to misappropriate money, and the lack of supervisory approval may encourage misappropriation.
- The Department's Revenue Management Section maintains a Non-Sufficient Funds (NSF) list but cashiers at LLTC do not have a copy of the NSF list. Without access to the NSF list, Cashiers may mistakenly provide service to and accept additional bad checks from NSF customers.
- The LLTC does not maintain an overage and shortage log. Without the log it may be difficult to track cashiers who are habitually over or short.

Judson Robinson, Jr. Community Center

- Employees performing cash handling functions do not have the Cash Handling Policies and Procedures (A.P. 2-17). Lack of knowledge of AP 2-17 can result in inadequate safeguarding of cash collections/deposits.
- Supervisors do not approve voids and corrections. Voided transactions can be used to misappropriate money, and the lack of supervisory approval may encourage misappropriation.
- Cash handling functions lack separation of duties. Supervisory personnel do not review the daily reconciliation package prepared by the Cashiers.
- Cash collections are not adequately secured, thus increasing the risk of theft or misappropriation.
- The JRCC does not maintain overages/shortages log as required in A.P. 2-17. This may create difficulties in tracking cashiers who habitually incur shortages/overages.

- The Department's Revenue Management Section maintains a NSF list but cashiers at JRCC do not have a copy of the NSF list. Without access to the NSF list, Cashiers may mistakenly provide service to and accept additional bad checks from NSF customers.
- Deposits are not made on a timely basis as required in A.P. 2-17. The JRCC transports cash collections to the Revenue Management Section weekly. Some deposits were delayed for up to 30 days
- Cashiers do not perform a daily cash reconciliation as required by A.P. 2-17. The reconciliation is performed weekly. The lack of a daily reconciliation exposes cash collections to employee borrowing, or misappropriation or theft.
- The JRCC does not have a change fund; cash collections are used to make change. Without a change fund, employees may have to either commingle personal funds with the City's funds or refuse services to customers.

Ballfield Reservation Section

- Supervisors do not approve voids and corrections. Voided transactions can be used to misappropriate money, and the lack of supervisory approval may encourage misappropriation.
- The BRS does not maintain overages/shortages log as required in A.P. 2-17. This may create difficulties in tracking cashiers who habitually incur shortages/overages.
- The Department's Revenue Management Section maintains a NSF list but cashiers at JRCC do not have a copy of the NSF list. Without access to the NSF list, Cashiers may mistakenly provide service to and accept additional bad checks from NSF customers.
- In the event of a Unisys Mapper failure, cashiers issue manual receipts to customers. During system failure, deposits may be withheld for several days and not made on a timely basis as required in A.P. 2-17.
- The BRS does not have a change fund; cash collections are used to make change. Without a change fund, employees may have to either commingle personal funds with the City's funds or refuse services to customers.

SCOPE AND PURPOSE

We have completed an audit of the cash handling procedures at the Parks and Recreation Department' Lee LeClear Tennis Center, the Judson Robinson, Jr. Community Center and the Ballfield Reservation Section for the periods of July 1, 1999 through February 14, 2000, March 24, 2000 and April 6, 2000, respectively. Our purpose 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.

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 and test compliance with procedures and internal controls related to the cash handling processes at the three locations. This was a financial related audit executed in accordance with Generally Accepted Government Auditing Standards.

Department 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 of internal controls are to provide management with reasonable, but not absolute, assurance that cash collections and deposits are safeguarded against loss from unauthorized use or theft, and that deposits are made promptly and recorded accurately in City's bank accounts.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. 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 the City's Cash Handling Policies and Procedures as detailed in AP 2-17 are adequate, however, Department management has not been effective in communicating and implementing the procedures. The cash handling procedures, as implemented, are not adequate to provide management with reasonable assurance that cash collections and deposits are properly safeguarded and promptly deposited into the City's bank account.


Kenneth Teer
Audit Manager


Steve Schoonover
City Auditor

Lee LeClear Tennis Center

INTRODUCTION

The Lee LeClear Tennis Center is located in Southwest Houston. Its facilities include tennis courts, a pro shop, and showers and lockers. In addition, professionals provide lessons to patrons. The tennis court rental fees are established by City Ordinance. Other services provided at the LLTC have standard prices established by the Department. The City's Cash Handling Policies and Procedures (AP 2-17) dated November 21, 1997 was issued to all City departments to be used as guidelines for the cash handling process.

AUDIT FINDINGS AND RECOMMENDATIONS

I. LACK OF SEPARATION OF DUTIES AND SUPERVISORY REVIEW

FINDING

Cashiers collect money, prepare the daily reconciliation and deposit, and store daily collections in the LLTC's safe. Our review indicated supervisors never reviewed the daily reconciliation and deposit tickets. The Department's Revenue Management Section performs the only review.

The Cashier's function lacks separation of duties essential to ensure the accuracy and integrity of the data entered into the Department's accounting system. Since supervisors do not review the cashier's work, errors and omission may occur and not detected. Furthermore, the absence of a supervisory review may encourage misappropriation and theft.

RECOMMENDATION

We recommend the duties performed by the Cashier should be separated as practical as possible to minimize errors and irregularities and supervisory review should be increased to ensure the proper collection, reporting, and safeguarding of revenues.

II. VOIDS AND CORRECTIONS

FINDING

A.P. 2-17 requires a supervisory approval to void transactions. The LLTC's cashiers can void transactions without supervisory approval. Voided transactions can be used to misappropriate money, and the lack of supervisory approval may encourage misappropriation.

RECOMMENDATION

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

III. NON-SUFFICIENT FUNDS LIST

BACKGROUND

A.P. 2-17 requires that cashiers verify whether a customer's name appears on the "non-sufficient funds" list issued by department's revenue division before accepting personal checks.

FINDING

The Revenue Management Section maintains a list of non-sufficient fund customers at its location on 2999 S. Wayside. Cashiers at LLTC do not have a copy of NSF check listing for customer verification before accepting personal checks. Thus, cashiers may mistakenly accept bad checks from customers.

RECOMMENDATION

The department should provide the LLTC cashiers with a copy of the NSF checklist and the cashiers should verify the customer is not on the list before accepting a check.

IV. OVERAGES/SHORTAGES LOG

FINDING

A.P. 2-17 requires that overages/shortages report be maintained to record discrepancies noted in the daily reconciliation. The cashiers do not provide explanations for overages and shortages, and the LLTC does not maintain an overage and shortage log. Without the log, it may be difficult to track cashiers who are habitually over or short.

RECOMMENDATION

The LLTC should comply with A.P. 2-17 by maintaining an overages/shortages log of discrepancies in the daily reconciliation.

Judson Robinson, Jr. Community Center

INTRODUCTION

The JRCC is located near Hermann Park. It provides rental space, recreational activities such as racquetball courts, arts and crafts, gymnasium, and entertainment for patrons. AP 2-17, dated November 21, 1997, was issued to all City departments to be used as guidelines for the cash handling process.

AUDIT FINDINGS AND RECOMMENDATIONS

I. CASH HANDLING POLICIES AND PROCEDURES

BACKGROUND

The Cash Handling Audits performed by the City Controller's Office and issued on June 20, 1997, noted that the City of Houston did not have standardized Policies and Procedures regarding the collection, recording, depositing, and reporting of cash receipts at its cash collection locations. As a result, the City established Administrative Procedure 2-17.

FINDING

The JRCC's personnel performing cash handling functions do not have AP 2-17. Lack of knowledge of AP 2-17 can result in inadequate safeguarding of cash collections/deposits.

RECOMMENDATION

The Department should obtain, distribute, and train the JRCC's cash handling personnel on the City's Cash Handling Policies and Procedures.

II. VOIDS AND CORRECTIONS

FINDING

A.P. 2-17 requires a supervisory approval to void transactions. The JRCC's cashiers can void transactions without supervisory approval. Voided transactions can be used to misappropriate money, and the lack of supervisory approval may encourage misappropriation.

RECOMMENDATION

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

III. LACK OF SUPERVISORY REVIEW

BACKGROUND

According to A.P. 2-17, "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".

FINDING

The last employee to collect cash during the week prepares the reconciliation and sometimes transports cash collections to the Revenue Management Section for deposit. JRCC supervisors do not review the cash reconciliation as required by A.P. 2-17. Our sample revealed several instances where Revenue Management Section personnel corrected the cash reconciliation.

RECOMMENDATION

The completed cash reconciliation package prepared by the Cashiers should be reviewed by supervisory personnel prior to storage or transfer of fund to the Revenue Management Section for deposit.

IV. CASH COLLECTIONS SECURITY

BACKGROUND

AP 2-17 Section 3B(1a) requires "... a secure location (i.e. locked box or in a locked cabinet or closet whose access is controlled by a supervising cashier) to safeguard undeposited collections".

FINDING

Cash collections are not adequately secured, thus increasing the risk of theft or misappropriation.

RECOMMENDATION

The department should provide the JRCC with the means, such as a safe or lockbox, to secure undeposited collections.

V. OVERAGES/SHORTAGES LOG

FINDING

A.P. 2-17 requires that overages/shortages report be maintained to record discrepancies noted in the daily reconciliation. The cashiers do not provide explanations for overages and shortages, and the JRCC does not maintain an overage and shortage log. Without the log, it may be difficult to track cashiers who are habitually over or short.

RECOMMENDATION

The JRCC should comply with A.P. 2-17 by maintaining an overages/shortages log of discrepancies in the daily reconciliation.

VI. NON-SUFFICIENT FUNDS LIST

BACKGROUND

A.P. 2-17 requires that cashiers verify whether a customer's name appears on the "non-sufficient funds" list issued by department's revenue division before accepting personal checks.

FINDING

The Revenue Management Section maintains a list of non-sufficient fund customers at its location on 2999 S. Wayside. Cashiers at JRCC do not have a copy of NSF check listing for customer verification before accepting personal checks. Thus, cashiers may mistakenly accept bad checks from customers.

RECOMMENDATION

The department should provide the JRCC cashiers with a copy of the NSF checklist and the cashiers should verify the customer is not on the list before accepting a check.

VII. UNTIMELY DEPOSITS

BACKGROUND

According to A.P. 2-17, "site cash collections should ideally be delivered to the revenue section daily".

FINDING

The JRCC transports cash collections to the Revenue Management Section weekly. Based on our sample, some deposits were delayed for up to 10 – 30 days.

RECOMMENDATION

The JRCC should make timely deposits of cash collections to minimize the risk of theft or misappropriation.

VIII. DAILY CASH RECONCILIATION

BACKGROUND

The JRCC uses the department's Daily Cash Collection/Transferal Report to perform the cash reconciliation on a weekly basis. According to A.P. 2-17 Section 11B.I., "daily cash reconciliation should be performed at the end of each day".

FINDING

Cashiers do not perform the cash reconciliation on a daily basis as required in A.P. 2-17. According to the Manager, the cash reconciliation is performed on a weekly basis to correspond with the JRCC's weekly deposit schedules. Based on our sample, these deposits were as high as \$2,650.00 each. The lack of a daily reconciliation exposes cash collections to employee borrowing, or misappropriation or theft.

RECOMMENDATION

The JRCC should comply with A.P. 2-17 by performing a daily cash reconciliation.

IX. CHANGE FUND

BACKGROUND

According to AP 2-17 Section 14B(1a), "a change fund should be assigned to each cashier as turnover cash for daily transaction processing."

FINDING

The JRCC does not have a change fund; cash collections are used to make change. Without a change fund, employees may have to either commingle personal funds with City's funds or refuse services to customers.

RECOMMENDATION

We recommend that the Department comply with AP 2-17 and provide the JRCC with a change fund in an amount appropriate to meet its service needs.

Ballfield Reservation Section

INTRODUCTION

The Ballfield Reservation Section is located in Southeast Houston at 2999 South Wayside. The Section coordinates the rental of City's ballfields for league, tournament, practice play, and sports equipment for use on the fields. AP 2-17, dated November 21, 1997, was issued to all City departments to be used as guidelines for the cash handling process.

AUDIT FINDINGS AND RECOMMENDATIONS

I. VOIDS AND CORRECTIONS

FINDING

A.P. 2-17 requires a supervisory approval to void transactions. Voided transactions can be used to misappropriate money, and the lack of supervisory approval may encourage misappropriation. The BRS's cashiers can void transactions without supervisory approval.

RECOMMENDATION

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

II. OVERAGES/SHORTAGES LOG

BACKGROUND

A.P. 2-17 requires that overages/shortages report be maintained to record discrepancies noted in the daily reconciliation.

FINDING

The Section's cashiers perform the daily reconciliation on a computerized cash report. The computerized cash report does not provide space to record cash denominations and overages/shortages. Consequently, the Section does not maintain overages/shortages log as required in A.P. 2-17. This may create difficulties in tracking cashiers who habitually incur shortages/overages.

RECOMMENDATION

The BRS should comply with A.P. 2-17 by maintaining an overages/shortages log of discrepancies in the daily reconciliation.

III. NON-SUFFICIENT FUNDS LIST

BACKGROUND

A.P. 2-17 requires that cashiers verify whether a customer's name appears on the "non-sufficient funds" list issued by department's revenue division before accepting personal checks.

FINDING

The Revenue Management Section maintains a list of non-sufficient fund customers at its location on 2999 S. Wayside. Cashiers at BRS do not have a copy of NSF list for customer verification before accepting personal checks. Thus, cashiers may mistakenly accept bad checks from customers.

RECOMMENDATION

The department should provide the BRS cashiers with a copy of the NSF list and the cashiers should verify the customer is not on the list before accepting a check.

IV. UNTIMELY DEPOSITS

BACKGROUND

According to A.P. 2-17, "site cash collections should ideally be delivered to the revenue section daily".

FINDING

In the event of a Unisys Mapper failure, cashiers issue manual receipts to customers. These manual collections are later entered into Unisys and reconciled. The BRS typically makes daily deposits, however the Revenue Management Section would not accept manual receipts supporting collections. For example, on March 29, 2000, we noted the Section was still withholding cash collected from March 22, 2000 because of Unisys Mapper System failure. Delaying deposits increases the risk of from misappropriation or theft.

RECOMMENDATION

The Revenue Management Section should establish procedures to accept deposits that are supported with manual cash receipts.

V. CHANGE FUND

BACKGROUND

According to A.P. 2-17 Section 14B.1.a., "a change fund should be assigned to each cashier as turnover cash for daily transaction processing".

FINDING

The Section does not have a change fund; cash collections are used to make change. Without a change fund, employees may have to either commingle personal funds with City's funds or refuse services to customers.

RECOMMENDATION

We recommend that the Department comply with AP 2-17 and provide the BRS with a change fund in an amount appropriate to meet its service needs.

EXHIBIT 1



CITY OF HOUSTON

Parks and Recreation
Department

Interoffice

Correspondence

To: Sylvia Garcia, City Controller

From: Roy E. Wilson

Date: June 17, 2002

Attn:

Subject: **CASH HANDLING PROCEDURES
AUDIT - DEPARTMENT'S RESPONSE**

Following is the department's response to the Controller's Office audit of cash handling procedures in the Parks and Recreation Department.

Lee LeClear Tennis Center

Department Response

Lack of Separation of Duties and Supervisory Review

The level of staffing at this facility, especially in the mornings and evenings, limits the department's ability to achieve an "ideal" separation of duties and supervisory review of financial transactions, however, management of all three tennis facilities have been informed of the importance of checking the financial transactions performed by staff, even if after the fact, as a means of detecting fraud/abuse.

The department's Financial Services Section is developing a cash handling training module that will cover the separation of duties and supervisory review of financial transactions. This training will be conducted between July and September 2002 at all facilities that conduct financial transactions and will be repeated once annually thereafter.

Lee LeClear Tennis Center, Judson Robinson Jr. Community Center and Ballfield

Reservations

Department Response

Voids and Corrections

Limited staffing at these facilities limits the supervisor's ability to approve voids/corrections as they occur, however, management have been informed of the importance of reviewing voids/corrections performed by staff, even if after the fact, as a means of detecting fraud/abuse.

The department's Financial Services Section is developing a cash handling training module that will cover voids and corrections. This training will be conducted between July and September 2002 at all facilities that conduct financial transactions and will be repeated once annually thereafter. In addition, in the future, unscheduled cash handling audits that are performed by the department will audit for compliance with this requirement.

***Views of Responsible
Officials***

EXHIBIT 1

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Non-Sufficient Funds List

Immediately after the department was informed of this deficiency in April 2000, non-sufficient funds lists were distributed to all locations that accept checks. Beginning July 1, 2002, the department will no longer accept personal checks from patrons, thus eliminating the possibility of accepting an insufficient check.

Overage/Shortages Log

The department's Financial Services Section is developing a cash handling training module that will cover overages/shortages. This training will be conducted between July and September 2002 at all facilities that conduct financial transactions and will be repeated once annually thereafter. In addition, in the future, unscheduled cash handling audits that are performed by the department will audit for compliance with this requirement.

Judson Robinson Jr. Community Center

Department Response

Cash Handling Policies and Procedures

Immediately after the department was informed of this deficiency in April 2000, the Cash Handling Policies and Procedures was distributed to all locations that handle currency of any kind. In addition, the department's Financial Services Section is developing a cash handling training module that will cover all of the requirements in the Cash Handling Policies and Procedures. This training will be conducted between July and September 2002 at all facilities that conduct financial transactions and will be repeated once annually thereafter.

Lack of Supervisory Review

Immediately after the department was informed of this deficiency in April 2000, the supervisor of this facility was advised that she should review and approve all deposits before they are delivered to department headquarters for deposit.

Cash Collection Security

Immediately after the department was informed of this deficiency in April 2000 a cash box was purchased for this facility and a locking cash bag was provided to the center.

Daily Cash Reconciliation

Immediately after the department was informed of this deficiency in April 2000, staff were instructed to conduct a daily reconciliation of cash. The department's Financial Services Section is developing a cash handling training module that will cover daily cash reconciliation. This training will be conducted between July and September 2002 at all facilities that conduct financial transactions and will be repeated once annually thereafter.

Judson Robinson Jr. Community Center & Ball Field Reservations

Department Response

Change Fund

Judson Robinson Jr. Community Center: This facility has discontinued the practice of making change for patrons who are paying for court usage. If a patron does not have the exact amount of the rental, the court rental transactions cannot be conducted (thus eliminating the need for a change fund).

*Views of Responsible
Officials*

EXHIBIT 1

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Untimely Deposits

Judson Robinson Jr. Community Center: Limited staff at this facility and the distance of the facility from department headquarters makes daily deposit of cash difficult, however, management staff at this facility have been advised that cash should be deposited at least weekly.

Ball Field Reservations: Timely deposits were delayed because a broken printer prevented the printing of the cash receipt form. This problem has been remedied.



Roy E. Wilson, Acting Director
Parks and Recreation Department

Cy: Steve Schoonover, City Auditor
Maggie Mottesheard
Debra Lathan
Cheryl Johnson

**Views of Responsible
Officials**