OFFICE OF THE CITY CONTROLLER

MUNICIPAL COURTS ADMINISTRATION DEPARTMENT

UNANNOUNCED CHANGE FUND AUDIT

Annise D. Parker, City Controller

Steve Schoonover, City Auditor

Report No. 04-19

OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

August 13, 2004

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Municipal Courts Administration Department
Unannounced Change Fund Audit (Report No. 04-19)

Dear Mayor White:

The City Controller's Office Audit Division has completed an Unannounced Change Fund Audit of the $50,000 fund maintained by the Municipal Courts Administration Department (Department) for the period of July 1, 2003 through May 18, 2004. The audit's objective was to assist management with the assessment of the adequacy of internal controls related to the change fund process. Additionally, the audit evaluated compliance with Administrative Procedure (AP) 2-17.

The report, attached for your review, concluded that internal controls over the change fund at the Department are adequate to provide management with reasonable assurance that this fund is adequately safeguarded, disbursed and replenished in compliance with AP 2-17, except for the finding presented in the body of the report. Draft copies of the matters contained in the report were provided to Department officials. The views of the responsible Department officials as to actions taken are appended to the report as Exhibit I.

We commend the Department for taking immediate steps to implement our recommendation. Also, 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
Michael Moore, Chief of Staff, Mayor's Office
Anthony Hall, Chief Administrative Officer
Barbara Sudhoff, Director, Municipal Courts Administration Department
Judy Gray Johnson, Director, Finance and Administration Department

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SCOPE AND PURPOSE

We have completed an unannounced audit of the $50,000 Change Fund (Account No. 0195) administered by the Municipal Courts Administration Department located at 1400 Lubbock Street, Houston, Texas for the period of July 1, 2003 through May 18, 2004. Our objective was to assist management with the assessment of the adequacy of internal controls related to the change fund process. Additionally, the audit evaluated compliance with Administrative Procedure (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 and test compliance with procedures and internal controls related to the change fund. 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 the change fund is used in accordance with administrative procedures and is safeguarded against loss.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected timely. 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 concluded that internal controls over the change fund at the Municipal Courts Administration Department are adequate to provide management with reasonable assurance that this fund is adequately safeguarded, disbursed and replenished in compliance with AP 2-17, except for the finding presented in the body of this report and security related issues discussed with management.

Dennis Frazier
Auditor-in-charge

Kenneth Teer
Audit Manager

Steve Schoonover
City Auditor

INTRODUCTION

The Municipal Courts Administration Department has a $50,000 Change Fund. According to AP 2-17, the fund should be used as turnover cash for daily transaction processing. The Division's Supervisor designates a Senior Customer Service Cashier to be responsible for managing and controlling the change fund in accordance with AP 2-17. The Senior Customer Service Cashier's responsibilities, as listed in AP 2-17, include the following:

- Maintaining log or sign-off sheet accurately
- Verify that all contents of cashier draw balance
- Reconciling the change fund daily
- Maintaining adequate security over the change fund
- Replacing any shortages not reported in a police report or resolved through disciplinary actions against another employee
- Reporting losses or thefts through the Manager to the City Controller

AP 2-17, entitled Cash Handling Policies & Procedures, outlines procedures for maintaining and reconciling change funds. Section 14 established policies for verifying the change fund on a daily and quarterly basis.

AUDIT FINDING AND RECOMMENDATION

QUARTERLY VERIFICATION

BACKGROUND

According to Administrative Procedure No. 2-17, Section 14, for the purpose of reporting fund activity to the Controller's Office, the Change Fund must also be verified at the end of each calendar quarter. Additionally, the Change Fund is reconciled quarterly using a Change Fund Reconciliation Form.

FINDING

The quarterly verifications were not conducted on a timely and consistent basis from January 2004 to the present. The accuracy of the Change Fund must be verifed timely and consecutively for every quarter and reconciled on a Change Fund Reconciliation Form.

RECOMMENDATION

We recommend that the Department reconcile the change fund at the end of each quarter on a Change Fund Reconciliation Form and forward the form to the Financial Reporting Division of the Controller's Office.

EXHIBIT I

CITY OF HOUSTON
Municipal Courts Administration Department

RECEIVED
AUG 6 2004
CONTROLLERS OFFICE

Interoffice
Correspondence
BS-S-20132

To: Annise D. Parker, City Controller
Controller's Office

From: Barbara R. Sudhoff, Director
Municipal Courts Administration

Date: August 2, 2004

Subject: **Unannounced Change Fund Audit Draft Report**

This memorandum is responsive to City Auditor Steve Schoonover's request for a response to the Unannounced Change Fund Audit report for Municipal Courts Administration.

We have reviewed the audit finding and recommendation in the draft report. Please be advised that the change fund is verified on a monthly basis. However, the Manager at the time failed to submit the forms to the Controller's office. Our department's course of action to correct this problem was to assign a new Manager to the area. In the future, we can assure you that the forms will be forwarded to the Controller's office in a timely manner.

Please accept our apology for any inconvenience experienced by your office as a result of not submitting the forms in a timely manner.

BS:OA:mw

Cc: Steve Schooner, City Auditor, Controller's Office
Olga Arnold, Assistant Director, Municipal Courts Administration
Blanca Wells, Municipal Courts Manager, Municipal Courts Administration
Avia Banks, Municipal Courts Supervisor, Municipal Courts Administration

Views of Responsible Officials