

OFFICE OF THE CITY CONTROLLER



**SOLID WASTE MANAGEMENT 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

July 25, 2006

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Solid Waste Management Department
Cash Handling Procedures Audit (Report No. 06-11)

Dear Mayor White:

The City Controller's Office Audit Division has completed an audit of the Cash Handling Procedures at the Solid Waste Management Department (Department) for the period of July 1, 2005 through May 31, 2006. 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).

The report, attached for your review, concluded that internal controls over the cash handling procedures at the Department are adequate to provide management with reasonable assurance that the funds are properly safeguarded and managed in compliance with AP 2-17 except for the findings noted in the report. Draft copies of the matters contained in the report were provided to Department officials. The findings and recommendations are presented 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 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
Thomas Buchanan, Director, Solid Waste Management Department
Judy Gray Johnson, Director, Finance and Administration Department

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PURPOSE AND SCOPE

We have completed an audit of cash handling procedures administered by the Solid Waste Management Department (the Department) for the period of July 1, 2005 through May 31, 2006. Total collections during this period amounted to \$4,285,605. The audit's objective was to assess 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).

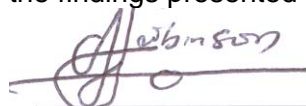
The scope of our work did not constitute an evaluation of the overall internal control structure of the Department. Our examination was designed to evaluate procedures and internal controls related to the City's cash handling procedures, test for compliance therewith and provide recommendations for improvement where appropriate. This was a financial related 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 collections and deposits are safeguarded against loss from unauthorized use or disposition, and that deposits are made promptly and recorded accurately in City bank accounts.

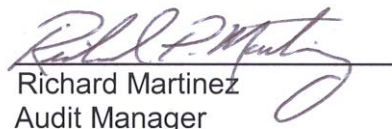
Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and may not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate.

CONCLUSION

Based on the results of our audit, we conclude 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.



Ebenezer Robinson
Auditor-in-charge



Richard Martinez
Audit Manager



Steve Schoonover
City Auditor

INTRODUCTION

The Solid Waste Management Department is located at 611 Walker street with its various divisions located on the 12th floor. The Department collects a wide variety of fees and reimbursements including trash bag tag sales and dumpster permits. The Department also collects proceeds from the sale of recyclable items such as newspapers, magazines, cardboard, plastic, aluminum, steel cans, glass, used oil, and scrap metal. Also included are fees and reimbursements related to environmental fines, long-distance cell phone usage, defensive driving courses, dead animal pick-ups, and property subrogations. The Department's total collection the first 11 months of Fiscal Year 2006 was approximately \$4.2 million.

The Department employs approximately 500 employees, 70% of whom are operations personnel. Within the Department, the Accounting Division (the Division) is responsible for the collections process. Specifically, cashiers are responsible for reconciling collections & preparing payments logs and customer service personnel are responsible for preparing deposits & taking these deposits to the bank. Payments are received in form of personal checks, business checks, money orders, cashier checks and credit cards. The City of Houston Cash Handling Policies and Procedures (AP 2-17 dated November 21, 1997) provides the guidelines for the Cash Handling Process.

I. UNTIMELY RECORDING OF DEPOSITS

BACKGROUND

AP 2-17 Section 21, outlines the procedures for the independent verification of cash receipts and FMS postings including balance sheet accounts. Additionally, AP 2-17 Section 21, requires that cash receipts are timely and accurately deposited in the City's bank account and properly recorded in the appropriate City FMS account records. AP 2-17 (13) outlines the procedures for ensuring that CR Form data is recorded from a summary cash collection form and daily deposit report.

FINDING

We reviewed a sample of 15 cash deposits and noted the following:

- 4 items (27%) totaling \$52,899 were not recorded in FMS in a timely manner. These postings were delayed from 3 to 13 business days. Consequently, financial records are not always current.
- 2 items (13%) totaling \$58,215 were mistakenly and prematurely recorded in the City FMS account records without corresponding bank deposits.

Our review indicates that Division leadership is not periodically reviewing FMS entries and related bank deposits to ensure the timeliness and accuracy of these transactions. As such, the risk of theft and misappropriation is increased.

RECOMMENDATION

To help ensure that deposit related transactions are recorded in a timely and accurate manner, we recommend that Division leadership periodically review FMS deposits transactions and supporting documentation.

II. TIMELINESS OF BANK DEPOSITS

BACKGROUND

The Department's Cash Handling Procedure allows sites to deposit cash collections weekly. AP 2-17 (13) outlines the procedures for ensuring that CR Form data is recorded from a summary cash collection form and daily deposit report, however, A.P. 2-17 is not specific on the frequency of deposits.

FINDING

Prudent cash handling procedures suggest making bank deposits whenever a sufficient amount of revenue has been collected. We reviewed a sample of 15 cash deposits and noted that the 15 deposits in our sample were all above \$4,300 including one for \$30,703.

Excessive cash increases the City's exposure to loss through theft or misappropriation.

RECOMMENDATION

To help ensure the timeliness of bank deposits and reduce the risk of possible loss, we recommend that the Department revise the Cash Handling Procedure to require deposits whenever cash exceeds \$500.

EXHIBIT I



CITY OF HOUSTON

Department of Solid Waste
Management

Interoffice

Correspondence

TO: Annise D. Parker
City Controller

FROM: Office of the Director

DATE: July 13, 2006

SUBJECT: Cash Handling Procedures
Audit

I have reviewed the findings of the recent cash handling procedures audit performed for this department and agree with the findings as stated. I have made the following changes in procedures to eliminate the stated exceptions:

1. All receipts and deposits are to be handled by only one section, previously receipts were handled and deposits were made by several sections.
2. Deposits are to be made daily and accounting system entries made the same day.
3. The responsible division manager will make periodic checks to ensure that these procedures are being followed.

Thank you.

Handwritten signature of Thomas M. Buchanan in black ink.

Thomas M. Buchanan
Director

**Views of Responsible
Officials**

CONTROLLER'S
2006 JUL 13 PM 4:32
TMB:WM:tj