

# OFFICE OF THE CITY CONTROLLER



## HOUSTON PUBLIC LIBRARY (HPL) CASH HANDLING PROCESSES PERFORMANCE AUDIT

**Chris B. Brown, City Controller**

**Courtney E. Smith, City Auditor**



**OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS**

**CHRIS B. BROWN**

July 16, 2019

The Honorable Sylvester Turner, Mayor  
City of Houston, Texas

**SUBJECT: REPORT #2020-01 HPL-CASH HANDLING PROCESSES PERFORMANCE AUDIT**

Mayor Turner:

The Office of the City Controller's Audit Division has completed a performance/compliance audit of the Houston Public Library (HPL) Cash Handling Process. HPL serves Houston's 2.3 million residents, one of the largest areas in the country. This is approximately 10.8 percent of population in the State of Texas.

HPL offers services such as providing space for meetings, lending books, tapes, and other educational materials and instructing in informational services. The HPL system has approximately 44 public service units including neighborhood and regional libraries, special collection and express libraries, HPL Mobile Express locations and a satellite library located at the Children's Museum of Houston. The Central Library is the HPL flagship facility and anchors HPL service portals from its location in downtown Houston. These locations handle cash/cash equivalents, have procedures in place to secure these assets and are responsible for accounting for its revenues (approximately \$1,663,662 in fiscal year 2018).

The scope of our audit covered fiscal years 2017 and 2018. Our primary audit objectives were to:

- Evaluate compliance with applicable policies, procedures, legislative and regulatory requirements; and
- Evaluate internal controls over HPL cash handling, revenue recognition and recording

HPL management has implemented positive improvements in carrying out its cash handling responsibilities. For example, HPL instituted general controls for ensuring proper cash management such as recording revenues in a controlled and expedient manner, adequate safeguarding of certain cash collections, and handling certain transactions in a safe and efficient manner. Additionally, HPL generally performed adequate accounting procedures and has ensured that budget performance is not exceeded on major purchases.

We noted exceptions in the following areas:

- Split purchases;
- Operation of the Petty Cash fund were used for prohibited purchases;
- Non-conformance with the requirements of certain sections of City policies;
- Missing or inoperative security cameras; and
- Reconciliation activities.



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We also noted an opportunity for strengthening internal controls which we document under the header, "Petty Cash Balance Exceeds Immediate Needs".

We would like to express our appreciation to the management and staff of HPL for their time and effort during this audit.

Respectfully submitted,

Chris B. Brown  
City Controller

xc: Rhea Brown Lawson, Ph.D., Executive Director, Houston Public Library  
City Council Members  
Marvalette Hunter, Chief of Staff, Mayor's Office  
Harry Hayes, Chief Operations Officer, Mayor's Office  
C.J. Messiah, Jr., Director General Services Department  
Hope O. Waobikeze, Deputy Assistant Director, Finance, Houston Public Library  
Shannan Nobles, Chief Deputy City Controller, Office of the City Controller  
Courtney Smith, City Auditor, Office of the City Controller

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## *EXECUTIVE SUMMARY*

### *INTRODUCTION*

The Office of the City Controller’s Audit Division has completed a performance/compliance audit of the Houston Public Library (HPL) Cash Handling Process. The audit reviewed internal controls, processes and key tasks related to cash handling policies and practices. The audit was listed in the City Controller’s fiscal year (FY) 2019 Audit Plan and is a direct result of our Enterprise Risk Assessment process.

To achieve our audit objectives, we examined management practices related to these internal controls for cash handling and HPL’s compliance with City and State cash handling rules and regulations for a sample of selected transactions.

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### *BACKGROUND*

The vision of the Houston Public Library (HPL) is demonstrated in its mission statement: “We link people to the world”. HPL serves one of the largest areas in the country – the approximately 2.3 million residents in the City of Houston. HPL claims an inventory of approximately 3 million items and states it has served over 8.2 million in-person and online visitors, answered over 2.1 million information questions, circulated more than 5.7 million books, magazines, and audio-visual materials and attracted over 400,000 participants to its programs. All services and privileges that accompany the HPL MY Link card are free to all residents in the state of Texas.

The HPL system is comprised of 44 public service units, including 31 neighborhood libraries, four regional libraries, three special collection libraries, four express libraries, the HPL Mobile Express and a satellite library located at the Children’s Museum of Houston. The Central Library, HPL’s flagship facility is located in downtown Houston, and anchors this constellation of service points.

Books and other materials are loaned out. When items are not returned by the due date, library locations that loan items out can charge fees and/or penalties. In addition, some of the libraries provide passport services. Furthermore, HPL offer spaces for meetings. These locations handle cash and equivalents and have procedures in place to secure these assets for the City of Houston. These locations are responsible for accounting for its revenue. Revenue from services provided totaled \$1,663,662 in fiscal year 2018. The City of Houston reported the following revenues collected by HPL (Source: SAP):

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<u>GL Account and Description</u>	FY 2018	FY 2018	<u>Difference</u>
	<u>Budget</u>	<u>Actuals</u>	
* 424 Charges for Services	\$1,020,000	\$1,226,155	\$206,155
* 428 Other Fines & Forfeitures	450,000	357,426	(92,574)
* 443 Concession	250	242	(8)
* 444 Other Op Revenues	10,000	250	(9,750)
* 447 Parking	70,000	60,412	(9,588)
* 451 Other Revenues	-	16,952	16,952
* 452 Non-Op/Misc. revenues	6,000	2,224	(3,776)
<b>Totals</b>	<b><u>\$1,556,250</u></b>	<b><u>\$1,663,662</u></b>	<b><u>\$107,412</u></b>

For the purpose of the audit we established that two Administrative Policies (APs) are essential as criteria upon which the attainment of the audit objectives is predicated.

The City of Houston Administrative Policy (AP) AP 4-8, *Cash Handling*, establishes procedures to ensure cash handling operations are recorded and reported timely and accurately into the City's financial systems. The AP also requires establishing internal controls for cash handling with the objective of establishing a framework by which all departments develop complementary departmental policies specific to each department's scope of operations. AP 4-8 applies to all City of Houston officials who are entrusted with the receipt, deposit, reconciliation and recording of cash. The Finance Department is responsible for reviewing each department's local cash handling policy and subsequently approving or denying the policy based on its perceived effectiveness, as well as offering analyses on suggested revisions.

AP 5-3, *Petty Cash*, applies to all City departments and employees. Petty Cash funds are governed by this policy, the City's procurement policy and procedures, the ordinances of the City of Houston, and the laws of the State of Texas. It establishes legal uses of Petty Cash funds and provides the definition of what are unallowable purchases. Additionally, AP 5-3 maintains criteria for documenting use of these funds and for periodic review and reconciliation of fund balances.



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### *RISK ASSESSMENT AND THE BASIS OF SELECTION*

We developed and performed a risk assessment on the 44 library locations to determine the locations to be selected for our audit. As described in the "Background", HPL has 44 locations under operations, to determine the locations for the audit, we performed a risk assessment of all locations. The criteria used in the risk assessment are as detailed below:

- (a) Revenue Size: Any location whose revenues were 10% or more of the aggregated total revenues of all was considered a major location and as a result was considered high risk;
- (b) New Location: A new location is generally considered higher risk than an existing one as the staff and personnel work through administrative and operational challenges of a new location.
- (c) Closed Location: Closing or closed location was considered a significant risk due to the potential for fraud, and/or incomplete transactions.
- (d) Changes in key management and staff: Locations with recent changes in key management and staff was considered a significant risk owing to internal control risks arising from changes in key management;
- (e) Absence of electronic security monitoring system: Absence of or non-functioning electronic surveillance or monitoring system at a location was considered a significant risk.
- (f) Level of Cash: Locations with high cash volume were considered high risk because of the high propensity for theft, etc.
- (g) IT Systems: Locations with new IT installations or no IT installations were considered high risk areas.
- (h) Audit Activity: Locations that have not been audited recently either by the internal audit department, external third-party audit firms and/or monitoring agencies are considered high risk.
- (i) Prior Audit Findings: Prior audit findings that have been mitigated or in which corrective action has been implemented are considered low risk, however locations which are yet to implement corrective action to prior audit findings are considered high risk.
- (j) Theft or fraud: Locations which have recent reports of theft and/or fraud are considered high risk areas.
- (k) Overall Consideration: Certain factors like auditors' knowledge and experience regarding the risk associated with a location including, city auditor's consideration and/or mayor or council action(s) may an overriding consideration in high risk factor determination.

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Based upon the application of the risk assessment criteria, five (5) locations were selected as shown in Table 1:

TABLE 1 LIBRARY LOCATIONS SELECTED			
S/N	Location	Address	Status
1	Central Library	500 McKinney, Houston, TX 77002	Active/Open
2	Hennington-Alief	7979 S. Kirkwood Rd. Houston, TX 77072	Active/Open
3	McGovern Stella Link	3838 Aberdeen Way, Houston, TX 77025 (Temporary Location)	Closed (due to Harvey)
4	Park Place	8145 Park Place Blvd. Houston, TX 77017	Active/Open
5	Collier Library	6200 Pinemont Dr, Houston TX 77092	Active

### **AUDIT SCOPE AND OBJECTIVES**

The primary objectives of the audit were to:

- Evaluate compliance with applicable policies, procedures, legislative and regulatory requirements (**Objective 1**); and
- Evaluate internal controls over HPL cash handling, revenue recognition and recording (**Objective 2**).

The scope of the audit was a sample selection of HPL Library locations that perform cash handling operations on a selective basis from July 1, 2016 through June 30, 2018.

### **PROCEDURES PERFORMED**

To obtain sufficient audit evidence to achieve our audit objectives and support our conclusions, we performed the following steps:

- Reviewed relevant City ordinances, funding requirements, and City policies, processes and controls documentation;
- Performed research of existing ALGA and IIA websites for similar reports by other local government and institutions;
- Communicated with HPL management and staff to gain an understanding of its cash handling practices, including discussions with staff from the Finance Department, Controller's Office and other COH staff;
- Obtained and reviewed general ledger accounts related to for HPL operation revenues and expenses;





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- Conducted unannounced cash counts, interviews and process walkthroughs with key personnel in HPL;
  - Identified and evaluated key risks and controls;
  - Identified potential areas for process improvements and control gaps;
  - Performed substantive test of cash transactions to determine payment for prohibitive transactions;
  - Performed an analysis of cash transactions to determine average monthly petty cash expenditure to verify if there is cash in excess of immediate needs;
  - Reviewed sample cash transactions for the existence of split transactions and single purchase payments in excess of \$100;
  - Documented findings and confirmed issues with key process owners;
  - Prepared a draft report to include testing results and recommendations; and
  - Discussed draft findings with key process owners, management and obtained written management responses.

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### *AUDIT METHODOLOGY*

We conducted this performance/compliance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS – “*Yellow Book*”) and the International Standards for the Practice of Internal Auditing as promulgated by the Institute of Internal Auditors (IIA – “*Red Book*”). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the available evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objectives.

The scope of our work did not constitute an evaluation of the overall internal control structure of the City of Houston nor that of HPL. Management is responsible for establishing and maintaining a system of internal controls to ensure that City assets are safeguarded; financial activity is accurately reported and reliable; and management and employees are following laws, regulations, and policies and procedures. The objectives are to provide management with reasonable, but not absolute assurance that the controls are in place and effective.

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### *CONCLUSIONS AND SIGNIFICANT ISSUES*

We believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards. The conclusions are aligned with the related Audit Objectives for consistency and reference. For the detailed findings, recommendations, management responses, comments and assessment of responses see the “Detailed Finding, Recommendations, Management Response, and Assessment of Response” section of this report.

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**CONCLUSION 1 – (AUDIT OBJECTIVE #1 & #2)**

Based on work performed, we conclude that HPL should enhance its compliance with the requirements of Administrative Policies (AP) 4-8 and AP 5-3 requirements (**See Findings 1, 2,3**).

**CONCLUSION 2 – (AUDIT OBJECTIVE #1)**

Based on work performed, we conclude that HPL should improve internal controls over cash handling processes, revenue recognition and recording practices. In addition, we noted certain opportunity for strengthening internal control. (**See Findings 1, 2, 3, 4, 5, and 6**).

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**ACKNOWLEDGEMENT AND SIGNATURES**

The Audit Team would like to thank the management of HPL for their cooperation, time, and efforts throughout the course of the engagement.

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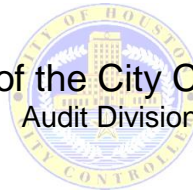
Richard Denney, MBA  
Assistant City Auditor II

A handwritten signature in blue ink, reading "Olaniyi Oyedele", is written over a horizontal dashed line.

Olaniyi Oyedele, CPA  
Audit Manager

A handwritten signature in blue ink, reading "Courtney Smith", is written over a horizontal dashed line.

Courtney Smith, CPA, CIA, CFE  
City Auditor



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***DETAILED FINDINGS, RECOMMENDATIONS, MANAGEMENT RESPONSES, AND ASSESSMENT OF RESPONSES***

**FINDING #1 –PURCHASES EXCEEDING FUND WITHDRAWAL LIMIT  
RISK RATING (IMPACT AND MAGNITUDE) = HIGH**

**BACKGROUND:**

Per Section 6.3 of Administrative Procedure 5-3; *Petty Cash* (AP 5-3), the withdrawal limit for a single transaction is \$100. Section 6.3.1 provides that “purchases shall not be divided or spread out to avoid exceeding the Fund withdrawal limit”. During our audit, we performed procedures to determine Houston Public Library’s (HPL) compliance with this requirement. We reviewed petty cash transactions for the period July 2016 through June 2018 including support documentation.

**FINDING:**

During the audit, we noted instances of split purchases and single transactions greater than \$100 as follows:

- On December 4, 2017 two (2) items of purchase from Walmart totaling \$115.74 were purchased at \$80.00 and \$35.74 respectively.
- On December 5, 2017 HPL purchased from Walmart an item of Camp Stream Dry Run in the amount of \$114.35.
- On December 26, 2017, two (2) items of Camp Stream Dry Runs totaling \$192.96 were purchased at \$99.40 and \$93.56, respectively.

Section 6.3.1 of AP 5-3 prohibits single transactions greater than \$100 and split purchases designed to avoid exceeding the fund withdrawal limit. We obtained HPL management response to our findings. Management represented to us that the purchases were made during the course of their operations.

**RECOMMENDATIONS:**

Our recommendations are as follows:

1. HPL should ensure compliance with the requirements of AP 5-3 by avoiding split purchases, which results in the violation of Section 6.3.1.
2. HPL should ensure that expenditures in excess of \$100.00 are processed through the department’s expenditure approval process. This will ensure such expenses

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are properly reviewed and approved by management in accordance with the City's policies and procedures.

**HPL DEPARTMENT MANAGEMENT RESPONSE:**

The few instances when split purchases occurred was right after Hurricane Harvey; purchases were made with hurricane recovery grant. Additionally, reimbursements were issued within the \$100.00 petty cash limit in the cases where receipts totaled over \$100.00. HPL has since taken corrective action to ensure compliance to petty cash policy AP 5-3 and will continue to review and share policies with responsible personnel. All recommendations are noted and applied.

**RESPONSIBLE PARTY:**

Hope Waobikeze, Assistant Director/CFO, HPL

**ESTIMATED DATE OF COMPLETION:**

HPL corrected the error beginning FY2019, July 1, 2018. All purchases are reviewed and within \$100 limit with no split purchase occurrences. HPL currently follows and are in compliance with the requirements of AP 5-3.

**ASSESSMENT OF RESPONSE:**

Management comments including the procedures enumerated for corrective action are considered adequate in addressing the finding identified.



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**FINDING #2 – PETTY CASH FUND USED FOR PROHIBITED PURCHASES**

**RISK RATING (IMPACT AND MAGNITUDE) = MED**

**BACKGROUND:**

Section 6.1.1 of AP 5-3 *Allowable Purchases*; provides that funds may be used to purchase any item or service not prohibited by this procedure or policy. In addition, Section 6.2, *Prohibited Purchases*, details a list of items that are prohibited from purchase which include food and beverages of any kind unless an exception is provided by the Mayor's Office (Section 6.2.1.10).

During our audit, we performed procedures to assess Houston Public Library's (HPL) compliance with this requirement. We reviewed petty cash transactions for the period July 2016 through June 2018 including support documentation.

**FINDING:**

We noted several instances that we consider both individually and aggregate, to be violations of the provisions of Section 6.2.1.10 which prohibits the use of fund for food and beverages of any kind; and Section 6.2.1.11 which prohibits the use of pretty cash fund for "Entertainment of any kind". The transactions are as detailed below:

- On December 4, 2017 HPL purchased from Walmart food items in the amount of \$50
- On May 1, 2018 HPL purchased from Walmart Alka Seltzer Plus items for Camp Stream Dry Run in the amount of \$99.40 and \$19.55 respectively
- On June 22, 2018 HPL made 3 separate purchases of pizza at \$100, \$60 and \$40 respectively.

We inquired from management whether approval for these transactions were obtained from The Mayor's Office as required under Section 6.2.1.10 and noted none. We sought management representation to our findings. Management represented to us that the purchases were made during the course of their operations.

**RECOMMENDATIONS:**

Our recommendations are as follows:

1. We recommend that HPL should ensure compliance with the requirements of AP 5-3 by avoiding purchase of food and entertainment related items which results in the violation of Section 6.3.1. HPL should use routine COH purchasing methods to purchase items prohibited by the AP 5-3 that are considered necessary for its



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operations. Management may also consider obtaining an exception to purchase food and beverage from the Mayor's Office.

2. Management should strengthen internal controls over cash handling processes through periodic review of petty cash transactions. This will enable early detection and prevention of prohibited purchases.
3. A summary list of prohibited purchases should be made available to all petty cash custodian and newly appointed custodians should be made aware of it as part of on-the-job training.

**HPL DEPARTMENT MANAGEMENT RESPONSE:**

The purchase of food and entertainment was made with a grant that provided funding for camp stream's food and entertainment; the funds were used as such and approved by the grantor (the State). HPL was unaware of obtaining additional Mayor's approval under AP 5-3 if the grant was approved for food and entertainment purchase. HPL has noted auditor's recommendation and will ensure Mayor's approval is obtained for food and entertainment before purchases; especially for grant.

**RESPONSIBLE PARTY:**

Hope Waobikeze, Assistant Director/CFO, HPL

**ESTIMATED DATE OF COMPLETION:**

The error was a one-time occurrence due to Hurricane Harvey grant; HPL corrected the error beginning FY2019, July 1, 2018. All purchases are reviewed for food purchases before approval. HPL currently follows and are in compliance with the requirements of AP 5-3. Additionally, HPL plans to hold more petty cash trainings for concerned personnel in July 2019, the beginning of FY20. A list of prohibited items will be shared during these trainings.

**ASSESSMENT OF RESPONSE:**

Management comments including the procedures enumerated for corrective action are considered adequate in addressing the finding identified.



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**FINDING #3 – DEPARTMENTAL POLICIES NOT IN COMPLIANCE WITH AP 4-8 AND AP 5-3**  
**RISK RATING (IMPACT AND MAGNITUDE) = HIGH**

**BACKGROUND:**

Policies are management tools for ensuring efficiency and effectiveness in operations, safeguarding the entity's assets and achieving the entity's objectives. To accomplish the objectives under audit, two Administrative Policies are applicable; Administrative Policy (AP) 4-8, *Cash Handling*, and Administrative Policy 5-3 *Petty Cash*.

HPL maintains several locations that collect and deposit cash into the City bank accounts. HPL must adhere to the provisions of both policies as it relates to cash in its operations. The objective of A-P 4-8 is to establish a framework by which all departments shall develop departmental policy that governs accurate and responsible cash handling methods that is specific to each departmental operational scope. Among these departmental requisites are the departmental policy that HPL is required to have prepared, reviewed and approved. The following are the mandates of AP 4-8:

- *Develop a departmental policy that further defines the framework established in this Administrative Procedure and report information on all cash collection points to the Controller's Office as requested (Section 6.1).*
- *The Finance Department shall review each department's local cash handling policy and subsequently approve or deny the policy based on its effectiveness and offer analysis on suggested revisions if applicable (Section 6.3).*

The objective of AP 5-3 was to establish procedures that support responsible management of City funds. In fulfillment of this objective, certain measures to safeguard the city's cash assets were introduced. Among the measures included but not limited to, are:

- Determining the number of funds needed and the dollar amount of each Fund (Section 5.1.1)
- Designating a Fund Custodian to administer and control the Fund and a Back-up Custodian to handle Fund transactions in the Fund's Custodian's absence (Section 5.1.2)
- Ensuring that any and all discrepancies in, or findings related to, a Fund are resolved, if necessary, by filing a complaint with the police department and/or taking appropriate disciplinary action (Section 5.1.6).
- When establishing or increasing a Fund, the Fund Custodian must complete certain documentation to initiate the process (Section 7.3.2).

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We obtained and reviewed the HPL departmental policy to determine whether it was in accordance with the provisions of AP 4-8. In addition, we performed procedures to determine whether the procedures established by HPL for the responsible management of City funds were in line with A-P 5-3 requirements.

**FINDING:**

Audit work performed revealed the following exceptions, which we consider both individually and in aggregate to constitute significant deficiencies in internal control and compliance:

- (a) There is no evidence that the HPL departmental policy was submitted to the Finance Department for review and approval as required under Section 6.3 of AP 4-8. Representations provided to us by the Finance Department indicate that the policy was not submitted to them for review and approval.
- (b) There were inconsistencies in the balance maintained for Petty Cash Fund 100190. The authorized balance was \$1,900 yet the balance of \$1,888.00 was maintained. The detail reflected in the GL indicated there were two instances of reported shortages in the amount of \$40 and \$22, respectively. HPL did not reconcile these discrepancies as required by Section 7.9.4 of AP 4-8.

**RECOMMENDATIONS:**

Our recommendations are as follows:

1. HPL should review its departmental policy on petty cash and change funds to ensure it is in accordance with the requirements of AP 4-8 and AP 5-3 and ensure that the final document resulting from this review is submitted to the Finance Department for approval in accordance with the provisions of Section 6.3 of AP 4-8.
2. HPL policy should identify the number of, including the dollar amount of existing approved petty cash and change funds maintained by HPL.
3. HPL should ensure that adequate and continuous training is maintained for its cash personnel on matters involving cash handling processes and procedures. These processes should include an acknowledgement that the requirements of AP 4-8 and AP 5-3 and the departmental policy have been read and understood.
4. We recommend that HPL identify the cause of any cash fund balance irregularities and correct them as required by AP 4-8. HPL should maintain accurate and complete funds balance documentation including the dates funds were authorized and the date fund custodians were assigned.
5. HPL should include cash handling processes related to reconciliation of its SAP





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financial accounts with the departmental accounts in compliance with the requirements of AP 4-8.

**HPL MANAGEMENT RESPONSE:**

- (A) HPL maintains the same petty cash and cash handling policy as approved City of Houston policies and procedures. HPL did not see any need to obtain additional approval to use the same policy and procedure; however, HPL will work with finance department to ensure all necessary steps are taken for approval as recommended.
  
- (B) HPL current change fund balance was reduced by \$22.00 due to a reported robbery at Melcher Library; the current fund balance is \$1,888.00. Controller's office staff worked with HPL to present and make all necessary entries to reduce the fund balance in SAP; this information was also shared with the auditors during audit.

HPL assured the auditors during audit that HPL takes all necessary steps to ensure compliance with AP 4-8 and AP 5-3. Compliance to cash handling and reconciliation is a priority for HPL management as well as HPL Financial Services staff. All recommendations are noted and were missed, have since been reviewed and implemented.

**RESPONSIBLE PARTY:**

Hope Waobikeze, Assistant Director/CFO, HPL

**ESTIMATED DATE OF COMPLETION:**

- (A) Estimated completion for HPL's policy update approval is June 30, 2020. Currently, HPL uses approved City of Houston policies and procedures.
  
- (B) HPL resolved and completed this item beginning July 1, 2018. HPL's fund balance of \$1,888.00 is current.

**ASSESSMENT OF RESPONSE:**

Management comments including the procedures enumerated for corrective action are considered adequate in addressing the finding identified.



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**FINDING #4 – SEVERAL HPL SECURITY CAMERAS ARE INOPERATIVE OR NON-EXISTENT**  
**RISK RATING (IMPACT AND MAGNITUDE) = HIGH**

**BACKGROUND:**

It is City policy that all departmental entities involved with cash handling protect and secure these resources from the possibility of theft or diversion. Not only are background checks performed on the cash handlers prior to approval to these positions, but the City deploys security cameras in various locations cash is processed. Administrative Policy (AP) 4-8 contains the requirements for the security of city assets. Paragraph 7.9.3 states that:

*“Each employee, from a front-line cash handler to a department director, is responsible for protecting the financial assets of the City. Responsibility is designated to department directors to install and maintain a Cash Handling control system that will prevent, detect, and deter fraud and losses.”*

Administrative Policy (AP) 5-3 contains the requirements for the security of city assets. Paragraph 5.3.4 states that:

*“The Fund Custodian is responsible for: Maintaining adequate security over the Fund.”*

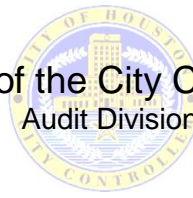
HPL maintains security cameras as a feature to protect and detect theft and other possible vices to the cash funds. They are placed in a position to observe the transactions that take place and the collection and exchange of cash and change.

We performed procedures to physically count the installed cameras and determine whether they are working properly. Additionally, we performed procedures to verify that regular preventive maintenance was performed on the HPL security cameras. This was done through a review and inquiry of the state of preventive maintenance operations by General Services Department (GSD).

**FINDING:**

Security cameras designed to provide evidence of secured cash handling operations were either inoperative, ineffective or in certain instances, both. In some instances, the security cameras were not installed at some locations. Details of our audit findings are summarized in the table below:

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<b>TABLE 2</b>			
<b>SUMMARY OF SECURITY CAMERA TEST WORK</b>			
<b>Location</b>	<b>Cameras</b>		<b>Comment</b>
	<b>Number</b>	<b>Working</b>	
Alief	0	0	Security camera does not exist
Central	6	2	Four security cameras not working
			Two security cameras. improperly angled
			One secured location not maintained
Collier	0	0	Security camera does not exist
Park Place	1	1	Security camera needs enhancement
			Safe lacked camera security coverage
			Safe lacked access control enhancement
Stella Link	0	0	Security camera does not exist
			Temporary location due to Hurricane Harvey renovations

Furthermore, audit procedures performed regarding preventive maintenance operations performed on the installed cameras by GSD revealed that maintenance services were last performed on some cameras in April 2014. In some instances, there is no record that preventative maintenance services were performed for other HPL locations. We also noted that some of the cameras were not properly placed to fully capture the collection and exchange of cash. For example, the two cameras covering the two cash till locations at the Central Library were not fully covering all the viewable angles of the cash transactions.

The inoperative and/or absence of cameras indicates that an important element in the internal control mechanism instituted by management to safeguard the City's cash assets is materially deficient and this amount, in the opinion of the audit team, an apparent violation of the provisions of Section 7.9 of AP 4-8 regarding security of assets. Representation offered to us by HPL management indicated GSD was responsible for the installation, maintenance and proper functioning of the cameras. We sought GSD's response on the matter and they represented to us that while they are aware that the cameras are inoperative, the level of resources available are inadequate in addressing the issues.

**RECOMMENDATIONS:**

1. We recommend that GSD develop a citywide policy with regards to periodic maintenance and check on the security cameras. This policy must include a maintenance register for all cameras within the city. The maintenance register

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should include the name of the officer assigned to do the maintenance, day/time of performance and a sign-off indicating whether the assignment was performed and issues if any, encountered. Registers must be reviewed periodically by a maintenance supervisor.

2. We recommend that a comprehensive review of the strategic positions of all cameras placed in cash collection centers be carried out to ensure that all relevant events relating to the safety and security of assets and personnel are adequately captured.
3. We recommend HPL follow up with GSD to ensure periodic preventive maintenance of security cameras be performed on a sustained, periodic basis and that documentation be stored on the results of these requests for all applicable locations.

**HPL DEPARTMENT MANAGEMENT RESPONSE:**

HPL accepts auditor's recommendation; HPL spaces division is working with GSD to correct and implement all auditors recommendations to ensure adequate safety and security of assets and personnel.

**GENERAL SERVICES DEPARTMENT MANAGEMENT RESPONSE:**

While the GSD Director agrees security cameras should be in place and operational in and around the cash handling areas at city libraries, we discovered past security assessments, conducted by city approved contractors, did not recommend security cameras in these areas. Security Management will conduct a comprehensive review of cameras in cash collection centers and will work with HPL on installing and/or upgrading those cameras. GSD will develop a policy to cover the preventive maintenance of security cameras and document the preventive maintenance performed.

**RESPONSIBLE PARTY:**

Responsible parties for this item include the HPL Department and the General Services Department.

Rodney Jackson, Deputy Assistant Director, Security Management, GSD

**ESTIMATED DATE OF COMPLETION:**

AUGUST 31, 2019

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**ASSESSMENT OF RESPONSE:**

Management comments including the procedures enumerated for corrective action are considered adequate in addressing the finding identified.



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**FINDING #5 – INABILITY TO RECONCILE AND ACCOUNT FOR REVENUE PROPERLY**

**RISK RATING (IMPACT AND MAGNITUDE) = HIGH**

**BACKGROUND:**

Section 2.1 of Administrative Procedures 4-8 *Cash Handling* (AP 4-8), the purpose of the AP 4-8 is “to establish procedures to ensure that all cash collections are recorded timely and accurately into the City’s financial systems and to establish strong internal controls for cash collection to prevent misuse”. To ensure the fulfillment of this purpose, the AP requires in Section 7.5.1 that funds received must be reconciled to the cash handling system report at the end of the day or end of shift. Furthermore, Section 7.5.5.3 provides that once the reconciliation is complete, the deposit entry should be made into the financial system. All deposits must be recorded in the City’s financial accounting system daily or as soon as practical.

HPL uses a Point of Sale (POS) system called Smart Money to record cash sale transactions. These transactions are classified under the General Fund in the accounts of HPL. The cash receipts are directly deposited in the city bank account maintained for HPL transactions. At each month end, the Controller’s Department receives bank statements detailing HPL transactions directly and records them in SAP. For our audit, we obtained the summary of transactions maintained by HPL through its Smart Money application system and compared with the balances recorded in the SAP General Fund for HPL to determine whether revenues were properly recorded and accounted for.

**FINDING:**

Audit procedures performed revealed exceptions regarding the General Fund maintained by HPL management. The amounts recorded in the SAP by the Controller’s Department are as follows in Table 3:

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<b>TABLE 3</b>				
<b>REVENUE RECONCILIATION ANALYSIS</b>				
<b>S/N</b>	<b>Month</b>	<b>General Fund SAP</b>	<b>General Fund HPL</b>	<b>Difference</b>
1	Jul-2017	\$122,025.41	\$297,349.00	(175,353.59)
2	Aug-2017	\$125,937.02	\$177,416.42	(51,479.40)
3	Sep-2017	\$59,767.10	\$687,607.71	(627,840.61)
4	Oct-2017	\$47,645.20	\$181,415.89	(133,770.69)
5	Nov-2017	\$81,452.98	\$135,977.09	(54,524.11)
6	Dec-2017	\$74,451.08	\$82,660.48	(8,209.40)
7	Jan-2018	\$210,651.77	\$241,483.35	(30,831.58)
8	Feb-2018	\$129,461.86	\$166,654.54	(37,192.68)
9	Mar-2018	\$181,961.31	\$307,219.62	(125,258.31)
10	Apr-2018	\$214,142.92	\$304,313.95	(90,171.03)
11	May-2018	\$190,418.45	\$326,786.44	(136,367.99)
12	Jun-2018	\$225,746.78	\$235,676.55	(9,929.77)
	<b>Total</b>	<b>\$1,663,661.88</b>	<b>\$3,144,561.04</b>	<b>(1,480,899.16)</b>

HPL did not demonstrate it maintained an adequate financial revenue reconciliation process to determine if the amounts recorded in SAP matched the amounts HPL received as revenue. Furthermore, we found no evidence to support a process for ensuring cash receipts from operations through Smart Money were accurate and whether reconciliation was performed for any shortfall in revenue arising from operations. The absence of a formal documentation of the reconciliation process is in the departmental policy is in violation of the provisions of Section 7.2.1.4 of AP 4-8 which require a description of the reconciliation process, including the frequency of reconciliation.

We inquired from HPL staff and management regarding the exceptions noted above which indicated that General Fund recorded in the SAP was understated by \$1,480,899.16. Management represented to us that though they account for monies received through Smart Money as General Fund, they do not reconcile the balances with the amount recorded in the City's General Fund ledger because the reconciliation is performed by Controller's Office personnel. We did not receive any documentary support from HPL management regarding the differences.

As a further test of the validity of figures we obtained from SAP, we provided our data to the Controller's Office to verify the amounts reported and the data matched with the data the Controller's Office provided.



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**RECOMMENDATIONS:**

1. We recommend that HPL develop a reconciliation process that considers all funds it maintains (not only General Fund 1000 funds), ensure that the financial information matches those reported by the Controller Office, and document any discrepancies discovered during the reconciliation process.
2. We recommend that HPL document this reconciliation process within its departmental Cash Handling Policy as required by Section 3 of AP 4-8 and obtain approval for its policy from the Finance Department.

**HPL DEPARTMENT MANAGEMENT RESPONSE:**

HPL informed the auditors during audit regarding HPL revenue tracking, which is for “all” funds including grants, fees, gifts, and donations recorded in SAP under different fund numbers and categories. HPL also informed the auditors that when pulling reports from SAP, using the query to pull “all” funds will provide a comprehensive and accurate data for “all” revenue received during the period and year, which will present the same data as reported and reconciled by HPL.

HPL revenue recording and booking will not reconcile if tracked by general fund only; additionally, HPL informed the auditors to verify with bank reconciliation section in the Controller’s Office regarding HPL accurate and reconciled monthly items without discrepancies. The noted discrepancies of over 1 million is significant enough to report and note on the monthly reconciliation reports by the Controller’s Office revenue reconciliation section.

HPL and the Controller’s Office bank reconciliation section are working together to keep revenue reconciled monthly and on time, following established policy for cash reconciliations.

**RESPONSIBLE PARTY:**

Hope Waobikeze, Assistant Director/CFO, HPL

**ESTIMATED DATE OF COMPLETION:**

HPL maintains an ongoing acceptable process for revenue reconciliation. If reports are pulled for “all” fund, the discrepancies will be resolved.

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**ASSESSMENT OF RESPONSE:**

We performed a comparison of the total revenue from operations and the General Fund revenue attributed to HPL recorded in the City general ledger against the General Fund revenue figures obtained from HPL management, and in both instances observed material variances which support our audit conclusion and recommendations included in this report.

**FINDING #6 – PETTY CASH BALANCE EXCEEDS IMMEDIATE NEEDS**  
**RISK RATING (IMPACT AND MAGNITUDE) = HIGH**

**BACKGROUND:**

Businesses generally keep small amounts of cash to make small and often immediate miscellaneous payments. Essential to the establishment and maintenance of an effective and efficient petty cash system is the determination of amount of petty cash balance to be held at any time. While there is no minimum amount that is considered appropriate for establishing petty cash, best practice dictates that management determines the amount based on estimates of departmental needs during a one-month period. As an example, Texas Government Code Section 403.246 *Amount of Petty Cash Account* paragraph (e) states:

(a)  
*“A petty cash account established for a purpose of a combination of purposes the agency considers prudent for conducting state business may not exceed the amounts determined by the comptroller as necessary for the efficient operation of the agency.”*

During the audit, we identified that HPL maintains a petty cash fund in the original amount of \$1,900 and a change fund for parking purposes in the amount \$6,200. We reviewed the transactions and performed procedures to ascertain whether the balances maintained for the petty cash and the change fund were adequate for the operations of the accounts.

**FINDING:**

Audit procedures performed revealed the following in connection with the funds:  
 (A): Petty Cash

Analytical review performed on transactions for the period under audit identified the following:

<b>TABLE 4</b>			
<b>Serial No.</b>	<b>Details</b>	<b>Amount</b>	<b>Line</b>
1	Approved Monthly Petty Cash Fund Balance	\$1,900.00	A
2	Aggregate Annual Total Cash Purchase for the Period	\$1,281.33	B
3	Number of months in the Period	12	C
4	Approximate Monthly Cash Purchase	106.78	D=B/C
5	Excess of Monthly Petty Cash Balance Held	\$1,793.22	E=A-D



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Our review of transactions as detailed in the table above revealed that petty cash balance was far more than the immediate cash needs of HPL by \$1,794.62. We sought management explanations for this finding. Management represented to us that the excess balance was maintained as a buffer because of the delay and bureaucracy encountered in the process for fund increment. The increment process includes both replenishing the fund and documentation.

(B): Change Fund

Audit procedures revealed that HPL maintains a parking change fund in the amount of \$6,200. According to representations offered to our inquiries, this fund was intended as a change fund for the parking garage. It was planned to be installed in the machines placed in the garage operated by HPL to offer change to the public for parking. The option was discontinued for various reasons: 1) it was observed that the machines were dispensing change funds inappropriately and in certain instances human operators still had to intervene to dispense change to the public and 2) the public generally paid via credit/debit card thereby reducing the need for change. As a result, HPL has decided to return the change fund to Administration and Regulatory Affairs (ARA) Department for further action. However, the funds have been with HPL for over three months and at the time of this report, had not yet been forwarded to ARA.

While we noted no exceptions to the safety of these funds, we are mindful of certain implications regarding the maintenance of these funds:

- (a) Funds are susceptible to theft and/or unauthorized use.
- (b) Cash balance in excess of immediate needs depicts idle funds that can put to effective use by other departments with pressing petty cash needs.

**RECOMMENDATIONS:**

Our recommendations are as follows:

1. HPL should perform an analysis of its petty cash needs to determine the minimum balance required to maintain its operation and return any excess to the treasury.
2. HPL should initiate the process to return the balance of \$6,200 from its change fund to ARA expeditiously and submit a request to close the fund to the Controller's Office.
3. Controller's Office Department should review the process for the increment of petty cash balances, to ensure the process is efficient and safeguards City assets.

**HPL DEPARTMENT MANAGEMENT RESPONSE:**

The analytical review presented above by the auditors did not represent accurately HPL petty cash expense and need. The auditors were informed during the audit that HPL's

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petty cash need varies by month, which increases during busy season for HPL. During the summer, HPL can easily exceed the total petty cash fund. Petty cash needs are high during summer programs. As recommended, HPL will review the petty cash fund balance against actual need and take steps to reduce the balance as necessary.

**RESPONSIBLE PARTY:**

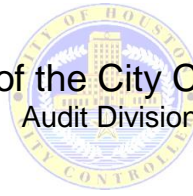
Hope Waobikeze, Assistant Director/CFO, HPL

**ESTIMATED DATE OF COMPLETION:**

HPL will monitor expenses to determine fund usage beginning July 1, 2019. If reduction of funds are necessary, HPL will process paperwork to reduce fund beginning July 1, 2020.

**ASSESSMENT OF RESPONSE:**

Based on work performed, we ascertained that HPL incurred expenditures for only 5 months of the fiscal year July 2017 through June 2018 with the highest level of expenditure of \$439.86 occurring in April 2018. This occurred against a background of no expenditures for seven months (July 2017 – September 2017, November 2017 and December 2017 and February 2018 – March 2018) prior to April 2018. Consequently, the average analysis of yearly expenditures adopted by the auditors is an accurate determinant of the excess of cash held over immediate need and supports our conclusion.



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# **EXHIBIT 1**

# **ACKNOWLEDGEMENT STATEMENT**

**HOUSTON PUBLIC LIBRARY DEPARTMENT**

# Acknowledgement Statement


Date: 20 JUNE 2019

Chris B. Brown  
City Controller  
Office of the City Controller

Subject: Performance Audit of the Houston Public Library (HPL) Cash Handling Processes –  
Acknowledgement of Management Responses

I acknowledge that the management responses contained in the above referenced report are those of the Houston Public Library (HPL) Department. I also understand that this document will become a part of the final audit report that will be posted on the Controller's website.

Sincerely,



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Rhea Brown Lawson, Ph.D., Director  
Houston Public Library (HPL) Department



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**EXHIBIT 2**

**ACKNOWLEDGEMENT STATEMENT**

**GENERAL SERVICES DEPARTMENT**

# Acknowledgement Statement

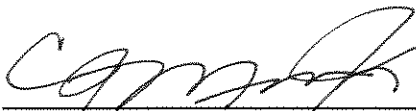
Date:

Chris B. Brown  
City Controller  
Office of the City Controller

Subject: Performance Audit of the Houston Public Library (HPL) Cash Handling Processes –  
Acknowledgement of Management Responses

I acknowledge that the management responses contained in the above referenced report are those of the General Services Department (GSD). I also understand that this document will become a part of the final audit report that will be posted on the Controller's website.

Sincerely,



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C.J. Messiah, Jr., Director  
General Services Department (GSD)



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