

**OFFICE OF THE CITY CONTROLLER**



**HOUSTON HEALTH DEPARTMENT  
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**

October 26, 2016

The Honorable Sylvester Turner, Mayor  
City of Houston, Texas

**SUBJECT: 2017-05 Houston Health Department (HHD)  
Cash Handling Processes Performance Audit**

Mayor Turner:

The Office of the City Controller's Audit Division has completed a performance audit of HHD's cash handling processes. HHD's provides a broad range of services in keeping with the department's mission to: "work in partnership with the community to promote and protect the health and social well-being of all Houstonians".

Fees for services are generated through the Bureau of Vital Statistics Division, Adult and Foreign Travel immunization clinics, a water testing laboratory, an Environmental Health Division, health centers, Multi-Service centers, dental clinics and childhood immunization clinics. The department received \$17.4 million in revenue from fees and permits in FY2015.

Our primary audit objectives were the consideration of processes and internal controls related to:

1. Cash Handling; and
2. Revenue recognition and recording.

Our engagement scope included operations and transactions occurring during Fiscal Year 2015 and July through December of Fiscal Year 2016.

Based on the procedures performed during the audit, we noted the following:

- Department management restricted access to cash and cash equivalents appropriately to foster safeguarding of City assets;
- Cash receipts balanced to bank deposits;
- Revenue received matched revenue recorded in SAP; and
- Bank reconciliations are performed regularly and in a timely manner.

We noted several opportunities to enhance internal controls including the following:

- Timeliness of bank deposits;
- Administration of the change fund accounts; and
- Segregation of duties.



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CHRIS B. BROWN

We would like to express our appreciation to the management and staff of HHD for their time and effort, responsiveness, and cooperation during the course of the audit.

Respectfully submitted,

Chris B. Brown  
City Controller

xc: Stephen L. Williams, Director, Houston Health Department  
City Council Members  
Alison Brock, Chief of Staff, Mayor's Office  
Kelly Dowe, Chief Business Officer, Mayor's Office  
Harry Hayes, Chief Operations Officer, Mayor's Office  
Benjamin Hernandez, Assistant Director, Houston Health Department  
Jimmie Ng, Deputy Assistant Director, Houston Health Department  
Shannon 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 Audit Division (AD) of the City Controller's Office has completed a limited Performance Audit of the Houston Health Department's (HHD) cash handling and revenue recognition functions. The audit considered the effectiveness of internal controls related to cash handling, compliance with City of Houston (City) cash policies, and the efficiency and effectiveness of procedures in place to ensure all revenue is collected and recorded. The audit was included in the City Controller's fiscal year (FY) 2016 Audit Plan as a direct result of our Enterprise Risk Assessment process.

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### *BACKGROUND*

The Houston Health Department provides traditional public health services to meet the community's present and future needs. HHD's mission is to "work in partnership with the community to promote and protect the health and social well-being of all Houstonians." The HHD was the first health department in the state of Texas and the second in a large U.S. city to earn national accreditation.

The HHD had 1,195 budgeted FTEs in FY2016 to fulfill their mission and provide services to the growing communities it serves. Revenue is generated from providing certified birth and death certificates through the Bureau of Vital Statistics (BVS) Division, two Adult and Foreign Travel Immunizations Clinics, a water testing laboratory, an Environmental Health Division for consumer health related permits and fees, four health centers with various health services, eleven Multi-Service Centers for community activities, five dental clinics, and four childhood immunization clinics.

HHD uses five (5) different cash handling systems to record cash receipts and revenue generated from services rendered. The systems are designed based on the type of activity or service provided by the business units. For example, BVS uses "AMCAD", the Health Centers use "EPIC – Clinical System", and the Multi-Service Centers use "Event Management System".

HHD generated revenue totaling \$17.4 million in FY2015 from fees and permits. HHD had eighteen (18) approved "Collection Points" at the beginning of December 2015 that received revenue in the form of currency, coins, checks, money orders, credit cards, debit cards, and electronic transactions (e.g., wire transfers and direct deposits to the bank). These Collection Points include sixteen (16) Change Funds and two Petty Cash Funds. Eleven (11), (69%) of the Change Funds are located at BVS and both Petty Cash Funds are administered at BVS. BVS currently serves the public by providing access to purchase vital records online twenty-four hours a day and operates up to seven cashier windows for walk-in customers and a Correspondence Section for mail-in payments five days a week. There are twelve (12) locations that do not have a Change or Petty Cash Fund because they do not accept currency or coins. We noted one of those 12 locations took in a minimal amount in currency (less than \$20) in FY15 for activities held at that location.

The BVS Division generates the largest number of currency/coins transactions in HHD with over \$1.1 million or 92% in currency and coins collected in FY15. Most of this was collected in payment for approximately 73,700 certified birth and death certificates.



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## *AUDIT SCOPE AND OBJECTIVES*

Our original objectives were broadly defined to encompass the review and test of internal controls in place for handling cash to ensure City assets are safeguarded and managed appropriately. After conducting our initial research on ordinances, policies, operating procedures, and interviews with key personnel to gain an understanding of the functions performed by HHD cashiers and other personnel who handle cash, we refined the audit objectives to consider the processes and internal controls related to:

- Cash Handling and
- Revenue recognition and recording.

The engagement scope included operations and transactions occurring during Fiscal Year 2015 and Fiscal Year 2016 through December 2015.

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## *PROCEDURES PERFORMED*

In order to obtain sufficient evidence to achieve engagement objectives and support our conclusions, we performed the following steps for a sample of the cash collection points within HHD:

- Reviewed the applicable City Administrative Procedures (AP) for cash handling and petty cash;
- Reviewed HHD's departmental Cash Operations Policy and Procedures;
- Interviewed HHD personnel involved in cash handling activities to document their processes and controls;
- Selected eight Collection Points for testing cash received and revenue recorded for a sample period;
- Verified, by performing surprise cash counts and reconciling, five change funds and two petty cash funds in the sample Collection Points for a total of \$5,800;
- Observed cash collections at BVS;
- Obtained and examined the daily and monthly system generated documentation for the sample collection points;
- Traced a sample of daily and monthly cash receipts and revenues to the journal entries used to record them in SAP;
- Verified the cash receipts and revenues were properly recorded in the general ledger (SAP),
- Obtained and reviewed the support documentation for petty cash reimbursements as recorded in the City's SAP system; and
- Verified a sample of Change Orders received by BVS from the bank.

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## *AUDIT METHODOLOGY*

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and in conformance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient

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and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of our work did not constitute an evaluation of the overall internal control structure of HHD. 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 in compliance with 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. Each Conclusion is aligned with the related Audit Objective for consistency and reference. For detailed findings, recommendations, management responses, comments and assessment of responses, see the “Detailed Findings, Recommendations, Management Responses, and Assessment of Responses” section of this report.

The Audit Division noted that HHD management has already corrected and/or implemented controls that address most of the audit recommendations as noted in their Management Responses.

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

Consider the processes and internal controls related to handling cash.

- Based on the results of the procedures performed, we noted several opportunities to enhance internal controls over handling, depositing and recording cash receipts. **(See Findings #1, #2, #3, #4, #5, and #6)**

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

Consider the processes and internal controls related to recognizing and recording revenues.

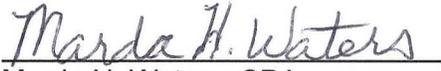
- Based on the results of the procedures performed, HHD recognizes and records revenues in a controlled and expedient manner. However internal controls can be improved on timelier depositing of cash receipts, segregation of duties, and divisional policies and procedures to facilitate accurate and complete recognition and recording of revenue. **(See Findings #1, #3, and #5)**



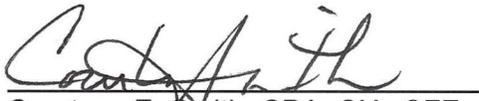
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***ACKNOWLEDGEMENT AND SIGNATURES***

The Audit Team would like to thank the management and staff of HDD for their responsiveness, cooperation, time and efforts, as well as their proactive approach to risk management throughout the course of the engagement.

  
Marda H. Waters, CPA  
Lead Auditor

  
Theresa Watson, CIA  
Audit Manager

  
Courtney E. Smith, CPA, CIA, CFE  
City Auditor

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

**FINDING #1 – CASH RECEIPTS ARE NOT DEPOSITED TIMELY  
(RISK RATING = HIGH)**

**BACKGROUND:**

The City of Houston’s Administrative Procedure (AP) 4-8 – Cash Handling, Paragraph 7.5.1, states, “Funds received by cashiers must be reconciled to the cash handling system report at the end of the day.” Paragraph 7.5.4 further states, “All funds collected must be balanced ..., and deposited within three business days of completed reconciliation unless the point of collection is classified as a minor collection point.” A minor collection point is one where the cash volume does not exceed \$500 per month averaged over the course of a fiscal year. Cash is defined as “All mediums accepted by the City used to transfer legal tender, i.e. coin, currency, checks, money orders, debit card and credit card transactions.”

In order to determine compliance with AP 4-8 and the departmental policy regarding timely depositing of daily cash receipts by HHD, we calculated the number of days between cash collection date and deposit date for a sample of deposits occurring in three months to include September, October, and November 2015. Our sample of 33 deposits totaled \$177,771.80. We determined the actual number of business days net of the armored car transit day that passed between the money collection and the bank’s posting to the City’s bank account.

Note: None of the deposits reviewed were from a minor collection point.

**FINDING:**

As a result of our substantive testing and review efforts, we determined that 52% (17 of 33) of the sample deposit population totaling \$85,530.46 were not deposited within three (3) business days as required by City and Departmental policies. Nine (9) of the seventeen (17) were for one location, which is on a weekly armored car pick-up schedule. However, none of those nine had been deposited within the required 3 days of their scheduled weekly deposits.

**RECOMMENDATION:**

HHD management should ensure that bank deposits are made daily or within three business days in accordance with AP 4-8 and departmental policy. Additionally, we recommend that HHD perform a review to determine if some of the weekly deposit locations should change to daily deposits to help ensure that City assets are adequately safeguarded and there is timely recording of corresponding revenue. We also recommend that the Administrative Division provide re-training on AP 4-8 and the

HHD Cash Operations Policy and Procedure, emphasizing the importance of timely bank deposits.

**HHD's MANAGEMENT  
RESPONSE:**

- In instances where the Garda Armored Car Service missed the pickup from Health Centers and MSCs, the deposits have to be held for next pick up scheduled or bring their missed pickup deposits to 8000 N. Stadium, the BVS's office that has a daily pickup service. In addition, HHD implemented the Check Scan Image Direct Deposit (IDD) for sites that collect large volume of check revenues to cut expenses and costs. Participating sites include Consumer Health, Environmental Health Park Place, Laboratory, Business Management Office, and Bureau of Vital Statistics. The Armored Car Services are not needed for this location except the BVS.
- All HHD's cash handling staff, supervisors, and managers were trained on Cash Handling Processing and Procedures (ASD-101) on June 24 & July 06, 2016. All HHD staff were required to register through Talent Management system to take the class. This is a mandatory Annual Cash Handling training. In addition, the HHD Annual Cash handling training will be available online beginning January 01, 2017.

**RESPONSIBLE PARTY:** Sawee Lam, Accountant Manager

**ESTIMATED DATE OF COMPLETION:** Completed

**ASSESSMENT OF RESPONSE:**

Management responses as presented, sufficiently address the issues identified and corrective actions are appropriate. The Audit Division acknowledges that the management of HHD has already addressed the audit issues noted in this finding.



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**FINDING #2 – CHANGE ORDERS ARE NOT ADEQUATELY CONTROLLED  
(RISK RATING = HIGH)**

**BACKGROUND:**

As part of our review, we judgmentally selected three (3) Change Fund (CF) accounts with different custodians/cashiers in the Bureau of Vital Statistics (BVS) and performed surprise cash counts to verify the existence and completeness of each fund. The largest CF totaling \$2,000 is used to provide smaller currency (bills) and coins for Cashiers in BVS as they process walk-in customers' payments for certified Birth and Death Certificates.

This change fund is replenished on an established schedule with an automatic \$800 Change Order generated from the bank twice a week. The Change Order consists of smaller bills for exchange with larger bills. The Order is scheduled to be shipped by the bank on Fridays and Tuesdays and received by BVS on Mondays and Wednesdays. The re-deposit or exchange of larger bills for the smaller ones received, should occur the same day, because these transactions are shown as a wash on the bank statement and in the financials in SAP. The current practice is to put the re-deposit in its own tamper-proof bank bag and record the deposit amount on the armored car log for that day. In order to determine if the Change Order shipments and re-deposits are processed securely and timely and in accordance with City and Departmental policy, we performed the following steps for October and November, 2015:

- Reviewed the Health Department's Cash Operations Policy and Procedures (HHD's P&P), designated as ASD-101, Sections 4.9 "Change Fund", 4.10 "Change Order", and 4.11 "Armored Car Services", for adequate controls and guidance for the Change Orders;
- Obtained a copy of each Change Order "shipment" generated by the bank and the associated armored car receipt for the scope period.
- Compared the shipment dates, and traced them to the bank reconciliations;
- Reviewed the armored car log showing when the Change Order re-deposits were picked up for transport to the bank to determine if the re-deposits were made on the receipt date of the Change Order shipments; and
- Reviewed SAP for journal entries to record the shipment and re-deposit of all the October and November 2015 Change Orders.



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**FINDING:**

We conducted a surprise count of BVS's \$2,000 Change Fund on Monday, November 16, 2015. We noted two unprocessed change orders, one of which was intact in its tamper proof bank bag on the Custodian's desk. The second change order was already included in the fund custodian's cash drawer and corresponding Shipment and armored service receipt were retained. As a result of those two unprocessed Change Orders, the Change Fund was 80% (\$1,600) over the established \$2,000 amount. It was noted that in the absence of the fund custodian, some duties were not performed to include processing of change order shipments and re-depositing of those change orders.

The following issues were also noted:

- The \$2,000 change fund is not verified daily as required in ASD-101 Section 4.9.1.1 which states, "The Change fund should be verified daily." Review of ASD-101 revealed that it is referring to change funds that also process cash receipts, which is not applicable to this fund.
- ASD-101 Section 4.11.2 - Change Order Procedures, is silent on the timing for re-deposits and the need to keep the Change Orders separate from other deposits;
- Two of the 18 (11%) Change Order re-deposits were not picked up by the armored car service the same day as the shipment received dates;
- Three of the 18 (17%) Change Order re-deposits occurred more than one day from the shipment receipt dates.
- One of the 18 (6%) Change Order shipments received date is greater than one day from the shipment dates.
- Two Change Order-deposits had been put in a bank bag with another deposit, so the \$800 was not identified separately on the armored car log.

**RECOMMENDATION:**

Change Order shipments and re-deposits should occur on the same date to coincide with bank account transaction dates and SAP data entry dates. Because the Change Orders are the same amount each time, there is a need to ensure adequate controls are in place to prevent and detect misappropriations of City funds.

We recommend HHD strengthen control over the Change Orders by revising ASD-101 Section 4.11.2 to include the following:

- Establishing a weekly or monthly verification of the \$2,000 change fund by another supervisor or appropriate administrative staff;
- The re-deposits should be made on the same day the change order shipments are received;

- Provisions for a Back-up Supervisor to process the Change Orders in the Custodian's absence; and
- The re-deposits for change orders should be made in a separate bank bag.

We also recommend that HHD's management ensure revised divisional guidelines are followed to facilitate compliance.

**HHD'S MANAGEMENT  
RESPONSE:**

In response to the audit performed by Marda Waters and Theresa Watson. The Vital Statistics custodian has revised the method of the cash change fund. The procedures have been implemented to meet the standards of the City Controller's Audit Division and also to comply with regulations ASD101 Section 4.11.2.

1. The change fund will be verified by Mrs. Cheryl Williams (Deputy Registrar) twice monthly. In the absence of Mrs. Williams, Vonda Evans (Customer Service Supervisor) will perform the verification.
2. The armored car services arrive to the cashier office between the hours of 2:00pm-4:00pm. The schedule time for the completion of the Change Fund will be 12:00pm to insure that the re-deposit will be ready for pick up designated days.
3. Mrs. Cheryl Williams will prepare the re-deposits in Debra Isaac absence. In the absence of Debra Isaac and Mrs. Cheryl Williams, Vonda Evans will perform the re-deposit.
4. The re-deposits for change orders will be made in a separate bank bag from the daily deposits.

**RESPONSIBLE PARTY:** Debra Isaac; Cheryl Williams; Vonda Evans

**ESTIMATED DATE OF COMPLETION:** January 01, 2017

**ASSESSMENT OF  
RESPONSE:**

Management responses as presented, sufficiently address the issues identified and corrective actions are appropriate. The Audit Division acknowledges that the management of HHD has already addressed the audit issues noted in this finding. Applicable policies and procedures have been revised to reflect updated procedures and are pending the appropriate approvals.

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**FINDING #3 – DUTIES ARE NOT PROPERLY SEGREGATED  
(RISK RATING = HIGH)**

**BACKGROUND:**

The Houston Health Department’s Bureau of Vital Statistics (BVS) operates seven cashier windows where cash is accepted in payment for certified Birth and Death Certificates from walk-in customers. The Customer Service Representatives (Cashiers) are responsible for operating those windows and serving as a custodian of a Change Fund ranging from \$75 to \$150 each. These cashier windows processed currency and coin transactions totaling approximately \$1.1 million in FY15.

A Correspondence Division within BVS processes mailed requests for Certified Birth and Death certificates. The Customer Service Supervisor (Supervisor) of the Correspondence Division serves as backup for the BVS Supervisor.

As orders for Birth and Death Certificates are processed, the transactions are entered in the cash handling system (AmCad), which captures the method of payment and the revenue generated. At the end of the day, each Cashier completes two forms, the “Reconciliation” and the “Daily Cash Form” which itemizes and totals the cash (i.e., currency, coins, checks, money orders, credit cards, and debit cards) collected that day. The Reconciliation form is used to reconcile each change fund. This form and cash receipts are submitted to the Supervisor for verification and approval daily.

The HHD Cash Operations Policy and Procedures (P&P) details the daily cash reconciliation process in Section 4.6.2, Paragraph 4.6.2.1.4 stating, “The reconciliation form should be completed and submitted to the Supervisor for approval....” We reviewed the supporting documentation for a sample of daily reconciliations to determine adherence to HHD’s P&P and for proper segregation of duties.

We also reviewed the corresponding Bank Deposit Information forms and the October and November 2015 AmCad Audit Transaction Reports for proper segregation of duties.

**FINDING:**

We noted the following instances of improper segregation of duties:

- Twenty (20) of the twenty-six (26) Daily Cash Forms were reconciled and reviewed by a Cashier instead of a Supervisor, as required by HHD’s Departmental Cash Operations policy;
- Twenty-one (21) of the twenty-six (26) Bank Deposit Information forms were prepared by a Cashier, who had taken in currency that same day.



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To maintain adequate internal control of cash receipts, reconciliations and deposits should not be prepared by the same person responsible for accepting and processing cash receipts.

- One Cashier made 18% (13 of 73) of the corrections/adjustments in the cash handling system. Eight (8) of those corrections were of their own errors resulting from transactions they entered in AmCad and one resulting from the cashier correcting a transaction error of a Supervisor.

**RECOMMENDATION:**

We recommend that HHD ensure that the appropriate supervisory personnel review and approve reconciliations, complete the Bank Deposit Information forms, and make correcting entries in the cash handling system. The AmCad audit reports should also be reviewed to ensure transactions are performed, reviewed, and approved by the appropriate personnel. HHD's management should monitor all changes and/or adjustments to entries in the cash handling system to ensure that they are appropriate and to identify trends that may detect misappropriation or theft of cash receipts, and identify potential areas needed for staff training.

**HHD's MANAGEMENT**

**RESPONSE:**

- Vital Statistics has now taken AmCad administration permission access from the cashier associates; non-supervisor personnel can no longer reconcile Daily Cash forms or access information concerning daily revenue totals generated.
- To insure quality internal cash receipts control the cashiers no longer prepare Bank Deposits. The daily reconciliation and Bank Deposits will be handling and or processed by the cashier's office supervisor (Debra Isaac) or the back-up Deputy Registrar (Cheryl Williams) when the cashier's supervisor is not available, then the Customer Service Supervisor (Vonda Evans).
- AmCad Administration has been restricted to supervisor, manager, and IT personnel. Only supervisors and managers have the liberty to correct, void, or modify transactions.
- All Bureau of Vital Statistics staff has completed the mandatory annual ASD-101 training on June 24 & July 06, 2016.

**RESPONSIBLE PARTY:** Previous parties: (Debra Isaac – Vonda Evans – Jesse Calderon) current parties are Debra Isaac and Vonda Evans

**ESTIMATED DATE OF COMPLETION:** January 01, 2017

**ASSESSMENT OF  
RESPONSE:**

Management responses as presented, sufficiently address the issues identified and corrective actions are appropriate. The Audit Division acknowledges that the management of HHD has already addressed the audit issues noted in this finding. Applicable policies and procedures have been revised to reflect updated procedures and are pending the appropriate approvals.



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**FINDING #4 – INADEQUATE INTERNAL CONTROL OF PETTY CASH FUNDS  
(RISK RATING = MEDIUM)**

**BACKGROUND:**

The Houston Health Department (HHD) Bureau of Vital Statistics maintains two, \$1,500 petty cash funds. These petty cash funds are used to reimburse employees for applicable miscellaneous HHD business expenses in accordance with the City of Houston's (City's) Administrative Procedures 5-3, Petty Cash (AP 5-3). AP 5-3, states in Section 7; Procedures, subsection 7.2 that "Supporting Documentation for Fund Purchases: All disbursements, with the exception of coin meter parking, must be supported by original receipts." As the reimbursements are disbursed to employees, the expense reports with their supporting receipts are placed in a tray designated for the processing Custodian.

Petty cash reimbursement requests (requests) are completed on a fund basis to keep grant fund expenses separate from other HHD expenses. Thus, the Custodian generally processes several requests in the same day and as a result of activity within the department there may be more than one request per fund per month. The request form should function as a reconciliation of the petty cash fund and contains a line for the "Amount of Petty Cash to be vouchered." The total of the petty cash fund is the beginning balance, with expense reports to be attached to a replenishment request (i.e., Vouchered), and the fund balance decreases as each request is completed.

We executed the following procedures for the two petty cash funds:

- Performed a surprise cash count and reconciliation for each petty cash fund;
- Analyzed a sample of replenishment request forms and determined the accuracy of the amounts;
- Judgmentally chose a month in Fiscal Year 2016 and reviewed the documentation attached to the petty cash replenishment requests to determine if funds were disbursed for appropriate, valid business expenses; and
- Reviewed the quarterly independent verifications performed by HHD and submitted to the Controller's Office as required by AP 5-3 for timely completion and documentation of overages/shortages.

**FINDING:**

We noted that both petty cash funds were short at the time of the surprise counts. One fund was short \$224.01 and the other was short \$217.07. Both Custodians blamed the shortage on missing documentation for expenses that had been reimbursed to the employees, but had not been replenished to the fund. Although



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both custodians eventually submitted paperwork, we were still unable to reconcile either of the petty cash funds.

Our review of the replenishment requests determined the expenses were appropriate and were properly approved during the audit as required by AP 5-3. However, there was no summary detail to support the reimbursement amounts on the “Amount of Petty Cash to be Vouchered” line, so we were unable to verify the balance of the fund.

There were no variances noted during our review of the required quarterly independent verifications of the petty cash funds by HHD that are submitted to the Controller’s office. However, the employee who performed those verifications stated the fund custodians knew the approximate timeframe when the verifications would be performed so they were able to have all their paperwork in order.

**RECOMMENDATION:**

We recommend that HHD strengthens the controls regarding petty cash by performing the following:

- Develop and implement a departmental Petty Cash policy that is in compliance with AP 5-3, ensuring to include verbiage requiring reconciliation of the funds and maintaining adequate documentation to facilitate reconciliation and audit of the funds. This documentation could include an adding machine tape, cash register tape, or some form of tally of the replenishment requests to be vouchered and attached to the replenishment request form.
- Ensure all employees authorized to dispense employees’ petty cash expense reimbursements use the designated storage area for reimbursements waiting to be retrieved by the Custodian.
- HHD should perform periodic random surprise counts during the quarter so that it is more difficult for custodians to determine when funds will be counted and verified to satisfy the independent quarterly verifications requirements stated in AP 5-3.

**HHD’S MANAGEMENT  
RESPONSE:**

The Bureau of Vital Statistics (BVS) will follow the controller’s auditor recommendation to strengthen the HHD’s controls regarding petty cash reimbursements and replenishments. The procedures have been implemented to meet the standards of the City of Houston (City’s Administrative Procedures 5-3).

1. The SOP was revised to show the implemented steps in adding the machine tape to the replenishment request form being vouchered. Updated language



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included, maintaining adequate documentation and attaching the adding machine tape to show specifically what is being vouchered.

2. The issuance of employees' petty cash expense reimbursements is issued by the supervisor or the designated petty cash custodians in the cash office where the reimbursements paperwork are waiting to be retrieved by the petty cash custodians upon the cash issuance to the employee. In reference to misplaced documentation, the documents were located under a pile of papers at the custodian's workstation after the performance of the audit. Apparently, the custodian retrieved the documentation from the designated tray and misfiled it with other papers located at her workstation. The procedures for handling Petty Cash were reviewed to ensure all custodians understand their responsibilities and comply with the policy and procedures.

The custodians will be stationed in the cash office instead of the Bureau of Vital Statistics counter window station where Petty Cash will be issued and documentation housed.

3. Periodic random petty cash counts will be performed by the Houston Health Department, Business Management staff without notice.

**RESPONSIBLE PARTY:** Helen Smith; Mary Coutee; Debra Isaac

**ESTIMATED DATE OF COMPLETION:** January 01, 2017

**ASSESSMENT OF  
RESPONSE:**

Management responses as presented, sufficiently address the issues identified and corrective actions are appropriate. Applicable policies and procedures have been revised to reflect updated procedures and are pending the appropriate approvals.



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Audit Division

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**FINDING #5 – INCOMPLETE DIVISIONAL CASH OPERATIONS POLICY & PROCEDURES  
(RISK RATING = MEDIUM)**

**BACKGROUND:**

HHD developed a departmental Cash Operations Policy and Procedure (P&P) that further defines the framework that should be followed by personnel handling cash as required by City of Houston AP 4-8 – “Cash Handling” policy. HHD’s P&P is issued by the Administrative Services Division (ASD) and is designated as ASD - 101. HHD currently uses Revision No. 2 of ASD – 101. We reviewed it for compliance with AP 4-8 to ensure adequate internal controls, including proper segregation of duties were included.

**FINDING:**

HHD’s divisional cash handling P&P, ASD -101 Revision No. 2, is not approved by the Finance Department as required by AP 4-8.

We also noted the following opportunities to improve internal controls over cash handling in ASD – 101 in the referenced sections below:

- **4.2.8: Accepting Checks or Money Orders by Mail** – There are currently no references or guidelines to account for the number of checks and money orders received via mail. This helps to ensure all funds are received, processed, recorded, and deposited in the applicable bank accounts.
- **4.3: Processing Debit/Credit Cards** – This section has no reference to completion of an annual requirement for a Payment Card Industry (PCI) Report on Compliance or Self-Assessment Questionnaire as required by AP 4-8.
- **4.6: Daily Cash Reconciliation** - No written procedures to address reconciliation of monthly revenue. This strengthens controls because Events Management System does not produce a summary revenue report.
- **4.7: Deposit Preparation** - No monthly deposits procedures; and no statement about requiring scanned copies of checks and money orders to support bank deposits.
- **4.11: Armored Car Services** – No language regarding the following: a) completing the armored car service log to include ensuring that all sections are completed; 2) designating the position authorized to release the deposits; 3) requiring a signature of the person releasing the deposits; 4) establishing the proper way to correct entries (i.e., crossing through errors and initialing the change); and 5) prohibiting the use of correction fluid or comparable means to alter or delete entries on the log.
- **4.11.2: Change Order Procedures** –Procedures as stated are not the current practices of HHD. No procedures for ensuring in-coming change order shipments and re-depositing of the change orders are processed



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timely and by an appropriate supervisor at all times including in the absence of the primary designee.

**RECOMMENDATION:**

We noted that HHD is in the process of revising ASD-101 and recommend that they consider the following additions to the document to improve internal controls related to cash handling. The additions should include the following:

1. Provision for a reconciliation to include a control total of the number of payments received by mail and a comparison to the payments processed;
2. A statement requiring the PCI compliance documents;
3. Procedures for performing the monthly Events Management System's revenues summary.
4. A section for processing monthly deposits;
5. Language requiring complete armored car log entries and the proper way to correct entries to include crossing through errors and initialing the deletion, and prohibiting the use of correction fluid; Specifying who has the authority to release deposits to armored car service and the signature of the releaser; and
6. Emphasis on the importance of keeping the change order controlled; a requirement to re-deposit the change order on the day the shipment is received. A designated position responsible for processing the change order in the absence of the Custodian; and additional verbiage to distinguish the incoming (shipment) versus the outgoing (re-deposit) change order to eliminate confusion.

Once HHD has addressed the issues noted above, they should submit the revised P&P to the Finance Department for approval expediently. Furthermore, we also recommend that HHD Administrative Services Division conduct additional training for their cash handling personnel on ASD – 101, emphasizing internal control activities that address deficiencies referenced in the findings of this audit and the revised policy.

**HHD'S MANAGEMENT  
RESPONSE:**

HHD agrees and will follow the controller's auditor recommendation to add the additional internal controls to the ASD-101 Cash Handling P&P stated above. The HHD Administrative Services Division (ASD) will conduct additional training upon both the completion and approval of the ASD-101 Cash Handling P&P by the Controller's Office and the Finance Department to re-emphasize the additional internal control activities and deficiencies as recommended.



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**RESPONSIBLE PARTY:** Sawee Lam, Accountant Manager, ASD: Budget & Finance, Revenue Section

**ESTIMATED DATE OF COMPLETION:** January 01, 2017

**ASSESSMENT OF  
RESPONSE:**

The Audit Division agrees with HHD's commitment to add the noted internal controls revisions to the ASD101 Cash Handling P&P and to conduct additional training after approval by the Finance Department. The Audit Division also acknowledges that the Management of HHD conducted training of current staff, responsible for cash handling prior to the conclusion of the audit fieldwork.



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**FINDING #6 – NON-COMPLIANCE WITH DIVISIONAL CASH OPERATIONS POLICY AND PROCEDURES (RISK RATING = MEDIUM)**

**BACKGROUND:**

In accordance with City of Houston AP 4-8, Cash Handling (AP 4-8), the HHD maintains a departmental Cash Operations Policy and Procedure (P&P) that further defines the framework established in AP 4-8. HHD's P&P is issued by the Administrative Services Division (ASD) and is designated as ASD - 101. The current version, Revision No. 2, has not been approved by the Finance Department, but it was submitted to us as the department's current P&P.

**FINDING:**

We compared ASD – 101 to current practices and noted the following instances where HHD practices differ from established guidelines in the referenced paragraphs below:

- **Purpose paragraph:** States “the Administrative Services Division will provide mandatory training on this policy and it is the responsibility of all managers and supervisors who handle and process cash or cash equivalents to ensure that their staff attends training at least once every 12 months.” It was noted that this training is only recommended at the discretion of HHD supervisors and every division including the Bureau of Vital Statistics did attend annual training.
- **4.2.4 - Accepting Checks or Money Orders:** “The Cashier/ Representative shall restrictively endorse all checks and money orders upon receipt.” The Multi-Service Center Representative in our test sample reported the checks are endorsed at the end of the month when processed.
- **4.3 - Processing Debit/Credit Cards - (Accept only Visa, Master Card, and Discover):** –The HHD website says American Express is accepted.
- **4.7 – Deposit Preparation:** No mention of scanning checks and money orders prior to deposit, which is the usual practice.
- **4.9.1.3 – Change Fund:** “A Log Sheet or sign-off Sheet should be maintained to document change funds exchanging position.” Although a Log Sheet was utilized when portions of the \$2,000 Change Fund exchanged position from the Head Custodian to other custodians, a fund totaling \$150 was not signed in or out for three days (November 10, 2016 through November 16, 2016.)
- **4.10.1 Change Order:** “The Senior Cashier has on hand a change fund which is reconciled daily...” No daily reconciliations are performed.
- **4.10.3 - Change Order:** “Change order documentation should be maintained by both the Cashier and the Senior Cashier for each change order request.” This is not done.

**RECOMMENDATION:**

We recommend that HHD further revise ASD-101, Revision No. 2 to revise or eliminate the areas noted above and submit the revised P&P to the Finance Department for expedient approval. The management of HHD should ensure that the revised policy is followed to facilitate safeguarding cash and cash equivalents. Additionally, we recommend that HHD Administrative Services Division conduct annual training for their cash handling personnel on ASD – 101, emphasizing the new revisions to the divisional policy to improve controls related to cash handling.

**HHD'S MANAGEMENT**

**RESPONSE:**

HHD will revise the ASD-101 Cash Handling P&P noted on the findings and submit to the Finance Department for approval within ample time. ASD provided the ASD-101 Cash Handling Training on June 24, 2016 & July 06, 2016 to strengthen the ASD-101's controls and to emphasize the deficiencies in cash collection activities. Future training will be available to cashier/representative through the Talent Management System. The Cashier/Representative is required to register and complete the training annually. HHD also plans to conduct a semi-annual checks and balances of the internal controls to ensure that all collection sites are following the ASD-101 Cash Handling P&P.

**RESPONSIBLE PARTY:** Sawee Lam, Accountant Manager, ASD: Budget & Finance, Revenue Section

**ESTIMATED DATE OF COMPLETION:** January 01, 2017

**ASSESSMENT OF  
RESPONSE:**

The Audit Division agrees with HHD's commitment to further edit ASD-101, Revision No. 2 to revise or eliminate the areas noted above and submit the revised P&P to the Finance Department for expedient approval. We also concur with HHD's semi-annual checks and balance to ensure that the collection sites are following the established P&P. The Audit Division also acknowledges that the Management of HHD conducted training of current staff, responsible for cash handling prior to the conclusion of the audit fieldwork.

# **EXHIBIT 1**

# **ACKNOWLEDGEMENT STATEMENT**

**HOUSTON HEALTH DEPARTMENT**

# Acknowledgement Statement

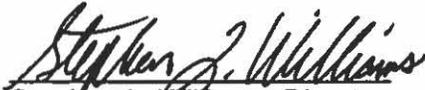
Date: October 19, 2016

Chris B. Brown  
City Controller  
Office of the City Controller

**SUBJECT: HOUSTON HEALTH DEPARTMENT CASH HANDLING PERFORMANCE AUDIT REPORT–  
ACKNOWLEDGEMENT OF MANAGEMENT RESPONSES**

I acknowledge that the management responses contained in the above referenced report are those of the Houston Health 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,



Stephen L. Williams, Director  
Houston Health Department

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