

OFFICE OF THE CITY CONTROLLER



HOUSTON POLICE DEPARTMENT

RECORDS DIVISION

CASH HANDLING PROCEDURES AUDIT

Annise D. Parker, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

April 21, 2004

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Houston Police Department - Records Division
Cash Handling Procedures Audit (Report No. 04-05)

Dear Mayor White:

The City Controller's Office Audit Division has completed an audit of the Houston Police Department's Records Division (Department) cash handling procedures for the period of July 1, 2002 through October 31, 2003. The audit's objective was to assist management with the assessment of the adequacy of internal controls related to the overall cash handling process. Additionally, the audit evaluated the Department's compliance with the City's Cash Handling Policies and Procedures (AP 2-17).

The report, attached for your review, concludes that internal controls over the cash handling procedures at the Department are adequate to provide management with reasonable assurance that these funds are properly safeguarded and managed in compliance with AP 2-17 except for the findings noted in the report. The findings and recommendations are presented in the body of the report and the views of responsible officials as to actions taken are appended to the report as Exhibit I.

We appreciate the cooperation extended to our auditors by Department personnel during the course of the audit.

Respectfully submitted,

Annise D. Parker
City Controller

xc: City Council Members

Anthony Hall, Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Harold L. Hurtt, Chief of Police, Houston Police Department
Judy Gray Johnson, Director, Finance and Administration Department

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EXECUTIVE SUMMARY

- Inventory and reconciliation of pre-numbered receipt books are not performed periodically. Consequently, we were unable to account for several pre-numbered receipt books. Potential misuse of pre-numbered receipts can be prevented or detected timely if pre-numbered receipts are inventoried and reconciled periodically. In addition, the cash handling procedures involved redundancy since both pre-numbered and computer-generated receipts are issued to customers.
- Pre-numbered receipts are not listed separately on the cash register transaction generated at the end of each shift for the purpose of reconciliation.
- Surprise audits of the change fund at the Records Division are not conducted by independent administrative personnel in compliance with AP 2-17. Potential errors or irregularities may not be detected and corrected timely if surprise audits are not conducted periodically.

SCOPE AND PURPOSE

We have completed an audit of the cash handling procedures at the Houston Police Department Records Division for the period of July 1, 2002 through October 31, 2003. The audit's objective was to assist management with the assessment of the adequacy of internal controls related to the overall cash handling process. In addition, the audit evaluated compliance with the City's Cash Handling Policies and Procedures (AP 2-17).

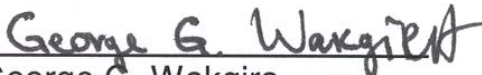
The scope of our work did not constitute an evaluation of the overall internal control structure of the Department. Our examination was designed to evaluate procedures and internal controls related to the City's cash handling procedures, test for compliance therewith and provide recommendations for improvement where appropriate. This was a financial related audit executed in accordance with Generally Accepted Government Auditing Standards.

Departmental management is responsible for establishing and maintaining a system of internal controls to adequately safeguard cash as an integral part of the Department's overall internal control structure. The objectives of a system are to provide management with reasonable, but not absolute, assurance that cash is safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are recorded properly.

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

CONCLUSIONS

Based on the results of our audit, we conclude that internal controls over the cash handling procedures at the Houston Police Department's Records Division are adequate to provide management with reasonable assurance that these funds are properly safeguarded and managed in compliance with AP 2-17 except for the findings presented in the body of the report.


George G. Wakgira
Auditor-in-charge


Kenneth Teer
Audit Manager


Steve Schoonover
City Auditor

INTRODUCTION

The Houston Police Department's Records Division is located on the 23rd floor at 1200 Travis Street. The Division is designated as the custodian of police records and provides copies of police reports and other documents to lawyers, attorneys, insurance agents, the general public, and other departmental personnel. The Records Division is responsible for collecting fees for the reproduction of incident, accident, and offense reports. Total collections for the audit period was approximately \$1 million.

The Division employs approximately 76 employees. Fees are received in the form of coins, currency, personal and business checks, money orders, and cashier checks. Credit cards are not accepted. Charges are determined according to the fees set by City Council. The majority of payments are received at the Division's cashier windows. Payments are also received through the mail, and orders are received through fax machines from companies with prepaid account balances.

I. PRE-NUMBERED RECEIPTS INVENTORY

BACKGROUND

The City of Houston's Administrative Procedure 2-17 (8.B.I.d) states that "receipt books will be inventoried monthly and reconciled with the perpetual record."

At the Records Division, supervisors are responsible for receiving and issuing pre-numbered receipts. As new pre-numbered receipt books are issued to cashiers, they are immediately recorded on receipt books log sheets. Cashiers are required to turn in used receipt books before they are issued new receipt books. The beginning and ending receipt numbers are noted on the log sheets as new books are issued. Each cashier is responsible for his/her own receipt book and cannot use another cashier's receipt book. Receipt books are kept in a safe with combination lock when not in use.

FINDING

Inventory and reconciliation of pre-numbered receipt books are not performed periodically. Consequently, we were unable to account for several pre-numbered receipt books. The list of the receipt books that could not be accounted for has been provided to the Records Division's supervisory personnel for resolution. Potential misuse of pre-numbered receipts can be prevented or detected timely if pre-numbered receipt books are inventoried and reconciled periodically. In addition, we noted that the cash handling procedures involved redundancy since both pre-numbered and computer-generated receipts are issued to customers.

RECOMMENDATION

We recommend that the Records Division comply with the City of Houston's Administrative Procedure 2-17 regarding inventory and reconciliation of pre-numbered receipt books. We also recommend that the Records Division take appropriate measures to remove redundancy by issuing only computer-generated receipts to customers. Should the Division

continue using pre-numbered receipt books, then the Division's Standard Operating Procedures (SOP) need to be expanded to incorporate procedures on inventory and reconciliation of pre-numbered receipt books.

II. DAILY PRE-NUMBERED RECEIPTS RECONCILIATION

BACKGROUND

The Records Division's SOP requires that the white (data entry) copies of the pre-numbered receipts be reconciled with the "Z" tapes and incoming revenues. It also requires all receipt numbers be accounted for when books are returned to the cashiers supervisor at the end of each shift.

FINDING

Pre-numbered receipts are not listed separately on the "Z" tapes, i.e. the cash register transactions detail generated at the end of each shift for the purpose of pre-numbered receipts reconciliation. Potential misuse of pre-numbered receipts may not be detected and resolved timely if used pre-numbered receipts are not listed separately and reconciled at the end of each shift.

RECOMMENDATION

We recommend that used pre-numbered receipts be listed separately and reconciled at the end of each shift.

III. CHANGE FUND SURPRISE AUDITS

BACKGROUND

A change fund of \$300.00 is maintained at the Records Division. AP 2-17 requires that an unscheduled or surprise audits be performed on all change funds at least twice a year.

FINDING

Surprise audits of the change fund at the Records Division are not conducted in accordance with AP 2-17. Potential errors or irregularities may not be detected and corrected timely if surprise audits are not conducted periodically.

RECOMMENDATION

We recommend that the Inspections Division of the Houston Police Department conduct surprise audits of the change fund at least twice a year as required by AP 2-17.

EXHIBIT I

CITY OF HOUSTON INTER OFFICE CORRESPONDENCE



TO: Annise D. Parker
City Controller

FROM: Harold L. Hurtt
Chief of Police

DATE: April 1, 2004

SUBJECT: **Cash Handling Procedures
Audit - Records Division
Management Response**

The following is the response of the Houston Police Department regarding the cash handling procedures audit performed by your Office.

I. **PRE-NUMBERED RECEIPTS INVENTORY**

FINDING

Inventory and reconciliation of pre-numbered receipt books are not performed periodically. Consequently, we were unable to account for several pre-numbered receipt books. The list of the receipt books that could not be accounted for has been provided to the Records Division's supervisory personnel for resolution. Potential misuse of pre-numbered receipts can be prevented or detected timely if pre-numbered receipt books are inventoried and reconciled periodically. In addition, we noted that the cash handling procedures involved redundancy since both pre-numbered and computer-generated receipts are issued to customers.

RECOMMENDATION

We recommend that Records Division comply with the City of Houston's Administrative Procedure 2-17 regarding inventory and reconciliation of pre-numbered receipt books. We also recommend that the Records Division take appropriate measures to remove redundancy by issuing only computer-generated receipts to customers. Should the Division continue using pre-numbered receipt books, then the Division's Standard Operating Procedures (SOP) need to be expanded to incorporate procedures on inventory and reconciliation of pre-numbered receipt books.

RESPONSE

The Records Division has found the books that were listed as missing by the auditors. On a daily basis the receipt books are matched to the cash register tape to ensure that all are accounted for. However, due to unfilled vacancies, there is not sufficient staff at this time to do a monthly reconciliation of the receipt book inventory. The Records Division is pursuing the modification of their cash registers so that manual receipts will no longer be necessary. This will also eliminate the need for reconciliation of the receipt books.

*Views of Responsible
Officials*

EXHIBIT I

Annise D. Parker

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April 1, 2004

II. DAILY PRE-NUMBERED RECEIPTS RECONCILIATION

FINDING

The Records Division's SOP requires that white (data entry) copies of the pre-numbered receipts be reconciled with the "Z" tapes and incoming revenues. It also requires all receipt numbers be accounted for when books are returned to the cashier's supervisor at the end of each shift.

RECOMMENDATION

We recommend that used pre-numbered receipts be listed separately and reconciled at the end of each shift.

RESPONSE

On a daily basis, each pre-numbered receipt is reconciled with the cash register's "Z" tapes at the end of day and evening shifts, to ensure that all are accounted for. Subsequently, the cashier's supervisor will ensure that all receipts are accounted for when the books are turned in at the end of the shift. In addition, Records Division has revised its receipt book tracking form to add an additional column for the cashier's supervisor signature, acknowledging that all receipts are accounted for at the time the completed book is returned. However, a modification of the cash registers will eliminate the need to use receipt books.

III. CHANGE FUND SURPRISE AUDITS

FINDING

Surprise audits of the change fund at the Records Division are not conducted in accordance with AP 2-17. Potential errors or irregularities may not be detected and corrected timely if surprise audits are not conducted periodically.

RECOMMENDATION

We recommend that the Inspections Division of the Houston Police Department conduct surprise audits of the change fund at least twice a year as required by AP 2-17.

RESPONSE

The Inspections Division has been notified that they should add the Records Division to their list of audits.


Harold L. Hurtt
Chief of Police

*Views of Responsible
Officials*

HLH:jpg:hjg
cc: Administration Coordinator
Professional Standards Coordinator
COP: #04-12304