

**OFFICE OF THE CITY CONTROLLER**



**HOUSING AND COMMUNITY DEVELOPMENT DEPARTMENT  
CASH HANDLING PROCEDURES AUDIT**

**Annise D. Parker, City Controller**

**Steve Schoonover, City Auditor**



OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

ANNISE D. PARKER

July 16, 2004

The Honorable Bill White, Mayor  
City of Houston, Texas

SUBJECT: Housing and Community Development Department  
Cash Handling Procedures Audit (Report No. 04 -12)

Dear Mayor White:

The City Controller's Office Audit Division has completed an audit of the cash handling procedures at the Housing and Community Development (Department) for the period of July 1, 2003 through February 29, 2004. 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 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 body of the report. The views of responsible officials as to actions taken are appended to the report as Exhibit I.

We commend the Department for taking immediate steps to implement our recommendations. We also 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

Daisy Stiner, Director, Housing and Community Development Department

Judy Gray Johnson, Director, Finance and Administration Department

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## CONTENTS

LETTER OF TRANSMITTAL .....	i
EXECUTIVE SUMMARY .....	iii
SCOPE AND PURPOSE .....	1
CONCLUSIONS .....	1
INTRODUCTION .....	2

## FINDINGS & RECOMMENDATIONS

RESTRICTIVE ENDORSEMENT OF CHECKS .....	2
PRE-NUMBERED RECEIPTS .....	3

## EXECUTIVE SUMMARY

- Checks are not restrictively endorsed immediately upon receipt. Checks could be stolen or misappropriated if they are not restrictively endorsed immediately upon receipt.
- Pre-numbered receipts are not logged as they are issued to cashiers, are not inventoried periodically, and are not issued to cashiers in sequential order. Potential misuse of pre-numbered receipts may not be detected timely if they are not logged, are not inventoried periodically, and are not issued sequentially.

## SCOPE AND PURPOSE

We have completed an audit of the cash handling procedures at the Housing and Community Development Department (Department) for the period of July 1, 2003 through February 29, 2004. 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).

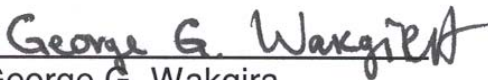
The scope of our work did not constitute an evaluation of the overall internal control structure of the Department nor did it include an evaluation of its compliance with the U.S. Department of Housing and Urban Development (HUD)'s rules and regulations. Our examination was designed to evaluate procedures and internal controls related to the City's cash handling procedures, test for compliance therewith and provide recommendations for improvement where appropriate. This audit was executed in accordance with Generally Accepted Government Auditing Standards.

Departmental management is responsible for establishing and maintaining a system of internal controls to adequately safeguard cash as an integral part of the Department's overall internal control structure. The objectives of a system are to provide management with reasonable, but not absolute, assurance that 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 Department are adequate to provide management with reasonable assurance that these funds are properly safeguarded and managed in compliance with AP 2-17 except for the findings presented in the body of the report.

  
George G. Wakgira  
Auditor-in-charge

  
Kenneth Teer  
Audit Manager

  
Steve Schoonover  
City Auditor

## INTRODUCTION

The Department is located at 601 Sawyer with its various divisions and sections housed in the first, second, third, fourth, and seventh floors. The major source of cash includes loan repayments, tax and insurance escrows, grants from the HUD, and miscellaneous administrative fees related to open-records requests. Currently, approximately 188 mortgages, excluding HUD grants, are being serviced. Total collections, including HUD grants, for the audit period was approximately \$34 million. The total amount of HUD grants, obtained through electronic drawdowns, was approximately \$30 million during the audit period.

The Department employs approximately 103 employees. Cash collections are in the form of personal and business checks, money orders, cashier checks, currencies, and coins. Principal, interest, and escrow amounts are determined in accordance with the rules and regulations of the various programs administered by the Department. Administrative charges, such as copying fees, are determined according to the rates set by City Council. The majority of payments are mailed to a lockbox at the JPMorgan bank and to the Department's facilities at 601 Sawyer. Payments are also walked-in, in person, to the cash collection points at 601 Sawyer.

It has been the practice of the Audit Division of the Office of the City Controller to use the term finding when preparing audit reports. However, HUD, in its *Community Planning and Development Monitoring Handbook*, defines monitoring issues as follows:

"Finding. A deficiency in program performance based on a statutory or regulatory requirement for which sanctions or other corrective actions are authorized. Such sanctions or actions may be subject to HUD discretion"

"Concern. A deficiency in program performance which is not based on a statutory or regulatory requirement. While sanctions or corrective actions are not authorized for concerns, HUD may call the concern to the grantee's attention and, where appropriate, may recommend actions to address concerns and/or provide technical assistance."

The HCDD, as a grantee (or recipient) being monitored periodically by HUD, is accustomed to the terms finding and concern as defined by HUD. Therefore, we feel it is necessary to clarify here that the term finding, as used in this audit report, does not indicate a statutory or regulatory deficiency.

### I. RESTRICTIVE ENDORSEMENT OF CHECKS

#### BACKGROUND

The City of Houston's AP 2-17 (4.B.IV) states that checks should be restrictively endorsed upon receipt.

During the initial walk-through of the cash collection points, the Controller's auditor noted that the individuals authorized to collect cash all had restrictive endorsement stamps.

#### FINDING

During the preliminary interview with the cashier responsible for depositing cash, the auditor noted several checks that were not restrictively endorsed. The probability that checks may be misappropriated or stolen is greater if they are not restrictively endorsed immediately upon receipt.

## RECOMMENDATION

We recommend that checks be restrictively endorsed immediately upon receipt.

## II. PRE-NUMBERED RECEIPTS

### BACKGROUND

The City of Houston's AP 2-17 states that:

- "The revenue section will maintain appropriate logs to document all receipt issuance and inventory activity under its control...." (8.B.I.c).
- "Receipt books will be inventoried monthly and reconciled with the perpetual record." (8.B.I.d).
- "Receipt books are to be issued in sequential order." (8.B.II.c).

The Controller's Office issues pre-numbered receipt books to the individual at the Department who is responsible for receiving, issuing, controlling, and accounting for pre-numbered receipts. The receipts should be logged as soon as they are received from the Controller's Office. Pre-numbered receipt books should be logged as they are issued to cashiers so that all pre-numbered receipt books can be inventoried and accounted for periodically. Cashiers should be required to turn in used receipt books before they are issued new receipt books. The beginning and ending receipt numbers should be noted on the log sheet as new books are issued. Each cashier should be 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.

### FINDINGS

- Pre-numbered receipt books are not logged as they are issued to cashiers.
- Inventory and reconciliation of pre-numbered receipt books are not performed periodically.
- Analyses of all the pre-numbered receipt books issued during the audit scope period indicated that receipt books are not issued in sequential order.

Potential misuse of pre-numbered receipts may not be detected timely if they are not logged, are not inventoried periodically, and are not issued sequentially.

### RECOMMENDATIONS

We recommend that the Department comply with the City of Houston's Administrative Procedure 2-17 by:

- logging pre-numbered receipt books as they are issued to cashiers;
- inventorying and reconciling pre-numbered receipt books periodically; and
- issuing pre-numbered receipt books to cashiers in sequential order.

# EXHIBIT I



**CITY OF HOUSTON**  
Housing & Community Development  
Department

**Interoffice**

Correspondence

**To: Annise D. Parker**  
Controller

**From: Daisy A. Stiner, Director**  
Housing & Community Development Dept.

**Date: June 11, 2004**

**Subject: Response to Draft Cash Handling Audit Report**

We would like to compliment the auditor on the thoroughness of his review. Our responses to the recommendations are as follows:

- I. HCDD agrees with the audit recommendation, and has taken the necessary steps to ensure that checks are restrictively endorsed immediately upon receipt in the department.
- II. HCDD agrees with the audit recommendations, and is currently 1) logging pre-numbered receipt books as they are issued, 2) preparing to periodically inventory the receipt books, and 3) insuring that the receipt books are issued in sequential order.

Handwritten signature of Daisy A. Stiner in black ink.

Daisy A. Stiner, Director  
Housing & Community Development Department

DAS/jl

Xc: Steve Schoonover  
Ken Teer  
George Wakgira  
Douglas McKinna

**Views of Responsible Officials**

