

INTERNAL AUDIT REPORT

2017-12

Cash Control Procedures

Solid Waste Services

December 7, 2017

MUNICIPALITY OF ANCHORAGE
Internal Audit Department
632 W 6th Avenue, Suite 600
P.O. Box 196650
Anchorage, Alaska 99519-6650
www.muni.org/departments/internal_audit



INTERNAL AUDIT DEPARTMENT
Michael Chadwick, CIA, CICA
Director
Phone: (907) 343-4438
Fax: (907) 343-4370
E-Mail: chadwickmb@muni.org



Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

December 7, 2017

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2017-12, Cash Control Procedures, Solid Waste Services**. A brief summary of the report is presented below.

In accordance with the 2017 Audit Plan, we have completed an audit of the Solid Waste Services Cash Control Procedures. The objective of this audit was to determine whether adequate controls were in place over cash and credit card transactions at the Anchorage Regional Landfill, transfer stations, and the Solid Waste Services' Customer Service Call Center, and if these controls were in compliance with Municipal Policy and Procedure 24-1, *Collecting, Securing, Depositing and Reporting Cash*. To accomplish our objective, we performed surprise cash counts at the various facilities and reconciled selected 2016 and 2017 Solid Waste Services' deposits with the deposits recorded in PeopleSoft. We also reviewed cash receipt documents submitted to the Treasury Division for completeness and reviewed Solid Waste Services' accounts receivable procedures.

Our audit revealed that cash controls at Solid Waste Services could be improved. We found that cash handling practices did not always comply with the requirements of Policy and Procedure 24-1. In addition, Solid Waste Services' accounts receivable need to be better managed, and rates were not always approved by the Assembly. Finally, Treasury Division staff did not provide formal cash handling training in 2016 and 2017 to Solid Waste Services' supervisors and cashiers.

There were four findings in connection with this audit. Management was responsive to the findings and recommendations.

Michael Chadwick, CIA, CICA
Director, Internal Audit



Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

December 7, 2017

Internal Audit Report 2017-12 **Cash Control Procedures** **Solid Waste Services**

Introduction. Anchorage Municipal Code (AMC) Chapters 26.70, *Solid Waste Collection*, and 26.80, *Solid Waste Disposal*, regulate storage, collection, processing, recovery and disposal of solid waste. Solid Waste Services (SWS) provides collection and disposal of solid waste within the Municipality of Anchorage (Municipality). Every person residing in, or occupying a building within, the service area of the former City of Anchorage is required to use the system of solid waste collection and disposal provided by the Municipality.

All solid waste generated within the Municipality is required to be disposed of at state-permitted solid waste processing and disposal facilities located within the Municipality. These facilities are located at the Anchorage Regional Landfill, the Central Transfer Station, and the Girdwood Transfer Station.

User fees are billed by SWS. A customer can pay with cash, check, electronic funds transfer, and credit cards. To manage accounts receivable, SWS uses Tower software. Revenue in 2016 totaled \$34.9 million.

Objective and Scope. The objective of this audit was to determine whether adequate controls were in place over cash and credit card transactions at the Anchorage Regional Landfill, transfer stations, and the SWS Customer Service Call Center (Call Center), and if these controls were in compliance with Municipal Policy and Procedure (P&P) 24-1, *Collecting, Securing, Depositing and Reporting Cash*. Specifically, we performed surprise cash counts at the various facilities and reconciled selected 2016 and 2017 SWS deposits with the deposits recorded in PeopleSoft. We also sampled and reviewed cash receipt documents submitted to the Treasury Division (Treasury) for completeness and reviewed SWS accounts receivable and collection procedures.

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. 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 evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit was performed during the period of July through September 2017. The audit was requested by the Administration.

Overall Evaluation. Cash controls at SWS could be improved. We found that cash handling practices did not always comply with the requirements of P&P 24-1. In addition, SWS accounts receivable need to be better managed, and rates were not always approved by the Assembly. Finally, Treasury staff did not provide formal cash handling training in 2016 and 2017 to SWS supervisors and cashiers.

FINDINGS AND RECOMMENDATIONS

1. **Cash Handling Practices Need Improvement.**

- a. **Finding.** Cash handling practices did not always comply with the requirements of P&P 24-1. As a result, an environment existed where undetected losses or misappropriations could occur. We found the following:

Checks and Cash Not Always Secured – Checks and cash received at collection sites were not always placed in the cash register. Instead, we found checks were placed in an open envelope attached to the wall or placed on a shelf, and cash was stored in a drawer with no locking system. Policy & Procedure 24-1 states that cash should be “. . . immediately secured, accounted for, and deposited” Policy and Procedure 24-1 includes checks in its definition of cash. A similar finding was reported in Internal Audit Report 2008-13.

Cashiers Not Sub-Totaling Register Activity – At the SWS Call Center, cashiers did not subtotal cash register activity (run an X-tape) and reconcile cash collected during their shift when there was a change of cashiers. Specifically, we found the cash register’s cash drawer at the Call Center was shared by up to five employees each day. The cash drawer was also kept unlocked during the day and was accessible to everyone in the office. In addition, only one X-tape was generated for all cashiers at the end of the day. As a result, the Municipality’s ability to assign responsibility for a loss was reduced. Policy and Procedure 24-1 states that the policy of the Municipality is “. . . to safeguard its cash collections; to identify and attach responsibility and accountability for Municipal transactions involving the collection, securing, depositing and reporting of cash” Additionally, the Cashier Supervisor Guide requires each cashier when relieved from the cash register to “. . . take a reading of the register (‘X’ tape) to get a sub-total of cash collected and count all cash.” It further states, “This must be done each time there is a change of cashiers unless there are separate cash drawers for alternate or relief cashiers.”

Daily Deposit Documents Not Submitted Timely – Solid Waste Services did not submit deposit documents to Treasury in a timely manner. We tested 275 deposits from five collection locations that required daily deposits. All 275 cash documents for the deposits were submitted to Treasury 2 to 40 days late. The Cashier Supervisor Guide requires that daily deposit and supporting documentation, “. . . must be reviewed, verified, approved, and submitted to Treasury on a DAILY basis.” We also tested 71 deposits from the Girdwood location which required a weekly deposit. Although SWS management received permission for a weekly deposit, our review found 63 of 71 (89%) cash documents for the deposits were submitted to Treasury 9 to 38 days late.

- b. **Recommendation.** The Director should ensure that cash controls at SWS comply with P&P 24-1.

c. **Management Comments.** Management stated, “Concur.

“Securing of checks and cash:

The securing of checks at all locations was immediately modified and corrected, late in September 2017. Employees are now required to store and secure all checks within the cash register drawer.

“In the event that the number of checks being stored in the drawer cause a problem with the operation of the cash register, the checks are then to be moved and secured within the safe until close of business. All cash that is not secured in the cash register is to be secured in the safe during operating hours. The safe is to remain locked and secured if there are contents present within it.

“Cash Register operation with the SWS Call Center:

Within the SWS Customer Service Call Center procedures have additionally been modified. Rather than allowing all four call center employees to operate the cash register by ringing transactions in using their unique user code, we now identify one member of the staff as the primary cashier and another as the secondary cashier.

“Anytime the primary cashier is either on rest break or at lunch, an x-tape is run and the cash drawer is counted in and out. This will further improve identifying any loss through the transition of responsibility of only two employees rather than four.

“Any overage or shortage is to be documented on the CDSR by the cashier that has created the error.

“Daily Deposit not submitted timely:

All individual location deposits and supporting paperwork are thoroughly audited by the SWS Call Center staff for accuracy before any cash receipts can be written. With six different locations, most locations open six days a week and requiring separate

cash receipts to be written for both cash/check and credit cards (totaling a minimum of eighty-four cash receipts written weekly); low staffing during our utilities extremely busy construction season in 2016 and 2017 created significant internal challenges in creating and submitting documents to Treasury in a timely manner. This low staff was due in large part to unexpected FMLA cases.

“As of October 2017, SAP has changed our documentation process so that hand written cash receipts are no longer being used. Now, within SAP there are verifier review thresholds of 48 hours. If the verifier fails to meet the 48 hour review threshold, the system automatically elevates the review and approval process to the Supervisor. This will improve the accountability and timeliness of the process.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Management of Accounts Receivable Needs Improvement.**

- a. **Finding.** Solid Waste Services' accounts receivable need to be better managed. Specifically, we found the following:

Lack of Written Policy and Procedures – Solid Waste Services did not have written P&Ps for managing its accounts receivable in the Tower system. Although SWS did have desk manuals to process payments for the Call Center, scale house and cash booth operations for cashiers, SWS did not have written procedures to provide guidelines and instructions for employees to follow and manage collections, payments received by mail, write-off of transactions, and account adjustments.

Accounts Receivable Aging Report Distorted – The accounts receivable aging report captured both credit and debit entries distorting the accounts receivable total. For example, the aging schedule for accounts over 90 days old totaled -\$98,805 with the

credit entries, and totaled \$42,708 without the credit entries – a difference of \$141,513. This balance included a \$90,650 credit for a business that left Alaska in 2016. According to SWS management, the remaining credit balance was created to track accounts sent to collections. A similar finding was reported in Internal Audit Report 2008-13.

b. **Recommendation.** The Director should ensure that written policies and procedures are developed for accounts receivable. In addition, the Director should ensure that credit balances are removed from the accounts receivable aging report.

c. **Management Comments.** Management stated, “Concur.

“Lack of Written Policy and Procedures:

SWS is committed to creating and writing policies and procedures that are not already set by workflows within the Tower billing system. The Customer Service Manager through the SWS Finance Manager recently published and distributed an internal procedure for accounts ‘Due to Death’, a final bill write-off procedure and a policy setting the minimum amounts sent to third party collectors.

“Accounts Receivable Aging Report Distorted:

SWS Finance Manager and Customer Service Manager will be working with the Tower software vendor (AMCS) and the SWS financial consultants, Parish Blessing to correct how the aging receivables is captured and reported.”

d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Rates Not Always Approved.**

a. **Finding.** Solid Waste Services' rates were not always approved by the Assembly. Specifically, SWS had special rates for refuse items that were not specified in AMC 26.70.040, *Service requests, rates and billings*, and AMC 26.80.050, *Charges*. For example, SWS charged customers \$12 each for couches and double/queen mattresses and \$18 for king mattresses for refuse. However, we were not able to find these rates in the AMC. Anchorage Municipal Code 26.80.050 requires a customer to pay \$5 plus a user fee of \$1 for solid waste less than one cubic yard and \$15 plus a user fee of \$1 for solid waste between one and five cubic yards. In addition, AMC 26.10.035, *Approval of tariff changes*, states that "All requested rate changes to utility tariffs shall be brought to the assembly by ordinance for review and approval"

b. **Recommendation.** The Director should ensure that all rates are approved by the Assembly as required by AMC 26.10.035.

c. **Management Comments.** Management stated, "Concur.

"Not all customers that use the SWS disposal facilities or collections services understand what is 'less than a cubic yard' or what qualifies as 'one to five cubic yards' as it is stated in AMC 26.80.050; therefore it is believed that it was the intent of previous management to use various common household objects as a simple comparison of size. SWS understands that these common household objects and associated rates are not specifically approved by AMC and will work on more applicable techniques to explain to our customers so that we better support existing approved AMC."

d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Cashier/Supervisor Training Not Provided.**

- a. **Finding.** Treasury staff did not provide formal cash handling training in 2016 and 2017 to SWS supervisors and cashiers. Some findings identified in this audit could have been avoided if required training was provided to SWS by Treasury. Without proper training, the Municipality puts itself at risk with inadequate internal cash controls and an increased risk of misappropriation. Policy and Procedure 24-1 states that Treasury should “. . . provide a minimum of semi-annual training for cashiers and annual training for their supervisors on cash handling and reporting procedures.”
- b. **Recommendation.** The Municipal Treasurer should ensure that cashier and supervisor training is provided as required by P&P 24-1.
- c. **Management Comments.** Management concurred and stated, “Treasury acknowledges that Cashier Training has not occurred for some time. This is due to a number of variables, such as staff turnover and SAP go-live. The Treasury Division has devoted a large amount of time and resources to train employees within the SAP cashiering environment, as this is our new system going forward. Once SAP has stabilized and the defects have lessened, Treasury is committed to providing a fresh round of training specific to P&P 24-1 in conjunction with the new SAP system.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on October 2, 2017.

Audit Staff:
Dechen Dechen, CFE