

December 2, 2008

**Internal Audit Report 2008-13**  
**Cash Controls**  
**Solid Waste Services**

**Introduction.** Anchorage Municipal Code (AMC) Chapters 26.70, *Solid Waste Collection*, and 26.80, *Solid Waste Disposal*, regulate solid waste 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 a state-permitted solid waste processing and disposal facility 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, and/or electronic funds transfer, but credit cards are not readily accepted. To manage accounts receivable, SWS uses Tower software. Revenue in 2007 totaled \$24.2 million.

**Objective and Scope.** The objective of this audit was to determine whether adequate controls were in place over cash and credit transactions at the regional land fill, transfer stations, and customer

service, and if these controls were in compliance with Municipal Policy and Procedure (P&P) 24-1, *Collecting, Securing, Depositing and Reporting Cash*. Specifically, we reviewed cash control procedures, evaluated accounts receivable procedures and records, and tested cashier daily summary reports and deposit records.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of March through August 2008. The audit was requested by the Administration.

**Overall Evaluation.** Cash controls at SWS could be improved. We found that cash handling procedures did not always comply with the requirements of P&P 24-1. In addition, SWS accounts receivable need to be better managed, accounts receivable were not written-off in a timely manner, SWS did not employ effective collection actions to ensure that refuse disposal services were promptly paid, and accounts receivable policies and procedures need to be updated.

## **FINDINGS AND RECOMMENDATIONS**

### **1. Cash Handling Procedures Need Improvement.**

- a. Finding.** Cash handling procedures 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:

- 1) Checks Not Always Secured** - Checks received at collection sites were not always placed in the cash register. Instead, some checks were placed in an envelope attached to the side of the cash register or in an unlocked drawer. P&P 24-1 states that cash should be "... immediately secured, accounted for, and deposited. . .". P&P 24-1 includes checks in its definition of cash.

- 2) **Unlocked Safe** - One safe was unlocked and contained a bag with \$500.00 inside. P&P 24-1 states that “The safe door must be locked at all times EXCEPT when items are being secured or removed from the safe.”

b. **Recommendation.** The Director should ensure that cash handling procedures comply with the requirements of P&P 24-1.

c. **Management Comments.** Management stated, “*Checks Not Always Secured:* The Department concurs with this finding. We have installed locking drawers in each cash-receiving facility where checks can be stored during operating hours.”

“*Unlocked Safe:* The Department concurs with the finding and has reiterated to all staff the need for the safe to be locked any time there is currency inside.”

d. **Evaluation of Management Comments.** Management comments were responsive to the audit findings and recommendations.

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

a. **Finding.** SWS accounts receivable need to be better managed. Our review of SWS accounts receivable revealed a variety of problems.

- 1) SWS staff still used a manual system of index cards to track accounts receivable despite the recent purchase of new software to help manage accounts receivable.

- 2) An accounts receivable aging report, used by SWS staff for management purposes, did not age delinquent accounts that were over 90 days old. The report also contained both credit and debit entries, resulting in the distortion

of the total amount in accounts receivable. The aging schedule totaled \$1,109,734 with the credit entries and totaled \$2,304,619 without the credit entries. The credit entries were the result of customer prepayments or overpayments.

- 3) SWS sends delinquent residential accounts receivable to a collection agency once they are over nine months old. Based on a survey of the Commercial Collection Agency Section of the Commercial Law League of America, the longer an account is outstanding, the less the probability of collection. For example, after three months, the probability of collecting on a delinquent account drops to about 72 percent. After six months, almost 44 percent of delinquent accounts will never be collected, and after one year the probability of collecting a delinquent account drops to about 29 percent.

b. **Recommendation.** The Director should ensure that staff are properly trained to use the new software to help manage accounts receivable. In addition, the Director should consider sending delinquent accounts to the collection agency in a more timely manner.

c. **Management Comments.** Management stated, “*Better User of Tower Software:* The Department concurs with the finding regarding better integration and use of the Tower billing software. The Department will further train our staff to use the Tower software program to more effectively track and manage our accounts receivable.”

“*Collection Agency Referrals:* The Department will reevaluate procedures for referring delinquent accounts to collection agencies. SWS has a variety of account types including commercial disposal, commercial dumpster collection, and residential refuse collection. Each account type has different billing frequencies and

aged balances. SWS generally does not send active accounts to collections until the delinquent balance exceed \$100 and the balance is older than 90 days.”

“The Department bills commercial disposal, commercial dumpster and can/bag collection customers on a monthly basis. These accounts are referred to a collection agency once they are delinquent over 90 days, as suggested they should be by the audit. Bills for these accounts are generally in excess of \$100 per month.”

“The Department bills residential customers on a quarterly basis. Current can / bag and most automated customer balances are \$50 per quarter or less. Consequently, it may be more than a single quarter before the \$100 threshold is exceeded. On final billing invoices, SWS remands delinquent accounts to the collection agency after 90 days for any balances over \$25.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit findings and recommendations.

3. **Accounts Not Written-Off Timely.**

- a. **Finding.** SWS personnel waited until accounts had not been paid for five years before they were written-off, even though they were already sent to a collection agency. For example, according to SWS staff, at the end of 2007 SWS wrote-off \$28,156 of accounts receivable from 2003. As a result, receivable balances which contain uncollectible accounts do not present the true value of SWS’s assets.
- b. **Recommendation.** The Director should consider writing off delinquent accounts receivable in a more timely manner.
- c. **Management Comments.** Management stated, “The Department concurs that this

finding is factually correct. Historically, the Department has used a 5-year write-off cycle. The Department is currently researching and analyzing its billing data to determine if the 5-year cycle can be reduced.”

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

#### 4. **Delinquent Accounts Receivable Collection Needs Improvement.**

- a. **Finding.** SWS did not employ effective collection actions to ensure that delinquent accounts receivable were paid. According to AMC 26.20.025, *Late fee assessment*, “A late fee calculated at five percent of the past due balance is to be charged to all classes of customers.” For a typical residential customer this fee results in a one-time penalty of only \$2.45. Penalties are an important part of the collection process because they provide an incentive for prompt payment. Therefore, they should be set at levels to deter customers from becoming delinquent.

In addition, according to SWS staff, they are not permitted to discontinue refuse disposal service due to nonpayment. As a result, some customers have gone years without paying their bills but continue to receive refuse collection services. For example, one residential customer owes \$3,781 dating back to 1996, but is still receiving refuse service. We found nothing in the AMC preventing refuse service from being decreased or discontinued. In fact, AMC 26.70.040.B.4, *Service requests, rates and billings*, refers to services being decreased, for any customer, due to non-payment.

Finally, SWS does not readily accept credit card payments for its refuse collection services. As a result, some accounts that could have been paid with a credit card are sent to the collection agency where a 23 percent collection fee is charged instead of a credit card user fee of about 3 percent. Although credit card payments are accepted

through a third party vendor, SWS does not advertise this service or make it readily available to customers, so it is seldom used. Moreover, another payment option, electronic funds transfer, is not well advertised or made readily available to SWS customers.

**b. Recommendation.** The Director should:

- 1) Work with the Municipal Attorney to clarify and revise the code to enhance payment of customer accounts and provide remedies for collection of overdue accounts.
- 2) Consider accepting customer payments with a credit card, especially recurring automatic credit card payments, to enhance customer service and help decrease delinquent payments.

**c. Management Comments.** Management stated, “*Late Fees and Suspension of Service*: The Department concurs that the application of late fees allowed by current code is ineffective in inducing payment from customers since the one-time charge allowed by the code is trivial. This portion of the code should be revised to allow for stronger application of late fees. The Department is also researching other legal avenues for securing payment of outstanding debts.”

“*Curtailment of Service*: The Department concurs that we are limited in the use of curtailment of service as a means of inducing payment from all customers. We generally do not cut off customers from service since one of the tenets of mandatory collection is to ensure the protection of public health.”

“For customers using dumpster service, the Department does curtail dumpster service to the minimum service level for customers with outstanding balances until their accounts are brought current. With the implementation of “pay-as-you-throw” residential collection rates, the Department can limit the size of subscription for service to delinquent customers. Under the current flat rate schedule for residential

service, the only available curtailment in service is refusal to pick up excess and oversize refuse.”

“While many residential customers fall into arrears for economic reasons, there also a number of customers who refuse to pay the refuse collection bill in protest of mandatory collection. Terminating service to these customers would give them exactly what they are looking for and set a precedent for elimination of the mandatory service rule.”

“Commercial disposal customers who are delinquent in payment are placed in cash-only status, and cannot access the landfill or transfer station without up-front payment until delinquent balances are resolved.”

*“Non-cash Payment Methods:* The Department concurs with the finding that non-cash payment such as credit card or electronic fund transfer (EFT) would improve convenience to customers and improve payment. The Department uses the same third-party credit card payment service as used by the Municipal Tax Collection office and other Municipal departments. Information as to how customers can access credit card and EFT are included on the Department web pages and printed on each bill. The Department will take additional efforts to publicize these payment options.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit findings and recommendations.

5. **Accounts Receivable Policies and Procedures Are Outdated.**

- a. **Finding.** Although SWS management did provide policies and procedures for accounts receivable, they were outdated and did not reflect the new accounts receivable system implemented in 2005. Some of the accounts receivable problems



identified in our audit may have been avoided if SWS had current policies and procedures.

- b. Recommendation.** The Director should ensure that policies and procedures are updated and implemented to provide direction and guidance for managing accounts receivable.
- c. Management Comments.** Management stated, “The Department concurs with this finding. Policies and procedures will be reviewed and updated, if necessary.”
- 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.

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