

Office of the City Auditor

CONSENT CALENDAR
November 18, 2008

To: Honorable Mayor and Members of the City Council
From: Ann-Marie Hogan, City Auditor
Subject: Audit – Transfer Station Receipts: Additional Improvements Needed

RECOMMENDATION

Request the City Manager to report back during or before May 2009 on the implementation status of each of the City Auditor’s recommendations in the attached report. Report back no later than every six months, thereafter, until all recommendations have been fully implemented.

SUMMARY

A surprise cash count was performed at the Transfer Station to determine if cash receipts were present and accounted for at the time of our visit on July 30, 2008. A second follow-up site visit was performed on August 1, 2008. As part of the audit, Transfer Station staff was asked basic questions about cash handling and accountability practices. Some practices resulting in weak controls or non-compliance with the City’s cash handling policies and procedures came to our attention. We did not conduct a comprehensive evaluation of internal controls over cash handling, or perform detailed tests of compliance with the City’s cash handling policies.

The internal controls over cash receipts and cash handling at the Transfer Station’s Scale House appeared to have significantly improved since the cash receipts / cash handling audit performed in fiscal year 2003. However, the audit identified some weaknesses with the establishment of and compliance with procedures. The audit report contains three findings and six recommendations.

The following concerns came to our attention:

- A number of key internal control tasks documented in the written procedures were not being performed.
- The cash handling procedures manual was not up to date or readily available for staff. It contained several policies and procedures that are no longer in effect or have been modified, and it omits some needed procedures.

- A supervisor stated he didn't use a cash drawer when acting as a weigh master (cashier).
- Approximately one day a week a senior supervisor performs the review and approval of cash drawers, which is typically done by a supervisor. When this occurs, a subordinate reviews his work.

The City Auditor's office last audited the Transfer Station's cash handling procedures in fiscal year 2003. That audit identified a number of significant internal control deficiencies and presented 20 recommendations. On October 25, 2005, the City Manager reported to Council that all 20 recommendations were fully implemented.

FISCAL IMPACTS OF RECOMMENDATION

Public Works projected the Transfer Station will collect \$6.6 million in disposal fees in fiscal year 2008. The risk of theft and fraud is always present with cash/cash equivalent transactions.

RATIONALE FOR RECOMMENDATION

Implementation of our recommendations will strengthen internal controls over the cash handling at the Transfer Station and reduce the risk of fraud, theft, or abuse.

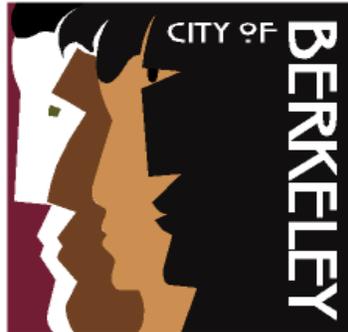
CONTACT PERSON

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Attachments:

1: Transfer Station Receipts: Additional Improvements Needed

CITY OF BERKELEY



TRANSFER STATION RECEIPTS: ADDITIONAL IMPROVEMENTS NEEDED

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PRESENTED TO COUNCIL NOVEMBER 18, 2008

Transfer Station Surprise Cash Count Improvements Needed

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I. OBJECTIVES OF THE AUDIT

The objective of our surprise cash count audit was to determine if the Transfer Station's cash receipts¹ and authorized change fund were present and accounted for at the time of our visit on July 30, 2008. As a sub-objective, the audit was to identify cash receipt and cash handling internal control weaknesses that came to the auditor's attention during the site visit.

The Auditor's Office scheduled surprise cash counts as part of our fiscal year 2009 Audit Plan. The 2009 Audit Plan was presented to Council on June 24, 2008.

II. RESULTS

The internal controls over cash receipts and cash handling at the Transfer Station's Scale House appeared to have significantly improved since the cash receipts / cash handling audit performed in fiscal year 2003. However, some weaknesses were noted in the establishment of and compliance with procedures. The following concerns came to our attention:

Effective internal controls:

- Safeguard assets
- Protect employees
- Detect errors and omissions

- A number of essential internal control procedures were not being performed.
- The cash handling procedures manual was not up to date or readily available for staff. It contained several policies and procedures that are no longer in effect or have been modified, and it omits some needed procedures.
- A supervisor stated he didn't use a cash drawer when acting as a weigh master (cashier).
- Approximately one day a week a senior supervisor performs the review and approval of cash drawers, which is typically done by a supervisor. When this occurs, a subordinate reviews his work.

Our surprise cash count found the change fund had an overage of \$0.01 and the cash drawer tested had a shortage of \$0.25. Results of the cash count were neither material nor indicative of fraud.

¹ "Cash receipts" include cash and cash equivalents, such as payments by credit card. It does not include customer accounts.

III. BACKGROUND

The Transfer Station (Station) provides direct customer service for the disposal of refuse, plant debris, and items such as e-waste and old appliances. The Station is located at 1201 2nd Street and is a unit of the Public Works' Solid Waste Management Division. Station staff weigh vehicles entering and leaving the Station and collect established fees for dumping. The Station staff use Weigh Master for Windows Scale House 32² to process cash register receipts.

Management's commitment to establishing and maintaining effective internal controls is key to the City's control environment.

Council Resolution 64,078-N.S., dated May 20, 2008, established the current authorized disposal rates for the Transfer Station. Council Resolution 64,103-N.S., dated June 24, 2008, established the current authorized limits for change funds. The Public Works Department projected the Transfer Station will collect \$6.6 million in disposal fees in fiscal year 2008.

The City Auditor's office last audited the Transfer Station's cash handling procedures in fiscal year 2003. That audit identified a number of significant internal control deficiencies and presented 20 recommendations. On October 25, 2005, the City Manager reported to Council that all 20 recommendations were fully implemented.

IV. FINDINGS AND RECOMMENDATIONS

Finding 1: Written Internal Controls Procedures Were Not Followed

The following tasks were among those control procedures not being performed:

In order for internal controls to be effective, they must be performed.

- Periodic surprise cash counts were not being performed and documented.
- A control log of cash receipt shortages and overages was not kept up to date.
- Cash receipt voids were not always signed by a supervisor or co-worker at time of occurrence to indicate review and approval.
- Sub-vouchers documenting receipt of change funds were not required.

² Weigh Master for Windows Scale House 32 is an automated system used to process transactions at scale-house facilities.

- Video surveillance equipment was not locked up.
- The supervisor was not documenting periodic review of receipts.

City policy allows free dumping of the first two e-waste items. However, the Scale House applied that policy only to computers, monitors, and televisions. The reason for this appeared to be confusion as to what constitutes e-waste.

Although the cash handling procedures manual was updated in April 2008, that manual was not made readily available to employees involved in cash handling.

Internal controls reduce an organization's exposure to fraud.

Ensuring internal controls are in place and operating effectively reduces the risk of fraud, errors, or irregularities going undetected.

Recommendation 1

- 1.1 Ensure that the cash handling procedures are performed as intended by management. Consider developing helpful tools such as cheat sheets and check lists.
- 1.2 Clarify what items are considered e-waste. Train staff and provide information to customers defining what constitutes e-waste.
- 1.3 Ensure that the updated cash handling procedures manual is readily available to all staff performing cash handling duties.

City Manager's Response

The Public Works Department agrees with the finding and recommendations. Recommendations will be fully implemented by April 2009.

Finding 2 Some Procedures Were Outdated and Insufficiently Detailed

The Transfer Station's Scale House cash handling procedures were old and did not address several key areas including:

Accurate and clearly written procedures are needed to promote consistent performance.

- Requirement of signage notifying customers to get their receipt.
- Periodic removal of collections from the tills.
- Handling of items left behind by customers (e.g., credit cards/driver's licenses).

We also noted that the procedures lacked detailed guidelines on how to ensure a customer's use of a company's credit card is authorized.

Current and sufficiently detailed procedures are necessary for effective internal controls. Written policies and procedures help ensure that internal controls designed by management are implemented consistently and as intended.

Recommendation 2

- 2.1 Update the cash handling policies and procedures. Enough detail should be included so that weigh masters and supervisors have the necessary information to perform their duties effectively.

City Manager's Response

The Public Works Department agrees with the finding and recommendation. Recommendation will be fully implemented by April 2009.

Finding 3 Work Was Not Adequately Reviewed or Performed

Internal controls support accountability

Approximately one day a week a senior supervisor performed the review and approval of cash drawers, which was typically done by a supervisor (subordinate). When this occurred, a supervisor reviewed the work of the senior supervisor. A subordinate should not be assigned to review the work of a senior because the senior supervisor could use their authority over the subordinate to influence the review.

A supervisor also performed weigh master cashiering duties on an as-needed basis. When this occurred the supervisor did not use a cash drawer. Although the supervisor stated he performed only the weighing in and out functions, he did state that on occasion he would

collect cash from customers and pass it to the other weigh master. That weigh master would then process the transaction in his or her own register. This cash handling process prevents management from being able to identify and hold accountable the individual responsible for a cash shortage or overage, should one occur.

Recommendation 3

- 3.1 The senior supervisor should have someone in an equal or higher position review his work.
- 3.2 The supervisor should always use an assigned cash drawer while performing cashier duties.

City Manager's Response

The Public Works Department agrees with the finding and recommendations. Recommendations will be fully implemented by April 2009.

V. FISCAL IMPACT

The cost of fraud cannot always be measured in dollars. Improper activities erode the public's confidence in government.

The Association of Certified Fraud Examiners' "2008 ACFE Report to the Nation on Occupational Fraud & Abuse"³ disclosed that the estimated percent of annual revenues that a typical organization loses as a result of fraud is seven percent. This figure is based on the opinions of 959 Certified Fraud Examiners⁴. The seven percent estimate applied to the Station's projected \$6.6 million in fiscal year 2008 collections infers risk of possible loss of \$462,000. Projecting the seven percent estimate over a five-year period infers as much as \$2.3 million in possible cumulative losses as a result of fraud.

VI. CONCLUSION

Except for immaterial variances, the change fund and daily cash receipts at the Transfer Station's Scale House were present and accounted for at the time of our visits. However, the Station's policies and procedures need to be strengthened and fully enforced. Implementing the recommendations identified in this report will improve cash handling procedures and reduce the risk of loss.

³ Report available at: <http://www.acfe.com/documents/2008-rttn.pdf>

⁴ Per report, "estimate is based solely on the opinions of [Certified Fraud Examiners]... figure should not be considered a literal representation of the true cost of fraud facing U.S. organizations."

APPENDIX A

SCOPE AND METHODOLOGY

We performed a surprise cash count audit at the Transfer Station on July 30, 2008. A second follow-up site visit was performed on August 1, 2008. At the time of the first visit the cash receipts of one cash register till was compared with its cash register reports. At the time of our second visit the change fund was compared with the established change fund for the Scale House. The purpose of the counts was to identify cash receipt and change fund shortages or overages.

We also asked basic questions about cash handling and accountability practices. Some practices came to our attention that result in weak controls or non-compliance with the City's cash handling policies. These practices resulted in the findings in this report. We did not conduct a comprehensive evaluation of internal controls over cash handling, or perform detailed tests of compliance with the City's cash handling policies.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform our audit to obtain sufficient and appropriate evidence that provides a reasonable basis for our findings and conclusions, based on our audit objectives. We believe that the evidence obtained provides reasonable basis for our findings and conclusions, based on our audit objectives.