



Office of the City Auditor

CONSENT CALENDAR
July 8, 2003

To: Honorable Mayor and
Members of the City Council

From: Ann-Marie Hogan, City Auditor

Subject: Transfer Station Cash Receipts / Cash Handling Audit

RECOMMENDATION

That Council request the City Manager to report back on November 25, 2003, regarding the implementation status of each of the Auditor's recommendations in the attached report, and, should any recommendations remain outstanding, to fully implement them by January 31, 2004, and to report back in February.

SUMMARY

At the request of the City Manager, an audit of the current cash receipt, handling, and deposit procedures and practices being used by the Public Works Transfer Station at 1201 2nd Street was performed. Audit fieldwork began on February 6, 2003, and concluded on March 5, 2003.

The audit report includes five major audit findings, each addressing several concerns, and twenty recommendations.

FISCAL IMPACTS OF RECOMMENDATION

The audit did not look at the cost to implement the audit recommendations. However, care was taken not to make audit recommendations that did not appear cost effective to implement.

CURRENT SITUATION AND ITS EFFECTS

Concerns identified during the audit include the following:

- Written policies and procedures are incomplete and insufficiently detailed. (Finding 1)
- A Senior Refuse Supervisor is authorized to perform almost all the cash receipt and cash handling functions. (Finding 2)
- Cashiers can make unauthorized changes to debris weight reported by the scales and use it to incorrectly calculate fees. (Finding 2)
- Work is not always adequately reviewed, errors identified by the reviewer are seldom corrected, and missing documents identified by the reviewer are seldom provided. Finding 3)

- Cashiers allow their supervisor to use their user identification (ID) and cash till. (Finding 2,4)
- Cash register user IDs are not password protected. (Finding 5)
- A procedure for buying-back recycled oil had not been established. Staff stated that they had been paying customers for recycled oil with their own personal funds. (Finding 4)
- Access to cash receipts is not adequately restricted and safeguarded. Dual custody over cash receipts is not being practiced. (Finding 5)

RATIONALE FOR RECOMMENDATIONS

Most of the findings identified in the audit report indicate that Public Works is not placing enough emphasis on procedures designed to help ensure that all payments received at the Transfer Station are adequately safeguarded, deposited, and properly recorded. The implementation of our recommendations will significantly improve internal controls over cash receipts.

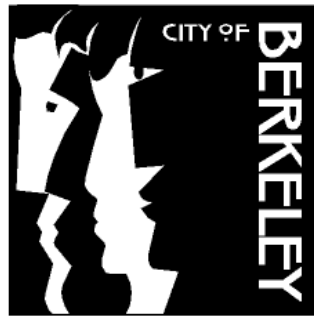
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City of Berkeley



Transfer Station Cash Receipts / Cash Handling Audit

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Presented to Council July 8, 2003

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Transfer Station Cash Receipts / Cash Handling Audit
Table of Contents

Section No.	Section Title	Page No.
I.	EXECUTIVE SUMMARY	1
II.	OBJECTIVES OF THE AUDIT.....	1
III.	SCOPE AND METHODOLOGY	2
IV.	BACKGROUND	2
V.	FINDINGS AND RECOMMENDATIONS	5
	Finding 1: Written Procedures Are Incomplete and Insufficiently Detailed	5
	Finding 2: Incompatible Duties Are Not Adequately Segregated.	6
	Finding 3: Work is Not Adequately Reviewed and Corrected.....	8
	Finding 4: Lack of Accountability Over the Cashiering Duties.	10
	Finding 5: Physical Safeguarding of Cash Receipts Needs Improvement.....	12
VI.	CONCLUSION.....	15

I. EXECUTIVE SUMMARY

We are presenting our audit of the Transfer Station's cash receipts operations. The Transfer Station is a unit of the Solid Waste Management Division of Public Works, located at 1201 2nd Street. At the Transfer Station, customers dump debris and refuse for a fee.

The audit found that the internal control structure over cash receipts at the Transfer Station is not adequate. As a result, errors and irregularities can go undetected by employees performing their normal assigned duties. The audit found that most of the concerns identified in prior audits had not yet been corrected, although some corrective action had been initiated in most cases.

This audit report includes five major audit findings, each addressing several concerns. Concerns identified during the audit include the following:

1. Written policies and procedures are incomplete and insufficiently detailed. (Finding 1)
2. A Senior Refuse Supervisor is authorized to perform almost all the cash receipt and cash handling functions. (Finding 2)
3. Cashiers can make unauthorized changes to debris weight reported by the scales and use it to incorrectly calculate fees. (Finding 2)
4. Work is not always adequately reviewed, errors identified by the reviewer are seldom corrected, and missing documents identified by the reviewer are seldom provided. (Finding 3)
5. Cashiers allow their supervisor to use their user identification (ID) and cash till. (Finding 2,4)
6. Cash register user IDs are not password protected. (Finding 5)
7. A procedure for buying-back recycled oil had not been established. Staff stated that they had been paying customers for recycled oil with their own personal funds. (Finding 4)
8. Access to cash receipts is not adequately restricted and safeguarded. Dual custody over cash receipts is not being practiced. (Finding 5)

II. OBJECTIVES OF THE AUDIT

The objectives of this audit were to:

1. Identify concerns with the procedures used at the Public Works Transfer Station for receiving, handling, safeguarding, and depositing cash and cash equivalents.
2. Determine if audit recommendations from earlier cash handling audits at the Transfer Station have been implemented.

The City Manager requested this audit and it was scheduled to be performed in the City Auditor's fiscal year 2003 Audit Plan as part of an ongoing series of cash handling audits.

III. SCOPE AND METHODOLOGY

The scope of this audit was the current practices and procedures used to receive, handle, safeguard, and deposit Transfer Station cash and cash equivalents (checks and credit card payments). In some instances, non-current records were reviewed to better understand current operations. Fieldwork began on February 6, 2003, and concluded on March 5, 2003.

The information used to complete the objectives was obtained primarily through:

- Discussion with Public Works – Solid Waste Management Division staff working at the Transfer Station or Solid Waste Administration.
- Observation of operations.
- Review of the written procedures.
- Review of records and reports.

Audit work was performed in accordance with Generally Accepted Government Auditing Standards. Audit work was limited to those areas specified in the scope and methodology section of this report.

IV. BACKGROUND

Several Cash Handling Locations Audited

On February 19, 2002, the City Auditor's Office presented the Citywide Cash Receipts / Cash Handling Survey (Cash Survey) to City Council. The objective of the Cash Survey was to identify all of the locations in City of Berkeley department that receive or handle cash or cash equivalents, and to obtain some information about them. Information to complete the Cash Survey was obtained primarily from division managers, by means of a questionnaire. Information from the Cash Survey, along with other information, was used to select and audit several of the City's largest cash handling locations. The following locations have already been audited:

- Front counter in Finance – Customer Service
- Finance – Treasury
- Eight locations in the Parks Recreation and Waterfront Department

Transfer Station Background

The Cash Survey questionnaire for the Transfer Station reported that this unit receives an estimated \$1.9 million per year in cash and cash equivalents. The questionnaire also indicated that an estimated 30% of the Transfer Station's cash receipts are in the form of cash, 35% checks, and 35% credit cards.

The Transfer Station, located at 1201 2nd Street, is a unit in the Solid Waste Management Division of Public Works. The Transfer Station receives payment from customers for disposal of refuse, plant debris, and other items, such as old appliances and tires, six days per week (closed Sundays). Dumping fees are established through Council Resolution. Fees charged for the disposal of plant debris and refuse are generally based on weight. Minimum dumping fees, and fees to dump special items such as

tires, are a fixed fee. The Transfer Station also sells plant debris collection bags and tags and refuse garbage bags, which are purchased by customers who want additional curbside collection service. Lastly, the Transfer Station buys used oil from customers with grant money provided to fund a program put in place to encourage the recycling of used oil.

All vehicles that enter the Transfer Station must first stop at the Scale House, where the weighmasters (cashiers) and their supervisor work. The Scale House is a small building, with cash registers in the front, and an office for the supervisor in the back. Located outside the Scale House are three large scales that are used to weigh customer vehicles as they enter and exit the Transfer Station. Generally two weighmasters input all the Transfer Station transactions into the automated cash register and collect all the fees due. The automated cash registers operate using Weighmaster for Windows – Scalehouse 32 software. Some customers have a City of Berkeley Transfer Station account. For these customers, the fees are entered into the automated cash register program, but payment is not received from the customer at the time debris is dumped. Instead, at the end of each month, information about these fees are provided to the Finance Department, who bills these customers.

When fees are based on weight, the customer's vehicle is weighed on the way in while full of debris, and then weighed empty on the way out. The difference is the weight of the debris dumped at the Transfer Station. The Transfer Station has two computerized touch screen cash registers, programmed with all the authorized fees, and four cash register drawers. Generally one weighmaster handles the customers entering the dumping area, and one handles the customers that leave the dumping area. Cash, checks, credit cards, and City of Berkeley customer accounts (customers are billed monthly) are the accepted form of payment. Weighmasters provide each customer with a receipt each time a payment is received or a fee is charged to a customer's account. The receipts issued by the system are sequentially numbered.

At the end of each day, each weighmaster tallies the cash, checks, and credit card payments in his or her till. A Cash Drawer Recap Report is printed from the automated cash register system and another report, the Daily Cash Report, together summarize the fees charged, drawer totals, and overages and shortages, by payment type. Weighmasters sign their cash receipt reports in the space provided for their signature, then give these reports along with other documentation and payments to the Transfer Station Refuse Supervisor. The Refuse Supervisor recounts the money and makes sure it agrees with each of the weighmaster's reports and support documentation. Overages and shortages are addressed with the weighmasters before they leave for the day. The supervisor then initials the weighmaster's Cash Drawer Recap Report. The Supervisor goes through the same process, preparing the same reports as the weighmasters, but combines the entire day's cash receipts.

Next, the Refuse Supervisor prepares the Treasury Deposit form (TR) that is used to deposit the cash receipts in Finance – Treasury. The TR, cash receipts, and some of the reports are locked in a moneybag, placed in a safe. The next day (Monday through Friday only) the moneybag is couriered to Finance – Treasury for deposit. The courier is usually a Refuse Supervisor, other than the Transfer Station Refuse Supervisor. To document the date, time, and specific moneybags picked up, the courier records this information in the courier log, and initials the entry. The Transfer Station Refuse Supervisor is responsible for making sure the moneybag is taken to Finance daily.

Each day's tally, reconciliation, and deposit documents and reports are taken to the Solid Waste Management Administration Unit by the Refuse Supervisor. Here a Senior Refuse Supervisor and the Recycling Program Manager review these records.

The Transfer Station has a \$500 change fund. At the beginning of each day, the Refuse Supervisor arrives a half hour before the weighmasters, and sets up the till for each weighmaster with a \$150 change fund, then prepares the cash register for use. At the end of each day, each weighmaster places his or her change fund in a moneybag, and gives it back to the Supervisor. The Supervisor locks these moneybags in the safe until the following morning.

Prior Transfer Station Audits

In addition to this audit, the Transfer Station cash receipt and handling operations have been audited twice since 1994. The first audit was conducted by the City Auditor's Office in April 1994. This audit was titled "Audit of Transfer Station Financial Operations, Solid Waste Management Division, Phase II". More recently, on July 31, 2002, the Harvey M. Rose Accountancy Corporation issued an audit report titled "Review of Cash Handling Policies and Procedures, Department of Finance and Selected City Departments" that looked at cash handling policies and procedures at the Transfer Station. Both of these audits identified significant internal control structure weaknesses.

Internal Control Structure

An organization's policies and procedures should document the internal controls that management wants in place to provide reasonable assurance that the following are achieved:

- The reliability and integrity of information.
- Compliance with policies, plans, procedures, laws, and regulations.
- The safeguarding of assets.
- The economical and efficient use of resources.
- The accomplishment of established objectives and goals for operations or programs.

An organization's internal control structure over cash handling operations should include the following elements:

1. **Written Policies and Procedures:** They should be approved by management, cover all aspects of operations, be sufficiently detailed, and be distributed to staff.
2. **Segregation of Incompatible Duties:** Duties should be segregated amongst employees so that errors and irregularities made by one employee are difficult to conceal.
3. **Supervisory Review and Approval:** Supervisors should document their review and approval of critical tasks performed by subordinates. They should not review and approve their own work.
4. **Assignment of Responsibility:** Management must clearly establish who is accountable if errors or irregularities occur in a particular area.
5. **Physical Safeguarding of Assets:** Assets should be physically protected from loss and unauthorized use.
6. **Monitoring of Policies and Procedures:** Ongoing monitoring is necessary to insure policies and procedures, and internal control, remain effective and efficient as operations change.

V. FINDINGS AND RECOMMENDATIONS

The audit found that the internal control structure over cash receipts at the Transfer Station is not

adequate. As a result, errors and irregularities can go undetected by employees performing their normal assigned duties. The audit also found that most of the audit recommendations in the two most recent cash receipt audits at the Transfer Station had not been implemented, or had only been partially implemented. Specific audit findings and recommendations follow.

Finding 1 Written Procedures Are Incomplete and Insufficiently Detailed

Written policies and procedures do not address, or only very lightly address, several tasks that staff perform daily. Written procedures in general are not sufficiently detailed, and often do not tell employees how to perform specific tasks. Adequate written policies and procedures are necessary if tasks are to be performed as management wants them performed. Lastly, not all weighmasters have a copy of the written procedures.

The following areas are not addressed, or are insufficiently addressed, in the written policies and procedures:

- Review and approval of the daily cash receipt reconciliation.
- Cashier overages and shortages.
- Employees authorized to open Scale House doors, safes, and turn alarm off and on.
- What to do if the automated cash register system goes down.
- Void transactions.
- Recycled oil purchases.
- Obtaining smaller currency for a cashier's change fund.
- Customers who dump debris and are unable to pay their bill.
- Customers who leave without paying.
- Video Surveillance.

It is management's responsibility to provide employees with complete and sufficiently detailed written procedures that provide reasonable assurance that all Transfer Station customers are charged the correct fees, and that all payments are properly deposited and accounted for. One reason written policies and procedures are incomplete, and insufficiently detailed, is because Transfer Station supervisors do not have the necessary cash handling background, and have not received cash handling training. The Solid Waste and Recycling Manager informed the auditor that he has tried to get cash handling training for his staff for quite some time. He further stated that two Transfer Station supervisors were scheduled to receive training in May 2003.

During the audit, the Senior Refuse Supervisor for the Transfer Station also told the auditor that, as far as he knew, the weighmasters also had not received formal cash handling training, and he felt they should.

Recommendations for Public Works

- 1.1 Provide Transfer Station supervisors with the cash handling training that they need to develop complete and sufficiently detailed written cash handling policies and procedures for the Transfer Station. Formal cash handling training should also be provided to the supervisors that review and approve the daily cash receipts reconciliation and deposit, as well as the weighmasters.
- 1.2 Update the Transfer Station cash handling policies and procedures. They should be detailed

enough so that cashiers and supervisors with the required cash handling background for their job classification can use these procedures to perform all their assigned duties as management wants them performed. Written policies and procedures should include the internal control structure required to provide reasonable assurance that fees are properly charged, and all payments are received, deposited, and properly accounted for. Staff should sign a document showing that they received the written policies and procedures, and agree to follow them. These documents should be kept on file by management.

City Manager's Response

Public Works agrees with the finding and recommendations 1.1 and 1.2. The Finance Department is scheduling training for the Department of Public Works to begin in June 2003. The knowledge gained will be used to update policies and procedures, which will be completed by October 31, 2003.

Finding 2 Incompatible Duties Are Not Adequately Segregated

Weighmasters, a senior supervisor, and a manager, are authorized to perform incompatible cash receipt and handling duties, and are actually performing many of them. As a result, errors and irregularities made by these employees may not be timely detected and corrected during the normal course of business.

Management stated that inadequate segregation of duties occurred because of staff absences, insufficient staffing, and to reduce the wait for customers when customer lines were long. However, in addition to these causes, the auditor also found that supervisors did not have the background or training to identify incompatible duties, and how to best segregate them amongst available employees. Additionally, supervisors also stated that trust was very important amongst their staff, and it appears this may be a barrier to the willingness of supervisors to systematically attempt to segregate incompatible duties.

The following duties were among those not adequately segregated:

1. A Senior Refuse Supervisor is authorized to perform almost all the cash receipt and handling functions, and has access to the cash receipts. Additionally, he performs most of these functions, although not on a regular basis. Although the Recycling Program Manager reviews the daily cash reconciliation and deposit documentation, her review is limited to the summary documentation and deposit documentation provided to her by the Senior Refuse Supervisor. As a result, errors and irregularities could be hidden from her. The Senior Refuse Supervisor can, and on occasion does, perform the following incompatible duties:
 - A. Work as a cashier, review his own work as the Senior Refuse Supervisor, and at least on one occasion delivered the deposit he prepared to Treasury.
 - B. Work as a cashier and void his own transactions; therefore, inappropriately voided transactions can go undetected.
 - C. Work as a cashier and change fees programmed into the cash register, and also change the weight provided by the scales.
 - D. Unlock the Scale House door, turn off the alarm, and open the safes and the moneybags by himself.
2. Cashiers are authorized to manually enter weight information into the computerized cash register

system to record scrap metal sales activity and other activity. However, this authorization also allows a cashier to make unauthorized changes to scale-provided weight information, and incorrectly calculate dumping fees.

3. City truck drivers bring the weighmasters a check and a receipt each time they sell scrap metal collected from Transfer Station debris. However, if the truck drivers go to the recycler before the Scale House opens (a practice which is not uncommon), and do not leave a note with their truck's weight as they should (or leave an incorrect weight), the scrap metal sale may go unnoticed or incorrectly recorded. As a result, a driver could inappropriately keep money from the sale, and this activity could go unnoticed. Fiscal year 2002 scrap metal revenue was budgeted at \$44,321. Actual revenue was \$27,292.
4. The Solid Waste and Recycling Manager is authorized to work as a cashier in the automated cash register system. However, since he oversees all Transfer Station activities, and is authorized to input the fees and rates in the cash register system, inappropriate cashiering activity could go undetected.

Recommendation For Public Works

- 2.1 Develop and implement procedures that provide reasonable assurance that the City is paid the market rate for all scrap metal that leaves the Transfer Station, and that this money is deposited into a City bank account. The Solid Waste Manager's idea to place scrap metal in numbered bins, and require drivers to have a work order signed by their supervisor before this metal can be taken out of the Transfer Station and sold, would meet the requirements of this recommendation. However, written procedures would have to include controls that insure scrap metal is not sold without a work order, and that all work orders are accounted for.

City Manager's Response

The Department of Public Works agrees with finding 2 and recommendation 2.1. The work order system discussed above is being implemented effective June 1, 2003. Policies and procedures will be updated and completed by July 1, 2003.

Recommendation For Public Works and Finance

- 2.2 For each job classification or position that is involved with Transfer Station cash receipts, identify and document the duties each can and can't perform so that incompatible duties are adequately segregated. Incorporate this information into the written policies and procedures. If an employee must be authorized to perform incompatible duties, the mitigating control that will be in place to provide reasonable assurance that errors and irregularities are identified and corrected should be identified as well.

City Manager's Response

Public Works agrees with the finding and recommendation 2.2. Each employee's job classification, and what they are currently authorized to do, will be updated, documented, and completed by July 1, 2003. The City Manager's budget recommendation includes employing an additional weighmaster,

which will assist materially in separating the duties of the supervisors for oversight as well as operation of the scales. Documenting the incompatible duties will be identified in the revised procedures to be completed on, or before, October 31, 2003.

Finance agrees with the finding and recommendation 2.2. The Finance Department will perform a risk assessment of cash handling operations at the Transfer Station to gain a better understanding of current practices and determine appropriate controls. Upon completion of the assessment and analysis, Finance will provide recommendations for segregating duties of employees to minimize risks related to cash handling. Recommendation will be completed by October 31, 2003.

Finding 3 Work is Not Adequately Reviewed and Corrected

Transfer Station cash receipts and cash handling work is not always adequately reviewed or corrected. As a result, errors, irregularities, and non-compliance with procedures can go undetected if work is approved before it is complete and accurate.

1. Cash Receipt Activity Is Not Being Reviewed

A. Solid Waste staff do not verify that each day's cash receipts have been deposited in Finance - Treasury and properly accounted for in FUNDS, the City's automated accounting system. To illustrate the type of effect this can have, Solid Waste Management and Finance – Treasury were unable to show that the October 4, 2002, credit card payments totaling \$1,549 had been brought to Treasury. Although the City most likely received this money electronically when the transactions took place at the Scale House, it does not appear these cash receipts were ever recognized as Solid Waste revenue. Additionally, of the fifteen daily reconciliations reviewed by the auditor, two instances were observed where recycling revenue had been incorrectly accounted for as roll-off container revenue by Transfer Station staff.

2. Cash Receipt Activity Is Not Being Properly Reviewed and Corrected

A. The daily cash receipt reconciliation and deposit is often reviewed by Solid Waste Staff after the cash receipts have been brought to Treasury for deposit. Missing and incomplete documentation, as well as errors, that the reviewers identify are generally not corrected. Required weighmaster and supervisor signatures and initials are often missing on documents. To illustrate the types of problems this can cause, the November 6, 2002, cash receipt documentation shows that a Refuse Supervisor working as a weighmaster had received checks totaling \$888.19. However, it appears that only about half this money, \$484, was deposited in Treasury. Although this discrepancy was identified by the reviewer, there is no evidence that it was resolved then, and management could not explain to the auditor what happened. Although the completeness and accuracy of the cash receipt documentation being provided to the reviewers has recently improved significantly, it appears likely that this improvement will only be temporary because procedures to correct cash receipt documentation problems are not in place.

B. Cashiering transactions that must be void are not reviewed and approved at the time that the transaction is occurring. Transactions that require voiding are generally reviewed and approved by the Sr. Refuse Supervisor at the end of the day, or if he is on vacation, when he returns. However,

once the customer leaves, the situation can no longer be visually examined by a supervisor and discussed with the customer, making it difficult to determine if a transaction should be void. The explanation from the cashier for the two void transactions reviewed by the auditor was that an incorrect weight had been provided to the automated cash register by the scale. This type of condition can only be verified when the customer is still there.

- C. Management stated that a supervisor periodically reviews customer activity and receipts in the dumping areas for appropriateness, and later checks to see if the automated cash register shows that these customers were weighed out and that they paid a fee. However, these reviews are not documented, so we could not confirm it was being done. Additionally, it appears that the current procedure does not include a review of fees paid by customers for reasonableness while the customer is still present.

Recommendations for Public Works

- 3.1 Management must clearly establish who is accountable for each error or irregularity that could occur. Cash receipts should not be brought to Treasury and deposited until the reviewer has provided evidence of his or her written approval. Written approval of the daily cash receipts reconciliation documentation and Treasury Deposit should not be given until the reviewer has found that all documentation has been provided, documentation is properly completed with required signatures and initials present, documentation contains no mathematical errors, and all the reviewer's questions have been satisfactorily answered. The reviewer should be a higher-level employee than those whose work they are reviewing, and have adequate knowledge on the subject of proper cash handling.
- 3.2 Cashiering transactions that require voiding should be reviewed and approved in writing by a supervisor at the time the transaction occurs. For times when a supervisor is not available, it is further recommended that a co-worker be permitted to approve the voiding of some transactions, such as small dollar transactions. The circumstances when a co-worker can review and approve the voiding of another cashier's transaction should be addressed in the written procedures.
- 3.3 A supervisor should continue to perform a review of customer receipts while the customers are still present. However, receipts should be reviewed at a point in time after the customers being reviewed have paid their dumping fees and have their receipts. One way to accomplish this would be to have a supervisor observe a small sample of vehicles as they enter the Transfer Station, or possibly as they are dumping, and then review their receipts as they are leaving. The weighmasters should not know what customers the supervisor will review, since they might alter their behavior when under review. This activity, including the outcome of each transaction reviewed, should be documented. Concerns should be reported to the Manager of Solid Waste and Recycling. These procedures should be documented.
- 3.4 Follow-up to determine whether the City has received the October 4, 2002, credit card payments totaling \$1,549 and that it has been properly accounted for as Transfer Station revenue, rather than posted in error to another revenue code. Investigate to determine what happened, and update written procedures to prevent this type of error from re-occurring.

City Manager's Response

Public Works agrees with the finding and recommendations 3.1, 3.2, 3.3 and 3.4. All four audit recommendations, and the development of the written policies and procedures pertaining to these recommendations, will be implemented by, or before, October 31, 2003. The other Senior Supervisor is now authorized to review and approve voids during the absence of the activity Senior Supervisor. Public Works will implement recommendation 3.4, with the assistance of the Finance Department.

Finding 4 Lack of Accountability Over the Cashiering Duties

Management has not adequately established the means to hold cashiers and their supervisors accountable for problems with their work. The following conditions exist:

1. Each cashier's work can't always be separately identified.
2. Cashier training and established procedures are insufficient.
3. No performance measures exist for the cashiers and the supervisors.

1. Each Cashier's Work Can't Always Be Identified

Sometimes two employees use one cashier's user identification (ID) and till. The second employee is sometimes the Transfer Station Supervisor. It appears that this is often the practice when a cashier needs temporary assistance, such as when there is a long line of customers. This activity was observed by the auditor. It appears that it also occurs unintentionally when cashiers do not lock their drawers and do not sign off as a user, and a cashier uses the wrong drawer. As a result, the work performed by either one of these employees can't be uniquely identified.

2. Cashier Training and Established Procedures is Insufficient

It is not always clear how management wants the cashiers to perform some of their assigned duties. For example, although it is not uncommon for cashiers to have an overage or shortage for the day, and it was the auditor's understanding that cashiers were responsible for their overages and shortages, they had not been trained to utilize the automated cash register reports and print reports that would aide them in locating their errors. During the audit, this was brought to management's attention, and management later informed the auditor that cashiers had been provided this training. The auditor also found that it was not uncommon for cashiers to net an overage for one payment type and a shortage for another payment type, such as cash and checks. This technique was used in many cases to almost cancel out the reporting of large and small overages and shortages. When the supervisor combines the days cash receipts from all the cashiers, this is also the practice. As a result, cashiers are not being held sufficiently accountable for shortages and overages. As a second example, weighmasters were unclear about the procedure for buying used oil from customers. Weighmasters stated that they referred these transactions to the Transfer Station Supervisor. The Transfer Station Supervisor explained that he and his staff were paying customers out of their own pocket for recycled oil. When the auditor brought this to the attention of the Senior Refuse Supervisor, he found that the touch screen cash register key for this purpose had not been properly set up and was not working. The log reviewed indicated that oil drop-offs are often not logged, and that the log requested insufficient information. For example, the customer's name, vehicle license plate, and the amount they were paid, were not recorded.

3. No Performance Measures for Cashiers and Supervisors

There are no performance measures for any of the cash receipting tasks. For example, there are no performance measures for cashier overages and shortages performance. In addition, management stated that other cashier input into the automated cash register system, other than the cash receipt amount, contained significant errors. They stated that this prevented monitoring total debris received versus transported out, for reasonableness. The auditor observed that dumping fee revenues sometimes differed significantly from month to month. Management further stated that they did not know what input error rate would be reasonable as a standard in measuring cashier data entry performance. Lastly, there is no performance standard pertaining to the supervisors' review of cash receipts documentation. The auditor found that the Transfer Station supervisor often approved cash receipt work that was not signed, not complete, or contained errors.

Recommendations for Public Works

- 4.1 As soon as the cash register software allows each cashier's user ID to be password protected, each cashier should be held solely accountable for all work performed under his or her user ID. This software change should be made as soon as possible. Written policies and procedures should be updated, clearly prohibiting any employee from sharing, or allowing another employee (including their supervisor) to use their automated cash register user ID or till.
- 4.2 Use industry standards, actual employee performance, and need requirements, to establish cashiering performance measures. Start with performance standards for cash receipts overages and shortages, and cash register system input accuracy, for the cashiers. Additionally, a performance standard pertaining to the supervisor's quality of review of cash receipts documentation should also be established. Performance standards versus actual performance should be documented. Problems should be addressed through methods such as providing the employee applicable training, and up to disciplinary action.
- 4.3 On a monthly basis, compare total debris that enters the Transfer Station with total debris that leaves the Transfer Station. Determine the reason for significant variances. Pay particular attention to indications that the Transfer Station may not be receiving payment for all the debris it is receiving, or the scrap metal it is selling. Concerns should be brought to management's attention, and the problems corrected. This work should be documented and the documentation should be retained.

City Manager's Response

The Department of Public Works agrees with the finding and recommendations 4.1, 4.2 and 4.3. Policies and procedures for addressing the recommendations will be completed by, or before, October 31, 2003. The instruction scheduled by Finance for cash handling should prove invaluable to accomplish this end.

Finding 5 Physical Safeguarding of Cash Receipts Needs Improvement

The physical safeguards over cash receipts are not adequate in several areas. Cash receipts need to be properly physically protected to minimize risk of their loss.

Physical safeguards over cash receipts are not adequate in the following areas:

1. Dual custody over cash is not practiced. The supervisor and cashier do not practice dual custody when handling cash. Dual custody requires that two employees be present and responsible for the City's cash receipts until they are adequately physically safeguarded, such as by being placed in a safe, or deposited in Treasury. Because dual custody is not practiced, it will not be possible to identify the thief if money is taken. For example:
 - A. A supervisor counts each cashier's cash receipts and change fund, but the cashier is often not present or not carefully watching this activity. Additionally, records seldom document that the supervisor concurred with the cashier's cash count, although this is the procedure. As a result, if money is missing, nobody will be able to determine if it was taken by a cashier or his or her supervisor.
 - B. Five supervisors can remove cash receipts from the safes without another employee present. As a result, if money is missing from the safes it could be any one of these five employees. These same five supervisors can also unlock the Scale House door and turn off the alarm to the building where the safes are located. Records that identified which employee had which keys were not being properly maintained. A record of employees who had the safe combination was not available. The combination to the safes is not being timely changed every time an employee who knows the combination is reassigned to another job or leaves the City.
 - € Supervisors, other than the Transfer Station supervisor, remove moneybags from a safe daily, and take this money to Finance – Treasury for deposit. These supervisors document this activity in a log. However, since another employee does not confirm who took the moneybags, and which moneybags were taken, if moneybags are lost or stolen, all five supervisors who can open the safe would be suspect. Dual custody would prevent this. Many courier pickups were not recorded in the log used for this purpose. Written procedures state that the Transfer Station Supervisor is responsible for making sure that the moneybags are picked up, and that the pick-up is properly entered into the log by the courier.

2. Cashiering IDs are not password protected in the automated cash register system. The methodology used to develop each employee's ID allows each employee to know everyone else's ID. As a result, an employee can very easily work as a cashier under another employee's ID without the other employee's permission. Management stated that this problem can only be corrected with a cash register software upgrade, and improved computer cabling from the Scale House to the Solid Waste Administration building. Management also stated that cabling work was expected to begin in late April 2003, and that after this was done, installation of the software was expected to take less than one day to complete.

3. Cash register drawers are not always kept properly secured.
 - A. Each morning, the supervisor turns on the automated cash registers, places hundreds of dollars in change fund money in the cash register drawers, and locks the cash drawers, but generally leaves the keys for the two morning cashiers in the locks unattended. If money from the change fund is missing, suspects would include the supervisor, the first cashier to show up for work, or another employee that had entered the Scale House (which is not uncommon).
 - B. Cashiers can't lock their cash tills, and cash register drawer keys are shared and left in an unlocked drawer after business hours. Employees could easily have a copy of a key made, and use it for unauthorized purposes.
 - C. The Transfer Station supervisor sometimes leaves his cash register while he is logged

in and his drawer is not locked. He stated that this was only done when he is only going to be away for a short time. On February 7, 2003, the auditor observed another cashier accidentally open a cash register drawer with money in the till. After he asked the other cashier if it was hers, and found out it wasn't, the supervisor entered the room, and acknowledged that it was his.

4. A security monitor and videotape machine are readily visible and accessible to the weighmasters and anyone else entering the Scale House. As a result, thieves could easily turn the recorder off, or take or erase the tape, so their impropriety would not be preserved on video tape. Transfer Station employees are often in this area, and their presence would not appear suspicious.
5. An overall cash receipts overage balance (payments exceed fees charged) in the Transfer Station cash overage / shortage account, and a comment made by a customer to a Senior Refuse Supervisor, suggest that receipts may not always be issued. When a receipt is not issued to a customer, the transaction and payment are not identified as Transfer Station cash receipts, removing the City's ability to properly determine if the City has received all payments it is due. Signage is not posted informing customers that they must receive a receipt.
6. Checks are currently not being restrictively endorsed upon receipt. When checks are restrictively endorsed as they are received, this helps ensure that they can only be deposited into the City of Berkeley bank account. The self-inking check endorsement stamp was dry for at least a month and was not replaced during the audit. A supervisor stated that a stamp had been ordered.
7. On days Finance – Treasury is not open, cash receipts cannot be couriered to Treasury for deposit. As a result, cash receipts are sometimes being kept in a less secure location.
8. Access to debris and recycling bags, and debris tags, is not adequately restricted. Bags are kept in bins in front of the Scale House. These bins are unlocked at all times. Transfer Station and other Solid Waste Management staff take the bags as needed. Since inventory is not controlled and monitored, if bags are sold to customers and fees are not collected, this unauthorized activity will probably go undetected. A similar condition exists with the tags.
9. Transfer Station supervisors informed the auditor that the current change fund amount was too small, generally because some customers paid with large bills, which too often quickly depleted the change fund. As a result, the supervisors stated that it was not uncommon for them to have to make one or two trips to the bank per day to obtain smaller bills for making change. Frequent trips to the bank, or keeping a larger change fund, would increase the City's risk that money could be lost or stolen. Therefore, during the audit the auditor recommended that signage be posted notifying customers that large bills would not be accepted, or that the Transfer Station was unable to provide large amounts of change. A senior supervisor stated that he had posted signage limiting the size of the bills the Transfer Station would accept.

Recommendations for Public Works

- 5.1 Document and implement procedures that prohibit any one employee from accessing or handling cash receipts alone, except a cashier who is solely responsible for his or her own till. Dual custody activity should be documented, indicating both employees agree with the cash total, the specific

moneybags being given to a courier, etc. Carefully limiting who has access to keys to the doors, alarm, and the combination to the safes, will be a required part of the new procedure.

- 5.2 The combination to the safe must be changed, and keys that would allow unauthorized access to cash receipts or cash receipts area, such as keys to Transfer Station doors and the alarm, must be returned, immediately after an employee is transferred, reassigned, or leaves employment with the City. This procedure should be incorporated into the written policies and procedures, and performed in accordance with Administrative Regulation 2.6, “City Property – Issuance and Retrieval”. Written procedures should also include a current list identifying every employee position authorized to have the combination to the safes, door keys, the alarm key, and moneybag keys.
- 5.3 Develop and implement a written procedure that provides reasonable assurance that cashiers immediately endorse all the checks with the City’s endorsement stamp. The procedure should include a backup endorsement stamp, and supervisory review of checks for timely restrictive endorsement.
- 5.4 Safeguard the surveillance video recorder from unauthorized access to the machine and videotapes using approved methods.
- 5.5 Post signage at the Scale House that informs customers that they are to receive a receipt each time they pay a fee, or each time a fee is charged to their Transfer Station account. Policy should be set in place to include incentives for customers to report wrongdoing. To reduce the risk that customers do not receive a receipt, incentives encouraging customers to report instances when they do not receive a receipt should be explored, and the best incentive implemented.
- 5.6 Within two months of this report being presented to Council, upgrade the automated cash register software and cabling so that cashier user IDs can be password restricted. Cash register keys should be stamped “Do Not Duplicate”. Management should also consider assigning each cashier his or her own lockable till, and restricting access to this key to only the cashier.
- 5.7 Access to the inventory of debris and refuse bags and tags should be adequately restricted to prevent unauthorized use. Consider assigning each cashier a specific number of bags and tags, then having the cashier run a cash register report showing these bags were sold and this activity was recorded in the cash register, before the cashier’s personal inventory is replenished.
- 5.8 The Transfer Station should post signage encouraging customers to use exact change and small currency to pay their invoice.

Recommendation for Public Works and Finance

- 5.9 When Finance – Treasury is not open to receive Transfer Station cash receipts, such as Saturdays and holidays, this money should be brought daily to a secure alternative location.

City Manager’s Response

Public Works agrees with the finding and recommendations 5.1 through 5.9.

Safeguarding and restricting access to keys has been accomplished. The policies and procedures governing the activity will be updated on, or before, October 31, 2003. A lock will be installed on the bag storage locker by June 15, 2003.

A roster has been produced that records which employees have keys to the scale house and combinations to the safes. Policies and procedures will be developed on, or before October 31, 2003 governing re-keying and changing combinations.

A secure cabinet will be acquired for the safeguarding of the video equipment (recommendation 5.4) by August 15, 2003. Regarding recommendations 5.5 and 5.8, the appropriate signage will be ordered by June 10, 2003. All other recommendations associated with finding 5, except recommendation 5.9, will be implemented by October 31, 2003.

Finance agrees with the finding and recommendation 5.9. Finance is evaluating options to address this issue. One possible option is to have Brinks make deposits from the Transfer Station to Treasury Monday thru Saturday. A cost benefit analysis is necessary to determine if this is the most cost efficient option. Finance will perform the analysis and make recommendation by October 31, 2003.

VI. CONCLUSION

The Transfer Station's cash receipt and cash handling internal control structure is inadequate. It lacks written policies and procedures that cover all aspects of operations and that are sufficiently detailed, lacks an adequate segregation of duties, lacks adequate supervisory review and approval, lacks an adequate assignment of responsibility, and lacks the adequate physical safeguarding of assets. As a result, the risk is much greater than necessary that cash receipt errors and irregularities will go undetected. To significantly reduce this risk, the audit recommendations should be implemented as soon as possible.