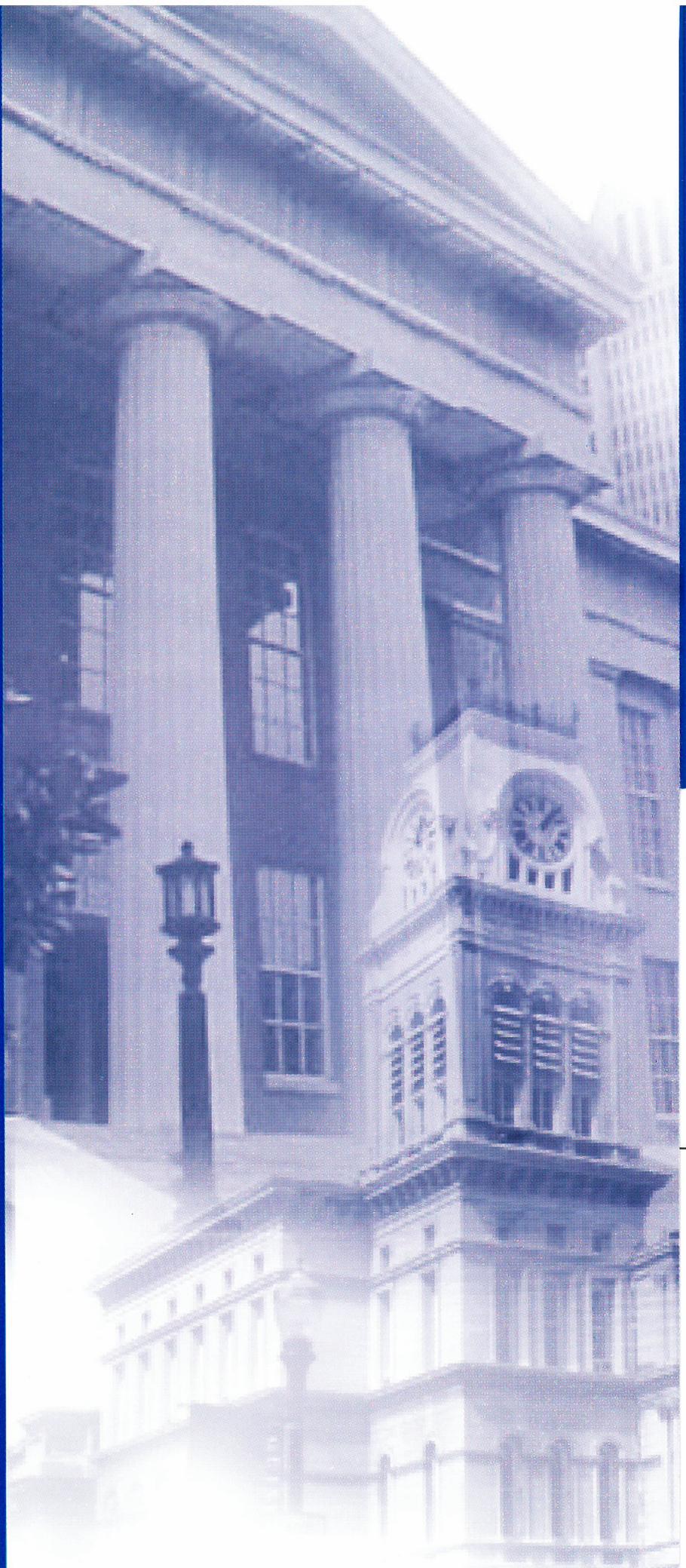




Greg Fischer
Mayor

Louisville Metro Council

The Office of Internal Audit provides independent, objective assurance and consulting services that adds value to and improves Louisville Metro Government.



Office of Internal Audit

**Solid Waste Management
Services**

**Waste Reduction Center
Revenue Administration**

Audit Report

Public Works and Assets Solid Waste Management Services

Waste Reduction Center
Revenue Administration

December 2013

Office of Internal Audit



Solid Waste Management
Services

Waste Reduction Center
Revenue Administration

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Executive Summary

PROJECT TITLE

Public Works and Assets- Solid Waste Management Services Waste Reduction Center- Revenue Administration

OBJECTIVE AND SCOPE

The objective was to obtain assurance that operational risks are adequately mitigated through the internal control structure. The primary focus was to ensure that procedures are in place regarding the operational and fiscal administration of revenue and related activity. This was a scheduled audit.

This was a compliance review based on revenue and related activity. The review covered activity from fiscal year 2012 and the first quarter of fiscal year 2013 (July 1, 2011 to September 30, 2012). The details of the scope and methodology of the review are addressed in the Observations and Recommendations section of this report.

INTERNAL CONTROL ASSESSMENT

Needs Improvement

RESULTS

Opportunities exist for improving the internal control structure for the administration of the Public Works and Assets- Solid Waste Management Services Waste Reduction Center (WRC) - revenue administration activity. Examples include the following.

- **Monitoring and Reconciliation.** There were issues noted with regards to the monitoring and reconciliation of Waste Reduction Center (WRC) revenue activity.
 - There were instances when the daily sales did not agree to the amount of the daily deposit and/or could not be verified by way of the WRC cash register system report.
 - Documentation to support the transition of customer receivable balances to the Office of Management and Budget (OMB) Accounts Receivable system could not be found.
 - WRC revenue receipts were not posted to the appropriate account within the Louisville Metro financial system.
- **General Administration.** Issues were noted with the general administration of WRC revenue activity.
 - Documented policies and procedures to guide WRC personnel in the day-to-day administration and management of revenue activity do not reflect the current practices.
 - Some issues were noted with the safeguarding of cash receipts. These included unauthorized access to cash receipts, and the ability to prepare revenue activity reports in the absence of supervisory personnel.



OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

GREG FISCHER
MAYOR

INGRAM QUICK, CHIEF AUDIT EXECUTIVE

JIM KING
PRESIDENT METRO COUNCIL

Transmittal Letter

December 3, 2013

The Honorable Greg Fischer
Mayor of Louisville Metro
Louisville Metro Hall
Louisville, KY 40202

Subject: Audit of Waste Reduction Center Revenue Administration

Introduction

An audit of Public Works and Assets (PWA) Solid Waste Management Services' (SWMS) Waste Reduction Center (WRC) revenue activity was performed. The primary focus of the review was the operational and fiscal administration of the activity. This included how the WRC processes, records, and monitors the activity. The objective was to obtain assurance that risks were adequately mitigated through the internal controls process.

The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the review, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion.

Scope

The operating procedures for the Waste Reduction Center (WRC) revenue activity were reviewed through interviews with key personnel. The focus of the review was the operational and fiscal administration of the activity. Tests of sample data were performed on transactions from fiscal year 2012 and the first quarter of fiscal year 2013 (July 1, 2011 to September 30, 2012). Activity reviewed included WRC register reports, accounts receivable billings, bank statements, and Louisville Metro financial system records.

The review included assessing whether activity was processed, recorded, and monitored accurately and appropriately. The details of the scope and methodology of the review will be addressed in the Observations and Recommendations section of this report. The examination would not identify all weaknesses because it was based on selective review of data.

Opinion

It is our opinion that the internal control structure for Public Works and Assets Solid Waste Management Services' Waste Reduction Center revenue activity needs improvement. The internal control rating is on page 6 of this report. This rating quantifies our opinion regarding the internal controls and identifies areas requiring corrective action. Opportunities to strengthen the internal control structure were noted. Examples include the following.

- **Monitoring and Reconciliation.** There were issues noted with regards to the monitoring and reconciliation of Waste Reduction Center (WRC) revenue activity.
 - There were instances when the daily sales did not agree to the amount of the daily deposit and/or could not be verified by way of the WRC cash register system report.
 - Documentation to support the transition of customer receivable balances to the Office of Management and Budget (OMB) Accounts Receivable system could not be found.
 - WRC revenue receipts were not posted to the appropriate account within the Louisville Metro financial system.

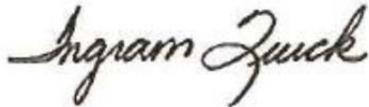
- **General Administration.** Issues were noted with the general administration of WRC revenue activity.
 - Documented policies and procedures to guide WRC personnel in the day-to-day administration and management of revenue activity do not reflect the current practices.
 - Some issues were noted with the safeguarding of cash receipts. These included unauthorized access to cash receipts, the ability to prepare revenue activity reports in the absence of supervisory personnel, an ineffective security alarm system and an inoperable video surveillance camera.

The implementation of the recommendations in this report will help improve the internal control structure and effectiveness of the administration of WRC revenue activity.

Corrective Action Plan

Representatives from Public Works and Assets Solid Waste Management Division (SWMS) have reviewed the results and are committed to addressing the issues noted. Corrective action plans are included in this report in the Observations and Recommendations section. We will continue to work with Public Works and Assets Solid Waste Management Division (SWMS) to ensure the actions taken are effective to address the issues noted.

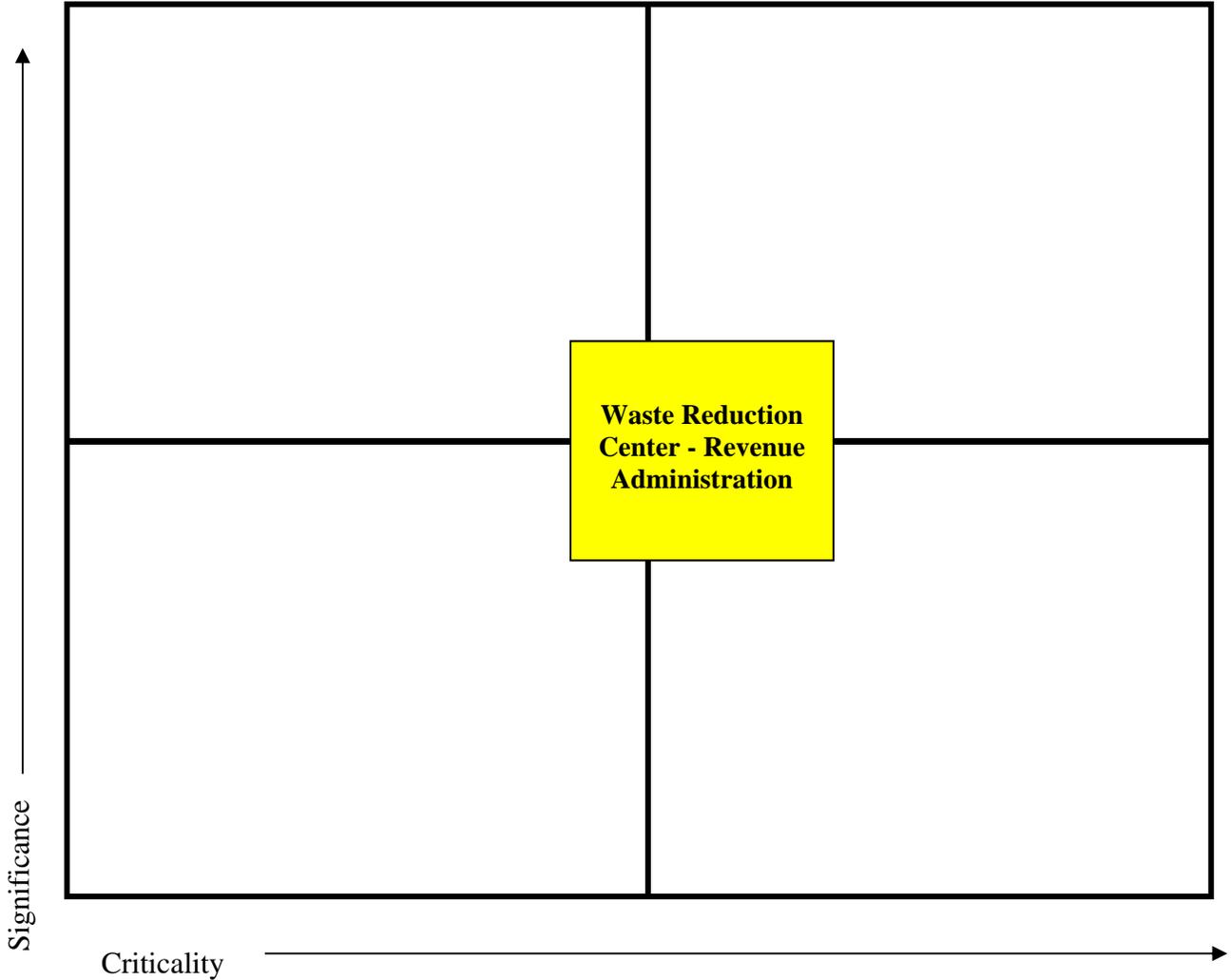
Sincerely,



Ingram Quick, CIA, CFE
Chief Audit Executive

cc: Louisville Metro Council President
Louisville Metro Council Government Accountability and Ethics Committee
Director of Public Works and Assets
Louisville Metro External Auditors

Internal Control Rating



<u>Legend</u>			
<u>Criteria</u>	<u>Satisfactory</u>	<u>Needs Improvement</u>	<u>Inadequate</u>
<i>Issues</i>	Not likely to impact operations.	Impact on operations likely contained.	Impact on operations likely widespread or compounding.
<i>Controls</i>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<i>Policy Compliance</i>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<i>Image</i>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<i>Corrective Action</i>	May be necessary.	Prompt.	Immediate.

Background

The Louisville Metro Public Works and Assets Solid Waste Management Division (SWMS) offer a variety of services that make waste disposal convenient and environmentally sound. The division provides garbage, yard waste, recycling, and junk collection in the Urban Services District and promotes waste reduction and recycling throughout Louisville Metro. Private waste haulers, regulated by the Metro Waste Management District, provide household waste removal in the Suburban Areas.

SWMS' Waste Reduction Center (WRC) provides an alternative bulk waste disposal for all areas of Louisville Metro. The WRC takes in a variety of items such as household junk, tree limbs and stumps, tires, metal waste and more. Fees are volume based according to the size of the vehicle. WRC employees administer the fees and assist with the pull-off and separation of the debris.

The fiscal year 2013 operating budget for Waste Reduction Center revenue is \$790,000. This is comprised of fees charged for dumping at the disposal yard.

This was a scheduled audit.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit previously performed a review of the Waste Reduction Center's revenue activity in June 2006. Unless otherwise noted, all prior issues have been satisfactorily addressed.

III. Statement of Auditing Standards

The audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

An understanding of the internal control structure was obtained in order to support the final opinion.

V. Statement of Irregularities, Illegal Acts, and Other Noncompliance

The review did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected during the review that would indicate evidence of such. Any

significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. Views of Responsible Officials / Action Plan

A draft report was issued to the Public Works and Assets Solid Waste Management Division (SWMS) on October 10, 2013. An exit conference was held at Public Works and Assets (444 South Fifth St.) on October 25, 2013. Attending were Vanessa Burns and Keith Hackett representing Public Works and Assets and Ingram Quick and May Porter representing Internal Audit. Final audit results were discussed.

The views of the Public Works and Assets officials were received on November 22, 2013 and are included as corrective action plans in the Observations and Recommendations section of the report. The plans indicate a commitment to addressing the issues noted.

LMCO §30.36(B) requires Louisville Metro Agencies to respond to draft audit reports in a timely manner. It specifically states that

“The response must be forwarded to the Office of Internal Audit within 15 days of the exit conference, or no longer than 30 days of receipt of the draft report.”

The Office of Internal Audit extended the timeframe for response from SWMS. SWMS’ response was provided within the agreed upon timeframe.

Observations and Recommendations

Scope

The Louisville Metro Public Works and Assets Solid Waste Management Division (SWMS) procedures for administering Waste Reduction Center revenue activity were reviewed. The primary focus of the review was the operational and fiscal administration of the activity. This included interviewing applicable personnel in order to gain an understanding of the policies and procedures for processing, recording, and monitoring of activity, as well as testing of activity to determine the effectiveness of controls.

WRC revenue activity for twelve days was judgmentally selected from the period July 1, 2011 through September 30, 2012. The review focused on information recorded in activity reports, bank deposits, and the Louisville Metro financial system. Testing encompassed the sources and completeness of revenue receipts, verification of the appropriateness of amounts charged, the procedures for recording, reconciling and monitoring activity, and compliance with applicable requirements. Documentation reviewed included transaction tickets, receipts, cash register activity reporting, bank statements, accounts receivable billings and Louisville Metro financial system records. This examination would not identify all issues because it was based on a selective review of data.

Observations

Issues were noted with the administration of Public Works and Assets Solid Waste Management Services' Waste Reduction Center revenue activity. As a result, the effectiveness of the internal control structure is impaired and needs improvement. Opportunities to strengthen controls are as follows.

- 1) Monitoring and Reconciliation
- 2) General Administration

Details of these begin on the following page.

1 – Monitoring and Reconciliation

There were issues noted with regards to the monitoring and reconciliation of Waste Reduction Center (WRC) activity. Examples include the following.

- **Daily Revenue Activity.** Revenue activity processing is recorded and documented by way of automated receipts and reports from the cash registering system, manually created logs and reports, as well as manually created receipts (Usage Fee Tickets). There were several issues regarding the accuracy and completeness of revenue activity processing. Specifics include the following.
 - For one of the twelve days reviewed, the closing net sales total per the WRC cash registering system report did not agree with the total deposit for the day due to a series of cash register transaction errors.
 - For two of the twelve days reviewed, the total sales as calculated from the Usage Fee Tickets for the day did not agree with the net sales total for the day, per the WRC cash register system report. It could not be determined with certainty whether the variance was due to keying errors, correcting transactions, or transactions processed for another purpose.
 - For four of the twelve days reviewed, transactions occurred that were not supported by a cash register receipt or a corresponding Usage Fee Ticket. As a result, the documentation was not included in the daily reconciliation of activity.
- **Accounts Receivable System Conversion.** Documentation to support the transition of customer receivable balances to the OMB Accounts Receivable system could not be found. It appears that when the customer accounts were transferred to the OMB Accounts Receivable system, each customer record began with the current month of activity and did not include the previous balance held by the customer. A record of receivable balance by customer, current or past-due should be retained to support the transaction, reconciliation of financial activity and the transition of accountability between departments.
- **Appropriate Account Posting.** Receipts for one of the twelve days reviewed were not posted to the appropriate account within Louisville Metro's financial system (LeAP). The total amount of the receipts that were not posted to the appropriate account was \$5,190.
- **No-Fee / No Charge transactions.** No-Fee / No Charge customer transactions were observed being processed either through the cash register or without a cash register transaction. No charge or no fee transactions should be consistently processed through the cash register for \$0.00, accompanied by a Usage Fee Ticket validated for \$0.00.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ Persons assigned responsibility for revenue activity processing, including but not limited to cashiering, should be fully trained on all cash register operations as well as

requirements for maintaining manual logs, reports, and receipts. All persons should be provided with the relevant policy and procedures for administering the activity.

- ✓ SWMS and OMB personnel should partner to determine if any records exist to substantiate the receivables balance by customer prior to transitioning to the OMB Accounts Receivable system.
- ✓ A major component of any reporting system is proper monitoring and reconciliation. It is imperative that administrative staff provide regular review of individual transactions for appropriateness, completeness, and adherence to requirements, along with monitoring of financial system reports. In order to promote proper segregation of duties, personnel independent of the actual processing of activity should perform this function. Ultimately, this will help ensure the reliability of information for management analysis and help with providing an effective audit trail.
- ✓ No Fee / No Charge transactions should be processed through the cash register and matched with a completed Usage Fee Ticket to document the service provided and ensure the activity is represented in the reporting and reconciliation of overall disposal activity.

Solid Waste Management Services' Corrective Action Plan

SWMS will hire an Administrative Assistant. The Administrative Assistant will be fully trained on all the procedures and functions of cashiering at the WRC. SWMS has purchased a new computerized register system that is capable of creating logs and reports of daily transactions in order to be reviewed by the Supervisor and/or OMB for accuracy.

SWMS will coordinate with OMB to determine if any records exist to substantiate the receivables balance by customer prior to the transition to OMB's Accounts Receivable system by the end of January 2014.

SWMS will fully implement a regular review of all individual transactions conducted by OMB to ensure quality control. This is expected to be complete by the end of January 2014. Administrative Assistant, along with support/backup staff, Solid Waste Supervisor of WRC, and Solid Waste Manager of Bulk Waste will all be trained on the cashier system as well as segregation of duties to ensure the reliability of information for management analysis while providing an effective audit trail.

All no fee/no charge transactions will be processed through the register beginning immediately.

2 – General Administration

Issues were noted with the general administration of Waste Reduction Center (WRC) revenue activity.

- **Policies and Procedures.** Documented policies and procedures to guide WRC personnel in the day-to-day administration and management of revenue activity do not reflect the current practices. This increases the risk of non-compliance with intended policies and procedures and can lead to inconsistencies and inefficiencies with activity processing. *Similar issues were noted in a previous audit.* Examples include the following:
 - Documented procedures calling for a register reading when cash collected throughout the day is deposited into the safe and when there is a change in cashiers are no longer practiced.
 - The current usage fees charged by the Waste Reduction Center differ from those listed in the policies and procedures manual. Fee increases and charges for some services (e.g., pull-off fees) have not been included in the policies and procedures manual or on the public website.
 - The current operating hours for the Waste Reduction Center facility differ from those listed in the policies and procedures manual. It appears the days and hours of operation have not been updated in the policies and procedure manual.
- **Safeguarding of Funds.** Some issues were noted regarding the internal controls relative to safeguarding funds. Safeguarding of assets is the responsibility of all employees. By nature, cash receipts are prone to theft or misappropriation. Accordingly, it is important to have effective internal controls in place to safeguard these assets. *Similar issues were noted in a previous audit.*
 - The WRC Cashier shares a single cash drawer with others temporarily performing the cashier role during breaks and lunch. When this occurs, custody of cash register receipts is exchanged without a documented independent verification of the amount. Similarly, cash receipts are not counted when custody is exchanged during the morning pickup of the previous day's receipt activity. This weakens accountability since it is not possible to attribute any discrepancies to a single individual.
 - The WRC cashier has the ability to prepare revenue activity reports intermittently and at the end of day independently. This allows the cashier to be aware of the cash register revenue receipt balance and could result in an individual making unauthorized adjustments to ensure actual cash on hand agrees with the register report. This reduces the effectiveness of the activity report as an internal control / reconciliation tool and increases the risk that funds could be diverted without detection. *Similar issues were noted in a previous audit.*
 - On two occasions the cash register drawer was observed being accessed by personnel performing the cashier function without the processing of a register transaction, demonstrating the means for unauthorized access to funds without detection. In order to safeguard funds and maintain an adequate control environment, all transactions should be properly recorded within the register system, including those designed to access the cash drawer without a sale (e.g., No Sale).

- Although the Cashier Booth is equipped with a security alarm system, a single passcode is used for activating and disarming the alarm that is shared by multiple SWMS personnel. Use of a single passcode does not allow for identification of personnel accessing the cashier booth. In addition, the frequency and timeliness of access to the Cashier Booth was not available (i.e., report of days/times accessed based on alarm activation/deactivation) and it could not be determined whether the alarm system is monitored by an external service.
 - The video surveillance camera mounted on the front exterior of the cashier booth was identified as non-operational. The ability to monitor and record customer and cashier activity remotely is a key control for cash handling operations.
 - The Cashier Booth is located next to the road and not in the perimeter of the WRC disposal yard fence. The unsecured location of the booth increases risk related to the safety of WRC cashiers as well as the security of funds. *Similar issues were noted during a previous audit.*
- **Refund/ Void Processing.** The WRC cashier has the ability to process refunds and void transactions without pre-approval from supervisory personnel. *Similar issues were noted in a previous audit.*
 - **Timeliness of Deposits.** According to the Office of Management and Budget's Cash Management Policies, cash and check receipts over \$1,000 should not remain on a department site for more than one business day.
 - For two of the twelve days reviewed, the transfer of funds from the WRC to Office of Management and Budget (OMB) Cash Management for deposit was not made timely (within one business day of surpassing \$1,000 cash receipts). This may lead to large sums of cash stored overnight in the cashier booth and/or multiple days of receipt activity remaining at the WRC site.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ Policies and procedures for revenue activity should be formally documented and periodically updated to reflect the most current information. This should include authorized activity, workflow, responsibilities, documentation requirements and step-by-step instructions for processing of activity. Policies and procedures should be available to all applicable personnel and may be useful in training of new staff and individuals serving in backup roles. Documented policies and procedures help ensure departmental personnel understand the expectations and requirements, and promote accountability and consistency in activities.
- ✓ The policy prohibiting customer unloading of their disposal and the requirement for loads to be "pull-off" ready should be added to the policy and procedures manual. To

avoid customer confusion, additional information on pull-offs and the fee imposed should be added to the public website.

- ✓ The cashier should be assigned a cash drawer for their use only. The funds should be secured and access restricted to the individual to which the drawer is assigned. Ideally, the cash register reporting system would provide activity reports for each individual. If individual cash drawer accountability is not feasible (e.g., staff size or technology constraints), additional accountability procedures (e.g., supervisory use of intermittent activity reporting to support change in custody of register funds) should be initiated.
- ✓ The cashier should not be able to produce cash register system reports for activity they process. This ability should be limited to an individual independent of the revenue activity. Activity reports should record the cash system information compared to the actual revenue receipts. Any discrepancies should be reflected on the activity report. Activity reports may also be used to support drop deposit amounts.
- ✓ To the extent possible, the same individuals should not have the ability to receive payments and prepare activity reports. In cases where complete segregation is not feasible due to staff resources, strong compensating controls should be practiced (e.g., supervisory review and monitoring).
- ✓ SWMS personnel should determine the most effective cashiering system to use. This assessment should include the available security features to prohibit cashier access to the activity reports (i.e., passwords, cash register keys). In the absence of these security features, compensating controls (e.g., unannounced cash counts compared to system activity) could be performed to help ensure the accuracy of revenue receipts.
- ✓ To properly safeguard assets, access to the cash register drawer should be performed using the No Sale functionality. The resulting receipt should be signed by the cashier and included along with the receipts of any other transactions (e.g., refund, void or activity report) that cannot be matched to a corresponding Usage Fee Ticket. The receipts should be turned in as part of the daily activity detail for monitoring and reconciliation.
- ✓ SWMS should explore the feasibility of the current alarm system to assign individual passcodes for those authorized to access the cashier booth, as well as the feasibility to report alarm activation and deactivation. In addition, the benefits of obtaining the services of external alarm system monitor for the cashier booth should be explored.
- ✓ The cost to repair or replace the video surveillance equipment should be determined and considered in relation to the benefits of remote monitoring of cash operations and the enhanced safeguarding of assets.
- ✓ SWMS management should contact physical security experts (i.e. Metro Police) to conduct a security and safety review of the WRC cashier booth.
- ✓ In cases where the cashier must perform a void or issue a refund, the transaction should be thoroughly documented, reviewed and reconciled by supervisory personnel. Use of a void / refund form may assist in documenting the amount of the void or refund, the cashier processing the transaction, and the signature of the customer involved in the transaction. The form should require a Supervisor's review and approval of the

transaction, and be attached to the transaction receipt for submission with the daily detail. If the Supervisor is the person initiating the void or refund, a second person's approval should be required.

- ✓ All funds should be deposited in a timely manner in accordance with OMB's Cash Management Policies (weekly, unless cash receipts are over \$1,000, then within one business day). This will help ensure the security of funds and optimize investment income for Metro operations.
- ✓ At the end of each business day, all cash receipts and cash reserved for the daily start-up bank should be secured within the SWMS' office safe. This will help ensure the security of funds.

Solid Waste Management Services' Corrective Action Plan

The Policy and Procedures for the WRC will be reviewed, corrected and updated to reflect current practices of day-to-day administrative and management revenue activities. SWMS will meet with OMB to update policies by February 2014.

Refund/Void transactions will require a pre-approval from Supervisory Personnel. They will also be logged appropriately. We will meet with OMB to compose a form to track all transactions that require pre-approval. This will be implemented by January 2014.

Once the Policy and Procedures are completed and SWMS is fully staffed, we will address and train each employee thoroughly on the new cashiering system to maximize its capabilities to produce cash register system reports to be reviewed at any time during the day or on a weekly/monthly basis.

The Website will be updated to include the procedures for pull-offs at the WRC to avoid any customer confusion. The procedures will be posted on site at the booth and in the yard for customers to review. We will also put this language in Spanish as well.

SWMS will meet with IT to ensure that the computerized cash register system is being fully used to report, log, and secure all transactions. We will investigate the needed software for Supervisory Staff and OMB to review all transactions from the computer at any time.

SWMS will relocate the fence line to enclose the cashier booth in order to secure it behind a locked gate. We will plan for this to be done by March 2014.

We will get an estimate to reinstall the camera system for the WRC, both inside the cash booth and outside. An estimate will be obtained by the end of December 2013. SWMS will install a key pad for the cashier booth to give individual employees authorized access through their Metro ID Card.

SWMS will train enough staff, other than the person performing cashier duties, to reconcile the monies received and deposit it in a timely manner. The only challenge is being open on Saturday and not be getting the monies deposited until Monday.

Office of Internal Audit

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