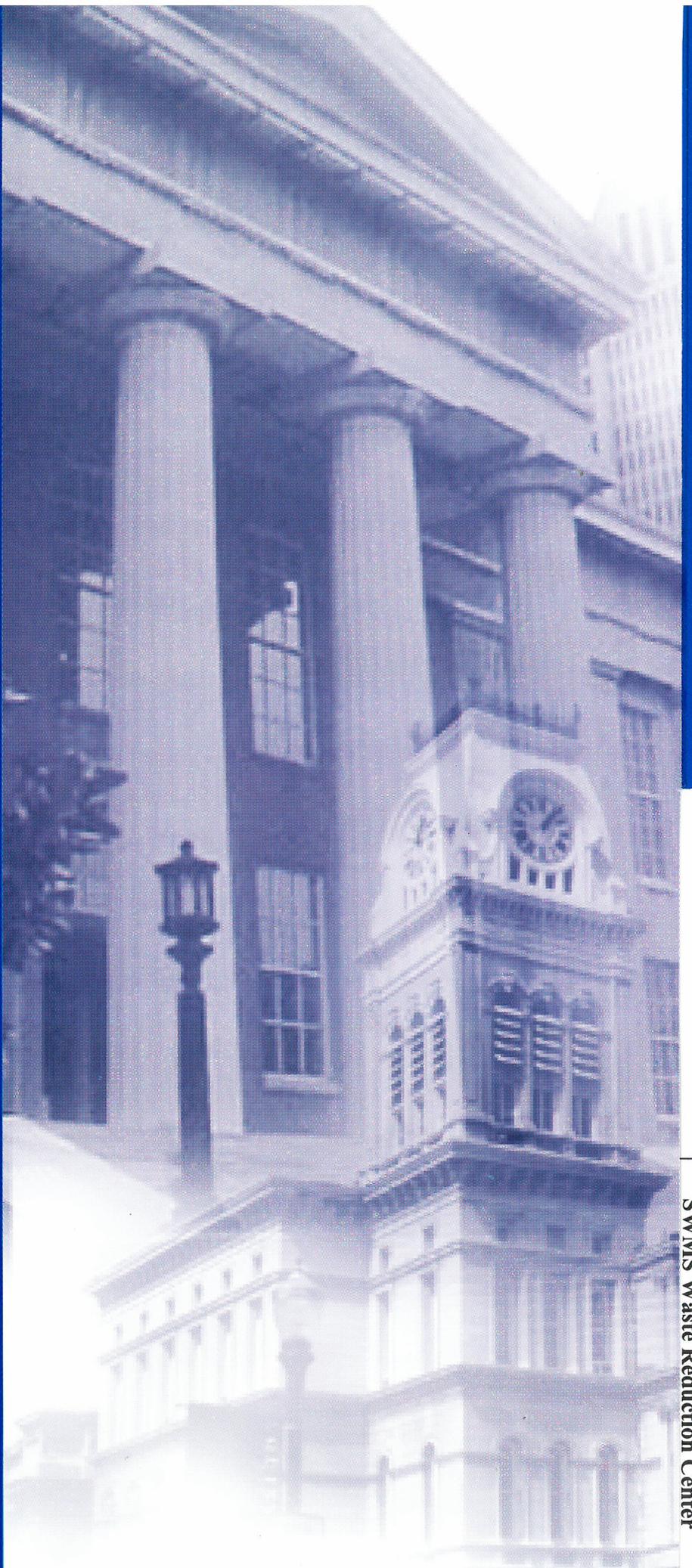




Greg Fischer
Mayor

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

Louisville Metro Government

Cash Management Policy
Public Works
SWMS Waste Reduction Center

Audit Report

Louisville Metro Government

Cash Management Policy Public Works SWMS Waste Reduction Center

May 2016



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Executive Summary

PROJECT TITLE	
Louisville Metro Government - Cash Management Policy (SWMS Waste Reduction Center)	
OBJECTIVE AND SCOPE	
<p>The objective was to perform a review of the Louisville Metro Government Cash Management Policy, which is owned by the Office of Management and Budget (OMB). The primary focus of the review was an assessment of compliance with the Louisville Metro Government Cash Management Policy at the department level and within the OMB – Cash Management Division. This included how activity was processed, recorded, and monitored. Departmental policies, procedures and records related to the Louisville Metro Government Cash Management Policy were reviewed. The objective was to obtain assurance that the risks are adequately mitigated through internal controls in the process.</p> <p>This was a compliance review based on policies and procedures for the operational and fiscal administration of the Louisville Metro Government Cash Management Policy. Cashiering functions within five Louisville Metro Government (LMG) departments were selected for review. The Solid Waste Management Services (SWMS) Waste Reduction Center (WRC) was judgmentally selected for review. The review included activity during the second quarter of fiscal year 2015 through the first quarter of fiscal year 2016 (October 1, 2014 through September 30, 2015). The details of the scope and methodology of the review are addressed in the Observations and Recommendations.</p>	
INTERNAL CONTROL ASSESSMENT	SECTION
Needs Improvement	SWMS Waste Reduction Center
RESULTS	
<p>Opportunities exist for improving the internal control structure for SWMS Waste Reduction Center. Examples include the following.</p> <ul style="list-style-type: none"> • General Administration. There were issues noted regarding the general administration of cashiering activity. <ul style="list-style-type: none"> ➤ Documented policies and procedures to guide WRC personnel in the day to day administration and management of cashiering activity do not reflect the current practices. • Monitoring and Reconciliation. There were issues noted regarding monitoring and reconciliation of cashiering activity. <ul style="list-style-type: none"> ➤ There was an instance in which the total sales from Usage Fee Tickets did not agree to the net sales total for the cash register system report. • Transaction Processing. There were issues noted regarding processing transactions related to cashiering activity. <ul style="list-style-type: none"> ➤ There was an instance in which the cashiering report for a particular date erroneously included transactions for an unrelated date. 	



OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

GREG FISCHER
MAYOR

MAY R. PORTER, CHIEF AUDIT EXECUTIVE

DAVID YATES
PRESIDENT METRO COUNCIL

Transmittal Letter

May 27, 2016

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

Subject: Audit of the Louisville Metro Government - Cash Management Policy (SWMS Waste Reduction Center)

Introduction

An audit of the Louisville Metro Government Cash Management Policy, which is owned by the Office of Management and Budget (OMB), was performed. The primary focus of the review was an assessment of compliance with the Louisville Metro Government Cash Management Policy at the department level and within the OMB – Cash Management Division. This included how activity was processed, recorded, and monitored. Departmental policies, procedures and records related to the Louisville Metro Government Cash Management Policy were reviewed. The objective was to obtain assurance that the risks are adequately mitigated through internal controls in the 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 audit, 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. Similarly, management may circumvent control procedures by administrative oversight.

Scope

A thorough understanding of the SWMS Waste Reduction Center cashiering activity was obtained in order to evaluate the internal control structure. This was achieved through interviews of key personnel and examination of supporting documentation. This included obtaining an understanding of the policies and procedures for processing, recording, monitoring, reconciling, and reporting activity. Testing of activity was also performed to determine the effectiveness of the controls.

The SWMS Waste Reduction Center was judgmentally selected for review. The review included activity during the second quarter of fiscal year 2015 through the first quarter of fiscal year 2016 (October 1, 2014 through September 30, 2015). 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 the Louisville Metro Government Cash Management Policy, specific to the SWMS Waste Reduction Center needs improvement. The internal control rating is on page 6 of this report. The 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.

- **General Administration.** There were issues noted regarding general administration of cashiering activity, related to SWMS Waste Reduction Center.
 - Documented policies and procedures to guide SWMS WRC personnel in the day to day administration and management of cashiering activity do not reflect the current practices.
- **Monitoring and Reconciliation.** There were issues noted regarding monitoring and reconciliation of cashiering activity.
 - There was an instance in which the total sales from Usage Fee Tickets did not agree to the net sales total for the cash register system report.
- **Transaction Processing.** There were issues noted regarding processing transactions related to cashiering activity.
 - There was an instance in which the cashiering report for a particular date erroneously included transactions for an unrelated date.

Corrective Action Plan

Representatives from SWMS WRC have reviewed the results and are committed to addressing the issues noted. Corrective action plans are included in this report in the Observations and Recommendation section. We will continue to work with SWMS WRC to ensure the actions taken are effective to address the issues noted.

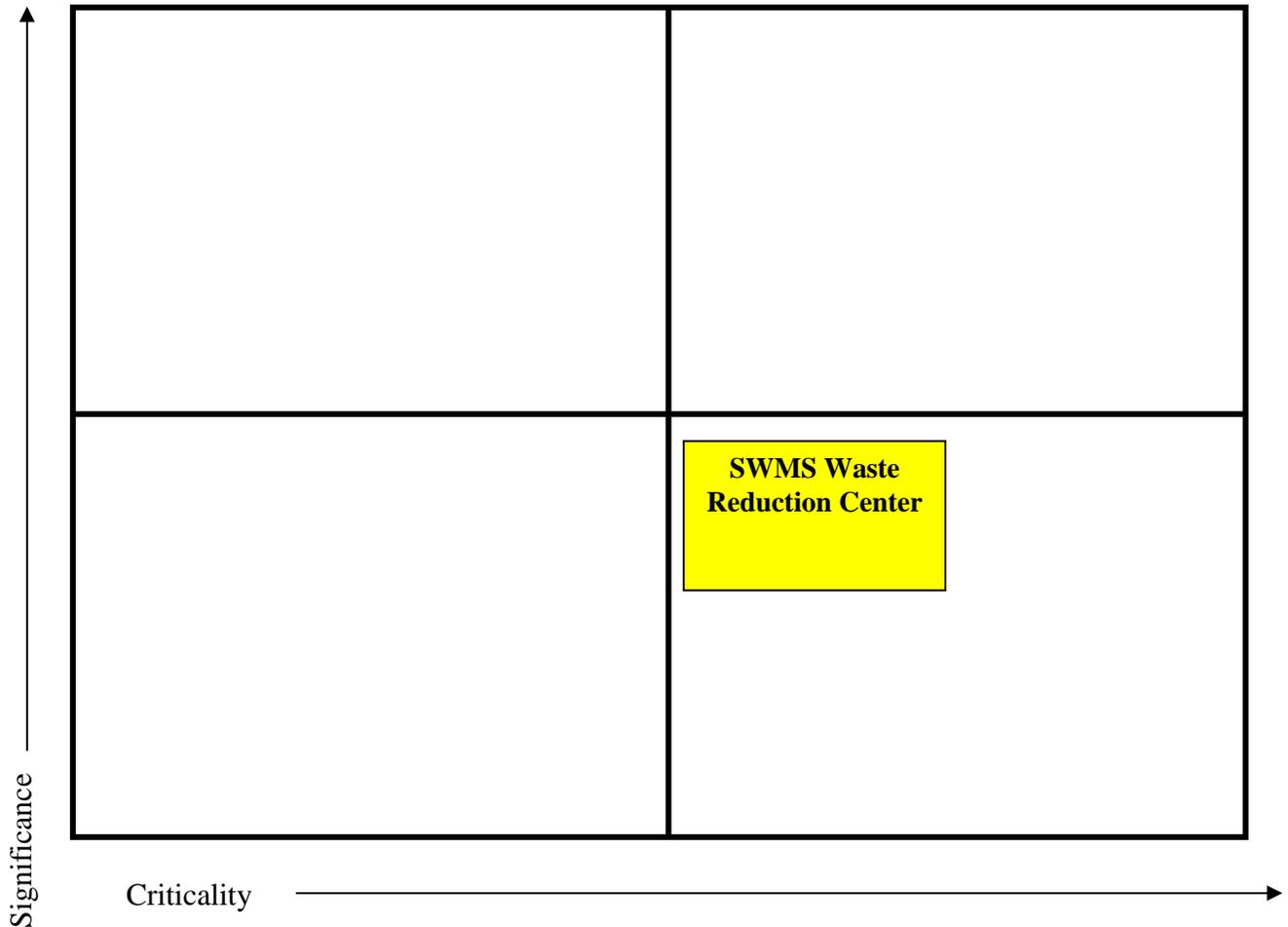
Sincerely,



May R. Porter, CIA
Chief Audit Executive

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

Internal Control Rating



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

Background

The Louisville Metro Public Works Solid Waste Management Division (SWMS) offers 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.

During the review period of second quarter of fiscal year 2015 through the first quarter of fiscal year 2016 (October 1, 2014 through September 30, 2015) approximately \$620,000 was collected for disposal services.

This audit is the result of a review of department-level compliance, which was requested by the Office of Management and Budget.

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 conducted a review of the Solid Waste Management Services Waste Reduction Center in December of 2013. 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 Public Works and the Office of Management and Budget on April 8, 2016. An exit conference was held at the Office of Internal Audit in the City Hall Annex on April 27, 2016. Attending were Kimberly Sullivan, Keith Hackett, and George Cosby representing Public Works and Angela Dunn and Monica Harmon representing the Office of Management and Budget and May Porter and Laketa Short representing Internal Audit. Final audit results were discussed.

The views of the Public Works officials were received on April 28, 2016 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 Public Works response was provided within this required timeframe.

Observations and Recommendations

Scope and Methodology

A review of the Louisville Metro Government Cash Management Policy, which is owned by the Office of Management and Budget (OMB), was performed. The primary focus of the review was an assessment of compliance with the Louisville Metro Government Cash Management Policy at the department level and within the OMB – Cash Management Division. The Solid Waste Management Services (SWMS) Waste Reduction Center was judgmentally selected for review. The operating policies, procedures and records specific to cashing activity were reviewed. The primary focus was the operational and fiscal administration of the activity. This included how activity was processed, recorded, and monitored. The objective was to obtain assurance that the risks are adequately mitigated through internal controls in the process.

The SWMS Waste Reduction Center cashing activity was tested using a sampling approach. Testing was performed on a sample of transactions related to processing payments and reconciliations during the review period, the second quarter of fiscal year 2015 through the first quarter of fiscal year 2016 (October 1, 2014 through September 30, 2015). Samples, consisting of a total of eight transaction dates were selected for testing accuracy, completeness, and timeliness.

The examination would not reveal all non-compliance issues because it was based on selective review of data.

Observations

Issues were noted with the SWMS Waste Reduction Center cashing activity. As a result, the effectiveness of the internal control structure needs improvement. Areas in which there are opportunities to strengthen the controls include the following.

- 1) General Administration
- 2) Monitoring and Reconciliation
- 3) Transaction Processing

Details of these begin on the following page.

1) General Administration

- **Policies and Procedures.** Documented policies and procedures to guide WRC personnel in the day-to-day administration and management of cashiering 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. Examples include the following:
 - 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. *Similar issues were noted in a previous audit.*
 - 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. *Similar issues were noted in a previous audit.*
- **Safeguarding of Assets.** An issue was 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.
 - The keys to access the cashier trailer and cash safe are not properly safeguarded by way of limited access and a log used to document the removal and return of the keys.

Recommendations

Appropriate personnel should consider the following recommendations concerning the Public Works Solid Waste Management Waste Reduction Center.

- ✓ Revise the SWMS Cash Management Policy to ensure the policy reflects the most current guidelines for processing cashiering activity. The policy should be reviewed at least annually, going forward. The policy should serve as a cohesive and comprehensive tool to guide SWMS staff in processing cashiering activity. Additional considerations for ensuring the policy promotes consistent compliance and understanding include the following:
 - The policy should be distributed to each applicable agency and made accessible to applicable personnel.
 - The policy should be evaluated by the OMB Cash Management Division to ensure it properly aligns with the Louisville Metro Government Cash Management Policy.
 - Personnel should receive training regarding the policy.
 - Management should monitor the cashiering activity to ensure the policy is applied appropriately.
- ✓ Limit safe access to supervisory and authorized personnel only. Combinations or keys to safes should be restricted to the custodian of the cash and designated back-up personnel. Combinations or locks should be changed as necessary, and whenever a

person with the combination or key is reassigned or terminated. Further management should consider the need to require safe access under dual control.

SWMS WRC's Corrective Action Plan

SWMS concurs with and will implement the recommendations related to general administration. In addition, SWMS notes the following:

The policy is a working document and is being updated as changes occur. A copy is kept in the cashier booth, in the Supervisor's office, on SharePoint in the Public Works SOP folder, as well as sent to OMB Cash Management. The policy has been updated with new fees as of February 2016.

The locks have been changed to the Supervisor's trailer and only required personnel have access. The key to the cashier booth is placed in a lockbox within the trailer that only cashiers and other required personnel have access.

2) Monitoring and Reconciliation

- **Daily Cashiering activity.** Cashiering activity is recorded and documented by way of automated receipts and reports from the cash registering system, as well as manually created receipts (Usage Fee Tickets). There were issues regarding the accuracy and completeness of cashiering activity processing. Specifics include the following.
 - There was one of eight instances in which the total sales 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. *Similar issues were noted in a previous audit.*
- **Monitoring and Reconciliation.** There were issues regarding recording, monitoring, and reconciling transaction activity, which diminished accountability over funds. Specifics include the following.
 - Cashiering activity is not consistently reconciled in the presence of two individuals. Further the reconciliation is only signed by the cashier. Therefore, it appears the cashier is balancing his/her own cash drawer.
 - Starting cash banks were not consistently verified in the presence of two individuals. This makes it difficult to hold a cashier responsible for any discrepancies in reported sales and actual receipts.

Recommendations

Appropriate personnel should consider the following recommendations concerning the Public Works Solid Waste Management Waste Reduction Center.

- ✓ Persons assigned responsibility for cashiering activity 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.
- ✓ Cash Reconciliation Sheets (Deposit Logs) should be completed under dual control. The cashier should not be able to access their Cashier Summary Report prior to the reconciliation. Additionally, the Deposit Log should contain both signatures (person completing reconciliation and the cashier) indicating agreement from both parties involved in reconciling the funds.
- ✓ Verification of the starting bank should be completed by the cashier in the presence of a supervisor or a second cashiering employee. The Deposit Log should contain both signatures indicating agreement from both parties involved in the exchange of funds.

SWMS WRC's Corrective Action Plan

SWMS concurs with and will implement the recommendations related to monitoring and reconciliation. In addition, SWMS notes the following:

All personnel working the cashier booth has been fully trained. The policy is a working document and is being updated as changes occur. A copy is kept in the cashier booth, in the Supervisor's office, and on SharePoint in the Public Works SOP folder. The cash register system report will change once the installation of the Hansen registering system is installed which should provide more accurate reporting. The anticipated date of installation is July 1, 2016. We are currently working on account setup with the IT department.

Once the new Hansen registering system is installed each cashier will have their own cash drawer and log in which will allow for accurate reconciliation. The new process will require each cashier and the supervisor/assigned personnel to reconcile the drawer daily thru Hansen.

The Supervisor of the Waste Reduction Center/an assigned employee will verify the start up cash each morning and initial the log along with the cashier.

3) Transaction Processing

- **Transaction Processing.** Some issues were noted regarding the internal controls relative to transaction processing. Transaction processing includes activities involving processing individual transactions within the cashiering system, including monitoring and reporting the transactions. Accordingly, it is important to have effective internal controls in place to deter misappropriation of assets, establish accountability, and to ensure the integrity of reporting and transactions.
 - The 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. This weakens accountability since it is not possible to attribute any discrepancies to a single individual. *Similar issues were noted in a previous audit.*
 - Customers are allowed to dispose of three household items free of charge. However, the quantity of free disposals per customer are not documented and monitored. Further, the policies and procedures and the website do not clearly indicate the period in which the free items are to be allowed (i.e. per week or per month).
 - There was one of eight instances in which the cashiering report for a particular date erroneously included transactions for an unrelated date. As a result the number of sales transactions based on the Usage Fee Tickets (UFTs) did not agree to the number of cash transactions listed on the Batch Report. The accuracy of the transaction cannot be determined. It is unclear if this is the result of user error or a systemic reporting issue.

Recommendations

Appropriate personnel should consider the following recommendations concerning the Public Works Solid Waste Management Waste Reduction Center.

- ✓ 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 WRC cashiering staff should develop a method to document and monitor the quantity of free disposals per customer. Further, the period in which these transactions are allowed should be clarified.
- ✓ All WRC cashiering staff should be trained on the proper use of the cashiering system, specifically in regards to generating system reports. Further, the WRC should research to determine if the erroneous report is the result of a systemic reporting issue.

SWMS WRC's Corrective Action Plan

SWMS concurs with and will implement the recommendations related transaction processing. In addition, SWMS notes the following:

Once the new Hansen system is installed each cashier will have their own login and cash drawer process which allow for accountability. Before each personnel change the cashier will batch out their drawer and make their necessary drops which allows for a more accurate reporting and accountability.

The up to three free household items is currently indicated on the usage tickets. Our current system reports the number of transactions per category including Free, nevertheless the new Hansen register system will allow for more reporting capabilities. The policy has been updated to explain the reason for this process and the frequency of drop offs.

The current cashier system is very limited in reporting capabilities. The new Hansen register system will allow for more reporting, tracking and accuracy. The system will also allow for more technical support than the current system which has none.



The purpose of this survey is to solicit your opinion concerning the quality of the **Louisville Metro Government - Cash Management Policy (SWMS Waste Reduction Center) Audit Report**. Please feel free to expand on any areas that you wish to clarify in the comment area at the end. Please return the completed survey electronically to IAUDITIMB@Louisvilleky.gov or to ATTN: Internal Audit 609 W. Jefferson St Louisville, KY 40202. We sincerely appreciate your feedback. The survey can also be completed online at the following link: <https://louisvilleky.wufoo.com/forms/audit-report-satisfaction-survey/>

Survey

1. The audit report thoroughly explained the scope, objectives, and timing of the audit.

Strongly Agree
 Agree
 Neither Agree or Disagree
 Disagree
 Strongly Disagree

2. The audit report reflects knowledge of the departmental/governmental policies related to the area or process being audited.

Strongly Agree
 Agree
 Neither Agree or Disagree
 Disagree
 Strongly Disagree

3. The audit report is accurate and clearly communicated the audit results.

Strongly Agree
 Agree
 Neither Agree or Disagree
 Disagree
 Strongly Disagree

4. The audit recommendations were constructive, relevant, and actionable.

Strongly Agree
 Agree
 Neither Agree or Disagree
 Disagree
 Strongly Disagree

5. ****Was there anything about the audit report that you especially liked?**

6. ****Was there anything about the audit report that you especially disliked?**

Office of Internal Audit

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