SUBJECT: Audit Report - 2006-03 – Transfer Stations – Cash Handling (CM06019) (City Wide)

RECOMMENDATION:

That Report CM06019 respecting Audit Report 2006-03, Transfer Stations - Cash Handling, be received.

Ann Pekaruk
Director, Audit Services
City Manager's Office

EXECUTIVE SUMMARY:

The 2006 Internal Audit work plan approved a review of cash handling at the City's Transfer Stations/Community Recycling Centres at Dundas, Kenora and Mountain. The results of the audit are included in a formal audit report containing observations, recommendations and management responses, attached as Appendix "A".

BACKGROUND:

In 2005, the Waste Management Division of Public Works collected $2.4 million in tipping fees from approximately 210,000 commercial and residential visits at the City’s three transfer stations/community recycling centres – Dundas, Kenora and Mountain. Actual collection and deposit of fees is handled by a contracted third party.

The audit work was carried out throughout the late spring and early summer with fieldwork completion in July, 2006.

The Strategic Planning and Budgets Committee receives and approves final audit reports and reviews in its capacity of serving as the Audit Committee.
ANALYSIS/RATIONALE:

Cash collection at the transfer stations is handled by a third party. As there is a new company in place and there have been other changes in operations over the past few years, staff felt that there was a good opportunity to assess the controls and review the various cash handling procedures and practices.

The audit of cash handling at the transfer stations focused on the procedures and internal controls in place for the collection and depositing of funds, the recording of tipping fee revenues and the management of the agreement with the third party as it related to cash handling. Testing of transactions was used to substantiate that effective controls were in place.

The audit resulted in the issuance of a formal audit report containing observations, recommendations and management responses, attached as Appendix “A”.

The main areas for improvement in the audit report are: the review of vehicle categorization between residential and commercial users; quality control issues regarding data input (both automated and manual) into the operational software (Geoware) being used; deposit fees consistent with the rates approved by Council; and levels of access to the software that are current and suitable for the duties carried out by each user.

Management and staff have already taken action or have agreed to take measures in the near future in order to implement all of the seven (7) recommendations. Specific action plans can be found in the audit report attached.

ALTERNATIVES FOR CONSIDERATION:

Not applicable.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial
None.

Staffing
None.

Legal
Definitions of commercial and residential vehicles in By-law 05-190 may require adjustment/changes once staff complete their review.

POLICIES AFFECTING PROPOSAL:

None.
RELEVANT CONSULTATION:

The attached report includes management action plans which reflect the responses of
management and staff responsible for the cash handling at the transfer stations
(i.e. Waste Management Division in the Public Works Department).

CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make
choices that create value across all three bottom lines, moving us closer to our vision for a sustainable
community, and Provincial interests.

Community Well-Being is enhanced. ☐ Yes ☑ No

Environmental Well-Being is enhanced. ☑ Yes ☐ No

City Council’s strategic commitment to “A Healthy, Safe and Green City – Reducing Waste
Going to Landfills” is partially addressed through the transfer stations/community recycling
centres which are operated in our pursuit of 65% waste diversion from landfill by 2008.

Economic Well-Being is enhanced. ☑ Yes ☐ No

City Council’s strategic commitment to “Best Practices – Best Value” under “A City That Spends
Wisely and Invests Strategically” is addressed through audits and reviews and their subsequent
follow up to ensure controls are in place to protect the assets of the City and promote efficient,
effective and economic services and programs.

Does the option you are recommending create value across all three bottom lines?
☐ Yes ☑ No

Do the options you are recommending make Hamilton a City of choice for high performance
public servants?
☐ Yes ☑ No

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Attachment – Appendix “A”
# OBSERVATIONS OF EXISTING SYSTEM

1. Residential customers do not pay to dispose of leaf and garden waste while commercial users are charged regular rates. The Internal Auditor and staff at the weigh stations noted instances where the vehicle ownership indicated a personal use vehicle yet signage on the vehicle clearly indicated commercial usage (i.e. lawn maintenance, landscaping). Similarly, in practice, vehicles bearing black lettered on white background plates are considered commercial customers, whereas many are for personal use.

As categorization and fees differ between residential and commercial users, it is important to ensure classification is accurate.

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<td>1.</td>
<td>Residential customers do not pay to dispose of leaf and garden waste while commercial users are charged regular rates. The Internal Auditor and staff at the weigh stations noted instances where the vehicle ownership indicated a personal use vehicle yet signage on the vehicle clearly indicated commercial usage (i.e. lawn maintenance, landscaping). Similarly, in practice, vehicles bearing black lettered on white background plates are considered commercial customers, whereas many are for personal use. As categorization and fees differ between residential and commercial users, it is important to ensure classification is accurate.</td>
<td>That management review the basis of vehicle categorization and provide scale house operators with specific guidelines for distinguishing between the various classifications in order to maintain consistency in the application of the appropriate fee structure. Details should also be provided to the public via the City’s website and/or through other communication sources.</td>
<td>Agreed. City staff are examining the current solid waste management By-law 05-190 in order to review the definitions for commercial and residential vehicles. Staff are also examining the commercial and residential categorization policies of other municipalities. Appropriate decisions will be based on these reviews.</td>
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2. While it was observed that the scales at the Transfer Station commercial scale house sites were linked electronically to the Geoware, the Scale House Operator had to manually key the weight information relayed from the scale into Geoware at the Community Recycling Centre (CRC) locations. Whenever the weight information is keyed in by hand, there exists the risk that keying errors may occur and fees may be erroneously calculated. This could have an effect on revenue and customer service.

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<td>2.</td>
<td>While it was observed that the scales at the Transfer Station commercial scale house sites were linked electronically to the Geoware, the Scale House Operator had to manually key the weight information relayed from the scale into Geoware at the Community Recycling Centre (CRC) locations. Whenever the weight information is keyed in by hand, there exists the risk that keying errors may occur and fees may be erroneously calculated. This could have an effect on revenue and customer service.</td>
<td>That scales at all locations have a direct electronic link to Geoware so that there is no manual keying of weight information at any scale. As well, entrance gates should be linked to open only when a weight from the scales has been recorded in the system. This would ensure that every customer that has gone over the scales to tip their waste has been recorded in the system.</td>
<td>Agreed. All scales are now linked. The cash handling audit was conducted during a transitional phase when automation was being implemented.</td>
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## Observations of Existing System

3. From the start up of the Dundas CRC on April 3, 2006 to June 15, 2006, the operations were not connected to the Geoware software, thus necessitating manual recordkeeping. This situation presented several concerns.

- Weigh tickets were manually created. The Operator, who also collected payments and recorded the transactions on the weigh tickets, was responsible for numbering the tickets (as they were not pre-numbered). The possible detective control of investigating any break in the sequencing of tickets would be ineffective.

- The Operator issued manual tickets, received and recorded customer payments and balanced funds at the end of the day. This presents a poor segregation of duties. Coupled with the point above, there existed the risk that payments could be unrecorded and misappropriated and no audit trail would exist to expose this.

- As the tickets were manually produced, the information contained therein had to be inputted into the Geoware system after the fact. Several examples of incomplete or inaccurate data entry were noted. For example, missing licence information and weight and fee inaccuracies were evident. Therefore, the statistical information produced by Geoware could not be relied upon and it was not possible to reconcile cash receipts to specific individual transactions.

The CRC facility at the Kenora site is due to begin operations in 2007.

## Recommendation for Strengthening System

- That, should a scale house need to operate without the Geoware system (i.e. power failure, system malfunction), a process of using pre-numbered weigh tickets be implemented. In addition, management should review the numerical sequence of the tickets so used and investigate any breaks in the sequence.

- That a system of quality control be established to ensure any data manually input into Geoware is reviewed for completeness and accuracy.

- That a fully functional Geoware system is in place when the Kenora CRC begins operations.

## Management Action Plan

- Agreed. Pre-numbered transaction tickets will be ordered and ready should the need arise. Manual data input is only used during extenuating circumstances, e.g. construction, power outages, etc.

- Agreed. Currently, City staff are required to authorize any manual input of data before entry into Geoware. A system will be implemented to ensure data has been inputted accurately and completely during occasions when manual data inputting is required. Assistance will be sought from the Audit Services division regarding aspects of such a system.

- Agreed. Computers will be ordered in September 2006 prior to the December 2006 opening of the Kenora CRC.
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<td>4.</td>
<td>In the sampling of transactions, several cases of deposit fees charged to users entering the station were not in accordance with the Council approved rates. Although the full fee is collected on the customer’s exit and there is no loss in revenues, non-compliance to Council approved rates is indicated.</td>
<td>That the deposit fees charged to all customers be consistent with the rates approved by Council.</td>
<td>Agreed. All deposits are to reflect Council approved deposit rates. On-site spot checks will be conducted to ensure correct deposits are taken. The waste technical analyst/contract technician will review the audit trail and tickets to ensure correct deposits are being collected. Staff will review deposit rates as part of the 2007 budget process.</td>
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<td>5.</td>
<td>A review of the levels of access of City and contractor employees in Geoware indicated several individuals with access (2 at the higher level allowing for editing of transactions) that no longer required Geoware system access due to a change in position or as a result of leaving either of the organizations. Access to any system should be available only to those individuals that require it to perform their duties and at a level suitable for those functions.</td>
<td>That system access be reviewed to eliminate any City or contractor employees whose job duties no longer require access to the system. Further reviews need to be undertaken on a regular basis to ensure access requirements remain current (adjusted for changes in staffing).</td>
<td>Agreed. A review is being conducted to determine what level of access is required by City and contractor staff. Regular updates will be carried out to ensure that access is current (i.e. delete/add staff and assign appropriate level of access). In addition, the possibility of having user ID maintenance abilities in-house as opposed to going through Geoware is being investigated.</td>
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The following item was noted during the course of the audit. Although it does not present an internal control deficiency, it is indicated in this Addendum so management is aware of the error/issue and can address it.

1. Each transfer station carries cash floats for every operational till as well as a general float in case of a shortage of coin or small bills. The supervisor and assistant supervisor also retain floats to replenish the general floats. The till and general floats are accounted for daily as part of the supervisor’s routine. Along with the fees received from customers throughout the day, a large portion which is cash, this leaves quantities of liquid assets at possible risk of robbery or loss.

*It is recommended:*  
That management undertake a review of the cash floats at each of the transfer stations and in the supervisor’s/assistant supervisor’s possessions in order to determine the appropriate level of funds required based on operations and to decrease the exposure to theft.

*Management Response*  
Agreed. Program staff commenced counts of cash floats on May 30, 2006. Program staff will review cash floats on a continuous basis by selecting a site at random. In addition, all float amounts will be reviewed to determine if the amounts are appropriate or if they can be reduced.