SUBJECT: Follow Up of Audit Report 2006-03 - Transfer Stations - Cash Handling (CM08012) (City Wide)

RECOMMENDATION:

That Report CM08012 respecting the follow up of Audit Report 2006-03, Transfer Stations – Cash Handling, be received.

Ann Pekaruk
Director, Audit Services
City Manager's Office

EXECUTIVE SUMMARY:

Audit Report 2006-03, Transfer Stations – Cash Handling, was originally issued in January 2007 and management action plans with implementation timelines were included in the report. In February 2008, Internal Audit conducted a follow up exercise to determine that appropriate and timely actions had been taken. Regarding the implementation of the eight (8) recommendations made in the original Report and Addendum, through staff’s diligent commitment, seven (7) have been completed while one (1) is in progress.

BACKGROUND:

Audit Report 2006-03, Transfer Stations – Cash Handling, was originally issued in January 2007. The report indicated eight (8) recommendations to strengthen controls, improve security in the software application (Geoware) used at the transfer stations and address certain requirements when weigh tickets are manually created.
BACKGROUND: (Continued)
It is normal practice for Internal Audit to conduct follow up reviews within a 12-18 month period following the issuance of the original report in order to determine whether action plans committed to by departmental management have been implemented. In February 2008, Internal Audit followed up the report to confirm appropriate and timely actions have been taken.

ANALYSIS/RATIONALE:
The report attached as Appendix “A” to Report CM08012 contains the first three (3) columns as originally reported in Audit Report 2006-03 along with an added fourth column indicating Internal Audit’s follow up comments. One (1) item in the Addendum has also been followed up with an appropriate detail.

Seven (7) out of the eight (8) recommendations have been fully implemented. These include: automated weigh scales at all transfer stations; control over the creation and accounting of manual weigh tickets as required; improved controls over access to the Geoware system; and surprise cash counts at the transfer stations by the Supervisor of Waste Processing.

The only implementation still in progress concerns a change to the solid waste management by-law for clearer definitions of commercial and residential vehicles.

ALTERNATIVES FOR CONSIDERATION:
Not applicable.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial
None

Staffing
None

Legal
Changes to the solid waste by-law will be required once the revisions and edits are completed by the staff.

POLICIES AFFECTING PROPOSAL:
By-law 05-190 – Solid Waste Management

RELEVANT CONSULTATION:
The results of the follow up were provided to the staff in the Waste Management Division of Public Works who oversee the cash handling of the transfer stations.
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 the City’s pursuit of 65% 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

ap:dt
Attachment – Appendix “A”
## Observations of Existing System

### Recommendation for Strengthening System

<table>
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<th>Observations of Existing System</th>
<th>Management Action Plan</th>
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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. 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>
<td>In progress. Staff are working on several amendments and edits to the current by-law and have been instructed to include clearer definitions of commercial and residential vehicles. Although there continue to be general differentiation criteria used at the discretion of the scale house operators, there are no specifically developed guidelines to clearly distinguish between residential and commercial vehicles. In addition, the City’s web site does not provide the public with criteria for distinguishing between the two vehicle categories.</td>
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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 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. Agreed. All scales are now linked. The cash handling audit was conducted during a transitional phase when automation was being implemented.</td>
<td>Complete. All scales at the Transfer Stations and at Community Recycling Centres are electronically linked to the Geoware system. As well, entrance gates are electronically configured to open only when a weight has been obtained and recorded in Geoware.</td>
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### TRANSFER STATIONS - CASH HANDLING FOLLOW UP - FEBRUARY 2008

#### Appendix "A" to Report CM08012

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<td>3.</td>
<td>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.</td>
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<td>• 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.</td>
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<td>• 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.</td>
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<td>• 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.</td>
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<td>The CRC facility at the Kenora site is due to begin operations in 2007.</td>
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<td>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.</td>
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<td>That a system of quality control be established to ensure any data manually input into Geoware is reviewed for completeness and accuracy.</td>
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<td>That a fully functional Geoware system is in place when the Kenora CRC begins operations.</td>
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<td>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.</td>
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<td>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.</td>
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<td>Complete. Pre-numbered transaction tickets were ordered and are available for use at all the three stations whenever there is a power failure or a computer malfunction. Scale House Operators obtain permission from Waste Management Division before using the manual tickets. Any manual tickets used are entered onto a log sheet that is reviewed by the Supervisor of Waste Processing for any gaps in the numerical sequence.</td>
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<td>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.</td>
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<td>Complete. The format of manual tickets is designed to record the same information that electronic tickets would record. This ensures that pertinent information such as license information, weight and fees charged etc is not omitted. In addition, the pre-numbering of the manual tickets as well as the recording of used tickets on a log sheet ensures that all tickets are accounted for.</td>
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<td>Agreed. Computers will be ordered in September 2006 prior to the December 2006 opening of the Kenora CRC.</td>
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<td>Complete. The Kenora CRC is fully computerized. All scales are electronically linked to Geoware, enabling weights to be automatically uploaded into Geoware without manual input.</td>
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### OBSERVATIONS OF EXISTING SYSTEM
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.

### RECOMMENDATION FOR STRENGTHENING SYSTEM
That the deposit fees charged to all customers be consistent with the rates approved by Council.

### MANAGEMENT ACTION PLAN
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.

### FOLLOW UP (February 2008)
Complete. Some instances were noted where customers paid more than the Council approved deposit fee but this was at the insistence of customers who did not want change on both the inbound and outbound transaction. Deposit rates have been revised and set at amounts that make it easier for customers to pay the exact amount of the deposit.

Internal Audit’s review indicated that, in all cases where more than the stipulated deposit was paid, customers were appropriately refunded a few minutes thereafter (upon exit of the transfer station) and were not prejudiced in any way. Change had to be made only once.

In addition, management conducts periodic audits to verify that operators are charging the correct amount of deposit. These audits are documented.
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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>
<td>Complete. The responsibility for the maintenance of user IDs and access privileges is now being performed in-house, enabling staff to update user profiles more expeditiously. Access to Geoware appears to be consistent with the users’ work responsibilities. The contractor’s staff has basic system access while higher level access is granted to only three City employees whose responsibilities require them to perform editing and/or user maintenance responsibilities. Internal Audit’s review indicated only one instance where access for one user, who left employment with the contractor a few months ago, had not been removed.</td>
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ADDENDUM

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.

   Follow Up Comment:
   Complete. The Supervisor of Waste Processing carries out surprise cash counts at each location to determine if the cash float is being maintained at its set levels. A review of cash count forms kept by the Supervisor of Waste Processing, which both he and the cash custodian sign, did not indicate any cash shortages. Management is of the opinion that the cash levels at each location are appropriate for the current and anticipated level of activity.