



# Internal Audit Report

**Random Cash Counts  
Solid Waste Department  
July 2005**



## Audit Team Members

**Joe Seratte, Audit Manager**

**Lisa Cave, Associate Auditor**

**Laurie Aquino, Staff Auditor**

**Jefferson Wells International**



# Maricopa County

Internal Audit Department

301 West Jefferson St  
Suite 1090  
Phx, AZ 85003-2143  
Phone: 602-506-1585  
Fax: 602-506-8957  
www.maricopa.gov

July 21, 2005

Max W. Wilson, Chairman, Board of Supervisors  
Fulton Brock, Supervisor, District I  
Don Stapley, Supervisor, District II  
Andrew Kunasek, Supervisor, District III  
Mary Rose Wilcox, Supervisor, District V

We have completed our Countywide Cash audit, performed in accordance with the annual audit plan approved by the Board of Supervisors. Because of high risks identified in a related audit, our review focused on the cash receipt process at the Solid Waste Department.

Highlights of this report include the following:

- The Solid Waste cash receipt process contains several control weaknesses
- Cash receipt testing did not identify any cash discrepancies or missing funds

Within this report you will find an executive summary, specific information on the areas reviewed, and Solid Waste Management's response to our recommendations. We have reviewed this information with the Director and appreciate the excellent cooperation provided by management and staff. If you have any questions, or wish to discuss the information presented in this report, please contact Joe Seratte at 506-6092.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate  
County Auditor

(Blank Page)

# Table of Contents

<b>Executive Summary . . . . .</b>	<b>1</b>
<b>Detailed Information . . . . .</b>	<b>4</b>
<b>Department Response . . . . .</b>	<b>12</b>

# Executive Summary

## **Cash Receipt Testing (Page 4)**

Cash receipt testing showed no cash discrepancies or missing funds. However, we identified procedures which, if put in place, would improve Solid Waster (SW) management's control over cash receipts. SW management should perform monthly bank reconciliations, prepare individual deposits for each location, and complete a Treasurer's Transmittal report on a monthly basis.

## **Cash Counts (Page 6)**

Controls over change funds should be improved. Change fund counts revealed no material shortages or overages, however control weaknesses were noted that put cash at risk. SW Management should ensure compliance with County change fund policies, document change fund balances, and encourage employee training.

## **Cash Receipt Process (Page 8)**

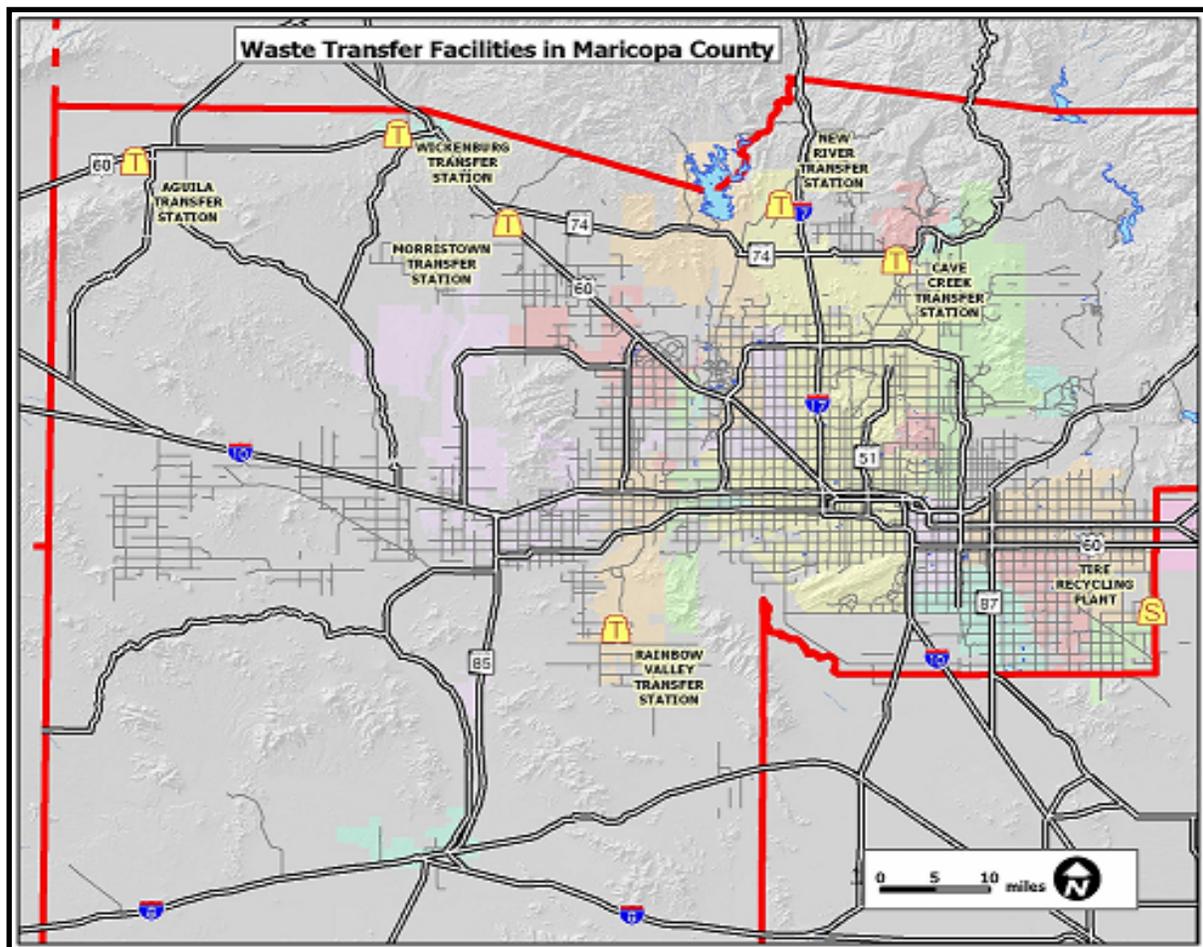
Several control weaknesses were identified related to SW's cash receipt processes. The County faces the risk of potential loss of cash or revenue because of inadequate record keeping, lack of segregation of duties, and a lack of customer credit agreements. SW management should review their cash receipt process and implement additional controls.

# Introduction

## Background

The Maricopa County Solid Waste Department (SW) provides collection sites and tire recycling programs for residents and businesses located within Maricopa County. SW also maintains closed County landfills, and monitors environmental water and gas emissions in accordance with Arizona Department of Environmental Quality rules and regulations. SW operates six transfer stations and one waste tire collection site. The transfer stations and the waste tire collection site are located in remote areas of the County.

The remote locations and limited number of SW personnel stationed at these locations present challenges in controlling the cash receipt process. These limitations affect issues such as timely deposits, physical security of cash, and segregation of duties. While working around these limitations, we have agreed with SW management on recommendations that will improve controls over the SW cash receipts process.



**Solid Waste Transfer Stations and Waste Tire Facility Are Located in Remote Areas of the County**

## **Scope and Methodology**

The scope of our work included reviewing controls over SW cash receipts. This was a limited scope audit, the objectives of which were to perform tests of cash transactions and to determine if controls over cash receipt processes were adequate. Our work included the following:

- Testing daily cash receipts records for completeness and accuracy
- Recalculating and completing bank reconciliations
- Performing unannounced cash counts at various SW locations
- Reviewing cash receipt procedures and practices

This audit was performed in accordance with generally accepted government auditing standards.

# Issue 1 Cash Receipt Testing

## Summary

Cash receipt testing showed no cash discrepancies or missing funds. However we identified procedures which, if put in place, would improve SW management's control over cash receipts. SW management should perform monthly bank reconciliations, prepare individual deposits for each location, and complete a Treasurer's Transmittal report on a monthly basis.

## Monthly Reconciliations and Reports Not Completed

Cash receipts taken in at SW locations are deposited into an outside bank account. Each SW location has an assigned individual who is responsible for making weekly deposits consisting of the prior week's cash receipts. At the end of each month, SW management should prepare a Treasurer's Transmittal report so the Treasurer can allocate deposited monies to the correct fund. A Treasurer's Transmittal was last completed in December 2004. The position responsible for these duties has been vacant for approximately six months. In addition, no formal bank reconciliations for the outside bank account have ever been completed.

As a means of testing cash receipts, we completed bank account reconciliations for the months of November and December 2004. We tested for missing cash receipts from the SW pre-numbered receipt books; missing numbers could indicate that cash received from customers was never turned in for deposit. Our work discovered no cash discrepancies or missing deposits. However, we noted that deposits are not identified by location. Identifying deposits by location would improve SW's ability to track and reconcile cash receipts.

## Customer Checks

Citizens who use one of the County's six transfer stations pay by cash at the time of drop off. However, some of SW's waste tire customers (commercial and government) are invoiced and billed monthly. Because of weak controls over cash receipts, and questionable purchase card activity by SW personnel, we performed a review of check receipts. We contacted 14 of SW's customers to verify checks paid to the County during Calendar Years 2003 and 2004. Six customers responded, and we were able to validate 47 check payments totaling \$194,000.

We compared checks received to deposits made, and found that all checks were deposited into the bank without exception.



**Customers weigh their load of waste tires and pay disposal fees based on the tonnage**

## **Recommendation**

SW Management should:

- A.** Perform monthly bank reconciliations.
- B.** Prepare individual deposits for each location accepting cash.
- C.** Complete a Treasurer's Transmittal report monthly and properly account for revenues by fund.

# Issue 2 Cash Counts

## Summary

Controls over change funds should be improved. Change fund counts revealed no material shortages or overages; however, control weaknesses were noted that put cash at risk. SW Management should ensure compliance with County change fund policies, document change fund balances, and encourage employee training.

## County Administrative Policy

Maricopa County Administrative Policy 2500 establishes minimum requirements for the acquisition and operation of petty cash and change funds. The policy states:

- A custodian is responsible for his or her change fund
- Change funds and related documentation must be kept in a secure location
- Change funds will not be used for any type of loans or personal use
- At the end of each fiscal year, supervisors will review change fund reconciliations and sign the reconciliation sheet.

## Change Fund Count

We conducted unannounced visits at two transfer stations and the waste tire facility to count change funds and cash receipts. SW has a total of \$475 in change funds, which are distributed among eight employees working at the transfer stations and the waste tire facility. The Department of Finance was unaware of the change fund, but did have a petty cash fund of \$500 listed on file. The petty cash fund appears to have been used to establish a change fund. SW management also could not provide documentation showing how the change funds were established or issued to employees.

We noted the following control weaknesses during the on-site visits:

- Employees do not document daily overages or shortages; employees at two locations had minor overages (\$1.45 and \$3.66) in their change fund
- In some cases personal funds are commingled to make change
- Two employees share a change fund depending on their assigned tasks
- Change funds are taken home with employees due to a lack of secure facilities
- Coins are not counted regularly

## Observations

Employees' cash handling responsibilities include receiving cash and making deposits. We noted some good cash receipt controls that are used at SW facilities such as:

- A receipt is issued to each customer
- Transaction logs are completed for each day's business
- Some transfer stations have a sign posted indicating that a receipt would be given for each transaction.



**Signs informing customers that they should receive a receipt can help deter fraud and abuse.**

However, we noted that the waste tire facility does not have a sign posted informing customers they should receive a receipt. The waste tire facility generates the majority of SW's revenues, and should have this deterrent to fraud in place.

## Recommendation

SW should:

- A. Review County Policy A 2500 and implement the necessary change fund, record keeping, and reconciliation procedures to ensure compliance.
- B. Document daily change fund counts, indicating any overages or shortages.
- C. Encourage employees with cash handling responsibilities to attend County training.
- D. Install proper signage at the waste tire facility.

# Issue 3 Cash Receipt Process

## Summary

Several control weaknesses were identified related to SW’s cash receipt processes. The County faces the risk of potential loss of cash or revenue because of inadequate record keeping, lack of segregation of duties, and a lack of customer credit agreements. SW management should review their cash receipt process and implement additional controls.

## Cash Receipt Process

SW operates six transfer stations and a waste tire facility within the County. These locations receive cash or checks for disposal fees. County citizens and businesses pay a fee to dispose of trash or waste tires at County facilities. SW faces challenges in implementing some traditional controls over cash receipts because of the remote location and limited personnel working at many of its facilities. Understanding the SW cash receipt process was an important part of making meaningful recommendations to management. Working with SW management, we were able to detail the current cash receipt process, evaluate controls that were in place, and identify areas for improvement. The SW cash receipt process, along with identified control weaknesses, is shown in detail in a flow chart on pages 10 and 11 of this report.

## Observations and Potential Risks

We reviewed the cash receipt process and identified potential risks to the County based on the lack of existing controls.

Observation	Potential Risk	Cause
The same employee prepares customer invoices and accepts cash receipts	Increased likelihood of cash receipts being diverted	Billing and cash receipting functions not adequately segregated between staff
SW cannot quantify outstanding receivables	Failure to collect revenue due to the County	Lack of record keeping related to checks received
No agreement or net term stated on customer invoices	Revenue may not be received timely	Customer Credit agreements have not been established
Sequential numbers not tracked on issuance of receipt books	Missing cash receipts not identified	Failure to maintain log of receipt books
Deposits are not always made on a timely basis.	Increases risk to cash receipts and slows cash flow	Lack of department policy and remote location of operations

## **AICPA-Recommended Controls**

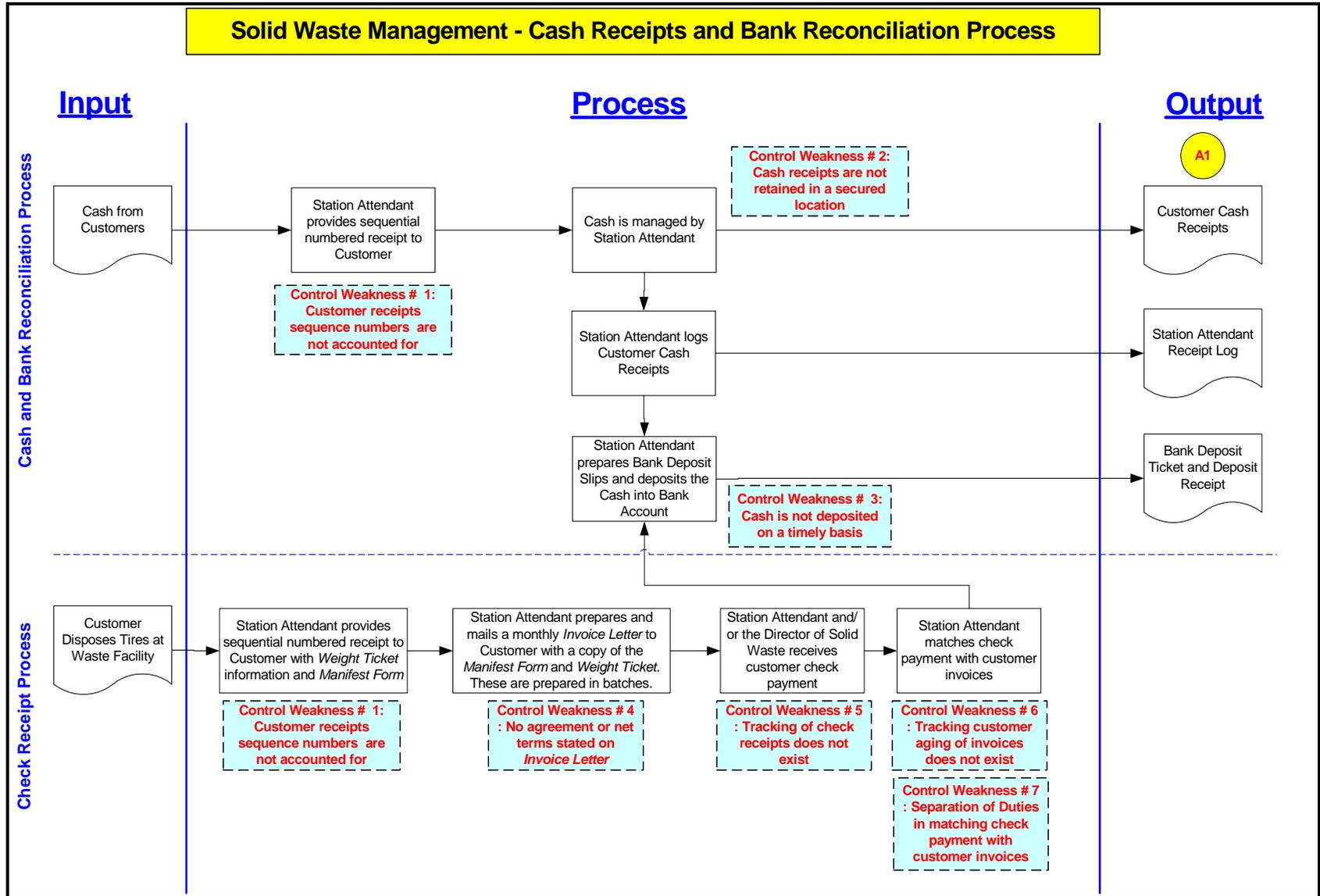
The State and Local Government Committee of the American Institute of Certified Public Accountants (AICPA) recommends the following controls over the cash receipt process:

- The duties of cash collection, receipting, deposit preparation, and recording should be adequately segregated
- Cash receipts should be controlled by a pre-numbered receipts, cash register, or other equivalent means
- Cash receipts should be deposited in a timely manner; any cash not yet deposited should be adequately secured
- Cash receipts should be balanced to daily cash collections on a regular basis

## **Recommendation**

SW Management should:

- A. Segregate billing and cash receipt duties between employees.
- B. Establish credit terms with customers.
- C. Track customer payments and age receivables.
- D. Maintain a sequential log of receipt books issued.



Cash and Bank Reconciliation Process

Check Receipt Process



# Department Response

**AUDIT RESPONSE  
RANDOM CASH COUNTS  
SOLID WASTE MANAGEMENT DEPARTMENT  
July 8, 2005**

**Issue #1:**

**Cash receipt testing. Although no cash discrepancies or missing deposits were discovered, it was noted that SW management's control over cash receipts could be improved.**

Response: Concur. The SW department needs to implement certain procedures and improve cash handling processes to ensure improved control over department cash receipts.

**Recommendation A:** Perform monthly bank reconciliations.

Response: Concur-- Since SW only makes deposits into the bank account and has no control over withdrawals, a full reconciliation cannot be performed. However, for documentation purposes, SW will review monthly bank statements and verify listed deposits against the monthly deposit receipts. A copy of the verified Bank Statement will then be transmitted to the Treasurer's office along with the Transmittal Report.

Target Completion Date: Implemented

Benefits/Costs: Verification that all cash deposits are correct and properly documented.

**Recommendation B:** Prepare individual deposits for each location accepting cash.

Response: Concur—Individual bank deposit books with unique identification for each transaction location have been issued. All other deposit books have been collected and destroyed. A policy has been issued and all assigned employees have been directed to make individual deposits for each location.

Target Completion Date: Implemented

Benefits/Costs: Improved documentation. The unique identification will ensure deposits are recorded to the appropriate transaction location.

**Recommendation C:** Complete a Treasurer's Transmittal report monthly and properly account for revenues by fund.

Response: Concur—SW will transmit the report to the Treasurer's Office monthly to include the correct fund information and a copy of all deposits with the Bank Statement verification.

Target Completion Date: 8/1/05.

Benefits/Costs: Improves the timely transmittal of data to the Treasurer's Office and ensures the accuracy of the fund balances.

## **Issue #2:**

**Cash counts.** Although the Change Fund counts revealed no material shortages or overages, weaknesses in handling of the assigned Change accounts were noted.

**Response:** Concur. Change Fund accounts in SW have not been properly documented and periodic verification of account balances have not been performed.

**Recommendation A :** Review County Policy A2500 and implement necessary change fund, record keeping, and reconciliation procedures to ensure compliance.

**Response:** Concur—Eight employees have been assigned a change fund totaling \$475.00. Each employee and Supervisor will be required to comply with the county procedure A2500. In addition, the correct documentation will be maintained in each employee's personnel file to document acceptance and liability for their Change account.

**Target Completion Date:** 8/1/05

**Benefits/Costs:** Ensures procedural compliance and accounts for all assigned cash accounts.

**Recommendation B :** Document daily change fund counts, indicating any overages or shortages.

**Response:** Concur—Cashier Attendants will be directed to count all cash at the end of their shift and document any shortages and/or overages in the change fund. Their Supervisor makes periodic visits to the sites and has been directed to verify all change fund accounts during these visits. Any discrepancies are to be accounted for and resolved at that time to ensure the change funds are accurate.

**Target Completion Date:** 8/1/05

**Benefits/Costs:** Results in a continuous verification of change fund accountability.

**Recommendation C :** Encourage employees with cash handling responsibilities to attend County training.

**Response:** Concur—Employees will be enrolled in the County Cash Handling class when offered.

**Target Completion Date:** As classes are offered.

**Benefits/Costs:** Ensures the Cashier/Attendants are familiar with all County policies and procedures for cash handling.

**Recommendation D:** Install proper Signage at the waste tire facility.

**Response:** Concur—A sign will be installed at the entrance to the Waste Tire site to inform customers they must receive a receipt if they are paying for tire disposal.

Target Completion Date: 8/1/05

Benefits/Costs: This will ensure that each cash transaction is documented.

**Issue #3:**

**Cash receipt process. Weaknesses identified related to SW's cash receipt processes.**

Response: Concur. The SW department processes established for receipt of cash have not followed the recommended AICPA guidelines for cash receipt controls. In some case this is justified due to the remote location of the cash transactions and the impracticality of assigning additional personnel to collect and record daily transactions and prepare deposits. Modified recommendations will be implemented to improve the processes and minimize the risk to the County for potential loss of revenue.

**Recommendation A :** Segregate billing and cash receipts duties between employees.

Response: Concur—SW only conducts billing for those customers that do not have waste tire permits but transport waste tires to the recycling facility, i.e., cities and other government entities throughout Maricopa County and a limited number of private tire haulers. A credit application and/or a bond is required from the private tire haulers but not the government entities. These accounts have been set up for years although no records or bonds can be located. SW will review all of the current accounts and update the documentation for all private hauler accounts beginning in FY06. In addition the billing (invoicing) and receipt of payment will be segregated and documented (see Recommendation C below).

Target Completion Date: 8/1/05

Benefits/Costs: Ensures that credit accounts are properly documented.

**Recommendation B :** Establish credit terms with customers.

Response: Concur—See Recommendation A above.

Target Completion Date: 8/1/05

Benefits/Costs: See Recommendation A above.

**Recommendation C :** Track customer payments and age receivables.

Response: Concur—Currently all invoices are prepared, distributed and tracked by the Waste Tire site employees. Once payment is received the data is entered and deposits made by the same employees. These duties will be segregated; personnel at the tire site will be responsible for invoicing and entering the data to a shared tracking file, payments will be made to a separate office and assigned personnel will be responsible for receipt, data entry and deposit. Each account will be tracked by date for aging purposes.

Target Completion Date: 8/1/05

Benefits/Costs: Ensures that billing and receipt of payment are segregated duties thereby eliminating the potential for lost revenue due to improper record keeping.

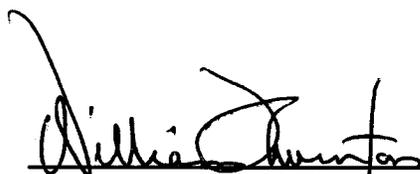
Recommendation D: Maintain a sequential log of receipt books issued.

Response: Concur—New receipt books will be issued to all SW Cashier /Attendants. The sequential numbers for each book will be recorded and receipt acknowledged by each assigned employee by signature.

Target Completion Date: Implemented.

Benefits/Costs: This will ensure verification of all issued receipts by location for tracking and documentation and provide for resolution of missing receipts.

Approved By :

  
\_\_\_\_\_  
Department Head/Elected Official

7/8/05  
Date

  
\_\_\_\_\_  
Chief Officer

7.14.05  
Date

  
\_\_\_\_\_  
County Administrative Officer

7-18-05  
Date