

CASH AUDIT REPORT

OF THE

SOLID WASTE MANAGEMENT DEPARTMENT

REPORT NO. 06-106



CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT AND INVESTIGATIONS

Cash Audit – Solid Waste Management Department
Report No. 06-106
Executive Summary

Background

The Internal Audit and Investigation Department has an agreement with the Department of Finance and Administrative Services Treasury Division (Treasury Division) to perform surprise cash counts on various Departments throughout the year. The Solid Waste Management Department's (Solid Waste) surprise cash count was performed on November 30, 2005 which included an evaluation of internal controls relating to cash and the follow up of audit findings from Audit Report 01-108 issued on October 10, 2001.

Objectives

The Objectives of our audit were to determine:

- Are cash controls in accordance with the City of Albuquerque Treasury Division's Cash Handling Manual for petty cash and change funds?
- Are there adequate safeguards to ensure accuracy of the cash intake at the Solid Waste Convenience Centers?
- Does Solid Waste have their own written procedures regarding imprest funds?
- Are change funds reconciled daily and accurately at the three Convenience Centers, Landfill, Bag Distribution Center and the Administration Office?
- Is the petty cash fund reconciled timely and accurately at the Administration Office?
- Are cash overages and shortages recorded properly and timely in the general ledger?
- Does each cashier's name appear on the certified cash handler's status report as current?
- Were the previous findings from audit report 01-108 Solid Waste Management Department resolved?

Findings

The findings identified during our review include the following:

- Five instances were noted where the imprest funds subcustodial statements could not be located at the original time of inquiry. Also, the petty cash funds custodian statement had not been completed. This is a repeat finding for Audit Report 01-108 issued October 10, 2001.
- During our surprise cash count on November 30, 2005 we noted two imprest funds that were short for a total of \$11.69.
- Required surprise cash counts are not consistently performed and/or the supporting documentation is not maintained at the department level.
- One cash handler had not attended the required cash handling training course within one month of employment. This is a repeat finding for Audit Report 01-108 issued October 10, 2001.
- Solid Waste is not reviewing the imprest funds general ledger activity.
- At one imprest funds location the daily deposits and change requests are not transported to the Bank using an armored car service.
- Current Solid Waste policy and procedures do not include imprest funds.
- The petty cash fund was commingled with a non-city fund.
- The petty cash fund was not reconciled timely.
- Petty cash fund reimbursement requests were not completed timely and included items that were purchased over 90 days.
- Petty cash funds were used to purchase items that should have gone through the normal purchasing process.

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- Two purchases over \$100.00 were noted as paid from the petty cash fund without proper approval from the Treasury Officer.
- The Treasury Division's Cash Handling Manual appears to be out of date with current practices.

Recommendations To address the findings noted above, we recommend the following:

- Solid Waste management should ensure that custodians are aware of their duties and responsibilities.
- Solid Waste management should ensure that custodians can account for their imprest funds balance at all times.
- Solid Waste management should ensure that imprest funds supervisors perform the required surprise cash counts.
- Solid Waste management should ensure that all cash handlers are trained within one month of their hire.
- Solid Waste management should ensure that the imprest funds general ledger accounts are reviewed regularly for accuracy.
- Solid Waste management should ensure that change requests from the landfill are secured.
- Solid Waste management should update the policy and procedures manual to reflect current practices.
- Solid Waste management should ensure that City funds are not commingled with non-city funds.
- Solid Waste management should ensure that the petty cash fund is reconciled timely and properly.
- Solid Waste management should ensure that the petty cash fund reimbursement requests are for only one month's purchases.
- Solid Waste management should ensure that the petty cash fund is used only for purchases that would not normally go through the purchasing process.
- Solid Waste management should ensure that petty cash purchases should not be for more than \$100.00 per purchase.
- The Treasury Division should update the Cash Handling Manual to ensure it reflects current policies and practices.

Management responses are included in the audit report.



City of Albuquerque
Office of Internal Audit and Investigations
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April 26, 2006

Accountability in Government Oversight Committee
City of Albuquerque
Albuquerque, New Mexico

Audit: Cash Audit
Solid Waste Management Department
06-106

FINAL

INTRODUCTION

The Internal Audit and Investigation Department has an agreement with the Department of Finance and Administrative Services (DFAS) Treasury Division (Treasury Division) to perform surprise cash counts of imprest funds on various City Departments throughout the year. Imprest funds is defined in the Treasury Division's Cash Handling Manual as advances from designated government funds given to an individual to enable them to make small purchases such as a Petty Cash Fund, or in issuing change to customers such as a Change Fund. City of Albuquerque employees handling cash are regulated by the Treasury Division's Cash Handling Manual. We performed our surprise cash count on each of the seven imprest funds held at the Solid Waste Management Department (Solid Waste) on November 30, 2005. We also evaluated Solid Waste's internal control structure concerning cash and followed up on audit findings from Audit Report 01-108 issued on October 10, 2001.

AUDIT OBJECTIVES

The Objectives of our audit were to determine:

- Are cash controls in accordance with the City of Albuquerque Treasury Division's Cash Handling Manual for petty cash and change funds?

- Are there adequate safeguards to ensure accuracy of the cash intake at the Solid Waste Convenience Centers?
- Does Solid Waste have their own written procedures regarding imprest funds?
- Are change funds reconciled daily and accurately at the three Convenience Centers, Landfill, Bag Distribution Center and the Administration Office?
- Is the petty cash fund reconciled timely and accurately at the Administration Office?
- Are cash overages and shortages recorded properly and timely in the general ledger?
- Does each cashier's name appear on the certified cash handler's status report as current?
- Were the previous findings from audit report 01-108 Solid Waste Management Department resolved?

SCOPE

Our audit did not include an examination of all the functions, activities, and transactions of Solid Waste. Our audit test work was limited to cash counts, internal control questionnaires and the cash process of Solid Waste.

This report and its conclusions are based on the information gathered from our examination of the activities through the completion date of our fieldwork, January 31, 2006, and does not reflect events after that date.

The audit was conducted in accordance with Government Auditing Standards, except Standard 3.49, requiring an external quality control review.

METHODOLOGY

We performed a full cash count on all imprest funds. We questioned applicable employees regarding internal controls over cash through the use of standardized questionnaires. We performed a documentation review of information pertinent to the cash handling process. We interviewed Solid Waste's employees and other City of Albuquerque employees we deemed necessary to attain a conclusion regarding our objectives.

FINDINGS

The following findings concern areas that we believe would be improved by the implementation of the related recommendations.

1. SOLID WASTE MANAGEMENT SHOULD ENSURE THAT CUSTODIANS ARE AWARE OF THEIR DUTIES AND RESPONSIBILITIES.

The Treasury Division's Cash Handling Manual states that "Departments are required to maintain custodian statement copies and any original subcustodian statements at their department level." A custodian statement is the Treasury Division's required agreement of ownership of imprest funds. A custodian is an individual authorized by the Department Director to handle the fund and is accountable for the fixed amount of all funds in their custody to the City Treasurer. A subcustodian is an individual that takes ownership over a portion of the custodian's total funds. The subcustodian is accountable to the City Treasurer for the allotted amount of the custodian's total funds.

When we asked Solid Waste's change funds custodians to provide us with the imprest funds subcustodial statements for each subcustodian as of November 30, 2005 we noted five employees who did not have the required subcustodial statement. The custodians were unaware they were to retain the original subcustodian forms. Also, due to the high turnover rate at the Convenience Centers the supervisor was unable to maintain current records.

The Treasury's Division's Cash Handling Manual states that "Use of petty cash by non custodian is not permitted."

Solid Waste's petty cash fund custodian statement had never been completed. The custodian had filed a memo stating the transfer of custodianship with the Treasury Division and was unaware that a custodian statement was required.

This is a repeat finding from Audit 01-108 issued October 10, 2001.

RECOMMENDATION

Solid Waste management should ensure that the custodians are aware of their duties and responsibilities concerning the implementation of the policies and procedures included in the Cash Handling Manual regarding the required documentation of custodianship.

RESPONSE FROM SOLID WASTE

"Solid Waste Management Department agrees with the finding and recommendation. Of the five cashiers, four had completed the cash handling training but did not have subcustodial statements on file with custodians. One cashier was a new hire and had not yet attended the cash handling training. Since the surprise cash count, all cashiers have completed the cash handling training, custodians are aware of their duties

and responsibilities, and now have subcustodial statements for each subcustodian.

“The custodian of Solid Waste Department’s petty cash fund did not have a custodial statement. When she took over as custodian, she sent a memo to City Treasury notifying them of the change. The surprise cash count revealed that the custodian was not in compliance with Treasury’s Cash Handling Manual. This has been corrected and a custodial statement was filed with Treasury in January 2006.

“After the exit conference on March 29, Solid Waste management decided to close the petty cash fund. The department’s petty cash fund was closed and the cash was returned to City Treasury on April 3, 2006.”

2. SOLID WASTE MANAGEMENT SHOULD ENSURE THAT CUSTODIANS CAN ACCOUNT FOR THEIR IMPREST FUNDS BALANCE AT ALL TIMES.

Imprest funds should always be reconciled and accounted for.

During our surprise cash count we noted two imprest funds were short for a total of \$11.69.

RECOMMENDATION

Solid Waste management should ensure that the custodians can account for their imprest funds balance at all times.

RESPONSE FROM SOLID WASTE

“We agree with the finding and recommendation. When there are large or recurring overages or shortages, Solid Waste Management complies with Administrative Instruction No. 2-21: Recording and Remediation of Cash Overages and Shortages.

“The department’s petty cash fund was closed and returned to City Treasury on April 3, 2006.”

3. SOLID WASTE MANAGEMENT SHOULD ENSURE THAT IMPREST FUNDS SUPERVISORS PERFORM THE REQUIRED SURPRISE CASH COUNTS.

The Treasury Division’s Cash Handling Manual states that “Verification of the fund twice annually is required by authorized person along with the custodian responsible for the money. This should be an actual cash count. A copy of this documentation is kept on file with the Department.”

During our review of internal controls we noted that supervisors were not properly performing surprise cash counts:

- Two supervisors have not performed the required surprise cash counts because they were unaware of the requirement.
- One supervisor performed surprise cash counts throughout the year however; the supporting documentation was not retained and usually the count was not performed in the custodian's presence.
- Another supervisor performed the cash counts regularly, but the documentation did not include the signature of the supervisor and the custodian.

RECOMMENDATION

Solid Waste management should ensure that the imprest funds supervisors are aware of their duties and responsibilities concerning surprise cash counts as required by the Cash Handling Manual.

RESPONSE FROM SOLID WASTE

“Solid Waste Management Department agrees with the finding and recommendation. Supervisors have reviewed the cash handling manual as it relates to performing surprise cash counts, and agree as to the importance of process and keeping adequate documentation. Supervisors will perform surprise cash counts twice annually and document the procedure.”

4. SOLID WASTE MANAGEMENT SHOULD ENSURE THAT ALL CASH HANDLERS ARE TRAINED WITHIN ONE MONTH OF THEIR HIRE.

Administrative Instruction No. 2-6 states that only individuals trained and certified by Treasury handle City monies. “It is the intent of the City, through this administrative instruction, to train all new cash handlers within the first month of their hire and/or appointment to the position.” The Instruction also states “Those individuals not certified by the Treasury Division will not be recognized as official cash handlers and shall not handle City monies until completing the training course and receiving certification.”

During our surprise cash count we noted one cash handler who had not completed the required cash handling course. This employee had been employed at the current position for more than one month. The employee was unable to attend the classes offered within the first month of employment due to conflicting schedules. The cash handling class was not rescheduled.

This is a repeat finding from Audit 01-108 issued October 10, 2001.

RECOMMENDATION

Solid Waste management should ensure that all cash handlers are trained and certified within one month of their hire date as required by Administrative Instruction No. 2-6.

RESPONSE FROM SOLID WASTE

“Solid Waste Management Department agrees with the finding and recommendation. A cashier started work with the intent that she would attend cash handling training at the next available class. The training wasn’t completed as of the date of the surprise cash audit. Currently, all cashiers have attended cash handling training. Supervisors will make certain that cashiers are trained and certified by Treasury to handle City monies. Treasury Division provides a list of cashiers and their certification dates. Solid Waste supervisors will review the list monthly and schedule cash handling training for cashiers prior to the expiration of their certification. This will be incorporated into the Department’s Policies and Procedures.”

5. SOLID WASTE MANAGEMENT SHOULD ENSURE THAT THE IMPREST FUNDS GENERAL LEDGER ACCOUNTS ARE REVIEWED REGULARLY FOR ACCURACY.

The imprest funds general ledger accounts should be reviewed regularly to identify any areas of concern and take corrective action quickly.

During our review of internal controls we noted that no one was reviewing the imprest funds general ledger activity for errors.

RECOMMENDATION

Solid Waste management should ensure that the imprest funds general ledger accounts are reviewed regularly for accuracy.

RESPONSE FROM SOLID WASTE

“The Fiscal Manager will reconcile the general ledger accounts for the department imprest funds monthly. Differences will be researched and corrected by the Fiscal Manager within the next monthly close of the general ledger. Changes in imprest fund balances will be forwarded to Treasury Division. This will be incorporated into the Department’s Policies and Procedures.”

“Subsequent to the exit conference with Internal Audit staff, the Solid Waste Management Department discovered additional information with respect to this finding. The incoming Fiscal Manager had been in that position only 30 days at the time of the surprise cash count, and had not yet reviewed the imprest funds general ledger activity during that period. However, it has been determined that the outgoing Fiscal Manager did review the imprest funds general ledger activity on a regular basis, with the last review being completed as recently as October 2005, less than sixty days prior to the surprise cash count.”

6. SOLID WASTE MANAGEMENT SHOULD ENSURE THAT CHANGE REQUESTS FROM THE LANDFILL ARE SECURED.

The Treasury Division’s Cash Handling Manual states that armored carrier services transport normally high dollar volume and high transaction deposits to the Bank.

During our review of internal controls we noted that the Cerro Colorado Landfill has had several instances of errors when change has been requested from the bank. Currently the Landfill uses a Solid Waste employee to pick up the daily deposits and deliver the requested change. The Landfill does not meet the requirements of a high dollar volume and a high transaction deposit location; however the armored carrier daily pickup could potentially solve the errors occurring when change is requested.

RECOMMENDATION

Solid Waste management should ensure that the daily deposits and change requests from the Cerro Colorado Landfill are secure during transportation to and from the Bank. If discrepancies are noted, Solid Waste should research and correct the errors timely.

RESPONSE FROM SOLID WASTE

“Solid Waste Management agrees with the finding and recommendation. Since the surprise cash count, the supervisor for the landfill and convenience centers created a form called “Change Request Form.” The cashier requests the change needed on this form and when the change is delivered back to the cashier, they sign off as to the accuracy of the amounts. Daily deposits have a dual verification of the amounts; signed by the cashier and by the Accounting Assistant who picks up the daily deposit. A system generated report is run daily to verify cash receipts against the deposit information. The supervisor traces the daily cash receipts from the report to the deposit information, and investigates and corrects errors quickly.

“The internal controls currently in place over the daily deposits along with the new change request form are effective in safeguarding cash at the landfill. This will be incorporated into the Department’s Policies and Procedures.”

7. SOLID WASTE MANAGEMENT SHOULD UPDATE THE POLICY AND PROCEDURES MANUAL TO REFLECT CURRENT PRACTICES.

Policies and procedures should be kept current to eliminate confusion between employees and management.

Solid Waste’s policies and procedures manual has not been updated since 1989. The current manual does not include any policies or procedures regarding imprest funds.

RECOMMENDATION

Solid Waste management should update their policy and procedures manual to include current practices by the Department. Once these policies and procedures are up to date a course should be provided for all employees to communicate the new policies and procedures.

RESPONSE FROM SOLID WASTE

“We agree with the finding and recommendation that the department’s policy and procedures manual should be updated for current practices. We are currently updating our policy and procedures manual to include a financial section. The goal is to have it completed within six months. Once the manual is completed, the department will provide training to all employees so that they are updated on current Solid Waste policies and procedures.”

8. SOLID WASTE MANAGEMENT SHOULD ENSURE THAT CITY FUNDS ARE NOT COMMINGLED WITH NON-CITY FUNDS.

The Treasury Division’s Cash Handling Manual states that “Commingling of cash imprest funds (petty cash/change funds, or any other fund) is not permitted.” Also, “Any activity associated with birthday, coffee, or any other funds, must be assigned to an employee outside of the cash handling area.”

During our surprise cash count we discovered that the petty cash fund was commingled with a non-City fund resulting in the petty cash fund shortage of \$6.69. The custodian did not realize that the two funds had been commingled and that there is a policy in place that prohibits the custodian from having custody over non-City funds.

RECOMMENDATION

Solid Waste management should ensure that the petty cash fund custodian does not commingle City funds with non-City funds. Also, the non-City fund must be assigned to someone other than the petty cash fund custodian as required by the Treasury Division's Cash Handling Manual.

RESPONSE FROM SOLID WASTE

"The department's petty cash fund was closed and the cash was returned to City Treasury on April 3, 2006."

9. SOLID WASTE MANAGEMENT SHOULD ENSURE THAT THE PETTY CASH FUND IS RECONCILED TIMELY AND PROPERLY.

The Treasury Division's Cash Handling Manual states that "Weekly reconciliation of the fund is required, including an actual cash count." Also, "Copies of reconciliations are kept on hand for review and audit purposes."

During our internal control review we noted that the last documented reconciliation was performed in August 2005. The petty cash custodian did not realize that a policy existed that required the custodian to maintain documentation of each reconciliation that was performed.

RECOMMENDATION

Solid Waste management should ensure that the petty cash fund is reconciled timely and properly. Management should ensure that the petty cash fund is in compliance with the policies and procedures of the Cash Handling Manual regarding the timely reconciliation of the fund.

RESPONSE FROM SOLID WASTE

"The department's petty cash fund was closed and the cash was returned to City Treasury on April 3, 2006."

10. SOLID WASTE MANAGEMENT SHOULD ENSURE THAT THE PETTY CASH FUND REIMBURSEMENT REQUESTS ARE FOR ONLY ONE MONTH'S PURCHASES.

The Treasury Division's Cash Handling Manual states that "Receipts from petty cash purchases must be turned in for replenishment so that purchases can be recorded within the appropriate 30 day monthly accounting period. **PETTY CASH RECEIPTS HELD FOR MORE THAN 90 DAYS OR CROSS FISCAL YEAR WILL NOT BE HONORED FOR REIMBURSEMENT.**"

Per review of the two most recent petty cash reimbursements dated January 5, 2006 and August 8, 2005 we noted that the request included items purchased more than one month old. These reimbursements also had purchases that were outstanding for 90 days and longer. The custodian did not realize that a policy was in effect that required reimbursements to be prepared monthly.

RECOMMENDATION

Solid Waste management should ensure that the petty cash fund reimbursement requests are for only one month's purchases. Based on the current level of activity the petty cash fund should be lowered to \$100.00 to avoid noncompliance with the Treasury Division's Cash Handling Manual.

RESPONSE FROM SOLID WASTE

"The department's petty cash fund was closed and the cash was returned to City Treasury on April 3, 2006."

11. SOLID WASTE MANAGEMENT SHOULD ENSURE THAT THE PETTY CASH FUND IS USED ONLY FOR PURCHASES THAT WOULD NOT NORMALLY GO THROUGH THE PURCHASING PROCESS.

The Treasury Division's Cash Handling Manual states that "Petty cash purchases is restricted to items not available through the Small Purchase Order book process and/or items not available through the City Warehouse Inventory stock." Since the small purchase order is no longer available for use, a P-Card should be used.

During our review of the two most recent petty cash reimbursements dated January 5, 2006 and August 8, 2005 we noted one instance where a newspaper subscription to a local paper was paid using petty cash funds. The petty cash custodian stated that the Director requested that petty cash be used to pay for Solid Waste's yearly subscription.

RECOMMENDATION

Solid Waste management should ensure that the petty cash fund is used only for purchases that would not normally go through the purchasing process.

RESPONSE FROM SOLID WASTE

"The department's petty cash fund was closed and the cash was returned to City Treasury on April 3, 2006."

12. SOLID WASTE MANAGEMENT SHOULD ENSURE THAT PETTY CASH PURCHASES SHOULD NOT BE FOR MORE THAN \$100.00 PER PURCHASE.

The Treasury Division's Cash Handling Manual states that "Eligible purchases are limited up to \$100.00. Petty cash disbursements over \$100.00 must be approved by the Treasury Officer before purchase is made. Splitting of invoices for purchases over \$100.00 is not permitted."

During our review of the two most recent petty cash reimbursements dated January 5, 2006 and August 8, 2005 we noted two purchases that were for items over \$100.00 without proper approval. The two exceptions were for the purchase of a coffee maker for \$132.33 and a daily newspaper subscription for \$135.00. The petty cash custodian was unaware of the policy that limits the purchases to \$100.00 or less.

RECOMMENDATION

Solid Waste management should ensure that petty cash purchases should not be for more than \$100.00 per purchase. However, if the situation warrants the purchase, prior approval from the Treasury Officer must be obtained.

RESPONSE FROM SOLID WASTE

"The department's petty cash fund was closed and the cash was returned to City Treasury on April 3, 2006."

13. DFAS SHOULD UPDATE THE CASH HANDLING MANUAL TO ENSURE IT REFLECTS CURRENT POLICIES AND PRACTICES.

Current policies and practices should be reflected in the Treasury Division's Cash Handling Manual.

We noted instances where the Cash Handling Manual is out of date with the current practices.

RECOMMENDATION

DFAS should update the Cash Handling Manual to ensure the manual reflects the current polices and practices of the City of Albuquerque Departments.

RESPONSE FROM DFAS

"DFAS concurs with this recommendation. The immediate audit recommendations have been incorporated into the Cash Handling Manual."

The updated Cash Handling Manual will be distributed to all cash handling attendees.

“On a longer term basis, DFAS believes it is appropriate and in the best interests of the City to undertake an in-depth review and rewrite of the Cashing Handling Manual to reflect best practices and current or desired City-wide procedures and policies. To minimize differences in procedures and practices from department to department, DFAS will propose to the CAO that a single manual serve as the guideline for all City departments. This initiative will be completed by March 2007.

“DFAS will take immediate action to review all existing Petty Cash funds for retention, closure or identify alternatives for City departments in advance of FY06 year end.”

CONCLUSION

Solid Waste management has demonstrated to us a strong desire and motivation to improve the controls and procedures over imprest funds. We believe Solid Waste’s imprest funds will be further protected with the timely implementation of the above recommendations.

We appreciate the cooperation of Solid Waste’s staff during the audit.

Senior Auditor

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APPROVED:

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