



GARLAND

INTERNAL AUDIT

Date: March 24, 2014

To: Honorable Mayor Athas
Members of the City Council
Members of the Audit Committee

From: Jed Johnson, City Auditor

Subject: A/R - Cash Handling Audit Follow-up

This is a follow-up of the “A/R – Cash Handling Audit” report issued on August 21, 2012. The objective of the audit was to evaluate the monitoring over the Accounts Receivable/Cash Handling function. There were six (6) revenue sources judgmentally sampled:

- Ad Valorem
- Landfill Fees
- Disposal Fees
- EMS Ambulance Fees
- E-911 Fees
- Police Services

The original audit included testing of procedures to assess management controls, such as reviewing cash handling procedures, segregation of duties, compliance with directives, review of refunds, review of City ordinances, review of GISD Overtime/Comp Time forms from School Resource Officers (SRO’s), and review of commercial agreements. The same methodologies were applied during this follow-up. The scope of the follow-up was from April 1, 2012 through October 31, 2013. The follow-up was not intended to be a detailed study of every relevant system, procedure, and transaction.

We performed this follow-up under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

This audit follow-up was conducted in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our previous recommendations.

Audit Follow-Up

Ad Valorem

Finding # 1
Condition (The way it is)
During our walk-through of the Tax Department cash handling process, it was observed that an employee had stepped out and did not log off her computer. Another employee then came to the same computer to assist a customer and took a payment. However, the second employee posted the payment under the first employee's login.
Recommendation
<ul style="list-style-type: none">• Each employee should use their own login when posting payments to keep the audit trail for accountability and responsibility.• Computers should also be logged off when employees step away from the office.
Management Response
Concur
Action Plan
Change has been implemented
Implementation Date
Immediately
Follow-up
Internal Audit's (IA's) recent walk-through of the Tax Department Cash Handling process did not reveal any exceptions. Employees were logging off their computers when they had to step away. According to the Tax Assessor, all employees were instructed to use their own user name and password when receiving payments.
Implementation
Fully implemented

EMS – Ambulance Fees

Finding # 1

Condition (The way it is)

In reviewing rates charged to patients for transports and mileage, it was identified that what is on City Ordinance 6497 adopted on 11/1/2011 did not match to what was being charged.

Recommendation

Management should ensure that the City either abides by Ordinance 6497 or amends the ordinance to reflect the correct rates.

Management Response

Concur

Action Plan

Revise the Ordinance

Implementation Date

July 2012

Follow-up

Ordinance 6497 was changed on July 2, 2012 to match the amounts being charged.

Implementation

Fully implemented

E-911 Fees and Police Services

Finding # 1

Condition (The way it is)

- A. IA's review of the Accounts Receivable process within the Police Department revealed a lack of appropriate segregation of duties.
- B. The Sr. Administrative Assistant has custody and recordkeeping responsibilities with regard to checks remitted by telecom carriers for E-911 fees and checks remitted to the Records Department by PoliceReports.us, an online records reporting system.

Recommendation

Management should ensure that the recordkeeping and deposit process are segregated or other mitigating controls are used.

Management Response

Concur

Action Plan

- A. Management will ensure that the Communications Supervisor that handles remittance of E-911 fees from carriers also maintains a spreadsheet of monthly checks received. The Sr. Administrative Assistant will submit a copy of the Cash Edit Report showing the E-911 Fee Checks deposited into the E-911 Fee Account to the Communications Supervisor for reconciliation of records. These actions will effectively segregate the duties of custody and reconciliation of the records.
- B. Management will ensure that the Records Unit Supervisor that handles fees remitted to the Police Records Department by PoliceReports.us also maintains a spreadsheet of monthly checks received. The Sr. Administrative Assistant will submit a copy of the Cash Edit Report showing the PoliceReports.us Fee Checks deposited to the Records Unit Supervisor for reconciliation of records. These actions will effectively segregate the duties of custody and reconciliation of the records.

Implementation Date

Immediate

Follow-up

IA's review of the Police Department's current A/R process revealed the following:

- A. The Communications Supervisor who handles remittances of E-911 fees from carriers also maintains a spreadsheet of monthly checks received. The

Sr. Administrative Assistant submits a copy of the Cash Edit Report showing the E-911 Fee Checks deposited into the E-911 Fee Account, to the Communications Supervisor, for reconciliation of records.

- B. The Records Unit Supervisor who handles fees remitted to the Police Records Department by PoliceReports.us also maintains a spreadsheet of monthly checks received. The Sr. Administrative Assistant submits a copy of the Cash Edit Report showing the Police Reports.us Fee Checks deposited to the Records Unit Supervisor, for reconciliation of records.

Implementation

Fully implemented

Finding # 2

Condition (The way it is)

In reviewing 39 GISD Overtime (O/T) Activity Forms from 23 SROs, we noted in four instances overtime was entered into the Police Officers Scheduling System (POSS) and approved by management without ensuring that the required GISD O/T Activity Form was obtained. In addition, GISD was not billed for these instances.

The charges not billed to GISD totaled \$1,055.34 in O/T charges.

Date	Hours	Hourly Rate	Total
01/04/2011	5.50	\$58.63	\$322.47
02/24/2011	6.50	\$58.63	\$381.10
06/04/2011	2.00	\$58.63	\$117.26
10/25/2011	4.00	\$58.63	\$234.52
Total			\$1,055.35

Please note: During the audit, management was notified of these incidents. As of June 12, 2012, management obtained the missing GISD O/T Activity Forms.

Recommendation

Management should:

- Obtain GISD documentation for review prior to approval in POSS.
- Reconcile POSS Overtime Activity Reports with GISD Overtime Authorization forms monthly to ensure that all reported overtime is included in the invoice request.

Management Response

Concur

Action Plan

Management will ensure that GISD overtime will not be paid or approved in POSS until a supporting GISD time sheet has been turned in.

Management will ensure that a monthly audit is conducted, allowing time for prior period exceptions, to reconcile all POSS Overtime Activity Reports with GISD Overtime.

Implementation Date

Immediate

Follow-up

A process has been initiated whereby approval of payment in the POSS is not allowed without a (SRO) Overtime/Comp Time Authorization Form.

A three-way reconciliation is now being performed. The SRO Overtime/Comp Time Authorization from GISD is compared to the POSS scheduling system which is compared to the Payroll system.

IA randomly selected 12 events from different officers, from each month of the year (FY/2013), to determine if there was a SRO Overtime/Comp Time Authorization Form completed. IA then verified that it was listed on the SRO Overtime Excel Spreadsheet sent to GISD and that the hours agreed in the payroll system. Additionally, IA selected 13 events and reviewed from the opposite direction, from the source document to the report and payroll system to ensure the sample was listed on the report. No exceptions were noted. (Exhibit A)

Implementation

Fully implemented

Finding # 3

Condition (The way it is)

Ordinance 5044 adopted on January 21, 1997 is the authoritative pronouncement for E-911 fees. Telecommunication carriers sign agreements with the City to remit E-911 fees. Our examination of the ordinance and agreements revealed the following:

- E-911 cellular fees of \$0.75 are stated in the City Ordinance; however cellular fees are strictly a State fee according to the Texas Health and Safety Code, Section 771.0711 (a), Emergency Service Fee for Wireless Telecommunications Connections. The section states, "A political subdivision may not impose another fee on a wireless service provider or subscriber for 9-1-1 emergency service."
- The agreements lack provisions that would aid the City in the collection and monitoring of E-911 fees. Examples of provisions lacking are:
 - Retention of records by the service providers.
 - Right to audit clause.
 - Notification of no-pay service users.

Recommendation

Management should ensure:

- A. The E-911 cellular fee listed in Ordinance 5044 is removed.
- B. The agreements are amended to reflect items listed in the condition to this finding.

Management Response

Concur

Action Plan

- A. Management will endeavor to work with the City Attorney to update City Ordinance 5044 to remove the E-911 cellular fee listed.
- B. Management will endeavor to work with the City Attorney to review the current carrier agreements for the purpose of addressing records retention by the service providers, a right to audit clause, and notification of no-pay service users.

Implementation Date

Immediate

Follow-up

- A. The City Council was requested to consider adopting an amendment to Section 26.11 of the Code of Ordinances to remove Section 26.11(B)(4)

listing a cellular 911 fee at the March 17, 2014 Work Session Meeting. They concurred, and this item is scheduled for formal consideration at the April 1, 2013 Regular Meeting.

- B. Our inquiry with management revealed the City Attorney's office has updated the carrier agreements; however, they have not been signed yet.

Implementation

- A. Partially Implemented
- B. Not Implemented

Finding # 4

Condition (The way it is)

Telephone carriers charge their customers for E-911 services. These fees collected are to be remitted to the City to use for E-911 services according to the Texas Health and Safety Code.

In our review of E-911 fees remitted by telephone carriers, we determined that checks were mailed to various different departments throughout the City. The Departments would then forward these checks to Finance for deposit resulting in decentralization of fees remitted for E-911 Services.

Recommendation

Management should ensure:

- Departments forward E-911 checks to the Police Communications Department for deposit.
- Agreements prior to 2004 are amended to reflect the appropriate address.

Management Response

Concur

Action Plan

Management will send written notices to all carriers of agreements signed prior to 2004 notifying them of the correct address for remittance of E-911 Fees.

Management will send written notice to other City of Garland Departments requesting that any E-911 checks erroneously sent to their Departments be immediately forwarded to Police Communications Department for deposit.

Implementation Date

Immediate

Follow-up

1. Management sent written notices to all carriers of agreements signed prior to 2004, notifying them of the correct address for remittance of E-911 fees.
2. Management sent written notices to other City of Garland Departments requesting that any E-911 checks erroneously sent to their Departments be immediately forwarded to Police Communications Department for deposit.

Implementation

Fully Implemented

Landfill and Disposal Fees

Finding # 1

Condition (The way it is)

The City has been applying the wrong tonnage rates when calculating monthly bills for two of its' commercial customers during the audit period. Due to this error:

- A. Customer (A) overpaid the City in the amount of \$231.13 during the Nov-2010 through Mar-2012 time period (see Exhibit 1).
- B. Customer (B) underpaid the City in the amount of \$14,351.60 during the Dec-2010 through Apr-2012 time period (see Exhibit 2).

Recommendation

Management should ensure that:

- The correct rate is entered into the CompuWeigh System
- Periodic verifications are done to verify the accuracy of the rates

Management Response

Concur

Action Plan

- CompuWeigh System has been updated with the correct rates for the two commercial customers as of May 1, 2012
- A master list has been developed depicting rates for all billed customers with their applicable contract expiration dates.
- Scalehouse supervisor or designee will review monthly the accuracy of billing rates.

Implementation Date

July 1, 2012

Follow-up

- A. IA reviewed the customer Landfill Usage Agreement with the Contract Customer Fee Schedule. The correct rate for Customer A and B were entered into the CompuWeigh System as of May 1, 2012. In addition, IA verified the invoices sent from Finance which supported the amount on the Contract Customer Fee Schedule. No exceptions were noted.
- B. Periodic verifications are now being performed to verify the accuracy of the rates. A master list has been developed depicting rates for all billed customers with their applicable contract expiration dates. The Scalehouse

Supervisor or designee reviews the accuracy of billing rates, on a monthly basis.

Implementation

Fully implemented

Finding # 2

Condition (The way it is)

The Landfill accommodates customers who do not have the credit qualifications for a Commercial Agreement by entering into a Standing Check Agreement. In these cases, the customer leaves a signed, blank check on Friday and is authorized to dump trash at the Hinton Landfill throughout the following week. Receipts are provided to customers and copies are retained with the blank check. On the following Thursday, the receipt copies are calculated and the check is completed by a cashier with the total accumulated dollar amount from the receipts. The check is then processed for deposit.

Internal Audit does not believe that this is a good business practice since this presents various risks to both the customer and the Landfill Department.

Recommendation

Management should:

- Revoke Standing Check Agreements and stop accepting blank checks.
- Require payments at the gate for each transaction until other options are evaluated such as obtaining a deposit from customers who do not meet the credit qualifications and performing monthly billing.

Management Response

Concur

Action Plan

Hinton Landfill will discontinue offering Standing Check Agreements and stop accepting blank checks.

Implementation Date

July 13, 2012

Follow-up

Hinton Landfill has discontinued offering Standing Check Agreements and stopped accepting blank checks. Additionally, policy has been revised which states, "No blank checks are accepted; checks for a customer deposit must be made out to the full deposit amount. The check will be returned to the customer upon receipt of the actual disposal fee charged upon weight out."

Implementation

Fully implemented

Finding # 3

Condition (The way it is)

The main cashier and relief cashier collect money at the Transfer Station. At the end of the day, they individually balance their cash drawers and verify each other's counts but we could not find documentation to show that this is done. The main cashier then prepares the cash report and makes the deposit.

Recommendation

Management should ensure that the recordkeeping and deposit process are segregated.

Management Response

Concur

Action Plan

Department has established a procedure to ensure that the recordkeeping and deposit process for the Transfer Station cashier functions are segregated.

Implementation Date

July 10, 2012

Follow-up

Policies and procedures have been changed so that the main cashier no longer prepares the cash report and makes the deposit. The person who rotates, and is not scheduled as a relief cashier, is the person who performs the cash report and makes the deposit. The Supervisor now maintains the Daily Cashier Report Packets after approval.

Three daily cashier report packets were reviewed which disclosed the names of the main and relief cashier. The Cash Deposit Transfer Memorandum disclosed an independent approval, and the Cash Out Edit List was input by another person. Appropriate segregation of duties has been maintained and an audit trail has been established.

Implementation

Fully implemented.

Finding # 4

Condition (The way it is)

EWS entered into agreements with various small commercial entities whereby the entities are billed monthly for using the Hinton Landfill services. In our review of these Commercial Agreements and associated business practices, we noted the following:

- A. Agreements do not include essential elements to protect the City such as:
- Late payment provisions.
 - A statement to notify the department of changes in customer information.
 - An expiration date.
- B. Customers are not required to pay an application fee to recover the City's cost of obtaining credit reports for review.

Recommendation

Management should ensure that:

- A. Commercial Agreements are updated to include late payment provisions, requirements involving changes to customer information and an expiration date as well as continuously monitor Agreements to reflect periodic changes.
- B. Application fees are assessed.

Management Response

Concur

Action Plan

- Hinton Landfill will modify existing commercial agreement as recommended.
- Department will forward modified document to City Attorney's office for review and comments prior to use of this agreement.

Implementation Date

July 30, 2012

Follow-up

- A. A review of the new commercial agreement disclosed that Hinton Landfill modified the existing commercial agreements as recommended, to include late payment provisions, requirements involving changes to customer information and an expiration date.
- B. Application fees are now assessed. The commercial agreements are annually reviewed to include any periodic changes.

Implementation

Fully implemented

Finding # 5

Condition (The way it is)

The Landfill Department did not file the original Landfill Usage Agreements between the City and Contractors with the City Secretary's Office.

Recommendation

Management ensures that all contracts with third parties are filed with the City Secretary's Office.

Management Response

Concur

Action Plan

Landfill Usage Agreements for Community Waste Disposal, IESI TX and Republic Waste Services have been filed with the City Secretary's office. However, the department only has a copy of the usage agreement for North Texas Municipal Water District (NTMWD). NTMWD document copy has been filed with the City Secretary's office.

Implementation Date

June 25, 2012

Follow-up

The City Secretary was contacted and all four contracts from the previous audit had been filed with the City Secretary. Additionally, OnBase was reviewed and other commercial agreements from the Landfill Department had been filed with the City Secretary's office.

Implementation

Fully implemented.

Exhibit A

Reliability of Computer Generated Data and Sampling Methodology SRO Overtime/Comp Time

Reliability of Computer Generated Data

To assess the reliability of the data elements needed to answer the engagement objectives, we (1) interviewed agency officials knowledgeable about the data and (2) reviewed related documentation. The results of our electronic testing showed that data elements key to our review were correct. Therefore, we found the reliability of computer generated data for the POSS reports was accurate and complete.

Sampling Methodology

The Police Department had initiated a three-way reconciliation, therefore, IA decided to perform stop-and-go testing. We randomly selected 12 events from different Officers from each month of the year (FY/2013) to determine if there was a SRO Overtime/Comp Time Authorization Form completed. IA then verified that it was listed on the SRO Overtime Excel Spreadsheet sent to GISD and that the hours agreed in the payroll system. Additionally, IA selected 13 events and reviewed from the opposite direction, from the source document to the report and payroll system to ensure the sample was listed on the report. There were no exceptions noted. The results can be projected to the intended population.