



CITY OF
PORTLAND, OREGON
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May 29, 1996

TO: Mayor Vera Katz
Commissioner Earl Blumenauer
Commissioner Charlie Hales
Commissioner Gretchen Kafoury
Commissioner Mike Lindberg
Mike Rosenberger, Administrator, Bureau of Water Works

FROM: Barbara Clark, CPA, City Auditor *BC*

SUBJECT: Audit of Cash Handling Practices at the Water Bureau's Credit and Collection Unit Report #207

Summary

This report covers our review of the cash handling practices within the Credit and Collection Unit at the Bureau of Water. It is the fourth in a series of audits focusing on areas throughout the City that are vulnerable to mismanagement, waste and/or abuse. In addition to being part of the Audit Services Division's 1995-96 audit schedule, it was also conducted because a theft of customer payments was experienced within the Unit. We conducted our audit in accordance with generally accepted government auditing standards.

Our review disclosed that within the past year, Bureau management made efforts to improve controls within the Credit and Collections Unit. They dismissed an employee who stole cash, hired new employees, revised operating procedures, and hired a consultant to review and evaluate cash handling procedures within the Unit. When fully implemented, the revised procedures and the consultant's recommendations should provide a more adequately controlled environment. We also found that additional controls and procedures are needed in some areas.

Background

Customer billings and collection of water and sewer services are administered by the Water Bureau. According to management we spoke with, over 85 percent of customer payments are received in the form of checks through the mail, or from independent payment sites that are automatically processed by the Bureau. The remaining payments are received in person at the Credit and Collection Unit located at the lobby of the Portland Building, 1120 S.W. 5th Avenue.

A small number of payments are also received through a night depository located in the Portland Building. Night depository and in-person payments, as well as torn or damaged mail that cannot be processed automatically, are processed by the Credit and Collection Unit.

Currently, cashiers in the Credit and Collections Unit are capable of accepting and processing all types of payment transactions at the Unit's cashiering stations. When a walk-in customer payment is made in the Credit and Collections Unit, the cashier accepts and posts the payment, credits the customer's account on-line, and returns a receipt to the customer.

Payments received through the night box are opened and recorded on a night deposit record form in the presence of a second staff member. This form is then signed by both employees. After the payments have been recorded, they are then posted and credited on-line to the customer's account.

At the end of the work day, the cashiers are required to balance the day's receipts of both cash and checks to the "end of day" reports generated by the cashiering system. The total day's receipts are then recorded on a cashier's balance sheet and turned over to the Unit's banker. Once all the cashiers' receipts and balance sheets are submitted, the banker separates the cashiers' float from the total cash and places each in different areas of the safe. The banker then prepares a banker's balance sheet and also compares it to the cashiers' reports to determine if the cashiers totals equal the banker's total.

Depending on the volume of cash collected during the day, cashiers may "sell" or transfer money to the banker. This reduces the amount of cash held by the cashiers during the day and simplifies balancing the day's transactions.

The next morning, the Credit & Collections Supervisor reviews the banker's summary report of the previous day's activities. In the presence of the banker the supervisor counts the cash to be deposited and verifies it against the banker's report. Separate deposit slips are prepared for the total cash and checks and initialed by the Unit supervisor and banker.

The cash and checks, along with their deposit slips are carried by the banker to the Customer Accounts Receivable Unit (CAR). The cash is counted a second time by a CAR employee and the banker. Once the cash is verified, the cash and deposit slip are sealed in a numbered deposit bag; the checks and deposit slip are sealed in a separate numbered deposit bag. At this point the banker relinquishes the receipts to the CAR staff person. The CAR staff person enters the amounts and deposit bag numbers on to the armored car log. The sealed deposit bags are taken to the Finance and Accounting area where they are placed in a fire safe. Finance and Accounting signs for receipt of the bags, but not their contents.

The armored car service goes to the Customer Accounts Receivable Unit to pick up the deposit bags, which are retrieved from the fire safe. The armored car staff verifies the numbers from the bags, signs for them, and transports them to the bank.

New Cashiering System Installed

In January 1995 the Credit and Collections Unit installed a new cashiering system. The new system is password protected and allows updates to customers' accounts on-line for both full or partial payments. As part of the new controls, the computer system prints a report of the prior days transactions on a printer located on a different floor. This report is used by the reconciliation clerk, who is independent of the Unit, to verify the banker's reports and deposit slips.

Objectives, Scope, and Methodology

The objectives of this audit were to determine 1) the types of errors and frauds that could occur within the Unit; 2) the control procedures that would prevent or detect such errors and frauds, and 3) whether such controls are in place and being complied with.

Because cash is highly susceptible to theft, we limited the scope of our audit to the cash handling procedures for night depository and in person payments processed by the Credit and Collection Unit. As part of the scope, we reviewed both pre-theft and post-theft operating procedures to determine if current procedures adequately minimize opportunities for future losses. Our decision to review procedures from both periods is a result of missing funds which occurred in the Unit within the last two years.

We did not review the areas of mail-in payments, policies governing adjustments and write-offs, or audit of the accounts of bureau employees and relatives. We encourage review of these areas and recommend that such a review be included on the next fiscal year's audit schedule.

To identify risk areas within the Unit, we reviewed reports prepared by the Bureau's own internal auditor and outside consultant. We interviewed the Customer Services manager, the Bureau's senior management auditor, the Credit and Collections Unit supervisor and Unit staff. We also flowcharted and evaluated cash handling procedures and observed the cash handling and balancing processes.

Audit Results

Leading Cause of Theft of Funds

Inadequate controls between the credit and collections' banker and supervisor led to a theft of funds by an employee. This lack of control resulted in a possible theft of cash receipts and apparent attempts to cover the theft by manipulating the customer account balance.

The same employee who later became the Unit's banker, was later charged with stealing \$20,640 in cash. When the City Treasurer reported the missing deposits to the Water Bureau, an immediate internal audit was initiated to verify that the funds were really missing and to identify the source of the loss. When the audit was initiated the banker was transferred out of the Credit & Collections area until the work was complete. When audit results revealed the trail of lost funds led back to the banker, immediate termination of that person was initiated. At the same time, a consultant was hired to closely review all cashiering and banking procedures. Based on the

recommendations, a security system, including surveillance cameras in the safe and cashiering areas, have been installed. Cashiering and banking procedures have also been further revised to achieve a higher level of security and accounting controls.

COLLECTION PROCESS STILL HAS WEAKNESSES

In spite of these actions by management, our audit disclosed the following additional areas that require further attention:

Physical Security of Cash

During our audit we noted that the door to the cash count room as well as the bottom portion of the safe (containing change funds) were left unlocked. Also, computer password security was rendered ineffective because Unit employees left their computer terminals logged on. We informed the Customer Services Manager and the Bureau's internal auditor of these weaknesses and steps were taken during the audit to correct them.

No documentation of periodic audits or cash counts:

Based on conversations with the Bureau's internal auditor, the Customer Service Manager, and the Credit and Collection Unit Supervisor, we found that audits of the receipts and accounts or surprise cash counts were not consistently performed and the results documented. We were told that such audits or cash counts had not been performed primarily because they had not been written into the Unit supervisor's job description. Management is in the process of preparing a job description for the newly hired Unit supervisor which will require audits of cashiers work.

During two observations of the reconciliation process, cash shortages were noted. Both of the shortages were for less than \$100 and were later resolved by staff in the Bureau's CAR and billing areas. We observed that cashier's daily balance sheets were prepared by both the cashiers and the banker, and that the banker was assuming ultimate responsibility for balancing each cashier's daily receipts. These findings indicate that cashiers are not held responsible for cash shortages or for balancing records and receipts at the end of each day prior to turning in their cash to the banker. According to Bureau management, periodic audits and cash counts are part of their plans after revision of staff job descriptions.

Background Checks of Employees not Performed

The Bureau hires employees into positions requiring cash handling without performing background checks. While this is not unusual for City bureaus, it does allow the possibility of hiring individuals with dubious backgrounds into positions of trust over cash receipts. However, background checks are not foreign to City bureaus such as the Police Bureau who performs background checks of both sworn and non-sworn employees.

Training on the New Payment Processing System is Needed

Cashiers told us that on-going training on the new payment processing system is needed because the system malfunctions and they are often not sure how to make corrections. Management agrees that they are experiencing some problems with the system; however, they are in the process of engaging a service company or consultant to address problems. Once the problems are corrected, the cashiers will be informed and trained as necessary.

Complaint File

The Credit and Collections Unit does not maintain a file of customer complaints and/or resolution. We were told of a few instances of customer complaints; however, we were unable to determine the total number of complaints received within the last two years. Customers can be an integral part of the reporting process for internal control weaknesses and/or accounting problems. A complaint file would provide management with a record of the type and frequency of complaints so that appropriate corrective action could be taken.

Write-offs and Adjustments to Customer Accounts

Although write-offs and adjustments to customer accounts were outside the scope of our audit, we were told that Water Bureau employees are capable of accessing and making changes to any customer account - including their own. For example, employees could (1) write-off charges, and/or (2) move unpaid accounts from the computerized collection system to a manual collection status, referred to by the Bureau as "PED" status. We were told that no supervisory review is made to determine (1) if accounts in or moved to PED status met the criteria for manual collection, (2) the length of time or number of times an account has been in a PED status, or (3) whether an account was temporarily removed from and then returned to PED status. Prior to completion of this report, we were told that changes were being planned for the computer system to restrict access to employees with a higher level of security.

Recommendations

To further strengthen internal controls and safeguard cash, we recommend the following actions be taken as soon as possible.

1. To minimize the risk of hiring undesirable applicants into positions requiring trust in handling cash, the Bureau should work with Personnel to designate positions requiring a background check and have the Police Bureau perform background checks on prospective employees prior to making a final employment decision.
2. Cashiers should be given on-going training in the operation of the computerized cashiering system and other areas of cash handling.
3. Currently unresolved cash shortages and overages of limited amounts are absorbed by the Bureau with no consequence to the cashiers. In order to encourage cashiers to verify data during on-line processing and more care when making change, a dollar limit (such as \$5.00 per month) should be set for shortages/overages incurred by any one cashier. Excessive or frequent shortages/overages should be noted in the personnel files of the cashiers and included as part of their periodic performance evaluations.
4. In order to restrict free access to the safe room, a recording electronic key pad lock (which records the passcode of each person gaining access) should be installed on the door. This, along with the surveillance cameras recently placed in the cashiers location and safe room, will provide better security for and a record of all who enter the safe room.

5. Surprise cash counts should be made of the cashiers, banker and others having access to cash receipts. Audits should also be made of employee accounts and, if possible, other relative's accounts by the Bureau's internal auditor. All such cash counts and audits should be documented.

6. With the exception of the first year of employment, the banker should be required to take at least five consecutive working days of vacation each year, or another alternative deemed by the Bureau, to accomplish similar effects of internal control. During the banker's absence, the Unit supervisor, or some other employee that does not work with the banker (such as from the Bureau's finance area), should serve as the banker.



CITY OF
PORTLAND, OREGON
BUREAU OF WATER WORKS

Mike Lindberg, Commissioner
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May 17, 1996

TO: Barbara Clark, City Auditor

FROM: *MR* Mike Rosenberger, Administrator, Bureau of Water Works

SUBJECT: Recommendations in Your Audit Report, A Review of the Cash Handling Practices at the Bureau of Water Works, Credit & Collections Unit

Thank you for the opportunity to review the subject final draft report. We appreciate the time and effort you dedicate to helping our Bureau improve its operations. As requested by your May 6 memo, we have reviewed the report and developed responses to its recommendations.

1. **RECOMMENDATION:** Work with Personnel and the Police Bureau to implement background checks on prospective employees who would be new to the cash handling process.

RESPONSE: We agree that background checks on individuals who would be moving into cash handling positions could be useful. We are performing reference checks on new employees now. We will work with Personnel, the Police Bureau, and the union which represents employees in these positions to determine what additional background information would be useful. We will address internal transfers as well as new hires because the cash-handling positions are often filled by staff from other Bureau offices.

2. **RECOMMENDATION:** On-going training in both cash handling processes and the Bureau's automated cashiering system.

RESPONSE: We agree that on-going training is important for all staff. The Bureau has recently renewed its long-standing, strong commitment to providing adequate and appropriate training to Bureau staff.

3. **RECOMMENDATION:** Note excessive or frequent cash shortages/overages incurred by any one cashier in the personnel file. Include the same in individual performance appraisals.

RESPONSE: As you noted earlier in your report, we are currently working with the unions to revise job descriptions for Bureau positions. The descriptions will contain objective performance measures related to the work done, including cashiering and banking. Cash shortages and overages will be addressed in this process.

4. **RECOMMENDATION:** Install a recording electronic key pad lock on the door of the safe room.

RESPONSE: This recommendation was made because the safe used for storing cash and checks was also used for other purposes. As a result it could not be secured adequately during the day. After investigation we decided to take two steps to enhance security:

- a. The drawer where the deposits -- both cash and checks -- will be stored will require two people for access. One person will have the combination for that drawer, the second will have a key for the drawer. Both the combination and the key are required before the drawer can be opened.

The request to have this work done has been submitted. The work will be completed soon.

- b. A second safe has been purchased. It will be bolted to the floor in the safe room. The second safe will be used for overnight storage of cashiers' \$200 float and the original safe will not need to be used for this purpose.

We believe that these steps, along with the security camera in this room and the cash handling procedures that require all cash exchanges to occur in double custody and under the camera, will provide good security and control.

5. **RECOMMENDATION:** Perform surprise cash counts for staff with responsibility for handling cash. Perform audits of employee accounts and, if possible, other relatives' accounts.

RESPONSE: Our Credit and Collections Supervisor will perform periodic, unscheduled cash counts. We are already auditing employee accounts by reviewing transactions performed in the accounts on a periodic basis. We have discussed auditing accounts of employees' relatives but do not plan to try to do so in the near future. There are a number of unanswered questions involved:

- a. How would/could the relatives be identified?
- b. What would our authority in this area be? (We don't believe we can require employees to provide us relatives' names and addresses.)
- c. Would this be an unwarranted invasion of the relatives' privacy?

6. **RECOMMENDATION:** After the first year of employment require the banker to take at least five consecutive working days of vacation each year. During this absence fill the banker position with either the Unit supervisor or another employee who does not work with the banker on a day-to-day basis.

RESPONSE: We understand the value of this type of control. We feel, however, that we do not have the right to force any employee to use their vacation time in any particular manner. As an alternative, and in line with our current commitment to enhancing workforce flexibility, we have decided to rotate the banker out of Credit and Collections into another Customer Services' job function with no responsibility related to banking for one or two full weeks each year. We believe this will provide the same level of internal control.

I'd like to thank you again for the support you and the staff of the Audit Services' Division provide to the Bureau through the audit work done here. We look forward to continuing this positive relationship in the future.

cc: Mayor Vera Katz
Commissioner Earl Blumenauer
Commissioner Charlie Hales
Commissioner Gretchen Kafoury
Commissioner Mike Lindberg

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