

**Cash Handling Audit of
Utility Customer Service**

November 2009

**City Internal Auditor's Office
City of College Station**

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Utility Customer Service Cash Handling Audit

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Introduction

The City Internal Auditor conducted this cash handling audit of the Utility Customer Service Division of the Department of Finance pursuant to Article III Section 30 of the College Station City Charter, which outlines the City Internal Auditor's primary duties.

An internal audit is an objective, systematic examination of evidence to assess independently the performance of an organization, program, activity, or function. The purpose of an internal audit is to provide information to improve public accountability and facilitate decision-making. Internal audits encompass a wide variety of objectives, including those related to assessing program effectiveness and results; economy and efficiency; internal control; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information.

A cash handling audit of the Utility Customer Service Division was included in the fiscal year 2010 audit plan based on the results of the Citywide Cash Handling Questionnaire completed in August 2009, results of the Citywide Risk Assessment completed in October 2007, and findings from previous audit work. On September 24, 2009, the City Council approved the City Internal Auditor's audit plan.

Utility Customer Service Background

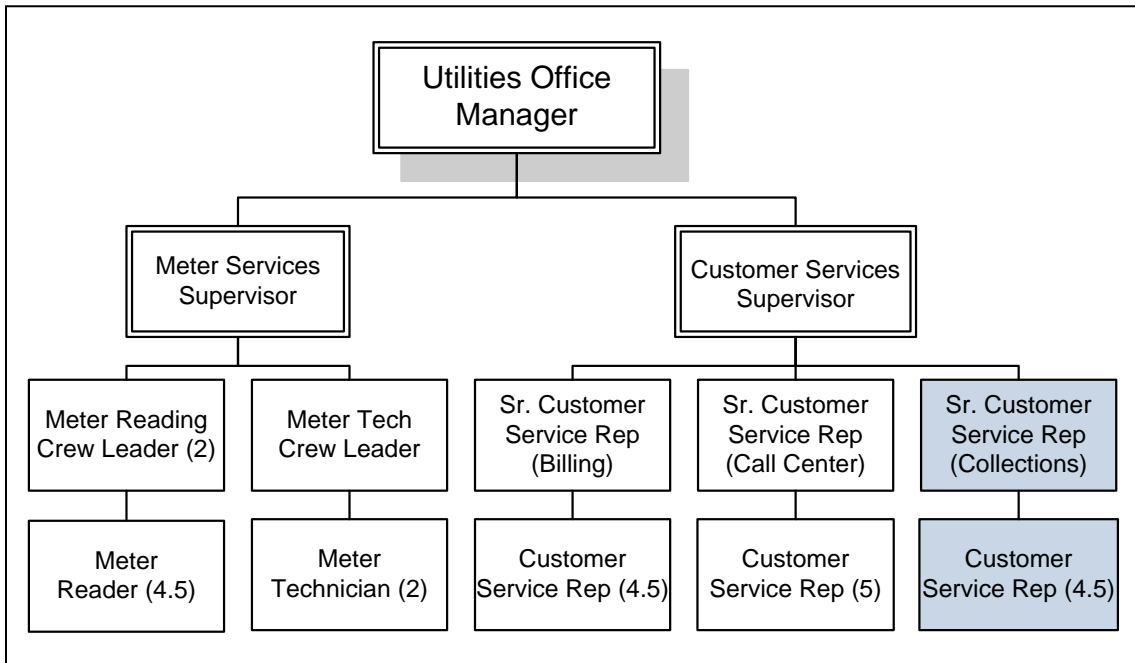
Utility Customer Service is a division of the Fiscal Services Department responsible for connecting and disconnecting water and electric meters, reading those meters, and providing billing and collection services for the City's electric, water, wastewater, sanitation and drainage utilities.

Utility Customer Services has two primary operating areas, meter services and customer services, which deliver five distinct lines of business. These lines of business are meter reading, meter connects and disconnects, call center activities, bill calculation and generation, and bill collections.

Utility Customer Services has over 36,000 utility accounts consisting of approximately 35,000 electric and 22,000 water meters that are read, billed and collected monthly. In fiscal year 2009, Utility Customer Service collected approximately \$120 million in revenue for the City of College Station. This revenue represents the largest revenue stream in the City. The customer base consists of approximately 33,000 residential and 3,000 commercial accounts.

The Division is headed by the Utility Customer Service Manager and has 28 full-time employees and three part-time employee. The Manager reports to the Fiscal Services Director. Figure 1 below is the organizational chart for the Utility Customer Service Division.

Figure 1: Utility Customer Service Division Organization Chart



The Collections Unit is responsible for collecting utility payments monthly; therefore, most cash handling responsibilities reside in this business unit (highlighted in blue in the chart above). The Collections Unit’s customer service representatives primarily function as cashiers and main responsibilities consist of accepting and processing payments received from the public at the Utility Customer Service front counter or drive thru using automated cash registers. With these cash registers, the cashiers directly input cash receipts activity into the Cash Receipts application of the City’s automated accounting system, HTE.

Currently, there are five (four full-time and one part-time) customer service representatives responsible for working six cash registers. Generally, three customer service reps work the counter and two customer service reps work the drive thru at one time. When the customer service reps are not working at the front counter or drive thru (cashiering), they answer walk-in customer questions and process payments received by mail, electronically, or by phone.

A senior customer service representative provides lead direction to the customer service reps working the cashiers. Her main duties pertaining to the Collections Unit include reviewing and approving each cashier's daily cash receipts reconciliation; safeguarding cash and cash equivalents, keys, and important documents; and functioning as a back-up cashier in case of high volume activity.

Several payment options are offered including bank draft, credit/debit card over the web or phone, night deposit, mail and paying in person. In fiscal year 2002, Utility Customer Service introduced an interactive voice response system (IVR) that allows customers with a touch-tone phone to retrieve automated account information and pay utility bills by phone. Also in fiscal year 2002, Utility Customer Service implemented a program which gave customers the ability to access account information and pay bills over the internet. Table 1 below describes the customer usage of the various types of payment options offered by the City.

Table 1: FY09 Payment Method Comparison

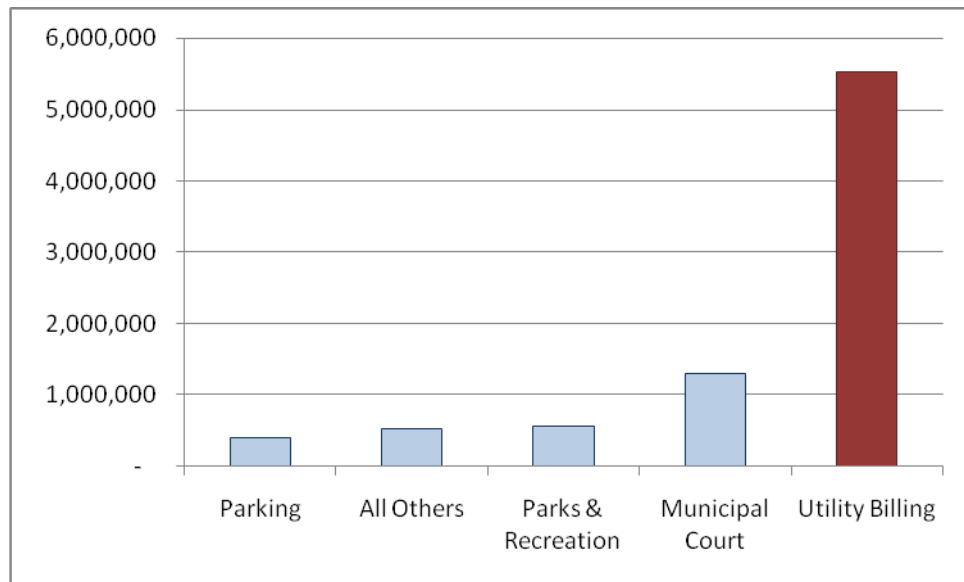
Payment Method	# of Pmts		Amount	
Mail	133,898	29%	\$48,473,800	41%
Internet Payments	149,020	32%	27,709,800	23%
Counter/Drive-Thru	78,494	17%	16,681,300	14%
Bank Drafts	41,994	9%	12,896,200	11%
Phone/IVR	23,651	5%	4,376,300	4%
Night Deposit	16,100	3%	3,654,700	3%
Electronic Pay ¹	9,679	2%	2,027,000	2%
Other	8,721	2%	3,651,500	3%
Totals:	461,557		\$119,470,600	

Since the implementation of the internet payment program and IVR, credit/debit card payments made by customers has steadily

¹ Online bill pay system customers setup with their bank to electronically send utility bill payments to the City, which are uploaded into the City's financial system.

increased; whereas, currency and check payments have decreased. Currently, approximately 5 percent of utility bills are paid through currency, 40 percent through debit or credit cards, and 55 percent by check. Despite only 5 percent of collections are in the form of currency, Utility Customer Service is still the largest handler of currency in the City. Figure 2 below compares the currency receipts of the City's cash handling locations for fiscal year 2009.

Figure 2: FY09 Currency Receipts Comparisons (in dollars)



Audit Objectives

This audit addresses Utility Customer Service cash handling policies, procedures, processes and practices. This report answers the following questions:

- Does the Utility Customer Service Division have adequate procedures to receive, handle, safeguard, and deposit cash and cash equivalents?
- Are there any indicators of common cash handling fraud schemes that exists within the Utility Customer Service Division?
- Are there any unauthorized or other off-book checking accounts at any banks in the local area?

Scope and Methodology

This audit was conducted in accordance with government auditing standards, which are promulgated by the Comptroller General of the United States. Audit fieldwork was conducted from September 2009 through October 2009.

The audit scope included procedures and practices used by the customer service representatives of the Utility Customer Service Division's Collections Unit to receive, handle, and deposit cash, checks, and credit card payments at the time of fieldwork.

The audit methods used to complete the audit objectives included:

- Reviewing the work of auditors in other jurisdictions and researching professional literature to identify best practices for municipal utility billing and collections.
- Interviewing staff responsible for performing cash handling oversight functions.
- Conducting data analysis using specialized auditing software to test for cash handling fraud indicators and system control failings.
- Reviewing cash receipt support documentation, Utility Customer Service employees' system functional access authority, the City's fiscal policy on cash handling, and Utility Customer Services procedures.
- Observing customer service representatives perform their cashiering responsibilities.
- Observing non-cash credit review and approval and receipt reconciliation processes performed by the Division's supervisors.
- Performing a surprise cash count of all Utility Customer Service counter and drive-thru drawers on September 23, 2009.
- Making an inquiry at all banks in the local area for a list of all accounts in the name of the City.

Findings and Analysis

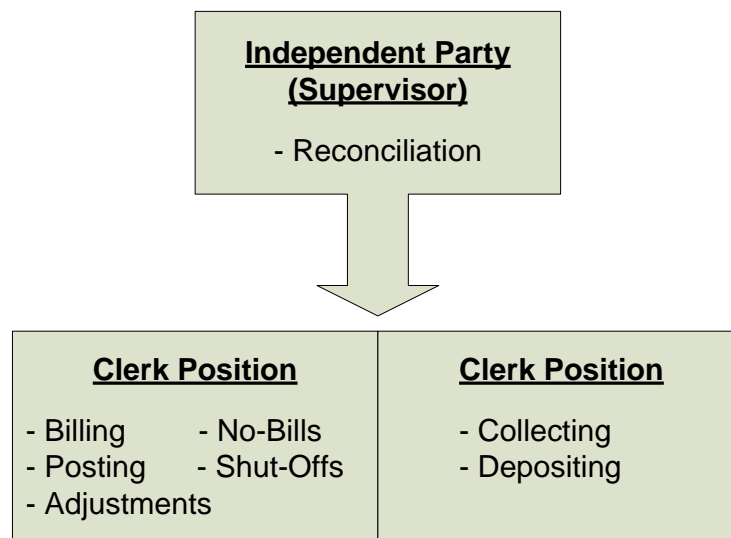
UCS is in General Alignment with Cash Handling Best Practices

Cash may include currency, coins, checks, money orders, or credit/debit card transactions. The following are generally considered to be best practices in cash handling: (1) appropriate segregation of duties, (2) effective receipting controls, (3) proper security measures regarding daily balancing and depositing of cash collections, (4) and sufficient management or officer review. Policies and procedures were reviewed, key staff was interviewed, system functional access authority was analyzed and operations were observed to determine if Utility Customer Service (UCS) exhibited these characteristics.

The Duties of Some Employees Could be Better Segregated

Separation of duty, as a security principle, has as its primary objective the prevention of fraud and errors. This objective is achieved by disseminating the tasks and associated privileges for a specific business process among multiple users. To achieve the highest level of internal control over the cash handling process, a different person should be involved in billing/recording, collecting, and reconciling functions. Figure 3 below illustrates this concept.

Figure 3: Appropriate Cash Handling Segregation of Duties



Customer Service Representatives are cross trained. Billing, Call Center, and Collections customer service representatives are cross trained in order to be capable to work in any of these three business units. Cross training allows staffing flexibility to better manage leave and to rearrange staff in the case of unexpected high volume for a business unit during the day.

Utility Billing employees have functional access to perform incompatible duties. Customer Service Representatives in all business units have the authority to enter receipts, enter adjustments, create and change customer information, bill customer accounts, create/change delinquency status, and create and close work orders. As a result, employees who collect cash have the ability to perform billing and recording duties.

Adjustment review and posting is appropriately typically performed by the Sr. Customer Service Rep in the Billing Unit. However, the Sr. Customer Service Reps in the Call Center and Collections Units also have system access to perform this function. In addition, all three Sr. Customer Service Reps have system access to post cash receipts and authorize voided payments.

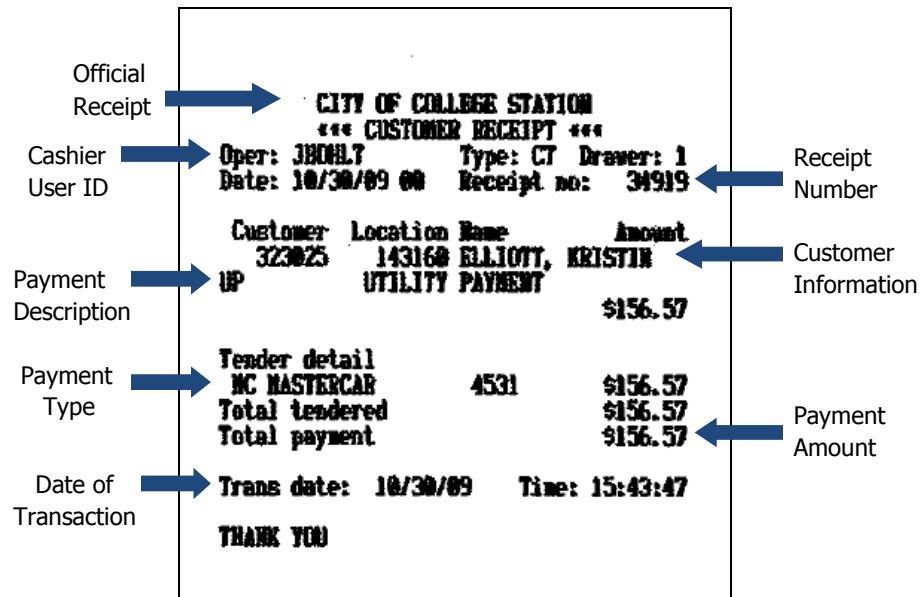
Procedurally, posting cash receipts and authorizing voided payments is appropriately performed by the Sr. Customer Service Rep in the Collections Unit. She also performs the daily balance and review of each cashier drawer. However, she sometimes performs an incompatible duty as a back-up cashier during instances of high volume activity.

Effective Receipting Controls Exist, but Some Practices Could Improve

The following are generally considered to be best practices in receipting cash: (1) Official pre-numbered receipts should be used. (2) Information on receipts should include the payor's name; purpose or description of the cash payment; quantity; and unit price, if applicable; type of cash received (check, currency, etc.); total amount of cash received; and the signature of the person collecting or receiving the cash. (3) Checks received should be immediately restrictively endorsed, "For Deposit Only". (4) A duplicate receipt should be provided to the payor for each transaction.

System generated receipts are adequate. Official City of College Station Utility Customer Service receipts are created by automated cash registers, which are integrated with the City’s accounting system. Receipt documentation created by these registers contains all the necessary features to effectively reconcile processed payments to accounting records. Figure 4 below is an example of a receipt cashiers furnish to customers upon payment of a utility bill.

Figure 4: Example of a Utility Customer Service Receipt



Checks received are appropriate endorsed. Based on my review, I found that when cashiers receive checks for payment they immediately endorse the check with an official City stamp that contains the language “For Deposit Only”.

Cashiers are not providing all customers with duplicate receipts. City cash handling procedures state that cashiers should always give the customer a receipt. In addition, they state that “each cashiering location should have a sign encouraging customers to notify management if they do not get a receipt.” I observed occasions where customers were not offered a receipt. In addition, there are no receipt related signs present at the Utility Customer Service location.

Surprise cash count revealed missing receipt documentation. I performed a surprise cash count and analytical review of utility payments on September 23, 2009. During this audit procedure, I

found that several transactions were lacking necessary receipt documentation. Table 2 on the next page summarizes these findings.

Table 2:

9/23/09 Utility Payments' Receipt Documentation by Tender Type

Tender Type	Totals Transactions		No Receipt but had a Billing Stub		No Receipt or Billing Stub	
	Trans	Amount	Trans	Amount	Trans	Amount
Check	71	\$22,826	39	\$15,260	10	\$949
Cash	56	8,871	8	1,212	1	30
Credit	<u>28</u>	<u>6,463</u>	<u>8</u>	<u>1,998</u>	<u>3</u>	<u>904</u>
Totals:	155	\$38,159	55	\$18,470	14	\$1,883

Approximately 9 percent of transactions had no receipt documentation—i.e., no receipt or billing stub accompanied the payment. Four cashiers were on duty on September 23, 2009 and all but one had instances where receipt documentation was missing from their cash drawer. Table 3 below describes these results.

Table 3:

9/23/09 Utility Payments' Receipt Documentation by Cashier

Cashier	Totals Transactions		No Receipt but had a Billing Stub		No Receipt or Billing Stub	
	Trans	Amount	Trans	Amount	Trans	Amount
Cashier1	12	\$2,187	5	\$994	0	\$0
Cashier2	46	9,067	9	2,153	4	934
Cashier3	67	22,060	38	14,789	5	353
Cashier4	<u>30</u>	<u>4,845</u>	<u>3</u>	<u>534</u>	<u>5</u>	<u>596</u>
Totals:	155	\$38,159	55	\$18,470	14	\$1,883

Cash Collection Security Measures Are Adequate

Effective security measures for balancing and depositing cash collections have the following elements: (1) Cashiers should have a lockable cash drawer, and it should be secured in a locked safe, to which access is limited to the employee collecting the cash and a supervisor. If there is more than one person receiving cash at the same time, each person should have his/her own cash drawer. (2) All cash receipts should be balanced daily by comparing the pre-numbered receipts issued with the actual amount of cash in the drawer. (3) Deposit should occur at the earliest possible time with all funds intact. The entire amount of receipts collected must be

deposited so that all collections are posted as receipts to the City's accounts. (4) The deposit receipt should be reconciled to cashiers' receipt documents after the deposit has been made.

Security Measures for Balancing and Depositing of Cash Collections Are Effective. At the end of each business day, cashiers reconcile his or her cash receipts. The cashier begins by printing out his or her cash edit listing report from HTE. This report is designed to identify and summarize all cash receipts activity performed by the cashier for the day. After this is done, source documentation for each type of transaction is totaled (adding machine tapes are prepared), and reconciled with the edit report by the cashier. Additionally, currency, coins, checks, and credit card payments are totaled and compared with like information in the edit report.

Once this has been done, the Collections Unit Sr. Customer Service Rep reviews each cashier's reconciliation to make sure the cash receipts edit listing reports, cash and cash equivalents, and supporting source documentation are in agreement. As part of the review process, the Sr. Customer Service Rep recounts the currency and coins for each cash drawer to make sure all money is accounted for. All cash receipts and most support documentation for these receipts are then placed in a courier bag with a bank deposit slip, which is locked and placed in the Utility Customer Service safe by the Sr. Customer Service Rep. The bank bag is picked up the next day by an armored vehicle to be delivered and deposited into the City's Citibank account.

Independent reconciliation is performed by Accounting Division staff. Each day, an Accountant in the Accounting Division of Fiscal Services reconciles the daily Utility Customer Service deposit to the City's Citibank account statement. She verifies that all deposits reconcile to accounting records, sales records, and the bank statement. This step ensures that all cash sales recorded for the day were properly and timely deposited and correctly recorded in the City's accounting system.

Cash drawers are individually assigned and secure. Each cashier is assigned a cash drawer with a \$220 change fund. The drawers are all locked in the safe overnight. In addition, cashiers can lock their drawers at their work station.

No Cash Handling Fraud was Revealed

According to the 2006 Association of Certified Fraud Examiners Report to the Nation on Occupational Fraud and Abuse, approximately 33 percent of occupational fraud target incoming receipts or cash on hand. The three most common frauds related to cash handling include: check for cash substitution schemes, lapping schemes, and account receivable schemes. I performed various audit procedures to determine the risk that any Utility Customer Service employee is involved in perpetrating one of these frauds.

No Cash for Check Substitution Schemes were Detected

A check for cash substitution scheme is the number one way funds are stolen in any cash receipting activity. This scheme is perpetrated by a cashier who substitutes checks from unrecorded payments for cash from payments which have been receipted and recorded in the accounting records. When the cashier places the checks from these unrecorded transactions in the cash drawer, there is an immediate overage in the account. To remedy this situation, the cashier merely removes the displaced cash from the cash drawer. The checks used in this scheme are almost always received through the mail. These are high risk transactions because these customers do not ever expect to receive a receipt. The customer's account for each unrecorded transaction is always marked "paid".

Y	N	Check for Cash Substitution Scheme Risk Evaluation:
	X	1. Are employee duties appropriately segregated?
✓		2. Are deposits made daily and in the same form received?
✓		3. Does the check and cash composition of the daily bank deposit agree with the mode of payment indicated on the cash receipts?
✓		4. Are official pre-numbered cash receipts used, which indicate mode of payment data (i.e.; payment by check or cash)?
✓		5. Does the organization verify daily cash receipt accountability to a bank-validated deposit slip showing check and cash composition?
✓		6. Does the Division control revenue checks which are received through the mail by having more than one employee present when the mail is opened, making a log of the transactions, and then reconciling this information to daily cash receipt transactions to ensure that all payments were recorded properly and deposited in the bank?

The fraud detection methods utilized revealed no fraud. In order to determine if a check for cash substitution scheme was being

perpetrated by a Utility Customer Service employee, I reviewed: (1) the segregation of duties of key personnel, (2) the check and cash composition of the daily bank deposit during an unannounced cash counts and during substantive audit tests of cash receipts, (3) the records of the numerical series of official pre-numbered receipts to verify that these receipts are used sequentially (including properly accounting for all copies of voided documents). Based on this review, I did not detect any cash substitution schemes.

No Lapping Schemes Were Detected

A lapping scheme is perpetrated by a cashier who issues cash receipts for customer payments, but subsequently makes no bank deposit, or a short bank deposit, of the funds. The difference between the total amount receipted and the lesser amount deposited is stolen. Cumulative cash shortages over a period of time represent the total amount of the loss in a lapping scheme. The customer’s account for each unrecorded transaction is always marked “paid”. Ways perpetrators conceal the disposition of lapping schemes include: paying back the amount of the loss, canceling the accountability established by the cash receipts issued through unauthorized voiding activity, destroying the supporting documents representing the accountability for the funds stolen, or reporting a mysterious disappearance theft of cash receipts.

- | | | |
|----------|----------|---|
| Y | N | Lapping Scheme Risk Evaluation: |
| | X | 1. Are employee duties appropriately segregated? |
| | X | 2. Are personal checks of cashiers or other fund custodians not allowed to be cashed at Utility Customer Service registers? |
| ✓ | | 3. Are there no deposit timing lags from Utility Customer Service to the City’s bank account? |
| ✓ | | 4. Are deposits made daily and intact? |
| ✓ | | 5. Is there no excessive amount of void cash receipts transactions? |
| ✓ | | 6. Does the check and cash composition of the bank deposit agree with the check and cash composition of the cash receipts issued? |
| ✓ | | 7. Is there no reported mysterious disappearance of cash receipts? |
| ✓ | | 8. Are official pre-numbered cash receipts used and are none missing? |

The fraud detection methods utilized revealed no lapping scheme fraud. In order to determine if a lapping scheme was being perpetrated by a Utility Customer Service employee, I conducted comparative analytical reviews of three fiscal years of utility revenue streams to determine which areas had unfavorable trends. To

determine reasons why revenue changed from previous reporting periods, I interviewed the Utility Customer Service Manager and confirmed responses obtained from her by using alternative records and through substantive audit tests. Additional audit procedures to detect lapping schemes included: unannounced cash count, review of the timeliness of deposits, review of the check and cash composition of daily bank deposits, analytical review of voided transactions, and observations of cash receipting operations. Based on this review, I did not detect any lapping schemes.

Employees’ personal checks are being cashed by cashiers. I analyzed payment records over the last three fiscal years for the presence of personal checks from cashiers and other fund custodians. Utility Customer Service was the only location that cashes personal checks of city employees. The Division has a policy that cashiers should not cash their own checks, but this could not be verified through existing records. Therefore, the presence of employees’ personal checks in cash drawers increases the risk of a lapping scheme being perpetrated by a cashier. In fiscal year 2009, 655 personal checks were cashed for over \$31,000.

No Account Receivable Schemes Were Detected

In account receivable schemes, an employee steals a customer’s payment, and then does one of two things in order to conceal the irregular activity. He or she either writes-off the account, such as through a “non-cash credit” transaction (i.e.; an account write-off, adjustment, or cancellation), or lets the account go delinquent (i.e.; without taking any action). This latter condition usually results in customer feedback and detection of the scheme, unless customer feedback is received by the same employee who stole the customer’s payment. The dishonest employee could then further manipulate the records to conceal any irregular activity from view by managers.

- | Y | N | Account Receivable Schemes Risk Evaluation: |
|----------|----------|---|
| | X | 1. Are employee duties appropriately segregated? |
| ✓ | | 2. Does management periodically review exception report listings of all non-cash credit transactions? |
| ✓ | | 3. Are all non-cash credit transactions authorized and approved? |
| | X | 4. Are all non-cash credit transactions supported by appropriate documentation for the action? |
| ✓ | | 5. Are delinquent accounts monitored closely? |
| ✓ | | 6. Does the entity maintain an accounts receivable control account? |



7. Does the balance in the accounts receivable control account agree with the total of the customer account balances?

The fraud detection methods utilized revealed no accounts receivable fraud. In order to determine if an accounts receivable scheme was being perpetrated by a Utility Customer Service employee, I did the following: (1) reviewed the segregation of duties of key personnel, (2) performed comparative analytical reviews of the last three fiscal years of non-cash credit transactions to identify correlations between employees and these types of risky transactions, and (3) observed a Sr. Customer Service Rep perform the non-cash credit review and approval process. Based on this review, I did not detect any account receivables schemes.

Adequate support documentation is not required for some types of adjustments. Late fees are 10 percent the value of the customer’s bill, and the minimum late fee charged is \$3. Utility Customer Service’s policy is to forgive a customer’s late payment fee without question under the following two conditions (1) it is the customer’s first late bill within a twelve month period and (2) the customer requests for the late charge to be forgiven. Any Customer Service Rep (including cashiers) can make these types of adjustments regardless of the amount of the late bill. Adequate support documentation is not required to demonstrate that the customer requested the late bill to be forgiven. In these instances, the Sr. Customer Service Rep who approves the adjustment confirms that the amount adjusted is correct and checks to make sure that it is the first time the customer has been forgiven of a late charge within the last twelve months. Table 4 below provides a breakdown of late fee adjustments made from the beginning of fiscal year 2007 to the end of fiscal year 2009.

Table 4: FY07 – FY09 Late Fee Credit Adjustments

Late Fee Credit Adjustment Range	Transactions Number		Transaction Amount	
	Count	Percent	Amount	Percent
Less than \$50	7,142	92.96%	\$119,974.81	39.83%
\$50 to \$99.99	250	3.25%	16,818.85	5.58%
\$100 to \$499.99	209	2.72%	50,008.15	16.60%
\$500 to \$999.99	45	0.59%	32,867.48	10.91%
\$1,000 to \$4,999.99	36	0.47%	76,348.64	25.35%
Greater than \$5,000	1	0.01%	5,183.79	1.72%

Customer Service Reps also adjust customers' bills when customers explain that their high consumption was due to any type of water leak. No support documentation is required by the customer to show that they have fixed the leak before the adjustment is made. For these types of cases, the Sr. Customer Service Rep who approves the adjustment verifies that the customer's consumption is greater than their historic consumption. Typically, the adjustment is made for half the billed consumption—as long as half is not less than normal consumption. For example, a customer has an \$800 bill and consumption of 144,000 gallons; the Customer Service Rep will credit the customer account for 72,000 gallons, resulting in a \$400 credit to their bill. Table 5 below provides a breakdown of water consumption adjustments made from the beginning of fiscal year 2007 to the end of fiscal year 2009.

Table 5: FY07 – FY09 Water Consumption Credit Adjustments

Water Credit Adjustment Range	Transactions Number		Transaction Amount	
	Count	Percent	Amount	Percent
Less than \$50	1688	69.24%	\$33,749.26	13.39%
\$50 to \$99.99	395	16.20%	\$28,351.55	11.24%
\$100 to \$499.99	326	13.37%	\$60,339.85	23.93%
\$500 to \$999.99	17	0.70%	\$12,438.37	4.93%
\$1,000 to \$4,999.99	7	0.29%	\$19,262.00	7.64%
\$5,000 to \$14,999.99	2	0.08%	\$18,889.62	7.49%
\$15,000 to \$29,999.99	2	0.08%	\$46,721.39	18.53%
Greater than \$30,000	1	0.04%	\$32,388.50	12.85%

Unsupported account adjustments represent the highest risk of fraud. Unsupported account adjustments eliminate the accountability for money from real debts owed to the City after customer payments have been stolen. These adjustments represent a high risk for fraud, similar to any other kind of negative cash transaction. Because cashiers have the authority to perform billing and recording duties, fictitious adjustments made to forgive customers' late bills or higher than normal consumption could be done without detection.

No Unauthorized City Bank Accounts Were Identified

No unauthorized or other off-book checking accounts at any banks in the local area were identified. Through Chamber of Commerce records, I identified 48 financial institutions in the local area where personal and commercial checking accounts can be established. The City's official account is with Citibank; therefore, there should not be any other accounts in the City's name or any City department's name at any of the other 47 financial institutions in the local area. I contacted each of these financial institutions and received official verification that no unauthorized City accounts exist.

Recommendations

Utility Customer Service needs a few slight improvements, encompassed in the following audit recommendations. Implementing these recommendations would strengthen internal controls to further prevent any misappropriation of cash on hand.

1. To strengthen controls, the Collections Unit Sr. Customer Service Rep should not function as a backup cashier because she performs the following incompatible duties: reconciles the cashiers' end of the day receipts, approves voided transactions, reviews essential cash control reports, and prepares the daily collections deposit.

If this separation of duties is not entirely possible, other means of internal control should be practiced, such as: rotation of duties, exercising more strict supervision, double-checking work, enforced vacations, additional training to improve the quality of performance, and frequent audits.

2. To achieve the highest level of internal control, Utility Customer Service should consider segregating the duties of customer service representatives to their essential duties within each business unit. As a result, Collection Unit employees with the primary responsibility of collecting cash payments would not have access to billing and recording functions.

As a mitigating control, Utility Customer Service should at least restrict cashiers from making credit adjustments over \$50. Approximately 84 percent of credit adjustments made in fiscal year 2009 were under \$50. However, this represented only 25 percent of amount of credit adjustments made in fiscal year 2009. If an adjustment of over \$50 is needed to be made to a customer's account, a cashier could call upon the Collections Unit Sr. Customer Service Rep to make the adjustment (provided she no longer functions as a cashier).

3. The Department of Fiscal Services cash control policies and procedures are in alignment with accepted cash handling best practices. The Utility Customer Service Manager should periodically communicate these policies and procedures to her staff along with explaining their purpose and importance. Special emphasis should be placed on providing receipts to customers and

retaining receipt support documentation in cash drawers for end of the day balancing. In addition, each cashier location should have a sign encouraging customers to notify management if they do not get a receipt.

4. The Utility Customer Service Manager should implement a policy prohibiting cashiers from cashing personal checks of city employees. During the daily balancing process of cash receipts, the Collections Unit Sr. Customer Service Rep should verify that no employee personal checks are in the front counter or drive thru cash drawers.
5. Utility Customer Service should reexamine their customer friendly policies of forgiving money owed to the City that are a result of customer mistakes. In fiscal year 2009, Utility Customer Service made 13,155 non-cash credit adjustments (excluding write-offs) for approximately \$767,000. Legitimate account adjustments include: (a) pre-billing adjustments for unusual circumstances, such as meter reading errors and broken transmission lines or facilities; and, (b) post-billing adjustments for other miscellaneous accounting errors noted by both employees and customers for a wide variety of reasons. In other words, generally accepted account adjustments are the result of employee errors. A large number of the account adjustments made by Utility Customer Service, however, are a result of customer friendly policies of liberally forgiving customer mistakes (e.g. late payments, plumbing leaks, etc.).
6. Support documentation should be required for all types of adjustments in order for the adjustment to be approved and processed. For example, if Utility Customer Service decides to continue to adjust customer bills in the case of a plumbing leak, the customer should be required to furnish documentation that the leak has been repaired.

Internal Audit Recommendations and Fiscal Services Response:

1. **Recommendation:** To strengthen controls, the Collections Unit Sr. Customer Service Rep should not function as a backup cashier because she performs the following incompatible duties: reconciles the cashiers' end of the day receipts, approves voided transactions, reviews essential cash control reports, and prepares the daily collections deposit.

If this separation of duties is not entirely possible, other means of internal control should be practiced, such as: rotation of duties, exercising more strict supervision, double-checking work, enforced vacations, additional training to improve the quality of performance, and frequent audits.

Response: Management realizes that this recommendation would strengthen controls. However, there is a fine line between too much control and the inability to provide efficient, effective service. It would not be prudent to take away cashiering duties from the Collections Unit Sr. Customer Service Representative as she must function as a backup cashier when we are short handed. We do concur that other means of control should be exercised and will develop a plan to address this.

2. **Recommendation:** To achieve the highest level of internal control, Utility Customer Service should consider segregating the duties of customer service representatives to their essential duties within each business unit. As a result, Collection Unit employees with the primary responsibility of collecting cash payments would not have access to billing and recording functions. As a mitigating control, Utility Customer Service should at least restrict cashiers from making credit adjustments over \$50. Approximately 84 percent of credit adjustments made in fiscal year 2009 were under \$50. However, this represented only 25 percent of amount of credit adjustments made in fiscal year 2009. If an adjustment of over \$50 is needed to be made to a customer's account, a cashier could call upon the Collections Unit Sr. Customer Service Rep to make the adjustment (provided she no longer functions as a cashier).

Response: Management concurs and will develop a policy to restrict the dollar amount of adjustments made by Customer Service Representatives that handle cash to \$50.00. Any adjustments over \$50.00 will be made by a Senior Customer Service Representative that does not have cash handling duties.

3. **Recommendation:** The Department of Fiscal Services cash control policies and procedures are in alignment with accepted cash handling best practices. The Utility Customer Service Manager should periodically communicate these policies and procedures to her staff along with explaining their purpose and importance. Special emphasis should be placed on providing receipts to customers and retaining receipt support documentation in cash drawers for end of the day balancing. In addition, each cashier location should have a sign encouraging customers to notify management if they do not get a receipt.

Response: Management concurs and has implemented this recommendation. Staff has been instructed to always print a computer generated receipt so that one can be retained in their cash drawer and the other can be presented to the customer. Management will be revising policies and procedures to include this. Signs will be placed in the lobby and drive through areas encouraging customers to notify management if a receipt is not given.

4. **Recommendation:** The Utility Customer Service Manager should implement a policy prohibiting cashiers from cashing employee personal checks of City employees. During the daily balancing process of cash receipts, the Collections Unit Sr. Customer Service Rep should verify that no employee personal checks are in the front counter or drive thru cash drawers.

Response: Management concurs and will cease cashing personal checks of City employees.

5. **Recommendation:** Utility Customer Service should reexamine their customer friendly policies of forgiving money owed to the City that are a result of customer mistakes. In fiscal year 2009, Utility Customer Service made 13,155 non-cash credit adjustments (excluding write-offs) for approximately \$767,000. Legitimate account adjustments include: (a) pre-billing adjustments for unusual circumstances, such as meter reading errors and broken transmission lines or facilities; and, (b) post-billing adjustments for other miscellaneous accounting errors noted by both employees and customers for a wide variety of reasons. In other words, generally accepted account adjustments are the result of employee errors. A large number of the account adjustments made by Utility Customer Service, however, are a result of customer friendly policies of liberally forgiving customer mistakes (e.g. late payments, plumbing leaks, etc).

Response: Management concurs and will reexamine these policies. A policy will be written that will give guidelines for processing adjustments to customer accounts.

6. **Recommendation:** Support documentation should be required for all types of adjustments in order for the adjustment to be approved and processed. For example, if Utility Customer Service decides to continue to adjust customer bills in the case of a plumbing leak, the customer should be required to furnish documentation that the leak has been repaired.

Response: Management concurs and will work with IT to find a solution that could include scanners or electronic signatures that could be utilized by Customer Service Representatives that handle cash to receive documentation or signatures before making adjustments.