

Montgomery County, Maryland
Office of the County Executive
Office of Internal Audit



Transfer Station Cashier Operations
Internal Control Review

April 18, 2016

Highlights

Why MCIA Did this Audit

The accounting firm of SC&H, under contract with the County's Office of Internal Audit (MCIA), performed an Internal Control Review of the Department of Environmental Protection's (DEP) Transfer Station Cashier operations. Due to the magnitude of the financial transactions processed at the Transfer Station, DEP requested that this review be conducted to assess the adequacy of the enhanced financial management controls and business process changes DEP is implementing to strengthen the control environment at the Transfer Station and mitigate the future potential for fraud or abuse in the Cashier operations. This review included an evaluation and limited testing of the control environment of the Transfer Station Cashier operations, a review of the planned control enhancements to assess the adequacy of controls (in-place and planned) in addressing the inherent risks associated with the Cashier operations, and a determination if additional controls or business operation changes are required to address residual risks.

What MCIA Recommends

MCIA is making 26 recommendations to the Department of Environmental Protection to further strengthen the internal control environment of the Transfer Station Cashier operations. Additionally, under separate cover, MCIA provided nine suggested improvements to increase the potential success of the planned and recently-implemented control enhancements and process improvements.

DEP's response indicated agreement with the risks identified in the report; however, DEP indicated that for certain recommendations the costs, impact to operations, and associated risk mitigation achieved would need to be examined. We believe the report accurately and appropriately represents the results of our audit.

April 2016

Transfer Station Cashier Operations Internal Control Review

What MCIA Found

The Department of Environmental Protection has taken strides in planning and implementing controls and process improvements to strengthen the control environment surrounding the Cashier operations. However, the Transfer Station would benefit from strengthening existing controls and implementing additional controls to address the residual and inherent risks.

MCIA identified two key operational factors within the Transfer Station operations that can significantly impact the control environment:

- The physical configuration of the Transfer Station consists of two entrances: one that leads customers to the Scale House to be weighed in, and the other that allows customers to enter and exit the facility without weighing in or out.
- Customers are not always weighed in and weighed out. Cashiers, based on their training and experience, estimate whether a vehicle's load is below the County established guidelines requiring payment and are able to waive customers through the Scale House without collecting payment.

These factors and their associated risks, as well the additional risks found during this review, are summarized into the follow seven issue categories.

- Cash and Check Handling
- Transaction Processing
- Physical Security Controls
- Management Reporting Processes
- System Access Controls
- Communication
- Policies and Procedures

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Objectives

This report summarizes the review performed by SC&H Group under contract with the Montgomery County (County) Office of Internal Audit (MCIA) to evaluate the current control environment of the Transfer Station Cashier operations and planned control enhancements. The primary objective of this review was to assist the Department of Environmental Protection (DEP) and its Division of Solid Waste Services (DSWS) in their efforts to ensure a strong and effective control environment within the Transfer Station Cashier operations, by assessing the existing control environment (inherent and residual risks), the likely effectiveness and adequacy of planned control and business process enhancements, and the identification of additional controls, if any, necessary to address any residual risks.

This internal audit was performed in accordance with the Statement on Standards for Consulting Services (SSCS) issued by the American Institute of Certified Public Accountants (AICPA). We also ensured that the audit performance was consistent with standards of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the U.S. Government Accountability Office (GAO-14-704G), as applicable. SC&H Group's procedures were developed to meet the objectives stated above, and were reviewed and approved in advance by MCIA. The interviews of relevant parties, review of pertinent documentation, and field work testing was conducted from October 2015 to December 2015.

Background

DSWS, within the DEP, is responsible for the administration of the County's disposal and recycling operations. DSWS operates the Shady Grove Processing Facility and Transfer Station (Transfer Station) to collect and process recyclables, trash, and yard trim. The Transfer Station collects tipping fees for trash and yard waste over 500 lbs.¹ and all materials delivered for disposal in open-top roll-off vehicles. Customers can pay these tipping fees with cash, check, or under accounts previously established with DSWS.

Residential property owners, whose homes receive County-provided trash collection service, pay for the collection service through the "Refuse Collection Charge" portion of the Solid Waste Charge on the County's annual Property Tax bill. All residents outside the incorporated municipalities also pay a disposal charge as part of the annual solid waste charge. This charge substitutes for the tipping fees charged at the Transfer Station². Since the County does not collect Solid Waste Charges or Disposal Fees through either the Property Tax bill or consolidated tax bill from the following properties – single-family properties in municipalities, multi-family homes, and nonresidential properties – the refuse collectors for these properties pay the tipping fees at the Transfer Station³.

In calendar year 2015, the Transfer Station processed approximately 287,000 transactions, involving approximately \$23,240,000 of revenue. Approximately \$8,090,000 of the total revenue, including almost 148,000 transactions, was collected at the Scale House in the form of cash and checks. A total of \$15,150,000 of revenue, involving 58,000 transactions, was billed on account

¹ Montgomery County Code Sec. 48-32 (b) states "the solid waste charge must be collected at the basic rate per ton for any solid waste as determined by the actual weights obtained from the County scales located at the solid waste acceptance facilities. The minimum weight for which the solid waste disposal charge shall be made is 500 lbs."

² <http://www.montgomerycountymd.gov/sws/trash/fee.html>

³ <http://www.montgomerycountymd.gov/SWS/swc/>

to commercial waste haulers and collectors. The remaining 81,000 transactions were recorded as no charge transactions⁴.

Transfer Station Physical Configuration

The Transfer Station consists of the following main buildings/locations:

- Administrative Office (where some of the DSWS offices and safes are located, as well as where Municipal Solid Waste is accepted and processed)
- Scale House (where vehicles are weighed in/out, deposits are taken, and transactions are completed)
- Customer Drop Off Locations:
 - o Yard Waste Drop Off
 - o Recycling Drop Off
 - o Trash Drop Off
 - o Materials Recycling Facility

There are two entrances to the Transfer Station: North Frederick Road (Route 355) and Shady Grove Road. The North Frederick Road entrance, which is intended to serve customers with small loads less than 500 lbs., allows customers to enter and exit the facility without passing through the Scale House. Customers entering the facility from Shady Grove Road, which is identified as the truck entrance for larger loads, are required to stop at the Scale House to weigh in. While these customers are also supposed to stop at the Scale House to weigh out, customers are able to exit the facility via the North Frederick Road entrance without coming back through the Scale House – despite the presence of DEP inspectors to prevent this – to complete their transactions. Refer to **Appendix A** for a visualization of the main buildings/locations and the flow of traffic.

Transfer Station Cashier Operations – Staffing Responsibilities

The Transfer Station Cashier operations can be segmented into a cashiering function (which takes place at the Scale House) and an accounting function (which takes place both at the Administrative Office and the DSWS headquarters in Rockville). The Transfer Station has a total of six Cashiers, one Lead Cashier, and two Cashier Supervisors, who perform the cashiering duties. The Operations Manager, Assistant Operations Manager, and DEP Administrative Specialist perform the accounting function. The following provides a summary of the main duties performed by each function to execute Transfer Station Cashier operations.

- **Cashiering Function:** The Cashiers support the inbound scales and the outbound scales at the Scale House. The Cashiers capture the vehicle's weight from the inbound/outbound scales and process the transactions in WeighStation⁵. (Note: Refer to the "Processing Transactions" section below for more details on how transactions are processed in WeighStation.) For each work shift, there are at least three Cashiers and one Cashier Supervisor scheduled. During our review, the Scale House Cashier staffing consisted of one inbound and two outbound Cashiers, who were responsible for the three inbound

⁴ No charge transactions include transactions where the customer had less than 500 lbs. of materials, materials without associated tipping fees, or commercial refuse collectors that collect refuse in areas where the County provides trash collection service.

⁵ WeighStation is the Transfer Station's weighing software that is provided by Paradigm Software LLC ("Paradigm"). WeighStation is programmed to capture vehicle weights from the inbound and outbound scales.

scales and two outbound scales, respectively. The Cashier Supervisors oversee the Cashiers' daily, opening, and closing processes, as well as transport the daily cash and check deposits to a safe in the Administrative Office at the end of each work day.

- Accounting Function: The Cashier Supervisor submits the cash and checks for deposit from the previous day to the Assistant Operations Manager. The Assistant Operations Manager prepares the cash deposit for pick up by the Armored Car service and scans the checks for electronic deposit into PNC Bank. The Assistant Operations Manager tracks the daily overages and shortages by Cashier in one spreadsheet and the daily cash and checks deposit totals in another spreadsheet that is used at the end of the month by the Operations Manager to perform the monthly reconciliation process. The Operations Manager reconciles the cash and checks turned in by the Cashiers and recorded in WeighStation to the PNC deposits for the month. This reconciliation is sent to a DEP Administrative Assistant who will review the reconciliation and also prepare a monthly Tonnage/Revenue Reconciliation. This reconciliation will ensure the total tonnage for the month agrees with the amounts charged to the customers. Additionally, the DEP Administrative Assistant will verify the total amount received in WeighStation, the deposits made to PNC, and the deposits posted to Oracle⁶ all agree. If there are any discrepancies, the DEP Administrative Assistant will contact the Operations Manager for an explanation or resolution.

Processing Transactions

As of the last day of fieldwork for this internal controls review, December 14, 2015, a customer could enter the facility at either the Shady Grove Road or the North Frederick Road entrances. The Shady Grove Rd. entrance is marked as the "Truck Entrance Only" and is intended for trucks with loads over 500 lbs.; the North Frederick Rd. entrance is marked as "Public Drop Off" and is intended for vehicles with loads less than 500 lbs. When a customer enters the facility from the North Frederick Road entrance, the customer is not required to proceed to the Scale House to be weighed in and, therefore, a transaction in WeighStation would not be created. A customer entering the facility from Shady Grove Road would proceed towards the Scale House and stop on one of the three inbound scales to be weighed. The inbound Cashier would note the type of vehicle and the vehicle's weight on the appropriate scale then estimate based on his/her experience if the customer's load was less than 500 lbs., which is the minimum weight for which the solid waste disposal charge is collected per Montgomery County Code Sec. 48-32 (b).

- If the inbound Cashier estimated the customer's load was less than 500 lbs., the inbound Cashier would waive the customer through to unload and enter the transaction into WeighStation utilizing a pre-programmed no charge record⁷ which populates the necessary WeighStation fields so that the gross and tare weights net to a weight less than 500 lbs., creating a no charge transaction.
- If the inbound Cashier estimated the customer's load was greater than 500 lbs., the inbound Cashier would ask the customer for the method of payment. If the customer was paying with cash or check, the inbound Cashier would estimate how much the total

⁶ Oracle is Montgomery County's General Ledger system.

⁷ WeighStation is configured to store vehicles and frequent transactions in the system using a field called "truck number." This is utilized for individual truck numbers, if the customer is on account, or as default code for frequently used transaction types, if not on account. For example, if the Cashier inputs the truck number of "HY," the vehicle information and no charge transaction details tied to that Homeowner Yard Waste less than 500 lbs. record will auto-populate the remaining fields (i.e. transaction type, payment type, vehicle type, and origin code, gross weights, and if appropriate, tare weights). This helps automate the process by reducing the information the Cashier has to manually select in the system.

transaction will be based on their assessment of the vehicle's load. They would determine an appropriate deposit amount for the customer to pay and provide the customer with a numbered card⁸ which was entered as the truck number into WeighStation. If the customer's load was greater than 500 lbs. and paying for the transaction on account⁹, the inbound Cashier would enter the truck number into WeighStation.

Once the transaction has been entered in WeighStation, the customer would be directed to unload his/her materials. Transactions on account¹⁰ or for loads less than 500 lbs. are completed at the inbound window as these customers are not required to weigh out. The remaining transactions (i.e. cash and check payments for vehicles with loads over 500 lbs.) would be placed in a hold file until the customer returns to weigh out at the outbound window.

Once the customer with a numbered card has unloaded the materials, the customer would proceed to an outbound scale and hand the numbered card to the outbound Cashier. The outbound Cashier would pull the transaction from the hold file and capture the tare weight of the vehicle from the appropriate scale. If the vehicle's net weight was less than 500 lbs., the outbound Cashier would return the customer's deposit. If the vehicle's net weight was greater than 500 lbs., the outbound Cashier would either ask the customer for the remaining amount due if the deposit was not sufficient or provide the customer with a refund if the deposit was greater than the amount due.

As previously noted, customers could leave the facility without completing their transaction by exiting through the North Frederick Road entrance. In calendar year 2015, the Transfer Station Management recorded 470 vehicles that did not return to the Scale House to complete the transaction. If the customer does not return, a Cashier Supervisor will delete the vehicle from the hold file. The Cashier Supervisor would then enter a manual transaction for the amount of the cash deposit received. If a check was left for the deposit, the Transfer Station personnel would attempt to contact the customer to return. If unsuccessful, the blank check would be voided and no funds would be collected for the transaction.

Planned and Recently-Implemented Controls

At the time of this audit, DEP/DSWS was assessing and potentially implementing 22 controls and process improvements to strengthen the control environment of the Transfer Station Cashier operations. See **Table 1** below for descriptions of these control enhancements and process improvements. For purposes of this review, "Planned and Recently-Implemented Controls" and "Controls/Process Improvements" defined below in **Table 1** refers to the business operations changes that DSWS has implemented and plans to implement to strengthen the Cashier operations control environment. As of December 14, 2015, the last day of fieldwork for this review, DSWS had completed nine out of the 22 control and process improvements.

⁸ The numbered cards indicate the material and payment type for the transaction. The number on the card is the truck number in WeighStation that has been pre-programmed with transaction information. When the customer returns to the Scale House, the customer will provide the card to the outbound Cashier. The Cashier will be able to retrieve the transaction in the system with this number.

⁹ Customers who frequently utilize the Transfer Station's services can set up an account with Montgomery County. The charges will be accumulated and billed periodically.

¹⁰ Transactions on account are not required to weigh out because the truck's tare weight is already stored in WeighStation. Therefore, once the vehicle is weighed in, WeighStation captures the gross weight and automatically calculates the net weight of the vehicle and the payment due.

Table 1 – Planned and Recently-Implemented Control Enhancements and Process Improvements

No.	Control/Process Improvement	Description of Business Operations Change
1	Credit Cards	Accept credit card payments at the Scale House.
2	New Video Module	Utilize the new video module in WeighStation that would identify the transaction with a camera trail of the inbound, outbound, and Scale House Cashiers.
3	Automatically Calculated Deposits	Utilize WeighStation to automatically calculate deposits based on truck type and weight.
4	Elimination of Passing Deposits	Eliminate the transfer of cash and checks from the inbound Cashiers to the outbound Cashiers by adding an additional inbound Cashier and providing additional cash to the outbound Cashiers. (Note: Dependent on #5).
5	Additional Inbound Window	Install another inbound window.
6	Supervisor's Office	Expand the Scale House to include a Supervisor's Office, increasing Supervisor availability and improving oversight.
7	Gates	Fix or replace inbound gates.
8	Weigh Each Vehicle	Implement the WeighStation module which will weigh each vehicle, including vehicles with loads under 500 lbs.
9	Gifts	Enforce Montgomery County's policy for accepting gifts.
10	WeighStation Log Review	Review WeighStation logs of voids, reprints, changing of weights, etc. on a bi-weekly basis.
11	Stamp Checks	Ensure checks are immediately stamped with "Montgomery County" when received at the inbound window.
12	Safe Combinations and Keys	Develop new safe combinations and acquire new keys to locks.
13	Remove Internet Access	Remove internet access from the Scale House computers.
14	Cash Counters	Utilize cash counters for the opening and closing processes.
15	Numbered Cards	Enlarge the numbers on the numbered cards to allow for easier identification on the camera feed.
16	Shortage Responsibility	Require Cashiers to be held responsible for any cash shortages.
17	Insufficient Funds	Track insufficient fund transactions in WeighStation.
18	Clean up WeighStation Database	Purge inactive (i.e. accounts that had no transactions over the past 18 months) truck accounts from WeighStation.
19	Transfer In/Out	Implement functionality in WeighStation to enter Transfer In and Transfer Out amounts to eliminate passing cash between Cashiers (see also #4 above).
20	Re-weigh Trucks on Account	Re-weigh all trucks on account to ensure accuracy.
21	Roll-Offs	Require weigh outs for all roll-off vehicles.
22	Skip Out Function	Eliminate process work-arounds for customers who do not return by implementing the Skip Out function within WeighStation.

Scope and Methodology

To satisfy the stated objectives for this review, the following two tasks were completed:

- Assessment, limited testing and evaluation of the existing control environment.
- Assessment of the likely effectiveness and adequacy of planned control enhancements and business operation changes.

The first task was completed by conducting interviews with the Operations Manager, Assistant Operations Manager, a Cashier Supervisor, a DEP Senior IT Specialist, a DEP Administrative Specialist, and Paradigm¹¹ employees to gain an understanding of the key business processes within Transfer Station Cashier operations. Additionally, we observed several Cashier operations including opening procedures, closing procedures, transaction processing, and deposit procedures. With the knowledge gained during these interviews and observations, we created nine flowcharts depicting the key business processes. This assessment also included testing through inquiry, observation, inspection, and re-performance the following controls for the period of March 1, 2015 through October 31, 2015:

- Daily and Monthly Reconciliations
- Management Reporting
- Segregation of Duties
- System Access
- Physical Security Controls (i.e. cameras, safes, access, etc.)
- Policies and Procedures

In instances where it appeared there was a risk that did not appear to be mitigated by a control, a control gap or process improvement opportunity was noted, and we provided the risk and a recommendation to mitigate the risk in **Table 2**.

The second task was completed by evaluating DSWS' planned and recently-implemented controls and business operations changes for effectiveness and adequacy. To begin, we inquired with DSWS Management of their implementation plans for each control/process improvement noted in **Table 1**. By understanding the implementation plans, we could assess the likely effectiveness and adequacy of business operations changes on the control environment. Further, we inquired about the status of each control/process improvement to determine if we would be able to test those that were recently implemented. However, as business operations changes were being implemented throughout our fieldwork, we were not able to test all changes due to timing constraints. If we were able to test the business operations change's effect on the control environment, we determined whether or not it was successfully implemented in terms of mitigating inherent and residual risks and enhancing the control environment.

For business operations changes implemented as of the end of fieldwork, December 14, 2015, we:

- Tested the control or process improvement through inquiry, observation, or inspection, if we determined there was sufficient data to test
- Determined if the implemented business process change enhanced the control environment and mitigated the related risk based on the testing procedures performed

¹¹ The Paradigm employees are consultants who meet on a monthly basis with DSWS to improve WeighStation's functionality.

- Provided a conclusion on the effectiveness and adequacy of the implemented business process change on Cashier operations' control environment

For business operations changes with implementations that were too recently implemented to test or incomplete, as asserted by Management, as of the end of fieldwork, December 14, 2015, we:

- Did not test the control
- Inquired about the plan to implement the business operations change to assess whether it would perform effectively if implemented exactly as planned and defined by Management
- Evaluated the likely effectiveness of the planned business process change in strengthening the control environment and mitigating the related risk

For both instances (controls that we tested and controls that we did not test), if we determined there was an opportunity to improve the likelihood of successful implementation or further strengthen the control environment, we provided additional suggestions to maximize the potential positive impact on the overall effectiveness and efficiency of the Cashiering operations.

Findings and Recommendations

DEP/DSWS has been implementing several control enhancements and process improvements to strengthen the control environment of the Cashier operations. However, we noted residual risks which should be addressed to further strengthen the control environment surrounding the Cashier operations. These findings have been summarized into the following seven issue categories, based on testing performed through end of fieldwork, December 14, 2015:

- Cash and Check Handling
- Transaction Processing
- Physical Access Controls
- Management Reporting Processes
- System Access Controls
- Communication
- Policies and Procedures

Table 2 Details

Table 2 documents the detailed observations, risks, and recommendations as a result of the procedures performed to assess the existing control environment.

Under separate cover, MCIA provided DEP the results of the procedures performed to assess the likely effectiveness and adequacy of planned and recently-implemented control enhancements and business operation changes, and, if applicable, suggestions to further strengthen the control environment and improve the likelihood of success of DEP's planned business process changes.

Table 2 – Findings and Recommendations¹²

Current Observation	Risk	Recommendation
Cash and Check Handling		
1. Extra change and blank, signed checks are not properly safeguarded in the Scale House. Extra change was seen in unlocked night bags under the Cashiers' workstations. Blank, signed checks were seen on Cashier's workstations and under the Cashier's key boards.	1. Unsecured cash could lead to theft or misappropriation of assets resulting in a loss of revenue to the County.	1. All cash should be locked in the cash drawers or in a safe. Blank, signed checks should be placed on the hanging rack and inserted into the check slot on the cash drawer at the time of the transaction.
2. Cashiers do not consistently stamp checks with Montgomery County (as the payee) or immediately stamp checks "For Deposit Only" ("endorsed") upon receipt.	2. Checks that do not reflect Montgomery County as the payee and are not timely endorsed could lead to theft and/or misappropriation through check fraud resulting in a loss of revenue to the County.	2. Establish and enforce a policy to ensure all checks are immediately stamped with Montgomery County as the payee upon receipt. Additionally, DEP should clarify with the Department of Finance whether checks should be immediately endorsed upon receipt to reduce the risk of check fraud.
3. Cash should be adequately safeguarded in the Scale House; and the Cashier Supervisors with their nightly deposits may not be adequately safeguarded during transport.	3. Cash and checks maintained in cash register drawers until the Close-Out process are at risk of robbery, thefts, or misappropriation that could result in a loss of revenue to the County. Personal security of staff transporting the cash and checks is also at risk.	3. If possible, the transport could be conducted by two employees at the end of the night to offer additional security. Also, consider adding a safe to the Scale House so that Cashier Supervisors do not have to transport cash and check deposits at night. Additionally, periodic spot checks or unannounced audits should be completed during the day including removing large quantities of bills from the cash drawers throughout the day.
4. Cashiers fill in the amounts on the customer checks. This process is not always completed at the time of the transaction.	4. Cashiers could fraudulently or erroneously fill out transaction amounts resulting in theft or misappropriation of assets leading to a loss of revenue to the County.	4. Modify the process to eliminate Cashiers writing on checks and enforce the process to require the customer to fill out their check at the inbound and outbound windows.

¹² Subsequent to the completion of fieldwork on December 14, 2015, DEP advised Internal Audit that it had conducted further review of several of the planned control enhancements and process improvements reflected in Table 1 and also in the Table that follows. Internal Audit has retained in the following Table all Risks and Recommendation identified during fieldwork, but recognize that DEP may need to address the Risks in a manner different than the approach reflected in the Recommendation.

Current Observation	Risk	Recommendation
5. Cash receipt drawers can be opened at any time. There is no documentation of when drawers are opened.	5. Cashiers can open cash drawers and have direct access to cash receipts without logging of this activity resulting in an increased potential for theft or misappropriation of assets resulting in a loss of revenue to the County	5. Evaluate WeighStation's functionality to allow cash drawers to only be opened when a) change is needed or b) a Cashier Supervisor is present. Alternately, evaluate the ability within WeighStation to track when the drawer opens and closes outside of conditions when change is needed.
6. Cashiers are not held responsible for shortages.	6. Cashiers not being held responsible for small shortages could lead to an environment of carelessness or a significant theft over time.	6. The County should evaluate creating and implementing a formalized policy establishing a threshold (e.g. greater than a predefined dollar amount) and period (e.g. cumulative over a certain amount of days) for requiring cashiers to be held responsible for shortages. DSWS should consider the net effect of overages as well in this policy.
7. Cash and checks are handed from Cashier to Cashier without being properly recorded in WeighStation. For example, during peak times, as there was only one inbound window, the inbound Cashier will hand over cash and check deposits to the outbound Cashiers to enter the transaction into WeighStation.	7. Cashiers handling cash and checks back and forth could result in unrecorded transactions, inaccurate recording of revenue, and/or theft of assets.	7. The "Elimination of Passing Deposits" identified in Table #1, Control/Process Improvement #4 should be documented, communicated, and implemented immediately to ensure all cash and checks are properly recorded immediately in the system.
8. Cashiers are not bonded.	8. If Cashiers are not bonded, Montgomery County may not be adequately protected against losses incurred as a result of fraudulent activities that could be performed by the Cashiers.	8. The County should evaluate bonding the Cashiers to ensure adequate protection against potential loss.
Transaction Processing		
9. Cashiers estimate based on experience if a vehicle is greater/less than 500 lbs.	9. Customers with vehicles over 500 lbs. may erroneously or fraudulently be able to unload materials without payment resulting in a loss of revenue to the County.	9. The County should evaluate the feasibility of implementing the automatic calculation module ("Weigh Each Vehicle") identified in Table #1, Control/Process Improvement #8 , and implement this module or other appropriate controls to address this risk.

Current Observation	Risk	Recommendation
10. Cashiers estimate the deposit amount based on the vehicle type and weight captured by the inbound scale.	10. If Cashiers estimate customer deposits, inadequate or inconsistent deposit amounts could encourage the customer to not weigh out resulting in a loss of revenue to the County.	10. The County should evaluate the feasibility of implementing the "Automatically Calculated Deposits" module identified in Table #1, Control/Process Improvement #3 , and implement this module or other appropriate controls to address this risk.
11. Not all customers receive receipts.	11. If a receipt is not provided for each transaction, then Cashiers could steal cash or checks and not record the transaction resulting in a loss of revenue to the County.	11. Establish and enforce a policy where every customer is provided a receipt.
12. Cashiers manually select the scale to capture the vehicle's weight, irrespective of the scale the vehicle is on.	12. The Cashier could fraudulently select a scale that has a more preferable weight for customers resulting in a loss of revenue to the County.	12. Evaluate WeighStation's functionality to automatically select the correct scale (i.e., the scale the vehicle is on). Additional functionality could be put in place to not allow the same scale and same weight be used simultaneously in WeighStation to prevent the misuse of scale selection.
13. The insufficient funds process is very manual and there is no tracking mechanism in place for Letters of Insufficient Funds.	13. If customers leave because they did not have sufficient funds, the County could lose revenue. Further, system functionality causes inefficiencies in the closing process and requires a work-around that could hide potential fraudulent activity.	13. The "Insufficient Funds" identified in Table #1, Control/Process Improvement #17 in WeighStation should be implemented to eliminate the current manual processes.
Physical Security Controls		
14. The Transfer Station Configuration allows customers to a) enter and exit the facility without proceeding to the Scale House or b) enter the facility through the inbound scales at the Scale House but exit the facility without completing the transaction.	14. If customers do not approach the Scale House or customers leave without weighing out, the County could lose revenue.	14. The County should evaluate the cost versus benefit of redesigning the Transfer Station's setup to allow only one entrance and exit, where the customer is required to weigh in and weigh out. The implementation of this control will have a substantial impact on Cashier operations and potentially increase revenue for the County.
15. The small safe utilized to temporarily store the daily cash deposits should be properly secured.	15. Temporarily storing cash deposits in the small safe increases the risk of theft or misappropriation of assets resulting in a loss of revenue to the County.	15. Take appropriate steps to further secure the small safe or store the daily cash deposits in the large safe.

Current Observation	Risk	Recommendation
16. The Scale House is locked; however, the Scale House personnel allow individuals without a business need into the Scale House.	16. Inappropriate access to cash and checks could lead to theft or misappropriation of assets resulting in a loss of revenue to the County.	16. Create and enforce a policy to ensure only individuals involved with Cashier operations are in the Scale House.
17. The Supervisor and Head Cashier are not always present in the Scale House.	17. Improper, inconsistent supervision within the Scale House could lead to fraudulent activity resulting in the loss of revenue to the County.	17. The implementation of the "Supervisor's Office" identified in Table #1, Control/ Process Improvement #6 should be implemented to mitigate various risks associated with the processing of cash and check transactions. Until a Supervisor's Office is created, DSWS should consider enforcing a Supervisor to be in the Scale House more frequently with exceptions for breaks, emergencies, etc. Once the Supervisor's Office is in the Scale House, the current void process should be modified to only allow Cashier Supervisors to void transactions. The Cashier will need to have a Cashier Supervisor void the transaction and oversee the correct transaction. This will eliminate the need of the additional review at the Assistant Operations Manager's level.
Management Reporting Processes		
18. DSWS determined several logs that should be monitored for inappropriate activity. We noted the following issues when reviewing Management Reports: • Not all logs are reviewed on a timely and consistent basis. • Reviews performed are not adequately documented, signed, and maintained. • The process to run the reports and how to review them is not adequately documented for backups.	18. Inadequate monitoring of key Management Reports could lead to erroneous and fraudulent transactions not being detected.	18. A formal policy should be developed, documented, and enforced for the log review. This policy should include the frequency and required documentation and approval for each of the log reviews performed. Also, the policy should define the positions (e.g. Cashier Supervisor or Operations Manager) of the backup reviewers. Further, until the void process is reassigned to the Cashier Supervisors, as recommended above in Recommendation #17, supporting documentation for the voided transactions should include the corrected transaction so

Current Observation	Risk	Recommendation
		management can verify that the voided transaction was followed by a justifiable transaction.
19. As of the end of fieldwork, December 14, 2015, DSWS had only implemented nine out of 22 of the Planned and Recently-Implemented Controls/Process Improvements.	19. Without adequate resources allocated to improving the control environment within Cashier Operations, the County is at risk of inefficient processes and ineffective controls in mitigating fraud risks.	19. The County should ensure adequate resources are allocated to manage these control implementation and process improvements to ensure they are implemented effectively and timely.
System Controls		
20. Cashiers do not log out of computers when they leave their workstations. We observed Cashiers completing transactions on computers that were signed on by another Cashier.	20. Cashiers not locking their screens or logging out of computers can lead to unauthorized access which prevents the appropriate tracking of user details for transaction processing. This prohibits accountability and could aid in the concealment of fraudulent activity resulting in a loss of revenue for the County.	20. Establish and enforce a policy to ensure all Cashiers log off their computers when leaving their workstations.
21. The following instances of inappropriate user access were found: <u>WeighStation</u> • All cashiers are able to enter into manual mode, allowing a Cashier to potentially enter a transaction for a lower amount due. Management does not review a log of manually entered transactions. • Cashiers are able to void transactions without Supervisor approval. The approval occurs afterwards, making it difficult for the reviewer to determine whether the void was legitimate. • The Administrator login information is shared amongst several employees. <u>Oracle</u> Previously, the Operations Manager was responsible for recording receipts (i.e. deposits) into the General Ledger system. The process has changed and the Accounts Receivable group is now responsible for	21. Inappropriate user access and improper segregation of duties could lead to theft or misappropriation of assets that could lead to a loss of revenue for the County.	21. Review and update all system access on a regular basis to ensure employees have only the access needed to perform job responsibilities; including, specifically, the need for all Cashiers to be authorized to enter manual transactions. Further, where a Cashier must be granted access to enter manually-entered transactions, establish a process requiring management to review such transactions, consistent with Recommendation #18 above.

Current Observation	Risk	Recommendation
recording deposits in Oracle. However, we noted that the Operations Manager has access to enter and reverse receipts in Oracle.		
Communication		
22. WeighStation system updates or changes are not adequately or timely communicated to the Cashiers.	22. Lack of communication of system updates can lead to errors and process inefficiencies.	22. Inform all applicable parties of system updates and related process changes in a timely manner. Further, seek feedback from Cashiers to ensure updates or changes do not negatively impact operations. Ensure updates and changes are properly and timely recorded in policy documents.
Policies and Procedures		
23. Multiple policy and procedure documents are not finalized or distributed to employees. We noted the policies received and reviewed were not accurate or current.	23. Without finalized and distributed policies and procedures, employees may a) be unaware of job responsibilities, b) process transactions inconsistently, and c) lack appropriate on the job training.	23. Establish and enforce a process to ensure that all policy and procedure documents are appropriately updated, reviewed, and approved on a consistent basis so that all documents remain reflective of the current processes and controls; and that appropriate training on new policies and procedures is provided to employees. These documents should be made available to employees with relevant job responsibilities.
24. For discrepancies on the daily Cashier settlement reconciliations, there is no established threshold or process to investigate discrepancies and document resolution.	24. If discrepancies are not consistently investigated and resolved, fraudulent activity or errors may occur resulting in a loss of revenue to the County.	24. Create and implement a policy that documents the daily Cashier settlement reconciliation process which should include an established dollar-value threshold to investigate discrepancies and documentation of the investigation and resolution.
25. The monthly (Cash Settlement and Tonnage/Revenue) and daily reconciliations were not consistently approved or approval was not documented.	25. If reconciliations are not reviewed timely and documented, fraudulent activity may go undetected resulting in a loss of revenue to the County.	25. A policy should be established and implemented to ensure all reconciliations related to the Transfer Station Cashier operations are properly reviewed and approved with evidence of a signature and date.
26. The Supervisors' review process is not consistently documented and retained.	26. If the Supervisors' review is not performed consistently and adequately, fraudulent activity or errors may go undetected resulting in a loss of revenue to the County.	26. Establish and enforce a policy outlining the Supervisors' review process which should include proper documentation and retention of the review.

Comments and MCIA Evaluation

We provided DEP with a draft of this report for review and comment; DEP responded on April 15, 2016. DEP's response (a copy follows) indicated agreement with the risks identified in the report. In responding to the recommendations in the report, DEP indicated they would need to closely examine the costs, impact to operations, and the associated risk mitigation achieved. MCIA made no changes to the report in response to DEP's comments.



DEPARTMENT OF ENVIRONMENTAL PROTECTION

Isiah Leggett
County Executive

Lisa Feldt
Director

MEMORANDUM

April 15, 2016

TO: William Broglie, Internal Audit Manager
Offices of the County Executive

FROM: Lisa Feldt, Director 
Department of Environmental Protection

SUBJECT: Comments on Transfer Station Cashiers' Operations Internal Audit Review

Thank you for the opportunity to review the draft auditors' report concerning Transfer Station cashiers' operations. We agree with the majority of the risks identified. There are, however, certain recommendations where we will need to closely examine the costs, impacts to operations, and the associated risk mitigation achieved by the recommendation. The easiest way to track our comments, present below, is to use the recommendation numbers used in Table 2 – Findings and Recommendations of the report.

1. DEP agrees with this risk. Cash and checks should be safeguarded in the Scale House. Previous practices have been reviewed and improved to assure there is no unsecured cash or checks. Cashiers have been retrained to reinforce this practice.
2. DEP agrees with this risk. The front of the checks should be stamped upon receipt with "Montgomery County", but immediate endorsement, of the back side interferes with the electronic endorsement of scanning the check. The Montgomery County Department of Finance has advised us not to endorse the check for this reason.
3. DEP agrees with this risk. Safeguards have been improved and implemented to better protect personnel and funds during daily operations, transport, and nightly depositing of funds.
4. DEP agrees with this risk. Customers should fill out the amounts on the checks. All transactions are completed by the customer unless the customer needs assistance to complete the check and transaction. Cashiers have been retrained to emphasize that checks must be filled out at the time of the transaction.

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5. DEP agrees with this risk. New software modifications are in progress to better control the opening and closing of cash drawers. An interim control of this risk is to increase the presence of the supervisors in the scale house.
6. DEP agrees there is some risk. Every cash drawer continues to be reconciled on a daily basis and any cashier shortages and overages are tracked and reviewed on a daily and monthly basis. DEP will address any excessive overages or shortages through the cashiers' performance appraisal system.
7. DEP agrees with this risk. Scale House modifications and software improvements are planned to decrease the risk of unrecorded or incorrect recording of cash transfers.
8. DEP agrees there is some risk. At the present time, it is not allowed under the Union Contract for the cashiers to be bonded. Other monitoring measures outlined in the recommendation will help mitigate the risk against loss.
9. DEP agrees there is some risk. DEP has a system in place to verify the 500 pound rule for trucks that takes into account the multiple variables that exist and make this activity difficult to accomplish. Further thought on this item is required to weigh risk mitigation, cost, and customer service.
10. DEP agrees there is some risk; see item 9 for discussion
11. DEP agrees there is some risk if a receipt is not provided or accepted by a customer. If a customer is under 500 pounds or unloading recyclables, a customer would not receive a receipt. Customers coming through the outbound scales are offered a paper receipt but some do not want one. We can, however, address the risk of a customer not knowing if he/she is charged correctly and receives correct change by installing an outward facing visual display screen to assure that customers see the net weight and charge for their transaction, even if they decline a receipt.
12. DEP agrees there is some risk of an incorrect scale number being entered. Further thought is needed to weigh the benefits of a recommendation in terms of cost, risk mitigation, and customer service.
13. DEP agrees with this risk. The insufficient funds process for recording information from customers who are unable to pay all of their fees at the time of a transaction will be automated with new software to be implemented soon.
14. DEP agrees that there is some risk. Further thought is needed to weigh the benefits of a recommendation in terms of cost, risk mitigation, and customer service.
15. DEP agrees with this risk. The temporary safe is now secure.

16. DEP agrees with this risk. Personnel have been informed that the Scale House should only have Scale House staff and individuals with a business or maintenance need enter the scale house. No personal visitors are allowed.
17. DEP agrees with this risk. Building modifications are being evaluated to create room and work areas for the Cashier Supervisors to increase their presence in the scale house.
18. DEP agrees with this risk. The new version of the software includes the ability to automatically produce and monitor logs electronically. Approval will be done electronically by the supervisor. Some reports are already being reviewed more frequently.
19. DEP agrees with this risk. DEP is pursuing resources to further evaluate and implement most of these improvements.
20. DEP agrees with this risk. This issue has been corrected and retraining has occurred to assure no cashier leaves their computer without logging out.
21. DEP agrees with this risk. DEP is reviewing a software issue to assure internal controls of manual tickets are being followed. Management does review a log of manually entered transactions. Manual tickets are necessary to correct issues such as a wrong scale being picked up, system freezes, scales or computers not capturing a weight, vehicle being partially off the scale, another vehicle accidentally being on the scale and other occurrences. Manuals are also done by cashiers to record/produce tickets from county contractors hauling material off site. Management now reviews manual transactions.
22. DEP agrees with this risk. One meeting has been held and future meetings will be held on a timely periodic basis.
23. DEP agrees with this risk. DEP is working to finalize and distribute policies and procedures.
24. DEP agrees with the risk. DEP has a threshold of zero in that all differences are investigated daily on the cash reconciliations and are approved by the assistant operations manager.
25. DEP agrees with this risk. DEP staff has been retrained and daily reconciliation review sheets are consistently being approved and documented.
26. DEP agrees with this risk. DEP staff has been retrained and review documents are consistently being approved and retained. Software updates are to be implemented to improve this process.

If you have any questions or concerns, please contact Dan Locke, Chief of the Division of Solid Waste, at 240-777-6402.

LF:dl

Appendix A – Transfer Station Map

