

**Performance Audit 21-04:
Citywide Services
Wood Recycle Center
Collections**

July 2021

City Auditor

Stan Sewell, CPA, CGFM, CFE

Senior Auditor

Pam Swinney, CPA





OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

July 7, 2021

To: Mayor Tim Kelly
City Council Members

Subject: Citywide Services' Wood Recycle Center Collections (Report #21-04)

Dear Mayor Kelly and City Council Members:

The attached report contains the results of our audit of Citywide Services' Wood Recycle Center. Overall, we found revenues collected at the scale house were deposited with the City Treasurer. However, collection reports and deposits were not always completed in accordance with policies and procedures or state law. In addition, we found internal control deficiencies for accounts receivable.

In order to address the noted areas, we recommended actions to improve segregation of duties and supervisor reviews. We also recommended the department develop a policy and procedure to govern the management of accounts receivable.

We thank the management and staff of the Public Works Department for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Audit Committee Members
Brent Goldberg, Chief of Staff
Daisy Madison, Chief Financial Officer
Bill Payne, Interim Administrator of Public Works
Ricky Colston, Director of Citywide Services
Jim Arnette, Tennessee Local Government Audit jim.arnette@cot.tn.gov

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AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2021 Audit Agenda. The objectives of this audit were to determine if:

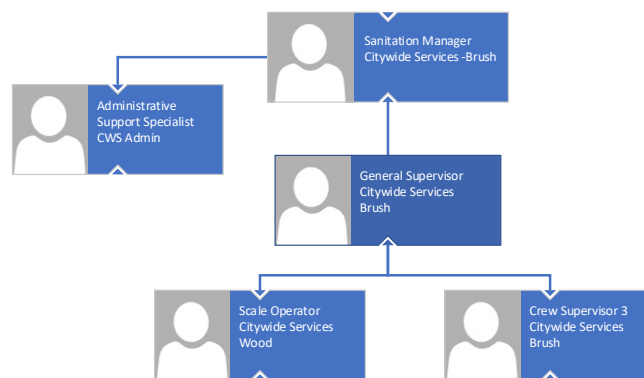
- The Wood Recycling Center reported revenue collections in accordance with policies and procedures; and,
- The Division has internal controls in place for accounts receivable in accordance with the City of Chattanooga's Internal Control Manual.

BACKGROUND

The Public Works department is responsible for the operations and administrative support of the Wood Recycling Center. The facility has one scale house operator, one crew supervisor and a general supervisor that report to the sanitation manager of Citywide Services division.

The scale house operator and crew supervisor handle daily customer transactions and reconcile collections to WasteWorks Scale reports. The general supervisor delivers collections to the administrative support specialist. The administrative support specialist prepares collection reports for daily receipts and accounts receivable payments, makes deposits, and prepares monthly billings.

Exhibit 1: Organization Chart



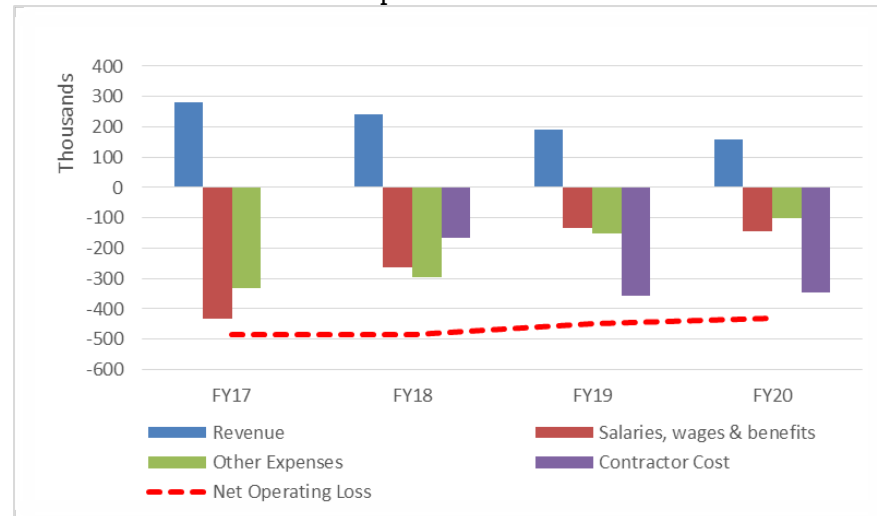
The Wood Recycle Center is located at 3925 North Hawthorne Street. The center accepts raw natural wood, brush and leaves. City residents are allowed to bring wood, brush, leaves, etc. to the center free of charge as long as these items are from their primary residence.

Financial Information

All revenues and expenditures are reported under the Solid Waste Enterprise Fund¹ which includes the recycle center, waste disposal-landfill, and the compost waste center. Since December 2017, the Compost Waste Center has contracted out the disposal of wood waste and chips to decrease personnel related costs within City Wide Services². Currently, the only personnel cost directly charged to the wood compost center is the scale house operator.

Per City Code Sec. 18-106, the center charges \$20.00 per ton with a minimum of \$20.00 to dispose of wood, brush and leaves. Wood chips are no longer sold by the City which accounts for the 43% decline in revenues as depicted in Exhibit 2. As shown, expenditures have decreased 23% since FY2017 but the net operating loss has only slightly decreased from \$483k to \$429k.

Exhibit 2: Revenue and Expenditure Trends



FINDINGS AND RECOMMENDATIONS

Improvements needed to ensure accounts receivable are collected.

Citywide Services uses WasteWorks to record wood recycling revenue transactions. Monthly invoices are mailed to customers with current charges. At year end, the administrative support specialist generates an accounts receivable aging report from WasteWorks. The report is provided to the Public Works’ finance manager to reconcile and make

¹ Enterprise Funds are used to account for activities that the City operates as private enterprises with an anticipation that the cost of operations are covered by user charges.

² City of Chattanooga [2021 Comprehensive Annual Budget Report](#)

adjustments in the Oracle financial system.

Establish accounts receivable controls and procedures.

Outstanding accounts receivable of \$31,088 and \$34,471 were not reported in FY2019 and FY2020 financial statements, respectively. Efforts to collect delinquent accounts ended in 2018; however, the accounts were not submitted to the City's collection agency. In addition, we noted write-off of the customer accounts was not approved by the governing body as required by City Code Sec. 2-756³.

The GFOA recommends "governments establish invoicing and accounts receivable controls, processes, and procedures for services provided in advance of payment, considering the following: billing timeframe, dollar thresholds, use of outside collection services, write-off of bad debt, receivables aging analysis, and decision-making authority."⁴ Prior audits⁵ have expressed concerns about billings, collections and accounts receivable. A previous audit report⁶ recommended the Finance department establish citywide policies to address the recording, collection and write-offs of accounts receivable.

To date, the Finance department has not established a citywide policy delegating responsibility to department administrators. The Public Works department has not developed written policies and procedures. Also, we found Citywide Services has not assigned or trained personnel to effectively monitor and reconcile the accounts receivable.

Procedures for the accounts receivable process ensures revenues owed the City are timely collected; write-offs occur only after all collection efforts are exhausted; and write-offs are properly approved by the governing body.

Recommendation 1:

We recommend Public Works' management develop comprehensive policies and procedures for accounts receivable.

Auditee Response: *We concur with the audit finding and recommendation.*

³ An employee "cannot authorize the use of facilities for private gain unless authorized by the governing body."

⁴ Government Finance Officers Association (GFOA) Best Practices, [Receivables and Handling Receipts in the Treasury Office](#), September 28, 2018

⁵ [Audit 16-02](#) Learning Academy, [Audit 14-05](#) Wood Recycling Cash Collections

⁶ Office of Internal Audit report dated September 7, 2017 [Audit 17-06](#) Accounts Receivable

Recommendation 2:

We recommend Citywide Services' management assign and train personnel to manage the Wood Recycling Centers' accounts receivable.

Auditee Response: We concur with the audit finding and recommendation.

Recommendation 3:

We recommend Citywide Services' management implement procedures to follow up with delinquent accounts and suspend charge accounts when balances are past due or exceed credit limits.

Auditee Response: We concur with the audit finding and recommendation.

Recommendation 4:

We recommend Public Works' management receive Council approval to write-off accounts considered uncollectible after having submitted such accounts to the City's collection agency.

Auditee Response: We concur with the audit finding and recommendation.

Perform monthly reconciliation to verify accounts receivable balances are accurate.

We found \$2,454 in charge tickets were not paid to the City as a result of posting errors and invoice discrepancies.

Using the WasteWorks aging report dated March 9, 2021, we selected a judgmental sample of nine of the 39 customer accounts to review for accuracy. To determine if balances were accurate, we traced scale tickets to the invoices and payments to the collection reports in Oracle. Our analysis found the following issues:

- Two payments posted in WasteWorks did not match the funds collected on the collection report. The payment posting errors resulted in uncollected revenues of \$515.40 from two customer accounts. A supervisory review of the collection report and support documents would have identified said discrepancies.
- One account had an incorrect adjustment. All users have access to create adjustments and void tickets. The lack of segregation of duties contributed to this \$186.96 adjustment error.

- Two customer accounts' invoices included an incorrect carryover balance from the prior month. The discrepancy created an erroneous credit balance resulting in \$1,752 in unpaid charges. A monthly review and reconciliation of invoices, payments and account balances would have identified such errors.

The City of Chattanooga's Internal Control Manual Section 3.3.1.1 indicates "no one person has control over complete transaction from beginning to end" and Section 3.3.1.4 states "General ledger accounts receivables are reviewed for accuracy and follow-up for collection." When adequate segregation of duties is not possible because of limited resources, management should design compensating controls to mitigate risks.

Recommendation 5:

We recommend Citywide Services' management implement procedures to reconcile the subsidiary ledger (WasteWorks) to the general ledger (Oracle) quarterly, at a minimum.

***Auditee Response:** We concur with the audit finding and recommendation.*

Recommendation 6:

We recommend Citywide Services' management, with the assistance of the Information Technology department, identify and correct the WasteWorks billing discrepancy identified. Until such correction is made, we recommend management implement a procedure to ensure carryover balances on invoices are accurate prior to mailing.

***Auditee Response:** We concur with the audit finding and recommendation.*

Recommendation 7:

We recommend Citywide Services' management segregate duties, such as using the recycling coordinator to approve and set up new customer accounts as well as review collection reports. We also recommend updating security options in Wasteworks to ensure separation of duties through user-level permissions.

***Auditee Response:** We concur with the audit finding and recommendation.*

Supervisor review and management oversight needed to improve compliance with policies and procedures.

Based on staff interviews and test work, we found the City’s policies and procedures⁷ are not consistently followed by staff. As shown in Exhibit 3, areas of non-compliance included deposit timeliness, supervisory reviews, funds transfer and records retention.

Exhibit 3: Results of Compliance Test Work

Description of Exception	Error Rate
Collection reports not timely submitted to Treasurer's Office	38%
Funds were not timely deposited with bank	27%
Transfers were not documented with dual signatures	69%
Transfer of collection between staff was not timely	42%
Collection reports were not reviewed and approved by Supervisor	100%
Voided tickets were not approved by Supervisor	79%
Incomplete explanation for voided tickets	56%
Records (voided tickets) were not found	40%
Records (cash tickets) were not found	33%

State law⁸ requires public funds be deposited as soon as practical, but no later than three working days after the receipt. City policies and procedures for collections require dual signatures to document funds transfers, review and approval by supervisor of all voided scale tickets, and review and approval by supervisor of collection reports.

GAO’s Standards for Internal Control in the Federal Government 5.01 states “management should evaluate performance and hold individuals accountable for their internal control responsibilities.”

Delays resulting from transferring funds between staff and the absence of supervisor review contributed to noncompliance with State law and policies. Non-compliance with policies reduce the effectiveness of internal controls.

Recommendation 8:

We recommend the Scale House Supervisor deposit funds daily with the bank.

Auditee Response: We concur with the audit finding and recommendation.

⁷ Public Works SOP Wood Recycle Center Scale Operator and Wood Recycle Center WasteWorks Software; Finance Policies & Procedures Collections (revised April 2012) and Completing ADI Templates (revised June 2018)

⁸ T.C.A. 6-56-111. Deposit of fund – Petty cash – Disbursements – Penalty for violations.

Recommendation 9:

We recommend someone other than the collection report preparer review and submit collections to the Treasurer's Office, as required by policy. In addition, we recommend transfer of funds are documented by dual signatures.

Auditee Response: We concur with the audit finding and recommendation.

Recommendation 10:

We recommend records are maintained in accordance with the City's record retention policy.

Auditee Response: We concur with the audit finding and recommendation.

Recommendation 11:

We recommend Citywide Services' management hold staff accountable for policy noncompliance through counseling and disciplinary action, as needed.

Auditee Response: We concur with the audit finding and recommendation.

APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers Wood Recycling Center Collections from March 1, 2020 to February 28, 2021. When appropriate, the scope was expanded to meet the audit objectives.

To accomplish our audit objectives, we reviewed policies and procedures, interviewed staff, analyzed WasteWorks data, documented and evaluated the internal control process, and sampled collection reports and scale tickets for compliance with established procedures. We compared division policies and procedures to operations.

The sample size and selection were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

To achieve the audit's objectives, reliance was placed on computer-processed data contained in the WasteWorks system. We assessed the reliability of the data contained in the system and conducted sufficient tests of the data. Based on these assessments and tests, we concluded the data was sufficiently reliable to be used in meeting the audit's objectives.

We conducted this performance audit from February 2021 to May 20, 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

City of Chattanooga Fraud, Waste, and Abuse Hotline

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