

**Performance Report
Controls Over Trash Tag Program**

May 2011

**City Auditor's Office
City of Kansas City, Missouri**



Office of the City Auditor

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May 4, 2011

Honorable Mayor and Members of the City Council:

This performance audit was initiated by the city auditor pursuant to Article II, Section 216 of the city charter. The audit focuses on the internal controls of the city's trash tag program. The city collects additional bags of trash, beyond the 2-bag limit, if residents attach a trash tag to each additional bag. The city took over administrating all aspects of the program from a contractor in fiscal year 2009. Public Works staff take trash tag orders, deliver tags, and bill the two retail sponsors responsible for selling the tags to the public.

The Public Works Department could implement a number of internal controls that would decrease the risk to the trash tag program of error, loss, and fraud. Staff members are performing duties in which a single employee could both commit an irregularity and conceal it. The department should segregate these incompatible duties. Public Works does not verify that the number of tags stored in the department match what should be on hand. Taking periodic inventory helps detect missing tags, allows for prompt action, and is required by the city's cash handling administrative regulation. The department did not have documentation to account for about 560 tags since it began administering the program. Public Works should perform independent reconciliations, including the reconciliation of sales records and revenue deposits, and delivery receipts of medical trash tags with paperwork for approved recipients. Reconciliations should help the department to ensure accuracy and completeness of transactions. During our reconciliation of sales records and invoices, we identified a sale of 21,000 trash tags that the department did not invoice until ten months after the department sold them.

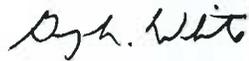
In order to safeguard trash tags from loss and theft, Public Works should improve physical security of tags. The department removes tags from Treasury's vault prior to delivery and stores them in a locked department closet. Open boxes which are left from orders of partial boxes remain in the closet until sold later. The closet does not provide the security that the city's vault provides. The sale of partial boxes of tags also compromises the security of the trash tags because the remaining open boxes are more susceptible to theft. The department should store all unsold tags in the Treasury Division's vault and only sell complete boxes of trash tags. In addition, staff who have custody of trash tags during the distribution and delivery process should attend the city's cash handling training.

The medical trash tag program does not have written policies and procedures. The program distributes free trash tags to indigent residents with medical conditions that create extra trash. Developing written

policies and procedures would communicate staff responsibilities, establish accountability, serve as a reference to staff, and provide continuity in the event of staff turnover.

The city's contracts with retail sponsors who sell trash tags end April 30, 2011. Negotiating new contracts with the sponsors to require them to pay for tags after delivery rather than on consignment would make the city's billing process more efficient and reduce the risk of loss or theft.

We shared a draft report with the director of public works on March 24, 2011. His response is appended. We appreciate the courtesy and cooperation of staff in the Public Works and Finance departments. The auditor for this project was Sue Polys.



Gary L. White
City Auditor

Controls Over Trash Tag Program

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Introduction

Objectives

We conducted this audit of the city's trash tag program under the authority of Article II, Section 216 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the city auditor's primary duties.

A performance audit provides assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.¹

This report is designed to answer the following question:

- Are the city's controls over the trash tag program adequate?

Scope and Methodology

Our review focuses on the internal controls over the city's trash tag program. Our audit methods included:

- Reviewing the Code of Ordinances to identify trash tag program requirements.
- Reviewing the city's Manual of Instruction 6-02 on cash handling to identify procedures that relate to handling inventory.
- Reviewing contracts with program sponsors, Westlake Hardware and Price Chopper, to understand the obligations of the retailers and city.

¹ Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2007), p. 17.

- Reviewing internal control literature to identify controls that would relate to the trash tag program.
- Reviewing trash tag program written policies and procedures to identify expected practices.
- Interviewing Public Works staff to identify actual practices for taking trash tag orders, delivering tags, and collecting revenue.
- Reviewing trash tag inventory records from 2004 through June 2010 to determine whether records account for all tags printed.
- Comparing 2009 and 2010 trash tag orders to revenues deposited to confirm that revenue was collected for tags sold.
- Comparing 2010 delivery receipts, invoices, and copies of checks to deposited revenue to determine whether revenue was collected and deposited for tags delivered.
- Reviewing records of trash tags distributed as part of the medical trash tag program to determine whether records account for all tags assigned to the program.

We conducted this performance audit 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. No information was omitted from this report because it was deemed privileged or confidential.

Background

Trash Tag Program

The city collects up to two bags of trash weekly per household at no charge to the resident. The city collects additional bags of trash if residents attach a trash tag to each additional bag. Two city-authorized sponsors, Price Chopper and Westlake Hardware, sell tags to citizens for \$2 apiece. They retain a portion of the cost of the tag. The city used a contractor to take orders and do billings until fiscal year 2009, when it

took over these responsibilities. Between fiscal years 2005 and 2010, the program generated revenue of about \$3.4 million.

The Public Works Department is responsible for printing tags, delivering tags to the stores, and billing. Public Works staff orders trash tags from the city's print vendor. The print vendor delivers tags directly to the Finance Department's Treasury Division. The tags are stored in the Treasury Division's vault. Public Works staff takes orders from Price Chopper and Westlake Hardware for trash tags. Public Works staff retrieves trash tags from the vault and stores them in Public Works until the city delivers the tags the next day. The city delivery driver has the retailer sign a delivery receipt acknowledging that the city has delivered the tags. Public Works staff invoices Price Chopper for the tags delivered. Public Works invoices Westlake monthly based on the number of tags Westlake reports it sold in that month. The sponsors send checks to Public Works and Public Works deposits the checks.

The trash tag program includes providing free trash tags to indigent residents with a medical condition that results in additional trash beyond the two bags of weekly trash per household. Residents with these medical conditions provide documentation to the city to establish their eligibility.

Controls Over Trash Tag Program

Findings and Recommendations

Summary

Public Works could implement several internal controls to reduce the risk of loss, error, and fraud to the trash tag program. Some staff perform incompatible duties, which the department should separate among other staff. Public Works does not verify that the number of tags stored in the department match what should be on hand. Taking periodic inventory would help detect missing tags and allow for prompt action. In addition, Public Works should implement independent reconciliations, such as the comparison of sales records and revenue deposits to ensure staff bill and collect all sales.

In order to safeguard trash tags from loss and theft, Public Works should improve physical security of tags by storing all tags in the Treasury Division's vault and only selling complete boxes of trash tags. Because the city's cash handling training addresses inventorying and the concepts are applicable to the trash tag program, the city staff who have custody of trash tags during the distribution and delivery process should attend the city's cash handling training.

The medical trash tag program does not have written policies and procedures. The program distributes free trash tags to indigent residents with medical conditions that create extra trash. Written policies and procedures serve as an important internal control by communicating staff responsibilities and establishing accountability.

The city's contracts with retail sponsors who sell trash tags end April 30, 2011. Negotiating contracts with the sponsors to require them to pay for tags after delivery rather than on consignment would make the city's billing process more efficient and reduce the risk of loss or theft.

Internal Control Weaknesses Leave Trash Tag Program at Risk

Public works does not adequately segregate staff duties, inventory trash tags, and independently reconcile records. Trash tags are less secure when stored in Public Works rather than in the Treasury Division's vault. The department's practice of selling partial boxes of trash tags leaves open boxes of tags, which are more susceptible to theft. Public Works staff handling the trash tag inventory have not attended the city's cash

handling training. In addition, the medical trash tag program does not have written policies and procedures.

The city's contracts with retail sponsors who sell trash tags end April 30, 2011. One of the current sponsors pays for the trash tags after the sponsor sells them to the public. Negotiating contracts with the new sponsors to require them to pay for tags after delivery rather than on consignment would make the city's billing process more efficient and reduce the risk of loss or theft.

Incompatible Duties Are Not Segregated

Some staff perform incompatible duties leaving trash tags at risk for loss or misappropriation. A single employee should not be in a position to both commit an irregularity and conceal it. Lack of segregation of duties increases the risk of fraud and decreases the likelihood of identifying irregularities. By assigning incompatible duties to different individuals, one individual serves as a check upon the other and serves to prevent loss and error. The trash tag program's incompatible duties include:

- One employee initiates the printing of tags, specifies the sequence numbers to be printed on the tags, takes orders from retailers, and retrieves tags from the vault for delivery. One person having these duties could order duplicate tags and misappropriate them without timely detection or place nonexistent orders, retrieve tags, and take tags without detection.
- One employee approves eligibility for the free medical trash tag program and distributes the tags. One person doing both tasks could distribute the tags to someone who does not meet the program criteria without anyone detecting the misappropriation.
- One employee bills retailers and receives the checks. One person doing both tasks could take the check when it comes in and without anyone knowing that the check is missing.

In order to prevent loss, error, and misappropriation of city trash tags, the director of public works should segregate incompatible duties.

Public Works Does Not Perform Periodic Inventories of Trash Tags in Their Possession

Public Works does not verify that tags stored in the department reconcile with what the inventory records show should be on hand. Public Works keeps tags on hand for the medical trash tag program and tags left over from sales of partial boxes. Our review of records showed a few instances of unaccounted for tags since fiscal year 2009.² Staff does not have a record of what happened to one series of about 500 tags retrieved from the vault for distribution. In addition, a few series of tags from the medical trash tag program do not have documentation showing to whom they were distributed. The city's Manual of Instruction (MI) on cash handling requires that all inventories be reconciled at least once a month. The person(s) selling inventory items cannot perform these reconciliations. Additionally, the supervisor should perform audits of inventory on a quarterly basis.³ Verifying whether inventory reconciles with the underlying records would help ensure that the department properly accounts for tags and identifies errors or losses that the department can quickly address.

The director of public works should ensure that the department performs physical inventories of tags in their possession, as required by the city's cash handling procedures.

Trash Tag Records Not Reconciled

Public Works is not performing independent reconciliations of trash tag records. Public Works does not reconcile delivery receipts with revenue deposited in PeopleSoft or reconcile delivery receipts of medical trash tags with paperwork for approved recipients. Reconciliations are comparisons of different sets of data, identifying differences, and making corrections to resolve the differences. Reconciliations help to ensure the accuracy and completeness of transactions. In our reconciliation of trash tag invoices and deposits, we found that the city did not invoice a retailer for a July 2009 delivery of 21,000 trash tags until May 2010. By performing regular reconciliations, Public Works should identify errors or fraudulent activity in a timely manner. Someone uninvolved in the transactions being reconciled should perform the reconciliation to ensure adequate segregation of duties.

² Public Works assumed responsibility for all aspects of selling trash tags to sponsors in fiscal year 2009. Prior to that time, the city used a contractor for taking orders and collecting payments.

³ *Manual of Instruction 6-2, "Cash Handling Procedures,"* September 14, 2007.

In order to ensure accuracy and completeness of transactions and identify fraudulent activity, the director of public works should ensure staff performs independent reconciliations of sales records and revenue deposited and of medical trash tag program eligibility documentation and delivery receipts.

Trash Tags Stored in Public Works Are Less Secure

Trash tags stored in Public Works are not adequately secured. Public Works staff moves trash tags from Treasury's vault to a locked storage closet in Public Works the day before a delivery. Some tags left over from the sale of partial boxes of tags then remain in Public Works' storage closet. Although staff locks the storage closet, staff can come and go from the office with the closet. Staff keep the key to the closet in an accessible location so staff needing access to the tags can retrieve them. Treasury's vault provides a more secure location for storing the trash tags. To enter the area around Treasury's vault staff must swipe their badge or sign in. Treasury's vault cannot be easily pried open. The vault is also on a timer and staff can only open the door during designated hours. Management must safeguard city assets from unauthorized access, use, or theft. Trash tags are convertible to cash and therefore have a value. Increasing security and reducing access to the trash tags should reduce the opportunity for loss or theft.

In order to improve physical security of trash tags, the director of public works should require trash tags remain in the Treasury Division's vault until delivered.

Trash Tags Are Sold Out of Sequence

Public Works staff sells trash tags out of sequence from the unique numbers printed on each tag, making it more difficult to account for all tags. Sequential numbering is a control that makes tracking and accounting for documents easier. The printing vendor boxes tags in groups of 7,000. If retailers purchase tags in multiples of 7,000, the department can sell full, unopened boxes. However, retailers are not required to purchase full boxes. When filling an order, staff will use full boxes first to fill the order and then use a partial box, which may have an earlier sequence number. When staff sells tags out of sequence, it is more difficult to account for all tags and missing tags may go unnoticed. In addition, tags in open boxes are more susceptible to theft because it is easier for someone to take tags undetected from an open box.

In order for the department to reduce the risk of theft from open trash tag boxes and utilize the benefits of disbursing trash tags sequentially, the

director of public works should eliminate the sale of partial trash tag boxes.

Staff Handling Trash Tags Have Not Attended Cash Handling Training

City staff who have custody of trash tags during the distribution and delivery process have not attended the city's cash handling training. Administrative Regulation 3-32⁴ requires that city personnel who handle city cash or cash equivalents attend cash handling training. City staff should secure and treat trash tag inventory as cash for security purposes. The cash handling MI 6-2 and cash handling training include instruction on inventory control, which apply to the handling of trash tags.

In order to ensure that staff handling trash tag inventory are trained in acceptable cash handling methods, the director of public works should direct staff to attend the City Treasurer's Office's cash handling training.

Medical Trash Tag Program Does Not Have Written Policies and Procedures

The medical trash tag program does not have written policies and procedures. The program distributes free trash tags to indigent residents with medical conditions that create extra trash. The program operates based on a set of unwritten practices. City code authorizes the director of public works to distribute free trash tags to indigent residents.⁵ In order to exercise the authority, the director must maintain the rules and regulations on file in the office of the director of the public works department.⁶ The Public Works staff currently approves program eligibility, distributes tags, and maintains documentation without written policies and procedures. Written policies and procedures serve as an important internal control by communicating staff responsibilities and establishing accountability, serving as a reference tool for employees, and providing program continuity in the case of employee turnover.

In order to meet city code requirements and provide guidance to staff, the director of public works should write and file rules and procedures for the medical trash tag program.

⁴ *Administrative Regulation 3-32*, "Cash Handling Training," November 1, 2006.

⁵ Code of Ordinances, Kansas City, Missouri, Sec. 62-49(a).

⁶ Code of Ordinances Sec. 62-50.

Negotiating New Contract Provision Would Reduce City's Risk

Negotiating contracts with the city's trash tag sponsors to require sponsors pay for tags after the city delivers them would make the city's billing process more efficient and reduce the risk of loss or theft of the tags. The city's current trash tag sponsors' contracts end April 30, 2011. The city bills one of its trash tag sponsors after the retailer sells the tags to the public. It bills the other sponsor once the city delivers the tags to the store. Waiting until the retailer sells the tags increases the city's risk because the retailer has possession of the city's asset. The city also relies on the retailer to report to the city the number of tags sold. Additionally, using the two different payment methods for the trash tag retailers increases the complexity and decreases the efficiency of the city's billing procedures. With increased complexity comes an increased risk of error and loss.

To improve efficiency and reduce risk to the city, the director of public works should try to negotiate sponsorship contracts for the city's trash tag program so that the city bills for trash tags when delivered to the retailers.

Recommendations

1. The director of public works should segregate incompatible duties within the trash tag program.
2. The director of public works should ensure that the department performs physical inventories of trash tags in their possession.
3. The director of public works should ensure staff performs independent reconciliations of sales records and revenue deposited and of medical trash tag program eligibility documentation and delivery receipts.
4. The director of public works should require trash tags remain in the Treasury Division's vault until delivered.
5. The director of public works should eliminate the sale of partial trash tag boxes.
6. The director of public works should direct trash tag program staff to attend the city's cash handling training.

7. The director of public works should write and file rules and procedures for the medical trash tag program.
8. The director of public works should try to negotiate sponsorship contracts with the provision that the city bills for all trash tags after the city delivers them to the sponsors.

Controls Over Trash Tag Program

Appendix A

Director of Public Works' Response

Controls Over Trash Tag Program



Public Works Department
Director's Office

20th Floor, City Hall
 414 East 12th Street
 Kansas City, Missouri 64106



DATE: April 20, 2011
TO: Gary White, City Auditor
FROM: Stanley J. Harris P.E., Director of Public Works *SJH*
SUBJECT: Response on Trash Tag Program Audit

Please find below our response to the recommendations resulting from the Trash Tag Program Audit.

- 1. Recommendation #1:** The director of public works should segregate incompatible duties within the trash tag program.

Agree. We support the recommendation to segregate incompatible duties. The duties will be separated and delineated in a manner that no one person will be in a position to conceal errors or irregularities.

- 2. Recommendation #2:** The director of public works should ensure that the department performs physical inventories of trash tags in their possession.

Agree. Current program policies and procedures are being revised to ensure that all trash tags in the possession of Solid Waste Division are accounted for at any given time. The revised policy will include carrying out physical inventory of trash tags on regular basis and unannounced inventory checks by program manager.

- 3. Recommendation #3:** The director of public works should ensure staff performs independent reconciliations of sales records and revenue deposited and of medical trash tag program eligibility documentation and delivery receipts.

Agree. Solid Waste staff will work with Public Works account division to formulate a policy in regards to reconciliations of sales records and revenue deposits. The reconciliations of medical trash tag program eligibility documentation and delivery receipts will be performed by independent staff.

- 4. Recommendation #4:** The director of public works should require trash tags remain in the Treasury Division's vault until delivered.

Agree. We will proceed with auditor recommendations to ensure that trash tags remain in the Treasury Division's vault until delivered.

- 5. Recommendation #5:** The director of public works should eliminate the sale of partial trash tag boxes.

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Agree. We will revise our policies & procedures for trash tag order taking and processing to ensure we carry optimal number of trash tags in a box. This will help us to avoid sale of partial trash tag boxes.

6. **Recommendation #6:** The director of public works should direct trash tag program staff to attend the city's cash handling training.

Agree. All Solid Waste Division staff involved with trash tag program will complete City's cash handling training.

7. **Recommendation #7:** The director of public works should write and file rules and procedures for the medical trash tag program.

Agree. We will have written policies and procedure to determine eligibility, delivery and reconciliation of medical trash programs.

8. **Recommendation #8:** The director of public works should try to negotiate sponsorship contracts with the provisions that the city bills for all trash tags after the city delivers them to the sponsors.

Agree. We are in process of negotiating sponsorship contracts with the provision that will allow us to bill for trash tags after delivery.

Cc: Troy Schulte
Brian Rabineau
Michael Shaw