



SALT LAKE COUNTY AUDITOR'S OFFICE

SEAN THOMAS

Auditor

August 10, 2005

Romney Stewart, Director
Solid Waste Management
6030 W California Avenue
Salt Lake City, UT 84104

Re: Solid Waste Management Audit

Dear Romney:

We recently completed an audit at Solid Waste Management (SWM). We reviewed the following areas:

- Cash receipting and depositing
- Petty cash and change funds
- Accounts receivable
- Fixed and controlled assets
- Travel
- Computer workstations and network configuration

In each of these areas, we evaluated the effectiveness of the internal control environment. Our work was designed to provide a reasonable, but not absolute, assurance that daily transactions were valid, accurate, and appropriate according to prescribed management policies.

We found many internal control procedures in place and functioning properly. However, deficient internal controls in various operational areas create opportunity for undetected theft(s) of funds to occur. This opportunity will continue to exist until SWM establishes proper controls, either by implementing our recommendations or some equivalent control measures.

In addition, we have limited our comments to significant findings and recommendations. They are not all-inclusive of the scope of the work performed. Other areas of concern have been discussed with the fiscal manager. The reader, therefore,

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should not assume that processes not discussed here are in compliance with countywide policy.

PETTY CASH AND CHANGE FUNDS

SWM has a petty cash fund and change fund with balances of \$1,500 and \$2,200, respectively. When we performed the unannounced cash count the petty cash fund had a small overage of \$.18. At the time we counted the change fund, it was intact and maintained at the authorized amount. Three of the five scale house operators were in balance to the cash collection reports at the time of the count. Two operators were short a total of \$8.22 at the time of the cash count. We commend SWM for following Countywide policies for the change fund and petty cash area.

CASH RECEIPTING AND DEPOSITING

SWM has automated its financial process by using the WasteWorks software program which was specifically created for waste management facilities. WasteWorks records daily transactions and also generates various reports helpful to management. With the volume of cash sales and receivables, WasteWorks includes important internal controls and provides increased efficiency in processing customer transactions. During our review of cash handling procedures we found some areas where improvements can be made. Our findings include the following:

- **Voided transactions were not handled according to Countywide policy.**
- **Over/shorts exceeded the acceptable amount, did not always have an explanation, and the cashier and supervisor did not sign the over/short log.**
- **The explanation for non-fee transactions was not always documented, and management did not indicate their review of these transactions with a signature.**
- **The form of payment was not being recorded correctly.**
- **Checks were accepted without recording the patron's driver license number on the check.**

Voided transactions were not handled according to Countywide policy. We examined a sample of 44 days in which cash was collected at SWM. The sample included 130 cashier daily totals from May 1, 2004, to April 30, 2005. There were 346 voids that occurred on the days in the sample.

The WasteWorks software program has a field in which an explanation for a void can be entered. The field limits the space in which the scale house operator can type in

the reason for the void. We found that the void descriptions on the Waste Works reports entered by the scale house operators were vague.

In addition, we found that the voided receipts were not kept with the daily balancing records. We were able to examine 14 of the 346 voided receipts (4%) that we found in the bottom of the boxes in which cash reports and balancing documents were filed. However, they were haphazardly put in the box with no numerical organization. Of the 14 receipts, 7 were marked void or had a written explanation. None of the 346 voided receipts were signed by the scale house operators or the supervisor.

Countywide Policy #1062, "Management of Public Funds," Section 3.5.2.2, states, "*When it is necessary to void a receipt, all copies will be marked "void," including the original (customer) copy, if available. The cashier who initiated the void will document on the front of the voided receipt the cause of the voided transaction and its resolution. A supervisor not involved with the transaction will review and sign the voided receipt along with the cashier who initiated the void. The voided receipts will be filed in proper numerical sequence and kept for audit purposes.*" The improper handling of voids, including not obtaining proper approval, creates a situation wherein funds could be diverted to personal use.

RECOMMENDATIONS:

- 1. We recommend that when it is necessary to void a receipt, all copies be marked "void," including the original (customer) copy, if available.*
- 2. We recommend that the scale house operator who initiates the void record the cause of the voided transaction and its resolution on the front of the voided receipt and in Waste Works.*
- 3. We recommend that a supervisor not involved with the transaction review and sign the voided receipt along with the scale house operator who initiated the void.*
- 4. We recommend that the voided receipts be filed in proper numerical sequence and kept for audit purposes with the daily balancing documentation.*

Over/shorts exceeded the acceptable amount, did not always have an explanation, and the cashier and supervisor did not sign the over/short log. We reviewed 130 daily totals for various scale house operators and found that 42 of 130 (32%) daily totals had over/shorts greater than +/- \$2. The scale house supervisor indicated that scale house operator performance evaluations have an expectation that the scale house operator balance daily within +/- \$2.

In addition, 93 (72%) of the daily totals had an over/short. Of the 93 over/shorts, 79 (85%) of them did not have an explanation as to the reason or possible cause of the

over/short. Overs and shorts often are not readily explained. However, if an explanation is possible, or available, it should be included on the balance sheet. Neither the scale house operator nor the supervisor signed the over/short log to indicate their review. Policy #1062, Section 5.2, states, "*MPF Form 11 must be maintained and a copy signed by the immediate supervisor shall be attached to the Monthly Report of Cash Receipts that is sent to the Auditor's Office.*" The MPF Form 11 also provides an area for the cashier to initial the form. SWM created their own Over/Short Report and was unaware of the requirement in Policy #1062 for the scale house operator and supervisor to sign the over/short form.

The SWM Over Short Report provides a standard method for each scale house operator's over/shorts to be recorded. The benefit of consistent use of this report is that the operator is reminded of any over/short problems and problems are reviewed by a supervisor. The neglect of use of the Over Short Report is a violation of County policy, and puts the employee and SWM at risk.

RECOMMENDATIONS:

- 1. We recommend that SWM emphasize the expectation to scale house operators that over/short amounts are not to exceed +/- \$2 on a daily basis.*
- 2. We recommend that management instruct scale house operators to use greater care in handling cash transactions to reduce the frequency and magnitude of overs and shorts.*
- 3. We recommend that explanations for overs and shorts, if explanations are available, be included on the balance sheet.*

ACTION TAKEN:

Management added an area for the scale house operators to initial the Over Short Report, and an area for the scale house supervisor and the fiscal manager to sign the report.

The explanation for non-fee transactions was not always documented and management did not indicate their review of these transactions with a signature. While performing the examination of 130 daily totals we found that fees are not collected for some transactions that occur at SWM. On the WasteWorks daily detail transaction report, in the column titled customer name, one type of non-fee transaction was labeled "exempt." A second column on the report described the type of material dumped or purchased for the transaction. A third column allowed for an explanation of the transaction to be input by the scale house operator.

When reviewing the "exempt" transactions, the information provided was often vague and not detailed. For example, one type of "exempt" transaction listed the material type as "pvt single." The scale house supervisor explained that Landfill employees are allowed to dump at the Landfill for no charge. This type of transaction would fall under the "exempt", "pvt single" category. However, the explanation column of the report did not state which employee the transaction pertained to.

Management indicated that the daily detail transaction report is reviewed, but not signed to show the review was completed. They were unaware of the need to thoroughly review the "exempt" transactions and any other transactions in which fees are not collected. Without the proper review, funds could be stolen or mishandled, likewise patrons could be allowed to dump at the Landfill without paying the proper fees.

RECOMMENDATIONS:

- 1. We recommend that management review the "exempt" and non-fee transactions on the detail transaction report and indicate their review by signing the report each day.*
- 2. We recommend that the scale house operators use the note or explanation field in WasteWorks to provide more information about the "exempt" and non-fee transactions.*

The form of payment was not being recorded correctly. We reviewed 130 daily totals, as mentioned before, for various scale house operators during the time period in our sample. The cash/check composition on the deposit slip matched the WasteWorks Ticket Report on only one daily total. The one daily total in which the cash/check composition matched only included cash and the total collected was \$21.20.

A key internal control is to monitor the cash/check composition. In the absence of the source document that provides this information, management cannot be sure that a scheme to substitute checks for cash is not taking place. Funds are more susceptible to mishandling if the form of payment is not recorded correctly.

Personnel at SWM explained that a cash transaction is easier and quicker to enter than a check payment. If the customer pays with a check, the operator is required to enter the check number to record the transaction as paid with a check. This causes the operator to have to wait for the patron to write the check before a receipt can be printed. The operators are concerned about causing long lines and delays for patrons so they rarely record the cash/check composition accurately. Although we appreciate the operators concerns, taking the time to enter the check number is a learned behavior that becomes less burdensome when consistently done.

RECOMMENDATION:

We recommend that scale house operators enter the correct form of payment for all transactions.

Checks were accepted without recording the patron's driver license number on the check. During the unannounced cash count we performed at SWM proof of examining a valid form of identification prior to accepting a check was not indicated on checks that had been collected. Countywide Policy #1301, "Acceptance of Checks," states, "a valid form of ID (driver's license, Utah identification card or check guarantee card) be obtained prior to acceptance of checks." Section 4.2 continues, "When a valid form of identification is provided, the following information should be documented on the front of the check: expiration date of identification card and either account number, guarantee number or driver's identification number."

The scale house operators do not record identification information on checks they receive due to the concern about causing delays and long lines. The operators stated that they do sometimes ask to examine the patron's identification but do not write the ID number on the check. Properly recorded identification information aids collection efforts in the event that a check is presented for insufficient funds.

RECOMMENDATION:

We recommend that valid identification information be recorded on checks before they are accepted from patrons.

ACCOUNTS RECEIVABLE

Solid Waste Management offers two types of payment plans to patrons. One type creates an accounts receivable for the Landfill, and the other type creates a liability because the customer pre-pays for tipping services. The first type is billed monthly for the total expense of trips made to SWM. The customer in the second type is also sent an invoice monthly, but companies in this category deposit an amount at SWM and spend down from that amount. Notes on file of some of the pre-pay accounts ask for notification when the deposited amount falls below a certain level. A credit status is established for customers using the following criteria.

Credit Policy:

The Landfill has a credit policy entitled "Credit Policy for Open Accounts." The policy was updated June 2004. The policy addresses five issues.

1. **Bonds.** All firms or individuals wanting credit with SWM must post a payment bond equal to three times the average monthly charges or \$1,000, whichever is

greater. A Credit Policy Disclosure must be signed and on file in addition to the bond. Credit may only be extended to charge disposal fees or to purchase facility products. The disclosure statement says that there will be a semi-annual review of accounts and the company may be asked to increase the bond at that time.

2. **Credit limits.** The credit limit for each account is 80% of the bond amount. Management can refuse the company additional charges if the account reaches the credit limit, and charges may be refused until the account is brought within terms or the face value of the bond is increased.
3. **Terms are “net 30 days.”** This means that all charges made in a month are due in full the following month.
4. **Service charges.** A service charge of 1½% per month (18% APR) will be charged for any amount unpaid beyond 30 days.
5. **Delinquent accounts.** An account will be considered delinquent and payable in full if any charges on the account are unpaid 60 days from the date of charge. Charge privileges may be suspended until the account is brought into compliance with the terms. Management has the right to “call” the bond of any delinquent account. Delinquent accounts may be referred to the County Attorney’s office for collection action. Delinquent customers are responsible for all amounts owing on the account, including service charges and collection fees. Delinquent accounts can be reinstated only when the account is paid within terms, a new bond is posted, and all back charges have been paid. Management can deny service to any account based on past credit history, current financial status of the company and/or individual, or information that may bring economic harm to Solid Waste Management. A representative of the company is asked to print their name, sign and date the disclosure. This signed paper is kept in the company’s file. The Scale House Supervisor, who is also the Accounts Receivable Manager, reported that he has very few problems with receiving payment from companies who have been extended credit. The threat of calling the bond is very effective in keeping all accounts current.

Account Aging Report

The eight-page Account Aging Report, dated May 31, 2005, listed 180 accounts. Of that number, 141 accounts were not associated with Salt Lake City or Salt Lake County and had outstanding balances totaling \$776,614.44. Outstanding balances on the 39 accounts associated with Salt Lake City or Salt Lake County totaled \$560,553.03. We researched a statistically significant sample of 51 companies not associated with the City or County to determine if those companies had a current bond on file and if the credit limit assigned to the company was 80% of the bond. We found all the companies had a bond and that the credit limit for each company was set at 80% of that bond.

Government agencies, such as cities, water districts, or school districts are not required to have a bond.

We found one company whose bond on file showed an expiration date of June 18, 2000. When we notified the Scale House Supervisor of the expiration, he immediately called the company in question to inquire if there was an update for the bond. The Supervisor faxed the company a letter requesting proof of extension of the bond or evidence of a new bond. This was the only expiration found among the 51 companies researched.

The Account Aging Report is run every month and is reviewed by the Scale House Supervisor and the Fiscal Manager. Calls are made to any account that has an outstanding balance of over 60 days. Credit to a company may be discontinued until the account is paid within the amount established in the customer agreement.

Adjustments

We obtained a Financial Activity Report listing accounts receivable adjustments made during May 1, 2004 to April 30, 2005. We examined 351 adjustments on 144 days. Of the 351 adjustments, we found valid cause and signature on the adjustment printout in 339 (96.6%) instances. Of the twelve adjustments not documented, four had adjustment printouts but no explanation or signature. No printout was found for eight of the adjustments. It is possible that the documentation was filed in another place, but not found during our examination.

Of the undocumented adjustments, the amount of the adjustment and the company adjusted were similar to those that had been found in the 339 adjustments. None of the adjustments seemed excessive or unusual. A common adjustment was made for a company billed in error. A particular company was billed, when, in fact, that company was hauling for another entity, for example a city. The bill for that load should have been billed to the city or another entity for which the garbage was hauled. The billed company notified SWM of the error and included the name of the company to which it should have been billed. Companies appeared to keep track of each truck load and for whom each truck was hauling. The error in billing happens because scale house operators enter the license plate number into the register to print a receipt as the truck comes across the scale. That license plate number becomes associated with a particular company, and each time it is entered, the company associated with that number is billed. In practice, some companies haul for many entities. Adjustments are commonly made when the company sees that they were charged incorrectly for the load.

FIXED AND CONTROLLED ASSETS

Our objective for this part of the audit was to evaluate the adequacy of internal controls over County fixed and controlled assets, including compliance with Countywide Policy #1125, "Safeguarding Property/Assets." A fixed asset is defined as an item of real or personal property owned by the County, meeting the criteria for capitalization, having an estimated life expectancy of more than one year, and a cost equal to or greater than the capitalization rate, currently \$5,000.

A controlled asset is a personal property item, which is easily converted to personal use, having a cost of \$100 or greater, but less than the current capitalization threshold. Personal communication equipment, such as cell phones, is considered controlled assets regardless of cost.

We reviewed asset purchases for the period June 1, 2004 through June 1, 2005 and later compared those items to lists of fixed and controlled assets provided by the Auditor's Fixed Assets Group and the agency Property Manager to determine if those assets had been accounted for and added to agency lists.

We obtained a list of fixed assets assigned to Solid Waste Management and located at the Landfill site and the transfer station. We selected a sample of 37 fixed assets to locate and found all of them, including newly purchased items.

We obtained lists of controlled assets from the Landfill Property Manager. Four separate controlled asset lists were on file. One of these lists was used exclusively to record hand-held radios, and showed their location and serial numbers. Typically, the radios are placed in trucks, or vehicles, or held by individual employees to assist in the vital communication needs of the Landfill. By their nature, radios are subject to frequent repair and charging, and continual movement between vehicles or between individuals. In spite of the high degree of mobility involved, we were able to locate all radios from our sample.

A second list included all of the individually assigned cell phones. The Property Manager relies on pooled monthly service billings to keep abreast of the changes in cell phone custodians. Monthly billings provided a list of each phone number and cell phone serial number by user name. In our inventory, we located all cell phones listed.

A third list, maintained by the Landfill IS specialist, included serial numbers for computers, printers and accessories. A fourth list included a description of those computer items and their location, and also showed all other controlled asset items and their location. We selected a sample of 115 controlled assets to locate and were able to locate all items sampled. Based on our work in this area we found the following:

- **Some recently purchased controlled assets were not included on the controlled assets lists.**

- **The Controlled Assets Inventory Form—Organization substitute was not in an acceptable format.**
- **The Controlled Assets Inventory Form—Employee was not being used.**

Some recently purchased controlled assets were not included on the controlled assets lists. We examined invoices of newly purchased items from the period June 2004 to June 2005. The matching of newly purchased items to the controlled assets lists showed that 14 items had been added to the list and 13 items had not. The items not listed were 12 computers purchased on March 1, 2005, and a button machine that produces campaign-like buttons that attach to shirts or blouses. The button machine was purchased on November 22, 2004, for the recycling program.

Policy #1125, Sections 2.2 and 2.2.8, state, “*Property Manager’s duties- Property Managers assigned by their Administrators are responsible for the following... Coordinate with the organization’s Purchasing Clerk to ensure all newly acquired property is identified and accountability is appropriately established...*”

Newly purchased controlled assets are easily converted to personal use if they are not promptly added to the controlled asset list. Newly purchased items should be added to the controlled asset list upon receipt. Without identifying the asset conclusively and tying it to the invoice at the time of receipt, the potential for loss is increased.

RECOMMENDATION:

We recommend that the employee designated as Property Manager, and the employee receiving newly acquired assets, coordinate their efforts to insure that newly acquired assets meeting the “controlled” asset criteria are added to the controlled asset list at the time of receipt.

The Controlled Assets Inventory Form—Organization substitute was not in an acceptable format. The controlled assets list provided by the Property Manager shows an agency tag number, location and a brief description of the item. There were a few item descriptions that included model or serial numbers, but most did not have enough information to adequately differentiate the item from others in the same category.

Policy #1125, Section 4.3, states, “*The Property Manager shall maintain records to manage controlled assets using the following forms (or forms that contain substantially the same information) and procedures. Subsection 4.3.2, states, “Exhibit 4 - Controlled Assets Inventory Form- Organization” is used for property not readily assignable to an individual employee or which is shared by more than one employee.*” Section 4.3.5, states, “*These forms are maintained by, or under the supervision of the Property Manager, and should be available for review or audit by the Auditor’s Office upon request.*” Section 4.3.6, states, “*Although it may be impractical to define exact*

locations on the forms in circumstances where property is used by more than one employee, or where it is frequently moved or reassigned, Property Managers should use exact locations whenever possible (and update them as needed) to establish better control.” Exhibit 4, “Controlled Asset Inventory Form–Organization” from Policy #1125 is shown as Attachment A.

By not recording data specified on the form in Policy #1125, essential information for control and planning of future asset acquisitions is lacking. For example, since assets were not adequately described, it could not be determined whether recent acquisitions had been added. Inclusion of the purchase date can help in determining whether the list has been updated for these items. The controlled asset list maintained by the Property Manager should contain item descriptions, purchase dates, acquisition costs, and serial numbers. This information allows for items to more readily be identified.

RECOMMENDATION:

We recommend that the controlled assets list include additional information to identify the asset, such as purchase date, acquisition cost, and serial number.

The Controlled Assets Inventory Form—Employee was not being used. The Property Manager uses the cell phone pooled billing form as his control listing for cell phones. Other individually assigned items—radios, a lap top computer and some digital cameras—are listed by name and location on an organizational list, but individuals to whom these items are assigned do not sign for them as evidence of their custody.

Policy #1125, Section 1.2, states, “*Due to the difficulty associated with centralized control of personal communication equipment...this category of property is considered to ‘controlled assets’ regardless of the cost of the individual items, and is therefore subject to the controlled assets procedures...*” Section 2.3.4, states, “*...at least annually, employees assigned fixed or controlled assets shall review the list of assigned assets and provide verification by his/her signature to the Property Manager as to the accuracy and completeness of the list.*” Such verification should be in the form as provided by Section 4.3.1, Exhibit 3 of the policy, or a form that contains substantially the same information. Exhibit 3 is shown as Attachment B.

Failure to use the form as required circumvents the obligation and responsibility of the employee to formally acknowledge control of assets assigned to them and to notify the Property Manager of any change in asset status. When this form is not used assignment of responsibility for any loss or theft would be more difficult to achieve.

RECOMMENDATION:

We recommend that all employees who individually are assigned controlled assets complete the “Controlled Assets Inventory Form--Employee,” and that these forms

annually be reviewed and the signature renewed by the individual in possession of the controlled asset.

TRAVEL

Another area examined during the audit was travel by SWM employees for County business purposes. Our objective for this part of the audit was to evaluate the adequacy of internal controls over travel, including compliance with Countywide Policy #1019, "Travel Allowance and Reimbursement."

We examined documentation for trips that were taken between January 1, 2004, and June 15, 2005. Fifteen trips were taken and two trips were cancelled. The approximate amount spent for travel and registration costs was \$17,000.

We found that the Travel Allowance and Reimbursement forms and Request for Transportation Allowance forms were completed and approved by management. The Travel Expenditure Reports (TERs) were completed upon return, receipts were attached for expenses, and the forms were approved by management. There were a few trips in which receipts for taxi cabs and gratuity were not included. In addition, amounts owed to the County for per diem checks in excess of expenses were reimbursed to the County by the employees. Amounts owed to County employees for amounts spent in excess of the per diem check were reimbursed to the employee through their paycheck.

COMPUTER WORKSTATIONS AND NETWORK CONFIGURATION

The fieldwork for this section of the audit was performed by County Information Services (I/S) personnel. One purpose for this part of the audit was to determine if the network configuration at SWM followed County Information Services protocol. The second purpose was to determine if personnel at SWM were using their computer workstations only for County business purposes.

Information Services provided a report to the Audit Division summarizing the results of the examination. The following information is taken from their report. For further detail, the complete report is attached as Attachment C.

Server File Review per I/S write-up

- The technical assistance assignment was very limited in scope. No serious problems were discovered that will not be resolved as part of the migration to the Salt Lake County network.
- There were a few music files and personal files on the servers. Nothing of concern, either legally or administratively, was found during the cursory review.

Romney Stewart, Director
Solid Waste Management
August 10, 2005
Page 13

Results of the Workstation File Review per I/S write-up:

- The computer workstations used by the Division Director, Associate Division Director, Fiscal Manager, Operations Manager, and Systems Analyst at the Landfill were reviewed. There were a few music and personal files on each users local drive. Nothing of concern, either legally or administratively, was found during the review.

We appreciate the cooperation and assistance received from SWM staff during our audit. We are confident our work will be of benefit to you as you endeavor to make changes to strengthen internal controls. If we can be of further assistance to you, please contact us.

Sincerely,

James B. Wightman, CPA
Director, Audit Division

Cc: John Patterson
Linda Hamilton
Stuart Palmer

