

**DOUGLAS COUNTY INTERNAL AUDIT DIVISION**

**Douglas County Environmental Services (Landfill)**

**Special Report  
2006/2007 – 03**

# Douglas County Internal Audit Division

## **Background:**

In September 2003, Douglas County began accepting solid waste at the new Pheasant Pointe landfill location at 13505 N. 216<sup>th</sup> Street, Bennington, NE. Douglas County and Waste Management of Nebraska, Inc. (Waste Management) have had an agreement since December 1988 for operation of the sanitary landfill. The agreement with Waste Management for the operation of the Douglas County Landfill has been in continuous operation since the acceptance of the 1988 agreement.

Douglas County leases the scale house building from Waste Management for \$1.00 a year with continuous annual renewals. The computers and computer server, scales, and the security cameras are owned by Waste Management.

The PC Scales program was implemented in March 2006.

## **Purpose:**

To ensure the PC Scales program accurately interfaces with Oracle and to assess the operating effectiveness of internal controls.

## **Scope and Methodology:**

The scope of the review includes testing the design and operating effectiveness of internal controls relating to the following processes:

- Review and Observe data entry on scale information by Weigh Master
- Review payment collections from the public according to scale and non-scale rate fee schedule including daily deposit of the public payments
- Review the oracle invoicing reports for the months in our sample selection
- Review the daily reports on PC Scales program for the months in our sample selection

The scope of the review included observing and interviewing landfill personnel regarding the following policies and procedures within the written position duties:

- Observe operations of the PC Scales program
- Interviewed landfill personnel regarding cash collections and deposits
- Interviewed and observed landfill personnel with scale tickets and reports

The scope of the special report covered the time frame from March 2006 through December 2006. Three months (one-third) were selected out of the total time frame for our sample selection. The auditors used a non-statistical sampling technique to make the

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transaction selections. This sampling technique allows the auditors to use sound and seasoned judgment to randomly select items based on their value. The DCIAD results and recommendations are restricted to the sample tested.

The sample test selection is as follows:

- July 2006
- October 2006
- December 2006

The special report conforms to the generally accepted auditing standards for government auditing issued by the Comptroller General of the United States.

### **Objectives:**

1. Prepare and send entrance letter to the Douglas County Environmental Services
2. Identify key contact person to coordinate the special report procedures and outline
3. Conduct preliminary work survey
  - a) Review written position description
  - b) Research waste management contract and fee schedules
  - c) Review monthly fee schedules for sample test
  - d) Review audit reports from PC Scales program
  - e) Review Oracle generated Billing and Receipt History
  - f) Review Oracle generated Past Due Invoice Report
4. Complete a draft audit program and review it with key contact at the Douglas County Environmental Services
5. Review flowchart of the Landfill Billing Workflow
6. Complete testing objectives
7. Index work files and review

### **Overall Evaluation:**

During the audit, the Internal Audit Division was provided with the following access to the Oracle database: Billing and Receipt History and Past Due Invoice Report. This access does not allow the auditor to make any changes to the financial information, merely view the financial information and run reports. DCIAD was also allowed access to reports generated from the PC Scales program and the supporting daily documents.

DCIAD was allowed access to the scale house at the Pheasant Point landfill site and we were able to interview the personnel and observe the duties of the weigh master. DCIAD was also able to interview the Landfill Superintendent and the Landfill Audit Accountant.

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### Findings and Recommendations:

**Finding #1:** The daily deposits made for the cash collections were missing two employee signatures (initials) on the deposit tickets and daily cash balancing report. There also were four (4) deposits in our sample selection which had errors on the deposit slips.

In our sample selection, we reviewed the daily deposit tickets and the daily cash balancing reports. It was determined that in the three months of our sample, there were a total of 175 deposits over 74 business days. Eight (8) deposits had two signatures (4.6%) and nine (9) deposits had no signatures (5.1%). The remaining deposits had only one signature present. DCIAD was informed by the Landfill Superintendent that the office policy and procedure regarding cash deposits and completing the daily balancing report required two signatures (initials) on all deposits and initials on the cash balancing report. This procedure was not correctly followed by landfill personnel 95.4% of the time. Subsequently, the accuracy of the daily deposits and the daily cash balancing report could be compromised by personnel not following the policy and procedure. A system of internal control should include proper segregation of duties so no one individual is capable of handling all phases of a transaction from beginning to end.

**Recommendation:** Environmental Services (Landfill) personnel who perform the duties of preparing the daily cash deposits and preparing the daily cash sheet should have at least two employees verify all the cash handling functions.

**Finding #2:** Checks written from the Bank of Bennington account should have two signatures.

In our sample selection, the checks that were written from the Bank of Bennington account to be deposited into the Treasurer's Office (Environmental Services general fund) only contained one signature. The intent for having more than one person authorized to sign for withdrawal of funds would be in the event of the Director of Environmental Services becoming unavailable, the funds can be accessed and transferred to the Treasurer's Office for deposit into Environmental Services general fund. Requiring double signatures on all checks written is a good internal control practice for safeguarding the assets and to prevent fraud. Good internal control includes a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records.

**Recommendation:** DCIAD recommends implementing a policy and procedure manual for all areas in the department. Included in the policy and procedures manual would be a policy that requires all checks written to have at least two signatures.

**Finding #3:** Central Waste, a cash only garbage customer, was short cash payments or had late deposits for their waste disposal transactions.

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Central Waste is currently a cash customer of the Douglas County Landfill due to Central Waste not adhering to the terms of the credit agreement. At the beginning of every business day of operations, Central Waste will usually submit a cash deposit for the current day's activities. Some business days the cash deposit will be in excess of Central Waste's daily activities and the cash overage is carried forward to the next business day. There are days where the beginning cash deposit for Central Waste is not sufficient to cover their daily activities. In the event of a cash shortage, Central Waste will be notified of the shortage and a late deposit will be submitted. Central Waste had late deposits 25 days out of the 74 business days (33.8%) in our sample selection. Even though Central Waste is a cash customer, their business practices are operating in the manner of a credit customer. To eliminate the potential negative effects of insufficient daily deposits and/or the inaccurate accounting of the tonnage disposals, Douglas County Landfill personnel should not assume the responsibility of assuming Central Waste's accounting clerk responsibilities.

**Recommendation:** Central Waste should operate as a cash customer in all practices and purposes. Cash customers pay for services at the time of services rendered. If Central Waste would like to pay for the present day's transactions at the start of each business day, then the remaining balance at the close of the day would need to be reimbursed back to the Central Waste drivers or applied towards their outstanding balance due.

**Finding #4:** The cash collections were not adequately secure at all times.

During our visit to the scale house, DCIAD observed the collections of monies from landfill customers. Landfill personnel (weigh masters) collected the money from the customers and either placed the money in an unlocked cabinet drawer or the open cash register. We were unable to identify why money was either placed in the cabinet drawer or the open cash register. All cash transactions should be recorded in a secure cash register with a receipt tape to verify daily transactions. Utilizing a secure cash register is a good internal control practice for safeguarding the assets and to prevent fraud.

**Recommendation:** Cash transactions should be recorded on the cash register tape and all monies collected from cash customers should be secured at all times in the cash register.

**Finding #5:** There are no written agreements for free tonnage disposal for Douglas County Highway Department and twenty-five (25) free tonnage disposals per billing cycle for the Nebraska State Department of Roads.

During our review of the PC Scales program reports and the Oracle billing history it was determined that Douglas County Highway Department and the Nebraska State Department of Roads were not being billed for their tonnage disposals. The Landfill Audit Accountant informed DCIAD of the verbal agreement between these two agencies for free tonnage. During the time frame scope of the special report (March through December 2006), Nebraska State Department of Roads disposed of 60.68 tons of waste for a total amount of \$1,381.57. In our sample selection, State Department of Roads did not exceed the monthly twenty-five (25) free tons allowance. Douglas County Highway

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Department disposed of 3,894.02 tons of waste for a total amount of \$86,884.42. The verbal agreement between these two agencies generates approximate lost revenue in the amount of \$110,332.49 a year.

Douglas County Highway Department should add waste disposal as a budget item to their annual department budget. It is a current Douglas County practice to have one department bill another department for services rendered. The Douglas County Garage bills other Douglas County Departments for maintenance on vehicles assigned to their respective departments.

**Recommendation:** The agreement between Nebraska State Department of Roads and Douglas County Highway Department should be formally drafted and approved by the County Board.

**Finding #6:** The daily cash balancing report and tracking for individual cash customers are performed manually in paper format.

**Recommendation:** Douglas County Landfill personnel should make computerized forms for the daily cash balancing report and reports to track individual cash customers. These computerized forms can then be daily transmitted electronically to the Landfill Audit Accountant.

The DCIAD would like to thank everyone for the cooperation and assistance they provided us during the review process. We would also like to compliment everyone involved in assisting with the Special Report. Special thanks to the Douglas County Environmental Services office and Landfill personnel for their tremendous assistance and collaboration among outside government entities.