

**A Report to the Citizens
of Salt Lake County and the
Board of County Commissioners**

October 1999

A Limited Scope Audit of the

**Salt Lake Valley
Solid Waste Management Facility**

Craig B. Sorensen

County Auditor

A LIMITED SCOPE AUDIT

of the

SALT LAKE VALLEY
SOLID WASTE MANAGEMENT FACILITY

OCTOBER 1999

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A Limited Scope Audit of the Salt Lake Valley Solid Waste Management Facility

*This report is divided
into the following
sections:*

- I. Executive Summary*
- II. Introduction*
- III. Scope and
Objectives*
- IV. Findings and
Recommendations*

*The majority of SWM
revenue is from open
account sales.*

I. Executive Summary

Background

The Auditor's Office completed an audit of accounts receivable, cash, fixed and controlled assets, and payroll at the Solid Waste Management Facility (SWM).

The SWM Facility, or the Landfill, is a joint venture between Salt Lake City Corporation and Salt Lake County. The Landfill is an enterprise fund, meaning that costs for its facilities and services are recovered primarily through user charges. Revenues are derived from "tipping fees" collected from users. The "tipping fee" is currently \$22/ton. Of this amount, \$17.75/ton is used for operations and \$4.25/ton is transferred to Salt Lake County, Salt Lake City, and the Salt Lake City/County Health Department.

During 1998, gross tipping fees and other revenues were approximately \$17.9 million. Of this amount \$1.5 million was collected through cash sales and \$16.4 million was generated by customers who have established accounts with SWM. Major users of SWM include Salt Lake County, Salt Lake City, and commercial haulers.

Findings and Recommendations

Ninety-seven percent of open accounts are current. During our review, we looked at SWM's aging report. SWM has kept the majority of their accounts current. Of the \$1.4 million dollars in accounts receivable (as of April 30, 1999), 97 percent were in the 0 to 30 days category.

Many customers do not have an adequate size payment bond. Credit customers are required to have a current bond in the amount of \$1,000 or three times their average monthly dumping expenses. Of the active customer accounts we reviewed, 26 percent were out of compliance with the County ordinance.

*Controlled assets
are not tracked.*

Some customers are being allowed to charge amounts in excess of their current bond amount. In reviewing 36 customer accounts, we noted eight account balances which exceeded their total bond amount. This practice of allowing customers to charge more than their bond amount exposes SWM to a financial risk should any of these customers become unable to pay their invoices.

The form of payment is not being recorded correctly. Scale house operators do not consistently enter the correct form of payment when recording a transaction. Of 142 daily totals we examined, only six instances were noted where the operator's cash summary matched the deposit slip cash/check totals. By not recording the form of payment correctly, funds are more susceptible to mishandling.

SWM does not keep a list of controlled assets. Countywide Policy #1125, *Safeguarding Property/Assets*, section 2.2 states, "Property managers assigned by their Administrators are responsible for...accounting for all controlled assets within the organization's operational and/or physical custody." Since controlled assets are sensitive to conversion to personal use, maintaining a list of assets and doing an annual inventory is vital for management to keep track of assets.

Please refer to Section IV for more details about the above findings and other findings and recommendations regarding the Solid Waste Management Facility.

SWM revenue in 1998 was \$17.9 million.

II. Introduction

The Solid Waste Management Facility, or the Landfill, is a joint venture between Salt Lake City Corporation and Salt Lake County. The Landfill is an enterprise fund, meaning that costs for its facilities and services are recovered primarily through user charges. Revenues are derived from “tipping fees” collected from users. The “tipping fee” is currently \$22/ton. Of this amount, \$17.75/ton is used for operations and \$4.25/ton is transferred to Salt Lake County, Salt Lake City, and the Salt Lake City/County Health Department.

During 1998, gross tipping fees and other revenues were approximately \$17.9 million. Of this amount \$1.5 million was collected through cash sales and \$16.4 million was generated by customers who have established accounts with SWM. Major users of SWM include Salt Lake County, Salt Lake City, and commercial haulers.

Solid Waste Management requires all customers, except government agencies, who use SWM facilities on account to obtain a payment bond. The payment bond acts as a type of insurance, guaranteeing payment by the bond company if the customer does not pay on their account. Payment bonds reduce the likelihood of uncollectible accounts, thus reducing the financial risk to SWM.

III. Scope and Objectives

The scope of this audit included cash collections and deposits, accounts receivable, fixed and controlled assets, and payroll. In these areas we examined items or transactions selected from the time period of May 1, 1998 to April 30, 1999. Audit objectives were as follows:

- ! To evaluate the adequacy of internal controls over cash and to determine, on a test basis, if cash collected was appropriately deposited.
- ! To evaluate the adequacy of internal controls over accounts receivable and the effectiveness of the collection process.
- ! To verify the existence of fixed and controlled assets, and whether they are properly documented, tagged, and disposed of in accordance with *Countywide Policy #1125, Safeguarding Property/Assets*.
- ! To determine if employee names included on the payroll check receipts register are landfill employees.

During the audit, the new transfer station began operations. A detailed examination of financial procedures at the transfer station was outside the scope of this audit.

IV. Findings and Recommendations

Our findings and recommendations are divided into five sections: accounts receivable, payment bonds, cash, fixed and controlled assets, and payroll.

1.0 Accounts Receivable

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.

Figure 1 shows a breakdown of tipping-fee revenue and other revenue in 1998. Only 8 percent of revenue came from the customer paying cash at the scale house. The remaining revenue, \$16.4 million, was generated through open account sales.

Eight percent of 1998 revenue was derived from cash customers.

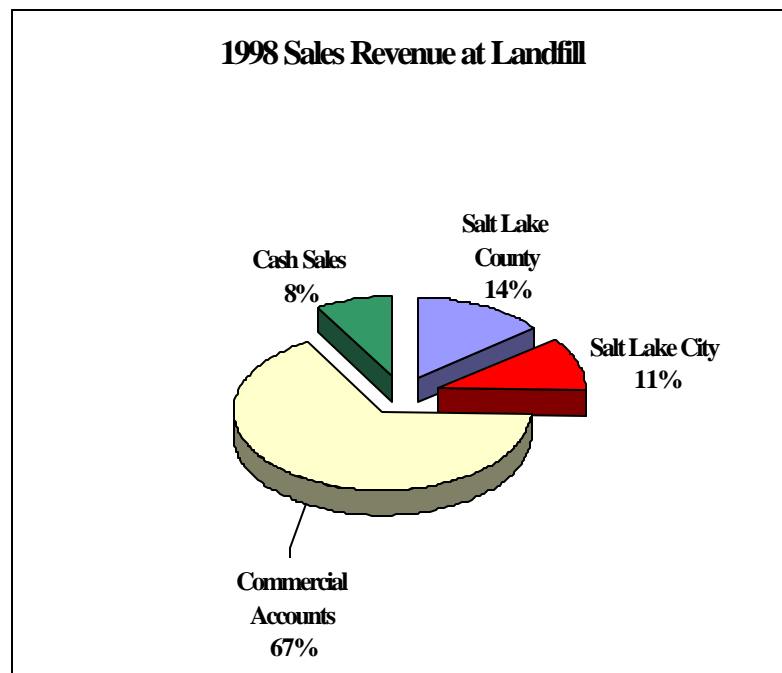


Figure 1. Ninety-two percent of revenue is generated through open account sales.

Since receivables are the largest source of revenue for SWM, we emphasized our efforts in this area. Generally, we found that accounts receivable is well managed at SWM. Our findings are:

- ! Ninety-seven percent of open accounts are current.
- ! Explanations for adjustments to customer accounts are sometimes inadequate.

1.1 Ninety-seven percent of open accounts are current.

As part of the audit, we reviewed a recent aging report and confirmed account balances for a statistical sample of SWM customers. SWM has kept the majority of their accounts current. Of the \$1.4 million dollars in accounts receivable (as of April 30, 1999), 97 percent were in the 0 to 30 days category. Figure 2 shows the aging breakdown for SWM’s accounts receivable as of April 30, 1999.

The majority of SWM accounts are current.

Aging of Accounts Receivable

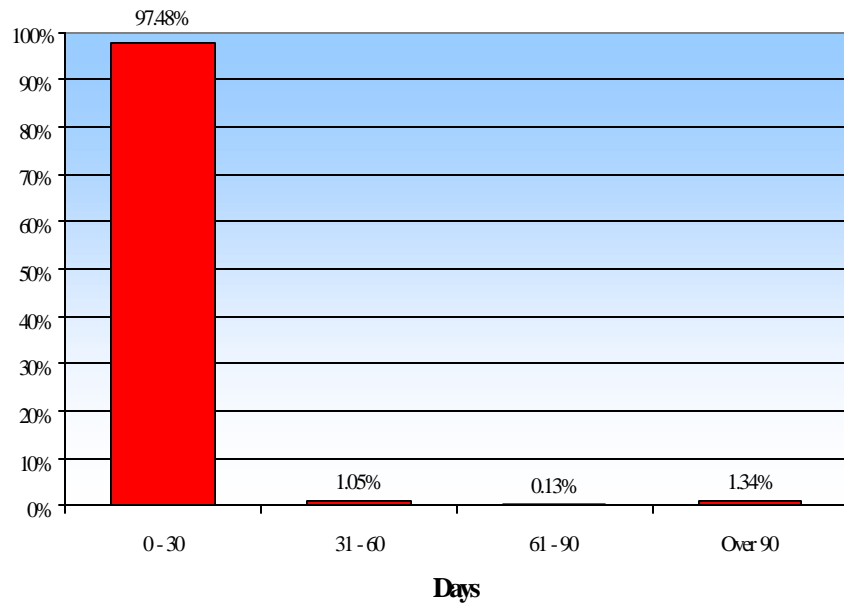


Figure 2. 97.48% of amounts owed to SWM are current.

The majority of the 1.34 percent of accounts receivable 90 days past due is owed by one customer. This customer has made special payment arrangements with SWM.

1.2 Explanations for adjustments to customer accounts are sometimes inadequate.

Adjustments to individual accounts are made as needed. Most of the adjustments are completed by the Scale House Supervisor.

An example of a common adjustment would be a duplicate transaction occurring at the Waste Wizard. The Waste Wizard is an automated system which calculates the dumping fee and charges the customer account. The Wizard has a numerical keypad in which the driver of the waste truck enters the vehicle number. Occasionally, the receipt will not print. Some drivers will re-enter the vehicle number on the keypad multiple times, until a receipt is printed. Each time the vehicle number is entered, the transaction is charged to the customer's account, thus over billing the account.

Each morning, the Scale House Supervisor examines the detail list of transactions from the previous day to determine if any duplicates occurred. If a duplicate did occur, the customer's account is adjusted at that time.

During our audit, we examined a sample of adjustments occurring on 44 different days between May 1, 1998 and April 30, 1999. We found three instances in which a customer's account was credited one too many times for a Waste Wizard adjustment.

In addition, several instances occurred in which we asked the Scale House Supervisor to further explain an adjustment because the documented explanation in the computer was vague. The Scale House Supervisor could not remember the details of the transaction.

Currently, the Accounting Supervisor briefly reviews adjustments for reasonableness two to three times a week. If an adjustment seems reasonable, no further action is taken. If the Accounting Supervisor needs further explanation on an adjustment, he will ask the Scale House Supervisor. However, some adjustments are not closely examined and as a result, errors are not consistently detected. When adjustments occur that contain errors, customer accounts will not represent the correct balance due.

1.3 Recommendations:

We recommend that:

1.3.1 Adjustments to accounts be documented with detailed explanations.

Some adjustments to customer accounts are not adequately reviewed by management.

1.3.2 The Accounting Supervisor examine the back-up for the adjustments, at least monthly, in detail to determine whether the adjustments are appropriate and the accompanying explanation is sufficient.

2.0 Payment Bonds

In order to set up an account at SWM, a customer is required by Salt Lake County Ordinance 9.52.140, *Garbage Collection and Disposal*, to obtain a payment bond. The bond must be of a sufficient amount to cover any unpaid charges should a collection problem occur. The ordinance states, "Users with a history of use of said dumping facilities shall post a bond in an amount equal to the greater of one thousand dollars or three times the average monthly charge said user has incurred during his use of the dumping facilities."

If a customer does not pay their invoices, SWM can call their bond in order to collect a past due amount. Standard practice is to call the bond when a customer becomes 90 days past due, unless special payment arrangements have been negotiated.

The use of payment bonds allows SWM to extend credit to their customers without exposing themselves to financial risk.

We found that:

- ! Many customers do not have an adequate size payment bond.
- ! Some customers are being allowed to charge amounts in excess of their current bond amount.

2.1 Many customers do not have an adequate size payment bond.

During our review of the accounts receivable system at SWM, we looked at a sample of customer accounts. One objective of our review was to verify that the customers sampled had a current payment bond on file and that the bond was of a sufficient amount. Without exception, every customer had a current bond on file.

We examined the bonds and compared three times the average monthly charges for the customer with the amount of the customer's bond, to verify that the payment bond was of a sufficient amount.

As stated earlier, each customer is required by the County Ordinance to have a current bond in the amount of \$1,000 or three times their average

Twenty-six percent of the sampled accounts are not in compliance with bond requirements.

monthly dumping expenses (whichever is greater). Of 45 active customer accounts we reviewed, 26 percent were out of compliance with the ordinance. Bonds sampled were a total of \$1.8 million short of the requirement.

Figure 3 shows the required bond amounts in conjunction with the current bond amounts for SWM’s eight largest customers. Seven of the eight are out of compliance with the ordinance. Should any of these eight customers default on their payments, SWM would be exposed to significant financial risk.

Of SWM’s eight largest customers, only one has an adequate bond.

Bond Amounts for SWM's Eight Largest Patrons

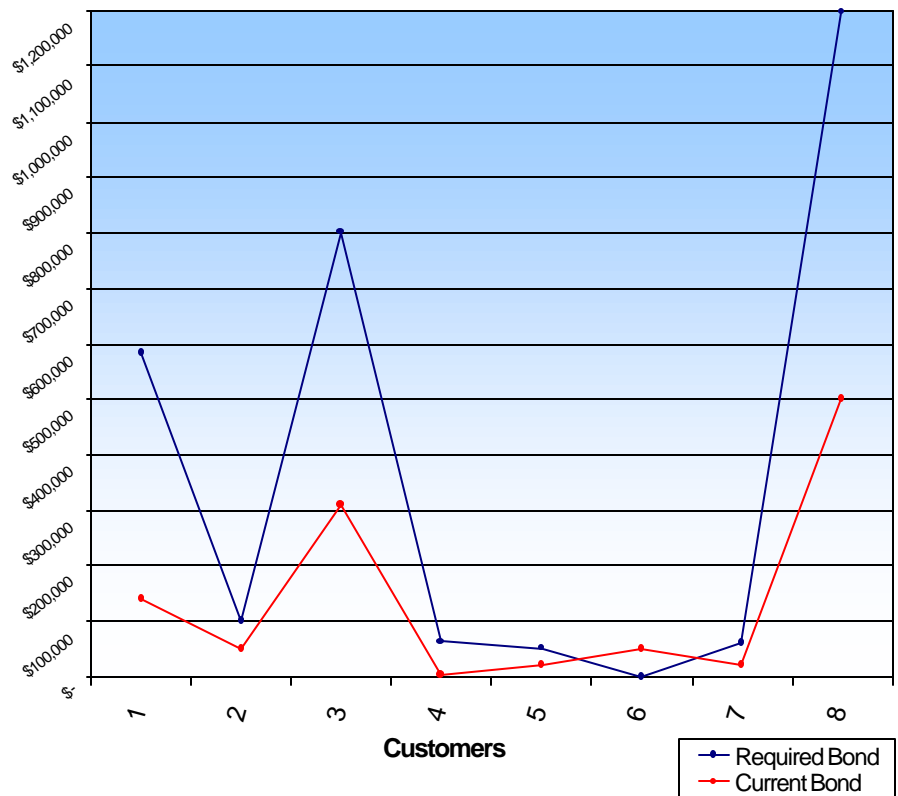


Figure 3. Only one of SWM’s eight largest customers has an adequate bond, as required by Salt Lake County Ordinance 9.52.140.

2.2 Some customers are being allowed to charge amounts in excess of their current bond amount.

Our review also found that some customers, besides having a bond less than three times their average charges, are being allowed to charge amounts in excess of their total bond amount.

Current bond amounts do not consistently cover current credit balances.

County Ordinance 9.52.140, paragraph D states, “No user of County dumping facilities shall be permitted to incur charges for the use of County-owned dumping facilities which exceed the amount of the bond required under this section.” In reviewing 36 customer accounts, we noted eight account balances which exceeded their total bond amount. The total amount in excess of current bonds was \$174,000.

This practice of allowing customers to charge more than their bond amount, exposes SWM to a financial risk should any of these customers become unable to pay their invoices.

When the initial bonds were issued they were of an adequate amount. As time has passed, most customers have greatly increased their business volume, but have failed to increase their bond amounts. Some customers have gone through mergers and acquisitions that would warrant an increase in their bond. In addition, increased tipping fees at SWM have increased the amount of monthly charges for the customers which would also require an increase in customer bonds.

In the past, an attempt was made to review the bond amounts for each customer. The supervisor in charge of the bonds would request a company to increase their bond when the supervisor noticed that they were close to their bond amount.

Compliance with the ordinance could be improved if SWM staff tracked each customer’s previous three month’s charges, and compared three times the average to the current bond amount. SWM could then request bond increases as necessary.

2.3 Action Taken:

2.3.1 SWM has initiated a process to monitor bond requirements. At our recommendation, SWM has created a spreadsheet where they can record the monthly charges of the customers and the current bond amounts. Twice a year, SWM will request any needed bond increases.

2.3.2 SWM has sent letters to twenty-three customers who are out of compliance with the ordinance requesting that bond amounts be increased. As of October 12, 1999, sixteen customers had increased their bonds to the required amount.

3.0 Cash

Solid Waste Management collections occur in two locations, in Public Works Administration, located at the County Building, and at three scale houses located on-site at SWM.

All payments on account are sent to Public Works Administration. By receiving the payments for accounts receivable at a different location, SWM has separated the cash collection, depositing, and recording duties. This arrangement is a good internal control which helps protect SWM funds from possible mishandling.

At SWM, cash is collected at three scale houses from the public, businesses, and other organizations. SWM has five full-time operators to run the scale houses. The Scale House Supervisor can also operate the scale houses. Each operator, including the supervisor, is assigned a separate cash drawer as stipulated in Countywide Policy #1062, *Management of Public Funds*. The supervisor's drawer also acts as a change fund for the other operators when necessary.

Generally, SWM is complying with Countywide Policy #1062. However, we noted two areas where improvements are needed. We found that:

- ! The form of payment is not being recorded correctly.
- ! There is no review of the Scale House Supervisor's daily cash transactions.

3.1 The form of payment is not being recorded correctly.

Scale house operators do not consistently enter the correct form of payment when recording a transaction. 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, causing the operator to have to wait for the patron to write the check before a receipt can be printed. The operators are more concerned about delays due to long lines and customer service than about the accuracy of the individual cash/check totals.

We selected a sample of days of cash collections for SWM. The sample included days from May 1, 1998 to April 30, 1999. We reviewed 142 daily totals for various cashiers during that time period. Our review compared the cash/check totals listed on the scale house operator's daily summary report with the cash/check total listed on the bank deposit slip.

Cashiers are not recording the form of payment properly.

Of the 142 daily totals we examined, there were only six instances where the operator summaries matched the deposit slip cash/check totals.

The Scale House Supervisor is not comparing the cash/check totals (on the deposit slip) with WasteWorks reports during the balancing process. The importance of entering the correct form of payment for each transaction should be emphasized to the cashiers. Funds are more susceptible to mishandling if the form of payment is not recorded correctly.

3.2 There is no review of the Scale House Supervisor's daily cash transactions.

Currently, the Scale House Supervisor collects and records cash, posts accounts receivable payments, makes adjustments, reviews adjustments, voids tickets, reviews all voids, and completes the balancing process the next business day. In addition, the Scale House Supervisor occasionally prepares daily bank deposits.

Ideally, the duties mentioned above should be separated between different individuals. However, due to workload and budget constraints, it would not be feasible to separate these duties at this time. Therefore, a separate individual should review the Scale House Supervisor's daily cash report and voided transactions. This review serves as a protection to SWM against mishandling of funds as well as a protection to the Scale House Supervisor against any wrongful accusations should a problem occur.

The Scale House Supervisor's duties are not adequately separated.

3.3 Action Taken:

Management has instructed cashiers to enter the form of payment for each transaction.

3.4 Recommendations

We recommend that:

3.4.1 *The Scale House Supervisor review the cash/check composition as part of the daily balancing process.*

3.4.2 *The Accounting Supervisor or the Lead Scale House Operator review the daily cash report and voided transactions of the Scale House Supervisor daily. This person should document the review by initialing the daily cash report.*

4.0 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 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 \$3,000. A controlled asset is a personal property item, which is sensitive to conversion to personal use, having a cost of \$100 or greater, but less than the current capitalization rate.

We found that:

- ! SWM does not keep a list of controlled assets.
- ! County inventory tags are not on 44 percent of SWM equipment and vehicles.

4.1 SWM does not keep a list of controlled assets.

At the beginning of our audit, SWM did not have a list of controlled assets. Salt Lake Countywide Policy #1125, *Safeguarding Property/Assets*, section 2.2 states, "Property managers assigned by their Administrators are responsible for ...accounting for all controlled assets within the organization's operational and/or physical custody."

In the past, SWM has not assigned an individual to be responsible for maintaining a list or performing an annual inventory of controlled assets. Since controlled assets are sensitive to conversion to personal use, maintaining a list of assets and doing an annual inventory is vital for management to keep track of assets.

4.2 County inventory tags are not on 44 percent of SWM equipment and vehicles.

During our audit, we selected a statistical sample of equipment and vehicles on the AFIN0801 report and found that 44 percent of the items in our sample did not have an asset tag attached. Salt Lake Countywide Policy #1125, *Safeguarding Property/Assets*, section 2.2.8 states, "The Property Manager is responsible for coordinating with the organization's Purchasing Clerk to ensure all newly acquired property is identified and accountability is appropriately established, and fixed assets are tagged and capitalized."

Controlled assets are not tracked.

The assets in the sample which did not have asset tags are listed on Table 1.

Fixed Assets Without Tags

<u>Quantity</u>	<u>Asset</u>	<u>Asset #</u>	<u>Total Acquisition Cost</u>
13 ea.	Roll-off containers	various	\$45,008.00
1 ea.	Server Unit w/Landesk v.2.8	96847	\$7,878.22
1 ea.	Trek2AGP Laptop	97071	\$4,462.64
1 ea.	Radiation Detection Device	94086	\$3,548.00

Table 1. Assets costing approximately \$61,000 were not tagged.

SWM stated that the reason the asset numbers were not on the roll-off containers is because they all had recently been re-painted. The asset numbers were not re-painted on the containers at the time. We did a complete inventory of the roll-off containers. The AFIN0801 report showed that SWM should have a total of 36 containers. All the containers were accounted for.

In order for assets to be accurately controlled, inventoried, and protected, they should be tagged. Since computer equipment is easily converted to personal use, the necessity of tagging computer equipment is particularly important.

4.3 Action Taken:

The Accounting Supervisor at the SWM facility has prepared a list of controlled assets. Controlled asset tags have been purchased and placed on each controlled asset.

4.4 Recommendations:

We recommend that:

4.4.1 An annual inventory of controlled assets be performed in conjunction with SWM's fixed asset inventory.

4.4.2 Management ensure fixed assets have an asset tag number attached.

5.0 Payroll

A controlled payroll distribution was completed at SWM. All sixty-five SWM employees were required to show picture identification and sign for their payroll check. The employee names included on the payroll check receipts register for the date of distribution were SWM employees and no exceptions were noted.



SALT LAKE VALLEY SOLID WASTE MANAGEMENT COUNCIL

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Romney M. Stewart
Director of Solid Waste

October 29, 1999

David L. Beck, Chief Deputy
Salt Lake County Auditor's Office
2001 South State Street, N2200
Salt Lake City, Utah 84190-1100

RE: Response to A Limited Scope Audit of the Salt Lake Valley Solid Waste
Management Facility

Council Members

Mary Callaghan, Chair
Commissioner, Salt Lake County

Deedee Corradini
Mayor, Salt Lake City

Dr. Kathryn N. Vedder
M.D., M.P.H., Director Salt Lake
City & County Health
Department

Gearld Wright
Mayor, West Valley City

Dr. Ryan DuPont
School of Engineering
Utah State University

Dear Mr. Beck,

We appreciate the opportunity to provide written comments on your draft of a limited scope audit of the Salt Lake Valley Solid Waste Management Facility dated October 1999. The auditors, Lance Brown, Amy McCormick and Kaylene Eldridge, were very thorough and have communicated their findings in a very beneficial manner. The evaluation addressed a number of important issues and provided some insightful recommendations for consideration and implementation. Our response is focused on providing some additional explanations and a few clarifications to the narrative.

Page 2. Form of payment. Although the form of payment was not being recorded correctly, there was no evidence of mishandling of the 123,000 cash transactions involving over \$1,500,000 during the audit period.

Page 5. Past due accounts receivable. All customers with balances in the over 90 day column on Figure 1 have payment bonds covering the amounts past due. There are over 275 active accounts receivable customers.

Page 6. Explanation for adjustments. With nearly 300,000 cash and credit transactions, we should not be expected to remember each one. However, all voided transactions have ample written documentation on file. We also have access to the permanent computerized history file in Waste Works for each individual transaction.

Page 7. Financial risk. During the last three years, the Solid Waste Management Facility has 'called' only two bonds for collection, one for \$280 and the other for \$2,300.

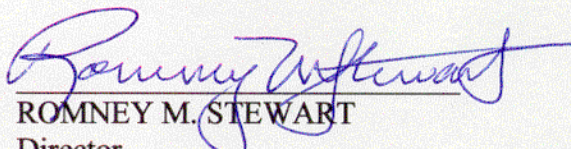
Page 8. Large customers and bonds. SWM's eight largest customers are large established national companies with strong financial backing and a long history of paying their accounts current. As of October 27, 1999 all of the eight largest customers have increased their bond amounts.

Page 9. Customers and bond compliance. As of October 27, 1999, twenty of the twenty-three customers out of compliance have increased their bonds to the required amount. One company is being acquired and is putting off increasing the bond amount.

Page 12. Asset inventory. We have inventoried fixed assets annually in the past and will also inventory controlled assets in the future.

We compliment your staff on the professional manner in which the audit was conducted. We look forward to the final report and appreciate this audit very much.

Sincerely,


ROMNEY M. STEWART
Director


STUART F. PALMER
Cost Manager