

A REPORT
TO THE CITIZENS OF SALT LAKE COUNTY
BEN McADAMS, MAYOR



An Audit of
Solid Waste Management

November 21, 2014

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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November 21, 2014

Ben McAdams, Mayor
Salt Lake County
2001 S State St #N2100
Salt Lake City, UT 84114-4575

Re: An Audit of Solid Waste Management

Dear Mayor McAdams:

We recently completed an analysis of Solid Waste Management pursuant to Utah Code Ann. § 17-19a-204. Our purpose was to verify the accuracy and completeness of selected financial records and to assess compliance with certain internal controls. A report of our findings and recommendations is attached.

Our work was designed to provide reasonable but not absolute assurance that records were accurate and complete and that the system of internal controls was adequate. There may be inaccurate or incomplete financial records that were not selected for review. Further, there may also be instances of noncompliance in areas not examined.

We appreciate the time spent by the staff at Solid Waste Management and the cooperation from John Ioannou, Larry Hansen, Debbie Haggard, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Solid Waste Management during our audit. The staff was friendly, courteous, and very helpful. We trust that the implementation of the recommendations will provide for more efficient operations and better safeguarded County assets. Please feel free to contact me with any questions.

Sincerely,

Gregory P. Hawkins
Salt Lake County Auditor

By Cherylann Johnson MBA, CIA, CFE
Sr. Deputy Auditor

cc: John Ioannou, Division Director
Larry Hansen, Fiscal Manager



Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Solid Waste Management. Our purpose was to verify the accuracy and completeness of selected financial records and to assess compliance with selected internal controls.

Conclusion

Solid Waste Management has put into place some internal controls for managing public funds. However, some risks and areas of non-compliance were identified. Risks related to inadequate controls over controlled assets, deficiencies in cash handling procedures, and lack of review and approval of exempt transactions have a higher likelihood of leading to loss of County property. In addition, we noted that additional controls over accounts receivable should be implemented to provide more protection for County assets. Several of the findings remain unchanged since the prior audit of Solid Waste Management. A report of the last audit of Solid Waste Management was released to the public in November 2012. Although Solid Waste Management requested an audit of the contract between Solid Waste Management and E.T. Technologies, Inc., a review of the contract was not included as an objective of this audit.

Findings and Recommendations

Finding # 1 - Merchant copies of payment-card receipts were not safeguarded.

Risk Level: High

Countywide Policy #1062, "Management of Public Funds," Section 7.2.2 states:

"The signed merchant copy of the receipt shall be placed immediately in the cash drawer and not left exposed on the counter or other work area for other employees or patrons to view. All payment-card merchant copies should be safeguarded in locked containers at all times."

During our review of the May 20, 2014 deposit, we found that two missing merchant copies of payment-card receipts were reportedly at a scale operator's home.

When a cashier (scale operator) takes home payment-card receipts, which contain sensitive information including patrons' signatures, there is an increased risk of cardholder data breaches.

Recommendation

We recommend that payment-card receipts be safeguarded and kept in locked containers at Solid Waste Management.

Finding # 2 - Pre-numbered manual receipts were not adequately safeguarded and were not used in sequential order.

Risk Level: High

Countywide Policy #1062, "Management of Public Funds," Sections 3.5.3 and 3.5.4 state:

"If a County Agency uses manual receipts, they shall be pre-numbered and used in numerical order. ... The supply of unissued manual receipts shall be secured in a safe, locked drawer, or other secure area. The first and last numbers of receipts should be verified by the Cashier Supervisor and entered into a receipt log maintained by the Agency. As blank receipts are released to Cashiers for use, the log shall be updated, accordingly."

In a previous audit conducted in 2012, we found that manual receipt books were not always adequately safeguarded. In a retest of the security of manual receipts, we found that manual receipts were not entered into a receipt log when released to cashiers (scale operators) for use. In a review on May 21, 2014 of the supply of manual receipts, we found 12 numerical breaks; which showed receipts were not being issued to cashiers in sequential order. Finally, we found in a test of receipts issued to scale operators that 34 out of 368 manual receipts were missing and that 23 of these were missing from one scale operator.

When receipts are not safeguarded or used in sequential order, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that management implement adequate controls to ensure that manual receipts are safeguarded and properly accounted for.

Finding # 3 - Some accounts receivable balances were past due.

Risk Level: High

Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection," Section 4.1 states:

"County departments and agencies are required to take all appropriate and cost effective actions to aggressively collect accounts receivable, including assessing related collection costs, interest, penalties, or fees."

In addition, Solid Waste Management's Standard Operating Procedures, "Credit Policy for Open Accounts," Section 3.0 states:

"Terms are 'net 30 days' which means all charges in one month are due in full the following month."

In a previous audit conducted in 2012, we found that 19 to 31 percent of all accounts receivable balances were past due. In a retest of the aging reports for January to April 2014, we found that an average of 32 percent of the account balances were past due. We found no documentation of collection attempts on these past-due receivables.

When accounts receivable balances continue to be outstanding for more than 30 days, funds are at a greater risk of being uncollected.

Recommendation

We recommend that management use adequate collection methods as outlined in Countywide Policy #1220, that collection efforts are documented, and that the documentation is retained in the accounting records.

Finding # 4 - The amount of the royalty payment was not verified for accuracy and the twelve payments reviewed were delinquent.

Risk Level: High

Countywide Policy #1060, "Financial Goals and Policies," Section 7.1 states:

"The County shall establish and maintain a high standard of accounting practice."

In addition, the Salt Lake County Request for Proposal For The Operation of a Soils Regeneration site at the Salt Lake Valley Landfill, "Royalty Payment," Section 2.12A states:

"The royalty shall be accounted for and paid monthly by the tenth day of each month, and each monthly report and payment shall be made with respect to the month that is three months prior to the month in which the report and payment is due (by way of illustration, the report and payment for the month of January would be due by April 10th)."

The amount of the royalty payment was not verified for accuracy. Various materials are received into the soil regeneration site and each can have a different rate of royalty, which annually amounts to over \$446,000. Furthermore, in our review of the date the accounting specialist received payment, we found that all payments were made later than the 10th of the month and that 50 percent of the payments were late by 14 or more days.

When the accuracy of royalty payments are not verified and are repeatedly delinquent, the County is at a greater risk of losing revenue.

Recommendation

We recommend that management keep records to calculate and verify the accuracy of the monthly payments and that collection methods for delinquent payments are utilized.

Finding # 5 - Solid Waste Management's payments on a contract were delinquent.

Risk Level: High

Countywide Policy #1060, "Financial Goals and Policies," Sections 7.1 and 7.4 state:

"The County shall establish and maintain a high standard of accounting practice. ... The reporting system shall also provide monthly information on the total cost of specific services by type of expenditure, by budgetary unit, and by Fund."

We reviewed a contract for janitorial services covering 12 months, ending on April 30, 2014. We found 8 out of 12 payments by Solid Waste Management were delinquent, and that two payments remained unpaid and delinquent by 151 and 182 days, respectively.

The accounting specialist reported that the email invoices from the vendor were sent to the email account of a retired employee. Management had not updated the information with the vendor.

When payments for services with a vendor are delinquent, the County's rating with a vendor will be considered as poor or unacceptable. Also vendor competition for those services may dwindle.

Recommendation

We recommend that vendor payments are processed in a timely manner and according to contract terms.

Finding # 6 - Accounts receivable administration functions were not adequately segregated.

Risk Level: High

Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection," Section 5.4 states:

"The employee who maintains the accounts receivable ledger shall be separate from the employee who prepares invoices and the employee who collects payments. In the event that staffing levels prevent such a segregation of duties, a supervisor, or second responsible employee, shall review and sign the monthly reconciliation, as a control on the process."

In a review of the accounts receivable duties, we found the same person received the checks, received credit card payments over the phone, posted payments to customer accounts, prepared invoices/statements, prepared the deposits, reconciled the monthly accounts receivable ledger, reviewed the aging report, and had access rights to write-off customer balances. There was no review of his work by a supervisor.

From November 2013 to July 2014, the accounts receivable coordinator position for Solid Waste Management was vacant.

When all accounts receivable duties are performed by the same person without supervisory review, funds are at a greater risk of being misappropriated, lost, stolen, or diverted for personal use.

Recommendation

We recommend that the accounts receivable duties are properly segregated between custody of funds and the posting of the accounts receivable ledger, or that compensating controls be put into place.

Finding # 7 - Accountability for some controlled assets was not properly established.

Risk Level: High

Countywide Policy #1125, "Safeguarding Property/Assets," Section 2.2.3 and 2.2.8 states that property manager are to:

"Maintain records as to current physical location of all fixed assets and controlled assets within the organization's operational and/or physical custody. ... Coordinate with the organization's Purchasing Clerk to ensure all newly acquired property is identified and accountability is appropriately established ..."

In a previous audit conducted in 2012, we found that 20 controlled assets could not be located and we found that recently purchased controlled assets had not been tagged or included on a controlled assets list. In a retest of the controlled assets, we reviewed a sample of 46 controlled assets and found similar issues with 25 assets as follows: 13 assets were not tagged, 6 assets were not found, and 6 assets were not listed on the controlled assets list. In addition, we reviewed controlled assets purchased during October and November 2013 and found that 2 out of 5 were not recorded on any controlled assets list.

When controlled asset records are not properly maintained, assets are at a greater risk of being lost, stolen, or diverted for personal use without agency detection.

Recommendation

We recommend that the controlled assets list is properly maintained and that the purchasing coordinator report newly purchased controlled assets to the property manager.

Finding # 8 - Some accounts exceeded their established credit limit.

Risk Level: High

Salt Lake Valley Solid Waste Management Facility Standard Operating Procedure, "Credit Policy for Open Accounts," Section 2.1 states:

"The credit limit for each account is set at 80 percent of the bond amount. Management reserves the right to refuse additional charges when an account reaches the credit limit. Charges may be refused until the account is brought within terms or the face value of the bond has increased as necessary."

In a previous audit conducted in 2012, we found that 17 accounts exceeded their established credit limit by \$103 to \$109,556. During our review of the April 2014 aging report we found that there were 14 accounts that exceeded their established credit limit by \$42 to \$147,817. Furthermore, one customer that exceeded its established credit limit also exceeded the bond amount.

In a recent conference, management confirmed that the customer was historically delinquent and that the bond was inadequate for the amount of past dues.

When accounts exceed their established credit limits and bond amounts, bad debts are more likely to occur and there is an increased risk that past-due amounts may not be collected.

Recommendation

We recommend that management work to bring accounts within the established credit limit, including suspending services until the account is paid down.

We recommend that management ensure that each company's bond is appropriate for the volume of charges incurred.

Finding # 9 - Solid Waste Management was out of compliance regarding accountability for controlled assets.

Risk Level: High

Countywide Policy #1125, "Safeguarding Property/Assets," Sections 4.3., 4.3.2, and 4.3.3 state:

"The Property Manager shall maintain records to manage controlled assets using the following forms... [The] 'Controlled Assets Inventory Form-Employee' is used for those assets that due to their nature, are used by and therefore readily assignable to an individual. ... [The] '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 2.2.11 states:

"At least annually, conduct physical inventory of fixed and controlled assets, to ensure complete accountability for all property owned by, or assigned to the organization."

In a previous audit conducted in 2012, we found that Solid Waste Management did not use the "Controlled Assets Inventory Form-Employee." In a retest of controlled assets, we found that this form was still not being used. In addition, we found that the "Controlled Assets Inventory Form-Organization" was not signed or dated by the property manager as verification of the last controlled assets inventory.

Failure to track which employee is responsible for assets that are individually assigned increases the risk of asset misappropriation and loss. Additionally, when accountability for assets is not established, assets are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that the property manager complete a "Controlled Assets Inventory Form-Employee" for each employee who is individually assigned controlled assets. All employees who are assigned controlled assets should review and sign the form to indicate their verification of the assets.

We recommend that the property manager conduct a physical inventory of controlled assets at least annually, and that the "Controlled Assets Inventory Form-Organization" be signed and dated when the physical inventory has been conducted.

Finding # 10 - Inactive accounts with credit balances were not submitted to the Utah State Division of Unclaimed Property.

Risk Level: Moderate

"Utah Code annotated, Chapter 4a, "Unclaimed Property Act," § 67-4a-210, Paragraph (1) states:

"Any intangible property held by ... a county ... that remains unclaimed for more than one year after it became payable or distributable is considered abandoned."

In a previous audit conducted in 2012, we found that inactive accounts with credit balances totaling \$4,590 were not submitted to the Utah State Division of Unclaimed Property. In a retest we found inactive accounts with credit balances totaling \$1,796 that had not been submitted to the Utah State Division of Unclaimed Property.

Penalties and interest may be assessed for property that has not been submitted in accordance with State statute.

Recommendation

We recommend that inactive accounts with credit balances, be submitted to the Utah State Division of Unclaimed Property, either directly to or through the County Treasurer's Office.

Finding # 11 - Monthly cash over/short logs were not properly maintained.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Sections 3.8.1.4 and 3.8.2 state:

"An 'over/short' or 'no-difference' amount between the cash count (cash and checks only, not payment card amounts), and recorded receipt totals shall be generated by the software application, or manually entered on the designated line of the MPF Form 3A. Payment card totals shall also be generated by the software application or manually entered on the MPF Form 3A, but not used in the calculation of the cash 'over/short' or 'no-difference' amount. ... Change funds should be counted, restored to the established imprest balance, and any daily shortages or overages recognized and recorded on MPF Form 11, Cash Over/Short Log."

Section 5.3.1.3 states:

"The MPF Form 11 for each Cashier, shall be signed by the Cashier's immediate supervisor ."

In a previous audit conducted in 2012, we found that overages and shortages exceeded the acceptable amount and explanations for outages were poorly documented or absent. In addition, the over/short log was not signed by the scale operators, a supervisor, or the fiscal manager. During our review of the cash over/short logs prepared by the accounting specialist, we found that only 3 out of 12 logs contained scale operators' signatures and that none of the logs were signed by the fiscal manager to document his review. In addition, we found that payment card over/shorts were being included on the cash over/short log.

When cash over/short logs are calculated incorrectly by including payment card over/shorts, balancing trends may go unnoticed by management. In addition, when the logs are not signed by the scale operators nor reviewed and signed by the fiscal manager, needed remediation may not occur.

Recommendation

We recommend that the cash overs and shorts be calculated correctly, that scale operators sign the over/short logs, and the fiscal manager sign the logs as evidence of his review.

Finding # 12 - Some Landfill customers were allowed to incur charges that exceeded the amount they had prepaid.

Risk Level: Moderate

Salt Lake Valley Solid Waste, "Standard Operating Procedures," "Credit Policy for Open Accounts," Section 1.1 states:

"All firms or individuals wishing to have credit with Salt Lake Valley Solid Waste Management Facility must post a penal (payment) bond equal to three times the average monthly charges or \$1000, whichever is greater"

Organizations that do not want to post a bond have the option of prepaying for the use of the Landfill. This was also a finding in the previous audit conducted in 2012. In a retest of customers that prepaid for use of the Landfill, we found six customers required to prepay that had exceeded their prepay amounts from \$2.28 to \$1,835.26. Only two of these six customers had made any payment on their account in the first five months of 2014.

When customers are required to prepay on their accounts and operators extend them credit without following policy guidelines, funds are at a greater risk of being lost, stolen, or uncollected.

Recommendation

We recommend that prepaid accounts be monitored and services be suspended whenever an insufficient credit balance exists.

Finding # 13 - No documentation was found showing the transfer of some controlled assets to surplus.

Risk Level: Moderate

Countywide Policy #1100, "Surplus Property Disposition/Transfer/Internal Sale," Section 3.4 states:

"The PM-2 Form serves as both the initiating document and as the receipt, and shall be used to document all surplus property transactions."

During our review of controlled assets, we found that twenty-three assets on the controlled assets lists were shown as "surplused" with a date of May 2013. Upon request, management was unable to provide any PM-2 forms that documented the transfers.

When controlled assets are surplusd without documentation, assets are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that PM-2 forms be used to document the surplusd of all controlled assets.

Finding # 14 - Payment-card number, security code, and cardholder's name/address were filed with deposit documentation for some transactions.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Section 7.2.2 states:

"For security purposes, only the last four digits of the payment-card number shall be printed on the patron's receipt. The signed merchant copy of the receipt shall be placed immediately in the cash drawer and not left exposed on the counter or other work area for other employees or patrons to view. All payment-card merchant copies should be safeguarded in locked containers at all times."

In a previous audit conducted in 2012, we found that full payment-card numbers, expiration dates, and security codes were being filed with deposit documentation. During our review of a sample of 25 days of deposits for the period May 1, 2013 to April 30, 2014, we found 2 deposits containing the following payment-card detail: type of card, full payment-card number, security code, expiration date, and the name and address of the cardholder.

The scale operator who had attached the information stated that she thought she was required to keep the information with the deposit documentation.

There is no valid business reason to maintain payment-card detail after the card has been processed. When customer payment-card information is not destroyed but retained in deposit documentation, there is an increased risk of cardholder data breaches.

Recommendation

We recommend that information received to process payment-card transactions be immediately destroyed when the transaction is completed.

Finding # 15 - A capital asset did not have a County tag.

Risk Level: Moderate

Countywide Policy #1125, "Safeguarding Property/Assets," states in the purpose that:

"Salt Lake County procures a variety of property and equipment necessary for government operations, which must be properly managed -- meaning, controlled, inventoried and protected."

Section 2.2.8 states:

"Coordinate 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."

In a previous audit conducted in 2012, we found that two capital assets could not be located. While testing for the prior missing capital assets, we discovered a recently purchased capital asset (roll-off container) that did not have a County tag.

When capital assets are not tagged and properly recorded, they are at a greater risk of being lost, stolen, or diverted for personal use without agency detection.

Recommendation

We recommend that the property manager properly tag capital assets and ensure that they are recorded on the capital assets list maintained by Mayor Financial Administration.

Finding # 16 - Management did not indicate review of fee-exempt transactions.

Risk Level: Moderate

Salt Lake Valley Solid Waste Management, Standard Operating Procedure, "Fee Exempt and Non-Fee Transactions," Section 4.1, states:

"Daily, the scalehouse supervisor will review the Daily Detail Report looking especially for Non-fee, Fee-exempt transactions.

We reviewed a random sample of fee-exempt transactions listed on the point-of-sale "Ticket Reports" and found no indication that management reviewed and approved them. This was also a finding in the previous audit conducted in 2012.

When fee-exempt transactions are not reviewed by management, there is an increased risk that misappropriation of funds could occur and not be detected.

Recommendation

We recommend that each fee-exempt transaction be reviewed and signed by a supervisor or the fiscal manager.

Finding # 17 - Deposits were not always made in a timely manner.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Section 4.1.2 states:

"As required by §51-4-2, Utah Code Annotated, all public funds shall be deposited daily whenever practicable, but not later than three days after receipt."

During our review of deposits for accounts receivable payments and other checks received in the mail, we found that 12 out of 24 deposits examined were deposited more than three days after receipt of collections. This was also a finding in the previous audit conducted in 2012.

When funds are not deposited on a timely basis, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that funds be deposited daily, whenever practicable, but no later than three days after receipt.

Finding # 18 - A purchasing card was not signed by the cardholder.

Risk Level: Low

Countywide Policy #7035, "Purchasing Cards Authorization and Use," Section 2.1 states:

"Immediately, upon receipt of the P-Card, it shall be signed by the Cardholder."

Of the two purchasing cards reviewed, one was not signed on the back by the cardholder.

When a purchasing card is not signed, the cardholder cannot easily be verified by a vendor when making transactions.

Recommendation

We recommend that the cardholder sign the purchasing card.

Finding # 19 - Sales tax was charged on some County purchases.

Risk Level: Low

Countywide Policy #7035, "Purchasing Cards Authorization and Use," Section 4.1.1 states:

"County purchases are exempt from sales tax. Therefore, if sales tax is mistakenly paid and the tax to recover is worth the cost of the recovery effort, the cardholder shall take actions to obtain a credit to the P-Card account for the tax paid. Otherwise, the cardholder may be held responsible, at the discretion of their County Agency Management, for reimbursing the County for the amount of the sales tax."

The supervisor approved County purchases that included sales tax.

When sales tax is paid on County purchases, public funds are used unnecessarily.

Recommendation

We recommend that sales tax is not paid on County purchases.

Finding # 20 - The controlled assets inventory list did not always have sufficient information to identify assets.

Risk Level: Low

Countywide Policy #1125, "Safeguarding Property/Assets," 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.

In addition, Section 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."

In a previous audit conducted in 2012, we found that Solid Waste Management's Controlled Asset Inventory Form did not always contain make, model, and serial number. In a review of the controlled assets listed for the Transfer Station, we found that 223 out of 335 assets listed on the controlled assets inventory list were missing either the make, model, or serial number.

When asset identification information is missing, asset inventories are more difficult to conduct and controlled assets are at a greater risk of being lost, stolen, or diverted for personal use without agency detection.

Recommendation

We recommend that the controlled assets inventory list include information to identify each asset, such as tag number, description, make, model, and serial number.

Finding # 21 - Cashiers did not have sufficient training regarding procedures to follow when accepting checks from patrons.

Risk Level: Low

Countywide Policy #1301, "Acceptance of Checks," Section 2.0 states that:

"It is the policy of Salt Lake County, when receipting payments for user fees and other revenues (hereinafter referred to as 'receipt'), to require that 'over-the-counter' receipts, i.e., those not received through the mail, be in the form of personal check accompanied by a valid form of identification."

Additionally, Section 4.2 states:

"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."

In a previous audit conducted in 2012, we found that checks were accepted without recording the patron's driver license number on the check. In a retest of this finding, scale operators reported that they were still accepting checks without documenting the patron's identification on the checks.

Management stated that the majority of the checks received by the scale operators were company or business checks and that there were very few personal checks from patrons.

Properly recorded identification information aids collection efforts in the event that a check that has been accepted fails to clear the bank.

Recommendation

We recommend that patrons' checks be documented with valid identification information before they are accepted from patrons, or that management seek an exemption to Countywide policy.

Finding # 22 - The manual purchasing card transaction logs were not always signed.

Risk Level: Low

Countywide Policy #7035, "Purchasing Cards Authorization and Use," Section 6.2 states:

"The cardholder shall reconcile original receipts with the issuer's statement of monthly activity, and note any items of reconciliation that require further documentation or inquiry."

Section 6.5 states:

"A signed transaction log shall be requested from the cardholder by their Agency fiscal manager in the event that the transactions were not approved electronically. The agency may be required to forward a copy of the log to the program administrator."

During our review of purchasing cards, we found two out of twelve monthly purchasing card (P-Card) transaction logs that were not approved electronically. The manually prepared transaction logs, required when the transactions are not approved electronically, were not signed by either the cardholder or the supervisor.

When manual P-Card transaction logs are not signed by the cardholder and the supervisor, there is no evidence that a review and reconciliation was performed.

Recommendation

We recommend that when manual P-Card transaction logs are required, the cardholder and the supervisor sign the logs.

Finding # 23 - A new property manager had not been designated.

Risk Level: Low

Countywide Policy #1125, "Safeguarding Property/Assets," Section 2.1.2 states that management is responsible to:

"Designate a Property Manager to manage all property purchased by the organization, or which it is otherwise accountable for, which is subject to the provisions of this policy."

The designated property manager retired from Solid Waste Management on November 30, 2013. The property manager was listed on the cover memo for the July 31, 2013 capital assets report that is prepared by Mayor Financial Administration. The cover memo was signed and dated by the Solid Waste Management Division Director as of December 10, 2013; however, it still named the retired employee as the Property Manager.

When a property manager retires and the duties are not reassigned, assets are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that Solid Waste Management designate a new property manager.

Finding # 24 - A Fund Transfer Receipt was not used to document the transfer of funds to the employee performing the balancing procedure.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 3.8.1.1 states:

"An MPF Form 7A, Fund Transfer Receipt, or similar form shall be completed to document the transfer of funds to the employee performing the balancing procedure."

The Accounting Specialist opened the checks from the mail, logged the checks, and transferred them to the Fiscal Manager without documenting the transfer.

When the transfer of funds is not documented by the person receiving the checks, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that the individual performing the balancing procedure verify the funds that are transferred by signing the MPF Form 7a, or similar form, for the accounting records.

Finding # 25 - A Self-Assessment Questionnaire (SAQ) had not been completed and was not on file.

Risk Level: Low

Countywide Policy #1400-7, "Payment Card Industry Data Security Standard Policy," Section 3.0 states under the Policy Statement that:

"Any County agency that accepts, processes, transmits or stores cardholder data using any County IT Resource or system shall comply with the Payment Card Industry Data Security Standard (PCI-DSS) in its entirety."

An SAQ representing Solid Waste Management's compliance with PCI-DSS had not been completed and was not on file.

When an agency is not compliant with PCI-DSS, there is an increased risk of cardholder data breaches, fines, and the inability to accept credit cards as payments.

Recommendation

We recommend that management complete and sign an annual SAQ and that the Solid Waste Management Facility keep a copy of the SAQ on file to show they are aware of and compliant with PCI-DSS requirements.

Additional Information

Background

The mission of Solid Waste Management is to provide environmental stewardship, financial integrity, safety, recycling education, and quality service to benefit the environment, residents, business, and employees of Salt Lake County. The principal services of Solid Waste Management are the operation of the landfill and the transfer station, recycling and waste minimization, composting sales, household and hazardous waste collection, and environmental monitoring of landfill modules. Solid Waste Management is operated on the financial principle of an enterprise fund, and is supported by gate fees, rather than by tax funds.

Scope

Our work included a formal examination of financial records related to the following key internal controls, to the degree applicable:

- Change Fund
- Cash Receipting and Depositing
- Credit / Debit Cards
- Capital and Controlled Assets
- Purchasing Cards

Our examination period covered up to twelve months ending June 30, 2014. In addition to reviewing financial records, we reviewed and examined current practices through observation to assess compliance with Countywide policy and standard business and internal control practices.

Management response to findings in this report, when received, is attached as Appendix A.

Finding #1: The controlled assets inventory list did not always have sufficient information to identify assets.

On October 24th the Fiscal Manager and the newly hired Accounts Receivable Coordinator conducted an inventory of the controlled assets located at the Transfer Station, using the auditor's annotated copy of the work papers from the last inventory completed in September of 2013 as a comparison. During this inventory it became clear to us that the previous AR Coordinator and listed in his work papers every item in the room/area, not just qualifying controlled assets. We observed a large number of assets on those work papers that did not meet the criteria for inclusion on the controlled assets inventory. Many of these items were chairs, tables, waste receptacles and small office equipment that did not have a make, model, or serial number and had a cost of less than \$100. Of the 223 items alleged to have been insufficiently identified 204 were found not to qualify as controlled assets, either because their cost was less than \$100 or they were a capital asset. Accordingly, we believe these items should be removed from this finding and the risk level of this finding should be reduced to "Low".

Finding #2: A scale operator took home the signed merchant copies of payment card receipts

The scale operator in question took home a single card receipt for \$36, not multiple receipts. This error was discovered the day after it occurred through our routine balancing procedure. In addition, the credit card receipts do not contain any identifying information other than the last four digits of the card and the cardholder's name and signature which have no intrinsic value and are virtually useless to identity thieves. The probability the information on the receipt could be used by even the most sophisticated identity thief is so low as to be statistically zero. Moreover, if scale operators were inclined to illicitly use card receipts they would not need to take receipts home, they could make photocopies of selected receipts while visiting the office during their breaks and such a scheme would likely go undetected. Nevertheless, all operators have been instructed to place their receipts only in the containers provided for this purpose. We believe the risk level of this finding should be reduced to "Low".

Finding # 3: Pre-numbered manual receipts were not adequately safeguarded and were not issued in sequential order.

The policy of issuing numbered manual receipts under increased accountability rules was implemented after the 2012 audit, and for the most part had been followed as intended. While the Fiscal Manager made periodic inquiries of the previous Accounts Receivable Coordinator as to the status of each operator's manual receipts his follow-up was not specific enough to determine there were gaps in the application of the policy. Additional efforts have been made to ensure future receipt issuances will be made sequentially and the Daily Cash Report has been modified to include an area for the operators to list their most recently used receipt number and the range of numbers of unused receipts left in their

possession. The Accounts Receivable Coordinator and Accounting Specialist review and record every operator's inventory of manual receipts on a monthly basis.

Finding #4: Some accounts receivable balances were past due.

The previous Accounts Receivable Coordinator retired in November of 2013 but a replacement was not hired until eight months later. In the interim the current Fiscal Manager assumed the AR Coordinator's duties in addition to his own. Contrary to the auditor's statement no documentation of collection efforts were found, collection efforts were documented by the previous AR Coordinator in each customer's account file in the WasteWorks ticketing program. The auditors never asked the Fiscal Manager for these records or inquired as to their existence. One of the identified delinquent accounts is a chronic slow pay, but is a long-time customer. This account's status has improved significantly since the hiring of the new AR Coordinator, and they are closer to being within terms than they have been for several years. The newly hired AR Coordinator has made close monitoring of customer payment records a priority and customers beyond terms have declined significantly.

Finding # 5: The amount of the royalty payment was not verified for accuracy and the twelve payments reviewed were delinquent.

At the beginning of this audit we proactively requested the auditors perform an audit of this contract as the work required would be quite extensive and consume significant amounts of the Fiscal Manager's and AR Coordinator's time. We received no response to our request. No examination of the contract has ever been made by prior county audits, nor any comments made regarding alleged deficiencies in E.T.'s compliance with contract terms. Nevertheless, the Fiscal Manager has drafted a letter to E.T. detailing our concerns on the timeliness of their payments. The information currently submitted with their monthly payment contains data about the various materials they processed, but the data alone is insufficient for us to verify they actually received and invoiced their customers accordingly. We lack the resources to do the things auditors could do such as sampling E.T.'s customers for sales data, or examining bank statements to match or trace deposits to financial statements. We can match the total tons reported by E.T. to our Material Analysis Report, which we do every month hereafter. Additionally, ET is regulated by SLVHD, UDAQ and UDEQ, and the likelihood of improprieties is extremely low.

Finding # 6: Solid Waste Management's payments on a contract were delinquent.

The delay in payments on the subject contract were not the fault of Solid Waste staff, but were the vendor's fault. The subject contract was reviewed and administered by the previous AR Coordinator. After his retirement the vendor continued to send his invoices to the email account of the previous AR Coordinator. Neither the Accounting Specialist nor the Fiscal Manager had the contact information for the company performing the services, and when it was noticed we hadn't seen an invoice for two months we were unable to immediately contact the vendor. Through the diligence of the Accounting Specialist the vendor was contacted in January of 2014, but the vendor still delayed in sending invoices to the Accounting Specialist. When the invoices were finally sent over three months later they reflected the original invoice dates. The invoices were finally received from the vendor on April 17, 2014 and a

claim letter to pay those 2013 invoices was submitted to Purchasing on the same day. Actual payment of the 2013 invoices was delayed until July 31, 2014.

Finding # 7: Accounts receivable functions were not adequately segregated.

The process in place at the time of this audit was the process suggested by previous auditors over four years ago and has been conducted in this manner during at least three previous audits with no deficiencies noted. Based on this finding we have changed the process to the following: Checks are received by the Accounting Specialist and a receipt number assigned to each check. A transmittal sheet detailing and totaling the checks received is prepared by the Accounting Specialist and given to the AR Coordinator who makes copies of the checks, signs the transmittal sheet to acknowledge receipt of the stated amount, and makes the actual bank deposit. The check copies and transmittal sheet are then given to the Fiscal Manager for posting to the respective customer's accounts.

Finding # 8: Accountability for some controlled assets was not properly established

Prior to his retirement the previous AR Coordinator prepared a Capital and Controlled asset inventory and segregated the controlled assets by their location. He did not have the employee responsible for that particular work area/office sign the sheet to indicate their responsibility. We have prepared a database report that will include the signature(s) of responsible employees for all future inventories.

Finding # 9: Some accounts exceeded their established credit limit

As has been previously stated, Accounts Receivable aging suffered from the lack of a full-time person for almost eight months. Since the hiring of the new AR Coordinator the percent of accounts within terms has increased from 53.6% to 80%. The one problem account mentioned no longer has any balance over 90 days and 53% of their balance is within terms. In addition, they are in the process of increasing their bond to match their current volume of business. In the future all accounts will receive more immediate attention.

Finding # 10: Solid Waste Management was out of compliance regarding accountability for controlled assets.

The previous Property Manager was in the process of completing the Controlled Asset Inventory when he retired. He had begun preparation of the employee form, but didn't complete them before he left. We will ensure all such forms, or equivalent, are prepared and signed for the most recent Controlled Asset Inventory recently completed for the Transfer Station, and will include the landfill locations as well.

Finding # 11: Inactive accounts with credit balances were not submitted to the Utah State Division of Unclaimed Property

As far as we can determine there were no inactive accounts that should have been forwarded to the Utah State Division of Unclaimed Property. This appears to be a carryover from the 2012 audit, and those accounts were sent to the state early in 2013. The accounts likely identified for 2013 were credit

balance account refunds which were issued on July 7, 2014 and totaled \$1,991. Please provide a detailed list of the accounts alleged to be inactive and we will confirm whether this is the case.

Finding # 12: Monthly cash over/short logs were not properly maintained.

Upon the suggestion of the auditors we have changed the group monthly over/short sheet to individual sheets to avoid operator concerns over privacy. We will follow up regularly to see they are being completed on a daily basis by each operator.

Finding # 13: Some Landfill customers were allowed to incur charges that exceeded the amount they had prepaid

This finding is related to several others that were dependent on the retirement of the previous AR Coordinator. In spite of the stretching of resources this situation created the WasteWorks ticketing program, is structured to alert the scale operators whenever a credit balance account has exhausted their credit. The operators then contact office personnel (the Fiscal Manager) for instructions. Most of those over their limit were small balances and were instructed to bring a payment to the office. This process is not unmonitored, and does receive scrutiny. There are isolated cases where a particular customer may have started a larger than usual project and the volume of their transactions was greater than they anticipated. These accounts also receive attention. The current AR Coordinator has begun contacting such accounts on a regular basis.

Finding # 14: A capital asset did not have a County tag

Please identify the specific asset so we may ensure it is now tagged. The comment from the 2012 audit implies there were two capital assets not located and that this condition existed during the current audit. This is not the case. Those two assets were located at the conclusion of the 2012 audit and the audit file should contain documentation of this. With the hiring of the new AR Coordinator the tagging of all assets will be regularly accomplished.

Finding # 15: Payment-card number, security code, and cardholder's name/address were filed with deposit documentation for some transactions.

This refers to a single operator who thought that hand-entered credit card information was to be included with the Daily Cash Report and not destroyed. She and all operators have since been instructed to destroy any future card information. While perhaps a minor technicality, it should be noted the retention of the card-holder data is not a violation of PCI rules per se. The information is not "on file" in that it cannot be accessed by reference to name, card number or amount. The only organization of the data is by date of the transaction. The data is not accessible by anything other than a random search, and then only to personnel who have access to the locked room where the records are kept. All operators are instructed to destroy information from now on.

Finding # 16: No documentation was found showing the transfer of some controlled assets to surplus.

This is another item related to the retirement of the previous AR Coordinator/Assets Manager. He had been compiling a list of assets to be surplused but was unable to finish it by the time he retired. The Fiscal Manager was unable to assume all of the AR Coordinator's duties and this item was not completed. The new AR Coordinator is reviewing all assets to be surplused and will prepare and file the necessary Forms PM-2 as soon as possible.

Finding # 17: Management did not indicate a review of fee-exempt transactions.

A daily review of all fee-exempt transactions would not detect any fraudulent activity as the system does not contain enough information to distinguish potential fraudulent transactions from normal transactions. Only if an operator were printing a large quantity of fee-exempt tickets would additional scrutiny be indicated. Currently we have a generic exempt customer account, # 150, that generates most of the exempt transactions. This account is used for customers and employees with vouchers, and the occasional small charity that does not have sufficient annual volume to justify a separate account. There is no information in any report that would alert management to suspicious activity. Accounts 155 and 156 are for Deseret Industries and Habitat for Humanity respectively. Account # 155 is reviewed periodically for tonnages as any tons over 8,000 per year are to be charged at normal rates. We will be happy to work with the auditors to determine if there is some way within our current system to accomplish their wishes.

Finding # 18: Deposits were not always made in a timely manner

Please provide a list of the specific deposits alleged to be made late. A similar observation was made by Squire & Company and we found most of the deposits they identified as being late were, in fact, not late for various reasons. It is possible the county auditors selected the same transactions. Following is our response to Squire & Company:

Deposits

We reviewed the deposits identified as being received on 01/02/2014 and deposited on 01/15/2014 and found the receipt date was incorrect. There were two checks included in that deposit that were dated 01/02/2014 by the customers. As it generally takes 2-3 days for checks to reach our office, and this time framed spanned a weekend, we believe the receipt date should have been between the 7th and 9th of January. It does appear however, this deposit was delayed several days for some unknown reason. The deposit identified with a receipt date of 03/06/2014 was also incorrect. A closer examination shows the actual receipt date was 03/13/2014, the Accounting Specialist made an error on her spreadsheet when preparing it for the Fiscal Manager. These funds were deposited on the same day as received.

We have discussed the matter with all staff members and will assure customer payments are deposited no later than three days from receipt.

We strive to make deposits quickly and within two days after receipt. Exceptions occur from time to time, but these are rare. We will monitor more closely

Finding # 19: A purchasing card was not signed by the cardholder.

The card in question was recently acquired by the user and she neglected to immediately sign the card. She has since signed the card. Both users are now aware the card must be signed.

Finding # 20: Sales tax was charged on some County purchases.

We believe this item relates to a single purchase made by the petty cash custodian when she needed to make an immediate purchase, but did not have the sales tax exemption card with her at the time of the purchase. In this case the custodian did not reimburse herself for the sales tax paid; consequently, the County did not expend County funds for sales tax. According to the petty cash custodian no purchases have included reimbursement for sales taxes.

Finding # 21: Voided transactions were not always handled in accordance with Countywide policy.

It is not possible to void a ticket in the WasteWorks system without entering a reason in the text box provided for that purpose. The operator may neglect to handwrite the explanation on the face of the voided ticket, but all voided transactions are reviewed and initialed by the person doing the daily cash balancing. The void ticket is checked (which includes a review of the text entered and reflected on the report) and initialed in the closing report and the void ticket itself is marked by the reviewer. There can be no void tickets in the current system unless a particular transaction is overlooked by the reviewer.

Finding # 22: Checks were accepted without recording the patron's identification information on the check.

We believe Policy # 1301 has been interpreted to apply only to individual's checks, not to commercial, or business, checks. Very few individuals pay by checks now as most use debit or credit cards or cash. Most of the checks we receive are issued by business accounts where the individual tendering the check is often not the signor of the check. We believe it is not possible for the auditors to identify specific individual's checks lacking such documentation as the checks are not in our possession after their deposit into the bank. We acknowledge it is possible operators have failed to secure this information on selected transactions. Management has periodically repeated the instruction to obtain this information and we will continue to do so. As we have no way to review the checks to make such a determination instructions are being followed we would welcome the auditor's recommendations for a solution.

Finding # 23: The manual purchasing card transaction logs were not always signed.

The Fiscal Manager is unaware of any P-card purchases not approved electronically, and only recalls signing manual receipts which were used under the old petty cash method used previously. We have instructed both P-card users to present any manual receipts for the Fiscal Manager's review.

Finding # 24: A new property manager had not been designated.

Delays in replacing the retired property manager were not entirely within the control of Solid Waste Management staff. If such a vacancy occurs in the future we will act to fill the position immediately.

Finding # 25: A Fund Transfer Receipt was not used to document the transfer of funds to the employee performing the balancing procedure.

Any such omissions occurred during the eight month period we functioned without the retired AR Coordinator. We believe there were no cash receipts without a MPF Form 7a during the time prior to his retirement. Our staffing shortage contributed to any such omissions. Now we are fully staffed the receipt log is signed by the new AR Coordinator to indicated acknowledgement of the checks and the original is returned to the Accounting Specialist for filing. A copy of the signed receipts list is included with the deposit documents for the Fiscal Manager to apply to customer accounts.

Finding # 26: A Self-Assessment Questionnaire (SAQ) had not been completed and was not on file.

Solid Waste Management completed the SAQ during the time PCI compliance was being made throughout the county in September of 2013. The AR Coordinator submitted the questionnaire to the IS person responsible for securing them. Any failure to file the completed questionnaire lies outside Solid Waste Management staff. If another questionnaire is required please advise us and we will work with IS to prepare and file it.