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Audit Report

**AUDIT OF SELECTED LANDFILL
FINANCIAL CONTROLS**
(Report No. A12-010)

September 7, 2012

City Auditor

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Executive Summary

Significant internal control deficiencies over cash receipts and accounts receivable activities were noted in the Department of Sanitation Services' (Sanitation Services) landfill and transfer station operations. Several of the deficiencies identified during this audit were previously reported to Sanitation Services in 2009, but had not been adequately addressed. Examples of control deficiencies identified include:

- Lack of physical safeguards to protect personnel, cash, and equipment
- Lack of controls over customer vehicle information
- Security over WasteWORKS Waste Management Software is insufficient to prevent unauthorized access
- Segregation of duties is not adequate to detect errors and reduce fraud risks
- Customer security deposit process does not provide adequate revenue protection for the City of Dallas (City)

Internal Control

Internal control is broadly defined as a process affected by an entity's board of directors, management, and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with laws and regulations

Source: Committee of Sponsoring Organizations of the Treadway Commission (COSO) Control-Integrated Framework

The combined effect of the internal control deficiencies identified creates a significant risk that errors and/or fraud could occur and not be detected within a timely period by employees in the normal course of performing their assigned duties. Data analysis of customer transactions indicated a strong likelihood of annual revenue losses of at least \$100,000 per year over an eleven year period.

We recommend the Director of Sanitation Services improve the system of internal controls over cash receipts and accounts receivable by addressing the recommendations made throughout this report. We also recommend the City Controller's Office record and notify City departments of bank returned items within one day of receipt from the bank.

The objective of the audit was to evaluate the adequacy of selected landfill financial controls. The scope of the audit included cash and accounts receivable

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transactions for the period of October 1, 2009 to June 30, 2011. We also reviewed certain related transactions and records before and after that period.

Management's response to this report is included as Appendix III.

Audit Results

Overall Conclusions

Significant internal control deficiencies over cash receipts and accounts receivable activities were noted in the Department of Sanitation Services' (Sanitation Services) landfill and transfer station operations. Several of the deficiencies identified during this audit were previously reported to Sanitation Services in 2009, but had not been adequately addressed. Examples of control deficiencies identified included: (1) Lack of physical safeguards to protect personnel, cash, and equipment; (2) Lack of controls over customer vehicle information; (3) Security over WasteWORKS Waste Management Software is insufficient to prevent unauthorized access; (4) Segregation of duties is not adequate to detect errors and reduce fraud risks; and, (5) Customer security deposit process does not provide adequate revenue protection for the City of Dallas (City).

The combined effect of the internal control deficiencies creates a significant risk that errors and/or fraud could occur and not be detected within a timely period by employees in the normal course of performing their assigned duties. Data analysis of customer transactions indicated a strong likelihood of annual revenue losses of at least \$100,000 per year over an eleven year period.

Landfill and Transfer Stations Lack Physical Safeguards to Protect Personnel, Cash, and Equipment

Physical safeguards to protect personnel, cash, and equipment are inadequate or unenforced at the landfill and the transfer stations. As a result, the safety and security of personnel, cash, and equipment may be compromised.

Access to the Scale House Is Not Properly Restricted

A customer was observed inside the McCommas Bluff Landfill (McCommas) scale house¹ on one occasion and non-scale house employees were observed inside the McCommas scale house on several occasions. Access to the McCommas scale house should be limited to individuals who have a valid business reason for obtaining access, for example: scale house employees, direct supervisors and managers, and other authorized personnel, such as armored car and repair personnel.

¹ Scale house is a location of cashiering and customer account activities.

Cash Is Not Properly Protected

Various cash handling deficiencies were observed during the conduct of this audit, including the following:

- Cashiers did not count or sign for their \$400 opening cash drawer till.
- A cash drawer of \$400 was not properly secured inside a cash drawer cabinet that should be locked.
- A cash change drawer of \$1,400 was left unattended with the keys in the lock.
- Cash deposit bags with amounts totaling \$7,442 were left unattended (Note: the cash deposit amount varies daily).
- The combination on the scale house safe, where cash and checks are stored, was not changed when the last Scale House Supervisor terminated in January 2010.

Physical Security of Scanned and Remotely Deposited Original Checks Is Inadequate

After depositing checks to the bank through remote deposit, the McCommas scale house employees store the original checks in an unlocked file cabinet. By not properly securing the original checks, those checks may be vulnerable to theft and possible fraud.

Security Camera Systems Are Inadequate

The camera positioning and resolution do not allow for: (1) the capture of the information necessary to properly monitor the safety and security of personnel and equipment; (2) the accuracy and completeness of landfill and transfer station transactions, such as cash handling functions; and, (3) identification of vehicle license plates, or the solid waste materials present in vehicles. The current digital video storage capacity of 90 days may be insufficient to review disputed transactions or suspected misconduct. In addition, no audio is captured to enable adequate review of customer transactions and related activities or employee interactions with customers.

Transfer Station Security Measures Are Also Inadequate to Protect Personnel, Cash, and Equipment

During a construction project at the Northwest Transfer Station (Bachman), a sliding glass window was used for cashiering activities instead of a more secure cashiering window. The sliding glass window allowed individuals direct access to the cashier and did not restrict the individuals' ability to reach through the window to unlock the scale house door. Although this physical security issue was brought to the attention of the supervisor and manager on April 1, 2011 and to another more senior manager on April 20, 2011, the use of the sliding glass window was not discontinued until an incident occurred on May 9, 2011 involving an alleged attack on a cashier.

At the Southwest Transfer Station (Oak Cliff), the door between the office and the parking lot is not properly secured when the office is unattended. By leaving the door unlocked, the safety and security of equipment is compromised.

Administrative Directive (AD) 4-9, *Internal Control*, requires that management establish and maintain a system of internal controls. Internal controls include adequate physical safeguards wherein access to assets should be permitted only in accordance with applicable laws, regulations, and policies. Without adequate physical safeguards, assets and records may be stolen, altered, misplaced or lost, and personnel may be harmed.

AD 4-9 states: *“Formal and on-the-job training is needed to ensure that employees are properly prepared to perform their duties. Training should be offered on an ongoing basis to reinforce existing skills and to help employees adjust to changes in their job responsibilities.”* AD 4-9 also requires internal control training be provided to all key personnel.

Recommendation I

We recommend the Director of Sanitation Services:

- Restrict scale house access to scale house employees, scale house supervisors and managers, and very limited authorized personnel
- Provide basic cash handling training for all cashiers, cashier supervisors, and managers involved in handling cash or supervising or managing those who handle cash
- Develop and enforce strict written cash handling policies and procedures

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- Change the scale house safe combination and install a lock on the filing cabinet where original checks are stored
- Upgrade the security camera systems to: (1) Improve camera positioning; (2) Provide higher resolution images; (3) Increase digital video storage capacity; and, (4) Capture audio
- Improve security at the transfer stations

Please see Appendix III for management's response to the recommendations.

Lack of Controls over Customer Vehicle Information May Result in Lost Landfill Revenue

The landfill and transfer stations lack appropriate controls over customer vehicle information. Additionally, the landfill and transfer stations' employees do not consistently record customer names for cash customers. As a result, the City may be losing landfill revenue. Sanitation Services classifies customers as either a cash customer or a credit customer. Credit customers charge tipping fees to their credit account and pay a monthly invoice. Cash customers pay tipping fees by cash, check, or credit card at the time of entry.

Sanitation Services Cannot Visually Verify Vehicle Numbers

Sanitation Services does not maintain any unique vehicle identification information that could be used to visually identify a credit customer's vehicle number and compare it to the vehicle information documented in the WasteWORKS software application. For example, Sanitation Services does not maintain any of the following unique vehicle identifiers:

- Company's assigned vehicle number that may appear as a decal on the vehicle
- Vehicle license plate number
- Vehicle identification number
- Radio-frequency identification tags

WasteWORKS

Sanitation Services uses WasteWORKS Waste Management Software and WasteWIZARD Scale House Automation Software, both by Carolina Software, Inc., to read the vehicle's gross weight automatically from the scale and to determine the net weight of the solid waste based on the vehicle's tare (empty) weight. WasteWORKS computes the tipping fees due on the net weight of the solid waste.

Source: Sanitation Services

As a result, Sanitation Services cannot readily determine that the credit customers' vehicles entering the landfill are the same vehicles as those documented in the WasteWORKS software application.

Landfill tipping fees are based upon the weight of the waste, i.e. gross weight of the vehicle upon entry to the landfill minus the vehicle's tare (empty) weight that is recorded in WasteWORKS. Without accurate vehicle identification and the ability to compare that information to the information documented in WasteWORKS, the City cannot determine that tipping fees charged are appropriate.

No Controls over Vehicle Identification Information Provided by Credit Customers

Sanitation Services has no controls to verify vehicle numbers provided by vehicle drivers using either the WasteWIZARD self-service panels or the cashiered lanes. Data analysis of customer transactions indicated a strong likelihood of annual revenue losses of at least \$100,000 per year over an eleven year period. Auditor observation also showed that cashiers will accept a vehicle number for a customer name which differs from the company name on the vehicle. For example:

- Credit customer vehicle drivers can enter any valid vehicle number into the WasteWIZARD self-service panels even if the vehicle number is not assigned to that specific vehicle or even to that company.
- A vehicle driver can verbally provide a cashier with any valid vehicle number and the cashier manually enters the vehicle number into WasteWORKS even if the vehicle is not assigned to that specific vehicle or even to that company.

By using an incorrect vehicle number, the credit customer may:

- Avoid paying the correct tipping fees
- Charge the tipping fees to another company

No Controls over Manual Tare Weight Entry Results in Errors

Sanitation Services does not properly restrict employees' ability to manually enter tare weights into WasteWORKS. As a result, Sanitation Services is not able to ensure that the City receives the proper tipping fees. An analysis of historical tare weights showed numerous, obvious tare weight errors. Observation and review of a sample of transactions also indicated that employees have the ability to manually enter tare weights instead of following proper re-weigh procedures for cash customers. In addition, Sanitation Services' practice of issuing tare weight tickets to frequent cash customers for each of their vehicles increases the number of manual tare weight entries. Manually entering tare weights increases the risk for error and possible fraud.

Proper re-weigh procedures require cash customers' vehicles to be weighed to determine the gross vehicle weight and pay a deposit based upon the gross weight. On exit, the vehicle is re-weighed to determine the

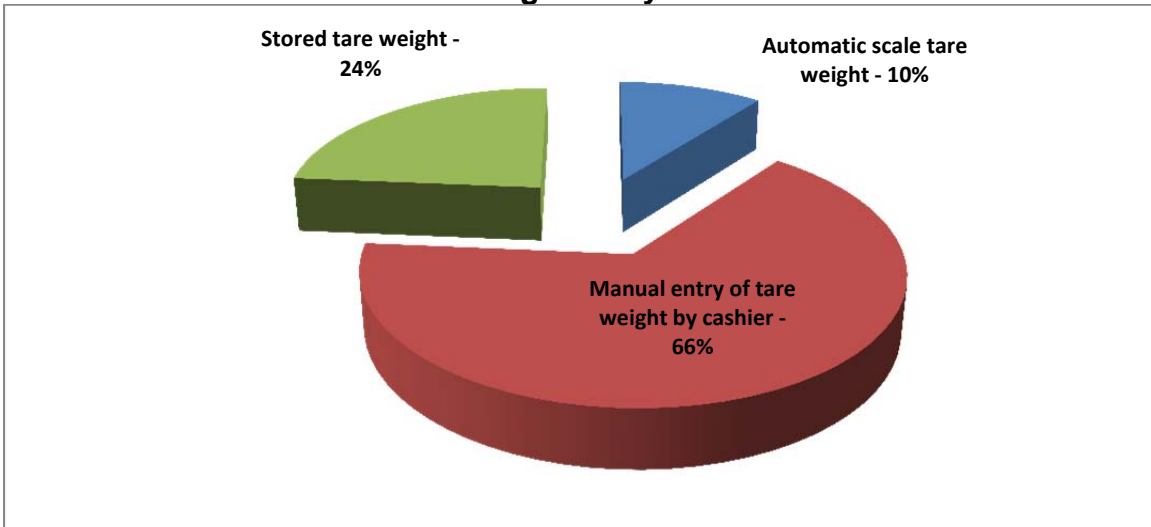
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tare weight and, hence, the net weight and associated tipping fees. If the automatic scales are not functioning, manual weights should be entered only with supervisory approval.

Chart I below shows that cashiers manually enter 66 percent of the tare weights for Bachman and McCommas' transactions involving non-City vehicles. According to Carolina Software, "manual tare weights should definitely be the exception instead of the norm" and Sanitation Services has the ability to set WasteWORKS to disallow manual entry of weights.

Chart I

Methods of Tare Weight Entry into WasteWORKS



Source: Auditor analysis of WasteWORKS transactions at Bachman and McCommas involving non-City vehicles for July 31, 2000 to November 7, 2011.

Cashiers Do Not Consistently Capture Customer Names for Cash Customers

Observation and review of a sample of transactions indicated that Sanitation Services does not consistently capture customer names for cash customers. By not capturing all customer names in a consistent manner in WasteWORKS, Sanitation Services is unable to systematically determine if a commercial customer paying cash should be required to obtain a solid waste collection franchise or if a frequent customer who claims to be a resident is actually a commercial customer who should be paying tipping fees.

AD 4-9 discusses six "system control objectives" that should be applied to all processing systems. Those control objectives include: "Transaction Processing – All authorized events should be identified and related transactions needed, created, documented and properly processed. Transactions should be added to

files in the appropriate systems and accurately reported in a timely manner. The need for effective transaction processing is essential. If transactions are not accurately and properly processed, data and reports will be inaccurate and management may be unable to determine where the department is or where it is going.”

Recommendation II

We recommend the Director of Sanitation Services:

- Implement a positive vehicle identification system for credit customers and frequent cash customers to eliminate manual entry of vehicle identification information and tare weights
- Eliminate manual entry of weights for all vehicles. If the scale is temporarily not operational, manual transactions could be entered as adjustments with supervisor approval.
- Enforce re-weigh procedures for all cash customers to ensure proper weight and tipping fee calculations
- Develop policies and procedures to capture customer names for cash customers

Please see Appendix III for management’s response to the recommendations.

WasteWORKS Security Is Insufficient to Prevent Unauthorized Access

The WasteWORKS computer software access controls implemented by Sanitation Services are insufficient to prevent unauthorized access to data. Access to data should only be granted to authorized users so assigned duties may be performed. Granting access to users beyond that which an authorized user needs to perform their assigned duties creates a security risk to the data, including segregation of duties violations and potential fraud.

Invalid Users – 96 Percent or Almost 1,500 User Accounts in WasteWORKS Are Invalid

Prior to October 1, 2009, 1,477 user accounts were added to WasteWORKS for a Sanitation Services project that was never finalized. Five of these user accounts have full access to all areas of WasteWORKS, including the ability to add or delete users and void tickets. These invalid users, especially the five with full access, create an unacceptable risk to the security of the data.

Inappropriate Access to Data – Only One of the Valid Users Had Appropriate Access

Only one of 44, or two percent, of the valid user accounts was properly configured in WasteWORKS to limit the user's access to perform assigned duties. During the audit period, the valid user's employment with the City was terminated. Currently, none of the valid users have the appropriate access level for their assigned duties.

Examples of inappropriate WasteWORKS system access include:

WasteWORKS User Access Areas

User access is split into four distinct functional areas. Within each functional area, access can be assigned for specific duties. The functional areas and an example of the specific duties include:

- **Daily** – Entering tickets, accounts receivable payments and adjustments, voiding tickets, and generating late charges
- **Reports** – Produce financial reports, management reports and ad-hoc reports
- **Maintenance** – Change the customer file, customer financial file, vehicle file, material/services file, and the site code file
- **Utilities** – Change the control file, add and delete users, and close an accounting period

Source: Carolina Software

- **Cashiers have access to Maintenance, Reports, and/or Utilities areas.**
 - Maintenance access – Cashiers have the ability to create unauthorized credit customers and potentially allow those credit customers access to the landfill, resulting in potential lost landfill revenue. Additionally, access to the Maintenance area allows cashiers to change stored vehicle weights for existing credit customers, thereby increasing the risk that tipping fees could be manipulated which would also result in potential lost landfill revenue.
 - Reports access – Cashiers have access to potentially confidential financial and management data that should not be accessible because the information is not necessary to perform the cashiers' job duties.
 - Utilities access – Cashiers have the ability to add or delete user accounts and change user account permissions. This access would potentially allow a cashier to give themselves or a fictitious user full access to all areas of WasteWORKS, including the ability to process landfill transactions, collect cash from the customer and then void the transaction in the WasteWORKS system, and misappropriate the cash.
- **Cashiers have access to void tickets.**
 - Void tickets access – Cashiers have the ability to process a landfill transaction, collect cash from the customer and then void the transaction in the WasteWORKS system, and misappropriate the cash.
- **Scale House Supervisors have access to Maintenance and Utilities areas, including the ability to add and delete user accounts.**
 - Maintenance access – Scale House Supervisors have the ability to create unauthorized credit customers and allow those credit customers access to the landfill, resulting in potential lost landfill revenue. Additionally, access to the Maintenance area allows Scale House Supervisors to change stored vehicle tare weights for existing credit customers, thereby increasing the risk that tipping fees for existing credit customers could be manipulated which would also result in potential lost landfill revenue.

- Utilities access – Scale House Supervisors have the ability to add and/or delete user accounts and change user account permissions. This inappropriate access would potentially allow a Scale House Supervisor to give an existing user or a fictitious user full access to all areas of WasteWORKS, including the ability to process landfill transactions, collect cash from the customer and then void the transaction in the WasteWORKS system, and misappropriate the cash.
- **Canton Administrative Office (Canton)² employees who handle cash also have access to enter accounts receivable payments.**
 - Accounts receivable payments access – Canton employees have the ability to misappropriate a customer payment and conceal the misappropriation by recording the payment to the customer's account without making the cash deposit. As described in the *Cash Receipts and Related Activities Are Not Properly Reconciled* section of this report on page 24, Sanitation Services does not perform reconciliations that would provide timely detection of any misappropriation.
- **Canton employees have access to Maintenance and Utilities areas.**
 - Maintenance access – Canton employees have the ability to create unauthorized credit customers and allow those unauthorized credit customers access to the landfill, resulting in potential lost landfill revenue. Additionally, access to the Maintenance area allows Canton employees to change stored vehicle tare weights for existing credit customers, thereby increasing the risk that tipping fees for existing credit customers could be manipulated which would also result in potential lost landfill revenue.
 - Utilities access – Canton employees have the ability to add or delete user accounts and change user account permissions. This inappropriate access would allow Canton employees to give an existing user or a fictitious user full access to all areas of WasteWORKS, including the ability to process landfill transactions,

² Canton processes the accounts receivable activity, such as credit customer payments, accounts receivable adjustments, monthly reporting and reconciliations, and monthly invoicing. Canton also manages the credit customer account activities, including new credit customer accounts, cash security deposits, and bank letters of credit. Administration of the WasteWORKS system is also provided by Canton.

collect cash from the customer and then void the transaction in the WasteWORKS system, and misappropriate the cash.

- **WasteWORKS Administrator has access to Daily work using the administrator sign-on credentials used for Maintenance, Reports, and Utilities areas.**
 - The WasteWORKS Administrator uses the Daily work to set up and test new installations or trouble-shoot existing installations. The WasteWORKS Administrator uses the remainder of the menus to perform routine administrative functions. Ideally, these two separate functions would be performed by two different individuals to avoid the access control issues discussed above, for the cashiers, Scale House Supervisors, and Canton employees. In the alternative, at least a separate user name with separate access privileges should be used to protect against the accidental usage of the Daily work. This inappropriate access risk is somewhat mitigated because the Administrator does not handle cash.

Changes to WasteWORKS Are Not Automatically or Manually Tracked

WasteWORKS provides the user name and date for daily transactions at the landfill and transfer stations; however, WasteWORKS does not track the user name and date for changes in the Maintenance and Utilities areas, such as additions or deletions to users, user access, customers, or vehicles. Additionally, Sanitation Services does not manually track changes to users, user access, customers, or vehicles. Without tracking changes, the ability to determine the validity of any change is compromised.

AD 4-9 requires that access to resources and records be limited only to authorized individuals. AD 4-9 also requires a separation of duties such that: *“Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions must be separated among individuals to prevent any one person from being in a position both to perpetrate and conceal errors or irregularities in the normal course of duty.”*

Recommendation III

We recommend the Director of Sanitation Services:

- Eliminate invalid users in WasteWORKS

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- Evaluate and implement appropriate WasteWORKS user access based on user job duties and proper segregation of duties
- Establish a manual system to track approvals and the validity of Maintenance and Utilities changes in WasteWORKS

Please see Appendix III for management's response to the recommendations.

Segregation of Duties Is Not Adequate to Detect Errors and Reduce Fraud Risks

Segregation of duties does not exist or is not properly implemented at the McCommas and Bachman scale houses and Canton. Without properly separating incompatible duties among Sanitation Services' employees, the risk increases that errors could occur and remain undetected and uncorrected and/or fraudulent activities could occur. The following are some examples of the segregation of duties conflicts noted:

- **Scale House Supervisors process customer transactions, void transactions, and prepare the bank deposit.**

The risk of the Scale House Supervisors performing the incompatible duties of processing cash customer transactions, voiding transactions, and preparing the deposit is that the Scale House Supervisor could misappropriate cash during either the processing of customer transactions or preparing the bank deposit and conceal the misappropriation by voiding the landfill transactions that generated the cash.

- **Bachman Cashiers process customer transactions, void transactions, and prepare the bank deposit.**

The risk of the Bachman Cashier performing the incompatible duties of processing customer transactions, voiding transactions, and preparing the deposit is that the Bachman Cashier could misappropriate cash during either the processing of customer transactions or preparing the bank deposit and conceal the misappropriation by voiding the transfer station transactions that generated the cash.

- **Non-supervisors have access to the cash change fund that should be maintained exclusively by the Scale House Supervisors.**

If non-supervisor cashiers count the cash change fund, the non-supervisor cashier could remove cash from the cash change fund to replenish a shortage in the cashier's cash till.

- **Scale House employees process landfill transactions and issue laminated tare weight tickets for repeat cash customers.**

Allowing scale house employees to process landfill transactions and issue laminated tare weight tickets for repeat cash customers creates a risk that vehicle tare weights and the associated tipping fees could be manipulated.

- **Administrative Specialist at Canton posts payments to customer accounts and also:**

- Adds new customer accounts to WasteWORKS, including vehicle information and security deposits

By allowing the same person to post payments to customer accounts and create those customer accounts, errors or irregularities in customer account set-ups could occur and go undetected in a timely manner.

- Posts adjustments to customer accounts in WasteWORKS

By allowing the same person to post payments and adjustments to customer accounts, payments could be misappropriated and non-cash adjustments could be posted to reduce the customer account in place of the payment.

- Prepares customer invoices in WasteWORKS

By allowing the same person to post payments and prepare customer invoices, fictitious payments posted to the account would not be detected during the invoicing process.

- Reconciles payments posted to customer accounts in WasteWORKS to the cash receipts forms posted to AMS Advantage 3

By allowing the same person to post payments to customer accounts and reconcile those payments to the cash receipts forms, no effective checks and balances exist to ensure that an error or irregularity would be detected.

In 2009, a certified public accounting firm (Firm) was hired to provide internal control consulting services, emphasizing documenting, testing, evaluating, and recommending improvements related to internal controls over financial reporting and reporting on City-wide internal controls. The Firm observed and reported issues related to segregation of duties. Sanitation Services did not fully address or correct the segregation of duties issues reported by the Firm.

AD 4-9 requires that management establish and maintain a system of internal controls. One of the specific internal control standards within AD 4-9 requires a: *“Separation of Duties – Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions must be separated among individuals to*

prevent any one person from being in a position both to perpetrate and conceal errors or irregularities in the normal course of duty.”

Recommendation IV

We recommend the Director of Sanitation Services redesign the employees' duties and responsibilities at the McCommas and Bachman scale houses and Canton to properly segregate incompatible duties among employees.

Please see Appendix III for management's response to the recommendation.

Written Policies and Procedures Are Inadequate or Not in Accordance with City Administrative Directives

The written procedures and working instructions for the McCommas scale house contained in the Quality Management System (QMS) are incomplete, inaccurate, and not reflective of actual operations. The following examples demonstrate the inadequacies:

- The procedures titled Deposit Preparation Process (Sanitation QMS form SAN-PRO-202) do not include deposit preparation at Bachman, reference incorrectly named procedures and forms, and incompletely describe the process to complete the Scale House Deposit Worksheet.
- The procedures titled Acceptance of Credit Cards (Sanitation QMS form SAN-PRO-207) and the working instructions for Cashier Handling Procedures (Sanitation QMS form SAN-WKI-211) were obtained from other departments and incompletely edited for Sanitation Services' operations. For instance, the Acceptance of Credit Cards procedure includes references to "citizen's legal case transactions" which is not a Sanitation Services function. The Cashier Handling Procedures incorrectly requires: *"Incidents [cash overage, shortage, or transaction void] of \$75 and over, in a single transaction, shall be reported to the City Auditor's Office."* This reporting requirement was included in the City's Resource Information Guide; however, it is no longer the accepted guidance.
- Written policies or procedures for identifying potential franchisees at the landfill were not included in any of the procedures or working instructions. Although a list of franchisees is present in the scale house, the cashiers do not verify commercial cash customers against the list of franchisees. By not verifying commercial cash customers, Sanitation Services may allow unfranchised haulers access to the landfill.
- The procedures titled Return Check Collection – NSF (Sanitation QMS form SAN-PRO-208) are not in compliance with AD 4-11, *Processing Non-Sufficient Funds (NSF) Checks*, since the procedures do not include documenting collection efforts as required in AD 4-11. AD 4-11 also requires certain collection actions occur within 15 days of mailing the registered or certified letter, while the procedures discuss a time period of ten days after receiving the certified mail return receipt.
- No written policies or procedures exist for the collection of delinquent accounts receivable. Without formal policies and procedures, there is an increased risk that Sanitation Services' collection efforts may be ineffective and will not be in compliance with AD 4-10, *Delinquent and Uncollectible*

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Accounts Receivable. For example, demand letters are not timely sent to delinquent customers. Demand letters that should have been sent two days after the invoice due date, (by April 8, 2011 and May 13, 2011, respectively) to be in compliance with AD 4-10, were not sent until May 20, 2011. As of April 30, 2011, Sanitation Services showed 44 delinquent accounts for \$2,390,845. Additionally, Sanitation Services does not document their delinquent accounts receivable collection efforts as required by AD 4-10.

Written policies and procedures that are accurate and complete help to ensure landfill and transfer station employees duties and the associated functions are performed in a consistent manner and that Sanitation Services has effective internal controls.

Recommendation V

We recommend the Director of Sanitation Services:

- Thoroughly review, edit, and test the procedures and working instructions for the Sanitation Services Scale House contained in the QMS
- Develop written procedures and working instructions for Bachman
- Develop written procedures and working instructions for Canton, including procedures for bank returned items and delinquent accounts receivable which are in compliance with Administrative Directives

Please see Appendix III for management's response to the recommendations.

Customer Security Deposit Process Does Not Provide Adequate Revenue Protection for the City

The customer security deposit process does not provide adequate revenue protection for the City. In addition, Sanitation Services does not have formal policies and procedures for the customer security deposit process. As a result, Sanitation Services' employees do not have the guidance needed to ensure that security deposits are sufficient and accounts receivable collection is secured. Sanitation Services also does not follow standard business practices when extending credit to landfill customers. Specifically:

- Credit accounts are sometimes established without a cash security deposit or bank letter of credit.
- No credit application is used to determine the creditworthiness of credit customers before a credit account is established.
- New credit customers decide the amount of their cash security deposit rather than Sanitation Services determining the cash security deposit amount based upon the potential volume of landfill transactions.
- Management approval is not required to establish a new credit customer account.
- Management does not periodically monitor the sufficiency of credit customer security deposits. For example, one waste hauler's average monthly disposal fees were \$26,960 for the period of March 2007 to April 2009, but Sanitation Services collected a security deposit of only \$400. By the terms of the City of Dallas Credit Agreement for Disposal Service Charges (Credit Agreement), the waste hauler's security deposit should have been \$26,960. (Note: As of April 2009, this particular waste hauler had a delinquent account receivable balance in excess of \$800,000.)

Security Deposits

Cash security deposits – Required by the Credit Agreement to cover the maximum charges expected for a one-month period.

Credit customers may pay a cash security deposit instead of providing a bank letter of credit.

The cash security deposit or the bank letter of credit is held to insure that the credit customer pays the monthly invoice. If a credit customer fails to pay the monthly invoice within 90 days of the invoice date, the Credit Agreement provides that the cash security deposit or the bank letter of credit may be applied against the delinquent amount due from the credit customer.

Source: Credit Agreement

An analysis of all 96 credit customer accounts active during the audit period showed:

- Insufficient cash security deposits, with an insufficiency range of \$46 to \$97,666, for 23 of 96, or 23.96 percent, of the credit customers

- Expired letters of credit for eight of 96, or 8.33 percent, of the credit customers

In addition, Sanitation Services does not properly use the Security Deposit field or the Credit Limit field in the WasteWORKS software application. Both of these fields could be used to provide better internal control over daily landfill transactions and accounts receivable balances, such as restricting access to credit customers with delinquent accounts receivable balances.

In 2009, the Firm observed and reported issues related to the security deposit process. Sanitation Services did not fully address or correct any of the security deposit issues reported by the Firm.

AD 4-10 requires that departments pursue advance payments wherever feasible. In compliance with AD 4-10, Sanitation Services requires new credit customers to complete the Credit Agreement which states: *“The Customer agrees to establish a credit account with the City of Dallas Department of Sanitation Services by either (a) making a cash security deposit, which represents the maximum charges expected to occur for a one-month period, or (b) providing a letter of credit in the same amount...”*

AD 4-9 requires that management establish and maintain a system of internal controls. One of the six system control objectives within AD 4-9 requires appropriate authorization for events in which the department will engage to accomplish its objectives.

Recommendation VI

We recommend the Director of Sanitation Services develop written policies and procedures for the security deposit process and ensure the security deposit process provides adequate revenue protection for the City and follows AD 4-9, AD 4-10, and standard business practices for extending credit to customers.

Please see Appendix III for management’s response to the recommendation.

Cash Receipts and Related Activities Are Not Properly Reconciled

Reconciliations are not adequately performed for cash receipts and related activities. In addition, Sanitation Services does not have formal policies and procedures for the reconciliation function. Reconciliations are an important internal control for the timely detection and correction of errors or potential fraudulent activity. Without formal policies and procedures that specify proper reconciliation activities, Sanitation Services does not have a definitive method of insuring the accuracy of balances for activities, such as cash receipts, accounts receivable, bank returned items, or security deposits.

Specifically, Sanitation Services does not perform adequate reconciliations for the following areas:

- Cash change fund – Any differences in the daily count of the cash change fund are not investigated or explained. Additionally, the cash change fund is not reconciled to the City’s general ledger accounting system, AMS Advantage 3.
- Check log maintained at Canton – The check log is not reconciled to the checks actually deposited at the bank each day. Additionally, the check log format does not allow calculation of daily totals.
- Cash receipts – The cash receipts are not reconciled between:
 - AMS Advantage 3
 - Check log
 - Manual subsidiary ledger for accounts receivable
 - WasteWORKS
- Accounts receivable – The accounts receivable are not reconciled between:
 - AMS Advantage 3
 - Manual subsidiary ledger for accounts receivable
 - WasteWORKS

**An Audit Report on –
Selected Landfill Financial Controls**

- Bank returned items – The subsidiary ledger for items returned from the bank, such as NSF checks, is not reconciled to AMS. Additionally, Sanitation Services does not maintain an accurate subsidiary ledger for bank returned items.
- Security deposits – The credit customer cash security deposits are not reconciled between:
 - AMS Advantage 3
 - Manual subsidiary ledger for security deposits
 - WasteWORKS

In 2009, the Firm also observed and reported issues related to reconciliations. Sanitation Services did not fully address and correct any of the reconciliation issues.

AD 4-9 requires that management establish and maintain a system of internal controls. As noted above, one of the specific internal control standards within AD 4-9 requires: *“Periodic comparisons are made of the resources with the recorded accountability to determine whether the two agree. If not, the differences should be reconciled and records updated as needed. The frequency of the comparison is dependent upon the potential for waste, fraud and abuse; determined degree of risk (high – low) or dollar value.”*

Recommendation VII

We recommend the Director of Sanitation Services develop written policies and procedures for the reconciliation function and ensure monthly reconciliations are performed for the following: (1) Cash change fund; (2) Cash receipts; (3) Accounts receivable; (4) Bank returned items; and, (5) Customer security deposits.

Please see Appendix III for management’s response to the recommendation.

Accounts Receivable Balances Are Not Timely Updated

Credit customer accounts receivable balances in WasteWORKS are not updated when payments are received. Although payments for the monthly invoices are deposited to the bank when received, credit customer accounts receivable balances in WasteWORKS are not updated until the first week of the next month. By waiting to post credit customer payments, credit customer accounts receivable balances are not accurate except once a month.

Furthermore, Sanitation Services does not always timely post the AMS Advantage 3 journal voucher to record the monthly invoices sent to credit customers. During the audit period, from October 2009 to June 2011, the monthly journal voucher to record monthly invoices sent to credit customers was posted in the proper month ten of the 20 months reviewed. By not recording the monthly journal voucher timely each month, revenue and accounts receivable are inaccurate in AMS Advantage 3 and unreliable for forecasting revenue and collections.

In 2009, the Firm also observed and reported the issue of untimely posting of credit customer payments. Sanitation Services did not fully address or correct the untimely posting of credit customer payments.

AD 4-9 requires that management establish and maintain a system of internal controls. One of the specific internal control standards within AD 4-9 requires: *“Recording of Transactions and Events – Transactions and other significant events are to be recorded on a timely basis and properly classified.”*

Recommendation VIII

We recommend the Director of Sanitation Services require:

- Posting of customer payments to WasteWORKS within one business day of the payment posting to AMS Advantage 3
- Posting the journal voucher recording the monthly invoices to AMS Advantage 3 within one business day of mailing the monthly invoices to the customers

Please see Appendix III for management’s response to the recommendations.

Accounts Receivable Adjustments Are Not Properly Documented and Authorized

Accounts receivable adjustments are not properly documented and are not approved by management. A judgmental sample of accounts receivable adjustments showed no management approvals and insufficient documentation to justify and support the adjustments. In addition, within the sample of accounts receivable adjustments reviewed were two adjustments that were posted inaccurately. The adjustments were meant to record a 176.13 ton decrease in tonnage. The actual adjustments, however, incorrectly increased tonnage which resulted in an approximate \$465 increase in environmental fees paid by the City to the Texas Commission on Environmental Quality. Although this particular amount is not considered significant, accounts receivable adjustments should be properly documented, reviewed, and approved by management.

Furthermore, discounts are extended to certain City departments without written agreements or documented management approval and no formal policies and procedures. Some departments are charged for their landfill and transfer station usage, while others are given a 100 percent discount. Some of the discounted departments' transactions at the transfer stations are not recorded.

Proper documentation helps ensure that transactions are properly recorded and that recorded transactions actually occurred. Proper authorization of transactions helps ensure that activities are in compliance with City policies and procedures and management's intent.

Recommendation IX

We recommend the Director of Sanitation Services develop written policies and procedures regarding:

- Accounts receivable adjustments, including requirements for adequate documentation to support every adjustment and management approval for every adjustment prior to entering the accounts receivable adjustment in WasteWORKS
- Discount authorizations for City departments and enter into written agreements where appropriate

Please see Appendix III for management's response to the recommendations.

Bank Deposits Are Not Timely

Sanitation Services' McCommas bank deposits do not arrive at the bank within one business day of receipt as required by AD 4-13, *Cash & Debt Management Policies & Procedures*. Sanitation Services prepares the bank deposit the business day after the cash receipts are collected. The armored car service picks up the bank deposit and contractually must deliver the bank deposit to the bank by the next day. In a random sample of 30 days, the deposit did not arrive at the bank within the required one business day for 26 days, or 87 percent, of the sample days. By following the terms of the contract, the bank deposit does not arrive at the bank until the second business day after receipt.

Recommendation X

We recommend the Director of Sanitation Services work with the City Controller's Office to ensure the bank deposit arrives at the bank within one business day of the receipt as required by AD 4-13.

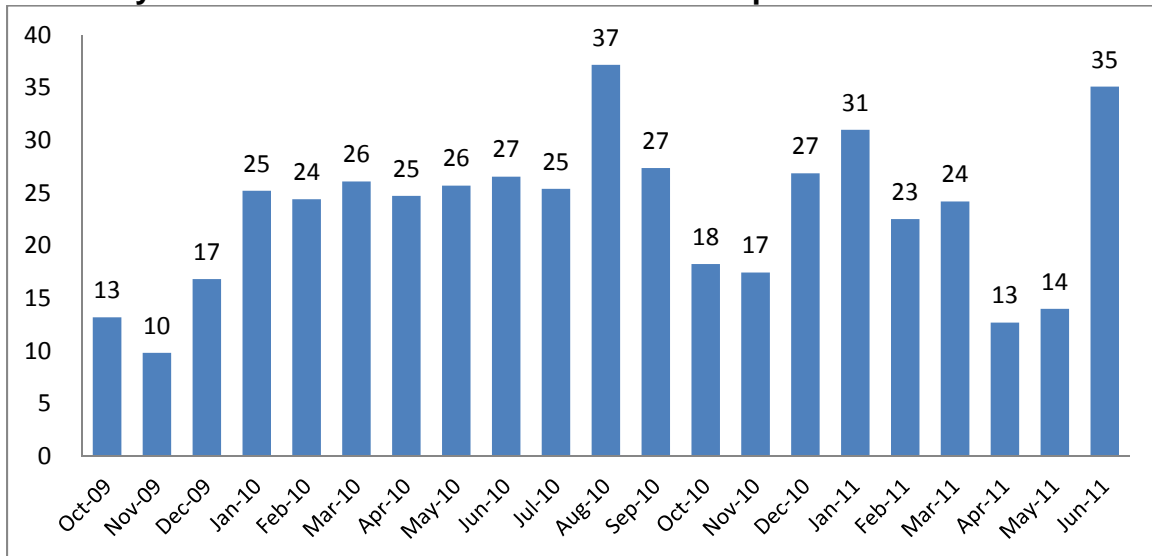
Please see Appendix III for management's response to the recommendation.

City Controller’s Office Is Not Timely Recording and Notifying Departments of Bank Returned Items

The City Controller’s Office does not timely record to AMS Advantage 3 items returned from the bank, such as NSF checks. The City Controller’s Office also does not timely notify the departments of the bank returned items. During the audit period, the average number of days between the bank notice and the City Controller’s Office recordation and notification of the bank returned items to the departments was 23 days. As Chart II below shows, the quickest monthly average turnaround was ten days in November 2009, and the slowest monthly average turnaround was 37 days in August 2010.

Chart II

Average Days Between Bank Notice of NSF Checks and City Controller’s Office Recordation and Department Notification



Source: Auditor analysis of bank notices and AMS Advantage 3 entries

If the City Controller’s Office delays recording and notifying the departments of bank returned items, the departments may accept more checks from the same customers resulting in more NSF items returned by the bank.

The City Controller’s Office’s written procedures show that although returned items are received daily, the City Controller’s Office is not required to process those returned items until Friday of each week. As the analysis above demonstrates, the City Controller’s Office does not process returned items on a weekly basis as their procedures currently require.

In 2009, the Firm also observed and reported the issue of untimely notification of bank returned items. The City Controller's Office did not fully address and correct the untimely notification of bank returned items.

Recommendation XI

We recommend the City Controller's Office record bank returned items and notify departments of bank returned items on a daily basis within one business day of the receipt of the returned item from the bank. This one business day from receipt requirement parallels the deposit within one business day of cash receipts requirements of AD 4-13.

Please see Appendix III for management's response to the recommendation.

Appendix I

Background, Objective, Scope and Methodology

Background

The City of Dallas (City) Department of Sanitation Services (Sanitation Services) conducts landfill and transfer station operations at:

- McCommas Bluff Landfill (McCommas)
- Northwest Transfer Station (Bachman)
- Southwest Transfer Station (Oak Cliff)
- Northeast Transfer Station (Fair Oaks)

Non-residential customers and commercial solid waste haulers are accepted only at McCommas and Bachman, where the customers pay weight-based tipping fees. Sanitation Services classifies customers as either a cash customer or a credit customer. Cash customers pay tipping fees by cash, check, or credit card at the time of entry. Credit customers charge tipping fees to their credit account and pay a monthly invoice.

Landfill Services Key Financial Measures	
Revenue Generated	\$ 28,767,391
Total Expenditures	\$ 17,331,234
Total FTEs	149.7
Source: FY 2012 Adopted Budget	

Sanitation Services uses WasteWORKS Waste Management Software and WasteWIZARD Scale House Automation Software, both by Carolina Software, Inc., to read the vehicle's gross weight automatically from the scale and to determine the net weight of the solid waste based on the vehicle's tare (empty) weight. WasteWORKS computes the tipping fees due on the net weight of the solid waste. WasteWORKS prints a transaction ticket for each customer when the transaction is complete.

Vehicle tare weights are determined by a variety of methods, depending on the customer type. A credit customer typically has a tare weight stored in WasteWORKS for each customer vehicle. The credit customer manually enters their vehicle number in the WasteWIZARD self-service panel or tells the cashier their vehicle number.

Upon entry to the landfill Sanitation Services typically requires cash customers' vehicles to be weighed to determine the gross vehicle weight and pay a deposit based upon the gross weight. On exit, the vehicle is re-weighed to determine the tare weight and, hence, the net weight and tipping fees. Frequent cash customers may be given a tare weight ticket for each of their vehicles to present to the cashier upon entry to eliminate the re-weigh at exit.

WasteWORKS produces daily reports used for deposit preparation and recording daily cash receipts transactions. WasteWORKS also produces monthly reports used for management analysis and recording monthly accounts receivable transactions. WasteWORKS is also used to produce the monthly landfill invoices that are sent to credit customers.

Sanitation Services' Canton Administrative Office (Canton) processes the accounts receivable activity, such as credit customer payments, accounts receivable adjustments, monthly reporting and reconciliations, and monthly invoicing. Canton also manages the credit customer account activities, including new credit customer accounts, cash security deposits, and bank letters of credit. Administration of the WasteWORKS system is also provided by Canton.

In 2009, the City Controller's Office hired a certified public accounting firm (Firm), at a cost of \$239,361, to provide internal control consulting services emphasizing documenting, testing, evaluating, and recommending improvements related to internal controls over financial reporting and reporting on City-wide internal controls. The Firms' objectives were to ensure that procedures and controls for the accounts receivable and cash receipts processes were functioning as designed and in accordance with City guidelines to support accurate and timely recording of accounts receivable and cash receipts.

Objective, Scope and Methodology

The objective of the audit was to evaluate the adequacy of selected landfill financial controls. The scope of the audit included cash and accounts receivable transactions for the period of October 1, 2009 to June 30, 2011. We also reviewed certain related transactions and records before and after that period.

This audit was conducted under authority of City Charter, Chapter IX, Section 3 and in accordance with the Fiscal Year 2011 Audit Plan approved by the City Council. This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

To achieve the audit objective, we performed the following procedures:

- Reviewed the internal control consulting work performed by the Firm for the City Controller's Office. The Firm described their work as preparation of process documentation and evaluation of internal controls for the accounts receivable and cash receipts processes.
- Reviewed prior audits involving the landfill, including the Audit of the McCommas Bluff Landfill Operations Managed by the City of Dallas Sanitation Services Department dated May 26, 2006 and the Follow-Up of Audit Recommendations, Department of Sanitation Services dated August 15, 2008
- Reviewed Sanitation Services' Statements of Internal Control dated November 1, 2009 and October 29, 2010
- Reviewed and analyzed the Scale House Procedures, Working Instructions, and Forms in use as Sanitation Services' policies and procedures. Evaluated whether the procedures were complete and accurate and in compliance with City Administrative Directives.
- Interviewed Sanitation Services employees and observed operations at McCommas, Canton, Bachman, Oak Cliff, and Fair Oaks
- Analyzed the daily work process documents for the observed operations at McCommas and Bachman
- Gained an understanding of the information technology used for point-of-sale and invoicing, including WasteWORKS Waste Management Software and WasteWIZARD Scale House Automation Software, both by Carolina Software, Inc.
- Analyzed a sample of Canton process documents, including credit agreements, security deposits, cash deposits, monthly invoicing, accounts receivable, collection of delinquent accounts, and returned bank items
- Analyzed a sample of daily work process documents, including reconciling those documents to the bank and financial records, evaluating the adequacy of the change fund balance, and determining if deposits are made timely
- Performed data analytics on all WasteWORKS recorded transactions for July 30, 2000 to June 25, 2011
- Analyzed annual fiscal year cutoff accrual transactions

**An Audit Report on –
Selected Landfill Financial Controls**

- Verified that the truck scales in use at McCommas were calibrated at least quarterly by a third party

Appendix II

Major Contributors to This Report

Carol A. Smith, CPA, CIA, CFE, CFF – First Assistant City Auditor

Renee L. Hayden, CPA, CFE – Project Manager

Theresa Hampden, CPA – Quality Control Manager

Management's Response

Memorandum

RECEIVED

AUG 23 2012

City Auditor's Office



CITY OF DALLAS

DATE: August 23, 2012
TO: Craig D. Kinton, City Auditor
SUBJECT: Response to Audit Report: Audit of Selected Landfill Financial Controls

Our responses to the audit report recommendations are as follows:

Recommendation I:

We recommend the Director of Sanitation Services:

- *Restrict scale house access to scale house employees, scale house supervisors and managers, and very limited authorized personnel*
- *Provide basic cash handling training for all cashiers, cashier supervisors, and managers involved in handling cash or supervising or managing those who handle cash*
- *Develop and enforce strict written cash handling policies and procedures*
- *Change the scale house safe combination and install a lock on the filing cabinet where original checks are stored*
- *Upgrade the security camera systems to: (1) Improve camera positioning; (2) Provide higher resolution images; (3) Increase digital video storage capacity; and, (4) Capture audio*
- *Improve security at the transfer stations*

Management Response:

Agree Disagree

- Agree that the controls described are appropriate. Note below that many have already been incorporated into operations.
- The McCommas Bluff Landfill scale house utilizes security measures to allow entry to authorized personnel only, restricting all others. Supervisory scale house staffers change the building's entry access panel code on a reasonably frequent basis (including whenever any scale house staff terminates employment). The landfill safe is properly secured through its own guarded numerical combination, two surveillance cameras (internal to the safe room), and the room's access door (with a security-coded access panel).
- Security upgrades at the Northwest Transfer Station occurred in late 2011 with bond-funded projects. No commercial transactions occur at the Southwest Transfer Station, and security related to personnel safety and theft of equipment mirror those applied throughout many City facilities.

An Audit Report on – Selected Landfill Financial Controls

SAN Response to Audit Report on Landfill Financial Controls
Page 2 of 6

- The City Controller's Office will assist the Department of Sanitation in reviewing the procedures and ensuring adequate controls are in place. The Dallas Police Department will evaluate the security at the transfer stations with the Department of Sanitation.

Implementation Date
June 2013

Responsible Manager
Director & City Controller

Recommendation II:

We recommend the Director of Sanitation Services:

- *Implement a positive vehicle identification system for credit customers and frequent cash customers to eliminate manual entry of vehicle identification information and tare weights*
- *Eliminate manual entry of weights for all vehicles. If the scale is temporarily not operational, manual transactions could be entered as adjustments with supervisor approval.*
- *Enforce re-weigh procedures for all cash customers to ensure proper weight and tipping fee calculations.*
- *Develop policies and procedures to capture customer names for cash customers*

Management Response / Corrective Action Plan

Agree Disagree

- The Department will utilize the existing equipment and personnel to effect consistent identification of customer vehicles. Using the audit report observation, the department has implemented tighter monitoring of transactions by scale house staff and increasing staffing coverage to match flow of customers. Scale house staff further minimizes risk of errors by making frequent and random tare weight checks. Detected errors then result in correction of the transaction, customer re-education and normally, re-establishment of compliant behavior.

Implementation Date
Implemented

Responsible Manager
NA

Recommendation III:

We recommend the Director of Sanitation Services:

- *Eliminate invalid users in WasteWORKS*
- *Evaluate and implement appropriate WasteWORKS user access based on user job duties and proper segregation of duties*
- *Establish a manual system to track approvals and validity of Maintenance and Utilities changes in WasteWORKS*

Management Response / Corrective Action Plan

Agree Disagree

- The Department agrees that many of the user accounts are no longer needed – and these are being eliminated as a housekeeping matter, and will further verify that all remaining user accounts have the appropriate access allowances.

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**An Audit Report on –
Selected Landfill Financial Controls**

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- Staff has generated a Security Authorization Request form to aid the WasteWorks Administrator in ensuring proper access into the WasteWORKS system by user job duties and proper segregation of duties.

Implementation Date
All items to be completed by 09/30/12

Responsible Manager
Assistant Director

Recommendation IV:

We recommend the Director of Sanitation Services redesign the employees' duties and responsibilities at the McCommas and Bachman scale houses and Canton to properly segregate incompatible duties among employees.

Management Response / Corrective Action Plan

Agree Disagree

- Agree that the segregation of duties recommended is appropriate. Note below these have already been incorporated into operations.
- During April 2010, the City Controller's Office had a review performed to determine whether the controls at the Landfill were appropriate. The report indicated at that time that segregation among staff was not proper. With the recent ISO 9001 implementation for Landfill Operations, staff duties were segregated appropriately.
- Regarding the Bachman (Northwest Transfer Station) cashier performing transactions, the Department has already assigned responsibility of the Bachman scale house to the Bachman site supervisor. The reassignment ensures proper segregation of duties for the cashiering position.

Implementation Date
Implemented

Responsible Manager
NA

Recommendation V:

We recommend the Director of Sanitation Services:

- Thoroughly review, edit, and test the procedures and working instructions for the Sanitation Services Scale House contained in the QMS
- Develop written procedures and working instructions for Bachman
- Develop written procedures and working instructions for Canton, including procedures for bank returned items and delinquent accounts receivable which are in compliance with Administrative Directives

Management Response / Corrective Action Plan

Agree Disagree

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An Audit Report on – Selected Landfill Financial Controls

SAN Response to Audit Report on Landfill Financial Controls
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- The City Controller's Office will assist the Sanitation Department in reviewing the procedures; ensuring adequate controls are in place and providing training to staff. The Department is proceeding with QMS department-wide in the upcoming FY. The Bachman station will be included as part of this scope.

Implementation Date	Responsible Manager
Initiate a 24-month-long Department-wide QMS process in November 2012	Director

Recommendation VI:

We recommend the Director of Sanitation Services develop written policies and procedures for the security deposit process and ensure the security deposit process provides adequate revenue protection for the City and follows AD 4-9, AD 4-10, and standard business practices for extending credit to customers.

Management Response / Corrective Action Plan

Agree Disagree

- Agree that the controls recommended are appropriate - and have already been incorporated. The Department's customer security deposit process, as reviewed and updated in 2011-2012, does provide adequate protection of revenue. After a January 2012 review of all security deposits, the Department has notified credit customers of the requirement to update their credit deposits, and has established a 6-month review process to maintain proper customer credit.

Implementation Date	Responsible Manager
Implemented	NA

Recommendation VII:

We recommend the Director of Sanitation Services develop written policies and procedures for the reconciliation function and ensure monthly reconciliations are performed for the following: (1) Cash change fund; (2) Cash receipts; (3) Accounts receivable; (4) Bank returned items; and, (5) Customer security deposits.

Management Response / Corrective Action Plan

Agree Disagree

- Agree that the recommendations described are appropriate - and have already been incorporated into operations
- The change fund is reconciled daily and any discrepancies are investigated and resolved. The Department reconciles the check log to the cash receipts daily.
- The Department's A/R and Cash Receipt sub-ledgers are reconciled monthly to AMS and supporting documentation is signed and dated. Any adjustments are reviewed and approved by the Division Manager.

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An Audit Report on – Selected Landfill Financial Controls

SAN Response to Audit Report on Landfill Financial Controls
Page 5 of 6

Implementation Date
Implemented

Responsible Manager
NA

Recommendation VIII:

We recommend the Director of Sanitation Services require:

- *Posting of customer payments to WasteWORKS within one business day of the payment posting to AMS Advantage 3*
- *Posting the journal voucher recording the monthly invoices to AMS Advantage 3 within one business day of mailing the monthly invoices to the customers*

Management Response / Corrective Action Plan

Agree Disagree

- Management agrees that the customer payments and journal vouchers should be recorded in a more timely manner. Management will also evaluate continuing the receivable adjustment as a monthly transaction or transitioning to an annual transaction.

Implementation Date
Implemented

Responsible Manager
NA

Recommendation IX:

We recommend the Director of Sanitation Services develop written policies and procedures regarding:

- *Accounts receivable adjustments, including requirements for adequate documentation to support every adjustment and management approval for every adjustment prior to entering the accounts receivable adjustment in WasteWORKS*
- *Discount authorizations for City departments and enter into written agreements where appropriate*

Management Response / Corrective Action Plan

Agree Disagree

- Policies and procedures for accounts receivable adjustments will be completed with department-wide QMS implementation.
- Policies and procedures for discount authorizations for City departments will be completed with department-wide QMS implementation.

Implementation Date
Initiate a 24-month-long Department-wide QMS process in November 2012

Responsible Manager
Director

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**An Audit Report on –
Selected Landfill Financial Controls**

SAN Response to Audit Report on Landfill Financial Controls
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Recommendation X:

We recommend the Director of Sanitation Services work with the City Controller's Office to ensure the bank deposit arrives at the bank within one business day of the receipt as required by AD 4-13.

Management Response / Corrective Action Plan

Agree Disagree

- Management agrees that the deposits have not been made as required in AD 4-13. It was determined to be more cost effective to allow for second day deposit by the armored car service when bidding the current contract. Management is currently preparing an RFP for a new armored car service and will again evaluate options on the timing of the cash pickup. The administrative directive will be revised accordingly.

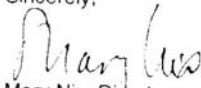
Implementation Date

March 2013

Responsible Manager

City Controller

Sincerely,



Mary Nix, Director
Department of Sanitation Services

C: Mary K. Suhm, City Manager
Forest Turner, Assistant City Manager
Jeanne Chipperfield, Chief Financial Officer
Edward R. Scott, City Controller

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An Audit Report on –
Selected Landfill Financial Controls

Memorandum

RECEIVED

AUG 02 2012

City Auditor's Office



DATE: August 2, 2012

TO: Craig D. Kinton, City Auditor

SUBJECT: Response to Audit Report: Audit of Selected Landfill Financial Controls

Our responses to the audit report recommendations are as follows:

Recommendation XI:

We recommend the City Controller's Office record bank returned items and notify departments of bank returned items on a daily basis within one business day of the receipt of the returned item from the bank. This one business day from receipt requirement parallels the deposit within one business day of cash receipts requirements of AD 4-13.

Management Response / Corrective Action Plan

Agree Disagree

The City Controller's Office (CCO) agrees with the recommendation to process returned items on a daily basis. Effective July 16, 2012, CCO has implemented this procedure.

Prior to this recommendation, the policy was to process the returned items on a weekly basis. Whereas this policy was not being adhered to during the audit period, CCO has been active in becoming compliant with the policy. Returned items began being processed on a semimonthly basis beginning in August 2011, and on a weekly basis effective March 2012.

Based upon CCO's review of returned items, there was a lapse in the amount of time it took the bank notice to reach the Controller's Office. On average it took five to ten days to receive the notices from the bank. This was due to delays caused by mailing the documentation to the City. The department is now receiving daily e-mail notification from the bank.

CCO will work with Sanitation to provide training to allow the department to further research returned items online.

Implementation Date

Implemented.

Responsible Manager

N/A

Sincerely,

Edward R. Scott
City Controller

C: Mary K. Suhm, City Manager
Jeanne Chipperfield, Chief Financial Officer
Forest Turner, Assistant City Manager

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