

COUNTY COUNCIL OF WICOMICO COUNTY, MARYLAND

2013 Legislative Session

Legislative Day No. 19

Resolution No. 121-2013

Introduced by: The President of the Council

A RESOLUTION ADOPTING THE WICOMICO COUNTY DEPARTMENT OF PUBLIC WORKS SOLID WASTE DIVISION CASH MANAGEMENT AUDIT REPORT.

WHEREAS, under Section 305, titled "County Internal Auditor" of the Charter of Wicomico County, Maryland, the Internal Auditor is charged with the duty to report on internal accounting controls, administrative and operating practices and procedures, and other pertinent financial and compliance matters within Wicomico County; and

WHEREAS, the Internal Auditor has submitted a Wicomico County Department of Public Works Solid Waste Division Cash Management Audit Report for the County Council's consideration that focuses on the policies and procedures for processing cash at the Newland Park Landfill, as well as the level of compliance with those procedures and controls.

NOW, THEREFORE, BE IT RESOLVED, by the County Council of Wicomico County, Maryland that the Wicomico County Public Works Solid Division Cash Management Audit Report submitted by the County Internal Auditor, attached as Exhibit A, is approved and adopted.

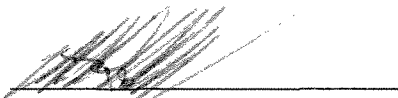
Done at Salisbury, Maryland, this 17th day of September, 2013.

ATTEST:

COUNTY COUNCIL OF WICOMICO COUNTY, MARYLAND



Matthew E. Creamer, Council Administrator

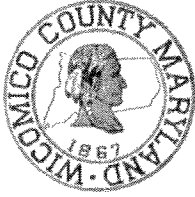


Matt Holloway, Council President

CERTIFICATION

This Resolution was Adopted , Adopted with Amendments , Failed , Withdraw by the County Council on September 17, 2013.

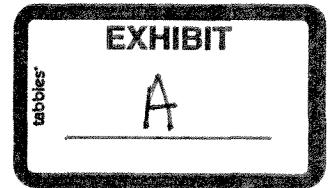
Certified by 
Matthew E. Creamer, Council Administrator



Res 2013-03

Wicomico County, Maryland
OFFICE OF THE INTERNAL AUDITOR

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Steve Roser, CPA/CIA/CRMA
Internal Auditor

August 15, 2013

Internal Auditor's Report

The County Council and County Executive of Wicomico County, Maryland:

Pursuant to Section 305(D) of the Wicomico County Code and Council Resolution No. 125-2012, the Office of the Internal Auditor (IA) has conducted an Audit of the Wicomico County Department of Public Works Solid Waste Division cash management. A report is submitted herewith. The purpose of the audit was to determine the adequacy of procedures and controls along with the level of compliance with those procedures and controls for the process managing cash at the County Landfill.

IA conducted the audit with due professional care, and IA planned and performed the audit to obtain reasonable assurance about whether the current cash management practices are in compliance with applicable policies and procedures and whether those policies and procedures are adequate to obtain an acceptable level of control¹. The audit revealed a cash management system that is mostly satisfactory for stated purposes. The system could be improved in some areas, especially in the area of internal control. IA identifies several findings in subsequent sections of this report that warrant discussion.

IA extends our appreciation to Management and Staff of Wicomico Public Works Solid Waste Division for their timely assistance, cooperation, and candid assessment of their cash management system.

Respectfully submitted,

Digitally signed by J. Stephen Roser, CPA
DN: cn=J. Stephen Roser, CPA, o, ou,
email=sros@wicomicocounty.org, c=US
Date: 2013.09.04 15:21:35 -04'00'

J. Stephen Roser, CPA/CIA/CRMA
Internal Auditor

¹ Please note: due to some personnel changes in upper management and accounting, IA determined that some of the substantive testing should be performed as a follow-up to the audit. This allows new personnel the opportunity to familiarize themselves with the process and change some of the procedures for record keeping, accountability, etc.

Contents

Internal Auditor’s Report	1
Contents	2
Audit Report	3
Background	3
Sources of Cash	3
Audit Objectives	4
Scope of the Audit	4
General Highlights and Statistics	4
Cash Management for Permits	4
Cash Management for the Scale House	4
Conclusion	5
Schedule of Findings and Recommendations/Management Response	5
Scale House	6
Banking and Security	6
Permit Renewal Process	6
Management Response	7
Auditor’s Closing Remark	7
Appendix I – Permit Sales Block Diagram	8

Audit Report

Background

Solid Waste Division must collect cash for various goods and services. Solid Waste maintains the Newland Park Landfill and numerous associated transfer stations and recycling centers for disposal of solid waste in Wicomico County including household and commercial trash, brush, and recyclable material. Additionally, Solid Waste performs ancillary projects related to dredge site and road site preparation. Cash is collected at the Newland Park Landfill, deposited, and transferred to the Finance Department where it is entered into MUNIS² as revenue. According to Finance, the cash account for Solid Waste is a sub-account under the Finance Department's primary account. Solid Waste does not have check writing capacity from this account; it is for deposit only.

Sources of Cash

As mentioned in the introduction, Solid Waste collects payment for various goods and services at its offices located at the Newland Park Landfill. Services revenue results from tipping fees for commercial and residential customers. Other sources of cash include:

Residential Permits

Residents of Wicomico County may purchase annual permits that provide access to the landfill and substations for disposal of household trash. The permit must be displayed on the county resident's vehicle and is registered to that vehicle only. The County renews residential permits on July 1 each year at a current price of \$60.

Surety Bonds and Security Deposits

Wicomico County has an application process for commercial haulers that use the landfill. Bonding and deposits help forestall delinquency among commercial customers. The commercial application requires an estimation of two month's tonnage. The County sets the bonds at \$10,000; \$5,000; or \$2,000 as determined on a case-by-case basis.

Mulch Sales

Wicomico County manufactures mulch from brush and pallets at the Newland Park Landfill and sells it to commercial landscapers, retailers, and individuals. Current cost to the public is \$15 per cubic yard for finished (strained) mulch. The County sells rough (unstrained) mulch for \$60 per tractor-trailer load.

Methane Gas Sales

Rotting garbage produces methane gas. Solid Waste captures the gas through a series of wells and pipes it to a facility on the landfill property operated by Ingenco, Inc. There the gas is either flared or used to generate electricity depending on commodity pricing. Ingenco pays the County a commission based on supply and usage.

Sale of Recyclables

Wicomico County processes materials for recycling and sells it with the exception of glass. According to landfill personnel, there is currently no local market for glass. The County recycles the following materials:

- Cardboard/Newspaper
- Bimetal Cans
- Aluminum
- Plastic

² MUNIS is an acronym for the accounting software employed by the County

Additionally, the landfill recently began recycling oyster shells. Please note that the approved FY2014 Annual Audit Plan contains a separate performance audit for landfill commodity sales.

Audit Objectives

The objectives of the audit were to assure that record keeping for permits, surety bonds, and deposits are adequate for stated purposes. Additionally the audit should determine whether internal controls for the handling of permits, surety bonds, and cash were in place and if management and staff personnel adhere to the internal controls.

Scope of the Audit

The scope of the audit was open-ended and included analyzing record keeping and mapping the internal control structure. Observations and inquiries with appropriate personnel were conducted, as well as examination of various documents and system information including, but not limited to the following:

- Interviews with appropriate personnel with respect to procedures used in accounting for permits, surety bonds, and deposits
- Observation of the posting and reconciliation processes
- Review and testing of various records associated with the processes
- Security evaluation and testing for records, permits, bonds, and deposits

General Highlights and Statistics

Cash Management for Permits

IA interviewed personnel responsible for permit sales, observed the process, and reviewed working papers supplied by the external auditors. We noted no significant gaps in internal control for permit sales based on our interviews and observations. Appendix I contains a block diagram of the process.

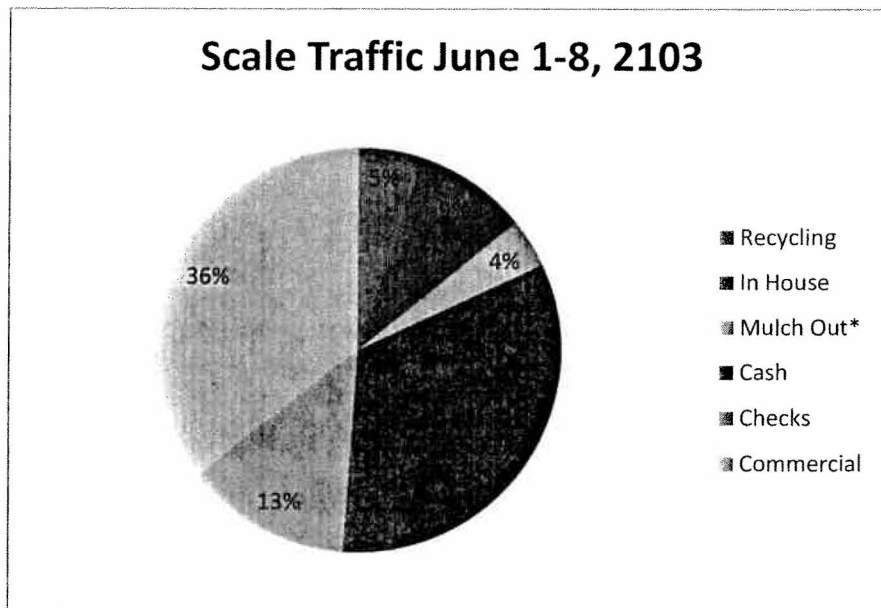
Cash Management for the Scale House

All vehicles without residential permit stickers must cross the scales upon entry to the landfill. The scale indicates the gross vehicle weight. The weighmaster waves established accounts forward and gives others a printed weigh-in slip. Recyclables go to the recycling barn. Bulk trash goes to the hill for dumping directly into the landfill and bagged trash goes to the compactor collection area. The weighmaster determines whether payment is cash or check at weigh-in. After dumping, the vehicle weighs out on a second scale and the software calculates the difference and associated fee. The driver pays the weighmaster, or in the case of existing accounts, signs the weigh slip. The weighmaster tracks payments through a series of redundancies. County policy requires the presence of two weighmasters in the scale house at all times and locked, secured entry. The cash drawer is secured and counted out each day.

On July 1, the Landfill established a minimum tipping fee for everyone of \$10. Prior to the minimum fee implementation, the tipping fee for a very light load might be minimal. The stated purpose of the minimum fee is to encourage the purchase of permits. Anecdotal evidence seems to point to the desired effect.

IA manually reviewed the physically banded weigh slips for June 2013 for voided slips finding only two. A subsequent electronic review from the accounting software revealed eleven voids. It was later determined that

some of the slips were batched elsewhere. Additionally, we reviewed every weigh slip for June 1 through 8 inclusive as to type and determined that 1,089 weight records breakout as follows³:



*Mulch Out refers to mulch sales transactions

The graph shows us that the largest number of transactions for the period tested are commercial followed closely by cash customers. In house vehicles belonging to the County make up only 9% of the traffic for the period.

Conclusion

Based on evidence gathered, and interviews performed pursuant to the Public Works Solid Waste Division Cash Management Audit, IA is of the opinion that Solid Waste Division cash management for all areas except the scale house is presently at a satisfactory⁴ level. Additionally, cash management for the scale house is presently at an adequate⁵ level of internal control.

Schedule of Findings and Recommendations/Management Response

The findings listed below represent some key issues that warrant discussion as an added feature to the audit process. The audit revealed no evidence of material weakness in the areas tested. IA believes that the lack of control over ingress and egress, and other matters as discussed related to the scale house may rise to the level of

³ Please note that this count represents the number of transactions and does not address tonnage or total fees – the purpose of this exercise was to get a feel for the type of traffic and the relative number of cash customers

⁴ For the purposes of this audit, IA uses a three-tier grading system recommended by the International Professional Practices Framework (IPPF) as expressed by the IPPF Practice Guide issued March 2009. The three tiers are Inadequate System of Internal Control, Adequate System of Internal Control, and Satisfactory System of Internal Control. Satisfactory findings indicate that overall controls are satisfactory, although some enhancements may be recommended. It is the highest rating on the scale.

⁵ According to IPPF Practice Guide issued March 2009: “Adequate system of internal control means that findings are subject to reservations. A number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions may be at too early a stage to allow a satisfactory audit opinion to be given.”

significant deficiency. However, we discovered no other significant deficiencies. These findings are both positive and negative and do not rise to the level of concern that material weakness would garner.

Scale House

IA interviewed selected scale house personnel, observed the process, and noted the following:

- When a vehicle enters the scale, an electronic weight registers inside the scale house and the weighmaster must manually input the weight into the computer. Only then is the accounting system aware of a transaction. This process allows for input error. We suggest that management investigate the possibility of direct input from the scale to the software to minimize possible input error.
- Landfill personnel must visually monitor ingress and egress to the landfill, compactor area, brush area, and recycling barn. This practice has at least two major areas of concern:
 1. There exists a stated problem with trucks entering the brush area without first entering the scales. This is especially true immediately after the scale house closes at 4pm.
 2. An unsecured access entry is available. The entry bypasses the scales and leads directly to the landfill and the compactor area.
- The landfill charges additional fees for disposal of equipment containing refrigerants and tires. The weighmaster must directly input the fees to the accounting system at the scale house in order for the charges to appear.
- When IA observed operation the scale house was locked and secure, but only one attendant was working the scales⁶.
- The accounting program appears to allow user override on all levels.

We suggest that management review procedures with an eye toward closing gaps in internal control. Management should subject any proposed changes to a cost-benefit analysis. With Council's permission, IA stands ready to assist in the process.

Banking and Security

As mentioned in the background section of this report, Solid Waste deposits cash and checks in a bank account that serves as a repository. That is, the bank receives funds for transfer to the County general fund. IA accompanied a manager responsible for transporting deposits. The travel time to the closest bank branch for making the deposit was nearly 30 minutes. For safety reasons, we suggest management investigate the possibility of using a closer facility. Additionally, the County may want to consider requesting a Sheriff's Deputy escort on those few occasions when the deposit is extremely large. We also noted that, although no checks were written, the bank charged an \$86 service fee for June 2013.

Permit Renewal Process

Interviews and other communications with upper management revealed that consideration of enhancements for the process of residential permit renewal is under way. The process is somewhat tedious in that office personnel must manually review all applications and numerous residents come to the office at the Newland Park Landfill to renew their permits. Since all permits expire on June 30, the renewal process causes congestion in the office along with a vastly increased workload for the month of June. Some enhancements under consideration are new deposit handling procedures including deposit entry directly to MUNIS by Solid Waste subject to Finance Department

⁶ Please note: Several subsequent follow-up observations noted two attendants each time

approval, Check21/truncation⁷, credit/debit card renewal payments, and website permit renewal. As always, management should subject any proposed changes to a cost-benefit analysis. With Council's permission, IA stands ready to assist (within the parameters of independence and other Standards) in the process.

Management Response

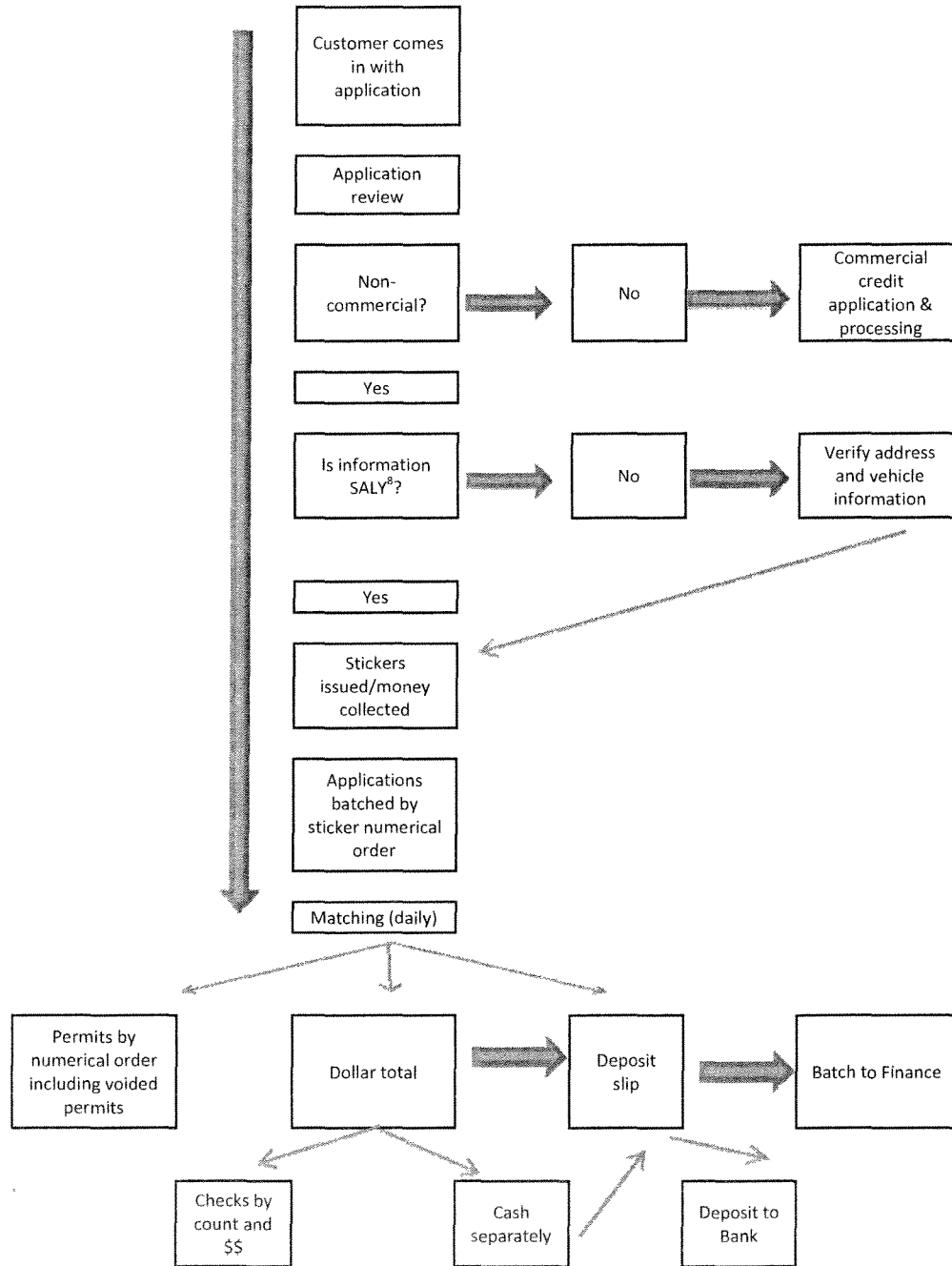
Per Public Works Director: After reviewing the document all looks good on my end. I went over a few of the deficiencies with staff and they have already started working on correcting them.

Auditor's Closing Remark

The Wicomico County Office of the Internal Auditor would like to thank management and staff from Wicomico County Department of Public Works Solid Waste Division for their timely cooperation and assistance during the audit. Special thanks go to Solid Waste front office and scale house personnel for their prompt attention to requests for information and their availability.

⁷ US Federal Banking rules and regulations are now in effect allowing truncation, that is, removal of an original paper check from the check collection process; see Federal Code Title 12 vol. 3 part 229 (January 1, 2012) for more information

Appendix I – Permit Sales Block Diagram



⁸ SALY is a acronym for "same as last year"