

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

104



FROM: County Auditor-Controller

SUBMITTAL DATE:
June 17, 2013

SUBJECT: County of Riverside Auditor-Controller's Office - Internal Audit Report 2013-010: Waste Management Department

RECOMMENDED MOTION: Receive and file Internal Audit Report 2013-010: Waste Management Department.

BACKGROUND: We have completed an audit of the Riverside County Waste Management Department to provide management and the Board of Supervisors with an independent assessment of internal controls over capital assets, cash handling, records retention, and the revolving fund. The audit covered the period July 1, 2010 through June 30, 2012.

Based upon the results of our audit, we determined Waste Management Department has adequate internal controls over the revolving fund; however, we have identified opportunities for improvement in the following areas:

- (1) Maintenance of capital asset records
- (2) Timely reporting of capital assets
- (3) Adherence to daily deposit requirement
- (4) Restrictively endorsement of checks upon receipt
- (5) Evidence identifying supervisor approval of bank reconciliations
- (6) Destruction of records

We will follow-up in one year to determine if actions were taken to correct the findings noted.

Paul Angulo

Paul Angulo, CPA, MA
County Auditor-Controller

FINANCIAL DATA	Current F.Y. Total Cost:	\$ 0	In Current Year Budget:	N/A
	Current F.Y. Net County Cost:	\$ 0	Budget Adjustment:	N/A
	Annual Net County Cost:	\$ 0	For Fiscal Year:	N/A

SOURCE OF FUNDS: N/A	Positions To Be Deleted Per A-30	<input type="checkbox"/>
	Requires 4/5 Vote	<input type="checkbox"/>

C.E.O. RECOMMENDATION: APPROVED BY: *Karen L. Johnson*
Karen L. Johnson

County Executive Office Signature

Dept't Recomm.:
 Consent
 Per Exec. Ofc.:
 Consent

SD13 JUN 22 6W 5:01
RECEIVED STAKEHOLDERS

Prev. Agn. Ref: ATTACHMENTS FILED **District:** All **Agenda Number:**

WITH THE CLERK OF THE BOARD

2-9



County of Riverside

INTERNAL AUDIT REPORT

2013-010

Riverside County
Waste Management Department
Capital Assets, Cash Handling, Records Retention, and Revolving Fund

June 17, 2013

Office of
Paul Angulo, CPA, MA
County Auditor-Controller

4080 Lemon Street
P.O. Box 1326
Riverside, CA 92502-1326



**COUNTY OF RIVERSIDE
OFFICE OF THE
AUDITOR-CONTROLLER**

County Administrative Center
4080 Lemon Street, 11th Floor
P.O. Box 1326
Riverside, CA 92502-1326
(951) 955-3800
Fax (951) 955-3802

ACC | **AUDITOR
CONTROLLER**
COUNTY OF RIVERSIDE

**Paul Angulo, CPA, MA
AUDITOR-CONTROLLER**

June 17, 2013

Hans Kernkamp, General Manager-Chief Engineer
Riverside County Waste Management Department
14310 Frederick Street
Moreno Valley, CA 92553

Subject: Internal Audit Report 2013-010: Riverside County Waste Management Department

Dear Mr. Kernkamp:

We have completed an audit of the Riverside County Waste Management Department to provide management and the Board of Supervisors with an independent assessment of internal controls over capital assets, cash handling, records retention, and the revolving fund. The audit covered the period July 1, 2010 through June 30, 2012.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require we plan and perform the audit to obtain sufficient, reliable, relevant, and useful information to provide reasonable assurance our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving operational efficiency, compliance with laws and regulations, reliability of financial information, and to safeguard county assets. Management is responsible for establishing and maintaining adequate internal controls; our responsibility is to assess the adequacy of internal controls based upon our audit.

Based upon the results of our audit, we determined Waste Management Department has adequate internal controls over the revolving fund; however, we have identified opportunities for improvement in the following areas:

- (1) Maintenance of capital asset records
- (2) Timely reporting of capital assets
- (3) Adherence to daily deposit requirement
- (4) Restrictively endorsement of checks upon receipt
- (5) Evidence identifying supervisor approval of bank reconciliations
- (6) Destruction of records

We will follow-up in one year to determine if actions were taken to correct the findings noted.

We thank the Riverside County Waste Management Department's management and staff for their cooperation; their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, MA
County Auditor-Controller

A handwritten signature in black ink that reads "Rachelle Román". The signature is written in a cursive style with a large initial "R".

By: Rachelle Román, CRMA, MPA
Chief Internal Auditor

cc: Board of Supervisors
Executive Office

Table of Contents

	Page
Executive Summary	1
Results:	
Capital Assets	3
Cash Handling	6
Records Retention	9
Revolving Fund	11

Executive Summary

Overview

The mission statement of the Waste Management Department is “to provide for the protection of the general public health and welfare by efficient management of Riverside County’s solid waste system through: provision of facilities and programs which meet or exceed all applicable local, State, Federal and land use regulations;’ utilization of up-to-date technological improvements; development and maintenance of a system that is balanced economically, socially and politically; and economically feasible recovery of waste materials.” The Department employs more than 200 employees, with over half of them working in the field at the landfills or performing support activities to landfill operations.

The Department has three Divisions: Administration, Engineering/Operations, and Environmental; with multiple branches in each Division. The Administration Division provides support services for the daily operational activities of the landfills, including:

- Administrative Services
- Administrative Support
- Information Technology
- Planning
- Safety
- Fleet
- Gate Fee
- Accounting
- Payroll

The Engineering/Operations Division oversees many active, inactive and closed landfill sites that the Division must design, permit, construct, operate, and maintain. Activities include:

- Design – Preparing grading plans; hydrology studies, soil loss analysis, seismic and stability studies, hydraulic calculations, and traffic plans
- Permitting – Preparing necessary documents to obtain permits and operating the site in compliance with federal and state landfill regulations
- Construction Management – Preparing contract document and performing construction oversight of public works contracts
- Operations – Overseeing the daily “push, pack, and cover” operation of burying refuse
- Refuse Control – Litter control, Illegal Dumping Cleanup Program, and post closure maintenance

The Environmental Division oversees a variety of support activities to the daily “push, pack, and cover” operations at the sites, including:

- Environmental Monitoring
- Load Check Program
- Traffic Direction Program
- Recycling at the Landfills
- Household Hazardous Waste Collection Program
- Recycling
- Composting Program

The Department is responsible for 39 landfills, of which 32 are closed. Although closed, the landfills still require resources to manage them in perpetuity. In addition, the Department has a contract agreement for waste disposal with an additional private landfill, and administers several transfer station leases.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over capital assets, cash handling, information security, records retention, and the revolving fund.

Audit Conclusion

Based upon the results of our audit, we determined Waste Management Department has adequate internal controls over the revolving fund; however, we have identified opportunities for improvement in the following areas:

- (1) Maintenance of capital asset records
- (2) Timely reporting of capital assets
- (3) Adherence to daily deposit requirement
- (4) Restrictively endorsement of checks upon receipt
- (5) Evidence identifying supervisor approval of bank reconciliations
- (6) Destruction of records

We will follow-up in one year to determine if actions were taken to correct the findings noted.

Capital Assets

Background

The Auditor-Controller's (SPM) Standard Practice Manual 913, *Capitalization Thresholds*, defines capital assets as fixed assets and intangible assets of significant value having a utility which extends beyond the current year that are broadly classified as land, infrastructure (or, long-lived assets), buildings and improvements, equipment, livestock, and intangible assets.

Capital assets include real property such as building (structures), land, and land improvements, regardless of value, as well as vehicles, machineries, and all equipment with a value of \$5,000 or more. The cost of a capital asset includes all costs necessary to place the asset in service (e.g. shipping, set-up, testing, and other ancillary costs).

SPM 913 requires all *real property* with a value of \$1 (one dollar) and all capital assets with a value of \$5,000 or more to be recorded in the PeopleSoft Asset Management Module. In addition, all entities are strongly encouraged to use the Asset Management Module to manage and maintain all non-capitalized assets. SPM 903, *Capital Asset Tags*, requires that capital assets be tagged or marked as County property. If the County property tag will not adhere to an item because of size, shape or use of the item, the department or agency should affix the assigned number in some other manner, i.e., engraving, inscribing, stenciling, etching, or painting the number on the item itself, or labeling the box in which it is kept. The number must be affixed in some way that will ensure identification for accountability.

The responsibility for processing capital assets and maintaining an accurate record of the assets primarily resides with the Department. Department management also have roles related to capital assets, including following the proper procedures when purchasing capital assets and annually verifying that all assets assigned to their locations are properly recorded in the Asset Management Module.

Waste Management Department's capital assets consist of servers, equipment, vehicles, buildings, and structures. Capital assets are located throughout Riverside at the various landfills and the Department's administrative complex. Currently, the Department manages 492 capital assets worth \$118,667,788.

Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over capital asset management.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and board ordinances
- Conducted interviews and performed walk-throughs with Department personnel
- Utilized PeopleSoft queries to identify the quantity, locations, and capital asset movement
- Verified appropriate levels of management review and approval

- Selected samples of capital asset transactions to perform detailed testing
- Verified the safeguarding and inventory of capital assets

Finding 1: Maintenance of Capital Asset Records

Capital asset records maintained in the PeopleSoft Asset Management Module are not accurate. Our review of 28 capital assets (21 selected from the capital asset listing and 7 from actual locations) disclosed 22 (78 percent) had discrepancy/erroneous information recorded. These errors resulted from the Department concentrating on counting verifying the existence of capital assets during inventories rather than validating the accuracy of records. Failure to properly record capital assets in the PeopleSoft Asset Management Module results in the difficulty in identifying, controlling, and valuing of County assets. The categories of errors noted included:

- 8 of 28 assets were not discovered at the location designated in the Asset Management Module
- 9 of 28 assets were not tagged or marked as County property
- 8 of 28 assets recorded incorrect serial numbers
- 9 of 28 assets recorded incorrect or missing model numbers
- 5 of 28 assets recorded incorrect asset numbers

Management's Response

“Concur. It has been determined that during past physical inventory verification of Waste Management's Capital Assets, the staff would validate that the asset was still in existence and that the identifying information provided to them matched what was shown on the asset. It was determined that although this information was verified each year, there was a disconnect in the process and the changes/additions were not always made in PeopleSoft. Procedures have been established to ensure that any incorrect information identified during the verification process will be input into PeopleSoft (Attachment 1 – Year End Capital Asset Verification Procedures).”

Recommendation 1

Validate all capital asset records for accuracy and correct descriptive data recorded in error in the Asset Management Module of PeopleSoft.

Management's Response

“Concur. The Department's Fiscal Policy related to Capital Assets has been updated to require notice to accounting staff of all changes affecting asset (location, description, etc.), (Attachment 2 – Waste Management Department Fiscal Policy C-16 – Asset Management).

Capital Asset verification spreadsheets have been sent to designees of the various Department Sections. These spreadsheets depict asset information as currently found in PeopleSoft. The designated employees have been instructed to not only verify the asset's existence, but to also verify that the description is accurate and that the tag number, serial number, model number, and physical location are also correct. All corrections will be noted in the spreadsheet and returned to accounting staff for review. After review of the spreadsheets, accounting staff will physically verify the information as true, and in the process, will also affix tag numbers and take photos for record as needed. The verified information will be corrected in PeopleSoft.”

Finding 2: Timely Reporting of Capital Assets

Capital asset acquisitions and retirements were not reported to the (ACO) Auditor-Controller's Office in a timely manner. Our review of 5 acquisitions and 5 retirements from July 1, 2010 through June 30, 2012 disclosed 3 of the 5 acquired assets (or 60%) were reported to the ACO at an average of 108 days after the assets were placed in service and all 5 retirements (or 100%) were reported to the ACO at an average of approximately 74 days after the asset was retired. Personnel indicated this was the result of problems associated with tagging the acquired assets and problems associated with identifying assets for retirement. Reporting the acquisition or retirement of capital assets to the ACO in an untimely manner may result in loss of control over assets and/or misstating the value of capital assets.

Management's Response

Concur. Of the five acquisitions sampled, delayed entry for the three acquired assets (tarps) was due to determination of the tag number series and how best to affix the tag number to the assets. While the Department agrees that an average reporting time of 108 days is not considered timely, the Department respectfully requests input from the ACO regarding industry standard acceptable reporting timeframes for acquisitions of this nature. Delayed entry of the five retired assets was due to accounting staff not receiving notification of retirement at the time of disposal/sale, but rather at the time of sale proceeds were received."

Auditor's Comment

We will assist the department in providing guidance regarding acceptable reporting timeframes for their distinctive acquisitions.

Recommendation 2

Develop written procedures to ensure capital assets acquired or retired are reported to the ACO in a timely manner.

Management's Response

Concur. The Department's Fiscal Policy related to Capital Assets has been updated to require notice to accounting staff of all changes affecting asset (acquisition date, storage location, description, retirement date, etc.), (Attachment 2 – Waste Management Department Fiscal Policy C-16 – Asset Management)."

Cash Handling

Background

The Department receives cash and checks from various sources including payment on customer accounts, balances due from landfill customers, miscellaneous billings, residential punch card sales, compost bin sales, state grants, fuel sales, gas to energy sales, auction proceeds, and sale of recyclable materials. Cash register transaction receipts or (OCRs) Official County Receipts are issued; cash is verified, reconciled, and reviewed by appropriate levels of management and bundled with supporting documentation at the point of collection, resulting in the collections site's deposit for the day. Cash receipts are recorded in PeopleSoft Financials.

Checks received should be restrictively endorsed upon receipt and recorded on a check log of all negotiable items received by the Department on a daily basis. Check logs should be maintained and reconciled to receipts deposited and recorded in PeopleSoft.

Cash deposits should be secured in Department safes with limited access until picked up by armor courier services and delivered to the bank or delivered to the Office of the Treasurer-Tax Collector by Department personnel. In outlying areas, cash receipts are deposited directly into (ZBA) Zero Balance Accounts. The bank debits the ZBA for the amount of the deposit and transmits a credit for the amount to the Office of the Treasurer-Tax Collector.

SPM 705 indicates "at the close of each business day, monies collected must be reconciled to the receipts issued and then deposited in the Treasury, or an authorized ZBA, or secured per an authorized daily deposit exemption. If the business day ends after the deadline for making Treasury deposits, the cash collected must be secured in a locked facility and deposited the next business day."

Detailed testing was performed on cash handling processes such as segregation of duties, security of deposits, timeliness of deposits, and monthly reconciliations. We tested to ensure the Department has adequate internal controls over cash handling processes through observations, interviews, and analysis of completed documents as provided by the Department.

Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over cash handling.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and board ordinances
- Conducted interviews and performed walk-throughs with department personnel
- Utilized PeopleSoft queries to identify the volume, locations, and frequency of cash receipts
- Verified appropriate levels of management review and approval
- Selected samples of deposits to perform detailed testing
- Verified the safeguarding of cash

Finding 3: Adherence to Daily Deposit Requirement

The Department does not make daily deposits nor has a daily deposit exemption on file with the ACO, as required by SPM 705. Because the cash handling sites are not in close perimeters of the Office of the Treasurer-Tax Collector for daily deposits, the Department contracted with a private courier service to pick-up deposits from cash handling sites on Tuesdays, Thursdays, and Saturdays.

Subsequent to our fieldwork, the Department has obtained daily deposit exemptions for three (Blythe, Idyllwild, and Oasis) of the six cash handling locations. The daily deposit exemption form for the remaining three sites (Badlands, El Sobrante and Lamb Canyon) is currently under review by the General Accounting Division of the ACO.

We selected a sample of 38 deposits from July 1, 2010 to June 30, 2012 and determined that 24 of 38 (or 63%) of the deposits were not made daily. Not adhering to the requirement of daily deposits may result in lost interest and/or lost or stolen cash or checks.

Management's Response

Concur. The Department makes daily deposits for cash/checks received at the headquarter facility. The Department has installed measures to restrictively endorse and secure checks/cash received at remote landfill sites which include restrictively endorsed bank deposit stamps, and secure, limited access safes. Checks/cash collected at the Oasis and Idyllwild Grinding Facility locations is transported to the Lamb Canyon Landfill each operating day and placed into a locked safe that is only accessible by armored truck service staff. The regional sites with larger deposit amounts, Badlands, El Sobrante, and Lamb Canyon, have armored truck service pickup in accordance with a Board of Supervisor approved County contract that includes pickup three days per week.

Recommendation 3

Ensure deposits are made daily at the Badlands, El Sobrante, and Land Canyon cash handling locations until the Department receives approval for a daily deposit exemption from the ACO.

Management's Response

Partially Concur. As mentioned above, the Waste Management Department does perform daily deposits for cash/checks collected at the headquarter facility and has already obtained exemption status for three of the six landfill sites. The Department will continue to pursue an exemption from daily pick-up with the ACO's office and approval to continue the Department's current practice of armored transport deposit service three times per week. The request for exemption is based on a significant cost increase to convert service from three days per week to six days per week (from \$53,541.00 to \$107,361.00 per year based on new pricing). Based on new pricing for three day per week service alone, the Department's deposit costs are expected to increase by \$41,733.00 annually."

Auditor's Comment

The basis for exemption appears to be reasonable; therefore, we strongly recommend the department immediately submit the daily deposit exemption to the ACO for approval.

Finding 4: Restrictively Endorsement of Checks upon Receipt

Our review of internal controls at cash handling locations revealed that cash handling staff did not restrictively endorse checks upon receipt. This occurred because cash handling staff at the different locations did not have an endorsement stamp. The Department's accounting personnel restrictively endorse checks forwarded from the cash handling sites and record checks on a check log. However, failure to restrictively endorse checks upon receipt at the cash handling site may result in fraudulent activity with unauthorized cashing of a check.

Upon completion of our fieldwork, the Department provided the cash handling sites with endorsement stamps and procedures for immediately restrictively endorsing checks upon receipt. We verified the new endorsement stamps at the cash handling locations. Since the Department made immediate changes, no recommendation is required.

Management's Response

"Concur. Prior to having endorsement stamps at each site location, checks were brought directly to the main office, where they were immediately restrictively endorsed. The Department has never had an instance where fraudulent activity or loss resulted due to the delay in endorsement."

Finding 5: Evidence Identifying Supervisor Review/Approval of Bank Reconciliations

Management did not document their review/approval of the ZBA bank account reconciliations performed during our audit period. We selected a sample of 12 monthly bank reconciliations from July 1, 2010 to June 30, 2012 and determined all 12 (or 100%) of the reconciliations had no evidence identifying review/approval. Failure to review/approve bank account reconciliations may result in fraudulent activity such as stolen cash or checks and/or fraudulent reporting of County assets.

The Department revised the bank reconciliation template form to include a reviewer's signature block to ensure there is proper evidence identifying review/approval of bank reconciliations. Although the Department has made this procedural change, we will verify management's signature of review/approval during our follow-up audit. Since the Department made immediate changes, no recommendation is required.

Management's Response

"Concur. Although signatures attesting to review/approval were not recorded for the period of review, the Waste Management Department's accounting section staff did consistently conduct proper monthly review/approval of the ZBA bank reconciliations and is now applying supporting signatures to all reconciliation documentation. The Department views this finding as a lack of evidence rather than a failure to complete the review/approval of the bank reconciliations. Please note that there were no findings of fraudulent activity found during the review process."

Records Retention

Background

Board of Supervisors Policy A-43: *County Records Management and Archives Policy*, Section D.5 *Records Retention Schedules – Standard – Retention Period*, indicates “retention periods on Board approved records retention schedules are mandatory, and records shall be disposed of in accordance with those approved retention periods.” All County Departments must adhere to the Countywide General Records Retention Schedule (GRRS_2012_Rev07) if they do not have an approved departmental records retention schedule by the Board of Supervisors. The Department does not have unique records; therefore, they adhere to the GRRS_2012_Rev07.

The Department has a storage warehouse that is used to store their records. During our review, we identified banking documents/gate fee documentation stored in this facility. The GRRS_2012_Rev07 - ACC200 *Banking*, indicates the official record retention period to keep records for this category to be fiscal year end plus 7 years. The description of this category includes all records documenting transactions with an outside financing institution. May include statements, reconciliations, deposit slips, canceled checks for minor transactions, negotiated checks, returned checks, and check registers.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over records retention management.

Audit Methodology

To accomplish our objectives, we:

- Conducted interviews and observed operating procedures of department personnel
- Identified and reviewed laws, codes, and regulations, Board of Supervisors' ordinances, applicable policies and procedures
- Obtained and understood policy and procedures regarding records retention management
- Performed testing to ensure internal controls were adequate over records retention
- Determined the nature of sensitive information stored by the department

Finding 6: Destruction of Records

Banking documents/gate fee documents dating back to 2003 were identified during our review of the Department's storage warehouse. In accordance with GRRS_2012_Rev07 - ACC200 *Banking*, these documents should have destroyed after July 1, 2011. Non-compliance to County policy pertaining to record keeping of documents may put the County at risk pertaining to the availability and accessibility of public records.

Subsequent to our completion of fieldwork, the Department removed and destroyed all old files requiring disposition from the storage warehouse. We will verify the Destruction Forms of these records during our follow-up audit. Since the Department took immediate action, no recommendation is required.

Management's Response

“Concur. Waste Management has had several training sessions with the Records Management and Archives Program (RMAP) Department to ensure proper handling of departmental records. Waste Management is also currently working with RMAP on the development of a Departmental Records Retention Schedule (DRRS).”

Revolving Fund

Background

Revolving funds are established by the Department under the custodianship of a County officer for the use of official County business. The Department has one revolving fund in the amount of \$6,850, in which \$350 is used as petty cash. The landfill facilities utilize the remaining \$6,500 for change and gate fee transactions during the cash handling process.

The Department has established procedures for the proper use of the revolving fund (petty cash and gate fee change). We interviewed key employees and obtained an understanding of internal controls in place. For petty cash, employees submit an original receipt and reimbursement request form that has been approved by their supervisor. Upon approval and validation, monies are disbursed from the petty cash fund. Replenishments to the revolving fund are requested on a monthly basis. The Department submits copies of receipts, reimbursement request forms, and monthly revolving fund reconciliations to the Auditor-Controller's Office as support for revolving fund replenishment.

Gate fee change from the revolving fund allows cashiers at the landfills to provide change to the customers. All money is locked in an automated change machine after hours. Each Gate Fee Administration staff member withdraws \$40 from the automated change machine to place in their initial change drawer for the day. At the end of the day, they must return the \$40 back into the safe and the rest is submitted for deposit.

A sample of 25 petty cash transactions was selected from July 1, 2010 to June 30, 2012 for review. Based on our review, we determined the petty cash transactions were properly supported with the required documentation and were for official county business use. We also reviewed the revolving fund cash transactions processed for replenishment and determined internal controls were adequate.

We selected a sample of 12 revolving fund reconciliations from July 1, 2010 to June 30, 2012 and determined all reconciliations were properly performed and reviewed by a manager. We also verified adequate segregation of duties existed over key revolving fund tasks performed.

Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over the revolving fund.

Audit Methodology

To accomplish our objectives, we:

- Gained an understanding of the procedures over the revolving fund through interviews with key personnel of the department
- Verified that revolving fund reconciliations are performed
- Reviewed the supporting documentation for a sample of transactions that were processed
- Verified adequate segregation of duties exists

Audit Results

Based upon the results of our audit, internal controls over the revolving fund are adequate and effective. Duties over the custody of assets, record keeping, and authorization were properly segregated.



Riverside County
Waste Management Department

Hans W. Kernkamp, General Manager-Chief Engineer

DATE: June 5, 2013

TO: Auditor-Controller's Office
Internal Audit Division

FROM: Hans Kernkamp, General Manager-Chief Engineer
Riverside County Waste Management Department

RE: Reply to Draft Internal Audit Report 2013-007: Waste Management Department Audit

Finding 1: Maintenance of Capital Asset Records.

Capital asset records maintained in the PeopleSoft Asset Management Module are not accurate. Our review of 28 capital assets (21 selected from the capital asset listing and 7 from actual locations) disclosed 22 (or 78 percent) had discrepancy/erroneous information recorded. These errors resulted from the Department concentrating on verifying the existence of capital assets during inventories rather than validating the accuracy of records. Failure to properly record capital assets in the PeopleSoft Asset Management Module results in the difficulty in identifying, controlling, and valuing of County assets. The categories of errors noted included:

- 8 of 28 (29%) assets were not discovered at the location designated in the Asset Management Module;
- 9 of 28 (32%) assets were not tagged or marked as County property;
- 8 of 28 (29%) assets recorded incorrect serial numbers;
- 9 of 28 (32%) assets recorded incorrect or missing model numbers; and
- 5 of 28 (18%) assets recorded incorrect asset numbers.

Management position concerning the finding: Concur

Department Comments:

It has been determined that during past physical inventory verification of Waste Management's Capital Assets, the staff would validate that the asset was still in existence and that the identifying information provided to them matched what was shown on the asset. It was determined that although this information was verified each year, there was a disconnect in the process and the changes/additions were not always made in PeopleSoft. Procedures have been established to ensure that any incorrect information identified during the verification process will be input into PeopleSoft (Attachment 1 – Year End Capital Asset Verification Procedures).

Recommendation 1:

Perform a validation of all capital asset records for validity and accuracy and correct descriptive data recorded in error in the Asset Management Module of PeopleSoft.

Management position concerning the recommendation: Concur

Department Comments:

The Department's Fiscal Policy related to Capital Assets has been updated to require notice to accounting staff of all changes affecting asset (location, description, etc.), (Attachment 2 – Waste Management Department Fiscal Policy C-16 – Asset Management).

Capital Asset verification spreadsheets have been sent to designees of the various Department Sections. These spreadsheets depict asset information as currently found in PeopleSoft. The designated employees have been instructed to not only verify the asset's existence, but to also verify that the description is accurate and that the tag number, serial number, model number, and physical location are also correct. All corrections will be noted in the spreadsheet and returned to accounting staff for review. After review of the spreadsheets, accounting staff will physically verify the information as true, and in the process, will also affix tag numbers and take photos for record as needed. The verified information will be corrected in PeopleSoft.

Finding 2: Timely Reporting of Capital Assets.

Capital asset acquisitions and retirements were not reported to the (ACO) Auditor-Controller's Office in a timely manner. Our review of 5 acquisitions and 5 retirements from July 1, 2010 through June 30, 2012 disclosed 3 of the 5 acquired assets (or 60%) were reported to the ACO at an average of 108 days after the assets were placed in service and all 5 retirements (or 100%) were reported to the ACO at an average of approximately 72 days after the asset was retired. Cognizant personnel indicated this was the result of problems associated with tagging the acquired assets and problems associated with identifying assets for retirement. Reporting the acquisition or retirement of capital assets to the ACO in an untimely manner may result in loss of control over assets and/or over/understating the value of capital assets.

Management position concerning the finding: Concur

Department Comments:

Of the five acquisitions sampled, delayed entry for the three acquired assets (tarps) was due to determination of the tag number series and how best to affix the tag number to the assets. While the Department agrees that an average reporting time of 108 days is not considered timely, the Department respectfully requests input from the ACO regarding industry standard acceptable reporting timeframes for acquisitions of this nature. Delayed entry of the five retired assets was due to accounting staff not receiving notification of retirement at the time of disposal/sale, but rather at the time of sale proceeds were received.

Recommendation 2:

Develop written procedures to ensure capital assets acquired or retired are reported to the ACO in a timely manner.

Management position concerning the recommendation: Concur

Department Comments:

The Department's Fiscal Policy related to Capital Assets has been updated to require notice to accounting staff of all changes affecting asset (acquisition date, storage location, description, retirement date, etc.), (Attachment 2 – Waste Management Department Fiscal Policy C-16 – Asset Management).

Finding 3: Adherence to Daily Deposit Requirement.

The Department did not make daily deposits nor had a daily deposit exemption on file with the ACO, as required by SPM 705. Because the cash handling sites are not in close perimeters of the Office of the Treasurer-Tax Collector for daily deposits, the Department contracted with a private courier service to pick-up deposits from cash handling sites on Tuesdays, Thursdays, and Saturdays. However, the Department never submitted a daily deposit exemption form for approval to the ACO.

We selected a sample of 38 deposits from July 1, 2010 to June 30, 2012 and determined that 24 of 38 (or 63%) of the deposits were not made daily. Not adhering to the requirement of daily deposits may result in lost interest and/or lost or stolen cash or checks.

Subsequent to our fieldwork, the Department has obtained daily deposit exemptions for three (Blythe, Idyllwild, and Oasis) of the six cash handling locations. The daily deposit exemption form for the remaining three sites (Badlands, El Sobrante and Lamb Canyon) is currently under review by the General Accounting Division of the ACO.

Management position concerning the finding: Concur

Department Comments:

The Department makes daily deposits for cash/checks received at the headquarter facility. The Department has installed measures to restrictively endorse and secure checks/cash received at remote landfill sites which include restrictively endorsed bank deposit stamps, and secure, limited access safes. Checks/cash collected at the Oasis and Idyllwild Grinding Facility locations is transported to the Lamb Canyon Landfill each operating day and placed into a locked safe that is only accessible by armored truck service staff. The regional sites with larger deposit amounts, Badlands, El Sobrante, and Lamb Canyon, have armored truck service pick-up in accordance with a Board of Supervisor approved County contract that includes pickup three days per week.

Recommendation 3:

Ensure deposits are made daily at the Badlands, El Sobrante, and Lamb Canyon cash handling locations until the Department receives approval for a daily deposit exemption from the ACO.

Management position concerning the recommendation: Partially Concur

Department Comments:

As mentioned above, the Waste Management Department does perform daily deposits for cash/checks collected at the headquarter facility and has already obtained exemption status for three of the six landfill sites. The Department will continue to pursue an exemption from daily pick-up with the ACO's office and approval to continue the Department's current practice of armored transport deposit service three times per week. The request for exemption is based on a significant cost increase to convert service from three days per week to six days per week (from \$53,541.00 to \$107,361.00 per year based on new pricing). Based on new pricing for three day per week service alone, the Department's deposit costs are expected to increase by \$41,733.00 annually.

Finding 4: Restrictively Endorsement of Checks upon Receipt.

Our review of internal controls at cash handling locations revealed that cash handling staff did not restrictively endorse checks upon receipt. This occurred because cash handling staff at the different locations did not have an endorsement stamp. The Department's accounting personnel restrictively endorse checks forwarded from the cash handling sites and record checks on a check log. However, failure to restrictively endorse checks upon receipt at the cash handling site may result in fraudulent activity with unauthorized cashing of a check.

Upon completion of our fieldwork, the Department provided the cash handling sites with endorsement stamps and procedures for immediately restrictively endorsing checks upon receipt. We verified the new endorsement stamps at the cash handling locations. Since, the Department was proactive and made immediate changes, no recommendation is required.

Management position concerning the finding: Concur

Department Comments:

Prior to having endorsement stamps at each site location, checks were brought directly to the main office, where they were immediately restrictively endorsed. The Department has never had an instance where fraudulent activity or loss resulted due to the delay in endorsement.

Finding 5: Evidence Identifying Supervisor Review/Approval of Bank Reconciliations.

Management did not document their review/approval of the ZBA bank account reconciliations performed during our audit period. We selected a sample of 12 monthly bank reconciliations from July 1, 2010 to June 30, 2012 and determined all 12 (or 100%) of the reconciliations had no evidence identifying review/approval. Failure to review/approve bank account reconciliations may result in fraudulent activity such as stolen cash or checks and/or fraudulent reporting of County assets.

The Department revised the bank reconciliation template form to include a reviewer's signature block to ensure there is proper evidence identifying review/approval of bank reconciliations.

Although the Department has made this procedural change, we will verify management's signature of review/approval during our follow-up audit. Since the Department was proactive and made immediate changes, no recommendation is required.

Management position concerning the finding: Concur

Department Comments:

Although signatures attesting to review/approval were not recorded for the period of review, the Waste Management Department's accounting section staff did consistently conduct proper monthly review/approval of the ZBA bank reconciliations and is now applying supporting signatures to all reconciliation documentation. The Department views this finding as a lack of evidence rather than a failure to complete the review/approval of the bank reconciliations. Please note that there were no findings of fraudulent activity found during the review process.

Finding 6: Destruction of Records.

Banking documents/gate fee documents dating back to 2003 were identified during our review of the Department's storage warehouse. In accordance with GRRS_2012_Rev07 - ACC200 *Banking*, these documents should have destroyed after July 1, 2011. Non-compliance to County policy pertaining to record keeping of documents may put the County at risk pertaining to the availability and accessibility of public records.

Subsequent to our completion of fieldwork, the Department removed and destroyed all old files requiring disposition from the storage warehouse. Since the Department was proactive and took immediate action, no recommendation is required.

Management position concerning the finding: Concur

Department Comments:

Waste Management has had several training sessions with the Records Management and Archives Program (RMAP) Department to ensure proper handling of departmental records. Waste Management is also currently working with RMAP on the development of a Departmental Records Retention Schedule (DRRS).

Attachment 1 – Year End Capital Asset Verification Procedures

(Blank Page)

RIVERSIDE COUNTY WASTE MANAGEMENT DEPARTMENT

YEAR END CAPITAL ASSET VERIFICATION PROCEDURES

- **Run Query**
 - People Soft Reporting
 - Reporting Tools
 - Query
 - Query Manager
 - Query
 - Public Query
 - RVAM_CAP_ASSET_PHY_INV
 - This query will pull all of the Capital Assets listed in People Soft as active

- **Verification By Each Division**
 - Identify what Division each asset belongs to
 - Send each Division their assets to verify including:
 - Asset Description
 - Location
 - Tag Number
 - Serial Number (if applicable)
 - If there is another type of identifier such as a VIN number please make sure the information is designated as such in People Soft
 - Model Number (if applicable)
 - Associated Program

- **Accounting Review and Corrections**
 - Once the Division verifications are done, accounting staff will audit Capital Assets from each Division to ensure accuracy.
 - Any changes or corrections to the Assets will be made in the Asset Module in People Soft.

- **ACO Year End Certification**
 - Run the RVAM_CAP_ASSET_PHY_INV query in People Soft Reporting on the date designated by the ACO
 - Sort the report as requested by the ACO in the Certification Packet
 - Obtain the signature of the Head of the Department or Designee
 - Present the query ran and sorted
 - Provide all documentation and backup for review
 - Send a cover page, certification and needed documentation to the ACO by the provided deadline

Attachment 2 – Waste Management Department Fiscal Policy C-16 – Asset Management

(Blank Page)

**COUNTY OF RIVERSIDE WASTE MANAGEMENT DEPARTMENT
POLICY MANUAL**

Fiscal Policy
C-16 – Asset Management
Date: February 2008
Last Revised: June 2013
Page 1 of 1

C.16. Asset Management

It is Riverside County Waste Management Department policy to track all equipment, vehicles, land, infrastructure and Construction in Progress (CIP) projects over \$5,000 to ensure proper recording of Capital Assets as defined by GASB 34 as well as to comply with Government Code Section 24051, which states that all property possessions (assets) must be inventoried and filed with the Riverside County Auditor-Controller on an annual basis.

1. The Accounting Supervisor, or designee, is responsible for maintaining a detailed listing of all assets maintained by the department, updating and certifying the list on an annual basis.
 - a. Assets shall be documented by an approved and paid invoice, along with any other supporting documentation, including but not limited to associated forms submitted to the Auditor Controllers Office, Capital Asset Division.
 - b. Assets can only be removed by the Riverside County Auditor-Controller's office with appropriate documentation which must include:
 - i. Documentation received from Waste Management Department Section designee that clearly identifies the asset and confirms final disposition (i.e. bill of sale); or
 - ii. Board Authorization in a Form-11 to dispose of assets if documentation of the disposal is not available and the fair market value is over \$1,000.
 - c. It is the responsibility of the Waste Management Section designee to immediately notify accounting staff of any Capital Asset changes, retirements or removal from service via email to the Waste Accounting email group.

The Accounting Supervisor or designee is responsible for entering all assets of the Riverside County Waste Management Department into the Oasis Asset Module when they are placed into service.

2. The Department is required by Government Code Section 24051, to submit an annual certification letter to the Riverside County Auditor-Controller's office, certifying the assets listed are in the Department's possession on June 30th.
3. The General Manager – Chief Engineer, or the Admin Services Manager, shall authorize the Certification Letter as the Department designee.