

AUDIT OF SOLID WASTE REVENUE

AUDIT REPORT

Report by the
Office of the County Comptroller

Martha O. Haynie, CPA
County Comptroller

County Audit Division

Director: J. Carl Smith, CPA

Deputy Director: Christopher J. Dawkins, CPA

In-Charge Auditor: Scott H. Dezort, CPA, Audit Supervisor

AUDIT OF SOLID WASTE REVENUE

The Solid Waste Division is responsible for protecting the public's health by providing efficient and cost effective refuse disposal with minimal environmental impacts. The Division processes over one million tons of refuse annually. During fiscal years 1998 and 1999 tipping fee revenues totaled \$21,693,268 and \$22,469,761 respectively at the landfill and McLeod and Porter Transfer Stations. The Division has 143 authorized positions.

May 2000
Report No. 287

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May 15, 2000

Mel Martinez, County Chairman
And
Board of County Commissioners

We have conducted an audit of the Solid Waste Division. The audit was limited to a review of the collection and deposit of refuse tipping fee revenue. The period audited was July 1, 1998 through December 31, 1998.

Responses to our Recommendations for Improvement were received from the County Administrator and are incorporated herein.

We appreciate the cooperation of the personnel of the Solid Waste Division and Utilities Department during the course of the audit.

Martha O. Haynie, CPA
County Comptroller

c: Ajit Lalchandani, County Administrator
Mike Chandler, Director, Utilities Department
James Becker, Manager, Solid Waste Division

EXECUTIVE SUMMARY

Executive Summary

We have conducted an audit of the Orange County Solid Waste Division. The audit was limited to reviewing the collection and deposit of refuse tipping fee revenue. The audit period was July 1, 1998 through December 31, 1998. Overall, we found that controls implemented by the Division over cash sales appear to be adequate. However, improvements are needed as stated below:

Employees participated in verification counts of cash collections on the morning after they performed the same count at the conclusion of the previous day's business. Separate cash counts by different employees assist management in reducing the potential of an impropriety occurring and, if one does occur, in identifying the responsible party.

A billing function to collect balances due from cash customers had not been instituted. The amounts owed represented differences between charges for actual net weights and scalehouse estimates.

Governmental entities, not providing payment for credit account balances within 45 days of receiving a billing invoice, were not assessed an interest penalty in accordance with the Florida Prompt Payment Act.

The Division received a significant amount of accounts receivable payment checks at the landfill. Although a lockbox function was available, the Division received over one-half of the \$5,400,000 of credit revenue earned during the period February through April 1999 at the landfill office. All credit customers should be required to send their payments to the lockbox.

Two customers with account balances exceeding their bond amounts continued to incur tipping fees. In addition, both customers' bonds were less than three times their average monthly bill, as required by Division policy.

Three credit customers, incurring average monthly charges of \$170,413 during the audit period, had surety bond coverage that had expired as early as 1993.

Florida Statutes prohibit a vehicle exceeding 80,000 pounds from using a Florida roadway. Forty-one percent of a sample of Division trucks hauling refuse from the Porter Transfer Station and twenty-one percent of a sample of trucks hauling refuse from the McLeod Transfer Station had gross weights in excess of 80,000 pounds. During fiscal years 1996-1999 the Florida Department of Transportation fined the County over \$2000 for operating overweight vehicles.

Forty-four percent of a sample of trucks from the Division's master vehicle list were not documented as having been recently test weighed.

Except for not concurring with the recommendation requiring credit customers to make payment directly to the lockbox, the Solid Waste Division concurred with all of our recommendations for improvement and corrective action is either planned, underway, or completed as noted herein.

ACTION PLAN

Audit of Solid Waste Revenue
Action Plan

NO.	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS		RECOMMENDATIONS
	CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED	
1.	X			X		We Recommend the Division enhance its efforts to ensure that weighmasters do not participate in cash counts immediately preceding bank deposits.
2.	X				X	We Recommend the Division institute a policy and procedures to bill cash customers with outstanding balances.
3.	X				X	We Recommend the Division impose interest penalties, as outlined in Section 215.422, Florida Statutes, for delinquent governmental customers.
4.			X			We Recommend the Division initiate a change to its credit policy requiring all credit customers to mail their payments to a lockbox.
5.	X			X		We Recommend the Division review customer accounts on a monthly basis. Such efforts should ensure that deposits/bonds are sufficient to cover average monthly tipping fees and identify customers with balances exceeding their surety. Customers exceeding their deposit/bond should be placed on a cash only payment basis with credit privileges reinstated after payment of the entire balance due.
6.	X			X		We Recommend the Division review all active customer accounts to determine if surety bonds have expired. A new bond should be secured from customers where lapses are noted.
7.	X			X		We Recommend the Division institute steps to ensure compliance with legal weight limits.
8.	X			X		We Recommend the Division institute procedures to ensure it documents periodic test weighing of all active trucks and removes trucks no longer in use from the system.

INTRODUCTION

Background

The Solid Waste Division (Division) is responsible for protecting the public's health by providing efficient and cost-effective refuse disposal with minimal environmental impact. It operates three service locations: the County Landfill at 12100 Young Pine Road; Porter Transfer Station at Good Homes Road; and the McLeod Road Transfer Station at 5000 L.B. McLeod Road. All of the Division's locations accept refuse delivered by both commercial licensees and residential franchisees in addition to that disposed of by private citizens. The fee collected is a charge per ton based on the weight of the material delivered. At the conclusion of each month's operations, a total of the charges incurred for the month is computed and an invoice is sent to each hauler having a credit account with the Division. Payments for the preceding month's business are due by the 25th day of the following month. Payments not received by the 25th are considered to be past due and subject to an interest penalty of 1.5 percent a month (18 percent per annum).

The Division processes over one million tons of refuse annually. During fiscal years 1998 and 1999 tipping fee revenues totaled \$21,693,268 and \$22,469,761 respectively at the landfill, McLeod and Porter Transfer Stations. The Division has 143 authorized positions.

In October 1995 County Audit was notified of a citizen's allegation that the Division was not collecting fees for all refuse trucks using the landfill. While no evidence was discovered to substantiate the citizen's concern, cash irregularities were noted. Subsequently, County Audit determined cash shortages of \$326,542 between the period January 1992 through October 1995. Because cash receipting, depositing, and recording functions were not adequately segregated, missing funds could not be traced to a specific person. However, the County's fidelity insurer indemnified the Division for \$276,542.

**Scope, Objectives,
and Methodology**

The audit was limited to reviewing the collection and deposit of refuse tipping fee revenue. The audit period was July 1, 1998 through December 31, 1998. The audit objectives were as follows:

- A) To evaluate the effectiveness of the Division's internal controls over the collection, deposit and safeguarding of cash and credit tipping fee revenue.
- B) To ensure that cash and credit tipping fee revenue was collected, deposited and safeguarded according to Division policies and procedures, Orange County Administrative Regulations and generally accepted business practices.

To evaluate the effectiveness of the Division's internal controls over the collection, deposit and safeguarding of cash and credit tipping fee revenue, we surveyed the collection procedures used by the Division through interviews of personnel involved in the collection process, on-site observation of the collection, processing and deposit of a day's revenue, and evaluating the Division's Weighmaster Procedures and Utilities Revenue Processing Procedures.

To ensure that cash tipping fee revenue was collected, deposited and safeguarded according to Division policies and procedures, Orange County Administrative Regulations and generally accepted business practices, we selected a sample of 54 days of operations and determined from computer records the number and amount of cash transactions for each day. The data was traced to various collection and deposit documents supporting each day's operations for accuracy, completeness and timeliness.

To ensure that credit tipping fee revenue was collected, deposited and safeguarded according to Division policies and procedures, Orange County Administrative Regulations and generally accepted business practices, we selected a sample of ten customers having a charge account with the Division. The amount of monthly tipping fees incurred by each of the customers during the audit period (60 monthly totals) was determined. The amounts were matched with accounts receivable and deposit documents for accuracy, completeness and timeliness. Additional procedures included verifying that penalty fees for payments made after

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the 25th day following the month of billing were assessed by the Division and the Division's collection policies and procedures conformed to covenants in outstanding bond issues. In addition, we ensured surety bonds provided by refuse haulers were current and underwritten by a firm licensed to write surety bonds in Florida, and truck tare (empty vehicle) weights were accurately and consistently tested.

Overall Evaluation

Based on the work performed, controls over cash sales, implemented by the Division since the deficiencies and resulting cash shortages were noted above, appear to be adequate. Areas for improvement in credit sales were noted and are described herein.

RECOMMENDATIONS FOR IMPROVEMENT

1. Weighmasters Should Not Participate In Cash Counts Immediately Preceding Bank Deposits

At the conclusion of each day's operations the weighmaster and the foreman count the cash collections. Two individuals assigned to the landfill business office count these collections again the following morning. Two employees are present during each count and all attest to the amount counted by signing the Daily Balance Sheet. Four percent (10 of 278) of the counts sampled from the audit period involved the weighmaster participating in the verification count the next morning. Utilities Department revenue processing procedures prohibit a weighmaster who accepts cash from participating in the count before deposit. Separate cash counts by different employees assist management in reducing the potential of an impropriety occurring and if one does occur, in identifying the responsible party. Allowing the weighmaster to participate in verifying his collections from the previous day hinders management's ability to accomplish these control objectives.

We Recommend the Division enhance its efforts to ensure that weighmasters do not participate in cash counts immediately preceding bank deposits.

Management's Response:

Concur. Underway. The Solid Waste Division has instructed weighmasters not to participate in verifying their collections from the previous day when preparing the bank deposit. This responsibility will be shifted to the Fiscal Coordinator in the Division.

2. The Division Is Not Billing Cash Customers With Outstanding Balances

Customers not having a credit account with the Division are required to provide payment at the point of sale. When entering the Division's facilities, cash customers provide a deposit based on the scalemaster's estimate of the amount of refuse being tipped. Occasionally, a customer does not

have enough funds to pay his entire bill because the refuse's actual net weight exceeds the estimate. Weighmasters prepare "To Be Billed" sheets to document these occurrences and to provide information about the customer for billing. We were informed that the Division has not instituted a billing function to collect monies due from these customers.

We Recommend the Division institute a policy and procedures to bill cash customers with outstanding balances.

Management's Response:

Concur. Planned. Policy and procedures to invoice cash customers for outstanding tipping fees have been established and are included in the miscellaneous billing program process. The policies and procedures will be followed.

3. Governmental Entities Should Be Assessed A Late Penalty

Section 215.422 Florida Statutes, imposes an interest penalty on state agencies for invoices not paid within 40 days of receipt. Moreover, the Florida Prompt Payment Act requires local governmental units to remit payment within 45 days after receipt or be assessed an interest penalty. During our audit we prepared account history analyses for a sample of local governmental customers and noted ten instances where a late fee could have been imposed, based on Florida Statutes 215.422, that would have allowed the County to collect an additional \$5,181.14. This issue was also presented to the Division in separate reports issued by our office in August 1992 and September 1993. In its responses to those reports Division management agreed to subject governmental customers to interest penalties as outlined in Section 215.422.

We Recommend the Division impose interest penalties, as outlined in Section 215.422, Florida Statutes, for delinquent governmental customers.

Management's Response:

Concur. Planned. The County Administrative Regulations establish a late fee penalty of 18% per annum. Florida Statutes 218.74 "The Prompt Payment Act" limits the late fee penalty for government entities to 12% per annum or 1% per month. A change in the Administrative Regulations is necessary to comply with the state law. The imposition of a 12% per annum late fee penalty will be instituted immediately for government accounts accordant (sic) with "The Prompt Payment Act," Florida Statute 218.74, and modification of the Administrative Regulation 6.03.04 part II C4 will be initiated.

4. All Credit Customers Should Be Required To Send Their Payments To A Lockbox

The Division is receiving a significant amount of accounts receivable payment checks at the landfill. During the period February through April 1999, the Division received over one-half of the approximately \$5,400,000 of credit revenue at the landfill by mail or by courier. Some of the checks received were for almost \$400,000.

During our review of the significant cash shortages discovered in 1995 referred to above, Division management informed County Audit of its intent to limit the amount of cash and checks processed at the Division's service locations. One method to accomplish this goal was to establish a lockbox function where credit customers could mail their accounts receivable checks to a central depository. The depository was already performing the same function for the Water and Wastewater Division of the Utilities Department.

The lockbox is a good internal control to limit the amount of monies at risk and ensure interest income is maximized. Incoming monies are sent to a central depository, usually a local bank, which specializes in processing a large number of customer payments. Receiving checks at the landfill instead of directly to a lockbox lengthens the time period

**RECOMMENDATIONS
FOR IMPROVEMENT**



from receipt to deposit, thus reducing the amount of interest income earned. Additionally, the increased security provided by a lockbox is forfeited.

We Recommend the Division initiate a change to its credit policy requiring all credit customers to mail their payments to a lockbox.

Management's Response:

Do Not Concur. Currently all invoices include directions to mail payments to the lock box. We will remind all credit customers who delivered checks to the landfill in the last 90 days to mail their payments to the lock box. Historically, credit customers delivered checks to the landfill to reduce their outstanding balance and prevent or release a credit hold. Refusing payment at the landfill could result in imposition of late fees or refusing to accept waste deliveries due to non-payment of outstanding invoices. We do not feel that refusing payment is a reasonable customer service oriented practice.

5. Deposit/Bond Policies Should Be Enforced For Credit Customers

The Division's credit policy requires each charge customer to provide a cash deposit or surety bond equal to three times its estimated average monthly bill. Deposits or bonds are required to be reviewed monthly to ensure adequacy in relation to the actual charges incurred. If a customer's accumulated account balance exceeds the deposit or bond, charge privileges are suspended and a cash only payment basis is imposed until the outstanding balance is paid. During the audit period we noted the following deficiencies involving two customers.

Hauler No.	Status
1	In two instances the customer had an end-of-month account balance that exceeded \$5,000 when its bond was only \$3,500. In both

**RECOMMENDATIONS
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	instances the customer was allowed to continue using credit during the following month before the outstanding balance was paid. Three times during the audit period the customer's monthly charges exceeded its bond amount. Also, the customer's bond was over \$7,000 short of the minimum requirement of three times their average monthly bill.
2	A customer had a surety bond for \$75,390. Twice during the audit period its end-of-month account balance exceeded the bond amount including July 1998 when its balance of over \$152,000 was more than twice that of the bond. Again, the customer was permitted to incur charges during the next month before the bills were paid. Also, the customer's bond was almost \$64,000 short of the required three times their average monthly bill.

In April 1992, a long-time customer, with an accumulated account balance of \$329,996 filed for reorganization under Chapter 11 of the Federal Bankruptcy Code. The hauler's surety bond only covered \$150,000 of the fees owed. Consequently, the County had a revenue loss of \$179,996. If the two customers cited in the above chart had encountered financial difficulty and sought protection under the Federal Bankruptcy Code when their account balances exceeded their bonds, the County could have lost over \$79,000.

As of October 31, 1999 thirteen customers had deposits or bonds less than three times their average monthly bill. The Division is taking steps to bring these customers into compliance with the credit policy.

We Recommend the Division review customer accounts on a monthly basis. Such efforts should ensure that deposits/bonds are sufficient to cover average monthly tipping fees and identify customers with balances exceeding their surety. Customers exceeding their deposit/bond should be placed on a cash only payment basis with credit privileges reinstated after payment of the entire balance due.

Management's Response:

Concur. Underway. All accounts have been reviewed and are now current in their deposit bond requirements. Monthly review of all credit customer balances compared to three times the monthly average has been implemented. Credit customers whose three-month rolling average exceeds current surety are notified by certified mail to increase the bond/deposit amount to the required level. Customers who do not comply with this requirement are placed in a cash only status.

6. Credit Customer Surety Bonds Should Be Reviewed To Ensure That Coverages Are Adequate

As part of our testing to ensure compliance with the Division's credit policy, a sample of ten charge customers was chosen. During our review of these ten customers, we noted three instances where a customer's surety bond coverage had expired as early as 1993. During our audit period, July 1, 1998 through December 31, 1998, the three customers incurred average monthly charges of \$170,413. After bringing this matter to their attention, the Division took steps to secure a current bond from these and other customers subsequently determined as having an expired bond.

As previously mentioned, in April 1992, a long-time customer, with an accumulated account balance of \$329,996 filed for reorganization under Chapter 11 of the Federal Bankruptcy Code. The hauler's surety bond only covered \$150,000 of the fees owed. Consequently, the County had a revenue loss of \$179,996.

We Recommend the Division review all active customer accounts to determine if surety bonds have expired. A new bond should be secured from customers where lapses are noted.

Management's Response:

Concur. Underway. Monthly review of all credit customers surety/bond requirements has been implemented to ensure future compliance.

7. Efforts To Monitor Truck Weights Should Be Improved

Florida Statutes prohibit a vehicle with a gross weight exceeding 80,000 pounds from using a Florida roadway. We tested a sample of the Division's trucks hauling refuse from the Porter and McLeod Transfer Stations to the landfill during July 1999. Forty-one percent (51 of 124) of the trucks from Porter and twenty-one percent (32 of 149) of the trucks from McLeod had gross weights in excess of 80,000 pounds. At Porter, transfer trucks exceeded the limit by as much as 16,780 pounds and at McLeod by as much as 12,640 pounds. During fiscal years 1996-1999 the Florida Department of Transportation fined the County over \$2000 for operating overweight vehicles.

We Recommend the Division institute steps to ensure compliance with legal weight limits.

Management's Response:

Concur. Underway. Construction plans for scales that will be used to weigh outgoing County transfer vehicles are 95% complete. An RFP for construction of the scales is expected to be issued within the next two weeks and scales should be operational in the fall of 2000. Loaded County transfer vehicles will each be weighed on these scales prior to leaving the facility. If the vehicle is not in compliance with legal weight limits load adjustments will be made to ensure compliance.

8. Refuse Truck Data Maintenance Should Be Enhanced

RECOMMENDATIONS FOR IMPROVEMENT



The Division regularly verifies tare (empty) weights of trucks used by its large customers. Current procedures provide for the scale house to weigh trucks of particular haulers on a periodic basis. We sampled twenty-five trucks from the Division's master vehicle list and found that forty-four percent (11 of 25) were not documented as having been recently test weighed. Although the trucks were recorded as being active, some had not been weighed for up to three years. Invoices indicated that four of the eleven trucks had been used at the Division's facilities during scheduled test weigh months and two more were used during the month following the test month.

Some of the exceptions involved trucks that were inconsistently used at Solid Waste's facilities. Therefore, a record that these trucks had recently been test weighed was not on file. One customer revealed that seventeen of its trucks on the master vehicle list were no longer in active service. In addition, Division personnel stated that if a truck was test weighed and found to be in compliance, no record that the truck was weighed was maintained.

The Division should periodically prepare a report of tare weights sorted by each truck's last weigh date. This would allow the Division to consistently test weigh individual trucks and identify trucks that customers may no longer be using. Further, documentation of all trucks test weighed should be maintained.

Customers incur tipping fees based on the weight of the refuse they are disposing. The weight subject to charges is determined from the difference of the gross weight (weight of the vehicle and refuse) less the tare weight. If a vehicle's tare weight is not accurate then the net weight will be incorrectly calculated. Consequently, the County would not be collecting the appropriate revenue.

We Recommend the Division institute procedures to ensure it documents periodic test weighing of all active trucks and removes trucks no longer in use from the system.

Management's Response:

RECOMMENDATIONS FOR IMPROVEMENT



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Concur. Underway. The Solid Waste Division currently has a program whereby all tare weights are verified on a six (6) month cycle. Any vehicles showing a discrepancy of more than 800 lbs. from the recorded average tare weight are re-weighed five (5) times to calculate a new average tare weight. A review of the reweigh system revealed that the procedures had been followed, but trucks that did not require a new average tare weight were not properly documented. The procedure has been modified to ensure that proper documentation occurs. Trucks that have had no activity in the last six months will be manually removed from the system.

The refuse truck data will be enhanced with a new system software upgrade and updates to the Crystal Reports programs. The new upgrade will give the Division the ability to generate reports regarding vehicle tare weights. The projected upgrade is scheduled for the summer of 2000. Until the upgrade is finalized, the Division will prepare a report every six (6) months which monitors activity and shows the tare weights sorted by each truck's last weigh date. The trucks that have had no activity in the last six months will be removed from the system.