



Mayor Jim Newberry

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT  
Office of Internal Audit

## **INTERNAL AUDIT REPORT**

DATE: September 29, 2008

TO: Jim Newberry, Mayor

CC: Joe Kelly, Senior Advisor for Management  
Cheryl Taylor, Commissioner of Environmental Quality  
Kyna Koch, Commissioner of Finance & Administration  
Steve Feese, Director of Waste Management  
Bill O'Mara, Director of Revenue  
Urban County Council Members  
Internal Audit Board Members

FROM: Bruce Sahli, Director of Internal Audit

RE: Haley Pike Landfill Collection Process Audit

### **Background**

The Haley Pike Construction & Demolition Landfill is a 35-acre landfill operated by the Lexington Fayette Urban County Government. The landfill accepts bricks, concrete, yard waste, furniture, roofing shingles, metals, paper products, insulation and wood. Customers pay a disposal fee based on the weight and type of waste as determined by the Landfill's Scale House operations. The cost for disposal is \$28 per ton plus a state environmental fee of \$1.75 per ton. The charge for disposal of brush is \$4.25 per cubic yard. Each resident of Fayette County is allowed two free brush disposals per month. During FY 2007 and FY 2008 Landfill Collections occurring at Haley Pike were \$127,334 and \$356,175 respectively. Landfill management indicated the significant increase in FY 2008 is largely due to the significant dumping of shingles from hail damage.

In May 2008, Landfill management contacted Internal Audit stating that the landfill collects a substantial amount of cash at the Haley Pike Scale House and that they were concerned about the adequacy of collection controls at that location. This audit was conducted as a result of that request.

### **Scope and Objectives**

H O R S E   C A P I T A L   O F   T H E   W O R L D

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The general control objectives for the audit were to provide reasonable assurance that:

- Controls over cash and cash receipts were sufficient and functioning properly
- Cash receipts were accurately deposited on a timely basis
- Physical security procedures were in place and being followed
- Written cash handling policies and procedures were current and being adhered to
- Landfill usage rates were consistent with any related ordinances and appropriate charges were being accurately assessed

The period of our audit was landfill collection data for November 1, 2007 through May 31, 2008.

### **Statement of Auditing Standards**

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

### **Audit Opinion**

In our opinion, the controls and procedures did not provide reasonable assurance that the general control objectives were being met. Opportunities to enhance controls are included in the Summary of Audit Findings.

## **SUMMARY OF AUDIT FINDINGS**

### **1. AutoScale Program Controls Inadequate**

The landfill uses an AutoScale program to calculate disposal fees based upon vehicle weight before and after disposal. This calculation produces a weigh ticket from which either cash payments or account charges are derived. We noted several weaknesses in the AutoScale program that could allow for the modification of recorded collection activity and the concealment of cash shortages.

Landfill employees responsible for generating weigh tickets and collecting their related cash payments have the ability to add and/or edit transaction data in the AutoScale system, and there is no process in place to ensure that daily Online Reports per AutoScale agree with the related weigh tickets.

Also, using computer-assisted audit techniques, we examined 10,524 weigh tickets generated by AutoScale during the audit period. We noted 21 breaks in ticket sequence, five of which could not be

explained (system failure to generate the tickets and/or ticket deletions are possible explanations). The remaining 16 instances were due to invalid customer account numbers in the download file from AutoScale.

In another test, we judgmentally selected a sample of 25 days for a manual review of weigh ticket activity and noted that not all weigh tickets in the daily batches were accounted for. We noted that there were eight missing weigh tickets, seven tickets of which were for the same landfill customer.

We recommend that Landfill management consult with the Mettler Toledo vendor and determine if controls can be implemented to ensure that scale data cannot be edited or changed. If the edit function cannot be removed, management should request a report of all edit activity to review for reasonableness. Additionally, we recommend that the Mettler Toledo vendor devise a daily report which totals all daily transactions by cash received and also by charge card transactions. This report should be reconciled by management personnel to the daily weigh tickets for agreement on a daily basis and the daily deposit report.

Director of Waste Management Response: AutoScale is planning to send a representative to the landfill scale house to evaluate the operation and possibly limit the clearance for on-site staff to edit weigh tickets. We will also address the need to have a daily reconciliation report.

We also plan to evaluate our staff support to the landfill operation to determine if we can have other personnel provide oversight for the daily operations.

Commissioner of Environmental Quality Response: I concur with the response from the Director of Waste Management.

## **2. Segregation of Duties Needed**

The Division of Revenue does not have adequate segregation of duties for billing of its charge card customers. One employee at the Division of Revenue creates accounts for charge customers who will be using the landfill on a recurring basis. This employee also sends out the monthly billing to customers, addresses customer billing issues, and receives charge customer payments.

We recommend that the Division of Revenue establish adequate controls regarding Landfill billing and receipt of payments to prevent any one employee from performing billing and payment receipt functions. It is also recommended a monthly report of charge accounts complete with aging and write-off activity be provided to the Director of Revenue.

Director of Revenue Response: The section in Revenue responsible for establishing and administering landfill charges is limited to two people. A separation of duties which would limit one staff to establishing a charge for a customer, a different staff submitting any changes or corrections, and another staff to run the monthly billing, is not feasible. However, to establish a level of review and oversight to the process, the Division of Revenue has instituted the following process to address the separation of duties related to landfill charge customer activity.

A monthly report has been created (LAN019) listing all changes/corrections to all landfill billings for the month. This report captures all activity on a customer account. The report is delivered to the Revenue Supervisor each month. The Supervisor reviews the listing of changes/corrections and audits the activity periodically, reviewing the documentation for a change or correction. This process creates oversight without creating an unrealistic process within the work group.

Commissioner of Finance & Administration Response: I concur with the response of the Director of Revenue.

### **3. Written Procedures on Collection Activity Incomplete**

The landfill does not have written procedures regarding the service of non-cash customers, deposit preparation, cash handling, or the safeguarding of cash. Written procedures are an important control that provides process instruction, performance standards, and a basis for measuring compliance with management expectations. It is recommended written landfill collection procedures as indicated be developed and provided to Scale House personnel. In order to improve overall security of funds, we also recommend these procedures include a policy requiring cash drops into the safe when the till exceeds an amount management deems reasonable for making change (e.g. \$300).

Director of Waste Management Response: Within the next two months the Division of Waste Management will develop written procedures related to process instruction, performance standards, and a basis for measuring compliance with management expectations along with a policy on cash drops.

Commissioner of Environmental Quality Response: I concur with the response from the Director of Waste Management.

### **4. AutoScale Data Backup Process Needs Improvement**

Landfill collection transactions are maintained with the Mettler-Toledo AutoScale 2000 software program. This program is maintained solely by the Landfill. During our review of seven months of activity, there were 10,254 transactions for a daily average of 59 transactions per day. Currently there are no backup procedures in place except for the monthly download that is sent to the Department of Revenue.

We recommend management contact Mettler Toledo to determine if additional data backup procedures can be implemented at least on a weekly basis to improve data security and recovery controls.

Director of Waste Management Response: AutoScale representatives will be asked to assist us with implementing back-up procedures.

Commissioner of Environmental Quality Response: I concur with the response from the Director of Waste Management.

### **RISK OBSERVATION**

Standards for the Professional Practice of Internal Audit stipulate that it is the Office of Internal Audit's responsibility to inform management of areas where risk to the organization or those it serves exist. The following observation identifies a risk associated with the Scale House operations not considered an audit finding, but which is considered to be of sufficient importance to deserve mention in this report to ensure senior management's awareness.

#### **Landfill Office Building in Need of Basic Repair**

We noted that the floor of the Scale House was worn and uneven in most of the office area. Landfill management indicated that they had been working on plans for a new building; however, as of the last day of fieldwork, no finalized plans were available. We recommend management consider interim repairs to remove any potential trip hazards.

Director of Waste Management Response: The Division of Waste Management is confident that a new building can be in place within the next few months that will provide the safety and security needed.

Commissioner of Environmental Quality Response: I concur with the response from the Director of Waste Management.