



Internal Audit Department

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April 5, 2012

Mr. Jim Stivender, Public Works Director
Solid Waste Division
Post Office Box 7800
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Mr. Stivender:

We have concluded an internal audit of the Solid Waste Division of the Lake County Board of County Commissioners Public Works Department, as scheduled per the Clerk's Annual Internal Audit Plan. Responses to our recommendations were received from Skip McCall, Solid Waste Division Manager and are included in the report after each finding and recommendation.

We appreciate the cooperation and assistance provided by the Solid Waste Division and also other local county and governmental entities contacted during the course of this internal audit.

Sincerely,

A handwritten signature in black ink that reads "Jeremy Martin". The signature is fluid and cursive.

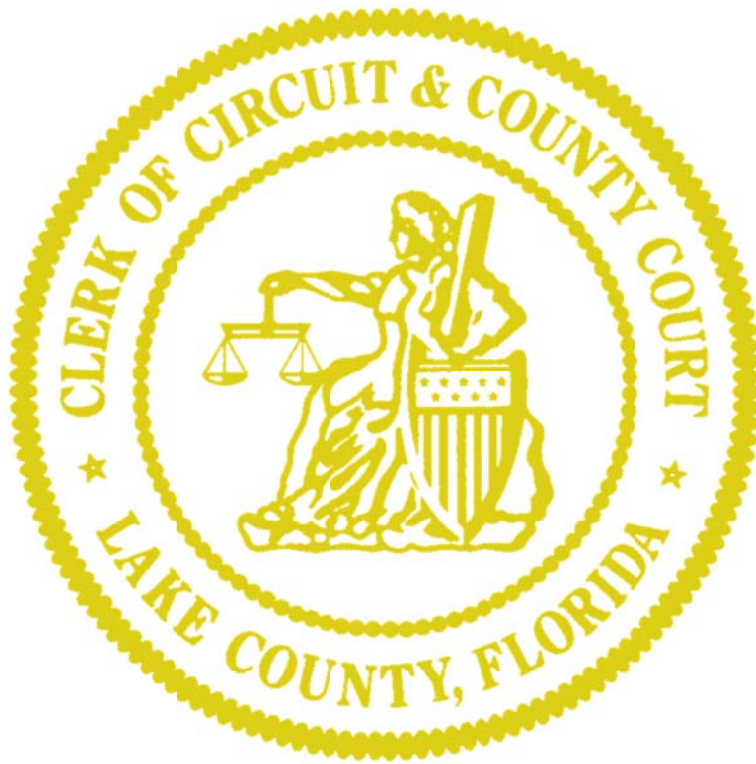
Jeremy Martin, CPA
Internal Audit Director

JM/ag

cc: Honorable Neil Kelly, Clerk of Circuit & County Court
Commissioner Leslie Campione, Chairman
Darren Gray, County Manager
Skip McCall, Solid Waste Division Manager

Neil Kelly

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**Internal Audit Department
Final Audit Report**

**BCC 2011-09 Solid Waste
Lake County Board of County Commissioners
April 5, 2012**

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EXECUTIVE SUMMARY

Overview

As requested by the County Manager and scheduled as part of the Annual Audit Plan, an internal audit was performed of the Solid Waste Division of the Public Works Department.

The Solid Waste Division was established to fulfill the requirements of Florida Statute Chapter 403. Section 706 of the chapter specifies, "The governing body of a county has the responsibility and power to provide for the operation of solid waste disposal facilities to meet the needs of all incorporated and unincorporated areas of the county."

The Division is responsible for the following areas, as identified in the Lake County Fiscal Year (FY) 2012 Adopted Budget Book:

- Management and operations of the solid waste management system landfills
- Landfill construction
- Landfill closures and long-term care
- Scale services
- Residential drop-off locations
- Yard waste disposal
- Commercial, residential and hazardous waste collections
- Solid waste fee assessments and commercial billing
- Administration, sales, processing and shipping of recyclables
- Recycling programs

The Division also has the responsibility for the management of the contract with Covanta Lake, Inc. Covanta is the waste-to-energy facility that incinerates virtually all of the solid waste that can be burned. Through this process, steam is produced, which is then converted into electricity and sold to Progress Energy.

During the past couple of years, the components of what is now the Solid Waste Division have undergone several re-alignments within the County. At the end of FY2009, the Division was split between Solid Waste Operations and Solid Waste Programs and was positioned under the Environmental Utilities Department. Effective October 1, 2010, the divisions were re-aligned under the Public Works Department. On March 15, 2011, the Public Works Department was re-organized and the divisions were merged into one Solid Waste Division. A new Solid Waste Division Manager was hired and has been in his position since August 2011.

Scope

Management desired to know whether the controls in place over select processes within the Solid Waste Division are adequate. Tests of transactions included the time frame of March 1, 2011 through December 31, 2011 and an overtime trend analysis included pay dates from October 1, 2007 to September 30, 2011. The end date for tests of transactions was extended from the original estimate

of August 31 due to the timing of changes in management. Any review of the Division's contracts did not include an assessment of vendor compliance.

Objectives

The objectives of the audit were to:

1. Determine whether controls over collections, billing and reporting are effectively designed and are operating as intended.
2. Determine whether controls over the management of vendor contracts are effective.
3. Determine whether personnel resources are used in an efficient manner, including an analysis of overtime incurred.
4. Review the process used to develop the non-ad valorem tax amounts and maintenance of the solid waste assessment rolls.
5. Determine the status of any relevant outstanding management action plans.

Overall Evaluation

During the course of the audit, we found the Division staff very forthcoming with information and eager to assist the auditors in any way. We were extended many opportunities to observe the staff during the normal course of their work and found them to work well together and focused on their duties. Management has addressed several areas where improvements were recommended in previous audits and we commend them for doing so. The controls implemented are essential to improved accountability over the Division's operations.

The courtesies and cooperation extended by the Division and Department staff during the audit were sincerely appreciated.

Opinion

Based on the results of our audit testing, except as noted in our findings, we have determined that the controls in place over collections, billing, reporting, and contract management are effectively designed and operating as intended by the Division. We also conclude that controls are in place to ensure that personnel resources are used in an efficient manner and overtime is minimized. The process used to develop the non-ad valorem tax is reasonable and controls over maintenance of the solid waste assessment rolls are adequate. The Division has effectively implemented plans supporting the recommendations of 13 out of 15 original audit findings from previous audits that were deemed relevant to the objectives of this audit.

Audit By:

Jeremy Martin, CPA, Internal Audit Director
Alice Garner, CPA, Senior Internal Auditor

AUDIT METHODOLOGY AND DISCUSSION

The purpose of this section is to provide management with a summary of the procedures performed to achieve each stated objective and to provide a description of the overall results.

Determine whether controls over collections, billing and reporting are effectively designed and are operating as intended.

Collections

Attendants operating the Scalehouses process payments throughout the day in the form of cash, checks and credit cards. To determine whether the controls over these collections are effectively designed and operating as intended, we identified the procedures that are in place, determined whether they are appropriate, selected a sample of daily reconciliations and tested the sample. We found that management has established written policies and procedures that, when followed, are sufficient to prevent misappropriation. We also found that, in general, there is adequate evidence to support accountability for funds collected, proper segregation of duties and supervisory review. One finding is discussed in the Findings and Recommendations section of this report.

Billing

Certain commercial and municipal customers utilizing the landfill and scales are billed on account or through an inter-entity transfer on a monthly basis. To determine whether the controls over billing are effectively designed and operating as intended, we identified the procedures that are in place, determined whether they are appropriate, selected a sample of monthly reconciliations and tested the sample. We found that management has procedures in place that are sufficient to ensure that third party billings are performed accurately and customers are notified when remittances are past due. We also found that there is evidence to support proper segregation of duties and supervisory review. One finding that came to our attention is explained in the Findings and Recommendations section of this report.

External Reporting

The Florida Department of Environmental Protection requires the Division, or its consultants, to regularly submit reports related to groundwater, gas monitoring and landfills. To determine whether the controls over reporting are effectively designed and operating as intended, we identified the procedures that are in place, determined whether they are appropriate and reviewed selected reports. We found that management has contracted with consultants to perform the specialized work and submit the reports. We also found evidence to support that external reporting on behalf of the Division is reviewed by designated staff prior to submission.

Determine whether controls over the management of vendor contracts are effective.

The primary contractual vendors managing the County's solid waste operations are those responsible for collections (Waste Services, Inc. and Waste Management, Inc. of Florida), and for disposal (Covanta Lake, Inc.). To determine whether controls over the management of these contracts are effective, we identified the procedures that are in place, determined whether they are appropriate, performed walk-throughs, selected a sample of complaint logs and field inspection reports and tested the

samples. We found that management has processes in place to ensure vendor compliance. We also found evidence to support management's reconciliation of the monthly billings.

Determine whether personnel resources are used in an efficient manner, including an analysis of overtime incurred.

Many factors are taken into consideration when managing personnel, including staffing levels, employee training and workload demands. To determine whether personnel resources are used in an efficient manner, we identified the policies and procedures that are in place, determined whether they were appropriate and performed an analysis of overtime across the Division for FY2008-2011. We found that management has implemented effective policy and practices for decreasing overtime and increasing the efficiency of the use of its personnel.

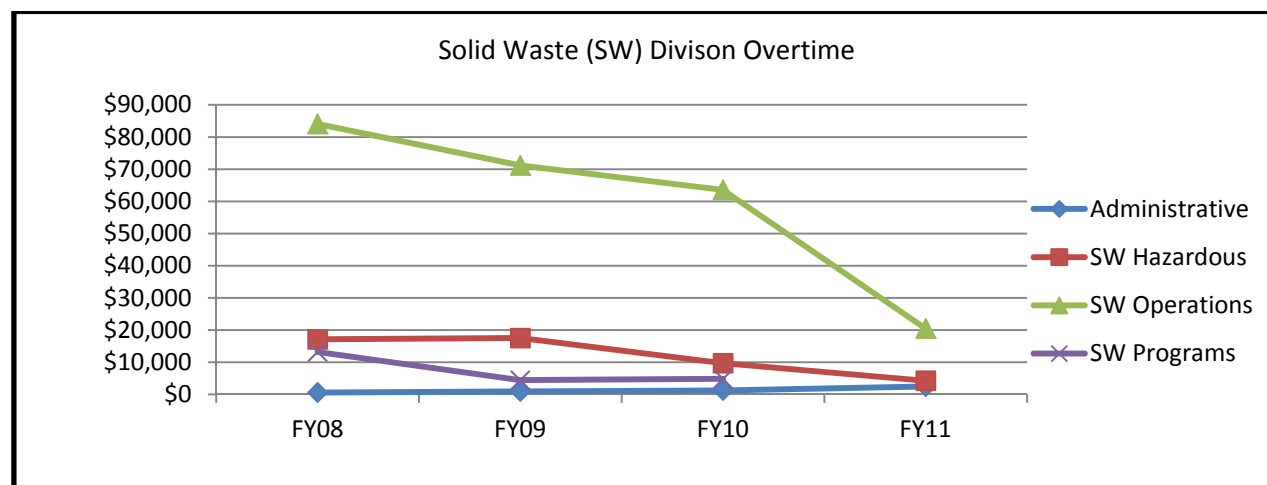
Policy and Practices Implemented

The following is a list of controls that management has put into place since FY2008:

1. All overtime must be pre-approved.
2. Personnel and positions have been re-aligned.
3. A cross-training program has been implemented.
4. A plan to develop Division-wide Standard Operating Procedures has been created.

Overtime Analysis

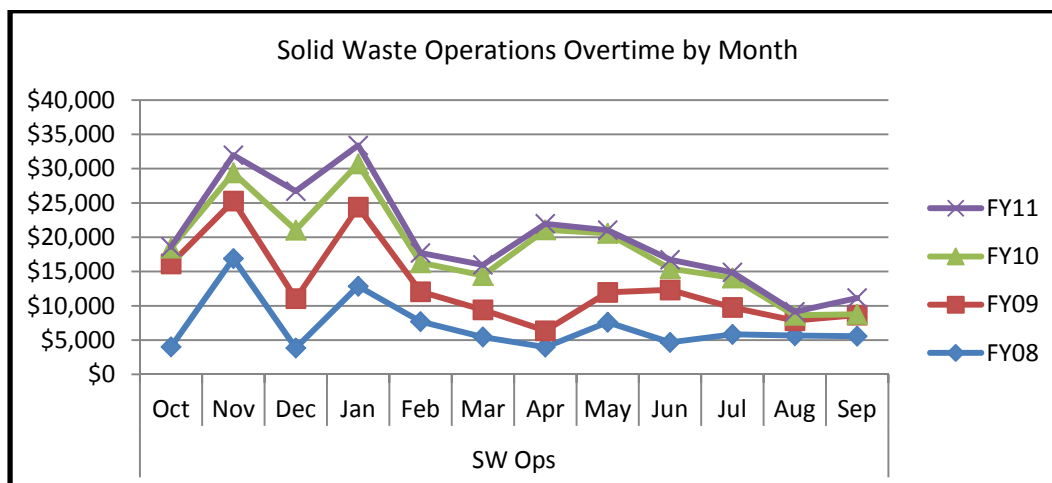
To determine whether these actions have in fact decreased overtime, we performed a detailed analysis of payroll history reports retrieved from the County accounting system (MUNIS). During our review of the data, we found that overtime across the Division has significantly decreased, as illustrated by the following chart.



Overall, the Division decreased its overtime cost from \$114,950.72 in FY2008 to \$27,159.97 in FY2011; a decrease of 76% over the three-year period, 66% of which was achieved in FY2011 alone.

As shown in the chart above, the most significant overtime for the Division has been in SW Operations, which is comprised of landfill operations, residential drop-offs, scale services, and yard waste operations.

The following stacked chart is a depiction of the Solid Waste Operations overtime costs for each month throughout each fiscal year. We performed this analysis to illustrate any cyclical patterns that management may find useful in its future planning of resources.



Notice the spikes in overtime costs for each year in the months of November and January. According to management, the timing of these increases is likely related to a corresponding increase in a combination of vacation and holiday time charged. To confirm this assumption, we further analyzed paycheck history data and found that although vacation hours charged during this time was reasonably proportionate to the year as a whole, this time period also represents 60-65% of the holiday hours charged. We agree with management's correlation and believe that the implementation of the cross-training program should provide management with personnel resources that can be better distributed over workload demands during these times.

Review the process used to develop the non-ad valorem tax amounts and maintenance of the solid waste assessment rolls.

Non-Ad Valorem Tax Amounts

Residents in unincorporated Lake County are subject to an annual non-ad valorem tax to pay for the cost of the collection and disposal of household waste services provided by the County. The Division has contracts in place with Waste Services, Inc. and Waste Management, Inc. to provide residents curbside collection and with Covanta Lake, Inc. to provide disposal services.

Fiscal Year	Solid Waste Non-Ad Valorem Assessment
2003	\$ 173.50
2004	\$ 180.50
2005	\$ 174.00
2006	\$ 174.00
2007	\$ 174.00
2008	\$ 174.00
2009	\$ 184.00
2010	\$ 184.00
2011	\$ 184.00
2012	\$ 184.00

In our review of the process used to develop the non-ad valorem tax amounts, we found that the assessment has not changed significantly over the last ten years despite annual increases to collection costs as specified in the collection contracts.

The table to the left illustrates the changes in the amount of the assessment as reported in the Lake County Adopted Budget Book FY2012.

To further demonstrate, we applied the same methodology used to develop the assessment in 2003 and updated only the contracted collection fee per household per year with December 2011 fees.

2003 Assessment	Assessment Updated with Current Collection Fee	Description
1.3	1.3	Average tons of waste per household per year
x \$ 40.00	x \$ 40.00	Tipping fee – cost per ton for disposal
\$ 52.00	\$ 52.00	Average disposal cost per household per year
+ \$ 110.00	+ \$ 136.04	Contracted collection fee per household per year
\$162.00	\$188.04	Disposal and collection cost
+ \$ 11.50	+ \$ 11.50	Estimated administrative costs
\$173.50	\$199.54	Total non-ad valorem tax

The results show that, with all other components of the calculation remaining constant, the current amount of the annual assessment is not sufficient to provide for the cost of the services it is intended to. One related finding is presented in the Findings and Recommendations section of this report.

Solid Waste Assessment Rolls

The non-ad valorem tax is applied to the property tax bill of unincorporated residents of Lake County. The basis of the assessment roll comes from the Property Appraiser and is adjusted by Division staff on a monthly basis for items such as permits and certificates of occupancy for new residences. In our review of the maintenance of the solid waste assessment roll, we identified the procedures that are in place, determined whether they are appropriate and reviewed selected reports of analysis. We found that management has an adequate process in place to ensure that all applicable residents are charged appropriately.

Determine the status of any relevant outstanding management action plans.

There are two previously issued audit reports where findings were reported and action plans were developed. The audit report for BCC 2008-12 Solid Waste Programs presented 14 findings and the report for BCC 2009-01 Solid Waste Operations presented 10 findings. We incorporated 5 of the BCC 2008-12 findings and all of the BCC 2009-01 findings into the scope of this objective. To determine the status of the management action plans, we reviewed the prior audit reports and workpapers, identified the procedures that are in place, determined whether they are appropriate to mitigate the stated issue, performed walk-throughs and reviewed reports.

The following charts summarize the management action plans of the selected original audit findings and observations at the completion of this audit.

Open Status - Control weaknesses that need additional corrective action.

BCC 2009-01 Solid Waste Operations

Finding	Finding Description	Status	Comments
5	Water system invoice payments (are) in arrears	Open	An ordinance providing regulations for the system was not developed. Customer account balances are no longer tracked by the Division. An award is in progress to update the system for transfer to Umatilla. Transfer is expected to be complete by November 1, 2012.

BCC 2008-12 Solid Waste Programs

Finding	Finding Description	Status	Comments
9	Procedures (are) needed (across all Solid Waste functions)	Open	Although several procedures have been created, written procedures have not been completed for all Solid Waste functions. Status of progress will be assessed after October 1, 2012.

Closed Status - Control weaknesses for which corrective action has been completed to the auditor's satisfaction.

BCC 2009-01 Solid Waste Operations

Finding	Finding Description	Status	Comments
1	Inadequate methods of establishing accountability for collection of fees	Closed	Written Standard Operating Procedures and processes are in place designed to provide accountability and segregation of duties.
2	Segregation of duties (is) needed (for invoicing function)	Closed	Adequate segregation of duties exists between invoice creation, supervisory review and handling remittances.
3	Non-residential use of residential drop-offs (is not monitored)	Closed	Development of a tracking system is not a cost effective solution at this time. Attendants have been directed to be observant to any obvious non-residential use.
4	Credit card numbers (are) retained and not secured	Closed	Credit card numbers are input directly into the Automatic Payment Machine and are no longer retained.
6	Further automation of invoicing process (is) needed	Closed	All external customer invoices are now created in the General Billing Module of MUNIS.

Finding	Finding Description	Status	Comments
7	Customer poses security risk at Scalehouse	Closed	Scalehouse doors are locked and are not opened for customers. Customers are directed to walk to the entry window if they have questions.
8	Large amount of paper records (are) stored at the Scalehouse	Closed	There are no longer large amounts of paper records stored at the Scalehouse. Staff began scanning current records in December 2011.
9	Accounting technician duties increased without compensation	Closed	Employee Services performed an objective study reviewing this issue and determined that the compensation is appropriate for the position.
10	Excess paper used by Scalehouse information management system	Closed	The system cannot be modified to turn off the duplicate receipt printing function. Duplicate receipts are shredded at the end of the day.

BCC 2008-12 Solid Waste Programs

Finding	Finding Description	Status	Comments
2	Excessive overtime incurred	Closed	Overtime cost across the Division has decreased 76%. A program is in place to cross-train employees to ensure workloads are more manageable.
8	Waste hauler contracts (do not include right to audit)	Closed	Waste hauler contracts now include a right to audit clause.
12	Potential cost reimbursement (not taken for issuance of paint buckets)	Closed	Paint buckets are no longer purchased or issued to residents for the paint recycling program. Charging a fee is not applicable.
14	Safety shoe procedure doesn't address shipping costs	Closed	The current procedure addresses coverage for shipping fees related to safety shoe purchases.

FINDINGS AND RECOMMENDATIONS

The current method used to apply credit adjustments to customer invoices is inadequate.

Criteria: Customer invoices should provide enough detail to enable the customer and staff to be able to accurately determine the charges and/or adjustments included on the invoice.

Condition: Within the General Billing module of MUNIS, staff cannot properly adjust an invoice before it is posted. The module currently does not permit staff to enter a credit line item or create a credit memo. Division staff responsible for billing landfill customers each month must instead force a negative amount into the discount field of the invoice entry and have no means for assigning a description to the adjustment.

Effect: The current method of applying an adjustment to an invoice by entering an amount in the discount field does not provide the customer a description of what the adjustment is for and prevents the possibility of a proper audit trail in the customer and the County's subledgers.

Recommendation: We recommend that management work with County Finance to establish a proper method for applying credit adjustments to an invoice in a MUNIS General Billing batch.

It is a common business practice to issue a credit memo (negative invoice) to a customer when adjusting an invoice. Creating a credit memo as a means of adjusting a customer's next invoice (and subledger) provides an opportunity to link the adjustment to the originating invoice, assign a description to the adjustment and provide system users a more accurate picture of the customer's account activity.

Management Response: Agreed however, a modification to the MUNIS program is required. The Division is working with County Finance to determine the changes necessary to support this recommendation. Appropriate monies will need to be budgeted to implement this recommendation for FY 12-13.

Expected Completion Date: The Division is currently working with the Finance Department on a cost/benefit analysis for implementing a "credit memo" process into the Munis system. Implementation will be predicated on the findings of the cost/benefit analysis. If the findings are favorable, It's the Division intent to implement by October 1st, 2012.

The controls over the review of changes to customer tickets at the Scalehouse need improvement.

Criteria: Standard Operating Guidelines (SOG) for the Scalehouse require that all tickets that are reworked or changed be reviewed and signed off by the Scalehouse Supervisor.

Condition: The current process in place provides that Scalehouse attendants that rework or change any customer ticket must submit the original and changed copy of the ticket to the Scalehouse supervisor for review. There is no procedure in place for the supervisor to verify that all ticket changes were appropriately submitted for review. The scales system, AutoPro, does have ability to show, on a daily basis, all tickets in the system that were changed. This information is only available for the day's transactions and is purged from the system each night.

Effect: Changes could be made to tickets that are not appropriately reviewed and approved by the supervisor.

Recommendation: We recommend that the Scalehouse supervisor review the list of all reworked tickets maintained in AutoPro at the end of each business day to ensure that all changed tickets are properly submitted and reviewed. We further recommend that documentation of the review be maintained.

Management Response: Agreed. The Division has revised the Standard Operating Guidelines to reflect the changes. The Landfill Supervisor in cooperation with the Scale House Attendant II's will ensure that all scale tickets are being reviewed, approved and properly submitted.

Expected Completion Date: New processes are currently being addressed and will be fully implemented by October 1st, 2012.

The current non-ad valorem solid waste assessment amount is insufficient to cover the costs of services provided.

Criteria: Florida Statute 403.7049(2)(b) provides that "counties and municipalities are encouraged to operate their solid waste management systems through use of an enterprise fund." Lake County Solid Waste management is currently established as an enterprise fund. According to Barron's Accounting Dictionary, an enterprise fund is defined as a fund that provides goods or services to the public for a fee that makes the entity self-supporting.

Condition: Residents in unincorporated Lake County are subject to an annual non-ad valorem tax for waste collection and disposal services provided by the Solid Waste Division. The Division has contracted with third parties for the collection and disposal of residential waste throughout the County. Based on our review of the assessment calculation and current contracted costs, the non-ad valorem assessment currently charged is not sufficient to cover the contracted cost of collection and disposal.

Effect: If fees charged do not cover costs incurred associated with waste collection and disposal for unincorporated residents, funding for these costs will have to be supplemented by other Division revenue sources.

Recommendation: We recommend that County management make adjustments to services provided and/or assessment revenue collected in order to ensure that fees for services are sufficient to cover the costs associated with providing those services, consistent with the definition of an enterprise fund.

Management Response: Agreed. On August 21st, 2011 the Solid Waste Alternative Task Force respectfully submitted their 22 recommendations to the LCBCC. On September 20th, 2011 the task force made a presentation to the BCC outlining their 22 recommendations. On February 14, 2012 the Public Works Department Solid Waste Division held a workshop with the BCC going through all 22 recommendations analyzing each one. The BCC unanimously approved all recommendations and directed staff to move forward with implementation. Of the 22 recommendations, #17 addresses the Solid Waste Assessment and is as follows:

17. Ensure the Solid Waste Assessment covers all enterprise fund costs except as noted below.

- a.** Keep the Special Assessment on the tax bills.
- b.** Set annual residential and commercial rates based on prior year actual costs and projection of future costs.
- c.** Establish a reserve fund for extraordinary costs due to hurricanes or other catastrophic events.

The Solid Waste Division is currently in the process of preparing request for proposals for collection,

recycling and disposal agreements. The solid waste assessment will be adjusted (up or down) to ensure fees for collection and disposal are charged appropriately.

Expected Completion Date: October 1st, 2014.