

Internal Audit Report 15-07

Landfill Cash Controls: Controls working to protect cash

January 2016



City of Sioux Falls
Internal Audit Department
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LANDFILL CASH CONTROLS **INTERNAL AUDIT REPORT 15-07**

INTRODUCTION

The audit of the Sioux Falls Regional Sanitary Landfill cash controls was not included in the 2015 Annual Audit Plan. This audit was a special project request by the Audit Committee and was approved at the April 16, 2015 Audit Committee meeting.

BACKGROUND

The City of Sioux Falls Public Works Landfill Division operates and manages the Sioux Falls Regional Sanitary Landfill. The landfill has a service area covering five counties: Lake, Lincoln, McCook, Minnehaha, and Turner. Approximately 260,000 citizens utilize the services provided by the landfill. There are several disposal areas for various waste products including municipal solid waste, construction and demolition debris, yard waste, tires, appliances, electronics, asbestos, and many other types of special waste. Waste generated outside the five-county area is also accepted, but at a higher fee.

In order to create a more sustainable community, the landfill has increased its reuse and recycle operations. There are designated disposal areas for recyclable materials such as scrap metals, aluminum tin, magazines, and office paper. There are also designated areas for yard waste and wood waste, which can be reused by the public for free as compost for flower and vegetable gardens or mulch for landscaping projects. In 2009, the landfill developed a way to capture the landfill gas and transport it via pipeline to the POET Biorefining in Chancellor where it is reused as an energy source.

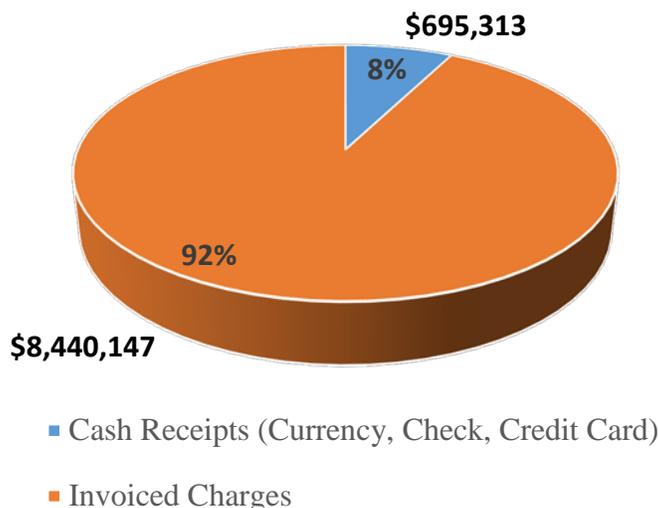
The landfill strives to maintain and operate its facility in accordance with established local, state, and federal laws, rules, and regulations. The landfill is authorized 28 full-time employees and had a 2015 budget in excess of \$11 million. The landfill operates Monday through Saturday.

In 2014, the landfill generated approximately \$11 million in revenue. Most of this revenue is generated from tipping fees charged to customers for use of the landfill as a dumping ground. The tipping fees are set and approved by City Ordinance. Customers have two options to fulfill payment of the fees. First, they can choose to pay the scale house operator at the time of the service via cash/coin (currency), check, or credit card. The second option is to charge the tipping fees to the customer's account which will be invoiced to the customer the following month. The following table and pie chart illustrate that, over the last three years, the majority (92%) of collections are charged to the customer's account and invoiced.

Collections by Payment Method:

Payment Method	2012	2013	2014
Currency	\$ 341,524	\$ 335,818	\$ 392,157
Check	241,734	177,500	161,902
Credit Card	1,662	138,574	295,068
Invoiced Charges	7,134,718	7,714,414	10,471,308
Total	\$7,719,638	\$8,366,306	\$11,320,435

3 Year Average of Cash Receipts versus Invoiced Charges:



OBJECTIVES

The objective of this audit was to:

1. Determine if cash handling procedures are properly segregated.
2. Determine if physical security procedures are in place and being followed.
3. Determine if cash receipts are deposited on a timely and accurate basis.
4. Determine if written cash handling policies and procedures are current, properly documented, and being followed.
5. Determine if landfill usage rates are consistent with the City of Sioux Falls ordinances and if the charges are being accurately assessed and recorded, both in the deposits and in other financial records.

SCOPE AND METHODOLOGY

The scope of this audit focused on the review of cash handling controls in place at the landfill. The testing of controls covered transactions from January 1, 2015 through September 30, 2015. Our audit work included the following:

- Interviews with landfill management and finance department staff.
- Review of written policies and procedures, City of Sioux Falls Ordinances, and South Dakota Codified Laws.
- Review of prior audit recommendations.
- Review of previous audit reports and other municipal audit reports.
- Observation of the beginning and end of day procedures.
- Detailed testing of a sample of randomly selected cash receipts and the applicable daily deposit using a confidence level of 95% and a sampling error of plus or minus 3%.
- Review of financial records and bank documents.

RESULTS

We observed the cash handling procedures that take place at the landfill scale house during the beginning and end of day. Determined a receipt is issued for all transactions, checks are restrictively endorsed upon receipt, and voided transactions include management oversight. Proper segregation of duties exists between the employee entering transactions, the employee preparing the deposit, the employee reconciling the deposit to the bank statement, and the recording of revenue. It was noted during our observation that there was a lack of segregation of duties over checks received in the mail at the landfill scale house. See recommendation 1 below.

We also observed that the perimeters of the landfill are surrounded by a locking fence, the scale house doors are locked at all times, cash is kept in a locked safe, and transactions are monitored via video surveillance. However, we were informed by management that video surveillance recordings are only being stored for two weeks and then recorded over. See recommendation 2 below.

We reviewed the Cash Accountability and Handling Standard Operating Procedures. Based on our review and observations, we determined the procedures are current, properly documented, and being followed by employees.

We reviewed a sample of receipts and deposits. Customers are charged the appropriate usage rates as set by City ordinance. Receipts are reconciled to the daily deposit and deposits are made timely and intact. Various Finance department employees reconcile the deposits to the bank statement and general ledger.

RECOMMENDATIONS

We made the following recommendations to address the above referenced results.

- 1) Management should ensure proper segregation of duties exists for checks received in the mail at the landfill scale house.

Management's Response: Landfill Management and Public Works Administration concurs with this finding and will input the following controls: (1) If a check is received at the landfill scale house two employees will view the check and make a copy as a record of the check. (2) The check will then be placed in the safe until the end of the day when the deposit is taken to the bank. (3) The two employees will then initial a form created for this purpose and this form will list the customers' name, account number, check number, and will be filed in the scale house. (4) We will inform our customers and vendors that all checks will need to be sent to our finance department.

Management Representative Responding: Trent Lubbers, Utility Operations Administrator

Date of expected implementation: January 16, 2016

- 2) The City should research and implement a way to store video surveillance for longer than two weeks.

Management's Response: Landfill Management and Public Works Administration concur with this finding and will take the following steps to improve video data storage: (1) Work with the City IT Department to evaluate increased video storage of up to 45 days. (2) Purchase additional hardware that is capable of storing video data for up to 45 days and saving the data, if possible.

Management Representative Responding: Trent Lubbers, Utility Operations Administrator

Date of expected implementation: April 2016

CONCLUSION

Internal controls over cash, cash receipts and bank deposits are appropriate and functioning properly. The implementation of the above recommendations will strengthen controls further. We would like to thank the Sioux Falls Regional Sanitary Landfill management and staff for their cooperation and assistance during the audit.

AUTHORIZATION

The Internal Audit division operates under the authority of an Internal Audit Charter adopted by City Council resolution 11-13.

AUDIT STANDARDS

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

STATEMENT OF INDEPENDENCE

Internal Audit is administratively and operationally independent of the programs and departments it audits, both in appearance and in fact. The Internal Audit Manager is accountable to an Audit Committee appointed by the City Council per section 32.022 of the Code of Ordinances of Sioux Falls, SD.

DISTRIBUTION OF REPORT

This report is intended for the information and use of the Mayor and City Council, management, and others within the City of Sioux Falls. However, the report is a matter of public record and its distribution is not limited.

PERFORMED BY

Ashley Stroschein
Internal Auditor