



Internal Audit

Solid Waste

April 2012

Bernalillo County Internal Audit Solid Waste

Executive Summary

SUMMARY OF PROCEDURES

REDW performed an internal audit of the Bernalillo County Solid Waste Department. Our internal audit focused on evaluating and testing compliance with policies and procedures over cash and payment collections, low income credit, and late penalty assessment. In addition, we determined if funds were utilized in accordance with Bernalillo County Code Chapter 70 – Solid Waste.

We performed a variety of procedures, including:

- Reading relevant State Statutes and Bernalillo County policies and procedures in order to gain an understanding of the process.
- Testing a sample of disbursements from funds collected from service fees to ensure they were utilized in accordance with Bernalillo County Code Chapter 70 – Solid Waste.
- Testing a sample of cash receipts collected by Solid Waste to ensure funds were accurately posted to customer accounts and reconciled between QuickBooks and SAP.
- Performing a cash count at the Solid Waste payment window.
- Testing a sample of delinquent accounts to ensure that proper notices were sent out and penalties assessed were appropriate. We also tested to assure the fees assessed were in accordance with set fee schedule.
- Testing a sample of households receiving assistance under the Low Income Program to ensure participant eligibility and the assistance was accurately calculated.

SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

We found areas during the course of the audit where controls were functioning properly and established procedures were followed. Most notably, all payments tested were accurately recorded, reconciled between accounting systems and handled according to County Policy.

Significant medium or high risk observations are presented below:

- **Delinquent Accounts** — The Solid Waste department did not have formal policies and procedures in place for how and when they process legal notices for delinquent customer accounts. In addition, the informal policy of sending a letter to customers with balances over 120 days was not consistently followed, and there was no method for how those balances were selected for notices. The Solid Waste department should implement and follow written policies and procedures that include the time frame and dollar threshold for processing delinquent customer accounts.
- **Gross Receipts Tax Rate** — Customers were charged the incorrect gross receipts tax rate. According to the gross receipts tax schedule prepared by the New Mexico Taxation and Revenue Department, the correct tax rate for a governmental entity is 5%. Customers were charged 5.125%, which is the State rate that would apply to nongovernmental entities. The Solid Waste department should instruct Waste Management to charge customers the correct tax rate of 5%. Based on the current quarterly service fee, this equates to each customer being overcharged six cents per quarter, or two cents per month.

The lower risk observations are included in the attached detailed report.

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Further detail of our purpose, objectives, scope, procedures, observations, and recommendations is included in the internal audit report. In that report, management describes the corrective action being taken for each observation.

REDW LLC

Albuquerque, New Mexico
June 18, 2012

Bernalillo County Internal Audit Solid Waste

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Bernalillo County Internal Audit Solid Waste Report

INTRODUCTION

We performed the internal audit services described below solely to assist Bernalillo County in evaluating the internal controls over the activities performed by the Solid Waste Department. Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants, Generally Accepted Government Auditing Standards, and the terms of our contract agreement for internal audit services. Since our procedures were applied to samples of transactions and processes, it is possible that significant issues related to the areas tested may not have been identified.

An entrance meeting was held on April 30, 2012 and fieldwork began that week. An exit conference was held on June 7, 2012, and final management responses were received on June 18, 2012.

Although we have included management's responses in our report, we do not take responsibility for the sufficiency of these responses or the effective implementation of any corrective action.

PURPOSE AND OBJECTIVES

Our internal audit focused on cash and payment collections, low income credit, and late penalty assessments to determine if reasonable internal controls were in place over these activities performed by the Solid Waste department. In addition, we determined if funds were utilized in accordance with Bernalillo County Code Chapter 70 – Solid Waste.

SCOPE AND PROCEDURES PERFORMED

In order to gain an understanding of the processes and operations of the Solid Waste Department, we interviewed the following personnel:

- *Kim McKibben*, Director, Solid Waste and Diversified Services
- *Deborah Pearson*, Solid Waste Fiscal Officer
- *Jodi Sears*, Solid Waste Administrative Officer I
- *Dorina Van Baggen*, Area Revenue Manager at Waste Management, Inc.

In order to understand Solid Waste policies and procedures, we read applicable portions of:

- *Administrative* Instruction (IA) Number 57, “Collection of Monies and Handling Requirements”;
- Chapter 70, “Solid Waste,” of the Bernalillo County Code;
- Waste Management Contract dated November 23, 2004 and applicable amendments; and,
- Daily *Deposit* Procedures for Solid Waste.

We performed the following testwork:

- *Cash Disbursement Testing*: We obtained the A&E detail from SAP for all Solid Waste cash disbursements from April 2011 through March 2012 and scanned the cash disbursements for unusual items or items that lacked adequate descriptions. We identified 5 items *and* examined the supporting documentation to ensure the disbursements were proper according to the County Code Chapter 70.
- *Cash Receipts Process*: We selected 10 daily SAP Cash Desk postings (a total of 84 individual transactions) from April 2011 through March 2012 and tested that:
 - The SAP cash desk posting agreed to QuickBooks and reconciled to the daily desktop deposit.
 - The desktop deposit was completed within 24 hours as required by Administrative Instruction 57 and checks were destroyed within a reasonable time frame (14 days).
 - Payments were correctly posted to customer accounts.

We also performed a surprise cash count at Solid Waste. We tested to ensure that the cash per QuickBooks corresponded to the actual cash on hand and that the site had a visible sign stating that customers should contact the Accounting Department when personnel fail to provide them with a receipt.

- *Outstanding Invoices and Accounts Receivable*: We obtained an aged accounts receivable listing of all delinquent accounts from the Waste Management system as of April 19, 2012. We selected a sample of 60 accounts (based on a 95% confidence level (CL) and 5% tolerable deviation (TD)) and tested that appropriate notices were sent out and penalties assessed were appropriate. We also tested that the fee was calculated properly and the monthly billing amount was accurate, if applicable.
- *Low Income Assistance*: We obtained a listing of all households receiving assistance under the Low Income Program as of April 5, 2012. We selected a sample of 22 households (based on a 90% CL and 10% TD) and examined the supporting documents (i.e. proof of income, residence, etc.) to ensure the participant was properly admitted to the program and the credit was calculated properly. In addition, we ensured that Waste Management applied the correct discount amount for each household selected.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

We identified the following weaknesses relating to the Bernalillo County Solid Waste Department.

1) Delinquent Accounts

The Solid Waste department did not have formal policies and procedures in place for how and when they process legal letters for delinquent customer accounts. In addition, the informal policy of sending a letter to customers with balances over 120 days was not being consistently followed and there was no method as to how the balances that do receive a letter were selected. During our testwork, we found that 49 out of 60 delinquent customer accounts tested had balances over 120 days but no legal letter was sent.

Recommendation

The Solid Waste department should implement and follow written policies and procedures that include the time frame and dollar threshold for how delinquent customer accounts are processed. This will ensure the process is applied consistently to all customer accounts and notices are mailed timely.

Management Response

While Solid Waste was diligent about sending demand letters (3,481 in 2011 and 2012), the resources were not always present to take legal action timely if the owner ignored the demand letter. Without legal resources, Solid Waste did not have any real ability to collect on open accounts if the owner disregarded the collection letter. In 2012, the County funded a term position for solid waste accounts. County Legal has hired a full-time attorney, who is delegated to work on Solid Waste delinquent accounts and that work has begun with some immediate benefits such as payment on accounts simply due to more focus on overdue accounts. Solid waste and the contractor Waste Management have started working on limiting the pursued arrears to four (4) years so that the County is always seeking legally collectible amounts. The dedicated attorney has also started: (1) collecting on judgments that were obtained in 2010 and 2011; (2) more aggressively collecting overdue balances from residents and landlords by using letters and phone calls; and (3) taking over litigation of pending cases to obtain either payments or a judgment.

The attorney is also drafting a formal memorandum that will reflect the policy and practice of collections. The objective is to not only collect quickly on individual accounts, but also to create a culture of compliance with citizens and landlords.

2) Gross Receipts Tax Rate

Customers were charged the incorrect gross receipts tax rate. According to the gross receipts tax schedule prepared by the New Mexico Taxation and Revenue Department, the correct tax rate for a governmental entity is 5%. Customers were charged 5.125%, which is the State rate that would be used for nongovernmental entities. Based on the current quarterly service fee, this equates to each customer being overcharged six cents per quarter, or two cents per month.

Recommendation

The Solid Waste department should instruct Waste Management to charge customers the correct tax rate of 5%. A process should be created to ensure any changes to the tax rate or fees assessed are approved by Solid Waste prior to the contractor implementing the change.

Management Response

The rate was a miscommunication to Waste Management from the State. The State's rate is 5.125%. Bernalillo County pays GRT to the State, but it should be the "government rate" which is 5%. The incorrect rate was charged for two billings. The billing going out in July 2012 will be corrected and have the credits attached. All future billing changes will be run through the Solid Waste department for approval.

3) Low Income Program Credit

The Low Income Program guidelines state the application must contain all income and household member information and this information will be copied and kept on file. For one of the 22 low income credit accounts tested, the name of one household member was not included and only a social security number was listed. In addition, we found two of the 22 low income credit accounts tested did not have proof of residence. The lack of supporting documentation does not meet the guidelines.

Recommendation

In order to ensure eligibility for each of the recipients as well as adhere to the Low Income Program guidelines, Solid Waste staff should thoroughly review applications for completeness and make copies of all required supporting documentation to maintain in the applicant's file.

Management Response

Copies will be made of all necessary documents to maintain the applicant's file.

4) Compliance with AI 57

We found that the receipting area at the Solid Waste payment window did not display a sign stating that customers should contact the Accounting Department when personnel fail to provide them with a receipt. According to AI 57, such a sign must be displayed.

Recommendation

Solid Waste should post a sign in all receipting areas encouraging people to request a receipt upon making a payment. This sign will help ensure all cash collected is posted to a customer account.

Management Response

The sign is now posted.

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This report is intended for the information and use of Bernalillo County management, the audit committee, members of the board of commissioners and others within the organization. However, this report is a matter of public record, and once accepted its distribution is not limited.

We received excellent cooperation and assistance from the various departments during the course of our interviews and testing. We very much appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
June 18, 2012