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Mike McGee
County Auditor

Waste Resources and Recycling

July 2018

*Internal Audit Report Authorized by the
Maricopa County Board of Supervisors*

Report Highlights

User fees will be reviewed and adjusted as determined appropriate.

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Fixed asset inventory controls will be improved and inventory tracking lists will be updated.

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Cash handling, reconciliation, and deposit procedures will be enhanced.

2

Expenditure documentation controls will be strengthened.

4

Objectives

To ensure that:

- Fixed asset lists are current and that assets are inventoried as required per County policy.
- Cash receipts are safeguarded and accurately recorded.
- Accounts payable and purchasing card expenditures are made in accordance with select contract requirements and according to County policy.

Scope

This audit covered Fiscal Year (FY) 2017 through April of FY 2018, Waste Resources and Recycling (WRR) expenditures and cash receipts. It also included the FY 2017 WRR fixed asset listings.

Standards

This audit was approved by the Board of Supervisors and was conducted in conformance with International Standards for the Professional Practice of Internal Auditing.

Auditors

Stella Fusaro, Audit Manager, CIA, CGAP, CRMA, CFE
Susan Adams, IT Audit Supervisor, MBA, CISA
Kenton Schaben, Senior Auditor, CFE
Megan McPherson, Senior Auditor, MEd

This report is intended primarily for the information and use of the County Board of Supervisors, County leadership, and other County stakeholders. However, this report is a public record and its distribution is not limited.

We have reviewed this information with Waste Resources and Recycling management. The Action Plan was approved by Brian Kehoe, WRR Manager, on July 5, 2018.

If you have any questions about this report, please contact Mike McGee, County Auditor, at 602-506-1585.

Audit Results

Issue #1: User Fees

Observation: A.R.S. 49-742 states that user fees may be established by a county to cover all or part of the cost of operation, administration, and financing of solid waste management activities. We reviewed WRR disposal and recycling collection activity revenues and expenditures for FY 2014 – 2017, and found that expenditures exceeded revenues by an average of \$524,350 per year. WRR's current fee structure was last updated in 2008 and now appears to be less expensive than nearby service providers.

Conclusion #1A: User fees do not cover costs as allowed by statute.	
Recommendation	WRR Action Plan
1A-1 Complete a financial and market analysis and determine appropriate user fees; revised fee schedule should be approved by the Board of Supervisors.	Concur - In Progress WRR will review existing County guidelines and statutes relating to fee adjustments and seek input from other County departments (Finance & OMB) Target Date - 02/01/2019

Issue #2: Fixed Assets

Observation: We confirmed that WRR completes an annual physical verification of its capital assets (greater than \$5,000), as required by County policy, and maintains an inventory list of non-capital assets (less than \$5,000 with a high-theft risk).

We reviewed a sample of capital and non-capital assets from the inventory lists to verify their existence and location. We confirmed that all capital assets were on-site; however, just over half of the non-capital assets tested could not be validated because they had been disposed of or relocated.

Additionally, while on-site at various WRR locations, we randomly selected capital and non-capital assets and compared them to the respective inventory lists to verify they had been properly reported. We found several instances where assets were not included on the inventory lists. For example, there were some roll-off trucks, laptops, and televisions that were not tracked on inventory lists. We also noted that the asset inventory list for non-capital items did not include a value for the asset, in accordance with policy.

Conclusion #2A: WRR verifies capital assets annually, as required, and maintains a list of non-capital assets.	
Recommendation	WRR Action Plan
None	N/A
Conclusion #2B: Capital and non-capital asset inventory tracking lists are not always updated for acquisitions, transfers, and disposals.	
Recommendations	WRR Action Plan
2B-1 Develop written procedures for tracking and validating capital and non-capital assets, in accordance with County policy. Procedures should include defining high-theft risk items to be included in the non-capital inventory list.	Concur - In Progress WRR merged into the Environmental Services Department (ESD) effective July 1, 2018, and will adopt the existing ESD procedures and policies relating to capital & non-capital assets tracking. Target Date - 10/30/2018
2B-2 Review current lists to ensure all capital and non-capital assets are appropriately tracked (asset number, description and location, and value). Remove assets no longer retained by the agency.	Concur - In Progress WRR merged into the Environmental Services Department (ESD) effective July 1, 2018, and will adopt the existing ESD procedures and policies relating to capital & non-capital assets tracking. Target Date - 10/30/2018

Issue #3: Controls over Cash

Observation: We visited three WRR transfer stations where we observed safeguards for securing cash receipts collected, including employee cash handling and close-out procedures. We also observed cash deposit preparation and reconciliation procedures performed at WRR’s main office. Overall, we found that WRR staff followed their cash handling policy; however the policy could be enhanced.

We reviewed a sample of FY 2018 weekly deposits and supporting documentation for WRR’s seven solid waste collection locations (six transfer stations and one tire recycling center) where cash is collected. We found:

- There was an average of 25 days between cash receipt and deposit.
- There were several instances where documentation was missing or lacked appropriate signatures.

- The Transfer Station Supervisor was not always reconciling cash receipts to the cash management system reports. In addition, the Supervisor was not verifying the change fund as required by County policy.
- Some hand-written receipts showed evidence of revision; however, the reasons for revisions were not identifiable.
- There were discrepancies between the hand-written receipts issued to customers and the receipt detail reports generated from WRR's cash management system.
- The WRR finance office did not utilize the cash management system report to reconcile the tire recycling center cash receipts.

Staffing and technology limitations, along with transfer station remoteness, has resulted in internal control weaknesses for cash collection. WRR has reduced these risks by implementing monitoring controls over cash discrepancies.

Conclusion #3A: WRR followed most cash handling procedures; however, there were some internal control weaknesses that should be addressed.	
Recommendation	WRR Action Plan
<p>3A-1 Enhance cash handling procedures to:</p> <ul style="list-style-type: none"> • Ensure all cash transaction and reconciliation documents are appropriately signed, dated, and retained as required. • Reduce the average number of days between cash receipts and bank deposits. • Ensure that revisions to cash receipts include a documented explanation. • Require, at all locations, that the Transfer Station Supervisor run a cash summary report and reconcile it to the cash on hand before the cash is transported to the main office for deposit preparation. 	<p>Concur - In Progress</p> <p>WRR will modify & adopt the existing ESD procedure relating to cash controls, deposits, and reconciliation for monies collected at the 6 County Transfer Stations, as well as the County waste tire collection facility.</p> <p>Target Date - 10/30/2018</p>

<ul style="list-style-type: none"> • Ensure the Transfer Station Supervisor counts and verifies change funds at all transfer stations when on-site. • Utilize the tire recycling cash summary report when WRR finance reconciles and prepares the cash deposit. 	
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Issue #4: Expenditures

Observation: We reviewed a sample of purchases, including purchasing card charges, for compliance with County Procurement Code and procedures, and purchasing card policies. Overall, we determined that expenditures were authorized and properly recorded. However, we identified a few purchases that were missing procurement documentation. Without proper documentation, we could not verify that: 1) County procurement procedures were followed, 2) WRR adhered to contract terms, or 3) expenditures were accurately priced.

<p>Conclusion #4A: Overall, expenditures were authorized and properly recorded.</p>	
<p>Recommendation</p>	<p>WRR Action Plan</p>
<p>None</p>	<p>N/A</p>
<p>Conclusion #4B: Some purchases lacked supporting documentation to show that the purchases complied with County Procurement Code and procedures.</p>	
<p>Recommendations</p>	<p>WRR Action Plan</p>
<p>4B-1 Establish written procedures to ensure that supporting documentation is reviewed and maintained and can demonstrate: 1) compliance with County procurement procedures, and 2) adherence to contract terms, including accurate pricing.</p>	<p>Concur - In Progress Written procedures will be developed and implemented ensuring full compliance with all County procurement codes & procedures. Training to be completed regarding the procurement process. Target Date - 10/30/2018</p>