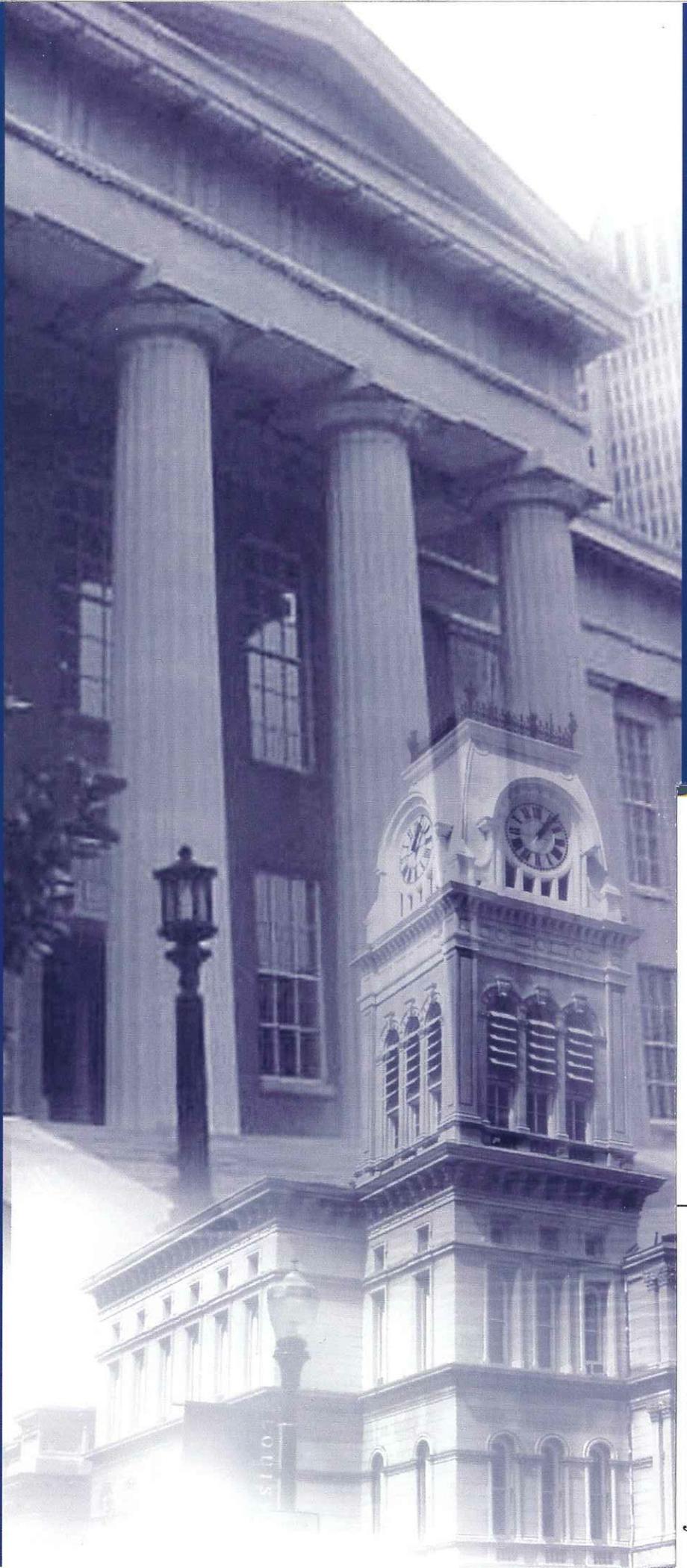




Jerry E. Abramson  
Mayor  
Louisville Metro Council

The Office of Internal Audit provides independent, objective assurance and consulting services that adds value to and improves Louisville Metro Government.



# Office of Internal Audit

Solid Waste Management Services

Landfill Services and  
Containerized Waste Activity

# Audit Report

Office of Internal Audit

## Solid Waste Management Services

### Landfill / Sanitation Services and Containerized Waste Activity

October 2009



Solid Waste Management Services

Landfill Services and  
Containerized Waste Activity

**Table of Contents**

**Transmittal Letter ..... 2**

    Introduction..... 2

    Scope..... 3

    Opinion ..... 3

    Corrective Action Plan..... 4

    Internal Control Rating ..... 5

    Background..... 6

    Summary of Audit Results..... 6

**Observations and Recommendations ..... 8**

    #1 – Fiscal Administration..... 9

    #2 – General Administration..... 11



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**Transmittal Letter**

October 19, 2009

The Honorable Jerry E. Abramson  
Mayor of Louisville Metro  
Louisville Metro Hall  
Louisville, KY 40202

**Subject: Audit of Landfill / Sanitation Services and Containerized Waste Activity**

**Introduction**

An audit of Solid Waste Management Services' (SWMS) landfill / sanitation services and containerized waste activity was performed. The primary focus of the review was the operational and fiscal administration of the activity. This included how SWMS processes, records, and monitors the activity. The objective was to obtain assurance that the risks are adequately mitigated through the internal control structure.

The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the review, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel

factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

### Scope

The procedures for the administration of SWMS' landfill / sanitation services and containerized waste activity were reviewed through interviews with key personnel. The focus of the review was the operational and fiscal administration of activity, to include both expenditures and revenue. Tests of sample data were performed on transactions from the period July 1, 2008 through March 31, 2009. Documentation reviewed included payment documents, supplier invoices, contracts, accounts receivable billings, SWMS' internal site listings, bank statements, and Metro financial system records.

The review included assessing whether activity was processed, recorded, and monitored accurately and appropriately. The details of the scope and methodology of the review are addressed in the Observations and Recommendations section of this report. The audit would not identify all issues because it was based on selective review of data.

### Opinion

It is our opinion that the internal control structure for SWMS' landfill / sanitation services and containerized waste activity needs improvement. The internal control rating is on page 5 of this report. The rating quantifies our opinion on internal controls, and identifies areas requiring corrective action. Opportunities to strengthen the internal control structure were noted. Examples include the following.

- **Fiscal Administration.** There were issues noted with the fiscal administration of SWMS landfill / sanitation services and containerized waste activity.
  - SWMS charges some organizations for landfill / sanitation and containerized waste services. Payments received post to the financial system as credits to the associated expenditure account rather than to a revenue account. As a result, the usefulness of the financial statements is limited since expenditures are understated and revenues are not recognized.
  - One person is responsible for the billing, receipt, recording, deposit and reconciliation of landfill / sanitation service and containerized waste activity. This does not adhere to the principles of segregation of duties and increases the risk that errors or inappropriate activity could go undetected.
- **General Administration.** There were issues noted with the general administration of SWMS landfill / sanitation services and containerized waste activity.
  - There were cases noted where landfill / sanitation services and containerized waste expenditures were not in compliance with contractual terms.
  - There were no documented agreements for the landfill / sanitation and containerized waste services that SWMS provides and charges to some organizations.
  - SWMS maintains an internal Containerized Waste Site List to assist them with the verification of vendor invoices (i.e., to ensure the vendor is charging for services at appropriate locations). There were several inconsistencies noted with the internal list. This increases the risk that payment errors could go undetected.

The implementation of the recommendations in this report will help improve the internal control structure and effectiveness of the administration of SWMS' landfill / sanitation services and containerized waste activity.

**Corrective Action Plan**

Representatives from Solid Waste Management Services have reviewed the results and are committed to addressing the issues noted. SWMS' corrective action plans are included in this report. We will continue to work with SWMS to ensure the actions taken are effective to address the issues noted.

Sincerely,

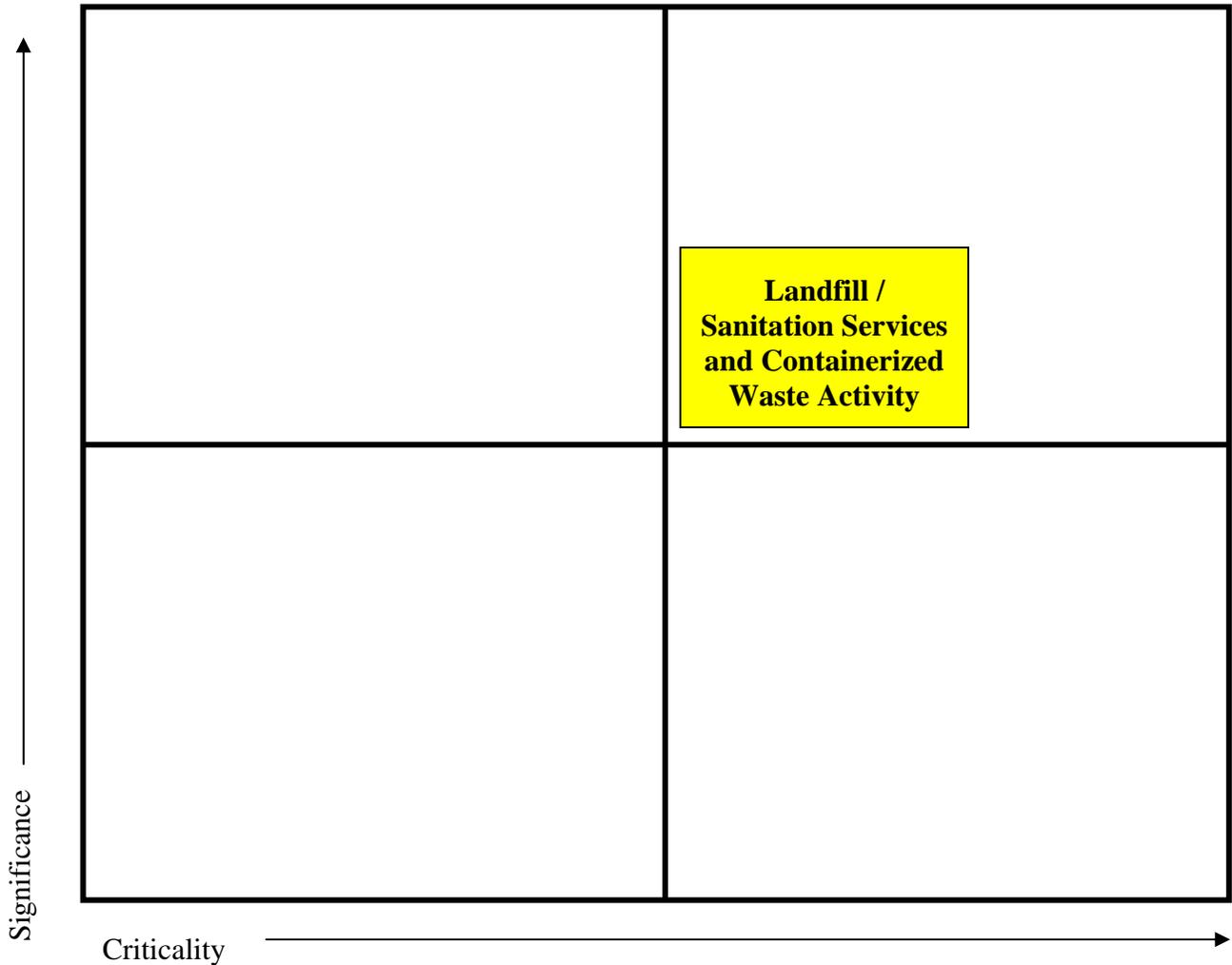


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Michael S. Norman, CIA, CFE, CGAP  
Chief Audit Executive

cc: Louisville Metro Council Government Accountability and Oversight Committee  
Director of Public Works and Assets  
Assistant Director of Solid Waste Management Services  
Louisville Metro External Auditors

**Internal Control Rating**



<u>Legend</u>			
<u>Criteria Issues</u>	<b>Satisfactory</b> Not likely to impact operations.	<b>Needs Improvement</b> Impact on operations likely contained.	<b>Inadequate</b> Impact on operations likely widespread or compounding.
<b>Controls</b>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<b>Policy Compliance</b>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<b>Image</b>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<b>Corrective Action</b>	May be necessary.	Prompt.	Immediate.

## **Background**

Solid Waste Management Services ensures the cleanliness, health and safety of the Urban Services District through the collection and disposal of solid waste. SWMS provides garbage, yard waste, recycling and junk collection to residents within the Urban Services District and promotes waste reduction and recycling throughout Louisville Metro.

Residential garbage is collected in the Urban Services District at no charge and delivered to the local landfills. Grass, leaves and other yard waste are collected in the Urban Services District and delivered to a local compost facility. SWMS has a contract with a local landfill and compost facility to dispose of the garbage and yard waste that SWMS collects. During fiscal year 2009, SWMS incurred landfill / sanitation services expenditures of approximately \$3,475,000.

SWMS also oversees and manages the containerized waste program, which is the collection of solid waste using dumpsters. This service is facilitated through a contract with a private waste hauler. The containerized waste program is comprised of four collection groups: Metro agencies; condominiums; certain nonprofit organizations within the Urban Services District; and compactor collection for Metro agencies. The containerized waste service is provided at no charge to Metro agencies; to nonprofit organizations that have a current and valid 501(c)(3) tax exemption status; and to approved condominium associations within the Urban Services District. Louisville Metro Government has approximately 600 dumpsters and 2 compactors at 233 sites. During fiscal year 2009, SWMS incurred containerized waste expenditures of approximately \$611,000.

This was a scheduled audit.

## **Summary of Audit Results**

### **I. Current Audit Results**

See Observations and Recommendations section of this report.

### **II. Prior Audit Issues**

The Office of Internal Audit has not previously conducted reviews focused solely on SWMS' landfill / sanitation services and containerized waste activity.

### **III. Statement of Auditing Standards**

The audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

#### **IV. Statement of Internal Control**

An understanding of the internal control structure was obtained in order to support the final opinion.

#### **V. Statement of Irregularities, Illegal Acts, and Other Noncompliance**

The review did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected during the review that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

#### **VI. Views of Responsible Officials / Action Plan**

A draft report was issued to Solid Waste Management Services on September 30, 2009. An exit conference was held at Public Works and Assets administrative office on October 14, 2009. Attending were Ben Tipton, Keith Hackett, and Beverly Turner representing Public Works and SWMS; Michael Norman and Ingram Quick representing Internal Audit. Final audit results were discussed.

The views of SWMS officials were received on October 13, 2009 and are included as corrective action plans in the Observations and Recommendations section of the report. The plans indicate a commitment to addressing the issues noted.

LMCO §30.36(B) requires Louisville Metro Agencies to respond to draft audit reports in a timely manner. It specifically states that

*“The response must be forwarded to the Office of Internal Audit within 15 days of the exit conference, or **no longer than** 30 days of receipt of the draft report.”*

SWMS’ response was provided within this required timeframe.

## Observations and Recommendations

### Scope

The Solid Waste Management Services' (SWMS) procedures for administering landfill / sanitation services and containerized waste activity were reviewed through interviews with key personnel. The primary focus of the review was the operational and fiscal administration of the activity. This included assessing whether activity was processed, recorded, and monitored accurately and appropriately.

Tests of sample data were performed on transactions from the period July 1, 2008 through March 31, 2009. A sample of 10 expenditures and 14 revenue transactions for landfill / sanitation services and containerized waste activity was judgmentally selected for review. Testing was performed to determine the effectiveness of controls and to assess compliance with contractual terms. Documentation reviewed included payment documents, supplier invoices, contracts, accounts receivable billings, SWMS' internal site listings, bank statements, and Metro financial system records. This examination would not reveal all issues because it was based on a selective review of data.

### Observations

Issues were noted with the administration of SWMS' landfill / sanitation services and containerized waste activity. As a result, the effectiveness of the internal control structure is impaired and needs improvement. Opportunities noted to strengthen the controls are as follows.

- #1 Fiscal Administration
- #2 General Administration

Details of these begin on the following page.

## #1 – Fiscal Administration

Issues were noted with the fiscal administration of the Solid Waste Management Services' landfill / sanitation services and containerized waste activity.

- **Revenue Postings.** SWMS charges some organizations for landfill / sanitation and containerized waste services. When payments are received, SWMS posts the funds as a credit to the associated expenditure account rather than to a revenue account. As a result, expenditures are understated and revenues are not recognized on the financial statements. This in turn limits the usefulness of the financial statements.
- **Segregation of Duties.** One person is responsible for the billing, receipt, recording, deposit and reconciliation of landfill / sanitation service and containerized waste activity. This does not adhere to the principles of segregation of duties and increases the risk that errors or inappropriate activity could go undetected.
- **Deposit Timeliness.** There were five cases in which payment receipts for landfill / sanitation and containerized waste services were not deposited at the bank in a timely manner. Metro Finance policy states that funds should be deposited weekly or when they reach \$1,000, whichever occurs first. In these cases, payments exceeded the \$1,000 threshold. Days late ranged from two to seven business days. Delays in making deposits can put funds at risk of being lost or stolen.

## Recommendations

Appropriate SWMS personnel should take corrective actions to address the issues noted. Specifics include the following.

- ✓ SWMS personnel should work with the Metro Office of Management and Budget to establish a revenue account for landfill / sanitation services and containerized waste receipts. This will allow for expenditures and revenues to be accurately reflected on the financial statements.
- ✓ Ideally, segregation of duties should be incorporated into SWMS' revenue processing. A single individual should not be responsible for the billing, receipt, recording, deposit and reconciliation of receipts. In cases where complete segregation of duties is not possible, appropriate compensating controls should be practiced, such as additional supervisory review and monitoring.
- ✓ Backup personnel should be assigned to the SWMS Business Office to cover in the absence of key personnel.
- ✓ All funds should be deposited in a timely manner in accordance with Metro Finance policies (weekly or when they reach \$1,000, whichever occurs first). This will help ensure the security of funds and optimize Metro's investment income.
- ✓ Care should be taken by SWMS' personnel to ensure that revenues post to the appropriate financial system account based on the services provided. Ultimately, transactions should be reconciled to the Metro financial statements to ensure the accurate and timely reflection of activity. In order to promote proper segregation of

duties, someone independent of the actual processing of activity should perform this function. The reconciliation should be documented.

### **SWMS' Corrective Action Plan**

SWMS had a 4 business office staff performing only work related to this operation as of June 2007. Over the course of the past two fiscal years, that staff is now one for payroll functions only. During the time period of the audit – July 2008 to March 2009 – business functions outside of payroll was provided by one employee. This one position was eliminated at the start of this fiscal year and duties have been distributed to other employees within SWMS. We had already begun addressing the very issues noted in the report.

1. Revenue Postings: We no longer post any revenue against expense line. It is our current practice to post all revenue to an appropriate revenue account code to provide a clear record of revenue and expense activities. This item was corrected at the start of this fiscal year.
2. Segregation of duties: In the spring, when we knew a position was being eliminated, we began transitioning responsibilities to other employees. We have one employee that manages billing, receipt and recording of services. A separate individual reconciles those billings and a third individual records the deposit with the deposit transported by armor car services.
3. Deposit timeliness: Formerly, business staff was on-site at SWMS and could manage deposits more timely. With the elimination of staff and moving one other business person to 444 S 5<sup>th</sup> Street – managing deposits became more of an efficiency issue. We have since met with the SWMS Assistant Director and have resolved to have office staff on-site make a daily deposit using armor car services for transporting. Two staff will have the responsibility to determine the deposit amount and provide reconciliation. A third individual will be trained as a back-up. Business office staff will be available in an emergency situation.

## #2 – General Administration

Issues were noted with the general administration of SWMS' landfill / sanitation services and containerized waste activity.

- **Contract Compliance.** There were cases noted where landfill / sanitation services and containerized waste expenditures were not in compliance with contractual terms.
  - On the containerized waste billings for Metro agencies, it appears SWMS is being charged for seven sites that are not noted within the contract or on SWMS' internal list. Though the rates charged appear to be in compliance with the contract, SWMS should not be paying for services to sites unless they are approved locations agreed upon by both entities. The total monthly invoice amount for the seven sites is approximately \$370.
  - There is one supplier contract for the disposal of excavated project spoils. However, SWMS was paying for the disposal of roof shingles using this contract. Roof shingles are not covered by the terms of this contract. The contract rate for excavated project spoils is different than what was charged for the disposal of roof shingles.
- **Lack of Documented Agreements.** SWMS is providing landfill / sanitation and containerized waste services to organizations for a fee without documented agreements. The lack of documented agreements creates an unnecessary risk exposure for SWMS since there is not a binding agreement to hold customers accountable for payment of services provided.
  - SWMS administers containerized waste services provided to organizations through a contracted vendor. The containerized waste services are provided at no charge to public agencies; nonprofit organizations that have a valid 501(c)(3) tax exemption status; and approved condominium associations located within the Urban Services District. However, SWMS is currently billing five organizations for the collection of their containerized waste. There are no documented agreements between SWMS and these organizations to support the services provided, billing rates, or signatures to indicate agreement to terms.
    - Four of the organizations are billed at the same rate SWMS is charged from the contracted vendor providing the service.
    - The other organization is billed \$110 per month for the collection of their containerized waste. The collection of containerized waste is provided by SWMS since the vendor is unable to collect from the site.
  - SWMS allows residents and businesses to dispose of garbage at the Waste Reduction Center for a fee based on vehicle size / type. However, there are two organizations that SWMS charges a fixed rate per ton for garbage they bring to the Center. There are no documented agreements between SWMS and these organizations to support the services provided, billing rates, or signatures to indicate agreement to terms.
- **Containerized Waste Site List.** SWMS maintains an internal Containerized Waste Site List to aid with the verification of vendor invoices (i.e., to ensure the vendor is charging for services at appropriate locations). There were several inconsistencies noted with the internal list. As a result, SWMS' ability to adequately verify invoices using the list is impaired.

- There were cases noted where sites on the SWMS Containerized Waste Site List were not noted in the vendor contract, and vice versa.
  - There were three Metro agency sites included on billings that were not noted on SWMS' Containerized Waste Site List but were included in the contract.
- Within the SWMS Containerized Waste Site List there are three separate worksheets for condominiums, sorted by different fields (pricing, contacts, and size). Each worksheet for the condominiums had a different number of sites listed.
- Within the SWMS Containerized Waste Site List there are two separate worksheets for Metro agencies, sorted by different fields (pricing and size). Each worksheet for the Metro agencies had a different number of sites listed.
- **Documentation of Nonprofits.** SWMS' requires nonprofits to provide proof of their 501(c)(3) tax exemption status when requesting containerized waste services. However, SWMS could not provide documentation for the thirteen nonprofit organizations listed on the Containerized Waste Site List to support that the status was verified.

### Recommendations

Appropriate SWMS personnel should take corrective actions to address the issues noted. Specifics include the following.

- ✓ SWMS personnel should carefully review vendor invoices for accuracy, appropriateness, and agreement to contractual terms prior to the approval for payment. This includes ensuring that services were provided to approved sites, as noted in contract terms, and SWMS' internal listings.
- ✓ SWMS should review the cases where containerized waste services were provided to sites that were not listed in the contract or SWMS' Site List. If it is determined that sites should be receiving the services, then the locations should be added to the contract and internal listing. If the sites should not be receiving services, SWMS should immediately contact the vendor to have the services discontinued. Actions should also be taken to receive reimbursement for the charges incurred by SWMS on behalf of the unapproved sites. The County Attorney's Office should be contacted for assistance in recouping the funds.
- ✓ SWMS has contacted the Metro Purchasing division to inquire about amending their contract for the disposal of excavated project soils to include the disposal of roof shingles. SWMS should continue with their efforts to amend the contract and should maintain documentation to support all approved changes.
- ✓ In cases where SWMS is charging for landfill / sanitation and containerized waste services, agreements should be established to document terms. The agreements should serve as support for the services provided, billing rates, and any other specifications that may be applicable. Both parties should sign the document to indicate agreement with the terms. The document should be referenced when verifying services are provided to appropriate sites and for billing purposes.
- ✓ SWMS should review their Containerized Waste Site List and make necessary updates to ensure it is reflecting appropriate data. The Site List is an essential tool

used in reconciling vendor invoices to ensure services are only being provided to approved sites. Care should be taken to ensure the Site List agrees with contract specifics. Any additions or deletions of sites should be appropriately reflected in both the contract and Site List. In addition, all variations / sorts of the Site List should agree to one another.

- ✓ SWMS should maintain documentation to support nonprofit organizations' proof of a current and valid 501(c)(3) tax exemption status. The documentation helps ensure policy compliance with the verification of status prior to approving nonprofits for services.

### **SWMS' Corrective Action Plan**

1. Contract Compliance: The seven sites have been identified and confirmed as a part of the current contract with the vendor.

The contract for the disposal of excavated project spoils has been updated to include the disposal of roofing shingles that are being hauled to the vendor from the Waste Reduction Center.

2. Lack of Documentation Agreements: We will establish and/or evaluate the need for written agreements for the five organizations mentioned in the Audit report.

The two organizations will have a written agreement of dumping at the Waste Reduction Center no later than November 1, 2009.

3. Containerized Waste Site List: Our staff is in the process of confirming all the locations per the contract. A meeting will be arranged later this month (October 2009) with the representative of the vendor in charge of the contract to update the internal list completely. Once updated we will assign someone to carefully review the vendor list and invoices for accuracy and contract compliance.

4. Documents of Nonprofits: The documentation for the thirteen nonprofits 501(C)(3) tax exemption status will be located and put in a central location at the Meriwether Avenue (SWMS) and the 444 South 5<sup>th</sup> Street (Public Works Business office) locations.

**Office of Internal Audit**  
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