



County of Riverside

INTERNAL AUDITOR'S REPORT

Waste Management Department

September 25, 2006

Office of
Robert E. Byrd, CGFM
County Auditor-Controller

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September 25, 2006

Mr. Hans Kernkamp, General Manager – Chief Engineer
Riverside County Waste Management Department
14310 Frederick St.
Moreno Valley, CA 92553

Subject: Internal Auditor's Report #2006-013 – Riverside County Waste Management Department

Dear Mr. Kernkamp:

We have completed an audit of the Riverside County Waste Management Department. We conducted the audit during the period November 2, 2005 through June 20, 2006 for operations of July 1, 2003 through June 20, 2006.

Our purpose was to provide management and the Board of Supervisors with an independent assessment about the adequacy of internal controls over the department's processes and fiscal procedures.

We conducted our audit in accordance with the auditing standards established by the Institute of Internal Auditors. These standards require that we plan and perform the audit to provide sufficient, competent, and relevant evidence to achieve the audit objectives. We believe the audit provides a reasonable basis for our conclusions.

Based upon the results of our audit, we determined the department has an adequate system of internal controls over revenues and the acquisition process of capitalized assets. Additionally, the department has adequately abated risks cited by Occupational Safety & Health Administration (OSHA) report, dated July 2, 2003. However, controls in place are not adequate over the department fuel, oil and parts inventory processes.

Throughout the audit, we discussed the results contained in this report, as well as comments and suggestions of lesser significance, with the appropriate level of management.

We thank the Waste Management Department's management and staff for their cooperation during the audit. Their assistance contributed significantly to the successful completion of the audit.

Robert E. Byrd, CGFM
County Auditor-Controller

A handwritten signature in black ink, appearing to read "Michael G. Alexander", with a long horizontal flourish extending to the right.

By: Michael G. Alexander, MBA, CIA
Chief Internal Auditor

CC: Board of Supervisors
County Counsel
Executive Office
Grand Jury

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Executive Summary

Overview

The Riverside County Waste Management Department was created on July 1, 1998 after the Board of Supervisors and the Waste Resources Management District Board of Directors dissolved the district.

The stated mission of the Riverside County Waste Management Department is to provide for the protection of the general public health and welfare by efficient management of Riverside County's solid waste system through provision of facilities and programs which meet or exceed all applicable local, state, federal and land use regulations; utilization of up-to-date technological improvements; development and maintenance of a system that is balanced economically, socially and politically; and, economically feasible recovery of waste materials.

Waste Management Department operates and maintains six waste-disposal sites throughout the county: Badlands, Blythe, Desert Center, Lamb Canyon, Mecca II and Oasis; and provides hazardous waste "load check" services and fee booth personnel at another privately owned site. Disposal sites generated \$55.2 million in revenues during fiscal year 2004/2005 with department revenues totaling \$62.2 million.

In fiscal year 2004/2005 the department closed the Edom Hill landfill and worked closely with Waste Management Inc. to open the Edom Hill transfer station and constructed additional improvements at the Lamb Canyon landfill. The improvements include a 20-acre landfill expansion and a customer convenience area. These additions increased disposal capacity and improved customer and employee safety.

Overall Objective

Our primary audit objective was to determine the existence and adequacy of internal controls over the department's operational processes and fiscal procedures in the following areas:

- Acquisition Process for Capital Assets
- Employee Safety
- Fuel and Oil Inventory
- Parts Inventory
- Revenue

Overall Conclusion

Based upon the results of our audit, we determined the department has an adequate system of internal controls over revenues and the acquisition process of capitalized assets. Additionally, the department has adequately abated risks cited by Occupational Safety & Health Administration (OSHA) report, dated July 2, 2003. However, controls in place are not adequate over the department fuel, oil and parts inventory processes.

Details about our audit methodology, results, findings and recommendations are provided in the body of our report.

- Objectives** To determine the existence and adequacy of internal controls over the following processes:
- acquisition process of capital assets;
 - fuel and oil inventory;
 - parts inventory;
 - revenue; and,
 - if Waste Management Department has adequately abated all risks cited by OSHA report dated July 2, 2003.

- Methodology** To accomplish our objectives, we:
- performed a financial analysis for the period of July 1, 2003 through June 30, 2005;
 - identified and reviewed applicable policies and procedures, Board ordinances, laws, codes, and regulations;
 - conducted interviews and performed walk-throughs with department personnel;
 - completed narratives and flowcharts of various processes;
 - performed a risk assessment of the County Waste Management Department;
 - conducted operational reviews and observations;
 - performed detailed testing of the department's acquisition process of capitalized assets;
 - reviewed risks cited by Occupational Safety & Health Administration (OSHA) for employee safety;
 - performed detailed testing of the department's fuel and oil inventory;
 - performed detailed testing of the department's parts inventory; and
 - performed detailed testing of the department's revenue processes, including gate fees, cash handling, accounts receivable, collection and uncollectible accounts.

Results

Capital Assets

Capital assets are tangible or intangible assets with significant value and a utility beyond one fiscal year. Capital assets include land, land improvements, easements, buildings, building improvements, vehicles, machinery, equipment and infrastructure. Vehicles, machinery and equipment with a cost over \$5,000 qualify as a capital asset, as described in the Auditor-Controller's Office Standard Practice Manual Section 913 issued on December 12, 2005.

Capitalized costs include the value paid for the asset, sales tax, interest, transportation charges, insurance while in transit, and costs associated with preparing the asset for its intended use, such as, special foundations and installation costs. The cost of capital assets should be systematically expensed (depreciated) over its useful life. However, some assets are inexhaustible, such as land and land improvements, and are not depreciated since they retain their value.

Because of the cost of assets purchased by the Waste Management Department and the need for compliance with applicable county regulations, we limited our testing of assets to the acquisition process. Capital asset purchases are budgeted and approved by the Board of Supervisors. Purchases greater than \$10,000 are processed through the County's Purchasing Department utilizing the bid process. All requisitions for capitalized assets are verified and approved by someone other than the person preparing the purchase order.

As of June 30, 2005, the Waste Management Department had 556 capitalized assets totaling approximately \$90.3 million and categorized as follow:

| Asset Category | Cost (In Millions) | Percentage of Total Assets |
|---|--------------------|----------------------------|
| Buildings & Improvements | 6.8 | 7.5% |
| Construction in Progress | 6.5 | 7.2% |
| Field Equipment | 0.9 | 1.0% |
| Infrastructure Assets | 7.3 | 8.1% |
| Land | 9.4 | 10.4% |
| Landfill Liners & Improvements | 27.6 | 30.6% |
| Office Equipment | 1.6 | 1.8% |
| Vehicles "including landfill dozers and compactors" | 30.2 | 33.4% |
| Total WMD Assets | \$90.3 | 100% |

Based upon the results of our testing, we determined no significant issues existed over the acquisition process over capitalized assets. We obtained reasonable assurance that the Waste Management Department complied with Board of Supervisors' ordinance number 459.4 by using the competitive process through the County Purchasing Department.

Results

Employee Safety

Waste Management Department Safety Section has two Safety Coordinators, contracted through the County Safety Division, to act as the internal safety body for the department. Some of the safety duties, responsibilities and activities carried out by the Safety Section are:

- Performing required safety training for department staff in a variety of areas (i.e. driving safety, workplace violence awareness, ergonomic/back safety, forklift operator certification, respirator fit testing, supervisor safety orientation and first aid and CPR);
- Ensuring written facility emergency plans exist for each active site; evacuation drills are conducted and/or evacuation plans are reviewed;
- Performing annual site safety evaluations of all active department facilities and locations;
- Periodically monitoring all operating landfills for safety compliance; and,
- Responding to department emergencies and investigating the more serious accidents and work injuries.

The Occupational Safety and Health Administration Act (OSHA) was established "to assure so far as possible every working man and woman in the nation safe and healthful working condition and to preserve our human resources." The legislation was signed into law by President Richard M. Nixon on December 29, 1970.

We did not conduct a safety inspection on the landfills due to the level of specialized expertise required to perform such inspections. We relied entirely on the results and recommendations from the most recent OSHA report dated July 2, 2003. We verified through observation at the Badlands landfill facility that the department adequately abated risks cited by OSHA report inspection number 300860822 dated July 2, 2003.

Results

Fuel & Oil Inventory

Each landfill site has an above or underground fuel storage tank and an oil storage area. Site Supervisors, under supervision by the Supervising Engineer, are responsible for maintaining adequate quantities of fuel and oil on hand at their respective sites to insure continued and uninterrupted landfill operations. Whenever the tank levels reach or approach the re-order level, Site Supervisors or Supervising Engineers notify the Moreno Valley Yard Inventory Accounting Staff to order fuel from the appropriate vendor. Fuel Supplier submits fuel invoices to the Supervising Engineer, who in turn sends the invoices to the Moreno Valley Yard Inventory Accounting Staff.

Diesel Fuel expenditures totaled \$1,252,673 for fiscal year 2004/05 and \$1,284,510 for fiscal year 2005/06.

Finding 1

Internal controls over diesel fuel operations at Badlands landfill were insufficient to provide management with adequate information to monitor equipment operating cost and to ensure the county received all fuel it was billed for.

- There was no preventive control over the fuel pump, such as a lock, designated pump attendant, or electronic meter that requires employee password to pump fuel.
- Fuel usage is recorded on fuel log sheets located on top of the pump. The fuel log sheets are not monitored or reviewed to ensure accuracy and completeness of the fuel usage information as required by department policy E-3. We also noted employees utilize pencil instead of ink to complete the fuel log for the fuel usage. We learned through discussions with management that the use of pencils was necessitated by the harsh environment at the landfills which rendered pens inoperable when exposed to the elements. However, it was apparent alterations such as erasures or edits were made to the log sheets, which may lead to inaccurate fuel usage records especially in the absence of a review by supervisors.
- When a vendor delivers fuel, there is no verification of the amount of fuel delivered. Waste Management Department (WMD) Fuel/Oil Inventory Control Procedures 3.32 - 3.36 require a WMD employee to take a "stick" reading before and after the vendor pumps fuel to ensure the accuracy of the quantity delivered and invoiced. Failure to verify delivery allows for the possibility of WMD being billed for fuel in excess of what was delivered.

Considering the control weaknesses over fuel operation at the landfill, we examined fuel records for the period May 2005 through April 2006 to evaluate expected discrepancies between actual fuel inventory based on “stick” readings and the amounts in the inventory records.

Difference in Gallons between Stick Readings and Inventory Records
() indicates Stick Balance is less than Inventory Records

| | Badlands | Lamb Canyon | Mecca | Blythe |
|----------------|----------|-------------|-------|--------|
| May 2005 | 615 | 384 | 25 | 89 |
| June 2005 | 568 | 188 | (101) | 164 |
| July 2005 | 514 | 276 | 66 | 120 |
| August 2005 | 544 | 214 | 158 | 154 |
| September 2005 | 559 | 290 | (89) | 57 |
| October 2005 | 495 | 331 | (95) | 113 |
| November 2005 | 744 | 444 | 0 | 65 |
| December 2005 | (58) | 2,066 | (131) | 127 |
| January 2006 | 354 | (749) | 0 | 17 |
| February 2006 | 177 | 371 | (103) | 173 |
| March 2006 | 210 | 681 | 120 | 81 |
| April 2006 | 425 | 578 | 0 | 145 |

Usage per books does not match with the actual usage as indicated in the fuel log sheets, the differences were as follows:

Difference in Gallons between Usage per Books and Usage per Logs
() Indicates Usage per Books is less than Usage per Log

| | Badlands | Lamb Canyon | Mecca | Blythe |
|----------------|----------|-------------|---------|---------|
| May 2005 | 2,395 | (99) | 0 | 305 |
| June 2005 | (294) | (683) | 95 | 479 |
| July 2005 | 271 | (330) | 0 | 1 |
| August 2005 | 717 | 347 | 161 | 126 |
| September 2005 | 770 | (918) | (506) | (396) |
| October 2005 | (1,012) | 908 | (437) | (154) |
| November 2005 | (1,221) | (2,075) | (1,140) | 107 |
| December 2005 | 171 | 1,866 | 90 | 949 |
| January 2006 | (595) | (1,511) | (814) | (1,394) |
| February 2006 | 1,769 | 118 | 447 | 441 |
| March 2006 | (1,373) | (204) | 367 | (1,027) |
| April 2006 | 2,341 | 1,226 | 0 | 770 |

While we expect slight discrepancies due to errors in “stick” measurements or the impact of environmental factors on the readings, the differences noted above are outside what could reasonably be considered normal deviations. We believe the discrepancies result from

employees and supervisors not following WMD's policies for controlling fuel/oil inventories. It is also possible that improprieties, especially on the part of vendors, could contribute to the discrepancies noted.

Waste Management Department Fuel/Oil Inventory Control Procedures requires site supervisors or designated personnel to take a "stick" reading, preferably in the presence of the hauler, of the amount of fuel in the tank before and after the vendor pumps fuel to ensure the accuracy of quantity and verify the quantity on the invoice. Additionally, each vehicle or heavy equipment operator is responsible for entering the quantity of fuel/oil used on the fuel log sheet each time the vehicle or equipment is serviced for fuel or oil. Site supervisors review each fuel log sheet prior to submitting the reports to the Supervising Engineer. Approved fuel log sheets are submitted to the Inventory Accounting Staff at the Moreno Valley Maintenance Yard.

Recommendation 1.1 Implement and document internal controls at all landfill sites to provide preventative measures to protect fuel from misappropriation such as an electronic device that requires an employee identification number in order to pump fuel.

Management's Reply Concur. Monthly staff meetings at each site have addressed the appropriate department policy and procedures related to inventory and fuel. Attendees have signed attendance rosters and responsibility for the inventory and fuel measurement has been documented to particular onsite staff. Locks are being installed at each landfill fueling site and a designated Site Supervisor will be responsible for the fuel dispensing. All records will be maintained on site and in ink. These measures were taken during August, 2006.

Recommendation 1.2 Require site supervisors or designated personnel to take stick measurements of fuel as stated in Waste Management Department's Fuel/Oil Inventory Control Procedures 3.32 - 3.36.

Management's Reply Concur. Monthly meetings at each landfill site have been held to emphasize the need to consistently implement the department procedures relating to securing and measuring fuel usage. Attendance rosters are maintained in the department as well as meeting agendas indicating the areas discussed. The meetings were held throughout the month of August, 2006.

Results

Parts Inventory

The maintenance yard parts warehouse in Moreno Valley serves as the central order and stock and distribution center for heavy equipment parts and materials. The disposal sites Boxcar parts and material areas serve as satellite outlets and are replenished from stock stored at the warehouse in Moreno Valley. Warehouse personnel are responsible for the ordering and stocking of all the parts and supplies needed to maintain and repair the department's vehicles and equipment. Warehouse personnel perform the ordering and receiving of these items as well as providing a pickup and delivery service on an as needed basis. In addition, the warehouse keeps an on-hand stock of safety supplies, tools, and other small items.

At the end of fiscal year 2004/05, the department reported \$303,416 in materials and supplies inventory consisting of \$268,391 in parts and \$35,025 in fuel.

Finding 2

Warehouse management did not segregate the recordkeeping functions from the custody of inventory items. Specifically, warehouse employees responsible for the custody of inventory items also record and update Fleet Anywhere System, Waste Management's inventory software. Auditor-Controller's Office Standard Practice Manual Number 104 requires that duties be divided or segregated so that no one person has complete control over a key function or activity. Lack of segregation of duties as a preventive control over the inventory process may result in misappropriation of inventory items.

Recommendation 2

Inventory records should be maintained, updated and documented by personnel who do not have access to inventory items.

Management's Reply

Concur. WMD is looking into the various levels of documentation and security available within the Fleet Anywhere System (FAS). The FAS is used throughout the County to document warehouse parts, vehicle and equipment purchases, and work orders related to those vehicles and equipment. It is anticipated that certain ordering and receiving duties will be separated from the issuing duties and that FAS security assignments will be changed. While the documentation is in process, WMD has taken measures to separate the reporting duties. In the past, the Fleet Accounting Staff have reported to the Program Coordinator who is also responsible for the warehouse. Currently, the Accounting Manager supervises the Fleet Accounting Staff. WMD management does believe that the lack of separation of duties is somewhat offset by the quarterly, physical inventory counts and that the change in reporting will also give a better control to the activities. It is not practical or cost effective to establish an additional recordkeeping system at this time. Actual date

of reassignment was August 17, 2006. Review of FAS system will be completed and corrective action taken before September 30, 2006.

Finding 3

Controls in place were not adequate over the process of parts inventory at the landfills. Based on our observation of the Lamb Canyon landfill storage areas, we noted the following weaknesses in controls:

- Access to the storage shed was not limited, controlled and monitored by the disposal site supervisor. We noted that most employees at the Lamb Canyon Landfill Facility have keys to access the storage sheds;
- Two of twenty-five line items tested were received from vendors and not recorded in the department's inventory system. Specifically, 420 quarts of Oil-Drive Train Union HT/43; and 343 quarts of Oil-Hydraulic Union Unax AW6 physically existed in the storage shed and not recorded in the inventory system;
- Inventory records are not updated in a timely manner. Our audit disclosed inventory log sheets that had been completed for two weeks located in an employee's truck;
- The "Waste Management Inventory Log Sheets" are not reviewed and approved for accuracy by the site supervisor prior to being faxed to the accounting office, not dated, written with pencil, which permits the ability to erase or edit entries, and accessed by all employees;
- A work order is not completed and submitted to request an item from inventory; and,
- Employees are not signing for the items taken from the inventory room.

The internal control weaknesses over the inventory process at the various landfill sites resulted in discrepancies between the physical counts of inventory on hand and inventory per books. In December 2005, the department conducted a physical inventory count of all landfill sites. The following represents the results:

Physical Inventory Count Results as of December 2005

| Location | Book Inventory | Physical Count Inventory | Difference | Percentage of Difference |
|---------------|----------------|--------------------------|--------------|--------------------------|
| Blythe | \$2,508.36 | \$2,516.98 | \$8.62 | 0.34% |
| Badlands | \$4,699.05 | \$3,708.21 | (\$990.84) | (21.09%) |
| Lamb Canyon | \$4,118.82 | \$1,106.22 | (\$3,012.60) | (73.14%) |
| Mecca | \$1,739.50 | \$2,555.90 | \$816.40 | 46.93% |
| Moreno Valley | \$268,325.34 | \$265,376.64 | (\$2,948.70) | (1.10%) |

Waste Management Department's Policy E-4 Heavy Equipment Parts/Materials Procedures and Policy E-8 Physical Inventory Control Procedures requires the access to the disposal site Boxcar filter storage areas to be strictly controlled and monitored by the disposal site supervisors. Each disposal site mechanic is to ensure that each part taken from stock is logged and signed for on the inventory control sheet and the inventory control sheets are properly completed and faxed to the parts storekeeper each Monday morning, parts will not be issued without work orders, and receipts of inventory (stock) items must be recorded in a timely and accurate manner in the accounting records.

Inadequacy of internal controls over the process of parts inventory at the landfills has contributed to discrepancies between inventory records and physical counts and may result in the possibility of misappropriation of assets and unreliable accounting records.

Recommendation 3.1 Limit, control and monitor access to all landfill site storage areas to authorized personnel only.

Management's Reply Concur. Monthly meetings at the landfill sites have addressed the need for control of parts inventory and storage. The locks have either been changed at the various storage sites at the landfills and keys distributed to the appropriate personnel or keys have been collected and access restricted to the appropriate personnel. All site staff have been coached as to the appropriate procedure for getting supplies from the storage areas and who is the appropriate staff person to administer the distributions. All records will be kept in ink and submitted to the Fleet Accounting Staff in a timely manner. Meetings were held throughout the month of August, 2006.

Recommendation 3.2 Only issue parts from storage areas if a work order request is provided and approved by designated personnel; require each mechanic or heavy equipment operator who takes an item from the disposal site Boxcar parts storage locker to log the item number and quantity on the inventory control sheets; and require the disposal site supervisor to

verify the inventory control sheets and fax the appropriate documentation to the parts storekeeper on a weekly basis.

Management's Reply Concur. Monthly meetings at all landfill sites have reviewed the procedure for getting parts and items from the site storage. All personnel in attendance have signed an attendance roster as evidence of their presence at the meeting. The procedure is written including the appropriate steps in distributing parts and items from the landfill site boxcars, the proper recordkeeping, and submission of paperwork to Fleet Accounting Staff. Meetings were held throughout the month of August, 2006 and procedure was written in August, 2006.

Recommendation 3.3 Ensure receipts of inventory stock items are recorded in a timely and accurate manner in the accounting records.

Management's Reply Concur. As part of the weekly update meeting between the Administrative Manager and the Supervising Equipment Parts Storekeeper (SEPS), there will be a review of all outstanding purchase orders and inventory orders related to the warehouse and landfill boxcar supplies. Orders outstanding past normal delivery will be questioned and the SEPS will be investigating those orders. Weekly review of outstanding orders began August 31, 2006.

Finding 4

Waste Management Department uses a service truck to transport fluids, filters and small parts to the heavy equipment at each landfill site. The truck is based at the Moreno Valley fleet yard, where it is replenished with oils and parts on an as needed basis.

The department does not have a sound system of internal controls in place to ensure the service truck inventory of fluids and parts is safeguarded or that a good accounting of inventory use is obtained. As a result, differences were identified between actual inventory on the truck and the inventory amount recorded in the inventory system. We could not ascertain whether the differences were due to errors, omissions in recording usage, or from some other source.

Although Waste Management Department Inventory Policy Number C-7 requires field inventory to be performed quarterly by the asset/inventory control team, the physical inventory count has not been performed since June, 2005. The inventory resulted in a shortage of \$402 or 54 percent of the inventory that was assigned to the truck. While compliance with the department's policy C-7 should always be expected, the existence of a shortage should have caused a higher level of scrutiny.

Recommendation 4.1 Implement internal control procedures that require the service truck driver to document inventory usage on a regular basis to ensure accurate accountability.

Management's Reply Concur. A new procedure has been written and will be officially adopted as part of the Department Policy and Procedures. Policy and procedure have been written and implemented as of August 31, 2006.

Recommendation 4.2 Conduct physical inventories of the service truck oils and parts on a quarterly basis to ensure the actual inventory on hand reconciles to the recorded inventory.

Management's Reply Concur. Part of the new procedure and policy affecting the service truck as mentioned in 4.1 above includes the service truck as a part of the quarterly inventories. Policy and procedure have been written and implemented as of August 31, 2006.

Results

Revenue

The Waste Management Department earned \$62.2 million in revenue during fiscal year 2004/05. The department's major revenue sources are:

- Landfill Disposal Fees
- Recycling of Materials
- Gas-to-Energy Sales
- Federal and State Funds

Disposal fees are considered the biggest source of the department's revenue, totaling \$55.2 million for fiscal year 2004/05 and \$52.4 million for fiscal year 2005/06. The funds are collected through the department's accounts receivable process for approved commercial customers and at the landfill gate fee booths in cash for all other customers.

As part of our audit, we evaluated the existence and adequacy of internal controls over the department's revenue process, which included gate fees, cash handling and accounts receivable processes.

Gate Fees. The revenue process starts at the landfill gate fee booth, where each customer is required to pass prior to entering the landfill site. The Gate Service Assistants (GSA's) identify the type of vehicle and weight, and obtain necessary information such as type of refuse to be dumped and its source. This data is entered into the department's Tonnage Information and Data Entry System (TIDES), which generates a scale ticket with the charge per ton for the type of refuse and/or account.

To improve efficiency of operations and save time, the GSA's are required to obtain and document the tare weight of new trucks entering the landfill in TIDES. This procedure eliminates the need for trucks to be weighed prior to departure. The net weight of their load is determined by subtracting the weight in TIDES from the weight obtained while entering the landfill. To mitigate the risk of tare weight manipulation, GSA's are required to conduct and document a re-weigh of each truck recorded in TIDES every 150 to 180 days. However, because the new tare weight replaces the old one in TIDES, we could not verify the integrity of the process. We conducted an independent re-weigh of 11 commercial trucks at Lambs Canyon Landfill and 10 commercial trucks at Badlands Landfill to verify the tare weight. No discrepancies were noted between the actual weight and the recorded weight in TIDES.

Cash Handling. Cash is deposited by the individual GSA's at the end of each day into the Brink's Compusafe. Brinks picks up the Compusafe

deposit three days a week and delivers it to Union Bank of California (UBOC) for deposit. The department reconciles the receipts with the bank deposit slips. Detail testing resulted in appropriate posting of the accounting records.

Accounts Receivable (A/R). Charges for approved A/R customers are transferred into the accounts receivable system through an interface from TIDES. Charges are balanced with the department's ledger report before customer invoices are created.

To limit its bad debt exposure, the department requires a security deposit equal to three times the average monthly billing for each customer. Security deposits are in cash, letter of credit, bond certificates, or certificate of deposits, with the Waste Management Department as the beneficiary.

Overall, the department had an adequate system of internal controls in place over the revenue process. All minor concerns were discussed with the appropriate level of management.



**Riverside County
Waste Management Department**

Hans W. Kernkamp, General Manager-Chief Engineer

September 20, 2006

TO: Michael Alexander, Chief Accountant
Audits and Specialized Accounting Division
Office of the Auditor-Controller

FROM: Hans W. Kernkamp, General Manager-Chief Engineer
Waste Management Department

RE: **Corrective Action Plan (CAP) to Internal Audit Report of July 17, 2006**

The following is Waste Management Department's (WMD) response to the findings and recommendation of the Internal Audit team that performed the review of WMD during the last fiscal year. WMD appreciates the insight and attention given to our operations and expects that the implementation of the CAP will enhance our operations and improve our service.

Recommendation Number 1.1: Implement and document internal controls at all landfill sites to provide preventative measures to protect fuel from misappropriation such as an electronic device that requires an employee identification number in order to pump fuel.

WMD management concurs with the finding.

Monthly staff meetings at each site have addressed the appropriate department policy and procedures related to inventory and fuel. Attendees have signed attendance rosters and responsibility for the inventory and fuel measurement has been documented to particular on-site staff. Locks are being installed at each landfill fueling site and a designated Site Supervisor will be responsible for the fuel dispensing. All records will be maintained on site and in ink.

These measures were taken during August, 2006.

Recommendation Number 1.2: Require site supervisors or designated personnel to take stick measurements of fuel as stated in Waste Management Department's Fuel/Oil Inventory Control Procedures 3.32-3.36.

WMD management concurs with the finding.

Monthly meetings at each landfill site have been held to emphasize the need to consistently implement the department procedures relating to securing and measuring fuel usage. Attendance rosters are maintained in the department as well as meeting agendas indicating the areas discussed.

The meetings were held throughout the month of August, 2006.

Recommendation 2: Inventory records should be maintained, updated, and documented by personnel who do not have access to inventory items.

WMD management concurs with the recommendation.

WMD is looking into the various levels of documentation and security available within the Fleet Anywhere System (FAS). The FAS is used throughout the County to document warehouse parts, vehicle and equipment purchases, and work orders related to those vehicles and equipment. It is anticipated that certain ordering and receiving duties will be separated from the issuing duties and that FAS security assignments will be changed. While the documentation is in process, WMD has taken measures to separate the reporting duties. In the past, the Fleet Accounting Staff have reported to the Program Coordinator who is also responsible for the warehouse. Currently, the Accounting Manager supervises the Fleet Accounting Staff. WMD management does believe that the lack of separation of duties is somewhat offset by the quarterly, physical inventory counts and that the change in reporting will also give a better control to the activities. It is not practical or cost effective to establish an additional recordkeeping system at this time.

Actual date of reassignment was August 17, 2006. Review of FAS system will be completed and corrective action taken before September 30, 2006.

Recommendation 3.1: Limit, control, and monitor access to all landfill site storage areas to authorized personnel only.

WMD management concurs with the finding.

Monthly meetings at the landfill sites have addressed the need for control of parts inventory and storage. The locks have either been changed at the various storage sites at the landfills and keys distributed to the appropriate personnel or keys have been collected and access restricted to the appropriate personnel. All site staff have been coached as to the appropriate procedure for getting supplies from the storage areas and who is the appropriate staff person to administer the distributions. All records will be kept in ink and submitted to the Fleet Accounting Staff in a timely manner.

Meetings were held through out the month of August, 2006.

Recommendation 3.2: Only issue parts from storage areas if a work order request is provided and approved by designated personnel; require each mechanic or heavy equipment operator who takes an item from the disposal site boxcar parts storage locker to log the item number and quantity on the inventory control sheets; and require the disposal site supervisor to verify the inventory control sheets and fax the appropriate documentation to the parts storekeeper on a weekly basis.

WMD management concurs with the recommendation.

Monthly meetings at all landfill sites have reviewed the procedure for getting parts and items from the site storage. All personnel in attendance have signed an attendance roster as evidence of their presence at the meeting. The procedure is written including the appropriate steps in distributing parts and items from the landfill site boxcars, the proper recordkeeping, and submission of paperwork to Fleet Accounting Staff.

Meetings were held through out the month of August, 2006 and procedure was written in August, 2006.

Recommendation 3.3: Ensure receipts of inventory stock items are recorded in a timely and accurate manner in the accounting records.

WMD management concurs with the recommendation.

As part of the weekly update meeting between the Administrative Manager and the Supervising Equipment Parts Storekeeper (SEPS), there will be a review of all outstanding purchase orders and inventory orders related to the warehouse and landfill boxcar supplies. Orders outstanding past normal delivery will be questioned and the SEPS will be investigating those orders.

Weekly review of outstanding orders began August 31, 2006.

Recommendation 4.1: Implement internal control procedures that require the service truck driver to document inventory usage on a regular basis to ensure accurate accountability.

WMD management concurs with the recommendation.

A new procedure has been written and will be officially adopted as part of the Department Policy and Procedures.

Policy and procedure have been written and implemented as of August 31, 2006.

Recommendation 4.2: Conduct physical inventories of the service truck oils and parts on a quarterly basis to ensure the actual inventory on hand reconciles to the recorded inventory.

WMD management concurs with the recommendation.

Part of the new procedure and policy affecting the service truck as mentioned in 4.1 above includes the service truck as a part of the quarterly inventories.

Policy and procedure have been written and implemented as of August 31, 2006.

