



**GARLAND**

**INTERNAL AUDIT**

# **Environmental Waste Services Revenue Audit Follow-up**

*June 28, 2017*

*Report 201721*

***City Auditor:***

*Jed Johnson, CIA, CGAP*

***Major Contributor:***

*Christy Rodriguez, CPA*

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# Contents

Overall Conclusion..... 1

Authorization..... 1

Objective..... 1

Scope and Methodology..... 1

Background ..... 2

Audit Follow-up..... 5

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## Overall Conclusion

Internal Audit (IA)'s review of previous audit findings and recommendations revealed that 14 of 20 recommendations were fully implemented (70%), 1 of 20 recommendations were partially implemented (5%), and 5 of 20 recommendations were not implemented (25%).

An additional item has been marked as not implemented in the report. This references the ability of the Customer Service billing system to be used for EWS Landfill contract customers and was determined by the EWS and Customer Service departments to not be possible. This was not included in the final count above.

## Authorization

We have conducted a follow-up audit of Environmental Waste Services Revenue Audit Follow-up. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

## Objective

This is a follow-up of the "Environmental Waste Services Revenue Audit Follow-up" report issued on October 1, 2015. Our objective was to determine if previous audit recommendations were implemented.

The original objectives were:

1. Determine the efficiency and effectiveness of fee collection policies and procedures.
2. Determine if EWS is charging its customers in accordance with the City Directive and/or the contract that is currently in place.

## Scope and Methodology

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The scope of our audit was from FY2016 – March 31, 2016. Similar to our original audit, we excluded Residential & Commercial Pickup and the Wood Recycling Facility from the scope.

To adequately address the audit objectives and to describe the scope of our work on internal controls, IA performed the following:

- Interviewed employees regarding efficiency and effectiveness of their fee collections duties and processes
- Reviewed Cycle 25 Aging Reports, Customer Set-up and Billing and Written Off Balances
- Met with Customer Service and EWS to discuss trainings regarding process synergies between the two departments.
- Obtained a listing of contract customers and related contracts (Obj. 2)
- Reviewed and reconciled contracts to monthly invoices sent to customers
- Reviewed City Ordinance for general policies and user fees
- Interviewed Finance Department management regarding the University Park Contract, armored car cash collections and credit card processing machines

To assess the reliability of computer-generated data, IA used methods similar to our original audit.

## Background

Garland’s EWS Department provides local residents, businesses, construction/demolition contractors and other Garland City departments with quality solid waste collection and disposal service to maintain a clean and healthy City, promote recycling of reusable materials, and minimize the costs of collection and disposal.

Services include residential collection, brush and bulky goods, commercial, recycling, wood waste and transfer station/landfill drop-off.

### Residential and Commercial Collection:

EWS provides solid waste collection for residents on a weekly basis and recycling collection on a biweekly basis. In addition, EWS manages service to businesses and residents who need large capacity waste disposal. The employees at the Transfer Station provide customer service related to both the residential and commercial garbage collection accounts.

*Source: COG website*

Trash Collection Service	Rate Paid	How Paid	Process Flow
Residential & Commercial Customers (with utilities)	Included in Utility Bill	Billed monthly through Utility Billing System	Customer Service sets up customers in the Utility Billing System (along with other services provided such as Garland Power & Light, Water Utilities and Stormwater

<b>Trash-Only Commercial Customers (Cycle 25)</b>	Based on Contract	Billed monthly through Utility Billing System	Management).
			EWS Department sets up customers in the Utility Billing System.

Source: Meetings with EWS Department

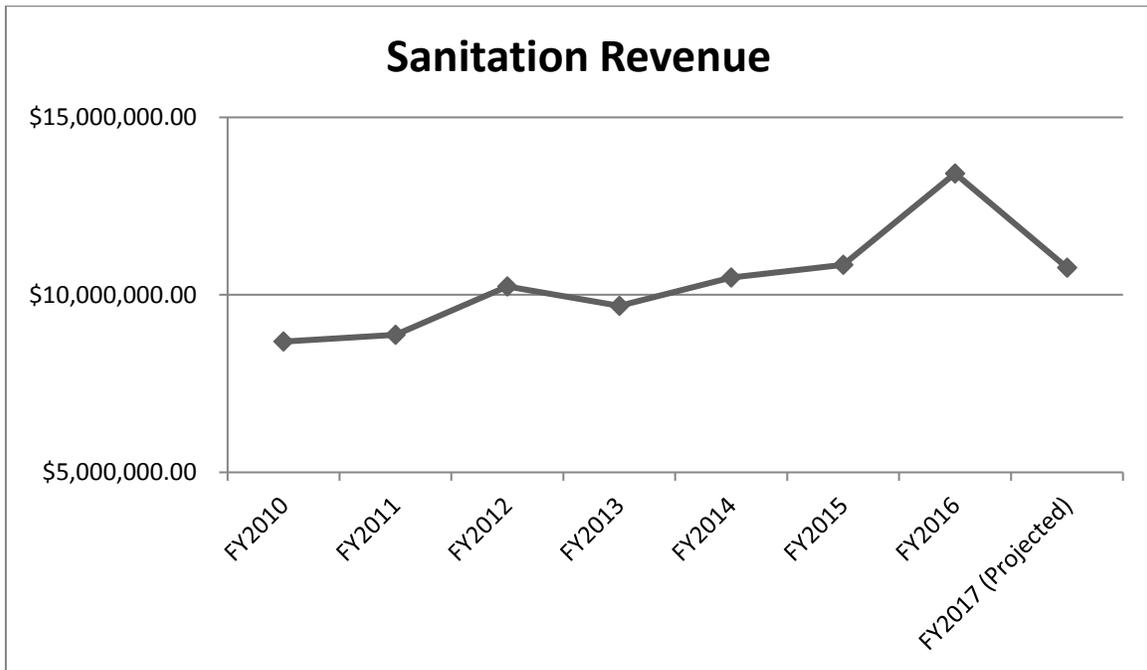
**Landfill and Transfer Station Disposal:**

The City of Garland EWS Department owns and operates the following solid waste disposal facilities: C.M. Hinton, Jr. Regional Landfill, The Transfer Station and the Wood Recycling Facility. For purposes of this audit, we did not review the processes at the Wood Recycling Facility.

The Landfill, located at 3175 Elm Grove Rd, Rowlett, TX accepts municipal solid waste, construction and demolition waste from residents, private waste haulers and commercial businesses, taking in approximately 1,100 tons of garbage every day.

Payment is accepted at the Scale House for cash customers. Billing and customer service for City of Garland vehicles, contract customers and waste hauler customers is managed by the employees at the Landfill.

Sanitation Revenue has been increasing from FY 2010 through present:



Source: Budget Department

The Transfer Station is located at 1434 Commerce Street, Garland, TX. This location allows disposal of non-hazardous solid waste. Customers can haul in trash using cars and pickup trucks. Recycling and scrap metal is accepted at the Drop-Off Recycling Center, located next door to the Transfer Station, at 1426 Commerce Street.

Source: COG website

These are the types of customers processed at the Landfill and Transfer Stations:

Landfill & Transfer Station Customer	Rate Paid	How Paid	Process Flow
<b>Residents</b>	Free	N/A	Stop at Scale House upon entrance. Do not stop at Scale House upon exit.
<b>Cash Customers</b>	Gate Rate	Cash, check, credit card	Stop at Scale House upon entrance. New customers: Pay deposit and stop at Scale House upon exit. Old customers: Stop at Scale House and pay upon entrance.
<b>City of Garland</b>	City Rate	Inter-departmental billing	Radio information to Scale House, but do enter the Scale House. Do not stop at Scale House upon exit.
<b>Contract</b>	Gate Rate	Billed Monthly by Finance	Stop at Scale House upon entrance. Do not stop at Scale House upon exit.
<b>Waste haulers</b>	Based on Contract	Billed Monthly by Finance	Stop at Scale House upon entrance. Do not stop at Scale House upon exit.

Source: Meetings with EWS Department

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## Audit Follow-up

This follow-up audit was not intended to be a detailed study of every relevant system, procedure and transaction. Accordingly, the Follow-up section presented in this report may not be all-inclusive of areas where improvement might be needed.

The following results for each finding are as follows:

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### FINDING #1

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**CONDITION  
(THE WAY IT IS)**

IA reviewed a sample of Contract Customers:

1. The contract with University Park was not billed and/or managed appropriately. The Cost of Service has not been determined since 1999, resulting in confusion about the current financial situation between the two parties. See original report for more details about this contract.
2. Two contract customers were billed incorrectly:
  - a. Barnes Waste Disposal Service was billed at a lower rate for October and November 2014, resulting in a \$7,393.98 underpayment.
  - b. Allied Waste Services (aka Republic Services) was billed at a higher rate for March 2014, resulting in a \$2,302.88 overpayment.

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**RECOMMENDATION**

City Management should:

1. University Park:
  - a. Hire an independent consultant to perform a Cost of Service study and inform University Park of the results. Continue to perform a Cost of Service study as deemed necessary based on rate changes.
  - b. Negotiate a Cost of Service rate with University Park for the period prior to 2015 based on the new independent Cost of Service study and make appropriate adjustments in billing.
  - c. Continuously monitor status of prior billing correction until it has been satisfied.

EWS Management should:

2. Contract Customers:
    - a. Negotiate with Barnes Waste to recoup all (or a portion of) \$7,393.98.
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- b. Credit Allied Waste Services for their overpayment of \$2,302.88.
  - c. Establish a review process for monthly bills for contract customers and waste haulers.
3. Review all contract customer and waste hauler rates annually.

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<b>MANAGEMENT RESPONSE</b>	Environmental Waste Services (EWS) concurs with the Revenue Audit recommendations.
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|--------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ACTION PLAN</b> | <ol style="list-style-type: none"> <li>1. EWS will consult with City Management to determine the appropriate course of action to be taken regarding University Park accounts.</li> <li>2. EWS Managing Director will schedule a meeting with Barnes Disposal representatives to recoup all (or a portion of) \$7,398.98 identified by this Revenue Audit finding.</li> <li>3. EWS Operations Financial Coordinator will issue a credit to Allied Waste Services for billing overpayment in the amount of \$2,302.88.</li> <li>4. EWS Operations Financial Coordinator will review for accuracy all monthly bills disseminated to contract and waste hauler customers.</li> <li>5. EWS Operations Financial Coordinator will meet annually with Staff to review contract customer and waste hauler rates.</li> </ol> |
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<b>IMPLEMENTATION DATE</b>	November 2015
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| <b>FOLLOW-UP</b> | <ol style="list-style-type: none"> <li>1. Per discussion with Finance management, the University Park of Service cost of service model is in the process of being updated and is expected to be completed by mid-July 2017. Once this is finished, the procurement process of hiring a third-party consultant will begin immediately.</li> <li>2. Per discussion with EWS Management, the Barnes Waste will not be pursued. After the issues noted in the original audit, the contract was dissolved and Barnes Waste is currently paying the gate rate for all drop offs.</li> </ol> |
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3. Allied Waste Services was issued a credit for their overpayment.
  4. Monthly bills are reviewed by the EWS Operations Financial Coordinator prior to being sent to Accounts Payable for invoicing.
  5. Contracts are reviewed by the EWS Operations Financial Coordinator annually (or as they come up for renewal).

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**IMPLEMENTATION**

1. Not Implemented
  2. Not Implemented
  3. Fully Implemented
  4. Fully Implemented
  5. Fully Implemented
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**FINDING #2**

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**CONDITION  
(THE WAY IT IS)**

Delinquent Accounts:

1. The City is currently providing service to customers who are delinquent (for up to 3 years) at both the Landfill and Transfer Station.
2. There is over \$86,000 in write-offs and over \$67,000 in current past-due balances for Cycle 25 (or trash-only) customers at the Transfer Station. IA was unable to verify if customer information received for these contracts was appropriate as our sample could not be located with the department's retention files.
3. There is over \$4,000 in past-due balances (exceeding a year) for contract customers at the Landfill.

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**RECOMMENDATION**

EWS Management should:

1. Consider moving the monthly contract/waste hauler billing into the Utility Billing System for better monitoring of accounts and streamlining of its billing processes.
  2. Work with the Customer Service Department to:
    - Manage delinquent accounts
    - Cross-train employees in customer set-up requirements
    - Establish procedural synergies between departments
  3. Track past-due accounts and remove assets based on the established policies and procedures.
  4. Review and verify all currently active Cycle 25 customers to ensure that proper information is recorded. Contact necessary customers to obtain additional information, if necessary.
  5. Policies and procedures should be updated to include additional procedures to address:
    - Uncollectable accounts
    - Occurrence of credit checks
    - Customer set-up
    - Record retention
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<b>MANAGEMENT RESPONSE</b>	EWS concurs with the Revenue Audit recommendations.
<b>ACTION PLAN</b>	<ol style="list-style-type: none"> <li>1. EWS is working with the Customer Service Department and Finance Department to assess the feasibility of moving the monthly contract / waste hauling billing into the Utility Billing System for better monitoring of accounts and streamlining of its billing process.</li> <li>2. EWS will work with the Customer Service Department to manage delinquent accounts, establish cross training sessions with EWS staff in establishing consistent commercial customer set up requirements along with other procedural synergies.</li> <li>3. EWS in conjunction with Customer Service Department will track past due accounts and enact a timely proactive approach to removing an asset based on revised policies and procedures.</li> <li>4. EWS is reviewing and verifying currently active Cycle 25 customers to ensure that proper information is recorded.</li> <li>5. EWS is in the process of updating policies and procedures to include uncollectable accounts, occurrence of credit checks, commercial customer set-up, and records retention.</li> </ol>
<b>IMPLEMENTATION DATE</b>	October 2015
<b>FOLLOW-UP</b>	<ol style="list-style-type: none"> <li>1. Banner will not be used to bill the monthly contract/waste hauling billing due to functionality issues.</li> <li>2 - 4. EWS has coordinated with the Customer Service department to cross-train each of its employees. The fact that there are no Cycle 25 customers with balances over 30 days old is evidence of the success of this effort.</li> <li>5. EWS has updated policies and procedures to include the recommended items.</li> </ol>
<b>IMPLEMENTATION</b>	<ol style="list-style-type: none"> <li>1. Not Implemented due to system limitations</li> <li>2 - 4. Fully Implemented</li> <li>5. Fully Implemented</li> </ol>

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**FINDING #3**

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**CONDITION  
(THE WAY IT IS)**

Payment Collection:

1. The process for accepting payment at the Landfill is not efficient. There are three cashiers, but due to the configuration of the lobby, only one can accept payment at a time.
2. Cashiers and Cashier Supervisor are directing traffic when lines become too long.
3. There are no functioning cameras at the Transfer Station and Landfill.

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**RECOMMENDATION**

EWS Management should:

1. Consider a redesign of the lobby at the Landfill in order to increase customer satisfaction, efficiency of operations and employee safety.
2. Change policies and procedures to not allow EWS employees to direct traffic.
3. Repair/install new security cameras at the Transfer Station and Landfill. Monitor these cameras as needed.

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**MANAGEMENT  
RESPONSE**

EWS concurs with the Revenue Audit recommendations. However, EWS has previously requested and cited the extreme need for the repair/install of security cameras at the Transfer Station and Landfill facility. These requests have been placed on hold until a Request For Proposal (RFP) process can be conducted for an Enterprise (City Wide) Security Camera System.

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**ACTION PLAN**

1. EWS will meet with Facilities Management Department to discuss and consider the redesign of the Hinton Landfill Scalehouse lobby area to increase customer satisfaction, efficiency of operations, and employee safety.
  2. EWS Scalehouse Attendants will no longer direct traffic at the Hinton Landfill facility.
  3. EWS will meet with Facilities Management Department to discuss a plan of action for the installation of much
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	needed security cameras at the Transfer Station and Hinton Landfill Facility.
<b>IMPLEMENTATION DATE</b>	October 2015
<b>FOLLOW-UP</b>	1-3. The Hinton Landfill lobby has been renovated to increase efficiency of operations and security cameras were installed by Facilities Management. In addition, confirmed through inquiry that Scalehouse Attendants are no longer directing traffic.
<b>IMPLEMENTATION</b>	1-3. Fully Implemented

<b>FINDING #4</b>	
<b>CONDITION (THE WAY IT IS)</b>	<p>Credit Card Processing:</p> <ol style="list-style-type: none"> <li>1. During the scope of IA’s audit, approximately \$30,000 in credit card transaction fees was paid by the EWS Department. These charges were not passed along to the customer.</li> <li>2. EWS Department (along with several other City Departments): <ul style="list-style-type: none"> <li>• Uses different vendors for credit card processing.</li> <li>• Has not upgraded their credit card machines for the rollout of the chip credit cards.</li> </ul> </li> </ol>
<b>RECOMMENDATION</b>	<p>EWS Management should:</p> <ol style="list-style-type: none"> <li>1. Consider passing along the credit card fee to customers.</li> <li>2. Work with Finance and Purchasing Departments to: <ul style="list-style-type: none"> <li>• Ensure that the City’s vendor is implemented at both the Transfer Station and Landfill. This will allow us to take advantage of economies of scale.</li> <li>• Upgrade credit card machines in order to comply with the upcoming EMV credit card switch.</li> </ul> </li> </ol>
<b>MANAGEMENT RESPONSE</b>	EWS concurs with the Revenue Audit recommendations.
<b>ACTION PLAN</b>	<ol style="list-style-type: none"> <li>1. EWS will consult with City Management to determine the proper course of action regarding credit card fees.</li> <li>2. EWS will work with the Finance and Purchasing Department to ensure the City’s vendor is implemented at the Transfer Station and Landfill. In addition credit card machines at the Transfer Station and Hinton Landfill will be upgraded to comply with the new EMV credit card switch.</li> </ol>
<b>IMPLEMENTATION DATE</b>	November 2015
<b>FOLLOW-UP</b>	<ol style="list-style-type: none"> <li>1. Credit card fees have not been passed along to the customer.</li> <li>2. The credit card machines at both the Landfill and Transfer Stations have been upgraded to comply with the new EMV credit card requirements.</li> </ol>

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**IMPLEMENTATION**

1. Not Implemented

2. Fully Implemented

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**FINDING #5**

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**CONDITION  
(THE WAY IT IS)**

Cash Handling at the Landfill and Transfer Station:

1. Deposits are not picked up daily via an armored car service.
2. Voids can be performed within the EWS System by all employees, without a secondary review occurring.
3. The supervisor at the Landfill has access to accept payment, void transactions, reconcile daily deposits and record these deposits in the Finance System.
4. Safe passwords have not been updated recently, even though there has been employee turn-over.

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**RECOMMENDATION**

EWS Management should:

1. Consider scheduling an armored car service to pick up daily deposits.
2. Restrict the rights to void transactions to necessary individuals in the EWS System. All voids should be reviewed by another individual periodically for appropriateness.
3. Segregate access to take payment, void/edit payments, reconcile daily deposits and record daily deposits in the Finance System.
4. Change safe passwords immediately. In addition, passwords should be changed each time there is employee turnover.

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**MANAGEMENT  
RESPONSE**

EWS concurs with the Revenue Audit recommendations.

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**ACTION PLAN**

1. EWS will consult with City Management because at this time an Armored Car Service would be an unbudgeted expense.
  2. EWS will restrict the rights to void transactions to Operations Financial Coordinator or management level designee.
  3. EWS Operations Financial Coordinator will segregate
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	access to take payment, voided/edit payments, reconcile daily deposits and record daily deposits in the Finance System.
	4. EWS will change safe password. In addition, password will be changed each time there is employee turnover.
<b>IMPLEMENTATION DATE</b>	October 2015
<b>FOLLOW-UP</b>	<ol style="list-style-type: none"> <li>1. Armored car pickups are currently occurring at the Landfill and Transfer Station.</li> <li>2. One individual had inappropriate access to perform voids in the system. All other void access has been restricted to supervisors.</li> <li>3. Voids are reviewed for appropriateness by the Operations Financial Coordinator.</li> <li>4. Safe password is not changed in accordance with employee turnover, however, the safe is behind a locked door. Only current employees have access to this room.</li> </ol>
<b>IMPLEMENTATION</b>	<ol style="list-style-type: none"> <li>1. Fully Implemented</li> <li>2. Partially Implemented</li> <li>3. Fully Implemented</li> <li>4. Fully Implemented</li> </ol>

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**FINDING #6**

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**CONDITION  
(THE WAY IT IS)** Deposits are being retained in the form of blank checks and physical credit cards for new customers to the Landfill and Transfer Stations.

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**RECOMMENDATION** EWS Management should:

1. Immediately stop holding physical credit cards and begin to implement credit card hold transactions as allowed by the current equipment.
2. Consider limiting deposits to cash and credit card holds.

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**MANAGEMENT  
RESPONSE** EWS concurs with the Revenue Audit recommendation.

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**ACTION PLAN**

1. EWS will stop holding physical credit cards and implement credit card hold transactions as allowed by apparatus.
2. EWS will limit deposits to cash and credit card holds.

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**IMPLEMENTATION  
DATE** October 2015

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**FOLLOW-UP** 1-2. Physical credit cards are still being retained instead of placing a hold transaction on the credit card. Per discussion with staff, this creates process inefficiencies that aren't feasible for either location. Driver's licenses are occasionally held if requested by the customer.

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**IMPLEMENTATION** 1-2. Not Implemented

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