

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

518



FROM: County Auditor-Controller

SUBMITTAL DATE:
July 10, 2008

SUBJECT: Internal Auditor's Report #2007-317 – Waste Management Department Follow-Up Audit

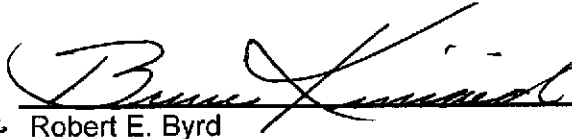
RECOMMENDED MOTION: Receive and file Internal Auditor's Report #2007-317 – Waste Management Department Follow-Up Audit.

BACKGROUND: The Auditor-Controller completed a follow up audit of the Riverside County Waste Management Department. The purpose of the audit was limited to reviewing actions taken, as of April 21, 2008, to implement the recommendations reported in our original Internal Auditor's Report #2006-013, dated September 25, 2006.

The original audit report contained eight recommendations, all of which required corrective action; and therefore, were reviewed as part of this audit.

Based upon the results of our follow-up audit we determined the department fully implemented the eight recommendations.

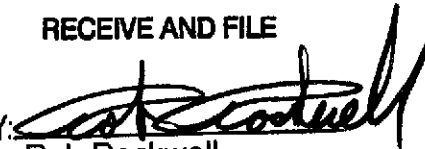
Departmental Concurrence

for 
Robert E. Byrd
County Auditor-Controller

FINANCIAL DATA	Current F.Y. Total Cost:	\$ 0	In Current Year Budget:	N/A
	Current F.Y. Net County Cost:	\$ 0	Budget Adjustment:	N/A
	Annual Net County Cost:	\$ 0	For Fiscal Year:	N/A

SOURCE OF FUNDS: N/A	Positions To Be Deleted Per A-30	<input type="checkbox"/>
	Requires 4/5 Vote	<input type="checkbox"/>

C.E.O. RECOMMENDATION: **RECEIVE AND FILE**

BY: 
Rob Rockwell

County Executive Office Signature

Dep't Recomm.: Policy Policy
Per Exec. Ofc.: Consent Consent



County of Riverside

INTERNAL AUDITOR'S REPORT

Waste Management Follow-Up Audit

July 10, 2008

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

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P.O. Box 1326
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Robert E. Byrd, CGFM
AUDITOR-CONTROLLER

Bruce Kincaid, MBA
ASSISTANT
AUDITOR-CONTROLLER

July 10, 2008

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

Subject: Internal Auditor's Report #2007-317, Waste Management Department Follow-Up Audit

Dear Mr. Kernkamp:

We have completed the Follow-up Audit of the Waste Management Department. The audit was limited to reviewing actions taken, as of April 21, 2008, to implement the recommendations to correct findings reported in our original Internal Auditor's Report #2006-013, dated September 25, 2006.

We conducted our audit in accordance with 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 our work provides a reasonable basis for our conclusions reached.

The original audit report contained eight recommendations, all of which required corrective action; and therefore, were reviewed as part of this audit. For an in-depth understanding of the original audit, please refer to Internal Auditor's Report #2006-013.

This follow-up audit found that the eight recommendations were fully implemented. The following is a summary of the current status of the findings and recommendations identified in the original audit.

Fuel & Oil Inventory

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.

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.

Current Status 1.1: **Fully Implemented.**

We conducted observational visits to the Badlands and Lamb Canyon landfills to verify the recommended improvements over diesel fuel operations. The Badlands and Lamb Canyon landfills implemented controls over their operations by limiting access to the fuel tank and pumps to specific employees, ensuring the accessible gate to the fuel tank and pumps are always locked, implemented the requirement of the fuel log sheet to be placed on a clipboard in close vicinity and implemented the monitoring and reviewing of fuel log sheets by supervisors to ensure accuracy and completeness of the fuel usage information as required by department policy E-3.

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.

Current Status 1.2: **Fully Implemented.**

Based on our inquiries with Badlands and Lamb Canyon's Site Supervisors and analysis of the landfill's fuel log sheets for the period July, 2007 through March, 2008, we verified that the Site Supervisors have implemented the procedure of taking stick measurements of the diesel fuel tanks before and after the vendors deliver fuel and are documenting the results in the fuel log sheets accordingly.

In addition, we examined and analyzed the diesel fuel records for Badlands, Lamb Canyon, Mecca, Blythe and Oasis landfills for the period July, 2007, through March, 2008, to evaluate any discrepancies between actual diesel fuel inventory based on "stick" readings and the ending volume amounts in the inventory records. We verified and reviewed diesel fuel log sheets, vendors' invoices and the landfills' fuel records to calculate the ending balances. Based on our analysis and verification, we identified some variances that indicate excess actual diesel fuel in the tanks than what is recorded in the fuel records. The excess was attributed to the expansion of diesel fuel during warmer weather conditions, human errors in recording actual fuel usage and stick measurements taken at the beginning and ending of each fuel log sheet.

Parts Inventory

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.

Current Status 2: Fully Implemented.

Based on our inquiry, observation and analysis of the Fiscal Year 2006/2007 inventory count sheets for the 4th quarter, we determined the inventory count is performed by an Accountant I, who reports directly to the Accounting Manager and has no custody responsibilities over inventory items.

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.

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

Current Status 3.1: Fully Implemented.

Observational visits to the Badlands and Lamb Canyon landfills verified the recommended improvements over the parts inventory operations had been implemented. Both the Badlands and Lamb Canyon landfills boxcar storage areas and oil storage rooms were locked upon our

arrival. In addition, employee access to the storage areas was limited to four at Badlands and seven at the Lamb Canyon landfill.

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.

Current Status 3.2: Fully Implemented.

In lieu of a work order request to issue parts, a log sheet is utilized and completed by the limited personnel who have access to the storage areas at both the Badlands and Lamb Canyon landfills. The log sheets are pre-numbered and indicate equipment number, part number and description, quantity of items taken, and personnel's initial. At the end of each log sheet and before sending to storekeeper, the site supervisor verifies the items taken. This new process results in the improvement of controls over the safeguarding of inventory.

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

Current Status 3.3: Fully Implemented.

Based on our most recent testing of inventory items for both the Badlands and Lamb Canyon landfills, we recognized that the department has improved their inventory recording process; however, minor discrepancies were identified. Specifically, 5 of 19 items tested at Badlands and 5 of 20 items at Lamb Canyon landfill differed from the inventory records. The value of items varied represent 4% and 3% of the value of items selected for testing for Badlands and Lamb Canyon Landfills respectively. The variances were due to timing difference or simple error in recording the number of items withdrawn. Additionally, of the 19 items tested at Badlands and 20 items tested at Lamb Canyon, 5 selected from each landfill inventory items and traced to the listing to ensure receipts of landfills inventory items are recorded accurately in the inventory system. All ten items exactly matched what is recorded in the inventory listing. The following schedule summarizes the results:

Landfills	Total		Sample		Testing Variances		
	Number of Line Items on Hand	Value of Line Items on Hand	Number of Line Items Selected	Value of Line Items Selected	Number of Line Items Varied	Value of Line Items Varied	Value of Line Items Varied to Value of Line Items Selected
Badlands	42	\$5,227.37	19	\$3,029.04	5	\$114.02	4%
Lamb Canyon	52	\$7,663.57	20	\$3,568.06	5	\$122.98	3%

Service Truck

Finding 4: 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.

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.

Current Status 4.1: Fully Implemented.

Verification of the service truck's inventory items revealed only minor variances between actual and recorded items. Additionally, the service truck log sheet showed the recording of items withdrawn by the driver, thereby increasing inventory accountability.

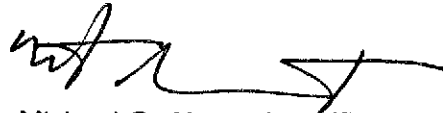
Recommendation 4.2: Conduct physical inventories of the service truck oils and parts on a quarterly basis to ensure the actual inventory on hand reconciles to the recorded inventory.

Current Status 4.2: Fully Implemented.

Based on discussions with personnel and the review of documentation, we determined that the department has conducted a physical inventory on service trucks on a quarterly basis.

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

ROBERT E. BYRD, CGFM
Auditor-Controller



By: Michael G. Alexander, MBA, CIA
Deputy Auditor-Controller

cc: Board of Supervisors
Grand Jury
County Counsel