



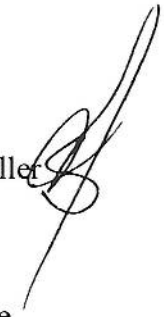
COUNTY OF LEHIGH
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER
17 SOUTH SEVENTH STREET
ALLENTOWN, PA 18101-2400
(610) 782-3082 FAX: (610) 820-3335

THOMAS SLONAKER
COUNTY CONTROLLER

JOHN A. FALK
DEPUTY CONTROLLER

TO: Final Report Distribution
FROM: Thomas Slonaker, County Controller
DATE: February 12, 2010
RE: Internal Audit of the Compost Site



We have completed an internal audit of the compost site, Lehigh County, Pennsylvania for the period January 1, 2008 to June 30, 2009. Our report 10-3 is attached.

The results of our internal audit are:

1. There is no cost sharing agreement with municipalities.
2. Payroll time reporting duties are not adequately separated.
3. Billing and cash handling controls could be improved.

Attachment

AUDITS/COMPOST SITE

COUNTY OF LEHIGH, PENNSYLVANIA

COMPOST SITE

Internal Audit

For the Period January 1, 2008 to June 30, 2009

REPORT NO. 10-3

COUNTY OF LEHIGH, PENNSYLVANIA
COMPOST SITE

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COUNTY OF LEHIGH, PENNSYLVANIA
COMPOST SITE

Background

Pennsylvania passed recycling legislation in 1988, known as Act 101, which mandated municipalities meeting certain population and density thresholds to provide recycling services and counties to provide solid waste planning. The county recognized the inherent inefficiencies of 20 or more individual municipalities developing their own compost center and decided to establish the organics recycling center (compost site) in 1989 to centrally process yard waste.

The Compost Site also coordinates collection of household hazardous waste, provides public education programs, and administers the Lehigh County Garden Plot Program. Revenues and expenses for the compost site reported in the County of Lehigh 2010 Adopted Budget are as follows:

	ACTUAL 2008	ADOPTED 2009	REVISED 2009	ADOPTED 2010
REVENUES				
Grants	62,823	145,000	748,945	74,280
Municipal				
Reimbursements	161,013	229,000	229,000	255,989
Department Earnings	172,094	157,201	157,201	99,491
Investment Income	148	1	1	1
Other Revenues	8,300	10,000	10,000	5,000
Other Financing Sources*	377,020	229,000	229,000	200,000
Total	781,398	770,202	1,374,147	634,761
EXPENSES				
Personnel Services	403,653	425,256	433,736	383,110
Travel/Transportation	10,380	8,500	8,500	8,000
Professional/Tech Services	88,871	59,840	143,890	59,103
Grants, Subsidies, Contracts	75,000	1	1	1
Materials & Oper Supplies	34,440	36,500	36,549	33,090
Other Operating Expenses	93,507	89,951	90,435	81,416
Capital Expenditures	0	2	2	0
Other Financing Uses	63,970	65,152	736,202	70,041
Total	769,821	685,202	1,449,315	634,761

**Lehigh County Subsidy*



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THOMAS SLONAKER
COUNTY CONTROLLER

JOHN A. FALK
DEPUTY CONTROLLER

Jan Creedon, Director of General Services
Lehigh County Government Center
17 South Seventh Street
Allentown, PA 18101-2400

Harvey Joseph, Solid Waste/Recycling Manager
Timothy Bollinger, Solid Waste/Recycling Manager
Compost Facility
5375 Old Packhouse Road
Orefield, PA 18069

We have recently completed an internal audit of the Lehigh County Solid Waste Management Department (Compost Site). The scope of our detail audit testing covered January 1, 2008 through June 30, 2009. Our objective was to determine the adequacy of controls over cash handling, billing, and collections. Review of payroll time reporting controls was added to our objective during the course of our audit.

We conducted our audit in accordance with the *"International Standards for the Professional Practice of Internal Auditing"*, promulgated by the Institute of Internal Auditors. Our audit included examination of the accounting records, documentation, discussions with the compost site and other county personnel, and such other auditing procedures we considered necessary in the circumstances.

We concluded that the county lacks binding commitments from participating municipalities and needs to improve controls over cash handling, billing, and employee time reporting.

We wish to thank the compost site staff for their cooperation during the audit. This report is intended for the information and use of the compost site and other affected county offices. However, this report is a matter of public record and its distribution is not limited.

THOMAS SLONAKER
County Controller

A handwritten signature in black ink, appearing to be "T. Slonaker", is written over the printed name and title of the County Controller.

December 1, 2009
Allentown, Pennsylvania

Final Distribution:

Board of Commissioners
Donald T. Cunningham, Jr., County Executive
Brian L. Kahler, Fiscal Officer
Thomas S. Muller, County Administrator

COUNTY OF LEHIGH, PENNSYLVANIA
COMPOST SITE

Schedule of Audit Findings and Recommendations

1. Lack of formal cost sharing and participation agreement

Condition: There is no binding agreement compelling municipalities to utilize and share in the cost of compost site operations. Current practice is to invoice participating municipalities a quarterly assessment (based on the approved budget). The allocation of the assessment is based on use of compost equipment and yard waste drop offs.

Municipal yard waste deposits for the last four years are:

	Cubic Yards			
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Alburtis	1,627	1,748	2,146	1,906
Allentown	19,267	20,184	18,213	12,110
Catasauqua	213	325	8	52
Coplay	1,469	841	683	671
Fountain Hill	0	0	0	152
Lower Macungie	2,472	0	0	0
North Whitehall	9,804	12,744	14,246	12,844
Salisbury	370	780	601	928
South Whitehall	24,984	21,768	25,505	13,076
Upper Milford	852	648	683	880
Whitehall	<u>2,388</u>	<u>2,324</u>	<u>3,469</u>	<u>2,790</u>
Total	<u>63,446</u>	<u>61,362</u>	<u>65,554</u>	<u>45,409</u>

Source: Compost site usage reports

Commitments from municipalities would ensure the site is utilized as intended and financial responsibility is fairly shared among the beneficiaries. Under the current structure, some municipalities have ceased using the site placing a larger financial burden on the remaining participants.

Recommendation: Management should secure binding commitments from municipalities to utilize and share in funding site operations. Several options to consider include:

- enter into inter-governmental agreements with municipalities defining financial obligations and participation;
- ascertain if flow control legislation could be enacted via county ordinance to compel municipal participation;
- establish a municipal authority with municipal representation to assume responsibility for site operations;

If efforts to reach a binding agreement fail, the county should limit site activities to those mandated by Act 101.

2. Inadequate billing controls

Condition: We found several areas in which billing controls are inadequate:

- The honor system is used for tracking municipal yard waste deposits. Delivering drivers complete yard waste deposit slips and place the slip in the container provided outside the office, without verification by site personnel. On a quarterly basis, amounts are manually compiled and used for calculation of the quarterly municipal assessment. Since compliance is not monitored and amounts are manually compiled billing errors could occur and not be detected.
- Sales and services provided to commercial customers are manually tracked by site personnel on ledger cards. On a monthly basis, amounts are manually compiled from the cards and invoices are prepared and mailed. Since pre-numbered packing slips are not used to track activity and amounts are compiled manually errors could occur and not be detected. In addition, our analysis of randomly selected billings reflected an average turnaround of 62 days from date of sale to payment.

Billing controls should provide reasonable assurance of accurate and timely billing.

Recommendation: Management should implement the following billing procedures:

- Use pre-numbered 3-part delivery slips to track municipal yard waste deposits as well as commercial sales activity. Slips should contain delivery dates, amounts, and be signed by the hauler or commercial customer. One part would be retained by the hauler or customer, another filed by municipality or customer, and the third by number. A member of the staff should be assigned the responsibility of accounting for numerical sequence.
- Compile activity on a daily or weekly basis to expedite billing preparation. Management should consider billing commercial customers on a weekly or semi-monthly basis to improve payment turnaround time.

To mitigate anticipated resistance we recommend a written notice explaining the benefits of the new process (i.e. more accurate billing).

3. Inadequate payroll reporting controls

Condition: The same employee compiles, records, and approves payroll information. Without separation of duties errors or omissions could occur and not be detected. The county time reporting system requires exception reporting (time off, additional time worked) for full time employees and hours worked for part time employees.

Audit tests revealed several instances of time off not reported and inaccurate reporting of hours worked by part time employees.

Recommendation: The task of compiling and entering data should be separated from approval, which should be performed by management. Also, management should ensure that the above referenced reporting oversights are corrected in the county time reporting system.

4. Inadequate cash handling controls

Condition: One cash register is shared by several employees. As a result, management would be unable to determine the source of lost or stolen funds. Effective cash handling control includes separate cash drawers and end of day reconciliations.

Recommendation: Due to the relatively small amount of cash collected we recommend a more practical approach. This could be achieved by separating cash collection, end of day settlement, bank deposit, and advice of transmittal preparation duties. When separation is not possible due to limited resources management should respectively review and sign off on daily cash settlements.



COUNTY OF LEHIGH
Department of General Services

Jan K. Creedon
Director of General Services

TO: Thomas Slonaker
County Controller

FROM: Jan Creedon *jc*
Director, Department of General Services

DATE: February 10, 2010

RE: Response to Internal Audit of the Compost Site

Attached is my response to the above referenced audit performed by your office. Comments follow each point of your recommendations. Please call if you have any questions.

1. Lack of formal cost sharing and participation agreement

Recommendation: Management should secure binding commitments from municipalities to utilize and share in funding site operations. Several options to consider include:

- Enter into intergovernmental agreements with municipalities defining financial obligations and participation;

Response: The current standing of Act 101 is that the County can only ask the municipalities to voluntarily use our site and pay for services. This has been tenuous at best for several of the municipalities who believe that they should not have to pay for services or drop off. Pressing the issue of a formal agreement at this point in time may reduce the number of participants in the program and collapse the program.

- Ascertain if flow control legislation could be enacted via county ordinance to compel municipal participation;

Response: Flow control to our composting facility by the municipalities and the necessary legislation is currently being considered for inclusion in the Solid Waste Management Plan currently being drafted by the Solid Waste Advisory Committee and our consultant Kimball Corporation.

- Establish a municipal authority with municipal representation to assume responsibility for site operations;

Response: Multi-municipal composting facilities are a requirement of the PA Department of Environmental Protection for awarding Act 101 Section 902 grants to purchase the processing equipment needed to properly compost leaf and yard waste. It has been our experience and the experience of many other facilities throughout the state that these types of operations are better run when there is only one facilitator, and the municipalities are treated as customers. Our facility has served as a model by PA DEP for other facilities considering composting operations in the State.

- If efforts to reach a binding agreement fail, the County should limit site activities to those mandated by Act 101.

Response: I have two concerns with this recommendation. One is that with only 11 of our 25 municipalities are mandated. The non-mandated ones would suddenly be without service for the recycling of their leaves, grass clippings, and yard waste. Secondly, the remaining participating municipalities would have an increased cost because there would be a larger operational amount spread among fewer participants. Those not participating would have to use private companies which will triple their current cost.

As a reminder, Act 101 strictly forbids the disposal of these materials in the landfill and trash haulers will not collect them either through private subscription or municipal contracts unless they can deliver them to a facility that is cost-effective to them.

In view of all of the issue discussed above, the County is considering closing the site after this year.

2. Inadequate billing controls

Condition: We found several areas in which billing controls are inadequate: Billing controls should provide reasonable assurance of accurate and timely billing.

Recommendation: Management should implement the following billing procedures:

- Use pre-numbered 3-part delivery slips to track municipal yard waste deposits as well as commercial sales activity. Slips should contain delivery dates, amounts, and be signed by the hauler or commercial customer. One part would be retained by the hauler or customer; another filed by municipality or customer, and the third by number. A member of the staff should be assigned the responsibility of accounting for numerical sequence.

Response: We could implement the suggestion of triplicate pre-numbered slips for the commercial haulers, but it would be problematic for the municipal participants. Currently the municipalities keep a stack of the un-numbered single copy delivery slips in each of their fleet dump trucks as well as the hauling company vehicles that deliver material for them by contract. Since the municipalities use the delivery of their leaf and yard waste to our facility as "fill in work" for their municipal crews, they can't guarantee which driver will be delivering which material on any given day of the week. This makes the suggested requirement of sequential numbered slips impossible if the numbered slips need to be accounted for within a short timeframe.

- Compile activity on a daily or weekly basis to expedite billing preparation. Management should consider billing commercial customers on a weekly or semi-monthly basis to improve payment turnaround time.

Response: It is our goal to comply with this suggestion as soon as possible.

3. Inadequate payroll reporting controls

Condition: The same employee compiles, records, and approves payroll information. Without separation of duties errors or omissions could occur and not be detected.

Recommendation: The task of compiling and entering data should be separated from approval, which should be performed by management. Also, management should ensure that the above referenced reporting oversights are corrected in the county time reporting system.

Response: The difference in the audit tests and the actual reported time was due to an informal calendar that was kept in the office. The purpose of this calendar was not to record employee time, but rather to unofficially give notice to fellow employees regarding upcoming personal, vacation, or reward days taken by others. This calendar was never intended as a formal document by the employees or the management of this office and was not treated as such.

The tasks of compiling the employees time, entering the time into the County system, and approval has now been separated. New formal time sheets have been developed and are maintained by management. Upon completion of the employee's time sheet they are signed by the employee, and then they are reviewed and approved by a supervisor. The time is then entered into the County system by a separate employee and approved by management as recommended.

4. **Inadequate cash handling controls**

Condition: One cash register is shared by several employees. As a result, management would be unable to determine the source of lost or stolen funds. Effective cash handling control includes separate cash drawers and end of day reconciliations.

Recommendation: Due to the relatively small amount of cash collected we recommend a more practical approach. This could be achieved by separating cash collection, end of day settlement, bank deposit, and advice of transmittal preparation duties. When separation is not possible due to limited resources management should respectively review and sign off on daily cash settlements.

Response: Cash handling controls were immediately implemented by separating all duties as suggested. Future review by management of all transactions performed during times of limited employee resources will be performed at the start of the following business day.

cc: County Executive Donald T. Cunningham, Jr.
Thomas Muller, Director, Department of Administration
Brian Kahler, Chief Fiscal Officer