

**CITY of
SPRINGFIELD**



Internal Audit Report

Environmental Services Department

October 2012

2012-03

Environmental Services Department
Table of Contents

	<u>Page</u>
Letter of Transmittal	1
Authorization	2
Audit Objectives Scope and Rating.....	2
Overall Conclusion	2
Background	3
Audit Objective Analysis and Opportunity for Improvement	4
Management Response	10
APPENDIX A – Audit Rating System	11



October 22, 2012

Honorable Mayor and Members of the City Council:

I am pleased to present the attached internal audit report on the Environmental Services Department (the "Department"). The purpose of the audit was to evaluate controls over operations of the Department and identify opportunities to enhance internal controls and further mitigate risks based on the audit objectives.

A draft for discussion was provided to the Director of Environmental Services and the City Manager's Office prior to the release. The Department was very responsive to the recommendations.

The accompanying Background and Statistical section of the audit report is presented for informational purposes. This information was obtained from the Department's management and was not subjected to the procedures applied in the audit of the division.

I would like to thank the staff at the Department for their full cooperation and assistance provided during this audit.

Respectfully submitted,

Kristy Bork, CPA
Internal Auditor
City of Springfield

Attachment

cc: Greg Burris, City Manager
Fred Marty, Deputy City Manager
Collin Quigley, Assistant City Manager

Authorization

The Internal Audit Department has conducted an audit of the operations of the Environmental Services Department (the “Department”). The audit was conducted under the authority of Chapter 2, Section 15 of the Springfield City Charter and in accordance with the Annual Audit Plan approved by City Council.

Audit Objectives Scope and Rating

This audit was performed in accordance with *Generally Accepted Government Auditing Standards*, which included tests of the controls and records and other audit procedures that the Auditor considered necessary in the circumstances. The following discussions and conclusions are based on the existing internal controls as of the date of this report. Opinions and conclusions could change as a result of changes to existing internal controls or changes in the applicable laws and regulations. This audit covered the fiscal year ending June 30, 2012, although the Auditor examined certain events and transactions occurring before and after that period.

The specific audit objectives and ratings of each objective are noted in the following table. The overall results of the audit indicate that the control environment at the Department is **yellow**. The rating definitions are included in *Appendix A* of this report. The rating system evaluates control risk, or the risk that internal controls in place will adequately prevent or detect fraud, errors, misuse of City assets, and/or maintain compliance with regulatory standards. The ratings do not necessarily indicate that fraud and/or abuse have occurred, but indicate the need for additional controls.

Audit Objectives	Objective Ratings		
OBJECTIVE #1 – Evaluate the effectiveness of controls over cash collection procedures and revenue recognition and ensure such controls are in place to adequately segregate duties to minimize the risk of loss due to error or theft.		X	
OBJECTIVE #2 – Evaluate the effectiveness of internal controls over regulatory testing requirements to ensure compliance with issued permits.		X	
OBJECTIVE #3 – Evaluate the internal controls over budgeting and spending to ensure revenue assumptions are appropriate and ensure compliance with City purchasing policies.		X	

OBJECTIVE #4 – Evaluate the internal controls over the approval of time sheets used to pay temporary employees.			X
OBJECTIVE #5 – Evaluate the internal controls over fixed assets and capital improvements, including purchasing, recording, and monitoring controls.	X		

Overall Conclusion

Environmental Services is the newest City department. As they continue to split out from Public Works, the Department should continue to evaluate current internal controls over financial activity and reporting and ensure that controls adequately mitigate risk of fraud and errors. Additionally, concrete policies and procedures should be developed and adopted to further enhance the control environment of the Department.

Background

Environmental Services is broken out into four separate divisions: Clean Water Services, the Office of Sustainability, Environmental Compliance and Solid Waste Management.

Clean Water Services consists of the Southwest Treatment Plant, Northwest Treatment Plant, 19 lift stations, sanitary sewer collection system, laboratory analysis, industrial pre-treatment monitoring, and sewer and hauled waste billing.

The City of Springfield has reached an agreement with Missouri Department of Natural Resources regarding the City's sewer system. The agreement, called an Amended Consent Judgment, calls for \$50 million in improvements to the City's wastewater systems over the next 7 years. Wastewater services are important because they protect water quality, safeguard public health, and support future development.

Removing rainwater from the sewer system is part of the City's \$50 million Early Action Program (in response to MDNR's Amended Consent Judgement) to reduce overflows and improve water quality. Much of the excess water comes from downspouts, sump pumps, and area drains improperly connected to the sanitary sewer. The City is pursuing a pilot program to find the most cost-effective way to keep rainwater out of the sewer system at no additional cost to the property owner. This program is designed to keep future rates as low as possible.

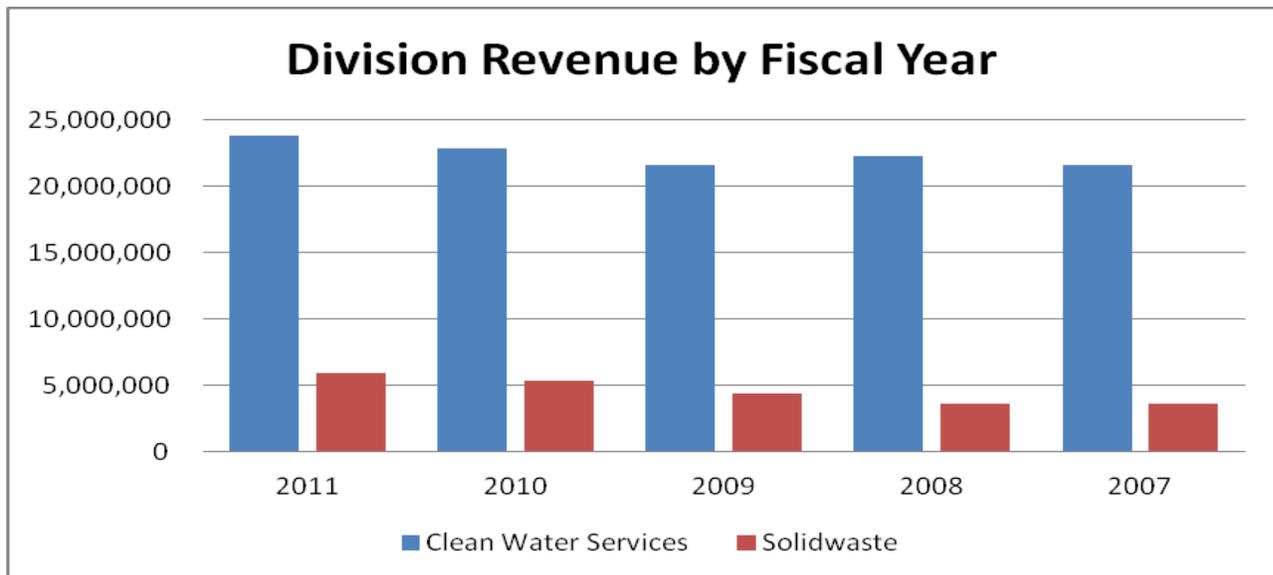
The Office of Sustainability activities include information and educational programs to promote sustainable practices for businesses and residents to reduce, reuse and recycle solid waste. The Sustainability office also tries to promote capital investments in more efficient infrastructure, for long-term savings of money and resources.

Environmental Compliance activities are to ensure that all projects in which the City is involved will meet or exceed all federal, state and local environmental regulations and laws. Those

activities include but are not limited to, underground storage tanks, hazardous waste disposal, and Brownfield's program and management of the MDNR's Voluntary Cleanup Program.

Solid Waste Management activities include operations of a sanitary landfill, recycling centers, Household Chemical Collection Center and yardwaste recycling centers.

The Department receives revenues from various user fees from the Clean Water Services Division and the Solid Waste Management Division. See a historical breakout of revenues below:



Audit Objective Analysis and Opportunity for Improvement

Objective 1: Evaluate the effectiveness of controls over cash collection procedures, and ensure such controls are in place to adequately segregate duties to minimize the risk of loss due to error or theft.

In planning and performing the audit, the Auditor considered the Department's internal control over the cash collection/revenue accounting cycle as a basis for designing auditing procedures. The Department is responsible for collecting user fees and donations. The Department should have adequate controls to ensure risks associated with the collection of program fees, recording of transactions, and proper financial reporting are properly mitigated.

To test the above-stated objective, the Auditor performed the following tests: interviewed management and staff, observed collection procedures, reviewed accounts receivable records and controls, and compared a sample of recorded transactions from the general ledger to supporting documentation. Based on these tests, the Auditor identified the following opportunities for improvement of the above-stated objective; items are considered significant deficiencies in controls, but are not considered to be material weaknesses.

Opportunities for Improvement (OFI):

- a. The Department requires large waste haulers to prepay for dumping waste at the landfill. At the time of testing, there was approximately \$17,000 sitting on prepaid hauler accounts that were over a year old, and approximately \$64,000 due to the City from various haulers and businesses that had exceeded their prepayment amount

The Department should develop procedures for Landfill staff to periodically review prepaid accounts. Procedures should include how haulers are notified when their account is getting close to a zero balance, how many times the haulers will be allowed to dump, if any, if the account drops below zero, and how account holders are notified of any outstanding balances.

- b. The Auditor tested the Landfill accounts receivable subsidiary ledger. At the time of testing, there was over \$183,000 in charges that had been posted to intergovernmental and/or interagency accounts. These accounts date back as far as 1999 when the subsidiary ledger software was put into service. Additionally, there was approximately \$163,000 showing as receivables from other City departments; however, the Department has determined \$30,000 of this amount has not been transferred between funds to pay for services.

Management should develop policies on when intergovernmental and/or interagency accounts are written off; amounts should not be shown as owed if there are no amounts that can be collected. Additionally, amounts owed by City departments should be shown paid on the subsidiary ledger when the fund transfers are made between funds. Overall records should be cleaned up so that if management runs an account balance report, it reports actual amounts prepaid and owed.

- c. Currently, department staff does not reconcile the cash collected and posted to the Landfill's subsidiary ledger to the City's general ledger. A monthly reconciliation should be performed by someone outside of the Landfill staff to ensure that amounts posted in the general ledger and subsidiary ledger are in agreement. This control would ensure that policies on account write-offs and payments posted agree with amounts recorded in the City's general ledger. Also, this would provide additional controls to ensure the subsidiary ledger activity is being properly reviewed and approved.
- d. Currently, credit cards are not accepted at the Landfill. Going forward, management may determine that a credit card machine would be a customer-friendly solution for the public to use when they use the landfill. However,

evaluating such use for large haulers may need to be reviewed, and prepaid accounts still may be the best solution with that customer base.

- e. The Department offers sewer lateral loans to citizens to help citizens pay for sewer lateral hookups. At the time of testing, the outstanding loan balance was approximately \$58,000; however, the Department has not recorded outstanding balances as a receivable in the City's general ledger system. Currently, only the cash collected is booked as revenue. Additionally, these loans are maintained in an Excel spreadsheet, in which there is little to no monitoring controls. Employees can make changes to the spreadsheet, thus changing records that could easily go undetected.

Management should consider other ways of tracking loan balances. A system that tracks receivables/loan balances would be provide better controls over posting payments, and making account write-offs, while tracking this activity by users to ensure any potential unauthorized activity could be more easily monitored and detected. Additionally, management should develop procedures for staff to follow that provide guidelines for write-offs and collections of loans. Currently, there are no set policies on collection procedures.

- f. During testing, the Auditor noted Sewer Operations is not properly following the City's "Financial Controls Procedure" manual when billing and collecting from the hauled waste providers that use the sewer treatment facilities. The Auditor noted receipts were not issued for payments received, and there is only one deposit made weekly. The manual states receipts should be issued for all transactions, and that departments receiving cash should deposit money no less than weekly or when cash on hand exceeds \$100. Management should ensure that the cash collection policies noted in the City's "Financial Control Procedure" manual are being followed.
- g. When testing the billing of the hauled waste providers, the Auditor noted that Sewer Operations has poor record keeping controls that are mostly manual controls and could be easily manipulated by employees. Hauled waste providers are billed monthly based on their usage and the amount of waste dumped at the facilities. The program used to bill is not used to track payments, and revenues are recorded on a cash basis. Additionally, if management needed to know if accounts were outstanding or past due they would have to manually review paper records maintained by Sewer Operations staff.

Management should review the need to maintain better accounts receivable records including using a program that tracks billings and payments by accounts to ensure that all accounts are being collected. Currently, if staff destroys paper

records, there would be little or no way for management to know if records were missing.

Objective 2: Evaluate the effectiveness of internal controls over regulatory testing requirements to ensure compliance with issued permits.

To test the above-stated objective, the Auditor performed the following tests: interviewed management and staff, reviewed controls over collecting and reporting environmental data to regulatory bodies, reviewed permits issued to the City that are the responsibility of the Department, and reviewed reports the Department had submitted to regulatory bodies. The Auditor did not test the accuracy of the data, but reviewed the controls in place to ensure the controls were appropriate to ensure reporting requirements were performed timely.

Based on these tests, it appears the Department has adequate controls in place to ensure environmental permits covering the Department's divisions are being reported timely and in accordance with Permit requirements. The following opportunity for improvement is considered a significant deficiency with regards to the organizational structure of environmental compliance required by the City's various permits.

Opportunities for Improvement (OFI):

- a. During fiscal year 2012, Environmental Services Department separated organizationally from the Public Works Department. One of the main reasons for making two separate departments was the increasing regulatory compliance the City was facing. As previously stated in the Background section of this report, removing rainwater from the sewer system is part of the City's \$50 million Early Action Program to reduce overflows and improve water quality. However, the Stormwater division and the regulatory compliance for stormwater activities are currently managed by Public Works. Additionally, the Environmental Services Department provides certain support services to the Stormwater division free of charge, as Stormwater does not have the budget to cover these services.

By separating out environmental compliance into different departments, the City may be creating an inefficient method of monitoring regulatory compliance. The risk of non-compliance with federal and state permits could result in large fines issued to the City. Based on said risks, and the interrelationships between the Stormwater Division and Environmental Services Department, management may want to combine the regulatory compliance section of Stormwater Division under the management of Environmental Services. Having one department to manage state and federal permits for water quality could better ensure compliance with state and federal guidelines and ensure the most effective and efficient management of City resources.

Objective 3: Evaluate the internal controls over budgeting and spending to ensure revenue assumptions are appropriate and ensure compliance with City purchasing policies.

To test the above-stated objective, the Auditor performed the following tests: interviewed management and staff, reviewed bid documents and contracts for a sample of large purchases, reviewed a sample of other professional services expense, and reviewed budgeted revenue assumptions. Based on these tests, the Auditor identified the following opportunities for improvement of the above-stated objective; items are considered deficiencies but are not considered to be material weaknesses.

Opportunities for Improvement (OFI):

- a. When reviewing other professional services expenses, the Auditor noted that the Landfill contracted certain lab and collection services that totaled approximately \$130,000 for a two-year period. Management should review these expenses and determine if there would be savings if the Landfill could utilize lab services run by the City at the Southwest Treatment facility.
- b. When reviewing expenses, the Auditor noted a large equipment purchase and large chemical purchases had not been bid out properly. Per discussions with staff at the Southwest Treatment Facility and Purchasing staff after the error was noted bids were issued to ensure that the purchases going forward were in accordance with purchasing policies. Management should ensure the department is following City purchasing policies for all purchases.

Objective 4: Evaluate the internal controls over the approval of time sheets used to pay temporary employees.

To test the above-stated objective, the Auditor performed the following tests: interviewed management and staff, reviewed controls over processing payroll time sheets, and reviewed a sample of time sheets. Based on these tests, the Auditor identified the following opportunity for improvement of the above-stated objective; item is considered a material weakness in control.

Opportunities for Improvement (OFI):

- a. The Auditor reviewed a sample of time sheets, based on location, for four pay periods covering late December 2011, January 2012, and the beginning of February 2012. Management should consider implementing an automated time system. Having automated systems in place to manage wage and hour policies really enhances compliance significantly. This leads to reduced exposure, reduced risk of violations, and overall cost savings. Another advantage of an automated system is that it lets management see, in real time, whether the time being captured is realistic and accurate.

Additionally, the Auditor has discussed timesheet issues with the City Manager's Office as there are other City Departments using paper timesheets. The City Manager's Office is currently working with Information Systems to develop a time line in which all City Departments will migrate to electronic time keeping.

Objective 5: Evaluate the internal controls over fixed assets and capital improvements, including purchasing, recording, and monitoring controls.

To test the above-stated objective, the Auditor performed the following tests: interviewed management and staff, reviewed capital asset inventory listing, and reviewed capital asset purchases.

There were no noted issues or concerns with this objective; controls and procedures in place appear appropriate.

Management's Response to Findings

The following response was provided by Steve Meyers, Director of Environmental Services, and his senior management, except for response 2.a, which was provided by the City Manager's Office.

Objective 1:

- a. The Department will develop a policy that will establish procedures for reviewing the voucher accounts on a regular basis to ensure that these accounts are as up-to-date as possible. This policy will provide guidelines to voucher account customers and City staff on how these accounts will be handled. Specifically, these guidelines will seek to limit the City's and the customer's exposures to negative balances by limiting the amount of time that a customer can exceed the prepaid amount before being placed on a cash-only (or pay-as-they dump) basis. It is also the intent of the Department that this policy will eliminate aged accounts currently on the ledger by making final attempts to contact inactive account owners and refunding any money currently being held by the City. If inactive account owners are not locatable, the Department will work with legal staff to determine proper disposition of this unclaimed property.
- b. The majority of accounts referenced in this objective are shown as outstanding balances due to intergovernmental agreements made in response to clean-ups or requests made due to budgetary constraints. The Department will address these aged accounts by developing guidelines for reviewing accounts and agreements to determine if the criteria for the agreements are still being met by involved agencies. If these agreements are determined to still be in effect, guidelines will outline the documentation and approvals necessary for writing off outstanding account balances. If necessary, the City will procure formal legal agreements with the other governmental agencies. In addition, the Department will continue to review outstanding interdepartmental balances shown on the landfill's subsidiary ledger and determine if there are corresponding transactions in the City's general ledger. Once these determinations are made the Department will work toward completion of the interdepartmental transfers and/or completing the documentation necessary to reconcile the two different ledgers.
- c. As the policies and procedures in Objectives 1a and 1b are put into place and the landfill's subsidiary ledger becomes more current and up-to-date the Department will put into place procedures for non-landfill staff to reconcile the landfill's subsidiary ledger with the City's general ledger. These procedures will ensure that policies and procedures established in response to objectives 1a and 1b are being properly implemented and documented to ensure financial security for the Department.

- d. The Department will continue to review the need for credit card usage at the landfill. The Department recognizes that while this may be a customer-friendly solution for our customers, there remain a number of issues and obstacles to review to determine if credit cards are in the best financial interest of the City.
- e. After the Public Works Internal Audit conducted in 2009, Sanitary Services implemented the following recommendations made by the Internal Auditor:

The department segregated accounting duties without increased expenses in additional staffing by using the administrative staff from Sanitary Services and Traffic Engineering to maintain logs on all payments received through the mail and in person. These logs are still being maintained.

A comprehensive control ledger was established to track the outstanding loan balance and a supervisor reviews the control ledger monthly and initials the ledger. This process is still being used to track outstanding loan balances as well as log all payments made. Also, new borrowers are being highly encouraged to set up their payments through a direct ACH debit.

Staff is in the process of developing written guidelines to be followed with regard to write-offs and collection of loans. At this time, administrative staff works closely with the Law Department on the collection of unpaid loan payments. Staff will also work with Information Services and Finance to see if there is a better tracking mechanism for the loans than the current system in place.

- f. Management and staff have worked to segregate duties to ensure cash collections are safeguarded as best as possible. The Division will rework cash handling procedures to further segregate duties and to be consistent with the "Financial Controls Procedures" manual.
- g. Management and staff will work with Information Services and Finance to see if there is a better billing and recording mechanism for the hauled waste billing than the current system in place. Staff will see if this can be accomplished with the Oracle re-implementation.

Objective 2:

- a. The City Manager agrees with the Auditor's recommendation, and has realigned organizationally the Stormwater Regulatory Compliance Group from Public Works to the Environmental Compliance Division of Environmental Services. Due to the significant environmental liability involved, we believe this realignment will provide the most efficient and comprehensive organizational body to communicate with regulators and deal with a wide variety of compliance requirements for which the City is responsible.

Objective 3:

- a. In fiscal year 2012, the outside laboratory expenses were approximately \$21,000. However, the Department recognizes that the internal laboratory services provided by the SWWTP may provide an internal cost savings to the City. The Department will work to prepare a list of the services currently provided by the outside laboratory and prepare a cost comparison for Departmental review.
- b. Somewhere during the transition of new management at the Southwest Plant and the retirements of the Superintendent of Clean Water Services, this bid was missed and the process not followed correctly. Plant Management has worked closely with Purchasing to resolve this issue and also to insure it is not repeated. At the direction of Purchasing we split the bid into two – one for equipment and a second bid for chemicals. The equipment bid was awarded earlier this summer to Kimera and the chemical bid was awarded to PVS Technologies.

Objective 4:

- a. The Department is currently working with Information Systems to adopt electronic time keeping as we feel it will provide more efficiency in time keeping and help our employees during the Oracle re-implementation in the future.

APPENDIX A – AUDIT RATING SYSTEM

Red – An overall unsatisfactory or unacceptable state of control. The Red level of control denotes significant business risk or exposure to the City that requires immediate attention and remediation efforts. The overall control environment does not provide reasonable assurance regarding the safeguarding of assets, reliability of financial records, and compliance with City policies and/or government laws and regulations.

Yellow – A state in which the controls in place need improvement. If these controls are not improved, this could lead to an overall unsatisfactory or unacceptable state of control.

Green – An overall satisfactory or acceptable state of control, where risk is minimized and managed. The overall environment provides a high degree of assurance regarding the safeguarding of assets, reliability of financial records, and compliance with City policies and government laws and regulations. Control weaknesses noted, if any, are relatively minor.