



Oswego County

Transfer Station Cash Receipts

Report of Examination

Period Covered:

January 1, 2014 – September 9, 2015

2015M-334



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2016

Dear County Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of Oswego County, entitled Transfer Station Cash Receipts. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

Oswego County (County) is located in central New York State, serves approximately 122,000 residents and is governed by a 25-member Board of Legislators (Board). The appointed County Administrator is the chief executive officer and is responsible for overseeing County operations.

The Department of Solid Waste (Department) is a County department which is responsible for providing recycling and solid waste services to residents, businesses and commercial waste haulers in the County. The Infrastructure, Facilities and Technology Committee, composed of seven Legislators, oversees the Department. The Department's budgeted appropriations for 2014 and 2015 totaled approximately \$7.1 million each year and were funded primarily with revenues from tipping and user fees and the sale of steam, electricity, scrap and recycling materials.

The Department, managed by the Director,¹ operates five transfer stations,² an Energy Recovery Facility (ERF), a Material Recovery Facility (MRF) and a landfill. Authorized users of the transfer stations can use a prepaid bag program, obtain garbage disposal stickers³ and/or pay a tipping fee based on the weight of the trash disposed and pay the County using cash, check or credit card. The Department employs 62 employees,⁴ including 23 transfer station attendants (attendants). The Solid Waste clerk (clerk) is responsible for overseeing the day-to-day cash receipt operation of the transfer stations. In 2014, the Department collected approximately \$7.8 million⁵ in revenue, including \$1.8 million collected at the transfer stations by the attendants for tipping and user fees (i.e., sale of garbage bags and garbage disposal stickers and fees collected for weighed loads).

¹ There were two Directors during our audit period. The previous Director retired effective August 21, 2015 and the current Director was appointed on August 24, 2015.

² Bristol Hill, Hannibal, Hastings, Oswego and Pulaski

³ Residents can purchase two types of garbage disposal stickers. Annual residential garbage stickers, which are affixed to residents' car windows, may be purchased to dispose of standard household waste. CFC (chlorofluorocarbons) stickers, which are affixed to appliances containing refrigerants, may be purchased to dispose of the appliances.

⁴ There are 23 transfer station, MRF and landfill employees; 28 ERF employees; six office staff; four mechanics; and one maintenance supervisor.

⁵ Tipping and user fees \$6.3 million, sale of steam and electricity \$874,000, sale of scrap material \$403,000, sale of recyclables \$267,000

Objective

The objective of our audit was to review the internal controls over the cash receipts process of the Department. Our audit addressed the following related question:

- Did Department officials implement internal controls to ensure that transfer station cash receipts were properly collected, recorded and deposited?

Scope and Methodology

We examined the cash receipts process of the County's transfer stations for the period January 1, 2014 through September 9, 2015.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

Comments of County Officials and Corrective Action

The results of our audit and recommendations have been discussed with County officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, County officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the County's response letter.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Clerk of the Legislature's office.

Transfer Station Cash Receipts

A well-designed system of controls over transfer station cash receipts requires that Department officials establish policies and procedures that provide for the timely supervision of those charged with handling money and a comparison of the amounts deposited with amounts collected. Voided transactions should also be reviewed to ensure they are documented and legitimate, and individual user access rights should be assigned to all attendants to establish accountability and assist with addressing any identified errors or irregularities. Furthermore, it is essential to maintain an inventory of all garbage bags and garbage disposal stickers that are issued, sold and on hand. An accurate inventory is an effective tool that allows Department officials to ensure that all garbage bag and garbage disposal sticker sales are accounted for and helps them monitor sales operations more effectively.

Department officials have established a cash management policy and related procedures that addresses the collection, deposit and reporting of transfer station cash receipts and establishes an inventory process for garbage bags and garbage disposal stickers. Attendants collect money at each transfer station and enter the details of each transaction, such as the customer name or vehicle license plate number, amount collected and payment method, into the Department's computerized financial system and print a transaction receipt. However, the attendants have the ability to void the transactions from the system after receipts are recorded.

Daily, the attendants are required to print a transaction report, showing the total of the day's cash receipt transactions, to ensure that this total (excluding receipts paid by credit card) equals the amount of cash and checks on hand to be deposited (less the amount retained to be used to make change). Attendants must also remit these transaction reports to the clerk weekly, along with copies of the deposit slips. In addition, attendants are required to maintain an inventory of garbage bags and garbage disposal stickers. Monthly, the clerk completes a reconciliation comparing bank statement deposits to the daily transaction report totals. However, prior to our fieldwork, the clerk did not review the voided transactions. We reviewed two weeks of transfer station cash receipts totaling \$153,785 from the receipts and transaction reports to deposits on bank statements⁶ and found that all amounts were deposited timely and intact with no significant exceptions. However, we identified weaknesses in controls over voided transactions and inventory control.

⁶ One week in January 2014 and one week in July 2015; see Appendix C for methodology detail

Voided Transactions – It is important that policies and procedures are established for voided transactions to include documenting the reasons for the voids and retaining the documentation so that someone independent of the cash receipt process can adequately review the transactions to ensure they are legitimate. During our audit period, the Department voided 850 total transfer station transactions amounting to \$170,834.

When we began fieldwork in July 2015, Department officials did not have a policy or procedures to address voided transactions. As a result, detailed descriptions of the reason for voiding transactions were not always recorded in the Department’s financial system. In addition, not all of the attendants retained the original printed receipts to support the voids. Although voided transaction reports were available, Department officials did not review them to determine if the voids were for legitimate reasons. Furthermore, two attendants were not assigned unique user names and passwords to access the financial system prior to August 2015. A supervisor for two of the transfer stations told us he would regularly log into the financial system in the morning and the two attendants who were not given user rights would process daily transactions using his credentials. As a result, Department officials could not know exactly who voided transactions because all transactions made by the attendants reflect the supervisor’s user identification. Without adequate oversight of voided transactions, attendants could void transactions and misappropriate the cash payments without detection.

Due to the control weakness, we reviewed 61 voided transactions from three transfer stations⁷ voided transaction reports, totaling \$15,486. We reviewed receipts for the voided transactions and any identifiable subsequent receipts issued to correct the voided receipts in order to determine whether the reason for each void was legitimate. We determined that 16 voided transactions totaling \$4,881 were legitimate and supported. However, the remaining 45 voided transactions totaling \$10,605 lacked original voided receipts, supporting documentation or both to indicate the reason for the voids. For example, 14 of these voids totaling \$4,971 (47 percent) were described as “error” in the computerized financial system. Department officials and attendants were unable to provide us reasons for the voided transactions. As a result, Department officials cannot ensure that the voided transactions were for legitimate reasons, and, without a regular review of voided transactions, there is an increased risk the attendants could have misappropriated the cash payments.

⁷ Bristol Hill, Oswego and Pulaski; see Appendix C for methodology detail

Due to the lack of voided transaction monitoring, we reviewed security video for nine voided transactions at the Bristol Hill transfer station and nine at the Oswego transfer station during August 2015 for any potential questionable activity. Upon review, no video was recorded by the County for all nine voided transaction dates at the Bristol Hill transfer station and only five of the nine voided transaction dates were recorded and available for review at the Oswego transfer station. For the five transactions at the Oswego transfer station, we reviewed transfer attendant activity prior to and after the time stamped record of the voided transaction and viewed the attendant's end of the day cash out process for potential questionable activity. We did not identify questionable activity related to the five voided transaction dates we viewed.

As of August 2015, Department officials adopted a voided transaction policy to require a documented reason for a void in the financial system and a voided ticket and report to be generated and submitted daily to the clerk for review. We observed the attendants following this policy, and we commend Department officials for instituting a voided transaction policy. In addition, we were told and observed⁸ that, as of August 2015, attendants who did not have unique user names and passwords to access the financial system were given their own access credentials. Also, officials told us the supervisor discontinued the practice of logging into the financial system at the two transfer stations.

Inventory – Attendants are required to count and log garbage bags and disposal stickers at the beginning and at the end of the day and record the results of their inventory count on the daily inventory sheet. Garbage disposal stickers are accounted for using consecutive serial numbers, and garbage bags are usually accounted for using sleeves.⁹

Although the attendants counted and recorded the beginning and ending number of garbage bags on the inventory sheet, they did not count and record the quantity of garbage disposal stickers. Instead, they only recorded the beginning and ending serial numbers. Without a count of the disposal stickers on hand, attendants and Department officials have no assurance that all stickers are being properly accounted for on a regular basis. Also, the number of garbage bags and disposal stickers sold each day was not indicated on the inventory sheet to identify any changes in inventory. In addition, no one outside of the cash receipts process performed periodic inventories of garbage

⁸ We reviewed a user report provided by the clerk and observed that the two attendants were assigned user names. No password information was provided on the user report.

⁹ Each sleeve contains 10 prepaid garbage bags.

bags and disposal stickers. Prior to our audit, Department officials had not reconciled the issuance, sale and current inventory of garbage bags and disposal stickers.

Due to the weakness in controls over inventory, we performed a physical inventory count of garbage bags and disposal stickers at three transfer stations.¹⁰ We compared our count to the ending inventories recorded by the attendants and to recorded daily sales and found that all sales were accounted for at the three stations. However, we found that stickers were sold out of sequence at the Bristol Hill station. Because attendants did not count the stickers or record the quantity sold and on hand on the daily inventory sheets, and no one outside of the cash receipts process performs a periodic inventory count, attendants could sell stickers out of sequence and fail to record the related receipts without detection.

Prior to the end of our fieldwork,¹¹ the clerk began performing a monthly reconciliation for all transfer stations, comparing the changes in inventory levels for garbage bags and garbage disposal stickers against amounts recorded as sold in the Department's financial system. However, without requiring attendants to record the quantity of garbage disposal stickers on hand at the beginning and end of each day, and without periodic physical inventories by someone independent of the cash receipts process, the ability to monitor and account for transfer station inventories remains diminished.

Recommendations

Department officials should:

1. Require attendants to document the quantity of garbage disposal stickers on hand at the beginning and end of the day and sell the garbage disposal stickers in sequence.
2. Establish a process for someone independent of the cash receipts process to periodically perform a physical inventory of garbage bags and disposal stickers and compare the results of this review to inventory levels listed on the daily inventory sheet to ensure the accuracy of the reported inventory levels.

¹⁰ Bristol Hill, Oswego and Pulaski; see Appendix C for methodology detail

¹¹ October 9, 2015

APPENDIX A

RESPONSE FROM COUNTY OFFICIALS

The County officials' response to this audit can be found on the following page.



COUNTY OF OSWEGO
OFFICE OF THE COUNTY ADMINISTRATOR

County Office Building • 46 East Bridge Street • Oswego, NY 13126
Phone 315-349-8235 Fax 315-349-8237
Philip R. Church, County Administrator

February 29, 2016

[REDACTED] - Division of Local Government and School Accountability
Office of the State Comptroller
State Office Building, Room 409
333 East Washington Street
Syracuse, New York 13202-1428

Dear [REDACTED]

This letter is to acknowledge Oswego County’s receipt of your draft audit of transfer station cash receipts (2015M-334). We have reviewed the draft and find it factual and agree with its findings. The requested corrective action plan will be submitted within the required time frame.

Oswego County requests the following clarifications be made within the body of the report, based on our own records and on the additional information your staff discussed with county officials during the audit exit interview on Feb. 8, 2016.

“Voided Transactions” First paragraph. *“During our audit period, the Department voided 850 total transfer station transactions amounting to \$170,834.”*

1. We believe that readers of the audit should be provided with perspective to place these figures in proper context. Therefore, please clarify that the 850 voided transactions are among a total of 113,294 transactions that occurred during the audit period examined, and represent 0.7% of all transactions.
2. Some readers have incorrectly interpreted “\$170,834” to mean missing cash. Please clarify that this is the keypunch total of voided transactions.
3. During the exit interview, NYSOSC staff stated that they reviewed security video footage of the voided transactions and found no reason to suspect theft or fraudulent activity. Please acknowledge this in the final version of the audit report.

See Note 1
Page 10

See Note 2
Page 10

See Note 3
Page 10

Thank you for commending the Department of Solid Waste for rapidly instituting new voided transaction policies and practices. A corrective action plan regarding bag inventory counts is under final review and testing, and will be submitted to your office shortly.

Sincerely,

Philip R. Church,
County Administrator

Cc: Oswego County Legislature
Director of Solid Waste, Mark Powell

pchurch@oswegocounty.com www.oswegocounty.com Twitter @OswegoCounty

APPENDIX B

OSC COMMENTS ON THE COUNTY'S RESPONSE

Note 1

Although the number of voided transactions represents less than 1 percent of the total transactions that occurred during the audit period, it does not reduce the risk for inappropriate voided transactions to occur or lessen the internal control weaknesses identified.

Note 2

The \$170,834 represents the total dollar amount of transactions that were voided. Our report does not say this amount represents missing cash. However, given the total dollar amount of voided transactions, it further emphasizes the importance of effective internal controls to help reduce the risk of misappropriations of cash.

Note 3

We modified our report to acknowledge our review of security video footage in the body of the report and in Appendix C.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed and observed Department officials and employees, and reviewed Department procedures in order to understand and assess the process in which transfer stations revenues are collected, recorded and deposited.
- We traced all payments received at the Bristol Hill, Oswego and Pulaski transfer stations from July 5, 2015 through July 11, 2015 and January 5, 2014 through January 11, 2014 from the transaction receipts and/or daily transaction reports to deposits listed on the Department's bank statements to determine if all cash receipts were deposited timely and intact. We judgmentally selected transactions that occurred during January 2014 because most residential stickers are sold in January (new fiscal year) and during July 2015 because it was the most recently completed month for which bank statements were available. We selected Bristol Hill and Oswego because we found the attendants did not always document a reason for voided transactions. We also selected Oswego and Pulaski because both stations have a large number of residential customers and typically have more residential sticker sales.
- We reviewed 61 transactions from the Bristol Hill, Oswego and Pulaski transfer stations which were voided during January 2014 and August 2015, totaling \$15,486. We selected these three stations for the same reasons as described above. We traced these transactions from void reports to original and subsequent receipts to determine if the reason each of these transactions was voided was legitimate. We judgmentally selected January 2014 because most residential stickers are sold in January (new fiscal year) and August 2015 because it was the most recent month of activity completed at the time of our testing.
- We requested to review security video footage for nine voided transactions at the Bristol Hill transfer station and nine at the Oswego transfer station during the month of August 2015 for any potential questionable activity. We requested August 2015 because it was the last available month of video footage at the time of our fieldwork.
- We performed a physical inventory at the Bristol Hill, Oswego and Pulaski transfer stations on September 9, 2015. Using the transaction report for daily sales, we compared our physical inventory count to the inventories recorded by the attendants through September 2, 2015. We selected the three transfer stations for the same reasons described above.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX D

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