



**ANNE ARUNDEL COUNTY
OFFICE OF THE COUNTY AUDITOR**

September 14, 2011

The Honorable Members of the County Council
The Honorable County Executive John R. Leopold
Mr. Richard Drain, Controller
Mr. Ronald Bowen, Director, Department of Public Works
44 Calvert Street
Annapolis, Maryland 21401

Dear Members, Mr. Leopold, Mr. Drain and Mr. Bowen:

During our audit of the fiscal year 2010 Comprehensive Annual Financial Report, we determined that \$592,235 in checks received by the Department of Public Works, Bureau of Waste Management Services from February through December 2010 for scrap metal sales were not remitted to the County Office of Finance and deposited into the County's bank account. Consequently, we performed a follow-up review to determine whether management subsequently received and deposited these funds and whether management has implemented procedures to ensure all receipts are for the correct amounts and deposited timely.

The specific objectives of our review were to determine whether:

- management has established adequate procedures and controls over receipts from scrap metal sales to ensure all receipts are (1) for the correct amount based on the weight of the scrap metal, and (2) deposited into the County's bank accounts timely;
- the vendor replaced the \$592,235 of checks received from February through December 2010 and whether the replacement checks were deposited into the County's bank account and properly posted to the general ledger;
- checks for all other scrap metal sales from July 2009 through January 2011 were deposited into the County's bank account and properly posted to the general ledger;
- checks for all scrap metal sales during fiscal years 2008 and 2009 were deposited into the County's bank account and properly posted to the general ledger; and
- scrap metal sales were processed in accordance with the contract awarded to the private vendor.

To accomplish our objectives, we:

- documented the procedures and controls over the Bureau's sale of scrap metal and the receipt and subsequent deposit of checks.
- compared weigh tickets for the scrap metal collected and sold by the County to the weigh tickets remitted by the private vendor on a test basis to determine whether there were any significant differences.
- prepared a schedule of checks that were received and deposited by the County to determine the delay from the time of receipt to the time of deposit.

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- verified that the vendor remitted replacement checks for the \$592,235 of checks from February through December 2010 and determined that the replacement checks were deposited into the County's bank account and properly posted to the general ledger.
- determined that the scrap metal sales reported by the vendor during fiscal year 2008 and 2009 were deposited into the County's bank account and properly posted to the general ledger.
- verified the calculation of scrap metal prices during fiscal years 2010 and 2011.

We conducted our field work during April 2011 and June 2011.

This report is intended solely for the use of the County Council and the management of Anne Arundel County. Our findings and recommendation address controls in place and transactions that occurred during fiscal year 2010 and from July 2010 through January 2011. Management's responses to our recommendations are included following our report.

BACKGROUND

The Bureau of Waste Management Services operates the Millersville Landfill, the Glen Burnie Convenience Center, and the Sudley Convenience Center. These three sites serve as collection points for scrap metal that is subsequently sold to a private vendor under a contract with the County. Scrap metal prices are set in the contract based on market prices per the American Metal Market, a monthly trade publication. The Bureau of Waste Management Services reported \$795,968 in scrap metal sales in fiscal year 2010 and \$607,753 in fiscal year 2011 through January.

FINDINGS AND RECOMMENDATIONS

Objective 1: To determine whether management has established adequate procedures and controls over receipts from scrap metal sales to ensure all receipts are (1) for the correct amount based on the weight of the scrap metal sold, and (2) deposited into the County's bank accounts timely.

We reviewed the Bureau's procedures to determine whether the Bureau had implemented adequate procedures and controls to ensure that all checks for scrap metal sales were (1) for the correct amount based on the weight of the scrap metal sold, and (2) deposited into the County's bank accounts timely. We noted the following opportunities for improvement:

Weigh Ticket Verification - Millersville Landfill

When a truck from the vendor picks up scrap metal at the Millersville landfill, the truck is weighed when it enters the landfill and again when it leaves. Upon exit, the scalehouse operator gives the driver a weigh ticket that shows the truck's weight at entry and exit, the net weight of the scrap metal collected, and a specific transaction number. When the truck enters the vendor's facility, it is weighed again to determine the weight of the scrap metal collected. The vendor then remits payment to the County based on the weight of the scrap metal per its scales with a remittance advice disclosing the net weight of the scrap metal per its scales.

The Bureau's management represented that its staff agrees the County's weigh tickets to the remittance advices submitted by the vendor. However, the vendor's remittance advices did not always disclose the corresponding transaction numbers per the County weigh tickets, and the personnel performing this verification did not document their reconciliations. Further, management represented that it reviews each month's transactions to

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ensure that all revenue from the vendor is received, but this review was not documented either.

We compared the weigh tickets issued by the County at the Millersville Landfill to the vendor's remittances for October 2010 and January 2011. We were able to agree only four of the 52 County weigh tickets issued in October 2010 and 21 of the 25 County weigh tickets issued in January 2011 to the vendor's remittance advices. We were unable to match the other County weigh tickets to the vendor's remittances because the remittance advices did not reference the County weigh tickets by transaction number, and the vendor would combine multiple weigh tickets onto one remittance. Therefore, we were unable to determine whether the receipts were complete; i.e., whether the vendor remitted payments for each County weigh ticket.

We recommend that the Bureau require the vendor to identify the corresponding County weigh tickets on its remittance advices. We also recommend that Bureau personnel should document their reconciliation of the County's weigh tickets to the vendor's remittance advices, including a match of the transaction numbers per the Bureau's records. This reconciliation should be documented.

Management should also document its review of each month's transactions to ensure that all revenue from the vendor is received. Further, management should reconcile its records to the revenue posted to the general ledger.

Weigh Ticket Verification - Glen Burnie and Sudley Convenience Centers

The Glen Burnie and Sudley Convenience Centers do not have scales to weigh the vendor's trucks upon entry and exit, so there is no audit trail of scrap metal pickup from these two facilities. Consequently, we were unable to verify that the County had received payment from the vendor for all scrap metal pickup from these two locations.

We recommend that the Bureau implement procedures to document scrap metal pickups at the Glen Burnie and Sudley Convenience Centers. At a minimum, the Bureau should document the time and date of each pick-up and the size of the container picked up. They should then use this information to verify the vendor submitted payment for all pick-ups and that the weight per the vendor's remittances corresponds with the sizes of the containers picked up. The Bureau should then apply the same review and reconciliation procedures outlined above for the Millersville scrap metal sales.

Delay in Deposits

Prior to February 2011, the Bureau sent vendor's checks to the Office of Finance via interoffice mail. The Office of Finance would then deposit the check to the County's bank account and post the check to the general ledger.

Our review of payments for scrap metal sales from July 2009 to January 2011 disclosed significant delays between the dates checks were received by the Bureau and the dates of deposit. During fiscal year 2010, there were 44 checks that took an average of 51 days to deposit, with the greatest number of days being 124. During fiscal year 2011, there were 21 checks that took an average of 23 days to deposit, with the greatest number of days being 50. We were unable to determine the causes of the delays.

In February 2011, after we determined that \$592,235 had not been deposited, the Bureau adjusted its procedures. All payments are now supposed to be remitted to the County's bank at the end of each business day via the armored car service used to pick up and deposit all other cash receipts from the Millersville Landfill. This

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procedure, if followed, should eliminate deposit delays in the future.

Objective 2: To determine whether the vendor replaced the \$592,235 of checks received from February through December 2010 and whether the replacement checks were deposited into the County's bank account and properly posted to the general ledger.

We verified that the vendor provided replacement checks for the \$592,235 of checks received from February through December 2010 that management did not deposit. We agreed the amounts of the replacement checks to the amounts of the original checks less the processing fees the County had to pay for the vendor to reissue the checks. The replacement checks were deposited to the County's bank account by August 18, 2011 and properly posted to the general ledger.

Objective 3: To determine whether checks for all other scrap metal sales from July 2009 to January 2011 were deposited into the County's bank account and properly posted to the general ledger.

We determined that all checks from July 2009 through January 2011 for which management had remittance advices were deposited and recorded in the general ledger, except for the \$592,235 noted above. While we could determine that all the checks for which management had remittance advices had been deposited and posted to the general ledger, we could not determine whether the vendor had submitted checks and remittance advices for all scrap metal sold because of the deficiencies in the reconciliation procedures noted in Objective 1.

Objective 4: To determine whether checks for all scrap metal sales during fiscal years 2008 and 2009 were deposited into the County's bank account and properly posted to the general ledger.

Based on vendor remittance advices, the Bureau received \$1,190,646 for fiscal year 2008 scrap metal sales and \$771,335 for fiscal year 2009 scrap metal sales. We determined that all receipts were deposited into the County's bank account and recorded in the general ledger, except for one \$13,593 check received in November, 2007. We contacted the vendor to determine whether this check had ever been cashed, but the vendor had not determined the disposition of this check as of August 24, 2011. We recommend that the County contact the vendor and pursue this check to a final resolution.

Again, because of the deficiencies in the reconciliation procedures noted in Objective 1, we could determine that all checks for which management had remittance advices had been deposited and recorded in the general ledger, but we could not determine whether the vendor had submitted checks and remittance advices for all scrap metal sold.

Objective 5: To determine whether scrap metal sales were processed in accordance with the contract awarded to the private vendor.

We determined that the vendor remitted payments timely in accordance with the contract and that the prices the vendor paid were in agreement with the market value price per American Metal Market in accordance with the contract.

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We would like to thank the Bureau of Waste Management Services, particularly Kimberly Cogar and Crystal Harding, for their assistance and courteous cooperation. Please call if you have any questions regarding our findings and recommendations.

Sincerely,



Teresa Sutherland, CPA
County Auditor

Page 3 – Objective 1 - Weigh Ticket Verification - Millersville Landfill

Recommendation: "We recommend ... the vendor identify the corresponding County weigh tickets on its remittance advice"

Management's Response: Management agrees. The agreement specifies that weigh tickets accompany payment. The Bureau corresponded with the vendor to request that County weigh tickets be included with payment documentation and identify County weigh ticket numbers on its remittance advice.

Recommendation: "Bureau personnel should document their reconciliation of the County's weigh tickets to the vendor's remittance advices, including a match of the transactions numbers per the Bureau's records, and this reconciliation should be documented."

Management's Response: Management agrees. The Bureau incorporated this recommendation into a transaction-level reconciliation spreadsheet that is updated by the Office Support Specialist at the Millersville Landfill Administration building when remittance advice is received. The transaction-level reconciliation spreadsheet is verified by the Management Assistant II.

Recommendation: "Management should also document its review of each month's transactions to ensure that all revenue from the vendor is received. Further, management should reconcile its records to the revenue posted to the general ledger."

Management's Response: Management agrees. On February 11, 2011, the Bureau began documenting its reconciliation of all revenue payments received. This documentation captures date and amount of payments received for scrap metal, date and amount of deposits made to M&T Bank using Dunbar armored transportation service, date and amount of cash receipts processed, and date and amount of general ledger posting. The Office Support Specialist updates this information as payments are received, and the Management Assistant II reconciles payment information against the general ledger.

Page 3 – Objective 1 - Weigh Ticket Verification - Glen Burnie and Sudley Convenience Centers

Recommendation: "We recommend that the Bureau implement procedures to document scrap metal pickups at the Glen Burnie and Sudley Convenience Centers. At a minimum, the Bureau should document the time and date of each pick-up and the size of the container picked up."

Management's Response: Management agrees. In May 2011, the Bureau began using manifest forms to document loads retrieved from the Glen Burnie and Sudley

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Convenience Centers. Accordingly the Bureau now insures that the forms document date and time of each pick-up and the size of the container picked up.

Page 3 – Objective 1 - Weigh Ticket Verification - Glen Burnie and Sudley Convenience Centers (continued)

Recommendation: "They should then use this information to verify the vendor submitted payment for all pick-ups and that the weight per the vendor's remittance corresponds with the sizes of the containers picked up."

Management's Response: Management agrees. Manifest forms are reconciled against payments received. In addition, the vendor was requested to reference the corresponding manifest number on remittance advice for loads picked up. Manifest forms are retained with the corresponding payment documentation. A transaction-level reconciliation spreadsheet is updated by the Office Support Specialist at the Millersville Landfill Administration building when remittance advice is received. The transaction-level reconciliation spreadsheet is verified by the Management Assistant II.

Recommendation: "The Bureau should then apply the same review and reconciliation procedures outlined above for the Millersville scrap metal sales."

Management's Response: Management agrees. On February 11, 2011, the Bureau began documenting its reconciliation of all revenue payments received. This documentation captures date and amount of payments received for scrap metal, date and amount of deposits made to M&T Bank using Dunbar armored transportation service, date and amount of cash receipts processed, and date and amount of general ledger posting. The Office Support Specialist updates this information as payments are received, and the Management Assistant II reconciles payment information against the general ledger.

Pages 3-4 –Objective 1 - Delay in Deposits

Recommendation: "In February 2011 ... the Bureau adjusted its procedures. All payments are now supposed to be remitted to the County's bank at the end of each business day via the armored car service used to pick up and deposit all other cash receipts from the Millersville Landfill. This procedure, if followed, should eliminate deposit delays in the future."

Management's Response: Management agrees. Beginning February 2011, payments received are deposited directly to M&T Bank via armored car service on a daily basis. Checks are no longer sent via interoffice mail to the County Cashier's office. In addition, the Bureau and the Office of Finance are in the process of converting vendors to electronic payment where possible.

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Page 4 – Objective 4 – Deposit of Fiscal Years 2008 and 2009 Receipts

Recommendation: "We recommend that the County contact the vendor and pursue this [\$13,593 check from November 2007] to its final resolution."

Management's Response: Management agrees. All \$592,235 has been recovered and deposited in the County's bank account. As recommended by the County Auditor on August 24, 2011, the Bureau sent a letter to the vendor on August 26, 2011, to determine if the 2007 payment of \$13,593 cleared the vendor's bank. In response to that letter, the vendor notified DPW that a replacement check in the amount of \$13,593 was cut on September 9, 2011 and would be sent to the County this month.