



City of Denton Solid Waste Department

Evaluation of Functions, Processes and Controls

October, 2017



Agenda



- **Executive Summary**
- **Supplemental Information**
 - **Procedures Performed**
 - **Summary Results and Points for Consideration**

Executive Summary

- The evaluation focused on 6 transactional process areas at the Solid Waste Department, including
 1. Landfill Commodity Sales and Cash Collections
 2. Project and Contract Initiation, Authorization, and Monitoring
 3. Purchase Requisition and Approval
 4. Budget Preparation and Recording in JD Edwards
 5. Fixed Asset Inventory, Tracking, and Utilization
 6. Contract Labor and Overtime Management
- The purpose of our evaluation was to assess the procedures and controls currently in place and to ensure appropriate coverage of inherent risks in the process, compliance with the City's policies, and appropriate use of the City's resources. The objectives for the evaluation included:
 - A. Evaluate the design of procedures for the revenue to cash process at the landfill, procurement requisition and authorization, project and contract management and monitoring, budget preparation, equipment monitoring, and hourly and contract labor utilization for efficiency and effectiveness of process and internal control design.
 - B. Validate that procedures and identified controls are executed accurately and as expected for select transactions.
- Our procedures included interviewing key personnel within the Solid Waste Department to gain an understanding of the current processes in place, examining existing documentation, and evaluating the functions, and controls in place. We evaluated existing policies, procedures, and processes in their current state and developed recommendations to improve the structure of controls and efficiency of operations.

Executive Summary

- The results of our evaluation included the identification of existing internal controls, as well as recommended enhancements and additions to the control structure.
- Recommendations are rated as High, Medium, or Low based on our suggested priority with which management should address and remediate the identified issues.

Process Area		Controls Identified
1	Landfill Commodity Sales and Cash Collections	15
2	Project and Contract Initiation, Authorization, and Monitoring	15
3	Purchase Requisition and Approval	8
4	Budget Preparation and Recording in JD Edwards	9
5	Fixed Asset Inventory, Tracking, and Utilization	7
6	Contract Labor and Overtime Management	7
Total		61

Recommendations			
High	Moderate	Low	Total
2	1	2	5
5	2	1	8
-	-	1	1
1	2	1	4
-	1	-	1
2	-	-	2
10	6	5	21

Executive Summary

- There are 10 High risk observations that we identified during our procedures for which we have provided detailed recommendations to management for remediation. The recommendations associated with these High risk observations include:
1. Performing a cost of service analysis to be used in evaluating and establishing tonnage rates and processing fees at the landfill
 2. Enhanced system access controls within the Landfill operating application, Paradigm.
 3. Formally documenting and defining what constitutes a “project” at the landfill the required procedures for evaluating, approving, and managing a project.
 4. Development of a business case process and establishing required criteria and procedures for evaluating the operational and financial feasibility of a project at the landfill.
 5. Establishment of a project management office at the landfill to provide a central coordination point for ongoing projects.
 6. Formally define the conditions that would require a contract with another party and the required approvals prior to execution.
 7. Establish specific levels of review for contracts and leases, which include management of Solid Waste as well as other appropriate City personnel.
 8. Development of a strategic budgeting process, within the Solid Waste department.
 9. Development of a strategic staffing plan which analyzes the labor needs for each function within the Solid Waste Department.
 10. Enhanced procedures to monitor and approve overtime hours and the utilization of contract labor.

Supplemental Information

Objective A:

Procedures Performed

- Examined existing policy and process documentation to develop an understanding of the current flow of transactions, as well as the division of responsibilities and authorities within the six in-scope processes.
- Inquired with process owners and observed the execution of procedures in the field to enhance our understanding of the process flow and observed the execution of procedures performed by Solid Waste employees throughout each of the related in-scope processes.
- Examined supporting documentation to confirm our understanding of the transaction flow, reliance and usage of system data and reports in the execution of procedures.
- Identified internal controls currently in place and compare existing controls to expected controls for each in-scope process area. Identified internal controls were evaluated to ensure that they are sufficiently designed to mitigate risks inherent in the process, comply with the City's policies, and ensure appropriate use of City resources.
- Documented identified internal controls in a control matrix with a comparison to expected controls with each process.
- Evaluated the design of the existing processes to ensure that procedures are efficiently designed and internal controls sufficiently address inherent risks.

Objective B:

Procedures Performed

- We performed walkthroughs of actual transactions within each of the six in-scope process areas to verify our understanding of the process flow and ensure that controls were being executed as designed.
- Examined supporting documentation associated with reviewed transactions to ensure authorization by appropriate individuals and accuracy of recording and tracking procedures.
- Validated that systems are being utilized as expected and automation of activities is appropriate based on system functionality.
- Identified opportunities to improve the efficiency and effectiveness of procedures and internal controls.

Results: Landfill Commodity Sales and Cash Collections



Summary of Results of the Process and Control Evaluation:

Summary of the Control Vulnerability Analysis			
Landfill Commodity Sales and Cash Collections			
Process Area	Expected Control	Identified Control	Control Gap
Incoming waste is properly weighed, received, sorted and tracked as inventory within the landfill	3	3	PFC - 05
Fees for incoming waste and processing are appropriately calculated, recorded and collected	4	3	PFC - 01
On-account customers are properly identified, set-up and approved	2	2	PFC - 02
Wholesaler prices for depositing waste are reviewed, approved and properly applied	2	0	PFC - 02
Access to add and change wholesaler pricing terms in Paradigm are appropriately restricted	3	0	PFC - 03
Landfill commodity sales are consistently valued and accurately recorded	2	1	PFC - 04
Revenue is reconciled and cash deposits are secured timely	3	4	-
Cash and other forms of payment collected are limited to identified and trained staff	2	2	-
Total	21	15	

Points for Consideration:

- **PFC – 01 – HIGH – Formalize Process to Evaluate and Set Tonnage Rates:** The Department does not have a formal process to evaluate and set rates on an annual basis to ensure rates collected offset the cost of performing the service.
- **PFC – 02 – MODERATE – Evaluate Process for Accepting and Monitoring On-Account Customers:** The Department does not have a formal and consistent process for accepting on-account customers, determining their rate, assigning/setting up new trucks, and monitoring activity to ensure they are meeting the requirements.

Results: Landfill Commodity Sales and Cash Collections



Points for Consideration - continued:

- **PFC – 03 – HIGH – Enhance System Controls to Restrict Unauthorized Adjustments in Paradigm:** The Department does not have appropriate permissions restricted within Paradigm to limit access to manipulate customer data, including customer set-up, accounts, rates and setting for on-account customers.
- **PFC – 04 – LOW – Monitor Commodity Rates to Maximize Sales:** The Department does not have a process or expert to monitor commodity rates, specifically for metals, to identify when the prices are the highest to trade the product.
- **PFC – 05 – LOW – Restrict Flow and Track Visitors Entering and Departing the Landfill:** The Department does not have a process in place to ensure that the vehicles that enter the landfill facility are accounted for and logged electronically into Paradigm. Current access control is dependent on employee observation.

Results: Project and Contract Initiation, Authorization and Monitoring

Summary of Results of the Process and Control Evaluation:

Summary of the Control Vulnerability Analysis			
Project and Contract Initiation, Authorization, and Monitoring			
Process Area	Expected Control	Identified Control	Control Gap
New Landfill projects are properly identified, planned, recorded, and authorized	5	3	PFC - 06 PFC - 07 PFC - 08
Ongoing landfill projects are monitored to ensure compliance and that project milestones are achieved	3	2	PFC - 08
Contracts associated with a new project, lease, service or purchasing arrangement are properly vetted, authorized, and tracked	3	2	PFC - 09 PFC - 10
Contracts are reviewed by the City's Legal Counsel and approved prior to execution	1	2	PFC - 10
Executed contracts are effectively managed and monitored by trained staff	2	2	PFC - 11
Leases are monitored and rental payments are collected	1	1	PFC - 11
Invoice processing associated with contracted activities is validated in accordance with the contract terms	1	1	-
Contracted activities are completed in accordance of the terms of the agreement and associated deliverables are verified	1	1	PFC - 11
Contract renewals are performed timely and approved by the appropriate level of management and / of Council	2	1	PFC - 12 PFC - 13
Total	19	15	

Results: Project and Contract Initiation, Authorization and Monitoring

Points for Consideration:

- **PFC – 06 – HIGH – Formalize the Definition of a Project:** The Department does not have an established definition of what constitutes a project along with a process of identifying and determining the need for a project.
- **PFC – 07 – HIGH – Perform Business Case Analysis for New Projects:** Projects initiated and approved within the Department are not evaluated through a established business case analysis process within phases of approval to move forward to ensure the expected benefits exceed the costs.
- **PFC – 08 – HIGH – Establish Project Management Office:** The Department does not have a project management office for coordinating and facilitating project management procedures and administration across the Department for consistent initiation, execution and monitoring of projects.
- **PFC – 09 – HIGH – Define Condition in which Contract should be Utilized:** The Department does not have a definition of what circumstances constitute when a contract should be required along with appropriate coordination between the Department and Legal to ensure the terms and conditions are favorable.
- **PFC – 10 – HIGH – Formalize Contract and Lease Initiation, Review and Approval Processes:** The Department does not have a established and formalized contract and lease initiation, review, and approval process that includes review and oversight by Legal, Procurement, and the City Council.

Results: Project and Contract Initiation, Authorization and Monitoring

Points for Consideration - continued:

- **PFC – 11 – MODERATE – Create Contract Management Procedures:** The Department does not have formalized contract management procedures to identify all contracts, monitor progress, deliverables, terms, and obligations to ensure they are known and in compliance with expectations.
- **PFC – 12 – MODERATE – Enhance Contract Renewal Process:** The Department does not have formal policies, procedures, process or effective system to evaluate contract renewals along with the revised terms, conditions, and obligations to meet current needs.
- **PFC – 13 – LOW – Conduct Vendor Performance Monitoring:** The Department does not conduct or communicate vendor performance internally or to other City Departments.

Results: Purchase Requisition and Approval

Summary of Results of the Process and Control Evaluation:

Summary of the Control Vulnerability Analysis			
Purchase Requisition and Approval			
Process Area	Expected Control	Identified Control	Control Gap
The initiation of a purchase requisition is restricted to appropriate personnel	2	1	PFC - 14
Purchase requisition approval is restricted and based on a formally defined delegation of authority	1	1	-
Purchase requisitions are linked to an appropriate and clearly defined budget line item based on the nature of the expenditure	2	1	-
Purchase orders are issues for appropriate expenditures in accordance with City purchasing policies	2	2	-
Outstanding purchase orders are monitored periodically to ensure necessary purchases are made or closed in a timely manner	3	2	-
Invoices associated with an approved purchase order are properly authorized and coded to the correct PO in the system	*0	1	-
Total	10	8	

** Process is effectively controlled by a previously identified control*

Points for Consideration:

- **PFC – 14 – LOW – Conduct Verification of Needs Prior to Approval of Purchase Requisition:** The Department does not have a process to conduct verification of needs or internal availability prior to approving and processing purchase requisitions. However, purchase requisitions are routed for review and approval prior to being processed.

Results: Budget Preparation and Recording in JD Edwards

Summary of Results of the Process and Control Evaluation:

Summary of the Control Vulnerability Analysis			
Budget Preparation and Recording in JD Edwards			
Process Area	Expected Control	Identified Control	Control Gap
The budget process at the Solid Waste Department follows established City budgeting criteria and guidelines	2	2	-
The Solid Waste data used for forecasting revenues and projected expenses is complete and accurate	2	1	PFC - 15 PFC - 16
The Solid Waste budget ensure that projected revenues cover planned costs	1	1	PFC - 18
The detailed annual budget is accurately loaded into JDE for review and approval by the City Finance Team	2	2	PFC - 16 PFC - 17
Only authorized individuals have access to modify the final budget or reallocate budgeted funds between departments, projects, and accounts	3	3	-
Total	10	9	

Points for Consideration:

- **PFC – 15 – MODERATE – Enhance Reporting within Paradigm:** The Paradigm system does not produce reports with consistent data which allows historical data to be changed and provide inaccurate data.

Results: Budget Preparation and Recording in JD Edwards

Points for Consideration - continued:

- **PFC – 16 – LOW – Enhance Internal Controls over the Budget Preparation**
Spreadsheets: The formulas and cells within the Budget Preparation spreadsheets utilized by the Department for preparing the annual budget are not locked or restricted to prevent unauthorized changes and to preserve data integrity.
- **PFC – 17 – MODERATE – Enhance Consistency of Draft to Final Budget:** The final budget created and uploaded into JD Edwards is not consistent to the draft budgets that are at a department level due to the aggregated budget categories utilized for the final budget, resulting in budgets that cannot be sufficiently tracked and evaluated.
- **PFC – 18 – HIGH – Create a Strategic Budgeting Process:** The Department does not perform a strategic budgeting process to perform detailed forecasts for expected revenues and expenses. Though forecasts are performed, budget revenues are often modified to be increased without empirical data or sufficient reasoning.

Results: Fixed Asset Inventory, Tracking, and Utilization

Summary of Results of the Process and Control Evaluation:

Summary of the Control Vulnerability Analysis			
Fixed Asset Inventory, Tracking, and Utilization			
Process Area	Expected Control	Identified Control	Control Gap
Fixed asset acquisitions are authorized, budgeted, recorded and tracked	1	1	-
Fixed assets are periodically inventoried and assessed for utilization and status	4	5	PFC - 19
Leased equipment is monitored for effective use and returned when not in use	2	1	PFC - 19
Total	7	7	

Points for Consideration:

- **PFC – 19 – MODERATE – Perform Utilization Monitoring for Solid Waste Equipment:** The Department does not have a formal process for monitoring utilization of all equipment, including owned and leased equipment.

Results: Contract Labor and Overtime Management

Summary of Results of the Process and Control Evaluation:

Summary of the Control Vulnerability Analysis			
Contract Labor and Overtime Management			
Process Area	Expected Control	Identified Control	Control Gap
Contract Labor if Appropriately utilized and approved	3	2	PFC - 20
Contract Labor use is routinely monitored and evaluated	2	2	PFC - 21
Contract labor invoicing is sufficiently supported with appropriate documentation	1	1	PFC - 21
Overtime is appropriately utilized and approved	2	1	PFC - 21
Overtime use is routinely monitored and evaluated	2	1	PFC - 20
Overtime payments are evaluated for reasonableness and monitored from period to period	1	0	PFC - 21
Total	11	7	

Points for Consideration:

- **PFC – 20 – HIGH – Develop Strategic Staffing Plan:** The Department has a high reliance on contract laborers and overtime hours by full time employees to execute activities at the landfill without a thorough analysis being conducted of the staffing needs, which results in short-term focused, day-to-day decisions on staffing and capacity.
- **PFC – 21 – HIGH – Improve Oversight over Use and Monitoring of Contract Labor and Overtime:** The Department does not effectively provide oversight over the use and monitoring of contract labor and overtime, which results in exceeding overtime budgets and not being able to validate contract labor that was invoiced.

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