



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF ENVIRONMENTAL SERVICES BILLING AND COLLECTION CONTROLS

Report Number:

2022-A-12

Report Date:

06/07/2022

Council Members and County Executive Glassman:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of Environmental Services Billing and Collection Controls for the period of 07/01/2020 through 01/31/2022. This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2022.

The objective of this audit was to confirm that controls are adequate to ensure that customers are billed the correct amount and receivables are collected. The audit also considered the labor and expense costs related to the Maryland Environmental Services contract. The results of the audit, our findings and recommendations for improvement are detailed in this report.

We would like to thank the members of management for their cooperation during the audit; they have been provided an opportunity to respond to this report; the response provided follows the Issues and Corrective Actions.

Sincerely,

A handwritten signature in blue ink that reads "Chrystal Brooks, CPA".

Chrystal Brooks
County Auditor

CONCLUSIONS

Our opinion, based on the evidence obtained, is controls are adequate to ensure billings are correct and collected in a timely manner. However, the review of hauler applications can be improved. This assessment is based on the strengths and weaknesses identified for the operational objectives in the following table.

Business Process Objective	Assessment ⁱ
MES collects correct rates for each transaction	Effective
Harford County Government receives all revenue collected by MES	Effective
Waste Haulers are inspected, insured, bonded and approved by Harford County	Generally Effective
Harford County Government pays the correct labor and expense costs as billed by MES.	Effective

ISSUES AND CORRECTIVE ACTIONS

2022-A-12.01 Incomplete Bonding Documentation for Hauler Vehicles

Per the Hauler Licensing Procedures, in order to be a licensed hauler with Harford County Government, applicants must complete and submit an application to the with vehicle information, a Solid Waste Collectors Performance Bond (\$2,000 per vehicle) and \$50 inspection fee. Upon receipt of the application package, the documents will be reviewed and the hauler's credit rating reviewed. Each vehicle is inspected before the Deputy Director for Environmental Services approves the completed application package. Once approved, each truck receives an individually numbered Waste Hauler sticker and a Solid Waste Collection and Disposal License is sent to the hauler.

We reviewed a sample of hauler applications to confirm that each step in the process was completed. The sample of 19 approved haulers, included 47 licensed vehicles. All were approved timely with appropriate signatures and inspections documentation. However, two vehicles for one hauler did not have support for proper bonding. Three vehicles, for a different hauler, did not have a signed performance bond on file when the license renewal was completed. Upon request, bonding was provided; however, one of the three completed bond forms provided was dated after the request. It appears the County's processes to review and approve hauler bonding documentation was not adequate to ensure all vehicles were properly bonded, in part, because the criteria for determining proper bonding may not be adequately defined.

At the time of the testing, expecting \$2,000 in performance bonds per vehicle, the County lacked \$6,000 in bond insurance. Without proper bonding the County lacks a guarantee against the failure of the haulers to meet their obligations as a licensed hauler.

We recommend management provide refresher training to employees who review hauler applications. Additionally, management may want to consider updating the Harford County Solid Waste Hauler's License Procedures to thoroughly define criteria for acceptable bond coverage on a per vehicle basis for the various hauler vehicle types so employees will have appropriate criteria to more readily judge the adequacy of a hauler's bonding.

Management Response: MES agrees with auditors' finding of issues related to performance bond requirement for the haulers. Per the recommendations of the auditors, management will provide refresher training to employees who review hauler applications. Additionally, MES will prepare and provide reference guides to employees related to Harford County Solid Waste Haulers Licenses procedures to ensure adequacy and compliance per the County code and requirements. Procedures and communication will be improved between recipient (Harford County) of the cash bond and the hauler license (Maryland Environmental Service). Each responsible party will verify with each other that sufficient bonding for cash bonds has been provided prior to signing the hauler license package. Issues have already been reconciled for this year.

Expected Completion Date: 9/1/2022

BACKGROUND, OBJECTIVES, SCOPE AND METHODOLOGY

Since 2015, Harford County has contracted with Maryland Environmental Service (MES) to provide the majority of the functions involved in the operation and maintenance of the County's solid waste facilities. MES collects fees from users (trash haulers) and forwards those payments to Harford County each month. Monthly, MES bills the County for the administrative and operational costs necessary to perform these functions and maintains all supporting records, per the terms of the contract. The estimated operating costs are included in the budget approved by the County Council each year.

In FY2021, Solid Waste revenue was \$15.3 million, and the costs paid to MES were \$6.5 million. For FY2022, budgeted revenue is \$11.4 million; and the budgeted MES costs are \$5.2 million. MES processed approximately 300,000 transactions during the audit period.

The audit approach focused on testing the key controls that address management's objectives. Our audit procedures included interviewing personnel, observation and testing as described in the table below.

Process / Control Objective	Scope of Review
Collections at Landfill	
Private vehicle use of landfill is monitored and recorded.	<ul style="list-style-type: none">For private vehicle transactions, review video to determine that each vehicle was charged
System calculated fees are collected by landfill employees completely and accurately before vehicles enter the landfill.	<ul style="list-style-type: none">Confirm Paradigm billing rates agree to County Code § 157-28Reconcile daily closeout reports at HWDC to revenue receivedConfirm voided transactions are justified and reasonableReview the most recent A/R Aging report to determine if the number and amount of outstanding collectibles are reasonable

Process / Control Objective	Scope of Review
Hauler Application Review and Approval Hauler license applications are complete and reviewed and approved in a timely manner.	<ul style="list-style-type: none">• Review a sample of approved haulers to confirm applications were completed timely with required supporting documents and haulers are properly bonded, insured and credit worthy.• Confirm MES approved hauler applications are approved timely by the DPW Director of Environmental Services
MES Hauler Revenue Collection and Distribution MES invoices haulers and collects and distributes revenue timely and correctly.	<ul style="list-style-type: none">• Reconcile hauler transactions to monthly hauler invoices, that month's revenue summary report and payment to the County
County Payment of MES Invoices DPW management reconciles each invoice to supporting documents.	<ul style="list-style-type: none">• Confirm invoices on file, including payroll costs, are properly supported

Areas for improvement are described in the Issues and Corrective Actions section of this report. We have reviewed the issues reported in a prior audit and considered their impact on this audit; each of the issues previously identified in prior audit reports were closed before we began this project.

Harford County management is responsible for establishing and maintaining effective internal controls. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets and compliance with applicable laws, rules and regulations are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected.

The audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Report Distribution:	Audit Team:
Mr. Joe Siemek, Director of Public Works	Chrystal Brooks CPA, CIA, CGAP, CISA, CGFM, CRMA
Mr. Jeff Schoenberger, Division of Environmental Services	<i>County Auditor</i>
Mr. Hament Patel, MES, Managing Director, Finance	
Mr. Dave Gostomski, MES, Senior Project Manager	Brad DeLauder CPA, CIA
Mr. Robert Sandlass, County Treasurer	<i>Senior Auditor</i>

ⁱ Definitions

Effective: The design and effectiveness of the internal control environment address key risks. The business unit complies with external laws and regulations, and internal policies, procedures and guidelines. Business processes are managed effectively resulting in achievement of expected outcomes.

Generally Effective: The design and/or effectiveness of the internal control environment generally address key risks; however, the number and severity of findings relative to the size and scope of the business unit being audited indicate that some minor areas of weakness in the control environment need to be addressed. Isolated instances of non-compliance with external laws and regulations, and internal policies, procedures and guidelines may exist. Business processes may not be managed effectively in all areas resulting in reduced achievement of expected outcomes.

Not Effective: The design and/or effectiveness of the internal control environment does not address key risks. Non-compliance or historical patterns of non-compliance with key regulatory requirements and internal policies, procedures and guidelines exist which expose the audited entity to financial, reputational, and operational risks. Business processes are not managed effectively and expected outcomes are not achieved.