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GWEN MARSHALL

CLERK OF THE CIRCUIT COURT AND COMPTROLLER
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DIVISION OF INTERNAL AUDITING

21SP-02
Solid Waste - Collection Process

12/03/2021

EXECUTIVE SUMMARY

What We Did

At the request of the Leon County Clerk of Court and Comptroller's Office, the Division of Internal Auditing (IA) was engaged to re-evaluate the Solid Waste Division's collection process. In recent years, external reviewers identified deficiencies in the collection process associated with untimely cash receipt deposits and bank reconciliations. As a result, IA developed an **objective** to determine whether bank reconciliations are performed, reviewed, and reconciling items are addressed and resolved timely. Additionally, IA developed a second objective to determine whether the accounts receivable balances recorded in the subsidiary ledger maintained at the Waste Management Facility agreed with the balances reported in the financial system used by the Clerk of Court and Comptroller's Finance Department, Banner.

To address management's concerns and assess the collection process, we reviewed the transactions recorded at the Waste Management Facility for the months of April, May, and June of 2021, and traced them to the financial records. We also performed walkthroughs, interviewed staff, reviewed policies and procedures, and researched best business practices to adequately benchmark this process.

What We Observed

Our review of the Solid Waste collection, deposit, and bank reconciliation processes determined:

- All cash collected at the Waste Management Facility was deposited timely.
- All cash recorded at the Waste Management Facility was reported timely.
- Bank reconciliations were performed timely and properly reviewed.

Our evaluation of the reconciliation of balances recorded in the subsidiary and general ledgers revealed:

- June's reconciliation included \$54,096 in outstanding reconciling items 90 days or older.
- The subsidiary to general ledger reconciliations included differences that were not readily traceable as the supporting schedules:
 - Did not clearly explain the reasons for excluding two subsidiary accounts maintained for tracking purposes only. These accounts have no financial impact but are included in the subsidiary accounts receivable aging report (**Management adjusted April's reconciliation to clearly identify these accounts**).
 - Did not clearly explain the exclusion of three accounts in the subsidiary ledger with a financial impact. These accounts are associated with prepayments but are included in

<https://cvweb.leonclerk.com/public/index.html>

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- the subsidiary accounts receivable aging report (**Management adjusted April's reconciliation to clearly identify these accounts**).
- Did not include the report of void transactions generated within the subsidiary ledger (**The Finance team has taken immediate action and it is now requesting and including this report when performing the monthly reconciliations**).
- The accountant responsible for performing the systems reconciliations does not have direct access to the subsidiary ledger in Paradigm to review transactions when needed and relies on the reports provided by the subsidiary system's primary user. (**Management – the County-granted Paradigm system access to the accountant responsible for the reconciliations**).
- Management was not documenting their review and approval of the monthly reconciliations (**Management has implemented a process to evidence their review and approval of the monthly reconciliations**).

What We Recommend

It is worth noting management took immediate action as the opportunities for improvement were communicated to them. The Finance team developed a new reconciliation model for the month of April. Therefore, we recommend:

- Updating the subsidiary to general ledger reconciliations for all subsequent months tracking differences between systems and clearly identifying accounts within the subsidiary ledger created for tracking purposes only. IA will continue to monitor this process to ensure updates are carried forward to subsequent months.
- Strengthening the reconciliation process by documenting management oversight over the process. This can be documented with a signature and date indicating management has reviewed the reconciliation within a reasonable time. The review process should ensure reconciling items are resolved within 30 days of the reconciliation.
- Reconfiguring the subsidiary ledger by removing unbillable transactions -transactions with no financial impact- from the aging report to facilitate the reconciliation process.

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BACKGROUND AND INTRODUCTION

Leon County's Solid Waste Division is comprised of six departments: the Solid Waste Management Facility, Rural Waste Service Centers, Transfer Station Operations, Hazardous Waste, Recycling Collection, and Yard Waste. However, collection only occurs at the Transfer Station and the Solid Waste Management Facility.

At the Transfer Station, only checks and credit card payments are accepted. All checks received are forwarded to the Solid Waste Management Facility where the Financial Specialist records and reconciles all receipts for both sites and prepares the deposit slips for pick up by Loomis, the cash management contractor.

Paradigm is the subsidiary system used at the Solid Waste Management Facility to record daily operating activities. The Financial Specialist prepares and uploads all transactions recorded in Paradigm to Banner, the financial system used by the Clerk of Court and Comptroller's Finance Department for financial reporting purposes. The documentary support for the upload is delivered to the Finance team. All operating activities at the Solid Waste Management Facility recorded in Paradigm are uploaded to Banner. However, there are transactions which affect Banner balances first. Electronic fund transfers may first be reflected in Banner and the Financial Specialist depends on e-mail communication from the Finance team to apply corresponding receipts in the subsidiary ledger. Monthly reconciliations are performed to ensure all transactions are captured and reflected in both systems and accounts receivable balances are adequately supported.

At the Solid Waste Management Facility, there are three employees with the same level of access to Paradigm, and to the safe where cash and checks are held for deposit, the Financial Specialist, the Inmate Supervisor, and the Senior Crew Chief. It is worth noting the Financial Specialist, under the supervision of the Senior Crew Chief, is the primary employee responsible for collecting, recording, safeguarding, reconciling, and uploading all transactions to the financial system. Some of the current controls include the Senior Crew Chief signoffs on the daily cash receipt reconciliations and the use of cameras to monitor the collection process and access to the safe. The current structure and control environment over the collection process reflects management's responses to segregation of duties observations noted in past reviews.

The effectiveness of the collection process, including timely deposits, recording, and reconciliations depends on constant communication between the Finance team and the Solid Waste Management Facility's Financial Specialist. Additionally, recording transactions in two systems requires close monitoring to ensure all operating activities are properly captured and balances are up to date. The Division of Internal Auditing developed an objective to evaluate the timeliness to deposit and report on receipts received at the collection site and an objective to assess the operating effectiveness of the communication between the site and the Finance team reflected in the monthly reconciliations of the two systems used.

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RESULTS OF THE ENGAGEMENT

The Division of Internal Auditing (IA) reviewed the Waste Management Facility’s cash collection activity for the months of April through June of 2021. See **Table 1** for cash collection summary.

Table 1: April-June Cash Collection Summary

Payment Type	April	May	June	Total
EFTS	\$ 130,703	\$ 211	\$ 797	\$ 131,710
Checks	\$ 223,619	\$ 17,857	\$ 240,952	\$ 482,428
Credit Cards	\$ 503		\$ 184	\$ 687
Total	\$ 354,825	\$ 18,068	\$ 241,933	\$ 614,826

While performing testing steps appropriate to the cash collection process, IA noted:

- The Leon County Clerk of Court and Comptroller’s Finance Department maintains reconciling records for all payments received by the Waste Management Facility.
- All receipts (EFTs, Checks, and credit card payments) reviewed during the selected period were timely deposited (less than 30 days), and timely recorded in the financial records.
- Bank reconciliations reviewed for the selected period were timely performed (within 30 days) and properly signed by both, preparer, and reviewer.

There were no exceptions noted as it pertains to the timely collection, deposit, and bank reconciliations.

IA also reviewed the reconciliation process between the subsidiary and the General Ledger, and noted:

- June’s reconciliation included \$54,096 in reconciling items 90 days or older.
- The reconciliation did not clearly identify two account items maintained in the subsidiary ledger for tracking purposes only. They do not have a financial impact.
- The reconciliation did not include three account items in the subsidiary ledger with a financial impact.
- The financial specialist at the Waste Management Facility is responsible for receiving payments, recording them, keeping cash and checks received in the safe, preparing deposit slips, handing cash receipts to Loomis for bank deposit, reconciling daily cash receipts, submitting daily and monthly reports to finance, and uploading transactions to the financial system.
- The report of Void transactions created by the subsidiary ledger was not requested or used for the reconciliations.
- Management has not documented their review and approval of the monthly reconciliations reviewed.

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OBSERVATION 1 – Subsidiary to General Ledger Reconciliation

Risk Score: Low

Issue:

The reconciliation between the accounts receivable subsidiary and general ledger did not include explanations to readily understand the exclusion of five accounts at the subsidiary level whose balances are justifiably not reflected on the general ledger. Additionally, while the posting of associated journal entries requires management approval, the reconciliations reviewed did not contain documented evidence of management’s review and approval.

Condition:

We reviewed the reconciliations between the system used by the Waste Management Facility, Paradigm, and the general ledger, Banner, for the months of April, May, and June of 2021, and noted:

- June’s reconciliation included \$54,096 in outstanding reconciling items 90 days or older.
- The reconciliations provided for the selected months contained differences that could not be easily traced as they:
 - Did not clearly explain the reason for excluding two account items maintained in the subsidiary ledger for tracking purposes only. These accounts have no financial impact (**Management adjusted April’s reconciliation to clearly identify these accounts**).
 - Did not clearly explain the exclusion of three account items in the subsidiary ledger with a financial impact (**Management adjusted April’s reconciliation to clearly identify these accounts**).
 - Did not include the report of void transactions generated within the subsidiary ledger (**this has been corrected and the Finance team began requesting and including this report in the reconciliation process**).
- The accountant responsible for performing the systems reconciliations does not have direct access to the subsidiary ledger in Paradigm to review transactions when needed and relies on the reports provided by the subsidiary system’s primary user. (**Management – the County-granted Paradigm system access to the accountant responsible for the reconciliations**).
- Management is not documenting their review and approval of the monthly reconciliations (**Management has implemented a process to evidence its review and approval of the monthly reconciliations**).

Criteria:

Because any potential deficiency in the reconciliation process reviewed may have an impact on the balances presented on the financial statements, we used criteria established by the Generally Accepted Auditing Standards (GAAS), in the clarified Statements on Auditing Standards, AU-C Section 315, Understanding the Entity and Its Environment, A133 (a)(ii), which states: “**Completeness**. All transactions and events that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.”

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If the reconciliation between the subsidiary ledger and the general ledger is not performed adequately, and/or reviewed and monitored, the risk of not reflecting all transactions in the financial balances increases.

Cause:

- The reconciliations did not include -and/or clearly explain the reasons for not including- all account items listed in the subsidiary ledger.
- One of the headings on the spreadsheet is labeled “Adjustments from Landfill to Banner”. This heading may create confusion as:
 - Most adjustments occur outside of this section of the reconciliation, and
 - The “Adjusted Balance” is not necessarily the Banner balance, but rather the adjusted subsidiary ledger’s balance used to reconcile against the Banner balance.
- Reconciliations did not include the report of voided transactions.

Effect:

- The differences between the balances reported on the subsidiary and the General Ledger required multiple verbal explanations as they were not readily noted on the reconciliations.
- Reconciling items may remain outstanding for longer than necessary.
- Management may lack understanding of the process and may not efficiently address issues when they arise.

Recommendations:

As management has already started its corrective action by updating the reconciliation for the month of April, we recommend:

- Updating the subsidiary to general ledger reconciliations for all subsequent months tracking differences between systems and clearly identifying accounts within the subsidiary ledger created for tracking purposes only. IA will continue to monitor this process to ensure updates are carried forward to subsequent months.
- Strengthening the reconciliation process by documenting management oversight over the process. This can be documented with a signature and date indicating management has reviewed the reconciliation within a reasonable time. The review process should ensure reconciling items are resolved within 30 days of the reconciliation.
- Reconfiguring the subsidiary ledger by removing unbillable transactions -transactions with no financial impact- from the aging report to facilitate the reconciliation process.

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Management Response (Finance):

We agree with the auditors' comments, and the following actions have or will be taken to improve this process. Updating the reconciliation process between the subsidiary and general ledgers to clearly identify accounts and balances that are for tracking purposes only. Documenting the review of the reconciliation and addressing reconciling items within a reasonable timeframe. Working with the appropriate parties on the need to adjust the reporting from the subsidiary ledger. Lastly, requesting access to the subsidiary ledger for related Finance staff and communicating potential changes or updates.

Management Response (County):

As soon as management learned about the need to access Paradigm system by the accountant responsible for performing the subsidiary to General Ledger reconciliations, access was granted.

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APPENDIX A – Management’s Responsibility over Internal Controls

COSO defines internal control as a process affected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives related to operations, reporting, and compliance.

Management is responsible for establishing and maintaining an adequate system of internal controls, which includes ensuring:

- department resources are used consistent with its mission;
- department resources are safeguarded against waste, loss, misuse, and theft; and
- reliable data is maintained and fairly presented in reports.

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APPENDIX B – Management Response



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FINANCE DEPARTMENT
FINANCE ADMINISTRATION DIVISION

Date: November 18, 2021

To: Luis Camejo, Internal Audit Manager

Cc: Gwen Marshall, Clerk of the Circuit Court and Comptroller
Natalie Hill, Internal Auditor

From: Edward Burke, Finance Director

Subject: Response to Draft Audit Report No. 21SP-02 (Solid Waste – Collection Process)

We agree with the auditors' comments, and the following actions have or will be taken to improve this process. Updating the reconciliation process between the subsidiary and general ledgers to clearly identify accounts and balances that are for tracking purposes only. Documenting the review of the reconciliation and addressing reconciling items within a reasonable timeframe. Working with the appropriate parties on the need to adjust the reporting from the subsidiary ledger. Lastly, requesting access to the subsidiary ledger for related Finance staff and communicating potential changes or updates.

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DISTRIBUTION

County Administration:

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Scott Ross, Director of the Office of Financial Stewardship
Dana Gibbs, Operations Analyst
Gregory Broome, Solid Waste Financial Specialist

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Nancy Shepherd, CIA, CPA

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Taylor Harmon, CPA – Thomas Howell Ferguson, PA

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PROJECT TEAM

Engagement was conducted by:
Natalie Hill, Auditor

Under the supervision of:
Luis Camejo, CIA, Internal Audit Manager

STATEMENT OF ACCORDANCE

The Clerk and Comptroller's mission is to inspire public trust and bring credit and esteem to the organization through integrity, excellence in customer service, financial oversight, and the utilization of technology to ensure accessibility to justice.

The Division's mission is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight to the Clerk and Comptroller and the Board of County Commissioners.

This review was performed in accordance with the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing.

Please address inquiries regarding this report to the Division of Internal Auditing at (850) 606-4019.