BEAVER COUNTY
WASTE MANAGEMENT SERVICE DISTRICT No. 5

Special Project
For the Period January 2013 to March 2019

Report No. BSD5-19-SP

OFFICE OF THE
STATE AUDITOR

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BEAVER COUNTY
WASTE MANAGEMENT SERVICE DISTRICT No. 5
FOR THE PERIOD JANUARY 2013 TO MARCH 2019

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OFFICE OF THE
STATE AUDITOR

REPORT NO. BSD5-19-SP

September 9, 2019

Chair Nolan Davis and Board Members
Beaver County Waste Management Service District No. 5
P.O. Box 278
Milford, Utah 84701-0278

Dear Mr. Davis and Board Members:

We have completed our investigation of allegations that the former secretary (Former Secretary) of the Beaver County Waste Management Service District No. 5 (District) misused District funds for her own benefit. Our scope was limited to identifying and quantifying questionable transactions and determining the key internal control weaknesses that allowed the questionable transactions to occur without detection for the period. We performed the following procedures at the District for the period January 2013 through March 2019 unless otherwise noted.

1. We scanned all bank statements, PTIF account statements, check disbursements, the general ledger, and other records, as necessary, to assess risk.

2. We reviewed all non-payroll checks issued to the Former Secretary to determine if they were authorized and proper.

3. We reviewed the 2017 District payroll records and timekeeping procedures for potential timecard abuse.

4. We reviewed District debit card activity for possible misuse of funds.

5. We interviewed key personnel, including the Former Secretary, to gain an understanding of District operations and risk.

6. We performed revenue analysis to identify potential losses.

Potential illegal or otherwise improper activity may have occurred outside of the period we reviewed and may have occurred in other areas. However, we evaluated areas of risk and focused audit resources in the areas we deemed to be at greatest risk. As such, this report should not be interpreted to mean that all potential misuse of funds or questionable expenditures have been identified.

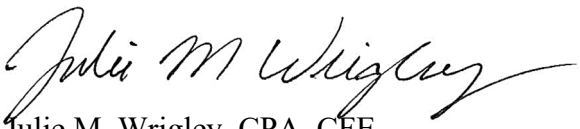
Further, our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of the District's internal control or any part thereof.

Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and identified the related key internal control weaknesses that exist at the District. Had we performed additional procedures or had we made an audit of the effectiveness of the District's internal control, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report.

We appreciate the courtesy and assistance extended to us by the District Board and District personnel during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,



Julie M. Wrigley, CPA, CFE
Audit Manager
(801) 538-1340

cc: Leo Kanell, Deputy Beaver County Attorney

BACKGROUND

Beaver County Waste Management Service District No. 5 (District) was formed under the authority of the Beaver County Commission and was authorized to provide garbage service in 1993. The District operates two landfill sites in Beaver County. According to Resolution No. 93-04, the District is administered by a seven member administrative control board (District Board) with four members appointed by the County Commission and three members appointed by municipalities within District boundaries.

While performing the annual review of the District's operations, the District's contracted CPA firm noted what appeared to be personal purchases made with the District's debit card. The CPA firm immediately notified the District Board and the Office of the State Auditor (the Office). The District's Board contacted the Beaver County Attorney to investigate the matter. Subsequently, the Beaver County Attorney requested the Office's assistance in substantiating and quantifying the suspected inappropriate transactions.

FINDINGS AND RECOMMENDATIONS

1. DISTRICT FUNDS WERE MISAPPROPRIATED

Our analysis indicates that the District debit card was used for personal purchases. We also noted that many of the reimbursement checks payable to the Former Secretary were not approved and were unsupported. There are also indications that payroll records were manipulated, resulting in possible overpayments. Per *Utah Code* 76-8-402(2), it is unlawful for a public servant to appropriate public money or public property to the public servant's own use or benefit without authority of law. The items we identified are shown in the following chart and discussed in more detail below:

	Misappropriated	Likely Misappropriated	Questionable	Total
Debit card use for personal purchases	$ 3,741	$ 1,319	$ 8,929	$ 13,989
Checks payable to the Former Secretary, lacking supporting documentation and evidence of approval, and signed only by the Former Secretary.	-	4,333	-	4,333
Checks payable to the Former Secretary, lacking adequate supporting documentation, and signed by an authorized signor.	-	-	5,275	5,275
Unearned Compensation	77	-	14,327	14,404
Total	**$ 3,818**	**$ 5,652**	**$ 28,531**	**$ 38,001**

a) **Debit Card Misuse** – We reviewed all District debit card transactions during the period and found 78 transactions totaling $5,060 that we deemed to be personal expenditures based on available evidence. The Former Secretary admitted to personal use of the District debit card for 61 of the 78 transactions identified, totaling $3,741. In addition, we question another 100 transactions totaling $8,929 due to a lack of supporting documentation, questionable business purposes, or both. Due to passage of time and inadequate supporting documentation, we were unable to determine with certainty whether these 100 questionable transactions were for personal use. We note that the Former Secretary confirmed that she was in sole possession of the debit card and was the only person who made the purchases.

b) **Inappropriate Reimbursements** – We reviewed all 60 non-payroll check disbursements payable to the Former Secretary totaling $10,048. Most appeared to be reimbursements. Twenty-four checks totaling $4,333 were signed only by the Former Secretary and had no other supporting documentation indicating the payment was authorized or reasonable. Therefore, we have deemed those payments as likely misappropriated. In addition, we question another 32 checks totaling $5,275 where the check was signed by an authorized signer but the documentation was missing or incomplete.

c) **Potential Time Abuse** – We reviewed payroll for 2017 to assess the risk of time abuse. All District employees were responsible for clocking in and out using a time card system. The Former Secretary was responsible for entering the time card data into the payroll system. Several areas of concern, as itemized below, lead us to conclude that at least some time abuse occurred. However, due to the likelihood that the Former Secretary occasionally ran errands before or after she clocked in or out and the likelihood that some correction to time cards was legitimate due to error, we have only identified the range of possible time abuse and cannot conclude with certainty the amount of loss to the District. We estimate the amount of unearned wages paid to the Former Secretary was between $77 and $14,404. The benefits associated with these wages increase the amount of loss to the District; however, we did not estimate that amount. The areas of concern are:

- The Former Secretary's time cards were altered in pen written over the time stamps for each pay period during the year. Although it is possible there are legitimate explanations for at least some of the alterations, the number of alterations seems excessive and unreasonable. The difference between the hours the Former Secretary claimed she worked and the hours originally stamped on the time cards was 744 hours (worth $14,327 of pay). We believe that at least some of this pay was unearned due to the excessive alterations on the time cards.

- The Former Secretary did not always "clock out" when other staff covered part of her shift. We noted 64 hours (worth $1,237 of pay) for which the Former Secretary was paid even though another employee was covering part of the

shift. Because there is not sufficient work for two secretaries at this work site, we consider it unreasonable for the Former Secretary to stay clocked in while someone else is also working during that time.

- The Former Secretary incorrectly recorded in the payroll system 8 hours of vacation leave as overtime hours worked. As a result, the District paid her time-and-half for the 8 hours, totaling $77 more than she earned and should have received. It is possible this was an error; however, any unearned compensation is improper and should be recovered.

Due to the time-consuming nature of the payroll review and the uncertainty in estimating the value of the time abuse, we limited our review to one year.

We concluded that the District has suffered losses between $9,470 and $38,001 during the time period reviewed. The District's failure to implement adequate internal controls in these areas allowed the irregularities noted above to occur without detection. We discuss the internal control weaknesses in Findings 2 and 3.

Recommendations:

We recommend that District officials:

- **Seek restitution of misappropriated and likely misappropriated funds from the Former Secretary.**
- **Consider seeking restitution of funds for questionable transactions made by the Former Secretary.**
- **Review and adopt the Best Practices outlined in the Fraud Risk Implementation Guide (see Attachment A).**
- **Implement the recommendations in this report that are designed to minimize the risk of misappropriation or loss without detection (see Finding 2 and 3).**

2. FINANCIAL DUTIES NOT PROPERLY SEPARATED

The District lacks a proper separation of duties. The Former Secretary recorded cash disbursement and payroll entries; was authorized to sign checks and sometimes was the sole signer; had custody of the debit card, cash receipts, and the checkbook; and reconciled the bank account. These duties enabled the Former Secretary to have excessive control over all transactions and significantly increased the risk of misappropriation without detection.

Proper separation of duties is one of the most effective internal control measures any organization can implement to reduce the risk of fraud and to increase the chances of detecting errors. Fundamental to separation of duties is that no single person should have excessive control over transactions or critical processes. Ideally, proper separation of duties requires a different person to perform each of the following duties:

- Recording entries in the accounting system.
- Authorization and approval of payments and contracts, normally performed by the governing body or a finance director.
- Custody of assets. This duty refers to the actual physical possession or effective physical control/safekeeping of property. Property can take the form of cash, checks, or other assets.
- Reconciliation of existing assets to recorded amounts. A reconciliation of the bank statements to the accounting records is an example of this duty.

Additionally, *Utah Code* 17B-1-632 through 17B-1-635 dictates and differentiates between the duties of the clerk and the treasurer. The laws also specify that the clerk cannot perform the duties of the treasurer.

Duties of the Clerk per Utah Code	Duties of the Treasurer per Utah Code
Maintain financial records (book keeping)	Maintain custody of money (receive, deposit, invest)
Prepare checks (after determining the disbursements are authorized and within budget)	Keep a detailed account of all money received and issue receipts
May not sign single signature checks	Sign all checks (after determining sufficient funds are available)

In very small organizations, it is often impractical to separate conflicting duties with existing employees. In such cases, it may be necessary to assign some duties to a member of the governing body or to a contracted third party. It may also be necessary to implement additional procedures to compensate for conflicting duties. There is little evidence that District officials provided sufficient oversight or implemented effective reviews sufficient to compensate for the Former Secretary's conflicting duties (see Finding 3).

It appears the District Board was unaware of the laws requiring separation of the clerk and treasurer duties. Furthermore, we believe the District did not understand the importance of separation of duties and did not implement additional procedures to review and reconcile the Former Secretary's work (see Finding 3). As a result, the irregularities noted in Finding 1 occurred without detection.

Recommendations:

We recommend that District officials:

- **Separate conflicting duties noted in the bulleted items above by delegating duties to board members or contracted third parties. If this is impractical, perform additional oversight and detailed reviews.**

- **Comply with *Utah Code* 17B-1-632 through 17B-1-635 by appointing separate individuals to function as a treasurer and a clerk. A board member or contracted third party may perform the duties of one of the functions.**
- **Ensure all existing and in-coming board members receive training on separation of duties. See Attachment A for link to video.**

3. REVIEWS WERE INADEQUATE AND INEFFECTIVE

District personnel did not perform adequate and effective reviews of the Former Secretary's debit card use, reimbursements, and payroll. Given that the District allowed the Secretary to perform conflicting duties, it was especially important to implement effective reviews to compensate. However, many of the transactions we questioned were not supported by adequate documentation and, without proper documentation, it is impossible to perform an effective review.

a. Debit Card Reviews – We noted that a board member generally signed a copy of each bank statement, and there was a check mark next to many of the disbursement/debit amounts on the statement each month. We originally assumed that the signature and check marks were an indication that the debit card transactions and general activity of the District had been appropriately reviewed each month. However, it appears that the reviews of debit card transactions were inadequate and ineffective since the transactions were not questioned by the reviewer even though the supporting documentation (invoices, receipts, etc.) for the transactions noted in Finding 1 above was missing or contained questionable information. Therefore, we conclude that the reviewer did not request or view supporting documentation.

b. Reimbursement Checks – The District has a form for reimbursements that requires authorized approval. Additionally, two signatures are required on District checks. The approval on the reimbursement form should be an indication that an adequate review was performed, including a review for adequate supporting documentation and reasonableness. Furthermore, we would expect that the authorized signer of a reimbursement check would review the reimbursement form for proper approval before signing the check. However, we noted the following:

    - As noted in the chart in Finding 1, 24 reimbursement checks to the Former Secretary were signed solely by her. As part of the bank statement review described in a. above, the board member had the opportunity to review the cancelled check images, but apparently, either did not review the check images or did not enforce compliance with the District practices requiring dual signatures on the checks. In addition, there were no reimbursement forms or other documentation indicating that these 24 payments had been reviewed or authorized.

- For the other 32 reimbursement checks signed by an authorized signer, there is no evidence that the signer reviewed adequate documentation before signing the checks. For these 32 checks, the reimbursement form was either missing or not approved.

c. Payroll and Time Card Reviews – The District manager indicated that he reviewed and initialed payroll reports compiled by the Former Secretary from the time cards each pay period. However, the manager only initialed 6 of 26 reports during 2017. Furthermore, review of those payroll reports would not have revealed alterations to time cards. In addition, the Manager did not review the information actually entered in the payroll system to ensure it agreed to the employee time cards. At a minimum, the manager should have reviewed the Former Secretary's payroll in detail to ensure it was proper given her ability to manipulate the data to her benefit.

The lack of sufficient and effective reviews allowed the irregularities noted in Finding 1 to occur without detection.

Recommendations:

We recommend that District officials:

- **Discontinue the use of debit cards. If necessary, replace the debit card with a purchase card that has dollar limits and safeguards to limit purchases.**
- **Perform a detailed review of any debit/purchase card expenditures, including a review of supporting documentation to ensure the purchases are reasonable and proper.**
- **Review supporting documentation and reimbursement authorization forms prior to signing reimbursement checks.**
- **Perform sufficient managerial reviews of time cards and payroll reports to ensure that payroll is reasonable and proper.**

LOCAL GOVERNMENT RESOURCES

The Office of the State Auditor provides a Local Government Resource Center on its website. The webpage contains links to tools and information for fraud risk assessment, document templates, checklists for key processes, brief explanations of terms and concepts, and other related resources.

Please visit the Local Government Resource Center at https://auditor.utah.gov/resources/

Topics of particular relevance to the District:

- Fraud Risk Assessment
- Separation of Duties Checklist
- Brief Explanation for Separation of Duties and Bank Reconciliation
- Templates for policies and forms

Also, please refer to the Office of the State Auditor's various training resources at https://auditor.utah.gov/local-government-2/training-and-publications/

Topics of particular relevance to the District:

- Separation of Duties Between Clerk and Treasurer Training Video http://training.auditor.utah.gov/courses/introductory-training-for-municipal-officials
- Training links for elected officials https://auditor.utah.gov/training/elected-officials-training/
- Training links for Financial and Administrative Professionals https://auditor.utah.gov/training/online-training-2015/

Waste Management

Waste Management Service District #5
Beaver County Landfill
PO Box 278
7300 S 800 E
Milford, Utah 84751
Tel: 435 386-2530

August 30, 2019

Office of the Utah State Auditor
East Office Building, Suite E310
Utah State Capitol Complex
Salt Lake City, UT 84114

Re: Schedule of Auditor Finidings

To Whom It May Concern,

Following is Waste Management Service District #5's response to the Auditor Findings for the period January 2013 to March 2019.

1. *District Funds Were Misappropriated*

Debit Card Misuse #1 a.

The Waste Management Board no longer allows Debit Cards to be available on the Waste Management Bank Account. Currently, we are in the process of getting a credit card for Waste Management expenses. When credit card is obtained, it will be locked in a safe.

The service district will only utilize a credit card for online purchases. A Credit Card report will be attached to the disbursement check. All Credit Card purchases will be required to have a Purchase Order, the Order Details and any Packing Slips. These documents will be attached to the credit card report as well as the credit card statement/disbursement.

Waste Management has implemented a Purchase Order system to ensure all expenditures are consistent for the operations of the landfill. All receipts will be attached to an approved Purchase Order. The Purchase Order, Receipts, Invoice and File Copy of Check will be filed together and retained.

Inappropriate Reimbursements #1 b.

Any employee requiring reimbursement for any landfill expense will complete an Expense Reimbursement Request Form. Employee is required to sign request and District Manager signs for final approval. Any receipts or other applicable documentation will be required and attached to the reimbursement request.

Potential Time Abuse #1 c.

All District employees are responsible for clocking in and out using a time card system. At the end of each pay period, District Manager adds up each individual time card, District Secretary enters the data into the Quickbooks Payroll system, and District Manager will then review Payroll reports and sign Internal Controls form. In the event an employee doesn't clock in or out the time card is adjusted by the District Manager and signed. If District Mangaer is unable to sign time card, another employee will initial time card with adjustments.

Response to Recommendations:

District Officials are currently working with County Attorney to seek restitution of misappropriated funds as well as questionable transactions made by the Former Secretary.

2. *Financial Duties Not Properly Separated*

Segregation of Duties see below:

a. Our Board understands the importance of having Segregation of Duties. Internal Controls have been implemented and are in place to separate the duties within our district.

The Segregation of Duties are as follows:

Duties	Employee Performing Duty	Reviewed/Approved By
Accounts Payable	District Secretary will prepare the disbursements for AP.	District Manager and Financial Officer will review all disbursements prior to signing check. All disbursements will require two (2) signatures. *District Manager will also sign the Internal Control Tracking Form.
Accounts Receivable	District Secretary will prepare invoices and prepare an aging report monthly for the District Manager.	District Manager will review the aging report and approve the AR reports by signing the Monthly Internal Control Tracking Form.
Payroll	District Secretary will prepare payroll and payroll reports.	District Manager will review payroll and the report prior to the ACH being performed. District Manager will also sign the Internal Control Tracking Form.
Budget	District Secretary, Manager and Chairman will prepare the budget.	The District Board will make adjustments and approve as necessary by Resolution.
Bank Statement	Financial Officer will review the unopened bank statement.	The Financial Officer will sign the bank statement as well as

	District Secretary will reconcile the bank account in the accounting system.	the Internal Control Tracking Form. Financial Officer will also compare the daily receipts with the bank statement.
Monthly Board Reports (AP, AR, Payroll, Budget and Bank Statements)	District Secretary will prepare the reports for Board Members.	Board Members will review in their monthly meetings and will sign the approved reports and the reports will be kept on file at the Landfill Office.

b. Annual Training will be held in a public meeting and provide separation of duties to board members. Also, annual training is provided to all board members on the open meetings law.

c. On May 16, 2019, board adopted Internal Controls to reduce risk for fradulent activities for Waste Management Service District #5. Please see assigned duties and roles in Section 2. a.

Thank you for your time and resources in the investigation on behalf of Waste Management Service District #5.

Sincerely,

Nolan C. Davis, Board Chairman

Mike Neilsen, District Manager

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Auditor's Concluding Remarks to Finding No. 1.a):

We appreciate the District's response and its efforts to implement internal controls. We encourage the District to consider replacing the debit card with a purchase card rather than a credit card. Purchase cards provide certain safeguards to limit purchases.

Auditor's Concluding Remarks to Finding No. 2:

We appreciate the District's response and its efforts to implement proper separation of duties. However, we note that the response did not fully address changes that would bring the District into compliance with laws[1] requiring two separate individuals to perform the following duties:

- One individual to act as clerk (secretary). This person does not have custody of money (receive, deposit, invest). Also, the clerk (secretary) may not sign single signature checks.
- Another individual to act as treasurer. This person maintains custody of money, keeps detailed accounts of money received, and signs all checks.

We encourage the Board to review the laws and ensure compliance.

[1] See Utah Code 17B-1-632 through 17B-1-635.