

**SPECIAL REPORT ON THE
TUCKER COUNTY SOLID WASTE AUTHORITY**

Authority Has Positive Cash Flow;
\$700,000 of \$1.9 Million Bond Money Spent
on Failed Project;
Payments on Million Dollar loan from DEP
Now Current;
Region 8 Solid Waste Authority \$250,000 in
the Arrears To Tucker County;
No Weaknesses Found in Financial Controls.

**OFFICE OF LEGISLATIVE AUDITOR
Performance Evaluation & Research Division
Building 1, Room 314-W
State Capitol Complex
CHARLESTON, WEST VIRGINIA 25305
(304) 347-4890**

February 2000

PE 00-01-159

**Aaron Allred, Legislative Auditor
Office of the Legislative Auditor**

**Antonio E. Jones, Director
Performance Evaluation and Research Division**

**Brian Armentrout, Acting Research Manager
Jason Haught, CPA, Research Analyst**

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

Building 1, Room E-132
1900 Kanawha Boulevard, East
Charleston, WV 25305-0610
(304) 347-4800
(304) 347-4819 FAX



Aaron Allred
Legislative Manager

February 22, 2000

The Honorable Harold Michael
Chairman, House Finance Committee

Dear Chairman Michael:

This is to transmit a special report on the performance and financial stability of the Tucker County Solid Waste Authority per your recent request. The Performance Evaluation and Research Division sent two auditors to the site for four days to review performance and financial data.

The major findings of this review are: (1) the Tucker County Solid Waste Authority has a positive cash flow; (2) \$700,000 of \$1.9 million bond money was spent on a failed project; (3) payments on the million dollar loan from DEP are now current; (4) Region 8 Solid Waste Authority is \$250,000 in the arrears to Tucker County; and (5) no weaknesses were found in financial controls.

Please contact me if you need additional information.

Sincerely,

A handwritten signature in cursive script that reads "Aaron Allred".

Aaron Allred

AA/jmm

SPECIAL REPORT ON THE TUCKER COUNTY SOLID WASTE AUTHORITY

Purpose of Inquiry

A general overview of the Tucker County Solid Waste Authority's (the Authority) performance and financial stability was conducted by the West Virginia Legislative Auditor's Performance Evaluation and Research Division (PERD) during February, 2000. The objective of this review was to determine why the Authority has experienced financial difficulties despite a \$1.9 million bond issue and a \$1 million loan support. In addition, the inquiry was initiated due to the loss of accounting information on the Authority's computer that suffered a hard drive crash, the departure of the office manager and two missed payments on a Division of Environmental Protection (DEP) loan.

Performance Overview

The Authority Has A Positive Cash Flow

Authority board members stated in an interview that there was no need for additional appropriations for the 2000 Regular Session of the Legislature. The Legislative Auditor's confirmed the Authority had a net cash flow of \$116,901 in FY 1999 and \$57,540 in the first half of FY 2000.

Use of \$700, 000 of the \$1.9 Million Bond Money

The Tucker County Landfill addressed past financial problems by issuing *solid waste disposal revenue bonds*, in the amount of \$1,945,000 in 1994 as permitted under §7-16-5 of the *Code*. This bond issuance was backed up by a \$500,000 loan from DEP which was placed in escrow. This bond issuance was made by previous board members who have since resigned. Access to these funds was based on a draw down system in which a third party, United National Bank, had to approve any disbursements. **The Authority will retire these bonds in July 2001, which will provide approximately \$400,000 annually, currently used for bond service.**

The majority of the money from the bond issuance was used for construction of a new landfill cell (\$963,400), a bailer building (\$569,902) and a bailer (approximately \$120,000). Since then, the landfill cell has been filled, the bailer building was changed to an equipment storage building and the bailer was sold. The bailer building had numerous problems in its construction. Its doors had to be rebuilt because they were not the proper size. Its floor is deteriorating because in some areas there is insufficient thickness of concrete. The bailer was originally bought to reduce the problem of blowing trash at the landfill, saving landfill space and to bail recyclable materials. However, the bailed garbage created seepages in the landfill that resulted from the airspace between the bails of garbage. This caused an increased leachate problem. To rectify this problem, the bails had to be dug

up, crushed and re-buried. Regarding recycling, the cost of extracting the recyclable materials out of the garbage became greater than the revenue made from such materials. There are no curbside service programs to facilitate recycling. Regarding the \$1.9 million bond issuance, the current board members concur with the Legislative Auditor that the construction of the bailer building and purchasing the bailer at a cost of \$700,000 were not sound business decisions.

1996 \$1,000,000 Loan from the State DEP

The Authority obtained a \$1 million loan from DEP in 1996 to pay for new cell construction. The Authority constructed its landfill cells in-house except for the installment of the liner. This has greatly reduced the cost of cell construction. Whereas the cell from the \$1.9 million bond issuance was built for approximately \$1 million, the Authority constructed 3 ½ cells with the \$1 million loan from DEP. It should be noted that this loan is based on a draw down system, just as with the \$1.9 million bond issue, in which a third party, DEP, must approve the expenditure before advancing any money to the Authority. The Authority is current in its loan payments.

Computer Crash and Performance of Former Office Manager

A more recent problem at the Authority was the “crash” of their office computer and poor performance of the office manager. The Authority’s computer suffered a series of hard drive crashes in early 1999 culminating in one final crash in March that destroyed the hard drive. The board sent the crashed hard drive to a company in California to try to extract data. In an interview with company officials, it was stated that they were unable to get any data from the hard drive due to the numerous crashes that it suffered. This company further was asked to determine if the hard drive crash was typical or questionable in nature. The company responded that it was a typical crash and did not suspect any tampering.

The only thing for which the Authority’s present board can be found at fault was the failure to properly monitor the job performance of the former office manager. After the office manager left, the board in its attempt to reconstruct the computerized data that was lost as a result of the crash learned how poorly records were kept and was late in paying bills. An example is the failure to make monthly payments to DEP for the \$1 million loan. When the board learned of delinquent loan payments, they were quickly paid and have been current since. The board’s chairman and his wife, who is also an accountant, are in the process of reconstructing the bookkeeping data that was lost on the computer from the original hard copy records that still exist; this work is being done gratis.

It is the opinion of the Legislative Auditor that the Authority’s problems were caused by poor management, for example, lack of supervision of the office manager. Conclusions about the poor quality of the bookkeeping can be corroborated by the auditor with the Chief Inspector Division of the Office of the State Auditor who conducted a financial audit during the Summer of 1999. Since this incident took place in May 1999, the board has improved its management by meeting twice monthly and holding staff meetings.

Solid Waste Authority's Region 8 Late in Payments To Tucker County

Region 8 of the WV Solid Waste Authority, which comprises the eastern panhandle, owes over \$250,000 to the Tucker County Authority. The Authority asserts that this has restricted their cash flow, making it necessary to establish a \$150,000 line of credit with Citizen's National Bank of Tucker County to pay monthly bills. The board members stated that if Region 8 could pay the money they owe in overdue tipping fees and stay current on future payments their financial stability would be assured in the future. It should be noted that January 2000 was the first month that the Authority did not have to use any money from the line of credit to pay bills.

Threat of Private Sector Competition

The Authority must compete with a private sector solid waste company, Waste Management, Incorporated (Waste Management), that has three landfills surrounding its region. Waste Management is one of the largest waste disposal companies in the world. Waste Management has expressed an interest in purchasing the Tucker County landfill and turning it into a transfer station as opposed to continuing it as a landfill. The company is matching Tucker County's tipping fee of \$37 per ton, which is the lowest in the state. This prevents Tucker County from raising their tipping fees higher to increase revenue and to be more in line with tipping fees charged by other public landfills in the state. According to the Authority, this company offers various perks to haulers to bring their waste to its landfills instead of Tucker County. Examples of such perks include free fuel, truck washing facilities, and in some cases trucks and trailers to haul garbage to its facilities. In the case of Kingwood, which used to dump at Tucker County, this company matched Tucker County's tipping fee and picked up their garbage at Kingwood's transfer station and hauled it to its facility in Clarksburg for \$100 per truckload. Tucker County could not match this since they have no hauling capability. Also, Tygart Valley, which currently hauls to Tucker County, will switch to using Waste Management. Perks that Waste Management gave Tygart Valley were a used truck and used trailers to haul their waste to its Clarksburg facility.

Kingwood has expressed an interest to return to dumping at Tucker County if it can come up with an arrangement to haul Kingwood's garbage from its transfer station. Tucker County is in the process of requesting bids for a new truck and three new trailers for hauling garbage. The Authority estimates the annual hauling expenses for this endeavor would be \$97,763 while the annual net hauling income would be \$238,395. This additional revenue would offset the loss of Tygart Valley as a customer.

Other Areas of Mention

The Authority has done other things to improve its performance and efficiency. It has begun hauling its leachate to Elkins instead of Marion County, which is less expensive and will cut its annual leachate expense by half. It has incorporated the input of landfill staff in management decisions which was not done in the past.

An area that the Authority mentioned would be beneficial to them would be to allow for disposal contracts between the landfill and the hauler. Presently, this is not allowed in the Code.

This would allow the Authority to be better able to budget how much revenue it expects to receive in the future. This would also allow the haulers to be better able to budget their future expenses as well.

It was found that the board was unaware that they could be paid a per diem of \$50 with an annual limit of \$600 as mandated in §7-16-3 of the Code. Audit team staff provided the Authority with a copy of §7-16-1 et. al. of the Code pertaining to county solid waste authorities.

Financial Overview Executive Summary

A financial overview of the Tucker County Solid Waste Authority was performed by the Legislative Auditors. This entailed various tests to confirm financial controls are in place and the accounting work has been completed. Upon arrival on February 7, 2000, a surprise cash count was performed. This cash count revealed that all cash was accounted for and the daily deposit slip was prepared correctly. The landfill had \$490.96 of cash on hand. This amount consisted of \$440.67 of cash receipts from tipping fees and a change fund of \$50.29. The Authority has six bank accounts. Two are for savings, two for escrow, one for operations and one for the handling of Division of Natural Resources grant money. Bank reconciliations were reviewed by the Legislative Auditors. The Authority's accounts were reconciled properly and up to date. A cash receipts test was also completed. All days' cash receipts tested were traced to the bank statement as deposited in whole. There were no discrepancies found during the cash receipts test.

A year end cut off test was also performed to assure proper recording of material expenses. Disbursements in excess of \$5,000 were traced to supporting documentation to verify amount, service date and legitimacy of expense. All disbursements tested were properly recorded. A reasonableness analysis was made to substantiate disbursements of the \$2.945 million in public funding. Invoices pertinent to the spending of these monies were reviewed and totaled. The projects undertaken with this money were verified with supporting documentation. Invoices for the projects denoted moneys were spent as described by the Authority.

Escrow accounts are mandated for all landfill owners by the Public Service Commission (PSC) and the Division of Environmental Protection (DEP) for the sole purpose of landfill closure and post closure costs. The required amounts were on hand by the Authority based on information from representatives of the respective agencies. The PSC requires landfills to deposit \$.22 for every ton of garbage received per month. Once all months deposits are entered the balance should be \$42,842. As of 01/31/00 the PSC closure escrow account balance was \$41,244.24. The difference is due to the fact that the deposits are made a month after calculation. The DEP escrow is set to mature at \$76,000 with monthly deposits of \$650.58. The DEP escrow balance was \$72,171.86 as of 01/18/00. Both accounts are reviewed regularly by both agencies.

The Authority appears to now have 90% of their accounting information up to date. There are some asset and liability accounts which still need adjustments made. All financial information requested was provided and there were no exceptions noted during any of the testing. The new computer is now programmed with anti crash programs and backup systems. It has also been networked to the Authority's Director's computer for review at his discretion. Once Region 8 is current with its payments, the landfill should be able to run without further financial assistance. The Tucker County Solid Waste Authority is scheduled to meet with Region 8 to discuss this matter. The Director of the Tucker County Authority stated Region 8 has had cash flow difficulties due to a loan with a high interest rate. The Director also stated that when Region 8's loan is renegotiated, it should have more cash to stay current with billings.

Financial Review Procedures And Tests

Surprise Cash Count

The Legislative Auditor performed a surprise cash count at the landfill on February 7, 2000. The landfill manager and the weighmaster were present. This test verifies daily controls over cash and how it is accounted for.

Summary of work performed and information reviewed:

- All cash receipts and change fund cash were counted.
- The amounts were then traced to the day's tipping fee tickets (tickets) and the day's bank deposit ticket which was already prepared.
- The tickets were reviewed to assure sequential order of tickets and that they were signed by both the weigh master and customer.
- The posting of tonnage and customer by the weigh master, as required by the DEP, was verified .
- A daily receipts book and change fund count form were being used and both were verified as signed by the days weigh master.

Operating Account Bank Reconciliations

The Authority maintains a checking account held by Miners and Merchants Bank of Thomas, WV. The Authority had all bank reconciliations completed for fiscal years 1998, 1999 and 2000.

Summary of work performed and information reviewed:

- Fiscal year 1998 reconciliation was performed by the Legislative audit team to verify all amounts within the reconciliation forms could be traced to supporting bank statements and general ledger printouts for the year in review. No discrepancies were noted during the reconstruction of fiscal year 1998 reconciliations. Therefore, FY 1999 and 2000 reconciliations were reviewed to assure they were completed and accurate based on supporting information.
- Vendors listed on the general ledger were noted during all months in an effort to reasonably assure legitimacy of disbursements for landfill purposes. Inquiries were made for any vendor names of questionable nature. All vendors and disbursements were legitimate.

Cash Receipts Test

The cash receipts test involved randomly selecting days of cash receipts from tipping fees and tracing the amount to the bank statement to confirm deposit. This test also provides insight as to the controls over cash and it is accounted for and handled properly.

Summary of work performed and information reviewed:

- A random sample of days were pulled to review cash receipts during fiscal year 1999.
- After the sample days were selected, all tickets marked cash were totaled and the amount was traced to the bank statement.
- The totals were traced to verify they were deposited promptly and in whole.

Cut Off Test/Invoice Verification

To assure expenses are being charged to the correct fiscal year, a sample of disbursements were pulled for review. This test encompassed reviewing supporting documentation of disbursements at the end or beginning of a fiscal year to confirm the correct period was charged. The invoices were also obtained to confirm amount paid and legitimacy of expense.

Summary of work performed and information reviewed:

- The general ledger for the months of July of 1998 and June of 1999 were obtained. These were then used to pull a sample of disbursements in excess of \$5,000.
- Dates of service performed, period of time the expense covered or invoice date were verified on the supporting invoice from the vendor.
- The accounting system was then used to print off the posting dates of the invoices. The posting date drives what fiscal year the expense is charged to, not what year it is paid.
- This posting date was compared with the invoice or service date to confirm they were charged to the correct period.
- Mathematical review of invoices and amounts paid were also conducted and any discrepancies were pursued for justification.
- All invoices were reviewed to assure legitimacy of expenditure.

Confirmation of use of Public Funds

A reasonableness analysis was made to ascertain the use of Public Funds loaned to the Authority. The \$1.945 million in bond revenues were used to fund a building, bailer and the first cell construction. The \$1 million loan from the Department of Environmental Protection (DEP) was used to fund the construction of approximately 3 cells and one overlap of the first cell. Invoices pertinent to the construction of the 4 landfill cells and overlap, the building and bailer were reviewed and totaled.

The \$1 million loan from the DEP and the \$1.945 million in bond revenues were done by a draw down method. Therefore, no advances were made by DEP or United National Bank until

invoices were submitted for payment by the authority. The authority is up to date on all bond and loan payments per DEP and United National Bank representatives.

Account Balance Confirmations and Financial Statements

Escrow account balances mandated of the Authority were noted as of the most recent bank statement. The Authority is required by the Public Service Commission (PSC) and the DEP to maintain escrow accounts at a certain balance. These escrows are for the sole purpose of closure and post closure costs of the landfill. These escrows must be maintained in separate accounts.

Escrow account balances noted during the review were then compared with the amounts required by the respective agencies. The authority's escrow balances were up to date based on information reviewed.

Recent period financial statements were also requested from the Authority. The Authority was able to provide an income statement for each month of calendar year 1999. However, an accurate balance sheet is still not ready for recent periods due to inaccurate preparation of accounting information by the prior office manager and computer crash.

Authority's Financial Accounting

From interviews with the Chief Inspector's Division and the Authority, the accounting system during fiscal years 1996, 1997, 1998 and 1999 had been incomplete and unable to produce correct balances in numerous accounts. To exacerbate this, a computer at the Authority office crashed during fiscal year 1999 and the accounting information was not obtainable. The required statements by the Authority were not being submitted to the Solid Waste Board and some payments for bills lapsed. This was a result of a lack of **prepared, concise accounting information**. The previous office manager was proficient with the accounting system. However, a newer version of this accounting system was put in place by the Authority. Training was given to the office manager on the new system. The office manager continued to use the old system and the new system simultaneously.

Due to the nature of the accounting software used, this process led to inaccurate accounting data per the system. In addition to this problem there were multiple incorrect postings within both systems. Since the accounting system was such that all data entered contributed to financial statement preparation, multiple accounts were affected by single mis postings. The Authority was asked why some balance sheet account balances are still incorrect. Their reply was that since the system automatically does multiple accounting tasks based on a single entry, the inaccurate entries must be corrected in an individual, time consuming manner. The information lost from the computer crash also had to be entered. The authority stated there were not many accounts remaining to be corrected and it should be completed well before the next financial statement audit commences.

Conclusion

Based on the information reviewed and interviews conducted, with the exception of some balance sheet accounts, the Authority appears to now have their accounting information in order. All financial information requested to perform the tests listed above were made available. There were no exceptions found during testing and all transactions reviewed were recorded correctly.

The new computer at the office has backup programs and crash protection systems in place. It is also networked with the board chairman's computer for review of data. The networking of computers for control is of utmost importance. The constant scrutinizing of the Authority's books by management will significantly reduce the risk of an incident of this magnitude from occurring again. The failure to have accurate books cannot entirely be blamed on a computer crashing when there were indications of inadequacies prior to this crash. Management must be aware of the financial status of the Authority at all times.

It was noted that during an interview with the landfill manager that his position is now more involved in the overall managing of the Authority. The landfill manager now submits equipment cost reports, and reports to the Authority during board meetings of the landfills status. In addition, with the landfill manager having more involvement with the overall operations, the Authority now has more people involved to help discover where any inadequacies may lie in the every day operations.