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**Office of the Inspector General
Miami-Dade County**

FINAL REPORT

To: George M. Burgess, County Manager
Miami-Dade County

Received by Date

Kathleen Woods-Richardson, Director
Department of Solid Waste Management

Received by Date

From: Christopher Mazzella
Inspector General

CC: Joseph A. Ruiz, Jr. Assistant County Manager
Clerk of the Board (copy filed)

Date: November 18, 2004

Re: OIG Review of the Department of Solid Waste Management's disposal coupons
procedures and sales.

This report was issued in draft form on October 29, 2004 to the Department of Solid Waste Management (DSWM). A copy of the DSWM's response is attached as Appendix 1. The OIG's observations have been addressed. DSWM has changed its method and manner of accepting payment for disposal at its transfer stations, landfills, and the Resource Recovery Facility. Coupons are no longer issued and payment may only be made by an acceptable check or credit charge account. The transaction will take place at the facility at the time of disposal. Based on the new procedures implemented by the Department, which were effective November 1, 2004, the OIG would request an update in 90 days or by March 1, 2005 to report on the implementation of the new procedures, to include the credit charge accounts and any issues relating to returned checks.

The OIG shall consider this matter resolved-open pending the 90-day status report.

BACKGROUND

On or about March 4, 2004, the Office of the Inspector General (OIG) was advised by the Department of Solid Waste Management (DSWM) of certain allegations of suspected criminal activities surrounding the disposal of waste tires at the County's Resource Recovery Facility.

One of the allegations was that a County employee responsible for selling waste disposal coupons were stealing them and selling them at half price for his own illegal gain.

On March 16, 2004, the OIG assigned its auditors to assist in the investigation of stolen coupons. The primary objective for the OIG auditors was to reconcile the redeemed coupons against the Department's recorded sales to assess the veracity of the allegations.

REQUESTS FOR DOCUMENTATION AND INFORMATION REGARDING PROCEDURES

On March 17, 2004, an OIG auditor met with Mr. Rick Rayborn, DSWM's Accounting Manager, and Mr. John Jefferson, DSWM's Credit and Collections Manager (CCM), to discuss DSWM's coupon-handling procedures. The purpose of this initial meeting was to gain an understanding of what happens during the entire coupon cycle, beginning with the moment that the coupons are issued from the main inventory through the moment when a customer redeems them at a DSWM facility. The OIG wanted to learn of the Department's procedures for inventory, distribution, sales and redemptions of the disposal coupons and to ascertain the adherence to these procedures by DSWM personnel. The OIG also wanted to review the various forms and documentation that coincide with each of the stages in the cycle.

The OIG auditor requested a copy of coupon-handling procedures. However, our request was deferred. It was explained by Messrs. Rayborn and Jefferson that the procedures were being updated and that a copy of the updated procedures would be provided to the OIG later. Instead, Messrs. Rayborn and Jefferson verbally explained to the OIG auditor the process.

As told to the OIG, DSWM's coupon transaction cycle begins with an order to the print shop to purchase more disposal coupons. This occurs when the inventory of disposal coupons at the main office has reached a minimum level. After the disposal coupons are received from the print shop, they are logged in and stored in a locked closet located in the DSWM main office. Access is restricted to authorized personnel.

Coupons are actually sold at two field locations. The two sales locations are: a trailer located at NW 58th Street (hereinafter the NW 58th Street trailer) and at the South Dade Landfill. Once a request for additional coupons is received from the field office, coupons are issued from the main office to the CCM. The issuer records in the *Coupon Control Log* the serial numbers and number of coupons to be issued, and the location where the coupons are assigned to and should be delivered to. The issuer verifies the issuance and initials the log. The CCM signs the log as the recipient and transports the coupons to the designated location.

The CCM delivers the requested coupons to the field offices. The CCM, however, does not obtain a signature from the field recipient indicating that the coupons were delivered intact and that custody of the coupons was transferred to the cashier. At the field locations, the sales of these coupons are recorded by the cashier onto a Coupons Sales Log. On a daily basis, the

funds collected from the sale of coupons, along with a copy of the log, is picked up by the CCM or other department personnel and forwarded to the Accounting Division. The Accounting Division reconciles the amount of funds received (checks and money orders only, no cash is accepted) to the sale amounts on the log. The monies are then to be deposited.

Truck drivers redeem coupons at the weigh scales when disposing of the waste tires. These coupons serve as a substitute for cash and are the only form of negotiable instrument that can be used to dispose of waste tires. The redeemed coupons are physically attached to the individual disposal transaction records (e.g. weigh tickets). At the end of the cycle, the Accounting Division also receives, on a daily basis, the transaction record forms from the scale stations. The Accounting Division also performs a reconciliation of the transaction form to the redeemed coupons to ensure that the proper disposal amount was paid.

Lastly, as told to the OIG, DSWM personnel conduct an annual physical inventory of the coupons at the various locations, which would include those at the two field locations and coupons not issued located at the main office.

DSWM provided the OIG with:

1. Copies of the *Coupon Control Logs* for the period under review. (See Exhibit A for a sample copy of one Coupon Control Log, which happens to be for the issuance of the \$20 coupon series identified as having included the stolen coupons.)
2. The original daily *Coupon Sales Log* sheets for the period June 2002 through April 2004, for both the NW 58th Street trailer and South Dade Landfill locations. (See Exhibit B for a sample copy of one Coupon Sales Log sheet from the NE 58th Street trailer.)
3. Copies of all inventories performed by the Department for the period under review. (See OIG Exhibit C, collective of three inventories.)
4. Computer-generated listing of subject drivers' individual transactions for the period September 2003 through March 2004 (for one driver, such records began with August 2003).
5. Original point-of-transaction computer-generated records (i.e., the ticket transactions shown on the above listing) detailing the subject drivers' transactions attached to which are the coupons used by the drivers to "pay" for their use of the facilities, for the above-stated period.

In the course of this review, the OIG found other relevant documentation, which shall be discussed herein:

6. A copy of coupon procedures dating back to 1999 were found during the investigation (OIG Exhibit D). These procedures only refer to purchases, inventory and distribution of the coupons. Under Section 2, *Distributed coupons*, b. it states: “South Dade and 58 Street: issued a complete box of coupons. Record in a log the count of the books and the coupons in the box. List the first and the last number of each bundle which is a count of 40 each. Give the number of the box that was issued and the location of where issued. Date it and have signed.”
7. A copy of coupon procedures dating back to 1994, which were faxed to the OIG auditor after a request was made to the Accounts Receivable Supervisor on October 20, 2004 (OIG Exhibit E). Section IV, “Coupon Supply to 58 street and SD” states **“The cashiers sign the log to verify the coupons received. The log is returned to the Administrative Officer for his review and record.”** (OIG Emphasis) The Administrative Officer is not identified in the procedures.
8. Copies of *Monthly Coupons Sales Reports*, which were obtained by the OIG Auditor from the cashier at the NW 58th Street location. (OIG Exhibit F, collective reports from January 2002 through February 2004.) These reports are then transmitted to the CCM and forwarded to the Accounting Manager (see Exhibit G).

OIG RECONCILIATION

The OIG conducted a physical inventory of the coupons at the various locations and tabulated the results. The OIG, using the *Coupon Sales Log* sheets, entered the coupon sales data for all \$1, \$5, \$10 and \$20 coupons into a spreadsheet and sorted the data by driver (sticker #).

DSWM and OIG personnel pulled from DSWM files the ticket transaction records and attached coupons, using the computer-generated listing of the transactions as the source listing of transactions. The OIG entered the transaction and coupon detail for all the listed transactions into a database and then extracted the information for only the \$20 and \$10 coupons. The OIG combined this data with the sales and inventory data into one computer-generated spreadsheet.

The OIG sorted its spreadsheet by various attributes and used it as the basis for the reported results. The main sort was to separate from the main database the data for \$20-coupons with serial numbers ranging from 1026501 – 1061500 (35,000 coupons) and \$10-coupons with serial numbers ranging from 50001 – 120000 (70,000 coupons). The subject drivers used coupons from within these series at the NW 58th Street trailer. Also, the auditors attached to each discrete series within these ranges of coupon numbers explanations about the disposition and/or status of the individual coupons listed therein, i.e., DSWM inventory item (OIG verified), DSWM recorded coupon sale and use, or DSWM recorded coupon usage but no recorded sale (TABLE Note 1).

TABLE 1 on the following page shows the results of the OIG’s analysis of the selected NW 58th Street facility data:

Coupons	\$20 Coupon Denomination			\$10 Coupon Denomination			Totals		
	Quantity	\$ Amount	%	Quantity	\$ Amount	%	Quantity	\$ Amount	%
Recorded Sales	17,900	\$358,000	51%	56,725	\$567,250	81%	74,625	\$925,250	66%
Usage ⁽¹⁾	3,456	\$69,120	10%	6,698	\$66,980	10%	10,154	\$136,100	10%
Missing ⁽²⁾	13,644	\$272,880	39%	6,577	\$65,770	9%	20,221	\$338,650	24%
Total Coupons	35,000	\$700,000	100%	70,000	\$700,000	100%	105,000	\$1,400,000	100%

⁽¹⁾ These coupons are not DSWM recorded sale items but were used by the subject drivers at the NW 58th Street facility. This is lost revenue to the DSWM.

⁽²⁾ These coupons are not DSWM recorded sales items nor are they recorded inventory items but they are coupons whose serial numbers are within the stated coupon series. DSWM informed the OIG that these coupon numbers are no longer valid and the coupons will not be accepted at any DSWM facility.

Based in part on the results of the coupon reconciliation and work of OIG auditors, Marcelino Hernandez, the cashier at the NW 58th Street facility, was arrested and charged with various criminal violations relating to his scheme to defraud the County of the coupons and the revenue that it represented. (See Exhibit H for a copy of the OIG's news release relating to Hernandez' arrest.) The criminal case is still pending.

OIG OBSERVATIONS AND RECOMMENDATIONS

We believe that two conditions contributing to the revenue loss and missing coupons were that DSWM did not monitor the coupon deliveries to the field, and second that there was no reconciliation of sold coupons to the delivered coupons.

As it relates to the first condition, according to the CCM, requests for additional coupons are made by the field offices and are telephoned in. There is no documentation recording the request for additional coupons. Moreover, there does not appear to be any guideline regarding the number of coupons / value of the coupons to be delivered to the field office. For example, we found that batches of \$1 coupons (valued at \$20,000) might be delivered on a monthly basis. Conversely, the OIG observed that for \$20 coupons allocated to the NW 58th Street trailer the period of time between deliveries was almost two years, and that a single delivery issued an allocation of \$700,000 worth of \$20 coupons (35,000 coupons). (See OIG Exhibits I and J, respectively, for a *Timeline of Coupon Distribution* for the NW 58th Street trailer and the South Dade Landfill locations.)

The face value of such large allocations—up to \$700,000 at a time—concerns the OIG, especially when there was no delivery ticket signed by the cashier indicating acceptance of the coupons. We observed that the *Coupon Distribution Control Logs* were not signed by either of

the cashiers at the two DSWM field locations. When asked about the lack of a signature acknowledging receipt of the coupons allegedly delivered, the CCM stated that no signatures were required. However, that statement appears to be in conflict with the 1999 procedures and is authoritatively disputed by the 1994 procedures. Given DSWM's earlier statement that the procedures were being updated, it is not clear what in fact were the authoritative procedures. However, common sense mandates that the delivery of these negotiable coupons, which work as a substitute for cash, be acknowledged by some form of delivery receipt.

Moreover, the OIG observed that delivery of coupons from the main inventory to the field locations were not always in sequential order. The failure to issue coupons in sequential order makes tracking coupon sales all the more difficult.

DSWM stated that it no longer sells coupons at its field locations and that all field inventory has been returned to the main office. This step would help to eliminate the problems resulting from the first condition. DSWM should require signed delivery receipts from those responsible for safeguarding the coupons from the main storage. While even though sold at one location, chain of custody must still be maintained.

Regarding the second condition that coupon sales were not reconciled to field coupon inventory, the OIG found that inventories were just that – a physical count. The 1999 procedures, OIG Exhibit D previously referenced, contains a section on inventory procedures, however, it is directed to counting the coupons in the box upon receipt from the printers. The 1999 procedures (two pages) lack a step requiring the reconciliation of sales to the deliveries. The 1994 procedures, however, do have this step, albeit perhaps outdated, to reconcile the redeemed coupons against those sold and those physically inventoried. Again, given DSWM's earlier statement that the procedures were being updated, it is not clear what procedures were in effect. However, if an earlier version of the procedures contained this step, it would be prudent business practice to continue following these steps. These steps are essential controls for any business organization when handling cash or cash equivalents.

Finally, part of the DSWM's monthly reporting included a field prepared monthly *Coupon Sales Report* (previously referenced as OIG Exhibit F). DSWM personnel did not mention this report and its uses while describing the procedures, nor is it mentioned in either of the 1994 or 1999 written procedures. However, the field cashier working at the NW 58th St. trailer told the OIG auditor that he prepared and submitted this report to the CCM. Notwithstanding the above-noted lack of mention by DSWM personnel, the OIG has a DSWM transmittal memorandum attaching one month's reports (see Exhibit G, previously referenced) which shows that the CCM is forwarding the information to the DSWM Accounting Manager.

These reports show, by denomination, the coupon series (i.e., serial numbers) sold during the month, the number of coupon "books" sold and the total coupon sales amounts. DSWM could have used the reported information, in concert with its inventory data, to monitor more closely coupon location and/or disposition. At a minimum, DSWM personnel could have used these reports to monitor serial number continuity, from month to month, of the sold coupons.

For example, the December 2003 report for the NW 58th St. trailer location showed that this location sold \$20 coupons between serial numbers 1040251 to 1040500 and 1041501 to 1042175. This report reflects 1,000 in-sequence numbered coupons (1040500 to 1041500) not being sold and a notation of a “New Series.” The OIG believes that a reasonably observant individual charged with monitoring coupon sales would have asked and sought out answers to such questions as: Why is a new coupon series found at that point in the numbering scheme? What happened to the 1,000 coupons not listed? A check of the main office inventory would have shown that the 1,000 coupons were part of a larger batch (serial numbers 1026501 - 1061500) that was being sold out of the NW 58th St. trailer.

Another example is the September 2003 report, whereon the reported serial number range of sold \$10 coupons was 73301 to 74000 and 95001 to 97800 with a notation of a “New Series.” Again, that same knowledgeable individual monitoring coupon sales might have asked the same questions, especially after a check of the inventory records showed that the last serial number in the batch of coupons, including those numbered from 73301 to 74000, was numbered 75000.

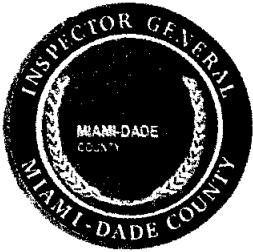
This person may have even checked with field personnel about these coupons. We are unsure what the field response would have been at either of these times because of information later uncovered. We believe that the field cashier responsible for preparing and submitting the reports was Marcelino Hernandez—the individual identified later in this report as an alleged perpetrator of a scheme to defraud the County. It is clear why he may have intentionally mislabeled the reports with the “New Series” notation. We also know now that various truckers frequenting the NW 58th Street trailer, as part of an apparent working relationship with Mr. Hernandez, redeemed 965 of the \$20 coupons, worth \$19,300, and 948 of the \$10 coupons, worth \$9,480, within the two missing coupon series. The OIG could find no record in DSWM files that the truckers purchased these coupons as legitimate sales.

It is recommended that DSWM, if not already included as part of its procedures that are currently in the process of being updated, should periodically reconcile inventory and sales to ensure that there is a complete accounting of all coupons. This step should be a much easier task now that all coupons are being held at and sold out of the main office.

In summary, the OIG has three recommendations:

1. Update written procedures and implement and provide training on them.
2. Require documentation for every step in the coupon cycle, especially as it relates to a change in possession of the coupons, i.e., chain of custody.
3. Reconcile monthly sales to coupon inventory. Implement periodic spot checks of redeemed coupons to sales records.

See DSWM’s response regarding its new payment methods and the OIG comment at the beginning of this report.



October 29, 2004

Christopher R. Mazzella
Inspector General

Alan Solowitz
Deputy Inspector General

Patra Liu
Assistant Inspector General
Legal Counsel

Ms. Kathleen Woods-Richardson, Director
Department of Solid Waste Management
2525 NW 62 Street, 5th Floor
Miami, Florida 33147

FILE COPY

Dear Ms. Woods-Richardson:

Attached please find a copy of the Office of the Inspector General's (OIG) draft report of our review of your department's procedures for the sale and inventory of disposal coupons. We are providing this draft in accordance with the Board of County Commissioners' mandate of advance notification.

The OIG requests your response to this draft report. As this report may address past practices, we would request that as part of DSWM's response you provide us with the Department's updated written procedures. If you would like your response to be included in the final report, you must submit it to the OIG by close of business on November 15, 2004. If you wish, you may provide your response by fax to (305) 579-2656.

Please do not hesitate to call should you have any questions.

Yours truly,

Christopher Mazzella
Inspector General

Acknowledgment of Receipt or Proof of Service

10/29/04
Date

cc: Mr. Joseph Ruiz, Assistant County Manager

APPENDIX 1



SOLID WASTE MANAGEMENT

Fax

To: OIG From: ^{DSWM} KATHLEEN WOODS-RICHARDSON
 Comp: _____ Pages: 8 INCL THIS COVER
 Fax: 305-579-2656 Date: 11/
 Re: RESPONSE TO OIG REPORT DATED 10/29/04

- Urgent For Review Please Comment Please Reply Please Recycle


• Comments:

Memorandum



Date: November 15, 2004

To: Christopher Mazzeffa, Inspector General

From: 
Kathleen Woods-Richardson, Director, Department of Solid Waste Management

Subject: OIG Review of the Department of Solid Waste Management's disposal coupons procedures and sales.

Attached please find a copy of the Department of Solid Waste Management's response to the October 29, 2004 Office of the Inspector General's draft version of the report on the aforementioned matter, to be included in the final report.

Please do not hesitate to call should you have any questions.

Regards,


cc: Joseph A. Ruiz, Jr., Assistant County Manager
Vicente Castro, Deputy Director, DSWM

Memorandum



Date: November 15, 2004

To: Christopher Mazzella, Inspector General

From: 
Kathleen Woods-Richardson, Director, Department of Solid Waste Management

Subject: Response to OIG Review of the Department of Solid Waste Management's disposal coupons procedures and sales

This document is to formally respond to the October 29, 2004 Office of the Inspector General (OIG) report, resulting from their review of DSWM's disposal coupons procedures and sales, and to describe the actions taken by the Department of Solid Waste Management (DSWM/Department) in the interim period from the OIG's initial findings to the date of receipt of their report.

After proper notification to its customers (See Exhibit 1), the Department took the following actions:

- DSWM ceased selling disposal coupons on June 30, 2004.
- DSWM ceased accepting disposal coupons as a form of payment on October 31, 2004.

Furthermore, during the interim period from the initial findings (on April 19th 2004) through the receipt of the OIG's report, DSWM took the following additional steps to diminish and eliminate the Department's exposure to fraud and misuse in the disposal coupon sales process:

- On April 19th 2004, a set of instructions was sent to every scalehouse in the DSWM System for the refusal and treatment of coupons listed on the OIG's preliminary findings (See Exhibit 2).
- The 58th Street Coupon Sales Office was closed on April 20th, 2004.
- On April 20th, 2004, the Credit and Collection Manager (Cashier's direct supervisor) and the 58th Street Cashier were reassigned to other functions pending the results of the OIG's investigation. The 58th Street Cashier remained reassigned to other duties, until his separation from service on August 4, 2004, following his arrest on July 28, 2004.
- On April 20th, 2004, the 58th Street coupon inventory was transferred to the Administrative Offices at 8675 NE 53 Street, Suite 201 and a physical inventory was conducted.
- On April 20th, 2004, a new coupon sales office was opened at DSWM's Administrative Offices.
- Certain controls were changed. The off-site (South Dade) coupon inventory was reduced; the responsibility for reviewing the daily sales report was assigned to disposal accounts receivable staff; the senior accounting staff conducted a review of the sales activity for the 58 Street site

missing series for the period June 3, 2002 through April 19, 2004; the sales by mail function was assigned to senior level disposal billing accounting staff.

The Department accepts and appreciates the findings and the recommendations listed on the OIG October 29, 2004 report. This notwithstanding, the Department has already eliminated the disposal coupon procedures and sales functions these controls would safeguard. The Department is currently accepting credit cards in addition to pursuing software to implement other automated forms of payment, which should result in more secure, practical and effective tools for the Department and our customers.

Form of Payment Notice

Transfer Station, Landfill and Resources Recovery Customers

Effective June 30, 2004, Miami-Dade County Solid Waste Management (DSWM) will cease selling disposal coupons. The Department will continue to honor disposal coupons at the transfer stations, landfills, and the Resources Recovery facility until October 30, 2004.

Effective November 1, 2004, Transfer Station, Landfill and Resources Recovery facility customers must pay by check or with a pre-approved credit charge account with the Department of Solid Waste Management.

Checks are accepted under the following conditions:

- The name ~~and address~~ of the financial institution must be pre-printed on the check.
- The name and street address of the issuer/payer must be pre-printed on the check.
- Checks with a P.O. Box address will not be accepted.
- Over-the-counter or starter check will not be accepted.
- Second or Third party checks will not be accepted.
- Checks in the amounts of \$750.00 or greater must be approved by the DSWM's check guarantee service.
- Maximum check limit is \$5,000.00.
- Payer must provide a driver's license to the Waste Scale Operator.

A credit charge account can be established with DSWM

- Customers must complete an application.
- Provide financial and banking information.
- DSWM will establish the credit limit.
- To obtain an application, contact DSWM, Accounting Division at 305-597-1752.

For further information, please contact DSWM, Customer Service Unit at 305-594-1500.

(EXHIBIT 1)

DEPARTMENT OF SOLID WASTE MANAGEMENT

SCALE HOUSE ALERT

April 20, 2004

Page 1 of 2

- Effective immediately, payment coupons within the series listed below shall not be accepted at any DSWM scale house.
- Scale house operators are instructed to tell the customer that the coupon(s) presented for payment have been identified by the DSWM as being lost or stolen. If the customer wants additional information, instruct them to contact DSWM Administration at 305-597-1752.
- After returning the coupon(s) to the customer, the scale house operator must record the DSWM sticker number and license plate number of the vehicle. The date and time of the incident must also be recorded.

Missing coupons (\$10 Denomination)

From	To
66926	70000
74001	75000
92001	95000
95976	96000
97051	97075
98076	98225
114001	120000
120001	125000
126801	127000

(EXHIBIT 2)

DEPARTMENT OF SOLID WASTE MANAGEMENT
SCALE HOUSE ALERT

April 20, 2004

Page 2 of 2

Missing coupons (\$20 denomination)

From	To
1039426	1039500
1040501	1041500
1045001	1061500



Christopher R. Mazzella
Inspector General

Alan Solowitz
Deputy Inspector General

Patra Liu
Assistant Inspector General
Legal Counsel

October 29, 2004

Ms. Kathleen Woods-Richardson, Director
Department of Solid Waste Management
2525 NW 62 Street, 5th Floor
Miami, Florida 33147

SW127334

RECEIVED

OCT 29 2004

SOLID WASTE MANAGEMENT
DIRECTOR'S OFFICE

Dear Ms. Woods-Richardson:

Attached please find a copy of the Office of the Inspector General's (OIG) draft report of our review of your department's procedures for the sale and inventory of disposal coupons. We are providing this draft in accordance with the Board of County Commissioners' mandate of advance notification.

The OIG requests your response to this draft report. As this report may address past practices, we would request that as part of DSWM's response you provide us with the Department's updated written procedures. If you would like your response to be included in the final report, you must submit it to the OIG by close of business on November 15, 2004. If you wish, you may provide your response by fax to (305) 579-2656.

Please do not hesitate to call should you have any questions.

Yours truly,

Christopher Mazzella
Inspector General

Acknowledgment of Receipt or Proof of Service

11/15/04
Date

cc: Mr. Joseph Ruiz, Assistant County Manager