



Lexington-Fayette Urban County Government
OFFICE OF INTERNAL AUDIT

MANAGEMENT ACTION PLAN PROGRESS REPORT

DATE: December 4, 2015

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Officer
Glenn Brown, Deputy Chief Administrative Officer
Aldona Valicenti, Chief Information Officer
William O'Mara, Commissioner of Finance & Administration
Ronnie Bastin, Commissioner of Public Safety
Janet Graham, Commissioner of Law
Tracey Thurman, Director of Waste Management
Mark Barnard, Chief of Police
Phyllis Cooper, Director of Accounting
Todd Slatin, Director of Purchasing
Susan Straub, Communications Director
Urban County Council Members
Internal Audit Board Members

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit
Jasie Curtis, CFE, Internal Auditor

RE: Electronic Recycling Facility Audit Management Action Plan Progress Review

EXECUTIVE SUMMARY

On August 20, 2012 the Office of Internal Audit issued the Electronic Recycling Facility Audit. The 2012 report contained fourteen findings related to allegations brought to Internal Audit's attention.

This review is provided for management information only. It is not an audit and no opinion is given regarding internal controls or procedures. The period of review included

policies and SOP edited or put into place since the 2012 audit, including the physical walk through of facilities to ensure all previously noted findings were addressed.

A summary of each finding from the original August 2012 audit report, and a summary of the results of our follow-up, is provided in the table below. The original findings, management's original responses, and details of the results of this follow-up are contained in the **ORIGINAL AUDIT RESULTS AND FOLLOW-UP DETAILS** section of this report.

Finding	Summary of Original Finding	Follow-up results
Finding #1 High Priority	Retired Police Mountain Bikes Were Taken by an LFUCG Employee Without Proper Authorization	The employee in question is no longer employed by the LFUCG. Scavenging is not allowed at the ERF or MRF. A formal government wide policy is in place regarding the proper retirement of surplus property. This finding has been resolved.
Finding #2 High Priority	Employee Provided Misleading Information on Shipping and Receiving Manifest	The employee in question is no longer employed by the LFUCG. ERF SOP prohibits scavenging. The ERF Program Manager Senior reconciles the shipping manifest to the vendor receiving information to ensure that what the ERF states has been shipped to the vendor was received. This finding has been resolved.
Finding #3 High Priority	Employee Gave Stereo Equipment to Unauthorized Vendor	The employee in question is no longer employed by the LFUCG. ECS Refining is the primary vendor, with Cohen and Veolia also being utilized for specific items. Purchasing was not involved in vendor selection and there are no contracts with any of these vendors.

<p>Finding #4 High Priority</p>	<p>Inappropriate and Unsafe Items and Unsecured Personal Identification Items Displayed in the Operations Manager's Office</p>	<p>No unsafe or inappropriate items were observed at either facility. ERF and MRF policies are in place prohibiting either theft or reuse or scavenging of items received at those facilities, and most employees have signed off acknowledging receipt of the policies. Management should obtain signed acknowledgement forms from all employees demonstrating their awareness of these policies.</p>
<p>Finding #5 High Priority</p>	<p>Standard Operating Procedures Not Implemented</p>	<p>ERF and MRF policies are in place prohibiting theft or reuse or scavenging of items received at those facilities, and most employees have signed off acknowledging receipt of the policies. Management should obtain signed acknowledgement forms from all employees demonstrating their awareness of these policies.</p>
<p>Finding #6 High Priority</p>	<p>FA-9 Not Located for Police Mountain Bikes</p>	<p>The police bicycle FA-9 forms were provided to us during project fieldwork as proof of documented transfer. This finding has been resolved.</p>
<p>Finding #7 High Priority</p>	<p>GES Allowed to Bill LFUCG for Microwaves Which Should Have Been a Pass-through</p>	<p>ECS Refining is the primary vendor, with Cohen and Veolia also being utilized for specific items. Purchasing was not involved in vendor selection and there are no contracts with any of these vendors.</p>

Finding #8 High Priority	Unauthorized Vendor Recycled Some Electronic Equipment	ECS Refining is the primary vendor, with Cohen and Veolia also being utilized for specific items. Purchasing was not involved in vendor selection and there are no contracts with any of these vendors.
Finding #9 High Priority	Adult Material Magazines Allegedly Taken Off MRF Recycling Line	Our walkthrough of the ERF and MRF facilities did not observe any sort of inappropriate materials. HR confirmed that all managers in the Division of Waste Management participated in sexual harassment training in 2014, but this training was not provided to the general employees.
Finding #10 High Priority	Unauthorized Equipment Used at the ERF	An ERF SOP prohibits the reuse of any items that have been dropped off at that location. ERF Management informed us that all scavenged materials were taken back to the recycling floor to be properly disposed of. We did not observe any evidence of scavenged materials during our walkthrough of the ERF office. This finding has been resolved.
Finding #11 High Priority	Laptop Bins Not Secured	During a walkthrough of the ERF we noted all bins containing hardware with potentially sensitive information are locked. However, the bins have large openings from which a person could remove items.

Finding #12 High Priority	Security Cameras Need to be Repositioned	New cameras have been installed since the prior audit and the recordings are stored for 60 days. We determined that all areas of the warehouse are being monitored. This finding has been resolved.
Finding #13 High Priority	Bid/Contract Opening Meeting Needs Attendance Log	Purchasing has implemented a new Bid/RFP Sign-In Sheet process. This finding has been resolved.
Finding #14 High Priority	Conflict of Interest Reporting Requirements Should Be Strengthened	Purchasing's Bid/RFP/Quote Request Form has been updated to include a Non-conflict of Interest Statement that must be completed and signed by the submitter. This finding has been resolved.

ORIGINAL AUDIT RESULTS AND FOLLOW-UP DETAILS

Original Finding #1: Retired Police Mountain Bikes Were Taken by an LFUCG Employee Without Proper Authorization

Priority Rating: High

Condition:

Approximately 10 to 12 Police Mountain Bikes were initially taken to the Electronics Recycling Facility (ERF) by the Division of Police to be retired. These bikes were in need of repair due to missing seats, broken sprocket chains, worn-out components, etc. Some of the bikes were purchased in 1997 but most were purchased in 1999, and the bikes had been fully depreciated. The bikes were padlocked and stored at the Materials Recycling Facility (MRF).

Although the bikes had some residual value, the decision was authorized by the Director of Waste Management to donate the bikes rather than auction them online or recycle them for their scrap metal value. The Director of Waste Management stated his objective was to find a charity that would repair the bikes and distribute to them needy children during Christmas, and the initial intent was to donate the bikes to the UK Sustainability Office, but this arrangement did not work out.

Sometime afterwards, the Program Manager Senior in charge of donating the bikes took them to her home. This employee informed the Office of Internal Audit that her intent was to repair two or three of the bikes by using good parts from other less repairable bikes, and the repaired bikes would then be donated to charity. However, the bikes were not repaired, and at our request the employee brought back nine bike frames and twelve wheels to the LFUCG.

In addition, the Operations Manager at Waste Management made the decision to give one bike to a Labor Works employee who works at the MRF and ERF. This decision was authorized by the Operations Manager. It is our understanding that several employees requested a bike.

The exact number of retired police mountain bikes originally taken to the ERF could not be determined because the proper transfer paperwork (Form FA-9) could not be found. This is a separate finding in our report, and contributed to the issue of the bikes not going through the normal asset retirement process.

Effect:

The Program Manager Senior at Waste Management took nine to twelve bikes to her home in order to repair the bikes. She made a unilateral decision to take the bikes without proper authorization from the Director of Waste Management. As a result, the LFUCG did not collect revenue from inventory that could have been sold at an online auction or sold for scrap aluminum. In addition, allowing a temp agency employee to have one of the bikes, when several other employees requested one, creates the potential for allegations of favoritism. When management reacts to such a request without a policy or procedure in place, it creates the potential for inconsistency and exposes management to possible criticism whenever employees do not agree with the decisions.

Recommendation:

Senior management should review this matter further to determine if a violation of law or LFUCG policy has occurred and determine if disciplinary action is necessary. In addition, a policy should be implemented to ensure the consistent retirement and disposition of inventory and other materials brought to the ERF and MRF. The policy should specify the corrective action that will occur if the policy is not followed.

Director of Waste Management Response:

The actions of the employee are considered to be insubordinate as specific directives were not followed. Disciplinary action is pending. DWM has met with the Director

of Purchasing to set up a formal government wide policy on the appropriate method of retiring surplus property.

CAO Response:

Concurs with the response of the Director of Waste Management, and will follow-up within six months to ensure a policy is in place.

Follow-Up Detail Results:

The Program Manager Senior identified in the original finding is no longer employed by the LFUCG, and business ceased between LFUCG and GES shortly thereafter. Per discussion with management at both the ERF and MRF facilities, scavenging is not allowed at either facility. All items that are collected become the property of the LFUCG for the purpose of recycling and cannot be utilized for any other reasons (including government use), with two exceptions. If a Department or Division of the LFUCG sends an item to the ERF (e.g., printer), the Department or Division can reclaim that exact item by completing a new FA-9 if that item is still located at the ERF. The other exception is a new program set up between the ERF and the Department of Social Services, which allows functional electronic items submitted for recycling to be donated to qualified charities once the charities are accepted into the program.

A formal government wide Purchasing Policy is now in place regarding the proper retirement of surplus property.

This finding has been resolved. No management response required.

Original Finding #2: Employee Provided Misleading Information on Shipping and Receiving Manifest

Priority Rating: High

Condition:

The Program Manager Senior wrote misleading information on a shipping and receiving manifest, indicating that three handheld multi-meters and a small refrigerator went to recycling vendor GES. The refrigerator was actually taken to the employee's office, and the multi-meters were reportedly taken by the GES Account Manager (it could not be determined if this employee later delivered the multi-meters to his employer, GES). All of

these items had been delivered to the ERF by Fayette County residents for the purpose of being recycled.

There is no policy allowing LFUCG employees to take such items to their office. The Program Manager Senior represented to the Deputy Director of Internal Audit that she obtained permission from the Account Manager at GES to keep the refrigerator. However, the Account Manager at GES signed the shipping & receiving manifest indicating receipt by GES.

Effect:

By submitting misleading information on a document, the Program Manager Senior exposed herself to an allegation and set a poor tone at the top example for lower level employees.

Recommendation:

Senior management should review this matter further to determine if a policy has been violated and if disciplinary action is necessary. LFUCG senior management should also determine if there is a liability issue or other risks associated in allowing LFUCG employees to use electronic equipment in their offices that the public has delivered to the ERF. If not, a standard operating procedure (SOP) should be created to allow LFUCG employees to transfer recyclable equipment from the ERF to LFUCG for office use (e.g. computer monitors, televisions, etc.). This could aid in reducing certain equipment expenses at the LFUCG, lowering the cost of recycling with GES, and meeting the goal of Waste Management which is to reduce, reuse, and recycle.

Director of Waste Management Response:

The actions of the employee are also considered to be insubordinate and disciplinary action is pending. While our current policy for disposition of items dropped off at the E-waste Facility clearly states that all items become the property of ‘GES, Veolia or Wise Metals’, we will be updating that statement to provide more clarity as to the specific rationale behind the policy and the consequences for not following the policy.

CAO Response:

Concurs with the response of the Director of Waste Management and will follow-up within six months to ensure the policy is updated.

Follow-Up Detail Results:

The Program Manager Senior identified in the original finding is no longer employed by the LFUCG. The ERF SOP includes the statement that failure to comply with the “No Scavenging” policy could lead to disciplinary action. The

ERF's current Program Manager Senior reconciles shipping manifests to vendor receiving information to ensure that the vendor received all recyclable materials the ERF shipped to them.

This finding has been resolved. No management response required.

Original Finding #3: Employee Gave Stereo Equipment to Unauthorized Vendor
Priority Rating: High

Condition:

The Program Manager Senior gave recyclable stereo equipment to a vendor named Pops Resale without proper authorization, rather than sending the equipment to GES as per their contract with the LFUCG. This electronic equipment had been brought to the ERF by Fayette County residents in order to be recycled. It should also be noted that LFUCG does not pay GES to recycle stereo equipment.

Effect:

This action placed the LFUCG at risk of being in breach of contract with GES, who is the authorized vendor for the receipt of recycled electronics.

Recommendation:

The LFUCG does not pay anything to have stereo equipment recycled by GES. LFUCG should send the stereo equipment to this vendor as contracted. Senior management should review this matter further to determine if disciplinary action is necessary.

In addition, when a new contract is put in place, the language should be changed to allow the LFUCG to send electronic equipment to multiple vendors depending on the price. At the time this event occurred, the contract language did not allow the LFUCG to send electronic equipment for recycling to any other vendor.

We also recommend senior management evaluate setting aside good electronic equipment and having an online auction or an on-site auction periodically. This could reduce the amount the ERF costs the LFUCG and get the ERF closer to a break-even point.

Director of Waste Management Response:

The actions of the employee are considered to be insubordinate. Disciplinary action is pending. DWM is considering issuing a procurement document for the E-waste

Facility to solicit private operation at the existing location. In the event that a viable candidate cannot be found, a multiple vendor approach will be pursued.

CAO Response:

Concur with the response of the Director of Waste Management and will review status of operations at the end of six months.

Follow-Up Detail Results:

The Program Manager Senior identified in the original finding is no longer employed by the LFUCG.

Since 2014 dropped off recyclable items primarily go to a company called ECS Refining. A backup company called Cohen is used occasionally with management's approval if ECS cannot be used, and Cohen regularly takes all scrap metal, wire, and electrical miscellaneous (about 4% of the recyclable items per ERF management). Another company called Veolia takes all light bulbs for recycling (about 1% of the recyclable items per MRF management). The Program Manager Senior stated that a decision was made to use ECS Refining as the majority vendor because they pay LFUCG for the recyclables versus the previous system where LFUCG had to pay a vendor to take recyclables. This approach was chosen instead of turning the ERF over to a private operator.

There are no contracts with any of these vendors. In addition, the Director of Purchasing informed us that Purchasing had no involvement in the selection of new vendors for the ERF or in the decision to not privatize the ERF.

Standard purchasing policies and procedures should be followed when selecting any vendor. The Division of Waste Management should work with the Division of Purchasing to obtain contracts with all of the ERF vendors.

Director of Waste Management Response:

The ERF operation has been challenged by significant industry changes and statewide struggles to obtain qualified vendors. In the past, vendors were obtained through statewide price contract. One vendor went bankrupt, while another was found in violation of environmental laws for illegal dumping. During this period, the new Program Manager Senior used other vendors on a trial basis in an effort to find a stable, economic, and environmentally responsible source to process materials. He completed a trial period with ECS

and other vendors to properly recycle materials with the least cost impact to LFUCG. This was completed as part of his management review and evaluation of the ERF operations. Prior to the trial period, electronic waste disposal was a significant cost. The Program Manager is now working with the Division of Purchasing to establish the necessary agreements and proper contracts. This will be completed by February 2016 due to the Council winter recess schedule and necessary approval process.

Commissioner of Environmental Quality & Public Works Response:
Will follow-up to assure compliance.

Original Finding #4: Inappropriate and Unsafe Items and Unsecured Personal Identification Items Displayed in the Operations Manager's Office
Priority Rating: High

Condition:

While the Deputy Director of Internal Audit was in the Operations Manager's office at the MRF, he observed inappropriate items hanging on the wall (i.e. leather whips), unsafe items on a table (i.e. a couple of machetes and a plastic shotgun), and unsecured personal identification items (i.e. drivers licenses that were pulled from the MRF recycling line). The Program Manager Senior admitted during the interview with the Deputy Director of Internal Audit that she was aware of these items being displayed, and in fact placed them in a bag after they were observed by him.

Effect:

The display of inappropriate and unsafe materials is inconsistent with CAO Policy and may result in subordinates assuming that such behavior is tolerated by management. This creates the potential for allegations of a hostile work environment, etc. Drivers licenses found on the line, that are not secured or destroyed, increase the possibility of identity theft.

Recommendation:

A standard operating procedure (SOP) or policy should be developed that prohibits employees from removing items from the line due to sanitary and safety reasons. Items that cannot be recycled should be pulled from the line and disposed of in an appropriate manner. Senior management should also review this matter further to determine if the display of inappropriate and unsafe materials is a violation of CAO Policy 34 and if disciplinary action is necessary.

Director of Waste Management Response:

An SOP prohibiting reuse of the items dropped off at the E-waste facility had been developed and issued but apparently had been removed from the SOP notebook by a Public Service Supervisor whose dismissal hearing is pending. This policy, with the employee sign-off sheet, has been reissued at the facility. An SOP will be developed that clearly articulates the protocol for items taken from the MRF recycling line. The policy will be posted and a sign-off form for all employees will be developed.

CAO Response

Concur with the response of the Director of Waste Management.

Follow-Up Detail Results:

No unsafe or inappropriate items were observed while conducting a walkthrough of the ERF and MRF facilities, including plant floors, offices, hallways, and break rooms.

The ERF SOP prohibits the reuse or theft of any items that have been dropped off at that location. All but one ERF employee had signed an acknowledgment of receipt of policies.

MRF SOP #30 is the “No Scavenging” policy. A copy of the acknowledgement of receipt of policies was found for all but four LFUCG MRF employees. Three of the missing acknowledgements were obtained by MRF management during project field work. The Labor Works Supervisor has also signed an acknowledgement form.

All ERF and MRF employees should be trained on the related policies and sign an acknowledgement form once training is complete. These forms should be retained for proof of training.

Director of Waste Management Response:

The ERF Program Manager Senior and MRF Plant Manager have completed the necessary training with employees, obtained all signed acknowledgement forms, and placed copies on file for reference.

Commissioner of Environmental Quality & Public Works Response:

Agree with Director’s Response.

Original Finding #5: Standard Operating Procedures Not Implemented
Priority Rating: High

Condition:

Standard operating procedures (SOPs) have not been properly implemented and signed off on by employees at the ERF and MRF. These procedures should state that MRF employees are not to take items from the MRF recycling line, and should state that ERF employees are not to take any electronic equipment from the ERF. Since one of the requirements for the public to use the electronic recycling service is for them to be Fayette County residents, the SOPs should require citizens to show proof of Fayette County residence. Under the current practice, the LFUCG could be increasing the cost of recycling by taking electronics from individuals who do not live in Fayette County.

Effect:

The absence of SOPs may lead to less effective and efficient operations, and reduces management's ability to train employees and hold them accountable for fulfilling their duties.

Recommendation:

The Director of Waste Management should oversee the development of MRF and ERF SOPs and approve the final version. Once this has been completed, management should meet with all MRF and ERF employees to train them on the SOPs and obtain their signatures indicating they have received and understand the SOPs. The signoff sheets should be retained by management as proof of instruction.

Director of Waste Management Response:

An SOP prohibiting reuse of the items dropped off at the E-waste facility had been developed and issued but apparently had been removed from the SOP notebook by a Public Service Supervisor whose dismissal hearing is pending. This policy, with the employee sign-off sheet, has been reissued at the facility. An SOP will be developed that clearly articulates the protocol for items taken from the MRF recycling line. The policy will be posted and a sign-off form for all employees will be developed.

CAO Response:

Concur with the response of the Director of Waste Management.

Follow-Up Detail Results:

The ERF SOP prohibits the reuse or theft of any items that have been dropped off at that location. All but one ERF employee had signed an acknowledgment of receipt of policies. The ERF also uses temporary employees on Saturdays for four hour shifts. Management stated that these employees often change each weekend, so no formal training of these policies is performed by LFUCG. They are trained by their temp company, and briefed by ERF management on basic policies to follow. Any insubordination would result in the temp worker being sent back immediately with a “No Return Statement” to the company.

MRF SOP #30 is the “No Scavenging” policy. A copy of the acknowledgement of receipt of policies was found for all but four LFUCG MRF employees. Three of the missing acknowledgements were obtained by MRF management during project field work. The Labor Works Supervisor has also signed an acknowledgement form.

All LFUCG ERF and MRF employees should be trained on the related policies and sign an acknowledgement form once training is complete. These forms should be retained for proof of training.

Director of Waste Management Response:

The ERF Program Manager Senior and MRF Plant Manager have completed the necessary training with employees, obtained all signed acknowledgement forms, and placed copies on file for reference.

Commissioner of Environmental Quality & Public Works Response:

Agree with Director’s response.

Original Finding #6: FA-9 Not Located for Police Mountain Bikes

Priority Rating: High

Condition:

Approximately ten to twelve police mountain bikes were taken to the ERF by LFUCG Police, but the proper transfer documentation (Form FA-9) could not be located.

Effect:

The absence of the requisite FA-9 reduces evidence of proper authorization for the retirement of the bikes. This lack of proper documentation may have contributed to the bikes being taken by an LFUCG employee rather than going through the normal asset retirement process of being sold or disposed of for scrap metal.

Recommendation:

When assets are retired, a Fixed Asset Inventory Transfer and Equipment Retirement Form (FA-9) should be completed and routed to the Division of Purchasing for final disposition of the asset on a consistent basis.

Chief of Police Response:

The FA-9 forms for the police bicycles and appropriate documentation related to this incident have been completed. The Division of Police will complete the FA-9 forms consistently and timely as recommended.

Commissioner of Public Safety Response:

I concur.

Follow-Up Detail Results:

The police bicycle FA-9 forms referenced in the original finding's management response were provided to us during project fieldwork as proof of documented transfer.

This finding has been resolved. No management response required.

Original Finding #7: GES Allowed to Bill LFUCG for Microwaves Which Should Have Been a Pass-through

Priority Rating: High

Condition:

The LFUCG was invoiced for microwave recycling at a cost of \$0.25 per pound. However, microwaves were not a separate line item in the LFUCG contract with GES, and therefore should have been categorized as a miscellaneous item which is a pass-through at no cost. During the review, we obtained emails between GES and Division of Waste Management employees that demonstrated GES did not take into consideration that LFUCG would be shipping those microwaves to be recycled. Because of the volume of microwaves that were going to GES, the GES Account Manager contacted the Public Services Supervisor at the Division of Waste Management stating GES needed to charge

LFUCG for this service because microwaves contain hazardous material that must be disposed of, resulting in a more costly recycling process. The Public Service Supervisor therefore made a decision to pay GES \$0.25 per pound.

We have also validated that there is merit to the GES Account Manager's claim that some microwaves contain hazardous material. Some microwaves have a magnetron which may contain a small amount of beryllium oxide, depending on the unit's age, and this is considered a hazardous material. The California EPA lists a number of models that it considers to be environmental hazards and not suitable for ordinary recycling as noted below:

<http://www.iwma.com/directory-aj/electronics.html>

Product Type	Manufacturer	Model No.
Microwave Oven	GE Dual Wave II	JE1465001
Microwave Oven	Montgomery Ward 1.5	KSA 8223A
Microwave Oven	Sharp Carousel II	R4A83A
Microwave Oven	JC Penney Microwave	863553570

Although we recognize that GES had a legitimate hazardous waste removal cost issue that was not addressed in their contract with LFUCG, the Public Service Supervisor acted beyond the scope of his authority when he agreed to the \$0.25 per pound cost for recycling microwaves. Any changes to a bid contract should go through the Division of Purchasing and follow standard LFUCG contract addendum procedures.

Effect:

The unauthorized microwave billing rate may have resulted in the overbilling of at least \$1,000. At the time of this report, we did not have all the invoices and support to calculate the total overbilling. Once the final calculation is available, this will be provided to senior management.

Recommendation:

Any modification to a bid contract should go through the Division of Purchasing and follow the standard contract addendum procedures. Invoices should also be reviewed

by management to determine if the weight, unit price, and total amount billed are correct before the invoice is paid. Also, since all microwaves are not as hazardous as others, the LFUCG should negotiate a price per pound for hazardous microwaves and a pass-through rate on non-hazardous microwaves, which would have to be palletized separately for tracking and billing purposes. Management should determine if the Public Service Supervisor should be given a coaching and counseling session regarding his acting beyond the scope of his authority.

Director of Waste Management Response:

If DWM is not successful in pursuing private operation of the E-waste Facility, an RFP will be issued to address all items accepted at the facility. The responsibility for reviewing and reconciling invoices for all recyclable commodities is now the responsibility of the recently hired Commodity Marketing Manager.

CAO Response:

Concurs with the response of the Director of Waste Management, and will follow-up within six months to ensure compliance.

Follow-Up Detail Results:

Since 2014 dropped off recyclable items primarily go to a company called ECS Refining. A backup company called Cohen is used occasionally with management's approval if ECS cannot be used, and Cohen regularly takes all scrap metal, wire, and electrical miscellaneous (about 4% of the recyclable items per EFR management). Another company called Veolia takes all light bulbs for recycling (about 1% of the recyclable items per MRF management). The Program Manager Senior stated that a decision was made to use ECS Refining as the majority vendor because they pay LFUCG for the recyclables versus the previous system where LFUCG had to pay a vendor to take recyclables. This approach was chosen instead of turning the ERF over to a private operator. The Program Manager Senior is also responsible for reconciling all invoices and shipping manifests to ensure accuracy.

There are no contracts with any of these vendors. In addition, the Director of Purchasing informed us that Purchasing had no involvement in the selection of new vendors for the ERF or in the decision to not privatize the ERF.

Standard purchasing policies and procedures should be followed when selecting any vendor. The Division of Waste Management should work with the Division of Purchasing to obtain contracts with all ERF vendors.

Director of Waste Management Response:

Concur. The Program Manager Senior is working with the Division of Purchasing to establish the necessary contracts and agreements. This will be completed by February 2016 due to the Council winter recess and approval process.

Commissioner of Environmental Quality & Public Works Response:

Will follow-up to assure compliance.

Original Finding #8: Unauthorized Vendor Recycled Some Electronic Equipment
Priority Rating: High**Condition:**

On January 19, 2012, the company 2trg was allowed to collect 13,750 lbs. of recycled electronics (apparently TV's and monitors) even though LFUCG was under an exclusive electronics recycling contract with GES. The Commodity Marketing Manager informed us that he was contacted by the Acting Purchasing Director and told to cease and desist from using 2trg. We were told that the Acting Director of Purchasing approved these electronic items going to 2trg and he subsequently changed his mind after the items were already shipped to this vendor.

Effect:

Using other electronic recycling vendors while under exclusive contract with GES could represent a breach of contract.

Recommendation:

The contract between LFUCG and GES has since expired. Even though LFUCG and GES are operating without a contract, GES has continued to honor the contractual prices and as of February 2012 has even lowered some prices.

LFUCG should obtain a new electronic recycling contract with its vendor of choice based on purchasing procedures for obtaining such a contract. The bid/contract language should be changed to allow LFUCG the flexibility of trying other vendors to assure the best pricing on disposing of electronic equipment.

Director of Waste Management Response:

Per the response to Finding #7, DWM will work with the Division of Purchasing to issue a procurement document designed for multiple vendors in the event that a suitable private E-waste Facility operator cannot be found.

CAO Response:

Concurs with the response of the Director of Waste Management, and will follow-up within six months to ensure compliance.

Acting Director of Purchasing Response:

It was initially understood that the existing contractor (GES) was unable to cost-effectively fulfill the terms of the contract with regards to certain electronic items (TV's and Monitors); therefore per section C of the Procurement Contract Bid Conditions the LFUCG retains the right to procure items on the open market. It was later learned that GES was able to fulfill the contract and Waste Management was instructed to cease sending equipment to 2trg.

GES and the LFUCG are operating on a month to month basis at a reduced fee while the Division of Waste Management prepares a new specification to re-bid the contract.

Commissioner of Finance & Administration Response:

I agree with the Acting Director of Purchasing Response.

Follow-Up Detail Results:

The recycling companies currently used by ERF, i.e. ECS Refining for 95% of recycled materials, as well as Cohen and Veolia (for specific materials such as electrical and light bulbs), were selected without Purchasing's involvement. There are no contracts between these companies and the LFUCG.

Standard purchasing policies and procedures should be followed when selecting any vendor. The Division of Waste Management should work with the Division of Purchasing to obtain contracts with all the ERF vendors.

Director of Waste Management Response:

Concur. The Program Manager Senior is working with the Division of Purchasing to establish the necessary contracts and agreements. This will be completed by February 2016 due to the Council winter recess and approval process.

Commissioner of Environmental Quality & Public Works Response:

Will follow-up to assure compliance.

Original Finding #9: Adult Material Magazines Allegedly Taken Off MRF Recycling Line
Priority Rating: High

Condition:

A Public Service Supervisor informed us that when he was put in charge of the MRF he noticed a collection of adult material magazines of all varieties and fetishes stashed behind the line at the MRF. He stated some employees would take magazines off the line that were going to be recycled and placed them in this collection. The employee stated that once he became aware of the collection, he made sure it was recycled and told employees (mostly temps from Labor Works) not to pull these magazines off the line again.

Collecting adult magazines at any LFUCG facility is a violation of LFUCG's anti-harassment policy and CAO Policy 5R (Policy and Procedure for Harassment Complaints).

Effect:

Such actions could lead to claims of a hostile work environment, sex discrimination, and sexual harassment.

Recommendation:

MRF employees should be retrained on the LFUCG anti-harassment policies. MRF SOPs should be developed requiring all such material be recycled, and specify disciplinary action that will be taken against any employees who remove such materials from the recycle line, consistent with CAO Policy.

Director of Waste Management Response:

MRF employees will go through retraining on anti-harassment training as soon as a class is available. The SOP update referenced in the response to Finding #7 will also address the disposition of recyclable items on the recycling line.

CAO Response:

Concurs with the response of the Director of Waste Management, and will follow-up within six months to ensure compliance.

Follow-Up Detail Results:

Human Resources confirmed that all managers of the Division of Waste Management participated in a series of trainings, including sexual harassment in 2014, but no general employees have had sexual harassment training since

the prior audit. MRF SOP #30 was updated at the MRF to ensure employees are aware that removing any items from the recyclable items is prohibited.

We conducted a walkthrough of both recycling facilities, including plant floors, hallways, offices, and break rooms. We did not observe any sort of inappropriate material anywhere on site.

We recommend all LFUCG ERF and MRF general employees be provided sexual harassment training.

Director of Waste Management Response:

The ERF Program Manager and MRF Plant Manager have distributed copies of the policy and reviewed with all employees. Signed acknowledgement forms have been obtained and are on file. In addition, the policy was distributed division-wide in October 2015 and supervisors were asked to review the policy with their employees. The policy was also posted on bulletin boards throughout the Division. The Division of Waste Management will include annual training on this policy to reinforce educational efforts to maintain a positive work environment.

Commissioner of Environmental Quality & Public Works Response:

Agree with Director's response.

Original Finding #10: Unauthorized Equipment Used at the ERF
Priority Rating: High

Condition:

We identified several pieces of unauthorized equipment that were being used in the ERF (e.g. computer monitor, camera, HP printer, fax machine). This electronic equipment had been brought to the ERF by Fayette County residents to be recycled.

Effect:

Removing electronic materials received at the ERF for use in LFUCG facilities could potentially constitute a breach of contract between LFUCG and GES. This practice also creates the risk that electronic items received at the ERF may be used to replace LFUCG property and thereby conceal the theft of such property.

Recommendation:

Until a new contract is executed with a recycling vendor, senior management should evaluate the possibility of an online auction or periodic on-site auction for functional

electronics (excluding computers due to information security concerns). If senior management considers the risk of reusing electronic equipment (excluding computers) to be minimal, LFUCG should develop a procedure for incorporating such equipment into LFUCG equipment records for internal tracking purposes. This could also reduce ERF costs.

Director of Waste Management Response:

DWM policy will reflect a zero tolerance for using any item dropped off at the E-waste facility for re-use either internally or externally at this point because of limited staff and to provide clarity of mission. All accepted items are to be processed, packaged and shipped to the designated vendor(s). This is not to say that DWM will not consider changing the mission of the E-waste Facility or the planned HHW Facility (which has a re-use component in the initial design) to include a re-use component.

CAO Response:

Concurs with the response of the Director of Waste Management.

Follow-Up Detail Results:

An ERF SOP prohibits the reuse of any items that have been dropped off at that location. ERF Management informed us that all scavenged materials were taken back to the recycling floor to be properly disposed of. We did not observe any evidence of scavenged materials during our walkthrough of the ERF office.

This finding has been resolved. No management response required.

Original Finding #11: Laptop Bins Not Secured

Priority Rating: High

Condition:

The laptop computer bins used at the ERF to secure recyclable laptops did not have locks on them during our walkthrough of the facility. We also noted that the position of the bin gates would allow someone to reach through them and remove a laptop even if the bin was locked.

Effect:

Citizens bringing laptops to the ERF have a reasonable expectation that the laptops are going to be recycled either via shredding or via a wipe of the hard drive, which

assures private information is not accessible by another party. Leaving the laptop computer bins unlocked creates the risk that these laptops could be removed by unauthorized personnel for re-use of resale, and therefore potentially compromises the security of this private information.

Recommendation:

The laptop bins should be padlocked on a consistent basis and should only be opened by authorized personnel to receive recyclable laptops or for their pickup by the recycle vendor. The bin gate should be re-positioned or secured with additional metal in place to prevent the possible unauthorized removal of laptops through the gates.

Director of Waste Management Response:

After the change in personnel at the E-waste facility, the laptop and cell phone bins are now secured and padlocked on a continuing basis. They are only opened by authorized personnel when the bins are full and ready to be loaded on the truck for shipment.

CAO Response:

Concurs with the response of the Director of Waste Management.

Follow-Up Detail Results:

During a walkthrough of the ERF we noted that all bins containing hardware with potentially sensitive information were locked (i.e. bins containing cell phones, laptops, game stations, circuit boards, residential digital phones, and personal data storage devices such as kindle/palm pilot). However, the bins have large openings through the sides and top from which a person could remove those items. Security cameras are in place and can view all of these areas, but a more secure bin would further limit the risk of theft. The ERF's Standard Operating Procedures state, "High value electronics and/or small computers will be locked up into the security cages or stored in such a manner that they are non-accessible from the floor level to prevent any theft". The bins as they currently exist do not comply with this SOP.

We recommend Building Maintenance be contacted to provide improvements on the bins that will ensure compliance with the SOP and properly secure the items contained therein.

Director of Waste Management Response:

The ERF Program Manager has been working on improving the security of the caged and locked bins based on this recommendation. The current bins were developed with a cage system that included welded gates with small openings to secure items. Items can only be dropped into the secure enclosure through the top openings. Once items are dropped into the enclosure, they can only be retrieved if the welded gate system is unlocked by the Supervisor or Program Manager. The Program Manager plans to add additional sections to reduce the size of the openings.

Commissioner of Environmental Quality & Public Works Response:

Agree with Director's response.

Original Finding #12: Security Cameras Need to be Repositioned

Priority Rating: High

Condition:

Security cameras at the ERF are not placed at optimal positions, creating blind spots that compromise the effectiveness of the surveillance system's ability to observe and deter theft.

Effect:

Security camera blind spots increase the potential for unobserved theft.

Recommendation:

Reposition the security cameras to maximize coverage of the warehouse. Management should evaluate whether additional security cameras are needed to adequately cover the area so that blind spots are eliminated.

Director of Waste Management Response:

The security cameras are being repositioned at the E-waste Facility and an evaluation will be conducted in the next three months to determine if other cameras are needed to provide adequate coverage.

CAO Response:

Concurs with the response of the Director of Waste Management.

Follow-Up Detail Results:

We conducted a walkthrough of the ERF and reviewed security camera footage to determine that there were no blind spots which would compromise the effectiveness of the surveillance systems' ability to observe and deter theft. New cameras have been installed since the prior audit, and the recordings are stored for 60 days. Through our detailed walkthrough and review of the camera footage, we determined that all areas of the warehouse are being monitored and this appears sufficient to deter or record any theft or misuse.

This finding has been resolved. No management response required.

Original Finding #13: Bid/Contract Opening Meeting Needs Attendance Log
Priority Rating: High

Condition:

The Division of Purchasing does not have an attendance log for bid/contract opening meetings which are open to the public. The Acting Director of Purchasing told us that two LFUCG employees were present at the bid opening in question (wherein it was alleged that an LFUCG employee changed the bid/contract with GES after the bids were opened). We found no substantive evidence to support the allegation of bid tampering.

Effect:

Not having a bid opening attendance log could give the appearance that bid meetings may not be open to the public. A bid could be modified if only one employee is present at this meeting and opens the bids. If there is no one from the public at the meeting and there is no attendance log to demonstrate there were at least two employees present when the bids are open, it could lead to an allegation of bid tampering.

Recommendation:

An attendance log should be signed at the bid opening meeting by all people who are present (employees & public). This log could be printed on the bid folder and be archived according to policy and retention laws.

Acting Director of Purchasing Response:

The Division of Central Purchasing has created and implemented a new process requiring a sign-in sheet for all bid openings. All bid opening attendees including the two buyers must sign the bid opening sheet at each public bid opening.

Commissioner of Finance & Administration Response:

I agree with the Acting Director of Purchasing Response.

Follow-Up Detail Results:

Purchasing has implemented a new Bid/RFP Sign-In Sheet process which we verified is being used.

This finding has been resolved. No management response required.

Original Finding #14: Conflict of Interest Reporting Requirements Should Be Strengthened

Priority Rating: High

Condition:

During our fieldwork, an allegation was made by two different employees while being interviewed by the Deputy Director of Internal Audit. This allegation stated that a relative of the LFUCG employee who worked on the GES bid is an owner or employee of GES. This allegation also was not substantiated. However, there is a disconnect between purchasing standard operating procedures (SOPs) and the Ethics Act, in that the purchasing SOPs do not extend Ethics Act conflict of interest reporting requirements to all employees who could influence the contract award.

Effect:

If this allegation had been true, it would have been a conflict of interest. However, LFUCG does not have a purchasing policy that requires employees, who write technical bid specifications and may make the recommendation as to which vendor is selected to win the bid/contract, to self-report his/her potential conflict of interest. The conflict of interest in general is covered by the Lexington-Fayette Urban County Government Ethics Act {Lexington-Fayette Urban County Government Code of Ordinances 25-5 (1-4)}, and the purchasing SOPs should mirror the Ethics Act.

Recommendation:

The Division of Purchasing should amend the bid/contract policy to include a conflict of interest statement signed by all LFUCG employees working on the bid/contract technical specifications, including Division of Purchasing employees. This would add a process to assure employees are reminded about conflicts of interest when working on bid/contracts, and should require that they recuse themselves from

working on bid/contracts wherein an actual or perceived conflict of interest may exist.

Acting Director of Purchasing Response:

The Division of Central Purchasing will modify the bid specification submission process and require that a non-conflict of interest statement be included at time of submission.

Commissioner of Finance & Administration Response:

I agree with the Acting Director of Purchasing Response.

Follow-Up Detail Results:

Purchasing's Bid/RFP/Quote Request Form has been updated to include a Non-conflict of Interest Statement that must be completed and signed by the Bid/RFP/Quote submitter.

This finding has been resolved. No management response required.