



Lexington-Fayette Urban County Government
OFFICE OF INTERNAL AUDIT

INTERNAL AUDIT REPORT

DATE: January 24, 2014

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Officer
Charles Martin, Acting Commissioner, Environmental Quality & Public Works
William O'Mara, Commissioner of Finance & Administration
Janet Graham, Commissioner of Law
Phyllis Cooper, Director of Accounting
Tracey Thurman, Acting Director of Waste Management
Susan Straub, Communications Director
Urban County Council Members
Internal Audit Board Members

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit
Alicia Boyd, CPA, Internal Auditor

RE: MRF Collections Process Audit

Background

The Material Recovery Facility (MRF) is a recycling facility that since the summer of 2010 has operated a "single stream" recycling program. Single stream refers to a system in which all paper fibers, plastics, metals, and other containers are mixed in a collection truck, instead of being sorted by the depositor into separate commodities (plastics, glass, newspapers, etc.) and then handled separately throughout the collection process. In single stream, both the collection and processing systems are designed to handle this fully commingled mixture of recyclables, with materials being separated for reuse at the MRF.

In addition to the weekly collection of recycled items from LFUCG taxpayers who pay for the collection service through an additional ad valorem tax (about 70% of materials

collected), the MRF also accepts recycled items from several surrounding local governments, the University of Kentucky, and independent waste haulers (about 30% of materials collected). The MRF collects a processing fee of \$35 per ton from each of these affiliates. Each affiliate, in turn, receives a portion of revenue generated from the sale of recycled goods.

The MRF recycles steel cans, aluminum cans, certain plastic containers, newspaper, office paper, glass, corrugated boxboard, and fiber board. With the exception of aluminum cans, MRF recycled products are sold to various mills through Bluegrass Regional Recycling Center (BRRC) brokerage services, for which BRRC receives a \$7 per ton broker fee. The MRF sells aluminum cans directly to various mills without the services of BRRC.

Revenue is generated via proceeds from the sale of recycled commodities. As reported in PeopleSoft, for FY 2011, FY 2012, and FY 2013 the MRF generated revenue of \$2.36 Million, \$2.36 Million, and \$1.9 Million, respectively, and incurred operating costs of \$2.89 Million, \$2.6 Million, and \$2.52 Million, respectively.

Scope and Objectives

The general control objectives for the audit were to provide reasonable assurance that:

- Resalable inventory produced by the MRF is properly safeguarded and accounted for
- Payments to LFUCG for commodities sold during FY 2011, 2012, and 2013 were accurately calculated and properly supported
- Collections and receivables for FY 2011, 2012, and 2013 were properly recorded and reported
- Collections for FY 2011, 2012, and 2013 were accurately deposited on a timely basis
- Overtime incurred by MRF employees from January 1, 2010 through June 30, 2013, appears necessary and properly managed
- Vendor providing temporary labor is in compliance with the current contract
- Security issues, OSHA requirements, and LFUCG Division of Risk Management issues are being corrected in a timely fashion

Audit results are based on observations, inquiries, transaction examinations, and the examination of other audit evidence and provide reasonable, but not absolute, assurance

controls are in place and are effective. In addition, effective controls in place during an audit may subsequently become ineffective as a result of technology changes or reduced standards of performance on the part of management.

The scope of our audit included:

- Revenues collected/recognized at the MRF during FY 2011, 2012 and 2013 (including Receivables on June 30, 2013)
- Resalable inventory on hand at the MRF, including inventory on June 30, 2013
- Limited review of overtime incurred for MRF employees from calendar year 2010 through June 30, 2013
- Limited review of temporary labor costs, specifically for supervision during FY 2013, and a limited review of the most current contract language (Resolution 607-2010) related to temporary labor
- Security and OSHA issues

Statement of Auditing Standards

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

Audit Opinion

In our opinion, the controls and procedures did not provide reasonable assurance that the general control objectives were being met. Opportunities to enhance controls are included in the Summary of Audit Findings.

Priority Rating Process

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed a high, moderate, or low priority as follows:

High - Represents a finding requiring immediate action by management to mitigate risks associated with the process being audited.

Moderate – Represents a finding requiring timely action by management to mitigate risks associated with the process being audited.

Low - Represents a finding for consideration by management for correction or implementation associated with the process being audited.

SUMMARY OF AUDIT FINDINGS

Finding #1: The MRF Should be Considered for Assignment to a Separate Enterprise Fund

Priority Rating: High

Condition:

The MRF is currently a section of the Division of Waste Management, and is therefore included in the Urban Services Fund, a governmental fund of LFUCG. However, in reality the MRF is a manufacturing operation that collects revenue generated from the sale of its recycled commodities to buyers on the open market, and is therefore better suited to be accounted for via an Enterprise Fund due to its business-type activity. The Governmental Accounting Standards Board (GASB) defines an Enterprise Fund as a proprietary fund type used to report an activity for which a fee is charged to external users for goods or services.

Effect:

Under the current reporting method it is difficult to determine if the MRF revenues are sufficient to cover its cost of operations since governmental funds do not report certain types of expenses (i.e. depreciation expense and bad debt expense) that are reported by enterprise funds, or to determine if the current fee structure at the MRF subsidizes other counties for using its recycling facility.

Recommendation:

Senior management should consider removing the MRF from the Urban Services Fund and having its financial activities reported through its own Enterprise Fund. It is possible to develop an operating and capital budget based on MRF's historical financial information for revenue and expenses from the previous three fiscal years (the MRF was upgraded in June 2010).

Director of Waste Management Response:

While accurately tracking annual expenditures at the MRF is very important in calculating our operating cost per ton and in gauging DWM's efforts toward more efficient operations, it is equally important to recognize that revenue from the sale of commodities is subject to wide fluctuations and, as such, is not a stable funding source for an ongoing operation. While we have enjoyed per ton prices in excess of \$100 (average across all commodities) for several years, the commodities price have dipped significantly to the \$60-\$70 range this year. Other financial benefits include reduced landfill tipping fees and increased opportunities for automation and streamlined collection systems over the long term. The latter is quite significant and is a real benefit but very hard to measure on a year to year cost benefit analysis.

The MRF enterprise is a component of an overall waste management strategy to handle waste in an environmentally responsible manner, while pursuing efficiency in both the collection and resource management parts of our operation. As with other DWM management systems such as E-waste, composting, household hazardous waste and particularly landfill disposal, they are not self-funding operations. While the MRF operations comes the closest to meeting this standard the commodity revenue alone will not allow for a stable funding system.

Acting Commissioner of EQ&PW Response:

A decision regarding creation of a recycling enterprise fund should rest with the administration and council. Accurate accounting (revenues and expenses) is essential to assure that the fee structure is equitable between LFUCG and the affiliated MRF users.

Finding #2: The MRF Operation Needs an Exclusive Management Team to Manage Its Operations**Priority Rating: High****Condition:**

The Director of the Division of Waste Management currently oversees more than 200 employees who collect recyclables, yard waste, and trash throughout the Urban County Government, as well as being responsible for the MRF operation. The MRF is a

manufacturing operation with challenges unique to that type of environment, and in our opinion requires its own unique management team with extensive industry experience.

Effect:

As noted in other findings in this report there are many security, Occupational Safety and Health Administration (OSHA), administrative, operational, accounting and internal control issues at the MRF, many of which could have been prevented or at least detected sooner. Although a Program Manager Senior (the overall plant manager) was on hand at the MRF, given the organizational structure it appears that major decisions were deferred to upper management (i.e., the Division Director) who, given his many other responsibilities, did not always ensure the concerns were addressed in a timely fashion.

Recommendation:

A senior management individual (perhaps at the Deputy Director level) should be hired as soon as possible and assigned the task of correcting the problems and implementing the recommendations noted in this report and in other reports issued by the Division of Risk Management and OSHA. Going forward, this senior manager should be provided the authority to manage the MRF. The Director of Waste Management should be informed of the decisions made without being required to provide day-to-day input into those management decisions.

Director of Waste Management Response:

I agree with the recommendation for a Deputy Director for the Division, although that would require reclassification of the Director's position while it is vacant to allow the Deputy Director to have oversight over the Program Manager Senior positions in DWM.

I agree that the MRF, as referenced in the recommendation, is an intense manufacturing operation not typically found under direct government management. I do believe there are three recent changes that have either occurred or are underway that will improve the management and oversight over the MRF.

1. Contracting with an outside entity to manage floor operations.
2. A recently hired safety manager who is actively engaged with MRF operations.
3. Filling the Program Manager Senior position with a candidate who will be actively engaged with the management of the facility.

Acting Commissioner of EQ&PW Response:

The recruitment of a plant manager with extensive experience in an industrial manufacturing facility would, in my opinion, be a better outcome than hiring a deputy

director or filling the Program Manager Sr. position utilizing the current position description.

The plant manager would:

- Report and maintain a full-time presence at the MRF. Past practice has sometimes had the Program Manager Sr. position reporting to the Byrd Thurman offices, with visits to the MRF as necessary. I am of the opinion that the lack of full-time presence by a plant manager driven by operation metrics is a contributing factor to inefficiencies at the facility.
- The plant manager should be given specific operational metrics in which to manage the day to day operations and otherwise have autonomy in the administration of his/her staff or budget. Considerable effort is necessary to establish those performance metrics initially and refine them as necessary in the future.

The Commissioner's office agrees that contracting with a new entity to manage MRF floor operations should result in improved efficiencies at the MRF.

The Commissioner's office is working to establish an enhanced safety program throughout the Division of Waste Management. The Risk Management report dated July 31, 2012 is currently under review with a goal of implementing near-term corrective action immediately.

Finding #3: The MRF Needs an Accountant to Oversee its Financial Activities
Priority Rating: High

Condition:

The following accounting issues were noted during the course of the audit: 1) accounts receivable were not tracked throughout the fiscal year and no policy exists for NSF checks or late payment fees; 2) inventory was not reported to the Division of Accounting at fiscal year-end; 3) inventory was not reconciled to available production records; 4) affiliate payments (for other entities who bring their commodities to the MRF and share part of the sale proceeds) were deducted from revenue account 42512 rather than through an established liability account 24999; 5) as a result of item 4, affiliate payments were not always deducted from the proper fiscal year (i.e. June 2012 affiliate payments were deducted from 2013 recognized revenue) resulting in improper revenue recognition; 6) Nine out of 159 (5.7%) revenue transactions from fiscal years 2011, 2012 and 2013 were not properly accrued since some payments for shipments occurring in June were recorded as recognized revenue in the next fiscal year.

We brought items 2, 4, and 5 to the attention of management during fieldwork and steps have been taken to correct them, but many of these issues could have been avoided if an employee with a strong accounting background worked on-site at the MRF.

Effect:

At any given time, the LFUCG may not know the amount of payments due from commodity buyers, nor if the buyers' payments are past due. Additionally, if revenue is not properly recognized, a departure from generally accepted accounting principles exists. Although inventory is periodically counted to determine if a sale is warranted to create storage space for more recycled commodities, if inventory levels are linked to a production report it can be maintained on a perpetual basis. Failure to report year-end inventory value to Accounting may be a violation of generally accepted accounting principles.

Recommendation:

An accountant should be hired for the MRF as soon as possible and given the task of implementing all accounting related recommendations included in this report. The accountant should make every effort to utilize any modules in PeopleSoft for Accounts Receivable tracking and immediately create term agreements with the buyers to establish time periods for payments and late fee charges, NSF charges, ownership of inventory, etc. We also recommend the MRF accountant report administratively to the MRF senior manager or the Director of Waste Management, but report operationally to the Director of Accounting.

Director of Waste Management Response:

I agree with the recommendation and believe that funds for an accountant should be included in the FY-2015 budget for DWM. An outside accountant has been hired to develop protocols and process to properly track the shipments, receivables and disbursements to outside haulers. The recommendations will be incorporated into the plan the accountant develops and PeopleSoft will be used where the applications are practical.

Acting Commissioner of EQ&PW Response:

The Commissioner's office agrees with the Internal Audit recommendation assuming that the recommendation is that while the accountant reports daily to offices located at the MRF, the accountant only receives work assignments and directives from the Department of Finance. For clarity, the current accountant is a contract employee, not a merit/non-merit position.

Finding #4: MRF Security Issues Noted

Priority Rating: High

Condition:

During the audit several MRF employees expressed concerns over lax security measures. We were informed that several interior and exterior doors have never been rekeyed and there is no way to determine how many keys exist or who may possess them, including employees who no longer work at the MRF. We also noted that one door in the back of the plant is broken and cannot be locked.

The lower gate is secured with a pad lock having a combination code that is used by drivers needing access to the premises after hours to pick up drop loads ready for transportation. We also noted that cameras have been installed both outside the plant where the trucks are weighed as well as inside the plant floor. Additionally, a chain length fence surrounds the entire perimeter. The only vehicle access to the premises is through one of two gates: truck gate (mentioned above) and the all other vehicles gate (upper gate).

Effect:

The absence of accountability for plant keys is a significant concern. If the plant and administrative offices are not properly secured, items can be stolen from the facility. Of even greater concern is the risk that an unauthorized person could enter the plant after hours and fall into the recycling machinery, resulting in a catastrophic event that could subject the LFUCG to a lawsuit.

Recommendation:

MRF management should work with the Department of General Services to determine which doors need rekeyed and which doors may possibly need conversion to a card scan entry door. The door in the back of the plant should be repaired or replaced immediately. The lower gate used by drivers should be replaced with an electronic gate and each driver that needs access afterhours should be given an individual access code for entry. If possible, the gate should have memory capability to recall which code was used for entry.

Director of Waste Management Response:

Work orders were submitted in October with Fleet and Facilities Management to rekey the door locks and to repair the rear door. DWM management will explore the feasibility of an electronic gate and individual access code system.

Acting Commissioner of EQ&PW Response:

The Commissioner's office agrees with the recommendations of Internal Audit.

Finding #5: Excessive Amounts of Overtime Routinely Incurred by Certain MRF Employees

Priority Rating: High

Condition:

Over the past three calendar years (the scope of the audit) excessive amounts of overtime have been incurred by certain employees of the MRF. The table below includes an analysis:

Calendar Year	# of employees analyzed and total MRF employees	% of OT to gross salary	Average hours OT worked per week	Total OT for MRF	Total OT for employees analyzed
2011	5 of 16	26% to 41%	12-21 hrs	\$104,774	\$90,359
2012	7 of 19	27% to 38%	10-21 hrs	\$140,470	\$127,673
2013 through July 25, 2013	5 of 18	28% to 40%	13-21 hrs	\$74,608	\$65,957

During the audit we received an allegation stating that in 2013 there were two separate incidents where the production of recycled material was intentionally slowed down in order to incur additional overtime, and that senior MRF management was aware of the incidents but did not take corrective action. However, this would only account for a small portion of the overtime incurred in 2013.

It should also be noted that MRF's overtime budget for the past three fiscal years has been \$50,000 each year, and each fiscal year the overtime budget has been significantly overspent. While this is an acceptable practice as long as the Division as a whole does not overspend its payroll budget, overtime in a specific section still warrants management oversight and control. It should also be noted that the Division did not overspend its overall payroll budget during any of the three fiscal years examined.

Effect:

While some overtime may be necessary, the amount of overtime incurred at the MRF should be investigated by upper management as it increases the amount of payroll costs, including fringe benefits paid by the LFUCG. In addition, given its unique operation and the type of manufacturing equipment housed within the MRF, if an employee consistently

works extended hours five days a week and also works on Saturday to perform maintenance, accidents due to employee fatigue are more likely to occur. Management may also want to investigate whether the distribution of overtime at the MRF is equitable based on the skills and overtime work requests of its employees.

Recommendation:

Senior management should investigate the reasons for the overtime and develop solutions to eliminate excessive overtime. This could include introducing a second shift designed specifically to provide equipment maintenance, or perhaps staggering the shift of the current employees so everyone works a normal day without incurring excessive amounts of overtime.

Director of Waste Management Response:

The MRF has run without adequate staffing to provide maintenance and operational support for a number of years resulting in excessive overtime. An RFP has been issued and a respondent is under review to contract with an outside entity manage and staffing for floor operations related to maintenance, equipment operation and sorting activities should dramatically reduce the overtime. This should effectively eliminate the need for most staff overtime.

Acting Commissioner of EQ&PW Response:

The department concurs that excessive overtime should be addressed. The contract operations vendor noted in the division's response will provide the opportunity to drastically reduce overtime at the facility.

That being said, the department is currently focused on having a new management structure in place at the MRF so that the overtime cost reduction is not simply replaced with increased contract operations costs.

Over the next 60 days, the department expects to have resolved remaining questions with the contract operations vendor so that an operations contract can be submitted for council approval and mitigation of the excessive overtime can begin.

Finding #6: CAO Policy #40 Deposit Violations Noted
Priority Rating: High

Condition:

The following CAO Policy #40 violations were noted during the test of deposits: 1) the MRF lacks a segregation of duties over mail processing and deposits because the same employee opens the mail and also prepares the deposit; 2) deposits are not properly secured prior to deliver to the Division of Revenue; and 3) there is no mail log to record when a check is actually received in the mail, making it impossible to determine with certainty that deposits are being made in timely manner.

Effect:

Deposits are subject to misappropriation if a proper segregation of duties is not established and deposits are not secured. Management cannot determine if checks are held for a lengthy period of time before processing and depositing if a mail log does not exist.

Recommendation:

Mail should be opened and checks logged by an employee who is not responsible for making the deposit. A locking device such as a small safe should be obtained to secure payments not sent to the Division of Revenue on the same day they are received. This is particularly important because some of the checks received from commodity buyers are for very substantial amounts.

Director of Waste Management Response:

An outside accountant has been hired to develop protocols and process to properly track the shipments, receivables and disbursements to outside haulers. The recommendations will be incorporated into the plan the accountant develops. A small safe to store deposits is being ordered.

Acting Commissioner of EQ&PW Response:

The department concurs with the division's response and also recommends that the action plan be a component of recommendations for Finding # 3.

Finding #7: Issues Noted by Division of Risk Management Not Addressed
Priority Rating: High

Condition:

As a result of the initial walkthrough of the MRF we noted what appeared to be violations of safety rules and notified the Division of Risk Management. We were informed that

Risk Management had spent a significant amount of time addressing safety issues at the MRF, and as recently as October 2012 had issued a report with several findings.

Upon our request, Division of Risk Management personnel re-inspected the MRF and issued another safety violations report in July 2013. The July 2013 report contained two new findings and noted that eleven of the twelve prior findings from the 2012 report were only partially addressed or had not been addressed at all.

Effect:

When safety violations or observations are brought to the attention of any Division, especially one with unique characteristics and challenges such as the MRF, every effort should be made to correct them in a timely manner. This can greatly reduce the potential for a catastrophic work place event that could subject the LFUCG to a lawsuit.

Recommendation:

The safety violations noted by the Division of Risk Management should be promptly corrected. Due to the fact eleven of the twelve safety violations noted in the 2012 report were only partially addressed and in some instances were not addressed at all, senior management should oversee the correction of these issues.

Director of Waste Management Response:

The Plant Manager and the DWM's new Safety Manager are addressing the items in the Risk Management report. They indicated that all items will be addressed by mid-February and a formal response will be sent.

Acting Commissioner of EQ&PW Response:

The department concurs with the division's response but currently believes that full resolution of all report recommendations by mid-February is not attainable.

Two Division of Waste Management employees who would have had key roles in the implementation of corrective actions resigned in mid-December 2013. With an acting division director and acting program manager assuming MRF daily operations in late December, the department believes that the division can begin implementation of corrective actions immediately and should issue progress reports to the department on a monthly basis.

Finding #8: MRF Contractors Providing Outside Services Should be Monitored for Compliance

Priority Rating: High

Condition:

A significant amount of work at the MRF is performed by outside labor services. According to pages 27 and 28 of the temporary labor services contract, the vendor supplying day labor must have a permanent, full-time, on-site employee to act as supervisor over the temporary labor force. The contract states this person must have supervisory experience and skills necessary to manage up to 40 workers, and must also have certain qualifications. This person should also serve as the primary on-site contact/liason for LFUCG personnel to facilitate day to day operations. Additionally, this person will be billed at \$12.49 per hour as compared to \$10.37 per hour for general labor. We tested twelve temporary labor service invoices from FY 2013 and only one included charges at a supervisor rate, indicating the vendor did not supply a supervisor as required.

Effect:

If a temporary labor supervisor isn't provided as required by the contract, other essential LFUCG personnel located at the MRF must then spend time supervising the temporary labor force rather than performing their other responsibilities. This is a potential breach of contract with the LFUCG that may also result in increased personnel costs for the LFUCG.

Recommendation:

The senior MRF manager recommended in Finding #2 should be given the task of overseeing contracts for the MRF to ensure appropriate compliance. In the absence of this provision, the Director of Waste Management should appoint this task to an existing employee. The Department of Law should be contacted about the potential breach of contract for advice on how to address this issue.

Director of Waste Management Response:

An RFP has been issued and a response is under review that will allow DWM to contract with an outside entity manage and staffing for floor operations related to maintenance, equipment operation. This business model of this company exclusively focused on the operations of MRFs and they are currently providing these services to many of the large MRFs across the United States. Securing their services will allow DWM management staff more time to focus on the oversight of the contract.

Acting Commissioner of EQ&PW Response:

The Department of Law has been contacted to investigate a potential breach of contract but it is the department's observation that such a claim could be compromised by what appears to be a cognizant failure by MRF management staff to enforce certain terms of the contract.

In conjunction with the response provided in Finding #5, the department expects to conclude negotiations with a new contract operations vendor within the next 60 days. Key to the success of this vendor is a revamped internal management structure designed to monitor contract performance and costs so that underperformance and excessive overtime can be mitigated.

Finding #9: Updated Contracts Needed With BRRC and Other Affiliates
Priority Rating: High

Condition:

For several years, the MRF has employed the services of the Bluegrass Regional Recycling Corporation (BRRC) to act as a broker for commodities sales, excluding aluminum cans. BRRC manifests used at the MRF indicate the type and amount of commodity sold, and BRRC negotiates the price, typically on a monthly basis. BRRC receives payment from the buyer, deducts a \$7 service fee for each ton sold on behalf of the LFUCG and affiliates, and then pays the LFUCG and affiliates their share of the revenue. In addition, multiple affiliates bring their recycled commodities directly to the MRF for processing and subsequent sale to buyers. LFUCG receives a \$35 per ton processing fee from each affiliate as part of their revenue share.

Contracts either could not be located or otherwise do not exist between LFUCG and BRRC or the affiliates. It is our understanding discussions concerning the elimination of BRRC as a broker are occurring. However, even if BRRC is eliminated, affiliates will continue to bring their recyclables to the MRF for processing and the need for contracts with those affiliates will continue to exist.

Effect:

Properly executed contracts provide performance specifications, reduce potential misunderstandings between parties, and limit legal liabilities.

Recommendation:

If the MRF continues to use the broker services of the BRRC, a contract between the two entities should be established which outlines fees, charges, expectations concerning market prices, any other services offered by BRRC, and defines the legal duties of both

the LFUCG and the BRRC. If the MRF eliminates the BRRC as broker, the accountant recommendation in Finding #3 will take on greater significance as the accountant will likely be needed to work with the Commodities Marketing Manager to manage the sale of aluminum cans and the other commodities.

Regardless of the decision concerning BRRC, contracts are needed with all current and future affiliates that define items such as fees charged by LFUCG, sharing in inventory losses resulting from fire or damage, penalties imposed by LFUCG should an affiliate load contain a disproportionate share of glass or trash, limit LFUCG's legal liabilities, etc.

Director of Waste Management Response:

A draft memorandum of agreement has been prepared and is being sent to the Department of Law for review. The MOA will address the issues mentioned in the recommendation above. The plan is to present the agreement to the outside haulers after the proper protocols have been established per the outside accountant's report.

Acting Commissioner of EQ&PW Response:

The department concurs with the division's recommendation. The Department of Law's review of the MOA is expected to be complete in the very near future. The schedule for completing the accounting protocols is 45 days after receipt of the MOA from Law.

Finding #10: May and June 2013 Reports From BRRC for Commodities Sold Contained Discrepancies

Priority: High

Condition:

While reviewing May and June 2013 marketing reports generated by the BRRC to summarize activities, including the amount of revenue LFUCG and each affiliate received for the preceding month's shipments, we noted the broker fee received by BRRC was based on inbound tonnage for the LFUCG and all affiliates rather than outbound tonnage sold by BRRC resulting in an overpayment of broker fees to BRRC of \$9,341 for LFUCG's portion.

We also noted that only 200 tons of glass (in May 2013) and 100 tons of glass (in June 2013) were charged back to affiliates at \$15 per ton as part of the LFUCG processing fee when the total tons of glass was actually 651.78 tons and 462.49 tons, respectively. Upon inquiry, we discovered the May report was the first report where all affiliates were charged for glass shipments. Previously, only three affiliates were charged a processing fee for glass under the assumption no other affiliates had glass mixed in with their inbound loads, and no affiliates were charged for trash processing until the May 2013 report was issued.

Glass has a limited market and LFUCG currently pays to ship all glass to a vendor in Dayton, Ohio at a cost of \$15 per ton, a practice started in January 2013. Prior to January 2013, LFUCG paid \$10 per ton to ship about one-half of the glass to a vendor, and therefore a significant amount of glass accumulated on-site since only about one-half was shipped. MRF management decided to charge affiliates for only 200 and 100 tons respectively, in the first two “new” reports (May and June 2013) since this was the first time most affiliates were charged for glass shipments. The Director of Waste Management could not recall if he was informed of this decision. Affiliates were charged the full amount for their glass beginning in July 2013.

Effect:

LFUCG was bearing a larger burden of the cost for glass and trash than necessary. The MRF was also overcharged broker fees of \$9,341. BRRC refunded the MRF on the next BRRC report after we brought this to MRF management’s attention.

Recommendation:

All future BRRC reports should be carefully analyzed for proper calculations and revenue sharing. Any decisions concerning charges to affiliates should be approved by senior management and properly documented.

Director of Waste Management Response:

A two deep review of the commodity transaction is being established with both the Commodity Marketing Manager and the Accountant being involved in the review.

Acting Commissioner of EQ&PW Response:

The department concurs with the division’s response and also recommends that the action plan be expanded such that the recommended Plant Manager position (Finding # 2) has an accountable role in commodity transaction report accuracy.

Finding #11: Production Reports Should be Reinstated

Priority Rating: High

Condition:

MRF personnel completed daily production reports using Excel and submitted them to the Division Director and others between February 16, 2010 and June 24, 2013 (the last date a production report was prepared and submitted). Beginning on June 25, 2013, the Program Manager Senior completely overhauled the report format. The employee responsible for completing and submitting the reports noticed issues with the new report format and on July 17, 2013, sent an email to the Program Manager Senior asking for

assistance. On August 28, 2013, the Program Manager Senior sent an email stating corrections to the report had been made. On September 5, 2013 the employee responsible for completing and submitting the reports once again expressed concerns over the validity of the reports. On September 23, 2013 the Program Manager Senior sent another email stating additional corrections had been made. As of the end of field work, upper level management had not inquired as to why a production report hasn't been sent since June 24, 2013.

Between the issuance of the September 5, 2013 and September 23, 2013 emails, we met with the Commodities Marketing Manager, the Scale Operator, and the Public Service Supervisor Senior (plant operations manager) to discuss the issues with the production reports. At that meeting, the Public Service Supervisor Senior instructed the Scale Operator to use the previous report format and scrap the overhauled report. Since an email was sent by the Program Manager Senior afterwards about using the overhauled production report, conflicting directives have been given to the employee.

Effect:

Given the unique characteristics of a manufacturing operation, production goals should be established and every attempt made to reach those goals. Production goals for the MRF are 20 tons per hour of baled commodities, or 84% efficiency, which is considered normal. Without the production report, it would be difficult to determine if this goal is being met.

Recommendation:

A senior management individual (perhaps at the Deputy Director level) should be given the task of getting the production reports back on schedule. A decision is needed immediately on which report to use and this information should be provided to the employee responsible for completing and submitting the reports. The senior management individual (perhaps at the Deputy Director level) should also monitor the reports to make sure goals are set and are being met. Otherwise, the Director of Waste Management should assign this task to another employee.

Director of Waste Management Response:

Production reports were returned to their original format last month. Review will be part of the Resource Management's Program Manager Senior's responsibilities.

Acting Commissioner of EQ&PW Response:

The department concurs with the division's response regarding the production report format. The department concurs with the division's response regarding the review responsibility only as an interim measure.

As stated previously, the department recommends the hiring of a Plant Manager who possesses the skill set necessary to manage a manufacturing facility such as the MRF. The Program Manager Sr. referenced in Condition #11 has resigned and an acting Program Manager Sr. is currently in place as upper level management further evaluates the situation and develops an action plan moving forward.

The development of a firm schedule for completing the Plant Manager hiring process is difficult at this time due to the division director vacancy. It is the department's recommendation that recruitment of the division director come first so that the new director can play an active role in the selection of a Plant Manager. The advertisement for the vacant division director was posted January 15, 2014 and is scheduled to close February 16, 2014.

Finding #12: Additional Issues Noted During the Audit

Priority: High

Condition:

During discussions with MRF employees, two additional items were noted that warrant being included in this report: 1) voided BRRC manifests are sent back to BRRC but no record of them is kept; and 2) trucks that have Radio Frequency Identification (RFID) don't always stay on the scale long enough for the weight to register in the computer.

Regarding the first issue, manifests are the primary source of information for shipment of commodities from the MRF. Currently, as noted in a previous finding, BRRC acts as the broker for LFUCG and all other affiliates for all commodities sold excluding aluminum cans. LFUCG uses its own manifest for aluminum can shipments. Manifests should be used in sequential order, and any unused manifests should be voided with a record of this action retained. We informed the Scale Operator of this issue during the audit, and a list of voided BRRC manifests is now being kept.

Regarding the second issue, the scale management system currently used at the MRF was updated in June 2010 and has the capability to read and upload the owner and weight of any RFID truck that drives across the scale, provided the driver stays on the scale long enough. A red and green light was installed that visually alerts the driver on when to stop and when to drive off the scale. However, drivers are moving off the scale before the light turns green.

Effect:

Shipments can be lost if manifests are not accounted for properly. The daily inbound and outbound tonnage, which is calculated using the weight of the trucks, can be incorrect.

Recommendation:

A copy of all voided manifests being sent back to BRRC should be retained at the MRF, along with any manifests voided by the LFUCG. An electronic arm should be installed on the scale that indicates when it is safe for the driver to move off the scale.

Director of Waste Management Response:

It is the intention of DWM management to internalize the services of the BRRC after the appropriate protocols have been established for managing the processes of shipping receivables and disbursements. This will address the issue of the voided manifests. DWM staff will explore the feasibility of installing an automated arm at the truck scale.

Acting Commissioner of EQ&PW Response:

The acting division director is pursuing Internal Audit's recommendations.