



Lexington-Fayette Urban County Government
OFFICE OF INTERNAL AUDIT

INTERNAL AUDIT REPORT

DATE: September 30, 2015

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Officer
Glenn Brown, Deputy Chief Administrative Officer
Aldona Valicenti, Chief Information Officer
Janet Graham, Commissioner of Law
David Holmes, Commissioner of Environmental Quality & Public Works
William O'Mara, Commissioner of Finance & Administration
Tracey Thurman, Director of Waste Management
Patrick Johnston, Director of Risk Management
Todd Slatin, Director of Purchasing
Phyllis Cooper, Director of Accounting
Susan Straub, Communications Director
Urban County Council Members
Internal Audit Board Members

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit
Chris Ensslin, CFE, CIA, Deputy Director of Internal Audit

RE: Waste Management Temporary Services Expense Audit

Background

The Office of Internal Audit received a request from the Chief Administrative Officer to examine Division of Waste Management Temporary Services expense. Senior Management had been informed by Division of Waste Management personnel that temporary labor services for refuse and yard waste routes had increased significantly from a budgeted amount of \$328,000 in FY 2014, and based on temporary labor expenses during the first few months

of FY 2015 was projected to cost nearly \$1,000,000 in FY 2015. Senior management wanted to know why this significant increase in reported temporary labor costs was occurring.

Our audit determined that the actual amended budget for temporary services during FY 2014 was \$833,000, not \$328,000 as initially reported to senior management. The actual temporary labor expense reported in the PeopleSoft financial system for FY 2014 was \$821,368. Division of Waste Management personnel were comparing the initial FY 2014 temporary labor budget amount to FY 2015 actual expenses, rather than comparing FY 2015 actual expenses to FY 2014 actual temporary expense incurred. Therefore, the temporary labor expense projected for FY 2015 represents a 21.7% increase over FY 2014 actual expense. Our audit has identified several reasons why the temporary labor expense has risen significantly since FY 2013 when the actual expense for that fiscal year was \$377,191. FY 2014 actual expense increased 117.8% over FY 2013 actual expense. These reasons are addressed in several findings contained in this report.

Scope and Objectives

The general control objectives for the audit were to determine that:

- Temporary services cost increases are reasonable and justified
- Temporary services are supported by invoices
- Temporary services time reporting is accurate
- Temporary services contract provisions are being followed and are adequate to meet the contractual needs of the LFUCG

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 transaction period examined during the audit was May 19, 2013 through October 5, 2014.

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: No Controls in Place to Detect Temporary Labor Time Reporting Errors or to Reconcile Time Reporting to Related Invoices
Priority Rating: High

Condition:

We randomly sampled time reported for 40 temporary labor workers between February 2014 and September 2014. Eleven of the temporary workers tested were 0.2 to 0.5 hours overpaid (27.5%), nine were 0.6 to 0.9 hours overpaid (22.5%), six were 1.1 to 1.6 hours overpaid (15%), four were from 0.4 to 0.6 hours underpaid (10%), and only ten were paid correctly

(25%). Waste Management had previously stopped using the KRONOS time keeping system to track time worked by temporary laborers. This removed a time reporting mechanism that could have been used to detect these discrepancies.

In addition, nine Labor Works invoices dating from June 9, 2014 to August 1, 2014 were tested to determine if overtime was billed correctly. There were 51 instances of overtime in the invoices tested. Eight of the 51 instances of overtime (16%) were overbilled. The total amount overbilled was \$122.62. We noted there was no reconciliation of Labor Works invoices to related time sheets or time reports before invoices were paid.

Effect:

If time reporting is inaccurate, the amount that LFUCG is invoiced for temporary services will be inaccurate. By not reconciling invoices to time sheets and time reports, there is no control in place to detect and correct billing errors, thereby creating a situation where billing errors could continue indefinitely.

Recommendation:

KRONOS or some other automated time keeping system should be put in place for temporary workers to clock in and out each day. This system should then be used to track temporary workers' time worked. A reconciliation of the related invoice to the weekly time report should be completed and discrepancies should be resolved before the invoice is paid.

Director of Waste Management Response:

Currently, all invoices are being reconciled to the time reported on a daily basis. Concur with the recommendation for an automated system.

The Division of Waste Management established centralized check in/out procedures for temporary labor through a dedicated processing window and assigned staff person. The Division is moving forward with re-establishing a time card process in Kronos and has been working with IT staff on the Kronos update.

Commissioner of Environmental Quality & Public Works Response:

Concur with the Recommendation and will monitor Waste Management's compliance.

Finding #2: Cost of Temporary Labor Not Charged to the Correct Waste Management Program
Priority Rating: High

Condition:

Each year the Division of Waste Management is issued blanket Purchase Orders to cover Labor Works' cost of providing workers for Yard Waste services and Refuse collection services. Discussions with Waste Management personnel determined that no attempt is being made to correctly allocate the temporary labor cost to the related Purchase Orders. Rather, the standard practice has been to charge all temporary labor costs, regardless of their nature, to the larger Purchase Order until its authorized limit is reached, and then apply all charges to the other Purchase Order. We also determined that Waste Management was only charging temporary labor to Refuse and Yard Waste, even though temporary workers are also being used on recycling routes as well.

Effect:

If costs are not charged to the correct Waste Management services, financial data will be incorrect and the cost of those services will not be determinable.

Recommendation:

Three Purchase Orders (for Refuse, Yard Waste, and Recycling) should be issued each year for the cost of temporary labor used in those three Waste Management departments. The cost of temporary labor for Refuse, Yard Waste, and Recycling should then be accurately applied against the appropriate purchase order to ensure proper accounting of those costs and to ensure the proper monitoring and management of temporary labor in those three departments.

Director of Waste Management Response:

The Division of Waste Management established specific line items to charge expenses by commodity during the FY16 budget process. The Division can now track associated costs by commodity including charges for refuse, yard waste and recycling temporary labor. Purchase orders are now broken down with three different accounting lines to reflect the accuracy of costs and ensure the proper monitoring and management of temporary labor in those three areas.

Commissioner of Environmental Quality & Public Works Response:

Concur with the Recommendation and will monitor Waste Management's compliance.

Finding #3: Temporary Labor Costs Charged to Wrong Fiscal Year
Priority Rating: High

Condition:

We noted numerous instances where temporary labor costs were reported in the wrong Fiscal Year. There were four invoices totaling \$50,833.81 from FY 2013 that were reported in FY 2014 (Invoice 012959 for the week ending April 14, 2013 in the amount of \$10,442.75; Invoice 013161 for the week ending May 19, 2013 in the amount of \$11,794.35; Invoice 013367 for the week ending June 23, 2013 in the amount of \$14,871.42; and Invoice 013417 for the week ending June 30, 2013 in the amount of \$13,725.29). There were three invoices totaling \$62,189.18 from FY 2014 that were reported in FY 2015 (Invoice 014938 for the week ending June 15, 2014 in the amount of \$20,669.70; Invoice 014968 for the week ending June 22, 2014 in the amount of \$21,092.05; and Invoice 014995 for the week ending June 29, 2014 in the amount of \$20,427.43). The net result is that FY 2014 temporary labor costs were understated by \$11,355.37, while FY 2015 temporary labor costs are overstated by \$62,189.18.

Effect:

Applying expenditures to the wrong fiscal year results in incorrect financial results and impacts management's ability to effectively monitor and manage Division and program expenses.

Recommendation:

Invoices should be paid in a timely manner and posted to the accounts in the same fiscal year for which the expense occurred.

Director of Waste Management Response:

The Division of Waste Management has been working to pay invoices in a timely manner. The year-end closing process is a challenge because it starts so early and final invoices do not come in until after July of the new fiscal year. This year we made a request to carry over funds and this seems to have been completed properly.

Commissioner of Environmental Quality & Public Works Response:

Concur with the Recommendation and will monitor Waste Management's compliance.

Finding #4: Next Temporary Labor Contract Needs to be Strengthened
Priority Rating: High

Condition:

Per Division of Purchasing management, the Labor Works Contract is a price contract, and therefore their bid submittal serves as the contract.

We noted several opportunities to strengthen provisions in the next temporary labor service contract: 1) A right to audit clause is needed that covers more than just insurance provisions; 2) The minimum number of hours billed for a temporary worker who is rejected by LFUCG needs to be agreed upon and included in the contract (Labor Works currently bills a four hour minimum if a temporary worker is scheduled by LFUCG but not used); 3) Safety training for temporary workers should be performed by the LFUCG if any gaps exist between the vendors safety program for route workers and the LFUCG Waste Management safety program for route workers, and the cost of this safety training should be charged to the temporary labor agency; 4) While random drug testing is in the contract, there are no provisions as to how this will occur. Currently, drug testing is only done if there is a for cause situation (e.g., accident or fight). A reasonable number of random drug tests (e.g., two to four per month) should be a requirement in the next temporary labor service contract.

Effect:

The items noted above represent weaknesses in the current contract with temporary labor services that should be addressed to improve contractor services and reduce the risk to the LFUCG.

Recommendation:

LFUCG needs to insert a right to audit clause which includes the right to audit financial, safety, drug testing, and accident files and records.

As noted above, the minimum number of hours currently billed for a worker who is scheduled to work but is not used is four hours. A more reasonable number of hours paid for unused labor should be pursued in the next contract (e.g. one or two hours). If a worker is rejected by the LFUCG because of lack of performance, LFUCG's current practice is to only pay for the actual time worked, and this needs to be stipulated in the next contract. LFUCG management should also determine if random drug testing of temporary workers is desired, and if so include the frequency of drug testing and the percentage or number of temporary workers to be tested in the next contract.

Director of Waste Management Response:

Concur and these recommendations are being applied in the next bid process.

Commissioner of Environmental Quality & Public Works Response:

Concur with the Recommendation and will monitor Waste Management's compliance.

Finding # 5: Possible Inefficiencies in Temporary Labor Planning

Priority Rating: High

Condition:

As noted in the background section of this report, senior management was concerned about the increase in temporary labor costs and wanted to know why this was occurring. We determined that in February 2014, the Director of Waste Management authorized 11 or 12 new temporary workers for recycling routes because LFUCG route drivers were getting injured due to having to get in and out of their trucks at many of their stops. This decision increased the annual cost of temporary labor by approximately \$200,000-\$250,000. (As noted in Finding #7, the use of some temporary labor on Waste Management routes has practical applications). In addition, eight route workers were reassigned to other public service worker positions (i.e. four to Cart Delivery with an annual cost of approximately \$90,000, three to Mini Mead with an annual cost of approximately \$67,500, and one to the Stockroom with an annual cost of approximately \$22,500). These eight additional temporary workers increased temporary annual labor cost by approximately \$180,000.

Effect:

There will be an increase in temporary labor cost whenever services previously performed by LFUCG employees are reassigned to temporary workers. Efficient labor planning is essential to contain such costs.

Recommendation:

Management should re-evaluate the extent to which temporary workers are needed on recycling routes. For example, cart delivery is overstaffed and the four temporary workers in this area should be eliminated. The stockroom department should be assigned to LFUCG employees, either as light duty work or as a permanent assignment to provide greater accountability for the safeguarding of parts inventory.

If management decides that temporary workers will continue to be used in these areas as noted above, this will have a significant budget impact on temporary labor expense, and the Division of Waste Management budget will need to be amended accordingly to monitor the cost of temporary labor and manage it effectively.

Director of Waste Management Response:

The Division of Waste Management has taken a number of measures to address appropriate temporary staffing levels. The following steps have been taken:

The stockroom no longer requires temporary labor. Grainger machines have been installed to dispense personal protective equipment and other supplies to employees through the use of their identification badge. The vendor also restocks the machines, provides inventory, and usage reports.

The cart delivery and repair section has now been reduced to one temporary laborer used when needed.

The Division of Waste Management has been extensively reviewing the recycling routes and the need for temporary labor along the routes. Temporary labor was recently reduced on the recycling routes. However, drivers expressed concerns. To address those concerns, two overflow routes now assist the recycling routes with bulky cardboard and additional recycling. Drivers are provided temporary labor assigned to their truck when they have a number of one way streets or excessive backing is required to complete the routes. Employee safety is a priority and routes will continue to be monitored and temporary labor added when needed.

The Division has six mini-rear loaders that do not require a CDL to operate. The Division trained its public service workers to drive the vehicles to assist other drivers with route coverage. This practice allows the Division to have more drivers to cover routes. However, it requires additional temporary labor to assist on the back of trucks since the public service workers have been trained to drive trucks.

Commissioner of Environmental Quality & Public Works Response:

Waste Management will monitor the use of Temporary Labor needs. This issue is not solely one of cost but involves a careful balancing of cost, efficiency and safety concerns. Risk Management is reviewing this matter for Waste Management as is our Routeware outside consultant. Both will be making recommendations in the near future on the appropriate level of Temporary Labor needs.

Finding #6: Temporary Route Workers Should Receive All LFUCG Safety Training That LFUCG Route Workers Receive
Priority Rating: High

Condition:

We determined that Labor Works temporary workers had previously been attending LFUCG safety training sessions on Thursday mornings prior to the start of the routes. We could not determine the actual date this practice ended.

According to the Director of Waste Management, the route workers are receiving some LFUCG safety training specifically related to route workers (e.g., hand signaling, getting on/off trucks, etc.). Also, this part of the safety training has gone on since the inception of the contract without interruption.

Effect:

Temporary route workers are not as well trained from a safety perspective as LFUCG route workers. This could increase the risk of injury for temporary route workers, although the major risk of injury is when they are performing route related job tasks for which they are receiving safety training.

Recommendation:

Temporary route workers should receive the same safety training as LFUCG route workers. Currently there is safety training for LFUCG route workers each Thursday morning. Temporary route workers should also attend this training for as long as LFUCG uses temporary labor to supplement its route worker workforce.

Director of Waste Management Response:

Concur with the recommendation. Basic training is required in the temporary labor contract. In addition, temporary laborers are now included in employee safety meetings. The Division of Waste Management has three safety specialists on staff. The safety specialists have staggered work schedules. The safety specialist who arrives in the morning ensures that temporary laborers receive basic hand signaling and other training to be more familiar with the waste industry. The Division will continue to work to strengthen its training matrix and work in coordination with the Division of Risk Management to address necessary safety measures.

Commissioner of Environmental Quality & Public Works Response:

Concur with the Recommendation and will monitor Waste Management's compliance.

Finding #7: Cost Comparison of Temporary Labor Route Worker to LFUCG Route Worker

Priority Rating: Low

Condition:

The average annual cost of an LFUCG route worker is currently \$31,495 before taxes and employee benefits. The average annual cost of a Labor Works temporary worker is currently \$23,608. There is no workers compensation expense associated with a temporary worker. If routes become more efficient due to technology and route software, temporary labor positions are more flexible and could be decreased far easier than LFUCG employee positions. In addition, when LFUCG employees are absent for reasons such as vacation or illness, temporary workers can be used to cover those absences, whereas if no temporary route work force exists, it may be necessary to overstaff LFUCG positions somewhat in order to cover the route impact of LFUCG employee absences.

Effect:

The assignment of some temporary workers to Division of Waste Management routes appears to be a practical management decision.

Recommendation:

Based on the benefits described above, it is our opinion that the use of temporary labor for route workers has sufficient merit to justify its continuation. In order to ensure the use of temporary labor is effectively monitored and managed, the other recommendations in this report should be put into effect as soon as possible.

Director of Waste Management Response:

Concur with the recommendation. The Division of Waste Management has implemented necessary accounting measures to better manage costs associated with temporary labor. The Division will continue to monitor and evaluate the use of temporary labor services and the overall benefit to the efficient operation and delivery of quality customer service in a safe, positive environment.

Commissioner of Environmental Quality & Public Works Response:

Concur with the Recommendation and will monitor Waste Management's compliance.