TO: Chair and Members
Audit and Administration Committee

WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: March 24, 2010

SUBJECT/REPORT NO:
Follow Up of Audit Report 2007-12 - Waste Management - Recycling Program Revenues (AUD10012) (City Wide)

SUBMITTED BY:
Ann Pekaruk
City Manager's Office

PREPARED BY:
Ann Pekaruk 905-546-2424 x4469

SIGNATURE:

RECOMMENDATION:

That Report AUD10012 respecting the follow up of Audit Report 2007-12, Waste Management – Recycling Program Revenues, be received.

EXECUTIVE SUMMARY

Audit Report 2007-12, Waste Management – Recycling Program Revenues, was originally issued in March, 2008 and management action plans with implementation timelines were included in the Report. In February, 2010, Internal Audit conducted a follow up exercise to determine that appropriate and timely actions had been taken. Regarding the implementation of the seven (7) recommendations made in the original Report and Addendum, five (5) have been completed, one (1) is in progress and an alternative has been implemented for the remaining recommendation.

Alternatives for Consideration –Not Applicable
FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: None.
Staffing: None.
Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

Audit Report 2007-12, Waste Management – Recycling Program Revenues, was originally issued in March, 2008. The Report indicated seven (7) recommendations identifying areas for improvement with respect to financial, operational and administrative controls.

It is normal practice for Internal Audit to conduct follow up reviews within a 12-18 month period following the issuance of the original report in order to determine whether action plans committed to by department management have been implemented. In February, 2010, Internal Audit followed up the Report to confirm appropriate and timely actions had been taken.

POLICY IMPLICATIONS

None.

RELEVANT CONSULTATION

The results of the follow up were provided to management and staff responsible for the recycling program revenues in Waste Management, Public Works Department.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

The report attached as Appendix “A” to Report AUD10012 contains the first three columns as originally reported in Audit Report 2007-12 along with an added fourth column indicating Internal Audit’s follow up comments. Two (2) items in the Addendum have also been followed up with the appropriate detail provided.
Five (5) of the seven (7) recommendations have been implemented. They are: written Finance and Administration procedures pertaining to the monthly billing and reconciliation process for recoverable recycling revenues; the updating of the Revenues Reconciliation Sheet and its completion for review and written approval by the Business Administrator before submission to management; the resolution of the weight discrepancies in the steel cans commodity; and the scrutinizing of charges to ReMM in end market vendor situations.

The recommendation pertaining to the review and update of the written procedures is in progress. An alternative regarding invoicing information from the end marketer has been implemented for the remaining recommendation.

**ALTERNATIVES FOR CONSIDERATION:**

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Not applicable.

**CORPORATE STRATEGIC PLAN** (Linkage to Desired End Results)


**Financial Sustainability**

• Delivery of municipal services and management capital assets/liabilities in a sustainable, innovative and cost effective manner

**APPENDICES / SCHEDULES**

Appendix “A” to Report AUD10012.
<table>
<thead>
<tr>
<th>#</th>
<th>OBSERVATIONS OF EXISTING SYSTEM</th>
<th>RECOMMENDATION FOR STRENGTHENING SYSTEM</th>
<th>MANAGEMENT ACTION PLAN</th>
<th>FOLLOW UP (FEBRUARY 2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Written Procedures</td>
<td>That F&amp;A procedures pertaining to the monthly billing process for recoverable recycling revenues be documented and retained in the F&amp;A area.</td>
<td>Agreed. The F&amp;A procedure pertaining to the monthly billing process for recoverable recycling revenues will be completed by the end of February 2008.</td>
<td>Completed. Written F&amp;A procedures pertaining to the monthly billing and reconciliation process for recoverable recycling revenues were developed in January 2008 and have been incorporated into the Waste Management Division’s F&amp;A Procedures Manual.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>That these procedures, once written, be reviewed regularly to ensure that they remain current and are appropriately and consistently applied.</td>
<td>Agreed. The procedure will be reviewed on an annual basis by the F&amp;A team and updated if required.</td>
<td>In Progress. The printed procedures contain handwritten updates and notations indicating subsequent amendments to the billing process. However, the electronic copy has not been updated and is, therefore, no longer current. In addition, the procedures are lacking pertinent administration details such as the procedure number, effective date and the date when the procedures were last reviewed and approved.</td>
</tr>
<tr>
<td>2.</td>
<td>Revenue Reconciliation Sheet</td>
<td>That a secondary review of accuracy and completeness of the Reconciliation sheet be performed monthly by the Business Administrator before it is released to management for their review.</td>
<td>Agreed. The Business Administrator and/or designate will, on a monthly basis, review the reconciliation sheet, along with appropriate back-up documentation.</td>
<td>Completed. The Financial Assistant 1 (FA1) now submits the completed Reconciliation Sheet and supporting schedules to the Business Administrator (BA) for review and written approval.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>That the Project Manager, Materials Recycling, review the Reconciliation sheet to ensure that it captures all the necessary information. Evidence of review and appropriate follow up notes should be indicated on the worksheet.</td>
<td>Agreed. The Project Manager, Materials Recycling, will review the Reconciliation Sheet information requirements by February 1, 2008 and the revised sheet will be used for 2008. The changes will include, but are not limited to:</td>
<td>Completed. The Reconciliation Sheet has been re-designed to include a column for follow up notes and space for sign off by the preparer and two reviewers. Reconciliation Sheets reviewed by Internal Audit for 2008 and 2009 were all signed and dated by the Financial Assistant 1, the Business Administrator and the Project Manager.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• An area on the reconciliation sheet will be created for sign off by the Preparer, the Reviewer and the Project Manager.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• An area for follow up notes.</td>
<td></td>
</tr>
</tbody>
</table>
3. Weight Discrepancies

In a specific audit test, discrepancies in the weight amounts from the Geoware system (used by the City to track all incoming and outgoing loads from the MRF) to the weights provided by end market vendors for draft billing purposes by the marketer were noted. The most frequent variances are for the steel cans commodity. Using the primary vendor for steel cans, instances in 2006 indicated weight amounts used for billing by the marketer and thus, the City, were higher than those recorded in the City Geoware system. In 2007, the situation is reversed with billing weights lower than those in Geoware. Although the overall dollar value of the discrepancy is not significant, the cause of the variances should be determined in order to validate the integrity of the processes and ensure revenues are maximized.

<table>
<thead>
<tr>
<th>#</th>
<th>OBSERVATIONS OF EXISTING SYSTEM</th>
<th>RECOMMENDATION FOR STRENGTHENING SYSTEM</th>
<th>MANAGEMENT ACTION PLAN</th>
<th>FOLLOW UP (FEBRUARY 2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.</td>
<td>Weight Discrepancies</td>
<td>That the Waste Management Division (Blue Box Recycling) further investigate the cause of the weight discrepancy for steel cans and work with the vendor to resolve the issue.</td>
<td>Agreed. The Project Manager, Materials Recycling, or designate, will periodically (at a minimum monthly) cross check all commodity tonnages from both outbound loads at the MRF scale and weights provided by the end market vendor’s scale with the detailed spreadsheet provided by ReMM. The information from both the MRF scale and the end market vendor scale (stated on the Bill of Lading/Driver Ticket) will continue to be provided to ReMM who will now input this information onto a spreadsheet along with other relevant details/data. The inclusion of this service will be added to the present agreement between the City and ReMM. Starting immediately and for the next three months, City staff stationed at the MRF will follow steel can loads from the MRF to the end market to witness receipt of materials and observe acceptance of the load by the vendor. If it is found that there exists a discrepancy in commodity scale weights for a given load that cannot be resolved by other means, a copy of the end market vendor’s annual scale certificate issued by Canada Weights and Measures may be requested. After this three month period or at such time that City staff are satisfied that the load issues have been resolved, random monitoring of the loads will occur.</td>
<td>Completed. The cause of the weight discrepancies was investigated by staff in the Waste Management Division and was found to be largely related to the contamination of steel cans loads which resulted in the City’s weights being inflated. A new container line that uses magnetic technology to sort steel cans was installed in July 2008. The container line also crushes and bales the steel cans to avoid further sorting by the vendor, thereby eliminating the possibility of contamination related weight discrepancies. In addition, in 2008, staff in the Waste Management Division performed periodic site visits and spot checked the vendor’s weight tickets against weights recorded by the City’s GeoWare system indicating a closer oversight of can shipments. The steel can vendor was also requested to provide certification that its scales were properly calibrated. Since the above measures were implemented in the summer of 2008, there has been considerable improvement in the extent of the variances, with weight differences for the period August 2008 to December 2009 averaging to only 0.12% of the weight recorded in GeoWare (the averages for 2006 and 2007, when the audit was originally completed, were 7% and 2%, respectively).</td>
</tr>
</tbody>
</table>
ADDENDUM

The following items were noted during the course of the audit. Although they do not present internal control deficiencies, they are indicated in this Addendum so management is aware of the issues and can address them as necessary.

1. **Standards of Measure** – The City uses kilograms (and metric tonnes) as their unit of measure. The Canadian standard and CSR (Corporations Supporting Recycling) rates are also stated in metric tonnes. However, the end market vendors use pounds and the end marketer prepares billing information based on pounds. This results in extra calculations at month end by F&A staff to convert to a more meaningful unit of measure for analysis and review. The calculations can be subject to manual error and needlessly use up staff resources.

   It is recommended:
   **That the Waste Management Division request that the end marketer provide invoicing information in the same unit of measure as that currently used by the City.**

   **Management Response:**
   Agreed. This would make calculations easier. However, this is determined by end markets. Waste Management has pursued this issue with the end marketers in the past but did not receive a positive response. The Project Manager, Materials Recycling, in conjunction with ReMM, will pursue this initiative again with the end market vendors who report pounds for their billing from the City.

   **Follow Up**
   Alternative Implemented. The end marketer and vendors declined a request by the Waste Management Division to provide invoicing information in metric tonnes. However, to save time and to minimize errors, the end marketer (ReMM) agreed to provide the Division with a monthly summary of all weights received by vendors, already converted into metric tonnes. Upon receiving the converted summary sheet, the Project Manager verifies the weights against tonnages recorded in the City’s GeoWare system.

2. Currently, end market vendors are billed by the City using weight information obtained by the marketer (ReMM) from these same end market vendors. That is, end market vendors are providing their own billing weights. In fact, ReMM occasionally is also an end market vendor (buys recycling material from the City) which, in itself, may appear as a conflict of interest.

   It is recommended:
   **That management take extra measures to scrutinize the charges to ReMM in end market vendor situations to avoid the perception of a conflict of interest.**

   **Management Response:**
   Agreed. The Project Manager, Materials Recycling, or designate, will periodically (at a minimum monthly) cross check the billing weights for all materials leaving the MRF to those received by end market vendors. However, all materials purchased by ReMM will be checked. The monthly statement of revenues from ReMM that is provided also includes back up information from the end market that enables staff to verify the shipment was received, quantity shipped and revenues.

   **Follow Up**
   Completed. Every month, upon receiving the summary of delivered weights from ReMM, the Project Manager checks the reported tonnages against weights recorded in the City’s GeoWare system and investigates any significant variances. In addition, prices invoiced by ReMM are compared to industry averages provided by Companies Supporting Recycling (CSR) for reasonableness.