

CITY AUDITOR'S OFFICE



AUDIT OF THE CITY'S ADMINISTRATION OVER THE SALE OF SCRAP METAL

Report No. CAO 1711-1617-02

July 12, 2016

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CITY AUDITOR

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**AUDIT OF THE CITY'S ADMINISTRATION
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BACKGROUND

Several city departments generate scrap metal from their operations. This scrap metal is placed in containers at collection points located in the East and West yards, Detention and Enforcement (D&E) Detention Center, Traffic Signal Repair Shop, and the Water Pollution Control Facility. The scrap metal is then picked up by a recycling company who subsequently pays the city for the scrap metal on the agreed upon rate. Sorted scrap metal receives a higher price than mixed scrap metal, which is typically the lowest price. Types of scrap metal collected include: copper wire, street light poles, brass shell casings, traffic signal boxes, unclaimed shopping carts, vehicle parts, cast iron pipe fittings, brass hydrant parts, and any other scrap metal with value.

The city has an agreement with a recycling company to provide collection containers, haul scrap metal to their facility and pay the city for the collected scrap metal. This agreement will expire on July 1, 2016. Over the last five years, the vendor has paid the city approximately \$73,000 for scrap metal. The recycling company now sends payments directly to the city Treasurer's Office. Revenue from the sale of scrap is deposited into the city's general fund.

Until approximately 5 years ago the Operations & Maintenance Department (O&M) administered the scrap metal collection efforts at the West Service Center, Satellite Yard, and East Service Center. At that time a recycling contract was entered into for contractor services and O&M has since had limited involvement. In order to address the deficiencies identified by the audit, O&M has agreed to again take the lead on scrap metal handling and recycling.

OBJECTIVES

The audit objectives were to ensure that the city is efficiently and effectively selling its scrap metal in accordance with state regulations and city code and policies and that city employees are familiar with the process.

SCOPE AND METHODOLOGY

The scope of this audit was limited to a review of the city's process for scrap metal collection and sale. The audit included a review of financial data reported to the Treasurer's Office from 2011 through 2016. The last day of audit fieldwork was March 31, 2016. The scope of our work on internal controls was limited to the controls within the context of the audit objectives and the scope of the audit.

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Our audit methodology included:

- Research of applicable regulations, code, and policies.
- Interviews of city employees and recycling company.
- Analysis and testing of financial data from calendar year 2011 through 2016.

We conducted this performance audit in accordance with generally accepted government auditing standards except for the requirement for an external peer review every three years. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The exception to full compliance is because the City Auditor's Office has not yet undergone an external peer review. However, this exception has no effect on the audit or the assurances provided.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

In completing procedures associated with our audit objectives, we identified several areas where improvements are needed, as noted below:

Lack of Scrap Metal Disposal Policy & Procedure

O&M needs to document and implement a policy and procedure on the collection and sale of scrap metal and share this with city employees. (Finding #1)

Lack of Reconciliation of Scrap Metal Payments

O&M needs to develop a process to reconcile payments received to recycling company pickup receipts. (Finding #2)

Agreement Deficiencies

Purchasing & Contracts should enter into a formal agreement with the scrap vendor that includes the required audit clause and that requires the recycling company to obtain a city of Las Vegas business license. (Finding #3)

Further information is contained in the sections below. While other issues were identified and discussed with management, they were deemed less significant for reporting purposes.

1. Lack of Scrap Metal Disposal Policy & Procedure

Criteria

Documented policies and procedures assist employees and management in performing the daily operational tasks of an organization. They formally establish employee accountability, provide orientation and reference material for employees, and document the institutional knowledge of existing staff in case of employee turnover or extended absences.

Condition

The city does not have policies and procedures on the collection and sale of scrap metal.

City management does not know where all pickup containers are located.

City employees are not aware of the details of the scrap metal agreement and who to contact when containers are full.

There were three known instances where city employees took scrap metal (brass) directly to a recycling processing center and brought back a check for the department to deposit into the city's account.

Cause

Lack of clear policies and procedures on collection and sale of scrap metal.

Effect

Potential for theft of scrap metal causing a loss of revenue to the city.

Recommendations

- 1.1 Operations and Maintenance management should document and implement a policy and procedure that outlines the collection and sale of scrap metal generated in city operations. This policy and procedure should address the following areas:
 - Types of scrap metal to be collected
 - Process for collection of scrap metal
 - Process for contacting recycler for scrap metal pickup
 - Key contacts and container locations
 - Consequences of misuse or theft of scrap metal
 - Reconciliation of pickups to payment process
 - Retention of paperwork.

- 1.2. Operations and Maintenance management should distribute this policy and procedure to city employees and train them as needed.

2. Lack of Reconciliation of Scrap Metal Payments

Criteria

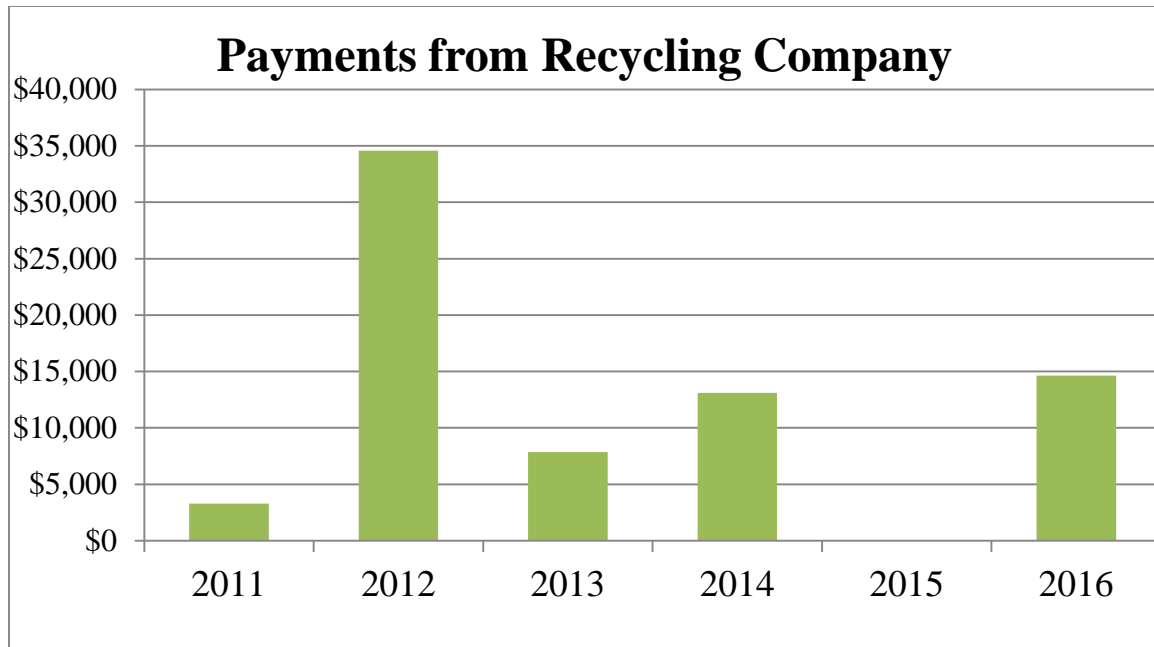
Independent review and reconciliation of records of items sold to payments received ensures payments are received timely and in full.

Per the city's agreement with the recycling company "*the Supplier shall generate checks and Bill of Lading (Dump Slips) on a Monthly Basis and send to the City of Las Vegas.*"

Condition

Scrap metal is collected from the city by the recycling company at designated pickup locations. The scrap metal is then transported to the recycling company's facility where it is sorted and weighed. The recycling company subsequently sends a check to the city's Treasurer for the agreed upon rate of the scrap metal collected.

- The recycling company only provides receipts at the time of pick up at one location.
- The city does not currently have a process for reconciling payments received from the recycling company to pick-ups.
- The documentation provided with payment from the recycling company lacks the following:
 - Date of pick-up
 - Location of pick-up (example bin #)
 - Description of items collected
 - Weight of items collected
 - Rate paid for items collected
- The city did not receive a payment from the recycling company between 10/14/2014 and 1/4/2016 despite many pickups during that period. The 1/4/2016 and 2/18/2016 payments appeared to be the result of audit inquiries into the payment history.



Note: 2011 reflects payments from June through December 2011. 2016 reflects three payments after the inquiry on the lack of 2015 payments.

- While it may not be feasible and cost effective to independently verify the accuracy of the weight of the scrap metal collected if provided, measures can be taken to at least ensure the city is receiving a payment for each pickup and that the amount received is reasonable based on the nature of the items collected.

Cause

- Lack of process in place to ensure payments from recycling company are reasonable and timely.
- Lack of adequate information on pickup receipts to reconcile pickups to payment stub information.

Effect

- Potential for missed or untimely payments for scrap metal collections.

Recommendations

- 2.1 Operations and Maintenance management should at a minimum document and implement a process for reconciling scrap metal pickups to payments received.
- 2.2 Operations and Maintenance management should evaluate the cost and benefit of increased separation of different types of scrap metal to maximize the amounts paid the city by the recycling company.

- 2.3 Operations and Maintenance management should evaluate what additional measures, if any, can be taken to ensure the accuracy of the payments from the recycling company.

3. Agreement Deficiencies

Criteria

The city's standard audit clause policy (FN608) states: *All city contracts and agreements shall include a standard audit clause to allow oversight of contracted activities.*

Las Vegas Municipal Code, Title 6: *Every individual, partnership, firm or corporation that is located within the Las Vegas city limits and companies that engage in business within the Las Vegas city limits, are required to have a city of Las Vegas Business License.*

Condition

- The city's agreement with the scrap metal recycler lacks the city's standard audit clause.
- The scrap metal recycler does not have a City of Las Vegas business license as required by Las Vegas Municipal Code.

Cause

- Agreement lacks the required audit clause.
- City staff did not ensure the recycler had a City of Las Vegas business license.

Effect

- Reduced ability by city management to perform due diligence on agreements and contracts.
- Non-compliance with the City of Las Vegas Municipal Code.

Recommendations

- 3.1 Purchasing and Contracts management should ensure that all future agreements with the scrap metal recycler include the required audit clause.

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- 3.2 Purchasing and Contracts management should require the scrap metal recycler to obtain a City of Las Vegas Business License before doing any more business with the city.

MANAGEMENT RESPONSE

1. Lack of Scrap Metal Disposal Policy & Procedure

Recommendation 1.1

Operations and Maintenance management should document and implement a policy and procedure that outlines the collection and sale of scrap metal generated in city operations. This policy and procedure should address the following areas:

- Types of scrap metal to be collected
- Process for collection of scrap metal
- Process for contacting recycler for scrap metal pickup
- Key contacts and container locations
- Consequences of misuse or theft of scrap metal
- Reconciliation of pickups to payment process
- Retention of paperwork.

Management Plan of Action: Until approximately 5 years ago the Operations & Maintenance Department (O&M) administered the scrap metal collection efforts at the West Service Center, Satellite Yard, and East Service Center. At that time a recycling contract was entered into for contractor services and O&M has since had limited involvement. With expiration of that contract on 6-30-16, O&M will reestablish control of the scrap metal collection streams at the aforementioned three yards. O&M will reestablish past practices for proper control, maximum revenue and proper accounting of revenues. Appropriate signage for misuse or theft of scrap metal will be posted at each of those locations. Those practices will be documented in an operating procedure.

Estimated Date of Completion: An operating procedure will be approved by the Department Director and in place by October 6, 2016.

Recommendation 1.2

Operations and Maintenance management should distribute this policy and procedure to city employees and train them as needed.

Management Plan of Action: Once the operating procedure has been in service for a short trial period the procedure will first be submitted to affected managers for review and comment, and subsequently submitted to the Executive Committee for final review and approval and city wide procedure. Edits or updates will be made as appropriate and in response to the review comments.

Estimated Date of Completion: The final executed procedure will be in place by December 29, 2016.

2. Lack of Reconciliation of Scrap Metal Payments

Recommendation 2.1

Operations and Maintenance management should at a minimum document and implement a process for reconciling scrap metal pickups to payments received.

Management Plan of Action: Past practices were effective for this application, and they will be reestablished and documented in the procedure.

Estimated Date of Completion: The final executed procedure will be in place by December 29, 2016.

Recommendation 2.2

Operations and Maintenance management should evaluate the cost and benefit of increased separation of different types of scrap metal to maximize the amounts paid the city by the recycling company.

Management Plan of Action: Past practices were effective for this application, and they will be reestablished and documented in the procedure, and communicated appropriately to the responsible managers.

Estimated Date of Completion: The final executed procedure will be in place by December 29, 2016.

Recommendation 2.3

Operations and Maintenance management should evaluate what additional measures, if any, can be taken to ensure the accuracy of the payments from the recycling company.

Management Plan of Action: The problematic recycling contract is being allowed to expire and these activities will be addressed directly and with proper accounting. Past practices were effective for this application, and they will be reestablished and documented in the procedure, and communicated appropriately to the responsible managers.

Estimated Date of Completion: The final executed procedure will be in place by December 29, 2016.

3. Agreement Deficiencies

Recommendation 3.1

Purchasing and Contracts should ensure that all future agreements with the scrap metal recycler include the required audit clause.

Management Plan of Action: Finance-Purchasing and Contracts will work with O&M on development of a city wide procedure for scrap metal recycling, and will ensure that procedure includes the requirements for contract execution, including audit, indemnification, and insurance clauses

Estimated Date of Completion: December 29, 2016 (in conjunction with final procedures from O&M)

Recommendation 3.2

Purchasing and Contracts should require the scrap metal recycler to obtain a City of Las Vegas Business License before doing any more business with the city.

Management Plan of Action: Finance-Purchasing and Contracts will work with O&M on development of a city wide procedure for scrap metal recycling, and will ensure that procedure includes the necessary business licensing considerations for delivery to a third party, pickup by a third party at a city site, and contracting for extended service.

Estimated Date of Completion: December 29, 2016 (in conjunction with final procedures from O&M)