



Audit No. 02-06

# **AUDIT OF REDEMPTION OF RECYCLABLE MATERIALS FOR CASH**

City of Albany, New York

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### **I. SUMMARY**

We reviewed the practices, policies, and procedures related to the redemption of recycled materials for cash by the City of Albany employees. The review was undertaken in response to a complaint by a former employee of the Department of General Services. The employee alleged that recyclable materials (appliances and other scrap), which ordinarily would be sold by the City to recycling vendors, were being diverted and redeemed for cash for departmental and personal spending.

The audit is based on an analysis of records from City departments and an area recycler. The audit was also conducted by interviewing current and former City employees and employees from area recycling companies.

City employees from several departments, including General Services, Police, Fire, and Water, have periodically redeemed recyclable materials for cash. In some instances departments had informal procedures to redeem materials for cash to use for departmental spending, including meals, celebrations, office supplies, and other incidental expenses. In other instances practice was carried out at the initiative of individuals who used the cash for their personal use.

We found the practice of redeeming materials for cash, whether for personal or departmental use, to be improper. Redemption of City property for cash for personal use is illegal. Taking in cash for departmental spending is impermissible and an unacceptable financial practice. Additionally, in some instances when cash was used for internal departmental spending, accounting of revenue and expenses was deficient and retention of records inadequate.

While most funds expended by departments were expended for purposes that would have been permitted if carried out through the City's purchasing system, some purchases, such as food for employees, is legally questionable.

In response to our inquiry several departments, including DGS, Police, and Water, immediately changed their policies to prohibit the redeeming of materials for cash. The Department of General Services, in consultation with the City Comptroller, has undertaken a review of all procedures and safeguards in place for cash transactions handled by the Department. Any cash remaining from sale of City assets should be deposited in a City of Albany account. We recommend the development of a citywide policy for recycled materials.

We found no evidence of systematic fraud.

We have contacted several area recycling vendors who have agreed to not pay cash to City of Albany employees.

Throughout, the departments reviewed were cooperative.

## II. SCOPE AND OBJECTIVE

The Scope of our review and analysis included the following:

- Evaluation of the practice of redeeming recycled goods for cash.
- Review of the use of funds for personal use.
- Review of the use of funds for departmental use.
- Analysis of record keeping and accounting of funds received and expended for departmental use.
- Evaluation of adequacy of internal controls.
- Assessment of compliance of practices with City policy and state law.

## III. METHODOLOGY

City of Albany employees used the following procedures in auditing the redemption of recyclable materials for cash.

- Interviewed former and current employees regarding complaint.
- Interviewed personnel at several departments, including General Services, Public Safety, Water, and Recreation. Personnel included laborers, foremen, supervisors, deputy commissioners and commissioners.
- Interviewed personnel at area scrap/recycling companies.
- Analyzed accounting records of revenue and expenses kept by departments.
- Analyzed and reconciled records of one recycling vendor regarding cash and checks remitted to the City of Albany including copies of receipts of payments.
- Reviewed names on slips signed by the employees redeeming goods for cash.

- Reviewed photos of City vehicles exchanging scrap for cash.
- Compared the disbursement records of one recycling company with the revenues received and retained by the Department of General Services.
- Reviewed internal operating procedures to assess adequacy of controls and compliance with procedures.

#### IV. BACKGROUND

Recyclable materials *redeemed* by the City of Albany fall into three main categories:

1. Mixed recycled goods from households picked up curbside in bins and transported to the landfill<sup>1</sup>.
2. Appliances and other recyclable materials (known as “white goods”) discarded by City residents and collected by crews from the Department of General Services (DGS)<sup>2</sup>.
3. Scrap materials and other recyclables resulting from the replacement of equipment, as well as construction, maintenance and demolition projects. Examples include water pipes, street signs, office equipment, and demolished automobiles.

There are several ways in which City of Albany employees have *redeemed* the recycled materials for *cash*.

1. Individuals on sanitation crews (DGS) have collected and redeemed bottles and cans from curbside collection. Materials have been exchanged at area supermarkets for cash. Persons collecting the materials have kept funds for personal use. [No reliable information is available detailing the amount of funds collected.]
2. Individuals on sanitation (DGS) and other crews have sold scrap metal and other materials that have been put out for collection. The individuals performing the collection have typically kept these funds. Area recyclers cannot produce records detailing transactions by City of Albany employees, which typically have been for relatively small amounts of cash (\$5 to \$50). [No reliable information is available concerning the total dollar amount of cash paid to City employees.]

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<sup>1</sup> Goods are sold pursuant to a competitively bid City contract.

<sup>2</sup> Goods are sold to an area recycler at the current market rate and funds remitted by check monthly to the City for deposit into a City account.

3. DGS employees (beginning in 2006) began selling a portion of household appliances collected curbside for cash. (Formerly, these materials were redeemed and a check sent to the City.) Funds were held by the Department and appear to have been used for internal purposes, such as beverages, celebrations, meals, and office supplies.
4. Personnel from various City departments, including DGS, Police, Fire and Water have aggregated and redeemed City-owned scrap and surplus materials for cash. This includes materials being replaced, such as equipment, destroyed vehicles, ladders no longer in use, discarded street signs, discarded fire hydrants and water and sewer pipes, as well as shell casings from the police firing range. Funds appear to have been used to fund internal cash accounts. Records from a single area scrap dealer (Hudson River Recycling) indicate that by October 2006 approximately \$7,000 was remitted in cash to City of Albany employees.<sup>3</sup> Departmental accounting and record keeping of funds received and spent range from detailed to non-existent.

## V. PROCEDURES

The City of Albany has in place unwritten procedures for redeeming recycled materials collected curbside:

1. Mixed recycled waste (cans, bottles, paper goods etc.) are transported to the landfill and sold to a vendor, who collects the materials at the Rapp Road Landfill and remits funds by check to the City, where funds are deposited and recorded on the City's general ledger.
2. Designated City sanitation crews pick up White Goods (discarded appliances, hot water heaters) curbside. Appliances containing refrigerant are transported to the landfill to have the refrigerant removed. Other appliances are transported to the Department of General Services, where they are unloaded into a dumpster, which is periodically redeemed at an area recycler. The vendor remits payment monthly to the Albany Landfill. Checks are deposited with the City of Albany and are recorded on the City's general ledger.

**No standard procedures currently exist for selling other materials, such as surplus property, scrap materials, replaced equipment and recyclable construction materials.**

## VI. DISCUSSION

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<sup>3</sup> The year-to-date 2006 figure is likely high relative to previous years because the price of scrap metal has risen significantly and has created increased incentive to redeem materials.

Internal controls are in place regarding the receipt and recording of City revenue and the authorization and procedures for City expenditures. Funds should be remitted by check to the City and deposited into the requisite account. Expenditures should be made through the City's purchasing system and according to the City's Purchasing Policies and Procedures Manual.

The redemption of recyclables for cash is improper. Using the cash for personal use is improper and illegal.

Spending funds from recycled materials for departmental use is impermissible. The proper source of funds for departmental spending is through an appropriation to the City budget. City departments cannot properly have off-the-books sources of revenue. Use of such funds circumvents controls put in place by City policy for the appropriate expenditure of City funds.

Use of City funds for meals in most instances is impermissible. The State constitutional ban on gifting makes use of public funds for meals impermissible, except in particular instances.

The following chart summarizes most<sup>4</sup> of the known funds received and disbursed from departments that used cash proceeds for *internal expenses*, but not any proceeds that were kept for *personal* use.

<b>DGS</b>			01/06-10/06
	Funds Received*	\$ 5,477	
	Funds Expended**	Unknown	
	Balance	\$ 3,449	
<b>Traffic Safety</b>			09/03-10/06
	Funds Received	\$ 2,836	
	Funds Expended	\$ 2,320	
	Balance	\$ 516	
<b>Special Operations</b>			5/04-10/06
	Fund Received	\$ 5,486	
	Funds Expended	\$ 3,531	
	Balance	\$ 1,955	
<b>Water Department</b>			01/06-10/06
	Fund Received***	Unknown	
	Funds Expended****	Unknown	
	Balance	\$ 730	

\* Estimated based on one vendor's records.

\*\* Documentation insufficient to substantiate dollar amount.

\*\*\* Records of one Recycler indicates approximately \$1,200 remitted.

\*\*\*\* No documentation available to substantiate dollar amount.

<sup>4</sup> Excludes smaller funds maintained at the fire department maintenance facility and the police firing range.

Other than records from a single recycling vendor, no external data exists for funds received.

## VII. FINDINGS/RECOMMENDATIONS

- 1. Condition:** City employees on City time using City vehicles have sold recyclable materials to various recycling vendors for cash, which has not been turned over to the City for deposit into the general fund.

**Cause:** The City has had no policy regarding the sale of recyclable material<sup>5</sup>. Departments have had no clear procedures prohibiting and preventing the practice or have directed or permitted employees to carry out these transactions for cash.

**Criteria:** Revenue from the sale of City property should always be directed to the City for deposit into the appropriate City fund.

**Effect:** The practice of exchanging materials for cash allows individual employees to redeem City materials for personal use, thereby depriving the City of revenue. The practice makes it nearly impossible to ensure that funds received are accounted for properly and used for an appropriate City purpose.

**Recommendation:** The City should develop and distribute a citywide policy regarding the sale of recyclable materials. Funds received from recycling operations should be deposited in the proper revenue account and expended pursuant to appropriation. City departments and employees should be explicitly prohibited from receiving cash for recyclable materials. The City should have contracts and agreements with area recyclers to explicitly prohibit cash transactions with City of Albany employees.

**Note:** At the start of this audit, the Department of General Services and the Comptroller's office contacted Hudson River Recycling and three other area recyclers who agreed to not disburse any more cash to City of Albany workers. The Department of General Services, the Police Department, and the Water Department have directed employees to end the practice of selling scrap for cash. All have prepared or are preparing written policies.

- 2. Condition:** Employees from several City departments have sold recyclable materials from City projects and operations for an undetermined amount of cash for personal use.

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<sup>5</sup> The City does have an ordinance (Section 313- 6) prohibiting scavenging of materials left curbside. However, the ordinance is little known and is largely unenforced.

**Cause:** The City has not had a policy regarding the sale of recyclable materials and has had inadequate policies and procedures in place to clearly prohibit and prevent these practices.

**Criteria:** Funds received from recyclable materials retrieved from City projects, as well as curbside pick up of materials are properly City funds and should be remitted to the City through check or wire transfer.

**Effect:** Redeeming (selling) city materials for private/personal use reduces City revenue and is illegal.

**Recommendation:** The City should have in place policies and procedures that prohibit and prevent employees from carrying out these activities. The City should have agreements with all area recyclers to prevent the exchange of goods for cash with City employees.

3. **Condition:** Personnel from several City departments (*DGS, Police, Fire, and Water departments*) have used cash received from recycled materials for internal cash accounts.

**Cause:**

- ❑ In 2006, DGS personnel implemented a policy that diverted a portion of recyclable materials from the usual procedures established for these materials and instead redeemed them directly for cash. Funds were used for an internal cash account.
- ❑ Police Department personnel have redeemed recyclable materials such as street signs, and shell casings from the firing range, for cash that was used for internal cash accounts.
- ❑ Fire Department personnel have redeemed equipment no longer in use and other materials for cash for an internal cash account.
- ❑ Water department personnel have redeemed scrap materials, including pipes and hydrants for an internal cash account.

In all instances funds should have been remitted by check and deposited to an appropriate City of Albany account.

**Criteria:** The proper source of funds for departmental spending is appropriation from the City budget. City departments cannot properly have off-the-books sources of revenue. Expenditures should be made through the City's purchasing system and properly recorded on the City's general ledger.

**Effect:** Without the oversight inherent in the City's purchasing and accounting systems, purchases can be made for goods and services that are impermissible under City policy or State law. Funds not accounted for by the general ledger are vulnerable to misuse. Accounting of these funds does not comply with generally accepted accounting procedures.

**Recommendation:** Funds received from recycling operations should be deposited in the proper revenue account and expended pursuant to appropriation. To the extent necessary, internal petty cash funds should be funded through appropriated funds and accounted for through the City's general ledger. The City should review State law and issue and implement a policy related to use of City funds for food and entertainment.

**Note:** At the start of this audit, the Department of General Services Deposited all funds on hand from recycled materials to the City's general ledger. The Police Department has aggregated all funds and put them in the custody of the Chief of Police. More recently the Water Department has deposited remaining cash.

4. **Condition:** The accounting records of the Department of General Services Department, the Water Department and much smaller funds maintained by the Fire Department and within the Police Department do not properly record cash received or expenditures made from these funds.

**Cause:** The Department of General Services and other departments failed to provide proper oversight and accounting of funds received from cash transactions with area recyclers. The Water Department kept no records of funds received or expended.

**Criteria:** Funds received by the City must reconcile to the source of funds and the spending of these funds must be documented.

**Effect:** If documentation of funds received and spent do not reflect all transactions, funds may have been diverted and there is no way to determine how funds were actually used.

**Recommendation:** The City should receive Funds for recyclable materials by check or wire transfer only. Any internal petty cash fund must be pursuant to budget appropriation and must record all funds received and spent.

5. **Condition:** The records maintained by the Department of General Services, the Water Department and the smaller accounts of the Police Department and the Fire Department do not contain receipts documenting all funds received and expended.

**Cause:** The departments failed to keep and maintain adequate records of funds received and spent. In some cases no records were retained.

**Criteria:** Records of revenue and spending must adequately reflect actual purchases.

**Effect:** Without proper documentation and supporting materials, it is impossible to determine if funds received and spent are accounted for or to test compliance with City policies and State law.

**Recommendation:** All funds received should be by check or wire transfer, should be deposited into the proper revenue account to be properly accounted for and to be spent in accordance with appropriations. Documentation of petty cash expended must include receipts from all purchases.