

CITY OF ALBANY

Office of Audit and Control

Performance Audit of the City's **Landfill**

Audit Report
December 2014

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PREFACE

The Office of Audit and Control exists to provide oversight, transparency and public accountability as a means to improve City services. This performance audit is a part of that function.

When the Office of Audit and Control takes on an audit client and, absent evidence of misconduct, that client addresses the audit's findings; it is our commitment to support and encourage their use of the audit process to improve their operations.

This audit was conducted with the full cooperation of the Department of General Services and the Commissioner has committed to addressing its findings.

The proper use of the audit findings in these circumstances is to provide for oversight of the resulting changes and as the basis for informed public policy discussions.

Given that the Department of General Services has given their full cooperation, it would be unfair and damaging to the audit process for this audit's findings to be used for political gain. As such, the Office of Audit and Control will view the political use of this audit's findings as detrimental to our mission.

We thank the Department of General Services for their cooperation and commitment.

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Executive Summary

The Rapp Road landfill is a regional solid waste management facility owned by the City of Albany and operated by DGS. It serves public and private customers of more than a dozen communities comprising the Capital Region Solid Waste Management Partnership. The landfill is an enterprise that generates significant revenue for the City.

OAC undertook an audit of specific operations within the landfill to assess the adequacy of internal controls. Specifically, the audit focused on the adequacy of internal controls over scale house operations, payroll activities and the permitting process. While the audit did not identify any specific fraud or abuse, it did identify significant opportunities for fraud or abuse to occur.

Scale House

The audit team found that there is a lack of segregation of duties in the scale house operations. Proper separation of duties is necessary to detect errors and reduce fraud risks. In addition to the risk of errors and fraud, the scale house lacked physical safeguards to protect personnel and assets.

The scale house is where solid waste haulers check in and have their trucks weighed before dumping their waste in the landfill. If the landfill does not have the truck's unloaded weight on record, the truck exit via the outbound scale and the unloaded weight is used to calculate the bill. The scale house operator accepts checks and credit cards as well as charges fees to companies' accounts. At times, the scale house operator does have to tell haulers that they are not allowed to dump at the landfill.

Strengthening internal controls at the scale house and improving oversight will result in a more efficient operation and reduce the risk of theft and abuse.

Payroll Activities

This portion of the audit included an analysis of landfill time and attendance records and a review of time keeping internal controls. The audit team found that there was extensive use of hand-written times on the out-dated punch cards that DGS uses. While there are good reasons for some of the hand-written times, their extensive use reduces the already limited controls that the punch clock system provides.

The City Charter charges the City Auditor to "warrant as valid" all accounts payable prior to payment. This includes signing off on the City's weekly payroll. As a result, OAC annually incorporates an audit of payroll activities into one of its performance audits. The 2013 City-wide performance audit of payroll operations revealed systematic issues with the DGS timekeeping system, so the landfill audit was chosen for an examination of its payroll operations.

A modern time-keeping system would allow for accurate employee time recording at the landfill while reducing the opportunity for fraud and abuse.

Permitting Process

Permits are required to use the landfill. They are issued to customers annually after the application is submitted to and approved by the Solid Waste Manager.

OAC found that proof-of-insurance for the full year was missing from some permit application folders, and other folders contained expired insurance certificates. The permit application requires proof-of-insurance and maintenance of insurance throughout the permit year. It appears that compliance with the insurance requirement is loosely monitored by the City. If customer insurance lapses, the City could be liable for paying damages that would otherwise be covered by the customer's insurance.

The audit team found that that the required annual customer credit checks are not being done for credit customers. Customers who request to use the landfill on a credit basis are required to submit a credit application. After reviewing the credit application, it is Landfill policy to obtain a credit report for the new credit applicant. OAC found that the initial credit checks are consistently completed for new customers who request credit. After the initial credit application, the landfill's policies state that customer credit checks will be made on an annual basis. The failure to conduct annual credit checks could result in unnecessary financial exposure to the City should a customer with substantial outstanding credit become unable to pay their bills.

Audit Findings:

- The duties of processing transactions, processing receivables and reporting duties are not adequately separated.
- The Scale house lacks physical safeguards to protect personnel, cash and equipment.
- Checks were not properly secured at the time of the audit.
- There is a lack of a contingency/succession plan for Scale House Operator.
- The time keeping system used by the Landfill is outdated and cumbersome and there is no video on the time clock at the landfill whereas other DGS time clocks do have video monitoring. Some of the times on the time cards were written and were not punched in or out on the time clock.
- Customer credit checks are not made on an annual basis.
- Compliance with the requirement for insurance coverage for the entire permit year is not monitored.

Observation:

- The video cameras continuously record various landfill activities. Searching for specific activity in order to verify scale house transactions is very time consuming. This critical verification activity should be made as easy as possible so it can be done on a periodic basis.

Recommendations:

- Hire and train someone other than the scale house operator to prepare daily deposits, input daily data for reports, process permits, monitor video of the landfill, answer phones and provide a front office presence at the landfill.
- Install a security window and keep the door to the scale house locked.
- Immediately log in checks and deposit in a lockbox/safe.
- Implement the new time keeping system as soon as possible. In addition to more effective controls, an electronic system will better enable DGS to track the job worked each day so DGS can calculate the costs of work activities. An electronic system would eliminate the need for data entry by clerks. This would address a finding in the 2012 Street Maintenance Audit.
- Implement the new biometric time keeping system as soon as possible. An electronic time keeping system would enable employees to “clock in” at any location and would eliminate the need for the physical time cards to be sent to DGS payroll office because the data would be transmitted electronically.
- Replace strategic video cameras at the landfill with motion activated video cameras so that activities can be easily monitored and verified.
- Revisit the City’s criteria on credit checks and either revise the Policy or make a plan to comply with the Policy.

Background

The Rapp Road Waste Management Facility is a regional solid waste facility owned and operated by the City of Albany Department of General Services. It serves 14 different municipalities in 2 counties, all comprising the Capital Region Solid Waste Management Partnership. The mission of the Partnership is to provide relatively low cost, reliable and environmentally sound waste disposal capacity for these communities. Solid waste is brought to the landfill by City owned and operated garbage trucks, other municipally owned trucks, and trucks operated by private waste haulers. The landfill’s operations also include the collection and sale of methane gas generated within the landfill.

The City contracts with commercial recycling facilities that accept recyclables from both municipal and commercial collection vehicles in order to divert recyclable materials away from the landfill. The Rapp Road Landfill does not accept recyclables. All recyclables are routed to the County Waste Single Stream Recycling plant (owned by Waste Connections Inc.) at the Port of Albany. Recycling is critical to the future of the City’s waste management because the City is paid for recyclables as opposed to using landfill space for disposal.

The NYS Department of Environmental Conservation (DEC) is the state agency responsible for enforcing compliance with the regulations associated with owning and operating the landfill. DEC’s actions regarding the landfill include issuing permits, approving expansions, monitoring

environmental impacts and determining the maximum volume and type of waste that can be disposed at the landfill. DEC permits the Rapp Road landfill to accept up to 1,050 tons of waste per day in the form of municipal solid waste, construction and demolition debris, non hazardous industrial waste, sludge and petroleum contaminated soil (PCS). In 2009, DEC approved a northeasterly expansion to the existing 100 acre landfill, including the construction of approximately 10 acres of new landfill space, and an overfill of approximately 30 acres of previously land-filled area. This expansion resulted in additional capacity of approximately 2 million tons with the expectation that once completed; it would extend the life of the landfill by approximately 6.5 years. The current estimate for the landfill's closure is the third quarter of 2020 according to the Landfill's 2014 May Report.

Landfill customers are required to apply to the City for a permit before using the landfill. Once approved, they are charged a tipping fee based on the volume of waste disposed. Over the past five years, the landfill has generated an annual average of \$11,000,000 in revenue from a combination of permit fees, tipping fees, and sale of recyclables and methane gas.

A Solid Waste Manager oversees the daily operations of the landfill. In addition to supervising approximately 20 employees, the Manager is ultimately responsible for ensuring that the waste that is hauled to the landfill is disposed of properly. He issues monthly reports on the source, type, volume and revenue associated with the materials dumped at the landfill. In addition, the City contracts with Clough Harbour to provide on-site professional engineering services for the landfill. These services include operational assistance, environmental and compliance monitoring, and assistance with reporting requirements.

Scope, Objectives and Methodology

Scope

The scope of the audit included current practices at the landfill as they relate to payroll and Scale House operations.

The period audited is January 1, 2012 to September 2013.

Objectives

The audit objectives were partly formulated in light of a 2008 alleged million dollar fraud at the Colonie Town landfill in which a trash hauler was accused of fraudulent dumping activity causing the Town to lose hundreds of thousands of dollars in tipping fees. OAC designed its audit to focus on landfill activities with the highest risk for inefficiencies and revenue loss (i.e., fraud and abuse).

1. Determine the adequacy of internal controls over the scale house operations
2. Determine the adequacy of internal controls to ensure accurate billing and the accuracy and collectability of the accounts receivable.
3. Determine if Landfill payroll controls are adequate to ensure accurate wages, and if the controls mitigate risk of time fraud.

Methodology

The overall methodology consisted of the following:

- Review established policies and procedures for scale house operations.
- Review records for maintenance and use of scales.
- Review controls over customer vehicle information.
- Review controls over customer transactions.
- Review time keeping system.
- Review landfill permit files.

In order to review the established policies and procedures for the scale house operations, OAC reviewed the written policy and procedures for operation of the scale house and then observed operations at the Scale House. The regular Scale House Operator and the person who covered the position on a day that the regular operator was out were both knowledgeable of the process for recording a transaction in Waste Works software for each truck entering the landfill and of the Scale House Policy and Procedures. In order to test a selection of transactions OAC staff randomly selected dates from the first quarter of 2014 and compared the video from the scale house to the daily ticket reports for those days. OAC was able to verify that all of the vehicles that entered the landfill were reported on the daily ticket reports for those days.

Unfortunately, video is only saved for three months for the scale house and thirty days for other parts of the landfill operations. This was unknown to OAC at the outset of the audit and it forced the audit team to select daily ticket reports to test from a time period out of the original scope. It also meant that Landfill staff were aware that the audit was underway when the video was recorded, reducing the likelihood of identifying errors or fraud.

OAC staff reviewed invoices and the contract with Scale Services to confirm that the two annual inspections/calibrations were performed. On one of the visits the audit team observed someone from Scale Services power wash the out bound scale.

This performance audit was conducted in accordance with generally accepted government auditing standards (GAGAS) issued by the U.S. Government Accountability Office (GAO). 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions. OAC is required to approve payroll and does a cursory review of the weekly payroll which does not affect OAC independence for this audit.

Audit Findings

Finding 1: The duties of processing transactions, processing receivables and reporting transactions are not adequately segregated.

Condition (what is): The scale house operator processes transactions on Waste Works, accepts payments, has the ability to make adjustments to transactions or void scale tickets, compiles daily deposits, and inputs data for reporting. The current operator also answers the phones and handles questions. We observed that she did transfer calls to the Supervisor when she did not have the information to answer questions.

Criteria (what should be): Segregation of duties is critical to effective internal control; it reduces the risk of both erroneous and inappropriate actions. In general, the approval function, the accounting/reconciling function, and the asset custody function should be separated among employees. When these functions cannot be separated, a detailed supervisory review of related activities is required as a compensating control activity. Segregation of duties is a deterrent to fraud because it requires collusion with another person to perpetrate a fraudulent act.

Effect: Errors and/or fraud could occur and not be detected within a timely period by employees in the normal course of performing assigned duties.

Cause: Shortage of personnel.

Recommendation: Hire and train someone other than the scale house operator to prepare daily deposits, input daily data for reports, process permits, monitor video of the landfill, answer phones and provide a front office presence at the landfill.

Finding 2: The Scale house lacks physical safeguards to protect personnel, cash and equipment.

Condition: We observed that the door to the interior of the scale house where the Operator works is not locked. Also, the Plexiglas has been removed from the window where the truck drivers sign the electronic pad for the scale tickets. The opening is large and allows individuals direct access to the scale house operator.

Criteria: According to the Albany landfill Policy "...it is vital that the scale operator on-duty be free from distractions and have a secure working area." The City has a vested interest to keep the Scale House Operator safe. This person works alone and at times has to tell haulers that they cannot use the landfill.

Effect: A disgruntled hauler or someone else could easily access the scale house and cause harm to the operator.

Cause: The door is not kept locked and the security window has been removed.

Recommendation: Install a security window and keep the door to the scale house locked.

Finding 3: Checks are not secured properly.

Condition: Checks that were received for payment were left on the counter/desk of the scale house operator. In addition, checks received from the previous day's transactions were not secured in a locked bank bag.

Criteria: Once the checks are logged in they should be put in a lockbox/safe.

Effect: The checks could be misplaced, lost or stolen. Checks are vulnerable to fraud.

Cause: There is an assumption that no one would remove a check from the operator's desk.

Recommendation: Immediately log in checks and deposit in a lockbox/safe.

Finding 4: The time keeping system used by the Landfill is outdated and cumbersome and there is no video on the time clock at the landfill whereas there is video on other DGS time clocks.

Condition: DGS/Landfill is currently using an antiquated time clock punch card system for time keeping. DGS payroll clerks enter the data into the AS400/NWS payroll module and the time cards are kept as a record of time worked.

Criteria: A time keeping system with adequate controls should be implemented.

Effect: The current time keeping system can easily be taken advantage of to cover lateness, absenteeism or no show shifts. Anyone can punch any employee's time card. There is no distinct identifier such as a palm/thumb scan. Using time and attendance software allows for more accurate monitoring of employee check-in and check-out times as well as integration of punch clock hardware. A biometric time and attendance system or devices such as fingerprint and retinal scanners allow employees to clock in without the use of time cards and help prevent the occurrence of time card fraud and "buddy punching" (i.e. when one employee clocks in for an absent employee or an employee that has left work before the end of a shift) allowing for paid time off.

Cause: The current system is outdated.

Recommendation: Implement a time keeping system with adequate controls as soon as possible. In addition to more effective controls, an electronic system will better enable DGS to track the job

worked each day so DGS can calculate the costs of work activities. An electronic system would eliminate the need for entry of the time data by clerks. This would address a finding in the 2012 Street Maintenance Audit.

Finding 5: There is a lack of a contingency/succession plan for Scale House Operator.

Condition: The operator does not usually have cover for regular breaks and lunch breaks. When the scale house operator is absent, the substitutes are either one of the two environmental engineers or the Landfill Supervisor. A few of the times that we visited the Landfill no one was present in the office building.

Criteria: The scale house operator should have someone trained as a back-up operator for breaks and time off and also as a contingency in case the regular operator cannot work.

Effect: Coverage for absences of the scale house operator removes either the Landfill Supervisor or an environmental engineer from their regular responsibilities. There are no viable long-term interim operators available.

Cause: A clerical staff position is vacant.

Recommendation: Train someone other than the current operator to run the scale house and schedule that person to operate the scale house on a regular basis.

Finding 6: Some of the times on the time cards were written and were not punched in or out on the time clock.

OAC was unable to determine whether any of the written times were an abuse of DGS's weak timekeeping controls, but many of the written times were verified as valid by the Solid Waste Manager.

Condition: There were 368 incidences of times being written (not punched in on the time clock) for the time period of January 2013 through August 2013. No log is kept to record the reasons for these incidences.

Criteria: The time keeping system should be used to record time worked.

Effect: Allowing employees to handwrite times in or out eliminates the limited control that the current punch card system offers.

Cause: At times employees report to work at other locations than the landfill such as for snow plowing or the snow dock or other ongoing projects. The Friday before a holiday DGS requires that the time cards be sent to the payroll office before the work week is over.

Recommendation: Implement the new biometric time keeping system as soon as possible. An electronic time keeping system would enable employees to "clock in" at any location and would eliminate the need for the physical time cards to be sent to the DGS payroll office because the

data would be transmitted electronically. For the period before the system is implemented, management should implement controls on time keeping for employees who report in to work at locations other than at the landfill, such as keeping a log with the reasons why each time was written or keeping an additional time card at the alternative sites. Management should find an alternative to turning in time cards to the DGS payroll department before the week day is ended. Scanning time cards and emailing them to the DGS payroll clerks may be an option.

Finding 7: Customer credit checks are not made on an annual basis.

Condition: The customer permit files we reviewed did not show evidence of annual credit checks for existing customers.

Criteria: The Scale House Policy states that customer credit checks will be made on an annual basis.

Effect: Loss of income for the City if the customer has any adverse changes in their financial status and is unable to pay landfill charges.

Cause: A clerical position is vacant. Credit checks are done on new customers or when an existing customer requests an increase to a credit limit.

Recommendation: Revisit the City's credit check policy and either revise the Policy or make a plan to comply with the Policy. It should be noted that the additional credit checks would not be expensive or difficult to conduct.

Finding 8: Proof of insurance for the full year was missing from many of the files.

Condition: Proof-of-insurance for the full year was missing from some permit application folders, and other folders contained expired insurance certificates. Insurance certificates are initially provided with the annual permit application.

Criteria: The permit application requires that insurance be procured and maintained throughout the permit year. Current certificates should be provided in the event that a customer making deliveries to the landfill creates a liability exposure while on the site or in cases where potentially responsible parties must be established. By requiring current insurance coverage the City of Albany can assign liability for a specific problem to the customer who caused the problem.

Effect: The City and its insurance could be responsible for an incident that the customer's insurance would normally cover. The City has a \$75,000 deductible on its insurance, so any claim less than that would fall entirely on the City and any claim over that amount could cost the City the entire \$75,000.

Cause: A clerical position at the landfill is vacant, resulting in a clerical backlog.

Recommendation: Send out requests for proof-of-insurance as the customers' insurance expires.

Department Response:

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12/31/14

The City of Albany Department of General Services thanks the City Auditor and his staff for the work on this Audit and accepts the findings of the Report. The Department will, or has, adopted the findings and all recommendations.

Management understands and recognizes the importance of risk minimization and fiscal controls. In that regard, the Department offers the following as specific responses to the Audit Findings:

Finding 1: The Duties of processing transactions, processing receivables and reporting transactions are not adequately segregated.

The Department works directly with the Treasurer's Office in the collection of sums due. The Treasurer's Office utilizes Waste Works for monthly invoicing and debt collection based on the data set provided by the Landfill. Of the approximately \$11 million annual revenue from the Landfill, less than \$100,000 is collected directly at the scale.

As such, the vast majority of the receivables due are collected by an entity outside of the Department of General Services. This segregation of duties provides a significant reduction to the risk of fraud.

To further mitigate the risk of loss due to fraud, the Landfill has had a long standing policy in place that precludes the acceptance of cash for payment. The only forms of payment acceptable are checks, (made payable to the Treasurer) or credit card transactions. Fees collected from these types of transactions are provided to the Office of the Treasurer on a daily basis and reconciled with a report from Waste Works.

In addition, the scale operator's ability to void transactions will be removed. In the event a transaction needs to be corrected, the scale operator will document the corrective action in writing for the Solid Waste Manager to approve and execute.

The scale operator's shift begins 30 minutes before the start of operations. This time is to be used to update reports, update the City server with electronic scale data and create the deposit from the prior

day's activities. The scale operator's ability to delete transactions will be eliminated, providing the necessary segregation of duties to allow the operator to update files and reports. Based on the Recommendations of this Finding, an individual will be employed to authenticate the daily deposit. Until such time, the Solid Waste Manager will review and reconcile the deposit with the day's activity before being sent to the Treasurer's Office.

Finding 2: The Scale house lacks physical safeguards to protect personnel, cash and equipment.

The scale house policy has been amended to include the following:

“(n) The scale operator is in a position whereby he or she is working with the general public and may be in a situation where he or she may have to deny service. As such, the scale operator, in order to maintain a minimum level of personal security, must keep the door to the operator's station locked. In the event of an irate customer that poses a threat, the scale operator is to contact a supervisor and should the situation warrant, the Albany Police Department”

The scale operator's work station is 5 feet away from the customer reception area and separated by a 2' wide counter-top. To re-enforce the security of that area, a 1" thick plexi-glass window has been installed to further limit the customer's ability to access the scale operator.

Finding 3: Checks are not secured properly

Policy #2 (Accounting Practices) has been modified as to include: “All monies and credit card receipts will be placed in the scale house safe immediately following the completion of the transaction”

A drop safe has been installed in the scale house. Once a COD transaction has been completed, the operator is to place the ticket and payment instrument into the drop drawer in the safe. The safe can be only accessed by the Scale Operator or the Solid Waste Manager.

Finding 4: The time keeping system used by the Landfill is outdated and cumbersome and there is no video on the time clock at the landfill whereas there is video on other DGS time clocks.

As per the September 2013 Audit of City of Albany Payroll Operations, the entire payroll accounting system for the Department of General Services requires an upgrade. When that upgrade occurs, the Landfill payroll system will be upgraded as well.

Video surveillance has been in place at the facility for approximately 3 years. A camera has been installed this year over the time clock at the landfill administration office. Video will be used to deter fraudulent acts involving time records. Both the existing and new cameras are used to verify payroll discrepancies. Video will be used to authenticate the arrival and departure times of employees should the accuracy of their time cards be questioned.

Finding 5: There is a lack of a contingency/succession plan for Scale House Operator.

In addition to the Scale Operator, a total of 6 positions at the landfill have been trained in scale house operations (2 Environmental Engineering Technicians, Information Clerk, Environmental Engineering Supervisor, Landfill Superintendent and Solid Waste Manager).

A part time employee will be hired to address the Recommendations found in Finding 1 and here. The Department anticipates implementing this action in the first quarter of 2015.

Finding 6: Some of the times on the time cards were written and were not punched in or out on the time clock.

As per Finding 4, the time keeping system in place has opportunity for fraud. The use of time clocks has not always been available based on project locations (i.e., while working at the Alcove Treatment Plant, the Water Department's system and DGS's systems were found to be incompatible thereby necessitating written time sheets). A universal system will be installed as part of any upgrade to the system used by DGS.

Finding 7: Customer credit checks not made on an annual basis

As per Policy #2 Accounting Practices, Customer Credit Checks, the Department of General Services utilizes Dunn & Bradstreet (D&B) for credit reporting. In addition, experience with the customer will affect credit terms.

Both tools are utilized in the management of default risk. D&B reports are used as a guide for an evaluation of credit risk for a new customer. Customers that do not have credit (but are still required to hold a permit) will not have a D&B evaluation on file.

Customers that have established accounts are monitored on a monthly basis by both the Treasurer's Office and the Landfill (via the monthly issuance and payment of invoices issued by the Treasurer). With the annual renewal of permits, customer account and credit risks are reviewed however that review has not been consistently memorialized. The review includes total late fees assessed, total amount outstanding, & 90 day aging reports. Those reports, in conjunction with D&B evaluations, are used to monitor customer activity. The 2015 permit cycle for credit customers will be memorialized by the customer's permit application, the D&B report & the above mentioned Waste Works reports.

The Landfill has maintained a listing of active permits on an annual basis. The data set includes established credit limits for the year. Those credit limits are established in Waste Works; should a customer exceed those limits, the Scale Operator is notified and then will forward that information onto the Solid Waste Manager for review. To augment that data set, D&B credit limits have been included as part of the documentation /monitoring process.

Finding 8: Proof of Insurance for the full year was missing from many of the files.

Proof of insurance is a requirement for all commercial permit holders. Proof is to be submitted with each application. The issuance and expiration of insurance certificates do not coincide with the expiration of customer permits.

In conjunction with Finding 7, the expiration of insurance will be monitored & updated monthly. In the past, certificates were filed with each permit; in order to simplify filing and monitoring single binder has been established for maintaining insurance certificates. In the event that a lapse of coverage is detected, the customer will be barred from the site until such time that certificate is provided. The Solid Waste Manager will monitor and provide a summary of each customer's insurance status in conjunction with the facility's monthly report. The facility's monthly report is currently distributed to the Mayor's Office, the Commissioner of the Department of General Services, Treasurer's Office, and Office of the City Clerk.