



Memorandum

TO: Terry Piekarz, Municipal Utilities Director
FROM: Bill Greene, City Auditor (X8982)
CC: Andrew Ching, City Manager
Steven Methvin, Deputy City Manager, Chief Operating Officer
Ken Jones, Deputy City Manager, Chief Financial Officer
Rosa Inchausti, Deputy City Manager
DATE: September 28, 2021
SUBJECT: LIMITED REVIEW: Solid Waste Refuse Containers

Purpose

At the request of the Municipal Utilities Director, we conducted a limited review in the following area for the purpose of suggesting potential improvements to internal controls:

Refuse Containers: We focused on controls related to the replacement and monitoring of refuse containers, revenue sources, and reporting.

Background

As part of our annual audit planning process, the City Auditor meets with senior management to discuss emerging risks and areas of concern. Limited Reviews were included as a new component of our FY 20/21 Annual Audit Plan to address some of the concerns raised by management and expand Citywide audit coverage. To conserve audit resources, these reviews are planned and executed using a targeted approach to address specific risks rather than a full-scope audit.

The Container Shop operates out of Priest Yard located at Priest and Rio Salado. Tempe is one of the only cities to utilize an onsite weld shop with dedicated welders to repair its own containers. Tempe additionally sells metals and plastics to recycling plants and maintains three contracts for refuse and recycling containers.

Scope and Methods

The objective of this consulting engagement was to identify additional controls to be considered by management. The work performed does not constitute an audit in accordance with *Government Auditing Standards*. An audit would have required additional steps such as the substantive testing of relevant internal controls, validation of data and information provided to IAO, and additional engagement file

documentation.

We employed the following methods to complete this engagement:

- Identified existing relevant internal controls;
- Interviewed staff;
- Surveyed local jurisdictions for comparable practices;
- Reviewed general ledger reports and supporting documentation.

Results

1. Container Repair and Replacement

Overview of Operations:

To compare business practices in other jurisdictions, we distributed a survey to six localities. Of the four cities that responded, several similarities in COT business practices existed and a few differences were identified. Highlights of the responses are displayed in the following chart.

<u>Practices Consistent with Tempe</u>	<u>Differences</u>
Use Excel to report and track container status	Utility billing system integrated work order program to track repair/replacement of containers
Multiple other cities maintain contracts with the same vendors: Otto and Tank	No dedicated welders with primary responsibility to repair containers
Sell plastics and metals from containers beyond useful life	Contract with a vendor to purchase out of warranty containers from other vendors.
Maintain standby container supply of two or more months	

*Respondents included: City of Scottsdale, City of Mesa, City of Glendale, Town of Gilbert

IAO additionally requested information on any changes to business practices that improved efficiency for these jurisdictions. The responses are shown below:

- Use work requests for residential container repairs to tie route, truck, and driver. This information is used to identify patterns with drivers and equipment for damaged containers. A report runs weekly for work orders.
- Annual reviews of the gripper pressure on residential ASL's to ensure the trucks are not over squeezing the containers causing preventable damage.
- Discontinue the purchase of containers with lid stops and solely purchasing containers from one manufacturer. Lid stops added to lid failures. The switch to one manufacturer helped with container and parts order times, warranty claim issues, and container repair training.

During our review, IAO staff also requested documentation of historical records for

all City container inventory and status. At this time, weekly reports are generated that provide up-to-date information on residential container transactions. The spreadsheet is created using queries from Accela to track work orders. The records provided on front loaders did not demonstrate cumulative information. This spreadsheet is overwritten but can provide information for a specific point in time. Maintaining consistent records of container inventory and container status is an important business practice to evaluate performance metrics and ensure efficient ordering.

Additionally, in the past, welding material purchases were tracked to include specific material breakdown, but the practice has been discontinued. We could also not evaluate the number of Welding labor hours because there is no process for recording welding hours per project. Comprehensive records of project completion hours, materials, and staff assist in providing a wide-ranging outlook of total expense per project. This information can be used to determine effective business practices.

Review of Existing Conditions:

To assess existing conditions, we reviewed data from staff on container statuses. We also interviewed staff to document business processes. We noted the following:

- Welding hours are not accurately and consistently tracked. Total repair and welding expense is also unknown.
- Historical container status and inventory data is not consistently maintained across container type.

Additional Controls to Consider:

1. Develop a system to consistently capture historical data across all container types.
2. Develop a system to track staff welding hours and repair costs.

2. Financial Reporting

Overview of Operations:

The City has a contract with SA Recycling to sell metal products. Solid Waste uses this contract to sell materials that no longer have a useful life. City staff contact the vendor indicating the need for product removal. A date is scheduled for retrieval and the vendor or subcontractor comes to the requested location and removes scrap metal. A ticket is provided including date, driver, materials, and customer signature. The materials are then hauled off for sale and a check is mailed to Solid Waste. The check is reviewed by a supervisor and deposited by a department administrative assistant. In FY 2020/2021, payments from SA Recycling totaled approximately \$4,000.

During our review, IAO staff asked for records of product removal by the vendor. Municipal Utility staff indicated uncertainty of employees responsible, whether records were maintained, and how payments were received. Currently, records of SA Recycling transactions are not being tracked from product removal to payment deposit. Cash receipts are used to deposit the funds and copies of the remittance are maintained; however, there is no follow-up action after a product removal to ensure that payment is received for each transaction. Additionally, reporting from the vendor remittance information includes material and freight in the sale price. Payment received is only for the material tonnage. When IAO asked staff to explain the freight portion and how it relates to the payment, they were unable to provide additional information. Currently, we are unable to confirm payment is in accordance with the contract.

Review of Existing Conditions:

To assess existing conditions, we reviewed data from the City's PeopleSoft Financial system and scrap metal sale tickets for fiscal year 20/21. We also interviewed staff to document business processes. The business processes demonstrated the following characteristics related to financial reporting:

- No monitoring for the SA Recycling contract
- Staff unaware of current internal processes and documentation for contractor product removal.

Additional Controls to Consider:

1. Assign responsibility to a MU employee to oversee and monitor contract.
2. Develop a system to account for SA Recycling transactions including but not limited to:
 - a. Staff responsibilities
 - b. Transaction dates
 - c. Materials received by vendor
 - d. Receipt from product removal
 - e. Payment for materials
 - f. Reconciliation of revenue