

FISCAL AUDIT

**DEPARTMENT OF PUBLIC WORKS
BUREAU OF ENVIRONMENTAL SERVICES - RECYCLING DIVISION**

SOLID WASTE TRUST FUND (SWTF)

Report by the
Office of City Controller

**MICHAEL E. LAMB
CITY CONTROLLER**

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January, 2014



MICHAEL E. LAMB

CITY CONTROLLER

First Floor City-County Building • 414 Grant Street • Pittsburgh, Pennsylvania 15219

January 27, 2014

To the Honorables: Mayor William Peduto and
Members of Pittsburgh City Council:

The Office of the City Controller is pleased to present this report of the Fiscal Review of the **Department of Public Works Solid Waste Trust Fund** conducted pursuant to the Controller's powers under Section 404(b) of the Pittsburgh Home Rule Charter.

EXECUTIVE SUMMARY

The Solid Waste Trust Fund was established in 1990 via Resolution #522 to account for deposit of monies from donations, contributions, or grants related to solid waste management. Establishment of the trust fund authorizes said deposits to be used by Department of Public Works and the Mayor's Office for expenses related to solid waste projects such as training and educational programs, purchase of equipment and services, consultation fees, and construction of or improvements to solid waste facilities.

The firm of Gleason & Associates P.C., Certified Public Accountants and Consultants is engaged by the Intergovernmental Cooperation Authority (ICA) to assist in a city wide review of cash management practices. Some of the findings noted in this report are also mentioned in their department wide assessment of the Department of Public Works Cash Management practices.

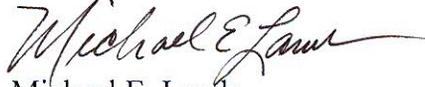
The objective of this review is to determine if the fund is properly accounted for and administered in accordance with Resolution #522. In order to achieve this objective, we performed certain procedures to evaluate the effectiveness and efficiency of the fund's fiscal operations and related internal controls. Our findings and recommendations are based on procedures performed and documents examined.

Our review revealed that opportunities exist to significantly improve internal controls over operations at the Yard Debris Drop off Centers.

Our observations and recommendations are further discussed in the Result section of this report.

We appreciate the cooperation of the staff involved with the management of the fund during the course of our review.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael E. Lamb". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Michael E. Lamb
City Controller

INTRODUCTION

This fiscal review of the Solid Waste Trust Fund was conducted pursuant to the Controller's powers under Article IV, Section 404(b) of the Pittsburgh Home Rule Charter.

SCOPE AND METHODOLOGY

This fiscal review was conducted pursuant to the Article IV, Section 404(b) of the City of Pittsburgh Home Rule Charter. Our procedures covered the period January 1, 2012 to December 31, 2012.

The objective of this review is to evaluate whether the fund is properly accounted for and administered in accordance with Resolution #522. In order to achieve this objective, we performed necessary procedures to gain an understanding of the fund's operations, processes and internal controls. Specifically we:

- Interviewed Department of Public Works personnel involved with the fund to gain an understanding of its operations, processes and internal controls.
- Reviewed procedures regarding operation of the fund and the collection and deposit of recycling revenues.
- Examined supporting documentations relating to revenues and expenditures recorded in the fund.
- Sample invoice testing to verify correct recycling revenue was received and deposited.
- Applied procedures to determine whether expenditures were properly documented, authorized and for allowable purpose as stipulated in Resolution #522.
- Conducted site visits of the Yard Debris Drop off Centers.

OVERVIEW

The Solid Waste Trust Fund (SWTF) was established in 1990 via Resolution #522 to account for the deposit of monies from donations, contributions, or grants related to solid waste management. Establishment of the trust fund authorizes said deposits to be used by the Department of Public Works Bureau of Environmental Services (DPW) and the Mayor’s Office for expenses related to solid waste management such as training and educational programs, purchase of equipment and services, consultation fees, and construction of or improvements to solid waste facilities. The SWTF is administered under DPW Recycling Division, responsible for the implementation of the City’s recycling program. Recycling is mandatory for all city residents, businesses, offices and institution in the City of Pittsburgh per Pittsburgh City code 619 and Pennsylvania (statute) Act 101.

The Recycling Division (the division) provides recycling opportunities in the form of curbside pick-ups, the operation of several drop-off sites, and also oversees recycling at City-owned facilities and at special events. All recyclable materials collected are sold to vendors with whom the City has a contract. The City is paid a rate based on terms stipulated in the contract per type of recyclable material. All revenue generated through the recycling program is accounted for in the SWTF.

Recyclable materials collected from residents, small businesses and offices are delivered to contracted third party vendors in trucks, weighed and sorted into the various types of recyclable materials. The weight of each truck is recorded on a weight slip that is returned to the division, and used to verify accuracy of payments received. The City is paid 80% of the total current market index rate per ton for the type of recyclable materials (less a processing fee of \$65) with the vendor retaining the remaining 20% each month.

DPW operates three Yard Debris Drop off Centers strategically located around the city where residents may drop off their yard debris for recycling. There is no charge for regular cars and SUVs; however larger loads (cars and SUVs with trailers) are charged a fee of \$20, \$30 or \$50 based on size. Residents complete a “Yard Debris Drop off Program” form recording pertinent information such as address (used to verify city residency), driver’s license, and vehicle plate number and provide payment (money orders only) if applicable, made payable to the City Treasurer. Table I below summarizes the total collections from the drop off centers during 2012:

Table #I – Drop off Centers Collections For the Period January 1, 2012 – December 31, 2012	
<u>Division</u>	<u>Amount</u>
2 nd	2,620
3 rd	1,885
5 th	5,585
TOTAL	\$10,090

Three additional unmanned locations are also available for residents, small businesses, restaurants and bars to drop off recyclable materials for free; however yard debris is not accepted at these locations. All payments collected plus completed forms are forwarded to the recycling supervisor weekly or monthly depending on activity level/season.

In addition, DPW receives a Municipal Recycling program grant from the state to aid in promoting recycling that is also accounted in the SWTF. The grant, available every two years is paid to the city on a reimbursement basis for qualifying purchases/expenses related to recycling. The most recent programming grant was approved for the period May 2010 to August 2012 in the amount of \$427,992. A total of \$479,613 in recycling revenue and \$83,527 programming grant reimbursement was deposited in the fund for the period of our review, January 1, 2012 to December 31, 2012 as indicated in Table II below:

Table #II – SWTF Revenue For the Period January 1, 2012 – December 31, 2012	
Recycling Revenue:	
<i>Residential Recycling (Single Stream)</i>	\$ 466,796
<i>Paper</i>	6,175
<i>Scrap Metal</i>	6,642
Grant Reimbursement*	83,527
TOTAL	\$ 563,140

**Reimbursement from state programming grant*

All collections generated through the recycling programs are forwarded to Department of Public Works-Finance who prepares the deposit, stamps the money orders with a “For Deposit Only” and delivers them to the Treasurer’s Office to be deposited into the SWTF. Department of Public Works-Finance maintains a spreadsheet of all payments received which is used to reconcile amounts received to the City’s accounting system. Expenditures charged to the fund in 2012 are as follows:

Table #III – SWTF Expenditures For the Period January 1, 2012 – December 31, 2012	
Vehicles	\$114,907
Disposal/Refuse	34,047
Materials	18,593
Mulching Services	9,769
Workforce Training	788
TOTAL	\$178,104

RESULT

Our procedures did not disclose any significant issue relating to the overall management of the SWTF; however we noted inadequate internal controls at the Drop off Centers operated by the Recycling Division. Although activities at the centers are low volume, low \$, with average annual collection per center at only \$3,363, improved internal controls will ensure all payments collected at the centers on behalf of the City are properly recorded and reported. Effective internal controls not only prevent fraud but also allows for early detection of irregularities. Our findings and recommendations are detailed below:

Finding # 1: Record of Payments Received Not Prepared

Currently there are no records prepared when payments are collected at the Yard Debris Drop off Centers. Completed forms and payments collected at all the three centers are forwarded to the recycling supervisor weekly, however payment records are not retained by the centers. Sound internal control dictates that a record of all incoming payments (receipts) be prepared immediately upon receipt. This is especially important since money orders are not immediately controlled by any proper register device.

Recommendations

Implement procedures necessary to ensure records of payments collected are maintained at each of the drop off centers. This not only reduces the risk of misappropriation but also provides complete records evidencing payments collected are properly recorded and deposited.

Finding # 2: Money Orders Not Restrictively Endorsed Upon Receipt

Money orders received at the drop off centers are not restrictively endorsed upon receipt at the initial point of collection thereby increasing the risk of misappropriation. The current practice is to have all money orders stamped when received by Department of Public Works-Finance, who is responsible for preparing the deposits. All money orders collected at the drop off centers should be immediately endorsed with a "For Deposit Only" stamp indicating the deposit account number. The time lapse between when payments are received and the point at which they are endorsed leaves room for the potential of the funds to be misappropriated.

Recommendations

Implement policy and procedures to require money orders received at the drop off centers be restrictively endorsed upon receipt. Per discussion with DPW management, such stamps have already been ordered and will be put to use upon receipt.

Finding # 3: Receipts Not Issued

Monies collected at the Yard Debris Drop off Centers are not recognized by a written receipt. City residents complete a drop off form and provide payment (if applicable) in the form of money orders to the attendant before dropping off their debris but are not provided with a receipt evidencing funds were collected. Pre-numbered (duplicate) receipts should be issued for all money collected when first received. Original copy should be provided to the customer and the duplicate copy retained, accounted for and used to reconcile to deposit records. DPW may not have considered issuing receipts due to the low \$ nature of the payments. The practice of issuing pre numbered receipts not only provide a written record of all payments collected but also ensure collections are recorded and deposited intact.

Recommendations

Implement policy to require the drop off centers issue pre-numbered duplicate receipts. The duplicate copy is to be retained and used in reconciling deposit records. Alternatively, DPW may consider utilizing pre-numbered drop off forms.

Finding # 4: Drop off Forms not Pre-Numbered

The forms used at the drop off centers are not pre-numbered thereby making it difficult to easily account for the number of city residents that utilize the drop off centers or how much was collected. Use of pre-numbered forms will allow DPW to keep track of activities at the centers.

Recommendations

Utilize pre-numbered forms at the centers to allow for tracking of activities. Copies of the forms should also be retained at each location to allow for identification of activities and payments collected.

Finding # 5: Money Orders not Securely Stored

Money orders collected at the centers are not securely stored pending transfer to the recycling division for deposit. While conducting site visits of the Yard Debris Drop off Centers, we noted payments collected and the completed forms are kept in folders/envelopes in open areas pending transfer to the Recycling Supervisor for deposit. This is a cause for concern considering the open access, pre-numbered forms not utilized, and the fact that money orders are not endorsed at this point and may be held for weeks before deposit due to the low volume of activity.

Recommendation

Ensure all payments collected are securely stored pending transfer to the Recycling Supervisor.

Finding #6: Reconciliations Not Performed

There are no reconciliations performed to agree drop off center collections to the City’s financial accounting system. Although DPW-Finance reconciles their records to the accounting system, a reconciliation is not performed between the Recycling Division, the drop off center records and the City’s accounting financial system. Also, deposit records are not forwarded to the recycling division or to the drop off centers to enable them to verify actual deposits of what was collected. Performing reconciliations to agree deposits records to drop off center records is a good management control practice to ensure accuracy and allow for early detection of errors and/or irregularities especially since there is no direct supervision of the drop off centers by the division.

Recommendation

Reconcile record of payments collected (as recommended per Finding #1) by the drop off centers to deposit records/deposit memo validated by the Treasurer’s Office.

Finding #7: Periodic Review

There is no independent review of the SWTF. Periodic review serves as an important internal control providing independent verification that transactions have been properly recorded, records are accurate and adequate internal controls are in place based on established professional standards.

Recommendation

As discussed with DPW management, the Controller’s office will implement procedures to conduct such periodic reviews of the drop off centers’ operation.