

**BROOME COUNTY  
DEPARTMENT OF  
AUDIT AND CONTROL**

**SCRAP MATERIALS HANDLING PROCESSES AUDIT**

**JULY 2015**

*Alex J. McLaughlin, Comptroller*



# Broome County Department of Audit and Control

Alex J. McLaughlin, Comptroller . Jerry F. Marinich, Chairman of the Legislature

July 28, 2015

Debra A. Preston, County Executive:

The Department of Audit and Control has completed an audit of scrap materials handling processes for the Department of Public Works, the Highway Department, the Parks Department, Solid Waste Management, Public Transportation, Willow Point Nursing Home, and Fleet Management. The principal objective was to ascertain the value of scrap materials generated in various Broome County operations and to assess the controls in place with regard to those processes.

The audit was conducted in accordance with generally accepted auditing standards. Such standards require that the Department of Audit and Control plan and perform the audit to adequately assess the accuracy of the financial records and adequacy of the internal controls, and that we examine, on a test basis, sufficient, competent and relevant evidence to afford a reasonable basis for our conclusions.

Based on the results of our examination, except for the instances noted herein, it is our opinion that the various Broome County Departments have proper processes and controls in place to manage scrap materials.

Sincerely,

Alex J. McLaughlin  
Comptroller

cc: Jerry F. Marinich, Chairman of the Legislature  
Members of the Legislature  
Aaron M. Martin, Clerk of the Legislature  
Daniel A. Schofield, Commissioner of Public Works  
Greg Kilmer, Commissioner of Public Transportation  
Kevin J. Carey, Administrator of Willow Point Nursing Home

**Background:**

The objective of our Audit was to assess the internal controls in place over the sale of scrap materials in various Broome County departments.

We identified the departments likely to be involved with processes that generate valuable scrap materials. The departments we identified were the Department of Public Works, the Highway Department, the Parks Department, Solid Waste Management, Public Transportation, Willow Point Nursing Home, and Fleet Management.

Typical materials scrapped by Broome County departments include tin, aluminum, mixed steel, waste oil, plastics, cardboard, brass, batteries, and automotive parts.

We met with each department for the purpose of determining if scrap materials were properly secured. We also requested and reviewed any written policies and procedures, contracts, and/or bids related to the sale of scrap materials.

Finally, we examined over 400 scrap material transactions and the related supporting documentation totaling \$88,735 in revenue. The majority (64%) of the scrap materials sold came from Solid Waste Management and the least amount of scrap material sales came from Willow Point Nursing Home (.6%).

We thank the staff from the departments listed above for their time and assistance.

**AUDIT FINDINGS, RECOMMENDATIONS AND RESPONSES**  
**- ALL DEPARTMENTS-**

**FINDING 1: DEPARTMENTS SHOULD DEVELOP WRITTEN POLICIES AND PROCEDURES**

During the course of our audit, we assessed written policies and procedures regarding scrap material for the Broome County departments of Fleet, Highway, Parks, Public Transportation, Solid Waste Management and the Willow Point Nursing Home. We noted that Solid Waste Management is the only department with some written policies and procedures concerning scrap materials.

Written policies and procedures help provide reasonable assurance that an organization will achieve its objectives, that assets and resources will be adequately safeguarded and that various functions are being performed by the appropriate personnel and in the proper manner. Written policies and procedures that are in place should be followed and periodically reviewed and updated to reflect any required changes.

Written policies and procedures decrease the risk of loss from errors and irregularities. Maintaining current written policies and procedures helps to inform employees of their duties and responsibilities and also serve as a training resource when employees change jobs or retire.

**RECOMMENDATION:**

We recommend that each department develop and maintain written policies and procedures related to the generation, handling, storage and sale of valuable scrap materials.

As previously noted, Solid Waste Management did provide us with written policies and procedures but they are specific to the process of obtaining quotes for corrugated cardboard, scrap metal, plastic and waste oil. We recommend that Solid Waste Management consider developing detailed written policies and procedures for the collection, handling and record keeping functions related to scrap material.

**MANAGEMENT RESPONSE:**

DPW RESPONSE: As recommended Solid Waste Management amended the written policies and procedures to include procedures detailing the collection, handling and recording of scrap material.

TRANSIT REPSONSE: A set of policies and procedures have been developed.

WILLOW POINT REPSONSE: Willow Point will comply with the recommendations of the audit. Willow Point maintenance will deliver the scrap metal to the County yard and receive a voucher.

**AUDIT FINDINGS, RECOMMENDATIONS AND RESPONSES**

**- SOLID WASTE MANAGEMENT-**

**FINDING 2: ELECTRONICS RECYCLING NONPAYMENT ISSUE SHOULD BE FORWARDED TO THE LAW DEPARTMENT**

During the course of our audit, we reviewed all contracts related to scrap and/or recycling. Throughout 2014, E Waste Systems, an electronics recycling contractor, did not comply with the terms outlined in their contract with Solid Waste Management. The contractor did not pick up end of life electronics from the hazardous waste facility in a timely fashion. In addition, as of the date audit fieldwork was completed, no payment had been received by Solid Waste from the contractor. The contract was for the period 1/1/2014 thru 12/31/2014. At the beginning of March 2015, the contractor was sent an invoice for \$35,031.60 with the total balance due by 3/31/2015.

The Law Department can determine the appropriate action to maximize Broome County's chances of receiving payment.

**RECOMMENDATION:**

We recommend that the Department of Solid Waste Management forward the nonpayment issue with E Waste Systems and appropriate details to the Broome County Law Department to resolve this issue.

**MANAGEMENT RESPONSE:**

DPW RESPONSE: The Division of Solid Waste Management has forwarded this issue to the Law Department and it has been resolved.

**AUDIT FINDINGS, RECOMMENDATIONS AND RESPONSES**  
**- HIGHWAY DEPARTMENT, DEPARTMENT OF TRANSPORTATION-**

**FINDING 3: DOCUMENTATION FOR SCRAP BIN PICK UP SHOULD BE REQUESTED**

During the course of our Audit, we became aware of an issue, at the Highway Department regarding whether or not a payment was received for a scrap bin (roll off) that was picked up by the vendor (Weitsman). We confirmed that the issue was resolved. However, as a result, the Highway Department has modified their procedures to obtain a faxed or emailed copy of the weight slip from the vendor at the time the bin is picked up. We believe this is a useful procedure for all Broome County Departments that have scrap bins periodically picked up by a recycling vendor.

Obtaining some documentation at the point when a vendor picks up a scrap bin improves the collection and recording process for scrap proceeds.

Scrap bins are picked up by vendors relatively infrequently and, if departments have not documented that the scrap has been picked up, there is an increased risk that the employees tasked with recording scrap payments, are unaware of pending payments. In turn, lost or late payments can go undetected.

**RECOMMENDATION:**

We recommend that departments that have scrap bins periodically picked up obtain some form of documentation at the time of pick up to facilitate the collection and recording of revenues related to scrap materials.

**MANAGEMENT RESPONSE:**

TRANSIT REPSONSE: We have incorporated into our policy a procedure for obtaining a receipt or providing documentation (receipt) at the time the scrap is picked up by the vendor.

**AUDIT FINDINGS, RECOMMENDATIONS AND RESPONSES  
- SOLID WASTE MANAGEMENT-**

**FINDING 4: REQUEST FOR SCRAP METAL QUOTES SHOULD BE MORE SPECIFIC**

During the course of our Audit, we reviewed Solid Waste Management's quarterly requests for scrap metal quotes. We noted that the letter requesting the quote(s) is designed for a potential vendor to provide a price "per ton". We also noted that the quoted price for three of the four quarters was designated as price "per ton". However, the 3<sup>rd</sup> quarter of 2014 price quoted by the vendor includes the abbreviation GT (gross ton), which is a unit of measurement that equals 2240 lbs. as opposed to a 2000 lb. ton (a net ton). A gross ton (2240 lbs.) is a common unit of measurement used in the scrap business. Considering that "per ton" has two potential definitions, the letter requesting the price quote is not sufficiently detailed.

As a best practice, requests for quotes should be sufficiently detailed as to minimize the risk of potential misunderstanding.

The distinction between prices based on a gross ton (2240 lbs.) or a net ton (2000 lbs.) is necessary to reduce the risk of inaccurate payments and/or disagreements over amounts paid for scrap material.

**RECOMMENDATION:**

We recommend that the Department of Solid Waste Management specify either gross ton or net ton in the letter requesting quarterly bids.

**MANAGEMENT RESPONSE:**

DPW RESPONSE: The quote request form was amended to specify net ton when requesting quarterly quotes. The County scale software system is set-up to weigh using net tons.

**AUDIT FINDINGS, RECOMMENDATIONS AND RESPONSES  
- SOLID WASTE MANAGEMENT-**

**FINDING 5: QUOTED PER TON PRICE DOES NOT MATCH AMOUNT INVOICED AND PAID**

As previously mentioned, we reviewed the Department of Solid Waste Management's 2014 quarterly requests for quotes for scrap metal. Additionally, we compared the quoted price per ton to the price invoiced by Solid Waste Management and subsequently paid by the vendor. Three (3) of the four (4) quotes we reviewed matched the per ton price invoiced and subsequently paid by the vendor. However, the third (3) quarter amount invoiced and paid did not match the quoted price.

The amounts invoiced and paid by the vendor should equal the agreed upon price.

The agreed upon price of \$251 per gross ton (2240 lbs.) converts to \$224 per net ton (2000 lbs.). Solid Waste Management billed the vendor \$270.00 per net ton. Considering the 8.44 tons scrapped and the price variance, the vendor was overbilled by \$388.18. The bill was paid in full on November 4, 2014.

**RECOMMENDATION:**

We recommend that the Department of Solid Waste Management insure that all future billings match applicable price quotes.

**MANAGEMENT RESPONSE:**

DPW RESPONSE: Reiterated to staff the need to verify that billing and quote prices match before issuing invoice.

**- WILLOW POINT NURSING HOME-**

**FINDING 6: SCRAP TRANSACTIONS SHOULD BE PAID BY VENDOR CHECK**

During the course of our Audit, we reviewed both supporting documentation and the applicable general ledger entry for all scrap transactions that occurred in 2014. We noted that Willow Point Nursing Home accepted cash payments for the six transactions that were booked during 2014.

Internal controls over scrap material would be enhanced by requiring that all scrap proceeds be paid by check.

Requiring payment by check helps ensure scrap sale proceeds are correctly deposited in the bank, recorded in the cash receipt records and only spent through the budgetary process subject to the County's controls over expenditures.

**RECOMMENDATION:**

We recommend that Willow Point Nursing Home, require payment for scrap proceeds to be made by check.

**MANAGEMENT RESPONSE:**

WILLOW POINT REPSONSE: Willow Point will comply with the recommendations of the audit.

## **FINDING 7: COUNTY WOULD BENEFIT BY INCLUDING MORE DEPARTMENTS IN SOLID WASTE MANAGEMENT'S SCRAP METAL QUOTES**

During the course of our Audit, we reviewed contracts, letter agreements and quarterly quotes related to corrugated cardboard, recyclable plastic, scrap metal and waste oil. We noted that, as it relates to mixed steel scrap, other departments are not included in the letter requesting quarterly price quotes for Solid Waste Management. As a result, amounts paid to these Departments ranged from 30% - 40% lower than those paid to Solid Waste.

A request for quotes increases the potential for competitive bidding and in turn, should result in a higher price.

Including, other departments in the request would, overall, increase scrap revenue. We compared the 2014 price received by the Highway Department and the Transit Department to the quarterly price quoted to the Department of Solid Waste Management. If the Highway department (67,040 lbs. of mixed steel scrapped) and the Transit department (8,060 lbs. of mixed steel scrapped) were paid the same quarterly prices quoted to Solid Waste Management Department, revenue would have increased \$3,752 for 2014.

### **RECOMMENDATION:**

We recommend that the departments that currently scrap mixed steel investigate the possibility of being included in the quarterly quote process used by Solid Waste Management.

### **MANAGEMENT RESPONSE:**

DPW RESPONSE: The division of Solid Waste can include additional departments into the quarterly quote process, but additional information is needed such as the average tonnage generated by each location. Because some locations will have a low quantity of scrap metal it may be more advantageous for small generators to bring the material to the landfill directly and the Division of Solid Waste will include it with our scrap metal and haul it to the vendor. Each department will be weighed-in and receive a scale ticket with the quantity of scrap metal brought to the landfill for recycling. This will allow for tracking to accurately distribute revenue back to each department and provide the departments with a way to cross check the tonnage and associate revenue.

TRANSIT REPSONSE: We feel that this is not a feasible option for us as we do not own the dumpster or have the equipment to be able to move the dumpsters or content of the dumpster like Solid Waste can do. Any cost savings would likely be eaten up by labor and trucking costs. We have a contract for the Sale of Scrap that provides a dumpster to us for our use.

WILLOW POINT REPSONSE: Willow Point will comply with the recommendations of the audit.

**AUDIT FINDINGS, RECOMMENDATIONS AND RESPONSES  
- FLEET MANAGEMENT-**

**FINDING 8: DEPARTMENT OF FLEET – SCRAP TRANACTIONS UNABLE TO BE IDENTIFIED OR VERIFIED**

During the course of our audit, we identified all departments that could potentially have scrap materials. We also reviewed the general ledger scrap revenue accounts for those departments. We noted that the Department of Fleet shows no revenue in the general ledger revenue account(s) from scrap transactions. Further inquiry revealed that, according to Department of Public Works personnel, the Fleet department's scrap material is included with the division of Buildings and Grounds scrap transactions. Since weight slips for scrap transactions identify scrap as being received from the Department of Public Works, we were not able to identify or verify Fleet scrap transactions.

Without the ability to separately identify scrap material transactions for the Fleet department, management cannot provide reasonable assurance that Fleet scrap materials are taken to the scrap vendor and that sales proceeds are deposited as revenue in Broome County's bank account.

If management cannot be reasonably certain that Fleet's scrap materials are delivered to the vendor or that Fleet's sales proceeds are deposited in the bank, the opportunity for fraud exists.

**RECOMMENDATION:**

We recommend that management separately account for the Department of Fleet's scrap material sales and periodically review the transactions and supporting documentation.

**MANAGEMENT RESPONSE:**

None.

## **FINDING 9: VENDOR SUPPLIED ROLL OFF BIN PREFERABLE**

During the course of our audit, we noted that Solid Waste Management, the Department of Fleet, and Willow Point Nursing home all deliver their own scrap metal to the vendor. Solid Waste Management is uniquely suited to weigh and deliver their own scrap to a vendor. For the departments of Fleet and Willow Point Nursing home a vendor supplied (roll-off) bin would be the preferred method for discarding scrap.

Based on the bid prices we reviewed for Solid Waste Management, the difference in cost between delivering your own scrap to the vendor and having the vendor supply and periodically pick up the bin would be minimal (\$10 per gross ton based on bid prices).

Factoring in the cost of employees' time and County vehicle wear and tear, having the vendor supply and pick up scrap bins should, at a minimum, be cost neutral.

Broome County would benefit by saving the employees' time. Additionally, having a vendor responsible for picking up scrap materials would reduce the risk of scrap being diverted.

### **RECOMMENDATION:**

We recommend that management for the department of Fleet and Willow Point examine the possibility of having a vendor supply and periodically pick up scrap bins.

### **MANAGEMENT RESPONSE:**

WILLOW POINT REPONSE: Willow Point will comply with the recommendations of the audit.

## **AUDIT FINDINGS, RECOMMENDATIONS AND RESPONSES - ALL DEPARTMENTS-**

## **FINDING 10: SCRAP MATERIAL REVENUE NOT PROPERLY CLASSIFIED**

During the course of our audit, we looked at all general ledger transactions associated with the sale of scrap materials. Six different revenue accounts were used to record sales of scrap materials. The accounts used in 2014 included; Unclassified Revenue (5000533), Other Local Government's Revenue (5000189), Minor sales- Public Works (5000516), Miscellaneous Revenue (5000165 and 5000431), and Sale of Scrap and Excess Materials (5000510). Scrap material revenue would be correctly classified in the Sale of Scrap and Excess Materials account (5000510).

Proper revenue classification allows management to more easily review and monitor scrap material sales.

The ability to periodically review scrap material transactions allows management to be alerted to a failure in the processing of transactions.

**RECOMMENDATION:**

We recommend that all revenues associated with the sale of scrap materials be recorded in account 5000510- Sale of Scrap and Excess Materials.

**MANAGEMENT RESPONSE:**

DPW RESPONSE: Solid Waste already does record the sale of scrap metal in account 5000510- Sale of Scrap and Excess Material.

TRANSIT REPSONSE: We are using the recommended account (5000510-Sale of Scrap and Excess Materials) when receiving revenue associated with the sale of Scrap Materials.

WILLOW POINT REPSONSE: Willow Point will comply with the recommendations of the audit.

**AUDIT FINDINGS, RECOMMENDATIONS AND RESPONSES  
- ALL DEPARTMENTS-**

**FINDING 11: REVENUES NOT POSTED TIMELY TO LEDGER**

During the course of our audit, we compared the date on the vendor check to the date the scrap material revenue was posted in the general ledger. We noted that there were 20 instances when the lag time between the check date and the recording of the transaction was 10 days or more.

Good internal controls include minimizing the time elapsed between receiving monies, depositing monies in the bank and recording the monies in the accounting records.

Promptly recording transactions increases their relevance, value and usefulness to management.

**RECOMMENDATION:**

We recommend that all departments collecting revenue for scrap materials reduce the time elapsed between receiving the revenue and recording the transaction in the accounting records.

**MANAGEMENT RESPONSE:**

DPW RESPONSE: Reviewed procedure for receiving revenue and recording the transaction in the accounting records with staff.

TRANSIT REPSONSE: We typically deposit any revenue received into the department within the day of which it is received unless there are extenuating circumstances. We will make sure we are complying with the request of timely posting of the revenue to the ledger.

WILLOW POINT REPSONSE: Willow Point will comply with the recommendations of the audit.