

## **AUDIT COMMITTEE - (JUNE 19, 2007)**

### **INTERNAL AUDIT REPORT OF WASTE MANAGEMENT-PUBLIC WORKS**

#### **Recommendation**

The City Auditor recommends :

That the Internal Audit Report of Waste Management-Public Works be received.

#### **Economic Impact**

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The implementation of corrective actions in the audit report will have a positive impact on the operation; some impact will be economic and measurable while others may not be measurable. Other benefits will be improvement in risk management, control and governance. Internal Audit adds value to all areas of City activity which are audited.

#### **Communications Plan**

Not Applicable

#### **Purpose**

To present to the Audit Committee, the Internal Audit Report of Waste Management-Public Works.

#### **Background - Analysis and Options**

The audit was part of the Internal Audit Plan for 2006.

The internal audit report is provided as an attachment. The report explains the definition and objective of internal auditing as well as the scope of internal audit work. The report includes the observations of the auditor, the implications, the auditor's recommendations, the commissioner's response for corrective actions and the auditor's response to the corrective actions.

#### **Relationship to Vaughan Vision 2007**

This report is consistent with the priorities previously set by Council and the necessary resources have been allocated and approved.

#### **Regional Implications**

Not applicable

### **Conclusion**

1. The commissioner and director of the department/operation audited, have responded favourably to all observations and recommendations in the Internal Audit Report.
2. When all corrective actions are implemented, internal controls will be improved, the quality of performance in carrying out assigned responsibilities will be enhanced, the department/operation will operate more effectively and efficiently and the Internal Audit department will have added value to the organization and assisted members of the organization in the effective discharge of their responsibilities.

### **Attachments**

1. Internal Audit Report of Waste Management-Public Works

### **Report prepared by:**

Michael Tupchong, CA, CIA, CPA, CFE  
City Auditor

Respectfully submitted,

Michael Tupchong, CA, CIA, CPA, CFE  
City Auditor

Attachment 1

May 1, 2007

Michael DeAngelis  
City Manager  
City Of Vaughan  
2141 Major Mackenzie Drive  
Vaughan, Ontario  
Canada L6A 1T1

Dear Michael DeAngelis,

**Re: Internal Audit of WASTE MANAGEMENT- PUBLIC WORKS**

I have completed the internal audit of WASTE MANAGEMENT-PUBLIC WORKS as of April 20, 2007. This audit was conducted in accordance with the 2006 Audit plan.

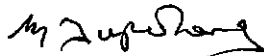
A follow-up letter will be sent to the auditee, 30 days from the date of this Internal Audit Report, requesting the status of Corrective Actions as noted in this report. Subsequent follow-up letters may be sent until all Corrective Actions have been satisfactorily implemented.

I would like to thank Commissioner Bill Robinson, Director Brian Anthony and Manager Caroline Kirkpatrick and their staff for accommodating me and providing me with unrestricted access to all staff and information during the audit.

I have exercised independence, objectivity and due professional care in accordance with the Standards for the Professional Practice of Internal Auditing.

The Internal Audit Department is committed to adding value, providing continuous improvement recommendations and professional service to the whole organization.

Sincerely,



Michael Tupchong CA, CIA, CPA, CFE  
City Auditor

cc: B. Robinson C. Harris B. Anthony C. Kirkpatrick

**INTERNAL AUDIT REPORT**  
**WASTE MANAGEMENT-PUBLIC WORKS**

**INDEX**

<b><u>Heading</u></b>	<b><u>Page No.</u></b>
• Definition, Objective and Scope	2
• Follow-up on Corrective Actions	3
• Blue Boxes, Green Bins, Kitchen Collectors and Taxes	4
• Residential Development Agreements-Schedule I	6
• Reconciling Garbage Tag Sales	8
• Recycling Revenues	10
• Credit Cards	11
• Counter Sales	12
• Conclusion	15

**INTERNAL AUDIT REPORT**  
**WASTE MANAGEMENT-PUBLIC WORKS**

**DEFINITION, OBJECTIVE AND SCOPE**

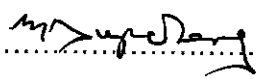
1. **Definition:** Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
2. The **objective** of Internal Auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, Internal Auditing furnishes them with analyses, recommendations, counsel, and information concerning the activities reviewed. The internal audit objective includes promoting effective control at reasonable cost. In the end, Internal Audit is focussed on continuous improvement of the organization.
3. The **scope** of Internal Auditing encompasses the examination and evaluation of the adequacy and effectiveness of the organization's system of control and the quality of performance in carrying out assigned responsibilities. The Internal Auditors are concerned with any phase of City activity. The scope of Internal Auditing includes:
  - Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
  - Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations, which could have a significant impact on operations and reports, and should determine whether the organization is in compliance.
  - Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
  - Appraising the economy and efficiency with which resources are employed.
  - Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
  - Reviewing the identification of risk exposures and use of effective strategies to control them.
  - Reviewing specific operations at the request of the Audit Committee or City Manager, as appropriate.

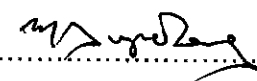
**INTERNAL AUDIT REPORT**  
**WASTE MANAGEMENT-PUBLIC WORKS**

**FOLLOW-UP ON CORRECTIVE ACTIONS**

1. It is extremely important that all Corrective Actions as stated in this Internal Audit Report are implemented as soon as possible.
2. The Internal Audit Department will perform regular follow-ups, the first being 30 days after the date of the letter to the City Manager, followed by subsequent 30 days until all Corrective Actions have been satisfactorily implemented. Follow-up audits may be done to verify the reported implementation.
3. The Corrective Actions will ensure that the deficiencies as raised by the Auditor will be addressed. After all Corrective Actions have been implemented, there will be improvement in the effectiveness of risk management, control, and governance processes. The department will operate more efficiently and effectively. Members of the organization will also have discharged their responsibilities.
4. At the discretion of the Commissioner/Director, this report may be distributed to the appropriate staff members under their jurisdiction. Deficient items which could be common across the organization should be globally addressed. Further consideration should be given to revise/update current policies and procedures, as deemed necessary.

**End of Field Work:** April 20,2007

**Auditor(s):** Michael Tupchong.....**Signature:** 

**Approved:** 

**INTERNAL AUDIT REPORT**  
**WASTE MANAGEMENT-PUBLIC WORKS**

**BLUE BOXES, GREEN BINS, KITCHEN CONTAINERS AND TAXES**

**Observations**

1. It was observed that the current practice is that no GST is charged to customers on the sale of Blue Boxes because the department was informed (incorrectly) that if the sale price does not exceed the municipality's cost by more than a \$1, then no GST should be charged. Approximately 2,620 Blue Boxes were sold in 2006 at \$6 each for a revenue of approximately \$15,720.
2. On the sale of Green Bins, GST is charged as the sale price exceeded the municipality's cost by more than \$1.
3. On the sale of Kitchen Collectors, GST is charged as the sale price exceeded the municipality's cost by more than \$1.
4. No GST is charged on the sale of Backyard Composters, as the City subsidizes the cost of these units by approximately \$10/unit. Council approved subsidizing the sale of backyard composters via a report submitted to the Committee of the Whole in 2002 entitled "Steps to Increase Waste Diversion".
5. No PST is charged on the sale of Blue Boxes, Green Bins, Kitchen Collectors or Composters.

**Implications:**

There has been an incorrect application of GST and PST rules.

**Recommendations:**

It is recommended that:

1. GST should be charged on the sale of Blue Boxes as we are selling them at more than our direct cost even though the margin is less than \$1.
2. PST should be charged on the sale of Blue Boxes, Green Bins, Kitchen Collectors as these are taxable goods purchased for re-sale.

**Corrective Actions (Commissioner Bill Robinson Response)**

Notwithstanding previous directives from Finance with respect to the application of taxes on these items, the Public Works Department will implement the requisite taxes on waste containers sold through the Public Works Department.

**INTERNAL AUDIT REPORT**  
**WASTE MANAGEMENT-PUBLIC WORKS**

**Auditor's Response to Corrective Action:**

The corrective actions will ensure that the appropriate taxes are charged and remitted to the Government.



**INTERNAL AUDIT REPORT**  
**WASTE MANAGEMENT-PUBLIC WORKS**

**RESIDENTIAL DEVELOPMENT AGREEMENTS - SCHEDULE I (WASTE MANAGEMENT CONTRIBUTION ss 21.1.4)**

**Observations**

1. On Schedule I, there is an item which is called "Waste Management contribution" as per Subsection 21.1.4. The developer is charged for Blue Boxes, Green Bins and Kitchen Collectors. These containers are not given to the developer. The purchasers of housing units are required to come to the Public Works office with proof of property purchase and occupancy date (i.e. Terrior Agreement) to receive these containers for free.
2. Currently, no GST is charged for Blue Boxes in error. GST is charged for Green Bins and Kitchen Collectors. No PST is charged for all of these containers in error.
3. The Building Standards department produces a monthly List of New Occupants. This report is used by the Front Desk Clerks to verify new occupants of housing units purchased from the developer.
4. There are frequent occurrences where the resident/customer did not bring proof of property purchase or occupancy date and has to return with them before they are given their free containers. Other residents may not qualify for free containers but would like one anyway. This results in numerous verbal abuses by irate customers, as they are refused free containers.

**Implications**

There are some confrontations at the front desk between disappointed customers and the Front Desk Clerks who are ensuring that free recycling containers are only given to people who have purchased property from the developer and can prove the date of occupancy.

**Recommendations**

It is recommended that:-

The "Waste Management Contribution" Clause should be removed from Schedule I. The developer is then not charged for the recycling material. Instead, there should be a clause in the Purchase and Sale Agreement which states that recycling material can be purchased at the Public Works department at the market rate. With this in place, every resident who needs recycling material will have to purchase it without exception. This would avoid having to prove eligibility for free containers. This will avoid confrontations at the front desk. The department would charge the appropriate taxes (addressed in another observation). This will meet Councils' approval of "full cost recovery".

**INTERNAL AUDIT REPORT**  
**WASTE MANAGEMENT-PUBLIC WORKS**

**Corrective Action(s) (Commissioner Bill Robinson Response)**

The process currently in place is in keeping with a council directive to have full cost recovery and the aforementioned processes have been approved by council. Currently staff have developed a new occupancy data base that will address this issue in the short term. The Public Works Department is working with the Information Technology Management Department to develop a long term solution with the intent to create a system that is less problematic.

**Auditor's Response to Corrective Action(s)**

The Corrective actions will address the issues raised in the short term until a long term solution has been developed with the Information Technology Management Department. This will be followed up by Internal Audit.

**INTERNAL AUDIT REPORT**  
**WASTE MANAGEMENT-PUBLIC WORKS**

**RECONCILING GARBAGE TAG SALES**

**Observations**

1. The auditor requested that a reconciliation be done for the period from the commencement of garbage tag sales (November 2006) to end of January 2007 (3 month period) to verify sales of garbage tags for all community centres to actual cash received.

**The result** : \$25,890 (2,589 sheets of garbage tags) were sold based on inventory given to 7 community centres. Total cash received was \$25,840, resulting in a small difference of \$50 (Father Ermanno -\$10; Al Palladini -\$10, Maple -\$40; Dufferin-Clarke +\$10).

2. It was observed that refunds were being done for garbage tag sales at the City's community centres, contrary to department procedures.

**Implications:**

The monthly reconciliation involving inventory, tags issued and sold, will verify sales with cash received and highlight any differences.

**Recommendations:**

1. It is recommended that a monthly inventory reconciliation should be done on the 1<sup>st</sup> of each month for each community centre as well as Civic Centre and the Joint Operation Centre.
2. Refunds should not be made for garbage tags as these sales are "final" as per the procedures posted on the City's website and the City's waste/recycling collection calendar.

**Corrective Actions: (Commissioner Bill Robinson Response)**

1. The Public Works Department has implemented monthly reconciliation procedures as it relates to the sale of garbage tags at community centres, the Civic Centre and the Joint Operations Centre.
2. In February 2007, a notice was sent out to all community centres (front office staff personnel) reminding them that refunds are not permitted from the sale of garbage tags.

**INTERNAL AUDIT REPORT**  
**WASTE MANAGEMENT-PUBLIC WORKS**

**Auditor's Response to Corrective Action:**

The corrective actions will ensure that there is control over sales, inventory and revenue of garbage tags.

**INTERNAL AUDIT REPORT**  
**WASTE MANAGEMENT-PUBLIC WORKS**

**RECYCLING REVENUES:**

**Observations:**

1. Based on the subdivision agreements, payments are received by the Capital and Reserves Department for numerous fees including Waste Management fees on Schedule I.
2. For 2006, a total of approximately \$44,000 in 15 different amounts was received. The Engineering Department supplies the information to the Capital and Reserves Department which makes out the receipt for the cheque received, and forwards the cheque and receipt to the central cashier for deposit. The amounts are posted to the General Ledger account of Waste Management. However, Public Works needs more supporting documentation to reconcile the incoming monies to the corresponding funds that should be collected via the development agreements (i.e. name of agreement, date of payment, number of residential units applicable).

**Implications:**

The Waste Management Department currently receives no supporting information relating to the revenues credited to their General Ledger account. Therefore they cannot reconcile what has been received and what should be received.

**Recommendations:**

It is recommended that the Engineering Department should send copies of the Schedule I, together with the name of the subdivision and the 19T number to the Waste Management Department so that the Manager of the department is aware of the amounts to be credited to their General Ledger accounts and whether the amounts are complete.

**Corrective Actions (Commissioner Bill Robinson Response)**

The Public Works Department will work with the Engineering Department to send copies of the Schedule I, together with the name of the subdivision and the 19T number to the Waste Management Department. This will ensure that the necessary information concerning monies received via residential subdivision agreements is forwarded to the Public Works Department in a timely and continuous manner.

**Auditor's Response to Corrective Actions:**

The corrective actions will provide the Waste Management department with the necessary information concerning monies received via residential subdivision agreements which are credited to their General Ledger account.

**INTERNAL AUDIT REPORT**  
**WASTE MANAGEMENT-PUBLIC WORKS**

**CREDIT CARDS – MasterCard**

**Observations**

The department accepts credit cards for payment from Visa and Amex, but not MasterCard. Many customers may only have MasterCard or prefer to use MasterCard and therefore are unable to pay with this card. They have to pay through alternative means and are not always pleased with this and question why MasterCard is not accepted.

**Implications**

A major credit card like MasterCard is not accepted as a method of payment, yet Visa and Amex are. This limits payment options for the customer and makes some of them confrontational.

**Recommendations**

It is recommended that:

As MasterCard is a major player in the credit card industry, it should also be accepted to provide a wider option of payment for customers. This will avoid confrontation with customers and will enhance customer service.

**Corrective Actions (Commissioner Bill Robinson Response)**

Since the audit was performed, the Public Works Department has incorporated MasterCard as an acceptable payment option for goods and services sold at the Public Works counter.

**Auditor's Response to Corrective Actions:**

The recommendation has been implemented.

**INTERNAL AUDIT REPORT**  
**WASTE MANAGEMENT-PUBLIC WORKS**

**COUNTER SALES**

**Observations:**

It was observed that three different payment systems are used in the Public Works Department. The current payment systems are used for various products and service offered by the Public Works Department. The type of payment and the type of product / service the resident / builder is buying dictates the type of payment system that will be used.

The three different payment structures used by Public Works have been developed over time to respond to the needs and various functions within the department. The varied functions include water / waste water (i.e. water meters); waste management (i.e. waste containers, garbage tags) and construction services (i.e. curb cuts, service connections). Depending on the type of product / service, work order forms or application forms are to be generated and the corresponding payment must tie back to the application number or work order number.

The payment systems are apportioned off to different clerks (maintenance, use and reconciliation) because the Public Works Department does not have adequate staff coverage to dedicate someone solely to receive payments at the front counter and via phones.

An overview of the current system is as follows:

**1. Cash Register:**

- ***Maintenance:*** Used by several front office clerks. Maintained (programming etc.) by Waste Management staff.
- ***Reconciliation:*** Designated staff person responsible for reconciliation (Clerk Typist D). Reconciliation done daily. No formal back up.
- ***Use:*** The cash register was purchased (November 2006) only as a temporary solution to address the excessive use of cash receipts (and therefore a considerable amount of time to complete the handwritten cash receipts) that were being used for waste containers. As such, the cash register is only used for cash payments of waste containers (kitchen containers, blue boxes, composters) and garbage tags.

**2. Cash Boxes (2):**

- ***Maintenance:*** Used and maintained by two designated clerks.
- ***Reconciliation:*** The clerks are responsible for reconciliation of their own cash box. Reconciliation done weekly by Water/Waste Water - Clerk Typist Ds.
- ***Use:*** The cash boxes are used for cash / cheque payments for water meters, curb cuts and appliance pick-up requests. Appliance payments require a cash receipt to be completed – which identifies the work order number. All non waste

**INTERNAL AUDIT REPORT**  
**WASTE MANAGEMENT-PUBLIC WORKS**

cash payments use a copy of the application form and therefore do not need a cash receipt. All of these products / services have a service order number or application number attached to them and therefore cannot be entered into the cash register, as the cash register is not capable of affixing a work order number or reference number to the payment.

**3. Swipe Machines ( Credit and Debit Card Payments)**

- **Maintenance:** Used by several front office clerks as well as water / waste water clerks.
- **Reconciliation:** Designated staff person (Works Clerk) responsible for reconciliation. Reconciliation done one to two times a week and is fairly time consuming.
- **Use:** Used for all Public Works Visa, American Express and Direct Debit payments. This would include water meters, appliances, curb cuts, blue boxes etc. 85-90% of payments that go through the swipe machines are for appliances. The swipe machine permits the staff person to enter a work order or application number into the machine. The receipts generated from the swipe machines are affixed to either the application or work order.

The manner in which payments are made, not only for waste containers, products and services but other public works services such as curb cuts, water meters etc, is deemed piece-meal. It lacks significant efficiencies in terms of reconciliation processes and does not maintain any inventory control mechanism, where required.

It is acknowledged by management staff that the current payment processes are not ideal and as such they have been working with ITM to implement a "CLASS" system, or a similar program that would meet the needs of the department. The "CLASS" system is presently used with good success by the Recreation and Culture department.

**Implications:**

The current payment processes do not address the long term needs of the department and are not addressing the payment systems in a department-wide (or City-wide) fashion. Some of the processes currently in place are time consuming.

**Recommendations:**

1. It is recommended that that Public Works Department be fast-tracked for the immediate implementation of the "CLASS" system (or a system similar to CLASS). The implementation of the "CLASS" system will permit the streamlining (and resulting efficiencies) of the three current payment structures and allow for an inventory control mechanism where required.
2. To optimize the payment system, it is necessary that a work order be generated automatically with the purchase of goods or services. It is acknowledged that the



**INTERNAL AUDIT REPORT**  
**WASTE MANAGEMENT-PUBLIC WORKS**

use of "CLASS" will still require staff members to be assigned to administer their specific areas of responsibility.

3. The "CLASS" system will replace the current cash register, the cash boxes and the swipe machines.

**Corrective Actions (Commissioner Bill Robinson Response)**

The Public Works Department has been working with IT on this undertaking since September 2006. There are discussions ongoing with respect to assessing point-of-sale applications on a City-wide basis as the preferred system would involve all departments that have, or require, point-of-sale systems. It is conceivable that such an undertaking could take several years. In the interim, Public Works staff will continue to work with IT to implement a CLASS or CLASS-like system to improve efficiencies and customer service.

**Auditor's Response to Corrective Actions:**

The department will continue with its current methods until the implementation of the CLASS or CLASS-like system. The progress will be followed up on a regular basis with the Waste Management Department by the Internal Audit department.

**INTERNAL AUDIT REPORT**  
**WASTE MANAGEMENT-PUBLIC WORKS**

**CONCLUSION**

1. The Commissioner and Director have responded favourably to all findings and recommendations in the Internal Audit Report.
2. When all corrective actions/recommendations are implemented, internal controls will be improved, the quality of performance in carrying out assigned responsibilities will be enhanced, the department will operate more effectively and efficiently and the Internal Audit department will have added value to the organization and assisted members of the organization in the effective discharge of their responsibilities.