



Internal Audit Report

Public Works Scrap Recycling Review



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Auditor's Conclusion

June 14, 2023

Internal Audit has completed Public Works Scrap Recycling Review. We conducted this engagement as an addition to our 2023 audit plan.

The audit objective was to determine if adequate controls exist around scrap recycling within Public Works.

To this end, Internal Audit:

- Performed a cash count,
- Reviewed procedures,
- Reviewed processes,
- Interviewed employees,
- And applied other steps as necessary.

Internal controls consist of all the measures taken by management to:

- Protect its resources against accidental loss, waste, fraud, and inefficiency;
- Ensure the completeness, accuracy, timeliness, and reliability of accounting and operating data;
- Ensure compliance with federal, state, and local laws; regulations; and internal policies and procedures;
- Promote efficient and effective operations; and,
- Monitor the achievement of management's goals and objectives.

Based on the results of our engagement procedures, we conclude that adequate controls do not exist and funds cannot be accounted for. We have detailed our issues and recommendations in the Issue Details section of this report.

Michelle Crawford

Michelle D. Crawford, M.Acct., CIA, CFE, CRMA
City Auditor

Audit Profile

Audit Team

Michelle Crawford, M.Acct., CIA, CFE, CRMA – City Auditor

Sheree Van Buren, CIA, CFE – Senior Internal Auditor

Scope

All records that exist and were available to us.

Background

The Office of Internal Audit received concerns regarding the Traffic Section scrap recycling process and how cash proceeds were handled. This engagement was designed to identify and address any concerns with the scrap recycling process.

The Public Works Department recycles scrap materials regularly. Two divisions within Public Works recycle scrap materials: the Traffic and Streets sections. Our review primarily focused on the Traffic section. The Traffic section recycles broken and out-of-date equipment and materials, such as traffic signals, traffic signs, and other materials.

The Streets section primarily recycles broken equipment. We reviewed their process and found no evidence that they were receiving cash for recycling. We did not perform any additional work related to the Streets section.

The Appendix includes two process maps documenting the Traffic section scrap recycling process according to employee interviews. The first process map reflects the prior recycling process when cash was received, and the second process map reflects the current process.

Findings and Recommendations

Issue 1 – Cash is unaccounted for

We cannot account for at least \$2,846.91 in cash and \$460.22 in checks from recycling City materials. Two employees in Public Works Traffic received \$2,961 in cash proceeds from All North Recycling for scrap materials taken there during 2021 and 2022.

Public Works employees provided two receipts for beverages and pizza totaling \$114.09 from 2022. They also provided one scrap recycling cash receipt for \$51 from January 2023 and the corresponding \$51 cash receipt from the City Cashier’s office. No other records relating to cash scrap recycling proceeds or expenses were provided.

We anonymously received copies of 13 cash receipts from All North Recycling, a Denver scrap recycling business. The cash receipts totaled \$2,961 and were dated between 2021 and 2022. The receipts showed that during working hours, former Employee A¹ received \$2,834, and Employee B received \$127. We verified the authenticity of the receipts with the vendor and confirmed that the employees were not on leave during those days.

We cannot determine whether the employees turned the cash over to their supervisor or the superintendent and whether the funds were used for City expenses.

Additionally, a local scrap recycling vendor provided us with a list of the check payments made to the City of Aurora for 2021, 2022, and through March 2023. This included payments made to other departments besides Public Works. We could not find any records of the City receiving two check payments in August 2021. Below is a summary of the payments we cannot account for.

Unaccounted for scrap recycling payments

Year	Cash	Check(s)	Total
2021	\$ 1,665.00	\$ 460.22	\$ 2,125.22
2022	\$ 1,296.00		\$ 1,296.00
Grand Total	\$ 2,961.00	\$ 460.22	\$ 3,421.22

Additionally, based on our interviews, the Traffic Section has received cash payments for recycled scrap materials for years. However, as noted above, there are no records documenting how much cash was received and for what it was used.

¹ Employee left the City in June of 2022.

Because the department did not retain documentation, we could not determine how much cash was received during prior years and could not verify that it was used appropriately. We understand that the Traffic section switched to only receiving check payments sometime in 2022.

To provide context around how much is received for scrap recycling, we created a schedule of funds recorded in the City Financial system. We used records from the local vendor and City Financial records to identify scrap recycling payments credited to Traffic Section accounts in 2021, 2022, and through April 14, 2023.

Accounted for scrap recycling payments

Year	Cash	Check	Total
2021		\$ 1,940.13	\$ 1,940.13
2022		\$ 4,137.30	\$ 4,137.30
2023	\$ 51.00	\$ 2,366.36	\$ 2,417.36
Grand Total	\$ 51.00	\$ 8,443.79	\$ 8,494.79

Recommendation

We recommend that Public Works file a police report for the \$2,846.91 in unaccounted-for cash. We also recommend that Public Works retain scrap recycling documentation in accordance with City retention schedules.

Management Response

Public Works Operations Division agrees with the findings and will file a report with Aurora Police Department to investigate potential fraud or theft of \$2,846.91 in unaccounted-for cash as no documentation can be found for the cash receipt or the expenditures.

Estimated Implementation Date: Police Report – June 16, 2023; Retention August 31, 2023

Business Contact: Public Works Deputy Director, Public Works Director

Business Reviewer: Deputy City Manager

Issue 2 – No policies or procedures

Public Works has not developed and provided employees with policies or procedures on handling recycling scrap materials.

Employees have taken scrap materials to recycling centers for years, collecting cash and some check payments. However, the department did not create policies and procedures to govern the process. The only documentation related to recycling was an undated memo from a traffic supervisor to a local scrap recycling vendor authorizing City employees to receive cash.

Policy and procedures should address the roles of employees and supervisors and outline the Department's expectations. For example, the policy should clearly outline that only check payments are allowed and identify which businesses scrap recycling can be taken to.

Policies and procedures also ensure adequate controls are in place to safeguard city resources. In addition, when combined with training, documented procedures ensure that employees understand the expectations and their role in the process.

Recommendation

We recommend that Public Works implements a scrap recycling policy that includes:

- Only check payments shall be received,
 - Any exceptions must be documented in a memo attached to the receipt
 - In the rare circumstance that cash is received, the employee must immediately turn the cash into the City Cashier's Office
- Identify allowed businesses where employees should take scrap recycling
 - Businesses that only pay cash should not be used
- Define which employee positions can take scrap material
- Define who has the authority to authorize employees to take scrap material
- Document the process from start to finish for scrap recycling, including roles and expectations
 - Employees hauling scrap should initial all receipts
 - Supervisors should reconcile the receipt to the check and initial the documentation at the time of receipt
 - The Financial Administrator should log all checks received, including the date and when received, and retain all documentation.

Management Response

Public Works agrees with the recommendation and is currently working on a departmental policy regarding scrap recycling.

Estimated Implementation Date: June 30, 2023

Business Contact: Public Works Deputy Director, Public Works Director

Business Reviewer: Deputy City Manager

Issue 3 – Internal controls inadequate

Controls over the scrap recycling process need improvement. There is not always adequate documentation for the current process for who is taking the scrap recycling and receiving the payments. Additionally, there is no log or record of when checks are provided to the Financial Technician for remittance to the Cashier's Office.

For the prior process, based on interviews with employees, cash proceeds were kept in a supervisor's desk as "petty cash" and not turned into the City Cashier's

Office. However, as noted in Issue 1, no records exist for how much cash was received and what it was spent on. We are not recommending controls for the cash process, as our recommendation in Issue 2 is not to accept cash payments.

Controls that are in place and should continue to include having the superintendent initial the check and reconcile the check amount to the receipt. Additionally, duties should remain segregated by having a non-supervisor haul the scrap, the supervisor receiving and reconciling the proceeds to support, and the Financial Technician remitting the check to the Cashier's Office.

Recommendation

We recommend that employees initial the vendor receipts when receiving the scrap recycling check. We also recommend that the Financial Support Technician creates a log documenting whom they received the check from, on what date, and when it was sent to the Cashier's office for payment.

Management Response

Public Works agrees with the recommendations and is currently working on departmental procedures and policies to document and track receipts received from scrap metal recycling.

All records will be managed in accordance with established City policies for records retention. A report to the Deputy Director of Public Works Operations and the Director of Public Works will be prepared on at least a quarterly basis.

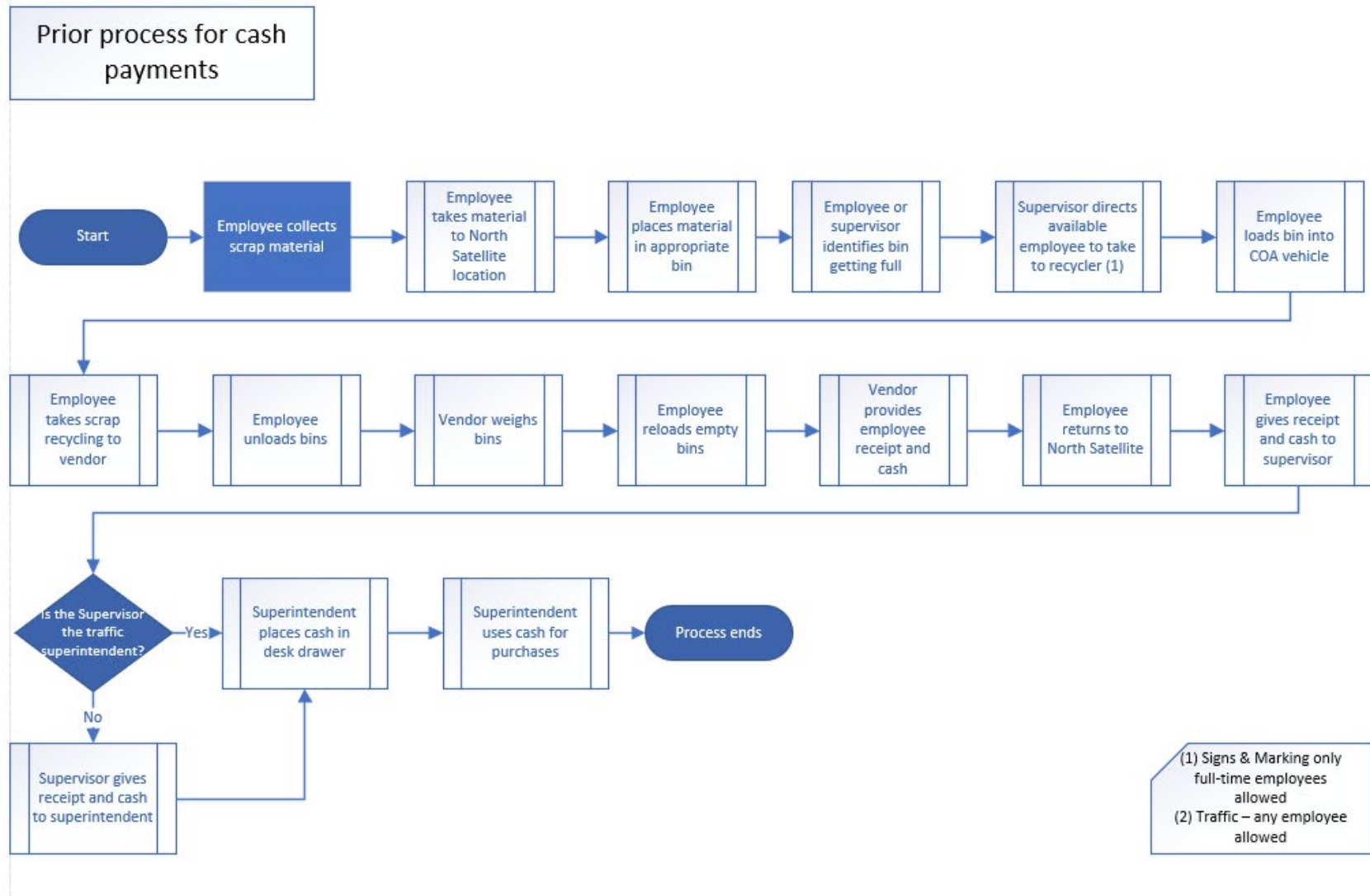
Estimated Implementation Date: August 1, 2023

Business Contact: Public Works Deputy Director, Public Works Director

Business Reviewer: Deputy City Manager

Appendix

Process maps were developed using employee interviews, the process itself has not been audited.



Current process for Scrap Recycling for Traffic Section

