



## **INTERNAL AUDIT REPORT**

DATE: November 1, 2018

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Officer  
Glenn Brown, Deputy Chief Administrative Officer  
Aldona Valicenti, Chief Information Officer  
Charlie Martin, Acting Commissioner of Environmental Quality & Public Works  
Tracey Thurman, Director of Waste Management  
Phyllis Cooper, Director of Accounting  
Susan Straub, Communications Director  
Urban County Council  
Internal Audit Board

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit  
Chris Ensslin, CIA, CFE, CGAP, Deputy Director of Internal Audit

RE: Electronic Recycling Facility Audit

### **Background**

The Division of Waste Management provides an efficient, effective and environmentally sustainable electronics drop-off recycling program for the citizens of Fayette County and the Lexington Fayette Urban County Government. The program's operational objective is to divert end-of-life electronics and electrical equipment from the landfill-bound waste stream towards the best alternative use and/or processing



technology, in a manner compliant with Industry Best Practices, as defined by international certification programs (E-Stewards, R-2).

According to the Environmental Protection Agency, electronic products are made from valuable resources and materials, including metals, plastics, and glass, all of which require energy to mine and manufacture. Donating or recycling consumer electronics conserves our natural resources and avoids air and water pollution, as well as greenhouse gas emissions that are caused by manufacturing virgin materials. The EPA also states that high-tech electronics also contain precious metals such as gold, palladium, platinum, and copper, and once these metals are disposed of in landfills they cannot be recovered. The donation of used but still functional electronics for reuse extends the lives of these products and keeps them out of the waste stream for a longer period of time.

The EPA notes that:

- Recycling one million laptops saves the energy equivalent to the electricity used by more than 3,500 US homes in a year.
- For every million cell phones we recycle, 35 thousand pounds of copper, 772 pounds of silver, 75 pounds of gold and 33 pounds of palladium can be recovered.

According to Sustainable Electronics Recycling International (SERI), the non-profit organization established to administer and promote the R2 Standard, the R2:2013 (Responsible Recycling) Standard is the leading global certification standard for the electronics reuse and recycling industry. The requirements in the R2 Standard are designed to protect people, protect the environment, protect data, and preserve resources. This is achieved through rigorous annual 3rd-party audits of R2 certified facilities, and through transparency and accountability throughout the entire reuse/recycling chain of used electronic products.

R2:2013 was developed through an open and transparent multi-stakeholder process. As a General Principle, an R2:2013 electronics recycler shall develop and adhere to a policy for managing used and end-of-life electronic equipment that is based on a “reuse, recover...” hierarchy of responsible management strategies. The recycling industry vendors that Waste Management uses are all R2:2013 compliant.

The LFUCG contributes to the reuse goal in the recycling model via the Social Services Electronics Reuse Program. This program was developed in partnership with the



Division of Social Services to allow non-profits a chance to participate in program events held at the Electronics Recycling Facility where various agencies pick out working electronics for some of their clients. These electronic items do not include equipment with hard drives or memory. The program started February 4, 2015, and through June 27, 2018 had diverted 5,574 items equaling 61,231 pounds of recycled electronics from the landfill to client homes and offices. The purpose of the program is to help people in need who otherwise would probably not be able to afford these electronics. The amount of diverted items indicates this has been a successful program.

### **Scope and Objectives**

The general control objectives for the audit were to provide reasonable assurance that:

- Electronic equipment with memory is secured
- Invoices are paid timely & accurately
- Deposits are made timely & accurately
- The E-Waste program is meeting its operational objectives

Audit results are based on observations, inquiries, transaction examinations, and the examination of other audit evidence and provide reasonable, but not absolute, assurance controls are in place and effective. In addition, effective controls in place during an audit may subsequently become ineffective as a result of technology changes or reduced standards of performance on the part of management.

The period of review for our audit included transactions from May 8, 2015 through June 27, 2018.

### **Statement of Auditing Standards**

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.



## **Audit Opinion**

In our opinion, the controls and procedures provided reasonable assurance that the general control objectives were being met. Opportunities to improve controls are included in the Summary of Audit Findings.

## **Priority Rating Process**

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed a high, moderate, or low priority as follows:

High - Represents a finding requiring immediate action by management to mitigate risks and/or costs associated with the process being audited.

Moderate – Represents a finding requiring timely action by management to mitigate risks and/or costs associated with the process being audited.

Low - Represents a finding for consideration by management for correction or implementation associated with the process being audited.

## **SUMMARY OF AUDIT FINDINGS**

### **Finding #1: Invoices Should be Checked for Accuracy Before Payment**

**Priority Rating: High**

#### **Condition:**

During our detail testing we noted that incorrect rates were charged for wire on two invoices. We also noted that three items that would result in billing credits to the LFUCG (Christmas lights, computers & wire) were included on two separate shipping manifests, but the related credits were not included on the invoice.

#### **Effect:**

The LFUCG overpaid two invoices.



**Recommendation:**

Invoices should be compared to the shipping manifest for accuracy before being paid. Credits totaling \$480.64 should be obtained from the vendor. This information has been shared with the Program Manager who stated that he would seek the additional credits, and would work with the vendor to determine what to do about the billing credits for the Christmas lights, computers and wire.

**Director of Waste Management Response:**

Invoices will be reviewed more closely and compared to the shipping manifests going forward. The Program Manager worked with the vendor and obtained the necessary credits as identified in the audit. A credit of \$480.64 was received from the vendor on 10/1/2018 and reflected on the invoice. A credit of \$499.20 was also received from the vendor on this invoice for the Christmas lights and wire. The credit for the pallet of computers will be reflected on the next invoice per an email from vendor on 10/3/18. This finding has been corrected and resolved.

**Acting Commissioner of Environmental Quality & Public Works Response:**

The Division should implement a method to routinely and randomly review invoices and compare them with manifests as another layer of quality control.

**Finding #2: Items Accepted by Recycle Vendor not Included in Contract**  
**Priority Rating: Moderate**

**Condition:**

Christmas Lights and wire are not in LFUCG's contract with the recycle vendor, but were included on multiple invoices. The addition of these items was negotiated with the vendor by the Electronic Recycling Facility supervisor, but an addendum to the LFUCG contract has not been produced. These are both credit items, which is to the advantage of the LFUCG. These items were credited on the related invoices, and there is no dispute regarding the legitimacy of these specific transactions.

**Effect:**

If there is a dispute, the absence of an addendum to the LFUCG contract including Christmas lights and wire could put the future credits for these items in jeopardy.



**Recommendation:**

The Division of Purchasing should be notified that these items need to be included in an addendum to the contract. This should be the standard procedure going forward when recyclables are added which are not in the existing contract.

**Director of Waste Management Response:**

Per the recommendation, the Program Manager has notified the Director of Purchasing to add these items to the vendor contract. This procedure will be followed as the standard when recyclables are added to an existing contract. This finding has been corrected and resolved.

**Acting Commissioner of Environmental Quality & Public Works Response:**

Concurs with the Division's response.

**Finding #3: Late Payments to Vendor**

**Priority Rating: Low**

**Condition:**

A recycle vendor LFUCG is no longer doing business with was paid late on 10 out of 36 invoices examined. The current vendor, who LFUCG has been doing business with since November 2, 2017, has been paid timely for all invoices they have submitted.

**Effect:**

Late payment of invoices may result in the LFUCG having to pay late penalties and may damage our relationship with the vendor.

**Recommendation:**

All invoices should be paid within the contractual terms.

**Director of Waste Management Response:**

Personnel absences and budgeting delays resulted in late payments to the previous vendor. The payment processing has been corrected since that time. Roles and responsibilities changed and payments are being made in a more consistent and timely manner. This is reflected in the audit with the current vendor being paid on time and in compliance with the contractual agreement on all invoices. This finding has been corrected and resolved.



**Acting Commissioner of Environmental Quality & Public Works Response:**  
Concurs with the Division's response.

