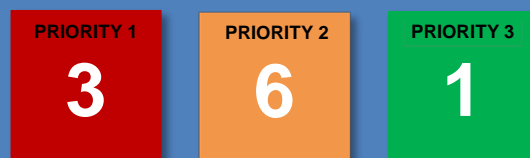


REFUSE COLLECTIONS REVENUE AUDIT

NUMBER OF RECOMMENDATIONS



*City of Glendale
Internal Audit*

12.21.2018



Contents:

A. Overview.....	2
B. Action Plan and Target Completion Dates.....	3
C. Background	4
D. Objective, Scope and Methodology	5
E. Observations, Recommendations, Management Responses Matrix	6
Appendix 1: Definitions of Priority Rankings and Value-Added Categories.....	14

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Acknowledgment

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A. Overview

Key Outcomes

Integrated Waste Management (IWM) Refuse Collections Revenues are recorded appropriately in the City’s financial accounting system. However, the billing process can be improved with the implementation of stronger controls, such as ensuring proper supporting documentation for billing and fees, maintaining accurate container inventory and bill codes, and performing periodic reconciliation and quality control.

Internal Audit identified 10 improvement opportunities related to accuracy and completeness of the refuse billing, approval of the refuse related fees, timely completion and billing of non-routine refuse work orders, establishing and updating refuse collection revenue related policies and procedures, timely removal of separated employees’ access from the billing systems, and updating/complying with the Glendale Municipal Code (GMC) on refuse collection frequency.

Impact Dashboard

This table summarizes the applicable value-added categories (total 20) for the 10 recommendations based on their priority rankings and one innovation opportunity.

	Value Added Categories				Innovation Opportunities
	Risk Reduction	Compliance	Cost Saving	Efficiency	
Priority 1 3	3	3	1	0	1
Priority 2 6	6	4	0	0	0
Priority 3 1	1	0	1	1	0

(Definitions of Priority Rankings and Value-added impacts are located at Appendix 1)

B. Action Plan and Target Completion Dates

The action plan and target completion dates are summarized in the table below. Internal Audit will perform quarterly status follow-up to provide assurance that management is taking appropriate and timely corrective action to address audit recommendations.

Ref.	Management Action Plan	Completion Date
Priority 1		
1.	Implement controls to ensure that the refuse billings are supported by the SoftPak container inventory, and to periodically reconcile the inventory to the related billing within the NorthStar Utility billing system (NorthStar). <i>Value added: Risk Reduction, Compliance, Innovation</i>	September 30, 2019 ¹
2.	Implement a review process to ensure that all billing codes are properly supported by and/or included within the City Council approved Citywide Fee Schedule and/or any valid contracts. <i>Value added: Risk Reduction, Compliance</i>	March 31, 2019
3.	Implement controls to ensure that refuse collections are billed according to valid/active contracts. <i>Value added: Risk Reduction, Compliance, Cost Saving</i>	Completed
Priority 2		
4.	Implement controls to prevent employees from deleting work orders and establish a follow-up process to ensure that all work orders are closed and billed in a timely manner. <i>Value added: Risk Reduction</i>	June 30, 2019
5.	Implement controls to ensure that NorthStar customer accounts are accurately billed. <i>Value added: Risk Reduction, Compliance</i>	June 30, 2019
6.	Establish and update policies and procedures and make them available for all IWM staff. <i>Value added: Risk Reduction</i>	June 30, 2019
7.	Establish a procedure to ensure that all staff that no longer require access to the SoftPak system are timely inactivated. <i>Value added: Risk Reduction, Compliance</i>	March 31, 2019
8.	Establish a procedure to ensure that all staff that no longer require access to the NorthStar system are timely inactivated. <i>Value added: Risk Reduction, Compliance</i>	March 31, 2019

Ref.	Management Action Plan	Completion Date
9.	Evaluate and determine whether Glendale Municipal Code 8.44.030 – Minimum Collection Schedules should be revised to be consistent with the requirements of the California Code of Regulations (CCR). <i>Value added: <u>Risk Reduction</u>, <u>Compliance</u></i>	June 30, 2019
Priority 3		
10.	Determine the feasibility of transferring the SoftPak billing for the commercial, bin service, and/or special services to NorthStar. <i>Value added: <u>Risk Reduction</u>, <u>Cost Saving</u>, <u>Efficiency</u></i>	September 30, 2019 ¹

¹ The completion date may be impacted by the impending COSA fee study, commercial refuse franchise, organics requirements, and the new GPS route optimization software.

C. Background

In accordance with Internal Audit’s Fiscal Year 2018-19 work plan, Internal Audit performed the Refuse Collections Revenue Audit.

IWM is one of eight divisions within the Public Works Department. According to the Fiscal Year 2018-19 adopted budget, IWM is responsible for the collection, transportation, and disposal of solid waste materials in Glendale in accordance with state regulations and in a manner that protects public health. IWM is the exclusive service provider for Glendale’s single-family residential sector. In addition, IWM staff currently oversees collection for the majority of multi-family units and a number of commercial units. The remaining multi-family and commercial units are serviced by private refuse collection companies who work with IWM in a competitive market to meet resident and business needs. In addition to its refuse, recycling, and yard trimming collection operations, IWM also oversees street sweeping activities, recycling programs, and the bulky and abandoned item collection program.

Per the Fiscal Year 2018 Comprehensive Annual Financial Report (CAFR), refuse disposal revenue accounts for \$22 million (or 6%) of the City’s \$383 million in revenues from fee for services charged. The refuse disposal revenue is generated from fees invoiced to residential and commercial customers. The fees charged to customers are based upon their account category, number of containers/bins, and pickup frequency. When a residential or commercial utility customer has an active electric meter that is invoiced through Glendale Water & Power’s (GWP’s) NorthStar, their routine refuse services are also processed through NorthStar so that they receive one combined invoice versus two separate invoices. For non-routine services or larger scale customers (i.e. multi-family buildings with 5 or more units and commercial properties with refuse bins), invoices are processed by IWM through the SoftPak billing system.

The table below summarizes the refuse collection fees/services billed through the two systems.

Revenue Collections	NorthStar	SoftPak
Routine Rubbish Fees*	X	
Routine Bin Services		X
Non-Routine Requested Services – Work Orders		X

**Based upon the GWP Rubbish Rates sheet, the routine rubbish fees include standard fees and flat rate fees to bill for additional services when applicable.*

Refuse related fees are established by the IWM Division and included within the City Council approved Citywide Fee Schedule as part of the City's budget process. The refuse collection revenue administrative function is performed by IWM staff that consists of one Office Operations Supervisor and three Customer Services Representatives.

D. Objective, Scope and Methodology

The objective of this audit is to determine if adequate controls exist to ensure that refuse fees are billed and recorded in an accurate and complete manner.

The scope of this audit covers refuse collection revenue billing and recording processes for the period of July 1, 2017 to June 30, 2018 for the majority of this audit.

In order to accomplish the audit objective, Internal Audit performed the following:

- Interviewed Public Works IWM, GWP, and Finance staff to gain an understanding of the refuse collections revenue billing and recording processes.
- Reviewed available City Policies & Procedures, Citywide Fee Schedule, a commercial contract, and relevant Los Angeles County Sanitation District rates.
- Conducted detailed testwork on the NorthStar and SoftPak billing systems including the routine and non-routine billings, revenue recording, and billing systems' charge code setup processes.
- Performed user access control testing on the active SoftPak and NorthStar users to identify generic user IDs and/or separated employees with access to either of the two billing systems.

As a result of these audit procedures performed, 10 observations were identified and are detailed in the Observations, Recommendations & Management Responses Matrix starting on the following page.

E. Observations, Recommendations, Management Responses Matrix

Ref	Observation	Recommendation	Management Response
1.	SoftPak Inventory Discrepancies		
Priority 1	<p>The 28,114 accounts categorized as single family residence were sample selected for analytical testwork. Based upon this testwork, we noted 1,581 (6%) discrepancies in the number and/or size of containers being billed through NorthStar and those recorded within the SoftPak container inventory.</p> <p>a. 882 (3%) accounts did not have a refuse container assigned within the inventory system. Additional testwork performed on a sample of 10 accounts suggested that 7 were due to an incomplete SoftPak inventory and 3 were multi-family residences according to the Los Angeles County Assessor’s Office but misclassified as a single family residence within NorthStar.</p> <p>b. 460 (2%) accounts had amounts billed through NorthStar that were less than the appropriate billing rates based upon the inventory records.</p> <p>c. 239 (1%) accounts had amounts billed through NorthStar that were greater than the appropriate billing rates based upon the inventory records.</p>	<p>IWM perform the following:</p> <p>a. Conduct a complete container inventory, update the container inventory within the SoftPak system, establish a process to ensure that it agrees to the NorthStar customer account billings, and reconcile the SoftPak inventory to the NorthStar billing on an annual basis. Consider entering the NorthStar customer account number within the SoftPak inventory system in order to automate the reconciliation process.</p> <p style="text-align: center;"><i>or</i></p> <p>b. Explore other alternatives to streamline the refuse billing basis.</p>	<p>Agrees and will implement by September 30, 2019.</p> <p>IWM will consider working with the Innovation Team to address this observation.</p>

Ref	Observation	Recommendation	Management Response
2. Citywide Fee Schedule-IWM Cleanup			
Priority 1	<p>Based upon a review of the Citywide Fee Schedule and two refuse billing systems, we noted the following:</p> <p>a. Citywide Fee Schedule (79 fees)</p> <ul style="list-style-type: none"> • 23 (29%) fees were for services no longer provided by IWM. • 5 (6%) fees established by the Los Angeles County Sanitation District did not agree to the Citywide Fee Schedule, but were accurately charged by IWM. • The fee titled “<i>Weekly Automated & Bin Service for Multiple Dwelling Units, Businesses, and Horse Accounts Each additional day of pickup</i>” was accurately charged, but erroneously specified “day” rather than “monthly” as the “unit/time”. <p>b. SoftPak Charge Code Master (43 billing codes)</p> <ul style="list-style-type: none"> • 8 (19%) billing code rates could not be located within the Citywide Fee Schedule. • 5 (11%) billing code rates did not agree to the Citywide Fee Schedule or a valid contract rate. <p>c. NorthStar Charge Code Master (19 billing codes)</p> <ul style="list-style-type: none"> • 3 (16%) billing code rates could not be agreed to a fee within the Citywide Fee Schedule. 	<p>IWM perform the following procedures:</p> <p>a. Review the exceptions noted and make corrections to the Citywide Fee Schedule. Any fees established by outside agencies, such as the Los Angeles County Sanitation District, that are outside of the control of the City, should be referenced/rather than monetized in the Citywide Fee Schedule.</p> <p>b. Conduct an annual review of the SoftPak and NorthStar billing codes to the City Council approved Citywide Fee Schedule to ensure that the billing codes are properly supported and accurately set-up, including removal of fees for services no longer provided by the City.</p>	<p>Agrees and will implement by March 31, 2019.</p> <p>a. The identified exceptions will be corrected. Fees that are established by other entities will be referenced in the Citywide Fee Schedule.</p> <p>b. An annual review process will be established and documented in the IWM Policies and Procedures manual; this review process will ensure that all bill codes are either supported by the Citywide Fee Schedule or a valid contract and will include inactivating any bill codes for services no longer provided.</p>

Ref	Observation	Recommendation	Management Response
3.	Expired Commercial Refuse Contract		
Priority 1	<p>Based upon a review of a three-year contract executed between a large commercial account and the City in 2013, we noted the following:</p> <ul style="list-style-type: none"> a. The initial contract term ended on June 1, 2016 and the optional two-year extension was not executed. b. The contract was signed and executed by a former IWM Administrator without City Manager's or City Attorney's Office approvals. c. Documentation to support the contract negotiated invoice credit equal to 50% of the third-party contractor's compactor maintenance expense was not verified. d. For the period of June 1, 2016 to August 31, 2018, the estimated under billing was \$71,000 based upon the expired contract negotiated discounts and credits. 	<p>IWM ensure the following:</p> <ul style="list-style-type: none"> a. Negotiate a new contract or discontinue the noted contract negotiated practices. b. Assure all contracts are properly reviewed and approved by the City Manager and City Attorney's Offices prior to execution. c. In the event that contracts include negotiated terms such as invoice credits for 50% of a specified expense, require proper supporting documentation for the invoice credit to be provided. d. Discontinue all discount/credit provisions included within the expired contract. 	<p>Agrees and has implemented the following:</p> <ul style="list-style-type: none"> a. Communicated the issues identified with the commercial contract customer and began billing this account based upon the City Council approved Citywide Fee Schedule. b. IWM agrees and will ensure that all contracts are properly reviewed and approved by the City Manager and City Attorney's Office on a going-forward basis. c. IWM agrees and will ensure that the appropriate supporting documentation is obtained for any contract negotiated expense related credits on a going-forward basis. d. Discontinued the contract negotiated credits.

Ref	Observation	Recommendation	Management Response
4. SoftPak Work Order System Control Issues			
<p style="color: orange; font-weight: bold;">Priority 2</p>	<p>Based upon discussions with IWM staff and a review of the work orders processed through the SoftPak system, we noted the following:</p> <ul style="list-style-type: none"> a. Administrative staff has access rights in the SoftPak system to delete work orders which resulted in sequence gaps. There were additional unaccounted gaps within the work order number sequence. This resulted in the inability to account for the completeness of work order billings. b. Administrative staff used to generate an “open work order” report from SoftPak on a monthly basis to ensure all work orders were timely closed for billing when applicable. However, the open work order report is not currently being generated, reviewed, and/or resolved in a timely manner. 	<p>IWM perform the following:</p> <ul style="list-style-type: none"> a. Instruct staff to discontinue the practice of deleting work orders, work with SoftPak to restrict this function to supervisory staff, and research the additional unaccounted gaps within the work order number sequence. b. Generate the open work order report on a monthly basis and perform follow-up to ensure that all work orders are completed and closed to trigger any required billing in a timely manner. 	<p>Agrees and will implement by June 30, 2019.</p> <ul style="list-style-type: none"> a. [In Process] Instructed staff to discontinue the practice of deleting work orders. Staff will work with SoftPak personnel for more restrictive user access setup and to identify the reason(s) for the unaccounted gaps. b. [Completed] Began generating the open work order report on a bi-weekly basis to ensure that all work orders are completed and closed to trigger any required billing in a timely manner.

Ref	Observation	Recommendation	Management Response
5. NorthStar Billing			
Priority 2	<p>Analytical procedures performed on 88,908 standard rubbish billing codes and 692 flat rate billing codes identified the following:</p> <ul style="list-style-type: none"> a. 911 (1%) standard rubbish billing category codes/location types were not billed with the appropriate rubbish bill code. 791 electric accounts eligible for rubbish charges based upon their category code did not have a rubbish fee and 120 standard billing code fields contained a mismatched flat rate billing code or category code/location type. b. 1,601 (2%) standard rubbish billing codes for government categorized accounts did not have a designation to identify the accounts that were subject to or exempt from a rubbish fee. c. 35 (5%) flat rate billing code fields contained mismatched standard rubbish billing codes or mismatched category code/location type. <p>Additionally, a review of the category codes identified that there is not a way to differentiate commercial accounts with master-metered electricity versus master-metered water.</p>	<p>IWM work with GWP to perform the following:</p> <ul style="list-style-type: none"> a. Update the Rubbish Rates sheet to properly classify rates as either standard or flat rate billing codes. b. Create periodic reports to identify electric accounts that do not have a rubbish fee, have mismatched billing codes based upon category (residential, commercial) or code type (standard monthly rubbish or flat rate). Research and correct the mismatched billing codes/flat rate billing codes in a more timely manner. c. Establish a procedure for GWP staff to consistently enter a rubbish line item for each account set-up and designate a no fee billing code, such as "R-ZERO" for those that are not subject to rubbish fees. d. Consider the feasibility of separately coding commercial master-meter <u>water</u> and master-meter <u>electric</u> accounts or creating a report to identify commercial master-metered properties subject to the rubbish fee. 	<p>Agrees and will implement by June 30, 2019.</p>

Ref	Observation	Recommendation	Management Response
6. Lack of Consistent or Current Policies and Procedures			
Priority 2	<p>Consistent or current written or otherwise documented policies and procedures could not be located.</p>	<p>IWM update its refuse collection revenue related policies and procedures and make them accessible to all IWM office staff to reduce the risk that processes are inconsistently performed or that staff turnover causes business disruption.</p>	<p>Agrees and will implement by June 30, 2019.</p>
7. SoftPak User Access Controls			
Priority 2	<p>Based upon a comparison of the SoftPak user access listing and the City's Munis employee listing as of August 13, 2018, we noted the following:</p> <ul style="list-style-type: none"> a. 6 terminated employees had active accounts within the SoftPak system. b. 4 user ids were generic user ids that were not assigned to a single individual. c. 8 user names were inconsistently entered. This increases the risk that separated employees are not appropriately identified and their access is not timely inactivated. <p>Additionally, the IWM Office Services Supervisor indicated that a procedure is not in place to identify or inactivate separated employees or employees no longer requiring SoftPak access.</p>	<p>IWM perform the following to provide additional controls in order to reduce the risk of unauthorized user access:</p> <ul style="list-style-type: none"> a. Inactivate separated employees from the SoftPak system. b. Assign a unique id for each user. c. Establish a procedure to ensure the SoftPak user names are entered exactly as entered within Munis or establish an additional field within SoftPak to enter employee id to facilitate a more effective detective control to match the active users to the active employee listing. <p>Additionally, the IWM Office Services Supervisor will request and obtain a periodic list of separated employees to ensure that they are inactivated from the SoftPak user listing in a timely manner.</p>	<p>Agrees and will implement by March 31, 2019.</p> <ul style="list-style-type: none"> a. [Completed] Separated employees accounts have been inactivated. b. [Completed] Assigned unique user ids for all users. c. Employee id numbers will be added within a separate field within the user id screen. d. The employee separation list will be requested from the Human Resources Department.

Ref	Observation	Recommendation	Management Response
8. NorthStar User Access Controls			
Priority 2	<p>Based upon a comparison of the NorthStar Service Detail user access listing and the Munis employee listing as of August 13, 2018, we noted the following:</p> <ul style="list-style-type: none"> a. 2 terminated employees had active user accounts within NorthStar. One of them also had an active account in Active Directory. b. 13 user names were inconsistently entered. This increases the risk that separated employees are not appropriately identified and their access timely removed. 	<p>It is recommended that GWP management perform the following to provide additional controls to reduce the risk of unauthorized access:</p> <ul style="list-style-type: none"> a. Inactivate separated and/or temporary agency employees with NorthStar access in a timely manner. b. Establish a procedure to ensure that NorthStar user names are entered exactly as entered into Munis or send out a periodic user listing to supervisors for confirmation. 	<p>Agrees and will implement by March 31, 2019.</p> <ul style="list-style-type: none"> a. [Completed] Separated employees accounts have been inactivated. b. Circulate a periodic user listing to supervisors to confirm their employees' NorthStar access.
9. GMC Required Frequency for Commercial Refuse Collection			
Priority 2	<p>GMC 8.44.030 - Minimum Collection Schedules specifies that "the City will provide for collection of refuse containing wrapped garbage from places of business at least twice each calendar week". This schedule is more frequent than what is required by the California Code of Regulations (14 CCR § 17331). Also, based upon IWM's interpretation, this GMC section has been enforced strictly for food establishments that it services.</p>	<p>IWM to either enforce GMC 8.44.030 – Minimum Collection Schedules on all places of business or update the GMC. If the City elects to maintain this frequency schedule, it should establish controls to enforce this requirement.</p>	<p>Agrees and will implement by June 30, 2019.</p> <p>IWM will work with the City Attorney's Office to evaluate and take appropriate actions.</p>

Ref	Observation	Recommendation	Management Response
10. Consolidation of Refuse Billing			
Priority 3	<p>IWM and GWP both utilize the same third-party vendor to generate, stuff, and mail monthly invoices.</p> <p>The SoftPak system does not have the options for paperless statements or secured online bill pay offered by GWP.</p>	<p>IWM work with GWP to determine the feasibility of establishing additional billing codes to consolidate all refuse collection billings within NorthStar. This could potentially accomplish the following:</p> <ul style="list-style-type: none"> • reduce cost by eliminating separate invoice generation, stuffing, mailing, and IWM staff payment processing time. • enable customers to receive paperless statements and enhance credit card payment security through an automated online portal. • eliminate the manual SoftPak revenue recording to the financial accounting system. • reduce delinquent collection effort. 	<p>Agrees and will implement by September 30, 2019.</p> <p>IWM and GWP staff agree there may be cost saving opportunities from processing all refuse related invoices through NorthStar and will work together to determine the feasibility of transforming the SoftPak billing to NorthStar.</p>

Appendix 1: Definitions of Priority Rankings and Value-Added Categories

Definitions of Priority Rankings

The priority rankings are assigned by internal auditors based on their professional judgment. They are also agreed to by management based on their evaluation of the alignment with the strategic goals, priorities and available resources. A timeline has been established based on each priority ranking:

- a. **PRIORITY 1** - Critical control weakness that exposes the City to a high degree of combined risks. Priority 1 recommendations should be implemented within **3 months** from the first day of the month following report issuance or sooner if so directed.
- b. **PRIORITY 2** - Less than critical control weakness that exposes the City to a moderate degree of combined risks. Priority 2 recommendations should be implemented within **6 months** from the first day of the month following the report issuance or sooner if so directed.
- c. **PRIORITY 3** - Opportunity for good or better practice for improved efficiency or reduced exposure to combined risks. Priority 3 recommendations should be implemented within **9 months** from the first day of the month following the report issuance or sooner if so directed.

Definitions of Value-Added Categories

The four value-added impact categories are defined based on their impact from the audit recommendations:

- a. **COMPLIANCE** - adherence to laws, regulations, policies, procedures, contracts, or other requirements.
- b. **COST SAVING** - lower the costs related to conducting City business.
- c. **EFFICIENCY** - ability to avoid wasting resources (money or time) in achieving goals.
- d. **RISK REDUCTION** - lower the risks related to strategic, financial, operations and compliance.

In addition, the **INNOVATION OPPORTUNITY** category indicates the assistance and consulting services that may be provided by the Innovation and Performance Team in helping address audit observations.