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HIGHLIGHTS

Highlights of City Auditor Report #1104, a report to the City Commission and City management

WHY THIS AUDIT WAS CONDUCTED

The City has used a private contractor since 1986 to assist in solid waste residential collection services. The current contract was executed in October 2006 with Waste Pro of Florida, Inc. As of the date of our initial audit fieldwork in March 2010, the City had made 43 monthly payments totaling \$15,597,937 to Waste Pro for those services.

The Solid Waste Utility collects revenues, primarily for routine collection services. Revenues are also generated by the Solid Waste Utility from the sale of recyclable materials, white goods (e.g., appliances), and scrap metals. Some revenues are generated for non-routine collection services as well.

This audit was conducted to determine (1) whether the Solid Waste Utility properly and adequately administered the City’s contract with Waste Pro; (2) whether revenues due the City for sale of recyclable materials, white goods, and scrap metals were properly collected and processed; (3) whether revenues due the City for “non-routine” collection services were properly collected and processed; and (4) whether adequate controls were established within the City’s PeopleSoft Customer Information System (CIS) to ensure proper collection of revenues for “routine” collection services.

WHAT WE RECOMMENDED

To help preclude future overpayments such as those identified by the audit, we recommended the Solid Waste Utility enhance its reviews of Waste Pro’s monthly invoices prior to approving them for payment. In regard to Waste Pro services, we also made recommendations relating to liquidated damages, timely actions for dispatched field orders, and use of updated customer counts.

In regard to revenue processes we recommended several enhancements, including for example:

- Using the City’s centralized accounts receivable system to bill certain entities for revenues due the City.
- Obtaining and using weight tickets to ensure activity and amounts paid for delivered recyclable materials are accurate and correct.

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AUDIT OF SELECTED SOLID WASTE ACTIVITIES

Overall, the Solid Waste Utility adequately and correctly administered the Waste Pro contract and the revenue activities addressed by the audit. However, the City overpaid Waste Pro \$88,321 due to billing errors not detected by Solid Waste staff.

WHAT WE CONCLUDED

Administration of the contract with Waste Pro for residential collection services was, for the most part, adequate and correct. Additionally, the Solid Waste Utility generally properly and correctly administered the revenue activities included in the scope of the audit.

However, we identified billing errors by Waste Pro that went undetected by Solid Waste staff. As a result, the City overpaid Waste Pro \$88,321. After we brought this to their attention, the Solid Waste Utility took prompt corrective action and fully recovered the overpaid amounts.

We also identified other areas for which enhancements were recommended in regard to the Waste Pro contract. Those other areas pertained to and include:

- Improved documentation for management decisions relating to assessment of liquidated damages for instances of incomplete, inadequate, or untimely services.
- Use of updated customer counts for purposes of calculating accurate customer recycling participation rates.
- Enforcement of contract provisions requiring Waste Pro to report information on complaints received directly from City customers.

In regard to the revenue activities addressed by the audit, we similarly identified areas for which enhancements were recommended, including:

- Revising procedures such that certain revenues are billed through the City’s centralized accounts receivable system.
- Obtaining all weight tickets issued by the contractor for delivered recyclable materials and using those tickets to ensure activity and amounts paid for those delivered materials are accurate and correct.
- Enhancing procedures to ensure all non-routine services are properly billed.
- Preparing documentation justifying when it is not appropriate to charge tonnage fees.
- Changing the title on an employee funds bank account so as not to infer it was a City bank account.

We would like to thank staff in the Solid Waste Utility and the Utility Business and Customer Services Department for their professional demeanor and assistance during this audit.

Selected Solid Waste Activities

AUDIT REPORT #1104

January 19, 2011



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Selected Solid Waste Activities



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Report #1104

January 19, 2011

Executive Summary

We audited the City's contract with Waste Pro and various revenue activities.

Except for contractual overpayments, the Solid Waste Utility generally adequately and correctly administered the Waste Pro contract and selected revenue activities.

Waste Pro was overpaid \$88,000 due to billing errors not detected by Solid Waste staff.

City payments to Waste Pro since the contract's inception in October 2006 total \$15.5 million.

OVERVIEW: *Overall, our audit showed the Solid Waste Utility has adequately and correctly administered (1) the contract with Waste Pro of Florida, Inc. for residential collection services and (2) the revenue activities included in the scope of this audit. However, we determined that the City overpaid Waste Pro approximately \$88,000 due to undetected billing errors on monthly invoices submitted to the City. Other areas were identified where enhancements are recommended to improve the Waste Pro contract administration process and to improve revenue related processes applicable to the Solid Waste Utility.*

Objectives and Scope. This audit addressed the Solid Waste Utility's (1) oversight and administration of the City's contract with Waste Pro of Florida, Inc. (Waste Pro) for solid waste collection services and (2) processes and administration relative to various revenue activities. Activity and processes in place during recent years were reviewed and analyzed, with the specific years reviewed varying depending on the area covered.

Waste Pro: From the inception of the contract with Waste Pro in October 2006 through February 2010 (start of our initial audit work), the City made 43 payments to Waste Pro totaling \$15,598,937. The vast majority of those represented monthly payments for contracted residential garbage, yard waste, and recyclable material collections. Those payments and other areas, including contract adequacy, contract award process, and contract oversight and monitoring were reviewed in connection with this audit.

Several revenue activities and related contracts were also reviewed.

Revenues for the areas audited ranged from \$2,150 to \$20 million.

In addition to completing recovery of the overpayments from Waste Pro, we recommended enhancements to processes and controls relative to administration and oversight of the Waste Pro contract.

Revenue Areas: We identified and reviewed revenue collections and/or revenue processes for several areas relating to Solid Waste Utility activities. Those areas included:

- Revenues of approximately \$2.4 million generated since fiscal year 2006 from the sale of collected recyclable materials pursuant to a contract established with Recycled Fibers, a division of the Newark Group, Inc.
- Revenues of approximately \$2,150 generated in the last two years from the sale of collected white goods (e.g., appliances) and scrap metals through a contract with Ace Salvage, Inc.
- Revenues of approximately \$530,000 generated annually from fees charged customers/citizens for non-routine collection services.
- Controls established in the PeopleSoft Customer Information System (CIS) to ensure proper collection of revenues, approximating \$20.5 million annually, for routine collection services.

Audit Results. The results of our audit procedures showed, overall, the Solid Waste Utility properly and adequately administered and monitored the Waste Pro contract and revenue activities included in the scope of this audit. However, we found that Waste Pro incorrectly over-billed the City in its monthly invoices submitted since August 2007. Those overbillings occurred due to mistakes by Waste Pro in making billing adjustments for changes in the routing of recycling services provided to Southwood customers. Because the Solid Waste Utility did not detect those billing errors when reviewing and approving monthly invoices, the City overpaid Waste Pro \$88,321. The Solid Waste Utility recovered the overpayments from Waste Pro after we brought this to their attention. We recommend the Solid Waste Utility enhance their reviews of Waste Pro's monthly invoices prior to approving them for payment. Other issues noted in regard to Waste Pro included the following:

We also recommended several enhancements to improve processes and controls for the audited revenue activities.

One recommendation was to have applicable entities remit their payments directly to the City's Revenue Office instead of sending those payments to the Solid Waste Utility.

Another recommendation includes ensuring non-routine services are properly billed.

The Solid Waste Utility has taken and/or initiated corrective actions to address several of the identified issues.

- Efforts should be enhanced to ensure management decisions regarding waiver or reduction to assessable liquidated damages are adequately documented; and, when applicable, to ensure liquidated damages are properly assessed for instances of incomplete, inadequate, or untimely services.
- Enhanced efforts are needed to ensure procedures, established to require Waste Pro to timely act on field orders dispatched by the Solid Waste Utility, are followed.
- The Solid Waste Utility should take actions to ensure updated customer counts are used by Waste Pro for purposes of calculating accurate customer recycling participation rates.
- The Solid Waste Utility should enforce contract provisions requiring Waste Pro to report information on complaints received directly from City customers.

In addition to the Waste Pro issues described above, we identified several areas where enhancements are needed in several revenue processes. Those recommended enhancements include:

- Revising procedures such that revenues (1) from the disposal/sale of recyclable materials and (2) from non-routine collection services rendered to individuals/entities without City utility accounts are billed through the City's centralized accounts receivable system and/or submitted by the contractors /individuals/entities directly to the Treasurer-Clerk's Revenue Office.
- Obtaining all weight tickets issued by the contractor (Recycled Fibers) to City and Waste Pro drivers and using those tickets to ensure activity and amounts paid for delivered recyclable materials are accurate and correct.
- Enhancing procedures to ensure that all non-routine services are properly billed.

- Preparing documentation justifying when it is not appropriate to charge tonnage fees to customers receiving special collections of yard waste and bulky items.
- Changing the title on an employee funds bank account so as not to infer it is a City bank account (which increases the risk that City funds could be diverted for unauthorized purposes).

For many of these areas and issues, the Solid Waste Utility has taken and/or initiated corrective actions.

We would like to thank staff in the Solid Waste Utility and the Utility Business and Customer Services Department for their professional demeanor and assistance during this audit.

Selected Solid Waste Activities



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Report #1104

January 19, 2011

Objectives

The purpose of this audit was to review the Solid Waste Utility's administration and oversight of the Waste Pro contract and several revenue activities.

The objectives of this audit were to determine (1) whether the Solid Waste Utility properly and adequately administered the City's contract with Waste Pro of Florida, Inc. (Waste Pro) for solid waste collection services; (2) whether revenues due the City from Recycled Fibers (contractor) for sale of collected recyclable materials were properly collected and processed; (3) whether revenues due the City from Ace Salvage, Inc. for sale of collected white goods (large discarded appliances) and scrap metal were properly collected and processed; (4) whether revenues due the City for non-routine solid waste collection services were properly collected and processed; and (5) whether adequate controls were established within the City's PeopleSoft Customer Information System (CIS) to ensure proper collection of revenues for routine solid waste collection services.

Scope

In addition to the Waste Pro contract, we reviewed revenue activity relating to disposal of recyclable materials, white goods, and scrap metals; and revenues and/or controls for non-routine and routine refuse collections.

The scope of this audit included (1) activity relating to and administration of the City's contract with Waste Pro for solid waste collection services; (2) revenues and related controls/processes relating to sale of collected recyclable materials through a contractor (Recycled Fibers); (3) revenues and related controls/processes relating to sale of collected white goods and scrap metal through a contractor (Ace Salvage); (4) revenues and related controls/processes for non-routine solid waste collection services provided to citizens; and (5) controls established within the City's PeopleSoft CIS to ensure citizens are properly billed for routine solid waste collection services.

The activity and performance covered by this audit varied by area covered. Specifically:

This audit covered activities over several years, with the specific periods covered varying based on the area reviewed.

- In regard to the Waste Pro contract, activity and performance since the contract's inception in October 2006 through the date of our fieldwork (summer 2010) was reviewed and analyzed.
- In regard to revenues from sale of recyclable materials, activity and performance covering fiscal years 2006 through 2010 (i.e., as of May 31, 2010) was reviewed and analyzed.
- In regard to revenues from sale of white goods and scrap metals, activity and performance covering fiscal years 2009 through 2010 (i.e., as of June 30, 2010) was reviewed and analyzed.
- In regard to revenues for non-routine solid waste collection services provided to citizens, activity and performance covering the period January 1, 2009, through the end of our fieldwork in July 2010 was reviewed and analyzed.
- In regard to controls established within the PeopleSoft CIS system to ensure proper billings for routine solid waste collection services, controls in place during the time of our audit fieldwork in the summer of 2010 were reviewed and analyzed.

Our audit procedures and tests were designed to cover the periods stated above.

Methodology

Our procedures included observations, interviews, inspections, and testing sampled transactions and activities.

We conducted various audit procedures to address the stated objectives. Those procedures included making audit observations; conducting interviews of knowledgeable personnel; and inspecting and analyzing applicable systems, records and reports. Specific audit methodologies and procedures varied based on the area addressed. Those methodologies and procedures included the following:

Waste Pro:

- Review of the applicable contract and adequacy of terms and conditions contained therein.

- Review of the contract award process.
- Review of the contract monitoring and oversight process.
- Testing payments to Waste Pro for services rendered.

Revenues for sale of collected recyclable materials (Recycled Fibers):

Various detailed audit procedures were performed.

- Review of the applicable contract and terms and conditions contained therein.
- Testing activity to ensure revenues due the City were collected and properly processed and deposited.

Revenues for sale of collected white goods and scrap metals (Ace Salvage):

- Review of the applicable contract and terms and conditions contained therein.
- Testing activity to ensure revenues due the City were collected and properly processed and deposited.

Revenues for non-routine solid waste collection services:

The specific audit procedures performed depended on the areas audited.

- Determination of the different services and related revenues assessed/collected for those services.
- Testing activity to ensure revenues due the City were collected and properly processed and deposited.

PeopleSoft CIS controls for revenues resulting from routine solid waste collection services:

- Determination of the different services and related revenues assessed/collected for those services.
- Identifying and analyzing system controls implemented to ensure revenues due the City are properly assessed and collected.

We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Payments to Waste Pro since the contract's inception in 2006 total \$15,099,944.

Waste Pro collects garbage from 50% of the City's residential customers and recyclable materials from all City residential customers.

Waste Pro. The City has used a private contractor to assist in solid waste residential collection services since 1986. The current contract for those services is with Waste Pro. That contract was executed in 2006 for the seven-year period October 1, 2006, through September 30, 2013. The contract provides an option for one three-year extension upon mutual agreement by both parties. As of the date of our initial audit fieldwork in March 2010, the City had made 43 payments to Waste Pro, totaling \$15,598,937. Those 43 payments consisted of 41 regular monthly contractual payments (totaling \$15,495,383), one payment for storm debris removal services (\$102,686), and one payment reimbursing Waste Pro for minor vehicle damages (\$868).

Pursuant to the contract, Waste Pro collects (1) garbage from approximately 50 percent of the City's residential customers and (2) recyclable materials from all (100 percent) City residential customers. The contract also provides for special collection services at the request of the Solid Waste Utility, such as collection and disposal of storm debris (trees, large branches, etc.) and illegal dumps.

Several methods are used by the Solid Waste Utility to ensure Waste Pro renders adequate and proper services to City residential customers. Those methods include:

- Route audits whereby Solid Waste Utility staff periodically discretely follow and observe Waste Pro collection vehicles and services.
- Receiving and following up on calls/complaints from customers/citizens regarding service related issues.
- Holding weekly meetings with key Waste Pro staff to address current services and any related issues.

The Solid Waste Utility employs several methods to ensure Waste Pro provides adequate and proper services.

Additionally, the Solid Waste Utility periodically assesses liquidated damages to Waste Pro for inadequate or incomplete services in accordance with contractual provisions. For example, liquidated damages may be assessed in the event of missed collections or inadequate/untimely services. The amount of liquidated damages assessed by the Solid Waste Utility is withheld from amounts otherwise due Waste Pro for services rendered.

Recycled Fibers (Recyclable Materials). The Solid Waste Utility executed a contract in 1998 with Recycled Fibers for the sale of recyclable materials. Recycled Fibers is a division of the Newark Group, Inc., a corporation located in New Jersey. Pursuant to the contract, recycled materials collected by the Solid Waste Utility (for commercial customers) and Waste Pro (for residential customers) are delivered to Recycled Fibers. Current contractual provisions provide for Recycled Fibers to pay the City \$35 per ton of recyclables delivered. Tonnages are determined by Recycled Fibers using state-certified scales. The Solid Waste Utility is provided copies of the related weight tickets and monthly summary reports by Recycled Fibers.

The City is paid \$35 for each ton of recyclable materials delivered to Recycled Fibers.

Payments are made monthly. Payments by fiscal year (FY) were as follows:

To date, Recycled Fibers has paid the City almost \$1.6 million for delivered materials.

TABLE 1 – Annual Revenues Collected from Recycled Fibers		
<u>Year</u>	<u>Tonnage</u>	<u>Total Collections</u>
FY 2006	7,812	\$273,420
FY 2007	9,361	\$329,127
FY 2008	10,904	\$381,409
FY 2009	10,389	\$363,602
FY 2010 (Note 1)	6,890	\$241,140
TOTAL	45,356	\$1,588,698
Note 1: As of May 31, 2010		

Because of the volatility in market prices for processed recycled materials, the City’s contract with Recycled Fibers contains a provision for an annual price adjustment based on any significant increases or decreases in market values. This provision allows the City to receive additional funds in the event of significant market increases (or to refund a portion of the collected monthly payments in the event of significant market decreases). As of May 31, 2010, the City has been paid additional funds under this provision and not refunded any previous payments. Amounts paid the City for these annual adjustments are shown in the following table.

Contract provisions for annual price adjustments have netted the City an additional \$847,000.

TABLE 2 –Amounts Received by the City Based on Annual Price Adjustments	
<u>Year</u>	<u>Annual Payment</u>
FY 2006	\$137,195
FY 2007	\$269,132
FY 2008	\$441,508
FY 2009	None (NOTE 1)
FY 2010	Not Applicable (NOTE 2)
TOTAL	\$847,835
NOTE 1: Changes in market values did not warrant a price adjustment this year.	
NOTE 2: As of the end of audit fieldwork, FY 2010 activity was not complete; accordingly, no annual price adjustments had been calculated.	

Because of the complexities involved in determining the annual price adjustments, the Solid Waste Utility hired a private consultant (Kessler Consulting, Inc.) to calculate the annual adjustments.

NOTE: The City recently extended the contract with Recycled Fibers through September 2012. However, on June 9, 2010 (during our audit fieldwork), Recycled Fibers (Newark Group) filed for Chapter 11 bankruptcy in the US Bankruptcy Court for the District of New Jersey. According to Solid Waste Utility management, this bankruptcy filing has had no impact on the City's contract and services with Recycled Fibers as of the end of our fieldwork.

Ace Salvage (White Goods and Scrap metals). The Solid Waste Utility entered into a five-year contract with Ace Salvage in 2005 that provides payment to the City for delivered white goods and scrap metals. White goods are defined as discarded appliances such as refrigerators, freezers, washers, dryers, water heaters, and similar appliances. Scrap metals are defined as discarded items constructed of metal, such as used bicycles, lawn mowers, vehicle exhaust pipe, gas grills, tubing or wire, and other miscellaneous items.

Revenues collected for the disposal of white goods and scrap metals (\$2,153) are much less than anticipated; as a result, that contract was not renewed.

Pursuant to the contract, Ace Salvage is to pay the City a percentage of the market value of the delivered items, as determined based on a defined market index and the tonnages delivered. Because this service has been used significantly less than anticipated when the contract was executed, amounts received by the City have been minimal. Specifically, for FY 2009 and 2010 (i.e., as of June 30, 2010), the City received only **\$2,153** for delivered materials. Subsequent to the end of our audit fieldwork, the City received correspondence indicating Ace Salvage was not interested in renewing this contract after its expiration on September 30, 2010. Due to the minimal activity, Solid Waste Management agreed renewal of the contract was not beneficial. However, Solid Waste Management indicated that Ace Salvage will continue to accept and pay the City an appropriate price for delivery of white goods and scrap metals on a non-contractual basis.

Revenues from Non-Routine Collections. To describe and address “non-routine” services first requires an explanation of “routine” services. The majority of revenues for solid waste collection services are for routine services. The most common routine services for which fees are assessed include:

Residential customers:

- Garbage collections (weekly).
- Yard waste and bulky item (e.g., mattresses, appliances, used bicycles) collections (every other week).

Commercial customers:

- Barrel - garbage (various pick up frequencies).
- Dumpster - garbage (various pick up frequencies).

However, the Solid Waste also provides non-routine collection services for which fees are assessed and collected. For purposes of this audit, we classified those non-routine services into the following categories:

- Special Events – Typically, these represent services provided to organizations (generally existing City customers) that request extra garbage barrels and collection services for their sponsored events.
- Special Yard Waste and Bulky Item Collections – These represent services provided based on customer requests for collections.
- On-Call Services – These represent collection services provided to commercial customers without scheduled pick up times. The Solid Waste Utility empties the applicable containers (e.g., dumpsters) only upon request by the customer.
- Off-Schedule Services – These represent services provided to commercial customers with scheduled services that request an extra pick up (i.e., not part of their scheduled pick ups).
- Other – These represent all other types of non-routine services for which a fee may be assessed, including, for example:

The Solid Waste Utility collects revenues for both routine and non-routine collection services.

Non-routine services include collections for special events; special yard waste and bulky item collections; on-call and off-schedule collections; and other non-routine collections.

- Return services because the customer blocked access to a dumpster during the initial collection attempt.
- Cleaning and sanitizing a dumpster at the request of a customer.
- Disposal of contaminants (improper materials) placed in a recycling dumpster.

Revenues from non-routine collection services approximate \$530,000 annually.

Because PeopleSoft CIS does not summarize non-routine service billings/collections separately from those resulting from routine services, the amount of annual fees assessed and collected for non-routine services is not readily available. However, of the total Solid Waste Utility annual revenues of approximately \$21 million, the Solid Waste Utility estimates that **\$530,000** (almost three percent) is attributable to non-routine services. Our analyses indicate that estimate is reasonable.

System controls are established to ensure proper and correct revenues are collected for routine collection services; those revenues approximate \$20 million annually.

PeopleSoft CIS Controls. As noted previously, the City uses the PeopleSoft CIS system for recording and capturing solid waste service activity and for billing customers for various collection services. This utility billing and accounting system provides the opportunity to establish various checks and balances to ensure customers are properly billed for services rendered. For example, system queries have been established that identify utility customers billed for electric and water services, but not billed for solid waste services. Generally, any customer receiving electric and water services should also be receiving solid waste collection services. Accordingly, customers reflected by this query are investigated to determine whether they are mistakenly not being billed for solid waste services. Other queries may be developed and used to ensure proper billing of customers. As noted above, Solid Waste Utility revenues billed and processed through the PeopleSoft CIS system total approximately \$21 million annually, with approximately **\$20.5 million** relating to routine services.

Overall Summary

Except for overpayments of \$88,321 to Waste Pro, the Solid Waste Utility generally properly administered the Waste Pro contract and revenue activities included in the scope of this audit.

Except for the overpayments totaling approximately \$88,000 to Waste Pro, as addressed in **PART 1** of this report, we found the Solid Waste Utility generally:

- Properly and adequately administered the contract with Waste Pro for solid waste collection services.
- Properly and correctly collected and processed revenues due from Recycled Fibers for delivered recyclable materials.
- Properly and correctly collected and processed revenues due from Ace Salvage for delivered white goods and scrap metals.
- Properly and correctly billed and collected revenues due from customers for non-routine collection services.
- With the assistance of Utility Accounting, established adequate controls within the PeopleSoft CIS to ensure proper collection of revenues for routine collection services.

In addition to the overpayments to Waste Pro, other issues were identified that were indicative of the need for improvements and enhancements. Those issues are described in the following sections (**PARTS 1 through 5**) of this report.

Waste Pro Contract Administration

PART 1

WASTE PRO CONTRACT ADMINISTRATION

Overview. As described in the background section of this report, Waste Pro collects garbage from approximately 50 percent of the City's residential customers and collects recyclable materials from all City residential customers. Since the inception of the contract in October 2006 through the start of our audit fieldwork in February 2010, the City paid Waste Pro \$15,598,937 in relation to services rendered. While we found the majority of the payments were proper, we identified overpayments totaling approximately \$88,000. We also identified other issues for which improvements and enhancements should be implemented. The identified issues are addressed in the following paragraphs.

Billing errors by Waste Pro and undetected by Solid Waste staff resulted in overpayments totaling \$88,321.

Waste Pro bills the City monthly for services rendered. Pursuant to the contract, the monthly bills are based on the number of customers served in each category: (1) garbage collection and (2) recyclables collection. The contract establishes a reimbursement rate for each of those two categories. Currently, those rates per household (customer) are \$9.39 for garbage collection and \$3.86 for recyclables collection. In regard to determining the number of customers to bill for both garbage and recyclable collection services, Waste Pro is provided monthly customer counts in each category from the City's PeopleSoft CIS. For recycling customers, all City residential customers are counted and used for billing purposes, as the Waste Pro contract provides for those services to be provided solely by Waste Pro.

Waste Pro makes adjustments to monthly billings for premium service customers, which represent customers electing backdoor service (opposed to curbside service) for an additional monthly charge of \$4. Adjustments are also made for any liquidated damages assessed by the Solid Waste Utility and for any special services rendered at the request of City staff.

We noted for many months that Waste Pro also included an adjustment (deduction) in the monthly billings for "Southwood Recycling." Discussions with Solid Waste Utility staff disclosed that adjustment was made when City staff started using City vehicles to assist Waste Pro in the collection of recyclable materials in the Southwood area. City staff and vehicles were used because, at the time, Waste Pro did not have sufficient resources (vehicles and staff) to collect those recyclable materials on a timely basis. The City and Waste Pro shared responsibility for Southwood collection services during the three-month period May through July 2007. It was estimated that the City and Waste Pro split the collections efforts equally during that period. Accordingly, the adjustments (deductions) for each of those months were based on City staff providing half of the collection services. That practice was reasonable and appropriate.

Waste Pro was overpaid \$88,321 due to billing errors not detected by Solid Waste staff.

The first billing error occurred when Waste Pro continued to bill the City as if Waste Pro was providing some of the recycling collection services in the Southwood area.

The first billing error occurred over a 30-month period and resulted in overpayments totaling \$65,007.

Subsequently, the City and Waste Pro determined it would be more efficient if City staff and vehicles collected all recyclable materials in the Southwood area. As a result, effective August 2007, recyclable materials in the Southwood area were collected solely by City staff and vehicles. Under those circumstances, Waste Pro should have started deducting, from the initial monthly-billed amounts (based on total City residential customers), an amount based on the number of residential customers served in the Southwood area. That adjustment was needed to preclude Waste Pro from over billing the City for services not rendered.

However, we found that Waste Pro incorrectly continued to adjust the monthly billings as if Waste Pro staff continued to provide half of the recycling collection services in the Southwood area. As a result, the City was over billed by Waste Pro each month. Because Solid Waste Utility staff did not detect this error when reviewing and approving invoices, overpayments resulted. This practice continued until February 2010 (for 30 months), at which time Waste Pro resumed collection of all recyclable materials in the Southwood area. The resulting overpayments attributable to this error totaled \$65,007.

The second billing error occurred when Waste Pro incorrectly billed the City twice for Southwood customers after their resumption of services in the Southwood area; resulting in overpayments totaled \$18,652.

Furthermore, we found when Waste Pro resumed collection of all recyclable materials from residential customers in the Southwood area, effective February 2010, they continued to over bill the City for those services. Specifically, as described in the previous paragraph, the number of Southwood residential customers was included in the total customers used by Waste Pro to determine the initial billing amount (i.e., before adjustments). Accordingly, no adjustments were needed to that billed amount for Waste Pro's resumption of services to Southwood residential customers. However, Waste Pro incorrectly added, as an adjustment, an amount for Southwood customers. As a result, the City was incorrectly billed for those services twice. Solid Waste Utility staff did not detect this billing error when reviewing and approving invoices. This incorrect billing practice continued through the April 2010 monthly invoice, and was stopped upon our identification of the error and subsequent notification to Solid

Waste management. The resulting overpayments attributable to this second error totaled \$18,652.

Lastly, we identified a third overpayment of \$4,662. This overpayment occurred when Waste Pro incorrectly billed the City for January 2010 services as if they started providing recyclable collection services in the Southwood area in that month. However, as noted previously, Waste Pro did not start those services until February 2010, one month later. Solid Waste Utility staff did not detect this billing error.

The third billing error resulted in an overpayment of \$4,662; that error occurred when Waste Pro incorrectly billed for resumption of collection services one month earlier than was appropriate.

The overpayments attributable to the three billing errors described above totaled \$88,321. In response to our notification and inquiry, Solid Waste Utility staff acknowledged and confirmed these billing errors and resulting overpayments. Subsequently, Solid Waste Utility management met with Waste Pro management to discuss these errors and overpayments. Efforts were initiated to recover the overpaid amounts. As of December 15, 2010, the Solid Waste Utility had recovered the full amount of \$88,321. Solid Waste staff should enhance their reviews of Waste Pro invoices to ensure future amounts billed, including adjustments, are accurate, correct, and valid.

Liquidated damages were not always properly assessed. As described in the background section of this report, the City's contract with Waste Pro provides for assessment of liquidated damages in instances where incomplete, inadequate, or untimely services are rendered. When assessed, the liquidated damages are reported to Waste Pro and deducted from monthly amounts billed to the City. We reviewed recorded activity for a sample of eight months and the related monthly Waste Pro invoices to ascertain whether events (incomplete, inadequate, or untimely services) were properly identified and liquidated damages were properly determined, assessed, and deducted from amounts paid to Waste Pro. The amount of liquidated damages reported and deducted for those eight months totaled \$12,100.

We reviewed the assessment of liquidated damages for a sample of eight months.

Our review disclosed the following:

We identified 11 instances where documentation was not available to explain why liquidated damages totaling \$700 were not assessed.

- Through review and analysis of activity recorded in the City’s PeopleSoft CIS, we identified 11 events where liquidated damages appeared likely appropriate but were not assessed. Those 11 events included:

- Missed collection services where Waste Pro did not return and collect the missed items in the same business day.
- Instances where City Solid Waste Utility staff made collections missed by Waste Pro.
- Instances where collection containers (garbage and/or recycling containers) were not properly returned for customers receiving backdoor service.

For those 11 events, the Solid Waste Utility indicated it was possible there were legitimate reasons for not assessing liquidated damages. However, they acknowledged documentation was not prepared and/or retained to justify not assessing liquidated damages in those 11 instances. Based on contractual provisions, a total of \$700 could have been assessed for those events.

We identified other instances where liquidated damages were not assessed at contractually established rates; accordingly, the liquidated damages appeared to be under assessed by \$2,100.

- For three of the eight months sampled, we identified instances where the amounts assessed for reported events were not in accordance with the rates established by the contract. Specifically:

- The contract provides for liquidated damages of \$100 for each incident where the contractor misses a backdoor collection service. After the 5th incident in a month, that rate increases to \$200 for subsequent instances occurring that month. For each of two sampled months, the number of such incidents exceeded five (i.e., 13 and 18 respectively). However, liquidated damages were assessed for those “excess” incidents at the rate of \$100 each. Those excess incidents should have been assessed at a rate of \$200 each. The result was liquidated damages were under assessed by \$2,100.

- The contract provides for liquidated damages for non-performance of any required collection service resulting in City crews having to provide the service. The amount per incident is \$50 for recycling services and \$100 for other services (e.g., garbage, yard waste, bulky items). We noted for one month that liquidated damages were assessed for 14 incidents where City crews performed collection services that were supposed to be performed by Waste Pro. Six of those instances involved recycling and the other eight involved garbage, yard waste, and bulky item collections. We found the liquidated damages for the non-recycling services were assessed at a rate of \$50 instead of the contractually prescribed rate of \$100. The result was liquidated damages were under assessed by \$800.

Management judgment is sometimes appropriate in determining whether to assess liquidated damages, or the amounts to assess; however, documentation should be prepared and retained to justify those management judgments.

In summary, liquidated damages for the eight sampled months appeared to have been under assessed by a total of \$3,600. That amount represents 30 percent of the liquidated damages amount that was assessed (\$12,100) for those eight months.

We acknowledge that management judgment is sometimes appropriate in determining when liquidated damages should be assessed or waived, and sometimes in determining if contractual rates should be reduced for certain incidents. For example, due to unanticipated difficulties incurred by Waste Pro staff upon the City's implementation of the "Helping Hands Program" (involves backdoor services), Solid Waste Utility management indicated liquidated damages assessable for incidents (e.g., missed collections) relating to backdoor services are sometimes waived or reduced out of fairness to the contractor.

However, when those judgments/decisions are not documented, it significantly limits management ability to justify incidents where liquidated damages are not assessed or are assessed at reduced rates. Accordingly, we recommend the Solid Waste Utility establish a standard process for documenting decisions regarding incidents that are subject to liquidated damages. Efforts should also

be made to ensure liquidated damages are properly assessed when management does not authorize the waiver or reduction of rates.

Efforts should be enhanced to ensure Waste Pro timely acts on dispatched field orders. The Solid Waste Utility requests specific actions of Waste Pro through the dispatch of PeopleSoft CIS field activities (orders). Those field orders are accumulated and dispatched to Waste Pro daily (three times each work day) via an automated e-mail process. Examples of requested actions include: (1) delivering new containers or replacing existing containers and (2) returning to customer premises to collect for missed services. Upon completion of the requested actions, Waste Pro documents the completion in an EXCEL spreadsheet, which is sent to the Solid Waste Utility. Designated staff in the Solid Waste Utility use that reported information to record the completion of the applicable field orders in PeopleSoft CIS.

Timely follow up on system field orders dispatched to Waste Pro is necessary to ensure requested actions are timely completed and the PeopleSoft CIS is timely updated to reflect those completed actions.

To ensure all dispatched field orders are acted upon and completed/resolved, Solid Waste Utility procedures provide that designated staff should generate weekly reports (from the PeopleSoft CIS) identifying outstanding system field orders dispatched to Waste Pro. Those reports are to be forwarded to Waste Pro with the expectation they will follow up to ensure the applicable actions are completed/resolved and/or the completed actions are reported back to the Solid Waste Utility. This process serves to ensure requested actions are timely completed and the completion is timely recorded in the PeopleSoft CIS. This process also serves to help in the identification of events that may warrant assessment of liquidated damages.

At the time of our audit fieldwork, designated Solid Waste Utility staff had not timely followed up on recently dispatched system field orders.

Our review showed the described process is in place and being followed. However, we found designated Solid Waste Utility staff did not always timely identify and report to Waste Pro outstanding field orders. Specifically, at the time of our review on June 15, 2010, the designated staff had not compiled a list of outstanding field orders (previously dispatched to Waste Pro) for over a month. That circumstance was contrary to established procedures, which provide for such lists to be generated and sent weekly.

To ascertain if there were significant uncompleted actions because of the above-described circumstance, we generated the report of outstanding field orders as of June 15, 2010, the date of our audit fieldwork. We determined there were 138 outstanding as of that date, with 40 of those outstanding for more than two weeks. While this did not necessarily mean Waste Pro had not completed the requested actions, it did show that the Solid Waste Utility was not timely reviewing activity to ensure requested actions were completed/resolved.

System field orders dispatched to Waste Pro should be followed up on weekly in accordance with established procedures.

Not timely following up on outstanding field orders increases the risk that actions will not be timely completed by Waste Pro and/or completed actions will not be timely or accurately reported to the City. It also hinders the proper and timely determination of liquidated damages. We recommend the Solid Waste Utility follow up on dispatched field orders weekly, in accordance with established procedures.

The Solid Waste Utility should take appropriate actions to obtain more accurate customer recycling participation rates.

The contract with Waste Pro provides for periodic reports to the City on various activities. One required report is participation rates in the recycling program. This includes the number and percentage of customers participating (i.e., using and setting out their recycling containers for pick up) in the program, overall and by individual route and/or neighborhood. These participation rates provide the City information on the success of the recycling program. This information may be useful, for example, to enhance recycling efforts in areas or neighborhoods that have relatively low participation rates.

Recycling participation rates as reported by Waste Pro have not always been calculated using updated customer counts.

Our review showed Waste Pro does perform scheduled counts of customers participating in the recycling program and report the results (by route, area, and overall) to the Solid Waste Utility. Both counts and participation rates are reported by Waste Pro. To determine the reported participation rates, Waste Pro compares counts of participating customers to the total number of customers (by route, area, and overall). The total number of customers used in

determination of those participation rates is based on reports provided to Waste Pro by the Solid Waste Utility.

The total number of customers is dynamic, because the number of customers on each route and in total constantly changes as individuals and families change their residences. Accordingly, to calculate and report the most accurate participation rates, current customer counts should be used.

The Solid Waste Utility should require Waste Pro to use the current customer counts when calculating and reporting overall (Citywide) recycling participation rates.

We noted that Waste Pro has not been using the most current customer counts when calculating and reporting participation rates. Specifically, we found Waste Pro used the same customer counts for 30 consecutive months (October 2007 through March 2010) in calculating and reporting participation rates. Furthermore, for the months April through June 2010, we noted Waste Pro used incorrect route information in calculating and reporting participation rates, as the customer counts for one route/area were used for multiple routes/areas. This increased the risk of City management using inaccurate information for program evaluation purposes.

Further analysis and discussions with Solid Waste staff showed these circumstances were attributable to the following:

- Waste Pro did not use the current monthly counts of total participating customers provided by the Solid Waste Utility when calculating overall (Citywide) monthly participation rates. Instead, Waste Pro continued to use old counts previously provided by the Solid Waste Utility for a previous month(s).
- Neither the Solid Waste Utility nor Waste Pro captured current customer counts by individual route or area. Accordingly, Waste Pro continued to use old (outdated) counts for individual routes and areas that had been made several years ago.

The Solid Waste Utility should determine if it is cost beneficial to capture current customer counts for individual routes and areas on an on-going basis.

To help ensure the City is provided with accurate and useful information on customer participation, we recommend:

- Solid Waste Utility management require Waste Pro to use the most current monthly counts when calculating and reporting overall (Citywide) participation rates.

- Determine whether it is cost beneficial to capture customer counts by individual recycling route/area on a periodic basis (e.g., monthly or quarterly) and provide that information to Waste Pro for their use in calculating and reporting participation rates by individual routes and areas.

In the event the Solid Waste Utility determines the capturing of monthly counts by individual route and area is cost beneficial, such information should be captured, provided to Waste Pro, and used by Waste Pro in calculating and reporting recycling participation rates for individual routes and areas.

The Solid Waste Utility should enforce a contract provision requiring Waste Pro to report information on complaints received directly from residential customers.

Section 3.12(d) of the Waste Pro contract requires that any complaint received directly by Waste Pro be reported to the City (Solid Waste Utility) by the end of each business day. Information to be reported includes:

The Solid Waste Utility should consider requiring Waste Pro to report information on complaints received directly from City customers.

- Customer name, address, and phone number.
- Route number and truck number assigned to the complaint address.
- Type of service involved.
- Nature of the complaint.
- Date and time of complaint and problem.
- Action taken by Waste Pro to address and resolve the concerns.
- Date and time of complaint resolution, and staff that resolved the complaint.

Solid Waste Utility and Waste Pro staffs indicate the majority of customer complaints are received directly by the City. They asserted that only a few are received directly by Waste Pro. Circumstances indicate the complaints received directly by Waste Pro are likely timely and properly resolved, as our review of City records did not identify instances where citizens/customers complained to City staff that Waste Pro was not properly or timely addressing their concerns.

Notwithstanding those circumstances, we found the Solid Waste Utility is not requiring Waste Pro to document their receipt and resolution of complaints received directly from City customers and report that information (complaints and resolutions) to the City. To help ensure complaints and concerns of City customers are properly and timely addressed, we recommend the Solid Waste Utility enforce the described contractual provision.

In response to our suggestion, the Solid Waste Utility developed a record to document periodic route audits.

As described in the background section of this report, periodic “route audits” is one of three methods used by the Solid Waste Utility to oversee and monitor Waste Pro services. Those route audits involve discrete observations by Solid Waste staff of service performance by Waste Pro staff and vehicles. Observations made during these route audits sometimes result in corrective instructions to Waste Pro, such as cleaning up spillages or proper return and placement of collection containers after service collections.

In response to our recommendation, the Solid Waste Utility developed a method to better document periodic route audits.

In addition to being conducted for observation of normal and typical service activities, these route audits are conducted during route changes to ensure continued efficient and effective service delivery, and during inclement weather conditions (e.g., severe storms) to ensure debris removal is handled appropriately.

Based on available records, 52 route audits were conducted in FY 2009 and, as of June 16, 2010, a total of 40 had been conducted in FY 2010. The only documentation demonstrating the route audits were notations (counts) by Solid Waste Utility staff whenever one was conducted. No documentation was prepared and retained showing:

- Dates performed.
- Staff performing the route audit.
- Reason that prompted the route audit, if any.
- Observations made.
- Conclusions.
- Actions taken.

In response to our recommendation to better document and demonstrate oversight efforts, Solid Waste Utility staff developed a log that captures the noted information. The Solid Waste Utility should continue their efforts to ensure that log is properly used.

While the contractual agreement with Waste Pro was generally appropriate and adequate, we identified two contractual provisions that warrant enhancements in future contracts.

Overall, the Waste Pro contract was properly and appropriately executed and contains proper, appropriate, and adequate terms and conditions to (1) ensure delivery of desired services at agreed-upon and reasonable prices and (2) protect the interests of the City and City customers. Two areas were noted where enhancements should be considered, at least in regard to subsequent contracts. Specifically:

Future contract should better clarify and specify appropriate City offices and departments that should have access to applicable contractor records.

- Contract provisions provide the City’s Procurement Services Office, or an authorized representative of that office, shall have the right to examine and audit contractor records and other materials relating to required performance and cost reports. Based on that language, it is not clear if other City offices and departments (e.g., City Attorney’s Office, City Auditor’s Office, and Solid Waste Utility) have the right to examine and audit those records and materials, without a clear designation as a “representative of the Procurement Services Office.” There is no apparent reason or indication that other City offices and departments would be denied access to the contractor’s records and materials. However, contract language specifying and allowing access to other appropriate City offices and departments will strengthen/clarify the legal right of those departments/offices to access applicable contractor records for purposes of conducting necessary examinations and audits.
- In addition to requiring submittal of various performance reports, the contract requires Waste Pro to submit a certified copy of its annual financial statements within 90 days of the end of its fiscal year. A review of those financial statements by knowledgeable City staff provides, among other things,

Although audited financial statements were provided, future contracts should specifically require Waste Pro to provide copies of audited financial statements to the City.

meaningful insight as to Waste Pro's ability to continue providing required collection services. While that contract provision is appropriate, we noted there are no provisions addressing whether the contractor's financial statements should be audited by an independent entity (e.g., CPA firm), or requiring the contractor to submit copies of such audit reports in the event independent audits are conducted. Notwithstanding the lack of the noted contract provisions, we found Waste Pro was audited and provided copies of the resulting audit reports to the Solid Waste Utility, along with copies of the audited financial statements. We commend the Solid Waste Utility for obtaining and reviewing audit reports of Waste Pro, although current contractual provisions did not require such audits.

To ensure access is granted to appropriate City departments and offices, and to ensure independent audits are conducted and/or resulting audits reports are provided to City management, we recommend the Solid Waste Utility work with other City offices (e.g., Procurement Services Office and City Attorney's Office) to ensure subsequent contracts contain appropriate language to address the two circumstances described above.

Revenues – Recycled Fibers

Revenues due from Recycled Fibers were properly collected, processed, and deposited.

To enhance existing controls, procedures should be revised such that Recycled Fibers submits its payments directly to the City's Revenue Office instead of to the Solid Waste Utility.

PART 2 REVENUES - RECYCLED FIBERS

Overview. In the background section of this report, we noted that Recycled Fibers pays the City \$35 per ton of recyclable materials delivered. Payments to the City over the last five fiscal years totaled \$1,588,698. Additionally, these payments are subject to annual adjustments based on market price fluctuations. Because of favorable fluctuations, these annual adjustments netted the City an additional \$847,835. Our review showed revenues due the City from Recycled Fibers were properly collected, processed, and deposited. We noted two areas where enhancements should be made to improve internal controls over those revenues. The two recommended enhancements are addressed in the following paragraphs.

Procedures should be revised such that payments are remitted by Recycled Fibers directly to the City's Revenue Office within the Treasurer-Clerk's Office. Good internal controls provide, when practicable, that staff authorizing and executing revenue activities (Solid Waste Utility) not also collect and process the related revenues. Preferably, the revenues should be collected and processed by separate staff (City's Revenue Office). Furthermore, good internal controls provide that revenues should be timely deposited to reduce the risk of loss or theft (e.g., of a check) and to maximize interest that can be earned on deposited funds. In accordance with these preferred controls, the vast majority of City revenues are collected directly by the City's Revenue Office (a division within the City's Treasurer-Clerk's Office) and not by the individual departments that generate those revenues.

Under current procedures, Recycled Fibers remits monthly checks for City-delivered materials to the Solid Waste Utility. Our review showed those checks have been properly reviewed and transferred by the Solid Waste Utility to the City's Revenue Office for processing and deposit into the City's bank account.

The current practice of receiving checks at the Solid Waste Utility is contrary to preferred internal controls and general City practices as described in the previous paragraph. Accordingly, we recommend Recycled Fibers be instructed to remit their payments directly to the City's Revenue Office. To enable the Solid Waste Utility to continue ensuring payments are proper as to amount based on materials delivered, related documentation and reports should continue to be sent to the Solid Waste Utility (either directly by Recycled Fibers or by the Revenue Office if forwarded by Recycled Fibers with the remitted checks).

Copies of weight tickets provided to drivers of both Waste Pro and City trucks should be obtained and used to ensure the City is properly paid for delivered materials. When Waste Pro and City trucks deliver recyclable materials to Recycled Fibers, the trucks are weighed before and after being emptied. The difference in the two weights represents the amount (measured in tons) of the recyclable materials. Each truck driver is provided a copy of the applicable weight ticket at the time of delivery.

Weight ticket copies provided by Recycled Fibers to Waste Pro and City truck drivers were not always turned into Solid Waste Utility administrative staff.

A different copy of the weight ticket is retained by Recycled Fibers and remitted to the Solid Waste Utility along with monthly reports prepared to show how much recyclable materials were received from the City. The tonnages represented on those monthly reports serve as the basis on which monthly payments are determined and made to the City (i.e., @ \$35 per ton).

In accordance with good internal control practices, we noted that designated Solid Waste Utility staff compares weights reported on the monthly reports to the copies of weight tickets provided by Recycled Fibers and/or by truck drivers. Because of the voluminous number of tickets, these comparisons are generally done on a sample basis. Because the weight tickets provided to Waste Pro and City truck drivers represent a more reliable source document for those comparisons, it is preferable the driver copies be used in these comparisons, and not the ticket copies provided by Recycled Fibers. For example, while there was no indication of this

occurrence, Recycled Fibers could intentionally or unintentionally exclude certain weight tickets in the preparation of monthly reports and not forward those tickets to the Solid Waste Utility, thereby reducing the revenues due/paid the City. A comparison using “driver-provided” tickets would, however, likely detect such instances.

Contrary to the preferred comparisons described above, we noted that the comparisons performed by designated Solid Waste Utility staff were often done using only ticket copies provided by Recycled Fibers. This was attributable to the following:

The Solid Waste Utility should collect all driver weight tickets (Waste Pro and City) and use those tickets to ensure the accuracy of monthly reports and payments submitted by Recycled Fibers.

- Waste Pro does not provide the Solid Waste Utility with the weight ticket copies obtained by their drivers. Those tickets are kept by Waste Pro.
- Copies of weight tickets given by Recycled Fibers to City drivers are not always turned in for retention and use by the designated Solid Waste Utility staff making the comparisons. For example, in our review of activity for two months (September 2009 and March 2010), we identified 112 instances where City drivers did not turn in tickets to support weights reported by Recycled Fibers.

To enhance existing processes and controls, we recommend the Solid Waste Utility enact measures requiring/enforcing (1) submission by Waste Pro of weight tickets provided by Recycled Fibers to their drivers and (2) submission by City drivers of all weight tickets provided by Recycled Fibers. Those “driver-provided” tickets should be used by the designated Solid Waste Utility staff in validating the accuracy and completeness of activity reported by Recycled Fibers.

Revenues – Ace Salvage

PART 3 REVENUES – ACE SALVAGE

Minimal revenues have been collected for the disposal (sale) of white goods and scrap metal through the City's contract with Ace Salvage.

Overview. Contrary to initial expectations when the contract was executed, minimal revenues have been generated through the disposal (“sale”) of white goods and scrap metals through Ace Salvage. Solid Waste Utility management indicated anticipated revenues did not occur, in part, because customers (residential and commercial) can sell those items directly to vendors (such as Ace Salvage) for cash, instead of having the City collect and dispose of the items. As noted previously in the background section of this report, records show the Solid Waste Utility collected only \$2,153 over the last 21-month period. As also noted, this contract was not renewed upon its expiration on September 30, 2010.

Procedures should be revised such that amounts owed are billed through the City's centralized accounts receivable system, and resulting payments submitted by the applicable contractor directly to the City's Revenue Office. Under current procedures, designated Solid Waste Utility staff determined amounts owed by Ace Salvage for delivered white goods/scrap metals based on applicable market values and contract provisions. Upon determination of amounts owed, a Solid Waste Utility administrative specialist prepared and submitted an invoice to Ace Salvage. As directed, Ace Salvage sent the corresponding payments directly to the Solid Waste Utility. Those payments were received and processed by the same administrative specialist that prepared and submitted the related invoice. After processing, that administrative specialist transferred the payments (checks) to the City's Revenue Office for deposit into the City's bank account.

Our review showed the few payments collected from Ace Salvage were properly processed and timely transferred to the City's Revenue Office. However, the following issues were noted:

Procedures should be revised to bill Ace Salvage through the City's centralized accounts receivable system, with the corresponding payments sent directly to the City's Revenue Office.

- Checks received by the administrative specialist and not immediately processed and transferred to the Revenue Office were secured in an unlocked desk drawer. While that office was located in a secured building and generally accessible only to individuals working in the building, it was occasionally vacant and unlocked when the administrative assistant was temporarily away from her desk. Those circumstances increased the risk of unauthorized diversion of those checks.
- As previously noted in regard to revenues received from Recycled Fibers, preferred internal controls provide that staff authorizing and executing revenue activities (Solid Waste Utility) not also collect and process the related revenues. Preferably, the revenues should be collected and processed by separate staff (e.g., the City's Revenue Office). This same concept applied to revenues generated from disposal of items through Ace Salvage. Furthermore, City Administrative Policies and Procedures Manual No. 616 provides that activities billed on behalf of the City should be billed through the City's centralized accounts receivable system, which is administered through the City's Accounting Services section, a division of the Department of Management and Administration. That policy also provides entities (e.g., Ace Salvage) that are billed for City business should be instructed to send the corresponding payments directly to the City's Revenue Office, in accordance with good internal control practices. As noted above, these prescribed practices were not followed in regard to revenues owed by and received from Ace Salvage.

In the event the Solid Waste Utility continues to dispose of white goods and scrap metals through a contracted or non-contracted entity, we recommend procedures and processes be revised such that (1) amounts due the City are billed through the City's accounts receivable system administered by Accounting Services and (2) the entity is instructed to submit corresponding payments directly to the City's Revenue Office. To enable the Solid Waste Utility to ensure proper payments are received, they should access and review payment evidence in available City systems (i.e., PeopleSoft

Financials, CORE cashiering system, and/or the City's accounts receivable system).

Revenues – Non Routine Services

PART 4 REVENUES – NON-ROUTINE SERVICES

Overview. Non-routine collection services generate annual revenues approximating \$530,000, or three percent of total Solid Waste Utility revenues. In the background section of this report we described the various types of non-routine collection services provided by the Solid Waste Utility. Most of those services are billable to the applicable customers/citizens requesting and receiving the services. To ascertain if the proper fees were assessed and collected for the provision of those services, we selected and tested a sample of PeopleSoft CIS field activities (orders) created and dispatched to Solid Waste Utility collection staff, instructing them to provide 99 special collection services. Those system field orders were created by staff in the City's Utility Business and Customer Services department (UBCS) and/or staff in the Solid Waste Utility based on requests received (generally by phone) from the applicable customers/citizens. Our review of the completed field orders and related billings in PeopleSoft CIS showed, for the most part, the rendered services were properly billed and applicable fees collected.

Several issues were identified in regard to 10 of the 99 completed field orders. Those issues are described in the following:

Customers were not correctly billed for all services rendered.

For seven of the 99 services provided, we determined the following:

- One local business that requested and was provided solid waste collection services for three separate special events during March and April 2010 was not billed for those services. This lack of billing was attributable to staff oversight. Amounts not billed for those services totaled

\$804. Subsequent to our notification, the Solid Waste Utility retroactively billed the customer for those services.

- One commercial customer provided on-call services was not correctly billed for two collections (pick ups). In both instances only a portion of the fees were billed. Specifically, the customer was billed the proper rate and for the correct tonnage, but was mistakenly not billed for a \$52 “turnaround” fee applicable due to the special dumpster type. (The turnaround fee is charged, as more work is required to move the dumpster during the collection process.) Fees not billed for those two services totaled \$104.
- In one instance a commercial customer was mistakenly not billed for a non-routine collection (customer requested an extra dumpster collection over a weekend.) As a result, the customer was under billed \$55.
- In one instance, a commercial customer was mistakenly billed for the same non-routine collection service twice. This over billing occurred when different Solid Waste Utility staff made manual adjustments to bill the service without knowledge the other staff had also billed for the service. The customer was over billed \$100 as a result.

Instances were noted where customers were not properly billed for non-routine collection services.

In addition to the under and over billings noted above, we noted the following three instances where system field orders were not properly or adequately generated/completed:

- For two services, a type of system field order used to schedule performance of a billable non-routine collection service was instead generated as a reminder to Solid Waste Utility staff to perform a routine service. No notations were entered by staff when completing the system field order to explain the circumstances. As a result, it was difficult for Solid Waste Utility staff to ascertain why fees had not been charged in those

instances without extensive research into the past circumstances.

- For one non-billable service, the incorrect type of system field order was generated and completed. In this instance, the field order type used for billable off schedule services was incorrectly used for a missed or “incomplete” collection, which is not billable.

The above instances are indicative that improvements and enhancements should be made to ensure fees for non-routine services are properly billed and documented. We recommend Solid Waste Utility management enhance its oversight of the process for billing customers when non-routine services are rendered. Examples of enhancements would include creation of system queries to periodically generate reports of system field orders indicating completion of non-routine collection services; and, review of the completed field orders reflected on those reports (at least on a sample basis) to ensure fees are properly assessed and billed. Solid Waste Utility management should also reinforce (not only to Solid Waste Utility staff but also to Utility Business and Customer Services call center staff who create the majority of the field activities/orders) generation of the proper type of system field activity/order based on the services to be rendered.

Adequate documentation was not always prepared to justify why customers were sometimes not billed tonnage fees for yard waste and bulky item collections.

As described in the background section of this report, customers may request and receive, for a fee, collection of yard waste and bulky items (mattresses, appliances, used bicycles, etc.) outside their normally scheduled pick up times. The standard fee for that service is comprised of two components: (1) \$65 per quarter hour and (2) a tonnage fee that varies depending on the category of collections. For example, “clean yard waste” is billed at \$27 per ton, while “mixed waste” is billed at \$100 per ton.

In regard to special collection services for yard waste and bulky items outside the normal scheduled collection times, we found that

Documentation should be prepared justifying when tonnage fees are not appropriate.

a tonnage fee was not always billed. In response to our inquiry on this matter, Solid Waste Utility staff indicated the quantities collected (tonnage) for an individual customer sometimes do not warrant the driver making a separate trip to the applicable landfill solely for that special collection. For example, if the tonnage for a single customer is relatively small, the associated tonnage fee may be less than the costs (e.g., gas and staff time) of making a separate trip to the landfill for the purpose of disposing the collected materials and obtaining weight tickets needed to calculate a tonnage fee. The determination as to whether a single customer collection warrants a separate trip to a landfill inherently must be made by the staff performing the collection, at the time of the collection. From a cost/benefit perspective, this process is logical and appropriate.

Notwithstanding, we found the Solid Waste Utility generally did not document such circumstances explaining/justifying not billing for tonnages. Accordingly, records were not always adequate to justify reasons tonnage fees were not assessed and collected. For applicable special collections, we recommend Solid Waste Utility management implement a process whereby determinations not to assess tonnage fees are documented within the PeopleSoft CIS System. For example, those determinations could be documented in the comment field within the applicable system field activity/order.

Procedures should be revised such that fees for non-routine services, provided to individuals/entities without City utility accounts, are billed through the City's centralized accounts receivable system; and resulting payments submitted by those customers directly to the City's Revenue Office.

The vast majority of non-routine services are rendered to existing City utility customers. When those services are billable, the associated fee is billed and collected through the City's PeopleSoft CIS system. Controls established for that system are adequate to ensure proper collection and deposit of those fees.

Procedures should be revised to bill customers without City utility accounts through the City's centralized accounts receivable system, with the corresponding payments sent directly to the City's Revenue Office.

However, in the few instances where non-routine services collection services are rendered to individuals or entities that are not City utility customers, the Solid Waste Utility generates an internal invoice, submits the invoice to the customer, and receives the related payment. The same administrative specialist generally performs those activities. That administrative specialist subsequently transfers the collected payments to the City's Revenue Office for deposit into the City's bank account.

As noted previously in this report for revenues pertaining to the Ace Salvage contract, preferred internal controls provide that staff authorizing and executing revenue activities (Solid Waste Utility) not also collect and process the related revenues. Preferably, the revenues should be collected and processed by separate staff (e.g., the City's Revenue Office). This same concept applies to revenues generated from non-routine services rendered to customers without a City utility account. As also previously noted, City Administrative Policies and Procedures Manual No. 616 provides that activities billed on behalf of the City should be billed through the City's centralized accounts receivable system, which is administered through the City's Accounting Services section, a division of the Department of Management and Administration. That policy also provides entities (e.g., customers without City utility accounts) that are billed for City business should be instructed to send the corresponding payments directly to the City's Revenue Office, in accordance with good internal control practices. As noted above, these prescribed practices were not followed in regard to fees billed to customers without a City utility account.

As similarly recommended for other revenues addressed in this audit, we recommend procedures and processes be revised such that (1) amounts due from individuals/entities without City utility accounts are billed through the City's accounts receivable system administered by Accounting Services and (2) those customers are instructed to submit corresponding payments directly to the City's Revenue Office.

***PeopleSoft CIS
Controls –
Routine Services***

**PART 5
PEOPLESOFT CIS CONTROLS – ROUTINE
SERVICES**

Overview. One of our audit objectives was to ascertain if adequate controls were established within the PeopleSoft CIS to ensure customers were properly billed and revenues correctly received for routine solid waste services. The majority of solid waste services are routine, including weekly garbage and recycling collections for residential and commercial customers, and most weekly/biweekly dumpster collections for commercial customers. While some solid waste collection services are not billable (e.g., commercial dumpsters for recycling materials), many are billed at standard established rates.

Edit and reasonableness checks were established within the PeopleSoft CIS to ensure customers are properly billed for services rendered.

PeopleSoft CIS provides all utilities, including the Solid Waste Utility, the capability of establishing reasonableness and edit checks (controls) to ensure services are properly billed. For example, system queries have been developed to generate reports reflecting any customer premises (e.g., household) receiving (per the system) and being billed for electric services but not receiving (per the system) and being billed for water or solid waste services. Because a premises within the City receiving City electric services should also be receiving City water and solid waste services, that report assists in identifying instances where City staff inadvertently/incorrectly did not establish service (billing) agreements within the PeopleSoft CIS that provide for billing of water and solid waste services.

We reviewed the adequacy and completeness of edit/reasonableness checks established within the PeopleSoft CIS in regard to solid waste services. We found those checks (controls) were, for the most part adequate, complete, and otherwise appropriate. We identified one relatively minor instance indicative of the need to enhance existing checks and controls. That instance was discussed verbally with applicable management and staff. No other issues were identified.

Other Issues

Overview. During our audits we sometimes become aware of issues not directly related to the scope of our audit. During this audit, we identified one such issue, as explained in the following.

An employee funds bank account was incorrectly titled in a manner inferring it was a City bank account, thereby increasing the risk that City funds could be diverted for unauthorized purposes. During this audit, we became aware of an

employee funds bank account titled in a manner that inferred it was a City account. In this instance, Solid Waste employees established an employee activity (funds) bank account at the Tallahassee Leon Federal Credit Union several years ago. That account was closed in November 2009 and a new account opened at Wachovia Bank. The name on the account at both banks was “Solid Waste Operations.” The account was funded from profits from vending machines located at the Solid Waste facility. Funds from the account were used for employee activities, such as employee luncheons. Prior to our audit, the Treasurer-Clerk’s Office was not aware of the account.

As this account is strictly for employees as individuals and not intended for City business, it should not be titled in a manner that infers it is a City bank account. Titling the account as (or similar to) a City account increases the risk of the account being improperly used to deposit City revenues and receipts, and subsequent expenditure of those City funds being for unauthorized purposes. Our review of recent activity (i.e., dating back to January 2009) in this bank account did not show any deposits of or improprieties regarding City funds. Statements prior to January 2009 were not available for our review. In response to our discussions, Solid Waste Utility employees took corrective actions by renaming the account “SW Employee Activity Fund.” We consider that action adequate to address and resolve the noted risk.

In response to our recommendation, an employee funds bank account was re-titled so as not to infer it was a City account into which City revenues could be deposited.

Conclusion

The Solid Waste Utility has, for the most part, adequately administered audited areas; recommendations were made to recover overpayments totaling \$88,000 and to otherwise enhance existing controls and processes.

For the most part, our audit showed the Solid Waste Utility adequately and properly administered and monitored (1) the contract with Waste Pro for residential collection services and (2) revenue activities included in the scope of this audit. However, we identified overpayments to Waste Pro of approximately \$88,000 that were not detected by Solid Waste Utility staff reviewing and approving those invoices. Additionally, we identified several issues relating to both Waste Pro and selected revenue activities for which we recommended enhancements to ensure improved financial and operational efficiencies and effectiveness. Solid Waste Utility management has been receptive to our recommendations.

We would like to thank staffs in the Solid Waste Utility and UBCS for their assistance during this audit.

***Appointed
Official's
Response***

City Manager:

I am very pleased with the results of this audit report. The audit staff thoroughly analyzed the department's internal controls as reported and Solid Waste's management was receptive to the recommendations. Management's commitment to comply with the applicable policies, contractual obligations and regulations is quite evident by staff's collaborative efforts in taking steps to implement the recommendations indicated in the Action Plan as the audit was being conducted. I thank the audit staff and the department for their professionalism in ensuring maximization of revenues and strengthening of its internal control systems.

Appendix A – Action Plan

Action Steps	Responsible Employee	Target Date
A. Objective: Ensure proper payments to Waste Pro for services rendered.		
1. Actions initiated to recover the contractual overpayments (\$88,321) will be completed.	Reginald Ofuani	Completed as verified by audit (12/15/10)
2. Thorough and adequate reviews of future Waste Pro invoices will be emphasized to staff responsible for those functions. Additional training will be provided as needed and/or reassignments of review/approval responsibility made to other staff.	Rita Taylor Patsy Dyal	9/7/2010 *
3. Liquidated damages will be assessed in accordance with contractual provisions and rates unless documented approval is provided by appropriate levels of management to waive or reduce the liquidated damages. Management approvals for such waivers and/or reductions will be adequately documented.	Gary Sleeth	9/7/2010 *
B. Objective: Ensure timely actions by Waste Pro.		
1. PeopleSoft CIS field activities (orders) dispatched to Waste Pro will be followed up on weekly in accordance with existing procedures.	Gary Sleeth	6/16/2010 *
C. Objective: Ensure accurate recycling participation rates.		
1. Waste Pro will be instructed to use current customer counts when calculating and reporting overall (Citywide) monthly recycling participation rates.	Rita Taylor	10/22/2010 *

Action Steps	Responsible Employee	Target Date
2. A determination will be made whether it is cost beneficial to capture (count) the number of recycling customers by route and area on an on-going (e.g., monthly or quarterly) basis; if determined to be cost beneficial those counts will be provided to Waste Pro with instructions to be used in their calculations and reporting of recycling participation rates by individual route and area.	Reginald Ofuani	9/30/2011
D. Objective: Enhance contract administration and compliance.		
1. Waste Pro will be instructed to commence reporting required information on complaints received directly from City customers in accordance with contractual provisions.	Rita Taylor Gary Sleeth	10/22/10 *
2. Periodic route audits will be documented to capture the information noted in the audit report.	Rita Taylor Gary Sleeth	6/17/2010 *
3. Future contracts will (1) clarify and specify applicable City offices and departments that should have access to Waste Pro records pertaining to operation of the City contract and (2) require annual audited financial statements be provided to Solid Waste Utility management.	Reginald Ofuani (with assistance from Procurement Services)	Future date at which subsequent contract is negotiated and executed
E. Objective: Ensure proper and timely collection/deposit of revenues.		
1. Recycled Fibers will be instructed to remit monthly payments directly to the City's Revenue Office.	Patsy Dyal Paul Hurst	11/18/2010 *
2. Waste Pro will be required to provide copies of driver weight tickets from Recycled Fibers to the Solid Waste Utility.	Rita Taylor	10/22/2010 *
3. City drivers will be reminded to turn their copies of weight tickets into designated Solid Waste Utility managerial and administrative staff.	Rod Hightower Paul Hurst	12/15/2010 *
4. Designated Solid Waste Utility staff will use driver-provided weight tickets to ensure the accuracy and correctness of Recycled Fibers' monthly reports and payments.	Paul Hurst	12/15/2010 *

Action Steps	Responsible Employee	Target Date
5. To the extent the City continues to dispose of white goods and scrap metals through a contracted or non-contracted entity for a fee, revenues due the City will be billed through the centralized accounts receivable system administered by Accounting Services; with the corresponding payments sent by the contractor directly to the City's Revenue Office.	Patsy Dyal Paul Hurst	11/18/2010 *
F. Objective: Ensure proper billing and collection of fees for non-routine collections.		
1. Solid Waste Utility management will enhance the review of the billing process for non-routine services. This will include using a PeopleSoft CIS query to generate periodic reports of completed system field orders reflecting the provision of billable non-routine services; and review of the items on the report (on at least a sample basis) to ensure proper billing of those services.	Julia Dupree	1/3/2011 *
2. Staff will be reminded to use the correct system field activity/order type for the services to be rendered.	Rita Taylor (with assistance from Utility Business and Customer Services)	10/1/2010 *
3. Drivers will be instructed to document on the applicable system field activity/order when it is not cost beneficial to make a separate trip to the landfill for the collected materials.	Rod Hightower	8/2/2010 *
4. Fees for non-routine services rendered to individuals/entities without City utility accounts will be billed through the centralized accounts receivable system administered by Accounting Services; with the corresponding payments sent by those individuals/entities directly to the City's Revenue Office.	Patsy Dyal	11/18/2010 *

G. Objective:	Ensure City funds are not diverted for unauthorized purposes.		
1. The employee funds bank account will be re-titled so as not to infer it is a City bank account.	Rita Taylor	Completed as verified by audit (5/28/10)	

*Per department, action plan step has been completed as of indicated date. Completion will be verified during the audit follow-up process.