February 23, 2011

Mayor and Council Members:

SUBJECT: Follow-up Audit of the Solid Waste Management Department – Solid Waste Fees Collected by CPS Energy

We are pleased to send you the follow-up audit report of the Solid Waste Management Department. This audit began in December 2010 and concluded with an exit meeting with department management in February 2011. Management’s verbatim response is included in Appendix B of the report. The Solid Waste Management Department should be commended for its cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully submitted,

Kevin Barthold, CPA, CIA, CISA
Acting City Auditor
City of San Antonio
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Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted a follow-up audit of the recommendations made in the Solid Waste Management Department - Solid Waste Fees Collected by CPS Energy audit report dated December 12, 2008. The objective for this follow-up audit is:

**Has the Solid Waste Management Department effectively implemented actions to address the prior audit recommendations?**

The audit team reviewed management actions for all twelve audit recommendations and determined that the Solid Waste Management Department has implemented all recommendations in the report mentioned above.

Solid Waste Management Department response is in Appendix B on page 7.
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Background

In December 2008, the Office of the City Auditor completed an audit of the Solid Waste Management Department (SWMD) – Solid Waste Fees Collected by CPS Energy (CPS). The objective of that audit was:

Is CPS appropriately calculating, collecting, and reporting solid waste fees being assessed in customer energy bills?

The report identified that CPS was inappropriately calculating, collecting, and reporting solid waste fees for recent COSA annexations, exempt neighborhoods, certain residents of other cities, and residents with multiple automated garbage carts. In addition, this report determined that CPS overcharged approximately $64,000 in administrative fees during fiscal year (FY) 2007 and the first half of FY 2008.

The report recommended SWMD:

- develop procedures to monitor the propriety of CPS solid waste billings
- work with CPS to correct customer billings
- request a refund from CPS for overcharged administrative fees
- revise the Municipal Code to include garbage fees for residents with multiple automated garbage carts
- work with the Finance Department’s Public Utility Division to revise remittance terms with CPS
- perform an assessment of the reasonableness of CPS’s administrative charges

Audit Scope and Methodology

The scope was FY 2009 and FY 2010. In addition, we relied on unaudited customer data from December 2010. The audit methodology consisted of reviewing SWMD policies and procedures related to route inspectors, and observing and flowcharting the different processes. Additionally, the audit team conducted interviews with appropriate management and staff and reviewed corrections to customer accounts. The audit team also reviewed supporting documentation for the refund from CPS, the current Memorandum of Understanding with CPS, and the R.W. Beck assessment report of CPS’s administrative charges.

We performed the follow-up audit in accordance with guidance from the Institute of Internal Auditors’ (IIA) Professional Practices Framework (Practice Advisory 2500.A1-1) and other procedures that we considered necessary. IIA standards
require that we establish a follow-up process to monitor and ensure that management has effectively implemented actions or that senior management has accepted the risk of not taking action.
Prior Recommendations and Audit Results

A. Recently Annexed Areas

A-1. SWMD should establish procedures to monitor CPS billings to residents of newly annexed areas.

**Status: Implemented**
Since the entire City has fully automated garbage service, a new customer (or one in a newly annexed area) must call SWMD to request a garbage cart in order to receive service. Auditors verified that SWMD has written specific procedures (SWMD Route Inspector Policies and Procedures Section 3) for servicing and billing new customers. Therefore, we determined that SWMD has implemented this recommendation.

A-2. SWMD should work with CPS to bill residents who were undercharged or not charged. Credits or refunds should be given to those who were overcharged during the past year, according to the provisions of the Municipal Code.

**Status: Implemented**
SWMD worked with CPS to correct billing errors identified during the prior audit for residents of newly annexed areas. We validated credits issued to 88 customer accounts.

B. Exempt Neighborhoods

B-1. SWMD should establish procedures to monitor CPS billings to residents of exempt properties.

**Status: Implemented**
SWMD management effectively developed procedures (SWMD Route Inspector Policies and Procedures Section 3.1) to monitor CPS billings to residents of exempt properties.

B-2. SWMD should work with CPS to appropriately credit or refund residents who were mistakenly charged garbage, brush, and conversion fees.

**Status: Implemented**
SWMD worked with CPS to correct billing errors identified during the prior audit.
C. Residents of Other Cities

C-1. SWMD should establish procedures to monitor billings to ensure that CPS does not bill residents of other cities for COSA solid waste fees.

**Status: Implemented**
Given that SWMD does not generate solid waste billings, they can only correct an account when notified by the customer (SWMD Route Inspector Policies and Procedures Section 3.4.3). Therefore, we conclude that SWMD has implemented this recommendation to the best of their ability.

C-2. SWMD should work with CPS to appropriately credit or refund nonresidents who were charged COSA fees.

**Status: Implemented**
SWMD worked with CPS to correct billing errors identified during the prior audit. Of a sample of 20 accounts reviewed, all were corrected.

D. Municipal Code Revisions—Automated Service

D-1. SWMD should work with COSA management to update the Municipal Code to include rates for additional garbage carts.

**Status: Implemented**
The Municipal Code was revised per Ordinance 2009-09-17-0731Q to include rates for additional garbage carts.

D-2. SWMD should work with CPS to develop procedures to monitor billings to residents with multiple garbage carts.

**Status: Implemented**
SWMD management effectively developed procedures (SWMD Route Inspector Policies and Procedures Section 3.4.2) to monitor CPS billings to residents with multiple garbage carts.

E. CPS Administrative Fee Overcharge—Number of Billings

E-1. SWMD should request a refund from CPS for the overcharged administrative fees.

**Status: Implemented**
CPS issued a credit of $88,202, which includes $64,266 identified in the prior audit plus $23,936 for overcharges in fiscal year 2009.
E-2. SWMD should work with CPS to correct the SAP mechanism that tallies monthly billings used in the administrative fee computation.

**Status: Implemented**
We reviewed correspondence between CPS and Finance Department’s Public Utility Division related to the correction of administrative fee computation. CPS modified the calculation methodology to ensure accurate computation.

### F. CPS Transmittal of Payments

F-1. SWMD should work with the Finance Department’s Public Utility Division to revise remittance terms with CPS so that the payment made on the 5th of the month represents approximately one-half of the expected total monthly solid waste fee revenue.

**Status: Implemented**
SWMD worked with the Finance Department’s Public Utility Division to revise remittance terms with CPS. However, CPS and the Finance Department’s Public Utility Division agreed to increase the initial payment to $2,000,000 (which is approximately one-third of expected monthly revenue) with annual adjustments as needed.

### G. CPS Administrative Fee Charges

G-1. SWMD, with the assistance of the Finance Department’s Public Utility Division, should perform an assessment of CPS’s administrative charges to determine if they are reasonable.

**Status: Implemented**
R.W. Beck Inc. performed an assessment of CPS's administrative charges and determined that the charges were reasonable.
Appendix A – Staff Acknowledgement

Barry Lipton, CPA, DABFA, Deputy City Auditor
Mark Bigler, CPA-Utah, CISA, CFE, Audit Manager
Arlena Sones, CPA, CIA, CGAP, Auditor in Charge
Claudia Pena, CFE, Auditor
Appendix B – Management Response

CITY OF SAN ANTONIO

Barry Lipton, CPA, DABFA
Deputy City Auditor
San Antonio, Texas

RE: Management’s Acknowledgement of the Follow-Up Audit of the Solid Waste Fees Collected by CPS Energy

Here are our comments to the subject report.

☑ Fully Agree (provide detailed comments)

The Solid Waste Management Department agrees with the findings of the Follow-Up Audit of the Solid Waste Fees Collected by CPS Energy. Although there are no further actions step required, the Department will continue to monitor future CPS billings to insure that the City is receiving the correct amounts.

☐ Agree Except For (provide detailed comments)

☐ Do Not Agree (provide detailed comments)

Sincerely,

Peter Zanohl
Assistant City Manager
City Manager’s Office

David W. McCary
Director
Solid Waste Management Department