CITY OF SAN ANTONIO

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SAN ANTONIO TEXAS 78283-3966

November 1, 2011

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Mayor

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Ivy R. Taylor
Councilwoman, District 2

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Councilman, District 8

Elisa Chan
Councilwoman, District 9

Carlton Soules
Councilman, District 10

SUBJECT: Audit Report of Solid Waste Management Landfill and Recycling Charges

Mayor and Council Members:

We are pleased to send you the audit report of the Solid Waste Management Landfill and Recycling Charges. This audit began in February 2011 and concluded with an exit meeting with department management in August 2011. Management's verbatim response is included in Appendix C 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 W. Barthold, CPA, CIA, CISA
Acting City Auditor
City of San Antonio

Distribution:

Sheryl L. Sculley, City Manager
Peter Zanoni, Assistant City Manager
David McCary, Director, Solid Waste Management Department
Ben Gorzell, Chief Financial Officer
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Donald Crews, Audit Committee Member
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CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR

Audit of Solid Waste Management Department

Landfill and Recycling Charges

Project No. AU11-007

November 1, 2011

Kevin W. Barthold, CPA, CIA, CISA
Acting City Auditor

Executive Summary

As part of our annual Audit Plan, we conducted an audit of the Solid Waste Management Department's landfill and recycling charges. The audit objectives, conclusions, and recommendations follow:

Are internal controls in place to ensure that charges to Solid Waste Management Department (SWMD) by landfill and recycling centers are accurate and properly recorded?

No, controls are not in place to ensure that landfill and recycling charges are accurate and properly recorded. SWMD did not utilize independent information to verify tonnage used to calculate landfill and recycling charges, nor did they have other mitigating controls to ensure tonnage accuracy. We also identified approximately $380,000 in underpayments due to the City for February 2010 through March 2011. SWMD's agreement with Greenstar does not reflect current practices with regard to the methodology for calculating payment. Finally, we determined that SWMD did not properly record recycling gross revenues and processing fees in the City's financial system (SAP) but instead recorded revenues at net value. *During the course of the audit, SWMD made appropriate adjusting entries in SAP to properly record recycling revenues and expenses for FY2010 and 2011.*

We recommend the Director of SWMD ensure that:

- Processes are developed to independently verify the accuracy of tonnage reported by landfill and recycling vendors.
- All outstanding recycling revenue due to the City is identified and collected from Greenstar.
- Relevant information is requested from Greenstar and verified to ensure that payments are accurate and in accordance with agreement terms.
- The City's agreement with Greenstar is re-evaluated and current practices are formalized.
- Recycling revenues and expenses continue to be recorded in accordance with generally accepted accounting principles.

SWMD Management's verbatim response is in **Appendix C** on page 8.

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Background

The Solid Waste Management Department (SWMD) manages weekly curbside collection and disposal of municipal solid waste and recycling for approximately 340,000 homes within the City limits. SWMD has contracts with Browning-Ferris, Inc. (BFI), Texas Disposal Systems Landfill, Inc. (TDS), and Waste Management, Inc. (WMI) for solid waste landfill disposal services. For recyclable processing, SWMD has a contract with Greenstar Recycling (Greenstar). These vendors charge the City a fee per ton for solid waste disposal or recyclable material processing. The landfill contracts are long term contracts (20-30 years) that allow for fees to be adjusted annually, based on increases in the Consumer Price Index. In FY2010, SWMD incurred approximately $9 million in fees for the disposal of municipal solid waste.

SWMD also operates a curbside recycling program that accepts materials such as paper, cardboard, aluminum, and plastics. The current recycling contract with Greenstar includes a rebate for recyclable materials that generally offsets the costs of processing them. Greenstar charges the City a $35.25 fee per ton to sort and process the materials. Greenstar sells the recyclable materials in the commodities market and remits a portion of the revenues to the City, minus processing fees. According to the agreement, the City receives a rebate of 100 percent of Official Boards Market monthly pricing for fiber products (paper and cardboard) and 50 percent of the actual sales price for all other materials sold. See **Appendix A** - *Greenstar Rebate Schedule*.

SWMD and Greenstar agreed to use the results from Quarterly Waste Characterization Audits (WCA) as a basis for determining payment. These audits are designed to identify the composition of the City's recycling stream. A sample of SWMD's recyclable truck-loads are isolated, processed, and sorted at the Greenstar facility. The results show the percentage of each commodity and percentage of residual (trash)[1] represented in the sample. These percentages are then applied to the total recycling tons collected by the City in a given month to determine tonnage allocation of each commodity. These calculations ultimately determine the amount of the City's rebate. In FY 2010, the City received approximately $3.1 million in net revenues from its agreement with Greenstar.

[1] According to the agreement, residual is considered trash. The City receives no payment for residuals and is charged the $35.25 processing fee.

Audit Scope and Methodology

The audit scope included revenues, expenses and operations for October 2009 through March 2011.

We interviewed SWMD staff and relevant personnel from BFI, TDS, WMI and Greenstar. We also observed operations at landfill and recycling centers. We reviewed invoices from landfill vendors, remittances from recycling vendors and related supporting documentation. Finally, we reviewed vendor scale certification and inspection records. Testing criteria included regulations from the Texas Department of Agriculture, U.S. Department of Labor, the City's Purchasing Manual, SWMD landfill and recycling contracts, and generally accepting accounting principles.

We relied on computer-processed data in SAP (the City's financial system). Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included review of SAP entries for disposal costs and recycling revenues. We also used revenue support data to validate recorded entries in SAP. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this audit from February 2011 to July 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

Audit Results and Recommendations

A. No Independent Verification of Tonnage

SWMD does not utilize independent information to verify the tonnage used to calculate charges from landfill and recycling vendors. SWMD currently compares vendor submitted invoices to scale tonnage reports also provided by the vendor. Additionally, SWMD does not have other mitigating controls in place to validate tonnage accuracy.

For example, SWMD does not monitor vendors' scale calibration and maintenance efforts. Instead, they rely on the vendors to voluntarily provide proof of State registration and inspections by the Texas Department of Agriculture (TDA). We determined that one vendor failed to provide proof a current TDA registration and one vendor was operating without one. TDA conducts a physical inspection every four years and requires annual vendor registration. However, these minimum State requirements for registration and inspection do not provide reasonable assurance that the scales are accurate. There are several factors that affect scale accuracy, including scale type, placement, and frequency of use. Depending on these factors, the need for servicing could be as often as monthly, weekly, or even daily.

Additionally, SWMD does not have a process in place to properly monitor tare weights used by vendors to calculate total tonnage. SWMD could not provide tare weights for 43 of the 288 trucks on its master list. Therefore, SWMD cannot verify that vendors have the appropriate tare weights recorded in their scale systems. We reviewed a cumulative total of 562 tare weights recorded in TDS, WMI, and BFI systems. We determined that 59 (or 11 percent) varied by greater than 500 pounds from the tare weights provided by SWMD.

According to the City's Purchasing Manual, originating departments are responsible for all contract monitoring efforts, including reviews to verify that all expenses submitted for payment from the City are accurate. Without proper internal controls in place to ensure that tonnage is accurate, the City is subject to intentional or unintentional overbillings.

Recommendations

The Director of SWMD should ensure that processes are developed to independently verify the accuracy of tonnage reported by landfill and recycling vendors. These processes may include, but should not be limited to: 1) formally requesting and evaluating vendors' scale calibration and maintenance efforts, and/or 2) developing and utilizing a comprehensive master truck list to verify SWMD's tare weights recorded in vendors' systems.

B. City Underpaid for Recycling Rebates

Greenstar underpaid the City approximately $380,000 in recycling rebates during the 13 month period of February 2010 to March 2011.[2] SWMD did not properly review remittances for recycling rebates to ensure that Greenstar used the appropriate tonnage allocations and correct commodity rates. SWMD did not request adequate supporting documentation to verify that payments were accurate and in accordance with agreement terms. Greenstar's monthly remittance reports did not show what percentages were used to calculate the tonnage per recyclable commodity, nor did they show how the rebates were calculated. For each commodity, the report simply showed the tons of each commodity, the net rate per ton (after rebate percentage and processing fee), and total amount remitted.

According to the City's Purchasing Manual, calculations of variable amounts due to the City should always be reviewed for the calculation methodology and for verification of the data used in calculation back to the supporting documentation.

Recommendation

The Director of SWMD should ensure that:

- All outstanding recycling revenue due to the City is identified and collected from Greenstar.
- Relevant information is requested from Greenstar and verified to ensure that payments are accurate and in accordance with agreement terms.

C. Current Practices not Reflected in Contract

The contract between the City and Greenstar does not reflect actual practices currently in place, because agreed upon amendments were not documented as part of the contract. For example, the contract does not include the tonnage allocation method currently being utilized as the basis for payment. Also, the contract stipulates that the rebates paid to the City are determined by actual sales prices for various commodities; however, SWMD and Greenstar have informally agreed to use an average monthly sales price.

Per City guidelines, all transactions for goods and services are accomplished through an authorized and executed legal document. Additionally, contract modifications must be signed by the City official identified in the contract and the contractor.

Recommendation

The Director of SWMD should ensure the City's agreement with Greenstar is re-evaluated and current practices are formalized.

[2] The audit team did not recalculate payments for October 2009 through January 2010, because neither SWMD nor Greenstar could provide waste characterization audit results that would have been effective for these months.

D. Gross Revenue and Processing Fees not Properly Recorded

SWMD did not record gross revenue and processing fees for recyclable transactions in SAP during FY2010 and the first half of FY2011. SWMD only recorded the net revenue received from the sale of its recyclable commodities. Generally accepted accounting principles (GAAP) require that statements of revenues and expenditures reflect an all-inclusive record of the transactions and events that affect an entity's operations. Expenditures represent a decrease in financial resources, and therefore should be included in the City's financial records. When revenue is recorded net of processing fees, the statement of revenues and expenditures does not show an accurate representation of the expenses SWMD incurred, nor of the actual gross revenues earned. *During the course of the audit, SWMD made appropriate adjusting entries in SAP to properly record recycling revenues and expenses for FY2010 and 2011.*

Recommendation

The Director of SWMD should ensure that recycling revenues and expense continue to be recorded in accordance with GAAP.

Appendix A – Greenstar Rebate Schedule

Greenstar Rebate Schedule			
	Processing Fee	**Rebate Percentage****	**Calculation**
Old Newspaper (ONP)	$35.25	100%	[(Rebate % * Market Price) - $35.25] * Commodity Tonnage, where Commodity Tonnage = Audit Allocation % * Total Monthly Tonnage
Old Corrugated Cardboard (OCC)	$35.25	100%	
Mixed Paper	$35.25	100%	
Glass	$35.25	0%	
Plastics	$35.25	50%	
Aluminum/Used Beverage Cans (UBC)	$35.25	50%	
Steel, Tin, Metals	$35.25	50%	
**For fiber products (ONP, OCC, Mixed Paper) market price is determined by Official Boards Market (OBM) high pricing for the Southwest Region. For all others, market price is based on the monthly average of Greenstar's actual selling prices for the commodity.			

Appendix B – Staff Acknowledgement

Brian K. Williams, MBA, CIA, CFE, GGAP, Audit Manager
Cynthia Hicks, MBA, CIA, CFE, Auditor in Charge
Sylvia Esparza, MBA, CFE, Auditor

Appendix C – Management Response

CITY OF SAN ANTONIO
SAN ANTONIO TEXAS 78283-3966

October 24, 2011

Kevin W. Barthold, CPA, CIA, CISA
Acting City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of Landfill and Recycling Charges

The Solid Waste Management Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
A	**No Independent Verification of Tonnage** The Director of SWMD should ensure that processes are developed to independently verify the accuracy of tonnage reported by landfill and recycling vendors. These processes may include, but should not be limited to: 1) formally requesting and evaluating vendors' scale calibration and maintenance efforts, and/or 2) developing and utilizing a comprehensive master truck list to verify SWMD's tare weights recorded in vendors' systems	p. 3	Accept	Walter Barrett, Organizational Manager	11/01/11
	Action plan: The Department's Organizational Manager will develop a formal written Departmental Administrative Directive, which documents the policy and procedures for accurately verifying the tonnage of materials taken to disposal and recycling vendors. The process will include monitoring and verifying the vendor's use and monitoring of tare weights (actual truck weight) for City vehicles, verification of the vendor's scale calibrations and certifications, requiring City drivers to verify weights of materials disposed of and ensuring the Department's Fiscal Office has the proper information to verify the vendor's invoice. The Department will utilize their Brush Processing Center scales to verify the load weight of the trucks on a scheduled basis prior to the trucks being weighed at the disposal facilities.				

Appendix C – Management Response (continued)

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
B	**City Underpaid for Recycling Rebates** The Director of SWMD should ensure that: • All outstanding recycling revenue due to the City is identified and collected from Greenstar. • Relevant information is requested from Greenstar and reviewed to ensure that payments are accurate and in accordance with agreement terms.	p.4	Partially Accept	Ka Rhonda Crummie, Department Fiscal Administrator	11/01/11
	Action plan: a.) SWMD is in agreement with the Auditors that Greenstar has underpaid the recycling rebates. However, SWMD believes the amount owed is $348,308 instead of the Auditor's calculated amount of $379,390. The Department has shared their findings with the Auditors. b.) SWMD and Greenstar have agreed to a preliminary finding and Greenstar has paid $111,000 against the underpaid amount. SWMD anticipates receiving the remaining amount of $237,308 from Greenstar by no later than the end of the calendar year 2011. c.) The Department's Fiscal Administrator is working with Greenstar to ensure that the correct methodology is used for calculating any future revenue, which is due to the City. The SWMD will request that Greenstar submit documentation outlining the percentages by commodities used, the unit sales pricing and any offsetting factors.				
C	**Current Practices not Reflected in Contract** The Director of SWMD should ensure the City's agreement with Greenstar is reevaluated and current practices are formalized.	p.4	Accept	Ka Rhonda Crummie, Department Fiscal Administrator	11/01/11
	Action plan: The Department's Fiscal Administrator is developing an amendment to the Greenstar Contract, which will document the correct process and procedures for determining the basis of Greenstar's charges for expenses and for determination of revenue rebates. The amendment will stipulate the method for the allocation of tonnages by commodity and the correct sales pricing for determining the revenue rebates. The Greenstar contract is currently in the first one-year extension of the original contract term with two one-year extensions remaining. Consequently, the SWMD is in the process of developing a Request for Proposal (RFP) for solicitation of a new contract for the processing of the City's recyclable materials collected through the curbside collection program. The RFP will contain a detailed section for the proper calculation of the revenue rebates.				

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Appendix C – Management Response (continued)

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
D	**Gross Revenue and Processing Fees not Recorded** The Director of SWMD should ensure that recycling revenues and expense continue to be recorded in accordance with GAAP.	p.5	Accept	Ka Rhonda Crummie, Department Fiscal Administrator	02/01/11
	Action plan: In February, 2011, the SWMD in conjunction with the Finance Department determined the method and procedure on how to properly record recycling revenues and expenses in accordance with Generally Accepted Accounting Principles (GAAP) for the Greenstar contract. Since February, 2011 the Greenstar recycling revenues and expenses for FY 2011 have been properly recorded.				

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,

David W. McCary
Director
Solid Waste Management Department

10/18/11
Date

Peter Zanoni
Assistant City Manager
City Manager's Office

10-24-2011
Date

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CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

October 24, 2011

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Sincerely,

David W. McCary
Director
Solid Waste Management Department

10/18/11
Date

Peter Zanoni
Assistant City Manager
City Manager's Office

10-24-2011
Date