



CITY OF SAN ANTONIO

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February 13, 2014

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Councilman, District 10

SUBJECT: Follow-up Audit Report of Solid Waste Management Department – Landfill and Recycling Charges

Mayor and Council Members:

We are pleased to send you the final report of the follow-up audit of the Solid Waste Management Department – Landfill and Recycling Charges. This audit began in May 2013 and concluded with an exit meeting with department management in November 2013. Management's verbatim response is included in Appendix B of the report. The Solid Waste Management Department's management and staff should be commended for their 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,

A handwritten signature in black ink, appearing to read "Kevin W. Barthold".

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

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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Follow-up Audit of Solid Waste Management Department

Landfill and Recycling Charges

Project No. AU13-F06

February 13, 2014

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

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 Audit of Solid Waste Management Department Landfill and Recycling Charges dated November 1, 2011. The objective for this follow-up audit follows:

Has Solid Waste Management Department successfully implemented action plans to address the prior audit recommendations?

Yes, Solid Waste Management Department (SWMD) has successfully implemented action plans that address all four recommendations from the November 2011 report.

The prior audit observations included a lack of independent verification of tonnage, an underpayment of recycling rebates, the contract not reflecting current processes, and gross revenue and processing fees not properly recorded.

SWMD management's verbatim response is provided in **Appendix B** on page 6.

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Background

In November of 2011, the Office of the City Auditor completed an audit of Solid Waste Management Department (SWMD). The objective of that audit was as follows:

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?

The Office of the City Auditor concluded that SWMD management had not implemented adequate controls to ensure that landfill and recycling charges are accurate and properly recorded. Specifically, SWMD did not utilize independent information to verify tonnage used to calculate landfill and recycling charges. Additionally, we identified \$380,000 in underpayments due to the City. Also, SWMD's agreement with Greenstar did not reflect current practices regarding the methodology for calculating payment. Finally, 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.

Audit Scope and Methodology

The audit scope was limited to the recommendations made in the original report and corresponding action plans implemented between November 2011 and May 2013.

We reviewed SWMD's policies and procedures for the recycling and expenditure verification process, the vehicle weighing and monitoring process, and the recycling characterization audit process. Additionally, we interviewed staff regarding the respective processes to gain a better understanding. We observed the June 2013 recycling characterization audit to determine if SWMD was performing the required quarterly audits.

For the months of October 2012 through May of 2013, we obtained the required reports to calculate the recycling processing cost and revenue to determine if all reports were accurate. We relied on computer-processed data in SAP to validate the monthly recycling processing cost and revenue journal entry. 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 tracing the recycling revenue and processing cost invoice into SAP to determine if SWMD had recorded the revenue at the gross amount. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

Additionally, we determined if SWMD had independently verified the sales prices of materials by obtaining and reviewing the materials pricing audits for October 2012 through May of 2013.

We obtained and reviewed the tare weight analysis SWMD performs for vehicles to determine if SWMD is independently monitoring vehicle tare weights in vendor systems. Additionally, we obtained the most recent 3rd party scale calibration certifications to verify SWMD certification of vendor scales. We also obtained evidence that SWMD performs periodic gross weight checks of vehicle loads at a City weight site. Finally, we obtained evidence that SWMD periodically verifies the accuracy of vendor scales by using a City vehicle to compare weights at each vendor scale.

We conducted this follow-up audit 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.

Prior Audit Recommendations and Status

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.

Status: Implemented

SWMD has developed a comprehensive vehicle weighing and monitoring process. We reviewed the policy, determined it was adequate, and tested it for compliance.

SWMD now maintains a master truck list with a benchmark mean tare weight calculated for each vehicle. Additionally, SWMD performs periodic gross weight checks by comparing vehicle loads weighed at vendor scales to City scales. Finally, SWMD verifies that vendors have their scales inspected for accuracy by a 3rd party by obtaining the scale certifications

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 verified to ensure that payments are accurate and in accordance with agreement terms.

Status: Implemented

After the previous audit, SWMD determined that Greenstar owed SWMD \$348,000 in recycling rebates. SWMD received the correct payment from Greenstar and properly recorded it in SAP.

SWMD now performs monthly materials pricing audits to verify the average selling prices of commodities used in the recycling rebate calculation. Greenstar provides SWMD with a materials pricing report, which details the price at which commodities were sold. SWMD then verifies the prices on the report by agreeing them with the sales invoices.

C. Current Practices Not Reflected in Contract

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

Status: Implemented

SWMD has implemented a comprehensive recycling and revenue expenditure verification policy. This policy details the methodology used to record the monthly recycling rebate. SWMD performs a quarterly recycling characterization audit to allocate tonnages by commodity to ensure the recycling rebate is correct. Additionally, SWMD verifies the average sales price of commodities used in the calculation of the recycling rebate.

D. Gross Revenue and Processing Fees Not Properly Recorded

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

Status: Implemented

SWMD is recording the recycling rebate at the gross amount as required by GAAP. For October 2012 through May 2013, we obtained the invoice used to record the recycling processing cost and recycling rebate and determined it was recorded in SAP at the gross amount.

Appendix A – Staff Acknowledgement

Buddy Vargas, CFE, Audit Manager
Douglas Francis, Auditor in Charge
Abigail Medina, Audit Intern

Appendix B – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

January 16, 2014

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

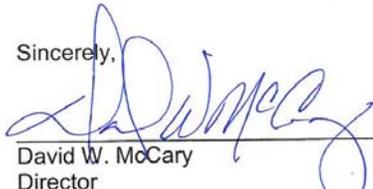
RE: Management's Corrective Action Plan for AU13-F06 Landfill and Recycling Charges

Solid Waste Management has reviewed the audit report and provided its comments to the auditors. As there are no recommendations for management, no management responses are required.

Fully Agrees (provide detailed comments)

Does Not Agree (provide detailed comments)

Sincerely,



David W. McCary
Director
Solid Waste Management Department

1/16/14

Date



Peter Zanoni
Deputy City Manager
City Manager's Office

1-17-14

Date