



CITY OF SAN ANTONIO

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September 29, 2015

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Joe Krier
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Mike Gallagher
Councilman, District 10

SUBJECT: Audit Report of Solid Waste Management Department Organics Recycling Program

Mayor and Council Members:

We are pleased to send you the final report of the Solid Waste Management Department Organics Recycling Program. This audit began in May 2015 and concluded with an exit meeting with department management in August 2015. Management's acknowledgement of the results of the audit is included in Appendix B of the report. The Solid Waste Management Department 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,

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



Audit of Solid Waste Management Department

Organics Recycling Program

Project No. AU15-026

September 29, 2015

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

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Solid Waste Management Department (SWMD), specifically the Organics Recycling Program. The audit objective, conclusion, and recommendation follow:

Are key components of the City's Organic Recycling Program accurately monitored, supported, and reported?

Yes, the City's Organics Recycling Program is accurately monitored, supported, and reported. SWMD had adequate controls in place to ensure invoices were accurate and properly supported. Additionally, the SWMD processed the invoices for payment timely.

Overall, SWMD's monitoring procedures were adequate to ensure compliance with key contract requirements. We verified appropriate performance bond and insurance coverage. We also verified adherence to contract requirements related to the reporting of organic weight and safety plans. Finally, we confirmed SWMD accurately reported the tonnage of organics recycled at New Earth Inc.

No recommendations were made for this audit.

Solid Waste Management's verbatim response is in Appendix B on page 5.

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Background

Solid Waste Management Department 's (SWMD) mission is to protect the public health and safety of the City by providing quality municipal solid waste services and environmental programs that are safe, efficient, cost effective, and environmentally responsible.

On June 2010, the City adopted a 10-year Recycling and Resource Recovery Plan (Plan). Two of the key programs outlined in the Plan were yard waste and food waste collection. To facilitate the Plan, the City elected to combine these two programs into one new "Organics" program (Program). The Program was approved by City Council in August 2011 as a pilot Organics Recycling Program for approximately 30,000 households along with a contract for organics processing with New Earth Inc. In December 2012, City Council endorsed a revised Plan which converted from an embedded to a subscription-based service.

On January 2013, City Council officially adopted the revised plan and the City established a subscription based Organics program. It is projected that the Program will ultimately allow the Department to divert the organic materials collected away from landfills. The Program will consist of the once-per-week collection of green 48 or 96-gallon wheeled cart. As of July 2015, SWM has subscribed approximately 18,000 households and collected 7,708 tons from the organics recycling program.

In February 2014, the City entered into an agreement with New Earth Inc. for the delivery of organic material at a rate of 16.50 per ton of material delivered to the New Earth Inc. The estimated total annual budget sum will not exceed \$600,000 unless City Council action is taken to amend the ordinance. In addition, the subscription rate for each customer is \$3, which is billed through their City Public Service bill.

Beginning Fiscal Year 2016, the City will transition away from the subscription based Organics Recycling Program. They will begin a Variable Rate Pricing (VRP) conversion that will allow residents to select from 3 garbage (brown) cart sizes, and rates will vary according to cart size. The larger a garbage (brown) cart a resident chooses, the higher the assessed rate will be. The resident will also receive an organics and a recycling cart. The VRP will incentivize residents to divert more waste to the organics (green) and recycling (blue) carts in an effort to need a smaller garbage cart.

Audit Scope and Methodology

The audit scope included invoice testing from January 2014 through April 2015. The scope also included monitoring of contract requirements between the City and New Earth Inc.

We interviewed Solid Waste Management Department (SWMD) staff to obtain an understanding of the contract requirements between the City and New Earth Inc. and the processes in place to monitor those requirements. Additionally, we interviewed SWMD fiscal staff to obtain an understanding of the invoice reconciliation and payments process.

We tested 15 months of invoices received from New Earth Inc. to verify they were processed appropriately. Specifically, we vouched the invoices to the source documentation (i.e. daily weigh tickets) to verify they were accurately billed, adequately supported and paid timely.

We reviewed SWMD's monitoring procedures to determine adequate monitoring of key contract requirements. We reviewed for appropriate performance bond and insurance coverage. We also reviewed adherence to contract requirements related to the reporting of organic weight and safety plans.

We performed an analysis of organic subscribers currently receiving service. We obtained the population of subscribers from July 2013 through July 2015 to determine if the number of subscribers was gradually increasing as the program progressed and if subscribers were included in CPS billing.

Testing criteria included SWM departmental policies and procedures along with the contract agreement between the City and New Earth Inc.

We relied on computer-processed data in the SAP to validate the invoice amounts billed by New Earth Inc. 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 verifying the invoice amount was adequately supported and timeliness of the payment. 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 compliance 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 results and conclusions based on our audit objectives.

We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

Audit Results and Recommendations

A. Accurate Invoicing

SWMD had adequate controls in place to ensure invoices were billed accurately and properly supported. We reviewed a sample of 19 invoices totaling \$129,707 and determined that New Earth Inc. billed the City accurately and included proper support documentation for each invoice. Additionally, the SWMD processed the invoices for payment timely.

Recommendations

None

B. Contract Compliance

SWMD's monitoring procedures were adequate to ensure compliance with key contract requirements. We verified appropriate performance bond and insurance coverage. We also verified adherence to contract requirements related to the reporting of organic weight and safety plans. We confirmed SWMD's periodic visits to New Earth's place of business to ensure safety procedures are being followed. Finally, we confirmed SWMD accurately reported the tonnage of organics recycled at New Earth Inc.

Recommendation

None

Appendix A –Staff Acknowledgement

Buddy Vargas, CFE, Audit Manager
Danny Zuniga, CPA, CIA, Auditor in Charge
Rosalia Vielma, CFE, Auditor
Lorenzo Garza, Auditor

Appendix B – Management Response



CITY OF SAN ANTONIO
SOLID WASTE MANAGEMENT

August 24, 2015

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

RE: Management's Acknowledgement of its Review of Audit of Solid Waste
Management Department Organics Recycling Program

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

Solid Waste Management Department:

Fully Agrees

Does Not Agree (provide detailed comments)

Sincerely,

David McCary
Director
Solid Waste Management Department

8/24/15
Date

Peter Zanoni
Deputy City Manager
City Manager's Office

August 26, 2015
Date

4410 West Piedras Drive, San Antonio, TX 78228