JEFFERSON WELLS
A Manpower Company

# City of Houston

Annise D. Parker
City Controller

## Solid Waste Management Department

## Performance Review of Contracted Collection and Disposal Functions

Report No. 2007-02
August 2006

OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

August 17, 2006

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Solid Waste Management Department
Performance Review of Contracted Collection and Disposal Functions
Report No. 2007-02

Dear Mayor White:

In accordance with the City's contract with Jefferson Wells International (JWI), JWI has completed a Performance Review to assess the Solid Waste Management Department's (Department) operational practices, controls, policies and procedures and technology tools pertaining to contracted collection and disposal functions. The primary objectives of the engagement were to:

- Review and assess operational practices, controls, policies and procedures, and technology tools currently utilized by the Department and to provide recommendations for improving the monitoring, coordination, efficiency and effectiveness of contracted collection and disposlal functions.

- Assess the Department's organizational structure and management practices to help ensure that resources available for contracted services are adequate and utilized efficiently and effectively.

- Determine if performance standards established by management for contracted services have been met and support the mission of the Department and the City.

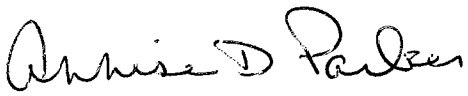
The report, attached for your review, identified various opportunities for improvement that would enhance the Department's effieciency and effectiveness in performing its oversight duties pertaining to contracted collection and disposal functions. Also included are Department accomplishments, such as the implementation of a formal Landfill Audit System developed by the Department and the Information Technology Department to facilitate a more comprehensive review of invoices for solid waste disposal from contracted service providers.

The results and recommendations identified during the review are included in the body of the report. Draft copies of the matters contained in the report were provided to Department officials. The views of the responsible Department officials as to actions being taken are appended to the report as Exhibit 1.

901 BAGBY, 8TH FLOOR • P.O. BOX 1562 • HOUSTON, TEXAS 77251-1562
PHONE: 713-247-1440 • FAX: 713-247-3181
e-mail: controllers@cityofhouston.net

We appreciate the cooperation extended to the JWI engagement team by Department and contractor personnel during the course of the review.

Respectfully submitted,



Annise D. Parker
City Controller

xc: City Council Members
Anthony Hall, Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Thomas Buchanan, Director, Solid Waste Management Department
Judy Gray Johnson, Director, Finance and Administration Department

JEFFERSON WELLS
A Manpower Company

Wells Fargo Plaza
1000 Louisiana, Suite 5300
Houston, Texas 77002
Phone 713.860.3900
Fax 713.860.3902
www.jeffersonwells.com

August 16, 2006

Controller Annise D. Parker
City Controller
City of Houston
901 Bagby, 8th Floor
Houston, TX 77002

Dear Controller Parker:

We have completed our performance review of the Solid Waste Management Department's contracted collection and disposal functions as outlined in our engagement letter dated March 7, 2006 under Contract No. 56545.

Our observations and recommendations noted during the performance of the review are presented in this report. Our procedures, which accomplished the project objectives, were performed through June 2, 2006 and have not been updated since that date. Our observations included in this report are the only matters that came to our attention based on the procedures performed.

All data used during this review was obtained from representatives of the Solid Waste Management Department or from the contracted service providers reviewed, including Republic Waste Services and BFI Waste Systems. Our work does not constitute an audit conducted in accordance with generally accepted auditing standards or an examination of internal controls or other attestation or review services performed in accordance with standards established by the American Institute of Certified Public Accountants (AICPA). Accordingly, we do not express an opinion or any other form of assurance on the reporting or compliance of the Solid Waste Management Department.

Jefferson Wells is pleased to have assisted the City Controller, and we appreciate the cooperation received during this engagement from the Solid Waste Management Department as well as your office.

This report is intended solely for the information and use of the City, the Solid Waste Management Department and the City Controller's Office, and is not intended to be used for any other purpose.

Eric Bruce
Director, Internal Controls

**Table of Contents**

EXECUTIVE SUMMARY.....1

Engagement Objectives and Scope.....1

Background.....2

Summary of Recent Department Accomplishments.....3

Summary of Results.....4

Summary of Key Recommendations.....7

RESULTS AND RECOMMENDATIONS.....9

EXHIBIT I: Views of Responsible Officials

# EXECUTIVE SUMMARY

## Engagement Objectives and Scope

Jefferson Wells completed a performance review of the City of Houston Solid Waste Management Department ("SWMD") to assess the Department's operational practices, controls, policies and procedures and technology tools pertaining to contracted collection and disposal functions.

The primary objectives of this review were to:

- Review and assess operational practices, controls, policies and procedures, and technology tools currently utilized by the Solid Waste Management Department and to provide recommendations for improving the monitoring, coordination, efficiency and effectiveness of contracted collection and disposal functions.
- Assess the Department's organizational structure and management practices to help ensure that resources available for contracted services are adequate and utilized efficiently and effectively.
- Determine if performance standards established by management for contracted services have been met and support the mission of the Department and the City.

The scope of services that were provided by Jefferson Wells included:

- Reviewing the Department's policies, procedures, and standards for administration of contracted collection and disposal services.
- Assessing specific Department guidelines (related to the objectives stated herein) to determine the level of compliance by functional area and outside collection and disposal service vendors.
- Assessing the Department's monitoring processes, procedures and controls for contracted collection and disposal service vendors.
- Assessing the outside collection and disposal service vendors' performance levels, efficiency, and effectiveness.
- Reviewing the application of tare weights used for calculation of net waste quantities delivered to the City of Houston Transfer Stations operated under contract by BFI and Republic Waste.
- Interviewing key Department senior managers, employees, and selected outside collection and disposal vendors and other stakeholders as appropriate, to gain additional information.

## Background

SWMD's mission in regard to contracted services for solid waste collection and disposal is to obtain cost effective, efficient service for the residents of the City of Houston that are served either directly (as in residential solid waste collection performed by Republic Waste Services in certain areas of the City) or indirectly through solid waste disposal at a number of facilities including three transfer stations owned by the City and operated by either BFI or Republic Waste and landfills owned and operated by a number of contracted service providers. The total value under contract for solid waste collection and disposal services is currently a "Not to Exceed" amount of $514,354,211. There are various expiration terms for the agreements beginning with June 30, 2007 for the $56,826,603 Republic Waste residential collection and transportation agreement. The $295,000,000 transfer station and disposal agreement with Republic Waste Services expires June 30, 2020, and the $154,000,000 disposal agreement with BFI expires June 30, 2023 All of the contracted services agreements are multi-year agreements that are competitively bid as needed when the terms of the agreements expire.

SWMD personnel numbering approximately fifteen in total are directly involved in the ongoing monitoring and administration of the contracted services agreements. Those individuals are members of the Executive Staff, the Office of the Director and the Administration Division. This performance review of SWMD is limited to the operational practices, controls, policies and procedures, and technology tools currently used by the Department to monitor and administer those agreements.

The SWMD Contract Compliance Group is part of the Administration Division and its responsibilities include monitoring the contracted portion of residential collection services for compliance with the solid waste collection and transportation contract between the City and Republic Waste Services. In addition to monitoring actual collection activities in the field on a daily basis, the Group is also responsible for monitoring and closing customer service requests related to contracted collections in the Republic Waste service areas that are received from the City's 311 Service Center. The City's 311 Service Center began operation in August 2001 and the Contract Compliance Group began monitoring customer service requests issued from 311 shortly thereafter.

The City's 311 Service Center is a consolidated call center for obtaining all City services. Calls requesting any of the services provided by SWMD and their contracted service providers are received via the 311 Service Center and routed to the Department for action. SWMD is responsible for verifying that action was taken by Republic Waste for all service requests within their contracted collection area and closing all such service requests. The Group's staff includes a Contract Compliance Supervisor and three Contract Compliance Officers and the Group reports to the Division Manager for Contract Compliance. The Contract Compliance Group has been performing in-field monitoring of the Republic Waste Transportation and Collection contract since its inception in July 2000 and had similar responsibilities with the previous contractors.

Primary responsibility for monitoring the administrative aspects of service provider contracts, including invoice review and payment, insurance and performance bond compliance, Minority/Women's Business Enterprise compliance (in coordination with the Affirmative Action & Contract Compliance Department) falls within the Accounting Division, which is a sub-department of the Administration Division.

This is Phase II of Jefferson Wells' review of contract compliance within the Solid Waste Management Department. The Phase I report encompassed a review of Contract Compliance by Republic Waste Services of Texas, Ltd. and BFI Waste Systems of North America, Inc. That report was issued to the City Controller on April 7, 2006. The Phase I report focused primarily on the contract compliance aspects of the two contracted service providers responsible for collection, transportation and disposal of residential waste at the BFI McCarty Road Landfill.

This performance review (Phase II) focused on SWMD's monitoring and administration of all contracted service providers performing solid waste collection and disposal services for the City, which encompassed a number of other entities including Waste Management, Waste Corp., Texas Tire Recycling (formerly Waste Recovery), and Abitibi-Consolidated, in addition to BFI and Republic Waste. A significant focus was placed on the monitoring of operations at three City-owned transfer stations operated under contract by BFI (Northwest) and Republic Waste (Southwest and Southeast) and on the residential solid waste collection and transportation contract operated by Republic Waste. A specific area of emphasis was the Landfill Audit System developed by the City of Houston Solid Waste Management Department and the Information Technology Department. SWMD has been in the process of exploring options and working on the design of a system to facilitate a more comprehensive review of invoices for solid waste disposal from contacted service providers for well over a year. Prior to the development and implementation of the Landfill Audit System, SWMD did not have the ability to review and reconcile service provider invoices against the actual deliveries made to the disposal facilities on a "per transaction" basis.

## Summary of Recent Department Accomplishments

- A formal Landfill Audit System and associated procedures was implemented beginning with the review of January 2006 solid waste disposal invoices from BFI and Republic Waste. The benefits being derived from this recently implemented system include identifying duplicate charges, incorrect rates per delivery site, and inaccurate tare (empty) weights for vehicles delivering waste to City-contracted disposal facilities. These noted exceptions can now be returned to the appropriate service providers for clarification and correction prior to being paid by the City, in many cases reducing the final amounts paid. In addition to its implementation on a prospective basis, SWMD intends to utilize the Landfill Audit System to retroactively review similar invoices from BFI and Republic Waste on a historical basis over the last several years' activity in order to identify and seek recovery of similar over-billings.

- A key component of the implementation of the Landfill Audit System was the formal adoption of internal control procedures that integrate the functionality of the system into the routine processing of service provider invoices. Effective February 1, 2006 SWMD Policy # 3-1, Standard Operating Procedures for the Landfill Audit System and related Vehicle Control Procedures, were implemented. The procedures included in this policy statement "describe the internal controls and processes put in place to receive, audit and verify waste disposal fee invoices and effect correct and prompt payment." Our review of the Department's compliance with these newly-promulgated procedures is that, with some initial exceptions, they have been implemented and are being followed in the normal course of business.
- As a result of issues formally identified in Phase I (see Jefferson Wells' Solid Waste Management Department - Contract Compliance Review of Republic Waste Services of Texas, Ltd. and BFI Waste Systems of North America, Inc. report issued to the City Controller on April 7, 2006), SWMD has formally assigned Department personnel the responsibility for monitoring service provider compliance with all aspects of contractual terms and conditions including performance bonds, contractor and subcontractor insurance, and coordination with the Affirmative Action & Contract Compliance Department to ensure M/WBE participation goals are being accurately tracked and complied with.

## Summary of Results

1. **Assessment of the operational practices, controls, policies and procedures and technology tools currently used by the Solid Waste Management Department to monitor, coordinate and administer contracted collection and disposal functions**

   Our assessment of the operational practices, controls, policies and procedures and technology tools used by SWMD to monitor, coordinate and administer contracted collection and disposal functions is that they are acceptable but that improvements are needed in several key areas:

   - Prior to the development and implementation of the Landfill Audit System, the Department had no viable method for verifying the accuracy of solid waste disposal invoices received from its two principal contracted services providers, BFI and Republic Waste. This lack of a formal system to identify duplicate deliveries, improper billing rates by site location, and incorrect delivered quantities of waste resulted in invoices generally being paid as presented. Our assessment is that the previous lack of such a system, including documented processes and procedures, was the greatest control deficiency related to the Department's administration of contracted collection and disposal functions.
   - System access controls over the Landfill Audit System are not as effective as necessary to ensure that only authorized individuals with a current need have access to the system.

- Volume credits are being accepted from BFI and Republic Waste for non-City solid waste disposed at the three transfer stations without supporting documentation. SWMD has not obtained this level of documentation in the past, but we found it available and obtained the necessary documents from the service providers to perform a verification of volume credits for January and February invoices.
- Invoice processing procedures that incorporated the changes required as part of the integration of the Landfill Audit System into the monthly invoice review and approval process were not fully functional when the review of January invoices from BFI was performed by SWMD in February 2006. As a result of our review for the same period, we noted that a number of transactions from one of the invoices reviewed were not accounted for, resulting in a potential underpayment of over $10,000 to the contractor. This error had not been identified by SWMD prior to our detailed testing and discussion with them.
- Our testing of tare (empty) weights at the transfer stations identified a weakness in the Landfill Audit System in that it does not retain a history of all changes made to vehicle tare weights. This lack of history makes a precise retroactive review of historical volumes billed to the City practically impossible.
- SWMD has not effectively monitored BFI and Republic Waste compliance with the scale calibration requirements of their contracts. There is no evidence that the Department has routinely reviewed scale calibration records or even required the service providers to submit copies of them to the Director as is required in their contracts.
- SWMD monitoring of service provider insurance, performance bond and M/WBE compliance has been lacking. While copies of the certificates of insurance and performance bonds received from service providers are retained by the Department, no review of the completeness, accuracy or timeliness of the documents has been performed. The lack of effective coordination between SWMD and the City's Affirmative Action and Contract Compliance Department in regard to M/WBE participation on solid waste collection and disposal contracts does not ensure that minority participation requirements stated in the contracts are being properly monitored.

**2. Assessment of the Department's organizational structure and management practices to help ensure that resources available for contracted services are adequate and utilized efficiently and effectively**

The Department's organizational structure and management practices related to contracted services are acceptable, however, there are opportunities for improvement that would enhance its efficiency and effectiveness in performing its oversight function, such as:

- There is a lack of formally documented management practices related to ensuring compliance with scale calibration requirements, insurance and performance bond

requirements, and M/WBE participation requirements as well as overall maintenance of original contract documents and amendments.

- There are less than fifteen employees directly involved in the monitoring and administration of the contracts. We reviewed the responsibilities of those individuals and their current organizational structure. Based on the organization in place, the tasks being performed, and the limited number of SWMD personnel involved in the active administration and monitoring of contracted service providers, we do not feel that re-organizing the current Departmental resources without first establishing formal management practices would provide any significant improvements in efficiency or effectiveness.
- Based on discussions with the Division Manager for the SWMD Contract Compliance Group, we determined that the group members spend the majority of their time in the field performing monitoring activities related to the Republic Waste Services collection and transportation agreement. Group members are required to print out service requests at the office in the morning in order to perform follow-up activities in the field during the day. At the end of the work day, they must return to the office to update or close service requests. We inquired of the Division Manager if consideration had been given to providing Compliance Group members with wireless-capable laptop computers to enhance their efficiency in performing their duties. The Division Manager indicated that laptops had been considered but not assigned due to security and damage concerns. Our assessment is that the potential improvement in efficiency and effectiveness of deploying laptop computers with wireless capability outweighs the noted security and damage concerns.

**3. Determination that performance standards established by management for contracted services have been met and support the mission of the Department and the City**

Our review did not reveal a comprehensive set of formal performance standards for measuring the Department's performance in administering and monitoring contracted services or the service providers' performance in complying with their contractual requirements.

- In the process of reviewing specific controls over contracted services we did note the existence of performance standards that were documented and functioning as designed. The SWMD Contract Compliance Group, the group within SWMD that is responsible for ensuring contract compliance by Republic Waste Services under their residential solid waste collection and transportation services contract, does have documented performance standards for Republic Waste that are monitored in the field on a daily basis. The Contract Compliance Group has authority to enforce compliance with all operational requirements of the collection and transportation contract and to assess liquidated damages for various failures to perform as documented in Article XIV of the contract. Our review of Contract

Compliance Group activity and the results of monthly Customer Service Reports revealed that Republic Waste performance based on overall customer service requests and the percentage of customer service requests overdue was favorable compared to averages experienced by SWMD in the service areas in the remainder of the City. Our assessment is that the performance standards established for Republic are generally being met and support the mission of the Department to ensure that the residents in the Republic service area receive good customer service. However, analysis by SWMD is needed in order to more fully compare and evaluate the performance of the four service centers and the Republic Waste contracted service area.

- While formal performance standards for accuracy in billing of contracted solid waste collection and disposal services by service providers were not in place until recently, the adoption of SWMD Policy #3-1 in February 2006 has established new performance standards for invoice accuracy and completeness as well as the associated processes and procedures for Department personnel to follow in assessing compliance with those standards. Adoption of the policy has enhanced the Department's ability to objectively measure contractor compliance with the invoicing requirements of the various contracts. The performance standards established by management for SWMD Administration Group personnel to achieve in regard to the monthly detailed review and approval of BFI and Republic Waste disposal services invoices were not being met in their initial month's review of invoices as a result of startup issues with implementation of the Landfill Audit System, however, the use of the system is designed to detect billing errors, and with the exception of the deficiencies noted in Summary of Results Section 1 above, the new procedures are functioning as designed to identify service provider invoicing errors. SWMD now has a tool and associated processes and procedures with which to enforce performance standards related to contractor billing and to ensure consistency in its review and approval of such.

## Summary of Key Recommendations

- Ensure that only employees who require use of the Landfill Audit System to perform their job duties have active user accounts. SWMD Policy # 3-1 Section 8 - Accessibility and Security of the Landfill Audit System, should be revised to include a monthly review of system access security by the Assistant Director – Administration Division (Super Administrator).
- Require BFI and Republic to provide additional reports each month documenting the quantity of non-COH solid waste that is processed by the transfer stations. SWMD management should review the reports for reasonableness and compare them to prior month activity as part of the monthly review. Totals should be agreed to the invoices received from BFI and Republic and any variances resolved prior to making payment.
- Enhance the functionality of the Landfill Audit System to capture and retain the history of all changes to vehicle tare weights on a prospective basis.

- Ensure that BFI and Republic provide copies of all scale calibrations in accordance with the terms of their respective contracts with the City. Also, the Director should designate a Department employee to review and retain documentation of the calibration records provided and follow-up with BFI and Republic on any past-due calibrations in order to enhance its monitoring of contract compliance.
- Review the processing of BFI's January invoices and ensure that all transactions are accounted for. Any transactions that were not previously subjected to a complete review by the Landfill Audit System should be re-processed to determine their validity, and posted and paid to BFI if they are found to be valid. Also, verify that the BFI invoices processed in the months subsequent to January 2006 have been properly reviewed and that all transactions presented for payment have been accounted for as posted and paid or noted as permanent exceptions.

All information in this summary, along with details of the above-noted issues and other opportunities for improvement can be found in **Results and Recommendations** on page 9.

## RESULTS AND RECOMMENDATIONS

### 1. Assessment of the operational practices, controls, policies and procedures and technology tools currently used by the Solid Waste Management Department to monitor, coordinate and administer contracted collection and disposal functions

#### a) System Controls Over User Access to the Landfill Audit System Were Not Being Adequately Applied

**Discussion**

Our review of controls over user access to the Landfill Audit System with SWMD's Assistant Director – Administration Division on April 11, 2006 revealed that there were six (6) user accounts showing "active" status that did not require access to the system. Of those, two (2) were classified as Super Administrators, with complete and unrestricted access, three (3) were classed as Administrators, with authority to make revisions to the vehicle list, run reports, make recommendations to the Director for changes to the security profiles and have unrestricted inquiry to the system, and one (1) was classified as a User, which allows for running standard reports and performing inquiries of the data. As a result of a follow-up meeting with the Assistant Director on April 17, 2006 those six (6) user accounts were de-activated (changed to "inactive" status).

**Recommendation**

The Assistant Director – Administration Division (Super Administrator) should ensure that only employees who require use of the Landfill Audit System to perform their job duties have active user accounts. SWMD Policy # 3-1 Section 8 - Accessibility and Security of the Landfill Audit System, should be revised to include a monthly review of system access security by the Assistant Director – Administration Division.

#### b) Volume Credits for Non-City of Houston Solid Waste Disposed at the City's Three Transfer Stations Operated by BFI (NW) and Republic (SW & SE) Have Not Been Properly Supported on Vendor Invoices

**Discussion**

Our review of invoice processing controls employed by SWMD in their review and approval of invoices for solid waste disposal at the Northwest Transfer Station operated for the City by BFI and the Southwest and Southeast Transfer Stations operated by Republic Waste revealed that both service providers were not providing supporting documentation for volume credits (rebates) issued for waste disposed by non-City of Houston vehicles. The agreements between the City and BFI and the City and Republic provide for both service providers to

issue credits at agreed-upon rates for any non-City waste disposed at the transfer stations. SWMD has generally accepted the non-City volume credits on the monthly invoices "as presented" without any further documentation or confirmation to verify the volumes. As part of our review of BFI January 2006 invoices and Republic January 2006 and February 2006 invoices we requested and obtained documentation from the contractors that allowed us to confirm that the volume credits being issued were equal to volumes reported internally within BFI and Republic, respectively.

While SWMD may have at some point in the past requested supporting documentation in order to confirm volume credits for non-City waste delivered to the transfer stations, there was no evidence on file with the invoices we reviewed that such information had been obtained and was being reviewed as part of the routine processing of monthly invoices.

**Recommendation**

The Assistant Director – Administration Division should require BFI and Republic to provide additional reports each month documenting the quantity of non-COH solid waste that is processed by the transfer stations. These reports should be reviewed for reasonableness and compared to prior month activity as part of the monthly review. Totals should be agreed to the invoices received from BFI and Republic and any variances resolved prior to making payment. Departmental invoice processing procedures should be amended to include this additional review requirement.

**c) Invoice Processing Procedures (including the Landfill Audit System) Utilized to Review, Approve and Pay the January 2006 BFI Invoice for the NW Transfer Station Resulted in a Number of Unaccounted-for Transactions**

**Discussion**

Our review revealed that SWMD's review of the BFI January invoices for solid waste disposal at the Northwest Transfer Station and the BFI landfills failed to confirm that all transactions presented for payment by BFI had been entered into the Landfill Audit System database for review of possible exceptions. These transactions totaled $10,924 and were not identified on either the SWMD Posted Transactions Report or the All Transaction Exceptions Report for January 2006. In short, they were not posted and paid to BFI. Additionally, they were not identified as exceptions that should not have been paid. In the reconciliation of posted transactions and exceptions not to be paid the noted transactions were not accounted for.

Our review also revealed that two correcting entries related to tare weight variances identified as part of the exceptions filtering performed by the Landfill Audit System were mis-posted. The system properly identified the tare weight

variances, and manual recalculations of the required adjustments to the BFI January 2006 invoices were made prior to payment. The net effect of the correcting entries resulted in an error of $586.

The implementation of procedures to integrate the use of the Landfill Audit System into the invoice review process for waste disposal by BFI and Republic Waste were still being formally developed and documented during the period when the January invoices were being reviewed. As a result, certain control measures had not been formalized and applied to the review of the BFI January invoices. In February 2006 formal procedures were adopted, including specific rules for handling all exceptions and for ensuring that all transactions are accounted for.

**Recommendation**

SWMD's Division Manager – Accounting should review the processing of BFI's January invoices and ensure that all transactions are accounted for. Any transactions that were not previously subjected to a complete review by the Landfill Audit System should be re-processed to determine their validity, and posted and paid to BFI if they are found to be valid. Also, verify that the BFI invoices processed in the months subsequent to January 2006 have been properly reviewed and that all transactions presented for payment have been accounted for as posted and paid or noted as permanent exceptions.

**d) SWMD Has Not Adequately Monitored Compliance of Scale Calibration Records for the Transfer Stations Operated by BFI (NW) and Republic Waste (SW & SE)**

**1) BFI Has Not Maintained Complete Records of Scale Calibrations Performed on the Scales Used For Billing Quantities Disposed at the Northwest Transfer Station**

**Discussion**

Our review of the scale calibration records for the two scales at the Northwest Transfer Station indicated only one time interval exceeding the semi-annual requirement between comprehensive calibrations from mid-2004 to the present. However, there is approximately a three year period between May 2001 and June 2004 for which no calibration records were available for our review.

BFI is currently in compliance with the semi-annual scale calibration requirements of the contract with the exception of one 302-day interval between calibrations on the outbound scale between December 2004 and October 2005. Due to the lack of available documentation for the 3-year period from May 2001 through June 2004 we were unable to confirm whether scale calibrations were consistently performed during that period.

2) **Republic Waste Has Not Maintained Complete Records of Scale Calibrations Performed on the Scales Used For Billing Quantities Disposed at the Southwest and Southeast Transfer Stations**

**Discussion**

Our review of the scale calibration records for the Southwest Transfer Station indicated consistent calibrations within the acceptable semi-annual intervals on both scales from April 2004 to the present. Prior to that time, calibration records were not available with the exception of the initial calibration of both scales in January 2001 and a subsequent calibration on the East Scale in July 2001. This represents approximately a 3-year period for which no calibration records were available for our review.

Our review of the scale calibration records for the Southeast Transfer Station indicated consistent calibrations within the acceptable semi-annual intervals on both scales from April 2004 to the present. Prior to that time, calibration records were not available with the exception of the calibration of both scales on 10/15/01 and a subsequent calibration on both scales on 10/23/01. There is approximately a 2 1/2-year period for which no calibration records were available for our review.

Republic is currently in compliance with the semi-annual scale calibration requirements of the contract. Due to the lack of available documentation for the periods noted above we were unable to confirm whether scale calibrations were consistently performed during those periods.

**Recommendation**

The SWMD Director should ensure that BFI and Republic provide copies of all scale calibrations in accordance with the terms of their respective contracts with the City. Also, SWMD should designate a Department employee to review and retain documentation of the calibration records provided and follow-up with BFI and Republic on any past-due calibrations in order to enhance its monitoring of contract compliance.

e) **The Landfill Audit System Does Not Maintain Historical Vehicle Tare Weights, Which Limits the System's Capabilities in Regard to Verification of Prior-Year Transactions**

**Discussion**

We noted two exceptions between the vehicle tare weights stored and used by BFI and those on the SWMD Master Tare Weight List for the sample of transactions tested for the Northwest Transfer Station. We noted similar exceptions between the gross, tare and net weights shown on the BFI-generated delivery tickets and the net and gross weights shown for the corresponding sample transactions selected for review from the Landfill Audit System during the period January through March 2006. As a result of the two tare weight deviations noted, there were exceptions between the gross amount invoiced for those two transactions and a re-calculation of net weight from the delivery tickets and the site rates from the contract for the transactions in question.

Based on this sample of transactions, the tare weights being used by BFI to bill for COH deliveries to the Northwest Transfer Station generally appear to be based on the correct, approved tare weights provided by SWMD. With the exception of the deviations noted, the calculations of gross and net weight and the resulting billing for those transactions appear to be correctly calculated based on appropriate contractual rates. The SWMD Landfill Audit System properly identified the error related to vehicle #33555 that was no longer active in the system and marked it as an exception that was not processed for payment. The tare weight deviation on vehicle #32631 identified a weakness in the Landfill Audit System in that it does not retain a history of all changes made to tare weights. This lack of history makes a precise retroactive review of historical volumes billed to the City practically impossible.

**Recommendation**

The SWMD Director should initiate enhancements to the functionality of the Landfill Audit System to capture and retain the history of all changes to vehicle tare weights on a prospective basis.

f) **SWMD Was Not Adequately Monitoring Service Providers' Compliance with Contractual Insurance Requirements**

**Discussion**

Our review of SWMD's contract files to assess its monitoring of contracted service providers' compliance with their respective contractual insurance requirements, indicated:

- No evidence of insurance coverage provided for the Abitibi-Consolidated agreement for the purchase of recyclable materials from the City
- The current Pollution Legal Liability Insurance coverage is only $5,000,000 for the BFI Disposal Contract, which does not meet the contract minimum requirements of $10,000,000
- BFI's subcontractor Rustin Transportation did not meet several of the minimum insurance requirements including:

  1) Listing the City of Houston as an additional insured on its policies
  2) Maintaining the $10,000,000 Pollution Legal Liability Insurance coverage
  3) Meeting the minimum policy coverage limits for Employer's Liability, Commercial General Liability, Automobile Liability (including MCS-90 endorsement), and Excess or Umbrella Liability, and
  4) Requiring Rustin's subcontracted waste hauler Jessie's Trucking to meet the specified minimum insurance requirements

- No evidence of current Worker's Compensation, Employer's Liability, and Excess or Umbrella Liability, as well as no MCS-90 endorsements on the Automobile Liability policy was available for the Republic Waste Disposal Services Contract
- Republic's subcontractor Rustin Transportation had similar deficiencies in coverage as was noted above with their subcontract with BFI
- Waste Management and Waste Corp. both had deficiencies in coverage such as: no evidence of Worker's Compensation, Employer's Liability, Excess/Umbrella Liability, or Pollution Liability for various periods during the contract period. The most significant current deficiency for both parties is the lack of $10,000,000 in Pollution Legal Liability Insurance coverage under their respective Type IV Landfill Services contracts with the City
- No evidence of insurance coverage provided was available for the Texas Tire Recycling (formerly Waste Recovery) Used & Scrap Tire Disposal Services contract

It did not appear that SWMD personnel were monitoring compliance with insurance requirements for contracted service providers. A subsequent discussion with SWMD management regarding monitoring procedures confirmed that there has been no formal monitoring program in place for a number of years, but that effective April 1, 2006 formal responsibility and accountability for such has been assigned within the Department. We noted no evidence that formal management practices have been documented and implemented to address this control weakness.

**Recommendation:**

The SWMD Assistant Director – Administration Division should ensure that all contracted service providers and their subcontractors provide documentation of insurance coverage to meet the minimum limits set out in their respective contracts. In addition, SWMD should begin obtaining and retaining documentation to more effectively monitor the service providers' ongoing compliance with the insurance requirements of their contracts. Additionally, the Director should initiate the formal development and implementation of management practices that define the specific tasks to be performed, the frequency with which reviews should occur, and the individuals responsible and accountable for ensuring compliance.

**g) SWMD Was Not Adequately Monitoring Service Providers' Compliance with Contractual Performance Bond Requirements**

**Discussion**

Our review of SWMD's monitoring of contracted service providers' compliance with their respective contractual performance bond requirements, specifically our review of the contract files, indicated:

- There is no evidence of bond coverage from 12/30/99 to 06/30/02 for the Republic Waste Disposal Services contract. While the documentation for the original and several of the extensions of the bond could not be located the fact that the most recent extensions of the bond are available indicates that it was issued for the correct value and that the bond has been continually renewed throughout the contract period to-date.
- There is no evidence of a performance bond in place and SWMD currently has no knowledge whether one is required due to the missing contract language from the original agreement for Type IV Landfill Services between the City and Waste Management. That agreement has now been amended so that services are provided by both Waste Management and Waste Corp. under separate contracts. At the time of the contract amendment there was no clarification of the need for performance bonds, and no bonds could be located for either contract.

It did not appear that SWMD personnel were monitoring compliance with performance bond requirements for contracted service providers. A subsequent discussion with SWMD management regarding monitoring procedures confirmed that there has been no formal monitoring program in place for a number of years, but that effective April 1, 2006 formal responsibility and accountability for such has been assigned within the Department. We noted no evidence that formal management practices have been documented and implemented to address this control weakness.

**Recommendation**

Although formal responsibility and accountability has recently changed, the Assistant Director – Administration Division should enhance monitoring of compliance with bond requirements in all contracts with service providers in order to ensure that all required coverage is maintained current throughout the various contract terms. In addition, SWMD should begin obtaining and retaining documentation to more effectively monitor the service providers' ongoing compliance with the performance bond requirements of their contracts. Additionally, the Director should initiate the formal development and implementation of management practices that define the specific tasks to be performed, the frequency with which reviews should occur, and the individuals responsible and accountable for ensuring compliance.

**h) SWMD Was Not Effectively Collaborating with the Affirmative Action & Contract Compliance Department to Monitor Service Providers' Compliance with Contractual M/WBE Requirements**

**Discussion**

The City's Affirmative Action & Contract Compliance ("AA & CC") Department is not tracking any M/WBE participation on the Abitibi-Consolidated contract in their monitoring system, even though there is a contractual goal of 11% M/WBE participation.

The City's AA & CC Department does not track M/WBE participation specifically with regard to the transportation portion of costs for the Republic Waste Disposal Services contract, only as a whole. As of March 2006, M/WBE participation was at 10.84%, which represents 9.16% below the goal of 20% overall for the contract. This number would be closer to the actual goal if transportation costs were isolated. The subcontractors that are used to fulfill this obligation include JTI Contractors, Inc., Lady Pegasus, Inc., Oil Products Distribution Ltd., and Superior Waste Management Services. On 4/12/06 we attempted to confirm the current M/W/DBE status of the vendors on the list using the City's database. Superior Waste Management could not be located in the database.

**Recommendation**

Since Affirmative Action is not currently tracking the M/WBE participation on the Abitibi-Consolidated contract in their system, we recommend that AA & CC begin doing so as soon as possible. SWMD should coordinate with AA & CC to ensure that all required information is available to enable appropriate tracking to occur.

SWMD's Director should coordinate with AA & CC's Director to facilitate AA & CC's tracking of M/WBE participation separately with regard to transportation

costs for the Republic Waste Disposal Services contract. Also, the Director should confirm with AA & CC that Republic's inclusion of Superior Waste Management in their M/WBE participation percentages as a registered supplier is valid. The fact that Superior Waste Management could not be located in the database is a potential compliance issue that should be addressed by AA & CC.

## 2. Assessment of the Department's organizational structure and management practices to help ensure that resources available for contracted services are adequate and utilized efficiently and effectively

**Inefficiencies Exist in SWMD Contract Compliance Group's Monitoring of Republic Waste Services Collection and Transportation Activities**

**Discussion**

Based on discussions with the Division Manager for the SWMD Contract Compliance Group, we determined that the group members spend the majority of their time in the field performing monitoring activities related to the Republic Waste Services collection and transportation agreement. The Compliance Supervisor and Compliance Officers are required to print out service requests at the office in the morning in order to perform follow-up activities in the field during the day. At the end of the work day, they must return to the office to update or close service requests.

We inquired of the Division Manager if consideration had been given to providing Compliance Group members with wireless-capable laptop computers to enhance their efficiency in performing their duties. The Division Manager indicated that laptops had been considered but not assigned due to security and damage concerns. Our assessment is that the potential improvement in efficiency and effectiveness of deploying laptop computers with wireless capability outweighs the noted security and damage concerns.

**Recommendation**

The SWMD Division Manager – Contract Compliance should revisit the option of deploying wireless-capable laptops to the compliance officers in the Contract Compliance Group. Since the compliance officers spend most of their time in the field, the utilization of laptops should make them more efficient and effective. SWMD should be able to obtain wireless-capable laptops at a reasonable cost including the cost of portable printers. The increase in productivity should justify the cost of the laptops. Procedures such as requiring passwords for access to the equipment, making daily backups of data on the hard-drives via USB drives, and physically securing the laptops when not in use could mitigate management's security and damage concerns.

## 3. Determination that performance standards established by management for contracted services have been met and support the mission of the Department and the City

### a) Lack of Comprehensive, Documented Standards for Measuring Departmental Performance

**Discussion**

Our review did not reveal a comprehensive set of documented standards for measuring the Department's performance in administering and monitoring contracted services or the service providers' performance in complying with their contractual requirements.

- In the process of reviewing specific controls over contracted services we noted the existence of some performance standards that were documented and functioning as designed. The SWMD Contract Compliance Group, the group within SWMD that is responsible for ensuring contract compliance by Republic Waste Services under their residential solid waste collection and transportation services contract, does have documented performance standards for Republic Waste that are monitored in the field on a daily basis. The Contract Compliance Group has authority to enforce compliance with all operational requirements of the collection and transportation contract and to assess liquidated damages for various failures to perform as documented in Article XIV of the contract. Our review of Contract Compliance Group activity and the results of monthly Customer Service Reports revealed that Republic Waste performance based on overall customer service requests and the percentage of customer service requests overdue was favorable compared to averages experienced by SWMD in the service areas in the remainder of the City. Our assessment is that the performance standards established for Republic are generally being met and support the mission of the Department to ensure that the residents in the Republic service area receive good customer service.
- While formal performance standards for accuracy in billing of contracted solid waste collection and disposal services by service providers were not in place until recently, the adoption of SWMD Policy #3-1 in February 2006 has established new performance standards for invoice accuracy and completeness as well as the associated processes and procedures for Department personnel to follow in assessing compliance with those standards. Adoption of the policy has enhanced the Department's ability to objectively measure contractor compliance with the invoicing requirements of the various contracts. The performance standards established by management for SWMD Administration Group personnel to achieve in regard to the monthly detailed review and approval of BFI and Republic Waste disposal services invoices were not being met in their initial month's review of invoices as a result of startup issues with implementation of the Landfill Audit System, however, the

use of the system is designed to detect billing errors, and with the exception of the deficiencies noted in Issue 1.c) on page 10 of this report, the new procedures are functioning as designed to identify service provider invoicing errors. SWMD now has a tool and associated processes and procedures with which to enforce performance standards related to contractor billing and to ensure consistency in its review and approval of such.

**Recommendation**

In addition to the steps already taken by the Department as noted in the discussion above and in conjunction with documenting operational practices and controls as noted in Results and Recommendations Section 1 beginning on page nine (9), SWMD should include in those practices performance standards for measuring ongoing Department performance to ensure that the established practices are consistently applied and functioning as designed.

**b) SWMD Monthly Customer Service Report Does Not Provide Analysis of Performance on a "Per Service Residence" Basis**

**Discussion**

The monthly Customer Service Request (CSR) Report that SWMD prepares from the 311 Service Request database includes the number of calls for the four SWMD service centers (Central, Northwest, Southeast, and Southwest) and the Contract Collection Area serviced by Republic Waste.

Based on our analysis, the percentage of service requests that are received for Republic Waste is less than the average percentage for the City of Houston in their respective service areas for most periods. SWMD is not currently performing this type of analysis on a monthly basis, so their ability to compare and evaluate overall customer service is limited.

**Recommendation**

SWMD should include an analysis comparing the number of Service Requests received to the number of customers serviced in the monthly Customer Service Report to enhance the Department's ability to compare and evaluate the performance of the five service areas. This would allow for analysis on a "per service residence" basis, which makes the comparison of how Republic is performing compared to the City's SWMD more valid and meaningful for monitoring purposes.

# EXHIBIT I

**CITY OF HOUSTON**
Solid Waste Management Department

**Interoffice**
Correspondence

**To:** Annise D. Parker
City Controller

**From:** Buck Buchanan, Director
Solid Waste Management Department

**Date:** July 24, 2007

**Subject:** **Management Response**
Performance Review of Contracted Collection and Disposal Functions

This response to the results and recommendations of the performance review are keyed to the findings listed in the draft document beginning on page 9 of 19 of the document.

1a). System controls over user access to the landfill audit system were not being adequately applied.

RESPONSE: As indicated in the discussion, inactive users were de-activated. SWMD Policy # 3-1 has been amended as recommended.

1b). Volume credits for non-City of Houston solid waste disposed at the city's three transfer stations operated by BFI (NW) and Republic (SW & SE) have not been properly supported on vendor Invoices.

RESPONSE: An annual report is prepared by the vendors above, on the city's behalf, and sent to the TCEQ. This report lists total tonnages disposed of through each of the transfer stations. Our practice has been to subtract the tonnages brought by the city from the total tonnages and compare the result to the total credit accounted for on the invoices received for the same period.

1c). Invoice processing procedures (including the landfill audit system) utilized to review, approve and pay the January 2006 BFI invoice for the NW transfer station resulted in a number of unaccounted-for transactions.

RESPONSE: As indicated in the discussion, formal procedures to prevent recurrence have been implemented. Invoices received prior to January, 2006 have been re-processed for validity.

***Views of Responsible Officials***

1d). SWMD has not adequately monitored compliance of scale calibration records for the transfer stations operated by BFI (NW) and Republic Waste (SW & SE).

1). BFI has not maintained complete records of scale calibrations performed on the scales used for billing quantities disposed at the Northwest transfer station.

2). Republic Waste has not maintained complete records of scale calibrations performed on the scales used for billing quantities disposed at the Southwest and Southeast transfer stations.

RESPONSE to 1) and 2), above: The auditor is correct in both cases. This issue has been corrected. The department is notified and a representative is present at all semi-annual scale calibrations. Records of the calibrations are maintained in the contract files.

# EXHIBIT I

1e). The landfill audit system does not maintain historical vehicle tare weights, which limits the system's capabilities in regard to verification of prior-year transactions.

RESPONSE: The finding is true, but at this point is water under the bridge. Verification of invoices is done in the month in which they are received and prior-year transactions are moot at this point.

1f). SWMD was not adequately monitoring service providers' compliance with contractual insurance requirements.

RESPONSE: True. We are now.

1g). SWMD was not adequately monitoring service providers' compliance with contractual performance bond requirements.

RESPONSE: True. We are now.

1h). SWMD was not effectively collaborating with the Affirmative Action & Contract Compliance Department to monitor service providers' compliance with contractual M/WBE requirements.

RESPONSE: True. We are now.

2. Inefficiencies exist in SWMD Contract Compliance Group's monitoring of Republic Waste Services Collection and Transportation activities.

RESPONSE: In the auditor's "opinion", the department should be using wireless-capable laptop computers in the field to enter the results of their monitoring operations into a central data base. While we do not necessarily agree with this "opinion", it is moot insofar as the department submitted the lowest cost in the most recent competition for the service area currently collected by Republic Waste and this group will be disbanded.

3a). Lack of comprehensive, documented standards for measuring departmental performance.

RESPONSE: Disagree. The department has written standards against which the performances of each waste collection crew are measured. This is a "living" document insofar as the standards are not set for all time but are reviewed periodically to insure that the standard is both attainable and challenging.

***Views of Responsible Officials***

3b).SWMD monthly customer service report does not provide analysis of performance on a "per service residence" basis.

RESPONSE: We know how many customers are serviced by each of our districts and by Republic Waste. This recommendation is meaningless.