



GARLAND

INTERNAL AUDIT

Recyclables Processing and Marketing Agreement

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Report 201311**

Table of Contents

	<u>Page</u>
Authorization	1
Objective	1
Scope and Methodology	1
Overall Conclusion	2
Background	2
Management Accomplishments	5
Opportunities for Improvement	6
Exhibit A - Sampling Methodology	18

Authorization

We have conducted an audit of the Recyclables Processing and Marketing Agreement (“Agreement”). The audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

Objective

The objective of the audit was to determine if Republic Services, Inc. (Republic - formerly known as Allied Waste Services, Inc.) was in compliance with the Recyclables Processing and Marketing Agreement.

Scope and Methodology

We conducted this performance audit in accordance with Generally Accepted Government Audit Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of the audit is from the inception of the Agreement (May 1, 2012) until fiscal year end September 30, 2013.

To adequately address the audit objectives and to describe the scope of our work on internal controls, we performed the following:

- Obtained and reviewed the Agreement to gain an understanding of areas for Compliance.
- Verified if Environmental Waste Service (EWS) monitored the US Energy Information Administration's Weekly Retail On-Highway Diesel Prices Listing.
- Verified if EWS monitored and reviewed monthly reports received from Republic.
- Validated if reconciliation was performed on tonnage by EWS.
- Determined if EWS monitored the Consumer Price Index for Urban Wage Earners and Clerical Workers, each quarter, to ensure it never exceeded 4%.
- Verified if initial and quarterly audits were conducted and written reports were issued to the City.
- Determined if a City representative was present during the audit.
- Verified if payments were monitored by the EWS Department.
- Confirmed if EWS monitored the processing fee.
- Determined if EWS monitored timely payments
- Verified if the Contractor supplied sufficient receiver boxes and compactors to the City.
- Verified if EWS received proof of gross revenue and Materials Recycling Facility (MRF) pricing analysis reports from Republic.

- Verified if Republic submitted annual activity reports to EWS.
- Verified if the City monitored Republic's liability insurance requirement

We obtained Republic's Commodity Pricing data from their Trux system and assessed the reliability of this data by (1) reviewing existing information about the data, (2) interviewing agency officials knowledgeable about the data, and (3) tracing the data to/from amounts paid to the City to what was listed in Republic's Trux system. The results of our electronic testing showed that data elements key to our review matched the amounts charged to the City except for glass. We found that the reliability of computer generated data for Republic's Commodity Pricing, from their Trux system, was sufficiently reliable with the exception of glass (See Finding #2).

Overall Conclusion

Republic is in partial compliance with the Recyclables Processing and Marketing Agreement. Major concerns include the following:

- Republic did not provide the minimum reporting requirements per the Agreement.
- Republic has been charging the City \$30 per ton for glass, instead of giving the City 80% of the gross revenues derived from the sale of glass.
- Republic did not perform audits every quarter as required per the terms of the Agreement.
- There were timing issues with various reports and payments.
- EWS has not monitored the Agreement:
 - Reconciliation of tonnage was not performed by EWS.
 - EWS does not re-calculate the OMB (High Southwest Board Market) pricing support for newspaper and OCC (Old Corrugated Cardboard), market price per ton, and gross revenue per commodity for amounts paid to the City on the MRF Pricing Analysis.
- The City did not verify if Republic maintained liability insurance which was required upon renewal of the Agreement.

Background

"The Environmental Waste Services (EWS) - Delivery Department is responsible for the collection of trash, recyclables, and brush from Garland households. The department also competes with private haulers to provide trash collection for local businesses in the form of front-load and roll-off container services.

In FY 2011-12, The EWS - Delivery Department implemented a Single Stream Recycling Program. This program allows residents to recycle a wider range of commodities. Also, a phased implementation of automated collection for recyclables began in 2011 for customers in designated areas of the city. Under this program, residents are given a 95-gallon recycling container to replace the 18-gallon recycling bin

previously used. The second phase of the program is projected to start in FY 2013-14 and will add approximately 12,500 homes to the 8,100 already participating.

Projected EWS revenues for FY 2013-14 are \$17.6 million, a decrease of approximately \$86,200 (0.5%) from adopted FY 2012-13 figures. The modest decline in revenue is attributed to a decrease in market prices for recyclables experienced during FY 2012-13.”*

The City received \$160,109.37 in revenue during the scope of the audit from Republic.

Date	Revenue
May 12 - Sept. 12	63,013.31
Oct. 12 - Sept. 13	97,096.06
Total	\$160,109.37

EWS signed a Recyclables Processing and Marketing Agreement on May 1, 2012 with Allied Waste Systems, Inc., which is now Republic Services, Inc. in consideration of the recyclables provided by the City to Republic for subsequent processing and sale, Republic pays the City 80% of Gross Revenue derived from the sale of recyclables. Republic receives 20% of the Gross Revenue. For purposes of calculation of gross revenue from the sale of recyclables under this Agreement, gross revenue from the sale of ONP (newspaper) shall be determined based upon the OMB pricing for ONP; provided, the price shall never be less than \$45.00 per ton. Payment of the City’s portion of Gross Revenues shall be net of the Processing Fee (Currently \$61.12 per ton) and Fuel/Transportation Fee (\$1,000 per month if the average weekly price per gallon of diesel fuel for the month is \$3 or above), when applicable.

According to the Agreement, a quarterly audit should be performed to determine the percentage of distribution of recycled material per ton. The City receives gross revenue based on distribution percentages from the prior quarterly audit on the following commodities:

- ONP (Newspaper)
- Glass
- Mixed Paper
- OCC (Old Corrugated Cardboard)
- Aluminum
- Tin
- HDPE Pigmented (Bottles blow molded and bottles with necks)
- HDPE Clear (Examples: Milk jugs, juice and water bottles)
- Mixed Plastics
- PET (Thermoplastic polymer resin of the polyester family used in synthetic fibers)

Republic sends EWS a monthly MRF Pricing Analysis which breaks down the following:

- Cost of Processing
- Total Tons Delivered
- Total Processing Fee
- Market Price Per Ton
- Tons Sold Distribution Percentages (from the prior audit)
- Gross Revenue Per Commodity
- Fuel/Transportation Fee
- Total Revenue Due City of Garland

Republic attaches the following support for the MRF Pricing Analysis:

- A list of the average price per ton they received for the above listed commodities. Republic pays off the average rate per commodity monthly, as price per ton received varies with the market.
- OMB report for ONP and OCC
- A detail tonnage report

IA reviewed the MRF Pricing Analysis reports for the scope of the audit to determine if the amounts received from Republic were calculated correctly and to determine if supporting documentation was attached and agreed to that of MRF's.

Republic picks up 76% of the tonnage at the City's pick-up location. The remaining 24% of tonnage comes from the northern routes, which is dropped off by the City trucks at Republic's location, as it is cost effective to do so.

* Annual Operating Budget, Fiscal Year 2013-14.

Management Accomplishments

- The Recyclables Processing and Marketing Agreement allowed Environmental Waste Services (EWS) to begin a single stream recycling program, where residents could mix all recyclable commodities, plastics #1 - #7 (except #6) and small cardboard boxes.
 - EWS developed a brand for the residential recycling program:
- 
- This brand encourages residents to recycle more commodities, with no separating of materials, including more plastics materials and cardboard
 - In June, 2012, EWS implemented Phase 1 of its Automated Collection Single Stream Recycling Program for 8,100 residents in eight areas around the City, with residents receiving 96-gallon blue carts
 - All other residents remained on Manual Single Stream Collection Program with 18-gallon red bins and the ability to recycle more commodities
 - In October, 2013, Phase 2 of the Automated Collection Single Stream Program was rolled out for an additional 12,500 residents
 - Contamination of commodities initially grew to 27% with automated program, but last audit showed an 8% contamination rate
 - Recycling tonnage increased 11.85% during the first year of implementation and 16.4% in 2013, as a result of the single stream program and adding the rolling blue carts
 - EWS won the following awards for the Recycle More NOW program:
 - TxSWANA Finest Award for Best Public Information and Marketing campaign
 - North Texas Corporate Recycling Association Green3 Award for Best Public Information and Marketing campaign
 - Greater DFW Recycling Alliance Award for Best Public Education and Outreach program
 - State of Texas Alliance for Recycling honor mention for Public Information and Outreach campaign

* Please note that “Management Accomplishments” are written by the audited entity and that Internal Audit did not audit or verify its accuracy

Opportunities for Improvement

During our audit we identified certain areas for improvement. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the “opportunities for improvement” section presented in this report may not be all-inclusive of areas where improvement might be needed.

Finding # 1 (Obj. # 1)

Condition (The way it is)

Our review of the Agreement and monthly reports submitted by Republic to EWS revealed that Republic has not provided the minimum reporting requirements to the City. The following issues were noted:

1. Proof of gross revenue from the sale of recyclables has not been given to the City during the contract period. The City receives a word document of average gross revenue, with no supporting evidence from Republic’s computer system, in order to verify accuracy.
2. According to the Agreement, Republic should give the City the MRF Pricing Analysis Report by the 10th business day of each month. Republic has not provided the City with a monthly report of the previous month’s activities by the 10th business day of each month. It normally arrives around the 20th of the month.
3. Republic did not provide an annual report of activities within 60 days of the end of the completed fiscal year as mentioned in the agreement. This report would have been due at the end of November 2012 and November 2013.

Criteria (The way it should be)

The Agreement under Section #6, “Reporting Requirements” states the following:

1. & 2. “Contractor shall provide the City with a monthly report of the previous month’s activities by the tenth (10th) business day of each month. Each monthly report shall be in a form satisfactory to the City and shall, at a minimum, contain the following:
 - A. date, truck number, ticket number and inbound and outbound weights;
 - B. daily and monthly total of recyclable materials processed by commodity type;
 - C. proof of current market pricing and gross revenues from the sale of recyclables.

3. Contractor shall provide an annual report of activities within sixty (60) days of the end of the completed fiscal year of the City (ending September 30)."

Effect (So what?)

1. The City is unable to verify the accuracy of the average gross revenue reported.
2. The report is not received timely; therefore, the City has less time to perform reconciliation and request a price adjustment by month-end.
3. The Contractor did not provide an annual report of activities to meet the reporting requirements per the Agreement. Trends could be reviewed and used to determine if the expected revenue will be met in the next year.

Cause (Difference between condition & criteria)

Republic did not comply with the Agreement and EWS did not monitor the requirements.

Recommendation

Management should ensure that:

1. Minimum reporting requirements are met which would include MRF's, OMB sheet, Commodity Pricing, tonnage report and proof of gross revenue from the sale of recyclables.
2. Republic provides the City with a monthly report of the previous month's activities by the 10th business day of each month per the Agreement.
3. Republic provides a summary annual report of activities to meet the reporting requirements per the Agreement.

Management Response

Concur

Action Plan

1. EWS will ensure that minimum reporting requirements are met which would include MRF's, OMB sheet, Commodity Pricing, tonnage report and proof of gross revenue from the sale of recyclables.
2. EWS will ensure that Republic provides the City with a monthly report of the previous month's activities by the 10th business day of each month.
3. Republic Services will provide a summary annual report to meet the reporting requirements per the agreement.

Implementation Date

March 2014

Finding # 2 (Obj. #1)

Condition (The way it is)

Since the inception of the Agreement, the City has received money on all commodities with the exception of glass. Republic has been charging the City \$30 per ton to process glass, instead of giving the City 80% of the gross revenue derived from the sale of glass.

In order to verify the accuracy of commodity prices reported to the City, IA requested evidence from Republic on gross revenue derived from the sale of recyclables; however, none were provided. Instead, they allowed us to physically verify a sample of commodity gross revenue recorded in their Trux system. We reviewed 15 items from various months and found that all commodity prices except for glass agreed. According to Republic’s Trux records, they had received an average of \$10 per ton for glass on the market in October 2012; however, Republic was charging the City \$30 per ton. At this point, IA once again tried to obtain “Glass” price details for the other months from Republic, however, none were provided.

In an attempt to independently verify the market price on “Glass”, IA utilized Wastenet.com. The Multi-Year Spot Market Price Summary in Wastenet.com is derived from historical spot market prices originating from ScrapIndex.com. ScrapIndex.com provides commodity price and market trend information for the recycling industry. The following chart discloses the low and high average amounts per ton for 2012 and 2013:

Glass		
Year	Low	High
2012	\$1.95	\$2.07
2013	\$2.07	\$2.25

Criteria (The way it should be)

Per the Agreement, Section 5 states, “In consideration of the Recyclables provided by the CITY to Contractor for subsequent processing and sale, Contractor shall pay CITY eighty percent (80%) of Gross Revenues derived from the sale of Recyclables. Contractor shall receive twenty percent (20%) of such Gross Revenues.”

Effect (So what?)

For May 2012 through September 2013, the City did not receive 80% revenue derived from the sale of glass and in addition was charged \$41,506.19.

Analysis of Glass
Charged \$30/ton

Month	Tonnage	Charged
May-12	89.89	2,696.83
Jun-12	86.11	2,583.35
Jul-12	102.97	3,089.05
Aug-12	108.47	3,254.13
Sep-12	101.54	3,046.06
Oct-12	69.51	2,085.22
Nov-12	74.14	2,224.18
Dec-12	60.47	1,813.98
Jan-13	86.15	2,584.60
Feb-13	63.47	1,903.99
Mar-13	64.57	1,937.15
Apr-13	69.48	2,084.50
May-13	82.95	2,488.53
Jun-13	73.30	2,199.12
Jul-13	73.37	2,201.06
Aug-13	96.85	2,905.36
Sep-13	80.30	2,409.08
Total	1,383.54	\$41,506.19

Cause (Difference between condition & criteria)

Republic states that a negotiation on glass had been performed; however, no written documentation was provided for IA's verification. IA's inquiry with EWS and City's Purchasing department revealed that they were not aware of a negotiation on glass price.

Recommendation

Management should:

- Consider requesting a refund from Republic in the amount of \$41,506.19 plus 80% of the gross revenue, from the sale of glass recyclables.
- Ensure that Republic provided proof of current market pricing and gross revenue from the sales of recyclables on a monthly basis and verify that the City is getting paid accurately.

Management Response

Concur

Action Plan

Deputy City Attorney has mailed a demand letter to Republic Services regarding a

refund in the amount \$ 41,506.19 paid by the City for glass for the period May 2012 through September 2013. The letter also makes a demand for records relating to the gross revenues Republic received for the sale of glass. Republic Services is advised that failure to refund the unpaid amount demanded within 30 days, the City may pursue all of its legal remedies to resolve this matter.

Implementation Date

March 2014

Finding # 3 (Obj. #1)

Condition (The way it is)

The Agreement in Section 7. (a) states, "On a quarterly basis, at no additional charge to the City, Contractor shall conduct an audit to demonstrate the residual rate of materials received at the Recycling Processing Facility." Residual means solid waste remaining after processing, which the Contractor cannot recycle. The percentage rates of the Commodities are then used for calculation of revenue for the City. The following issues were noted during IA's review:

1. Republic did not perform audits every quarter as required. There were only three audits conducted since the inception of the Agreement. There should have been 6 audits performed during the scope of the audit.
2. IA was unable to verify if City personnel were present during the audit performed by Republic due to lack of documentation.
3. A written audit report of findings was issued to the City regarding the level of residuals, when audits were performed; however, we were not able to prove it was received within 10 days of the completion of the audit since a date was not stamped.

Criteria (The way it should be)

1.& 2. & 3. The Agreement in Section 7(a) states, "On a quarterly basis, at no additional charge to the City, Contractor shall conduct an audit to demonstrate the residual rate of materials received at the Recycling Processing Facility. Dates for audits will be mutually agreed upon by the parties and a representative of the City shall be present during the audit. Contractor shall provide the City a written audit report of findings regarding the level of residuals within ten (10) days of the completion of the audit."

Effect (So what?)

1. The residual rate of material changes each time an audit is performed. The City was getting paid a very low rate for 9 months instead of 3 months. May through September, 2012 began with a distribution percentage rate of 91.49%. October 2012 through July 2013 the distribution percentage rate was 76.29%. August through September 2013 the distribution percentage rate changed to 82.97%.

	May - Sept 2012 Distribution %	Oct - July 2013 Distribution %	Aug - Sept 2013 Distribution %
Tons Sold	Audit 1	Audit 2	Audit 3
ONP	36.0%	26.8%	34.6%
Glass	27.0%	18.5%	23.0%
Mixed Paper	0.0%	0.0%	0.0%
OCC	5.5%	12.4%	10.2%
Aluminum	1.2%	1.5%	1.0%
Tin	3.7%	3.7%	2.4%
HDPE Pigmented	3.1%	1.0%	0.0%
HDPE Clear	3.1%	2.4%	2.6%
Mixed Plastics	2.3%	2.5%	0.0%
PET	9.7%	7.4%	9.2%
Total Tons Sold	91.49%	76.29%	82.97%

2. Lack of audit trail. Republic may provide inaccurate information.
3. Lack of audit trail.

Cause (Difference between condition & criteria)

1. Republic's Coordinator stated that Republic and the City's employees had a difficult time coordinating a schedule which was good for both Republic and EWS.
2. There was no documentation listing the City personnel who were in attendance when the audit was performed by Republic.
3. EWS did not date stamp the audit report when it was received.

Recommendation

Management should ensure that:

1. Quarterly audits are performed on a regular basis to demonstrate the residual rate of materials received.
2. EWS prepares a form which discloses City personnel who were in attendance during the Republic audit. The report should be signed and dated by both the City and Republic's representative and maintained by EWS.
3. EWS date stamps the audit when it is received.

Management Response

Concur

Action Plan

1. EWS will ensure that Quarterly audits are performed on a regular basis.
2. EWS will date stamp the audit when it is received.
3. EWS will prepare the recommended form for City and Republic Services personnel to document the audit process. This document will be maintained by EWS.

Implementation Date

March 2014

Finding # 4 (Obj. #2)

Condition (The way it is)

Republic sends EWS a monthly MRF Pricing Analysis sheet which displays the calculations for processing the market price/ton, tons sold, distribution percentages per commodity, gross revenue per commodity due the City, Fuel/Transportation Fee and total amount due the City of Garland. During the review we noted:

1. EWS does not re-calculate the OMB pricing support for newspaper and OCC, market price per ton, and gross revenue per commodity for amounts paid to the City on the MRF's Pricing Analysis.
2. EWS does not perform reconciliations on tonnage.
3. EWS does not monitor the US Energy Information Administration's Weekly Retail On-Highway Diesel Prices Listing.

Criteria (The way it should be)

1. EWS should re-calculate the monthly MRF's for processing, the market price/ton, tons sold, distribution percentages per Commodity, gross revenue per commodity due the City, Fuel/Transportation Fee and total amount due the City of Garland.
2. A reconciliation of total tonnage should be performed to ensure the City is getting paid the appropriate amount of revenue.
3. The Agreement in Section 5.3 states, "The City will pay contractor a fuel/transportation fee of one thousand dollars (\$1,000) per month during the Term or any extension of this Agreement; provided, however, that no such fee shall be due for any month when the average weekly price per gallon of diesel fuel for that month, as reflected in the U.S. Energy Information Administration's Weekly Retail On-Highway Diesel Prices listing (<http://tonto.eia.dow.gov/oog/info/whop/diesel> (Gulf Coast)), was less than three dollars (\$3.00) per gallon."

Effect (So what?)

- 1&2. Mistakes were made by Republic and went undetected by EWS. The errors led to MRF calculations being inaccurate, thus causing the amount of revenue received by the City to be incorrect.
3. The City could be paying \$1,000 extra per month if diesel prices are less than \$3.00.

Cause (Difference between condition & criteria)

- 1& 2. EWS did not perform a review of the MRF Pricing Analysis and total tonnage reconciliation.

3. The average diesel price has not been less than \$3.00 a gallon during the scope of the audit. However, the prices came close to \$3.00 a gallon during the month of December 2012. Diesel prices have been dropping and this may become an issue in the future.

Recommendation

Management should consider ensuring that:

1. EWS verifies the information listed on the MRFs to verify the City receives the appropriate amount of revenue.
2. EWS reconciles tonnage monthly, to verify the City receives the correct amount of revenue.
3. EWS monitors the US Energy Information Administration's Weekly Retail On-Highway Diesel Prices Listing each month, to ensure diesel prices do not go below \$3.00. If they do, ensure the City is not being charged the \$1,000 Fuel/Transportation Fee.

Management Response

Concur

Action Plan

1. EWS will verify the information listed on the MRFs to verify the City receives the appropriate amount of revenue.
2. EWS will reconcile tonnage monthly to verify the City receives the correct amount of revenue.
3. EWS will monitor US Energy Information Administration's Weekly Retail On-Highway Diesel Prices listing each month to ensure diesel prices do not go below \$3.00. If prices fall below this range, ensure the City is not charged a \$1,000 Fuel/Transportation Fee.

Implementation Date

March 2014

Finding # 5 (Obj. #2)

Condition (The way it is)

The City did not verify if Republic maintained liability insurance which was required upon renewal of the Agreement. The City did not have proof of insurance on file.

Criteria (The way it should be)

The Agreement in Section 11 states, "The contractor shall procure and maintain for the duration of the Agreement such types and limits of insurance as more particularly described on Exhibit A."

Effect (So what?)

The City could be liable for injuries or damages caused by Republic.

Cause (Difference between condition & criteria)

Management did not monitor liability insurance to ensure it was reinstated upon renewal of the Agreement.

Recommendation

Develop a mechanism to ensure required insurance is reinstated upon renewal of the Agreement.

Note: Upon IA's notification, the Purchasing Department obtained the Proof of Insurance for Republic.

Management Response

The Purchasing Department has a process for obtaining proof of insurance prior to contact award. Once proof of insurance is obtained, it is included in our database for monitoring. Since this contract was not awarded through the Purchasing Department, the insurance was not included in our database, and therefore, not monitored.

Action Plan

The insurance requirement has been added to our database and will be monitored accordingly.

Implementation Date

Immediately.

Finding # 6 (Obj. #1)

Condition (The way it is)

The \$12,000 received from Republic to educate the public regarding its recycling program and to encourage its use, was not received within 30 days after the execution of the Agreement, and upon extension of the Agreement in 2013. The Agreement was signed on April 25, 2012 and went into effect on May 1, 2012. The 2012 check was dated 8/17/2012 and the 2013 check was dated 7/19/2013.

Criteria (The way it should be)

The Agreement in Section 2.6 states, "Contractor shall assist the City in its program to educate the public regarding its recycling program and to encourage its use by paying the City \$12,000 within 30 days after the execution of this Agreement, and annually thereafter on the anniversary date upon any extension of the Agreement."

Effect (So what?)

Payments were received late and the funds were not available for immediate use.

Cause (Difference between condition & criteria)

Republic did not pay timely and EWS did not monitor timely receipt of the funds.

Recommendation

Management should implement a tracking mechanism to ensure payments are received in a timely manner. Additionally, criteria for assessing late fees should be added to the Agreement upon renewal.

Management Response

Concur

Action Plan

1. EWS will implement a tracking system to ensure payments for the Recycling Public Education Program are received in a timely manner.
2. Criteria for the assessment of late fees will be added to the agreement upon renewal.

Implementation Date

March 2014

Exhibit A

Sampling Methodology

Commodity Price Verification:

IA judgmentally sampled 5 months to verify the accuracy of commodity prices reported by Republic. In those 5 months, IA judgmentally sampled 3 key commodities for each month since IA was only allowed to view what was in Republic's Trux software. These months and three key commodities were selected due to the following inconsistencies in monthly reporting:

- Commodity pricing seemed low compared to other months
- High risk on higher paying commodities
- Zero dollars paid on Mixed Plastics for some months
- Rates given OCC were OMB pricing rates

Republic refused to give IA any printed reports on revenue from their system. IA compared the information in Republic's Trux software to the commodity prices listed on the MRFs. All commodity prices agreed with the exception of glass. We believe the result can be projected to the population.