

REPORT TO THE CITY COUNCIL

BY THE CITY INTERNAL AUDITOR

**LIMITED REVIEW OF
DEPARTMENT OF OPERATIONAL SERVICES
AMENDMENTS TO THE LANDFILL SERVICES CONTRACT
RECYCLING PUBLIC EDUCATION AND INFORMATION
PROGRAMS AND RELATED CONTRACTUAL EXPENDITURES**

INTERNAL AUDIT REPORT 600099-06

SEPTEMBER 10, 1999



September 10, 1999

**Councilman Roy Burrell, Chairman
Shreveport City Council**

Dear Councilman Burrell:

Subject: IAR 600099-06 - Limited Review of Department of Operational Services - Amendments to the Landfill Services Contract, Recycling Public Education and Information Programs and Related Contractual Expenditures

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

**Radford K. Snelding, CFE, CGFM, CIA
City Internal Auditor**

LG:jm

**EXECUTIVE SUMMARY
LIMITED REVIEW OF
DEPARTMENT OF OPERATIONAL SERVICES
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The purpose of the executive summary is to convey in capsule form the significant issues of the audit report. The executive summary is a vehicle for reviewing the report and should be used in conjunction with the entire report.

INTRODUCTION

In 1987, the City entered into a Sanitary Landfill Services contract with a contractor who would provide water management, disposal and other services for the City. In 1995, under the first Amendment to the contract, the agreement was revised to allow the contractor to provide additional services such as recycling and household hazardous waste. In 1996, the contract was again amended. This amendment only modified some of the contractor requirements stipulated in the first amendment.

SIGNIFICANT ISSUES

Based on our limited review, we have identified the following significant issues:

- < In our opinion, the contract provision and the process established for committing and expending the annual \$5000 for funding recycling public education and information programs was inappropriate because of a lack of oversight.
- < Approximately \$1250 of expenditures were incurred that violated the intent of the contractual provisions.
- < There has been inadequate progress in constructing and completing the portable recycling display and environmental education mobile unit and little progress in implementing the household hazardous waste program.

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Findings

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OBJECTIVES

We have completed a limited review of the Department of Operational Services Amendments to the Landfill Services Contract, Recycling Public Education and Information Programs and Related Contractual Expenditures. Our objectives included the following

- < Determine whether expenditures were made in accordance with
- < Ascertain whether adequate supporting documentation was maintained by the contractor to verify the existence, accuracy, and appropriateness of the r
- < Determine whether the control environment over the contractual expenditures was adequate and conducive to effectively performing contract

SCOPE AND METHODOLOGY

Our limited review was performed in accordance with applicable generally accepted governmental auditing standards as defined by Section A30 of the Internal Audit Office Operating Instructions Manual. The scope of the study of internal control was limited to the general control surrounding the specific issues addressed. Our review encompassed a three year period, including 1996 through 1998

The scope of our limited review focuses on the recycling education and information expenditure provision and other related activities contained in both the first and second amendments to the contract. This provision requires that the contractor commit \$5000 per year, directed by a city employee for recycling public education and information programs. Other contractual provisions such as constructing and completing a portable recycling display and environmental education unit and implementing a household hazardous waste program are related activities for the recycling efforts stipulated in the contract.

The procedures included:

- < Review of supporting documentation including invoices and selected canceled checks maintained by the contractor to verify existence, accuracy, and appropriateness of expenditures.
- < Interviews with appropriate personnel including city employee

CONCLUSIONS/FINDINGS/RECOMMENDATIONS

In our opinion, the contract provision and process established regarding commitment and disbursement of public education and information funds was inappropriate because of a lack of oversight. The contractor's funds, which were obligated for a public use, were directed by the City. Effectively, this arrangement allowed the City to bypass certain city and state laws (e.g. prohibiting donations and requiring compliance with public bid laws) that it otherwise would have been subject to follow if these monies were directly city funds. We believe the contract provision should be revised to strengthen oversight and review of expenditures and to ensure adherence to applicable city and state laws and regulations.

To strengthen controls, management has now requested that the contractor remit the annual \$5000 commitment directly to the City in quarterly installments. Under these revised terms, expenditures made in accordance with this contract provision will be subject to all applicable city and state laws and regulations. The funds will now be administered by the Shreveport Green organization. Monitoring, review, and oversight of these funds will be the responsibility of the Department of Operational Services management.

In addition, we believe that by implementing these additional recommendations, management would enhance the control environment over the expenditures. Key recommendations are:

- < Expenditures incurred on behalf of the recycling programs should be regularly monitored by supervisory personnel for appropriateness.
- < Management should ensure completion of the portable recycling display and mobile unit, implementation of the household hazardous waste program, and proper submission of cost reimbursement requests to the contractor for these expenditures.
- < Supporting documentation should be adequately maintained by the contractor to verify reported expenditures.

1. Inappropriate Expenditures

Criteria Section II(A) of the contract provides that the "Contractor agrees to commit Fifty Thousand Dollars (\$50,000) per year for public education and information programs to be directed by the Recycling Coordinator."

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Condition: Based on our review, approximately \$6,000 (over the three year period under review) was improperly charged to the public education and information programs budget, based upon the criteria stipulated in the contract. Based on the listing of promotional and educational expenditures we obtained, these inappropriate expenditures consisted of donations to and sponsorships of various organizations. The City received no tangible benefit for these expenditures.

Furthermore, based on the listing of promotional and education expenditures, an additional \$20 was charged for items such as Captains field boxes, bedding plants, cash register, and an air ticket and car rental that did not appear to meet the criteria as specified.

Effect:

- < \$7,250 of expenditures that violated contractual provisions.
- < Bias or favoritism by the City in awarding donations and sponsorships.
- < Potential adverse publicity.

Cause:

- < Inadequate monitoring and review of contractual expenditures.
- < An absence of appropriate supervisory controls.

Recommendation: We recommend that management ensure that charges incurred for recycling public education and information programs are related to objectives and goals of the recycling program. Expenditures incurred on behalf of the programs should be regularly monitored for appropriateness.

Management Plan of Action: We intend to ensure that charges incurred for recycling public education and information programs are related to the goals and objectives of the recycling program. The Recycling Coordinator position has been eliminated and that employee laid off.

A Cooperative Endeavor Agreement has been entered into between the City of Shreveport and Shreveport Green. Shreveport Green has agreed to, in a good and professional manner, provide all personnel, labor and equipment necessary to provide information about the City's recycling programs and projects. The Executive Director of Shreveport Green will work closely with the Office of Public

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Work to ensure that the grant and fund obligations described in the Landfill Services Contract are complied with. The report Green is required to provide reports that include an itemized accounting of the funds expended pursuant to the City's educational and recycling programs and projects in accordance with their designated use. Auditor's Note Management attached a copy of the Agreement with their response.>

Time table:

2. Violation of Contract Terms - Educational Center Expenses

Criteria Article II, A, Section E, of the agreement provides that the "contractor agrees to include within the Recycling Education Center with a minimum seating capacity of sixty (60) persons including appropriate educational materials and supplies at Contractor's sole expense." This provision is in addition to the \$5000 budget provided each year for public education and information programs.

Condition: The Recycling Education Center was not furnished at contractor's sole expense, as required by the agreement. According to the 1996 listing of expenditures for the recycling public education and information budget, materials such as classroom desks, classroom chairs, board markers and letters, and pictures for the educational center were purchased with funds from this budget. Based on our review, we noted approximately \$400 of classroom furnishings were inappropriately charged.

Effect:

- < Violation of contract terms.
- < Decreased overall benefit to the City because contractor has not met each individual contract commitment.

Cause:

- < Inadequate monitoring and review of contract terms.
- < An absence of supervisory approval controls.

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Recommendation: We recommend that management seek remuneration of \$4000 from the contractor for classroom expenses charged by the contractor to the education and information budget. The amount may be included with subsequent years' promc

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Management Plan of Action: We will seek remuneration of the \$4,000 from the Contractor for classroom expenses charged by the Contractor to the education and information budget. This may be done by direct payment or may be included with subsequent years promotional budget allocations. If the latter is done, the first \$4,000 from the subsequent year promotional budget allocations would be dedicated to recover the \$4,000.

Timetable:

3. Inadequate Program Progress

Criteria Article II Paragraph Q states that "Contractor shall develop and construct a portable recycling display that shall include photographs of the Recycler, the compost facility, the Mobile Recycling Unit (MRU). Contractor's cost to plan, develop and construct this display shall not exceed Two Thousand Dollars (\$2,000)."

Article II Paragraph P provides that "contractor shall work with the City to complete the City's proposed Environmental Education Mobile Unit. The Contractor's cost in conjunction with the completion of the Environmental Education Mobile Unit shall not exceed Ten Thousand Dollars (\$10,000)..."

Finally Article II Paragraph R provides that "Contractor agrees to pay in each year up to fifty percent (50%) of the yearly cost of the City's Household Hazardous Waste Collection Program, with the maximum contribution from Contractor in any one year to be no more than Twenty Five Thousand Dollars (\$25,000) per year."

Condition: Based on our review, we noted that although this contract has been in effect since September, 1996:

- < The Contractor has made no progress in constructing the port
- < The City has made very little progress in completing the Mobile Environmental Education Mobile Unit and obtaining a portion of the cost reimbursement from t
- < There was no substantial progress to implement the City's Household Hazardous Waste Collection Program and obtain a portion of the cost reimburse

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<Auditor's Note: Proposals have been received for selection of a household hazardous waste contractor.>

Effect:

- < Program goals and objectives for the portable recycling display, environmental education mobile unit, and household hazardous waste programs may not
- < Financial resources obligated to the City were not requested by

Cause: Inadequate oversight and monitoring of contract provisions

Recommendation: We recommend that management ensure that construction for the display unit and mobile unit proceeds promptly and cost reimbursements are submitted to the contractor for payment.

In addition, beginning immediately, management should ensure more timely implementation of the Household Hazardous Waste Program. Cost reimbursements should be submitted to the contractor for payment.

Management Plan of Action: The Cooperative Endeavor agreement between the City and Shreveport Green amended April 1999 requires Shreveport Green to develop and construct a portable recycling display, complete the City's MRU. Funds are also provided to Shreveport Green for education and information programs and for promotion of the recycling, composting and reuse of yard waste programs. Auditor's Note: Management attached a copy of the Agreement with their response.>

Substantial progress has been made to implement the City's Household Hazardous Waste Collection Program. On June 29, 1999, a Request for Proposal (RP) #087 was issued by the City Purchasing Division for the Household Hazardous Waste Collection Program. Proposals were received in Purchasing July 29, 1999. The event is scheduled for Saturday, September 18, 1999. The City has made a request for the \$300 payment owed in Article II, Paragraph R from the contractor in a letter dated May 20, 1999, to Mr. Tom Miley, District Vice President, Louisiana Landfills District Office, BH from Mr. Mike Strong, then Public Works Director for the City. Auditor's Note: Management attached a copy of the letter with their response.>

Timetable:

4. Unsupported Expenditures for Promotional Budget

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Criteria Section II(A) of the contract provides that the 'Contractor agrees to commit Fifty Thousand Dollars (\$50,000) per year for public education and information programs to be directed by the Recycling Coordinator.'

To provide reasonable assurance that this commitment has been met, a good system of controls necessitates that the existence of payments should be supported by proper documentation, including invoices and canceled checks.

Condition: The contractor did not provide adequate support for public education and information program expenditures. Although we obtained a listing of expenditures that recorded costs incurred by the contractor for the recycling program based on our review, there were no adequate invoices to support 11% of expenditures in 1998; and 11% of

In addition, the contractor could not provide copies of canceled checks for 14 (68%) of 24 expenditures sampled.

Effect: Because we could not verify the existence of these payments by an invoice and/or canceled check, there is no evidence to confirm that these expenditures were actually incurred by the contractor for the recycling program.

Cause:

- < Lack of adequate monitoring and oversight by the City.
- < Inadequate record-keeping by the contractor.

Recommendation: In the future, we recommend that management ensure that the contractor's expenditures for public education and information programs for the recycling program are properly supported by invoices and canceled checks.

Management Plan of Action: As was stated in management's response to item number one (1) Improper Expenditures, the Cooperative Endeavor Agreement between the City and Shrewport Green requires Shrewport Green to work closely with the Office of Public Works to ensure that the grant and fund obligations described in the Landfill Services Contract are complied with. Shrewport Green is required to provide reports that include an itemized accounting of the funds expended pursuant to the City's educational and recycling programs and projects in accordance with their designated use. Additionally, the City will require Shre

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provide invoices and canceled checks as support documentation. This action should provide reasonable assurances that commitments provided for in the Land

Superintendent of Solid Waste, Mr. Fred Williams, will be responsible for the daily monitoring of all contracts and obligations mentioned herein.

Timetable:

Prepared by:

Leanis L. Graham, CIA, CPA

Approved by:

**Radford K. Snelding, CFE, CGFM, CIA
City Internal Auditor**

LG:jm

**c: Mayor
CAO
City Attorney
City Council
Clerk of Council
External Auditor**