



CITY OF SAN ANTONIO

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October 14, 2020

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Councilman, District 8

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Councilman, District 9

Clayton H. Perry
Councilman, District 10

SUBJECT: Audit Report of Solid Waste Management Department Landfill Contract and Operations

Mayor and Council Members:

We are pleased to send you the final report of the Solid Waste Management Department Landfill Contract and Operations. This audit began in February 2020 and concluded with an exit meeting with department management in October 2020. Management's verbatim response is included in Appendix B of the report. The Solid Waste Department management and staff should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

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

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Judy Treviño, Audit Committee Member

CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR



Audit of Solid Waste Management Department

Landfill Contract and Operations

Project No. AU20-032

October 14, 2020

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

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Solid Waste Management Department (SWMD), specifically the landfill contract and operations. The audit objectives, conclusions, and recommendations follow:

Determine if internal controls are in place to ensure that charges for landfill services are accurate and properly recorded.

Key management controls are in place and operating to ensure that charges for landfill services are accurate and properly recorded. We verified that the base rate, reimbursement, and royalty payments are consistent with contractual terms. We determined that SWMD continuously monitors key components of the landfill contracts including insurance coverage, monitoring of on-site scales, and performance of community clean-up days. Finally, SAP system access is appropriate and commensurate with employee duties.

We make no recommendations regarding the Solid Waste Management Department; consequently, no management responses are required. Management's acknowledgement of these results is in Appendix B on page 5.

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Background

The Solid Waste Management Department (SWMD) serves customers by providing them with a myriad of programs and services that effectively and efficiently manage municipal solid waste generated within the City of San Antonio. Programs and services include automated garbage collection, residential brush collection, residential bulky collection, and dead animal pickup.

On May 31, 1995, the City Council authorized the City Manager to enter a 30-year contract with Waste Management Inc., Texas Disposal Systems, and to amend an agreement with Browning-Ferris Inc. to provide solid waste disposal services.

Key contractual terms with Waste Management Inc., Texas Disposal Systems, and Browning-Ferris Inc. include the following: (1) base disposal rates, (2) reimbursement of federal, state, and local fees incurred by the vendors, and (3) royalty fees. Base disposal rate calculations are adjusted on an annual basis based on Consumer Price Index changes. The City will also reimburse its proportionate share of any additional fees imposed by federal, state, and local regulations. Furthermore, royalty fees will also be paid and adjusted annually based on Consumer Price Index changes.

Disposal related expenses incurred by SWMD related to the Waste Management Inc., Texas Disposal Systems, and Browning-Ferris Inc. agreements for fiscal year 2018 and 2019 were \$9,167,154 and \$9,465,038, respectively. See Table 1 below for details.

Table 1 – Disposal Costs for FY2018 and FY2019

Vendor Name	FY2018	FY2019
Waste Management Inc.	\$4,128,909	\$4,129,018
Brown-Ferris Inc.	1,980,251	2,159,108
Texas Disposal Systems	3,057,994	3,176,912
Totals	\$9,167,154	\$9,465,038

Source: SAP

Audit Scope and Methodology

The audit scope was from January 2019 to April 2020.

We interviewed management and key staff from SWMD to obtain an understanding of contract monitoring and financial reporting processes. We used the contract terms and COSA Procurement Policy as criteria for our test work.

We determined compliance with key terms of the contracts by reviewing documentation including insurance certificates, on-site scale certificates, evidence of community clean-up day performance, invoices, payment reconciliations, and reperformance of significant payment calculations. Testing included evaluating whether the supporting documents obtained were appropriate, sufficient and in compliance with agreements.

We determined that the internal control component of Control Activities was significant to the audit objective. The underlying principle related to Control Activities that was significant to our audit objective, as described in the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, issued September 2014, was Principle 10: management should design control activities to achieve objectives and respond to risks. To assess the design, implementation and/or operating effectiveness of the internal controls related to Control Activities, we reviewed appropriate documentation of payment transactions, reconciliations, and user access roles in SAP.

We relied on computer-processed data in SAP, the City's accounting system, to validate financial information. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included comparing payment information against department reconciliations and vendor invoices. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our 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.

Audit Results and Recommendations

The Solid Waste Management Department (SWMD) internal controls over charges for landfill services appear to be accurate and properly recorded.

We reviewed key contractual terms related to the monitoring of landfill contracts and determined that SWMD is performing reasonable procedures to monitor landfill contracts. Specifically, we reviewed insurance certificates and scale certificates and determined vendors have sufficient insurance coverage and adequate scale calibration. We also noted that SWMD has established Contract Administrative Plans (CAPs) and designated a contract administrator to monitor significant contractual terms.

In addition, we determined that base rate payments and state reimbursement fees are consistent with contractual terms. We determined this by extracting payment information from SAP and comparing payment information to invoices received, reconciliations performed by the department staff, and recalculated Consumer Price Index (CPI) adjustments. We also reviewed supporting documents pertaining to royalty reimbursement payments incurred by Texas Disposal Systems (TDS) and noted that payments agree with supporting documents and are consistent with contractual terms.

Finally, we deemed SWMD user access rights to SAP, the City's accounting system, appropriate due to the proper segregation of duties observed by auditors. Specifically, we noted that SWMD employees are properly excluded from key payment processing privileges and key payment processing approver rights. As a result, we also determined that monitoring over SAP user access rights by SWMD was appropriate.

There are no findings. Consequently, we make no recommendations to SWMD.

Appendix A – Staff Acknowledgement

Gabriel Treviño, CISA, Audit Manager
Judith Flores, CPA, Auditor in Charge

Appendix B – Management Acknowledgement



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

October 5, 2020

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

RE: Management's Acknowledgement of its Review of SWMD Landfill Contract and Operations Audit

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

Solid Waste Management Department:

☒ Fully Agrees

☐ Does Not Agree (provide detailed comments)

Sincerely,



David Newman
Director
Solid Waste Management Department

10-6-2020

Date



David McCary
Assistant City Manager
City Manager's Office

10/6/2020

Date