

MANAGEMENT AUDIT REPORT

OF

COMMERCIAL COLLECTIONS DIVISION
SOLID WASTE MANAGEMENT DEPARTMENT

REPORT NO. 07-111



City of Albuquerque
Office of Internal Audit and Investigations

Commercial Collections Division – Solid Waste Management Department
07-111
Executive Summary

Background The Office of Internal Audit and Investigations conducted a management audit of the – Commercial Collections Division (CCD) operated by the Solid Waste Management Department (SWMD). The audit was included in the fiscal year (FY) 07 approved audit plan. Commercial Collections is a division of the SWMD that provides comprehensive trash collection services to commercial businesses in the Albuquerque metropolitan area. CCD’s goal is to use effective and efficient collection methods that result in the greatest possible satisfaction for customers. For FY08, CCD has estimated revenues of \$24 million and projected commercial waste collected of 240,000 tons.

Objective: Do the controls in place ensure collection points for new and updated accounts comply with the City of Albuquerque’s (City) Ordinance 9-10 ROA 1994: Solid Waste Management and Recycling?

- Seven of 22 (32%) Service Agreements (SAs) did not have the owner’s signature.
- Six of 22 (27%) SAs had contract rates that did not agree with the current rate schedule. However, the accounts were billed properly.
- Two of 22 (9%) SAs had start dates that did not agree to the billing system which affects the beginning date of the billing cycle.
- One of 22 (5%) SAs had a difference in the contract rate on the SA to the current rate schedule. The account was over billed \$124.20.
- One of 22 (5%) SAs did not indicate if the bin included *hazardous route* and/or *casters* as part of the service.
- Five of 22 (22%) had no exceptions.

Recommendation: SWMD should develop a policy to ensure that the CCD’s SAs are reviewed for accuracy.

Objective: Do the controls in place ensure billing information is correct?

- One of 16 (6%) extra private bins was noted at a business location. SWMD is not billing for this bin. There is insufficient information to determine the dollar amount of the exception.
- One of 16 (6%) bins located behind a gate was not charged a lock/gate fee. From the beginning of the SA through the end of fieldwork, this business owes the City \$180 in back fees.

- One of 16 (6%) business' SA indicates there were two 8-yard bins at the location. OIAI observed one 8-yard bin and one 6-yard bin at the business' location. SWMD is overcharging the customer \$14.22 per month. There is insufficient information to determine the full amount of the exception.
- Thirteen of 16 (82%) had no exceptions.
- OIAI located one 30-yard open top bin that was not being billed. There is insufficient information to determine the dollar amount of the exception.

Recommendations: SWMD should agree the information in the billing system to the number and type of bin at each commercial business location. SWMD should either begin billing the customer for the use of the bin or remove the bin.

Objective: Do the monitoring controls in place provide effective tracking and control of daily collection services?

- The passive GPS units have not functioned properly for several months. The computer program either did not provide complete information or froze repeatedly.
- The active GPS units showed that routes taken were reasonable when compared to the scheduled daily routes. However, the CCD trucks were idling for an excessive amount of time prior to the beginning of the daily shift.

Recommendations: SWMD should correct and maintain the GPS system to ensure accurate and timely information is obtainable. SWMD should ensure that the current process for warming up trucks is enforced.

Objective: Are controls in place to ensure accurate and timely updating of the inventory of waste bins owned by the City?

SWMD does not have an accurate list of their 30-yard open top bins.

Recommendation: SWMD should annually perform a complete fixed asset inventory.

Objective: Did SWMD's CCD achieve its performance goals for FY07?

Four of seven (57%) performance measures for FY07 could not be verified because supporting documentation was not maintained.

Recommendation: SWMD should retain the supporting documentation for the performance measures reported in the annual performance plan.

Management responses are included in the audit report.



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July 30, 2008

Accountability in Government Oversight Committee
City of Albuquerque
Albuquerque, New Mexico

Audit: Management Audit
Solid Waste Management Department – Commercial Collections Division
07-111

FINAL

INTRODUCTION

The Office of Internal Audit and Investigations (OIAI) conducted a management audit of the Commercial Collections Division (CCD) operated by the Solid Waste Management Department (SWMD). The audit was included in the fiscal year (FY) 07 approved audit plan.

Commercial Collections is a division of the SWMD that provides comprehensive trash collection services to commercial businesses in the Albuquerque metropolitan area. CCD's goal is to use effective and efficient collection methods that result in the greatest possible satisfaction for customers. As of December 2007, CCD had approximately 14,000 commercial collection accounts. CCD projected FY08 revenues of \$24 million and estimated 240,000 tons (480,000,000 pounds) of commercial waste would be collected.

AUDIT OBJECTIVES

The objectives of the audit were to determine:

- Do the controls in place ensure collection points for new and updated accounts comply with the City of Albuquerque's (City) Ordinance 9-10 ROA 1994: Solid Waste Management and Recycling?
- Do the controls in place ensure billing information is correct?

- Do the monitoring controls in place provide effective tracking and control of daily collection services?
- Are controls in place to ensure accurate and timely updating of the inventory of waste bins owned by the City?
- Did SWMD's CCD achieve its performance goals for FY07?

SCOPE

Our audit did not include an examination of all functions and activities related to the CCD. Our scope included a review of activities related to the operation of the CCD for FY07 and the first half of FY08.

This report and its conclusions are based on information taken from a sample of transactions and do not intend to represent an examination of all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork, May 9, 2008, and does not reflect events or accounting entries after that date.

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.

METHODOLOGY

OIAI interviewed CCD personnel including commercial collection drivers. Documentation and processes reviewed included the following:

- Financial and operational reports.
- Daily activities of CCD personnel.
- Sample of new or updated accounts from July to December 2007.

FINDINGS

The following findings concern areas that we believe could be improved by the implementation of the related recommendations.

1. SWMD SHOULD DEVELOP A POLICY TO ENSURE CCD'S SERVICE AGREEMENTS (SAs) ARE REVIEWED FOR ACCURACY.

OIAI selected a statistical sample of new or updated SAs for the period July through December 2007. The SAs were tested for completeness and consistency with the information recorded in the billing system. OIAI reviewed 22 of the 194 (11%) SAs and noted the following:

- Seven (32%) were missing the owner's signature.
- Six (27%) had contract rates that did not agree with the current rate schedule. However, the accounts were billed properly.
- Two (9%) had start dates that did not agree to the billing system which affects the beginning date of the billing cycle.
- One (5%) had a different contract rate than listed on the current rate schedule. The account was over billed due to a billing system input error. Two trash bins were billed but only one bin was requested and delivered. The business was overcharged \$124.20 for the approximate two-month service period.
- One (5%) did not indicate on the SA if the bin would include *hazardous route* and/or *casters* as part of the service.
- Five (22%) had no exceptions.

SWMD stated that the SAs were not reviewed for accuracy by the supervisor. SWMD's current processes require an accurately completed SA prior to activation of commercial collection service. If the SA's are not properly completed, errors in billing, collection and disposal of waste may occur.

RECOMMENDATION

SWMD should develop a policy to ensure CCD's SAs are reviewed for accuracy.

RESPONSE FROM SWMD

"Solid Waste Management Department agrees with the finding and recommendation. The findings from the sample indicated that the paperwork was either not signed or had technical errors on the service contracts; however, 21 out of the 22 accounts were billed correctly. Effective with the completion of the audit, a new standard operating procedure for Commercial Service Contracts was established for Commercial Solid Waste services. This SOP requires that all service contracts be signed by the property owner and/or manager. Exceptions

will be the following: any change in level of service due to ordinance enforcement which results in a refusal to sign by the customer, and decreases in the level of service. In addition, it requires that the SWMD Code Enforcer review all service contracts for completeness and accuracy. Costs must correspond with the appropriate service and each service type must indicate whether it includes caster fees, gates/locks fees and/or a hazardous route fee. The Code Enforcers' Supervisor must review and initial all service contracts before the service contracts are submitted to the accounting assistants for system input. The accounting assistants will input the information into the City's Billing System (CIS). If any errors or omissions are detected, the accounting assistant will return the service contract to the Code Enforcer for corrections. This again requires review by the Code Enforcer's supervisor before being returned to the accounting assistant. Once an accurate service contract is entered into the billing system, the Billing Supervisor will compare the hard copy of the service contract to the service agreement in the billing system and initial as verified."

2. SWMD SHOULD AGREE THE INFORMATION IN THE BILLING SYSTEM TO THE NUMBER AND TYPE OF BIN AT EACH COMMERCIAL BUSINESS LOCATION.

A. *Private Bins*

OIAI reviewed 22 of the 194 (11%) new or updated SAs from July to December 2007. Sixteen of the 22 (73%) SAs were for privately owned trash bins. Private bins are charged a lower monthly service rate since the City's bin rental fee is not charged. The following were noted for accounts tested with private bins:

- One of 16 (6%) extra private bins was identified at a business location but was not reflected on the SA. There was insufficient information concerning the bins length of time at the business and the number of weekly pick-ups to determine the dollar amount of the exception.
- One of 16 (6%) bins located behind a gate was not being charged a lock/gate fee. This business should be charged an additional \$30 per month. From the beginning of the SA through the end of fieldwork, this business owes the City \$180 in back fees.
- One of 16 (6%) business' SAs stated that there were two 8-yard bins at the location. OIAI observed one 8-yard bin and one 6-yard bin at the business' location. SWMD is overcharging the customer \$14.22 per month. SWMD could not determine the length of time the 6-yard bin was at the business location.
- Thirteen of 16 (82%) had no exceptions.

SWMD's FY08 Performance Evaluation Guide, PEG, requires service representatives to review, evaluate and update all SA's within the representative's service area. This review includes compliance with City ordinances, revenues, customer complaints and code violations enforcement. As of May 9, 2008, SWMD management stated that the service representatives had not verified their SAs. Therefore, SWMD is incorrectly billing these businesses.

B. City Bin

City Ordinance 9-10 ROA 1994: Solid Waste Management and Recycling Rate Schedule states that a 30-yard open top bin should be billed \$273.09 per special pick up. SWMD's process is to complete the SA and begin service with the business. Special pick-ups are for customers who do not require weekly trash collection. These customers are charged a monthly bin rental fee and a special charge each time the bin is emptied.

During OIAI's test work of accounts with private bins, OIAI located one 30-yard open top bin that was not being billed. SWMD personnel stated that the open top bin was delivered to the wrong address. The business is receiving free service and SWMD is losing revenue. There was insufficient information to determine the length of time the bin was at this location. Therefore, OIAI could not determine the dollar amount of the exception.

RECOMMENDATION

SWMD should agree the information in the billing system to the number and type of bin at each commercial business location.

SWMD should either begin billing the customer for the use of the bin or remove the bin.

RESPONSE FROM SWMD

“Solid Waste Management Department agrees with the finding and recommendation. The Code Enforcement function was moved to the Administrative Services Division from the Operations Division during the first quarter of FY08. The purpose of the reorganization was to better align the accounting functions associated with code enforcement to ensure proper billing, improved customer service, accountability and auditing controls.

“The audit noted that the FY08 Performance Evaluation Guide (PEG) required a review and evaluation of all service agreements within the code enforcers' service area. These goals were set forth at the time of the reorganization recognizing the

need for improved verification and efficiency. In January, a preliminary evaluation of each code enforcement district indicated that there was a discrepancy in the percentage distribution of commercial accounts among the code enforcers. In order to assist the Code Enforcers in achieving their PEG goals, the Department began redistricting the code enforcement service areas in July of FY09, which will equal out the distribution of accounts. The new code enforcement districts will be established and implemented by September of FY09. In September, FY09, each code enforcer will begin visiting each business within their new district, verify the current level of service and update the service contracts as necessary. There are approximately 14,219 commercial service agreements distributed among seven code enforcers. The verification process is projected to be completed by the end of FY09. The Operations Review Section (ORS) will conduct a sample audit similar to the procedures performed by Internal Audit prior to the end of FY09.

“The City bin issue noted in the second recommendation was investigated and resolved. The City bin in question was placed at a business located on the 800 block of Juan Tabo NE instead of a building that previously housed the business located on the 1200 block Juan Tabo NE. The City bin was requested by the property owner to clean up the area; however, the City bin request noted, “the business on the 1200 block of Juan Tabo NE.” The driver arrived at the location was told by the business owner the business was no longer there. He then delivered the City bin to the new location on the 800 block of Juan Tabo NE. After this was discovered via the audit, the business on the 800 block Juan Tabo NE was charged for the city bin that was used. It was charged as a temporary service since it was only placed and picked up once. The business has since moved into the 1200 block Juan Tabo and is being billed for a city bin 30 yard open top that is serviced every other week. No revenue was lost due to this error. To prevent this from reoccurring, the code enforcer who initiates any special temporary service must ensure that the name of the requestor and the service address are correct. This is now being accomplished by requiring all special temporary service requests to be initiated via a field activity in the Billing system (CIS).

“To help protect against unauthorized bins (bins placed in service without a service agreement), the Department routinely uses an investigation firm and ORS to monitor the movement of bins. When the code enforcement service area redistricting is completed, ORS will continue to partner with the code enforcers to find or detect unauthorized bins.”

3. SWMD SHOULD CORRECT AND MAINTAIN THE GPS SYSTEM TO ENSURE ACCURATE AND TIMELY INFORMATION IS OBTAINABLE.

SWMD currently uses two types of GPS on their vehicles. The active GPS units can be viewed in real time on the computer. The passive GPS units take approximately 48 hours to process and update before information can be viewed on the computer. CCD has passive GPS units on 44 trash collection vehicles and five trash collection vehicles have active GPS units.

SWMD utilizes the GPS system to monitor the activities of the trucks. The monitoring includes excessive speed verification, inactivity/down times for each truck and vehicle damage claims due to debris falling from the trucks.

A. Passive GPS Units

Six of 44 (14%) passive units were tested from April 4, through April 11, 2008, excluding the weekend. Four were selected at random by taking the first and last trucks with GPS on the daily route logs. Two other trucks were judgmentally selected. The following GPS unit exceptions were noted:

- Three (50%) would not respond to our request because the computer program froze repeatedly.
- Two (33%) provided incomplete data regarding the location of the trucks.
- One (17%) provided an inaccurate location, which indicates the GPS unit in the truck required service.

SWMD management stated that the GPS system was installed approximately 18 months ago. It is a relatively new system and SWMD has had problems with employees tampering with the GPS units on the trucks. The employee responsible for initiating the daily processing for the passive unit software terminated employment and has not been replaced. SWMD's management stated that due to a lack of experience and technical support, the computer problems have not been corrected timely. If GPS units are not maintained, they will not provide valuable information that could be beneficial to SWMD management.

The Control Objectives for Information and related Technology, COBIT, Control Practices recommends that problems are recorded, analyzed and resolved in a timely manner. The use of either a skilled internal employee or an external service provider may be required to resolve the problem quickly.

B. Active GPS Units

Three of the five active GPS unit trucks were in the shop for repairs on the days selected for test work. Two active unit trucks reviewed had GPS routes that were reasonable when compared to the scheduled daily routes. One of the two (50%) active units tested showed that the truck idled for 42 minutes prior to starting their daily route.

The first two Saturdays in April 2008 had two active GPS unit trucks that completed routes. Both routes were reasonable when compared to the scheduled daily routes. Prior to starting the daily route one truck tested, idled for one hour and twenty-seven minutes and the other truck idled for 38 minutes.

SWMD's management stated the current process is to start and let the trucks idle for approximately 15 minutes during the winter months only. This allows the trucks to warm up properly so the drivers can begin their daily routes on time. Warming up trucks during non-winter months may result in unnecessary wear and tear and additional fuel use.

RECOMMENDATION

SWMD should correct and maintain the GPS system to ensure accurate and timely information is obtainable.

SWMD should ensure that the current process for warming up trucks is enforced.

RESPONSE FROM SWMD

“Solid Waste Management Department agrees with the finding and recommendation. Although the Department already had controls in place for monitoring the activities of the trucks, SWMD chose to add GPS monitoring to augment and enhance existing controls. The first passive units were purchased in 2005, and the last passive units were purchased in March 2007. The passive units, because of their age, have exceeded their life expectancy and are no longer under warranty or available for purchase. Approximately two years ago, the Department made the decision to migrate towards “active” GPS tracking systems. The active systems give the Department real-time active tracking and reporting capability to manage the operational fleets throughout the workday. This allows the Department to be more proactive in managing potential risks. The Department is allowing the passive GPS units to expire as we replace them with the new active GPS systems. Due to budget constraints in the last few fiscal years,

the Department was unable to replace the passive units as quickly as planned. SWMD contacted the GPS vendor on July 9, 2008 to work with us in determining if those passive units currently in service can be maintained until replaced. The Department will analyze the feasibility and cost associated with prolonging the life of the passive systems, and makes a decision based on that assessment.

“The GPS system was purchased initially to monitor speed and provide data on risk management issues. The Department, in its efforts to increase operational efficiency and reduce waste, agrees with the recommendation to use GPS tracking to monitor idling time of trucks, and is now doing this as of the completion of the audit. The truck that idled for 42 minutes was serviced that same day to replace a faulty starter relay which does not allow the driver to shut the vehicle off. The other two trucks found to have idled beyond 15 minutes occurred on a Saturday. The Department has instructed the foremen to monitor idling time, especially on Saturdays. The Operation Review Section (ORS) has been instructed to provide management a report of trucks idling beyond 15 minutes.”

4. SWMD SHOULD PERFORM A COMPLETE FIXED ASSET INVENTORY ANNUALLY.

State Statute 2.20.1.16 NMSA 1978 Annual Inventory requires each governmental entity to conduct a physical inventory of its fixed assets. All fixed assets with a historical cost of \$1,000 or more must be accounted for at the end of each fiscal year.

Administrative Instruction (AI) 6-4: Capitalization of Fixed Assets requires that departments maintain detailed records for each fixed asset by classification. The AI requires the department maintain adequate control over all assets to minimize the risk of loss or misuse.

SWMD does not have an accurate list of their 30-yard open top bins. These bins are the only CCD bins that meet the \$1,000 dollar threshold. OIAI could not agree the 30-yard open top bins on SWMD's inventory list to the City's master inventory list maintained by the Department of Finance and Administrative Services – Accounting Division. The two reports do not contain any corresponding information.

SWMD did not complete a full inventory of its assets at the end of FY07. Instead, the fixed asset manager performed a spot check which he thought would satisfy the requirement. Without an accurate inventory list, City assets are unaccounted for and SWMD could be losing revenue.

RECOMMENDATION

SWMD should perform a complete fixed asset inventory annually. SWMD should develop, document, and communicate their annual inventory procedures to staff.

RESPONSE FROM SWMD

“Solid Waste Management Department agrees with the finding and recommendation. SWMD has approximately 224 30-yard open top bins. The open top bins are a “moving inventory” asset. Bins move in and out of inventory daily, and there are some bins that are exchanged at the time they are serviced. This has made it very difficult to perform a physical inventory at year-end. SWMD began discussions with a CPA firm in November 2007, to conduct an assessment of the Department’s asset (specifically industrial trash bins) productivity. The objective was to evaluate the Department’s asset utilization, movement execution & monitoring of bins, and hand offs between Divisions including invoice approval and payment. Unfortunately, the fees to conduct the study were higher than expected, and the proposal from the CPA firm came as the Department began an aggressive cost-cutting plan.

“SWMD has a meeting scheduled with Central Accounting on July 17, 2008, to discuss the FY/08 asset inventory. We’ve briefed the Accounting Officer regarding the open top inventory, and we will meet with him in the July 17th meeting to discuss the Departments suggestions regarding the open top bins. The Operations Review section (ORS) of SWMD has initiated procedures and controls to monitor the movement and location of the open top bins. A by-product coming from these procedures is a “rolling” or “perpetual” inventory listing of the open top bins. The Department will discuss the listing with the Accounting Officer and ask for recommendations for counting the open top bins within acceptable governmental accounting guidelines.”

5. SWMD SHOULD RETAIN THE SUPPORTING DOCUMENTATION FOR THE PERFORMANCE MEASURES REPORTED IN THE ANNUAL PERFORMANCE PLAN.

SWMD could not provide supporting documentation of the actual numbers reported for four of the seven (57%) FY07 performance measures.

Performance Measures	FY07 Goal	FY07 Actual
Number of commercial accounts	12,727	13,346
Revenue (Thousands of dollars)	22,679	23,841
Number of on-demand service calls	8,553	3,667
Number of average daily routes	56	58

City Ordinance Section 2-11-2 ROA 1994: Government City Budget – Definitions, states that performance measurement is a systematic approach to quantify and analyze activities. These measures help to determine the amount of service delivered, work performed and the impact of the division on the community and customer. The performance measures provide information regarding SWMD’s efficiency and effectiveness. The employee responsible for gathering and preparing the FY07 performance plan did not realize he was to retain the supporting documentation. If the supporting documentation is not retained then the actual results of the performance measures cannot be verified.

RECOMMENDATION

SWMD should retain the supporting documentation for the performance measures reported in the annual performance plan.

RESPONSE FROM SWMD

“Solid Waste Management Department agrees with the finding and recommendation. The performance measure data collection and reporting responsibilities were reassigned to the Operations Review Section (ORS) of SWMD. In previous reporting cycles, ORS accepted performance data via email and phone messages. ORS is now requiring sufficient documentation from Division Managers supporting performance measure data, such as computer generated reports, pivot tables, logs, etc. ORS will retain the supporting documentation for future reference.”

CONCLUSION

SWMD should ensure SAs are reviewed for accuracy. SWMD should verify that the bin information at each business location agrees to the billing system. OIAI believes that the overall recommendations will strengthen SWMD’s CCD.

We appreciate the assistance and cooperation of SWMD’s personnel during the audit.

Principal Auditor

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