

**CITY OF CHARLOTTE
OFFICE OF INTERNAL AUDIT**

MEMORANDUM

To: Ann Wall, Assistant City Manager
Victoria Johnson, SWS Director

January 29, 2015

From: Gregory L. McDowell
City Auditor

Re: Solid Waste Services City-Wide Review for the Year-Ended June 30, 2014

Purpose and Scope

The Office of Internal Audit has completed an audit of Solid Waste Services' (SWS') city-wide reported revenues and expenses for the year-ended June 30, 2014. The purpose of the audit was to examine the reported financial results achieved by the city-wide service team, which reorganized its operations and began solid waste collection services for refuse, yard waste and bulky items on July 1, 2010. The present audit addresses the year-end for the fourth year of City SWS operations under the reorganization.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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.

This report is intended for the use of the City Manager's Office, City Council, Solid Waste Services and the PCAC (Privatization/Competition Advisory Committee).

Summary Findings

SWS has accurately compiled its costs of operations for city-wide services. For the year-ended June 30, 2014, operational expenses were under the approximate budget of \$21.2 million by \$11,181.

During the year, approximately 212,141 households were served, and a total of 230,748 tons of solid waste was removed. The adjusted cost of service per household year-to-date was \$8.33 as compared to the projected service cost of \$8.35. The cost per ton removed was \$92.93 for the year.

Our audit tests and analytical review procedures applied to the financial reports provided by SWS administrative staff indicate a high level of accuracy and completeness in reporting costs for the city-wide services. During this reporting period, several non-material corrections were

necessary following audit inquiries. Attachment A to this report displays the results of financial operations for the year-ended June 30, 2014.

Background

The SWS residential model transitioned from a managed competition and optimization in FY10 to city-wide service in FY11. Prior to FY11, the North, South and East Districts of the City were serviced by SWS staff and the West District was contracted out. Beginning July 2010, refuse, yard waste and bulky collection services are being performed by SWS city-wide while recycling is being performed by an outside contractor. Effective July 1, 2010, the Solid Waste Services team entered into a new, reorganized business structure. The reorganization provides that the team perform the specified solid waste collection services city-wide and earn revenues at the monthly billing rate for each house address. Costs of operation are compared to such revenues, and any savings are retained by the City for service enhancements or other productivity improvements.

During previous audits of SWS managed competition and optimization contracts, auditors found that the Solid Waste Services Administrative Division has implemented a sound internal control system to ensure that SWS complied with the terms of the reorganization. The control system includes the following fundamental elements that the auditors determined function well to ensure that costs of the operation are fully reported:

- A separate general ledger cost center has been set up on the City's financial management system which is managed independently by the City's Finance Department. It is therefore subject to review and control by the Finance Department. Further, it allows for isolating the expenses incurred by SWS and avoids commingling such expenses with those of other Solid Waste Services operations. This also facilitates the auditors' review of city-wide service expenses, and of the other cost centers administered by Solid Waste Services to identify any city-wide costs that may have been misclassified.
- Administrative staffs who report to the SWS Department Director reconcile the cost reports to the general ledger balances on an annual basis. Any discrepancies are investigated, and corrections are made as appropriate. Auditors review this reconciliation during the audit to ensure this control continues to be effective.
- A field monitoring system has been implemented by Solid Waste Services. The monitors report directly to the SWS Department Director and her administrative staff, and thereby are independent of SWS field supervisors.

Detailed Results of Audit

Revenues and Units Billed – Approximately 212,141 household addresses per month were billed as being serviced by the City. Auditors obtained the complete database of service addresses and performed a computerized count to verify the database to the SWS revenue billing. Additions since the previous quarter were reviewed, as well as a sample from the overall database to verify existence. Exceptions noted during our testing were forwarded to SWS for re-checking and

correction as appropriate. Based upon our testing for FY14 and during prior audits, Internal Audit concluded that the database is being maintained at a high level of accuracy. Included in the \$21.2 million of revenue reported is \$80,808 in revenue from SWS crews servicing the Inland recycling contract and \$167,329 from assisting High Point, North Carolina with storm debris clean-up.

Personal Services Expenses – Personal services costs for the year-ended June 30, 2014, were \$9,738,022, or 101% of the budgeted costs of \$9,699,239. Higher overtime salaries and temporary agency costs contributed to the personal service costs exceeding the budget. The personal service costs include \$669,422 in temporary agency costs and overtime expenses of \$1,210,107.

Equipment Expenses – Total equipment costs for the year-ended June 30, 2014, were \$11,240,068, which is \$197,549 or 2% higher than budgeted costs.

Conclusion

Based on our audit, the operating results reported for the year-ended June 30, 2014, as shown in the attached spreadsheet fairly present the actual performance results in accordance with the terms of the reorganization. The Solid Waste Services administrative staff was very helpful during this audit and we appreciate their efforts and assistance.

cc: Randy Harrington, Chief Financial Officer
Phil Reiger, Assistant CDOT Department Director
Maria Dennis, PCAC Liaison
PCAC Monitoring Sub-Committee Members

Attachment