MGWB: 6-15-06
ITEM: #1

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: John Stufflebean, Director
Environmental Services Department

FROM: Gerald A. Silva,
City Auditor

SUBJECT: *REVIEW OF ALLIED WASTE EXPENDITURES FOR THE PERIOD OF JUNE 1, 2005 THROUGH MAY 31, 2006*

DATE: May 23, 2006

Background

The San Jose/Santa Clara Water Pollution Control Plant (WPCP) relies on a contractor to (1) provide WPCP with containers to store screening, grit, and grease on-site and (2) haul and dispose of these materials. On May 18, 2004, the City Council approved the execution of a one-year service order and four one-year options to renew with Allied Waste (BFI) to provide the above services at a cost not to exceed $150,000 annually. In addition, the City Council stipulated that the Administration could renew the four one-year options without further City Council approval other than the appropriation of funds. Finally, the City Council approved a Councilmember Chavez motion to have the City Manager request the City Auditor's Office to review BFI's expenditures prior to the Administration approving the additional four one-year renewal options. The motion also required City staff to ensure BFI was properly disposing of materials.

In May 2005, the City Auditor reviewed Allied Waste expenditures for the first one-year renewal option period of June 1, 2004 through May 31, 2005. The City Auditor's review concluded that Allied Waste expenditures for waste hauling and disposal for the period were in accordance with the service order. However, the City Auditor noted the following issues:

- BFI did not always submit landfill receipts on a timely basis;
- BFI had undercharged the City for transport costs;
- BFI had not complied with the City's prevailing wage policies; and
- BFI provided non-compliant storage containers.

In response to the City Auditor's review, during 2005-06, BFI (1) submitted all landfill receipts on a timely basis, (2) complied with the City's prevailing wage policies, and (3) provided the WPCP with compliant storage containers.

Objectives, Scope, and Methodology

At the request of the City Manager, we conducted a review of BFI's expenditures for the second one-year renewal option period of June 1, 2005 through May 31, 2006.[1] We limited our review to verifying that 1) the Environmental Services Department (ESD) and BFI were adhering to the billing and payment conditions stated in the contract and 2) the amounts BFI invoiced the ESD were in accordance with the specified bid amounts stated in BFI's quote, submitted on March 15, 2004.

In order to verify that BFI performed contractual services in accordance with the service order and correctly billed the City for WPCP waste hauling and disposal we:

- Reviewed the supporting documentation that BFI submitted for payment from May 2005 through March 2006;
- Interviewed WPCP staff;
- Inspected storage bins on-site at the WPCP;
- Interviewed Office of Equality Assurance management; and
- Contacted Allied Waste staff.

We performed our review in accordance with Generally Accepted Government Auditing Standards (GAGAS). The City Auditor's Office thanks the staff of the ESD, OEA, and the Finance Department for their assistance during our review.

BFI Expenditures For The Period of June 1, 2005 Through May 31, 2006

We verified that BFI invoiced the City $134,774 for the period of June 1, 2005 to May 31, 2006, disposed of 2852 tons of grit, grease, and screenings, and transported 276 bins from the WPCP to the Newby Island Sanitary Landfill.[2] Based upon our review, we noted only one issue regarding BFI's billing for the hauling and disposal of grit, grease, and screenings at the WPCP. Specifically, our review revealed that BFI has undercharged the City for transport costs.

BFI Has Undercharged The City For Transport Costs

We found that BFI has undercharged the City for waste bin transport costs. This has resulted because BFI (1) has charged the City less than the specified quote price per each bin hauled and (2) has not billed for all loads hauled.

The BFI service order specifies $119 per haul to the Newby Island disposal site. While we found that BFI is charging the City the correct disposal price per ton ($37.85), it has not billed the City

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[1] The service agreement dates between the City and BFI are June 1, 2005 through May 31, 2006. At the time of our review, BFI had not submitted invoices for the months of April and May 2006.

[2] Amounts for April and May 2006 are not included in these amounts.

$119 per transport. Instead, BFI charged the City $117.88 per transport on invoices remitted in April, May, June, and July 2005. Furthermore, beginning in August 2005, BFI began combining transport trip charges. Specifically, BFI began billing individual hauls as lump sum quantities on their invoices. Finally, the lump sum invoiced amounts were not divisible by either $119 or $117.88 so we could not determine the number of transports that BFI was charging the City.

We also found that BFI did not bill the City for each bin it transported to the Newby Island disposal site. The City's service order requires BFI to provide a disposal ticket for each haul. There were 276 disposal tickets attached to the invoices we reviewed, indicating BFI transported 276 waste bins of WPCP materials to the Newby Island site. If BFI had properly charged $119 for each haul as the service order specifies, the City should have paid BFI $32,844 for 276 trips to Newby Island. Instead, BFI invoiced the City only $27,226 in transport costs. As a result, it appears that BFI undercharged the City $5,618 for transport costs.

We spoke with our Allied Waste representative who stated this was an Allied Waste billing error and it would take corrective action to address post-billing errors and to prevent future billing errors.

Conclusion

Allied Waste addressed the issues we identified in our 2004-05 review. For 2005-06, we identified that Allied Waste had undercharged the City $5,618. Accordingly, our Allied Waste representative said Allied Waste will take appropriate corrective action to address post-billing errors and prevent future billing errors. We discussed the results of our review with ESD, OEA and Finance Department staff who agreed with the review results. We also incorporated their comments into this memorandum.

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