

**Performance Audit 12-07:
Transfer Station Billing Process**

September 2013

City Auditor

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OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

September 3, 2013

To: Mayor Andy Berke
City Council Members

Subject: Transfer Station Billing Process (Report #12-07)

Dear Mayor Berke and City Council Members:

The attached report contains the results of our audit of the Transfer Station Billing Process. Our audit found the tonnage deposited at the transfer station was properly invoiced by Santek. The debris tonnage deposited at Santek's transfer station is comparable to the reported amount deposited by Santek at the City's landfill. However, due to Santek's control over access to both facilities and control over data integrity, we could not independently verify tonnage. We found payments were often processed without proper supporting documentation. In addition, we found city personnel are not verifying the annual rate calculations prior to authorizing rate changes.

In order to address the noted areas for improvement, we recommended actions to:

- Enhance monitoring at the City's landfill via cameras and comparison of tonnage deposited.
- Ensure payments are processed correctly; and
- Require city personnel to verify rate calculations are correct.

We thank the management and staff of the Public Works and Finance Departments as well as staff from Santek Waste Services for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Audit Committee Members
Travis McDonough, Chief of Staff
Andrew Kean, Chief Operating Officer
Brent Goldberg, Deputy Chief Operating Officer
Lee Norris, Public Works Administrator
Daisy Madison, City Finance Officer
David Carmody, Purchasing Director

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AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2012 Audit Agenda. The objectives of this audit were to determine if:

- The amount billed by Santek is correct;
- The rates calculated by Santek for municipal waste, construction debris, and the monthly fuel adjustments are correct and verified by city personnel; and,
- The debris tonnage deposited by the city at the transfer station is comparable to the amount deposited by Santek at the City's landfill.

BACKGROUND

In 2005, City Council approved a contract with Chattanooga Transfer, LLC for the transfer, transport, and disposal of the city's municipal solid waste and construction debris for a term of ten years. This contract allows two additional five year renewals. In 2009, the Council approved an amendment to the contract allowing a fuel adjustment. In October 2011, Chattanooga Transfer, LLC was purchased by Santek Waste Services, Inc.

The agreement allows city trucks to deposit municipal solid waste (municipal waste) and construction and demolition waste (construction debris) at Santek's centrally-located facility rather than driving to the City's landfill, which is located about 20 miles from downtown.

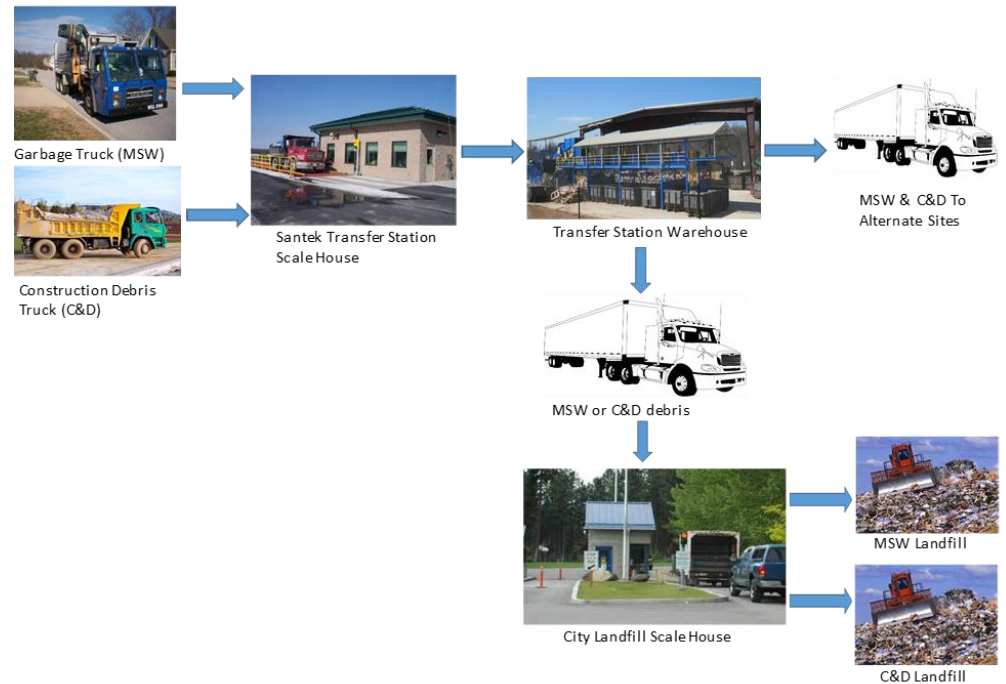
Santek is contractually required to transport any city debris deposited at the transfer station to the appropriate landfill. Santek transports the city's municipal waste to the City's lined landfill and construction debris is taken to an alternate site (managed by Santek). As a part of the contract terms, the city's municipal waste tonnage delivered to the transfer station must equal the municipal waste taken to the City's landfill by Santek or a fee can be applied to the excess.

Transfer Process

Once a city truck is loaded with debris, it is driven to the transfer station owned and operated by Santek. As shown in exhibit 1, the city driver passes through the scale house and the truck is weighed. The debris is deposited in the appropriate warehouse based on the type (municipal waste or construction debris). The driver returns to the scale house, the truck is weighed, and the driver signs the ticket and

exits the facility. It should be noted that any individual, company, or municipality can use this facility to deposit materials.

Exhibit 1: Transfer Process



Santek transports the city's municipal waste to the City's landfill located in Birchwood. The truck is weighed at the landfill scale house by a Santek employee and directed to the lined landfill. After depositing its debris, the driver returns to the scale house, the truck is weighed, and the driver receives a ticket and exits the facility.

Financial Information

The Public Works Department is the heaviest user of the transfer station. The Public Works Department generated payments of \$905,629, which is 99% of the total amount paid to Santek. Out of Public Works, City Wide Services division (CWS) has the most charges with garbage disposal (municipal waste) totaling approximately \$700,000.

Exhibit 2: FY 2012 Payments to Santek, by department

| Department | Total (\$) |
|--------------------|------------|
| Public Works | 905,811 |
| Parks & Recreation | 6,442 |
| Police | 2,156 |
| Fire | 602 |
| General Services | 504 |
| Human Services | 35 |
| Total Expenditures | 915,550 |

Sources: City Financial Records

All the city's garbage and bulky trash is delivered to the Santek transfer station from the residential routes on a daily basis. Debris from the refuse centers is also deposited to the transfer station via a third-party. Divisions within Public Works, such as Sewer Maintenance, which remove debris from the catch basins, regularly use this facility. Parks and Recreation uses the facility to deliver trash from the City's parks. Other departments may use the facility when a construction project is underway.

FINDINGS AND RECOMMENDATIONS

The City's landfill may reach capacity sooner than anticipated.

In April 2004, Public Works management contracted with Santek (previously known as Chattanooga Transfer, LLC and Environmental Materials) to operate the City's scale house. However, this contract expired in March 2008 and was only recently renewed in January 2013. From 2008 to 2013, City Administration allowed Santek to continue operations of the scale house for the City in exchange for the use of the City's facilities without an approved contract.

Santek employees control entry for all vehicles into the City's landfill as well as an adjacent construction and debris landfill operated by Santek. Santek employees weigh and ticket incoming trucks, collect landfill fees, and enter billing information for the city's corporate accounts and the private landfill.

Internal Audit issued the *Landfill Cash Collection Audit (Report 08-05)* in May 2008 citing concerns about a third-party collecting city fees. Our office, as well as the City's Audit Committee have also issued memorandums recommending improvements to the internal control structure at the landfill. During the course of this audit, we observed issues noted in our past communications remain outstanding. Observed weaknesses include insufficient access controls at the

landfill and contractor control over data integrity that could result in unauthorized deposits, thereby reducing the lifespan of our landfill.

Insufficient Access Controls

The location of the City's scale house prohibits the scale house operator from observing in which landfill a truck deposits its debris. While cameras exist to monitor the scale house entry point, they are positioned to view the truck crossing the scale. Once a truck leaves the scale house, the operators are unable to see which landfill the truck enters. If the operators could see the truck entering the wrong landfill site, they could radio City landfill workers to stop the truck before the debris is unloaded.

As a result, the City risks allowing trucks with hazardous material to dump in the construction debris (private) landfill. The hazardous material could contaminate water supplies. Also, trucks billed as depositing in the private landfill could deposit into the City's landfill causing it to reach capacity sooner.

Additionally, we observed conditions allowing for **potential** contractor fraud. Santek owns and operates the transfer station, which accepts garbage from other municipalities and businesses. All waste is deposited into the same holding areas. Santek transfers garbage from this facility to several landfills, including the City's landfill.

Currently, the scale house camera feed is not compared to daily transactions by City management. Because Santek controls access to both the transfer station and the City's landfill, Santek could deposit other client's garbage into the City's landfill without detection.

Contractor Controls Data Integrity

The Santek scale house operators enter all the billing and ticketing data for the City and private landfill. Both landfills use the WasteWorks software package which is a waste management system that performs ticketing, billing and reporting functions. The City owns its license of WasteWorks and city personnel have access to run reports. The privately-owned landfill owns its own license of WasteWorks.

Per the contract, Santek hauls municipal waste from the transfer station to the City's landfill. The contract terms require the municipal waste tonnage deposited into the landfill equal the amount deposited by city trucks at the transfer station. Any excess deposited in the landfill will be billed at a specified rate on a monthly basis.

The ability to accurately determine if the municipal waste tonnage taken to the City's landfill is hampered by the fact Santek employees control the data entered into the TRUX system (at transfer station) and data entered into the WasteWorks system (at landfill). Although comparing the two systems data could provide a level of control, Santek employees operate both systems thereby increasing the risk of manipulation. The city has no way to independently validate the amount of municipal waste deposited at the City's landfill by Santek under the current operation. However, our data reliability testing and observation **did not** indicate manipulation of data.

Recommendation 1:

We recommend CWS management take control of the operations of the City's scale house. The cost of additional personnel should be offset by revenues from Santek obtained via a lease and operations agreement. The expense to Santek should be offset by a reduction in staff, resulting in no net increase in expenditures.

Auditee Response: We disagree.

Recommendation 2:

If Santek continues to operate the scale house, we recommend CWS management routinely review the camera feed from the scale house to verify trucks entering the City's landfill are ticketed in the WasteWorks system. This process should be formally documented and all discrepancies should be investigated.

Auditee Response: We concur.

Recommendation 3:

We recommend management install cameras that would monitor trucks entering the landfill sites. The feed from the cameras should be available to the scale house operator and CWS management. This would include remote access to the system for monitoring. The scale house operator should monitor all trucks via the camera feed and immediately notify city landfill personnel if a truck is entering the wrong landfill site.

Auditee Response: We concur.

Recommendation 4:

We recommend CWS monitor monthly the municipal waste tonnage taken to the transfer station by city vehicles verses the tonnage

transported by Santek to the City's landfill. Any excess tonnage deposited by Santek should be billed according to the contract terms.

Auditee Response: *We concur.*

**Public Works
incurred extra
charges due to
undetected billing
errors.**

Public Works' City Wide Services Division (CWS) is the main user of the transfer station, hauling 99% of the city's tonnage deposited there. The majority of this tonnage is residential municipal waste deposited by city garbage trucks. The city trucks enter the transfer station and the scale house operator enters the ticket charge by the truck type because she is unable to see what type of material the truck is carrying.

Since most trucks entering the facility are garbage trucks, which only carry municipal waste, this is not a problem for the operator to code the charge correctly. An issue arises when a truck other than a garbage truck is hauling municipal waste. The operator would normally code this truck's tonnage as construction debris unless the driver informs the scale house operator otherwise.

The truck driver has to communicate with the operator the debris type or he may be charged for the wrong material. It is the responsibility of the site foreman to instruct the truck driver on the type of material he is hauling to the transfer station, especially if it is not construction debris.

Due to the large volume of tickets (minimum 1,000 per month) generated by this department and its highly-manual process for validating its tickets, CWS has absorbed other departments charges and allowed overbillings by Santek to go undetected.

- *Failure to verify support documentation prior to payment-* Sometimes other city department's tonnage is incorrectly coded to CWS by Santek and subsequently these charges are paid by CWS. This may be due to the volume of tickets and transactions received each month. Only recently has CWS instituted a policy of matching each individual ticket to the detailed payment information. Previously, they would pay the invoice without matching all charges and contact Santek if an incorrect charge was recognized. CWS does not have a standard procedure to ensure corrections are made by Santek. Failure to ensure support documentation is matched to statements prior to payment puts the City at risk for incorrect charges.
- *Charging incorrect rates for the type of debris -* When reviewing four months of tickets in 2012, we found instances

where sweeper debris materials were charged at the construction debris rate (\$24) instead of the municipal waste rate (\$13.15). The overbilling amounted to excess payments of \$1,762 for these four months. We identified the following possible causes:

- The city driver did not carefully review his ticket for the correct charge before leaving the transfer station; and/or,
- The city driver did not indicate to the scale house operator his truck held municipal waste;
- CWS has a third-party vendor transport certain containers holding sweeper debris to the transfer station. The third-party vendor did not indicate to the scale house operator his truck held municipal waste; and/or,
- On very rare occasions, a sweeper division truck could haul construction debris to the transfer station.

CWS does not perform formal training to their drivers regarding the importance of reviewing the ticket and signing the ticket at the transfer station. When the driver signs the ticket, he is authorizing the information on the ticket is correct and the transaction is processed.

CWS had not communicated with their third-party contractors the importance of notifying the scale house operator on the specific type of material being hauled. When the above charges were brought to CWS's attention, they did contact their third-party vendor to make them aware their drivers were being charged incorrectly at the transfer station.

Recommendation 5:

In the absence of more detailed formal guidance from the Finance Department, we recommend CWS personnel develop written procedures to cover all details regarding the processing of their invoices. These steps would include a reconciliation of the invoices/tickets to a digital file and to the final invoice/statement when dealing with large volumes of transactions. If attaching the individual invoices/tickets is prohibited due to volume, then a detailed list should be attached for reference when forwarding to Finance. A statement should be added to the detailed list stating all tickets for the invoice are reconciled to the list and are being retained and stored at CWS.

Auditee Response: *We concur.*

Recommendation 6:

We also recommend the CWS supervisors as well as third-party vendors be trained on the difference between municipal waste and construction debris and the corresponding rate charges. The supervisor should instruct the city driver on what type of material he is hauling so he can communicate with the Santek scale house operator as they enter the transfer station. The city driver needs to be trained on what to review on the Santek ticket before he signs it and if an error has occurred what he should do before he leaves the station.

Auditee Response: We concur.

City personnel are not verifying annual rate calculations supplied by Santek.

Per the contract, Santek submits annual fee adjustments for transfer and disposal rates of municipal waste and construction debris, as well as fuel adjustment rates. These rate adjustments are sent to the City's Purchasing Division where rates are updated for each debris type in the City's financial system. The Purchasing Division notifies city departments of the price adjustment.

The contract stipulates a method for calculating annual rates. The contract requires the non-fuel component to be adjusted by the increase or decrease in the Consumer Price Index for the previous twelve months. The fuel adjustment calculation is based upon the increase or decrease in the average diesel price for the previous month. The Purchasing Division does not review these calculations to determine whether they were correctly formulated.

During the audit, we tested annual rate calculations provided by Santek. Calculations were accurate for the data used. In calculating the fuel adjustment rate, Santek used current month diesel prices, instead of previous month's prices. However, we found no material impact on the fuel adjustment calculation occurred from using the data Santek selected.

Recommendation 7:

We recommend the Purchasing Division verify annual rate calculations before approving and updating the rates in the system each year.

Auditee Response: We concur.

**Improvements
needed in
consistently
applying payment
procedures.**

The Finance Department and the *Internal Control and Compliance Manual for Tennessee Municipalities* have requirements for payment of invoices. The first step is to ensure the delivery ticket for the item or Service is signed. An invoice from the vendor should be matched to the delivery tickets and to the contract price before payment is made.

We reviewed a sample of payments made to Santek to determine whether the amount billed and rates applied were correct. Calculations of billed amounts were verified and found to be accurate. However, inconsistencies were found in procedure and support documentation.

- *Inconsistent support for processing payments* – City departments receive tickets for debris deposited at the transfer station. Santek provides the city with an invoice detailing individual tickets by department. Policies require Finance to process payments with the invoice and matched tickets. During the audit period, some payments were processed with only the individual tickets (no invoice) or only the invoice (no tickets). This practice increases the risk of duplicate payments (the same service may be paid based upon individual tickets, then again on an invoice).
- *Approving payments without proper support* – We found a few instances where the wrong tickets were attached to an invoice for support.
- *Incorrect reporting of fuel adjustments* – Santek invoices include a monthly fuel adjustment based upon the volume of tonnage billed for the month. This adjustment is listed as a separate line item on the invoice. We found the monthly fuel adjustments were not always processed correctly. When entering tickets, departments would adjust tonnage in order to reflect total amount billed (netting out the fuel adjustment). This practice results in a false picture of the total amount of tonnage taken to the transfer station. Also, it is possible that when paying from tickets only (see bullet #1 above), a fuel adjustment may not have been applied.

Finance requires departments (other than CWS) to input ticket information into the City's financial system and forward the tickets to Finance to support the invoice. Since Finance receives and retains Santek invoices, departments cannot verify fuel adjustments. Therefore, this responsibility has transferred to Finance.

Due to their large volume, Finance (Accounts Payable) has allowed CWS to bypass their formal payment policies: CWS does not forward detail documentation (tickets) to Accounts Payable. CWS matches the

individual tickets to the monthly invoice with a single (bulk) amount entered into the system, then files and stores all their tickets onsite.

Recommendation 8:

We recommend the Finance Department provide periodic training and sufficient supervision to all Accounts Payable employees. The training and supervision should focus on ensuring all Accounts Payable staff follow established policies and procedures when processing payments.

Auditee Response (Finance): The Finance Department is **currently updating** the training material for Oracle R12 and will conduct training for the departmental payable clerks as needed for new hires and refresher training for existing employees and as process changes occur.

Recommendation 9:

We recommend Finance update their payment procedures to provide procedures for departments processing large volumes of transactions for individual vendors, as is the current case with the CWS's Santek payments.

Auditee Response (Finance): We will update our procedures to require that the City Wide Services Department confirm the accuracy of the invoice and retain delivery ticket documentation as required in the records retention manual.

Recommendation 10:

We recommend Finance and CWS ensure monthly fuel adjustments are calculated and processed properly. Further, Finance personnel should not process invoices when departments have not entered tickets correctly or the department fails to attach proper support.

Auditee Response (Finance): Finance and CWS will verify fuel adjustments are calculated correctly and reconcile to the vendor's invoice. Proper support will be obtained. If instances arise where items such as packing slips are not available, the reason for the deficiency will be documented and attached as support.

Auditee Response (CWS): *We concur.*

APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers billing process for Santek invoices from September 1, 2011 to August 31, 2012. When appropriate, the scope was expanded to meet the audit objectives. Source documentation was obtained from Finance, Public Works, and Purchasing departments. Original records as well as copies were used as evidence and verified through physical examination.

Interviews were made with personnel from Public Works, Parks and Recreation, Finance, Purchasing as well as staff from Santek. Observations and site visits were made at the Santek transfer scale house and the City's landfill to accomplish the audit objectives.

The sample size and selection were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. A sample of all invoices paid from Santek were pulled from the City's accounting system for the scope period. Invoices were reviewed to determine if:

- The individual ticket amount matched the detail on the invoice;
- The driver signed the ticket;
- The correct rate for municipal waste and construction debris was applied;
- The calculation of rate and tonnage was correct;
- The vehicle number was present on the ticket; and,
- The fuel adjustment posted correctly.

When appropriate, judgmental sampling was used to improve the overall efficiency of the audit. Due to the volume of tickets associated with CWS division, four months of transactions were pulled for review instead of a random sample of individual tickets. All tickets for the month of March, May, June and August 2012 were reviewed to verify a signature by driver, rate and tonnage were calculated properly, ticket amount matched invoice, and vehicle number was listed on ticket and digital file received from Santek. To achieve the audit's objectives, reliance was placed on computer-processed data.

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.

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