

**PURCHASING DEPARTMENT
DUMPSTER RENTALS
AUDIT 07-04
June 27, 2007**



City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

July 23, 2007

Honorable Ron Littlefield
Mayor, City of Chattanooga
City Hall
Chattanooga, TN 37402

RE: Dumpster Rentals, Audit 07-04

Dear Mayor Littlefield:

Attached is the Internal Audit Division's report on Dumpster Rentals.

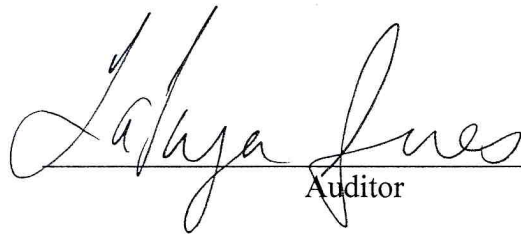
We thank the management and staff of the Purchasing Department, Citywide Services, Parks and Recreation and Human Services for their cooperation and assistance during this audit.

Sincerely,

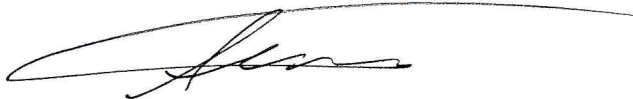
Stan Sewell, CPA, CGFM
Director of Internal Audit

cc: Paul Page, General Services Administrator
Gene Settle, Purchasing Director
Artie Prichard, Assistant Purchasing Director
Steve Leach, Public Works Administrator
Larry Zehnder, Parks and Recreation Administrator

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Auditor



Audit Director

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INTRODUCTION

The Purchasing Department is responsible for all blanket contracts within the City. The City has a blanket contract with BFI/Allied Waste for dumpster services for fifteen locations within the City. BFI only provides services which consist of dumpster collections under the blanket contract. BFI does not furnish the actual dumpsters under the blanket contract. The rental of containers is the responsibility of each department and is not a part of the contract with BFI.

The Department of Parks and Recreation has a contract with Waste Connections for dumpster services for all the recreation centers, Frost Stadium, Ross's Landing, Brainerd and Brown Acres Golf Courses, Champions Club, Chattanooga Zoo, Coolidge Park and their main office located on Watkins Street. Waste Connections furnishes the dumpster containers and also provides collection services at least twice a week.

Priority Waste rents dumpster containers at three locations within the City. In addition, they provide dumpster services, which consist of dumpster collections twice a week to one of those three locations.

In 2003, Office of Performance Review (OPR) discovered during a dumpster rental review that several departments within the City were double paying vendors. In addition, the City was paying for services at several locations that were no longer considered affiliates of the City.

STATISTICS

During fiscal year 2006, the City paid \$38,345 to BFI/Allied Waste for dumpster services. Also during fiscal year 2006, the City paid \$1,930.85 to Priority Waste for dumpster services and \$36,946.66 to Waste Connections for dumpster services. From July 1, 2006 to June 27, 2007 the City has paid BFI \$57,870.83, Priority Waste \$1,862.00 and Waste Connections \$35,551.05.

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Division's 2007 Audit Agenda. The objectives of this audit were to ensure that:

1. Dumpster expenditures were supported by physical dumpsters.
2. If applicable, dumpster contracts were in place for dumpster services.
3. Payments made for dumpster services were accurate and proper.
4. Purchasing policies and procedures were adhered to in regards to dumpster services.

STATEMENT OF SCOPE

Based on the work performed during the preliminary survey and the assessment of risk, the audit period will cover dumpster services from July 1, 2005 to June 27, 2007. Source documentation was obtained from the Purchasing Department, Parks and Recreation, Citywide Services, Human Services/Headstart Division and the Department of Finance and Administration. Original records as well as copies were used as evidence and verified through physical examination.

STATEMENT OF METHODOLOGY

Internal Audit staff reviewed Purchasing policies and procedures, City Codes, several dumpster service contracts and competitive bids, accounting records and prior period dumpster service reviews. In addition, Internal Audit spoke with City officials to obtain an understanding of dumpster service operations. Internal Audit made several on-site visits to several locations that receive dumpster services.

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. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

To achieve the audit's objectives, reliance was placed on computer-processed data contained in the City's financial systems. The City's financial system was previously determined to be reliable. However, Internal Audit pulled and tested supporting documentation for all data obtained from the financial system. Based on these assessments and tests, we concluded the data was sufficiently reliable to be used in meeting the audit's objectives.

STATEMENT OF AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions. In addition, we abide by the standards of professional practice established by the Institute of Internal Auditors.

AUDIT CONCLUSIONS

Based upon the test work performed and the audit findings noted below, we conclude that:

1. Dumpster rental expenditures were supported by physical dumpsters. However, dumpster service (pick-up) expenditures were not always appropriate.
2. Dumpster contracts were not in place for dumpster services.
3. Payments made for dumpster payments were not accurate and proper.
4. Purchasing policies and procedures were not adhered to in regards to dumpster services.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Purchasing Department, they do present risks that can be more effectively controlled.

DOUBLE PAYMENTS

Internal Audit discovered during review of all dumpster service contracts for the City and testwork performed, two different departments within the City were both making payments to BFI for dumpster service at the same location.

Although a 2003 Office of Performance Review (OPR) review indicated double payments to vendors was a problem and several City employees were notified, it appears not much action was taken. It appears based on the narratives written by an Internal Auditor in 2003, the City was paying both Priority Waste and BFI to perform the same service at the same location (North Chattanooga Headstart Center). Four years later it appears the same problems are still occurring.

It appears the Department of Human Services/Headstart Division has been paying BFI for dumpster services at the North Chattanooga Headstart since 2000. In addition, it appears the Department of Public Works/Citywide Services division has also been paying BFI (under contract) for dumpster services at this same location since 2004, in addition to paying BFI for all other departments included on the contract. Prior to 2004, it appears Citywide Services was paying Priority Waste (under contract from April 2001-2004) for dumpster services at this same location. Thus, double payments were made to both BFI and Priority Waste for service at the North Chattanooga Headstart Center.

It appears from 2004 to present, the City has overpaid BFI almost three thousand dollars (\$3,000) in funds for dumpster service at the North Chattanooga Headstart Center that should not have been paid. In addition, from 2001-2003 (years Citywide Service had a contract with Priority Waste) the City has paid Priority Waste over three thousand dollars (\$3,000) in additional funds for dumpster services that should not have been paid. However, the City no longer has a contract with Priority Waste.

In addition, it appears due to the Headstart division not being on the Citywide Services contract with BFI or having their own dumpster service contract with BFI or any other vendor, they have been paying over thirty dollars (\$30.00) a month more than Citywide Services for dumpster services at the North Chattanooga Headstart Center.

Internal Audit contacted the Sales Manager at BFI concerning these double payments who did not seem surprised that the double payments were occurring. Ironically, the double payments stopped after the start of this audit. Internal Auditor has made numerous attempts to further discuss the double payments along with many other issues in regards to dumpster service they provide to the City with the Sales Manager at BFI, however, he has been non-responsive.

RECOMMENDATION 1

Internal Audit recommends the Purchasing Department and/or Citywide Services should consider trying to recoup the overpayments made to BFI. Every department within the City should be on the same blanket dumpster service contract. The contract should include both the dumpster service and rentals. The Purchasing Department should facilitate the bidding process for the dumpster service contract and administer every aspect of the contract (including but not limited to, managing and paying all dumpster service/rental invoices for all departments, monitoring the contract (which could consist of contacting each department on the contract once or twice a year for updates on efficiency, etc...)).

Internal Audit further recommends the Purchasing Department consider re-bidding the dumpster service contract with BFI that is currently approved by council but not yet executed to include both dumpster service and rentals. Internal Audit recommends the Purchasing Department consider stipulating in the current dumpster service contract or any other dumpster service contract (in the event the current contract is re-bid) that detail invoices (that identify at a minimum, service locations, service days, size of unit, etc...) must be provided. In addition, Internal Audit recommends the Purchasing Department consider adding an audit clause to the current contract or any other dumpster service contract that may be later executed.

AUDITEE RESPONSE

Purchasing agrees with this recommendation. We have sent an email to BFI suggesting they refund the City for the double payments as well as any proven instances of inappropriate charges for dumpster services they did not perform. A formal letter will be sent to BFI addressing the issue once we have ascertained the exact claim amount. Although we no longer have a contract with Priority Waste, we plan to take the same course of action with this company.

The present dumpster service solicitation will be revised and re-advertised to include both the lease and servicing of the containers. The specification will include a detailed listing of the department's container lease and service needs, detailed invoicing instructions, and a "right to audit" clause.

All departments will be instructed to return their present containers to their rightful owners prior to the commencement of services under the new contract.

LOCATIONS NOT SERVICED

Two locations that are serviced by BFI under the Citywide Service dumpster service contract are City Hall and the Annex Building. Per the contract, these locations are to be serviced three times a week. Auditor observed both the dumpsters located behind City Hall and the Annex closely for two weeks during the audit. It appears over this two-week period, there were only four pick-ups at City Hall and five pick-ups at the Annex, when there should have been six pick-ups at each.

In addition, at no time during a one week period, even on Friday evening when the container behind City Hall had not been picked-up since Monday, did the auditor feel that the container required pick-up three times a week. At best, the container should be picked up two times a week. After being serviced only one time during the week, the container located behind City Hall still did not appear to be at full capacity. The same goes for the container located behind the Annex. At best, the container should only be picked-up twice a week. It appears wasteful and excessive to have these locations serviced three times a week.

It appears City employees are not actually monitoring the dumpster service contract. It also appears City employees are not monitoring the locations to be serviced per the contract to ensure that BFI is actually adhering to the contract and servicing the locations when they are supposed to. The lack of detailed invoices increases the difficulty of managing the efficiency of dumpster service.

RECOMMENDATION 2

Internal Audit recommends the Purchasing Department implement controls to prevent payment for services not rendered. In addition, Internal Audit recommends the Purchasing Department review utilization of all dumpsters and change pick-ups to reduce wasteful spending.

AUDITEE RESPONSE

Purchasing agrees with this recommendation. Purchasing will require all present using departments to re-evaluate the utilization of their present dumpster container usage. A city-wide memorandum will be issued to all department administrators and purchasing contacts. Each department will be required to give us the locations where containers are needed, the number of containers needed for each location, the sizes of the containers required, and the number of times each container will need servicing per week/month. Also, they will be required to provide us with the name, and telephone number of the employee within each organization who will be responsible for managing and monitoring their dumpster utilization.

RENTAL FEES

The City has a contract with BFI to provide dumpster service at several locations within the City. However, there is no contract in place for the rental of the dumpster containers. It appears most departments rent their container from BFI. However, it appears BFI is charging different rental fees at different locations for the same size containers. In addition, BFI is charging two separate locations the same rate for rentals, however, one location has a 2 cubic yard container and the other has a 4 cubic yard container. Unfortunately, because there is no blanket contract for rentals,

different departments have no knowledge of another department's rental rate. It appears there is no consistency among the departments. This could have possibly been avoided and prevented had there been a citywide blanket contract for rentals.

RECOMMENDATION 3

Internal Audit recommends every department within the City should be on the same blanket dumpster service contract. The contract should include both the dumpster service and rentals. The Purchasing Department should facilitate the bidding process for the dumpster service contract and administer every aspect of the contract (including but not limited to, managing and paying all dumpster service/rental invoices for all departments, monitoring the contract (which could consist of contacting each department on the contract once or twice a year for updates on efficiency, etc...)).

Internal Audit recommends the Purchasing Department consider stipulating in the current dumpster service contract or any other dumpster service contract (in the event the current contract is re-bid) that detail invoices (that identify at a minimum, service locations, service days, size of unit, etc...) must be provided.

AUDITEE RESPONSE

Purchasing agrees with this recommendation also. Our planned course of action is stated in responses 1 and 2 above.

DUMPSTER SERVICE BLANKET CONTRACT NOT CITYWIDE

Several departments within the City are operating on different dumpster service contracts. Different departments are using different vendors to provide dumpster services. In addition, the major contract that is used by the majority of the City departments only provides dumpster service and not dumpster rental. Thus, leaving the option open for each individual department to select their own vendor to rent a dumpster container. It would appear to be more cost efficient to request bids and obtain quotes for both dumpster services and rentals. It would also be more cost efficient and less complex if all departments were on the same blanket contract.

RECOMMENDATION 4

Every department within the City should be on the same blanket Dumpster Service Contract. The Contract should include both the dumpster service and rentals. The Purchasing Department should facilitate the bidding process for this contract and administer this contract. In addition, the Purchasing Department should pay all dumpster service/rental invoices for all departments from a detailed schedule.

AUDITEE RESPONSE

Purchasing agrees with the recommendation. Our course of action to address this recommendation is stated in response 1.

EXTENSION OF CONTRACT

The division of Citywide Services had a contract with BFI to provide dumpster service to several locations within the City. The twelve-month contract was awarded on June 28, 2004. By mutual agreement with both the City and BFI, the contract can be renewed two additional twelve month terms. Per the contract, the City and BFI may bilaterally extend the contract by providing **written** confirmation of agreement by both parties at least thirty days prior to the contract's current expiration date (June 22, 2005). However, after review of the BFI contract file obtained from the Purchasing Department, it appears there was no extension of the contract in June of 2005 or 2006. However, per the Administer of the contract, a request was submitted to the Purchasing Department from Citywide Services to file for an extension in both June 2005 and June 2006. However, it appears Purchasing did not file for an extension. It appears a request for extension was not filed until December 19, 2006. In addition, it appears BFI's Sales Manager returned this extension letter to the Purchasing Department indicating BFI did not wish to extend the contract at the current prices. Per the statement from BFI's Sales Manager, effective February 1, 2007, the rates would increase.

Currently, we are paying \$145.59 a month for pick-up service for an 8 cubic yard container serviced twice a week. Previously we were paying only \$83.19 per month. This is over a fifty percent (50%) increase. It appears this increase was an increase for pick-up service of over sixty-two dollars a month per 8 cubic yard container, over fifty-nine dollars per 6 cubic yard container, over fifty-six dollars per 4 cubic yard container, over fifty-three dollars per 2 cubic yard container, serviced twice a week and over eighty dollars a month per 8 cubic yard container serviced three times a week. It appears neither the Purchasing Department nor the Administer of the contract attempted to negotiate these rate increases. Therefore, the City incurred costs that may have been avoided.

As a result of the contract failing to be properly extended, in both June of 2005 and June of 2006, it appears since June 22, 2005, the contract with BFI has been invalid, resulting in several violations of the City Code. Per City Code, Sec. 2-551 states, "whenever any requisition or voucher or contract call for the expenditure of more than ten thousand dollars (\$10,000.00), the issuance of a purchase order or the payment of a voucher, or the award of a contract shall be subject to the approval of the city council...." Payments to BFI in 2005 and 2006 exceeded ten thousand dollars (\$10,000.00). However, it appears there was no contract in place and no approval from council for either year. In addition, the City is at the mercy of the vendor because they have failed to have a contract in place and technically the vendor can charge the City any amount they choose.

In addition, City Code, Sec. 2-552 states, whenever any requisition or voucher or contract calls for an expenditure exceeding ten thousand dollars (\$10,000), there shall be public advertisement for competitive bids..." It appears there was no public advertisement for competitive bids for a dumpster service contract with BFI or any other vendor in 2005 or 2006.

RECOMMENDATION 5

Internal Audit recommends the Purchasing Department exercise renewal clauses in contracts when beneficial to the City and rebid contracts prior to expiration, otherwise. In addition, Internal Audit recommends the Purchasing Department adhere to City Code in regards to council approval and competitive bidding.

AUDITEE RESPONSE

Purchasing agrees with the recommendation. We were remiss in extending the term contract and should have re-advertised the requirement. It is our standard practice to review all term contracts 120 days prior to the contract expiration date. We along with the using department(s) determine whether the contract should be extended or a new requirement advertised. Obviously, it was not the case in this instance.

CONTRACT TERMS NOT ADHERED TO

The Department of Parks and Recreation has had a contract with Waste Connections of Tennessee to provide dumpster services and rentals to several locations in the Parks and Recreation Department since April 2003 (contract term was one year with the option to renew two additional years, 2005 & 2006). Per the terms of the contract, Parks and Recreation is to pay a set fee that is clearly specified in the contract, for each container (depending on size), for each location listed on the contract. However, based on testwork performed and review of invoices received from Waste Connections, it appears Waste Connection has not been billing Parks and Recreation per the contract, thus over billing the City. Amounts indicated on the invoices do not coincide with the terms of the contract. It appears per the invoices observed and tested, all amounts for the majority of the locations listed on the contract were at a higher rate than what was indicated in the contract. Yet, until recently (January of 2007 when Parks and Recreation entered into new contract with Waste Connection) Parks and Recreation continued to pay these higher rates and did not dispute the price increases. These indeed were wasteful expenses that could have been prevented had the contract and the payments been administered properly.

RECOMMENDATION 6

Internal Audit recommends Parks and Recreation ensure they only pay for services per contract terms. In addition, Internal Audit recommends Parks and Recreation consider trying to recoup the additional funds paid to Waste Connections. Further, Parks and Recreation should utilize the citywide blanket dumpster contract.

AUDITEE RESPONSE

Again Purchasing is in agreement with your recommendation. Purchasing's planned course of action as stated in responses 1 and 2 above should satisfy this issue also. Although we no longer have a contract with Waste Connection, we will send them a formal letter to recuperate the money paid them due to inappropriate charges too.

ACCOUNTS NOT CODED CORRECTLY

All dumpster pick-ups and dumpster rentals are coded together in the same account in the City's accounting system. There is no way to distinguish in the Accounting system if dumpster services are for rental or pick-ups. This is partially due to the fact that the invoices received from BFI are not clear. Miscoding expenses could make contract management difficult.

Unfortunately, the invoices from BFI, who provides most dumpster services and rentals for the City, are not clear. The invoices only state “standard charge” regardless if it is for dumpster rental or for actual dumpster pick-up. Therefore, there is no way of knowing what exactly the City is paying for. The invoices do not indicate how often BFI pick’s- up at each location or the days of pick-up. Neither does it indicate on the invoice the size of the container. This prevents the City from properly monitoring the service that BFI is to provide per the contract.

It appears, per review of meeting notes dated October 10, 2004 and discussion with Accounts Payable Supervisor, BFI was notified to itemize their invoices years ago to indicate if the payments were for pick-up or rental of the containers. However, as of the current time, BFI is still not itemizing their invoices to indicate if the payment is for rental or service of the container. Internal Auditor spoke with the Sales Manger at BFI who indicated they were aware that there was no distinction between rental and pick-up service on their invoices. However, he did not state that they had plans on changing the invoices to indicate a distinction between rental and pick-ups.

RECOMMENDATION 7

Internal Audit recommends the Purchasing Department consider rebidding the dumpster service contract that is currently approved by council but not yet executed. The specifications in the contract should clearly state how the invoices should be itemized and the contract should include an audit clause.

Internal Audit further recommends the City not pay invoices that are not itemized to sufficiently determine the service provided. Internal Audit recommends the Purchasing Department consider contacting BFI and requesting they itemize their invoices and make them clearer. Internal Audit recommends dumpster rentals be coded in the accounting system separate from dumpster service.

AUDITEE RESPONSE

Purchasing agrees with this recommendation as well. Internal Audit’s recommendation regarding, paragraph one of recommendation 7, invoicing is included in our recommendation to response 1.

We plan to resolve paragraph 2 of this recommendation by issuing a Request for Quotation (RFQ) to service the present containers for a period of two (2) or three (3) months until we can get a new term contract in place. This temporary contract will be used while we are developing a new set of specifications for the new city-wide term contract. We will require itemized invoicing on this “open market” contract which will be less than ten thousand (\$10,000).

Additionally, we will send a letter to BFI instructing them of detailed invoicing requirements for their future billings. A copy of the letter will be sent to Finance instructing them to return all future invoices to BFI which are not billed in accordance with our letter.