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## Residential Waste Haulers Contract Audit - #891

### Executive Summary

#### ***Why CAO Did This Review***

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the residential waste collection and transportation services contracts overseen by the City's Solid Waste Division of the Public Works Department at the time of our audit.

There are currently four service areas within the City of Jacksonville, excluding Beaches and Baldwin. One of the four service areas is serviced by the City of Jacksonville. The remaining three areas are covered by outside vendors. There are separate contracts for each of the three areas that govern the operations, which are the subject of this audit. While the contracts are similar in the services provided, there are limited differences. Examples of differences include the types of trucks that are required to be used and some aspects of the liquidated damages calculation. Due to one of the contracts expiring, which resulted in another hauler being awarded the contract during our audit scope period of January 1, 2021, through December 31, 2022, there were a total of four different haulers that provided services within the three service areas. The City paid these four haulers a total of approximately \$76.4 million for residential waste collection and transportation services during the audit period. In general, the amount paid is based on the monthly per premise rate times the number of premises less applicable liquidated damages.

#### ***What CAO Found***

Overall, payments from the City's Solid Waste Division to the haulers for residential waste collection and transportation services were properly supported and correctly authorized. However, while the amounts paid might have been materially accurate compared to what should have been paid, we did find significant issues with the Solid Waste Division's method of calculating liquidated damages and items Solid Waste Division included on invoices that were not within the scope of the contract, which impact the accuracy of the payments. There were also numerous issues with the timeliness of payments by the City. Specific issues noted included:

- A \$600,000 payment to a hauler and a \$66,000 reduction in a payment to a hauler that both appear to be outside the terms of the contract.
- Various issues with the monthly liquidated damages calculations.
- Issues with the monthly premise counts used for payments which resulted in a net underpayment of \$36,199.65.
- Two haulers exceeded the annual fuel cap resulting in the City overpaying almost \$350,000.
- The invoice template created by the Solid Waste Division could be improved to help ensure proper payments.
- Lack of standard operating procedures for liquidated damages calculations.

#### ***What CAO Recommends***

We recommend that the Solid Waste Division:

- process payments within the requirements outlined in the contract including ensuring that monthly premise counts are accurate, haulers do not exceed the annual fuel cap, and that payments are consistent with the terms of the contract.
- create a policy and procedures for calculating liquidated damages consistent with the terms of the contract that includes documenting the rationale for any reductions in the calculated amount.



**Council Auditor's Office**

**Residential Waste Haulers Contract Audit**

**June 4, 2025**

**Report #891**

## **EXECUTIVE SUMMARY**

### **AUDIT REPORT #891**

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**OFFICE OF THE COUNCIL AUDITOR**  
Suite 200, St. James Building



June 4, 2025

Report #891

Honorable Members of the City Council  
City of Jacksonville

**INTRODUCTION**

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the residential waste collection and transportation services contracts overseen by the City's Solid Waste Division of the Public Works Department. Chapter 32 of the Municipal Code established the Solid Waste Division and requires it to manage solid waste residential collection activities, such as the collection and disposal of garbage, recycling, yard waste, and bulk items. Subsequent to our audit testing, the Solid Waste Division was moved out of the Public Works Department to the Office of Administrative Services. All references throughout the report will be to the Public Works Department based on timing.

There are currently four service areas within the City of Jacksonville, excluding Beaches and Baldwin. One of the four service areas is serviced by the City of Jacksonville. The remaining three areas are covered by outside vendors. There are separate contracts for each of the three areas that govern the operations, which are the subject of this audit. While the contracts are similar in the services provided, there are limited differences. Examples of differences include the types of trucks that are required to be used and some aspects of the liquidated damages calculation. Due to one of the contracts expiring, which resulted in another hauler being awarded the contract during our audit scope period of January 1, 2021, through December 31, 2022, there were a total of four different haulers that provided services within the three service areas. The City paid these four haulers a total of approximately \$76.4 million for residential waste collection and transportation services during the audit period.

In general, the amount paid is based on the monthly per premise rate times the number of premises less applicable liquidated damages. However, for one hauler the City does pay the hauler for the cost of the compressed natural gas (CNG) on top of the per premise rate since that hauler pays for the cost of the CNG directly as described further in the scope and methodology section. For the other haulers there is not an additional payment since the City pays for the cost of fuel directly. For all the haulers the City directly pays the landfill disposal costs. Lastly, there was a reduction in payments to haulers while recycling collection services were suspended for six months from October 2021 through March 2022 so that the haulers could address staff shortages which were impacting the yard waste clean-up which posed safety concerns.

**Calculation of Monthly Bill**

The calculation of the monthly amount owed to each hauler is calculated by multiplying the base monthly rate times the monthly premise count (described in next section). There are liquidated

damages that may be deducted from the payment when the hauler does not meet the set standards outlined in the contract as well as adjustments to reverse liquidated damages when the hauler meets set standards in the following month that enables them to earn back the liquidated damages. The Solid Waste Division creates the invoices due to their direct involvement in updating the premise count and assessing liquidated damages.

#### Monthly Premise Count Calculation

The premise count is the total number of premises that are to be serviced by each hauler. This number is updated each month by the Solid Waste Division and is multiplied by the established monthly base rate per premise to determine the amount to be paid to each hauler. The premise count includes residential and some small commercial and multifamily premises. The monthly change to the residential premise count is determined through a review by the Public Works Office of Director staff.

At the beginning of each month, the Public Works Office of Director staff reviews a monthly report (Sanitation Adjustments Report), which lists all certificate of occupancy permits and demolition permits that were issued in the prior month. During their review of this report, the staff determine which of these permits should affect the residential premise counts for each hauler (certificate of occupancy permits increase the count while demolition permits decrease it). Once they determine which permits should be included or excluded, the Solid Waste Division staff updates the City's residential premise management system to accurately reflect the residential premise count for each area.

#### Liquidated Damages

Liquidated damages are deductions from the amount owed to the hauler based on the hauler's failure to meet standards outlined in the contracts. These include issues such as missed collections, missed routes, spillage, and co-mingling of waste streams. The Solid Waste Division calculates the liquidated damages and may apply the deduction to the invoices. Additionally, each contract includes a provision that allows certain liquidated damages incurred in the previous month to be partially or fully earned back by the hauler. This is in place to encourage the haulers to improve services. Also, it is important to emphasize that the assessing of liquidated damages is at the option of the City.

### **STATEMENT OF OBJECTIVES**

To determine whether all payments from the City's Solid Waste Division to the residential waste haulers were properly supported, accurately calculated, correctly authorized, and timely paid.

### **STATEMENT OF SCOPE AND METHODOLOGY**

Our population included all invoices processed by the Solid Waste Division for residential waste collection and transportation services within the audit scope period of January 1, 2021 through December 31, 2022.

During the preliminary phase of the audit, we obtained and reviewed the contracts for residential waste collection and transportation services. We conducted interviews with relevant Solid Waste Division staff to understand the processes surrounding the collection and transportation of residential waste. We also observed relevant processes and reviewed relevant information system controls.

For the detailed testing phase of the audit, we obtained a listing of all invoices and payments within the audit scope. Within the audit scope period, the Solid Waste Division processed payments to the haulers totaling \$76.4 million related to 76 invoices. We then requested and obtained all applicable support for the invoices and payments from the Solid Waste Division. The supporting documentation included:

- support for the changes made to the premise counts as calculated by the Public Works Office of Director staff,
- copies of the liquidated damages assessment forms from the Solid Waste Division which detailed the type and dollar amount of liquidated damages to be assessed,
- copies of the contract payment checklists completed and signed by the Solid Waste Division staff,
- support for fuel acquired by the haulers that occurred within the scope of the contracts including both unleaded fuel and compressed natural gas, and
- support for any other adjustments made to the invoice.

We tested all 76 invoices to verify that they were properly supported and accurately calculated and that the payments were properly authorized and processed in a timely manner. For each invoice and payment, we:

- recalculated the total premise count based on the support provided to ensure accuracy. Due to the amount of work that it would have taken to test all, we separately reviewed the supporting documentation for a sample, as described below, to ensure that the supporting documentation was accurate.
- compared the base rate charged per premise to the base rate established for the fiscal year to verify the correct rate was being used.
- compared any adjustment amounts on the invoice to the supporting documentation to confirm the amounts matched and were appropriate. As with the premise counts, due to the amount of work it would have taken to test all, we did review a sample of the liquidated damages support, as described below, to ensure that liquidated damages were being accurately calculated.
- compared the total amount charged for each invoice to the corresponding payment amount to confirm the amounts matched.
- verified that the invoices were reviewed for accuracy and approved by appropriate Solid Waste Division staff.
- verified the invoices were receipted (e.g., approved for payment) by authorized personnel.
- verified that a corresponding contract payment checklist was completed and signed by appropriate Solid Waste Division staff.
- confirmed the invoices were paid in a timely manner.

For one of the haulers, most of their collection trucks operated on compressed natural gas (CNG) rather than unleaded fuel. Each month, the hauler would send the Solid Waste Division an invoice

for the reimbursement of their CNG costs for residential collection trucks providing services related to their contract with the City. There were 24 of these invoices within our audit scope period. We requested the invoices and applicable supporting documentation. We then tested all 24 invoices to verify that the invoice amount was calculated correctly by the hauler and properly paid by the City.

We then selected a judgmental sample of six months from the audit scope period for additional testing to confirm that the change to the residential premise counts listed on each month's invoice were appropriate. To do this, we reviewed the respective Sanitation Adjustment Reports that included notes from the Public Works Department Solid Waste Division and Office of Director staff based on their review. Each report was split between the three contract haulers that were active at the time. Therefore, we reviewed the 18 reports to:

- identify the permits that were marked to be excluded per the reviewer's notes. For these excluded permits, we determined:
  - whether they were excluded in the residential premise management system. This system tracks each of the residential premises that are actively being serviced by the haulers.
  - whether the Solid Waste Division's decision to exclude the permits was appropriate by confirming relevant information in the Building Inspection Division system, the Property Appraiser's Office website, the City's geographical information system, and the City's user fee system.
- verify whether the Solid Waste Division's overall change in the residential premise count per the Sanitation Adjustment Report was accurate.
- verify whether the Solid Waste Division's overall change in the residential premise count per the corresponding invoice was accurate.

Using the same sample of six months, we also recalculated the liquidated damages amount assessed by the Solid Waste Division for each invoice to verify that it was accurate and appropriate by obtaining the service requests submitted to the City's customer service database during the audit scope period that were related to waste collection. For each month, there were three invoices to test (one for each hauler that was active at the time). In total, we conducted this testing on 18 invoices. We reviewed the service requests to determine which could result in liquidated damages against the haulers. We then performed the following tests for each hauler for each month:

- recalculated the liquidated damages to be assessed based on the service request data and the contracts' provisions regarding the assessment of liquidated damages.
- recalculated the liquidated reversals that were to partially offset the liquidated damages from the previous month based on the contracts' provisions.
- reviewed liquidated damages assessed by the Solid Waste Division that were not related to the City's customer service database and confirmed that they appeared reasonable.
- compared our recalculated liquidated damages and reversal amounts to the Solid Waste Division's assessment to determine if there were any differences.

Unless specifically stated otherwise, based on our selection methods and testing of transactions and records, we believe that it is reasonable to project our results to the population and ultimately draw our conclusions on those results. Additionally, for proper context we have presented information concerning the value and/or size of the items selected for testing compared to the

overall population and the value and/or size of the exceptions found in comparison to the items selected for testing.

## **REPORT FORMAT**

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objective(s). Internal control is a process implemented by management to provide reasonable assurance that they achieve their objectives in relation to the effectiveness and efficiency of operations and compliance with applicable laws and regulations. An Internal Control Weakness is therefore defined as either a defect in the design or operation of the internal controls or is an area in which there are currently no internal controls in place to ensure that management's objectives are met. An Audit Finding is an instance where management has established internal controls and procedures, but responsible parties are not operating in compliance with the established controls and procedures. An Opportunity for Improvement is a suggestion that we believe could enhance operations.

## **STATEMENT OF AUDITING STANDARDS**

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.

## **AUDITEE RESPONSES**

Responses from the auditee have been inserted after the respective finding and recommendation. We received these responses from the Solid Waste Division on May 27, 2025.

## **AUDIT CONCLUSION**

Overall, payments from the City's Solid Waste Division to the haulers for residential waste collection and transportation services were properly supported and correctly authorized. However, while the amounts paid might have been materially accurate compared to what should have been paid, we did find significant issues with the Solid Waste Division's method of calculating liquidated damages and items Solid Waste Division included on invoices that were not within the scope of the contract, which impact the accuracy of the payments. There were also numerous issues with the timeliness of payments by the City.

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## **AUDIT OBJECTIVE**

To determine whether all payments from the City's Solid Waste Division to the residential waste haulers were properly supported, accurately calculated, correctly authorized, and timely paid.

### **Finding 1 – Issues with Invoices and Adjustments to Invoices**

During our invoice testing, we found that 17 of the invoices tested included an irregular adjustment or payment (i.e., not related to liquidated damage or fuel payment). Of these 17 invoices, 6 (or 35.3%) of them included irregular adjustments/payments that either did not appear to be within the scope of the contract or were inaccurate. The specific issues were:

- 1) One hauler was paid \$600,000 by the City for a November 2022 invoice that had a description that stated, "claw truck for storm debris" that was outside the terms of the contract. We were informed that this payment was to reimburse the hauler for costs paid directly by the hauler to a third-party to assist with collections. The invoice indicated that it was for storm debris, and we were separately informed it was due to a driver shortage nationwide and this lines up with the suspension of recycling services that started in October 2021. We were provided with \$505,125 in invoices for the period of July 2021 through September 2021 paid by the hauler. The Solid Waste Division indicated that the volume of liquidated damages charged to the hauler was also taken into account. We asked what allowed this payment to be processed and the Solid Waste Division indicated that it was permissible pursuant to Sections 8 and 20 of the contract with the hauler.
  - a) Section 8 of the contract discussed changes in law and other changes that could impact the collection process that would necessitate a change in the per premise rate. There was no change to the law or service level required for yard waste pick-up; therefore, Section 8 of the contract was not applicable.
  - b) Section 20 of the contract dealt with force majeure and major storms; however, we were provided nothing that would support the fact that the process followed was consistent with the process outlined in Section 20 of the contract. If the cause was a major storm, the City should have instead paid an hourly rate for each ton over 105% of the average tons taken to the disposal site for the most recent 24 months. Additionally, there is a process if that occurs and we were provided with no support that would substantiate this was the situation.

In the end, we could not find any language in the contract that supported the way this item was handled. There is an existing contract that the City had to handle storm debris that could have been exercised, and the City could have exercised the provision of Section 20 of the agreement to have the hauler pick up the yard waste; however, the payment for that would have been a different process as explained above. To have the hauler procure the service and then the City reimburse the hauler appears to be bypassing the procurement process and is also outside of the contract.

- 2) For the same hauler as item #1, there was one invoice that had an adjustment to reduce the payment to the hauler by \$66,000 that appears to be outside the terms of contract. We were informed that this was to account for the City paying \$250,000 to the City's third-party contractor normally used for storm debris pick-up to assist this hauler with yard waste collection. We were informed that the City recovered this cost by a combination of the

\$184,000 in normal liquidated damages for yard waste charged to the hauler in August 2021 and this \$66,000 reduction in payment to the hauler on the October 2021 invoice. We were informed that this was related to debris from a storm in July 2021; however, if it is storm debris then the City should be paying the hauler an additional hourly cost for tons in excess of 105% of the ton disposed of in the prior 24 months to collect the storm debris or the City should have just paid the third-party without reducing a payment by \$66,000. We were also informed that it was due to resource limitations in general that played into the suspension of recycling services for six-months starting in in October 2021, which would not have been storm-related.

- 3) Four of the invoices included adjustments for when the hauler used a residential collection truck for purposes outside of the contract. The Solid Waste Division permitted this as long as they were informed and adjusted the payment since the per premise cost was based on the vehicles only being utilized for the services outlined in the contract. The Solid Waste Division calculated the daily cost of depreciation and added an adjustment to the invoice to reduce the City's payment to the hauler. However, in these cases, the Solid Waste Division did not consider at least one of the following items:
- a) the truck's fuel purchases during use outside of the contract that were reimbursed by the City, and/or
  - b) scale house tickets charged to the City for the dumping of waste that was collected by the hauler for purposes outside of the contract.

This resulted in a negative financial impact to the City of \$1,154.15.

### **Recommendation to Finding 1**

We recommend that the Solid Waste Division only make residential hauler contract payments that are supported by the provisions of the contract. To assist with this, the Department should utilize its contract payment checklist for all payments. If a special scenario arises that is not directly covered by the provisions of the contract, then the process needs to be adequately documented including the contractual and legal basis for the payment to ensure the payment is proper and following the procurement code.

The City needs to determine whether any actions need to be taken to address the issues noted above.

### **Auditee Response to Finding 1**

Agree ☒                      Disagree ☐                      Partially Agree ☐

*The Solid Waste Division (SWD) will ensure the appropriate personnel has completed and approved the payment checklist for all contract invoices.*

### **Finding 2 – Liquidated Damages Calculation Issues**

Liquidated damages occur when the hauler does not meet the standards outlined in the contract. Each month, the Solid Waste Division calculates the liquidated damages that could be deducted

from the monthly payment to each hauler. They also calculate the liquidated reversal amount related to the prior month due to better performance. It is important to note that liquidated damages are used by the Solid Waste Division to encourage compliance with the performance standards of the contract. This means that there could be valid reasons to not charge the maximum amount of liquidated damages based on the specific facts and circumstances, which include the fact that the number one purpose is to have the service provided to the residence and if the liquidated damages are too punitive, they could in fact result in a lower quality of service. This finding focuses on the issue of the liquidated damages not being calculated accurately. As explained further below, we note issues with the calculation that are as much as \$7.2 million to \$11.3 million more than the amount calculated by the City; however, that does not mean that the City should have charged the additional amount. Instead, it means the City should have properly calculated the amount and documented the management decisions on how to handle liquidated damages considering all factors, including the potential to negatively impact service if the liquidated damages were too punitive or that there might have been other valid reasons (e.g., supply issues with carts) to not charge the full amount.

#### *Types of Issues Noted with Liquidated Damages*

During the audit, we noticed the following issues with the Solid Waste Division's process of assessing liquidated damages that deviated from the provisions of the contracts:

- 1) The Solid Waste Division did not appear to monitor which complaints were on the same route when assessing liquidated damages for Section 19.1 of the contracts. In each haulers' contract, Section 19.1 stated that liquidated damages were assessed when there was a "failure to address a customer service complaint by close of business the next regular working day". For the three original hauler contracts, Section 19.1 further specified that its liquidated damages were assessed at a daily fee per residential premise of \$25 with a maximum amount not to be exceeded of \$150 per route. The fourth contract (new hauler contract) did not mention a maximum amount. By not tracking which complaints were on the same route for those three haulers, the Solid Waste Division could have exceeded the maximum amount of liquidated damages able to be charged per day on each route.
- 2) The Solid Waste Division's method for determining the haulers' due date to resolve collection complaints before liquidated damages were considered and the date that the complaints were considered resolved did not appear to always be applied consistently and in accordance with the contracts. According to Section 19.1 of the contracts, the haulers had one business day to resolve the complaint unless stated otherwise in the contracts. However, the due date given to the haulers to address a complaint in the City's customer service system was two business days. Per the Solid Waste Division, this was due to a limitation of the customer service system.

Additionally, there were two different dates in the customer service system that the complaint could be considered resolved. There was the date that the status of the complaint was changed to closed (closed date) and the date that the hauler indicated the complaint was resolved (service date). Based on conversations with the Solid Waste Division, at the time, they generally calculated the number of days that each complaint was past due by comparing the date the service was due per the system to the date the service was resolved

as indicated by the hauler. However, if the date the complaint was closed was 10 days or more past the due date per the system, then the Solid Waste Division sometimes would decide to assess the hauler liquidated damages based on the days between the due date in the system and the date it was closed in the system.

- 3) Regarding liquidated damages related to Section 19.1 of the contracts, the Solid Waste Division did not include the following categories of complaints in the customer service system during their review of liquidated damages:
  - Messy Collections
  - Hauler Concerns
  - General Waste Collection
  - Employee Complaint
  - Damaged Carts
  - Damaged Property

Our understanding is that complaints from these categories most likely were complaints against the haulers and could be assigned to them to resolve. Therefore, complaints in these categories that fall under the responsibility of the haulers to resolve should have been reviewed for liquidated damages each month in addition to reviewing for missed collection complaints.

- 4) When calculating Liquidated Damages, it appears that the Solid Waste Division was not reviewing all missed collection complaints in the customer service system. The Solid Waste Division would run a report in the system that pulled all missed collection complaints with a “Closed” status for each hauler that were created during that month. This meant that the calculation for liquidated damages only included missed collection complaints received and closed out in the same month. The liquidated damages did not include a complaint received in one month that was then closed in a subsequent month.
- 5) Unreported missed collections that the Solid Waste Division compliance inspectors discovered after the scheduled collection day were considered in violation of the contracts and were assessed for liquidated damages without giving the hauler any time to address the violation as dictated in the contract. The hauler should have one business day to collect the waste once notified, even if they were notified by the Solid Waste Division inspector the day(s) after the scheduled collection day. There was not a provision in the contract for this to be charged as liquidated damages until the waste was not collected as of the business day following when the hauler was notified.
- 6) Two of the four contracts included language in Section 4.5.9.1 of the contracts regarding missed bulk, appliance, and tire collections, which resulted in these issues being handled differently than the other two contracts. The assessed liquidated damages for those items were to fall under Section 19.9, instead of Section 19.1, which meant the calculation was supposed to be different. Based on conversations with the Solid Waste Division as well as our review of their assessment of liquidated damages for our sample of six months, missed bulk, appliance, and tire collections for these two haulers were assessed under Section 19.1, not Section 19.9. Additionally, according to the language of the contracts, missed bulk

collections should have been assessed liquidated damages under Section 19.9 immediately (i.e., not given until the end of the following day to resolve). However, based on the customer service system's estimated completion date for these issues, it appears the haulers still had two business days to resolve the issue.

#### *Our Liquidated Damages Recalculation Methods*

We recalculated the liquidated damages for our sample of six months and compared our recalculation to the actual liquidated damages assessed by the Solid Waste Division. Because the calculation method used by the Solid Waste Division appeared to differ from the requirements stated in the contracts and because we could not confirm the legitimacy of the service date input by the haulers in the customer service system, we determined the best approach was to recalculate the liquidated damages in four different ways so we could provide a range of the magnitude of the impact. The four different methods were calculated by using:

- 1) The due date generated by the customer service system (two business days) compared to the date the hauler closed the item.
- 2) The contract due date (the close of the following business day unless otherwise stated in the contracts) compared to the date the hauler closed the item.
- 3) The due date generated by the customer service system (two business days) compared to the service date entered by the hauler.
- 4) The contract due date compared to the service date entered by the hauler.

To present a comparison between Solid Waste Division's assessment of liquidated damages and our recalculated assessment of liquidated damages that more closely follows Solid Waste Division's process, we are showing the calculation excluding the complaints that would not have been captured by Solid Waste Division's method for calculating liquidated damages first and then the impact with those items included. It should also be noted that our recalculations below are an estimate of the liquidated damages that could have been deducted from the haulers' invoices. Per the contracts, issues found may be assessed for liquidated damages but are not necessarily required to be assessed as previously described (e.g., the liquidated damages cannot be punitive to the point that just leads to worse service by the hauler since they are not being paid enough to provide the service).

#### *Method with Certain Item Types Excluded*

We found that the Solid Waste Division's calculation of liquidated damages for the six months of hauler invoices tested were less than they could have been when compared to each of our four different recalculation methodologies even when certain issue types were excluded, which meant the haulers were ultimately paid more than potentially required). The differences ranged from \$508,950 to \$1,269,025 depending upon the methodology utilized.

- 1) Estimated completion date to closed date: Solid Waste Division undercalculated by \$1,065,450.
- 2) Contract due date to closed date: Solid Waste Division undercalculated by \$1,269,025.
- 3) Estimated completion date to service date: Solid Waste Division undercalculated by \$508,950.
- 4) Contract due date to service date: Solid Waste Division undercalculated by \$644,450.

The Solid Waste Division's calculation of liquidated damage reversals for the six months of hauler invoices tested were more than they should have been when compared to each of our four recalculation methodologies. These values ranged from \$27,845 up to \$28,195 (i.e., paid back more of the liquidated damages than should have been).

#### *Method with All Item Types Included*

If we included the items that the Solid Waste Division was not using for the calculation of liquidated damages, the amount assessed was less than our calculation would have been by between \$7.7 million and \$12.6 million, which is an additional \$7.2 million to \$11.3 million more than the amounts shown above. The reasons for the differences were as follows (note – amounts will be slightly different from above range since different calculation methods result in a higher or lower amount for each of these different items):

- 1) Damaged Carts – This category has to do with the time it takes to replace damaged carts. The liquidated damages calculation was undercalculated by \$2.9 million to \$4.5 million based on damage carts requests not being included in the calculation. We were informed the delays in addressing the issues were caused by supply issues, which may have been valid to not include. However, these amounts should still be calculated so that a management decision can be made on how to handle.
- 2) Damaged Property – This category has to do with the amount of time to address damaged property complaints. The liquidated damages calculation was undercalculated by approximately \$9,000 to \$200,000 based on damage property requests not being included in the calculation. While there could have been a valid reason to exclude the liquidated damages, these amounts should still be calculated so that a management decision can be made on how to handle.
- 3) Messy Collection, Hauler Concerns, and General Waste Collection Service Requests – The liquidated damages calculation was undercalculated by approximately \$100,000 to \$400,000 based on these types of requests not being included in the calculation. Again, while there could have been a valid reason to exclude the liquidated damages, these amounts should still be calculated so that a management decision can be made on how to handle.
- 4) Items Addressed After the Close of the Month – The liquidated damages calculation was undercalculated by \$3.8 million to \$6.7 million based on the report to calculate liquidated damages only including complaints closed in the same month they were opened. There is not a valid reason for these types of issues to be excluded from the liquidated damages calculation.

#### **Recommendation to Finding 2**

Overall, we recommend that the Solid Waste Division properly calculate the amount of liquidated damages each month and document the rationale for any deviations from charging the full amount allowed by the contract. More specifically, we recommend that the Solid Waste Division change their method of assessing liquidated damages to become more in-line with the contracts including:

- 1) ensuring that the report is updated to include service requests that are closed in a different month than they are opened,
- 2) looking into how they can monitor and track which service request complaints assigned to the applicable haulers that are on the same route when assessing liquidated damages for Section 19.1 of the applicable current contracts,

- 3) changing the haulers' estimated completion dates for service requests in the customer service system to reflect the provisions of the contracts and requiring the haulers to enter the service date into the customer service system in a timelier manner.
- 4) reviewing all applicable customer service complaint categories when assessing Section 19.1 and Section 19.9 liquidated damages,
- 5) ensuring that all applicable complaints are being pulled in the monthly customer service system report to assess Section 19.1 liquidated damages by changing their search criteria to ensure all complaints are properly considered in the correct month(s),
- 6) giving the haulers the appropriate amount of time, based on the contracts, to resolve missed collections once they have been notified of said issues,
- 7) following Section 4.5.9.1 of the applicable current haulers' contracts when assessing liquidated damages for missed bulk, appliance, and tire collections, and
- 8) following Section 19 of the contracts to ensure that infractions committed by the haulers are included in the Solid Waste Division's assessment of liquidated damages and that the liquidated damage amounts that the Solid Waste Division decides to include in the haulers' invoices are accurately applied as an adjustment credit (i.e., reduction in payment).

**Auditee Response to Finding 2**

Agree ☒                      Disagree ☐                      Partially Agree ☐

*SWD will ensure all applicable waste streams are included in liquidated damages (LDs). SWD will make updates as needed to the Standard Operating Procedure (SOP) to include a detailed inclusive list of which issues the residential hauler will be assessed LDs under Section 19.9 of the contract. The revised SOP will be completed by June 30, 2025, and will be reviewed annually to include new updates.*

**Finding 3 – Invoice Premise Count Issues**

During our invoice testing, we verified the change to the premise counts were accurate by comparing the change in premises listed on the invoice to the change in premises listed on the supporting documentation. We also recalculated the ending premise counts. We then compared them to the ending premise counts listed in each invoice to confirm that they matched.

We found that the total premise count did not match our recalculated total premise count for 53 out of 72 (73.6%) invoices tested. These errors resulted in a net underpayment of \$36,199.65 to the contractors. For each of these 53 invoices, there were one or more of the following discrepancies:

- 1) For 48 invoices, the errors from previous months were carried forward to the current invoice. These errors resulted in underpayments to contractors of \$15,371.23.
- 2) For 15 invoices, the overall change to the premise count on the invoice did not match the supporting documentation. These errors resulted in underpayments to contractors of \$4,545.13.
- 3) For 7 invoices, the beginning residential premise count on the invoice did not match the ending premise count of the previous month. These errors resulted in underpayments to contractors of \$16,412.82.

- 4) For 7 invoices, the beginning commercial (all waste types) premise count on the invoice did not match the ending premise count of the previous month. These errors resulted in overpayments to contractors of \$142.46.
- 5) For 4 invoices, the beginning commercial (yard waste only) premise count on the invoice did not match the ending premise count of the previous month. This error resulted in underpayments to contractors of \$12.93.

### **Recommendation to Finding 3**

We recommend that the Solid Waste Division confirms that any changes to the premise counts entered on the invoice are based on supporting documentation during their invoice creation and review process. We also recommend that the Solid Waste Division confirms that the beginning premise counts entered on the invoice match the previous month's ending premise count during their invoice creation and review process.

Additionally, the City needs to determine how to handle the past issues in consideration of other issues noted within the report.

### **Auditee Response to Finding 3**

Agree ☒      Disagree ☐      Partially Agree ☐

*SWD will update the SOP to include ensuring the previous month's ending premise count matches the current month's beginning premise count. The revised SOP will also address steps on how make adjustments to the contract hauler's monthly premise count for invoice creation. The revised SOP will be updated no later than June 30, 2025. The SWD Compliance Manager and Division Chief will determine how to handle past issues with errors in premise counts related to monthly hauler payments noted in this report. The final decision and action will be taken by the July 2025 residential hauler payment.*

### **Finding 4 – Hauler Fuel Purchases Exceeded Fuel Cap**

For each hauler, there was an established fuel cap for each fiscal year that was not to be exceeded pursuant to the contract. For the fiscal year 2021/22, we found the City paid for more gallons than contractually required for two out of three of the haulers:

- 1) the City directly paid and did not seek reimbursement for 6,094 gallons purchased over the contractual fuel cap of 416,000 gallons. The cost of these gallons was \$26,700 based on the applicable fuel rate.
- 2) the City reimbursed one hauler for 103,715 gallon equivalents over the contractual fuel cap of 529,802 gallons based on the conversions outlined in the contract to convert CNG to diesel gallons. The cost of these gallons was \$318,328 based on the applicable fuel rates.

### **Recommendation to Finding 4**

We recommend the Solid Waste Division properly track the gallons of fuel provided or reimbursed to the haulers and take proper action when the fuel caps have been exceeded by ceasing any further



reimbursements for fuel costs. Additionally, the City needs to determine how to handle the past issues in consideration of other issues noted within the report.

**Auditee Response to Finding 4**

Agree ☒                      Disagree ☐                      Partially Agree ☐

*SWD will create a SOP outlining the steps required to do a monthly tracking of fuel totals for each residential hauler to ensure fuel caps are not exceeded. The SOP will also include the process on how to assess liquidated damages when the fuel cap is exceeded. The SOP will be created no later than June 30, 2025. The SWD Compliance Manager and Division Chief will determine how to handle past issues with fuel caps noted in this report. The final decision and action will be taken by the July 2025 residential hauler payment.*

**Finding 5 – Timeliness Issues with Payments**

During our invoice testing, we found that the timing of the payment for 47 out of 72 (65.3%) invoices tested were not within the time periods required by the haulers' contracts. The City was contractually required to pay each hauler by the 15<sup>th</sup> or 30<sup>th</sup> day of the following month depending upon the contract.

**Recommendation to Finding 5**

We recommend that the Solid Waste Division and the General Accounting Division coordinate to ensure that payments are processed within the timeline required by the contract.

**Auditee Response to Finding 5**

Agree ☒                      Disagree ☐                      Partially Agree ☐

*SWD has changed the supplier's payment terms in 1Cloud based on hauler contracts. In addition, SWD follows up with General Accounting Division after an invoice has been receipted to ensure it's validated for payment within contract terms.*

**Finding 6 – Fuel Card PINs Were Provided to Hauler Employees Before Signing the Fuel Policy Affidavit**

We found that 61 out of 128 (or 48%) of the haulers' drivers did not acknowledge and sign the City's fuel policy before a PIN was issued, which together with the fuel card, enabled the driver to get fuel under the City contract. The fuel policy affidavit informs the driver of their responsibilities regarding the use of their PIN and their vehicle's fuel card.

### **Recommendation to Finding 6**

We recommend the Solid Waste Division work with the residential haulers to implement procedures to ensure that all drivers for the residential routes understand and agree to the City's Driver Fuel Policy prior to being issued a PIN.

### **Auditee Response to Finding 6**

Agree ☒                      Disagree ☐                      Partially Agree ☐

*SWD has taken corrective action and strengthened Fuel Policy. The SOP has also been revised to require contract hauler drivers to sign the City's Driver Fuel Policy prior to PIN issuance.*

### **Internal Control Weakness 1 – Invoice Template Issues**

A new invoice template was recently created at the time of our observation as a word document. This was implemented by the Solid Waste Division specifically for submittal in the financial system. The financial system was having issues reading the invoices. To avoid this, a more system-friendly invoice template was created for each hauler so that the system can process the invoices more efficiently. The Solid Waste Division began using the updated financial system invoice template for the February 2023 payments. Information manually entered into the invoice document included the period being paid for, the invoice date, and the invoice amount based on the old invoice which was also still used for calculations.

While we observed the creation and submittal of a hauler invoice in the City's financial system, we noticed the following issues:

- 1) Solid Waste Division staff manually entered the invoice amount multiple times on the financial system's invoice template. There were no formulas used to auto-populate the invoice amount in those line items.
- 2) The incorrect base rate was manually entered into one invoice.
- 3) There was not enough space for the invoice amount to be on one line. Also, the dollar sign for one of the invoice amounts was at the end of the number instead of the beginning, which could result in the financial system misreading the invoice amount or not being able to read the invoice amount at all.
- 4) At the bottom of the invoice, there was a statement that read "Make all checks payable to" followed by the name of the hauler. However, this invoice was for a different hauler. Additionally, the statement makes it appear that the hauler created the invoice when it was created by the City.

### **Recommendation to Internal Control Weakness 1**

We recommend the Solid Waste Division:

- 1) limit what is manually entered when creating the invoice to avoid potential errors which could be accomplished by having the updated version of the invoice be a summary tab of the detailed invoice that pulls the applicable needed information,

- 2) ensure that the invoice information is correct and properly formatted to avoid potential errors,
- 3) replace any statements on the invoice that suggest that it was created by the hauler, and
- 4) add a statement to the invoice that makes it clear the invoice was created by the City.

**Auditee Response to Internal Control Weakness 1**

Agree ☒                      Disagree ☐                      Partially Agree ☐

*SWD is in agreement and will work on a revised process to limit the number of manual entries on monthly hauler payments. The new process will be in place by June 30, 2025 for the June 2025 monthly hauler payments.*

**Internal Control Weakness 2 – Lack of Adequate Policy to Identify Scenarios When Section 19.9 Liquidated Damages Should be Assessed**

Section 19.9 of each hauler contract stated that liquidated damages will be assessed for a “Failure to comply with any other term or provision of this Agreement after Notice from the City.” By this definition, there were several provisions, if broken, that could result in liquidated damages being assessed through Section 19.9.

We found that the Solid Waste Division did not have an adequate written policy that states which scenarios could result in liquidated damages being assessed under Section 19.9. The only scenario that was discussed in the written policy regarding Section 19.9 was how to find and assess liquidated damages for reopened service request issues in the customer service system. However, based on our review of the Solid Waste’s Division’s assessment of liquidated damages and our conversations with the Solid Waste Division, there were additional scenarios that have resulted in liquidated damages being assessed under Section 19.9.

**Recommendation to Internal Control Weakness 2**

We recommend the Solid Waste Division update their standard operating procedures to sufficiently identify and explain when liquidated damages covered under Section 19.9 of the contracts should be assessed. This list should be periodically updated as new scenarios are encountered.

**Auditee Response to Internal Control Weakness 2**

Agree ☒                      Disagree ☐                      Partially Agree ☐

*SWD will make updates as needed to the SOP based on current hauler contract language. The revised SOP will be completed by June 30, 2025.*

### **Internal Control Weakness 3 – Access Rights Issues**

We found the following issues regarding user access rights to the City's financial system and the customer service system:

- 1) For the City's financial system, we found that 6 out of 60 (10%) users tested could receipt invoices submitted by the Solid Waste Division even though they had transferred areas or changed job duties that removed the need for this access.
- 2) For the City's customer service system, which was used by the Solid Waste Division and the haulers to review and address waste collection service requests, we found that 25 out of 89 users tested had inappropriate access to the customer service system.
  - a) 24 of the users were previously employed by the haulers and no longer needed access.
  - b) 1 of the users moved to a different department within the City and no longer needed access.

### **Recommendation to Internal Control Weakness 3**

We recommend that the access rights for the individuals noted above be updated to remove their inappropriate level of access to the respective systems and that a process be implemented to periodically review this access for both City and non-City users.

### **Auditee Response to Internal Control Weakness 3**

Agree ☒      Disagree ☐      Partially Agree ☐

*SWD will continue notify Technology Solutions when informed of personnel changes as soon as received. The SOP will also be updated to include a yearly review of users by a Solid Waste Contract Compliance Supervisor.*

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We appreciate the assistance and cooperation we received from the Public Works Department throughout the course of this audit.

Respectfully submitted,

*Kim Taylor*

Kim Taylor, CPA  
Council Auditor

Audit Performed By:

Brian Parks, CPA, CIA  
Charles Lee