

A photograph of a classical building facade with several tall, fluted columns supporting a pediment. The pediment features a relief sculpture. The building is set against a clear blue sky.

**Office of Inspector General
City of New Orleans**

**Follow-Up Report: The Department of Sanitation Contract
Oversight Performance Audit**

AR10FOL002

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Audit
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Follow-Up #1: The Sanitation Contractors’¹ invoices complied with contract specifications.

Follow-Up #2: The Sanitation Department (the Department) maintained documentation of the calculation of bond amounts for the Sanitation Contractors; the calculations agreed to the bond amounts specified in the Sanitation contracts.

Follow-Up #3: The Department maintained current insurance certificates on file for each Sanitation contractor, as required by the Sanitation contracts.

Follow-Up #4: IESI Corporation²(SDT) complied with the contract insurance requirements by naming the City as an additional insured on the certificates of insurance. The Director of Sanitation (the Director) maintained a file and reviewed the certificates as recommended.

Follow-Up #5: No follow-up necessary. The Department did not use Public Financial Management (PFM) as a consultant in 2011.

Follow-Up #6: No follow-up necessary. The Department did not use Public Financial Management (PFM) as a consultant in 2011.

Follow-Up #7: Montgomery Watson Harza (MWH) billings to the Department for professional services included detailed descriptions for the services performed and the Defense Contract Audit Agency (DCAA) rates agreed to the 2010 contract; invoice descriptions indicated improvement from 2009.

Follow-Up #8: The auditor’s review of MWH invoices yielded an aggregate overpayment of \$1,006. The MWH contract was not renewed in 2011.

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TABLE A&B: Sanitation Contractors’ Billing Information for 2008 and 2011

¹ Sanitation Contractors refer to Richard’s Disposal, Metro and SDT.

² IESI Corporation acquired SDT on June 2, 2011.

EXECUTIVE SUMMARY

In March of 2010, the Office of Inspector General (OIG) issued an audit report titled “The Department of Sanitation Contract Oversight Performance Audit” (the 2010 Report) to determine if the Department exercised proper contract oversight over the Sanitation and other contractors.³ The City of New Orleans (the City) response was prepared by the former Director of Sanitation (the Director) and the City’s former Chief Administrative Officer. The OIG, as a matter of policy, conducted a follow-up of the 2010 Report to determine if the Department implemented its corrective actions .

The 2010 Report covered three types of contracts:

- Curbside trash collection services contracts (Sanitation Contractors);
- Professional service contracts which developed a baseline assessment of serviced locations (Other Contractors⁴); and
- Professional service contracts which provided engineering, management assistance and advisory services (Other Contractors⁵).

The 2010 Report cited eight findings in the following areas: projected serviced locations⁶ (Finding #1), insurance and bond requirements (Findings #2 through #4), and reliance on other contractors⁷ (Findings #5 through #8).

The follow-up revealed that the Department implemented four out of eight corrective actions (Findings #2 through #4 and #7) in the 2010 Report. The Sanitation Contractors billed the City in accordance with the contract specifications, thus follow up was not necessary for Finding # 1. Findings #5 and #6 did not require further follow-up because PFM was not used as a consultant in 2011. Finding #8 also did not warrant any follow-up because the City did not renew the MWH⁸ contract in 2011.

The audit revealed that the City paid the contractors approximately \$32,794,503⁹ in 2008. The total payments to the contractors in 2011 were approximately \$28,753,131 (2012-2014)¹⁰ which resulted in an annual savings to the City on the Sanitation contracts of approximately \$4,041,372¹¹.

The City’s estimated total savings from 2011 through 2014 is approximately \$13,522,775¹² from the original contract terms. The estimated savings indicated that the City has made progress in reducing costs for its Sanitation contracts.

³ Other contractors included MWH and PFM. Sanitation contractors included Richards, Metro and IESI (SDT).

⁴ PFM provided the serviced locations house count for the City.

⁵ MWH provided the City with management and engineering services.

⁶ Serviced locations are commonly referred to as house counts.

⁷ Other contractors included PFM and MWH.

⁸ The City was paying MWH an average of \$442,000 annually since 2005 for Sanitation related services.

⁹ See Appendix – Table A.

¹⁰ See Appendix – Table B.

¹¹ Ibid.

¹² See Appendix – Table B. This computation is based upon 2008 serviced locations count.

I.OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of the follow-up report was to determine whether the City and the Department implemented their corrective actions from the 2010 Report and if implemented, are operating effectively.

The scope of this review was limited to the City's responses to the eight findings and recommendations in the March 2010 report.

The methodology was developed in accordance with the *Principles and Standards for Offices of Inspector General* (the Green Book). The auditor's methodology included the following:

- Conducted interviews with the Director to determine the status of the City responses to each of the findings identified in the 2010 Report;
- Obtained amended contracts for the Sanitation Contractors to determine amended contract requirements;
- Obtained the calculation(s) maintained by the Director to support accurate and sufficient bond coverage held by the Sanitation Contractors;
- Independently recalculated bond coverage amounts for each Sanitation Contractor;
- Obtained and inspected the insurance certificates provided to the Department by the Sanitation Contractors to verify compliance with Sanitation Contract insurance requirements.;
- Obtained and reviewed the Director's Sanitation Contractor insurance excel file to determine whether the expiration dates of existing Sanitation Contractors' insurance policies were being monitored;
- Obtained the Contractors' invoices billed to the City from January 2011 - June 2011 and verified that the invoices were in compliance with the contracts;
- Obtained the MWH invoices billed to the City for professional services performed from April 2010 – October 2010¹³;
- Verified that documentation for the services provided existed and were consistent with the contract provisions; and
- Obtained documentation of the DCAA audit rates and compared the rates in the MWH billings to the City contract.

¹³ MYH's contract with the Sanitation Department terminated on December 31, 2010.

II. SANITATION CONTRACT OVERSIGHT FOLLOW-UP

Projected Serviced Locations (House Count)

Finding # 1: “The City paid Sanitation Contractors based upon projected IFB¹⁴ serviced locations.”

Recommendation # 1: “The City should require compliance with existing contracts as written and require the Sanitation Contractors to provide accurate serviced location lists each month. The Department of Sanitation should also maintain its own independent listing and use this listing to verify the accuracy of the listings and billings submitted monthly by the Sanitation Contractors.”

City Comment: “The City said that Katrina-related problems resulted in the projected numbers of serviced locations in the 2006 Invitation for Bid (IFB) and the contract served as the baseline for payment to the sanitation contractors...”

Follow-up #1: Current billings are based upon an agreed upon number of locations as determined by a consultant’s report¹⁵ from June 2010.

Richards and Metro amended contracts required the Sanitation Contractors to “agree to the accuracy of the estimated number of Serviced Locations in each Collection Area on an annual basis.”¹⁶ SDT’s amended contract included a house count of 4,062 serviced locations.

The Sanitation Contractors billed in accordance with the contract specifications; thus, follow-up was not necessary.

Insurance and Bonds

Finding # 2: “The City could not demonstrate correct documentation of SDT’s performance and payment bond calculation for 2007.”

Recommendation #2: “The Department of Sanitation should maintain documentation of the bond calculations for each year as evidence that the contractor has met the bond requirement in its contract.”

City Comment: “...The City previously supplied documentation for the bond amount calculation.”

Follow-up #2: The auditors disagreed with the City’s original comment.

The follow-up revealed that the Department maintained documentation of the calculation for the required bond amounts and the calculations agreed to the bond amounts as specified in the Sanitation contracts.

¹⁴ IFB is defined as invitation for bid.

¹⁵ A report was issued by GCR & Associates, Inc. on June 11, 2010: City of New Orleans Solid Waste Service Location Reconciliation.

¹⁶ A representative agreeable to the respective contractors will be used for the annual count mentioned in the contract.

Finding # 3: “The City did not maintain current certificates of insurance.”

Recommendation # 3: “The Department of Sanitation should implement policies to review and document the Sanitation Contractors' insurance coverage. Original certificates of insurance should be accompanied by other corroborating evidence of coverage, and maintained for the duration of the Sanitation Contracts. A tickler file maintained by the Sanitation Department would be useful in monitoring expiration dates of existing Sanitation Contractors' policies.¹⁷.”

City Comment: “The City said that the required certificates were on file and provided to the auditor.”

Follow-up #3: The auditors disagreed with the City’s original comment.

The follow-up revealed that the Department had current insurance certificates on file for each Sanitation contractor, as required by the Sanitation Contracts. The Department obtained the required insurance documents and used an excel spreadsheet as a tickler file to track the policy expiration dates. In addition, “the City’s Risk Manager reviews the insurance requirements related to the contracts on an ongoing basis.”¹⁸

The City did not require confirmation of insurance coverage beyond the insurance certificates as the 2010 Report recommended.

Finding # 4: “The City was not named as an additional insured.” (SDT)

Recommendation #4: “The City should develop internal procedures to improve its monitoring of insurance compliance on the Sanitation Contracts.”

City Comment: “The City stated that SDT has revised its insurance certificate to use the wording cited above.¹⁹ The City provided legal arguments to the effect that the contract and bond effectively protect the City from contract risk.”

Follow-up #4: Again, the auditors did not agree with the City’s original response.

The follow-up revealed that IESI Corporation (SDT’s new owner) was in compliance with the contract’s insurance requirements by naming the City as an additional insured on the certificate of insurance. Additionally, the Director is maintaining a spreadsheet of expiration dates and periodically reviewing the certificates provided by all of the Sanitation Contractors.

Public Financial Management (PFM): Baseline Assessment

Finding # 5: “PFM’s invoices did not provide sufficient itemization of costs.”

Recommendation # 5: “The City should develop procedures to monitor its contractors’ billings to ensure that billings represent deliverables and services received. The City should also require an itemization of costs on all billings.”

¹⁷A tickler file can be date-labeled with reminders to allow for follow-up with the Contractors by the Sanitation Department prior to policy expiration dates.

¹⁸ This response was received on August 17, 2011 by email from the current Sanitation Director.

¹⁹ In 2007, the SDT insurance certificates did not have the City, its officers, agents, and employees listed as an additional insured.

City Comment: “In the case of a fixed contract, a contractor’s level of effort, whether above or below what might arbitrarily be considered appropriate, is not relevant.”

Follow-up #5: The finding specifically relates to PFM invoices. PFM was not used as a contractor by the department in 2011: therefore no further follow-up work was performed.

Finding # 6: “PFM’s estimated service locations database contained uninhabitable and ineligible serviced locations.”

Recommendation # 6: “The City should perform its own analysis on the assessments provided by third party contractors and assure accuracy of the listings.”

City Comment: “The City observed that the number of errors was small relative to the total numbers of serviced locations.”

Follow-up #6: PFM was not used as a consultant in 2011. Thus, no follow-up was necessary on Finding # 6.

MWH Americas (MWH): Engineering and Staff Extension Services

Finding # 7: “MWH’s invoice descriptions were too vague to permit appropriate review.”

Recommendation # 7: “MWH should be required to detail the specific services provided to the Department of Sanitation prior to its approval of the invoice for payment. The City should also request the results of the DCAA audits of provisional rates when available to determine the accuracy of the provisional rates used in MWH’s contracts...”

City Comment: “The City received a summary of all hours and an itemization of all other direct costs.”

Follow-up #7: The MWH May - October 2010 invoices billed to the City for professional services included detailed descriptions for the services performed and the DCAA rates agreed to the 2010 contract.²⁰

Finding # 8: “MWH miscalculated its invoices.”

Recommendation # 8: “The Director of Sanitation should thoroughly review the accuracy of invoices with contract provisions prior to approving invoices for payment. The DCAA audits of these rates should also be obtained to determine the accuracy of these provisional rates.”

“The Office of Inspector General is in the process of reviewing all Sanitation invoices submitted by MWH from 1997-2006 and 2009 to determine if other miscalculations were billed by MWH.”

²⁰The April 2010 invoice was still listing "Emergency Debris Cleanup" as a generic description for all services billed to the City by MWH. The current Sanitation Director sent notification to MWH that this description was no longer an acceptable explanation prior to payment of the services performed.

City Comment: “The finding warrants further review, and if the City determines that MWH violated contract provisions, it will seek legal recourse.”

Follow-up #8: The auditor’s review of MWH invoices yielded an aggregate overpayment of \$1,006 for invoices submitted from the months of April through October 2010. The auditor concluded that the incorrect calculation was immaterial and did not warrant any further follow-up work.

III. APPENDIX

TABLE A: 2008 Sanitation Contractors' Billing Information

Curbside Services Contractors	Households Billed to the City	Rate per Household	Monthly Amounts Billed to the City	Actual Annual Amounts Billed to the City
Richard's Disposal	63,000	22.00	\$ 1,386,000.00	\$ 16,623,400.00 ²¹
Metro	45,336 ²²	18.15	822,848.40	10,240,018.00 ²³
Total 2008 Richard's & Metro			\$ 2,208,848.40	\$ 26,863,418.00
SDT - FQ ²⁴ Commercial	2,000	34.00	\$ 68,000.00	
SDT - FQ ²⁵ Residential	3,000	18.75	56,250.00	
SDT - DDD ²⁶	1,500	34.00	51,000.00	
SDT - Other Services			325,421.00	
Total 2008 SDT			\$ 500,671.00	\$ 5,931,085.00²⁷
Total Sanitation Contractors Billings				\$ 32,794,503.00

²¹The invoice from August 2008 was reduced by \$8,600.

²² The number of households billed on the January through May 2008 invoices fluctuated from 45,155- 50,310.

²³ Ibid.

²⁴ SDT services the French Quarter (FQ) and the Downtown Development District (DDD).

²⁵ Ibid.

²⁶ Ibid.

²⁷ The January and February 2008 invoices did not include \$82,549 for mechanical sweeping each month and the January and December 2008 invoices included \$88,131 for special events.

TABLE B: 2011 Sanitation Contractors' Billing Information

Curbside Services Contractors	Households Billed to the City	Rate per Household	Monthly Amounts Billed to the City	Actual Annual Amounts Billed to the City
Richard's Disposal	66,525	17.99	\$ 1,196,784.75	\$ 14,361,417.00
Metro	55,943	15.99	894,528.57	10,734,342.84
Total Richard's & Metro 2011			\$ 2,091,313.32	\$ 25,095,759.84
SDT - FQ ²⁸ Commercial	838	23.00	\$ 19,274.00	
SDT - FQ ²⁹ Residential	2,123	23.00	48,829.00	
SDT - DDD ³⁰	1,101	23.00	25,323.00	
SDT - Other Services			211,354.90	-
Total 2011 SDT			\$ 304,780.90	\$ 3,657,370.80
Total Sanitation Contractors Billings				\$ 28,753,130.64

Total Metro/Richards Annual Savings from 2008 & 2011³¹ **\$ 1,767,658.16**
Total SDT Annual Savings from 2008 & 2011 **\$ 2,273,714.20**
Grand Total Annual Savings (from 2008 & 2011) **\$ 4,041,372.36**

Total Future Metro/Richards Savings (2012 - 2014) **\$ 5,302,974.48**
Total Future SDT Savings (2012-2013³²) **\$ 4,178,428.40**
Total Future Savings (2012-2014) **\$ 9,481,402.88**

Total Savings (from 2011-2014³³) **\$ 13,522,775.24**

²⁸ SDT services the French Quarter (FQ) and the Downtown Development District (DDD).

²⁹ Ibid.

³⁰ Ibid.

³¹ Metro & Richard's contracts also included recycling services starting on March 15, 2011 at no additional cost to the City.

³² The savings total included \$169,000 and \$10,000 for unbilled SDT Mardi Gras services and unauthorized use of SDT's truck assigned to the City during 2010. The amount SDT owed the City (\$369,000) in prior year overpayments was also subtracted in the savings calculation. The amount owed by SDT will be deducted from SDT's monthly billings in the amount of 15, 833 from the end of 2011 till 2012. The SDT contract ends in 2013.

³³ The total savings did not include 2009 and 2010 Sanitation information because the contracts were amended in 2010 and the scope of the 2010 Report only included data from 2007 and 2008.