

Solid Waste Management Services – Review of Major Contracts

Date:	February 9, 2007
To:	Audit Committee
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

The objective of this review was to assess the extent to which proper management controls were in place to ensure that contracted services were delivered according to established specifications, performance criteria, regulatory requirements, agreed costs and that the City's interests were adequately protected at all times.

Our review found that divisional staff is clearly committed to ensuring that contractors deliver uninterrupted services according to service levels, criteria and payment terms under various contracts. The four major contracts examined have an annual gross value of \$57.4 million and revenues of \$5.5 million. While we identified a number of concerns and improvement opportunities in this report, it is important to note that considering the complicated terms and conditions covered and numerous new initiatives introduced to the City's waste collection, recycling, and processing programs over the past few years, these contracts were reasonably well managed.

RECOMMENDATIONS

The Auditor General recommends that:

1. The General Manager, Solid Waste Management Services, take steps to correct corporate financial records and Good and Services Tax Returns, so that processing costs, sales revenues and Good and Services Tax amounts on operating results of City contracts with Canada Fibers Ltd. and Metro Waste Paper Recovery Inc. are recorded according to generally accepted accounting principles and tax reporting guidelines.

2. The Deputy City Manager and Chief Financial Officer, ensure relevant City staff is aware that purchase and sale transactions with individual customers or suppliers may not be netted against each other but must be recorded in the City's financial records at gross amounts.
3. The General Manager, Solid Waste Management Services, obtain the required provincial tax exemption certification from all purchasers of recyclables, and take steps to recover provincial retail sales tax on previous sales transactions from customers without a valid provincial tax exemption certificate.
4. The General Manager, Solid Waste Management Services, ensure staff is adequately trained on retail sales tax issues and proper management oversight on sales transactions.
5. The General Manager, Solid Waste Management Services, strengthen management controls over the issuance and use of dump authorization slips. Such controls should include the use of unique serial numbers and regular reconciliation of dump tickets issued and remitted at weigh scale stations.
6. The General Manager, Solid Waste Management Services, ensure material recovery rates for the Dufferin recycling facility are calculated, communicated to the contractor each month and appropriate action taken.
7. The General Manager, Solid Waste Management Services, ensure all specifications contained in contracts are clear and enforceable. In unusual circumstances where there is a need to deviate significantly from contract specifications, reasons for such deviations be documented and approved. In circumstances where certain specifications are considered too impractical and likely unenforceable, such specifications be reviewed and, where appropriate, amended.
8. The Deputy City Manager and Chief Financial Officer, in consultation with the Deputy City Manager responsible for Solid Waste Management, review purchasing policies and procedures to ensure that they are adequate to meet divisional needs to respond to market conditions relating to the sale of materials recovered through the City's recycling facilities.
9. The General Manager, Solid Waste Management Services, provide necessary training, such that staff understand and comply with City purchasing and financial control policies, procedures and guidelines.
10. The City Manager, in consultation with the Deputy City Manager and Chief Financial Officer and the City Solicitor, review and take necessary steps to ensure contract provisions related to Workplace Safety and Insurance Board clearance certificates, and compliance with the *Occupational Health and Safety Act* are appropriate and consistently included in City contracts with similar risk exposure.

11. The Deputy City Manager and Chief Financial Officer, in consultation with the other Deputy City Managers and the City Solicitor:
 - a review the appropriate standard content of performance bonds and insurance certificates and the appropriateness and criteria for deviations from such standards in light of relevant risk exposure, including the respective roles of the Legal Services Division and Corporate Finance’s Insurance and Risk Management section in deciding on any deviation of submitted documents;
 - b review and take necessary steps to ensure current administrative policies and procedures, including clarifying the roles and responsibilities of City Finance and City divisions in the safekeeping, recordkeeping and administration of performance bonds, letters of credit, and insurance certificates, are effective in protecting the City from claims, risks and losses in connection with activities performed by City contractors; and
 - c issue written directives to clearly communicate relevant corporate policies and procedures to staff.
12. The General Manager, Solid Waste Management Services, review the Saturday and after-hour shipping arrangement in view of its benefits and risk exposure to the City.

FINANCIAL IMPACT

The implementation of recommendations in this report will improve management of contracted services. There are no significant financial impacts to adopting the recommendations contained in this report.

DECISION HISTORY

This report provides the results of the Auditor General’s review of major contracts in the Solid Waste Management Division. This review was conducted as part of the Auditor General's Annual Work Plan.

COMMENTS

The Auditor General’s report entitled “Solid Waste Management Services – Review of Major Contracts”, contains 12 recommendations and is attached as Appendix 1. Management’s response to each of the recommendations contained in this report is attached as Appendix 2.

CONTACT

Jerry Shaubel, Director, Auditor General's Office

Tel: 416-392-8462, Fax: 416-392-3754, E-mail: jshaubel@toronto.ca

Anne Cheung, Senior Audit Manager, Auditor General's Office

Tel: 416-392-8439 Fax: 416-392-3754, E-mail: acheung1@toronto.ca

SIGNATURE

Jeffrey Griffiths, Auditor General

cg
06-SWM-01

ATTACHMENTS

Appendix 1: Solid Waste Management Services – Review of Major Contracts

Appendix 2: Management Response to the Auditor General's Review of Solid Waste Management Services – Review of Major Contracts

G:\AGO\2007\Reports\Deputy City Mgr RB\Solid Waste\Review of Major Contracts (Staff Report) February 9 2007.doc