



**AUDITOR GENERAL'S
REPORT
ACTION REQUIRED**

District 2 Curbside Collection Contract – Review of Cost Savings and Opportunities for Improving Contract Monitoring

Date:	February 6, 2014
To:	Audit Committee
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

A review of the District 2 daytime residential curbside collection contract was requested by City Council at its meeting of May 17, 2011 and consequently, included in the Auditor General's 2013 Work Plan. City Council awarded the District 2 curbside collection contract to Green For Life Environmental East Corporation at its meeting of October 24 and 25, 2011. The contracted services began on August 7, 2012 and include the collection, transportation, and off-loading of garbage, bulky items, recyclable materials, organic materials and yard waste to City transfer and processing facilities.

The objective of this review was to evaluate the adequacy and effectiveness of contract management and administrative controls in place to ensure diversion targets, customer service targets and cost savings were achieved.

This report contains 15 recommendations along with a management response to each of the recommendations. Significant cost savings have been achieved since the implementation of the Contract. Our review identifies opportunities for improving contract monitoring and reporting out of results. Addressing the recommendations in this report will strengthen the administrative controls in place to enhance contract management and ensure diversion and customer service targets continue to be met.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council request the City Manager to report actual cost savings achieved on District 2 curbside collections as requested by Council.
2. City Council request the General Manager, Solid Waste Management Services, to ensure that all financial, performance and operational information in future collections operations reports are accurate and provide a consistent and complete reflection of the Contract costs and performance-related activities.
3. City Council request the General Manager, Solid Waste Management Services, to implement a systematic approach for conducting and documenting daily on-road inspections, which ensures that:
 - a. random on-road inspections are reasonably distributed amongst all vehicles;
 - b. vehicles are selected from a complete and accurate vehicle fleet listing; and
 - c. significant performance deficiencies are followed up to ensure that appropriate corrective action was taken.
4. City Council request the General Manager, Solid Waste Management Services, to conduct periodic analyses of the overall on-road inspection results. Where recurring deficiencies are identified, corrective action be taken where appropriate.
5. City Council request the General Manager, Solid Waste Management Services, to ensure that contract monitoring staff use the available GPS technology to verify Contractor performance, and document such use.
6. City Council request the General Manager, Solid Waste Management Services, to ensure collection services are completed on a timely basis in accordance with the City by-law governing residential waste collection.
7. City Council request the General Manager, Solid Waste Management Services, to continue to monitor Contract deficiencies and assess liquidated damages if and when determined to be appropriate, and to document decisions regarding the assessment or waiver of liquidated damages.
8. City Council request the General Manager, Solid Waste Management Services, to implement a standard process for reviewing closed service requests, including non-qualifying service requests. Reviews should be documented and include an evaluation of the adequacy of Contractor investigation notes, timeliness of resolution, and validity of closure.

9. City Council request the General Manager, Solid Waste Management Services, to implement the practice of trend analyses for monthly tonnages, late finishing times and any other relevant operational and performance indicators, and to ensure that any significant anomalies identified are investigated to the extent appropriate in the circumstances.
10. City Council request the General Manager, Solid Waste Management Services, to establish a standard process for documenting meetings and other informal correspondence with the Contractor regarding performance or compliance issues. Additionally, evidence of ongoing communications be retained in a central location.
11. City Council request the General Manager, Solid Waste Management Services, to consider conducting periodic evaluations of the Contractor's performance against a set of specific assessment criteria that are aligned with Contract provisions.
12. City Council request the General Manager, Solid Waste Management Services, to document detailed procedures for District 2 Contract monitoring and administrative activities. The documentation requirements for each activity be specified as part of the detailed procedures.
13. City Council request the General Manager, Solid Waste Management Services, to direct all District 2 Contract monitoring staff to conduct monitoring and administrative activities in accordance with the documented procedures.
14. City Council request the General Manager, Solid Waste Management Services, to remind relevant staff of the need to thoroughly review Contractor invoices prior to payment.
15. City Council request the General Manager, Solid Waste Management Services, to ensure that the details and payment structure for any future contingency work are documented as soon as practicable.

Financial Impact

The implementation of recommendations in this report will strengthen the administrative controls in place to enhance contract management and ensure diversion and customer service targets continue to be met. The extent of any resources required or potential cost savings resulting from implementing the recommendations in this report is not determinable at this time.

DECISION HISTORY

At its May 17, 2011 meeting, prior to the award of the contract for curbside collection in District 2, City Council requested the Auditor General *“to consider conducting a post-implementation audit of the awarded contracts that focuses on, but is not limited to, diversion targets achieved, customer service levels and cost savings”*. In consideration

of this request and because of the significant value of the awarded contract, the Auditor General determined that the 2013 Audit Work Plan would include the requested review.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.PW3.1>

ISSUE BACKGROUND

At its meeting of October 24 and 25, 2011, City Council awarded a seven-year contract to Green For Life Environmental East Corporation for daytime residential curbside collection services in the District 2 area of Toronto (the “Contract”). District 2 is the area bounded by Yonge Street to the east, the Humber River to the west, Steeles Avenue to the north and Lake Ontario to the south. The contracted services include the collection, transportation, and off-loading of garbage, bulky items, recyclable materials, organic materials and yard waste to City transfer and processing facilities. The Contract also provides two additional one-year extension options at City Council’s authorization. The contracted collection services commenced on August 7, 2012.

The contracting out of District 2 curbside collection services was a significant Council decision based on the understanding that it would, among other things, result in significant cost savings. At the time the Contract was awarded, staff had estimated that the award would result in cost savings of approximately \$11.9 million in the first year, and \$11.1 million on an ongoing basis.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.CC13.5>

COMMENTS

The objective of this review was to evaluate the adequacy and effectiveness of contract management and administrative controls in place to ensure diversion targets, customer service targets and cost savings were achieved.

Significant cost savings have been achieved since the implementation of the Contract. In determining the specific cost savings the costs incurred prior to the award of the Contract were compared to the costs subsequent to the award. In the case of the costs prior to the award of the Contract, we have relied on information contained in the City’s SAP financial information system that is consistent with the information provided by an external consultant.

Our review identifies opportunities for improving contract monitoring and reporting out of results, which include:

- Reporting out on actual cost savings
- Reviewing reported information for accuracy, consistency and completeness
- Enhancing efficiency and effectiveness of contract monitoring controls
- Strengthening certain administrative controls

This report contains 15 recommendations along with a management response to each of the recommendations. Addressing the recommendations in this report will strengthen the administrative controls in place to enhance contract management and ensure diversion and customer service targets continue to be met.

Our report entitled “District 2 Curbside Collection Contract – Review of Cost Savings and Opportunities for Improving Contract Monitoring” is attached as Appendix 1. Management’s response to each of the recommendations contained in the report is attached as Appendix 2.

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SIGNATURE

Jeff Griffiths, Auditor General

13-SWM-01

ATTACHMENTS

- Appendix 1: Auditor General’s Report, District 2 Curbside Collection Contract – Review of Cost Savings and Opportunities for Improving Contract Monitoring, Solid Waste Management Services Division
- Appendix 2: Management’s Response to the Auditor General’s Report, District 2 Curbside Collection Contract – Review of Cost Savings and Opportunities for Improving Contract Monitoring, Solid Waste Management Services Division

AUDITOR GENERAL'S REPORT

**Solid Waste Management Services –
District 2 Curbside Collection Contract**

**Review of Cost Savings and Opportunities for
Improving Contract Monitoring**

January 16, 2014

Jeffrey Griffiths, C.A., C.F.E.
Auditor General



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EXECUTIVE SUMMARY

The Solid Waste Management Services Division, Collections & Litter Operations section, provides curbside collection services for garbage, recycling, organics, yard waste and bulky items across the City.

The City awarded a seven-year contract, effective August 7, 2012

At its October 24 and 25, 2011 meeting, City Council awarded a contract to Green For Life Environmental East Corporation (the "Contractor") for daytime residential curbside collection services in the District 2 area of Toronto (the "Contract"). The Contract is for seven years with two additional one-year extension options and began on August 7, 2012.

Estimated annual cost of \$18.8 million

The estimated annual cost of the Contract in the first year, including contingency items, was approximately \$18.8 million. After including provisions for inflationary increases and taxes, the total award value was approximately \$186.4 million, including optional contract extension years.

Divisional staff are responsible for ensuring that the Contractor is operating in accordance with the Contract on a day to day basis.

City Council requested a post-implementation audit of the awarded contract

Prior to the award, at its May 17, 2011 meeting, City Council requested the Auditor General "*to consider conducting a post-implementation audit of the awarded contracts that focuses on, but is not limited to, diversion targets achieved, customer service levels and cost savings*".

In consideration of this request and because of the significant value of the Contract, the Auditor General determined that the 2013 Audit Work Plan would include the requested review.

Audit objectives and scope

The objective of this review was to evaluate the adequacy and effectiveness of contract management and administrative controls in place to ensure diversion targets, customer service targets and cost savings were achieved. The audit covered the first year of the Contract from August 7, 2012 to August 6, 2013.

Previous Auditor General reports on contract management

Over the years the Auditor General has issued a number of audit reports related to contract management, including a 2007 review of major contracts in the Solid Waste Management Services Division. Previous audit recommendations have highlighted the need to strengthen management controls, improve quality assurance, and enhance overall effectiveness of contract management and payment processes.

Key areas for improvement

Opportunities for improvement identified in this review are highlighted as follows:

Reported Information Contained Certain Discrepancies

The contracting out of District 2 curbside collection services was a significant Council decision based on the understanding that it would, among other things, result in significant cost savings. In awarding the Contract, Council directed staff to submit quarterly and annual reports to the Public Works and Infrastructure Committee that describe the actual cost savings and various Contract performance and operational indicators achieved.

Staff have not reported extent of cost savings

While staff have reported the Contract and contract monitoring costs, the actual cost savings from the implementation of the Contract have not been quantified in the annual report.

Cost savings of \$11.5 million were achieved

In terms of cost savings, we reviewed information recorded in the financial information system as well as information provided by external consultants, and determined that cost savings of approximately \$11.5 million were achieved in the first year of the Contract.

Diversion target was achieved

Staff have also reported that the diversion target was achieved in District 2 since contracting out. Our review of tonnages of material collected in the first year of the Contract did not identify any anomalies in the District 2 diversion data presented in the annual report.

Certain reported information was inconsistent with audit findings

However, our review noted that certain performance and operational information reported to Council was inconsistent with the audit findings contained in this report. These include:

- Inaccurate comparison of actual to expected costs
- Lack of supporting documentation and inconsistent use of source data
- Other qualitative statements in the reports were incorrect or not fully supported

Contract Monitoring Controls Can Be Enhanced

Enhance adequacy and effectiveness of monitoring activities

While Divisional staff perform a variety of contract monitoring activities, our review identified certain controls that could have been designed more effectively. In addition, penalty clauses were not enforced in instances of non-compliance with contract provisions for various operational reasons. Recommendations for enhancements to ensure that the Contract with Green For Life is adequately and effectively managed include:

- Developing and implementing a systematic approach for conducting performance monitoring procedures
- Evaluating significant Contract deficiencies
- Improving service request monitoring controls
- Using more effective trend analysis tools
- Evaluating Contractor performance on a periodic basis

Many of the issues we identified also highlighted the need to formalize procedures for key monitoring activities. Detailed operating procedures will help ensure accountability, consistency and adequacy in contract monitoring and administration.

Administrative Controls Should Be Improved

Improve administrative controls

Administrative controls can be further improved to ensure Contractor payments are accurate and complete. Reviewing invoices in detail and formalizing contingency work agreements will help minimize the risk of billing errors.

Conclusion

This report contains 15 recommendations. Significant cost savings have been achieved since the implementation of the Contract. However, our review highlights opportunities for improving contract monitoring and reporting out of results. Addressing the recommendations in this report will strengthen the adequacy and effectiveness of contract management and administrative controls in place to verify the accuracy of contractor invoices and ensure diversion and customer service targets continue to be met.

BACKGROUND

The Solid Waste Management Services Division, Collections & Litter Operations section, provides curbside collection services for garbage, recycling, organics, yard waste and bulky items across the City.

The City awarded GFL the seven-year curbside collection contract for District 2 effective from August 7, 2012

At its meeting of October 24 and 25, 2011, City Council awarded a seven-year contract to Green For Life Environmental East Corporation ("GFL" or the "Contractor") for daytime residential curbside collection services in the District 2 area of Toronto. District 2 is the area bounded by Yonge Street to the east, the Humber River to the west, Steeles Avenue to the north and Lake Ontario to the south. The contracted services include the collection, transportation, and off-loading of garbage, bulky items, recyclable materials, organic materials and yard waste to City transfer and processing facilities. The Contract also provides two additional one-year extension options at City Council's authorization. The contracted collection services commenced on August 7, 2012.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.CC13.5>

Estimated annual award cost of \$18.8 million

The estimated annual cost of the Contract in the first year, including contingency items, was approximately \$18.8 million. After including provisions for inflationary increases and taxes, the total Contract award value is approximately \$186.4 million, including optional contract extension years.

Payment based on actual quantities

Payments to the Contractor are based on the contracted unit prices per tonne for the actual quantities of materials collected in each of the following categories:

- garbage, recyclable materials and organic materials
- bulky items
- yard waste.

Divisional staff is responsible for monitoring Contractor performance

Six staff in the Contract Services unit oversee the Contract and monitor performance on a daily basis to ensure the Contractor is operating in accordance with the Contract provisions. Daily monitoring includes:

- On-road spot checks whereby staff follow and observe GFL collection vehicles
- Supervisory review of Contractor's daily reports
- Follow-up on service requests from customers.

Total invoices in year one of the Contract were \$20.3 million

The total amount invoiced by the Contractor for the period August 7, 2012 through August 6, 2013 was \$20.3 million, net of HST recoveries, which includes \$1.3 million for debris removal services following the July 2013 storm.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

City Council requested a post-implementation audit of the curbside collection services contract

At its meeting of May 17, 2011, City Council requested the Auditor General “to consider conducting a post-implementation audit of the awarded contracts that focuses on, but is not limited to, diversion targets achieved, customer service levels and cost savings”.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.PW3.1>

Auditor General's 2013 Work Plan

In consideration of this request and because of the significant value of the Contract, the Auditor General determined that the 2013 Audit Work Plan would include the requested review.

Audit objective

The objective of this review was to evaluate the adequacy and effectiveness of contract management and administrative controls in place to ensure diversion targets, customer service targets and cost savings were achieved.

Specifically, our audit focused on the following areas:

- Performance monitoring controls
- Payment and cost controls
- Ensuring City interests were protected.

Audit scope

The audit covered the first year of the Contract, from August 7, 2012 to August 6, 2013.

The scope of this audit did not include a review of the original award of the Contract. An assessment of the information systems used, as well as activities carried out at City transfer stations were also excluded.

Audit methodology

Our audit methodology included the following:

- Review of relevant Committee and Council reports
- Review of Contract documents (RFQ 6033-11-3186)
- Review of policies and procedures
- Interviews with staff
- Ride-alongs and site visits
- Examination of documents and records
- Analysis of transactional data
- Evaluation of management controls and practices
- Review of the Auditor General's previously issued contract management audit reports and related reports issued in other municipalities
- Other procedures deemed appropriate

Compliance with generally accepted government 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.

AUDIT RESULTS

A. REPORTED INFORMATION CONTAINED CERTAIN DISCREPANCIES

The contracting out of District 2 curbside collection services was a significant Council decision based on the understanding that it would, among other things, result in significant cost savings. In awarding the Contract, Council directed staff to submit quarterly and annual collections operations reports to the Public Works and Infrastructure Committee. These reports are to describe the actual cost savings and various Contract performance and operational indicators achieved.

A.1. Reporting Out of Cost Savings

At its May 17, 2011 meeting, prior to the award of a contract for District 2 collection services, City Council requested that *“the City Manager provide annual progress reports to the Public Works and Infrastructure Committee on diversion, customer service and cost savings”*.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.PW3.1>

Staff have not reported extent of cost savings

While staff have reported the Contract and contract monitoring costs in the “Solid Waste Management Services, Collections Operations Annual Report”, dated October 28, 2013, the actual cost savings from the implementation of the Contract have not been quantified.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.PW27.7>

Initial staff estimate of \$11.9 million in cost savings

At the time the Contract was awarded, staff had estimated that the award would result in cost savings of approximately \$11.9 million in the first year, and \$11.1 million on an ongoing basis.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.CC13.5>

In terms of cost savings, we prepared an analysis of the District 2 collection-related costs for the period before and after the Contract was implemented based on available financial information. Our analysis is attached as Exhibit 1. This analysis is based on information contained in the City’s SAP financial information system and is consistent with the information provided in a report prepared by external consultants.

Cost savings of \$11.5 million were achieved

Our analysis determined that cost savings of approximately \$11.5 million were achieved in the first year of the Contract when compared to the annual costs before contracting out. This is comprised of \$10.8 million in ongoing savings and \$0.7 million in net one-time savings. Therefore, the actual savings achieved in the first year were \$0.4 million less than the \$11.9 million in estimated savings when the Contract was awarded.

Cost savings should be reported

Staff should report on actual cost savings realized as requested by Council.

Recommendation:

- 1. City Council request the City Manager to report actual cost savings achieved on District 2 curbside collections as requested by Council.**

A.2. Comparison of Actual Award Costs

In their first annual report on Contract results, staff reported that *“the total invoices for the time period August 7, 2012 to August 6, 2013 are \$18,690,790, approximately \$100,000 less than the potential award cost [of \$18,796,449]”*.

Comparison of Contractor invoices contained an error

However, the total invoices amount presented in the October 28, 2013 report is understated. The total invoices number did not include the contingency costs incurred as a result of the July storm or the net HST on the Contractor invoices. The potential award cost included both these amounts.

A more accurate comparison would be:

	Costs, net of HST recoveries (in millions)
Total invoices	\$19.0
Total contingency costs	\$1.3
Total Contractor invoices	\$20.3
Annual award value (includes base costs of \$17.8 and contingency amount of \$1.0)	(\$18.8)
Difference	<u>\$1.5</u>

Therefore, the total Contractor invoices were actually \$1.5 million more than the potential award cost. The numbers as presented were not particularly significant in the context of the contracting out decision, however staff should ensure that all amounts and calculations are accurate in reports to Council.

A.3. Diversion Target Was Achieved

Staff reported diversion target of 67 per cent

The Contract requires that “*diversion targets must meet or exceed current City standards and may not be reduced from the present targets*”. In their first annual report, staff reported that “*the percentage of divertible material has gone up to 67.0 per cent*” in District 2 during the first year of the Contract compared to the 12-month period prior to contracting out. Our review of tonnages of material collected in the first year of the Contract did not identify any anomalies in the District 2 diversion data presented in the annual report.

Diversion target was favourable

The annual report indicates favourable results with respect to the diversion target in District 2 since contracting out. The reported diversion targets for each district are summarized in the table below:

	District 2	District 1	District 3	District 4	Average
12-months prior to contracting out	61.6%	69.6%	70.6%	76.5%	69.6%
12-months after contracting out	67.0%	68.6%	71.5%	76.6%	70.9%
% Change	5.4%	(1.0)%	0.9%	0.1%	1.3%

In considering this data it should be noted, as referenced in the Contract, that while the Contractor’s role in collecting materials is important to achieving diversion targets, the waste reduction efforts of the citizens of Toronto also impact the achievement of the City’s diversion goals.

A.4. Other Reported Information Related to the Contract

Other reported information was inconsistent with audit findings

Our review of the annual report on the first year of the Contract noted that certain performance and operational information reported to Council was inconsistent with the audit findings contained in this report. These include:

- In-house fleet costs, such as fuel and maintenance costs for supervisory vehicles, were not included in actual costs for District 2 collection services. We estimate fleet costs for the year were \$35,000.
- The annual report included inconsistent data on service requests. For example, Appendix 1 reported there were 413 service requests in September 2013 for District 2, while Appendix 2 indicated there were 469 service requests for the same month.
- Information on timely closure of service requests differed from the source documentation. For example, the April to June 2013 quarterly report indicated 98 per cent of service requests were addressed on a timely basis. The source documentation indicated 96 per cent. Staff explained that the difference was due to clerical error. In addition, these statistics reflected the overall results for all four districts and there was no comparative information to allow for an assessment of the performance in individual districts.
- Other qualitative information that was inconsistent or not fully supported included statements about the use of global positioning systems (GPS) by staff and the required finishing time for daily collection activities.

Recommendation:

2. **City Council request the General Manager, Solid Waste Management Services, to ensure that all financial, performance and operational information in future collections operations reports are accurate and provide a consistent and complete reflection of the Contract costs and performance-related activities.**

B. CONTRACT MONITORING CONTROLS CAN BE ENHANCED

Our review identified certain controls that could have been designed more effectively. In addition, penalty clauses were not enforced in instances of non-compliance with contract provisions for various operational reasons.

B.1. Daily Performance Monitoring

Daily on-road inspections should be standardized

Daily on-road inspections are critical in contract monitoring

Daily on-road inspections are critical to ensuring that the Contractor's staff and vehicles are operating in compliance with various Contract provisions. Staff conducted 503 on-road inspections of 90 vehicles during the period. Observations of service performance requirements, such as collection of authorized material, compliance with health and safety requirements, equipment identification, and proper operator conduct were documented in "Daily Inspection Reports".

However, there was no systematic approach to ensure that all vehicles were inspected or that re-inspection occurred when instances of non-compliance were observed.

Effectiveness of daily on-road inspections can be enhanced

Our review identified the following areas where controls could be enhanced:

- The lack of a consistent selection methodology for vehicle inspections results in an uneven distribution of inspections. The number of inspections per vehicle ranged from one to 13 times, with an average of 5.6 inspections per vehicle. Furthermore, the number of daily on-road inspections required has not been formalized.
- All vehicles subject to daily on-road inspection should be selected from a complete and accurate vehicle fleet listing. At the time of our audit, staff did not have an updated vehicle fleet listing.
- Staff contact the Contractor to take corrective action when instances of non-compliance are observed. However, there was no formal follow-up process to verify whether the performance deficiencies identified were subsequently corrected to the City's satisfaction.

Periodic analysis of overall results helps identify recurring deficiencies

Although a centralized list of daily inspections is maintained, periodic reviews of overall results have not been performed. A process to analyze the overall results would serve to help identify recurring performance or compliance issues.

Other performance monitoring improvements

GPS could be used more effectively

The Contract requires all contractor vehicles to be equipped with a GPS device. The use of GPS allows monitoring of vehicles for early start times, late finishing times, or following up on customer service complaints. Management has not effectively used the available GPS technology to monitor Contract compliance.

Recommendations:

- 3. City Council request the General Manager, Solid Waste Management Services, to implement a systematic approach for conducting and documenting daily on-road inspections, which ensures that:
 - a. random on-road inspections are reasonably distributed amongst all vehicles;**
 - b. vehicles are selected from a complete and accurate vehicle fleet listing; and**
 - c. significant performance deficiencies are followed up to ensure that appropriate corrective action was taken.****
- 4. City Council request the General Manager, Solid Waste Management Services, to conduct periodic analyses of the overall on-road inspection results. Where recurring deficiencies are identified, corrective action be taken where appropriate.**
- 5. City Council request the General Manager, Solid Waste Management Services, to ensure that contract monitoring staff use the available GPS technology to verify Contractor performance, and document such use.**

B.2. Evaluation of Contract Deficiencies

The City may assess liquidated damages (financial penalties) for specific Contract violations and deficiencies, such as the failure to finish collections on a timely basis.

Consistent with other Districts, staff are accepting a later finishing time than specified in the relevant City by-law

The Contractor is required to complete all collection services by 5:00 p.m. daily, consistent with City's Waste Collection, Residential Properties by-law. However, management allows for a 6:00 p.m. finishing time. Management advised that the later finishing time is more realistic and is in line with the expectations for collections in the other districts. Staff advise that they plan to request Council for a change in the by-law. Until the by-law is changed, staff will be operating in a manner contrary to the Council-approved by-law.

Contractor had a 4.9 per cent deficiency rate for finishing on time

We noted that in the first year of operations there were a number of deficiencies, particularly with respect to late finishing times. Many of these deficiencies occurred during two time periods, the initial month of the Contract and the period following the July 2013 storm in Toronto. Excluding these two time periods, and using the later finishing time, there were approximately 887 late finishes amounting to approximately 4.9 per cent of the total collections. Staff continue to work with the Contractor to minimize such deficiencies. Note that the number of late finishes would be 3,026 or 16.7 per cent using a strict application of the 5:00 p.m. finishing time specified in both the City by-law and the Contract.

Liquidated damages provisions not yet being enforced

To date, the City has not enforced financial penalties contained within the Contract. Divisional staff advise that these specific provisions are included in contracts to allow for leverage where a contractor is significantly underperforming with respect to expectations and requirements. Staff also advise that they do not feel it is appropriate to enforce the liquidated damages provisions at this time.

Decisions to assess or waive liquidated damages should be documented

While we understand that management judgment is sometimes appropriate in determining when liquidated damages should be assessed or waived, the reasons for these decisions should be documented.

Recommendations:

- 6. City Council request the General Manager, Solid Waste Management Services, to ensure collection services are completed on a timely basis in accordance with the City by-law governing residential waste collection.**
- 7. City Council request the General Manager, Solid Waste Management Services, to continue to monitor Contract deficiencies and assess liquidated damages if and when determined to be appropriate, and to document decisions regarding the assessment or waiver of liquidated damages.**

B.3. Monitoring of Service Requests

Divisional service standard was achieved

The Division measures customer service satisfaction by the number of service requests received per week and also by the number of service requests per 1,000 collection pass-bys. Our review of District 2 service requests found that the Contractor consistently met the Divisional service standard of less than one service request per 1,000 collection pass-bys for each month following the initial two months of the Contract.

Monitoring controls require improvement

While Divisional service standards have been achieved in District 2, our review identified some monitoring controls that require improvement to ensure that service requests are resolved appropriately and in a timely manner.

Contractor is responsible for investigating and resolving service requests appropriately and in a timely manner

The Contractor is responsible for investigating and resolving each service request. Upon investigation, the Contractor can either resolve and close the service request, or change the service request status to "non-qualifying" if determined to be invalid. Examples of invalid service requests include residents calling too early when the crews are still collecting or material being placed out late or on the wrong collection day. Non-qualifying service requests are not included in the total number of service requests reported.

Staff monitor service requests but the review was not documented

City staff monitor the Contractor's response to high-priority service requests as part of the daily on-road monitoring activities. Other service requests are monitored through a periodic review of the Contractor's investigation notes. However, such reviews were not documented.

Some service requests appeared inadequately resolved

There were a total of approximately 26,000 service requests for District 2 in the first year of the Contract. We reviewed a sample of 16 service requests to assess the timeliness and appropriateness of service request closure. The Contractor closed service requests within service standards in 15 of the 16 service requests reviewed. However, our review identified some instances where the service requests appeared inadequately resolved by the Contractor. For example:

- Investigation notes were not always sufficient to validate whether service requests were appropriately resolved or deemed invalid.
- Two service requests were closed prematurely without ensuring that corrective actions had been taken.
- There were inconsistencies in determining that service requests should be closed or deemed invalid.

Recommendation:

- 8. City Council request the General Manager, Solid Waste Management Services, to implement a standard process for reviewing closed service requests, including non-qualifying service requests. Reviews should be documented and include an evaluation of the adequacy of Contractor investigation notes, timeliness of resolution, and validity of closure.**

B.4. Use of Trend Analyses

Trend analyses allows management to quickly identify potential issues

Management does not currently perform detailed trend analyses of monthly results. Regular analysis and review of results is an effective control for monitoring Contractor performance. Given the significant volume of materials collected and costs associated with this Contract, there is a need to quickly bring potential issues to management's attention in an efficient and effective manner.

Using pre-programmed formulas to conduct detailed trend analyses on monthly tonnages by material type would assist in identifying variances outside an expected range. Performing monthly reviews at the transactional level would also assist in identifying trends, for example late finishing times. Such analysis allows the comparison of current period performance results against prior periods or other districts to identify variances or anomalies that may warrant additional management review.

Recommendation:

- 9. City Council request the General Manager, Solid Waste Management Services, to implement the practice of trend analyses for monthly tonnages, late finishing times and any other relevant operational and performance indicators, and to ensure that any significant anomalies identified are investigated to the extent appropriate in the circumstances.**

B.5. Periodic Contractor Evaluations Should Be Considered

Use of daily monitoring to identify and resolve issues

The Contract does not require periodic evaluations. Rather, contract provisions outline specific performance expectations by which the Contractor is being managed through daily monitoring and ongoing communications to resolve performance and compliance issues.

Significant improvements made but deficiencies continue to occur

While significant improvements in the Contractor's performance have been made since the start of the Contract, performance deficiencies continue to occur periodically. According to management, ongoing meetings and discussions are held with the Contractor as issues arise. However, such communications are generally informal and not always documented. Certain documentation was available, but it was not kept in a central location.

Periodic performance reviews serve as a record

Although not currently required, periodic performance reviews serve as a record of a contractor's performance. We understand that the Purchasing and Materials Management Division is leading the development efforts of an evaluation tool for goods and services contracts, such as the District 2 Contract. Until such tools become available, management should develop specific assessment criteria and conduct periodic evaluations of the Contractor to help summarize and quantify performance.

Recommendations:

- 10. City Council request the General Manager, Solid Waste Management Services, to establish a standard process for documenting meetings and other informal correspondence with the Contractor regarding performance or compliance issues. Additionally, evidence of ongoing communications be retained in a central location.**
- 11. City Council request the General Manager, Solid Waste Management Services, to consider conducting periodic evaluations of the Contractor’s performance against a set of specific assessment criteria that are aligned with Contract provisions.**

B.6. Contract Monitoring Procedures Should Be Documented

Operational procedures for Contract monitoring have not been formalized. While staff generally appear to understand their roles and responsibilities, the lack of formalized procedures results in inconsistent practices.

Issues identified highlight the need for formalized procedures

Many of the issues identified in this report highlight the need to document detailed contract monitoring procedures for key monitoring activities, including any related documentation requirements.

The Contract is now in its second year. Detailed operating procedures should be developed to help ensure accountability, consistency and adequacy in contract monitoring and administration.

Recommendations:

- 12. City Council request the General Manager, Solid Waste Management Services, to document detailed procedures for District 2 Contract monitoring and administrative activities. The documentation requirements for each activity be specified as part of the detailed procedures.**

13. City Council request the General Manager, Solid Waste Management Services, to direct all District 2 Contract monitoring staff to conduct monitoring and administrative activities in accordance with the documented procedures.

C. ADMINISTRATIVE CONTROLS NEED IMPROVEMENT

Certain contract administrative controls can be further improved to ensure that payments are processed appropriately and accurately, and that the City continues to obtain value for money.

C.1. Detailed Review of Invoices

Improved invoice review minimizes the risk of billing errors

Our audit noted that, particularly in the first several months of the Contract, the review of invoices was sometimes inadequate or not documented. We note that the documentation practices improved in the latter half of the review period. Proper invoice review is required to ensure unit rates are accurate and material type is valid prior to payment.

One minor overpayment due to use of incorrect price per tonne

In our review of monthly invoices, we did not identify any significant errors. However, we did find one minor overpayment (\$4,600) due to the incorrect unit rate being applied for the material type collected. Also, the material description was not a valid material type under the Contract. Although not significant in this instance, the fact that these errors were not detected indicates the need for closer scrutiny of the invoices.

Corrective action has been taken

Since our audit, divisional staff have reviewed all other Contractor invoices and found no further billing errors. The City has since received a credit from the Contractor for the one error identified.

Recommendation:

14. City Council request the General Manager, Solid Waste Management Services, to remind relevant staff of the need to thoroughly review Contractor invoices prior to payment.

C.2. Formalize All Contingency Work Agreements

Lack of formal agreement for flood-related contingency work

With the heavy rainstorm on July 8, 2013, management engaged the Contractor to provide additional debris collection to residents affected by the flood. There was no documented approval of the payment terms for this additional work. The City paid a total of \$1.3 million for the work from the annual contingency amount. The payments were calculated based on negotiated rates made by verbal agreement.

In relation to contingency work, the Contract stipulates that, "*If such engagement becomes necessary the General Manager will consult with the Contractor to negotiate the details and payment for such contingency work*".

Documentation of agreements

The July storm was an emergency event that required expedited action and related arrangements. While it likely was not practical to prepare a formal legal document covering the additional work required, at minimum, care should have been taken to confirm any verbal arrangements in writing as soon as possible.

Recommendation:

- 15. City Council request the General Manager, Solid Waste Management Services, to ensure that the details and payment structure for any future contingency work are documented as soon as practicable.**

CONCLUSION

This report contains 15 recommendations. Significant cost savings have been achieved since the implementation of the Contract. However, there are opportunities for improving contract monitoring and reporting out of results. Addressing the recommendations in this report will strengthen the adequacy and effectiveness of contract management and administrative controls in place to verify the accuracy of contractor invoices and ensure diversion and customer service targets continue to be met.

EXHIBIT 1**District 2 Collection-Related Costs Before and After Contracting Out**

	<u>(in \$millions)</u>
BEFORE CONTRACTING OUT¹	
2011 Actual costs (Budget \$27.7M)	27.5
2011 Contribution to Fleet Reserves	3.0
	30.5
AFTER CONTRACTING OUT	
<u>Recurring costs:</u>	
Total Contractor invoices (excluding contingency)	(19.0)
Contract monitoring costs	(0.7)
Subtotal recurring costs	(19.7)
Potential Recurring Cost Savings	10.8
<u>Other one-time costs:</u>	
Administrative staff costs	(0.3)
Fairness Monitor costs	(0.1)
Revenue from sale of assets – District 2 fleet and equipment	0.3
Value from transfer of assets – District 2 fleet and equipment ²	0.8
Subtotal other one-time costs	0.7
Estimated Year 1 Cost Savings	11.5

¹ Figures as reported in Ernst & Young’s “Independent Review On The Contracting Out Of Curbside Collection (District 2)”, dated October 13, 2011

² District 2 vehicles transferred to other Districts. The value is estimated conservatively at average auction proceeds per vehicle for District 2 vehicles actually auctioned.

**Management's Response to the Auditor General's Review of
Solid Waste Management Services – District 2 Curbside Collection Contract
Review of Cost Savings and Opportunities for Improving Contract Monitoring**

Rec. No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: <i>(Comments are required only for recommendations where there is disagreement.)</i>	Action Plan/Time Frame
1.	City Council request the City Manager to report actual cost savings achieved on District 2 curbside collections as requested by Council.	X		Staff did report in the annual report the actual cost incurred for the first year of operation for District 2 however they did not actually calculate the cost savings. We feel that this Audit Report is the most accurate reflection of the savings in the first year.	Staff will include the cost savings of \$11.5 M in the next quarterly report that is due to the PWIC on March 4, 2014.
2.	City Council request the General Manager, Solid Waste Management Services, to ensure that all financial, performance and operational information in future collections operations reports are accurate and provide a consistent and complete reflection of the Contract costs and performance-related activities.	X		There were some clerical errors in the District 2 Annual Report as well as some minor inconsistencies in the information reported.	The General Manager of Solid Waste Management Services will ensure that more effort is put on QA/QC in future reports.
3.	City Council request the General Manager, Solid Waste Management Services, to implement a systematic approach for conducting and documenting daily on-road inspections, which ensures that: a. random on-road inspections are reasonably distributed amongst all vehicles; b. vehicles are selected from a complete and accurate vehicle fleet listing; and c. significant performance deficiencies are followed up to ensure that appropriate corrective action was taken.	X			The General Manager of Solid Waste Management Services will develop a procedure to ensure that road inspections are reasonably distributed amongst all vehicles from a complete and accurate vehicle listing. A procedure will also be developed to ensure that significant performance deficiencies are followed up appropriately. This will be completed by October 2014.

Rec. No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
4.	City Council request the General Manager, Solid Waste Management Services, to conduct periodic analyses of the overall on-road inspection results. Where recurring deficiencies are identified, corrective action be taken where appropriate.	X			The General Manager of Solid Waste Management Services will develop a procedure to ensure periodic analysis is carried out on the overall road inspection results. This procedure will identify corrective actions where reoccurring deficiencies are identified. This procedure will be completed by October 2014.
5.	City Council request the General Manager, Solid Waste Management Services, to ensure that contract monitoring staff use the available GPS technology to verify Contractor performance, and document such use.	X		Staff currently do use the GPS system, but in an ad hoc fashion.	The General Manager of Solid Waste Management Services will develop a procedure to ensure the efficient and effective use of the GPS system and data. This will be complete by October 2014.
6.	City Council request the General Manager, Solid Waste Management Services, to ensure collection services are completed on a timely basis in accordance with the City by-law governing residential waste collection.	X			The General Manager of Solid Waste Management Services will be recommending a change to the City By-law governing waste collection to amend the time from 5:00 pm finishing time to 6:00 pm finishing time. This will be completed in Q1 2015.
7.	City Council request the General Manager, Solid Waste Management Services, to continue to monitor Contract deficiencies and assess liquidated damages if and when determined to be appropriate, and to document decisions regarding the assessment or waiver of liquidated damages.	X		Many times when the contractor is later than 6:00 pm, it is either weather related or due to back-ups at the transfer station. These incidents happen to both contracted services and in-house operations.	The General Manager agrees to continue to monitor Contract deficiencies and will document decisions regarding the assessment or waiver of liquidated damages.
8.	City Council request the General Manager, Solid Waste Management Services, to implement a standard process for reviewing closed service requests, including non-qualifying service requests. Reviews should be documented and include an evaluation of the adequacy of Contractor investigation notes, timeliness of resolution, and validity of closure.	X			The General Manager of Solid Waste Management Services will develop a procedure to implement a standard process for reviewing closed service requests. This will be complete by October 2014.

Rec. No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
9.	City Council request the General Manager, Solid Waste Management Services, to implement the practice of trend analyses for monthly tonnages, late finishing times and any other relevant operational and performance indicators, and to ensure that any significant anomalies identified are investigated to the extent appropriate in the circumstances.	X			The General Manager of Solid Waste Management Services will develop a procedure to implement a practice of trend analysis. This will be completed by October 2014.
10.	City Council request the General Manager, Solid Waste Management Services, to establish a standard process for documenting meetings and other informal correspondence with the Contractor regarding performance or compliance issues. Additionally, evidence of ongoing communications be retained in a central location.	X		There were numerous times in the early months of the contract where ad hoc meetings were called to respond to immediate and pressing issues. Staff were working incredibly long hours to ensure that the material was getting off the street and some meetings were not fully documented.	The General Manager of Solid Waste Management Services will ensure that all informal meetings are documented and that documentation is kept in a central location.
11.	City Council request the General Manager, Solid Waste Management Services, to consider conducting periodic evaluations of the Contractor's performance against a set of specific assessment criteria that are aligned with Contract provisions.	X			The General Manager of Solid Waste agrees to consider periodic evaluations of the contractor's performance.
12.	City Council request the General Manager, Solid Waste Management Services, to document detailed procedures for District 2 Contract monitoring and administrative activities. The documentation requirements for each activity be specified as part of the detailed procedures.	X			Many of these monitoring and operating procedures are identified above.

Rec. No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: <i>(Comments are required only for recommendations where there is disagreement.)</i>	Action Plan/Time Frame
13.	City Council request the General Manager, Solid Waste Management Services, to direct all District 2 Contract monitoring staff to conduct monitoring and administrative activities in accordance with the documented procedures.	X			The General Manager will direct all District 2 Contract monitoring staff to follow the documented procedures once they are complete and implemented.
14.	City Council request the General Manager, Solid Waste Management Services, to remind relevant staff of the need to thoroughly review Contractor invoices prior to payment.	X			The General Manager has reminded and will continue to remind all relevant staff of the need to thoroughly review contractor invoices prior to payment.
15.	City Council request the General Manager, Solid Waste Management Services, to ensure that the details and payment structure for any future contingency work are documented as soon as practicable.	X			The General Manager, Solid Waste Management Services, agrees to ensure that the details and payment structure for any future contingency work are documented as soon as practicable.