



# Brevard County, Florida Internal Audit Report – Contract Compliance Review



April 26, 2019



---

## TABLE OF CONTENTS

Transmittal Letter .....	1
Executive Summary .....	2
Background .....	4
Observations and Approach.....	8
Observations Matrix .....	10



RSM US LLP

7351 Office Park Place  
Melbourne, Florida 32940-8229

T 321 751 6200

F 321 751 1385

www.rsmus.com

April 26, 2019

The Audit Committee of  
Brevard County, Florida  
2725 Judge Fran Jamieson Way  
Viera, Florida 32940-6699

Pursuant to the approved 2018/2019 internal audit plan, we hereby submit our contract compliance review of select service contracts. We will be presenting this report to the Audit Committee at the next scheduled meeting on May 8, 2019.

Our report is organized in the following sections:

<b>Executive Summary</b>	This section provides a high-level summary of the results of our audit.
<b>Background</b>	This provides an overview of the contracts reviewed and the related monitoring procedures.
<b>Objectives and Approach</b>	The objectives and focus are expanded upon in this section as well as a review of our approach.
<b>Observations Matrix</b>	This section provides the results of our internal audit procedures, including our findings, recommended actions and management’s responses.

We would like to thank all those involved in assisting us in connection with this review.

Respectfully,

**Internal Auditors**

### Overview

The Department of Solid Waste Management is the contract administrator for the two service contracts selected for testing this cycle.

#### ***Waste Management, Inc. of Florida - Solid Waste Collection & Recycling Services***

Waste Management, Inc. of Florida (“WM”) was awarded solid waste collection and recycling services for all the unincorporated areas of Brevard County in March of 2013. WM is responsible to furnish all labor, supervision, transportation, equipment, and supplies necessary to accomplish these services. WM provides regular services on a daily, weekly and periodic schedule as applicable depending on the type of services required. The County provides compensation on a monthly basis for the solid waste residential collection services. WM was responsible to build a local Materials Recovery Facility (“MRF”) within the County, which it constructed and commenced operations at the end of 2014. Additionally, the County collects a monthly revenue percentage share of the recyclables collected and processed by WM.

#### ***Tetra Tech – Disaster Debris Removal & Recovery Management Services***

Tetra Tech, Inc. (“TT”) was awarded disaster debris removal and recovery management services in January of 2015. TT is responsible to provide all services, materials and equipment to perform services agreed upon by written task orders executed by both parties. Billing for staff time is based on the staff hourly rates fixed in the contract or as specified in the executed task order times the number of actual hours incurred.

### Objective and Scope

The primary scope and objective of the audit were to perform a review of a selection of Brevard County’s service contracts, and test the effectiveness of controls over compliance with major provisions of the contract terms. These reviews are intended to be ongoing at the approval of the annual Internal Audit plan. This cycle included the Solid Waste Collection & Recycling Agreement between Brevard County and Waste Management, Inc. of Florida and the Disaster Debris Removal & Recovery Management Services Agreement between Brevard County and Tetra Tech, Inc. Both of these contracts are managed by the Department of Solid Waste Management (“the Department” or “SWM”) as of the date of testing.

Our approach included, but was not limited to, the following:

- Conducted interviews with the County’s contract managers and individual process owners to obtain an understanding of operational functions and monitoring processes;
- Detail testing of a sample of monthly compensation paid to WM for compliance with contract terms;
- Detail testing of a sample of monthly recycling revenue fee share collected by the County from WM for compliance with contract terms; and
- Detail testing of a sample of fees and expenses paid to TT related to Hurricanes Matthew and Irma for compliance with contract terms.

At the conclusion of our analysis, we summarized the results of our procedures into a report and conducted exit interviews with the Contract Administrators and the County Manager to discuss the details of our findings.



**Observations**

Observation ratings are a subjective evaluation of the severity of the concern and the potential impact on the operations. An observation rating of “High” represents an issue of immediate concern and could cause significant operational issues if not addressed soon. A “Moderate” rating is an issue that may also cause operational issues and does not require immediate attention but should be addressed as soon as possible. Observations given a “Low” rating could escalate into operational issues but can be addressed through the normal course of conducting business.

The following is a summary of the observations noted.

Ratings by Observation	
<b>Waste Management – Solid Waste Collection &amp; Recycling Services</b>	<b>Rating</b>
1. Recycling Revenue Share	Moderate
2. Customer Complaints	Moderate
3. Required Reporting	Moderate
4. File Storage	Low
<b>Tetra Tech – Disaster Debris Removal &amp; Recovery Services</b>	<b>Rating</b>
1. Invoice Review Procedures	Low



### Overview

The Department of Solid Waste Management is the contract administrator for the two service contracts selected for testing. The two contracts selected are significant in terms of the contract's materiality and/or the contract terms complexity.

#### ***Waste Management, Inc. of Florida - Solid Waste Collection & Recycling Services***

WM was awarded solid waste collection and recycling services for all the unincorporated areas of Brevard County. The agreement is effective March 21, 2013 through September 20, 2020 with an option to extend one (1) three-year term. However, WM notified the County that it does not intend to request the option to extend.

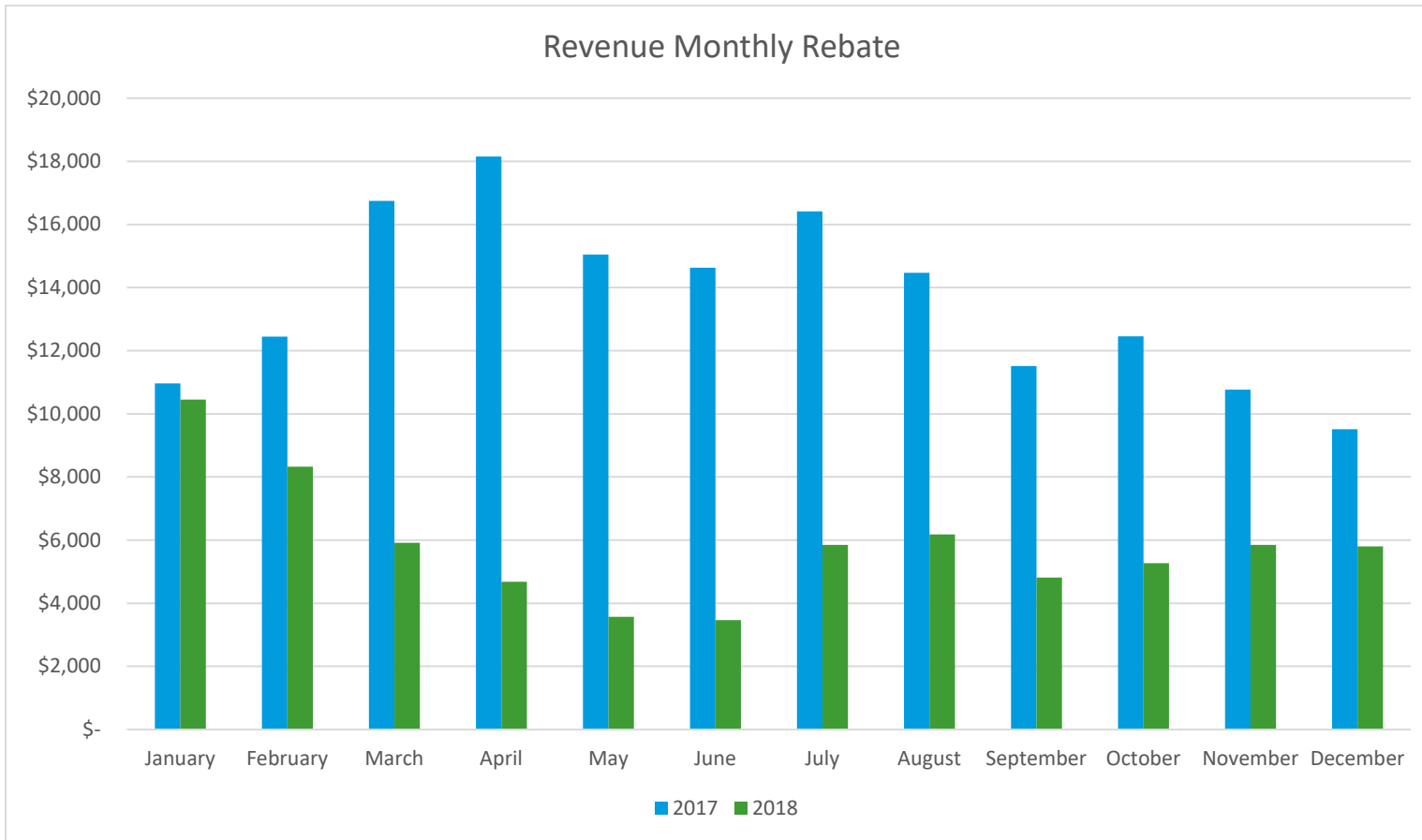
WM is responsible to furnish all labor, supervision, transportation, equipment, and supplies necessary to accomplish these services. WM provides regular services on a daily, weekly and periodic schedule as applicable depending on the type of services required. The County provides compensation on a monthly basis for the solid waste residential collection services. The "basic compensation" paid to WM for the solid waste collection services is calculated as follows: Total billing (residential) units (BU) on the tax roll certification x rate per BU per month (WM collection rate, adjusted annually based on the CPI as specified in the contract – any increase or decrease in the rate is capped at 3%.) The monthly basic payment based on this formula was \$1,059,123 and \$1,092,026 for FY2018 and FY2019, respectively.

WM was responsible for building a local Materials Recovery Facility ("MRF") within the County, which it constructed, and commenced operations at the end of 2014. Additionally, the County receives a monthly revenue percentage share of the recyclables collected and processed by WM. The County's monthly share of the recyclables collected by WM is based on the following formula: (Average Market Value minus \$50 collector fee) times 40% = \$/ton of recyclables collected from WM.

#### ***Tetra Tech – Disaster Debris Removal & Recovery Management Services***

Tetra Tech, Inc. was awarded disaster debris removal and recovery management services. This five-year agreement is effective January 27, 2015, through January 27, 2020, no option to extend. TT is responsible to provide all services, materials and equipment to perform services agreed upon by written task orders executed by both Parties. Billing for staff time is based on the staff hourly rate fixed in the contract or as specified in the executed task order times the number of actual hours incurred. Certain expenses are reimbursed by the County including travel and per diem as stipulated in the contract. The services performed to date over the life of the contract related to two specific disasters: Hurricane Matthew (2016) and Hurricane Irma (2017) with contract expenditures totaling \$1.7M and 1.3M, respectively. A majority portion of these contract payments is eligible for grant reimbursements from FEMA and the State of Florida.

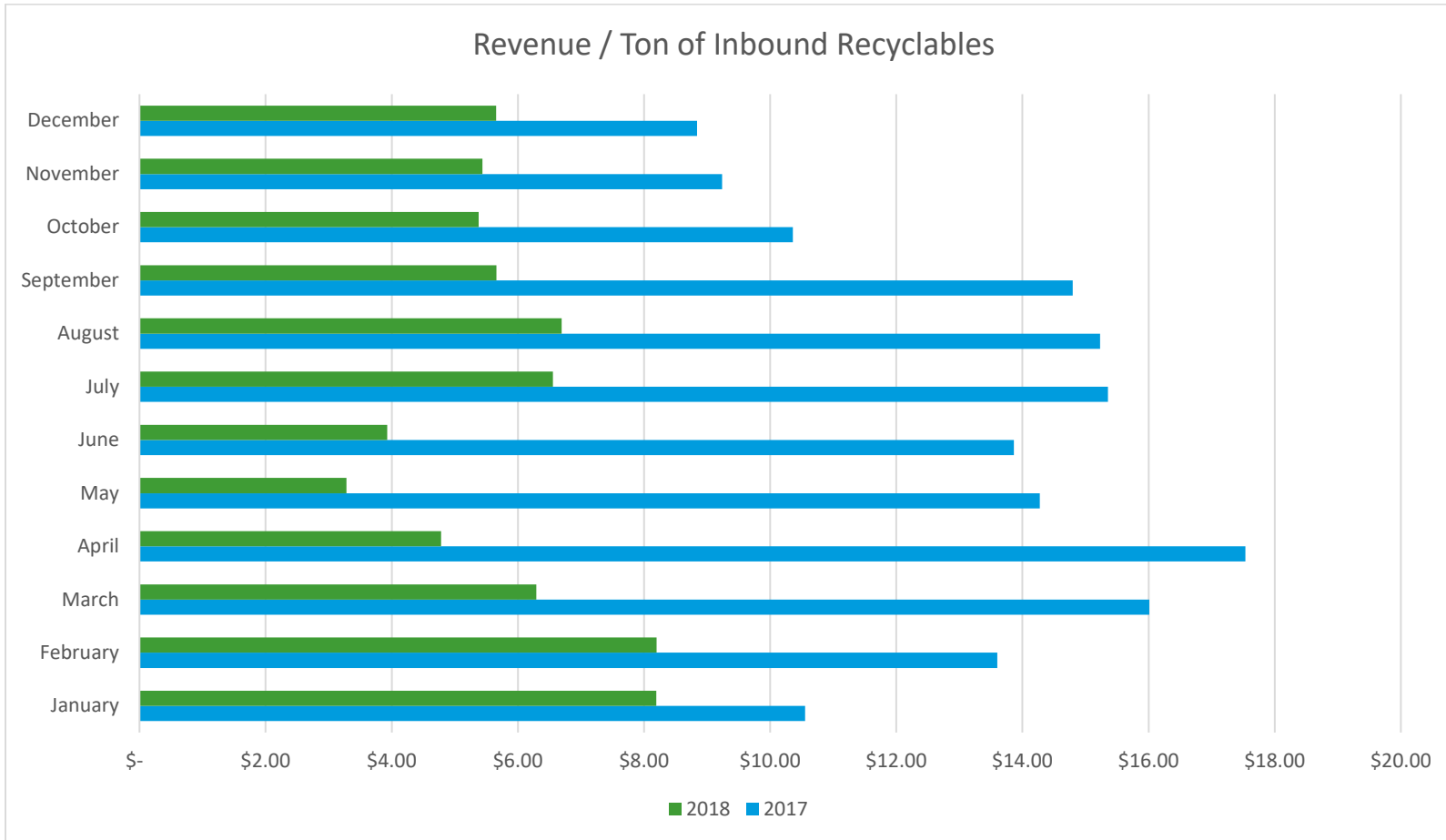
The following chart (and subsequent charts) provide select statistics related to the monthly recycling revenue share that the County received from Waste Management for the calendar years ending 2017 and 2018. The chart below represents the County's total recycling revenue (rebate) collected each month for calendar years ending 2017 and 2018:



Total 2017 Rebate Revenue - \$163,117

Total 2018 Rebate Revenue - \$70,187

The following chart represents a comparison of the revenue per ton of inbound recyclables for the calendar years ending 2017 and 2018:

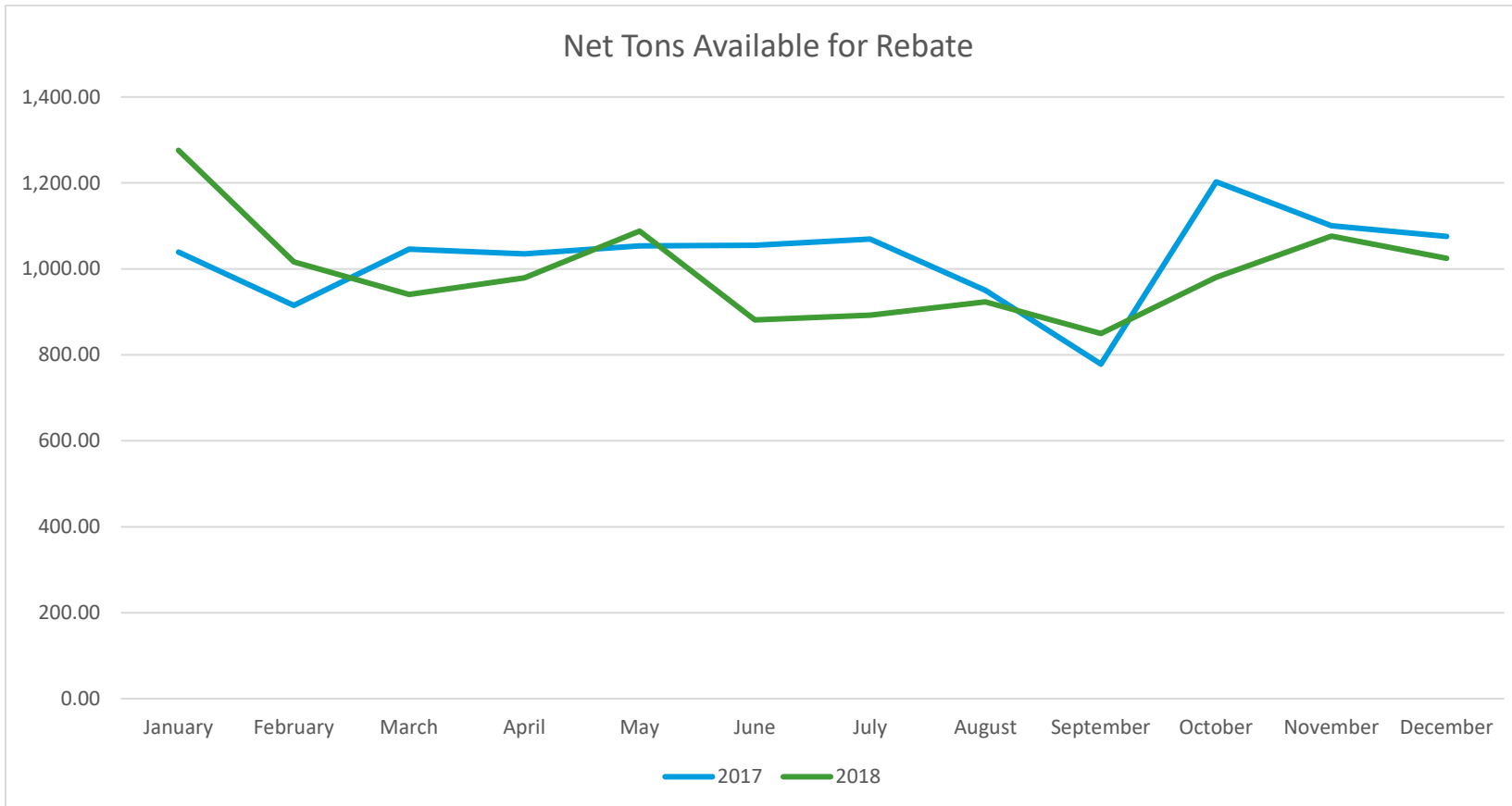


Total 2017 average revenue per ton of inbound recyclables - \$13.305

Total 2018 average revenue per ton of inbound recyclables - \$5.838



The following chart represents a comparison of 2018 net tons available for rebate for the calendar years ending 2017 and 2018. Net tons represent the total tons of the inbound program recyclables, net of trash and debris and net of moisture/residue.



Total 2017 net tonnage available for rebate – 12,320

Total 2018 net tonnage available for rebate – 11,926

### Scope and Objectives

The primary scope and objective of the audit were to perform a review of a selection of Brevard County's service contracts, and test the effectiveness of controls over compliance with major provisions of the contract terms. These reviews are intended to be ongoing at the approval of the annual IA plan. This cycle included the Solid Waste Collection & Recycling Agreement between Brevard County and Waste Management, Inc. of Florida and the Disaster Debris Removal & Recovery Management Services Agreement between Brevard County and Tetra Tech, Inc. Both of these contracts are managed by the Department as of the date of testing. The scope of the WM contract compliance review was 10/1/2017 through 12/31/2018. The scope of the TT Contract consisted of the only two major disaster events that took place under the contract to date – Hurricanes Matthew (FY2016/17) and Irma (FY2017/18).

### Approach

Our cycle audit approach consisted of the following:

The first phase of our review consisted of inquiry in an effort to obtain an understanding of the County's and Contractors' structure and key processes within our scope. The following procedures were conducted as part of the first phase of our review:

- Conducted a kickoff meeting with the Department Director and contract managers for the WM and TT service contracts to discuss the objectives, scope and approach for this internal audit;
- Obtained and reviewed documented policies and procedures, organizational charts, and other key process information available to further our understanding of the related functions;
- Conducted interviews with the Department's contract managers for the WM and TT service contracts to obtain an understanding of operating functions key compliance attributes, and performance indicators for the following areas:
  - Waste Management:
    - Performance metrics and reporting requirements (monthly, quarterly, annually);
    - Customer complaint process and reporting;
    - Liquidated damages calculating and reporting;
    - Solid waste collection compensation calculation;
    - Maintenance of equipment;
    - County's monthly share of recycling revenue;
    - Insurance and bonding requirements; and
    - Performance of certified audit.
  - Tetra Tech
    - Fee compensation verification and approval;
    - Expense reimbursement review and approval; and
    - Insurance and bonding requirements.
- Identified risks and controls, and developed a detailed control testing script to facilitate phase two testing.

### Approach – Continued

The second phase of our review consisted of an assessment of the controls, and testing of the operating effectiveness of those controls. This process was facilitated through a sample basis for Waste Management (10/1/2017 – 12/31/2018). The scope of the Tetra Tech Contract consisted of the only two major disaster events that took place under the contract to date – Hurricanes Matthew (FY2016/17) and Irma (FY2017/18).

Our procedures during this phase included:

- Review of contract terms for compliance with County policies and procedures and Florida Statutes
- Detail testing of a sample of WM reporting and performance metrics requirements for compliance with contract terms;
- Detail testing of a sample of WM compensation calculation, less any liquidated damages for compliance with contract terms;
- Detail testing of a sample of the County's share of WM's monthly recycling fee calculation for compliance with contract terms; and,
- Detail testing of a sample of TT invoices (fees and expenses) for compliance with contract terms.

### Reporting

At the conclusion of our analysis, we summarized the result of our procedures into a report and conducted exit interviews with the Contract Administrator (Department Director) and County Manager to discuss the details of our findings. Recommendations and Managements Responses are included.

Observation	1. WM - Recycling Revenue Share
<p style="text-align: center;"><b>Moderate</b></p>	<p>During our compliance review of the recycling revenue share as calculated and submitted by WM, we noted the following:</p> <ul style="list-style-type: none"> <li>• The recycling revenue formula per Exhibit E of the contract is as follows: [(Average Market Value - \$50 Collector's Fee) x % bid by Proposer = \$/ton of recyclables collected (inbound)]. The formula in Exhibit E of the contract does not include the "Residue-T&amp;D" (the 1 - 25.6%), nor the residue moisture amount that WM deducts in calculating the County's share of the recycling revenue. For the months tested, if these items were not deducted, the County's revenue share would have been higher as follows: Oct -- \$2,016; Nov -- \$2,123; Dec -- \$2,045.</li> <li>• The Department relies on WM's self-reporting of the actual tons recycled each month.</li> <li>• The Department relies on WM's self-reporting of the materials component percentage allocation.</li> <li>• There is no separate review and approval of the recalculation of the recycling revenue fee.</li> <li>• The Department employee who reviews and recalculates the recycling revenue fee provided by WM does not provide the results of the review to the Department employee who processes the revenue share check received from WM.</li> </ul> <p>The lack of independent verification of these self-reported components that are utilized by WM in the calculation and payment of the County's share of the recycling revenue and the Department's lack of a formal, documented internal review and approval process increases the risk that the County may not be paid the full and accurate amount due.</p>
<p><b>Recommendation</b></p>	<p>We recommend the following:</p> <ol style="list-style-type: none"> <li>a. The County should confirm whether WM's deductions for the "Residue – T&amp;D" and residue moisture are appropriate and consistent with industry standards. If so, the County should consider revising the contract to adjust the formula accordingly.</li> <li>b. The County should perform periodic surprise, spot-checks at the recycle facility to verify the accuracy of the actual recyclables collected as self-reported by WM in the monthly fee calculation submitted to the County each month. In the next solid waste and recycling contract, the County should also include a provision that clearly provides for these spot-checks.</li> <li>c. The County should request from WM the materials' component measurement study that supports the materials' component percentage that WM utilizes in the calculation of the County's revenue shared fee per ton.</li> <li>d. The County should include a provision in the next solid waste and recycling contract that requires the Vendor to obtain or reimburse the County in part or in whole for an independent analysis to update the materials' component percentage utilized by the Vendor to calculate the County's share of the recycling revenue each month. Further, this contract provision should provide for additional materials' component percentage updates during the period of the contract at the discretion of County management.</li> <li>e. The Department should specify one employee to be the overall contract monitor. As the contract manager, this person should be responsible for separately reviewing, approving and verifying that the County's recycling revenue share, as calculated and paid, has been properly verified in terms of accuracy and compliance with the contract.</li> </ol>

Observation	1. WM - Recycling Revenue Share - continued
<p><b>Management's Action Plan</b></p>	<p><b>Response:</b></p> <ul style="list-style-type: none"> <li>a. The residues are currently divided into two components as stated in the recommendation. Management has verified that the industry has incurred a sharp increase in the amount of residual and there has been several articles and studies regarding this issue. Management has rejected the concept of the use of moisture as a measurement of residuals and requested Waste Management to do the same. The report for January, 2019 no longer has this category.</li> <li>b. Management concurs with this recommendation and has informed Waste Management of the same. We are also incorporating this recommendation into the next contract.</li> <li>c. Management concurs with this recommendation and will insert into the next contract a provision that clearly provides for updates to the percentages of materials recycled.</li> <li>d. Management concurs with the recommendation of providing in the future contract a provision for the vendor to partially reimburse the county since both parties will benefit from an independent study.</li> <li>e. Management concurs with this recommendation and will name an employee to act as contract manager.</li> </ul> <p><b>Responsible Party:</b> Contract manager to be named.</p> <p><b>Estimated Completion Date:</b> Recommendations are expected to be completed by 06/30/2019 and the next contract will be in place by 10/01/2020.</p>

Observation	2. WM – Customer Complaints
<p><b>Moderate</b></p>	<p>The contract states that WM is responsible for receiving, processing and resolving all complaints. WM processes the complaints that it receives directly from customers via phone or its website. Then, WM sends a report to SWM staff who then manually input the complaints into the complaint database. Additionally, SWM has a link on its website for customers to submit complaints directly to them related to WM’s service. SWM staff records/updates the information in the complaint database and then forwards via email to the WM staff responsible to resolve. WM staff emails SWM staff to close the complaint and mark it resolved in the complaint database. Further, SWM staff apply a cumbersome search method to the complaint database to identify the claims subject to liquidated damages, etc.</p> <p>Consequently, SWM has two FTE’s that devote significant time to manually processing the complaints, including, manually filtering out the non-legitimate complaints, responding to customers via email or phone to resolve, and determining/validating the applicable liquidated damages based on the types and frequency of each claims per month.</p>
<p><b>Recommendation</b></p>	<p>We recommend the following:</p> <ol style="list-style-type: none"> <li>a. Rather than the two FTE’s devoting significant time to processing and following up on the complaints, the Department staff should limit time spent only as considered necessary from a customer service point of view.</li> <li>b. In lieu of manually inputting the claims reported by WM to the Department into the complaint database, the County should work with County IT to reconfigure the complaint database to allow the vendor’s complaint database to import/upload the complaints it receives directly for processing and resolution.</li> <li>c. The Department staff should utilize the filtering features of the complaint database in monitoring activities to ensure the accuracy and completeness of the complaints. Additionally, utilizing the filtering features and the reports that can be generated from the complaint database automates the process to recalculate/validate the self-reported liquidated damages on a monthly basis – including, but not limited to: review of individual complaints on a sample basis, generate monthly reports from the complaint database and reconcile to the reports submitted by the Vendor.</li> </ol>
<p><b>Management’s Action Plan</b></p>	<p><b>Response:</b> Management will endeavor to reduce the time dedicated to processing complaints without affecting customer service or the monitoring of the complaints. Management will also coordinate with Information Technology to provide options for importing into our system the information received from the vendor and increase the monitoring activities to insure data quality.</p> <p><b>Responsible Party:</b> Contract manager to be named.</p> <p><b>Estimated Completion Date:</b> September 30, 2019</p>

Observation	3. WM – Required Reporting
<p><b>Moderate</b></p>	<p>Based on discussions with the SWM Department Director, the Department has not received Quarterly reports for the following performance metrics as required by the Agreement:</p> <ul style="list-style-type: none"> <li>• Customer Complaints</li> <li>• Customer Satisfaction Survey</li> <li>• Special Bulk Pickups</li> <li>• Bulk Yard Waste</li> <li>• Repair of Containers &amp; Carts</li> </ul> <p>The contract also notes, “Contractor will also maintain the status of these performance metrics on its website as public information.”</p> <p>The Agreement requires the Vendor to meet these metrics on a quarterly basis for the County Manager to be authorized to agree to the additional renewal term stated in the Agreement (one additional 3-year term). However, the Department Director provided Internal Audit with a letter from the Vendor that indicated that it does not intend to renew the agreement.</p>
<p><b>Recommendation</b></p>	<p>We recommend the following:</p> <ol style="list-style-type: none"> <li>a. The County should require the vendor to comply with the quarterly reporting requirements as specified in the contract.</li> <li>b. Management should require the vendor to publicize the status of the particular performance metrics on the Contractor Website as required by Section 3. C. of this Agreement.</li> <li>c. Management should consider instructing WM to perform satisfaction surveys as required by the Agreement to help gauge WM's service effectiveness. Some customers are not as inclined to be proactive and use the medium of complaint to point out a lack of satisfactory customer service; however, some if asked, may voice their opinion. The complaint medium combined with customer satisfaction surveys provide for a more representative and extensive feedback. Although WM has indicated their intent not to renew the existing agreement, these metrics should be required for the remainder of the existing agreement term with the current vendor and should be included in the new agreement going forward.</li> </ol>
<p><b>Management’s Action Plan</b></p>	<p><b>Response:</b> Management concurs with recommendations. The Department requested WM to correct the quarterly reports situation several months ago and is actively seeking contractual compliance regarding this issue.</p> <p><b>Responsible Party:</b> Solid Waste Management Director</p> <p><b>Estimated Completion Date:</b> May 31, 2019</p>

Observation	4. <i>WM – Files Storage</i>
<b>Low</b>	Based on discussions with Department staff, we noted that the files received from the vendor, in several instances, were only retained within the individual email accounts or on staff's respective computer hard drives (examples include: the vendor's monthly recycling fee calculation, copy of vendor letter with CPI calculation).
<b>Recommendation</b>	We recommend that the Department require the staff to retain the files related to contract compliance monitoring on the Department's server for universal access by other personnel, as appropriate, for processing or review in order to mitigate any delay in the processing and review of the data in case of staff extended illness, vacation, or sudden departure.
<b>Management's Action Plan</b>	<p><b>Response:</b> Management concurs with recommendation.</p> <p><b>Responsible Party:</b> Special Projects Coordinator</p> <p><b>Estimated Completion Date:</b> May 15, 2019</p>



Observation	1. TT - Invoice Review Procedures
<b>Low</b>	<p>Through inquiry, we noted that the Fiscal Staff obtains the Tetra Tech invoices and supporting documentation in order to verify the hourly rates and expense reimbursement requests for accuracy and compliance with the contract terms. However, based on our review of the vendor invoices tested and related supporting documentation, there was no documented evidence ("sign-off") of the performance of this control provided such as tick marks/checkmarks, signature, initials, date, etc.</p> <p>Additionally, we noted that verification steps performed by the Fiscal Staff were not documented in the form of written procedures.</p>
<b>Recommendation</b>	<p>We recommend that the County require the invoice reviewer to document the control procedures performed via sign-off and date as evidence of the verification and compliance process.</p> <p>Further, we recommend that management document the invoice verification and contract compliance procedures via a step-by-step narrative, flowchart and/or checklist.</p>
<b>Management's Action Plan</b>	<p><b>Response:</b> Management concurs with recommendation.</p> <p><b>Responsible Party:</b> Finance Officer</p> <p><b>Estimated Completion Date:</b> May 31, 2019</p>



RSM US LLP  
7351 Office Park Place  
Melbourne, Florida 32940-8229  
(321) 751-6200  
[www.rsmus.com](http://www.rsmus.com)

RSM US LLP is a limited liability partnership and the U.S. member firm of RSM International, a global network of independent audit, tax and consulting firms. The member firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each member firm is responsible only for its own acts and omissions, and not those of any other party.

For more information, visit [rsmus.com/aboutus](http://rsmus.com/aboutus) for more information regarding RSM US LLP and RSM International.

© 2019 RSM US LLP. All Rights Reserved.

