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New Orleans garbage contracts blasted in new inspector general report

By Michelle Krupa, The Times-Picayune

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The inspector general alleges that New Orleans officials have failed to properly oversee five key garbage contracts, possibly leading to incorrect payments to vendors.

Bolstering suspicions raised for years by critics of the city's Sanitation Department, a draft report by **New Orleans' inspector general** charges that officials have failed to properly oversee five key garbage contracts, possibly leading to incorrect payments to vendors.

The audit is the second report by the inspector general obtained this week by The Times-Picayune that alleges overbilling by **MWH Americas Inc.**, the global management consultant that has held a series of lucrative public deals in New Orleans during the past three decades.

A report delivered last week to Mayor Ray Nagin contends that MWH has overbilled the city repeatedly for its work under a separate contract to oversee municipal recovery efforts. **The document**, which has not been released publicly, also raises questions about the process used in 2007 to award the \$48 million deal.

Nagin aides have until April 15 to proffer a response.

In the sanitation report, provided to The Times-Picayune by Nagin's press office, Inspector General Ed Quatrevaux finds that city officials "did not exercise proper oversight" in 2007 and 2008 of three agreements that Nagin awarded in 2007 to **Metro Disposal**, **Richard's Disposal** and **SDT Waste & Debris Services** to pick up household garbage.

Also at issue in the Jan. 29 audit is City Hall's monitoring of deals with MWH and Public Financial Management Inc., which was hired in 2008 to determine the number of households and businesses that qualify for city trash service.

Key among Quatrevaux's findings is that city officials failed to require MWH to submit itemized invoices for its work providing management consulting under a contract first inked in 1997. "The Sanitation Department could not possibly know if the billings were accurate based upon the vague descriptions provided, which exposed the city to the risk of overpayment," Quatrevaux writes.

In addition, the city paid MWH under a federal pay structure that allowed the vendor to bill for 15 percent profit on its labor and direct costs. However, MWH invoices submitted in 2007 and 2008 show that MWH also applied the 15 percent markup to indirect costs, such as subcontractor fees, postage, mileage and copies, according to the report.

The firm also tacked 17 percent onto costs for work done by corporate officers, clerical personnel, accountants and other professionals before applying the 15 percent multiplier, the report finds.

In all, the city may have overpaid MWH as much as \$41,270 over the two-year period, according to the inspector general.

Further review needed, city agrees

In a formal response to Quatrevaux's report, Sanitation Director Veronica White allows that Quatrevaux's finding about potential overpayments "merits further technical review."

Since receiving the inspector general's report, "we have been withholding payment of the questioned costs," adding that if the city finds MWH violated its contract, "we will pursue legal recourse," White writes in the city's response, which also is attributed to Nagin and Chief Administrative Officer Brenda Hatfield.

As for the claim that MWH invoices were vague, White says the city included "a summary of all hours by employees and itemization of all other direct costs." City officials stayed apprised of the company's work during frequent meetings, and "all services provided by MWH were under the direct supervision of the director of sanitation," she says.

In a four-page rebuttal of its own, MWH executive Raymond Hartley insists that his company did not overbill the city and offers a detailed analysis to justify MWH's billing practices.

Quatrevaux's other key finding centers on City Hall efforts to establish the number of billable sites assigned to each of its three trash-collection vendors. The issue long has frustrated City Councilwoman Stacy Head, who has complained that the city's use of various unreliable address lists put the city at risk of overpaying its contractors.

The inspector general's report notes that officials issued payments in 2007 to Metro, Richard's and SDT based on service-location estimates in their contracts, even though the contractors were supposed to deliver records monthly of actual service sites and be paid based on those numbers. The estimates were simply bumped up in 2008 to reflect estimated population growth, the inspector general says.

"Two years after the city signed contracts with Richard's, Metro and SDT, a reliable monthly serviced location listing was still unavailable," Quatrevaux writes, adding that payments based on estimates "possibly led to erroneous payment to them from 2007 through January of 2009."

The report also states that while the city in July 2008 awarded a \$250,000 contract to PFM to establish the number of billable sites and develop a way to update the list, the firm used an unreliable process and failed to deliver the second of two reports required in its contract. The inspector general also finds that the vendors billed for service at 173 sites that appeared on city demolition lists.

Finally, Quatrevaux notes that although City Hall initially kept track of the delivery of wheeled trash bins to customers as part of contracts -- thus creating an index that could have provided a baseline for service locations -- officials eventually outsourced that task to the contractors. That move, the report states, "contributed to the lack of sufficient controls over the registration process and further eroded the city's ability to monitor the serviced location listing."

The city's rebuttals

To each of those allegations, city officials offered a rebuttal, starting with paying trash vendors based on site estimates.

White says the lack of accurate population tallies after Hurricane Katrina and the constant influx of residents coming home made it difficult to count service sites. She adds: "Due to a budget reliant on federal loans or emergency reimbursements to recover from losing 100 percent of its tax base, the city could not afford a house-to-house count at the initial onset."

When money became available, the city hired PFM, which according to White provided a reliable list of addresses in its first effort. However, because the approach the consultant planned to use to for its second report "had been shown to yield inaccurate data and was costly to administer" -- and because the city had spent about 88 percent of the money allocated for the deal -- the PFM contract was cancelled after the first round.

As for ineligible service sites identified by the inspector general, White writes that those locations amount to "0.1 percent of the 175,000 total addresses in the PFM database. ... This insignificant variance verifies that the methodology used and the resulting database are highly accurate."

PFM also submitted a response to the report, though data offered by senior management consultant Chris Pencikowski focuses more on PFM's billing than its work product. The memo also includes several rebuttals by subcontractor GCR & Associates to Quatrevaux's claims of flawed methodology.

The city offers perhaps its most robust defense to an oft-repeated matter cited in the report's introduction.

Quatrevaux points out that under its current trash-collection agreements, the city paid \$26.7 million in 2007 and \$29 million in 2008 for trash collection at 106,800 sites; that compares with an average annual payment of \$13.6 million in the three previous years under the city's garbage deal with **Waste Management of Louisiana**.

The new deals account for an overall cost increase of "106 percent to 149 percent," he writes.

"This statement is misleading. The early and later contract performance requirements differed significantly," White counters, citing the new trash bins, self-loading garbage trucks, Christmas tree collection and other enhancements included in the new deals.

Writes White: "A simple cost comparison does not produce a meaningful statistic."

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