

State Auditor Mike Foley Says State Was Shortchanged Tens of Thousands of Dollars Due to Neglect by Department of Administrative Services

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State Auditor Mike Foley has issued an audit management letter to the Nebraska Department of Administrative Services (DAS) citing that agency's failure to properly collect over \$60,000 owed to the State through its paper recycling contract. Roughly \$33,000 of that sum has still not been collected and apparently never will be.

In June of 2003, DAS, which coordinates the recycling efforts in all State operated buildings, contracted with Shredding Solutions, Inc., for paper shredding services. Over the years, that contract has been renewed and extended multiple times.

Some 400 tons of paper discarded from State government operations are collected, shredded, and then sold annually.

Both the Request for Proposals and three successive contracts over ten years with Shredding Solutions, Inc. specify that the State is to be paid for the value of its shredded paper every month. Specifically, the contracts provide that Shredding Solutions, Inc. is to pay the State a monthly fee "based on the price per pound [of recycled paper] for the Chicago Market, at the beginning of each month, multiplied by the total number of pounds shredded for that month."

During the course of audit work performed at DAS, the State Auditor's Office found that Shredding Solutions, Inc., had inexplicably made monthly payments to the State far below the contractual price. Those required monthly payments – which, for the most part, continued to be insufficient – also became increasingly late and sporadic. Ultimately, the required payments ceased altogether. DAS made no objection, however, to any of these very problematic developments.

Prompted by the State Auditor's finding, DAS eventually conducted its own "internal audit," which resulted in Shredding Solutions, Inc., being informed that it was in breach of contract at which time the contractor made a partial corrective reimbursement of roughly \$27,000 to the State on November 27, 2012. That payment was calculated using the Chicago market price as specified in the written contract.

However, additional audit work performed by the State Auditor's Office revealed that Shredding Solutions, Inc., had long been paying the State a flat rate of only \$25 per ton for sales of shredded paper rather than the actual market price. The true Chicago Market price for that period, as contractually mandated, was consistently between \$55.00 to as much as \$100.00 per ton. Consequently, the State had been underpaid by Shredding Solutions, Inc., an additional amount of over \$33,000.

In response to an inquiry by the State Auditor's Office, DAS indicated that representatives of Shredding Solutions, Inc., claimed to have entered into a verbal agreement with DAS allowing for the \$25 flat rate. Such an agreement, if it ever existed, would have violated the express terms of the written contract. The APA contacted the three previous State Recycling Coordinators, all of whom claimed to have no knowledge of any verbal agreement for the \$25 per ton, and DAS has never disclosed who made the alleged verbal agreement. DAS has also never disclosed when the alleged verbal agreement commenced or when it ended as it is no longer in use.

"For almost a year, DAS was totally oblivious to the fact that not a dime of the monthly payments owed to the State by Shredding Solutions, Inc., had been received," said Foley. "How long would this have gone on if it had not been detected by the audit team? To add insult to injury, DAS conducted its own 'internal audit' of the problem and then turned around and allowed itself to be shortchanged by an additional \$33,000, even with full knowledge of the previous shortfall."

"I find the State's relationship with this contractor to be highly peculiar," said Foley. "First, DAS received insufficient payments from its contractor, then very late insufficient payments, and then no payments whatsoever – all without DAS taking any action. When notified by auditors of the discrepancy, DAS let the contractor off the hook, forcing Nebraska taxpayers to eat most of the problem. Something is just not right here, and DAS and the contractor have replied with nothing but empty excuses."

A copy of the Auditor's management letter to DAS-Materiel Division, including the formal response from DAS, can be found at www.auditors.nebraska.gov under Recent Publications Released, By Entity, or By Year Issued.

Attached is a photo of the Shredding Solutions, Inc., pick-up vehicle parked in front of the Nebraska State Office Building yesterday.

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