



INTERNAL AUDIT

Follow-up Review:

Department of Public Utilities, Solid Waste Division Non-Exclusive Franchise Agreement for Roll-Off Collection Services

Report 2020-01

September 4, 2019



Honorable Mayor and Audit Committee Members
City of Fresno, California

Internal Audit presents this audit report regarding the Follow-up Review of the Public Utilities Department, Solid Waste Division and its administration of the Non-Exclusive Franchise Agreements for Roll-Off Collection Services for the audit period of January 1st, 2019 to June 30th, 2019. The Audit results are presented on page 2. Management's responses to our audit recommendations are presented immediately following the recommendations in the report.

We would like to thank the staff from the Finance Department's Accounting Unit, Finance Department's Utilities Billing & Collections Unit, and Public Utilities Department's Solid Waste Division for their assistance and cooperation during the course of the audit.

Respectfully submitted,

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Introduction

In FY 2018, the Internal Audit Unit (Audit) completed the performance audit of the Non-Exclusive Franchise Fee Agreement for Roll-Off Collection Services. Audit assessed the process of receiving, documenting, and review of roll-off reports and fees paid for the period of July 1, 2014 – June 30, 2017. The audit report issued several findings involving both the contractors and the Utilities Billing and Collection Division (UB&C), including the following:

1. Inadequate review of roll-off reports and franchise fees resulted in errors
2. The City has not ensured accurate or timely receipt of all monthly roll-off reports and franchise fees
3. Training and improved communication are needed within the department

According to Administrative Order 1-10, Audit is required to perform a follow up review six-to-twelve months after the final audit report is issued. In keeping with the Administrative Order's requirements, Audit conducted a limited scope review in July 2019 to determine if the UB&C findings were addressed. Three contractors were judgmentally selected for the period of January 1, 2019 – June 30, 2019.

Background

California law authorizes and requires local agencies to make adequate provisions for solid waste collection within their jurisdiction. One of the ways that solid waste is collected is through roll-off services. Waste management companies provide customers with roll-off bins—a container with capacity of one to eight cubic yards, with a hinged lid, and wheels that is typically serviced by a front end-loading collection vehicle. Roll-off bins are commonly used to contain loads of construction and demolition waste from sites where something is being built, renovated, or demolished. The bins can also be utilized by residents or businesses for large amounts of trash, recycling services, or other dumpster needs.

In order to regulate this business, ensure its orderly operation, and minimize the potential for adverse effects it may have on the local environment, the City of Fresno (City) requires all haulers providing roll-off collection services within the city limits to obtain a Non-Exclusive Franchise Agreement for Roll-Off Collection Services (Agreement). The Agreement defining non-exclusive rights is awarded to qualified contractors with demonstrated experience, reputation, and capacity to ensure public health, safety, and well-being.

The Public Utilities Department's (Public Utilities) Solid Waste Management Division is responsible for the oversight and management of the roll-off services agreements. As

part of the agreement, the City receives franchise fees from the contractors for the City’s administration of the agreement and for the contractor’s use of the City streets, alleys, other public right-of-ways, and infrastructure. Each month, the contractors must submit a report to UB&C of revenues received for all roll-off services conducted within the city limit and pay the City franchise fees equal to ten percent (10%) of their actual gross rate revenues. The franchise fees collected by the City are put into the General Fund.

The City began utilizing Agreements in 2011. In Fiscal Year 2019, the City had Agreements with 24 different contractors that generated over \$1 million in revenue.

Audit 2018-01 Recommendation Status

The following is a status update on the various recommendations made to the City during the initial audit of roll-off fees, as discussed in Audit Report 2018-01:

Finding Name	Recommendation	Status
Western Solid Waste Underreported its Revenues, Resulting in the City’s Loss of over \$4,200 in Revenue	Public Utilities should require UB&C to review the roll-off reports and franchise fees submitted by Western Solid Waste since July 1, 2017 to calculate the fees due, in addition to the \$4,254.75 due from the audit period, and bill Western Solid Waste the total due to be paid within 30 calendar days in accordance with the agreement.	Implemented - Payment has been received and processed.
Bairos Recycling Did Not Report All of the Revenues It Received	UB&C should bill Bairos Recycling, Inc. for the \$191.86 owed to the City.	Implemented – Payment has been received and processed.
Katch Environmental was Unresponsive to Audit Responses	The City should terminate the agreement with Katch Environmental on the grounds that it did not perform its obligations under the agreement.	Implemented -The City no longer has an agreement with Katch Environmental for roll-off services.

<p>Inadequate Review of Roll-Off Reports and Franchise Fees Resulted in Errors</p>	<p>UB&C should develop a policy and procedure for a supervisor to review and analyze the monthly roll-off reports, franchise fee checks, and deposit slip to ensure the accuracy of the information. The Business Tax Unit should develop a policy and procedure for a supervisor to review the check received, deposit slip, and PeopleSoft entry to verify the accuracy of the information.</p>	<p>Not Implemented – A supervisor is not involved in the process for handling roll-off reports and franchise fee checks.</p>
<p>The City Has Not Ensured Accurate Timely Receipt of All Monthly Roll-Off Reports and Franchise Fees</p>	<p>UB&C should contact contractors when there is non-compliance with the agreement, such as not including appropriate late fees or reporting negative revenues, and require the contractor to take specific corrective action.</p>	<p>Not Implemented</p>
<p>Training and Improved Communication Within the Department</p>	<p>Public Utilities, Solid Waste Division should create policies and procedures for the monitoring and analysis of franchise fees and roll-off reports. The policies and procedures should, at a minimum, identify the party or parties responsible for monitoring, assessing, and enforcing the requirements in the agreement; and state the actions to be taken if non-compliance occurs (for example, if a payment is received late). In addition, training and guidance should be provided to UB&C staff to adequately review and analyze the franchise fees and roll-off reports.</p>	<p>Partially Implemented - The Finance Department-Accounting Division developed a procedure for handling roll-off reports and franchise fee checks. But, a process has not been created to resolve issues around non-compliance.</p>

Efforts Related to Recommendation Implementation

After Audit Report 2018-01 was released, UB&C expressed a lack of staffing resources in implementing the audit’s recommendations. As a result, a request was made to the City’s Finance Department - Accounting Unit (Accounting) to temporarily assist with remediating the findings identified. In January 2019, an Accountant/Auditor II (Accountant) was assigned the task of creating a process to review and ensure roll-off fee payments are received and posted accurately. The Accountant developed a spreadsheet to process and document roll-off fees paid. Now, the Accountant

documents the receipt of the fees in the monthly roll-off spreadsheet and scans the supporting documents to maintain on file. The Accountant also creates a Cashier's Memo and sends it to the Finance Department-Treasury Unit with the check for deposit. Staff in the Treasury Unit posts the checks under the appropriate company's account in the City's financial system, PeopleSoft. The Accountant reconciles her spreadsheet to the PeopleSoft postings on a quarterly basis.

The Accounting Division has continued to maintain the handling of roll-off fees for the past six months. Once UB&C has the adequate staffing resources, they will resume the accounting and monitoring of roll-off fees.

FOLLOW-UP AUDIT RESULTS

Audit found that two of the recommendations from the initial audit were either not addressed or inadequately addressed by UB&C. These unaddressed recommendations are:

Finding 1: The City Has Not Ensured Accurate or Timely Receipt of All Monthly Roll-Off Reports and Franchise Fees

According to the agreement, the contractor must remit the roll-off fees to the City on or before the 20th day of each month. If remittance is not paid to the City on or before the 20th day of any month, the contractor must pay two percent (2%) of the amount owed for that month in addition to the amount owed to the City. When submitting their franchise fees, contractors must also submit a report of gross revenues earned on all roll-off services provided to customers within the City by month on the designated Roll-Off Reporting Form. However, the City has not enforced some of these requirements on several occasions. Audit found eight instances in which contractors submitted untimely franchise fees. The contractors were not contacted to collect the late fees. Audit calculated a revenue loss of \$360.94 during the audit period due to the lack of enforcement of late fees.

Furthermore, there were two contractors that did not submit franchise fees for a total of two months. One contractor did not have a documented follow-up. However, per discussion with the Accountant, a follow up e-mail was sent regarding the missing payment. Follow up has not been performed on the other missing franchise fee.

Recommendations:

UB&C should develop a consistent process to contact contractors when there is non-compliance with the agreement (e.g., not including appropriate late fees or not submitting fees timely) and require the contractor to take specific corrective action. All

contact and follow-up to vendors should be appropriately documented. Furthermore, late fees should be instituted on all payments with a date stamp after the 20th of the month.

Management Response – *At the time of the initial Internal Audit findings, UB&C had an Accountant Auditor assigned to the job task of processing checks that were received from both Franchised Solid Waste Haulers and City Permitted Roll-Off Haulers. It was found during the initial audit that while the checks were being posted, they were not being tracked as required under the City – Franchisee contracts. The omission was discussed and the process of correction started. Shortly thereafter, the Accountant/Auditor began an unanticipated extended leave. Without any other resource within UB&C to assign this function, the franchise payment processing job task was transferred to Accounting until such time as the Accountant/Auditor's leave was resolved. In the transfer to Finance, the process of tracking and invoicing for late payment penalties was omitted. As the Accountant/Audit has returned to duty, UB&C will be taking back the full process for this job task, including for maintaining with redundancy and oversight, before the next review by Internal Audit.*

Finding 2: Written Policies and Procedures are Necessary

Policies and procedures need to be developed to effectively pass on the process developed by the Accounting to UB&C. These procedures should include review by a supervisor to ensure the necessary steps are being taken. Without these policies and procedures, UB&C may continue with collecting roll-off fees in an inadequate or incomplete manner.

Recommendations:

Accounting should create policies and procedures for the monitoring and analysis of franchise fees and roll-off reports. The policies and procedures should, at a minimum, identify the party or parties responsible for monitoring, assessing, and enforcing the requirements in the agreement. The policies/procedures should also state the actions to be taken if non-compliance occurs (for example, if a payment is received late), and include occasional review by a supervisor. In addition, training and guidance should be provided to UB&C staff to adequately review and analyze the franchise fees and roll-off reports.

Management Response – *When the transfer of this job task from Accounting to UB&C occurs before the next review by Internal Audit, existing procedures will be reviewed, updated and additional controls installed to ensure continued compliance with the requirements of the franchised solid waste haulers contracts.*

In addition to the two previous recommendations, Audit also identified the following new findings:

Finding 3: UB&C is not Overseeing the Roll-Off Collection Process

Accounting currently oversees the roll-off collection process. This arrangement was established with the understanding that the function would reside in Accounting for approximately three months. However, they have been managing the process for over six months. Per discussion with UB&C's Revenue Manager, there are currently no plans for them to take it back from Accounting until UB&C acquires more staff.

Recommendation

Accounting should train UB&C personnel on the revised roll-off collection process and transition that function as soon as practical.

***Management Response** – When the transfer of this job task from Accounting to UB&C occurs before the next review by Internal Audit, existing procedures will be reviewed, updated and additional controls installed to ensure continued compliance with the requirements of the franchised solid waste haulers contracts.*

Finding 4: Inconsistencies with Documentation of the Receipt of Roll-Off Fees

Upon receipt of payment of roll-off fees, the date of receipt is stamped on the payment. The process of date stamping the payments was determined to be inconsistent—of the 18 samples tested, only 4 had the date stamped on them. The stamped date is important for determining if franchise fees are timely.

Recommendation

UB&C should develop a procedure to ensure that all roll-off fees received have a stamped date.

***Management Response** – When UB&C takes back full responsibility for the entire process before the next review by Internal Audit, it will purchase a new time stamp machine and make retention of mailed envelopes a procedure for supporting compliance monitoring.*

Audit further recommends that all of these follow-up recommendations be implemented within four months of the issuance date of this audit report.