



Nonresidential Solid Waste Franchise Fees - #793

Executive Summary

Why CAO Did This Review

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the nonresidential solid waste franchise fees collected by the Solid Waste Division of the Public Works Department. This area was chosen for the audit based on the periodic City-wide risk assessment performed by our office.

What CAO Recommends

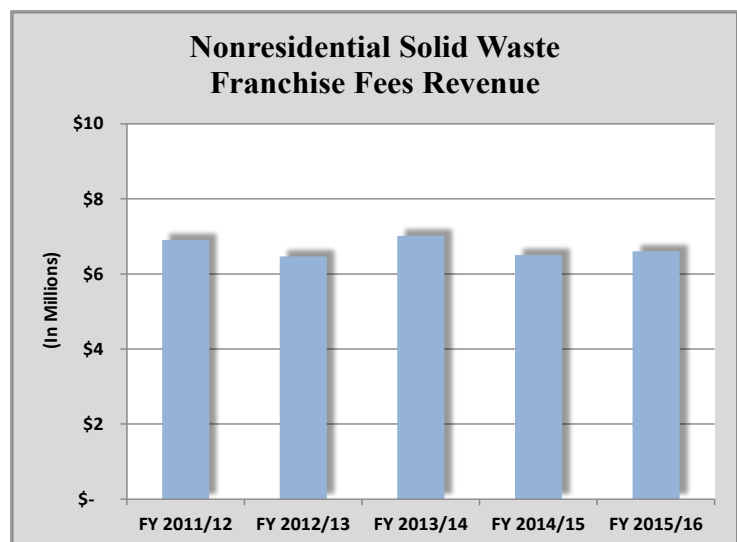
The Solid Waste Division should:

- demand a repayment of franchise fees for all past years from the six (6) companies that inaccurately calculated franchise fees;
- request a signed memorandum from each company annually that would confirm that no fees are excluded from gross receipts unless specifically exempt;
- establish proper internal controls (written SOPs, review by a second person, checklists, etc.) to ensure that late fees are assessed accurately and to achieve compliance with the Municipal Code on insurance, bonds, reporting, applications requirements;
- communicate rounding issues as well as an issue of using different methods of franchise fee calculation to applicable companies;
- work with the Risk Management Division on updating the Municipal Code insurance requirements.

What CAO Found

While the City is collecting and depositing all nonresidential solid waste franchise fees submitted to the City consistent with requirements outlined in Part 6 of Chapter 380 of the Municipal Code, there are some issues with how companies calculate the franchise fees charged to customers and due to the City. Specifically, we found:

- At least \$335,000 was not submitted to the City in calendar year 2015 due to certain fees charged by franchisees not properly being included in gross receipts.
- Companies used different methods to calculate franchise fees which resulted in different total amounts billed to customers.
- Companies were often not in compliance with the payment bond, insurance and reporting requirements.
- City failed to collect \$1,300 in franchise fees owed based on the annual audited reports provided.
- Solid Waste lacks written SOPs for various processes related to these franchise fees.





Council Auditor's Office

Nonresidential Solid Waste Franchise Fees

February 27, 2017

Report #793

Released on : April 13, 2017

EXECUTIVE SUMMARY

AUDIT REPORT #793

INTRODUCTION - 1 -
STATEMENT OF OBJECTIVE - 2 -
STATEMENT OF SCOPE AND METHODOLOGY - 2 -
REPORT FORMAT..... - 2 -
SUGGESTED ADDITIONAL AUDIT WORK..... - 2 -
STATEMENT OF AUDITING STANDARDS - 3 -
AUDITEE RESPONSES - 3 -
AUDIT CONCLUSIONS - 3 -
AUDIT OBJECTIVE..... - 3 -

OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



February 27, 2017

Report #793

Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the franchise fees for the nonresidential solid waste that are collected by the Solid Waste Division of the Public Works Department. Pursuant to Section 380.608(b)(2)(ii) of the Municipal Code, we are specifically permitted to be able to audit these franchise fees:

The franchisee shall allow the City auditors, at any reasonable time after reasonable notice, to audit, inspect and examine the franchisee's fiscal books and records and state and federal tax returns, insofar as they relate to City accounts, to confirm the franchisee's compliance with this Section.

To become a franchisee, a company has to apply with the City, provide the required supporting documentation (financial documents, payment bond, insurance, etc.), and pay an applicable fee. The application is reviewed by the Solid Waste Division and forwarded to the City Council for approval. Once the application is approved, a company is required to submit 17% of the gross receipts collected for the nonresidential solid waste to the City on a monthly basis. Gross receipts are defined by Section 380.603 of the Municipal Code as:

The entire amount of the fees (including the fair market value of bartered services) collected by the franchisee, for nonresidential solid waste collection, removal and disposal except (i) fees collected by the franchisee for the collection, transportation, sale or other disposition of exempt waste; (ii) income from equipment sales, maintenance and repair; and, (iii) state sales taxes and the franchise fee itself.

Pursuant to the Municipal Code when companies are late with their monthly payments and reports, the City applies interest. Once a year, each franchisee has to reapply for a franchise by submitting documentation similar to the original application documentation and has to pay an applicable fee. Also, once a year each franchisee is required to provide "... a statement of its annual gross receipts generated from accounts within the City reflecting gross receipts within the City for the preceding fiscal year." Per the Municipal Code, such statement is required to be "audited by an independent certified public accountant licensed to do business in the state," and it has to be "accompanied by the certified public accountant's opinion of its accuracy without qualifications or reservations."

As of November 22, 2016, there were eleven (11) companies that had a franchise agreement with the City. The City collected approximately \$7 million per year in franchise fee revenues and this amount has been fairly consistent over the past five years.

STATEMENT OF OBJECTIVE

To determine whether the City collected and deposited all nonresidential solid waste franchise fees consistent with requirements outlined in Part 6 of Chapter 380 of the Municipal Code.

STATEMENT OF SCOPE AND METHODOLOGY

The audit scope was from October 1, 2014 through September 30, 2016 (FY 2014/15 and FY 2015/16). The population for testing was all companies that obtained a nonresidential solid waste franchise with the City. We reviewed the Solid Waste Division's records and ordinances to identify such population. We also attempted to locate companies that offer nonresidential solid waste services by contacting various companies by phone without a valid franchise agreement. We reviewed annual renewal applications, bond certification, insurance documentation, monthly reports, and annual audited reports. We tested if the City collected the applicable franchise fees in a timely and accurate manner consistent with Part 6 of Chapter 380 of the Municipal Code.

We reviewed the franchise applications submitted to verify that they were processed properly. The scope for the applications testing was expanded to five (5) years and was from FY 2011/12 through FY 2015/16 so that we could bring more applications into the scope of the audit. This increased the number of new applications or transfers within our scope from one to four.

REPORT FORMAT

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objectives. Internal control is a process implemented by management to provide reasonable assurance that they achieve their objectives in relation to the effectiveness and efficiency of operations and compliance with applicable laws and regulations. An Internal Control Weakness is therefore defined as either a defect in the design or operation of the internal controls or is an area in which there are currently no internal controls in place to ensure that objectives are met. An Audit Finding is an instance where management has established internal controls and procedures, but responsible parties are not operating in compliance with the established controls and procedures. An Opportunity for Improvement is a suggestion that we believe could enhance operations.

SUGGESTED ADDITIONAL AUDIT WORK

In limiting the scope of this audit, we did not pursue the following area, and as such it should be considered for future audit work:

- Individual franchise agreements could be audited to confirm that the franchisee accurately code accounts by type of waste/jurisdiction/etc. and that all gross receipts are reported to the City.

STATEMENT OF 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.

AUDITEE RESPONSES

Responses from the auditee have been inserted after the respective finding and recommendation. We received these responses from the Public Works Department, via John Pappas, Public Works Director, in a memorandum dated April 12, 2017.

AUDIT CONCLUSIONS

While the City is collecting and depositing all nonresidential solid waste franchise fees submitted to the City consistent with requirements outlined in Part 6 of Chapter 380 of the Municipal Code, there are some issues with how companies calculate the franchise fees charged to customers and due to the City.

AUDIT OBJECTIVE

To determine whether the City collected and deposited all nonresidential solid waste franchise fees consistent with requirements outlined in Part 6 of Chapter 380 of the Municipal Code.

Finding 1 *Understated Franchise Fees Submitted to the City*

Franchisees inaccurately calculated franchise fees owed to the City on a systematic basis for six (6) out of ten (10) companies tested. Those companies excluded various revenue streams from the gross receipts such as administrative, late, lease, fuel, environmental, paper invoice, delivery, and rental fees. The gross amounts were therefore understated, and the franchise fees owed to the City were also understated since they are 17% of the gross receipts. Those six (6) companies collected approximately 99% of the nonresidential solid waste revenues. It appears at least \$335,000 was not received by the City in 2015 alone, per estimates provided by representatives of the companies. Assuming franchise fees were paid to the City in the same manner and items that were excluded were the same proportion, we estimate the total loss to the City for the past five (5) years to be approximately \$1.7 million.

Recommendation to Finding 1

The Solid Waste Division should:

- 1) work with the Office of the General Counsel, the Administration and the City Council (as needed) to address the underpayments from past years;
- 2) request an official signed confirmation from each company annually that none of the fees listed above are excluded from the calculation of the gross receipts. Such confirmation should be written in a manner so it is clear for the company which fees are allowed and not allowed to be excluded.

Auditee Response to Finding 1

Agree Disagree Partially Agree

The Solid Waste Division (SWD) will work with the Office of General Counsel (OGC) and the Administration to determine the number of years to retroactively collect on these payments. SWD has already submitted a legal request to obtain guidance from OGC. Once the relevant timeframe has been determined, SWD will begin work immediately to determine the amount owed by each Franchisee. In addition, the SWD will create an affidavit form, to be notarized and submitted by each non-residential franchise hauler with the initial application and annual renewal. This affidavit will be required to certify both the proper calculation of gross receipts and the commitment to properly dispose of all non-residential solid waste, subject to the franchise fee, at Trail Ridge Landfill. The new affidavit form, and the revised process and procedures will be completed and implemented by June 16, 2017.

Finding 2 *Different Methods to Calculate Franchise Fee*

The franchisees use different approaches on how they bill and calculate a franchise fee. The difference appears to mainly derive from a company's decision to have or not to have a franchise fee listed on an invoice. The Municipal Code does not specify if a franchise fee should be explicitly listed on an invoice. For a company that includes the detail break-out it is clear that they are paying 17% of gross receipts with franchise fees being excluded from gross receipts consistent with the language of the Municipal Code. For example, they would charge \$100 for service and \$17 for franchise fees to the customer, and they would remit \$17 to the City and keep \$100.

The issue appears to be with those that do not break out the franchise fee on the invoice. It appears that these companies simply take the total collections and multiply the amount times 17%. This means, if they charge \$100 to the customer, they remit \$17 to the City and keep \$83. If they had charged \$83 to the customer and charged additional 17% they would have only sent the City \$14.11. However, this is not necessarily inconsistent with the Municipal Code, and it is important to note that total collection from these companies that use this method is less than \$100,000 for calendar year 2016.

Recommendation to Finding 2

The Solid Waste Division should work with the Office of the General Counsel to determine if any changes in the Municipal Code are needed to address this issue as well as work with the franchisees to address the matter.

Auditee Response to Finding 2

Agree Disagree Partially Agree

The SWD will prepare municipal code revisions that will specify a consistent method for calculating and presenting the franchise fee on invoices. These revisions will be submitted for MBRC approval by August 4, 2017. Once approved by City Council, SWD will communicate the changes to all franchise haulers.

Finding 3 *Issues with Monthly Franchise Fees Payments*

Companies have to submit a payment of franchise fees monthly along with a report by the end of the following month. If a payment is late, 18% annual interest is applied. We tested monthly reports and found the following issues:

- 1) 116 of 241 (or 48.13%) payments were late, and a late fee was necessary. In 59 out of 116 (or 50.86%) instances, the late fee was either:
 - a. not applied at all (21),
 - b. calculated on the number of days short by one (30), or
 - c. it was incorrect for an unknown reason (8).

In total, the City did not assess up to \$2,135.81 out of \$10,656.44 (or 20.04%) in interest on late payments due.

- 2) 5 of 241 (or 2.07%) reports tested were not signed, and 14 of 241 (or 5.81%) were not dated;
- 3) 23 of 241 items in the sample (or 9.54%) did not have a date stamp on the monthly reports/payment documentation.

Recommendation to Finding 3

The Solid Waste Division should:

- 1) review its interest calculations for FY 2014/15 and FY 2015/16 and request payments totaling \$2,135.81 as identified above;
- 2) establish internal controls to ensure that interest is accurately calculated and always assessed (e.g. spreadsheets used to calculate interest should have proper formulas and periodic review by a second person of the interest assessed and collected should be done);
- 3) consider updating its procedures so no franchise renewal is approved unless all interest owed is collected;
- 4) train its staff on processing incoming mail, so reports are always signed and correspondence is always stamped with the date that is needed to determine interest owed when payments are late.

Auditee Response to Finding 3

Agree Disagree Partially Agree

The SWD has sent notification to each franchisee informing them of the discrepancy and the outstanding amount of interest due. The formulas for each franchise have been corrected and will be reviewed by a second person on a monthly basis. Moving forward, all amounts owed from or to a franchisee will be settled prior to approval of a renewal. This requirement will be incorporated in the new franchise fee procedures. Staff has been directed to date stamp all documents received through incoming mail.

Finding 4 *Issues with Insurance, Bonds, and Annual Reports*

The franchisees are required to be compliant with various sections of the Municipal Code on insurance, bonds and reporting. When compliance with all those requirements is not enforced, it could lead to significant fiscal consequences for the City.

- 1) Every year, each franchisee has to submit an insurance certificate and a certified copy of the insurance policy. In addition, any changes in coverage have to be communicated to the Risk Management Division. We found the following issues with the insurance requirements compliance:
 - a. in 4 out of 20 (or 20%) instances, an insurance certificate was not on file;
 - b. certified copies of the insurance policies are not obtained from any of the franchisees;
 - c. in 6 out of 6 (or 100%) instances, changes in insurance coverage were not communicated to the Risk Management Division;
 - d. none of the insurance certificates on file which encompassed nine (9) different franchisees reviewed by the Risk Management Division and our office were in full compliance with the requirements of the Municipal Code; moreover, per the Risk Management Division, "the insurance requirements in the ordinance are antiquated and missing some key coverage."
- 2) Every year, each franchisee has to submit a payment bond in an amount equal to the greater of either \$25,000 or the estimated franchise fee for one month's operations:
 - a. in 2 out of 20 cases (or 10%), there was no bond documentation on file (same company);
 - b. in 8 of 18 case (or 44.44%), the bond amount was less than the required amount.
- 3) Every year, each franchisee must submit an audited annual report of gross receipts to the City on or before 90 days following the close of the franchisee's fiscal year:
 - a. 16 out of 20 (or 80%) audit reports were received after a due date and were on average 66 days late;
 - b. in 5 out of 20 (or 25%) instances, the amount owed to or by the City based on the audit report was not paid, and the total net negative impact to the City was \$1,299.63;
 - c. 7 out of 20 (or 35%) audit reports did not have a stamp with the date the report was received by the Solid Waste Division.

Recommendation to Finding 4

The Solid Waste Division should:

- 1) establish internal controls (including but not limited to written standard operating procedures, checklists, review by a second person) to ensure that:
 - a. a proper payment bond is obtained annually from all franchisees;
 - b. any amounts owed to (by) the City from (to) franchisees based on results of annual audits are accurately and timely paid;
 - c. insurance documentation is obtained annually from all franchisees and any changes are communicated to the Risk Management Division;
- 2) seek to change the Municipal Code requirements to address the timeliness issue for submission of the annual reports by changing the deadlines and/or by adding a penalty for late submissions;
- 3) train its staff to always stamp the annual reports with the date that they are received;
- 4) work with the Risk Management Division to update the Municipal Code's insurance requirements for franchise agreements so the City is adequately protected.

Auditee Response to Finding 4

Agree Disagree Partially Agree

The SWD will work with the Risk Management Division to determine the appropriate insurance requirements for franchise haulers. Once determined, SWD will prepare code revisions to update the insurance requirements, to amend the deadline for submission of an audited annual report to a more attainable goal, and to add a penalty for the late submission of the annual report. These code revisions will be submitted for MBRC approval by August 4, 2017.

The SWD will write a procedure to address the franchise application review process, to include a detailed checklist that will be used to ensure all requirements are met, all required documentation has been received, and all amounts owed from or to a franchisee are settled, prior to approval of a new application or annual renewal. The new procedure will be completed and implemented by June 16, 2017.

The affidavit, mentioned previously, will include a statement of reminder to franchisees that any insurance changes must be communicated in writing to the Risk Management Division thirty (30) days prior to taking effect. The new affidavit form will be completed and implemented by June 16, 2017.

As previously stated, staff has been directed to date stamp all documents received through incoming mail.

Finding 5 *Issues with Applications*

To become a franchisee, a company must submit an application with the supporting documentation required by the Municipal Code that has to be approved by the department and by the City Council. There is no written standard operating procedure for the application review

process, and a review is done by one person whose work is not reviewed by a second person. We also found some issues with the franchise applications:

- 1) in 1 out of 4 (or 25%) applications tested, the company's insurance coverage does not appear to have been submitted to and approved by the Risk Manager;
- 2) 2 of 4 (50%) applications did not have all required elements (two companies did not enclose at least one permit for disposal facilities and information about the percentage of ownership in the company was not provided by another company);
- 3) in 4 out of 4 (100%) applications, there was no sworn affidavit about delivering all waste to Trail Ridge Landfill even though it is required by the Municipal Code.

Recommendation to Finding 5

The Solid Waste Division should:

- 1) create detailed written standard operating procedures for the franchise applications review process;
- 2) ensure that the work of the employee who performs the review of the submitted applications is reviewed by another person;
- 3) add language to the application to specifically require a sworn affidavit by a franchisee to dispose all of its nonresidential solid waste subject to the franchise fee at the Trail Ridge Landfill.

Auditee Response to Finding 5

Agree Disagree Partially Agree

As previously stated, the SWD will write a procedure on the franchise application review process. The new process is currently being discussed to determine who can best perform each needed task. The final process will include two application reviewers and the final procedure will be specific as to the responsibilities of each. An affidavit will be required from each franchise hauler to certify the commitment to properly dispose of all non-residential solid waste subject to the franchise fee at Trail Ridge Landfill. The new procedure and affidavit form will be completed and implemented by June 16, 2017.

Finding 6 *Issues with Franchise Transfer*

To transfer a franchise, a franchisee must submit an application and a payment to the City. Once it is reviewed by the department, it must be approved by the City Council. We found an issue with one of the transfers. Company A transferred its franchise to Company B in 2014. The City Council approved that transfer. However, it appears that Company A was operating as a franchisee during our audit scope without an application to transfer back the franchise or for a new franchise. Both companies had inactive status with the State of Florida as of November 23, 2016. However, Company A reinstated its status on December 10, 2016.

Recommendation to Finding 6

The Solid Waste Division should consult with the Office of the General Counsel on how to proceed in this situation and what actions to take which appear to include removing the company as being an authorized franchisee. Going forward, the Solid Waste Division needs to ensure that after a transfer is completed and approved by City Council only the new company operates barring approval for a transfer back from City Council.

Auditee Response to Finding 6

Agree Disagree Partially Agree

The SWD has already submitted a legal request to OGC for guidance to properly address this situation. Franchise transfers will be addressed in the new procedures to be completed and implemented by June 16, 2017.

Finding 7 *Issues with Renewal Process*

The Municipal Code requires renewal applications to be submitted 90 days prior to the franchise anniversary date. The Solid Waste Division was sending reminders out on the same day of the year for all companies on a random date instead of individually sending them out 120 days before each franchisee's anniversary date so that they would have 30 days to respond. There is no written standard operating procedure for the renewal application review process, and the review is done by one person whose work is not reviewed. We tested the renewal applications process and found the following issues:

- 11 out of 20 (or 55%) renewal applications were not sufficiently completed by the franchisees;
- 3 out of 20 (or 15%) renewal applications did not have a stamp indicating when the application was received;
- 10 out of 20 (or 50%) renewal application payments documentation did not have a stamp indicating when a check was received;
- 7 out of 20 (35%) renewal applications were not received by a due date noted in the reminder letter with an average delay of 23 days;
- various fields in the renewal application that can change over time are not required to be filled out (type of organization, the owners, final money judgments, etc.).

Recommendation to Finding 7

The Solid Waste Division should:

- 1) create detailed written standard operating procedures for the franchise renewal applications review process;
- 2) ensure that the work of the employee who performs the review of the submitted renewal applications is reviewed by another person;
- 3) train staff to follow the standard operating procedures so that renewal reminders are sent out timely and that applications are date stamped and reviewed for completeness;
- 4) require all fields in the renewal application to be filled out;

- 5) seek changes in the Municipal Code to introduce financial penalties for late renewal submissions.

Auditee Response to Finding 7

Agree Disagree Partially Agree

The SWD will write a procedure to address the franchise application review process, to include the annual registration or renewal process for existing franchisees. Again, the new process will require two reviewers of the renewal application and the final procedure will specifically outline the responsibilities of each. The new process and procedure will be completed by June 16, 2017 and training for all involved staff will immediately follow. The procedure will include a statement directing staff to pay attention to detail and ensure completeness of all applications accepted. The SWD will prepare a code revision to include a penalty for late renewal submissions. This revision will be submitted for MBRC approval by August 4, 2017.

Finding 8 *Issues with Nationwide Companies*

We searched for different companies that might provide service without obtaining a franchise, and we found a nationwide company that offered 2 cubic yards front load service with a weekly pick up for \$165 per month. We asked the Solid Waste Division to look into this matter. It appears it was a “brokerage” firm, based out of New York. The person who spoke with the Solid Waste Division on the phone was not very forthcoming with information and was very guarded with his answers, per the Solid Waste Division. He did state that he would utilize local hauling companies and charge a percentage over whatever the fee was. Based on the limited explanation provided, it is not clear if a franchise fee is charged, if it is charged accurately (markup fee could be excluded), and if it is submitted to the City at all. It is also not clear if this practice is allowed or how it should be handled, if allowed, under the Municipal Code requirements.

Recommendation to Finding 8

The Solid Waste Division should investigate this matter and work with the Office of the General Counsel to update the Municipal Code so the situation where a nationwide company uses a local company to provide service that requires obtaining a franchise is addressed in the Municipal Code.

Auditee Response to Finding 8

Agree Disagree Partially Agree

The SWD's Franchise Supervisor has investigated this matter and determined the nationwide companies are brokers. When these nationwide brokers use a local franchisee to provide service, the local franchisee should pay the required 17% franchise fee. SWD will further investigate services provided by a broker through a local company and then will work with OGC to revise the municipal code regarding the same. These revisions will be submitted for MBRC approval by August 4, 2017.

Internal Control Weakness 1 *Separation of Duties*

We observed that the employee who was in charge of recordkeeping and ensuring that the City received payments from all franchisees every month on some occasions was responsible for receiving the checks from franchisees in the mail and processing them. Such set-up violates basic separation of duties and increases the risk of misappropriation.

Recommendation to Internal Control Weakness 1

The Solid Waste Division should provide necessary training and ensure that employees who are in charge of recordkeeping do not have access to checks received by the City.

Auditee Response to Internal Control Weakness 1

Agree Disagree Partially Agree

The SWD processes have been revised to ensure recordkeeping employees do not have access to incoming payments. The new procedures will reflect this change.

Internal Control Weakness 2 *Unsecured Filing Room*

While working in the Solid Waste Division’s building, we noted that the filing room door was open at all times. The files in this room contained sensitive personal and financial information. Best practices specify that access to sensitive data should be limited to those whose duties require access.

Recommendation to Internal Control Weakness 2

We recommend that the filing room door be locked when not in use and that only individuals with a valid business purpose should have access to the filing room/keys. Alternatively, cabinets containing sensitive documentation could be locked.

Auditee Response to Internal Control Weakness 2

Agree Disagree Partially Agree

The filing room door has been locked and only four employees (Division Chief, Accounting Manager, Executive Assistant and Administrative Specialist) have access to the key and room entry.

Opportunity for Improvement 1 *Improving Existing Standard Operating Procedures*

We reviewed a standard operating procedure on franchise fees and a standard operating procedure on franchise renewals. We found the following:

- 1) standard operating procedures do not have the creation date and the last update date;

- 2) standard operating procedures do not explain when and how staff should contact companies when annual reports are late;
- 3) standard operating procedures require a notification about late fees to be sent out after interest accrued reaches \$10 which requires daily tracking.

Recommendation to Opportunity for Improvement 1

The Solid Waste Division should:

- 1) add the creation and last update date information to all standard operating procedures;
- 2) add guidelines on when and how companies who are late on payments, annual reports, and renewals should be contacted;
- 3) change guidelines on when to send out notifications about late fees so all notifications are sent out on the same date (e.g. once a month), so no daily tracking is needed.

Auditee Response to Opportunity for Improvement 1

Agree Disagree Partially Agree

The SWD is in the process of updating procedures regarding franchise fees. Additional details will be included, as well as, spaces to document creation and revision dates. These procedures will be completed and implemented by June 16, 2017.

Opportunity for Improvement 2 *Updating List of Franchisees on City Website*

The City’s website should have accurate and up-to-date information on companies that provide nonresidential solid waste services. We reviewed the list of the franchisees for nonresidential solid waste on the City’s website on November 11, 2016 and found that three (3) of 14 franchisees should not have been listed:

- 1) Company A was listed due to an error.
- 2) Company B lost its franchise in summer of 2015.
- 3) Company C lost its franchise in fall of 2014.

Recommendation to Opportunity for Improvement 2

The Solid Waste Division should:

- 1) frequently (at least on a quarterly basis) check and update information provided on the City’s website on the companies that currently have a franchise for nonresidential solid waste services with the City so information provided is always accurate and up-to-date;
- 2) immediately remove companies from the City’ website when a letter is sent to a franchisee requesting to correct a violation within a certain number of days and the violation is not corrected on time.

Auditee Response to Opportunity for Improvement 2

Agree Disagree Partially Agree

At the beginning of each quarter, the Franchise Investigator will review the website to ensure the City of Jacksonville Franchise Haulers For Non-Residential Solid Waste list is accurate.

Additionally, a procedure will be written to provide guidance on performing this review and additional details needed to make the necessary revisions to the website. This procedure will also be completed by June 16, 2017.

Opportunity for Improvement 3 *Accuracy of Data Input in the Database*

The scale house at the landfill uses special software to keep track of the incoming waste. The employees use a special code for the nonresidential solid waste. A new entry in the system for any truck of a company that has a franchise is defaulted to that code. When an entry is started, this code could be changed to any other. We observed records for two companies being coded as franchise waste while one of the companies no longer had a franchise and the other no longer provided nonresidential solid waste service (sold this part of its business to another company). This information was known to the Solid Waste Division's management, but it was not communicated to the scale house employees. Therefore, the data that is being input in the database is incorrect. This impacts the reliability of the data in the system, and it also would affect the accuracy of the fees charged if City starts charging different fees for nonresidential waste versus construction and demolition debris in the future.

Recommendation to Opportunity for Improvement 3

The Solid Waste Division should ensure franchise changes are always communicated to the scale house employees in a timely manner to improve quality of the data that is input in the system.

Auditee Response to Opportunity for Improvement 3

Agree Disagree Partially Agree

An updated list of franchisees has been provided to the scale house staff at Trail Ridge Landfill. A detailed procedure will be written for this task to stress the importance of communicating these changes in a timely manner. This procedure will also be completed by June 16, 2017.

Opportunity for Improvement 4 *Rounding Issues When Calculating Franchise Fees*

Some companies calculate franchise fee by applying 17% to each applicable individual item on an invoice, rounding each franchise fee calculated, and adding them together instead of applying 17% to the total gross amount. We observed one invoice where an invoice consisted of nine (9) charges of \$25.85 each. The company applied 17% fee to each line item separately, rounded results and added them. Total franchise fee charged on the invoice was \$39.51. However, if 17%

were applied to the total gross (\$25.85 x 9 charges), the franchise fee would have been \$39.55. Therefore, there was a variance of 4 cents. However, this same example could go the other way depending on the exact amounts.

Section 380.603 of the Municipal Code defines gross receipts as the entire amount of the fees collected by the franchisee, for nonresidential solid waste collection, removal, and disposal, and franchise fee is 17% of the gross receipts. Based on these definitions, it is reasonable to conclude that a franchise fee on an invoice should be calculated by adding all applicable charges and then applying 17% instead of applying it to each individual line item. Regardless, the Solid Waste Division needs to ensure it is being treated consistently by all franchisees.

Recommendation to Opportunity for Improvement 4

The Solid Waste Division should:

- 1) communicate to each franchisee how franchise fees should be calculated when an invoice consists of more than one line item;
- 2) consider implementing changes to the Municipal Code to ensure that it is explained in a detailed manner how the calculation of franchise fees should be done in such scenario.

Auditee Response to Opportunity for Improvement 4

Agree Disagree Partially Agree

The SWD will prepare municipal code revisions that will specify a consistent method for calculating and presenting the franchise fee on invoices. Invoices with multiple line items will be addressed. These revisions will be submitted for MBRC approval by August 4, 2017. Once approved by City Council, SWD will communicate the changes to all franchise haulers.

We appreciate the assistance and cooperation we received from the Solid Waste Division, the Risk Management Division and franchisees through the course of this audit.

Respectfully submitted,

Kirk A. Sherman, CPA
Council Auditor

Audit Performed By:

Brian Parks, CPA, CIA
Elena Korsakova, CPA
Robert Campbell
Kyle Thorpe