



Municipal Solid Waste System Service Charge
Audit Report

City Auditor's Office
George H. Holland
City Auditor

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Executive Summary

The City Auditor's Office (CAO) conducted the audit of the Municipal Solid Waste System Service Charge (MSWSSC), in conformity with the revised 2023 Annual Audit Plan. The CAO has concluded the findings and recommendations below.

1. Per City Ordinance 21-47(g), "the hauler shall pay an administrative late fee of one hundred dollars (\$100.00) and any amount remaining unpaid shall bear interest at the rate of one and one-half (1½) percent per month..." The self-remittance haulers are not paying late fees and accrued interest. The late fees and the interest charge should be assessed as required by the City Ordinance.
2. The Solid Waste Services Department has a manual process in place to receive monthly remittances from six large Solid Waste Haulers. Formal written policies and procedures should be developed, as no formal MSWSSC policies and procedures exist. The remittances and permit applications are maintained onsite. The documents should be filed electronically, and the paper copies kept as referral sources.
3. An Employer Identification Number (EIN) should be obtained from all solid waste hauler permit applicants. This will properly identify various solid waste haulers and individuals that dispose of waste at the City landfill or Transfer Station.
4. For contracts that expire in 2027, a clause should be included to review the contracts annually. Contract adjustments should be made for any business combinations that might affect the guaranteed annual tonnage requirements. It is the noncontractual business combinations between companies that is resulting in lost revenue due to excess tonnage being disposed of at a discounted rate.
5. The fees that are collected by the City are coded to the Chart of Account numbers developed by the Finance department. Two customers on the Chart of Accounts list have been combined with other companies and no longer use the name of the previous company. Account 300947 is a "Miscellaneous account" that is utilized for most deposits. This section of the Chart of Accounts necessitates renaming.

The Solid Waste Services Department agreed with the audit findings and has initiated positive action plans to address them. Management's responses are in Appendix A.

Background

Solid Waste Services operates the Cefe Valenzuela Landfill. The Solid Waste Services Department collects and disposes of residential trash, household waste including hazardous waste, brush, yard waste, and recyclables. Limited commercial trash service is provided to small commercial customers.

The Solid Waste Services Department also operates the J.C. Elliott Transfer Station. This station is for small commercial customers and residential customers disposing of household waste including hazardous waste, garbage, appliances, brush, and non-commercial construction materials.

The Solid Waste Services Department generates an average of \$42 million in revenue in the 3-year scope audit period. MSWSSC generates an average of 9% of the Solid Waste Services revenue annually as exhibited below.

Revenue Solid Waste 2018 – 2021				
	FYE 2018	FYE 2019	FYE 2020	FYE 2021
MSWSSC Received	3,751,260	3,814,297	3,821,146	3,891,375
Total Solid Waste Services	40,608,335	42,159,571	42,111,992	43,116,231
Percentage of MSWSSC of the Total Revenue	9.24%	9.05%	9.07%	9.03%

Source: Annual Comprehensive Financial Reports for years 2018 – 2021

Audit Objectives, Scope, and Methodology

AUDIT OBJECTIVES

The objective of the audit is to determine that the haulers are remitting the MSWSSC as required by the Ordinance. The audit assessed the methods used for:

- Remittance submissions provided by the sample group of large Solid Waste Haulers.
- Other Solid Waste Haulers that directly pay at the scale.

AUDIT SCOPE

The audit period covered the three-year period from October 1, 2018, through September 30, 2021.

AUDIT METHODOLOGY

To achieve our audit objectives we:

- Conducted interviews with the Solid Waste Services Department management to obtain an understanding of the reporting, collection, and remittances of the MSWSSC.
- Conducted interviews with the Solid Waste Haulers to obtain an understanding of the reporting and self-remittances to the Solid Waste Services Department.
- Performed a review of the MSWSSC processes, support documentation, and submission requirements.
- Evaluated and conducted tests of the reporting, collection, and remittance of the MSWSSC. We were provided a list of self-remittance haulers and selected a sample of three of the six for testing.
- Tested records of selected haulers for consistency with City reports and compliance with the City Code of Ordinances.
- Analyzed the information provided by the Solid Waste Services Department for three of the six large Solid Waste Haulers.

We conducted this performance audit in accordance with Government Auditing Standards following the Yellow Book standards of auditing. Performance audit objectives include assessments of program effectiveness and efficiency, internal control, and compliance. These standards require planning and performing the audit to obtain sufficient and appropriate documentation to provide a reasonable basis to support our findings and conclusions.

Audit Results and Recommendations

The CAO observed sample remittances by three of the six large self-remitting Solid Waste Haulers according to their records of tonnage, calculated discounts, and the MSWSSC received. The three Solid Waste Haulers selected were Republic Services, Mark Dunning Industries, Inc. (MDI), and Frontier K2, LLC. As a result of the ongoing audit, the CAO identified discrepancies with Republic's invoices that comprise the amounts on the Remittance Forms during the audit scope period. Republic then confirmed with the CAO the discrepancies with their invoices. We have requested that Republic Services correct any invoices during this audit scope period. Republic provided a correction of invoices for both the small and large containers for October 2023. This resulted in an additional amount due to the City of \$10,237 based on the October corrections to the MSWSSC. Republic Services is currently working on correcting remittances for November 2023.

Finding 1

We learned that the Solid Waste Services Department cannot verify remittances. Late remittances that have been submitted by the large Solid Waste Haulers do not include the administrative late fee and the accrued interest as set forth in the City Ordinance. The remittances cannot be timely verified by Solid Waste Services department staff for accuracy, or to assess these late fees and interest. For four of the six Solid Waste Haulers, this resulted in \$16,590 of lost revenue to the City for the three-year audit period.

Recommendation

The Solid Waste Services Department should enforce collection of the late fees and interest on the balance due. It is essential to ensure that remittances are received by the due date, that tonnage and discounts are verified, and administration late fees with accrued interest are collected.

Finding 2

The Solid Waste Haulers submit incomplete permit applications and do not complete required information in the application. The Solid Waste Services Department annually mail permit applications manually and frequently have no response to permit applications. Hard copies of remittances and permit applications are filed onsite. No back up exists for historical data.

First Recommendation

Assign permanent waste hauler permits to each Solid Waste Hauler. Retain this permanent waste hauler permit number from year to year. This will identify each solid waste hauler by his unique waste hauler permit number.

Second Recommendation

Save new remittances and permit applications electronically. This would help in the completeness and timeliness of the permit application process.

Third Recommendation

Standardize the permit application form in an electronic format and use automated email to send notifications to renew permits annually. Configure the Solid Waste Services Department website to accept payments and generate the permit.

Finding 3

The Solid Waste Services Department does not receive identifying tax identification numbers from its Solid Waste Haulers. If the EIN is not available, then the Social Security Number (SSN) of the applicant(s) should be obtained. This facilitates keeping track of companies when the names are similar, paying refunds of the MSWSSC to solid waste haulers, and creating compliance with amounts owed to the City.

Recommendation

Obtain EIN numbers or SSN of all applicant(s).

Finding 4

Business combinations of companies can affect the guaranteed annual tonnage requirements. This subsequently affects the “tipping fee” paid to the city or the discounted acceptance fee.

Recommendation

Contracts that expire after 2027 must include an annual review and analysis. Changes should be considered regarding contract terms including the MSWSSC and the guaranteed annual tonnage. This will prevent the volume discount for the additional tonnage disposed of from being obtained prematurely due to the combination of companies.

Finding 5

The Chart of Accounts section of the general ledger accounts receivable for MSWSSC does not reflect the names of the current six (6) Solid Waste Haulers. Additionally, the remaining small Solid Waste Haulers are coded to Miscellaneous Account 300947 without a means to verify the remittances of each hauler. Lastly, account 300946 is not in the numerical sequence of the chart of accounts. Displaying each account number could prevent unrecorded activity in accounts with a zero balance that are unrecognized in the accounting function.

First Recommendation

The Chart of Accounts should be modified for the general ledger accounts receivable section of the MSWSSC. This will create an Accounts Receivable account for each major Solid Waste Hauler. The major solid waste haulers are Republic Services, Frontier K2, LLC, Mark Dunning Industries, Inc., Aransas County Transfer Station¹, The Bag Lady¹ and Corpus Christi Disposal Service, Inc.

¹ The MSWSSC does not apply to those companies based outside city limits.

Second Recommendation

The small Solid Waste Haulers are "invoiced" through the general ledger account 300947. Each account in the general ledger accounts receivable section for Solid Waste Haulers should appear in the chart of accounts whether currently used or not. However, the Solid Waste Hauler should be identified by the customer's name and customer ID number to improve the audit trail of the MSWSSC and identify how much each hauler has remitted.

Appendix A Management Responses

George H. Holland
City Auditor
Corpus Christi, Texas

Re: AU21-002 Solid Waste – Municipal Solid Waste System Service Charge

We have carefully reviewed the findings presented in the audit report referenced above, and our action plans to address the findings are described on the following pages.

We are committed to correcting the issues in the audit report by implementing the action plans in a timely fashion.

Regards,



David Lehfeldt
Director of Solid Waste

11/27/2023

Date



Alma Casas
Interim Director of Finance

11/30/2023

Date



Constance Sanchez
CFO

11-30-2023

Date



Neiman Young
Assistant City Manager

12/4/23

Date



Peter Zanoni
City Manager

12.7.23

Date

Summary of Management Responses	
Finding #1 - Recommendation #1	
Responsible Party: David Lehfeltd	
Response: The Solid Waste Services Department will enforce collection of the late fees and interest on the balance due after notifying the haulers.	Estimated Completion: (06/2024)
Finding #2 - Recommendation #1	
Responsible Party: David Lehfeltd	
Response: Will review the possibility of assigning permanent waste hauler permits to each Solid Waste Hauler and retaining this permanent waste hauler permit number from year to year.	Estimated Completion: (06/2024)
Finding #2 - Recommendation #2	
Responsible Party: David Lehfeltd	
Response: Will explore the possibility of saving new remittances and permit applications electronically.	Estimated Completion: (06/2024)
Finding #2 - Recommendation #3	
Responsible Party: David Lehfeltd	
Response: Will work with IT to evaluate ways to standardize the permit application form in an electronic format and use automated email to send notifications to renew permits annually.	Estimated Completion: (06/2024)

Finding #3 - Recommendation #1	
Responsible Party: David Lehfeltd	
Response: Will explore how to obtain EIN numbers or SSN of all applicants.	Estimated Completion: (08/2024)
Finding #4 - Recommendation #1	
Responsible Party: David Lehfeltd	
Response: Will work with a consultant to evaluate how best to move forward with the MSWSSC charge to include new contracts, a flow control ordinance, and franchising agreements.	Estimated Completion: (12/2024)
Finding #5 - Recommendation #1	
Responsible Party: Alma Casas	
Response: The chart of accounts has been updated to reflect the changes in the solid waste hauler accounts.	Estimated Completion: (11/2023)
Finding #5 - Recommendation #2	
Responsible Party: Alma Casas	
Response: The Accounts Receivable division has identified a report that lists the customer name and customer ID number for each of the solid waste haulers.	Estimated Completion: (11/2023)