



# INTERNAL AUDIT REPORT

## Container Hauling Fees

### Mayor

Mattie Parker

January 5, 2023

### Council Members

Carlos Flores, District 2<sup>++</sup>

Michael D. Crain, District 3

Alan Blaylock, District 4<sup>++</sup>

Gyna Bivens, District 5

Jared Williams, District 6<sup>++</sup>

Leonard Firestone, District 7<sup>+</sup>

Chris Nettles, District 8

Elizabeth M. Beck, District 9

<sup>+</sup> Audit Committee Chair

<sup>++</sup> Audit Committee Member

### Audit Staff

David A. Medrano  
City Auditor

1-5-2023

Date

Brian Burkland  
Assistant City Auditor

1-5-2023

Date

William Mafi  
Senior Auditor

1-5-2023

Date



## Executive Summary

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As part of the Fiscal Year 2022 Annual Audit Plan, the Department of Internal Audit conducted the Container Hauling Fees Audit. The City earns hauling fees from third party haulers who use the public streets, alleys and thoroughfares within the corporate limits of the City of Fort Worth to engage in the business of collection of solid waste (including recyclable materials). These services are to be conducted in accordance with a standard Grant of Privilege (GOP) contract executed with the City of Fort Worth. Currently there are 17 GOP contracts in place, each with a different hauler.

Quarterly, these haulers are to self-report their gross revenues and remit hauling fees to the City of Fort Worth. Code Compliance Department is responsible for overseeing and monitoring that these commercial haulers are providing the required solid waste and recycling services.

The GOP contract defines the meaning of gross revenue which is identical within all 17 GOP contracts the City has executed. However, Internal Audit reviewed detailed support for remittances from two haulers and observed that the definition of gross revenue was being applied differently. One of the two GOP haulers included recyclable hauling in their calculation for reported gross revenue, whereas the other excluded recyclable hauling revenues. Consequently, this variability in the treatment of recyclable revenue creates either a liability of \$80,235.56 or receivable of \$270,959.59 for the City of Fort Worth. The aggregate impact to the City of Fort Worth from this variability in the treatment of recyclable revenues across all 15 remaining haulers has yet to be determined.

Audit found that a portion of the environmental impact fee had been posted to the incorrect revenue account.

Code Compliance Department did not follow up timely on revenue that was paid at the incorrect percentage according to the contract.

Our audit findings are discussed in further detail within the [Detailed Audit Findings](#) section of this report.

Management has responded as to how they plan to address our audit findings and the related recommendations.

We feel that management's response adequately addresses the audit recommendation and will help mitigate the City's risk once implemented.

*The Container Hauling Fees Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2022 Annual Audit Plan.*

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## Background

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Solid Waste Services is one of the five divisions for the City of Fort Worth's Code Compliance Department (Code), and is responsible for providing residents with garbage, recycling, bulk and yard waste curbside collection services. However, the hauling services for waste or recycling to businesses, churches, schools, and multi-family housing complexes is not provided by the City.

Consequently, the City grants third party haulers non-exclusive privilege *“to use the public streets, alleys and thoroughfares within the corporate limits of the City of Fort Worth for the purpose of engaging in the business of collection of solid waste, including recyclable materials”*. Each hauler executes a standard Grant of Privilege (GOP) contract which requires the hauler to pay the City ten percent (10%) from its gross revenues generated within the City.



## Objectives

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The objectives of this audit were to determine whether:

- haulers were billed as required;
- haulers were accurately billed; and,
- container hauling fees were accounted for and properly recorded.

## Scope

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Our audit included a review of the haulers' billings from October 1, 2020 through September 30, 2021. Activity beyond this period was reviewed as deemed necessary.

## Methodology

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To achieve the audit objectives, the Department of Internal Audit performed the following:

- interviewed staff from Code and sampled GOP haulers;
- observed and assessed the solid waste delivery and weighing processes at the Southside Landfill;
- evaluated reasonableness and reliability of GOP hauler's Quarterly Financial Accounting Reports;
- reviewed computations of the hauling fees received in FY2021;
- determined whether haulers were billed as required per GOP contract;
- determined whether haulers were accurately billed;
- checked whether container hauling fees were accounted for and properly recorded;
- reviewed data from two GOP haulers' Quarterly Financial Accounting Reports to verify completeness and accuracy;
- analyzed the reasonableness of environmental fee received based upon number of tons disposed at the Southside Landfill;
- reviewed the Code's processes for monitoring the GOP haulers' contracted activities and the Financial Accounting Reports; and,
- evaluated internal controls related to GOP contracts' terms and solid waste hauling activities.

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.



## Audit Results

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Code maintained a schedule of all haulers who paid hauling fees and who submitted Quarterly Financial Accounting Reports and annual reports. Code also efficiently organized and provided the records audit needed into a special folder which enabled the audit to progress smoothly and enabled internal audit to promptly obtain required data and responses from the audited haulers for and during audit.

Code currently exempts the 17 haulers with GOP contracts from a \$5.00 environmental impact fee for waste disposal at the City's landfill. Of these 17, the City received hauling fee revenue from 15 haulers. Internal Audit confirmed that a hauler which did not pay hauling fee revenues had activity at the City landfill and did not pay the environment impact fee. Activities of the haulers should be monitored to ensure that the City is not granting exemptions through the GOP contract, from which hauling fee revenues are not being collected. The amount of environmental impact fee not collected was considered immaterial at \$45.00.

Code received the haulers' reports and payments, however, Internal Audit observed there was no internal process (nor evidence of standard operating procedures) to verify that amounts received were in fact the amounts to which the City of Fort Worth was contractually entitled.

The Department of Internal Audit would like to thank the audited vendors (GOP haulers) and Code for their cooperation and assistance during this audit.

## Overall Risk Evaluation

High	Medium	Low
Differing GOP contract interpretations regarding the definition of gross revenues		
Environmental Fee understated by \$228,856.95 due to absence of checking and reconciliations		
	Failure to accrue and collect \$27,910.04 in FY2021	



## Detailed Audit Findings

### 1. Differing GOP contract interpretations regarding the definition of gross revenues.

Article 9.A of the GOP contract states *“The calculation of gross revenues generated from operations within the City shall include all revenue derived, directly or indirectly by Grantee (hauler) from or in connection with its operations within the service area covered by this agreement, excluding revenues generated from contracts with the City for residential garbage and recycling services, as determined in accordance with generally accepted accounting principles. Gross revenues shall include, but are not limited to, revenues received from the collection and disposal of all solid waste.”*

Further, Article 3 of the GOP contract states *“It is expressly understood and agreed that the Grantee (hauler) may collect and deliver for disposal all solid waste, including recyclable materials, accumulated on premises within the corporate limits of the City, where the individuals or companies contract with the Grantee for those services excluding residential service other than apartment complexes and motels...”*

Differing interpretations of gross revenue may adversely impact the calculated amount of hauler fees which the City of Fort Worth is otherwise entitled to. For example, one of the audited haulers, Vendor 1, remitted to the City of Fort Worth hauler fees based upon a gross revenue calculation which included its revenue related to recyclables, whereas, the other audited hauler, Vendor 2, remitted to the City of Fort Worth hauler fees based upon a gross revenue calculation which excluded its revenues related to recyclables.

Gross revenue for Vendor 1 (which included \$930,984.20 in recyclable revenue) totaled \$2,115,436.17, and the hauler fees it remitted to the City of Fort Worth totaled \$188,240.47. The inclusion of recyclable revenue in its calculation of gross revenue, yielded incremental hauling fees of \$80,235.56 remitted to the City.

Gross revenue for Vendor 2 (which excluded \$3,074,392.73 in recyclable revenue) totaled \$827,755.80, and the hauler fees it remitted to the City of Fort Worth totaled \$73,249.47. Had its interpretation of gross revenue been consistent with that as had been applied by Vendor 1, the benefit to the City of Fort Worth would have otherwise yielded an additional \$270,959.59, in hauling fees.

Internal Audit has made its initial interpretation regarding the definition of gross revenue based upon the contractual language as written and executed. We have had meetings with the Legal Department and Code concerning the discrepancy we observed in how our sampled set of vendors interpreted and applied the meaning of gross revenues used for calculating the resulting hauler fees remitted to the City of Fort Worth. A decision regarding the City’s position on this matter has yet to be finalized.

Until this decision has been finalized, it remains uncertain whether the City’s financial exposure to all haulers will result in a net payable or a net receivable.



**Recommendation 1:** *The Director of Code Compliance should obtain and apply the correct interpretation of Article 9.A of the GOP contract; and ensure collection of amounts owed from, or amounts due to haulers.*

**Auditee’s Response:** Concur. Code Compliance Staff is working with Burns and McConnell (Solid Waste Consultant) to evaluate and update the existing GOP contract for content, language and clarity and to ensure the language is consistent with the original M&C as well as the existing ordinance; perform audits on existing GOP haulers and in the future, conduct a minimum of 3 haulers audits per fiscal year.

**Target Implementation Date:** April 1, 2023

**Responsibility:** Solid Waste Division of Code Compliance

**Applicable Department Head:** Brandon Bennett, Code Compliance Director

**Applicable Assistant City Manager:** Valerie Washington, Assistant City Manager

**2. Environmental Fee understated by \$228,856.95 due to absence of checking and reconciliations.**

An Environmental Fee is collected and remitted to the City of Fort Worth by the landfill operator. In FY2021, the Environmental Fee was recorded in the City’s general ledger as \$812,006.68 instead of \$1,040,863.63, as had actually been remitted by the landfill operator, resulting in an understatement of \$228,856.95. Frequent checks and balances are a required element for good internal controls. The landfill Audit found no evidence that Code Compliance had been reconciling the monthly operational records submitted by the landfill operator, to amounts remitted to the city, to ensure these amounts were reasonable and complete.

There also were no Standard Operating Procedures (SOP) to guide staff on when and how to verify the reasonableness and completeness of Environmental Fee activity and remittances.

**Recommendation 2:** *The Director of Code Compliance should require an SOP for the frequent reconciliation of Environmental Fees remitted from the landfill operator to Environmental Fees as recorded in the general ledger.*

**Auditee’s Response:** Concur. Code Compliance agrees that deposits were incorrectly recorded to another solid waste revenue account (total revenue was correct; however, it was placed in the wrong line item). The mistake was located and corrected. We are implementing monthly reconciliations along with our monthly financial review for this account.

**Target Implementation Date:** January 10, 2023 for all FY 2023

**Responsibility:** D. Ben Carson, Jr., Code Compliance Sr. Administrative Manager

**Applicable Department Head:** Brandon Bennett, Code Compliance Director

**Applicable Assistant City Manager:** Valerie Washington, Assistant City Manager





### **3. Absence of monitoring led to failure to accrue and collect \$27,910.04 in hauling fees during FY2021.**

In January 2021, the City of Fort Worth increased the hauling fee from 5% to 10% for all haulers. One hauler failed to apply the new 10% rate resulting in the underpayment of its hauling fees to the City of Fort Worth of \$27,910.04. This under collection was identified fifteen months after the rate change had taken effect.

Monthly reconciliation and comparison of expected revenues to accounting reports facilitates accurate accounting, effective working capital management, and helps to mitigate under or overstatement of operating results.

**Recommendation 3:** *The Director of Code Compliance should require frequent review of expected revenues and actual remitted amounts from the haulers, and follow-up on any identified differences.*

**Auditee's Response:** Concur. The revenue was not missed or uncollected, it was accrued and collected late (following Fiscal Year). These revenues are reported quarterly in arrears. We currently perform monthly financial reviews, but implement quarterly reconciliations in Fiscal 2023

**Target Implementation Date:** February 10, 2023 to allow for 1<sup>st</sup> quarter receipts to post in January Fiscal period 4.

**Responsibility:** D. Ben Carson, Jr., Code Compliance Sr. Administrative Manager

**Applicable Department Head:** Brandon Bennett, Code Compliance Director

**Applicable Assistant City Manager:** Valerie Washington, Assistant City Manager