

● Funding & user fees / By Marc Rogoff, PhD

Each year, solid waste haulers pay hundreds of millions of dollars in franchise fees or gross receipt fees to local governments. Based on gross revenues billed to the haulers' customers, these fees compensate cities for the use of their streets and rights of way.

Because the resulting revenues may be used for any lawful purpose, the fees have a significant impact on local services.

Unfortunately, the task of ensuring that these revenues accurately reflect contract specifications often falls to overworked or inexperienced staff. As a result, local governments often use a third party to implement or oversee franchisee contract audits—often uncovering thousands of dollars in underreported revenue in the process.

Not all audits result in such windfalls. But in addition to providing solid waste franchisees with performance benchmarks, regular audits help public agencies manage the mountain of financial reports they receive from contractors.

Depending on complexity of the franchise agreement and the number of franchisees, audits take three to six months to complete and cost \$30,000 to \$100,000.

TECHNIQUES AND TOOLS

In August 2006, the city of Redondo Beach, Calif., employed a consultant to conduct a solid waste franchise audit. The audit, akin to an annual medical check-up, il-

lustrates some of the techniques and tests often used to ensure the franchisee properly bills and remits franchise fees to the local government.

The consultant audited franchisee Consolidated Disposal Services. Under terms of its solid waste handling services agreement with the city, Consolidated collects the city's refuse, green waste, recyclables, and household hazardous waste. In return, the company sends a monthly bill for the various fees for the exclusive right to provide refuse collection service to the city.

These franchise fees provide revenue for the city to fund its integrated solid waste management programs and activities. The fees include a combination of an amount per dwelling unit, a percentage of gross revenues, reimbursement for operation of the

household hazardous waste collection center, and a split in recycling revenues.

Upon request from the city, Consolidated gave the auditor financial and accounting records pertaining to cash, billing, disposal, and recovered materials sales transactions for the primary purposes of reviewing billing operations, accounts receivable, and disposal fee charges for the previous 12-month contract period.

Given the size of Consolidated's service area and number of accounts within the city, both the city and the franchisee agreed to a series of financial and billing tests. They included:

- Selection of a random three-month sample of monthly statements of fees payable submitted to the city by Consolidated

- A 15% sample of commercial bin service accounts

- A sample of the 100 largest multifamily accounts.

The auditor's aim: to verify supporting documents and schedules from Consolidated. The first test ensured source documents supported the monthly statements. The second test used account information maintained in Consolidated's customer database through the performance of selected site inspections to document service levels. Lastly, the consultant reviewed Redondo Beach City Planning Agency records and contacted customers to identify differences with the company's customer database.

Auditors took inventory of carts in this Charlotte County, Fla., neighborhood. The full audit took several months because auditors had to pull together different types of data. Photo: SCS Engineers



Get what you deserve

More local governments conduct regular audits to ensure they're getting their due from solid waste franchisees.

Top reasons to conduct an audit

Payback comes in many forms.

- Responds directly to specific citizen complaints
- Establishes measurable benchmarks for franchisee performance
- Knowing that everything is potentially auditable keeps franchisees "on their toes"
- Ensure customers are being billed correctly
- Ensures that you are receiving all fees due per local government ordinance or contract
- Establishes reimbursement for damages to the public right of way (e.g. maintenance costs from the impact of collection trucks on local streets and arterials)
- Generates funds to support specific solid waste management objectives (e.g., recycling programs, solid waste facilities, etc.)
- Generates additional revenues for local government to improve public infrastructure
- Provides funds that are now being paid from general fund (e.g., code enforcement, storm-water, etc.)
- Provides documentation when franchise renewals are being considered.

The audit revealed a number of important findings. Records for the commercial and multifamily accounts revealed that 14.3% of the 83 sampled accounts were billed incorrectly, of which 12% were under billed and 2.4% were over billed. Collectively, the 83 accounts were incorrectly billed by 10.9%.

The estimated annualized error was \$94,828, calculated by applying this error rate from the sample. They mostly found container errors—when the size of the containers in the field did not agree with the quantity and size of containers billed.

The auditor's review of the customer billing records also noted a minor error in

the customer billing rate for administrative fees due the city. Consolidated had billed each customer at a rate of 1.71% for administrative fees rather than the rate of 1.70% as noted in the agreement. A software glitch in the billing program developed by Consolidated's main headquarters caused this error. They corrected it in a revised billing schedule and issued customer reimbursements for overcharges.

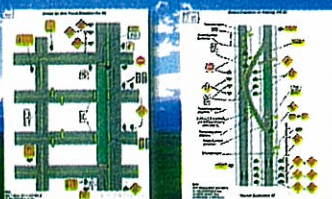
Lastly, the review of the monthly statements and multifamily accounts indicated that there were minor inconsistencies in revenues and house counts resulting in the franchisee overpaying recycling revenues to the city by about \$2000.

Redondo Beach used this "extra" money to pay for the cost of recycling services and household hazardous waste disposal.

INCONSISTENT REPORTING

In Marion County, Fla., each franchisee collecting commercial and construction and demolition debris must remit a fee

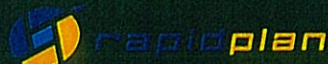
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of 10% of gross receipts to the county quarterly for services rendered to these customers. Pursuant to the county code, the county engaged a consultant to conduct an independent audit to ensure that their 22 franchisees complied with the requirements of the franchise and remitted the proper solid waste franchise fee to the county.

The objectives: to validate the franchisees' records and whether reasonable adjustments could be made based on solid waste industry standards.

As expected, the typical business practices of customer service, recordkeeping, billing software, and reporting varied dramatically from business to business, making the audit complex. Some firms used tailored financial software with online access while others used accounting software programs like Quicken, QuickBooks, customized templates using Microsoft Access or Excel, or manual data-entry forms.

The results of this six-month audit, completed in June, suggests that the definition of gross receipts varied, and as a

consequence, affected the total fees remitted to the county. For example, some haulers billed their customers the 10% franchise fee for all services, while others did not include items such as fuel adjustments charges, or fees for replacement of roll-off boxes on a jobsite. Others remitted only those franchise fees paid by their customers, not all gross receipts billed to their customers.

Franchisees owe Marion County nearly \$200,000 in additional franchise fees for the most recent fiscal year. These funds will be poured back into the solid waste department's services. **PW**

— Rogoff is a project director specializing in solid waste management and financial planning with SCS Engineers, Tampa, Fla.

Top 10 auditing issues

What to ask when working with potential solid waste franchisees.

- What is the definition of gross receipts or gross revenues in the franchise agreement or ordinance?
- Should sales tax be charged for solid waste collection services?
- Are service area boundaries clearly defined and addressed during customer signups?
- What kind of customer software does the firm use? Can it easily provide detailed reports?
- What level of accounting staff turnover is the franchisee experiencing?
- Do the customer records provided match actual experience gained by field audits?
- How many "write-offs" of invoice credits is the franchisee experiencing?
- Are there mathematical errors in reports provided to the local government?
- What is the level of customer satisfaction? What are the statistics on franchisee performance?
- Are billing practices standardized?

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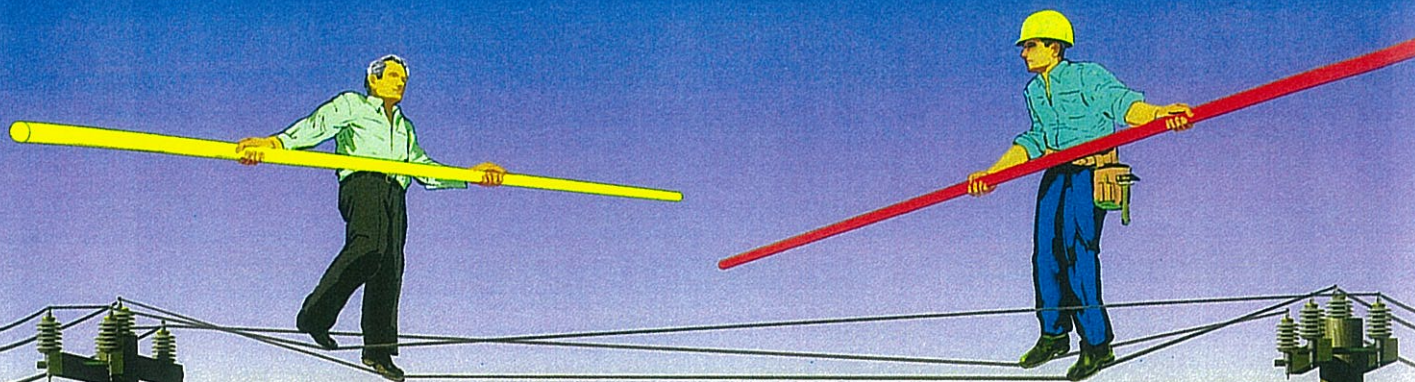
(l-r) Tommy, John and David at the Manchester Creek WWTP

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The balancing act

public vs. private in the right of way

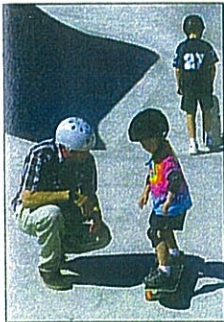
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Wash., builds
skateboard
park



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utilities and cities
go bad, right of
way can become
the victim. Thus
starts the balancing
act to keep both
parties happy.
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APWA preshow planner

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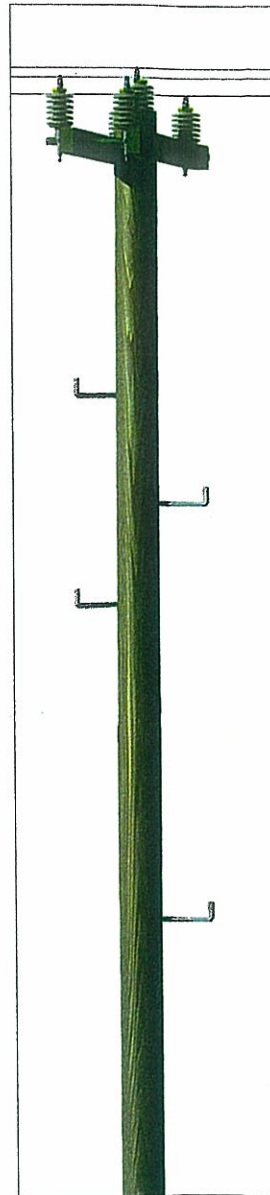
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Right of
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Who pays
to move
assets?