



**Compliance Audit 2019-04
Residential Solid Waste Fees**

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EXECUTIVE SUMMARY

The Office of Internal Audit conducted a performance audit of the City of Fayetteville's Public Services, residential solid waste fee. The City Code of Ordinances defines "solid waste" as the "accumulations consisting of any combination of business trash, wet or dry garbage, household trash, bulk items, yard waste and recyclables." The Solid Waste Division of the Public Services Department are required to provide residential solid waste collection, either directly or through a vendor contract, to include recycling, bulky items¹, residential and yard waste² collections to residents of the City of Fayetteville who pay the \$190 per year residential solid waste fee.

Effective July 1, 2008, City Council directed City management to create an enterprise fund for the purpose of administering a city-wide curbside recycling program. The 2008-2009 budget ordinance was adopted approving a budget of \$2.5 million in expenditures and a \$42 per year fee to be levied to fund the city-wide curbside recycling. However, the \$8.0 million expenditure budget for all other solid waste operations to include administration, bulky item, residential and yard waste collection remained accounted for in the General Fund. The accounting for the curbside recycling program remained exclusively in the Environmental Services fund until July 1, 2013.

On June 24, 2013, the 2013-14 budget ordinance was adopted approving a budget of \$10.4 million in expenditures and levying a \$38 per year solid waste services fee, expanding the accounting for all aspects of the City's solid waste services in the Environmental Services fund without increasing the residential solid waste fee to cover the expenditures that had historically been charged to the General Fund. As a result, based on the City's June 30, 2014 Comprehensive Annual Financial Report, the residential solid waste fee generated only \$2.3 million, and \$6.8 million was transferred from the General Fund to the Environmental Services fund to subsidize the City's solid waste services.

With a goal of eliminating the General Fund subsidy that had been required to support the solid waste operations since it was moved to the Environmental Services fund in fiscal year 2014, City Council adopted an increase in the 2018-2019 budget of the residential solid waste fee to \$190 per year. However, even with the \$11.5 million received in current year residential solid waste fees in fiscal year 2019, the General Fund was required to subsidize the Environmental Services fund.

The current processes, to include billing through the Cumberland County Tax Office and Fleetmind, a waste collection onboard communication system, were not integrated to ensure the City's residential solid waste fee was being levied and enforced consistently to support increasing the revenue for the Environmental Services fund and ultimately eliminating the subsidy from the General Fund. Therefore, the audit was included and approved in the Fiscal Year 2018-2019 Internal Audit Plan. The audit period covered the tax billings levied as of July 1, 2019. The objectives of the audit were to evaluate whether:

1. Residential solid waste fees were being assessed in accordance with established laws, regulations, guidelines, policies and procedures; and
2. The internal control environment related to assessing residential solid waste fees were sufficient.

This report addresses control weaknesses within the residential solid waste fee processes that negatively impacted the control environment. As a result, two findings were noted:

1. Completeness of revenue relating to the residential solid waste fees could not be measured.
2. Solid waste collections process using Fleetmind data could not be relied upon.

¹ City Code of Ordinances, Chapter 22, Section 22-10(8)(b)(4)(5) states, "bulky pickup service as described herein shall only be provided to single-family residential units."

² City Code of Ordinances, Chapter 22, Section 22-10(8)(a) states, "yard waste collection shall be provided only to single-family residential units as approved by the solid waste director or designee."

Internal Audit determined internal controls related to the residential solid waste fees needed improvement. The audit did not find evidence of intentional fraud. However, due to a lack of written departmental policies and procedures, and a lack of clarity in the City Code of Ordinances, Internal Audit could not ensure fraud, waste and abuse did not exist.

BACKGROUND

The Solid Waste Division of the Public Services Department are required to provide collection of bulky items, residential and yard waste to residents of the City of Fayetteville. Recycling is also provided to these residents by the City through a contract with Waste Management of Carolinas, Inc. The City Code of Ordinances Chapter 22, Solid Waste, Section 22-22, Solid Waste Collection Schedule and Services, states that the city shall provide household trash collection and refuse,³ on a scheduled day, one time per week for residential units only and one stationary container (lodal) per week.

On March 24, 2014, City Council awarded a contract to Fleetmind Solutions, Inc. for the purchase of software and hardware related to waste collection onboard communication systems. The council action memo stated Fleetmind would be used with Route Smart, the current software used for routing efficiencies; with expected results of increased accountability by the collectors, provide seamless work order solutions, better cart control and customer service response time, which would ultimately reduce costs of the operation. The customer data in Fleetmind would be used in conjunction with Route Smart.

City Council adopted an increase of the residential solid waste fee to \$190 per year in the 2018-2019 budget with the goal to eliminate the General Fund subsidy that was required to support the solid waste operations since the Environmental Services fund began accounting for all solid waste services in fiscal year 2014. However, even with the \$11.5 million received in current year residential solid waste fees in fiscal year ending June 30, 2019, the General Fund still had to subsidize the Environmental Services fund.

The current processes, to include Fleetmind and the billing systems through the Cumberland County Tax Office, were not integrated to ensure the City's residential solid waste fee was being levied and enforced consistently to support increasing the revenue for the Environmental Services fund and ultimately eliminating the subsidy from the General Fund.

AUDIT OBJECTIVES

The objectives of the audit were to evaluate whether residential solid waste fees were being assessed in accordance with established laws, regulations, guidelines, policies, and procedures; and the internal control environment related to assessing residential solid waste fees were sufficient.

AUDIT SCOPE

The audit period covered the tax billings levied as of July 1, 2019.

Internal Audit used a complete listing of active customer addresses (61,597) from Fleetmind and compared them to the Cumberland County Tax Office listing of parcels (61,501) that had been assessed a City residential solid waste fee to determine if all households receiving City solid waste services were assessed the residential solid waste fee.

³ City Code of Ordinances, Chapter 22, Section 22-22(2), states "Refuse, other than garbage or heavy debris, from residential units only properly containerized or as prescribed by section 22-10(8) on a scheduled day, one day per week." Please see footnote (1) and (2) reflecting yard waste and bulky item collection as reflected in City Code of Ordinances, Chapter 22, Section 22-10(8).

AUDIT METHODOLOGY

In order to accomplish the objectives of the audit, the Office of Internal Audit performed, but was not limited to, the following:

- Interviewed Public Services personnel;
- Reviewed the City of Fayetteville Municipal Code of Ordinances and North Carolina General Statutes for compliance;
- Compared customer information in Fleetmind to a report from the Cumberland County Tax Office of addresses that were assessed a residential solid waste fee;
- Reviewed the Cumberland County Property Tax records;
- Conducted a physical observation of refuse containers for selected households; and
- Considered risk of fraud, waste and abuse.

FINDINGS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSES

Finding 1

Completeness of revenue relating to the residential solid waste fees could not be measured.

Criteria: Clear guidelines should be established to determine when the City should provide solid waste services and assess the residential solid waste fee.

Cause: The City Code of Ordinances Chapter 22, Solid Waste was not clear and left up to interpretation allowing for solid waste services to be provided inconsistently.

Condition: Internal Audit reviewed the City Code of Ordinances Chapter 22, Solid Waste and conducted tests to determine if residential solid waste fees were assessed to all property owners who should be receiving solid waste services. However, Internal Audit could not determine what services are included and who should be assessed the residential solid waste fee due to clarification needed in the City Code of Ordinances in the following areas:

1. Determine what solid waste services were included in the \$190 residential solid waste fee;
2. Determine if single business units or establishments were to receive solid waste collection services;
3. Determine which households were considered multi-family;
 - a. Define a 'residential unit', 'multifamily residential group development', 'multifamily group development', 'public housing complex', 'residential subdivision' and 'mobile home park', and when these would be considered part of a 'group development'; and
 - b. Define when the City provides solid waste service to separate ground level entrance units.
4. Define 'public street' or 'private street', and when solid waste services should be provided on each street type;
5. Address "opting-out" of solid waste services; and
6. Ensure the language was consistent with the adopted fee schedule.

Effect: Without clear guidance within the City's Code of Ordinances, solid waste services were provided without assessing the residential solid waste fee, residential solid waste fees were assessed when services were not provided, and the City is not providing solid waste services as defined in the City Code of Ordinances.

Recommendation

The Office of Internal Audit recommends management:

1. Solicit City Council's support on updates necessary to the City Code of Ordinances Chapter 22, Solid Waste as it will be essential to ensure adherence to the City Code of Ordinances; and
2. Coordinate with the City Attorney's office to update the City Code of Ordinances to allow solid waste services to be provided consistently and ensure the residential solid waste fees are being assessed appropriately. Any updates to the City Code of Ordinances should ensure compliance with North Carolina General Statutes.

Management's Response

We concur with reservations. Management is in agreement with the recommendation, but there are circumstances that could affect its implementation which have to be resolved.

Management will seek council direction regarding level/scope of solid waste services. Full implementation of 'Recommendation #1' is contingent upon continuation of the 'existing' level/scope of services within solid waste division with no significant additions such as service to multi-family units or commercial facilities.

Responsible Party: Public Services Director

Implementation Date: Management will seek Council support in the format of a preliminary work session presentation by April 30, 2020 and follow up ordinance updates by September 30, 2020 contingent upon continuation of the 'existing' level/scope of services within the solid waste division.

Finding 2

Solid waste collections process using Fleetmind data could not be relied upon.

Criteria: Processes developed by management should not only ensure proper controls, safeguards and segregation of duties are in place, but that processes comply with federal, state and local requirements, when applicable. These processes should address data integrity within Fleetmind to ensure accurate information is used for route optimization.

Cause: When Fleetmind was introduced in 2014, addresses were uploaded into Fleetmind from a spreadsheet maintained by another department, and an address audit was not conducted to ensure the validity of those addresses. Adding new addresses and inactivating addresses where service should no longer be provided was a manual process completed based on notification from a resident or solid waste equipment operator. In addition, all solid waste equipment being utilized were not equipped with Fleetmind technology, and the equipment operators had to use paper routing logs with no ability to electronically report when an address needed updated in Fleetmind.

Condition: Internal Audit compared 61,597 active customer addresses in Fleetmind with a Cumberland County Tax Office listing of 61,501 parcels that had been assessed a City residential solid waste fee to determine if all households receiving City solid waste services were assessed the residential solid waste fee. Based on this comparison, the following observations were made:

1. All active customer addresses in Fleetmind were not assessed a residential solid waste fee; and
2. All addresses assessed a residential solid waste fee were not in Fleetmind as solid waste customers.

Physical observations were conducted on a sample of addresses to determine the validity of the exceptions and the following was confirmed:

1. Addresses listed as active customer addresses in Fleetmind need to be inactivated; and
2. Addresses needed to be added or activated in Fleetmind.

Effect: Without valid customer addresses in Fleetmind, the Department will not be able to utilize Fleetmind addresses to optimize the residential solid waste routes or provide an accurate count of the households in which residential solid waste services are provided. Without an accurate count of households, the City could be overpaying the vendor providing recycling collections for the City. In addition, Fleetmind data is utilized by the Solid Waste Division's webpage to determine the pickup days for a household which could provide inaccurate information if the customer addresses in Fleetmind are not valid and up to date.

Recommendation

The Office of Internal Audit recommends management:

1. Update the customer addresses in Fleetmind consistent with current routes.
2. Develop a process to add, activate and deactivate addresses in Fleetmind as needed to maintain current, accurate, valid data.
3. Develop comprehensive written policies and procedures to maintain Fleetmind data integrity, once the processes are established.

Management's Response

Please find below responses to items listed under 'Recommendation #2':

1. We Concur. Management is in full agreement with the recommendation.

Management concurs with recommendations to update the customer address in Fleetmind consistent with the current routes and existing level of service. Services will be field verified and updated into Fleetmind one record at a time.

2. We concur with reservations. Management is in agreement with the recommendation, but there are circumstances that could affect its implementation which have to be resolved.

Management concurs with the need to develop a process to add, activate and deactivate addresses in Fleetmind to maintain a current, accurate, and valid data base. However this process is contingent upon the outcomes of 'Recommendation #1'. Further, full implementation of these processes involves compliance and cooperation from entities outside the direct control and influence of the Solid Waste Division such as CoF's Planning Division, Cumberland County and FleetMind Vendor. Implementation dates provided below are for those activities that are within the direct control and influence of the Solid Waste Division as well as what can be accomplished within Council appropriated budgetary limits.

3. We concur with reservations. Management is in agreement with the recommendation, but there are circumstances that could affect its implementation which have to be resolved.

Management concurs with the need to develop comprehensive written policies and procedures to maintain Fleetmind data integrity. However this process is contingent upon the outcomes of 'Recommendation #1'. Further, full implementation of these processes involves compliance and cooperation from entities outside the direct control and influence of the Solid Waste Division such as CoF's Planning Division, Cumberland County and FleetMind Vendor. Implementation dates provided below are for those activities that are within the direct control and influence of the Solid Waste Division as well as what can be accomplished within Council appropriated budgetary limits.

Responsible Party: Public Services Director

Implementation Date: Please find below implementation date for each item:

1. Public Services Solid Waste Division will update the customer address in FleetMind consistent with the current routes and existing level of service by March 31, 2020.

2. Public Services Solid Waste Division will develop a process to add, activate and inactivate addresses in Fleetmind to maintain a current, accurate, and valid data base by June 30, 2022 contingent upon management responses.
3. Public Services Solid Waste Division will develop comprehensive written policies and procedures to maintain Fleetmind data integrity by June 30, 2022 contingent upon management responses.

CONCLUSION

Internal Audit has concluded work on the audit of residential solid waste fees. Based on Internal Audit's review, the City Code of Ordinances needs updating to provide clarity on who should receive solid waste services and be assessed the residential solid waste fee. Once the City Code of Ordinances is updated, clear processes with written policies and procedures need to be established to ensure the City Code of Ordinances is being followed. Fleetmind must also be updated to reflect all active and inactive customers. The implementation of the audit recommendations should result in consistent collection of solid waste and residential solid waste fees.

Although the management responses are included in the audit report, Internal Audit does not take responsibility for the sufficiency of these responses or the effective implementation of any corrective actions.

Internal Audit would like to thank Department personnel for their assistance and numerous courtesies extended during the completion of this audit.

Signature on File

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