

# REPORT HIGHLIGHTS

Seattle Office of City Auditor – April 9, 2008

A copy of the Office of City Auditor's report regarding Seattle Public Utilities' (SPU) Commercial Solid Waste Revenue Cycle can be obtained at the Auditor's website at <http://seattle.gov/audit> or by calling (206) 233-3801. Please direct any questions or comments regarding this report, or suggestions for future audits to Susan Cohen, Seattle City Auditor, at (206) 233-3801 or [susan.cohen@seattle.gov](mailto:susan.cohen@seattle.gov).

## SEATTLE PUBLIC UTILITIES COMMERCIAL SOLID WASTE REVENUE CYCLE



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### AUDIT OBJECTIVES

We evaluated internal controls over the billing and collecting of commercial solid waste services fees.

### BACKGROUND

SPU provides solid waste collection, processing, and disposal services to about 9,000 commercial customers in the City. SPU outsources many of the functions associated with these services, including waste collection, some waste processing and transfer, waste transport and long-term disposal, and customer billing and administration services. In 2007, SPU received over \$42 million from commercial solid waste customer fees for these services.

### AUDIT CONCLUSIONS

Overall, we found internal controls were adequate for the policies, procedures, and operations involved in billing and collecting fees for Seattle Public Utilities' (SPU) commercial solid waste services. However, we noted several significant issues. Controls relating to delinquent account collections functions need improvements so that SPU can maximize its revenue recoveries. There are also issues related to vendor services, including the need for better verification of tonnages used to calculate vendor charges, improved contractor reporting of customer complaints, and the need for SPU to assess penalty fees to contractors for service failures. We are pleased that SPU has provided 'Action Plans' to address the findings in this report, which are listed in the table at the end of this document.

### Commercial Solid Waste Revenues

2002	\$36,721,223
2003	\$38,470,511
2004	\$37,725,319
2005	\$38,138,589
2006	\$38,608,478
2007	\$42,425,594

**Delinquent Account Collections:** Controls over the collections functions for delinquent commercial solid waste accounts need significant improvement. Delinquent accounts are not consistently sent to SPU's collection agency in a timely manner, accounts in collections are not adequately tracked and monitored, adequate support and documentation are not provided to the collection agency, and collection policies and procedures are contributing to the poor collection rate for these accounts. Customer payments made to the collection agency are not transferred to the City in a timely manner, and there are some issues related to collection fees and collection agency commission charges, including the way fees are applied to accounts and SPU's lack of validation of charged fees. In addition, customer payments made directly to the contractors are not consistently reported to SPU.

## AUDIT CONCLUSIONS (Continued)

**Vendor/Contractor Services:** There are issues that need to be addressed related to outsourced solid waste services. Procedures were not adequate to ensure SPU was charged accurately for yard waste processing tonnage due to the truck weighing procedures at the vendor's scale house, but the vendor has since changed their procedure. Better verification is needed of tonnage numbers used to calculate charges for transfer services, yard waste processing, recycling processing, and the monthly recycling commodity credit SPU receives for recycling waste. SPU is not assessing penalty fees to the waste collection contractors for service failures, such as missed pick-ups, in accordance with contract terms, and this may be partly due to the contractors' inadequate reporting on customer calls and complaints. In addition, all of the critical scales involved in the SPU solid waste processes need to be licensed with and tested by the State of Washington Weights and Measures unit.

### Other Significant Findings:

- ❖ SPU's should improve its review of contractor adjustments to customer accounts.
- ❖ A significant percentage of commercial customers consistently pay a month or more late, and this trend may be increasing. Interest fees charged to delinquent accounts do not appear to be adequate to encourage timely payment.
- ❖ Some improvements are needed with contractor and SPU customer communications related to delinquent commercial solid waste accounts.

### SPU Commercial Solid Waste Revenue Cycle - Risk Matrix

**Green:** Low risk – Internal controls appear to be adequate

**Yellow:** Medium risk – It would be ideal to strengthen internal controls

**Red:** High risk – Internal controls should be strengthened as soon as possible

Scope Area and Issues	Risk Level
Rates and Service Usage	Green
Billing and Account Adjustments	Yellow
Payment Processing and Remittance of Payments	Green
Accounts Receivable Management	Yellow
Collections, Dishonored Items, and Write-Offs	Red
Fund Accounting – Revenues and Receivables	Yellow
Information Technology	Green
Vendor Billing, Contracts, and Performance	Yellow



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### SIGNIFICANT AUDIT RECOMMENDATIONS

- 1) SPU's collections policies and procedures should be strengthened and compliance with existing collections procedures needs to be improved. Specifically, accounts should be submitted timely to the collection agency, tracked and monitored, reconciled to collection agency data, and commission fees charged should be validated. Proper backup and support should be provided to the collection agency and all direct payments should be reported by the contractors.
- 2) Policies and procedures related to delinquent accounts should be re-evaluated given the numbers of customers who consistently pay late.
- 3) The solid waste contractors should provide adequate reporting on customer calls and complaints, and SPU should assess penalties for contractor service failures, as specified in the contract terms, or the terms should be revised.
- 4) SPU should strengthen procedures for invoice review for transfer services, yard-waste processing services, and recycling processing services.

<b>Audit Conclusion</b>	<b>Risk</b>	<b>Management Action Plan</b>
1. Customer Account Adjustments - SPU is not periodically reviewing Waste Management's customer account adjustments, as is done for Allied Waste/Rabanco.	High	SPU Finance reviewed Waste Management's customer adjustments during their 2007 billing review. Beginning in 2008, SPU will request Waste Management provide detailed customer adjustments reports, and SPU will review these annually.
2. Contractor Remittance of Customer Payments - Controls could be improved to ensure timely remittance of customer payments.	Medium	All contractors will transmit payments daily beginning in April 2009, with the implementation of the new solid waste collection contracts.
3. Accounts Receivable Aging Reporting - There are no regular aging reports prepared for Commercial Solid Waste Accounts Receivable.	Medium	SPU has requested the contractors to provide monthly aging reports. These reports will be reviewed and followed up on by SPU accounting staff on a monthly basis starting in 2008.
4. Customer Delinquency Rates - A significant percentage of commercial customers consistently pay a month or more late, and this may be increasing.	High	SPU will analyze the delinquent rates of each contractor, evaluate current policies and procedures and take necessary actions to minimize delinquencies. Estimated to be completed by October 2008.
5. Interest and Penalties for Delinquent Accounts - Interest fees charged do not appear to be adequate to encourage timely payment.	High	1) SPU will not pursue the unpaid interest fees. 2) Since September 2007, both contractors have been providing SPU with itemized information on delinquent accounts. 3) SPU will consider the options recommended to increase incentives for timely payment, and will make a decision on these by early fall 2008.
6. Contractor/SPU Communications - Some improvements are needed with contractor and SPU customer communications related to delinquent commercial solid waste accounts.	High	As part of the next annual review, SPU will request: 1) Contractors send the demand letter earlier, 2) Accounts are not referred to as "closed," 3) Bills display interest will be assessed.
7. Timeliness of Account Turn-In to Collection Agency - Delinquent commercial solid waste accounts are not sent to collections timely.	High	1) The contractors began sending monthly detailed reports in September 2007 and SPU Accounts Receivable (AR) forwards them to Treasury for collection as soon as possible. 2) SPU will work with the contractors and Treasury to resolve the issue of timing of the demand letter. 3) Treasury will forward all eligible items for collection to NCO in a timely manner.
8. Monitoring Accounts in Collections - SPU is not adequately monitoring the performance of the commercial accounts in collections.	High	1) Treasury now provides SPU AR a report on accounts in collections. SPU AR is working on an efficient way to reconcile this to their data. Once AR can reconcile to Treasury's data, Treasury will begin to reconcile to NCO's data. 2) SPU AR will continue to work with the contractors to send all the information needed to SPU.
9. SPU/City/Contractor Support for Collections Effort - The collection agency does not receive the support and documentation it needs from the contractors, SPU, and Treasury.	High	See Conclusion #5 and # 7: Accounts Receivable will continue to work with Treasury, NCO and the contractors to address any concerns that may arise.

10. Collection Rate Performance - Procedures are not adequate to maximize the collection rate and revenue recoveries.	High	See Conclusion #5. SPU will work with Treasury to ensure accounts are passed to NCO timely and start measuring NCO's collection rate performance in the spring of 2008.
11. Collection Agency Remission of Customer Payments - Policies and procedures governing the remission of customer payments to the collection agency need improvements.	High	When the City looks to negotiate a new collections contract, all of the cash flow terms and policies will be taken into consideration.
12. Collection Agency Commission Fees - Policies and procedures related to collection agency commission fees need some improvement.	High	1) See Conclusion 11. 2) SPU AR will verify NCO's commission fees charged, beginning in spring 2008.
13. Direct Payments - Controls related to direct payments need improvement.	High	SPU will reinforce to the contractors the importance of reporting all direct payments and work with them on a process for re-opening inactive accounts.
14. Customer Account Write-Offs - SPU is not consistently writing off accounts timely, per policy.	Medium	SPU's current practice is to write off accounts that are more than one year old. SPU will provide instruction and training to its staff to follow this guideline.
15. Reconciliation of Receivable Accounts - The Commercial Solid Waste Receivable accounts were not being reconciled frequently.	Medium	SPU will reconcile commercial solid waste receivables to the General Ledger on a monthly basis beginning in 2008. Variances will be researched. Reconciliations will be reviewed and approved.
16. Yard and Food Waste Processing Tonnage Charges - Control procedures are not adequate to ensure SPU is charged accurately for tonnage for yard waste processing services.	High	Cedar Grove, the composting vendor, implemented automatic scale data entry in December 2007 as recommended. Manual entry was eliminated.
17. Review and Approval of Yard Waste Processing Invoices - Improved procedures are needed for the review of invoices for yard waste processing.	Medium	1) SPU implemented a monthly query of scale data in December 2007. 2) SPU began routinely checking scale tickets against monthly invoices in January 2008.
18. Transfer Services Invoicing - Verification of transfer tonnage invoiced needs strengthening.	High	SPU will sample and check scale tickets against submitted scale data during the annual SPU contractor review beginning in 2008.
19. Invoicing for Recycling and Commodity Credit - Verification of recycling tonnage could be improved.	High	SPU will sample and check scale tickets against submitted scale data during the annual contractor review beginning in 2008.
20. Certification of Scales - None of the critical scales involved in the SPU solid waste processes have been licensed with or tested by the State.	High	SPU has requested that all critical scales be licensed with the State by May 2008 and that licensing is maintained in all future years.
21. Customer Complaint Tracking - Contractor reporting provided to SPU on customer complaints is inadequate.	High	1) SPU now receives detailed quarterly complaint logs from Waste Management and will require monthly logs from both contractors beginning May 2008. 2) SPU will expand the monthly complaint summary reporting to include complaints other than "missed."
22. Assessment of Penalties for Customer Service Failures - SPU is not assessing penalties for service failures, except for noise violations.	High	1) SPU tracks complaints and assesses penalties per contract based on customer calls or letters to the City. 2) SPU will monitor contractor complaint logs beginning in May 2008 for any other non-compliance.