



**Council Auditor's Office**

**Follow-Up on Nonresidential Solid Waste Franchise Fees Audit**

**Report #793B**

**Released on:** December 19, 2022

**OFFICE OF THE COUNCIL AUDITOR**  
 Suite 200, St. James Building



December 19, 2022

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Honorable Members of the City Council  
 City of Jacksonville

The purpose of this report is to document our second follow-up review of our past report #793, Nonresidential Solid Waste Franchise Fees Audit, and to determine whether corrective action has been taken in response to our findings and recommendations. We are providing this special written report in accordance with Ordinance Code Section 102.102. This report does not represent an audit or attestation conducted pursuant to Government Auditing Standards. The initial audit report and first follow-up can be found on our website.

We sent a follow-up letter to the Administration on August 31, 2022, inquiring as to the status of the original audit report and follow-up report recommendations. We reviewed the recommendations from our audit report and previous follow-up report, the auditees’ responses to the recommendations, and the auditees’ responses to our follow-up letter. We then performed limited testing to verify the responses to the follow-up letter. Based on the responses received and our follow-up testing, a table detailing the original number of issues noted and the number of issues resolved as of this follow-up is included below.

<b>Types of Issues</b>	<b>Original Number of Issues</b>	<b>Issues Cleared Prior to This Follow-up</b>	<b>Remaining Issues Prior to This Follow-up</b>	<b>Issues Cleared During This Follow-up</b>	<b>Remaining Issues</b>
Internal Control Weaknesses	2	2	0	0	0
Findings	8	4	4	2	2
Opportunities for Improvement	4	4	0	0	0
<b>Total</b>	<b>14</b>	<b>10</b>	<b>4</b>	<b>2</b>	<b>2</b>

The following is a brief summary of the remaining issues with responses from Steve Long, Director of Public Works Department, that we received on December 16, 2022.

**Finding 1 \*Understated Franchise Fees Submitted to City\***

In the original audit, we found some franchisees inaccurately calculated franchise fees owed to the City due to those companies excluding various fees from gross receipts. We recommended the Solid Waste Division work with the Office of the General Counsel, the Administration, and the City Council (as

needed) to address the underpayments from past years. Additionally, we recommended the Solid Waste Division obtain an official signed confirmation from each franchisee annually that certain fees are not being excluded from the calculation of gross receipts.

During the first follow-up review, we found that one company had not made any payments to determine underpayments related to issues noted in the original audit – we estimated approximately \$300,000 was underpaid for 2015. We also found issues with the exclusion of various fees from the calculation of gross receipts and recommended that the Solid Waste Division start conducting periodic testing to confirm that franchise fees are calculated accurately

During this second follow-up review, we still found no evidence that an agreement was reached, or payments were made by the company that was found in the original audit to have underpaid approximately \$300,000 in 2015. We recommend the Public Works and the Administration work to address this item.

We also found issues with the periodic testing instituted by the Solid Waste Division to determine if franchise fees are being calculated accurately, as recommended during our first follow-up. We found the following issues when reviewing the division’s files from their October 2021 review:

1. Two companies stated in their questionnaires returned to their Solid Waste Division that they exclude some fees, which should have been included per the municipal code.
2. One company provided invoices with multiple franchise fees listed on the invoices, which is not allowed per the municipal code.

It appears that although these issues were apparent based on the documentation on file, nothing indicates these issues were identified or addressed. We recommend that Solid Waste Division improve the periodic testing to ensure that issues noted do not go unnoticed and are addressed.

***Public Works Department Response to the Follow-Up of Finding 1***

Agree

Disagree

Partially Agree

*Regarding the underpaid and uncollected amount by one hauler as identified in the audit, a meeting was held with the new hauler (purchased old hauler in 2020) on Friday, December 9<sup>th</sup> to discuss the issue. After discussions concluded, follow up correspondence was received from the Haulers attorney indicating that no payments would be remitted. Reasons stated for the unwillingness to make payment include:*

- 1. The original hauler that incurred the fee was later purchased by the current hauler and the outstanding debt was not disclosed during the purchase.*
- 2. The statute of limitations for the issue has expired so no legal basis exists for the claim.*

*After additional review, the Solid Waste Division has confirmed the statute of limitations has expired for the claim. Therefore, the matter is considered to be closed.*

*Regarding the periodic invoice testing efforts, the SWD Accounting Manager will review the invoices sampled, to ensure appropriate action is taken going forward. This includes requiring necessary corrections to franchise company invoices and submitting these results to the franchisee's independent auditor to help ensure compliance.*

**Finding 4 \*Issues with Insurance, Bonds, and Annual Reports\***

During the original audit, we found various issues related to insurance certificate documentation, payment bond documentation, and the annual reports from the franchisees. We recommended the Solid Waste Division:

1. establish internal controls to improve compliance with the Municipal Code regarding insurance, payment bond, and reporting requirements,
2. seek to change the Municipal Code requirements to address the timeliness issue for submission of the annual reports,
3. train its staff to always date stamp annual reports, and
4. work with the Risk Management Division to update the Municipal Code’s insurance requirements so the City is adequately protected.

During the first follow-up review, we still found issues with insurance certificates, payment bonds, and the annual reports.

During this follow-up review, we found issues with the following:

1. Four companies had expired certificates of insurance on file.
2. Nine companies did not have current bond documentation on file.
3. One company was not charged a 10% late fee for submitting the annual report past the due date.

We recommend that they ensure proper procedures are in place and being followed to help avoid these types of issues in the future.

***Public Works Department Response to the Follow-Up of Finding 4***

Agree                       Disagree                       Partially Agree

*SWD will request certificates of insurance (COI) 30 days prior to the current COI expiration date. In addition, as part of the annual renewal, SWD will request written bond continuation notifications for companies that do not send annual renewal notices. The Non-Residential Franchise Application Review SOP has been updated to reflect these changes.*

*Additionally, the 10% late fee has been charged and paid by the franchisee for the late submittal of the annual report.*

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We would like to thank the Solid Waste Division for their cooperation in conducting this follow-up review.

Respectfully submitted,

*Kim Taylor*

Kim Taylor, CPA  
Council Auditor