

DEPARTMENT OF ENVIRONMENTAL SERVICES
BUREAU OF OPERATIONS
SOLID WASTE COLLECTION DIVISION
REVIEW OF COMMERCIAL REFUSE BILLING

Distribution: Lovely Warren, Mayor
Dr. Cedric Alexander, Deputy Mayor
Norman Jones, Commissioner
Tim Curtin, Corporation Counsel

Office of Public Integrity
Date: May 22, 2018

I. EXECUTIVE SUMMARY

In this review, the Office of Public Integrity (OPI) examined the commercial refuse billing activity to determine the effectiveness of internal controls and the propriety of customer bills relative to services received. The results of the review indicate that, in general, internal controls over commercial refuse billing are adequate and commercial refuse account holders are being properly billed for services provided. However, we noted the following findings that require management attention to improve administrative and internal controls and to ensure compliance with prescribed policy.

- ◆ OPI noted incorrect refuse charges for 11 of the 187 commercial refuse accounts selected for detail testing. This is an error rate of 5.9%. This included 9 undercharges totaling \$714.51 and 2 overcharges totaling \$59.29.
- ◆ OPI could not locate a customer file and customer service agreement for 9 of the 187 commercial refuse accounts examined. This is an error rate of 4.8%.
- ◆ OPI could not locate current commercial refuse agreements for 8 of the 187 accounts examined. In all cases the files for these account holders contained outdated agreements. This is an error rate of 4.3%.

II. BACKGROUND, OBJECTIVES AND SCOPE

A. Assignment

OPI routinely reviews City operations and internal controls. This review of commercial refuse billing is included in OPI's audit plan. We performed the last review of this area in May 2005.

B. Background

The Department of Environmental Services, Bureau of Operations, Solid Waste Collection Division, is responsible for collecting refuse and recycling selected materials for residential and commercial customers. It performs code enforcement activities, and renders bills for commercial refuse collection services. Among other responsibilities, the staff of the Division also administers the commercial refuse billing system, responds to customer inquiries, directs code enforcement activities, and licenses commercial refuse haulers who operate within the boundaries of the City. The City Code establishes the City's requirements for managing solid waste collection.

Commercial Refuse Collection provides service to commercial, retail and food service establishments, City School District facilities, several County operated facilities, and residential properties with four or more units. The Division maintains refuse data in the Refuse Information System (RIS). Commercial customer rates vary with the frequency and volume of collections. This information is the basis of the RIS billing system that generates quarterly bills to customers. Commercial customers may choose either the City or other licensed, private haulers to provide their collection service.

Currently, fiscal year-to-date revenues for commercial refuse collection are \$2,840,012 as of March 31, 2018. At the time of our review the City had 2,404 customers on the RIS. This number fluctuates throughout the year as accounts are added or customers discontinue service.

C. Objective and Scope

The objectives of the review were to assess the adequacy and effectiveness of internal controls within the commercial refuse billing operation and, to determine if the Department of Environmental Services properly billed commercial customers for refuse collection services. The review included an examination of services and transactions affecting commercial accounts billed on the quarterly billing register prepared in October 2017 for the quarter ending December 31, 2017. OPI examined 187 customer accounts selected using statistical sampling methods. As a result, the results of the sample examination are representative of the entire population.

Management is responsible for establishing and maintaining a system of internal accounting and administrative control. Fulfilling this responsibility requires estimates and judgments by management to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of accurate, informative reports that are fairly stated.

Because of inherent limitations in any system of internal accounting and administrative control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any system evaluation to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) and the International Standards for the Professional Practice of Internal Auditing. 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.

The recommendations presented in this report include the more significant areas of potential improvement that came to our attention during the course of the examination, but do not include all possible improvements that a more extensive review might develop.

III. RESULTS OF REVIEW

The results of the review indicate that, in general, internal controls over commercial refuse billing are adequate and commercial refuse account holders are being properly billed for services provided. However, we noted the following findings that require management attention to improve administrative and internal controls and to ensure compliance with prescribed policy.

A. Incorrect Commercial Refuse Bills

Each commercial customer's RIS account file contains a detailed listing of refuse collection services that the City provides to the customer. This listing specifies sizes of containers, type of refuse (high grade, corrugated, etc.), number of containers, quantity of bulk, the charge for each service, and the total cost of services to the customer. These services are the basis of charges to each customer and appear on each customer's quarterly bill.

To determine if the Solid Waste Division properly billed customers for services rendered, OPI selected a statistical sample of commercial customer accounts. The sample selection assured proper representation throughout the entire population of commercial accounts and accurately projects the results against the entire population.

OPI selected 187 accounts for testing. Out of this sample, OPI determined that 11 customer bills were incorrect for the services rendered at the account locations based on the routing document descriptions and customer account files. This represents a sample error rate of 5.9%. This included 9 undercharges totaling \$714.51 and 2 overcharges totaling \$59.29. The following table presents the exceptions from the sample selection

Address	Over/(Under) Billed	Reason for Incorrect Charge
3252 Lake Ave	\$-19.37	Charged curb rate. Should be on-property rate.
346 E Ridge Rd	\$32.51	Charged commercial rate. Should be Residential rate.
1100 Hudson Ave	\$-30.01	Not paying rent for weeks with no pickup.
1175 Norton St	\$-56.24	Not paying rent for 4-yard dumpster
197 Emerson St	\$-28.86	Charged curb rate. Should be on-property rate.
449 Hudson Ave	\$-8.84	Charged curb rate rent. Should be on-property rate.
89 State St	\$26.78	Incorrectly charged rent for 2 recycling totes.
89 Westminister Rd	\$-4.52	Variance between rate schedule & rate billed.
395 Richs Dugway	\$-483.13	Variance between rate schedule & rate billed.
1564 Mt Hope Ave	\$-28.86	Charged curb rate. Should be on-property rate.
1000 E Henrietta Rd	\$-54.68	Variance between rate schedule & rate billed.

When OPI extends the sample error rate of 5.9% to the entire population of 2,404 customer accounts, the projection indicates that RIS incorrectly bills a range of between 2.3% and 12.5% of the customer accounts, or between 55 and 301 accounts by not correctly charging these customers for services actually provided or contracted. This condition can potentially have an adverse effect on revenues reported for commercial refuse collection.

◆ Recommendation

The Solid Waste Collection Commercial Refuse unit should systematically review commercial refuse accounts to identify customers with incorrect bills or those not billed for services provided, and update those accounts appropriately.

B. Customer Accounts With Inadequate Supporting Documentation

The Solid Waste Collection Commercial Accounts Representative usually prepares the service agreements that identify a customer's services and related charges. Solid Waste Collection personnel also record the appropriate information needed to generate the quarterly RIS bills. The Accounts Representative maintains these service agreements in customer files.

At the time of our review, the City had 2,404 commercial account customers, with Solid Waste Collection maintaining the customer files at their location. Customer files should contain all documentation supporting service to each location and amounts billed to each customer. Of the sample selection of 187 commercial accounts, Solid Waste Collection was

unable to locate customer files or customer agreements for 9 accounts. This is a sample error rate of 4.8%. When this sample error rate is statistically projected against the entire population of 2,404 commercial accounts, the results indicate that between 40 and 269 commercial accounts will not have customer files or customer service agreements that Solid Waste will locate.

In addition, 8 of the found 187 customer files did not have a current service agreement. This represents a sample error rate of 4.3% of the total sample. When this sample error rate is statistically projected against the population of commercial accounts, the results indicate that between 28 and 235 accounts are without a current service agreement for the services that the City provides and bills.

Commercial Refuse Collection Accounts
Statistical Sample Selection Exceptions
Discrepancies in Customer Account Documentation

Customer Files Not Found

245 W Ridge Road

435 Ridgeway Avenue

523 Remington Street

392 St. Paul Street

402 Scio Street

33 Windsor Street

638 Brown Street

159 Bartlett Street

192 Flint Street

Current Agreements Not On File

4531 Lake Avenue

541 Lyell Avenue

449 Hudson Avenue

10 Franklin Street

101 S Plymouth Avenue

159 Caroline Street

190 Culver Road

1174 Monroe Avenue

◆ Recommendation

The Solid Waste Collection Division should maintain adequate documentation supporting amounts billed to all customers and correct the discrepancies found.

IV. DEPARTMENTAL RESPONSE

The response of the Department of Environmental Services to this report begins on the next page.



City of Rochester


Department of Environmental Services
City Hall Room 300B, 30 Church Street
Rochester, New York 14614-1290
www.cityofrochester.gov



Norman H. Jones
Commissioner

Inter-Departmental Correspondence

To: Tim Weir, Director of Office of Public Integrity

From: Norman H. Jones, Commissioner of DES 

Date: May 15, 2018

Subject: **Response to Audit of the Commercial Refuse Billing Process**

I have reviewed your audit findings we understand the Commercial Refuse Division has opportunities for improvement, we'll work as a team with Director of Operations Karen St Aubin directed to work to implement new processes.

Thank you for the auditing tool to review the Commercial Refuse Billings process and look at recommendations to improve our service delivery. Attached please find our report that details measures to be implemented to ensure accuracy for all billings.

CC: Kabutey Ocansey, Assistant Commissioner of DES
Karen St Aubin, Director of Operations



**DEPARTMENT OF ENVIRONMENTAL SERVICES RESPONSE TO REVIEW BY INTERNAL AUDIT OF
THE COMMERCIAL REFUSE BILLING PROCESS IN THE BUREAU OF OPERATIONS, SOLID WASTE DIVISION
May 15, 2018**

I. DEPARTMENT SUMMARY

Each of the cited individual findings were reviewed by the Division of Solid Waste, including the 11 instances of incorrect customer billings, the 9 accounts for which no paper file and agreement were found, and the 8 accounts for which a current customer service agreement could not be located. There were 3 cases amongst the 11 instances of incorrect customer billings identified in the audit which were upheld as correct by the review conducted by the Division of Solid Waste.

This audit will help the Solid Waste Division develop a system of specific periodic checks to ensure that customer accounts are fully documented, each file includes the most recent customer agreement, and each account is billed correctly with respect to the services provided and the rates prescribed by the commercial account rate schedule.

II. FIRST PHASE OF DEPARTMENT'S CORRECTIVE RESPONSE

The Department's initial action of response will be for the Division of Solid Waste to conduct a comprehensive check and reconciliation of each of the approximately 2,400 active customer accounts. All the accounts identified as having discrepancies in this audit will be included in this process. The corrective action will include:

- A. A manual check that each paper file for each account is included in the filing system.
- B. A review and check that each paper file contains the most recent customer agreement.
- C. A review and check that each paper file contains all necessary backup documentation to support the current service level and current pricing rates reflected in the RIS billing system.
- D. A manual check of each customer account in the mainframe RIS commercial billing system to ensure that the correct current pricing rates are designated for each account.

Several employees with sufficient knowledge of the commercial billing process will be deployed to execute these steps. The self-imposed deadline to complete these steps will be before the next scheduled quarterly billing is run at the beginning of June 2018. Completing these actions will ensure that all necessary corrections are reflected in the next commercial billing.

III SECOND PHASE OF DEPARTMENT'S CORRECTIVE RESPONSE

The second phase of action will be ongoing and enfolded into the current process for setting up new accounts and modifying existing accounts. As is the current practice, whenever a new account is added or a modification is made to an existing account by the Commercial Accounts Representative, she will create or update the paper file, and then create a new account or update the existing account in the RIS mainframe commercial billing system, as supported by the current service agreement and backup documentation.

Then, a check process will be added to the current process. This addition will consist of a second employee in the Division of Solid Waste, who is conversantly familiar with the commercial billing process and RIS system, who will check the paper file and the RIS system to ensure that the additions and creations were input correctly and that all necessary documentation is included in the paper file. This second check will help ensure the accuracy of the billing file and support documentation and should reduce or even eliminate discrepancies such as were detected by this current audit.