



**Audit of
City of Milwaukee
Department of Public Works
Apartment Solid Waste
Collection**

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City Comptroller
City of Milwaukee, Wisconsin

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To the Honorable
the Common Council
City of Milwaukee

Dear Council Members:

The attached report summarizes the results of our Audit of the Department of Public Works-Sanitation Division Apartment Solid Waste Collection. The scope of this audit included the Department of Public Works-Sanitation Division's billing and receipt of fees for the collection of solid waste from apartment buildings of five or more units. The objectives of the audit were to determine whether DPW-Sanitation Division is accurately billing the correct apartment building owners, to evaluate procedures for the collection of solid waste collection fees and to evaluate the accuracy of records of buildings served and billed and of fees collected. Further objectives were to determine whether solid waste collection fees are computed correctly whether the fees are competitive with private waste collection companies' fees.

The audit disclosed that for those billings made on or after March 20, 2000, billings are accurate. After facing billing problems in the initial 1998 implementation, DPW-Sanitation made improvements to their original billing system toward this objective in 1999-2000. The audit also disclosed that fee collection procedures are effective but that the timeliness of deposits needs improvement and procedures related to delinquent accounts should be strengthened. The audit further disclosed that records of buildings served and billed and of fees collected are accurate, but that revenue recorded on DPW-Sanitation Division's billing system needs to be periodically reconciled to the City's Financial Management Information system. Documentation of the billing and collection system should be improved and access to system functions should be restricted. The audit found that solid waste collection fees were computed correctly, except that not all billable overheads were included and outdated overhead rates were used. The audit also found that given the current level of City subsidy the fees are generally competitive with private companies' published fees. The audit makes nine recommendations for improvements in these areas.

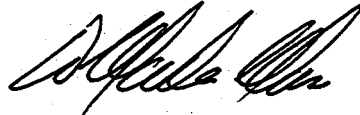
The audit also provides a discussion of the advantages and disadvantages of three possible alternatives to the current apartment solid waste collection program.

Audit findings and recommendations are discussed in the Audit Results and Recommendations section of the report.

DPW-Sanitation Division personnel have informed us that they are unable to provide a response to the audit at this time due to the necessity to address a number of issues related to the 2001 budget. The Department of Public Works will provide a response at a later date.

Appreciation is expressed for the cooperation extended to the auditors by the staff of the Department of Public Works.

Very truly yours,



W. MARTIN MORICS
Comptroller

AUDIT SCOPE AND OBJECTIVES

AUDIT SCOPE AND OBJECTIVES

The scope of this audit included the Department of Public Works-Sanitation Division's billing and receipt of fees for the collection of solid waste from apartment buildings of five or more units. The audit included interviews of DPW-Sanitation Division personnel and of a consultant who developed and maintains the computerized billing and receipt system for the program. The audit also included observation of waste collection, billing, receipt, deposit, recordkeeping and reconciliation activities. The audit further included a review of the computer system used for waste collection routing and for recording billings and payments as well as an examination of the development of waste collection fees.

During the course of the audit, DPW-Sanitation implemented procedural changes aimed at improving the administration of its billing and collection system for this Apartment Garbage Collection Fee Program. The conclusions of this Audit are based on the system after the revised procedures were implemented.

The objectives of this audit were to:

1. Determine whether DPW-Sanitation Division is accurately billing all and only the correct apartment building owners in a timely manner.
2. Evaluate the effectiveness of DPW-Sanitation Division's procedures for collecting, recording and depositing solid waste collection fees.
3. Evaluate the adequacy of DPW-Sanitation Division's billing and accounts receivable system/procedures supporting the apartment solid waste collection fee program and its consistency with the City's FMIS system.
4. Determine whether DPW-Sanitation Division is correctly computing solid waste collection fees.
5. Determine whether DPW-Sanitation Division's solid waste collection fees are competitive with, higher or lower than private companies' fees.

**ORGANIZATIONAL
AND
FISCAL IMPACT**

ORGANIZATIONAL AND FISCAL IMPACT

The 1998 proposed budget provided for the discontinuation of solid waste collection services for apartment buildings with five or more units. The Common Council determined that it was preferable to continue to provide this service but to charge a fee to recover a portion of the City's costs. Currently, DPW-Sanitation Division provides garbage collection service to 1,528 apartment buildings with five or more units or 56% of the 2,724 such buildings in the City.

The Department of Public Works-Sanitation Division began billing property owners for the collection of solid waste at apartments with five or more units in 1998 in accordance with the provisions of Common Council Ordinance File Number 970956, which was adopted on November 4, 1997. This ordinance provides that the fee for this service is to be set to recover two-thirds of the cost of collection services, including indirect costs but excluding capital equipment depreciation. The ordinance requires owners of apartment buildings to provide for solid waste removal on a weekly basis, either by the City or a private contractor. Subsequently, the Common Council adopted Ordinance File Number 990118 on May 11, 1999. This ordinance provides that any fee charged for apartment solid waste collection that has not been timely paid may be imposed as a special charge against the property on the tax roll.

In response to Ordinance #970956 and with the assistance of an outside consultant, DPW-Sanitation Division developed an integrated database using Paradox database software. This database system is used for billing, fee collection and waste collection routing activities.

The 1998 City budget included revenue of \$971,000 for this new fee. The revenue projection in the budget assumed that all apartment buildings served by the City would continue to choose City solid waste disposal service. The revenue estimate was based on participation by 2,300 apartment buildings with 41,000 dwelling units. According to the Citywide Financial Management System (FMIS), actual 1998 revenue totaled only \$236,691. However, actual fee revenue may be as much as \$485,000. According to DPW-Sanitation Division records, a large portion of revenue was posted incorrectly to miscellaneous revenue.

A primary reason for this 50%-60% 1998 revenue shortfall was that participation fell considerably below projections. DPW-Sanitation Division personnel stated that as many as one-half of the property owners previously served by the City chose to contract with private waste collection companies.

Another reason for the shortfall was that many customers did not pay their fees. The resulting delinquent accounts could not be placed on the 1998 tax roll without specific authorization from the Common Council. However, no other major collection effort was initiated by DPW to collect these overdue 1998 payments. Further, City records of eligible properties contained inaccuracies. For example, some condominiums, exempt from the collection fee, were classified as apartment buildings and initially billed for the service. DPW-Sanitation Division also had difficulty in identifying the proper individuals to bill in the event of changes in ownership.

Finally, when the Common Council mandated the new fee in October of 1997, DPW-Sanitation was not in a position to have a billing and collection system in place when the fee took effect in January of 1998. Because of the short notice, the Division had insufficient time to develop the necessary billing and collection system.

Adoption of Ordinance File Number 990118 enabled DPW-Sanitation Division to place \$32,667 in delinquent charges on the 1999 tax roll for the first time. In addition, since the initiation of this Program, DPW-Sanitation has worked to improve the accuracy of records of apartment buildings served and billed.

During the performance of the audit, DPW-Sanitation made significant progress to improve its billing, collection and routing system. These improvements have had a positive effect on fee revenues. For the year 2000, budgeted revenue totals \$583,000. DPW-Sanitation Division currently projects that \$600,000 of revenue will be realized. As of June 27th, \$313,689 in garbage collection fee revenue has been recorded thus far in the year 2000.

**AUDIT RESULTS
AND
RECOMMENDATIONS**

AUDIT RESULTS AND RECOMMENDATIONS

Objective 1 – Determine whether DPW-Sanitation Division is accurately billing all and only the correct apartment owners in a timely manner.

As was indicated in the “Organization & Fiscal Impact” Section of this Audit, DPW-Sanitation encountered significant billing problems when the garbage collection fee was initiated in 1998. However, improvements made through the end of March of this year have significantly improved billing performance.

Based on the billing system in place at the end of March, 2000, the audit concludes that DPW-Sanitation is accurately and timely billing the correct property owners for those who are served on routes using computer generated route sheets. These routes comprise about 60 percent of total apartments subject to the collection fee. The remainder of the affected apartments are billed using manually generated index cards, soon to be phased out. The audit recommends that the development of route sheets for the remaining waste collection routes be expedited. The audit also recommends actions to provide DPW- Sanitation Division with more timely notification of changes in apartment ownership.

Most apartment solid waste is picked up from dumpster containers of from two to eight cubic yards in size. Waste from these dumpsters is picked up by either front-loading or rear-loading trucks. There are currently four rear-load and five front-load routes. A small number of apartments have the same type of garbage carts as single-family homes and are served by the same trucks.

DPW-Sanitation Division bills on a quarterly basis in advance for apartment solid waste collection. The amounts billed are based on the number and size of containers served. The audit disclosed that bills are prepared and mailed in a timely manner.

Prior to 1999, field personnel identified properties to be served using manually prepared index cards. During 1999, DPW-Sanitation Division began developing system-generated route sheets. These route sheets allow more timely notification to field personnel of customers who cancel or add service. The route sheets also allow field personnel to notify billing personnel of corrections in addresses and number and size of waste containers, promoting more accurate billing.

Route sheets have now been developed for all rear load routes and have been in use since the first quarter, 2000. Use of revised route sheets for rear load routes resulted in over \$20,000 of additional billings due to improvements in the accuracy and completeness of the billing process. Route sheets for front load routes are in the process of development. The audit traced the size and numbers of containers served on a rear load route to invoices and found that all apartments served were accurately billed. The audit did not examine the accuracy of billings for routes for which index cards are used since the index cards will soon be replaced by route sheets.

DPW-Sanitation Division personnel indicated experiencing difficulty in obtaining timely notice of apartment ownership changes. In some cases, the DPW - Sanitation Division uncover ownership changes only when they receive payment from a different owner.

Recommendation 1:

Since computer system generated route sheets promote accurate billing, DPW-Sanitation Division should complete the process of developing route sheets for the remaining waste collection routes as soon as possible.

Recommendation 2:

DPW-Sanitation-Division should include a notice on all invoices informing apartment owners that it is their responsibility to inform DPW-Sanitation Division of changes in ownership and to inform new owners of their responsibility to pay for solid waste collection. DPW-Sanitation Division should also request that Milwaukee County and/or the Office of the City Assessor provide them with notice of apartment ownership changes for apartments with 5 or more units.

If an account that has paid for service in the past becomes delinquent, DPW-Sanitation Division should contact the owner or property management company of record to determine whether there has been a change in ownership.

Objective 2 – Evaluate the effectiveness of DPW-Sanitation’s procedures for collecting, recording and depositing solid waste collection fees.

The audit concluded that procedures for the collection and processing of payment receipts were generally adequate but in need of improvement in two areas. The audit identified the need for more timely deposit of receipts. The audit also indicated the need to strengthen policies and procedures pertaining to delinquent accounts.

The audit included observation of procedures for receiving payments and determined that current procedures are effective. The audit found that deposits are accurately prepared and recorded on the billing, collection and routing system.

DPW-Sanitation Division records the receipt of payments and prepares the deposits. DPW-Sanitation Division staff then take deposits to the DPW-Administrative Services Division which records deposits on the City's Financial Management Information (FMIS) system, depositing these funds at the Office of the City Treasurer. The audit disclosed that the receipts need to be deposited in a more timely manner. A review of a sample of 26 payments revealed that an average of nine days elapsed between receipt and deposit. In one instance, for a \$7,745 deposit, the time period was 19 days. These deposits should generally be made within one business day of receipt.

In 1999 DPW-Sanitation Division placed \$32,668 in 1999 delinquent apartment solid waste collection accounts on the tax roll. As of March 10, 2000, delinquent accounts amounted to \$33,221. Of this amount, \$18,495 consisted of totally delinquent billings (no payment) for the first quarter billings of 2000 and the remaining amount of \$14,726 consisted of partially delinquent 1999 accounts (some payment made). DPW-Sanitation Division has not placed accounts that are delinquent for a portion of the year on the tax roll or otherwise followed-up on these accounts. Also, DPW-Sanitation does not charge a late fee for customers who do not pay their bills in a timely manner.

Recommendation 3:

Receipts should be deposited in a timely manner to minimize the risk of loss and to allow the City to earn interest on the deposited funds as soon as possible. Receipts should be deposited on the day they are received unless received too late in the day for deposit. Payments received late in the day should be locked in a secure place overnight and deposited the following day. If it is not feasible to expedite deposits through DPW-Administrative Services Division, the DPW-Sanitation Division should record receipts on the FMIS system itself and remit deposits directly to the Office of the City Treasurer. DPW-Sanitation Division will need appropriate FMIS access and training for its staff to accomplish this.

Recommendation 4: DPW-Sanitation should place all delinquent accounts on the tax roll, including accounts that were delinquent for a portion of a year and remain unpaid at year-end.

Recommendation 5: To encourage prompt payment, DPW-Sanitation Division should consider charging a late fee on all delinquent accounts. The DPW-Sanitation Division should pursue the legality and feasibility of this issue with the City Attorney's Office.

Objective 3 – Evaluate the adequacy of DPW-Sanitation Division's billing and accounts receivable system/procedures supporting the apartment garbage collection fee program and its consistency with the City's FMIS system.

The audit determined that for those collection routes using computer generated route sheets, DPW-Sanitation Division's system of records and procedures related to apartment buildings served, amounts billed and fees collected are adequate. Division records supported the bills issued and amounts billed were in accordance with established fee schedules. As mentioned above, the remaining collection routes will soon be converted to the computer generated route sheets. The audit also disclosed that there is a need to periodically reconcile the amount of revenue recorded on DPW-Sanitation Division's billing and collection system with the amount recorded on FMIS. The audit concluded that the billing and collection system documentation is incomplete and a plan to insure that the system continues to operate properly is needed. The audit further disclosed that access to system functions should be restricted.

The audit included observation of the generation of invoices and processing of payment receipts. These procedures disclosed that invoices are generated for all apartment buildings served and that payment receipts are accurately and completely posted to the billing and collection system. The tracing of route sheet data to invoices disclosed that the records of apartment buildings served and billed are accurate.

The audit found that DPW-Sanitation Division's procedures did not include reconciling revenue recorded on the Division's billing and collection system with revenue recorded on FMIS. This contributed to the audit finding that revenues recorded for 1999 differed by approximately \$90,000 on the City's FMIS system versus the DPW system. This inconsistency was due to the failure of DPW-Sanitation Division to compare deposit records validated by the City Treasurer to its own records of payment batches processed. When this variance was brought to the attention of DPW-Sanitation Division personnel, they were able to reconcile the difference promptly. The primary cause of the difference was that revenue received in late 1998 for the first quarter of 1999 was recorded as 1998 revenue on FMIS and

1999 revenue on the DPW-Sanitation system. DPW-Sanitation Division personnel stated that they would periodically reconcile the billing and collection system to FMIS in the future.

Documentation of the billing and collection system is incomplete. Limited written instructions describing billing and collection procedures exist. Written descriptions of the fields in two of the three databases in the system are available. Similarly, program code for some of the predefined system queries is available on line. The auditors are aware of no further documentation of the system.

Currently, a consultant who developed the billing and collection system is the only person who fully understands it. The consultant is the only person with the ability to maintain the system. If the consultant's relationship with the City were to end, it is possible that the system could become unusable.

The DPW-Sanitation billing system security procedures are not sufficient to discourage unauthorized access. At the present time, four individuals including the consultant have complete access to all billing and collection system functions. Access by one person to certain functions is incompatible with good internal control. An example of incompatible access is one individual who is able to deactivate canceled accounts or make other billing changes also being able to process payment receipts. Account history can be changed by anyone with access to the system. Changes may be made without proper authorization by a supervisor in certain instances. Adjustments to correct errors made in recording billing and payment information are often not documented.

Recommendation 6:

To insure that revenue is accurately recorded on FMIS, DPW-Sanitation Division should reconcile the billing and collection system to FMIS on a quarterly basis. DPW-Sanitation Division should also compare all validated deposit receipts from the Office of the City Treasurer to amounts recorded on the Division's billing and collection system.

Recommendation 7:

DPW-Sanitation Division should contact the Department of Administration-Information Technology and Management Division (ITMD) and obtain their standards for system documentation. DPW-Sanitation should develop written documentation of the entire billing and collection system in accordance with ITMD standards. This documentation should include methods used to maintain and update the system, instructions for using the system,

descriptions of all database fields in all three databases, a list of all reports available and descriptions of the uses of the reports. Program source code changes should be explained in the program documentation. All program change documentation including test results and approvals should be printed and made a part of on-going program documentation.

DPW-Sanitation Division should develop and implement a plan to ensure the continuity of system operations and maintenance in the event that the consultant who developed the system leaves. Such a plan could include cross training of City data processing employees.

Recommendation 8:

DPW-Sanitation should limit the access of individuals using the billing and collection system to only the data and functions necessary to perform their duties. An individual who processes billing receipts should not have the ability to deactivate canceled accounts or make other billing changes. The authorization of the Resource Recovery Manager should be required for all additions and deletions of accounts. Records should be kept of all account additions and deletions and of all adjustments made.

Objective 4 – Determine whether DPW-Sanitation is correctly computing solid waste collection fees.

The audit found that the solid waste collection fees computed by DPW Sanitation did not include all billable overheads and used outdated overhead rates. As a result, fees for the year 2000 included only about 85% of the cost of the program. This under-costing could cost the City of Milwaukee \$90,000-\$100,000 annually.

Ordinance File Number 970956, which established the practice of billing for apartment solid waste collection states that the fee should be two-thirds of the cost of collection including indirect costs except for capital equipment depreciation. DPW-Sanitation's computation of the fees for 2000 used overhead rates for 1996 and included only a portion of applicable indirect cost rates. The fees did not include the administrative costs of billing for solid waste collection.

The audit also disclosed that DPW-Sanitation Division had maintained incomplete written documentation of how the costs used to develop the fees were determined.

Recommendation 9:

Consistent with the ordinance requirements, the DPW-Sanitation Division should include the entire indirect cost rate, except for capital equipment depreciation, in its computation of fees for apartment solid waste collection. DPW-Sanitation Division should also use the most current overhead rates available in computing the fees. DPW-Sanitation Division should include all administrative costs related to billing and collection procedures in its computation of solid waste collection fees. DPW-Sanitation should document the method used to determine the costs used to develop the fees and annually update cost rates to reflect actual costs. These corrections would have the immediate effect of increasing the current fee by about 15%-18%.

Objective 5 – Determine whether DPW-Sanitation Division's solid waste collection fees are competitive with, or are higher or lower than private companies' fees.

The audit determined that DPW-Sanitation Division's fees are substantially lower than private companies' published fees but was not able to compare DPW-Sanitation's fees with the fees actually charged by private companies when such fees are negotiated. This lower City fee is largely due to the 33 percent discount provided by the Ordinance and the additional 15 percent unintended City discount due to the use of outdated cost information.

The audit disclosed that DPW-Sanitation Division's solid waste collection fees are lower than private companies' published fees based on a comparison between the City's fees for 2000 to a 1996 fee schedule from a private contractor. The fee schedule published by the private contractor indicates monthly rates ranging from \$15.00 for cart collection to \$40.00 for servicing a 2 cubic yard container and as much as \$85.00 for an 8 cubic yard container. City rates for servicing the same size containers are \$3.81, \$20.51(rear-load)/\$15.07 (front-load) and \$31.56. However, the audit could not determine how DPW-Sanitation Division's fees compare to fees actually charged by private companies. DPW-Sanitation Division personnel stated that private companies often negotiate fees lower than shown on their rate schedules with apartment owners. Since the fees negotiated in this manner are not publicly disclosed, it is not possible to compare DPW-Sanitation's fees to the fees actually charged by private companies.

POSSIBLE PROGRAM ALTERNATIVES

The audit of DPW-Sanitation's collection of solid waste at apartments with five or more units focused on the current program. Costs related to the current program are \$1,026,307 per determination through the audit and include all indirect costs and are based on the most recent indirect cost rate schedules available. DPW-Sanitation is required to charge only two-thirds of total costs or \$684,546. Since DPW-Sanitation Division computed a lower total cost or \$875,006, anticipated revenue for 2000 was budgeted at \$583,630. DPW projects that \$600,000 in program revenue will be realized in 2000. State aid relating to this program will be \$332,502 in 2000 although \$389,996 could be realized if all costs were billed.

The Common Council may wish to consider alternatives to the current program. Possible alternatives include discontinuing solid waste collection from apartment buildings, charging the full cost of apartment solid waste collection, or providing solid waste collection service to apartment buildings at no cost. A description of the advantages and disadvantages of the current program and the alternatives follows.

A. Continue the Present System

Advantages

1. Generates revenue for the City without significant administrative costs.
2. Revenue for 2000 is estimated to be \$600,000, exceeding budgeted revenue projections of \$583,000 from apartments with five or more units.
3. Provides assurance that solid waste is collected.
4. Maintains a level of service consistent with prior years.
5. Utilizes an established routing, billing and collection system.
6. Avoids another change, when there is apparent satisfaction with the program.
7. Consistent with current Common Council legislative requirements.

Disadvantages

1. Costs exceed revenues. The City of Milwaukee subsidy of this service will total about \$50,000 in the year 2000 after considering the impact of State aids.
2. Treating apartment owners differently than other property owners could give rise to a fairness issue.

B. Discontinue Solid Waste Collection Service to Apartment & Related Buildings

Advantages

1. Would reduce net annual costs by about \$426,000 before considering State Aids. This estimate is based on estimated 2000 revenues and total costs as reported by DPW. However, should the service be discontinued, the City would annually lose about \$310,000-\$380,000 in State aids associated with providing the service. This means that after considering the loss of State aids, the annual tax levy reduction from discontinuing the service would total \$50,000 to \$120,000.
2. Additional cost reductions could result from not picking up dumpster waste at rooming houses, condominiums and nonprofit entities.
3. Would eliminate the need to maintain a billing and collection system and incur associated administrative costs.

Disadvantages

1. Increased costs to affected apartment property owners would result due to the necessity to contract with private companies whose fees are generally higher than the City of Milwaukee fee.
2. Approximately six City positions would be eliminated.
3. If apartment owners do not contract for private solid waste collection, public health concerns requiring enforcement actions by the Department of Neighborhood Services and the Health Department may result. However, officials from the cities of Racine and Kenosha which do not collect solid waste from any building with a dumpster have stated that they have not experienced a lack of compliance by apartment owners.

C. Continue the Present Program but Charge Full Cost

Advantages

1. Possible increase in net fee revenues, depending on the number of accounts lost due to the nearly 50 percent rate increase required to cover full cost. With current annual revenue estimated at \$600,000, a full cost fee rate would probably increase City revenues by \$40,000-\$80,000 annually.

Disadvantages

1. Many affected apartment owners would probably terminate service with the City.
2. Would result in higher fees assessed to remaining apartment owners (and renters).

If the Common Council decides to retain the Program but to charge for the full cost of the collection of solid waste at apartments with five or more units, it may wish to direct DPW-Sanitation Division to take the following actions to increase revenues.

The billing policy could be changed to require billing for waste collection services for three and four unit apartment buildings (approximately 21,277 units) and 260 rooming houses as well as apartment buildings of five or more units. It would also appear to be feasible to consider offering recycling services to apartments for a fee.

DPW-Sanitation Division could become more proactive in soliciting new accounts. A survey of apartment owners could identify reasons for certain owners continuing to contract with private companies, what City customers like and dislike about the City service and ways to improve the City collection service.

D. Provide the Service for Free

Advantages

1. Apartment owners would avoid a collection fee.
2. There would be no need to maintain a billing and collection system.
3. The administrative costs of billing and collection would be eliminated.
4. No City positions would be lost.
5. Public health concerns would not be an issue due to assurance of solid waste collection.

Disadvantages

1. \$600,000 in annual City of Milwaukee fee revenues would be lost.
2. A property tax increase would be needed to compensate for the loss in fee revenues.
3. It is uncertain whether renters would benefit.
4. Collection costs would increase as more customers would resume using City service.
5. Increased costs would range from the current total cost of \$1,026,307 at a 56 percent level of participation to as much as \$1,832,691 if there was 100 percent participation.