



OFFICE OF THE PUBLIC AUDITOR



August 9, 2007

Mr. Terrence Brooks  
Chairman  
Public Utilities Commission  
P.O. Box 862  
Hagåtña, Guam 96932

Dear Mr. Brooks:

Transmitted herewith is the executive summary for OPA Report No. 07-08, Department of Public Works Commercial Tipping Fees for the period October 1, 2003 through January 31, 2007. For your convenience, you may also view and download the report in its entirety at [www.guamopa.org](http://www.guamopa.org).

*Senscramente,*

Doris Flores Brooks, CPA, CGFM  
Public Auditor

RECEIPT ACKNOWLEDGED:

By: LOURDES R. PALOMO

Date: 8/7/07



OFFICE OF THE PUBLIC AUDITOR

## EXECUTIVE SUMMARY

Department of Public Works Commercial Tipping Fees  
Report No. 07-08, August 2007

This report presents the results of our performance audit of the Department of Public Works (DPW) Commercial Tipping Fees. The audit was initiated at the request of the DPW Director, and in response to a recommendation made in the Public Utilities Commission (PUC) Solid Waste Management Focused Audit Report and Recommendations, issued in August 2006 by the Georgetown Consulting Group (GCG).

We found that commercial tipping fees were not properly applied, billed, and collected. DPW and the Department of Administration (DOA) did not issue timely billing notices and did not collect on past due accounts. Although DOA attempted to establish a memorandum of understanding outlining billing and collection fees responsibilities, the agreement was not finalized. DPW and DOA each assumed the other was collecting commercial tipping fees. As a result, the following deficiencies were identified:

- Inefficient billing and collection processes.
  - \$3.6 million in commercial tipping fee receivables as of January 31, 2007, of which \$2.4 million or 65% are over 120 days old. One commercial hauler, whose business was purchased by another commercial hauler in 2004, still owed \$1.3 million, representing more than half of the receivables over 120 days.
  - \$484,416 in receivable discrepancies occurred due to the lack of reconciliation by commercial haulers with DOA records.
  - \$46,124 in receivables from other commercial haulers (OCH) were not being monitored as of January 31, 2007.
- Commercial haulers continue to utilize the Ordot Dump (Dump) due to DPW's inability to aggressively collect from delinquent commercial haulers.
- An estimated \$4 million in revenues from October 2003 to January 2007 was lost due to DPW's inability to provide service to approximately 12,000 residential customers.
- Undetermined amount in government revenues since 1997 was lost due to an inoperable weigh scale.
- Undetermined amount in government revenues was lost due to the lack of procedures to develop a database to bill and collect from government agencies that utilize the Dump.
- The lack of service agreements or contracts for the collection and disposal of solid waste (i.e., contract provisions to include a service period, service rates, the right to audit, etc.) has left DPW without a means to enforce penalties such as denying access to the Dump to commercial haulers due to non-payment and noncompliance.
- Approximately \$43,470 in tipping fee revenues from April 2006 to January 2007 was lost due to payment exemptions to all village Mayors.

### **Inefficient Billing and Collecting Processes**

In our testing, we found that as much as 43 business days lapsed from the time DPW issued a commercial hauler a field invoice to the time DPW delivered the field invoice to DOA for data-entry into the AS400 system for billing. Another 11 to 28 business days are added to the billing process since DOA hand delivers official billing notices to commercial haulers due to staff shortages.

Because of billing and collection deficiencies at DPW and DOA, delinquent commercial haulers have continued to utilize the Dump to the detriment of the government of Guam's fiscal condition. The General Fund has subsidized DPW's SWM operations. In April 2007, DPW began coordinating with the Office of the Attorney General (OAG) in an effort to collect from delinquent commercial haulers.

### **Inoperable Weigh Scale**

Since DPW's weigh scale became inoperable in December 1997, commercial haulers are charged tipping fees based on volume instead of weight. Despite being required by the Guam Environmental Protection Agency to obtain a weighing scale in 1999 and again in 2005, DPW continues to charge tipping fees in this inefficient manner. We were unable to determine the amount in government revenues lost since 1997 due to an inoperable weigh scale.

### **Estimated 12,000 Unserviced Residential Customers**

Between October 2003 and January 2007, we estimated that \$4 million in government revenues were lost due to approximately 12,000 residential customers who may not have been billed or not provided services.

### **Residential Customer Serviced by Commercial Haulers**

Prior to May 2007, DPW and PUC were unclear whether commercial haulers were responsible for collecting and remitting the required monthly \$10 tipping fees collected from residential customers serviced by commercial haulers. However, OAG's May 2007 memorandum stated, "The billing is to be done by the hauler and the collecting is to be done by the hauler... this means that the hauler is not entitled to retain the [\$10] residential [tipping] fees, which they have collected beyond the 60 days."

### **Lack of Service Agreements with Commercial Haulers**

DPW did not enter into contracts for the collection and disposal of solid waste. Contract provisions such as establishing a service period, service rates, billing disputes, payment applications, the right to audit, etc. would have provided DPW a means to enforce penalties (i.e., denying access to the Dump) on commercial haulers due to nonpayment and noncompliance.

### **Other Deficiencies**

Other deficiencies include:

- No established payment terms and instructions (to include account numbers and billing notice numbers when making payments for proper credit) on monthly-generated official commercial billings.
- No developed waste collection district plan as mandated by P.L. 26-99 until May 2007. DPW completed the plan, but has yet to issue a solicitation of interest to obtain feedback for a refined district plan invitation for bid.

- Lax internal controls over cash collections from self-hauling customers at the Dump.

### **SWM as a Public Corporation**

OPA concurs with PUC's rationale to convert the SWM division into a separate public corporation, under the auspices of the Consolidated Commission on Utilities. The proposed realignment will more accurately determine the total costs to operate a waste management system (i.e., collection and disposal of solid waste, closure of the dump, and development of a new sanitary landfill). However, legislation to affect the realignment has not been introduced to the Guam Legislature as of the date of this report.

### **Recommendations**

Because of the existing General Fund cash deficiency, DPW should immediately take aggressive collection action by restricting access to the Dump for commercial haulers who are delinquent beyond 60 days.

To address the billing and collection problems, we recommend that DPW and DOA begin coordinating the transfer of the commercial billing and collection functions (i.e. data-entry, billing, and delivery). DPW should establish internal controls (checks and balances) and segregation of duties within the billing process to reduce the opportunities for one person to both perpetrate and conceal fraud. DOA should issue and record credit memos and conduct periodic reviews of billing transactions to ensure proper controls are in place. Both DPW and DOA concurred and supported the transfer of the billing function of commercial tipping fees from DOA to DPW.

Other recommendations include secure a weigh scale under a proper procurement process, work with the OAG in aggressively collecting past due commercial tipping fee accounts and finalize a proposed service contract agreement, and establish government tipping fee charge accounts to bill government entities.

### **Management Response**

A draft report was transmitted to DPW, DOA, and the PUC. The DPW Director concurred with the audit recommendations and submitted its plan of action to address the audit recommendations. The DOA Director concurred with the recommendation to transfer the commercial billing and collection function to DPW.

The PUC Chairman submitted a response stating that the audit report adds convincing evidence that critical structural change is needed for the government of Guam to meet its responsibilities under the Consent Decree in District Court of Guam Civil Case 02-22. GCG also provided a response and addressed certain matters regarding DPW's escrow funds, the lack of legislative provisions for establishing late payment penalties, monitoring commercial haulers' customers, contract agreements, and mayors allowing residents to bring their solid waste to them for disposal. We have amended the report to address their concerns.

Doris Flores Brooks, CPA, CGFM  
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