

CITY OF MIAMI
OFFICE OF INDEPENDENT AUDITOR GENERAL



**AUDIT OF COMPLIANCE WITH COMMERCIAL
SOLID WASTE FRANCHISE AGREEMENT/
GENERAL HAULING SERVICE, INC**

AUDIT REPORT NO. 010-019

Prepared By

Office of Independent Auditor General

Victor I. Igwe, CPA, CIA
Independent Auditor General

PAULINO GARCIA, STAFF AUDITOR

City of Miami

VICTOR I. IGWE, CPA, CIA
INDEPENDENT AUDITOR GENERAL



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July 16, 2010

Honorable Members of the
City Commission
City of Miami
3500 Pan American Drive
Coconut Grove, FL 33133-5504

Re: Audit of Compliance with Commercial Solid Waste Franchise Agreement/
General Hauling Service, Inc.
Audit No. 10-019

Pursuant to Section 48 of the City of Miami's (City) Charter and the Fiscal year 2010 Audit Plan, we have examined the billing records of General Hauling Services, Inc. (GHS) The audit was performed to determine whether GHS complied with applicable Sections of the City Code and the Commercial Solid Waste Franchise Agreement (Agreement) between the City and commercial solid waste hauling companies. Chapter 22 of the City Code and said Agreement regulates the operation of commercial solid waste services in the City.

Additionally, we examined the internal control policies and procedures in the City's Solid Waste Department to determine whether they were adequate and effective in administering and overseeing the operation of commercial solid waste services in the City.

The audit covered the period October 1, 2008 through September 30, 2009 and selected financial transactions that were processed prior and subsequent to this period.

Sincerely,

A handwritten signature in black ink that reads "Victor I. Igwe". The signature is written in a cursive style with a long horizontal stroke at the end.

Victor I. Igwe, CPA, CIA
Independent Auditor General
Office of the Independent Auditor General

C: The Honorable Mayor Tomas Regalado
Carlos A. Migoya, Chief Administrator/City Manager
Members of the Audit Advisory Committee
Ben Bush, President, General Hauling Service, Inc.
Johnny Martinez, Assistant City Manager/Chief of Infrastructure
Tony Crapp, Jr. Assistant City Manager/Chief of Operations
Larry M. Spring, Assistant City Manager/Chief Financial Officer
Peter W. Korinis, Chief Information Officer, Information Technology Department
Julie O. Bru, City Attorney, City Attorney's Office
Fredrick Hobson, Director, Solid Waste Department
Priscilla A. Thompson, City Clerk, City Clerk's Office
Diana M. Gomez, CPA, Director, Finance Department
Demetrio Constantiny, Accounts Receivable Supervisor, Finance Department
Audit Documentation File

**AUDIT OF COMPLIANCE WITH COMMERCIAL SOLID WASTE
FRANCHISE AGREEMENT/GENERAL HAULING SERVICE, INC.
OCTOBER 1, 2008 THROUGH SEPTEMBER 30, 2009**

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INTRODUCTION

On July 25, 2002, and October 14, 2004, the City Commission passed and adopted Ordinance Numbers 12258 and 12599 respectively, amending Chapter 22, Articles I, II, and III of the City Code. A total of 25 firms signed the Commercial Solid Waste Franchise Agreement (Agreement), which authorized them to operate commercial solid waste hauling services in the City of Miami for the period starting November 1, 2004 through September 30, 2009, with a three year renewal option period through September 30, 2012. The option to renew the Agreement for an additional three year period will be at the sole discretion of the City.

Article V of the Agreement titled “Franchise Fees” stipulates that the following fees shall be assessed and collected.

- **Gross Receipts Franchise Fees.** In accordance with Article II, Section 2.2 of the Agreement, the term “Gross Receipts” shall mean, “all monies whether paid by cash, check, debit or credit, collected from customers for garbage, solid waste, fuel surcharge, construction and demolition debris, roofing materials, trash, litters, refuse and/or rubbish collection removal and disposal services rendered, or from any other source related directly from waste collection services by the FRANCHISEE, exclusive of taxes as provided by law, whether wholly or partially collected within the CITY, less bad debts.” During the period October 1, 1999 through September 30, 2004, the franchisee was required to remit to the City 20% of the gross receipts generated. Effective October 1, 2004, the rate increased to 22%. A one and half percent (1.5%) late payment penalty fee is assessed monthly on any balance due to the City.
- **Annual Franchise Fee.** The sum of \$5,000 (increased annually by \$500, thus \$7,000 was due for the audit period 2008-2009) for the right to provide Commercial Solid Waste Handling Services within the City limits. Failure to

remit the required annual fee by the due date will result in a one and one-half percent (1.5%) per month on any balance due to the City.

- Annual Specialized Waste Handling Service Fee. The sum of \$1,000 (increased annually by \$500, thus \$2,500 was due for the audit period 2008-2009) for the right to provide “Specialized Waste Handler” services within the City. Ordinance 12258, Section 22-1 defines “Specialized Waste Handlers” as companies whose primary business is limited to collecting and disposing of solid waste that requires special handling and management including, but not limited to, white goods (appliances), waste tires, used oil, lead-acid batteries, construction and demolition debris, ash residue, biomedical and biological waste. A one and one-half percent (1.5%) late payment fee is assessed monthly on any balance due to the City.
- Permit Per Account Fee. The franchisee is required to pay \$50 for each account contracted within the City for commercial solid waste services and/or specialized waste handling services including each container and/or roll-off utilized by franchisee in the course of providing solid waste services. The franchisee may only pass on an amount not to exceed \$24 of paid Permit Per Account Fee to each contracted customer. This fee is not transferable. A one and one-half percent (1.5%) late payment penalty fee is assessed monthly on any balance due to the City.

During the fiscal year, October 1, 2008 through September 30, 2009 the twenty five franchisees remitted a total of \$10,796,490 to the City. GHS is one of the franchisees selected for audit to determine compliance with the provisions of the Franchise Agreement. A separate audit report will be issued for each of the franchisees audited.

The Solid Waste Department (SWD) is responsible for ensuring that commercial solid waste service accounts and applicable fees/transactions are properly assessed and paid to the City. The Solid Waste Department is also responsible for monitoring the operations

of the commercial solid waste franchisees. This audit report describes whether General Hauling Service, Inc. and the Solid Waste Department complied with the terms of the Agreement and applicable Sections of the City Code.

SCOPE AND OBJECTIVES

This audit was performed pursuant to the authority set forth in Section 48 of the City's Charter titled, "Office of the Independent Auditor General", and was conducted in accordance with the Fiscal Year 2009/2010 Audit Plan. As part of our oversight responsibilities, the Office of the Independent Auditor General performs financial and operational audits to determine the extent of compliance with terms of contracts, programs, and/or lease agreements between the City and private companies. This audit focused primarily on whether General Hauling Service, Inc. (GHS) and the City's Solid Waste Department (SWD) complied with the terms of the Commercial Solid Waste Franchise Agreement (Agreement) and with Chapter 22 of the City's Code, which govern the operation of commercial solid waste collection services in the City. The audit also included examinations of various transactions to determine whether they were processed in accordance with the generally accepted accounting principles. The audit covered the period October 1, 2008 through September 30, 2009 and focused on the following broad objectives:

- To ascertain whether all customer accounts located in the City were properly identified, coded, and assessed the appropriate fees.
- To determine whether all the applicable franchise fees as stipulated in Article V of the Agreement were properly computed and remitted to the City.
- To review the annual statement of gross receipts that was prepared by an independent Certified Public Accountant retained by GHS. Additionally, to determine whether said statement was submitted to the Solid Waste Department (SWD) within 60 days after the end of the fiscal year.
- To ascertain whether the fees remitted to the City were properly recorded in the City's accounting system and deposited into the City's treasury.

- To verify whether the appropriate public liability insurance and bonds were obtained as required by Article VII of the Agreement.
- To examine the internal control policies and procedures of GHS and the City's Solid Waste Department and determine whether they were adequate and effective in administering and overseeing the operation of commercial solid waste hauling services in the City.
- To follow-up on prior audit findings and determine the status of all unresolved and outstanding issues.

METHODOLOGY

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence in order 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 audit methodology included the following:

- Interviewed and inquired of appropriate personnel; reviewed and observed applicable written policies and procedures in order to gain an understanding of the internal controls; assessed control risk; and planned substantive testing.
- Performed substantive testing consistent with the audit objectives.
- Examined, on a test basis, applicable transactions and records.
- Determined compliance with all the objectives noted on pages 4 and 5.
- Performed other audit procedures as deemed necessary.
- Drew conclusions based on the results of the testing and made corresponding recommendations and obtained the auditee's responses and corrective action plans.

AUDIT CONCLUSION

Based upon various tests performed and the audit findings noted, we conclude that adequate internal controls were **not** in place to ensure that:

- The Permit Per Account Fee for all the service accounts that were active as of October 1, 2008 were properly identified, assessed the proper fees and remitted to the City as required.
- All customer accounts located in the City were properly identified, coded, assessed the appropriate fees, and remitted to the City.
- A list of customer's names and addresses were included along with the monthly remittances of 22% of the gross receipts generated as required by the Agreement.
- The statement of the annual gross receipt certified by a CPA was obtained and submitted to the City as required by the City code and the Franchise Agreement.

Based upon various test performed and the audit findings noted, we conclude that **adequate** internal controls were in place to ensure that:

- Franchise Fees remitted to the City were properly recorded in the City's accounting system and deposited in the City's Treasury.
- Appropriate public liability insurance was obtained as required by Article VII of the Agreement.
- The SWD obtained vehicle insurance certificates as required by the City Code and the Agreement.

Overall, we conclude that the internal control policies and procedures in place at GHS and at the City's Solid Waste Department could be enhanced to ensure better compliance with all the applicable provisions of the City Code and the Franchise Agreement.

SUMMARY OF AUDIT FINDINGS

GENERAL HAULING SERVICE, INC.

ADDITIONAL FEES DUE TO THE CITY

Article V, Section 5.2 of the Agreement titled “Franchise Fees” stipulates certain fees the franchisee is required to remit to the City. Our review of General Hauling Service, Inc.’s accounting and billing records disclosed that an additional \$12,684.78 is due to the City from the franchise fee transactions assessed and processed during the audit period. The auditee remitted the additional \$12,684.78 of franchise fees due to the City as determined by this audit. See detailed discussions on page 9 through 11.

THE LIST OF CUSTOMERS’ NAMES AND ADDRESSES WERE NOT PROVIDED AS REQUIRED

The list of customers’ names and addresses were not included along with the monthly remittance of 22% of the gross receipts generated as required by Article V, Section 5.2 of the Commercial Solid Waste Franchise Agreement. This observation was also noted in prior year’s audit report (report # 09-018).

AUDIT FINDINGS AND RECOMMENDATIONS

GENERAL HAULING SERVICE, INC.

ADDITIONAL FEES DUE TO THE CITY

PERMIT PER ACCOUNT FEE

Article V, Section 5.6 of the Agreement requires the franchisee to remit to the City annually (due October 15) a permit per account fee (PPAF) in the amount of \$50 for each account contracted within the City for commercial solid waste handling services, including each container and/or roll-off utilized by franchisee. Failure to remit the required PPAF by the due date will result in a one and one-half percent (1.5%) per month on the balance due to the City. Our audit determined that the PPAF for twenty eight (28) service accounts that were active as of October 1, 2008 were not assessed and remitted to the City as required. As a result, the unremitted PPAF and the applicable late/penalty fees totaling \$1,799.00 (\$1,400.00 + \$399.00) are due to the City.

FRANCHISE FEES (22%)

Article V, Section 5.2 of the Commercial Solid Waste Franchise Agreement (Agreement) requires the Franchisee to remit monthly to the City 22 percent (22%) of the Gross Receipts generated from accounts within the City limits, or \$500 whichever is greater. The remittance of the previous month's collection should be received by the City on or before the last day of each month. Accompanying the remittance, FRANCHISEE must provide the CITY with a list of the customers' names, addresses and total amount collected. Failure to remit by the last day of the following month will result in one and one-half percent (1.5%) penalty per month on any balance due to the City. Our audit disclosed that:

- The 22% franchise fees and the related permit per account fees (PPAF) generated from one (1) customer account was not remitted to the City as required. The un-remitted 22% franchise fees, the related PPAF and the applicable late payment penalty fees totaling \$643.55 (\$543.78 + \$44.52 + \$55.25) are due and payable to the City.
- The statement as certified by an independent CPA indicated that GHS generated a total of \$1,782,984.63 in gross receipts from accounts within the City limits during the audit period. However, the total gross receipts reported to the City by GH was \$31,867.03 less than the amount certified by the CPA. As a result, the unremitted 22% franchise fees and the applicable late/penalty fees totaling \$10,242.23 (\$7,010.73 + \$3,231.50) are due to the City.

THE LIST OF CUSTOMERS' NAMES AND ADDRESSES WERE NOT PROVIDED AS REQUIRED

- The list of customers' names and addresses were not included along with the monthly remittance of 22% of the gross receipts generated as required by Article V, Section 5.2 of the Commercial Solid Waste Franchise Agreement. This observation was also noted in prior year's audit report (report # 09-018).

Recommendations:

We recommend that GHS enhance its internal control procedures to ensure that service accounts located within the City boundaries are properly identified and coded and that the appropriate fees are remitted to the City in a timely manner. Also, we recommend that the list of customers' names and addresses be included along with the monthly remittance of the 22% franchise fees.

Auditee's Response and Action Plan:

The auditee concurred with all the audit findings. Please see written responses on pages 12 through 15. Also, the auditee has remitted the additional \$12,684.78 of franchise fees due to the City as determined by this audit.

City of Miami

VICTOR I. IGWE, CPA, CIA
INDEPENDENT AUDITOR GENERAL



Telephone (305) 416-2040
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E-Mail: iag@ci.miami.fl.us

June 9, 2010

Mr. Ben Bush, President
General Hauling Service, Inc.
1451 NW 20th Street
Miami, Florida 33142

RE: Audit of Compliance with Commercial Solid Waste Franchise Agreement/
General Hauling Service, Inc.
Audit No. 10-019

Dear Mr. Bush:

Our audit of General Hauling Service, Inc. (GHS) for the period October 1, 2008 through September 30, 2009, and selected transactions prior and subsequent to this period, has determined that additional franchise fees totaling \$12,684.78 (W/P T-7) is due to the City as summarized below:

I Article V, Section 5.6 of the Agreement requires the franchisee to remit to the City annually (October 15th) a permit per account fee (PPAF) in the amount of \$50 for each account contracted for commercial solid waste handling services within the City for commercial solid waste handling services, including each container and/or roll-off utilized by the franchisee. Failure to remit the required PPAF by the due date will result in a late payment penalty of one and one-half percent (1.5%) per month on the balance due to the City. Our audit determined that the PPAF relative to twenty eight (28) accounts within the City were not assessed and remitted to the City during the audit period as required. As a result, the unremitted PPAF and the applicable late/penalty fees totaling \$1,799.00 (\$1,400.00 + \$399.00) are due and payable to the City, (W/P T-12).

- The list of customers' names and addresses were not included along with the monthly remittances as required in Article V, Section 5.2 of the Commercial Solid Waste Franchise Agreement. This observation was also noted in prior year's audit report (report # 09-0018).

I agree I disagree Please initial: JB
Explanation: _____

III Article V, Section 5.3 of the Agreement stipulates that the franchisee shall, on or before 60 days (November 30th) following the close of each fiscal year (FY), deliver to the Director of the SWD, a statement of its annual gross receipts (Statement) generated from accounts within the City for the preceding fiscal year. Such statement must be prepared by an independent Certified Public Accountant (CPA). Our audit determined that the statement which was due November 30, 2009 was prepared on December 15, 2009 and subsequently submitted to the Director of the SWD Department. (W/P T-58)

I agree I disagree Please initial: _____
Explanation: SINCE we reported October from September the 60 day deadline is tight. We were within 10 days and will strive to make 60 days.

Please confirm our understanding by indicating whether you agree or disagree with each of the observations described above by checking the appropriate box and include your initials on the space provided for each observation. Also, sign on the space provided below and return this memorandum to us. In the event that you disagree with any of the items listed above, provide your written explanations and attach all supporting documents/records. Please respond by June 10, 2010.

OFFICE OF THE INDEPENDENT AUDITOR GENERAL/444 S.W. 2ND AVENUE, SUITE 711/MIAMI, FLORIDA 33130-1910

I agree I disagree Please initial: BB
Explanation: _____

II Article V, Section 5.2 of the Commercial Solid Waste Franchise Agreement (Agreement) requires the Franchisee to remit monthly to the City 22 percent (22%) of the Gross Receipts generated from accounts within the City limits, or \$500 whichever is greater. The remittance of the previous month's collection should be received by the City on or before the last day of each month. Accompanying the remittance, FRANCHISEE must provide the CITY with a list of the customers' names, addresses and total amount collected. Failure to remit by the last day of the following month will result in one and one-half percent (1.5%) penalty per month on the balance due. Our audit disclosed that:

- The 22% franchise fees and the related permit per account fees (PPAF) generated from one (1) customer account was not remitted to the City as required. The unremitted 22% franchise fees, the related PPAF and the applicable late payment penalty fees totaling \$643.55 (\$543.78 + \$44.52 + \$55.25) are due and payable to the City. (W/P T-111)

I agree I disagree Please Initial BB
Explanation: _____

- The statement as certified by an independent CPA indicated that GHS generated a total of \$1,782,984.63 in gross receipts from accounts within the City limits during the audit period. However, the total gross receipt reported to the City by GHS was \$31,867.03 less than the amount certified by the CPA. As a result, the unremitted 22% franchise fees and the applicable late/penalty fees totaling \$10,242.23 (\$7,010.73 + 3,231.50) are due to the City. (W/P T-37)

OFFICE OF THE INDEPENDENT AUDITOR GENERAL/444 S.W. 2ND AVENUE, SUITE 711/MIAMI, FLORIDA 33130-1910

Page 4 of 4
Mr. Ben Bush
June 2, 2010

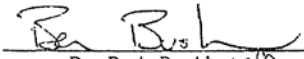
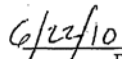
A summary schedule is attached for your reference. If you have any questions, please feel free to contact me at (305) 416-2047 or Victor Igwe (Independent Auditor General) at (305) 416-2044.

Thank you for your attention to this matter.

Sincerely,

Paulino Garcia
Staff Auditor
Office of Independent Auditor General

I have read this Memorandum of Understanding and responded accordingly.


Ben Bush, President *officer for the corporation* 
Date

C: Fredrick Hobson, Acting Director, Solid Waste Department
Steven Margolis, Principal Auditor, Solid Waste Department
Victor Igwe, CPA, CIA, Independent Auditor General

OFFICE OF THE INDEPENDENT AUDITOR GENERAL/444 S.W. 2ND AVENUE, SUITE 711/MIAMI, FLORIDA 33130-1910

SOLID WASTE DEPARTMENT

FINDINGS AND RECOMMENDATIONS

Article V, Section 5.3 of the Agreement stipulates that the franchisee shall, on or before 60 days (November 30th) following the close of each fiscal year (FY), deliver to the Director of the Solid Waste Department (SWD), a statement of its annual gross receipts (Statement) generated from accounts within the City for the preceding fiscal year. Such statement must be prepared by an independent Certified Public Accountant (CPA). The SWD is responsible for administering, monitoring, and enforcing the provisions of Chapter 22 of the City Code and the Commercial Solid Waste Franchise Agreement between the city and the franchisees.

Our audit determined that the statement which was due November 30, 2009 was prepared on December 15, 2009 and subsequently submitted to the Director of the SWD Department. The date it was received by the SWD was not documented.

The proper monitoring of compliance with the franchise Agreement would ensure that City's best interests are properly safeguarded.

Recommendations:

We recommend the SWD to enhance its internal control procedures and to remind the franchisees to submit the CPA report in a timely manner as stipulated in the Agreement. Also SWD should stamp the date these documents are received in the department.

Auditee's response and Action Plan:

Auditee concurred with our finding. See written response on pages 17 and 18.

CITY OF MIAMI, FLORIDA

INTER-OFFICE MEMORANDUM

TO: Fredrick Hobson, Director Solid Waste Department	DATE: June 2, 2010
FROM: Paulino Garcia, Staff Auditor Office of Independent Auditor General	SUBJECT: Memorandum of Understanding General Hauling Service, Inc.
	REFERENCES: Audit No.10-019
	ENCLOSURES:

In connection with our audit of General Hauling Service, Inc. (GHS) for the period October 1, 2008 through September 30, 2009, please review the following preliminary and tentative findings and respond accordingly.

- I Article V, Section 5.3 of the Commercial Solid Waste Agreement (Agreement) states that Franchisee shall, on or before 60 days following the close of each fiscal year deliver to the Director of the Department of Solid Waste, a statement of its annual gross receipts (Statement) generated from accounts within the City prepared by an INDEPENDENT Certified Public Accountant reflecting gross receipts within the City for the preceding fiscal year. Our audit determined that the Statement which was due November 30, 2009 was prepared on December 15, 2009 and subsequently submitted to the Director of the SWD Department. The date it was received by the SWD was not documented. (W/P T-58)

Your Understanding is Correct: X Incorrect Please Initial GG
Explanation: Internal control procedures will be enhanced to include: date stamping of all incoming documents from Franchisees. A reminder will be sent to Franchisees that have not submitted their CPA statement two weeks prior to the due date.

OFFICE OF THE INDEPENDENT AUDITOR GENERAL/444 S.W. 2ND AVENUE, SUITE 711/MIAMI, FLORIDA 33130-1910

Page 2 of 2
Mr. Fredrick Hobson
June 2, 2010

In accordance with Chapter 22 of the City Code and the Commercial Solid Waste Franchise Agreement (Agreement), the Solid Waste Department is responsible for administering, monitoring, and enforcing the provisions of the said City Code and Agreement. Please review the above audit findings, check the appropriate box, and provide written response addressing the concern noted above, no later than June 14, 2010. If you have any questions or comments please feel free to contact me at 305-416-2047.

C: Steven Margolis, Principal Auditor, SWD
Victor Igwe, CPA, CIA, Independent Auditor General

OFFICE OF THE INDEPENDENT AUDITOR GENERAL/444 S.W. 2ND AVENUE, SUITE 711/MIAMI, FLORIDA 33130-1910

EXHIBIT I

**GENERAL HAULING SERVICE, INC.
SCHEDULE OF ADDITIONAL FEES DUE TO THE CITY
OCTOBER 1, 2008 THROUGH SEPTEMBER 30, 2009**

DESCRIPTION	ITEMIZED AMOUNT	TOTAL FEES DUE
	\$	\$
<u>Permit Per Account Fee</u>		
Accounts not reported (28)	1,400.00	
Penalty on accounts not reported	<u>399.00</u>	1,799.00
<u>Franchise Fees (22%)</u>		
Unremitted Franchise Fees	7,010.73	
Late Fee 3231.50	<u>3,231.50</u>	10,242.23
<u>Miscoded Accounts</u>		
Unremitted Franchise Fees	593.78	
Late Fee Panalty	<u>49.77</u>	643.55
TOTAL DUE TO THE CITY		<u><u>12,684.78</u></u>