

CITY OF MIAMI  
**OFFICE OF INDEPENDENT AUDITOR GENERAL**



**AUDIT OF COMPLIANCE WITH SOLID  
WASTE FRANCHISE AGREEMENT/  
LOPEFRA CORPORATION**

**AUDIT REPORT NO. 010-007**

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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January 28, 2010

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

Re: Audit of Compliance with Solid Waste Franchise Agreement/Lopefra Corporation  
Audit No. 10-007

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 Lopefra Corporation. The audit was performed to determine whether Lopefra 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 cursive script that reads "Victor I. Igwe".

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

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

C: The Honorable Mayor Tomas Regalado  
Pedro G. Hernandez, Chief Administrator/City Manager  
Members of the Audit Advisory Committee  
Rosemary L. Hartigan, Vice-President, Lopefra Corporation  
Bill Anido, Assistant City Manager, Office of the City Manager  
Larry M. Spring, Assistant City Manager/Chief Financial Officer  
Peter W. Korinis, Chief Information Officer, Information Technology Department  
Michael J. Boudreaux, Director, Budget Department  
Julie O. Bru, City Attorney, City Attorney's Office  
Barbara L. Pruitt, Assistant 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 SOLID WASTE FRANCHISE  
AGREEMENT/LOPEFRA CORPORATION  
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 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 one-half percent (1-1/2%) late payment penalty fee is assessed monthly on any balance due.
- **Annual Franchise Fee.** The sum of \$5,000 (increased annually by \$500, thus \$6,500 was due for the audit period) for the right to provide commercial solid waste handling services within the City limits. A one and one-half percent (1-1/2%) late payment penalty fee is assessed monthly on any balance due.

- Annual Specialized Waste Handling Service Fee. The sum of \$1,000 (increased annually by \$500, thus \$3,000 was due for the fiscal year 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 (1-1/2%) late payment penalty fee is assessed monthly on any balance due.
- 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 (1-1/2%) late payment penalty fee is assessed monthly on any balance due.

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. Lopefra Corporation 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 Lopefra

Corporation 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 Lopefra Corporation 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 Lopefra Corporation. 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 Lopetra Corporation 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:

- The timely remittance of Annual Franchise Fee to the City.
- That all the franchise fees generated from accounts within the City are properly reported and remitted to the City.

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

- That the franchise fees remitted to the City was properly recorded in the City's accounting system and deposited in the City's treasury.
- That the appropriate public liability insurance was obtained by the SWD as required by Article VII of the Agreement.
- That the appropriate vehicle insurance certificate was obtained by the SWD as required by the City Code and the Agreement.

Overall, we conclude that the internal control policies and procedures in place at Lopefra Corporation could be enhanced to ensure that all customer accounts located in the City are properly identified, coded, assessed the appropriate fees, and assessed fees are promptly remitted to the City.

## **SUMMARY OF AUDIT FINDINGS**

### **LOPEFRA CORPORATION**

#### **ADDITIONAL FEES DUE TO THE CITY**

Article V, Section 5.2 of the Agreement titled “Franchise Fees” stipulates certain fees that the franchisee is required to remit to the City. Our review of Lopefra’s accounting and billing records disclosed that \$798.01 is due and payable to the City from the franchise fee transactions assessed during the audit period. See detailed discussions on pages 9 and 10.

## **AUDIT FINDINGS AND RECOMMENDATIONS**

### **LOPEFRA CORPORATION**

#### **ADDITIONAL FEES DUE TO THE CITY**

Article V, Section 5.2 of the Commercial Solid Waste Franchise Agreement (Agreement) titled “Franchise Fees” stipulates the various franchise fees (FF) to be remitted to the City. Lopefra Corporation generated total gross receipts of \$432,445 for services provided within the City during the audit period (fiscal years 2008-2009). The total gross receipts were revenues generated from specialized waste handling services (Roll-Offs). The total FF remitted to the City during the audit period was \$95,138. However, our audit of Lopefra’s accounting and billing records disclosed that an additional \$798.01 is due and payable to the City from the franchise fee transactions assessed during the audit period, as itemized below. Upon audit inquiry, the amount due was remitted to the City.

#### ***ANNUAL FEES***

- Article V, Section 5.7 of the Commercial Solid Waste Franchise Fee Agreement (Agreement) stipulates that franchisee agrees to remit to the City annually (due October 1) the sum of \$1,000 (increased annually by \$500, thus \$3,000 was due for the fiscal year 2008-2009) for the right to provide “Specialized 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 (1-1/2%) late payment penalty fee per month on the balance due to the City. Our audit determined that Lopefra Corporation remitted its annual fee for the fiscal year 2008-2009 late. As a result of the late remittance, a late penalty fee of \$45 is 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. Failure to remit by the last day of the following month will result in one and one half percent (1-1/2%) late payment penalty fee per month on the balance due. Our audit determined that the 22% franchise fees generated from one (1) customer account was not remitted to the City as required. The un-remitted 22% franchise fees and the applicable late fees totaling \$753.01 (\$671 + \$82.01) are due to the City.

#### Recommendation:

We recommend Lopefra Corporation enhance its internal control procedures to ensure that all service accounts are properly coded and that all appropriate fees are remitted to the City in a timely manner.

#### Auditee's Response and Action Plan:

Auditee concurred with the audit findings. Upon audit inquiry, the amount due was remitted to the City. See written response on pages 11 through 14.

# City of Miami

VICTOR I. IGWE, CPA, CIA  
INDEPENDENT AUDITOR GENERAL



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January 4, 2009

Ms. Rosemary L. Hartigan, Vice-President  
Lopefra Corporation  
2601 SW 69<sup>th</sup> Court  
Miami, Florida 33165

RE: Audit of Lopefra Corporation – Audit #010-007

Dear Ms. Hartigan:

In connection with our audit of Lopefra Corporation for the period October 1, 2008 through September 30, 2009, and selected transactions prior and subsequent to this period, our audit disclosed that additional franchise fees totaling \$798.01 (W/P T-6) are due to the City as summarized below:

- I. Article V, Section 5.7 of the Commercial Solid Waste Franchise Fee Agreement (Agreement) stipulates that franchisee agrees to remit to the City annually (due October 1) the sum of \$1,000.00 (increased annually by \$500, thus \$3,000.00 was due for the audit period) for the right to provide only Specialized 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 the balance due to the City. Our audit disclosed that Lopefra Corporation remitted its annual franchise fee for the fiscal year 2008-2009 late. As a result of the late remittance, a late fee of \$45.00 is due to the City. (W/P T-8)

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

I agree  RLH I disagree  Please initial: \_\_\_\_\_  
Explanation submitted to days etc.  
\_\_\_\_\_  
\_\_\_\_\_

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 its 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. 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 determined that the 22% franchise fees generated from one (1) account was not remitted to the City as required. The unremitted 22% franchise fees and the applicable late fees totaling \$753.01 (\$671.00 + 82.01) are due to the City. (W/P T-97)

I agree  RLH I disagree  Please Initial: \_\_\_\_\_  
Explanation: some permits were issued by County, we  
showed lot of Miami was on Miami Dade  
County property.

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, please provide your written explanations and attach all supporting documents/records. Please respond by January 11, 2009.


A summary schedule is attached for your reference. If you have any questions, please feel free to contact me at (305) 416-2042 or Victor Igwe (Independent Auditor General) at (305) 416-2044.

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

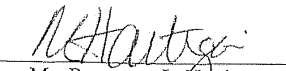


Thank you for your attention in this matter.

Sincerely,

  
Pauline Garcia  
Staff Auditor  
Office of Independent Auditor General


I have read this Memorandum of Understanding and responded accordingly in the spaces provided for.

  
Ms. Rosemary L. Hartigan

1/5/2010  
Date

C: Barbara L. Pruitt, Director, Solid Waste Department  
Steven Margolis, Principal Auditor, Solid Waste Department  
Victor I. Igwe, CPA, CIA, Independent Auditor General

THIS CHECK IS VOID WITHOUT A BLUE BACKGROUND AND AN ARTIFICIAL WATERMARK ON THE BACK. HOLD AT ANGLE TO VIEW.

<b>LOPEFRA CORP.</b> 2601 SW 69TH CT. MIAMI, FL 33155 305-266-3896	<b>VOID</b> CONTINENTAL NATIONAL BANK OF MIAMI <small>5785 S.W. 40TH ST.          MIAMI, FL 33155          63-9457660</small>	<b>56300</b>  DATE <u>1/8/2010</u>
PAY TO THE ORDER OF <u>City of Miami</u>		<b>\$ **798.01</b>
<u>Seven Hundred Ninety-Eight and 01/100*****</u>		<b>DOLLARS</b>
MEMO City of Miami 444 SW 2nd Avenue, Suite 711 Miami, FL 33130-1910  Audit No. 010-007		 <small>SIGNATURE HAS A COLORED BACKGROUND - BORDER CONTAINS MICROPRINTING</small>

<b>LOPEFRA CORP.</b>		<b>56300</b>
City of Miami		1/8/2010
Date	Type	Reference
1/6/2010	Bill	
	Original Amt.	Balance Due
	798.01	798.01
		Discount
		Payment
		798.01
		Check Amount
		798.01
Continental Bank	Audit No. 010-007	798.01

**EXHIBIT I**

**LOPEFRA CORPORATION  
SCHEDULE OF FEES DUE TO THE CITY  
OCTOBER 1, 2008 THROUGH SEPTEMBER 30, 2009**

<b>DESCRIPTION</b>	<b>ITEMIZED AMOUNT</b>	<b>TOTAL FEES DUE</b>
	<b>\$</b>	<b>\$</b>
<b><u>Annual Franchise Fee</u></b>		
1.50% Penalty on Late Remittance		45.00
<b><u>Miscoded Accounts</u></b>		
Unremitted Franchise Fees	671.00	
Late Fee Penalty	<u>82.01</u>	753.01
<b>TOTAL DUE TO THE CITY</b>		<b><u>\$ 798.01</u></b>