

CITY OF MIAMI
OFFICE OF INDEPENDENT AUDITOR GENERAL



**AUDIT OF COMPLIANCE WITH COMMERCIAL
SOLID WASTE FRANCHISE AGREEMENT/
CHOICE ENVIRONMENTAL SERVICES, INC**

AUDIT NO 11-009

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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March 30, 2011

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/Choice
Environmental Services, Inc.
Audit No. 11-009

Pursuant to Section 48 of the City of Miami's (City) Charter and the Fiscal year 2011 Audit Plan, we have examined the billing records of Choice Environmental Services, Inc. (Choice). The audit was performed to determine whether Choice 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, 2010 and selected financial transactions that were processed prior and subsequent to this period.

Sincerely,

A handwritten signature in cursive script that reads "Victor Igwe".

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

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

C: The Honorable Mayor Tomas Regalado
Tony Crapp, Jr. Chief Administrator/City Manager
Members of the Audit Advisory Committee
Neal Rodrigue, President, Choice Environmental Services, Inc.
Johnny Martinez, Deputy City Manager/Chief of Infrastructure
Larry M. Spring, Assistant City Manager/Chief Financial Officer
Peter W. Korinis, Chief Information Officer, Information Technology Department
Luis Cabrera, Assistant City Manager/Chief of Operations
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/CHOICE ENVIRONMENTAL SERV-
ICES, INC. OCTOBER 1, 2008 THROUGH SEPTEMBER 30, 2010**

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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%. Failure to remit the previous month’s collection on or before the last day of the following month will result in a one and one half percent (1.5%) late payment penalty fee per month on any balance due to the City.
- **Annual Franchise Fee.** The sum of \$5,000 (increased annually by \$500, thus \$7,500 was due for the audit period 2009-2010) 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%) late payment penalty fee 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 \$3,500 was due for the audit period 2009-2010) for the right to provide “Specialized Waste Handler” services within the City. Ordinance Number 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. Failure to remit the required annual fee by the due date will result in a one and one-half percent (1.5%) late payment penalty fee per month 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 (PPAF) to each contracted customer. This fee is not transferable. Failure to remit the required PPAF by the due date will result in a one and one-half percent (1.5%) late payment fee per month on any balance due to the City.

During the fiscal year, October 1, 2009 through September 30, 2010 franchisees remitted a total of \$9,699,683 to the City. Choice 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 SWD is also responsible for monitoring the operations of the commercial solid waste franchisees. This audit report describes whether Choice and the SWD 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 2010-2011 Audit Plan. As part of our oversight responsibilities, the Office of the Independent Auditor General performs performance 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 Choice Environmental Services, Inc. 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 governs 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, 2010 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 Choice. 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 Choice 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 Annual Franchise Fee is remitted to the City in a timely manner.
- All the accounts active as of October 1, 2009 were included as part of the permit per account fee (PPAF) list submitted to the City.
- All franchise fees billed and collected are remitted to the City as required.
- All the franchise fees generated from accounts within the City limits are 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 were properly recorded in the City's accounting system and deposited in the City's Treasury.
- The appropriate public liability insurance was obtained as required by Article VII of the Agreement.
- The appropriate vehicle insurance certificates were 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 Choice could be enhanced to ensure that all customer accounts located in the City are properly coded, assessed the appropriate fees, and said fees be promptly remitted to the City.

SUMMARY OF AUDIT FINDINGS

CHOICE ENVIRONMENTAL SERVICES, INC.

ADDITIONAL FEES DUE TO THE CITY

Article V of the Commercial Solid Waste Franchise Agreement (Agreement) titled “Franchise Fees” stipulates certain fees the franchisee is required to remit to the City. Our review of Choice’s accounting and billing records disclosed that an additional \$30,022.88 is due and payable to the City from the franchise fee transactions assessed and processed during the audit period. See detailed discussion on pages 10 through 13.

THE REQUIRED AMOUNT OF PERFORMANCE BOND WAS NOT OBTAINED

Choice did not obtain the required amount of performance bond. See detailed discussion on page 14.

SOLID WASTE DEPARTMENT

INADEQUATE ENFORCEMENT OF THE PROVISION OF THE FRANCHISE AGREEMENT

The Solid Waste Department did not follow-up to obtain the required amount of performance bond. See detailed discussion on page 15.

AUDIT FINDINGS AND RECOMMENDATION

CHOICE ENVIRONMENTAL SERVICES, INC.

ADDITIONAL FEES DUE TO THE CITY

Article V of the Commercial Solid Waste Franchise Agreement (Agreement) titled “Franchise Fees” stipulates the various franchise fees (FF) to be assessed and remitted to the City. Choice Environmental Services, Inc. generated total gross receipts of \$1,876,085.04 in fiscal year 2009-2010 and \$1,865,503.57 in fiscal year 2008-2009 for services provided within the City limits during the audit period. The total FF remitted to the City during the audit period was \$451,388.38 for 2009-2010 and \$445,210.31 for 2008-2009. However, our audit of Choice’s accounting and billing records disclosed that an additional \$30,022.88 is due and payable to the City from Choice as discussed below:

ANNUAL FRANCHISE FEES

- Article V, Section 5.4 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 \$5,000 (increased annually by \$500, thus \$7,000 was due for the 2008/2009 fiscal year and \$7,500 was due for the 2009/2010 fiscal year) for the right to provide Commercial Solid Waste Services and 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%) late payment penalty fee per month on the balance due to the City. Our audit disclosed that Choice remitted its annual franchise fee for the fiscal year 2009-2010 one month late. As a result of the late remittance, a late payment penalty fee of \$112.50 is 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%) late payment penalty per month on any balance due to the City. Our audit of Choice and the City Finance Department's accounting records disclosed that the PPAF for three (3) service accounts that were active as of October 1, 2009 were not assessed and remitted to the City as required. As a result, the un-remitted PPAF and the applicable late payment penalty fee totaling \$186 (\$150 + \$36) 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. Failure to remit by the last day of the following month will result in a one and one-half percent (1.5%) late payment penalty fee per month on the balance due. Our audit of Choice's billing records and listing of customers in unincorporated Miami-Dade County and other municipalities disclosed that:
 - The 22% franchise fees and the related permit per account fee (PPAF) due from twelve (12) customer accounts located in the City were not assessed and remitted to the City as required. Said customer accounts were miscoded and/or were incorrectly exempt from the assessment

of franchise fees. The un-remitted 22% franchise fees, the related PPAF and the applicable late payment penalty fees totaling \$23,330.59 (\$18,326.59 + \$5,004) are due and payable to the City.

- Additionally, our audit disclosed that the 22% franchise fees for the months of February 2009 and April 2009 through July 2009 were not remitted to the City in a timely manner. As a result a late payment penalty fee totaling \$3,893.79 is due to the City.

AUDIT FEE

- Article VI, Section 6.2 of the Agreement stipulates that if a City Audit reveals that: "...FRANCHISEE under reported gross receipts, and results in additional revenue due the City in the amount of \$20,000 (per fiscal year) or more, FRANCHISEE agrees to pay for the cost of said Audit." Our audit disclosed that additional franchise fees including penalties due to the City totaled \$27,522.88. Therefore, an Audit Fee of \$2,500 is due to the City.

Recommendation

We recommend that the Finance Department bill Choice Environmental Services, Inc. for the \$30,022.88 due and payable to the City. Also, we recommend that Choice enhance its internal control procedures to ensure that service accounts located within the City boundaries are properly identified, coded, and that all appropriate fees are remitted to the City in a timely manner.

Auditee's Response and Action Plan:

The auditee concurred with all the audit findings. Please see written responses on pages 16 through 20.

THE REQUIRED AMOUNT OF PERFORMANCE BOND WAS NOT OBTAINED

Article VII, Section 7.2 of the Agreement provides that “FRANCHISEE agrees to maintain for the term of this AGREEMENT, a Performance Bond, executed by a surety company duly authorized to do business in the State of Florida, which shall be counter-signed by an agent for the company, resident in the State of Florida. The amount of the bond shall equal to the FRANCHISEE’S previous 12 month franchise fees paid to the City (including the annual franchise fee, monthly 22% franchise fee, annual per account fee, and other franchise fees paid to the City) or a minimum of \$25,000, whichever is greater, as security for the faithful performance of the Franchise AGREEMENT.”

Our audit disclosed that the total franchise fees due and payable to the City during the previous 12 months was \$451,388.38. At the time (November 11, 2010) of our audit inquiry during audit field work, Choice maintained a performance bond amount totaling \$427,703. However, subsequent to our audit inquiry Choice increased its performance bond amount to \$483,776.99 on December 27, 2010.

Recommendation

We recommend that Choice Environmental Services, Inc. monitor and evaluate annually the previous 12 month franchise fees paid to the City (including the annual franchise fee, monthly 22% franchise fee, annual per account fee, and other franchise fees paid to the City) and obtain any additional bond necessary to be in compliance with the provisions of Article VII, Section 7.2 of the franchise agreement.

Auditee’s Response and Action Plan:

The auditee concurred with the audit finding and recommendation. See auditee response on page 19.

SOLID WASTE DEPARTMENT

INADEQUATE ENFORCEMENT OF THE PROVISION OF THE FRANCHISE AGREEMENT

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.

As discussed on page 14, Choice Environmental Services, Inc. obtained less than the required amount of performance bond. Upon audit inquiry, the Solid Waste Department notified Choice of this noncompliance with the provisions of the franchise agreement. However, our audit procedures should not be a substitute for effective internal control, which requires timely monitoring and enforcement of the provisions of the franchise agreement.

Recommendation

We recommend that the Solid Waste Department enhance its internal control procedures to ensure that the provisions of the Commercial Solid Waste Franchise Agreement are properly monitored and enforced in a timely manner.

Auditee's Response and Action Plan:

Auditee concurred with our findings. Please see written response on pages 21 and 22.

City of Miami

VICTOR I. IGWE, CPA, CIA
INDEPENDENT AUDITOR GENERAL



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E-Mail: lag@ci.miami.fl.usa

March 25, 2011

Mr. Neal Rodrigue, President
Choice Environmental Services, Inc.
13300 NW 38th. Court
Miami, Florida 33054

RE: Audit of Compliance with Commercial Solid Waste Agreement/Choice Environmental Services, Inc.
Audit No. 11-009

Dear Mr. Rodrigue:

In connection with our audit of Choice Environmental Services, Inc. (Choice) for the period October 1, 2008 through September 30, 2010, and selected transactions prior and subsequent to this period, our audit disclosed that additional franchise fees totaling \$30,022.88 (W/P T-12) is due and payable to the City as summarized below:

- I. Article V, Section 5.4 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 \$5,000 (increased annually by \$500, thus \$7,000 was due for the 2008/2009 fiscal year and \$7,500 was due for the 2009/2010 fiscal year) for the right to provide Commercial Solid Waste Services and 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 a one-half percent (1.5%) late payment penalty fee per month on the balance due to the City. Our audit disclosed that Choice remitted its annual franchise fee for the fiscal year 2009-2010 one

month late. As a result of the late remittance, a late payment penalty fee of \$112.50 is due to the City. (W/P T-14)

I agree I disagree Please initial: _____
Explanation _____

II. 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%) late payment penalty per month on the balance due to the City. Our audit of Choice and the City Finance Department's accounting records disclosed that the PPAF for three (3) service accounts that were active as of October 1, 2009 were not assessed and remitted to the City as required. As a result, the un-remitted PPAF and the applicable late payment penalty fee totaling \$186 (\$150 + \$36) are due to the City. (W/P T-16)

I Agree I Disagree Please initial: _____
Explanation _____

III. 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 a one and one-half percent (1.5%) late payment penalty fee per month on the balance due. Our audit of Choice's billing records and listing of customers in unincorporated Miami-Dade County and other municipalities disclosed that:

- The 22% franchise fees and the related permit per account fee (PPAF) due from twelve (12) customer accounts located in the City were not assessed and remitted to the City as required. Said customer accounts were miscoded and/or were incorrectly exempt from the assessment of franchise fees. The un-remitted 22% franchise fees, the related PPAF and the applicable late payment penalty fees totaling \$23,330.59 (\$18,326.59 + \$5,004.00) are due and payable to the City.
(W/P T-195)

I agree I disagree Please Initial: _____

Explanation: _____

- Additionally, our audit disclosed that the 22% franchise fees for the months of February 2009 and April 2009 through July 2009 were not remitted to the City in a timely manner. As a result a late payment penalty fee totaling \$3,893.79 is due to the City.

(W/P T-128)

I agree I disagree Please Initial: _____

Explanation: _____

IV. Article VI, Section 6.2 of the Agreement stipulates that ".....If a City Audit reveals that FRANCHISEE under reported gross receipts, and results in additional revenue due the

City in the amount of \$20,000 (per fiscal year) or more, FRANCHISEE agrees to pay for the cost of said Audit". Our audit disclosed that additional franchise fees including penalties due to the City totaled \$27,522.88. Therefore, an Audit Fee of \$2,500 is due to the City. (W/P T-12)

I agree I disagree _____ Please Initial: _____
Explanation: _____

V. Article VII, Section 7.2 of the Agreement provides that "FRANCHISEE agrees to maintain for the term of this AGREEMENT, a Performance Bond, executed by a surety company duly authorized to do business in the State of Florida, which shall be counter-signed by an agent for the company, resident in the State of Florida. The amount of the bond shall be equal to the FRANCHISEE'S previous 12 month franchise fees paid to the City (including the annual franchise fee, monthly 22% franchise fee, annual per account fee, and other franchise fees paid to the City) or a minimum of \$25,000, whichever is greater, as security for the faithful performance of the Franchise AGREEMENT."

Our audit disclosed that the total franchise fees due and payable to the City during the previous 12 months was \$451,388.38. At the time (November 11, 2010) of our audit inquiry Choice maintained a performance bond amount totaling \$427,703. However, subsequent to our audit inquiry Choice increased its performance bond amount to \$483,776.99 on December 27, 2010. (W/P T-44/T-44.2)

I agree I disagree _____ Please Initial: _____
Explanation: _____

Page 5 of 5
Mr. Neal Rodrigue
March 2, 2011

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 March 30, 2011.

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 (the Independent Auditor General) at (305) 416-2044.

Thank you for your attention to this matter.

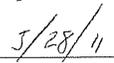
Sincerely,


Paulino Garcia
Staff Auditor
Office of Independent Auditor General

I have read this Memorandum of Understanding and responded accordingly.



Neal Rodrigue



Date

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

CITY OF MIAMI, FLORIDA

INTER-OFFICE MEMORANDUM

TO: Fredrick Hobson, Director
Solid Waste Department

DATE: March 2,, 2011

SUBJECT: Memorandum of Understanding
Choice Environmental Services, Inc.

FROM: Paulino Garcia, Staff Auditor
Office of Independent Auditor General

REFERENCES: Audit # 11-009

ENCLOSURES:

In connection with our audit of Choice Environmental Services, Inc. for the period October 1, 2008 through September 30, 2010, please review the following preliminary and tentative findings and respond accordingly.

- I. Article VII, Section 7.2 of the Agreement provides that "FRANCHISEE agrees to maintain, for the term of this AGREEMENT, a Performance Bond, executed by a surety company duly authorized to do business in the State of Florida, which shall be countersigned by an agent for the company, resident in the State of Florida. The amount of the bond shall be equal to the FRANCHISEE'S previous 12 month franchise fees paid to the CITY (including the annual franchise fees, monthly 22% franchise fee, annual per account fee, and other franchise fees paid to the City) or a minimum of \$25,000, whichever is greater, as security for the faithful performance of the Franchise AGREEMENT."

Our audit disclosed that the total franchise fees due and payable to the City during the previous 12 months was \$451,388.38. However, Choice currently maintains a performance bond amount totaling \$427,703. Therefore, Choice needs to increase the amount of its performance bond by \$23,685.38 (\$451,388.38 - \$427,703).

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

Page 2 of 2
Mr. Frederick N. Hobson
March 9, 2011

administering, monitoring, and enforcing the provisions of the said City Code and Agreement. Our audits of the franchisees have consistently identified noncompliance with this provision. (W/P T-43)

Your understanding is: Correct Incorrect Please Initial: fb

Explanation: We advised Choice Environmental Services, Inc. of the audit determination and in accordance with the non-exclusive commercial solid waste franchise agreement we have provided them with 14 day to respond.

The Department of Solid Waste has recently amended the City Code and franchise agreement, as well as, implemented a number of internal procedures aimed at providing better management and oversight of the City's commercial solid waste franchisees. One such internal procedure is conducting a systematic field audit of potential commercial solid waste accounts in conjunction with Code Enforcement. The audit entails, but is not limited to, identification of the hauler providing service, location of the property and size of containers. The field audit will assist the department in monitoring and enforcing the provisions of the agreement.

Please review the above audit findings, check the appropriate box, and provide written response addressing above concern, no later than March 12, 2011. If you have any questions or comments please feel free to contact me at 305-416-2047.

C: Erica T. Paschal, Fiscal Administrator, SWD
Steven Margolis, Principal Auditor, SWD
Victor Igwe, CPA, CIA, Independent Auditor General

EXHIBIT I

CHOICE ENVIRONMENTAL SERVICES, INC.				
SCHEDULE OF ADDITIONAL FEES DUE TO THE CITY				
OCTOBER 1, 2008 THROUGH SEPTEMBER 30, 2010				
DESCRIPTION			ITEMIZED AMOUNT	TOTAL FEES DUE
			\$	\$
<u>Annual Franchise Fee</u>				
Late Fee Penalty on Late Remittance				112.50
<u>Permit Per Account Fee</u>				
Fiscal Year 2009-2010 Three(3) accounts not reported			150.00	
Late fees			36.00	186.00
<u>Franchise Fee (22%)</u>				
Fiscal Year 2008-2009 - Franchise Fee remitted to the City late during 3 months			3,893.79	3,893.79
<u>Miscoded Accounts</u>				
Franchise Fees on twelve (12) miscoded accounts			17,601.59	
Late Fee penalty on miscoded accounts			4,849.85	22,451.44
Permit Per Account Fee on miscoded accounts			725.00	
Late Fee penalty on Permit Per Account Fee			154.15	879.15
<u>Audit Fee</u>				2,500.00
TOTAL DUE TO THE CITY				<u>\$ 30,022.88</u>