

# City of Miami

THEODORE P. GUBA, CPA, CIA, CFE  
INDEPENDENT AUDITOR GENERAL



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September 27, 2018

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/  
Great Waste and Recycling Services, LLC  
Report No. 18-09

## Executive Summary

We have completed an audit of records and selected financial transactions of Great Waste and Recycling Services, LLC (Great Waste) primarily for the period from October 1, 2013 through September 30, 2017. The audit was performed to determine whether Great Waste complied with applicable sections of the City Code and the Commercial Solid Waste Franchise Agreement (Agreement). Additionally, we examined the internal control policies and procedures in the City's Solid Waste Department (SWD) to determine whether they were adequate and effective in administering and overseeing the operation of specialized waste services in the City. During the period, Great Waste had total gross receipts of \$1,998,055 for services provided within the City and remitted franchise fees totaling \$580,686 to the City.

Based on the results of our audit, we have concluded that improvement is needed to ensure that fees are remitted timely; that the annual permit per account fee and monthly franchise fees are remitted; and that all accounts located within the City are included in gross receipts and franchise fee remittances. As a result of these deficiencies, Great Waste owes the City an additional \$21,803 (See Exhibit I, page 7).

We wish to express our appreciation for the cooperation and courtesies extended to us by Great Waste personnel and the City's Solid Waste and Finance Departments while conducting the audit.

Sincerely,

A handwritten signature in cursive script that reads 'Theodore P. Guba'.

Theodore P. Guba, CPA, CIA, CFE  
Independent Auditor General  
Office of the Independent Auditor General

C: The Honorable Mayor Francis Suarez  
Emilio T. Gonzalez, City Manager  
Victoria Mendez, City Attorney  
Todd Hannon, City Clerk  
Joseph Napoli, Deputy City Manager  
Sandra Bridgeman, Assistant City Manager/Chief Financial Officer  
Nzeribe Ihekwebaba, Assistant City Manager/Chief of Operations  
Fernando Casamayor, Assistant City Manager  
Erica Paschal, Director of Finance, Finance Department  
Christopher Rose, Director, Office of Management and Budget  
Mario Nunez, Director, Solid Waste Department  
Jennifer Moy, Assistant Director, Solid Waste Department  
Vanessa Giron, Fiscal Administrator, Solid Waste Department  
Demetrio Constantiny, Accounts Receivable Supervisor, Finance Department  
Carlo Piccinonna, President, Great Waste and Recycling Services, LLC  
Members of the Audit Advisory Committee  
Audit Documentation File

Audit conducted by: Paulino Garcia, Staff Auditor

Audit reviewed by: Robyn Sachs, CPA, CIA, CISA, CFE, CISSP  
Information Systems Audit Administrator

**AUDIT OF COMPLIANCE WITH THE COMMERCIAL SOLID WASTE  
FRANCHISE AGREEMENT – GREAT WASTE AND RECYCLING SERVICES, LLC**

**OCTOBER 1, 2013 THROUGH SEPTEMBER 30, 2017  
REPORT No. 18-09**

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## **SCOPE, OBJECTIVES AND METHODOLOGY**

The scope of the audit was to assess and report on whether Great Waste and Recycling Services, LLC (Great Waste) 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, 2013 through September 30, 2017 and the primary objectives of the audit were:

- 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 the Agreement were properly computed and remitted to the City.
- 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 the Agreement.
- To examine the internal control policies and procedures of Great Waste and the City's SWD and determine whether they were adequate and effective in administering and overseeing the operation of commercial solid waste hauling services in the City.

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, appropriate evidence 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:

- Interviews and inquiries of appropriate personnel
- Reviews of written policies and procedures in order to gain an understanding of the internal controls
- Observations of current practices and processing techniques
- Tests of applicable transactions and records
- Other audit procedures as deemed necessary

## BACKGROUND

Pursuant to request for qualifications No. 222246, the City executed a Non-Exclusive Commercial Solid Waste Franchise Agreement (Agreement) with selected haulers effective from October 1, 2010 through September 30, 2015, with three one-year renewal options through September 30, 2018. On March 14, 2016, the City executed an updated version of the Agreement with all haulers, including Great Waste, pursuant to request for qualifications No. 495344.

According to the Agreement, the City shall assess and collect the following fees and costs:

- Gross Receipts Franchise Fees: The greater of \$500 or 24% of the Gross Receipts, as defined in the Agreement, generated from accounts within the City, due monthly.
  - Gross Receipts Definition: all monies collected from customers resulting from all transactions and activities in the Franchisee's regular course of business and trade, including recycling with the exceptions of recovered materials at commercial establishments as defined in Florida Statute 403.
- Annual Franchise Fee: \$8,000 the first year under the Agreement, increased by \$500 each subsequent year.
- Permit Per Account Fee: \$75 for each solid waste hauling account and permanent roll-off container active as of October 1<sup>st</sup> of each fiscal year, of which the franchisee may pass on \$38 to the customer. Temporary roll-off containers placed in service after October 1<sup>st</sup> must obtain permits valid for 90-day intervals at the prevailing per-account rate, and new accounts acquired after October 1<sup>st</sup> are subject to the per-account fee.
- Late Payment Penalty: All late payments of the above-listed fees will cause the franchisee a one and one half percent (1.5%) penalty per month on the balance payable to the City.

Other terms of the Agreement require the following:

- Insurance: Franchisee must maintain a public liability policy in the minimum amount of \$1,000,000; automobile liability insurance policy covering franchisee's operations with a combined single limit of \$1,000,000 per occurrence for bodily injury and property damage liability. Franchisee's certificate shall also include workers' compensation coverage. The City shall be listed as an additional insured for liability.
- Performance Bond: Franchisee agrees to maintain, for the term of the 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. The amount of the bond shall be the greater of \$25,000 or the franchisee's previous 12 months' franchise fees paid to the City.

During the fiscal year ended September 30, 2017, franchisees remitted approximately \$14.2 million in franchise fees to the City. During the audit period (fiscal years 2014 through 2017), Great Waste reported gross receipts of \$1,998,055 for services provided within the City and remitted franchise fees of \$580,686 to the City.

In order to determine that the City received all applicable fees due, we requested and reviewed Great Waste's franchise fee payment records for all City hauling activity from October 1, 2013 through September 30, 2017. We also obtained a list of Great Waste's accounts located in Miami-Dade County (all municipalities and unincorporated areas) then independently verified which accounts were located within the geographic boundaries of the City utilizing information from the Miami-Dade County Property Appraiser website and Google Maps.

The Solid Waste Department (SWD) has implemented controls and procedures to ensure that commercial solid waste service accounts, and applicable transactions/fees, are properly assessed and paid to the City. This audit report describes whether Great Waste and the SWD complied with the terms of the Agreement and applicable sections of the City Code. A separate audit report will be issued for each of the franchisees audited.

## **AUDIT FINDINGS AND RECOMMENDATIONS**

Based on the results of our audit, we have concluded that improvement is needed to ensure that fees are remitted timely; that the annual permit per account fee and monthly franchise fees are remitted; and that all accounts located within the City are included in gross receipts and franchise fee remittances. As a result of these deficiencies, Great Waste owes the City an additional \$21,803 (See Exhibit I, page 7).

Details of our findings and recommendations follow:

### **FINDING 1: LATE REMITTANCES OF THE ANNUAL FRANCHISE FEE**

Section 5.4 of the Agreement states, “Franchisee agrees to remit to the City annually (due October 1) the sum of \$8,000 for the right to be a franchisee for Commercial Solid Waste Services within the City; said fee shall increase annually by \$500. Failure to remit the required annual franchise fee by the due date will cause the franchisee a one and one half percent (1.5%) penalty per month on the balance due.”

Our audit found that Great Waste remitted the Annual Franchise Fee late for fiscal years 2015, 2016, 2017. As a result, late fees of 1.5% per month are due, as shown in Table 1 below:

<b>TABLE 1. LATE FEES DUE ON ANNUAL FRANCHISE FEE</b>			
<b>Fiscal Year</b>	<b>Annual Franchise Fee</b>	<b>Months Late</b>	<b>Late Fees Due</b>
2015	\$10,000	4	\$600
2016	\$10,500	2	\$315
2017	\$11,000	2	\$330
<b>Total:</b>			<b>\$1,245</b>

### **FINDING 2: UNPAID PERMIT PER ACCOUNT FEES AND LATE PAYMENT FEES DUE**

Section 5.6 of the Agreement states, “Franchisee agrees to remit to the City annually a Permit Per Account Fee in the amount of seventy-five (\$75.00) (due October 1) for each account and each roll-off effective October 1st of every new fiscal year. All late payments of this fee will cause the Franchisee a one and one half percent (1.5%) penalty per month on the balance due.”

Great Waste did not remit the Permit Per Account Fees (PPAFs) for fiscal years 2014 and 2015; and they remitted the fiscal year 2016 PPAF two months late. As a result, a total of **\$12,384** is due concerning unpaid PPAFs and related late payment penalties, shown in the table below.

<b>TABLE 2. PERMIT PER ACCOUNT AND LATE FEES DUE</b>			
<b>Fiscal Year</b>	<b>Permit Per Account Fees Due</b>	<b>Late Fees Due</b>	<b>Total Fees Due</b>
2014	\$3,300	\$2,921	\$6,221
2015	\$3,525	\$2,485	\$6,010
2016	(PAID)	\$153	\$153
<b>Total:</b>	<b>\$6,825</b>	<b>\$5,559</b>	<b>\$12,384</b>

**FINDING 3: UNPAID MONTHLY 24% FRANCHISE FEES AND LATE PAYMENT PENALTIES DUE**

Section 5.2 of the Agreement states, “Franchisee agrees to remit monthly to the City, twenty four percent (24%) of its Gross Receipts, generated from accounts within the City limits, or \$500, whichever is greater. [...] Failure to remit by the last day of the following month will cause the Franchisee a one and one half percent (1.5%) penalty per month on the balance due.”

Our review of Great Waste’s remittances disclosed that they did not remit the full amount of monthly Franchise Fees owed during fiscal years 2016 and 2017 and that they paid monthly Franchise Fees late during fiscal years 2014 through 2017. As a result, monthly Franchise Fees of \$3,997 and Late Fees of \$3,343 (total of \$7,340) are due to the City, as shown in the table below.

<b>TABLE 3. MONTHLY 24% FRANCHISE FEES AND LATE FEES DUE</b>			
<b>Fiscal Year</b>	<b>Franchise Fees Due</b>	<b>Late Fees Due</b>	<b>Total Fees Due</b>
2014	(PAID)	\$1,264	\$1,264
2015	(PAID)	\$92	\$92
2016	\$3,588	\$1,852	\$5,440
2017	\$409	\$135	\$544
<b>Total:</b>	<b>\$3,997</b>	<b>\$3,343</b>	<b>\$7,340</b>

**FINDING 4: CITY OF MIAMI CUSTOMER ACCOUNTS WERE MISCODED AS EXISTING OUTSIDE THE BOUNDARIES OF THE CITY**

Great Waste did not report two customer accounts served within City boundaries and pay the corresponding Franchise Fees. Due to the omission of \$3,260 in Gross Receipts related to these two accounts, Great Waste owes the city \$782 in 24% monthly Franchise Fees and late payment penalties of \$52 (total of **\$834**).

**OVERALL RECOMMENDATION: FINANCE DEPARTMENT**

We recommend that the City's Finance Department bill and collect the total additional fees due to the City from Great Waste in the amount of \$21,803.

**AUDIT OF COMPLIANCE WITH THE COMMERCIAL SOLID WASTE  
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**EXHIBIT I**

**SCHEDULE OF ADDITIONAL FEES DUE TO THE CITY**

<b>Description</b>	<b>Franchise Fees Due</b>	<b>Late Payment Penalties Due</b>	<b>Total Due</b>
Late Remittances of the Annual Franchise Fee		\$1,245	\$1,245
Unpaid Permit Per Account Fees and Late Payment Fees	\$6,825	\$5,559	\$12,384
Unpaid Monthly 24% Franchise Fees and Late Payment Penalties	\$3,997	\$3,343	\$7,340
Miscoded Customer Accounts	\$782	\$52	\$834
<b>Total Due to the City:</b>	<b>\$11,604</b>	<b>\$10,199</b>	<b>\$21,803</b>