

City of Miami

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



Telephone (305) 416-2044
E-Mail: tguba@miamigov.com

November 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/
Lopefra Corporation
Report No. 19-02

Executive Summary

We have completed an audit of records and selected financial transactions of Lopefra Corporation (Lopefra) primarily for the period from October 1, 2016 through September 30, 2017. The audit was performed to determine whether Lopefra 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, Lopefra had total gross receipts of \$713,483 for services provided within the City and remitted franchise fees totaling \$219,336 to the City.

Based on the results of our audit, we have concluded that improvement is needed to ensure that and that all accounts located within the City are included in Gross Receipts and Franchise Fee remittances. As a result, Lopefra owes the City an additional \$129 (See Exhibit I, page 5).

We wish to express our appreciation for the cooperation and courtesies extended to us by Lopefra 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 Ihekwaba, 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
Rosemary L. Hartigan, Vice President, Lopefra Corporation
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 – LOPEFRA CORPORATION**

**OCTOBER 1, 2016 THROUGH SEPTEMBER 30, 2017
REPORT No. 19-02**

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SCOPE, OBJECTIVES AND METHODOLOGY

The scope of the audit was to assess and report on whether Lopefra and the City's 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, 2016 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 Lopefra 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 Lopefra, 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 1st of each fiscal year, of which the franchisee may pass on \$38 to the customer. Temporary roll-off containers placed in service after October 1st must obtain permits valid for 90-day intervals at the prevailing per-account rate, and new accounts acquired after October 1st 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.

In order to determine that the City received all applicable fees due, we requested and reviewed Lopefra's franchise fee payment records for all City hauling activity from October 1, 2016 through September 30, 2017. We also obtained a list of Lopefra'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 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 Lopefra 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 all accounts located within the City are included in Gross Receipts and Franchise Fee remittances. As a result, Lopefra owes the City an additional \$129 (See Exhibit I, page 5).

Details of our finding and recommendation follows:

FINDING 1: A CITY OF MIAMI CUSTOMER ACCOUNT WAS MISCODED AS EXISTING OUTSIDE THE BOUNDARIES OF THE CITY

Lopefra did not report one customer location served within City boundaries and pay the corresponding Franchise Fees. Due to the omission of \$400 in Gross Receipts related to this service location, Lopefra owes the city \$96 in 24% monthly Franchise Fees and late payment penalties of \$33 (total of **\$129**).

OVERALL RECOMMENDATION: FINANCE DEPARTMENT

We recommend that the City's Finance Department bill and collect the total additional fees due to the City from Lopefra in the amount of \$129.

**AUDIT OF COMPLIANCE WITH THE COMMERCIAL SOLID WASTE
FRANCHISE AGREEMENT – LOPEFRA CORPORATION**

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EXHIBIT I

SCHEDULE OF ADDITIONAL FEES DUE TO THE CITY

Description	Franchise Fees Due	Late Payment Penalties Due	Total Due
Miscoded Customer Account	\$96	\$33	\$129
Total Due to the City:			\$129