

City of Miami

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



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January 31, 2019

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 –
Closeout Audit of Waste Pro of Florida, Inc.
Report No. 19-04

Executive Summary

We have completed an audit of records and selected financial transactions of Waste Pro of Florida, Inc. (Waste Pro) primarily for the period from October 1, 2012 through August 31, 2014. Effective September 1, 2014, Waste Pro terminated their Commercial Solid Waste Franchise Agreement (Agreement) with the City of Miami (City) by selling their commercial services in the City to another hauler. The audit was performed to determine whether Waste Pro complied with applicable sections of the City Code and the Agreement through Waste Pro's date of sale. Additionally, we examined the internal control policies and procedures in the City's Solid Waste and Finance Departments to determine whether they were adequate and effective in administering and overseeing the operation of specialized waste services in the City. During the audit period, Waste Pro remitted franchise fees totaling \$436,034 to the City.

Based on the results of our audit, we have concluded that invoices were paid late and cash collected from City customers was excluded from Gross Receipts. As a result of these deficiencies, Waste Pro owes the City an additional \$4,141 (See Exhibit I, page 5).

We wish to express our appreciation for the cooperation and courtesies extended to us by Waste Pro 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
Russell Mackie, Waste Pro Services of Florida, Inc.
Members of the Audit Advisory Committee
Audit Documentation File

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

Audit reviewed by: Mala Khilnani, CPA, CISA
Assistant to the Auditor General

**AUDIT OF COMPLIANCE WITH COMMERCIAL SOLID WASTE FRANCHISE
AGREEMENT – CLOSEOUT AUDIT OF WASTE PRO OF FLORIDA, INC.**

**OCTOBER 1, 2012 THROUGH AUGUST 31, 2014
REPORT No. 19-04**

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SCOPE, OBJECTIVES AND METHODOLOGY

The scope of the audit was to assess and report on whether Waste Pro of Florida, Inc. (Waste Pro) and the City's Solid Waste Department and Finance Department 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 generally accepted accounting principles. The audit covered the period October 1, 2012 through August 31, 2014 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 Waste Pro included all cash collected from City customers in the Gross Receipts they reported to the City.
- To verify whether all the applicable Franchise Fees as stipulated in the Agreement were properly computed and remitted to the City in a timely manner.
- To examine the internal control policies and procedures of the City and determine whether they were adequate and effective in administering and overseeing the operation of commercial solid waste hauling services.

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 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 pursuant to request for qualifications No. 495344. However, effective September 1, 2014, Waste Pro of Florida, Inc. (Waste Pro) terminated their Agreement with the City by selling their commercial services in the City to another hauler.

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.
- Annual Franchise Fee: \$8,000 the first year under the Agreement, increased by \$500 each subsequent year, due October 1st of each fiscal 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; 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 Waste Pro's Franchise Fee payment records for all City hauling activity from October 1, 2012 through August 31, 2014. The Solid Waste Department and Finance Department have 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 Waste Pro and the City 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 invoices were paid late and cash collected from City customers was excluded from Gross Receipts. As a result of these deficiencies, Waste Pro owes the City an additional \$4,141 (See Exhibit I, page 5).

Details of our findings and recommendations follow:

FINDING 1: ROLL-OFF PERMIT INVOICES WERE PAID LATE

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.”

Waste Pro did not obtain permits for roll-off containers located at service addresses with the City; violations were assessed as described in Chapter 22 of the City’s Code of Ordinances. However, Waste Pro paid each of these four invoices late. As a result, a total of **\$2,957** in late payment penalties is due, as shown in Table 1 below.

TABLE 1. LATE FEES DUE ON ROLL-OFF PERMIT INVOICES			
Invoice Number	Invoice Amount	Months Paid Late	Late Payment Penalties Due
64223	\$3,500	28	\$1,470
74097	\$5,750	16	\$1,380
81152	\$150	1	\$2
84736	\$1,750	4	\$105
Total:	\$11,150		\$2,957

FINDING 2: GROSS RECEIPTS FROM CITY CUSTOMERS WERE UNREPORTED

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 Waste Pro’s cash collected from City customers disclosed that Gross Receipts of \$2,508 were not reported to the City. As a result, monthly 24% Franchise Fees of \$602 and late payment penalties of \$582 (total \$1,184) are due to the City, as shown in Table 2.

TABLE 2. MONTHLY 24% FRANCHISE FEES AND LATE FEES			
Fiscal Year	Unreported Gross Receipts	Franchise Fees Due	Late Fees Due
2013	\$1,671	\$401	\$422
2014	\$837	\$201	\$160
Total:	\$2,508	\$602	\$582

AUDITEE RESPONSE: Waste Pro is in agreement with the amounts due of \$4,141.

OVERALL RECOMMENDATION: FINANCE DEPARTMENT

We recommend that the City's Finance Department bill and collect the total additional fees due to the City from Waste Pro in the amount of \$4,141.

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AGREEMENT – CLOSEOUT AUDIT OF WASTE PRO OF FLORIDA, INC.**

**OCTOBER 1, 2012 THROUGH AUGUST 31, 2014
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EXHIBIT I

SCHEDULE OF ADDITIONAL FEES DUE TO THE CITY

Description	Amount Due
Late Remittances of Roll-Off Permit Invoices	\$2,957
Monthly 24% Franchise Fees on Unreported Gross Receipts	\$602
Late Payment Penalties on Franchise Fees	\$582
Total Due to the City:	\$4,141