

City of Miami

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



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September 11, 2020

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

Re: Audit of Eastern Waste Systems, Inc.
Report No. 20-11

Executive Summary

We have completed an audit of records and selected financial transactions of Eastern Waste Systems, Inc. (EWS), primarily for the period from October 1, 2017 through September 30, 2019. The audit was performed to determine whether EWS complied with applicable sections of the Commercial Solid Waste Franchise Agreement (Agreement). Additionally, we examined relevant internal control policies and procedures in the City's Solid Waste Department and Finance Department to determine whether they were adequate and effective in enforcing the provisions of the Agreement.

During the audit period, EWS reported Gross Receipts of \$8,161,060 for services provided to City customers and remitted Franchise Fees totaling \$2,017,009 to the City. Based on the results of our audit, transactions tested were in compliance with the Agreement and City Code.

We wish to express our appreciation for the cooperation and courtesies extended to us by EWS and City personnel 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
Arthur Noriega, V, City Manager
Victoria Mendez, City Attorney
Todd Hannon, City Clerk
Sandra Bridgeman, Assistant City Manager/Chief Financial Officer
Fernando Casamayor, Assistant City Manager/Chief of Operations
Nzeribe Ihekwa, Assistant City Manager/Chief of Infrastructure
Erica Paschal, Director of Finance, Finance Department
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
Michael C. Marzano, President, Eastern Waste Systems
Members of the Audit Advisory Committee
Audit Documentation File

Audit conducted by: Paulino Garcia, Staff Auditor

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

AUDIT OF EASTERN WASTE SYSTEMS, INC.
OCTOBER 1, 2017 THROUGH SEPTEMBER 30, 2019
REPORT No. 20-11

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SCOPE, OBJECTIVES AND METHODOLOGY

The scope of the audit was primarily to assess and report on whether Eastern Waste Systems, Inc. (EWS) and the City's Solid Waste Department and Finance Department complied with the terms of the Commercial Solid Waste Franchise Agreement (Agreement) which, along with Chapter 22 of the City's Code, govern the operation of commercial solid waste collection services in the City. The audit covered the period October 1, 2017 through September 30, 2019 and the objectives 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 verify whether the appropriate public liability insurance and bonds were obtained as required by the Agreement.
- 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 determine whether selected financial transactions were processed in accordance with generally accepted accounting principles.
- To follow-up on prior audit findings and determine the status of all unresolved and outstanding issues, if any.

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 to gain an understanding of internal controls.
- Observations of current practices and processing techniques.
- Reviewing the service addresses of EWS's accounts located in Miami-Dade County, then independently determining which accounts were located within the City by utilizing EWS's account address records; the Miami-Dade County Property Appraiser website; and Google maps.
- Tests and examinations of applicable financial 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. In 2016, the City executed an updated version of the Agreement with all haulers, including EWS, pursuant to request for qualifications No. 495344.

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

- Gross Receipts Franchise Fees – The greater of \$500 or 24% of the Gross Receipts generated from accounts within the City, due monthly.
 - Gross Receipts are defined in the Agreement as 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 the Florida Statutes.
- Annual Franchise Fee – \$10,500 the first year under the Agreement (2016), increased annually by \$500 for the right to provide specialized waste handling services.
- Permit Per Account Fee – \$75 for each account booked as of October 1st of every new fiscal year and for each new account and roll-off box acquired after October 1st.
- 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, 2019, the franchisees remitted a total of \$16,995,280 in fees to the City. During the audit period, EWS reported Gross Receipts of \$8,161,060 for services provided to City customers and remitted Franchise Fees totaling \$2,017,009 to the City. EWS is one of the franchisees selected for audit to determine compliance with the Agreement and City Code. A separate audit report will be issued for each of the franchisees audited.

AUDIT CONCLUSION

Based on the results of our audit, transactions tested were in compliance with the Agreement and City Code.