

**CITY OF FORT LAUDERDALE
INTERNAL AUDIT OFFICE
AUDIT REPORT**

**Review of
Licensed Private Collector
DisposAll
of
South Florida, Inc.**



**AUDIT NO. 02/03-XX-07
DATED June 20, 2003**

MEMORANDUM NO. 03-26

DATE: June 20, 2003

TO: Assistant City Manager/Greg Kisela

SUBJECT: *Review of Licensed Private Collector – DisposAll of South Florida, Inc.*

Enclosed is a copy of the Final Report of Audit on the Contract Compliance Review – Licensed Private Collector – DisposAll of South Florida, Inc..

Allyson C. Love
Internal Audit Director

1 Attachment - Final Report of Audit

c: Floyd T. Johnson/City Manager
Bud Bentley/Assistant City Manager
Terry Sharp/Finance Director
Boe Cole/Treasurer

ACL/cs

REPORT OF AUDIT NO. 02/03-XX-07

DATE: April 17, 2003

TO: Public Services Director/Greg Kisela

VIA: Internal Audit Director/Allyson C. Love

FROM: Assistant Director Internal Audit/James Hamill/522-2604x52

SUBJECT: Review of Licensed Private Collector – DisposAll of South Florida, Inc.

BACKGROUND

The City of Fort Lauderdale (City) requires all solid waste private collectors to apply for a license to service accounts within the corporate limits of the City. The license for private solid waste services gives each licensed collector a franchise to collect garbage, trash and similar waste materials and recyclables within the City. The franchise fees payable to the City equal seventeen (17) percent of gross receipts. Gross receipts do not include taxes and the amount of franchise fees when such are separately and accurately delineated on the billing statement to customers. Franchise fees are due and payable to the City by the twentieth calendar day of the month following the month the services were provided.

DisposAll acquired their South Florida customer base from Waste Management on August 8, 2000 as the result of a forced divestiture of Waste Management by the Justice Department. DisposAll is a sub-chapter S Corporation owned by Eugene Calabrese, who also owns Refuse Management in the Orlando area and others. The City issued a license (#20004) to DisposAll to collect and dispose of a wide range of commercial, industrial and construction related solid waste and recyclables. The license will expire on September 30, 2003.

The City's Public Service Department, Sanitation Division is responsible for the overall administration and management of the municipal solid waste program. City Ordinance section 24-66 outlines license policies and procedures.

REPORT OF AUDIT NO. 02/03-XX-07

SCOPE

The overall objective of our review was to determine if DisposAll properly remitted franchise fees to the City according to the license agreement. The audit involved the following: (1) a review of the licensee's accounting records, (2) verification of correct jurisdictional coding of DisposAll's Broward all-inclusive customer database (service addresses) using Arc view Geographic Information System (GIS) address matching methodology, (3) detailed testing of cash transactions which support franchise fee worksheet amounts, and (4) verification bad debts recovered were included with the franchise fee calculations. We reviewed documents and transactions from October 2000 through November 2002. The audit was performed during the months of October - December 2002 and was performed according to generally accepted government auditing standards.

OVERALL EVALUATION

The hauler's license agreement was properly executed and license fees paid. Four service addresses were incorrectly coded as to taxing jurisdiction resulting in \$2,606.87 offset/refund due to DisposAll. Furthermore, an analysis of franchise fees due vs. franchise fees remitted indicated a \$1,856.87 underpayment/Sanitation Fund receivable.

FINDING 1

The licensee underpaid the City \$1,857 in franchise fees.

License agreement paragraph 4 states the City, by the 20th calendar day of the month following the month service was provided, on letterhead stationary of the Applicant, will be provided with a statement of the total gross amount billed and collected during the month services were provided and the total gross amount billed and collected for the year to date of that month (Fiscal year beginning October 1). Included on this statement will be the total franchise fees due payable to the City calculated at seventeen percent (17%) of the gross receipts received by the applicant during the month services were provided as well as the year-to-date total of those franchise fees.

Our review of DisposAll Payments by Payment Code Report for the months of October 2000 through November 2002 revealed the City was not paid the

REPORT OF AUDIT NO. 02/03-XX-07

correct amount of franchise fees. The report actually showed the amount of franchise fees due to the City exceeded the amount actually remitted to Public Services (**Schedule 1**).

Public Services does not have, as a matter of procedure, a system in place to periodically validate via Licensee financial reports the accuracy of franchise fees remitted.

Periodic verification of Licensee financial support documentation will assist in the determination of the accuracy of the franchise fee payment.

RECOMMENDATIONS AND MANAGEMENT COMMENTS

The *Manager of General Services* should:

Recommendation 1. *Invoice DisposAll for \$1,856.87 for underpaid franchise fees from October 2000 through November 2002.*

Management Comment. *Management concurred with the finding and recommendation and stated: “We will invoice DisposAll for \$1,856.87 for underpaid franchise fees.” Estimated completion date August 1, 2003.*

Recommendation 2. *Request the Financial Administrator establish a procedure to periodically validate the accuracy of the remittance based on the Licensee franchise/tax report.*

Management Comment. *Management concurred with the finding and recommendation and stated: “The Financial Administrator will periodically request by letter, sufficient backup, along with the franchise/tax report to validate the accuracy of the remittance.” This item is closed.*

FINDING 2

Public Services did not assess late fees in accordance with the license agreement for payments received after the due date.

REPORT OF AUDIT NO. 02/03-XX-07

License agreement paragraph 6 states the applicant will pay all franchise fees due by the 20th day calendar day of the month following the month services were provided. A penalty of 1.0% per month calculated daily on the unpaid balance of the franchise fees due, will be paid the City for franchise fees paid after the 20th calendar day of the month following the month within which services were provided. The minimum penalty levied for the late payment of franchise fees will be (\$25.00). Penalties due to late payment of franchise fees will be due and payable upon receipt.

From October 2000 through November 2002, five (5) monthly payments were paid late (**Schedule 1**).

The Financial Administrator does not have a mechanism in place to alert when payments are received after the established due date in order to assess late fees.

Assessment of late fees will provide incentive for Licensee to pay fees timely.

RECOMMENDATION 3

The Financial Administrator should establish a procedure to date stamp remittances received from Licensees and if received after the 20th, then a late fee should be immediately assessed via an invoice.

MANAGEMENT COMMENT

Management concurred with the finding and recommendation and stated: "The Financial Administrator has established a procedure to date stamp remittances received from Licensees and will assess a late fee when appropriate." This item is closed.

FINDING 3

The Sanitation Fund was overpaid \$2,608 in franchise fees as the result of service address jurisdictional coding errors.

License agreement paragraph 3 states a complete and accurate account list for both recycling and solid waste accounts including the account name, address and telephone number for all accounts served at time of application will be submitted with the license application.

REPORT OF AUDIT NO. 02/03-XX-07

Our review of 499 Broward County accounts revealed four (4) accounts, were found not to be within the corporate limits of the City, as follows.

Customer #	Service Address	Cash Receipts 10/00-12/02	Amount Paid in Error due to incorrect coding
2195	2601 SW 31 st Street	\$ 3,394.65	
2219	2351 SW 34 th Street	-	
2175	4141 SW 30 th Ave	14,494.10	
141210	2106 N. Dixie Highway	52.65	
		\$ 17,941.40	See Note
		\$ 15,334.53 x .17	\$2,606.87

Note: Cash Receipts include franchise fees, thus amount reduced to identify gross receipts subject to calculation.

DisposAll indicated the question of jurisdictional coding of an address depends upon the salesman’s knowledge of the territory or what the customer represents to them. The salesman’s knowledge or what the customer believes to be the jurisdiction may not be entirely factual, especially with respect to properties adjacent to a jurisdictional boundary.

Proper coding of customer accounts by Licensee will assist in the accuracy of the revenues received by the City and will provide for meaningful/reliable revenue budget projections.

**RECOMMENDATIONS AND
MANAGEMENT COMMENTS**

The *Manager of General Services* should:

Recommendation 4. *Immediately credit/refund DisposAll of South Florida \$2,606.87 for overpaid franchise fees from October 2000 through November 2002.*

Management Comment. *Management concurred with the finding and recommendation and stated: “We will coordinate with DisposAll to credit the \$2,606.87 that they overpaid in franchise fees.” Estimated completion date August 1, 2003.*

REPORT OF AUDIT NO. 02/03-XX-07

Recommendation 5. *Provide a notification to the Licensee to update all miscoded accounts to reflect the correct jurisdictional coding. The implementation date and evidence of the changes should be immediately provided to the City.*

Management Comment. *Management concurred with the finding and recommendation and stated: “We will notify all licensees to update all miscoded accounts to reflect correct jurisdictional coding.” Estimated completion date August 1, 2003.*

Recommendation 6. *Require the Licensee to review and submit a corrective action plan to strengthen their current operating procedure to minimize the possibility of future coding errors. The licensee at a minimum should be encouraged to verify service addresses near the perimeter boundary of the city through the City’s on-line GIS/City Maps hyperlink on the City’s web page at www.cityfort.com. Additionally information such as the millage code assigned to a property can be researched on-line at www.bcpa.net. This property information can be helpful in determining/corroborating the exact jurisdictional situs of a particular property.*

Management Comment. *Management concurred with the finding and recommendation and stated: “We will notify all licensees of the audit recommendations and encourage them to utilize the City web page and/or the Broward County Property Appraiser web page. We will also provide the City Customer Service number if any additional assistance is required.” Estimated completion date August 1, 2003.*

Recommendation 7. *Incorporate language into the License Agreement to have the hauler submit with the application package a copy of the current operating procedure they follow to determine the correct jurisdictional coding for a service address. Additionally, an annual Licensee self-assessment/address verification requirement should be added to these multi-year agreements.*

Management Comment. *Management concurred with the finding and recommendation and stated: “We will forward your recommendation to the City Attorney for review by July 1, 2003. If they concur, we will revise the license agreement and include the new language.” This item is open.*

REPORT OF AUDIT NO. 02/03-XX-07

FINDING 4

The language in the Sanitation license agreement was not adequate to obtain unrestricted access to the Licensee essential business records in order to facilitate a complete and thorough franchise fee audit.

License agreement paragraph 9 states information submitted by the applicant and all other applicable and associated information, will be subject to audit by the Internal Auditor.

DisposAll's Controller did not provide Internal Audit access to the company's General Ledger and Financial Statements citing they were proprietary. Consequently, Internal Audit could not verify the aggregate balance of receivables in the Waste Accounting Management subsidiary ledger tied to the General Ledger.

Unrestricted access to key business financial record will facilitate a thorough quality franchise fee audit.

RECOMMENDATIONS AND MANAGEMENT COMMENTS

The *Manager of General Services* should:

Recommendation 8. *Revise the License Agreement and incorporate more explicit language about the extent of business records to be provided to satisfy the objects of a franchise fee audit. The following suggested "right to audit clause" would minimize the possibility of the hauler denying access to records claiming proprietary exclusion.*

"The City of Fort Lauderdale shall have the right to audit or inspect **any and all books, records, reports, documents and such other supporting evidence as it deems necessary to verify compliance with the terms and conditions of this license agreement.** The licensee shall provide such records in hard copy or machine-readable form, or both as requested. The Licensee shall maintain such books & records and associated documents for a period of five years or for so long thereafter as any dispute remains unresolved. The licensee shall include the "right to audit provisions" in all agreements with subcontractors and any other business entities providing goods or services in direct or indirect support of this contract. Should the City of Fort Lauderdale exercise this right to audit the contractor shall

REPORT OF AUDIT NO. 02/03-XX-07

provide adequate and appropriate space as well as access to photocopy machines and the right to interview current and former employees.”

Management Comment. *Management concurred with the finding and recommendation and stated:* “We will forward your recommendation to the City Attorney for review by July 1, 2003. If they concur, we will revise the license agreement and include the new language.” **This item is open.**

Recommendation 9. *Consider revision of the license agreement to require the annual submission of Audited Financial Statements during the term of these multi-year license agreements. These statements should be sent within 180 days of the fiscal period end to the Financial Administrator of Public Services for review. Also, the management letter from the Accountant to the Client, which emphasizes internal control weaknesses, should also accompany the annual audited Financial Statements.*

Management Comment. *Management non-concurred with the finding and recommendation and stated:* “We have discussed and considered the inclusion of an Audited Financial Statement as an additional requirement in our license agreement. Since some of our licensed collectors are small operators and have limited capital we felt this would place an unfair hardship on them to institute this as a new requirement for all licensees at this time.”

Evaluation of Management Comments

Management comments provided and actions taken and/or planned are considered responsive to the recommendations with the exception of recommendation 9.

Internal Audit firmly believes a requirement to have Licensee provide audited financial statements according to Generally Accepted Accounting Principles (GAAP) will add a degree of credibility to the numbers. Also, as auditors/accountants, our audit process requires us to gain a thorough understanding of the Licensee’s systems of internal controls and any weaknesses identified could have a direct bearing on the calculation and remittances of the franchise fees.

Finally, periodic review and evaluation of the Licensee’s fiscal health can be accomplished through review of the annual audited financial statements.

REPORT OF AUDIT NO. 02/03-XX-07

Ratio analysis and comparison of the current year against the previous years may reveal concern on the Licensee's economic well being which could alert the City that franchise fee revenue projections may not be realized. This annual review is especially important when you consider the license agreement is for three fiscal years.

DisposAll of South Florida, Inc.-Fort Lauderdale Internal Audit
Comparison of Provider Gross Receipts and Remittances vs. Public Service Receipts
October 2000 - November 2002

Schedule 1

A	B	C	D	E	F	G	H	I	J			
Month	Provider Basis	Franchise Fee Due at 17%	Provider Remitted	Short/ (Over)	Received Public Services	Due Date	Date Paid	Paid on Time? Y/N	Late Fees			
Oct-00	\$ 44,310.11	\$ 7,532.72	\$ 7,718.90	\$ 186.18	\$ 7,662.64	11/20/00	11/30/00	no	\$ 25.00			
Nov-00	48,461.69	8,238.49	7,948.56	(289.93)	7,948.56	12/20/00	01/02/01	no	25.00			
Dec-00	30,232.95	5,139.60	8,626.96	3,487.36	8,626.96	01/20/01	02/14/01	no	25.00			
Jan-01	35,024.76	5,954.21	7,776.90	1,822.69	7,751.90	02/20/01	03/09/01	no	25.00			
Feb-01	50,142.19	8,524.17	8,087.91	(436.26)	8,062.91	03/20/01	03/20/01	yes				
Mar-01	70,080.48	11,913.68	8,088.01	(3,825.67)	8,088.01	04/20/01	04/20/01	yes				
Apr-01	51,180.71	8,700.72	8,261.20	(439.52)	8,261.02	05/20/01	05/15/01	yes	-			
May-01	49,462.30	8,408.59	7,266.55	(1,142.04)	7,266.55	06/20/01	06/20/01	yes	-			
Jun-01	45,035.91	7,656.10	6,477.78	(1,178.32)	7,177.20	07/20/01	07/17/01	yes	-			
Jun-01	-	-	699.42	699.42	-				-			
Jul-01	46,204.48	7,854.76	6,539.88	(1,314.88)	6,539.88	08/20/01	08/20/01	yes	-			
Aug-01	40,772.53	6,931.33	7,135.35	204.02	7,135.35	09/20/01	10/17/01	no	25.00			
Sep-01	38,945.91	6,620.80	6,609.61	(11.19)	6,609.61	10/20/01	10/17/01	yes				
F2001 Total	\$ 549,854.02	\$ 93,475.18	\$ 91,237.03	\$ (2,238.15)	\$ 91,130.59				\$ 125.00			
Oct-01	\$ 48,780.75	\$ 8,292.73	\$ 8,671.82	\$ 379.09	\$ 8,671.82	11/20/01	11/20/01		-			
Nov-01	37,741.60	6,416.07	6,416.07	(0.00)	6,416.07	12/20/01	12/20/01		-			
Dec-01	44,013.52	7,482.30	6,416.07	(1,066.23)	7,514.90	01/20/02	01/18/02		-			
Dec-01	-	-	1,098.33	1,098.33	-				-			
Jan-02	48,567.22	8,256.43	8,298.32	41.89	8,298.32	02/20/02	02/20/02		-			
Feb-02	36,725.19	6,243.28	6,140.19	(103.09)	6,140.19	03/20/02	02/20/02		-			
Mar-02	39,325.80	6,685.39	6,768.01	82.62	6,768.01	04/20/02	04/20/02		-			
Apr-02	44,397.44	7,547.56	7,549.83	2.27	7,549.83	05/20/02	05/20/02		-			
May-02	56,819.97	9,659.39	9,581.29	(78.10)	9,581.29	06/20/02	06/20/02		-			
Jun-02	43,150.85	7,335.64	7,439.79	104.15	7,439.79	07/20/02	07/20/02		-			
Jul-02	47,464.29	8,068.93	8,095.20	26.27	8,095.20	08/20/02	08/20/02		-			
Aug-02	26,979.77	4,586.56	4,586.56	(0.00)	4,586.56	09/20/02	09/20/02		-			
Sep-02	52,437.17	8,914.32	8,914.32	0.00	8,914.32	10/20/02	10/20/02		-			
F2002 Total	\$ 526,403.57	\$ 89,488.61	\$ 89,975.80	\$ 487.19	\$ 89,976.30				-			
Oct-02	\$ 41,041.61	\$ 6,977.07	\$ 6,977.10	\$ 0.03	\$ 6,977.10		11/20/02		-			
Nov-02	45,166.71	7,678.34	7,678.34	(0.00)	7,678.34		12/19/02		-			
Oct-Nov	\$ 86,208.32	\$ 14,655.41	\$ 14,655.44	\$ 0.03	\$ 14,655.44				-			
Grand Total	\$ 1,162,465.91	\$ 197,619.20	\$ 195,868.27	\$ (1,750.93)	\$ 195,762.33				\$ 125.00			

Additional Fees Due =
\$ 197,619.20 -
195,762.33
= \$ 1,856.87 Total Due