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## CITY OF CORAL GABLES, FLORIDA

Internal Audit of Select Terms within the Solid Waste Franchise Agreement

July 2020

**Distribution:**  
Mayor and City  
Commissioners

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# EXECUTIVE SUMMARY

## Overview

Crowe LLP (“Crowe” or “we”) performed internal audit procedures related to the City of Coral Gables’ Solid Waste Franchise Agreement (the “Agreement”) with Waste Management Inc. of Florida. The objective of the procedures was to review the agreement for franchise fees due to the City and procedures related to delinquent accounts, determine that the franchise fees were calculated correctly on a sample basis, determine that Waste Management is in compliance with the minimum annual franchise fee due to the City, and to review selected customer listings and delinquent accounts to see if Waste Management is in compliance with the terms of the agreement. Crowe reviewed policies, procedures, and contracts, conducted interviews with personnel, and sample tested delinquent accounts and customer listings.

## Summary of Results

The following is a summary of our observations as a result of our procedures. We listed the opportunity for improvement and corresponding risk rating.

Process	Observation #	Opportunity for Improvement	Risk Rating**
Monitoring Third-Party Service Agreement	1	The City should develop a policy with regard to monitoring third-party service agreements.	High
Contracts for Collection Services	2	The City should review with Waste Management the use of contracts for each new customer pursuant to the Agreement.	Moderate
Delinquent Customer Accounts	3	The City should review the listing of delinquent accounts with Waste Management to check if the customer is still receiving services and if the billing addresses are correct.	Moderate
Cancelled Accounts	4	The City should request that Waste Management update the delinquent client listing to identify customers that have cancelled their services.	High
Review of Customer Listing	5	The City should periodically review customer listing for accuracy.	High
Review of monthly reports	6	The City should detail review the monthly reports provided by Waste Management.	Moderate

\*\*For explanation of *Risk Rating* determination, refer to page 3.

# INTRODUCTION

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## ***Background***

The City of Coral Gables (the “City”) has an Agreement (the “Agreement”) with Waste Management Inc. of Florida, (“Waste Management”) for the collection of residential and commercial solid waste and recyclable materials. The City finds that granting Waste Management a franchise is in the public’s best interest and aligns with the City’s desire to provide excellent, environmentally sound collection services while minimizing costs. As part of the agreement, Waste Management pays the City a franchise fee.

## ***Objective and Scope***

The objective of the procedures performed was to evaluate and test the design and effectiveness of selected internal controls and processes implemented. In summary, this internal audit evaluated the following:

- Determine if Waste Management is remitting the proper amount of franchise fees to the City as specified in the Agreement.
- Determine if the policies and procedures surrounding delinquent customer accounts are being properly followed and in accordance with the Agreement.
- Determine areas where improvements can be made in the process to streamline the billings and collections process.

The detailed procedures performed can be found starting on page 4 of the report.

Although our testing was performed in some areas without exception, we can provide no assurance that exceptions would have been detected had procedures been changed or expanded.

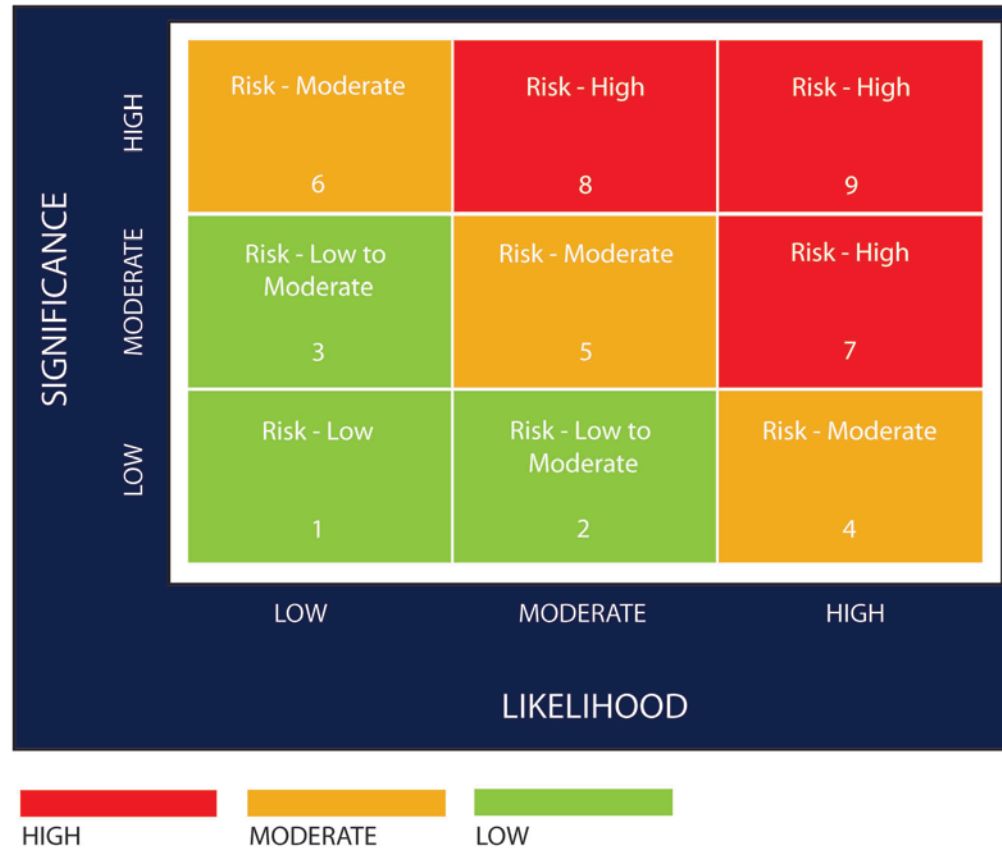
It should also be recognized that internal controls are designed to provide reasonable, but not absolute, assurance that errors and irregularities will not occur, and that procedures are performed in accordance with management’s intentions. There are inherent limitations that should be recognized considering the potential effectiveness of any system of internal controls. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes on judgment, carelessness and other factors.

Internal control procedures can be circumvented intentionally by management with respect to the execution and recording of transactions, or with respect to the estimates and judgments requirement in processing of data. Controls may become ineffective due to newly identified business or technology exposures. Further, the projection of any evaluation of internal control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, and that the degree of compliance with procedures may deteriorate.

# INTRODUCTION

## ***Risk Management***

Risks are evaluated based on its “significance” to management’s strategy and its “likelihood” to occur. This will result in a risk profile of the highest risks to the organization as presented below:



## PROCEDURES PERFORMED

PROCEDURES PERFORMED	RESULTS
<p>1) Review the Agreement and document the responsibilities of both parties.</p>	<p>Crowe obtained the contract, noted the responsibilities of both parties and used this information to determine areas to test.</p> <p>During our review of the Agreement and discussion with Waste Management, we noted that Waste Management does not always utilize contracts for each new customer in compliance with Sections 33.1 and 34.5 of the agreement.</p> <p><b>Refer to opportunity for improvement 2.</b></p>
<p>2) Gain an understanding of the internal operations and internal controls over key procedures at Waste Management through communications with management.</p>	<p>Crowe requested audit support relating to the agreement directly from Waste Management. Inquiries and follow-up questions were asked to gain a better understanding of Waste Management's procedures relating to the management agreement.</p> <p>Through communications with Waste Management we noted that any updates made to the customer listing by Waste Management is not clearly identified and communicated to the City.</p> <p><b>Refer to opportunity for improvement 5.</b></p>
<p>3) Gain an understanding of the internal operations and internal controls over key procedures at the City through communications with management and key personnel.</p>	<p>Crowe performed extensive interviews and discussions over the course of the audit. Interviews were held with key personnel within the City.</p> <p>Through interviews with the City we noted that there is no policy and procedure for monitoring third party service agreements.</p> <p><b>Refer to opportunity for improvement 1.</b></p> <p>Through interviews with the City we noted that there is no detail review of the monthly reports sent by Waste Management.</p> <p><b>Refer to opportunity for improvement 6.</b></p>
<p>4) To ensure that the minimum franchise fee had been met, we compared the current minimum payment requirement to the total payments received between October 1, 2018 through September 30, 2019.</p>	<p><b>No exceptions noted.</b></p>

## PROCEDURES PERFORMED

- 5) To ensure that franchise fees were being calculated correctly, we selected two monthly franchise fee reports and tested the following attributes:

- a) Monthly amount paid to the City was equivalent to 22% of gross revenue as stated in the Agreement.
- b) Franchise fees were remitted to the City no later than the 25<sup>th</sup> calendar day of the following month.
- c) Worksheet used by Waste Management to calculate franchise fees and included in the monthly reports sent to the City contained all the required attributes as stated in the Agreement.
- d) Compared franchise fee to city receipt of funds.
- e) Used the posted rates schedule to recalculate fees charged to the customer for reasonableness.

**No exceptions noted.**

- 6) To ensure that policies and procedures surrounding delinquent customer accounts were being properly followed and according to the contract, Crowe obtained Waste Management's delinquent customer listing for two months, selected 20 accounts (10 each month) to test the following attributes:

- a) Letters were mailed to delinquent customer accounts in accordance with the Agreement.
- b) Amounts due on the letter agreed to amounts owed on customer listing.
- c) Collection services were still provided to delinquent customer accounts.
- d) Compared delinquent listings per the City to Waste Management's delinquent listing.
- e) For accounts that were sent to the City for collection, we tested the following attribute:
  - i) Amount owed on the City's letter agrees to amount owed on the customer listing.
  - ii) Service address and billing address agreed with the Waste Management delinquent letter.
- f) Checked for duplicate billings with the same address but different business names and crossed checked those to the delinquent customer listing.

We noted that seven out of twenty accounts had delinquent balances in excess of \$1,000 and three out of twenty accounts had different billing addresses between the City's records and that of Waste Management.

**Refer to opportunity for improvement 3.**

We noted that five out of twenty accounts that had delinquent balances that were transferred to the City for collection had services cancelled subsequent to notification of delinquency to the City. This might result in the City continuing to attempt collection for a delinquent account that has moved or is no longer in business.

**Refer to opportunity for improvement 4.**

- 7) To ensure completeness of the customer delinquent listing, Crowe compared the delinquent customer listing provided by Waste Management for the two months selected to the delinquent customer listing provided by the City.

**No exceptions noted.**



# OBSERVATIONS AND RECOMMENDATIONS

## 1. OPPORTUNITY FOR IMPROVEMENT – Monitoring Third Party Service Agreement: **HIGH RISK**

During our interviews with the City's Finance Department and Public Works Sanitation Division, we noted that there is not a written policy or procedures that provides clear guidance on the department(s) that is(are) responsible for monitoring the different aspects of the third party service agreement with Waste Management.

**Recommendations:** We recommend that the City develop a policy and procedures for all third-party service agreements to provide clear responsibility for both the operational and financial monitoring aspects of all third-party service agreements that are entered into by the City.

**Management Response/Action Plan:** Working closely with a consultant, the City of Coral Gables is in the process of developing and documenting citywide Standard Operating Procedures (SOP) for all major processes. As part of these SOPs, the Finance Department is developing a policy and procedure for Waste Management Delinquent Account billing and reporting.

## 2. OPPORTUNITY FOR IMPROVEMENT – Contracts for Collection Services: **MODERATE RISK**

Pursuant to Sections 33.1 and 34.5 of the Agreement, Waste Management shall use its best efforts to enter into a contract with each new customer before providing collection services for both commercial and residential (duplexes and multi-family dwellings) customers. During our review of delinquent accounts and inquiry with Waste Management, it appears that Waste Management does not utilize service agreements with customers. However, it was communicated that Waste Management sends out yearly notifications with the new rates for the next fiscal year to all customers.

**Recommendations:** We recommend that the City discuss these sections of the Agreement with Waste Management and ensure that a signed contract is entered for each customer to identify the location address for the services to be provided as well as the responsible/billing party and billing address.

**Management Response/Action Plan:** The City has issued an RFP for the Waste Franchise Agreement. The new agreement will require the provider to have individual contracts with their customers. The City will not require our current provider, Waste Management, to obtain contracts from all customers as the contract will expire on 3/31/21.

**Waste Management Response:** Contracts are utilized wherever feasible and will continue to be utilized, however there are unique circumstances and requirements in the Coral Gables contract that create additional challenges, such as is the case in the Consolidated Alley service areas. Businesses move in and out, often without notice. It is impossible to withhold service in these areas even if the businesses are unable or unwilling to sign contracts. Absentee owners are also often unavailable or in some cases, unable to be reached. Changes in ownership are often done without either party (buyer or seller) notifying WM. In the case of chains, big box stores, or "waste-brokered" accounts, customers may be unwilling or unauthorized to sign local contracts. It is for these and similar reasons that the language in the



## OBSERVATIONS AND RECOMMENDATIONS

franchise agreement includes “best efforts” rather than absolutes with respect to obtaining signed contracts before commencing service. Waste Management also does not receive any notifications from the City related to changes in ownership or when a new business opens. This impacts items #2, #3 and #4.

### 3. **OPPORTUNITY FOR IMPROVEMENT – Delinquent Customer Accounts:** **MODERATE RISK**

Waste Management is solely responsible for billing customers for services provided to customers. Per Section 40.10 of the agreement, if a customer fails to pay Waste Management, Waste Management may request the City to pay the bill for collection services beginning ninety-one (91 days) after the bill became delinquent. During our review of 20 delinquent accounts (10 accounts from June 2018 and 10 accounts from January 2019) we noted the following:

- Upon inquiry of Waste Management, we identified seven (7) accounts whose services had been cancelled after the account became delinquent. However, we were unable to determine that the accounts had been cancelled from the delinquent account list originally provided to us by the City.
- Three accounts had a different billing address than that of the delinquent letter provided to us from Waste Management.

During our interview with the Finance Department we noted that the Finance Department completes a comparison of the delinquent listing to the folio associated with the customer address reported on the Miami-Dade County property appraiser's website and can result in different addresses and owners. Often the property owner is not the tenant that is listed as the customer on the account and responsible for payment. This process can be time consuming and inefficient.

**Recommendation:** The City should work with Waste Management to determine updated reporting that can easily identify delinquent accounts that are no longer in business and/or not receiving collection services. Further the City should also review the delinquent letters sent by Waste Management to agree to the responsible/billing party and billing address. Also see opportunity for improvement 5 (below) regarding cancelled accounts.

**Management Response/Action Plan:** The Finance Department has implemented internal processes to mitigate the risk of incorrect billing. The new agreement that will come out of the current RFP will not allow for the transfer of delinquent accounts to the City for subsequent collection. The City will be preparing an Ordinance for adoption that will clarify Code Enforcement action against businesses who have not made payment on their waste services providing for a daily fine until payment is made. By shifting the responsibility of collections to the provider, the City no longer needs to monitor businesses that have cancelled services.

**Waste Management Response:** In many cases, WM is not advised of changes in ownership by either buyer or seller. Accounts are never canceled unless: WM is notified of an ownership change, or if a business closes or a residential property is being demolished. In the case of Ownership changes, once WM is notified, the “old” account is closed and a “new” account is opened on behalf of the new owner, with a unique account number and typically a new account name.

## OBSERVATIONS AND RECOMMENDATIONS

### 4. OPPORTUNITY FOR IMPROVEMENT – Cancelled Accounts: **HIGH RISK**

During our review of delinquent accounts, we noted that five out of twenty accounts that Waste Management transferred to the City for collection had services cancelled subsequent to notification of delinquency to the City. Upon review of the delinquent account listing that was provided to the City by Waste Management, there was no evidence or notification on the customer listing that the accounts had services cancelled. Without notification that services have been cancelled on the delinquent listing, the City might be paying Waste Management for delinquent accounts that are no longer in business. Further, based on the lack of notification, it is ineffective for the City to send a collections bill to a customer who may no longer be occupying the business address listed on file.

**Recommendations:** We recommend that the City request that all future delinquent listings from Waste Management include the current status of the customer and specifically when services have been canceled. The City should also request a regular listing of customers whose services have been cancelled that includes the customer name and address. Also see Opportunity for Improvement 6 (below).

**Management Response/Action Plan:** The Finance Department has implemented internal processes to mitigate the risk of incorrect billing as well as procedures to identify and recoup payments made to Waste Management for delinquent accounts where services have been cancelled. The new agreement that will come out of the current RFP will not allow for the transfer of delinquent accounts to the City for subsequent collection. The responsibility of collection on the accounts will lie with the waste service provider. Additionally, upon notification of delinquent accounts, the City will assist the waste service provider by imposing Code Enforcement violations to those with delinquent accounts.

**Waste Management Response:** Similar to the situations outlined in 3 above, ownership may change without WM being given notice by either buyer or seller. It should be noted that in every case, WM will always correct any overpayments caused by these situations. WM always fully cooperates with City staff when discrepancies arise, irrespective of who or what caused them, so that everyone is left “whole.”

### 5. OPPORTUNITY FOR IMPROVEMENT – Review of Customer Listing: **HIGH RISK**

During our interviews with the City and Waste Management we noted that Waste Management will update their customer listing whenever they are informed of any changes to an account. However, changes to the customer listing are not specifically identified on the listing that is provided to the Sanitation Division. In order to identify changes between the previous month’s customer listing and the current customer listing, the City would have to manually compare both listings, which could be very time consuming. Per section 12.2 of the agreement, both parties are responsible for the accuracy of the customer list.

**Recommendations:** We recommend that the City request Waste Management provide any changes to the customer listing be clearly identified with an annotation stating the change and provide a summary of changes (for example, new address, cancelled account, new customer, etc.)

## OBSERVATIONS AND RECOMMENDATIONS

on a monthly basis along with the customer listing already provided. We also recommend that the Finance Department then utilize this summary of changes to the customer listing to review delinquent accounts that have already been transferred to the City in order to identify if the City should continue pursuing collections and if notices are sent to the correct customer and address. Currently the Finance Department is reviewing the delinquent listing that does not provide this information either – see opportunity for improvement 3 above.

**Management Response/Action Plan:** As the contract manager of the Waste Management Franchise agreement the Public Works Sanitation Division will request that Waste Management clearly identify any service changes that might have occurred on the customer list that is provided to the City of Coral Gables on a monthly basis.

The Finance Department has implemented internal processes to mitigate the risk of incorrect billing. The new agreement that will come out of the current RFP will not allow for the transfer of delinquent accounts to the City for subsequent collection.

### 6. **OPPORTUNITY FOR IMPROVEMENT – Review of Monthly Reports:** MODERATE RISK

During our testing we noted that the monthly reports provided by Waste Management to the City include worksheets with all customers that were serviced during the month, the service address, and the service that was provided. Crowe reviewed each worksheet for August 2018 and March 2019, searching for different businesses with duplicate addresses, as this may indicate that Waste Management is charging services to a tenant that had left, while also charging the current tenant, or “double billing.” Crowe did not find any exceptions in our testing. However, through our interview with the Public Works Sanitation Division, we noted the division does not currently review these worksheets.

**Recommendations:** We recommend that the Public Works Sanitation Division review the worksheets included in the monthly report for different business names with the same addresses, as this may indicate cases of “double billing.”

**Management Response/Action Plan:** The Public Works Sanitation Division will implement a Standard Operating Policy assigned to the Division’s Analyst to review the monthly work sheets submitted by Waste Management to ensure that there are no accounts with a different name at the same service address. If a discrepancy is noted the Division will immediately contact the vendor for clarification.