



MIAMIBEACH

BUDGET AND PERFORMANCE IMPROVEMENT
Internal Audit Division

INTERNAL AUDIT REPORT

TO: Kathie G. Brooks, Interim City Manager
FROM: James J. Sutter, Internal Auditor 
DATE: November 29, 2012
AUDIT: Sanitation Fees Residential Billing and Service Agreement Compliance Audit
PERIOD: October 1, 2009 through February 28, 2011

This report is the result of a regularly scheduled audit of the residential Sanitation fees billed by the City's Finance Department and the corresponding monthly payments remitted to the City Commission approved residential waste haulers between October 1, 2009 and February 28, 2011. In addition, selected provisions of the City's current signed service agreement with the current residential waste hauler, Choice Environmental Services, were also tested and reported upon.

INTRODUCTION

City Code sections 90-97(a) and (b) state *"Each dwelling or commercial establishment in the City is required to have a solid waste collection service, and garbage facilities approved by the City Manager. All solid waste generated by single family residences and multifamily residences of eight units or less shall be collected, conveyed and disposed of by a single family waste contractor(s)."*

The City issued Request For Proposals No. 48-03/04 in an effort to obtain competitive bids from interested companies. Upon completion of the procurement process, the City Commission ratified Resolution No. 2004-25768 authorizing Waste Management Inc. of Florida (WMI) to collect and dispose of residential solid waste, yard trash and bulk waste, as well as to operate the City's Green Waste Facility. This resolution also included a signed service agreement detailing the pertinent terms for the three year period ending on December 31, 2007. The City Commission subsequently authorized two additional one year renewal options through December 31, 2009 per Resolution Nos. 2007-26682 and 2008-26967 respectively.

Accordingly, Request For Proposals No. 60-08/09 was issued with an opening date of November 30, 2009 while WMI continued to operate as the City's residential waste hauler on a month-to-month-basis because the lengthy selection and negotiation process continued past December 31, 2009. Ultimately, Resolution No. 2010-27421 was adopted authorizing Choice Environmental Services (Choice) for the collection and disposal of the City's residential solid waste, yard trash and bulk waste, as well as to operate the Green Waste Facility. The accompanying signed service agreement commenced on September 1, 2010 was for five years with the City having the sole discretion to continue the same terms and conditions for up to three consecutive one year terms. It covered a multitude of items including required services, payment and billing terms, performance bonds and complaint resolution among others.

The City's Sanitation Division provided Choice with a master listing of all residential addresses in which to provide initial waste service. Afterwards, they are to notify the residential waste hauler of any additions or deletions to this list by email. Additions may include new construction or multi-family residences (up to eight units) switching to City service and vice versa for

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deletions. The City's Finance Department also receives an email so that the customers' utility bills can also be adjusted accordingly in the Eden System's Utility Billing Module.

The City remits \$23.99 per month per waste unit serviced to Choice which is \$1.58 per unit less than the rate previously charged by WMI. Meanwhile, the Finance Department's Utility Billing Section charges waste customers \$39.86 for single family and \$35.43 for multiple family residences on their individual monthly utility bills per City Ordinance No. 2010-3699 which is similarly \$1.58 per unit less than previous rates charged.

The residential waste haulers typically provide the City with an invoice near the first of the month for their provided services. After being reviewed and approved by the Sanitation Division Director and designated staff, the invoice is forwarded to the Finance Department's Accounts Payable Section for payment by City check. The following table shows the dollar amounts collected from residential waste customers through City generated utility bills during the audit period and compares it to the amounts paid to the applicable residential waste haulers:

	10/01/09 – 09/30/10	10/01/10 – 02/28/11 (5 months)	Total
Billing Revenues	\$3,430,047	\$1,041,094	\$4,471,141
Amounts Paid to Waste Hauler	(\$1,947,373)	(\$776,796)	(\$2,724,169)
Difference	\$1,482,674	\$264,298	\$1,746,972

OVERALL OPINION

Overall, the amounts billed for residential waste and correspondingly paid to the authorized hauler(s) while approved are not compared to units billed by the Eden system which may cause the possibility that errors could go undetected for an extended period of time. Internal controls need to be strengthened and consistently performed to help ensure that City revenues are maximized. Additionally, the current residential waste hauler, Choice Environmental Services, appears to be essentially complying with the terms in the signed service agreement but better monitoring by the City's Sanitation Division is needed to help ensure that this trend continues throughout the term. A summary of the deficiencies found during testing are listed as follows:

- Residential waste haulers' submitted invoices were not reconciled to the Eden System's Utility Billing Module records to ensure the accuracy of billed waste units. Internal Audit's subsequent analysis of February 2011 found that Choice Environmental Services billed the City for forty-five more waste units than was charged to the corresponding City residents for the utility accounts identified in Exhibit A at the end of this audit report.
- The accuracy of the Eden System created report of billed waste units for selected utility accounts is questionable as a listing warranting further investigation has been forwarded to the City's Sanitation Division.
- Although testing did not discover any variances, the informal process by which residential waste customers switch to City billed service could result in undetected omissions.
- Choice Environmental Service's signed service agreement and its relevant terms was not entered into the Eden System's Contract Management module. The current residential waste hauler did not timely obtain and submit the required performance bond as well as their insurance coverage to the City's Risk Manager for approval.

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- Requested applicable Sanitation and Finance policies and procedures concerning current residential waste operations and billings were not received.
- General ledger account 435-0430-000334 entitled "Incinerator" is misnamed as it was used to record the City's payments to residential waste haulers during the audit period.

PURPOSE

The purpose of this audit was to determine whether the City's Sanitation Division accurately monitored and recorded the number of active monthly residential waste accounts being serviced; whether submitted monthly residential waste hauler invoices were accurately calculated, properly reviewed and timely paid; whether tested residential utility bills' waste charges were correct; whether the current residential waste hauler complied with tested service agreement provisions; and whether tested transactions were accurately recorded in the City's Financial System.

SCOPE

1. Confirm that comprehensive updated policies and procedures exist, are known to staff and are properly followed.
2. Confirm that the internal control process implemented including a proper segregation of duties is adequate.
3. Confirm that required documentation submitted to the City's Sanitation Division by Choice Environmental Services was accurately prepared, complete and delivered timely.
4. Confirm that added residential waste customers were promptly communicated to the waste hauler for service and were timely billed by the City's Finance Department.
5. Confirm that residential waste customers were billed at the rates approved by the City Commission.
6. Confirm that submitted residential waste hauler invoices were reviewed for accuracy and reconciled to the number of waste accounts billed by the City's Finance Department before payment was made.
7. Confirm that Choice Environmental Services timely remitted the required \$15,000 payment to the City's International Baccalaureate Program and \$10,400 toward the purchase of litter cans by the designated dates in the signed service agreement.
8. Confirm that Choice Environmental Services has maintained the required performance bond and insurance coverage.
9. Confirm that Choice Environmental Services is accurately charging tested transactions at the City's Green Waste Facility.
10. Confirm that tested transactions entered into the City's Financial System were correct.

11. Confirm that Choice Environmental Services complied with selected provisions in their submitted response to Request for Proposal No. 60-08/09 that are either not covered or are more stringent than those listed in their signed service agreement.

FINDINGS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

1. Finding – *Choice Environmental Services February 2011 Submitted Invoice Contained Forty-Five More Waste Units than Billed by the City's Utility Billing Module*

The City's Information Technology Division generates an Eden System report that is provided to the City's residential waste hauler prior to the inception of their service agreement of all relevant service locations and the corresponding number of waste units. Afterwards, the hauler receives periodic emails of any service additions or deletions from designated Sanitation Division employees. The total number of units serviced is to be billed to the City at month's end multiplied by the current per unit rate to determine the amount due.

The residential waste haulers submitted a simplistic one page invoice during each month of the audit period listing the total number of units serviced, the total amount due, the total amount past due, etc. as there was no other supporting documentation provided. Inquiries with Sanitation Division personnel found that they did not monitor or reconcile the actual number of the waste hauler's residential customers with the amounts reported on the submitted invoices during the audit period. Instead, the received invoices were approved and paid as long as the number of residential customers was reasonable when compared to the previous month.

One of the City's risk exposures is that Choice Environmental Services (Choice) is picking up the resident's garbage and the City is not billing the customer. The best way to prevent this scenario from reoccurring would be by maintaining accurate master listings and comparing them periodically to the waste hauler's reports with any differences investigated.

Conversely, the customer would most likely complain if Choice was not picking up his/her garbage but the City was billing them, as well as their actual waste hauler. Therefore, it is unlikely that this scenario would exist where the City would over bill and it go unnoticed.

Per Internal Audit's request, the Information Technology Division created an Eden System report of all residential waste units billed by the City as of March 3, 2011. Next, an Excel report listing all Choice's residential 6,487 waste units serviced for February 2011 was requested and received. These two reports were then compared to discover thirty-one utility accounts where Choice billed the City for 45 more waste units than was billed as shown in Exhibit A at the end of this audit report.

Recommendation

A designated Sanitation Division employee should be responsible for maintaining an accurate up-to-date master listing of all residential waste units. This listing should be reconciled at least quarterly to the Information Technology Division's Eden System generated report of all waste units actually billed to residential customers with any found

differences further investigated and corrected.

Also, the residential waste hauler should submit an Excel report of all their serviced addresses and waste units to the City with their monthly invoices. These reports should also be compared at least quarterly to the Sanitation Division's master listing to help ensure that the City is being properly invoiced by the residential waste hauler. Again, any identified differences should be investigated until resolved.

The differences identified in Exhibit A should be further reviewed by Choice and the City's Sanitation Division until a consensus is reached as to the appropriate number of waste units for the listed utility accounts. If any City residents were found to have been billed incorrectly, then adjustments should be made so that any owed monies are subsequently added to the customer's next invoice while conversely any overpaid monies are credited. Similar adjustments (if applicable) should also be performed for the City's next payment of Choice's submitted monthly invoice.

Management's Response

Sanitation:

The Sanitation Division contacted Choice Environmental requesting that they submit their monthly invoices with an Excel spreadsheet of all City residential accounts serviced on Miami Beach. The contractor agreed and attached the requested spreadsheet along with their next monthly billing. Furthermore, the Sanitation Coordinator created a SOP (Standard Operating Procedure) for residential waste service.

Finance:

After updating their master listing of all residential waste units, the Sanitation Division will send a list to the Finance Department Utility Billing Section of adjustments that should be applied to customer accounts that were billed incorrectly. Upon receipt of the requested adjustments from the Sanitation Division, the Utility Billing Section will immediately apply these adjustments to the customer accounts.

2. Finding – *The Eden System Report's Listed Number of Waste Units May Not be Accurate Thereby Affecting Billing Amounts*

The City's previous residential waste hauler (Waste Management of Florida, Inc.) submitted 6,407 waste units consistently from October 2009 through September 2010. As mentioned in finding #1, this number was not verified but it was most likely understated. In preparation for the conversion to Choice, the City's Information Technology Division created an Eden System report showing that there were 6,426 waste units in July 2010 after the Sanitation Division removed the corresponding waste units for the "mwst" or miscellaneous waste and "ws-r00" or City waste collection fee codes which were included despite not being billed to the customer.

Internal Audit's review of Information Technology's March 3, 2011 Eden System report discovered the following questionable items concerning the number of listed waste units thereby warranting further investigation:

- Thirty-three customer utility accounts were identified where the number of waste units was zero meaning that the customer was not billed for waste. Of these, there were other entries with waste units for eleven of these accounts meaning

that they were billed waste but not for the remaining twenty-two. These utility accounts with zero waste units could indicate that Choice is picking up the residents' garbage, billing the City and receiving compensation but the Finance Department's Utility Billing Section is not invoicing the customer and not being paid.

- Two customer utility accounts numbered 519385-00 and 515619-00 were found to have been billed 1.5 units each. These two were the only ones on the list to not be billed in whole numbers.
- Forty-seven waste units were associated with the "mwst" and "ws-r00" fee codes but were not billed to customers. Their inclusion in this report unnecessarily complicates the reconciliation process and going forward they need to be omitted.

An email containing a listing of these utility accounts described in the bullet points above was sent to the City's Code Compliance Division to investigate and determine the actual number of waste units. However, no information has been received to date.

Recommendation

The City's Code Compliance Division should perform the necessary site visits with the coordination of the Finance Department to determine the actual number of waste units for the reviewed service addresses. The two addresses with 1.5 waste units should be changed to equal the applicable whole number (either 1 or 2) as fractions should not be used. Finally, the Information Technology Division should only capture the "ws-res", "ws-dup" and "ws-apt" fee codes in the future as the "mwst" and "ws-r00" fee codes are not billed.

Management's Responses

Code Compliance:

The designated Code Compliance Division officers are in the process of reviewing the list to determine the appropriate number of waste units to bill. In addition, Code Compliance has opted to expand its analysis to comprehensively include all City addresses thereby writing any warranted violations. Once this analysis is completed we will promptly notify Sanitation and Finance so that the appropriate actions can be taken.

Finance:

Upon completion of their site visits, the Code Compliance Division will send the actual count of the number of waste units to be billed to the Utility Billing Section of the Finance Department. The Utility Billing Section will immediately correct the customer accounts to properly reflect the actual number of waste units.

The Utility Billing Section, in conjunction with the Information Technology Division, will remove the recommended fee codes from the referenced report. The revised report, with the number of units billed, will be sent to the Sanitation Division on a monthly basis in order to reconcile invoices received by Choice.

3. Finding – *The Informal Process by Which Residential Waste Customers are Added to City Billed Service Could Result in Undetected Omissions*

Residential waste customers can be added to City billed service if their contract with their current waste hauler (one of the three companies approved by the City

Commission) has expired and there are no outstanding balances owed. Upon confirming that these conditions are satisfied, the Sanitation Division is to notify the Finance Department's Utility Billing Section via email to begin charging the corresponding customer. A second email is also to be sent to Choice informing them of the need to begin servicing the customer's address.

Internal Audit requested and received emails from Sanitation Division employees of residential customers who desired to switch to City billed waste during the audit period. Although testing performed on ten customers' addresses did not discover any incorrect billings, confusion existed as it was subsequently determined that two tested customers decided not to switch and not all the corresponding documentation was provided. There is no formalized process by which Sanitation and/or Finance personnel are notified of changes and Internal Audit opines that errors could occur and go undetected as there is no monthly reconciliation process performed (see finding #1).

Recommendation

To help avoid uncertainty as to when to add customers to City billed service, the process should be more formalized with emails explicitly requesting the conversion from the Sanitation Division Director or his designee notifying all relevant parties. Furthermore, the completion of monthly reconciliations of the number of waste units billed and serviced by designated Sanitation Division personnel should also be performed and would serve as an effective compensating internal control.

Management's Responses

Finance:

The Finance Department Utility Billing Section keeps copies of all email correspondence received from the Sanitation Division requesting changes to the number waste units to be billed. On a go-forward basis, these email communications will be electronically attached to the customer accounts.

4. Finding – *The Eden System's Contract Management Module Was Not Utilized Thereby Potentially Contributing to the Residential Waste Hauler's Lack of Compliance with the Performance Bond and Insurance Requirements*

The City's five year service agreement with Choice had not yet been entered into the Eden System's Contract Management module as of the conclusion of this audit. The usage of this module can provide such benefits as centralizing pertinent contract information, measuring vendor performance, etc.

For example, it could have been used to help ensure compliance with service agreement sections 6.12 (equipment), 20 (performance bond) and 21 (insurance). Testing found the following shortcomings:

- a. Section 6.12 of the signed service agreement requires Choice to provide a listing of the equipment used on Miami Beach within thirty days following the September 1, 2010 commencement date or by October 1, 2010. Internal Audit requested this list from the Sanitation Division but nothing was provided as they had apparently not received it. Consequently, the listing was requested and received via email from the residential waste hauler on March 21, 2011 where it was found to only contain three new trucks when the deployment of four is required.

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- b. Choice did not obtain and submit the required performance bond City's Chief Financial Officer for approval by the required September 1, 2010 commencement date. Instead, the \$1,000,000 performance bond was obtained on March 11, 2011 following Internal Audit's request for its submittal and 191 days after its stated due date.
- c. Choice was required to deliver their insurance policies or certificates to the City's Risk Manager upon execution of this agreement but no evidence was provided thereof. Yet, they were promptly provided upon Internal Audit's request where hence they were reviewed and approved by the City's Risk Manager.

Recommendation

Sanitation Division personnel should enter Choice's service agreement and its relevant terms into the Eden System's Contract Management module where it can be used to help ensure compliance with listed requirements.

Management's Response

Sanitation:

Sanitation Division personnel attended a training with Procurement on the Contract Management module in order to ensure that all the contracts that impact our division such as the residential contractor are in compliance. The Procurement Division has entered this agreement into the Eden System's Contract Management module.

5. Finding – Policies and Procedures Not Furnished

Neither the Finance Department nor the Sanitation Division had created policies and procedures concerning the addition and deletion of residential waste accounts. In addition, policies and procedures need to be created for the reconciliation of residential waste units addressed in finding #1 once the process and staff's roles are finalized.

Recommendation

Operating policies and procedures should be completed as soon as possible to descriptively outline current operations. Policies and procedures serve both as a benchmark to measure individuals' performance and as an instruction manual in the event that employees' change.

Management's Response

Sanitation:

The Sanitation Division has recently completed residential waste service policies and procedures.

Finance:

The Finance Department Utility Billing Section will add to their policies and procedures guidelines for the addition and deletion of residential waste units.

6. Finding – General Ledger Account 435-0430-000334 Needs to be Renamed to Better Describe Entries

The Finance Department properly recorded all City payments to the residential waste haulers during the audit period in general ledger account 435-0430-000334. However, the account is misnamed "Incinerator" which does not accurately depict its entries.

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Recommendation

The Finance Department should rename general ledger account 435-0430-000334 to more accurately describe its entries.

Management's Response

Finance:

A general ledger account name change was made to "Residential Solid Waste – Bulk.

EXIT CONFERENCE

An exit meeting was held to discuss the audit report and solicit management responses noted above from affected City personnel. Attendees included Sanitation Division Director Al Zamora, Assistant Finance Director Georgina Echert, Financial Analyst III Raul Soria, Internal Auditor James Sutter and Senior Auditor Mark Coolidge. The audit report was subsequently sent to Choice Environmental Services for their review. All parties were in agreement as to the contents of this report. Management responses were solicited and are included above.

JJS:MC:mc:CD:cd

Audit performed by Senior Auditor Mark Coolidge and Field Agent Carmin Dufour

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cc: Jorge Gomez, Assistant City Manager
Fred Beckmann, Public Works Director
Alberto Zamora, Sanitation Director
Patricia Walker, Chief Financial Officer
John Lawson, Operations Manager – Choice Environmental Services

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EXHIBIT A
COMPARISON OF BILLED AND SERVICED RESIDENTIAL CUSTOMERS

UTB ACCOUNT NUMBER	SERVICE ADDRESS	1	2	3
		NO. OF WASTE UNITS SERVICED BY CHOICE	NO. OF WASTE UNITS BILLED BY CMB	NO. OF WASTE UNITS DIFFERENCE (1 - 2)
516648-00	1797 MARSEILLE DR	2	1	1
521177-00	1973 MARSEILLE DR	4	0	4
576824-00	213 ZOE WAY	1	0	1
515650-00	215 PALM AVE	1	0	1
513657-00	235 82ND ST	4	2	2
515733-00	2374 N BAY RD	1	0	1
069880-00	4500 POST AVE	2	1	1
056432-00	4764 PINE TREE DR	2	1	1
513190-00	537 ESPANOLA WAY	2	1	1
521344-00	601 75TH ST	8	4	4
576805-00	6111 W LAGUNA DR	1	0	1
513836-00	660 83RD ST	8	4	4
576876-01	6652 SHEFFIELD LN	2	1	1
508346-00	6985 ABBOTT AVE	12	6	6
521127-00	710 82ND ST	1	4	-3
519631-00	7135 RUE GRANVILLE	1	0	1
504946-00	7306 GARY AVE	0	1	-1
507352-00	751 86TH ST	4	2	2
520532-00	755 83RD ST	4	0	4
521235-00	7921 ABBOTT AVE	12	6	6
117937-00	7402 GARY AVE	0	1	-1
508908-01	7444 GARY AVE	0	1	-1
507864-02	745 LENOX AVE	1	3	-2
521335-01	811 81ST ST	0	4	-4
510918-00	887 80TH ST	8	4	4
520079-00	925 MARSEILLE DR	1	0	1
520023-00	926 15TH ST	4	2	2
520460-01	930 10TH ST	9	8	1
516363-00	940 17TH ST	1	0	1
519548-00	950 79TH TER	8	4	4
516019-00	980 79TH TER	4	2	2
		108	63	45