

CITY OF MIAMI
OFFICE OF AUDITOR GENERAL



AUDIT OF ALL SERVICE – MIAMI DADE DIVISION

AUDIT NO. 04-009

Prepared By
Office of Auditor General

Victor I. Igwe, CPA, CIA
Auditor General

**GURINDERJIT PANNU, STAFF AUDITOR
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City of Miami

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May 24, 2004

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

Re: Audit of All Service – Miami Dade Division (AS)
Audit No. 04-009

Pursuant to Section 48 of the City of Miami's (City) Charter, and the Non-Exclusive Franchise Agreement (Agreement) between the City and commercial solid waste hauling companies (franchisees), we have examined the billing records of All Service– Miami Dade Division (AS). The audit was performed to determine whether AS complied with the provisions of the Agreement and all applicable Sections of the City Code, which regulate the operation of commercial solid waste services in the City.

Additionally, we examined the internal control policies and procedures in the City's Solid Waste department to determine whether they were adequate and effective in administering and overseeing the operation of commercial solid waste services in the City.

The audit covered the period October 1, 2002, through September 30, 2003, and selected transactions prior and subsequent to this period.

Sincerely,



Victor I. Igwe, CPA, CIA
Auditor General
Office of Auditor General

C: The Honorable Mayor Manuel A. Diaz
Joe Arriola, Chief Administrator/City Manager
Bob Hely, General Manager, All Service – Miami Dade Division
Members of the Audit Advisory Committee
Linda M. Haskins, CPA, Chief Financial Officer/Deputy Chief Administrator
Larry M. Spring, Chief of Strategic Planning, Budgeting and Performance
Alicia Cuervo Schreiber, Chief Operating Officer
Peter W. Korinis, Chief Information Officer
Kathleen Woods-Richardson, Director, Solid Waste department
Priscilla A. Thompson, City Clerk
Alejandro Vilarello, City Attorney
J. Scott Simpson, CPA, Director, Finance department
Donald Riedel, Director, Office of CitiStat
Aland Pierre-Canel, CPA, Supervisor, Billing and Collection
Audit Documentation File

**AUDIT OF ALL SERVICE, INC. – MIAMI DADE DIVISION
OCTOBER 1, 2002, THROUGH SEPTEMBER 30, 2003**

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INTRODUCTION

On September 28, 1999, the City Commission passed Ordinance Number 11837, which amended Chapter 22, titled “Garbage and Other Solid Waste”, of the City Code. Pursuant to this ordinance, the process of granting private companies the authority to provide commercial solid waste services within the City was changed from a permitting process to a non-exclusive commercial franchise process. On July 25, 2002, the City Commission passed and adopted Ordinance Number 12258 further amending Chapter 22, Articles I, II, and III of the City Code.

There are a total of 16 firms that signed the Non-Exclusive Franchise Agreement (Agreement) and therefore, acquired the non-exclusive rights and privileges, with related obligations, to provide commercial solid waste services within City limits for five years starting October 1, 1999, through September 30, 2004.

Article V of the Agreement titled “Franchise Fees” stipulates that the following fees be assessed:

- 20% of Gross Receipts. The term “Gross Receipts” is defined in Article II, Section 2.2 of the Agreement, as “all monies, whether paid by cash or credit, collected from customers for garbage, recyclable, hazardous, industrial, biomedical, biological or solid waste, construction and demolition debris, trash, litter, refuse and/or rubbish collection removal and disposal services rendered, or from any other source related directly or indirectly from waste collection services by the franchisee, exclusive of taxes as provided by law, whether wholly or partially collected within the City, less bad debts.”
- The sum of \$5,000 annually for the right to be a non-exclusive franchisee for commercial solid waste services within the City.

- The sum of \$1,000 annually for the right to provide “Specialized Waste Handler” services within the City. Ordinance 12258, Section 22-1 defines “Specialized waste handler” as companies whose primary business is limited to collecting and disposing of solid waste that requires special handling and management, including, but not limited to white goods (appliances), waste tires, used oil, lead-acid batteries, construction and demolition debris, ash residue, biomedical and biological waste.
- Permit per Account Fee in the amount of \$100 for each commercial solid waste service account. This fee is not transferable. Pursuant to Ordinance 12258, Section 22-50(a), each franchisee would pay a permit per account fee annually of \$100 for each commercial solid waste account. The permit per account fees assessed for services initiated subsequent to the first month (October) of the fiscal year would be prorated, at a rate of \$8.33 per month for the remainder of the fiscal year.
- A Roll-Off/Container Permit Fee in the amount of \$50 per account. The \$50 fee shall be for a 90-day period and will be assessed each 90 days the container remains on site.

During the fiscal year, October 1, 2002, through September 30, 2003, all the 16 franchisees that acquired the non-exclusive right to provide commercial solid waste services within the City remitted a total of \$7,902,803 to the City. Our audit was focused on Browning-Ferris Industries, Inc., All Services, Inc. (formerly known as Imperial Sanitation, Inc.), Waste Management of Dade County, Inc., and Lopefra Corporation. The 4 firms generated and remitted approximately \$6,431,120 (or approximately 81%) of the total remittance of \$7,902,803 to the City. Republic Services of Florida, Limited Partnership, purchased Imperial Sanitation, Inc. on March 1, 2000. Pursuant to this acquisition, Imperil Sanitation, Inc. was renamed All Services, Inc. – Miami Dade Division.

The Solid Waste Department (SWD) has the primary responsibility to ensure that commercial solid waste service accounts and applicable fees/transactions are properly assessed and paid to the City. The SWD is also responsible for monitoring and overseeing the activities and/or operations of the non-exclusive commercial franchisees. This audit report describes whether the franchisees and SWD complied with the terms of the Agreement and applicable Sections of the City Code.

SCOPE AND OBJECTIVES

This audit was performed pursuant to the authority set forth in Section 48 of the City's Charter titled, "Office of the Independent Auditor General", and was conducted in accordance with the City's Fiscal Year 2004 Audit Plan. As part of our oversight responsibilities, the Office of Auditor General performs financial and performance audits to determine the extent of compliance with terms of contracts, programs, and/or lease agreements between the City and private companies. The scope of our audit focused primarily on whether All Service, Inc. – Miami Dade Division (AS) and the City's Solid Waste department (SWD) complied with Chapter 22, Article II, Sections 22-46 through 22-58 of the City Code and with the terms of the Non-Exclusive Franchise Agreement (Agreement), which govern the operation of commercial waste collection services in the City. The audit also included examinations of various transactions to determine whether they were executed in accordance with the governing provisions of the controlling legal authority. The examination covered the period October 1, 2002, through September 30, 2003, and selected transactions prior and subsequent to this period. In general, the audit focused on the following 7 broad objectives:

- To determine whether the 20% of gross receipts, which were remitted to the City, were based on the total monthly gross receipts collected by the franchisees.
- To ascertain whether all customer accounts located within the City were properly identified, coded, and assessed the appropriate fees.
- To determine whether all the applicable fees were properly computed and remitted to the City.
- To review the annual statement of gross receipts, which was prepared by an independent Certified Public Accountant retained by the non-exclusive

franchisee. Additionally, to determine whether it was submitted to the SWD within 30 days after the end of the fiscal year.

- 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 verify whether the appropriate public liability insurance and bonds were obtained as required by Article VII of the Agreement.
- To examine the internal control policies and procedures of the City's Solid Waste department and determine whether they were adequate and effective in administering and overseeing the operation of commercial solid waste services in the City.

METHODOLOGY

We conducted the audit in accordance with generally accepted government auditing standards, issued by the Comptroller General of the United States. The audit methodology included the following:

- Interviewing and inquiring of appropriate personnel; reviewing and observing applicable written policies and procedures, in order to gain an understanding of the internal controls; assessing control risk; and planning substantive testing.
- Performing substantive testing consistent with the audit objectives.
- Examining, on a test basis, applicable transactions and records.
- Determining compliance with all the objectives noted on pages 4 and 5.
- Performing other audit procedures as deemed necessary.
- Drawing conclusions based on the testing and making corresponding recommendations.

SUMMARY OF AUDIT FINDINGS

ALL SERVICE, INC. – MIAMI DADE DIVISION (AS), SOLID WASTE (SWD) AND FINANCE DEPARTMENTS (FD)

COMPLIANCE WITH CERTAIN SECTIONS OF THE CITY CODE AND FRANCHISE AGREEMENT.

As part of this audit, we conducted various audit tests, on a sample basis, to determine compliance with certain Sections of the City Code, the Non-Exclusive Franchise Agreement, and other guidelines. Our tests disclosed that AS, Inc., the SWD, and the FD materially complied with the following:

- The FD properly recorded the sampled payments made to the City by AS, Inc. The sampled payments received by the FD were also traced to the City's treasury.
- AS, Inc. complied with the vehicle insurance requirement as stipulated by Section 22-47(4a) of the City Code.
- SWD has improved its internal controls relating to the management of Roll-Off permits.

ALL SERVICE, INC. – MIAMI DADE DIVISION (AS)

ADDITIONAL FEES DUE TO THE CITY.

Article V, Section 5.2 of the Agreement titled “Franchise Fees” stipulates certain fees that the franchisee is required to remit to the City. Our review of AS, Inc.’s accounting and billing records disclosed that additional fees totaling \$42,803.96 (Exhibit I, page 20) are due to the City. The Office of the Auditor General and AS, Inc. agreed that the total amount (\$42,803.96) due, be paid to the City in four (4) monthly installments of \$10,700.99.

LACK OF COMPLIANCE WITH NON-EXCLUSIVE FRANCHISE AGREEMENT AND CITY CODE.

Our audit disclosed that AS, Inc. did not comply with the following provisions of the franchise Agreement:

- AS, Inc. procured \$816,298 of surety bond as opposed to the \$1,047,602.84 of the surety bond required.
- The vouching of the service fees charged by AS, Inc. as shown on the Agreement executed between AS, Inc. and its customer, to the amounts reported to the City, would ensure that the appropriate franchise fees were assessed and paid to the City. However, AS, Inc. could not locate 22 or 44% of the 50 contracts/agreements sampled for testing.

SOLID WASTE DEPARTMENT (SWD)

INADEQUATE MONITORING AND ENFORCEMENT OF THE PROVISIONS OF THE FRANCHISE AGREEMENT.

The SWD is responsible for administering, monitoring, and enforcing provisions of Chapter 22 of the City Code and the non-exclusive franchise Agreement between the City and the franchisees. However, we noted that adequate internal control procedures were not implemented to ensure that the provisions of the franchise agreement are properly monitored for compliance as discussed on pages 11 through 15 and summarized below:

- Failure to obtain the required amount of surety bond.
- Failures to prevent, detect, and/or correct in a timely manner, noncompliance as it relates to the reporting of monthly roll-off container accounts to the Solid Waste department.
- Our test of 11 monthly billings for timeliness of billing disclosed that AS, Inc. was not billed in a timely manner in 4 of the monthly billing periods tested. The total amount due and payable to the City from the 4 invoices (36%) that were billed late, was \$11,279.26. The number of days that invoices were billed late ranged from 8 to 61 days. When fees are not billed and collected in a timely manner, the City forgoes potential interest revenue that could be earned from said cash receipts.

AUDIT FINDINGS AND RECOMMENDATIONS

ALL SERVICE, INC. – MIAMI DADE DIVISION (AS), SOLID WASTE (SWD), AND FINANCE DEPARTMENTS (FD)

COMPLIANCE WITH CERTAIN SECTIONS OF THE CITY CODE AND FRANCHISE AGREEMENT.

As part of this audit, we conducted various audit tests, on a sample basis, to determine compliance with certain Sections of the City Code, the Non-Exclusive Franchise Agreement, and other guidelines. Our tests disclosed that AS, Inc., the SWD, and the FD materially complied with the following:

- The FD properly recorded the sampled payments made to the City by AS, Inc. The sampled payments received by the FD were also traced to the City's treasury.
- AS, Inc. complied with the vehicle insurance requirement as stipulated by Section 22-47(4a) of the City Code.
- SWD has improved its internal controls relating to the management of Roll-Off permits.

ALL SERVICE, INC. – MIAMI DADE DIVISION (AS)

ADDITIONAL FEES DUE TO THE CITY.

Article V, Section 5.2 of the Non-Exclusive Franchise Agreement titled “Franchise Fees” stipulated various franchise fees to be remitted to the City. AS, Inc. reported to the City total gross receipts of \$3,899,370 for services provided within the City limits during the audit period. The total gross receipts include revenues generated from commercial service and roll-off container accounts. The total franchise fees remitted to the City during the audit period is \$1,047,602.84. Our review of AS, Inc.’s accounting and billing records disclosed that additional fees totaling \$42,803.96 (Exhibit I, page 20) are due to the City, as itemized below:

- Article V, Section 5.2 of the Non-Exclusive Franchise Agreement (Agreement) requires the franchisee to remit to the City 20% of its monthly gross receipts. Our review of unincorporated Miami-Dade County and other municipalities customer listings, disclosed that 20% franchise fees (FF) due from 47 miscoded accounts that were located within City boundaries were not remitted to the City. The total FF due from the total revenue generated from said miscoded accounts is \$20,113.30 (i.e. 20% of \$100,566.47) for the fiscal years 2000 through 2003.
- Article V, Section 5.2 of the Agreement states that failure to remit the 20% of the total gross receipts by the 30th of the following month would result in one percent (1%) per month penalty on the balance of the amount due. Therefore, the penalty on the gross receipts that was not remitted to the City during the audit period, as noted above, totaled \$6,574.30 (Exhibit I, page 20) for the fiscal years 2000 through 2003.

- Article V, Section 5.6 of the Agreement requires the franchisee to remit to the City an annual \$100 permit fee for each commercial account serviced by the franchisee. The permit per account fees assessed for services initiated subsequent to the first month (October) of the fiscal year would be prorated at a rate of \$8.33 per month for the remainder of the fiscal year. Our review of AS, Inc's billing/accounting records for the audit period disclosed that additional prorated fees of \$4,966.36 are due and payable to the City. (Exhibit I, page 20)
- Pursuant to Article V, Section 5.7 of the Agreement, the franchisee is required to remit to the City a Roll-Off container permit fee in the amount of \$50 per account, for each temporary (not to exceed 90 days) roll-off container. Our review of AS's billing and accounting records disclosed that AS Inc. placed in operation/service a total of 220 roll-off containers during the fiscal year October 1, 2002, through September 30, 2003. However, our review of pertinent records maintained by the City's Finance and Solid Waste departments disclosed that AS, Inc. reported only 54 roll-off accounts for said period. AS Inc. did not report 166 = (220 - 54) roll-off container accounts to the City as required. Additionally, our audit disclosed that a total of 57 roll-off containers that were placed in service within the City limits, during the period October 1, 1999, through September 30, 2003, were miscoded to the wrong municipality. Therefore, the additional roll-off permit fees due to the City for the audit period totaled \$11,150 = [(166 + 57) x \$50] (Exhibit I, page 20).

Recommendation.

The Office of the Auditor General and the auditee agreed that the total amount (\$42,803.96) due, be paid to the City in four (4) monthly installments of \$10,700.99. Therefore, we recommend that the Finance department bill AS, Inc. as agreed upon. We also recommend that AS, Inc. enhance its internal control procedures to ensure that service accounts located within the City are properly identified and coded; new per

accounts and roll-off accounts be promptly reported to the City's Solid Waste department (SWD); and the appropriate franchise fees be paid to the City. The SWD should also review franchisee's customer database and verify addresses for correctness.

Auditee's Response and Action Plan.

All Services, Inc. – Miami Dade Division concurred with our findings and recommendations and agreed to pay the total amount (\$42,803.96) owed to the City in four (4) monthly payments of \$10,700.99.

LACK OF COMPLIANCE WITH NON-EXCLUSIVE FRANCHISE AGREEMENT AND CITY CODE.

The non-exclusive franchise Agreement (Agreement) between the City and franchisees provided certain operating guidelines and requirements. The operating guidelines were designed to ensure uniformity in the services provided and also to ensure that the City's interest is well protected. However, we noted that All Services, Inc. – Miami Dade Division (AS) did not comply with certain provisions of the Agreement, as discussed below:

FAILURE TO OBTAIN THE REQUIRED AMOUNT OF SURETY BONDS.

- Article VII, Section 7.2 of the Agreement stipulates that: “FRANCHISEE agrees to maintain, for the term of this AGREEMENT, a payment bond, executed by a surety company duly authorized to do business in the State of Florida.” The Agreement additionally indicates that “The amount of the bond shall be equal to the FRANCHISEE’S previous 12-month franchise fees paid to the CITY or a minimum of \$15,000, whichever is greater, as security for the faithful performance of the Franchise AGREEMENT.” The franchise fees remitted to the City during the previous 12-month period (October 1, 2002, through September 30, 2003) totaled \$1,047,602.84. However, our review of the amount of bond procured for the period of October 1, 2003, through September 30, 2004, disclosed that AS, Inc. procured only \$816,298 of surety bond.

The purpose of the surety bond is to ensure that the City would be properly compensated in the event of noncompliance or lack of performance. By having a surety bond less than the one stipulated in Section 7.2 of the Agreement, the City could be adversely affected if the commercial waste hauling company fails to comply with its financial obligations as stipulated in Article V of the Agreement.

SUPPORTING SOURCE DOCUMENTS COULD NOT BE LOCATED.

- Article VI, Section 6.1 of the Agreement stipulates that: “The City may, at reasonable times, and for a period of up to four (4) years following the date of the final payment by the Franchisee to the City under this Agreement, audit, or cause to be audited, those books and records of Franchisee, which are related to Franchisee’s performance under this Agreement. Franchisee agrees to maintain all such books and records at its principal place of business for a period of four (4) years after final payment is made under this Agreement.” Pursuant to Article V of the Agreement, the City is entitled to certain franchise fees based on gross receipts generated from customers and/or type of services provided to customers. During our audit fieldwork we requested a sample of 50 contracts/agreements executed between AS, Inc. and its customers. Among the information included in said Agreement are the services to be provided and the fees payable to AS, Inc. The vouching of the service fees charged by AS, Inc. as shown on the Agreement executed between AS, Inc. and its customer, to the amounts reported to the City, would ensure that the appropriate franchise fees were assessed and paid to the City. However, AS, Inc. could not locate 22 or 44% of the 50 contracts/agreements sampled for testing.

Recommendation.

We recommend that AS obtain additional surety bond of \$231,304.84 as required by Article VII, Section 7.2 of the Agreement; and retain all supporting source documents as required by Article VI, Section 6.1 of the Agreement.

Auditee’s Response and Action Plan.

AS, Inc. concurred with these findings and recommendations.

SOLID WASTE DEPARTMENT (SWD)

INADEQUATE MONITORING AND ENFORCEMENT OF THE PROVISIONS OF THE FRANCHISE AGREEMENT.

The SWD is responsible for administering, monitoring, and enforcing provisions of Chapter 22 of the City Code and the non-exclusive franchise Agreement between the City and the franchisees. However, we noted that adequate internal control procedures were not implemented to ensure that the provisions of the franchise agreement are properly monitored for compliance as discussed on pages 11 through 15 and summarized below:

- Failure to obtain the required amount of surety bond.
- Failures to prevent, detect, and/or correct in a timely manner, noncompliance as it relates to the reporting of monthly roll-off container accounts to the Solid Waste department.
- The Solid Waste department procedures require franchisees to be billed monthly for roll-off containers serviced within the City limit. Our test of 11 monthly billings for timeliness of billing disclosed that AS, Inc. was not billed in a timely manner in 4 of the 11 monthly billing periods tested. The total amount due and payable to the City from the 4 invoices (36%) that were billed late, was \$11,279.26. The number of days that invoices were billed late ranged from 8 to 61 days. When fees are not billed and collected in a timely manner, the City forgoes potential interest revenue that could be earned from said cash receipts.

The proper monitoring of compliance with the franchise Agreement would safeguard City's best interest and ensure that the appropriate fees due are collected and deposited into the City's treasury in a timely manner.

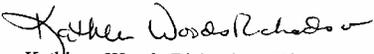
Recommendations.

We recommend that internal control procedures be enhanced to ensure that all franchisees comply with all requirements, and bill/invoice the private haulers in a timely manner.

Auditee's Response and Action Plan.

The Director of SWD concurred with this finding and recommendation. See auditee's response on page 18 and 19.

CITY OF MIAMI, FLORIDA
INTER-OFFICE MEMORANDUM

TO :	Gurinder Pannu, Auditor Office of Internal Audits	DATE :	April 6, 2004	FILE :	
FROM :	 Kathleen Woods-Richardson, Director Department of Solid Waste	SUBJECT :	Response to Audit Findings- All Service, Inc., #04-009	REFERENCES	
		ENCLOSURES			

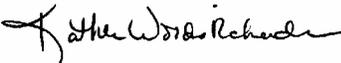
The issue regarding late billings/invoicing for roll-off permits:

- This department has had the position responsible for the billing/invoicing of roll-offs turn over several times during the audit period. It should be noted that this position is being audited to determine if a higher classification is appropriate in order to maintain continuity in that position. The audit is currently in progress at the Department of Employee Relations. The audit result should be available within the next two to three weeks.
- It should also be noted that the City did not lose the \$11,279.26 revenue due for the roll-off permits, it was collected. We do concur that the SWD billed late as stated above; however, the City only lost the interest income. The \$11,279.26 permit fee, calculated at 5% and computed for days billed late (8-61 days) equates to approximately \$61.00. Efforts to prevent delinquent billing in the future will be taken.

c: Mario Soldevilla, Assistant Director
Steven Margolis, Auditor, Pr.

S-5.1

CITY OF MIAMI, FLORIDA
INTER-OFFICE MEMORANDUM

TO:	Gurinder Pannu, Auditor Office of Internal Audits	DATE:	May 14, 2004	FILE:	
FROM:	 Kathleen Woods-Richardson, Director Department of Solid Waste	SUBJECT:	Response to Audit Finding- All Service, Inc., #04-009	REFERENCES:	
		ENCLOSURES:			

The issue regarding the payment bond:

- This department sent Imperial Sanitation a letter dated October 16, 2003, informing them that their performance bond must be resubmitted, reflecting actual franchise fees paid to the City for the period October 1, 2002 through September 30, 2003. Efforts to follow-up with Franchisees who do not respond within a timely manner will be taken in the future.

c: Mario Soldevilla, Assistant Director
Steven Margolis, Auditor, Pr.

EXHIBIT I

**AII SERVICE, INC. - MIAMI DADE DIVISION
SCHEDULE OF FEES DUE TO THE CITY
OCTOBER 1, 2002 THROUGH SEPTEMBER 30, 2003**

<u>DESCRIPTION</u>	<u>ITEMIZED AMOUNT</u>	<u>TOTAL FEES DUE</u>
20% FF for Miscoded Accounts:		
Sub-total	<u>\$ 20,113.30</u>	\$ 20,113.30
Roll-Off Permit Fee:		
Not Reported/Invoiced	8,300.00	
Miscoded Accounts	<u>2,850.00</u>	
Sub-total		11,150.00
1% Penalty for Miscoded Accounts:		
Sub-total	<u>6,574.30</u>	6,574.30
Per Account Fee:		
Miscoded Accounts	1,800.00	
Not Invoiced by SWD	2,466.36	
Under reported in the beginning	<u>700.00</u>	
Sub-total		<u>4,966.36</u>
Grand Total		<u>\$ 42,803.96</u>