



# AUDIT HIGHLIGHTS

## Landfill Recycling Cost Review

September 3, 2019

Audit Report No. 1917

### WHY WE DID THIS AUDIT

This audit was conducted at the request of the Public Works Director to validate financial information related to the current recycling contract's "share price" calculation. The contractor's subcontractor is now requesting adjustments to the contract terms.

### BACKGROUND

The City's current recycling contract with the Salt River Pima-Maricopa Indian Community (SRPMIC), the owner and operator of Salt River Commercial Landfill Company (Salt River Landfill), is for March 1, 2016, to December 31, 2021. A subcontractor owns and operates the River Recycling facility at the Salt River Landfill.

The City provides single-stream recycling, which means customers place all recyclables in the same container and the recycling center sorts the incoming materials by recyclable type.

The City's contract with SRPMIC provides that recyclable revenues earned in excess of a stipulated processing cost rate are shared with the City. In FY 2017/18 and FY 2018/19, the City received \$330,700 and \$159,400, respectively, from the sale of recycled materials.

### City Auditor's Office

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### WHAT WE FOUND

**The recycling facility financial analysis and accounting data included unsupported and questioned costs.**

Specifically, we found:

- Financial cost analysis for the River Recycling facility did not agree to the subcontractor's underlying general ledger accounting data.
- The subcontractor did not provide the requested documentation to support certain costs, including all its labor costs. Tested expenses included \$418,000 in other questioned costs.
- The proposed contract modifications would have cost the City about \$1.7 million for the May 1, 2018, through April 30, 2019, period.

**The subcontractor contributed a higher percentage of rejected recyclables, which increases processing costs.**

Besides being a primary operational cost driver, rejected materials increase the facility's disposal costs. We found:

- The cities of Scottsdale and Mesa have comparable rates of rejected materials, about 9%, contributing a significantly smaller portion of the facility's contaminants than the subcontractor and other users.
- Both cities have public education programs while the subcontractor simply provides a website.

### WHAT WE RECOMMEND

We recommend the Public Works Director:

- Require the recycling facility operator to provide complete supporting cost documentation for audit review before agreeing to renegotiate contract terms.
- If renegotiating the City's recycling contract terms in advance of the agreement's termination date, evaluate whether proposed terms have a proportionate impact on risk distribution between the City and other parties.
- When renegotiating the City's recycling contract terms, include the facility's users' proportionate contamination (rejected recycling tons) impact on costs.

### MANAGEMENT RESPONSE

The department agreed with the recommendations, noting that it will not agree to changes in the calculation factors without proper supporting documentation of costs and consideration of contamination levels.