



**Environmental Services Department –
Friedman Recycling Program
Follow – Up Audit
Report A2018-09**

Issued by the
Internal Audit Office
April 26, 2018

**City of El Paso
Internal Audit Office
Environmental Services Department – Friedman Recycling Program Follow – Up Audit A2018-09**

EXECUTIVE SUMMARY

The Internal Audit Office conducted a Follow-Up Audit of the Environmental Services Department – Friedman Recycling Program Audit Report dated September 28, 2016. The original Audit Report contained three findings. Upon completion of the audit fieldwork, we have determined the status of the recommendation for each audit finding as outlined in the table below:

Finding No.	Description of Findings	Status
1	According to the June 27, 2016 Friedman’s Materials Composition Audit, contamination rates for City Recycling Materials are 26.26%. Environmental Services’ goal for contamination is 15%, an 11.26% difference. City contamination rates have increased from 17% to 26.26%, a 9.26% escalation, from 2007 to 2016. A key indicator attributing to the increasing and high contamination rates is the lack of funding spent for public outreach efforts to educate City residents how to recycle properly.	In Progress – Management will Assume the Risk
2	Friedman Recycling records the weight of ESD Trucks and calculates the tonnage amounts of Recyclable Materials delivered by ESD trucks. The Environmental Services Department does not review and verify the recorded weight of ESD trucks and the calculated tonnage amounts of delivered Recyclable Materials.	Implemented
3	Environmental Services’ manual titled “ <i>Standard Operating Processes</i> ” for the Recycling Division has not been finalized and approved by the Environmental Service Director or the appropriate designee.	Implemented

For a detailed explanation of the findings and current observations please refer to the appropriate finding contained in the body of this Audit Report.

City of El Paso
Internal Audit Office
Environmental Services Department – Friedman Recycling Program Follow – Up Audit A2018-09

BACKGROUND

The City entered into a contract with Friedman Recycling of El Paso (Friedman Recycling) in February 2006 for the processing of recycling materials. The City’s curbside recycling program began in April 2007. Since 2006, Friedman Recycling has requested and has been granted two amendments to the original contract (2011 and 2015).

According to the March 5, 2018, Special City Council Meeting discussion, on February 5, 2018, Friedman Recycling submitted a third request for a contract amendment due to changes in the recycling market. The recycling market is experiencing a disruption due to China’s National Sword Program that imposes severe restrictions on the import of recyclable materials. Until recently, China has been the world’s largest importer of recycled paper and plastics, including most of El Paso’s mixed paper and plastics. As a result of the volatility in the recycling market, Friedman Recycling is reporting significant increases in processing costs and significant losses each month from hiring additional sorters, slowing down the processing line, and stockpiling material due to insufficient orders. In the last Fiscal Year the City paid an average of \$16.40 per ton of recyclables processed. Friedman Recycling requested that the City pay an additional \$20.00 per ton, which would increase the average cost to approximately \$36.00 per ton to process the City’s recyclable materials. The City currently charges private citizens and businesses \$26.00 per ton for disposal at the City Landfill.

City Council opted out of amending the contract and paying more money to Friedman Recycling. The Environmental Services Director hopes that Friedman Recycling is able to “weather the storm.” The recycling program has not been successful since its inception 11 years ago. In that time, the City has invested about \$68 million and has only saved about eight months’ worth of landfill space. The program was started to reduce waste that enters the landfill and contribute to the preservation of the environment in a long-term and cost effective manner.

AUDIT OBJECTIVES

The audit objective was to ensure that corrective action was taken by management to address the recommendations detailed in the original Audit Report dated September 28, 2016.

AUDIT SCOPE

The audit period covered the operations of Fiscal Year 2018.

AUDIT METHODOLOGY

To achieve our audit objectives we:

- Conducted interviews with the Environmental Services Department (ESD) and Friedman Recycling staff.
- Conducted a review of the “Recycling Division Standard Operation Process Manual”.
- Reviewed and analyzed:
 - ESD’s contamination rate,
 - Public Outreach Funds,
 - Material Composition Audit and Contamination Rate Reports,
 - Reported tonnage amounts, and
 - ESD and Friedman’s Recycling Inventory List of tare weights,

**City of El Paso
Internal Audit Office**

Environmental Services Department – Friedman Recycling Program Follow – Up Audit A2018-09

We conducted this audit in accordance with *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**City of El Paso
Internal Audit Office
Environmental Services Department – Friedman Recycling Program Follow – Up Audit A2018-09**

ORIGINAL FINDINGS, ORIGINAL RECOMMENDATIONS, MANAGEMENT’S RESPONSE TO ORIGINAL FINDINGS, CURRENT OBSERVATION, AND STATUS

Based on the results of follow-up test work, each original finding recommendation will be designated with one of the following four status categories:

<i>Implemented</i>	The finding has been addressed by implementing the original corrective action or an alternative corrective action.
<i>In Progress</i>	The corrective action has been initiated but is not complete.
<i>Not Applicable</i>	The recommendation is no longer applicable due to changes in procedures or changes in technology.
<i>Not Implemented</i>	The recommendation was ignored, there were changes in staffing levels, or management has decided to assume the risk.

Finding: 1

Contamination Rates for City Recyclable Materials

City of El Paso’s Strategic Plan 2016:

- Goal 8.6 – *Provide long-term, cost effective, sustainable regional solid waste solutions.*

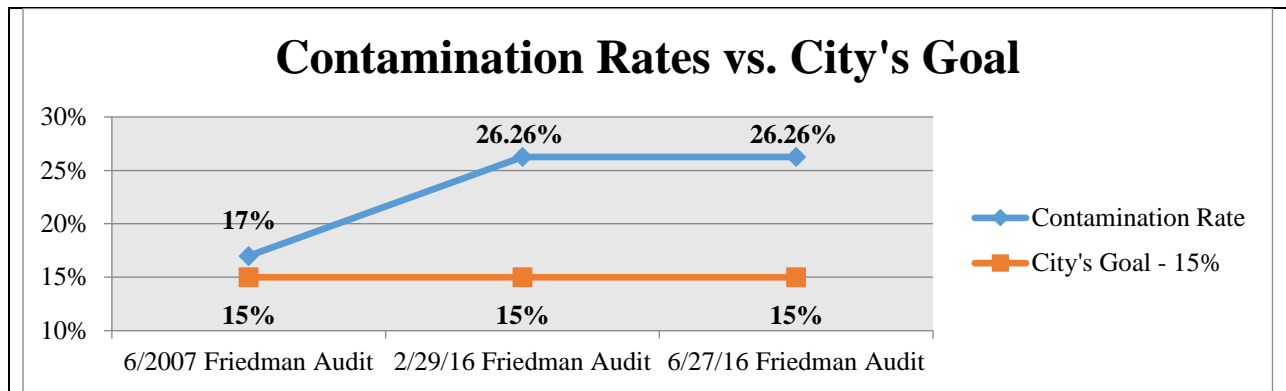
2nd Amendment of the Addendum to the Single Stream Curbside Recycling Processing Services, Solicitation No. 2006-015,

- Section 2.1 “Introduction” states that: *The goals of the City were, and continue to be, to maximize the fullest recovery possible of Recyclable Materials from single-family residents in the City and to achieve the most cost-effective solution.*
- Section 2.1.1.1 states that: *Since contamination can be a significant problem in residential recycling collection, ... After the first five years of the Contract, additional public education expenditures will be subject to approval by El Paso City Council. The City will determine how public education funds are directed. Additionally, the City will develop policies/ordinances aimed at further reducing curbside recyclable material contamination.*
- Section 3.02 states that: *If and when contamination/residual levels reach 15% or less, Contractor shall pay the City a bonus of \$1.00 per ton for each ton of recyclables delivered by the City, for the primary purpose of public education regarding the City’s recycling program. This \$1.00 per ton shall be in addition to the \$0.50 per ton identified in Section 2.1.3 to this Second Amendment.*

A review of the City’s contamination rates identified the following:

- According to the June 27, 2016 Friedman Materials Composition Audit, the contamination rate for the City is 26.26%. Environmental Services’ goal for contamination is 15%, an 11.26% difference.
- From Fiscal Years 2007 to 2016, the City’s contamination rates increased from 17.00% to 26.26%, a 9.26% escalation.

**City of El Paso
Internal Audit Office**
Environmental Services Department – Friedman Recycling Program Follow – Up Audit A2018-09



A key indicator attributing to the increasing and high contamination rates is the lack of funding spent for public outreach efforts to educate City residents how to recycle properly. A review of the Environmental Services’ Account 531020: “*Promotional Supplies*” identified the following funds were used for public outreach/education efforts regarding recycling as of September 14, 2016:

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Expenses	\$ -	\$ -	\$1,829	\$1,737	\$1,190	\$666	\$6,342

Source: COEP PeopleSoft – Financials

- For Fiscal Year 2017, the Environmental Services Department allocated \$300,750 for Public Outreach/Education in an effort to improve the City’s contamination rates

Recommendation:

The Environmental Services Department should ensure that funds are spent for public education efforts regarding recycling aimed at reducing curbside recycling material contamination.

Management’s Response

The Environmental Services Department (ESD) has developed a marketing and communications campaign to educate the public on the City's Curbside Recycling Program in order to reduce contamination, increase the diversion rate, and increase participation in the recycling program. The public education campaign will include advertising through billboards (static and electronic), radio spots, television commercials, City 15, social media, Sun Metro busses, ESD collections fleet, bus benches, trash can ads, and the City's website. Educational brochures, flyers, and promotional items will be used to supplement the campaign whenever presentations are given to community groups, neighborhood associations, and other civic groups.

ESD will ensure that the funds allocated to the public education campaign are spent each year so that we can meet our recycling goals. In addition, ESD will continue to request an appropriate budget to fund a public education campaign.

Responsible Party

Raeann Ortega, Recycling Operations Manager

Implementation Date

September 1, 2016

**City of El Paso
Internal Audit Office**

Environmental Services Department – Friedman Recycling Program Follow – Up Audit A2018-09

Current Observation

- The Environmental Services Department has ensured that funds are spent for public education efforts regarding recycling aimed at reducing curbside recycling material contamination.
 - For FY 2017 a total of \$270,196.85 was spent for public outreach/education efforts.
 - As of April 6, 2018 for FY 2018, a total of \$78,000.00 was spent for public outreach/education efforts.
- Although funds spent for public outreach/education efforts has increased, the contamination rate increased. According to the November 2017 Friedman Materials Composition Audit, the contamination rate for the City is 33.23%.
 - An 18.23% difference from the Environmental Services goal for contamination of 15%.

Status

In Progress – The Chief Internal Auditor determined that no additional follow-up work will be conducted. The Environmental Services Management Team will assume the risk in trying to maintain the contamination rate at or under the department goal of 15%.

Finding: 2

Friedman’s Weigh-In Process of City’s Recyclable Materials

City of El Paso’s Strategic Plan 2016

- Goal 6.6: *Ensure continued financial stability and accountability through sound financial management, budgeting, and reporting.*

2nd Amendment of the Addendum to the Single Stream Curbside Recycling Processing Services, Solicitation No. 2006-015,

- Section 2.1.3 states that: *Contractor will pay the City \$0.50 per ton each month for educational purposes based on the tons of recyclables delivered by the City.*
- Section 3.02 states that: *City will provide or pay for the disposal of the first 1,000 tons of contaminants/residual during each year of the Contract at a disposal site of the City’s choosing. The disposal of contaminants/residuals beyond the first 1,000 tons in each year of the Contract will be the responsibility of the Contractor... If and when contamination levels reach 15% or less, based upon the most recent materials composition audit, Contractor shall pay the City a bonus of \$1.00 per ton for each ton of recyclables delivered by the City, for the primary purpose of public education regarding the City’s recycling program.*
- Section 3.11 states that: *In a Revenue Sharing Scenario, the Contractor shall pay to the City a percentage of the difference between the Average Market Value and the MRF Operating Expense, multiplied by the total tons of recyclables delivered by the City in that month. In a Loss Scenario, the City will pay to the Contractor the difference between the Average Market Value and the MRF Operating Expense multiplied by the total of tons delivered by the City in that month as a tipping fee.*

Friedman Recycling records the weight of ESD Trucks and calculates the tonnage amounts of Recyclable Materials delivered by ESD trucks. Tonnage amounts for delivered Recyclable Materials

**City of El Paso
Internal Audit Office**

Environmental Services Department – Friedman Recycling Program Follow – Up Audit A2018-09

are used to calculate educational assistance payments, contamination responsibilities, and revenue/loss share scenarios for the sale of all Recyclable Materials processed at the Friedman facility.

A review of "Friedman's Tonnage Reports" during the months of January 1, 2013 to June 30, 2016 (42 months) identified the following discrepancies:

- 6 out of 42 (14.3%) Tonnage Reports reviewed contained an incorrect monthly tonnage amount.
 - Five of the miscalculation errors occurred in year 2015. A total of 671.19 out of 33,796.10 (1.99%) tons of City recyclable materials were underreported.
 - One miscalculation error occurred in year 2016. A total of 52.42 out of 16,169.99 (0.3%) tons of City recyclable materials were underreported.

ESD truck tare weights are used by Friedman Recycling Co. to calculate the weigh-in amounts of delivered Recyclable Materials. A review of Friedman's inventory of ESD trucks as of July 18, 2016, identified the following discrepancies:

- Friedman's inventory of ESD trucks is not up to date when compared with Environmental Services' Fleet Inventory.
 - 57 out of 159 (36%) ESD trucks need to be removed from Friedman's Inventory because they are no longer in service.
 - 39 new ESD trucks and their Tare Weights need to be included in Friedman's Inventory.
- The Tare Weights listed in Friedman's Inventory for ESD trucks could not be tested.

Upon request, ESD did not have the Tare Weights for their current fleet of trucks available to validate Friedman's listed Tare Weights. On August 8, 2016, ESD provided a list of Tare Weights after the testing was complete.

Recommendation:

The Environmental Services Department should implement a review process to verify Friedman's:

- Calculated tonnage amounts for Recyclable Materials delivered by ESD trucks.
- Recorded weight of ESD trucks.

Management's Response

The Environmental Services Department (ESD) has implemented a review process to verify the calculated tonnage of recyclable materials delivered by ESD trucks to Friedman. On a daily basis, each driver receives a weight ticket when delivering material to the Friedman facility. The weight tickets are compiled daily and compared to the information electronically submitted by Friedman. If any discrepancies are noted, an email is sent to Friedman for further review and clarification. Upon review, a revised spreadsheet with the corrected information is resubmitted. Since the new process was implemented in July, we have not identified any discrepancies between the tonnages recorded by ESD and the tonnages recorded in Friedman's monthly reports.

ESD has also implemented a review process to verify the recorded weight of ESD trucks. When a truck is deadlined and no longer used for recycling collection, ESD will advise Friedman to remove the deadlined vehicle from the inventory. When a new truck is added to the inventory, ESD will advise Friedman so that the vehicle can be added to the inventory and the tare weight of the vehicle can be recorded.

**City of El Paso
Internal Audit Office**

Environmental Services Department – Friedman Recycling Program Follow – Up Audit A2018-09

Responsible Party

Raeann Ortega, Recycling Operations Manager
Terrence Newman, Fleet Maintenance Manager

Implementation Date

September 1, 2016

Current Observation

The Environmental Services Department has implemented a process to verify calculated amounts for recyclable materials delivered by ESD trucks.

- A review of “Friedman’s Tonnage Reports” for the month of February 2018 determined there were no discrepancies in amounts reported by Friedman Recycling.

Friedman Recycling is maintaining accurate records of tare weights of trucks. A comparison of tare weights reported on the February 28, 2018 Daily Tonnage Reports to Friedman’s Recycling Inventory of ESD trucks identified that:

- 44 out of 47 (94%) truck tare weights were accurately reported.
- The tare weight discrepancies identified range from 20 to 33,770lbs, which may have been caused by an input error.

Status

Implemented

Finding: 3

Recycling Division’s Manual

City of El Paso’s Strategic Plan 2016:

- Goal 6.6 – *Ensure continued financial stability and accountability through sound financial management, budgeting and reporting.*

Best business practices state that:

A strong system of internal controls requires that policies and procedures are developed and written by management to establish criteria for executing routine or repetitive activities followed by an organization. The development and use of policies and procedures are an integral part of a successful quality system as it provides employees with the information and guidance to perform a job properly.

Environmental Services’ manual titled “*Standard Operating Processes*” (SOP) for the Recycling Division has not been finalized and approved by the Environmental Service Director or the appropriate designee. The following was identified during our review:

- On August 15, 2016, the Recycling Manager disclosed that there was not a specific SOP Manual for the Recycling Division therefore she took it upon herself to create one. The Recycling Manager stated the SOP Manual was created in May 2016 and continues to be updated since processes are changing continuously.

**City of El Paso
Internal Audit Office**

Environmental Services Department – Friedman Recycling Program Follow – Up Audit A2018-09

The SOP Manual had not been submitted to the Environmental Services Director or an appropriate designee for review and approved.

Recommendation:

The Environmental Services Department should:

- Ensure the SOP Manual has been finalized and approved by the Environmental Services Director or the appropriate designee.
- Distribute the SOP Manual to the Recycling Division staff once the manual is finalized.

Management’s Response

The SOP for the Recycling Division has been finalized, approved by the ESD Director, and distributed to the staff of the Recycling Division.

Responsible Party

Raeann Ortega, Recycling Operations Manager

Implementation Date

October 1, 2016

Current Observation

- The “Recycling Division Standard Operation Process Manual” has been finalized and approved by the Environmental Services Director. The Manual was revised December 6, 2017.
- A copy of the “Recycling Division Standard Operation Process Manual” was distributed to the staff in December 2017.

Status

Implemented

City of El Paso
Internal Audit Office
Environmental Services Department – Friedman Recycling Program Follow – Up Audit A2018-09

INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods beyond the Audit Report date are subject to the risk that procedures may become inadequate due to changes in conditions, management override of internal controls, or that the degree of compliance with the procedures may deteriorate. This was a limited scope audit which only reviewed the areas stated in the Audit Objectives during the Audit Scope period. No representations of assurance are made to other areas or periods not covered by this audit.

CONCLUSION

We have concluded our audit work on the objectives of the Environmental Services Department – Friedman Recycling Program Follow – Up Audit. The audit evidence used in the analysis is sufficient and appropriate for addressing the objectives and supporting the observations and conclusion. In accordance with Generally Accepted Government Auditing Standards we are required to conclude on whether the Environmental Services Department met the objectives of this audit. The following is our conclusion.

The Environmental Services Department has met the audit objectives in the following areas:

- Ensuring funds are spent for public education efforts regarding recycling aimed at reducing curbside recycling material contamination,
- Implementing a review process to verify Friedman’s Recycling calculated tonnage amounts for recyclable materials delivered by ESD trucks,
- Maintaining accurate records of tare weights of ESD trucks, and
- Updating the “Recycling Division Standard Operation Process Manual.”

The Environmental Services Department did not meet the audit objectives in the following area:

- Maintaining the contamination rate at/or under the departments goal of 15%.

We wish to thank the Environmental Services Department and staff for their assistance and numerous courtesies extended during the completion of this audit.

Signature on File
Edmundo S. Calderón, CIA, CGAP, CRMA, MBA
Chief Internal Auditor

Signature on File
Lyz Parra, MBA, CGAP
Auditor II

Signature on File
Liz De La O, CFE, CIA, CGAP, MPA
Auditor III

Distribution:

Financial Oversight and Audit Committee
Tomas Gonzalez, City Manager
Ted Marquez – Deputy City Manager Public Works & Transportation
Ellen Smyth – Environmental Services Director