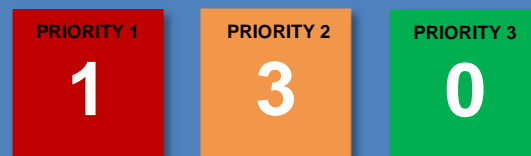


Report #2023-06

SCHOLL CANYON LANDFILL JPA HOST FEES AND LEASE PAYMENTS AUDIT

NUMBER OF RECOMMENDATIONS



*City of Glendale
Internal Audit*

03.30.2023



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Acknowledgment

We would like to thank staff from Public Works, Finance, and Los Angeles County Sanitation District for the support and assistance provided to us throughout this project.

For questions regarding the contents of this report, please contact the lead auditor, Ani Antanesyan, Sr. Internal Auditor, or Jessie Zhang, Internal Audit Manager at InternalAudit@glendaleca.gov

This report is also available online at <https://www.glendaleca.gov>

A. Overview

Key Outcomes

The Scholl Canyon Landfill operation is administered through a Joint Powers Agreement (JPA) between the City of Glendale, County of Los Angeles, and the Sanitation District No. 2 of Los Angeles County (District). Based on the JPA, there are two main revenue sources that the District shares quarterly with the City: 1) Lease Payments, which are 40% of Gross Receipts excluding certain diverted materials and fees; and 2) Host Fee Payments, which are charged by the District on all transactions at the Landfill in excess to their adopted schedule of fees except for City operated trucks.

Internal Audit performed a detailed review of these payments and found that a) the Lease Payments have been underpaid due to an over-deduction of certain diverted materials; b) the Host Fees, which should be exempt for the City operated trucks, have been charged to the City monthly, and then credited back on a quarterly basis; c) the Host Fee credits incorrectly include Glendale Dirt transactions; and d) a documented agreement could not be retrieved to support the District's current practice of exempting Host Fees on all Dirt transactions. To ensure the City receives accurate payments from the District, Internal Audit identified improvement opportunities in the areas including transparent and straightforward invoicing practice, effective review process of invoices and payment schedules, and documentation of any exemption, exclusion, and rounding practices.

Impact Dashboard

This table summarizes the applicable value-added categories (total ten) for the four recommendations based on their priority rankings.¹

	Value-Added Categories			
	Compliance	Cost Saving	Efficiency	Risk Reduction
Priority 1 1	1	0	0	1
Priority 2 3	3	1	1	3
Priority 3 0	0	0	0	0

¹ Each audit recommendation may have more than one value-added category. The Definitions of Priority Rankings and Value-Added Categories are located at Appendix 1.

B. Action Plan and Target Completion Dates

The action plan and target completion dates are summarized in the table below. Internal Audit will perform quarterly status follow-up to provide assurance that management is taking appropriate and timely corrective action to address audit recommendations.

Ref.	Management Action Plan	Completion Date
Priority 1		
1.	Ensure that all deduction categories within the Lease Payment calculation are unique and follow the contractual terms. <i>Value added:</i> Compliance , Risk Reduction	06/30/2023
Priority 2		
2.	Follow the Municipal Code by not charging Host Fees on City's weigh receipts and re-evaluate the Host Fee exemption on Dirt. <i>Value added:</i> Compliance , Cost Saving , Risk Reduction	09/30/2023
3.	Work with the District to obtain more transparent invoices and ensure that City staff are monitoring the invoices for the Host Fee Reimbursement. <i>Value added:</i> Compliance , Risk Reduction , Efficiency	09/30/2023
4.	Work with the District to ensure that any transactional rounding policies are transparent and consistently applied. <i>Value added:</i> Compliance , Risk Reduction	09/30/2023

C. Background

Internal Audit has completed an audit of the Scholl Canyon Landfill Joint Powers Agreement. This joint power agreement is administered by the Public Works Department. This audit focused on the revenue sharing terms of the Agreement as they relate to Lease Payments and Host Fees.

Overview of the JPA

The most recent amendment to the JPA became effective October 7, 1997 and was entered into by and between the County of Los Angeles, the City of Glendale, and the County Sanitation District No. 2. The JPA provides terms for the operation of a sanitary landfill by the District, on land that is partially owned by the City.

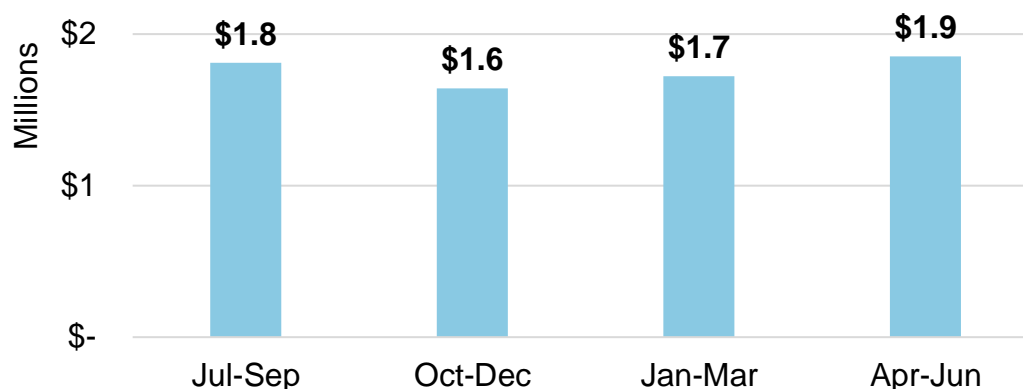
The JPA provisions related to this audit include the following:

- **Rates:** The prices charged by the District for the disposal of refuse are to be determined by District after consultation with and concurrence by the Public

Works Directors of City and County. The Municipal Solid/Inert Waste rate for the review period at the landfill was \$56.57 per ton, including a \$11.31 Host Fee.

- **Lease Payments:** The District pays the City quarterly 40% of Gross Receipts received from the operation of the sanitary landfill facility. Gross Receipts mean all amounts received by the District as consideration for the disposal of refuse excluding any receipts or credits given by the District for the acceptance of green waste and other materials diverted from the disposal operation and used for beneficial purposes on or off the landfill premises. The Gross Receipts also exclude any fee, duty, tax or other charge of any nature imposed by any Federal, State or local government agency. In FY 2021-22, the District transmitted \$7M to the City in four quarterly Lease Payments, see chart below.

Chart 1: Lease Payments FY 2021-22

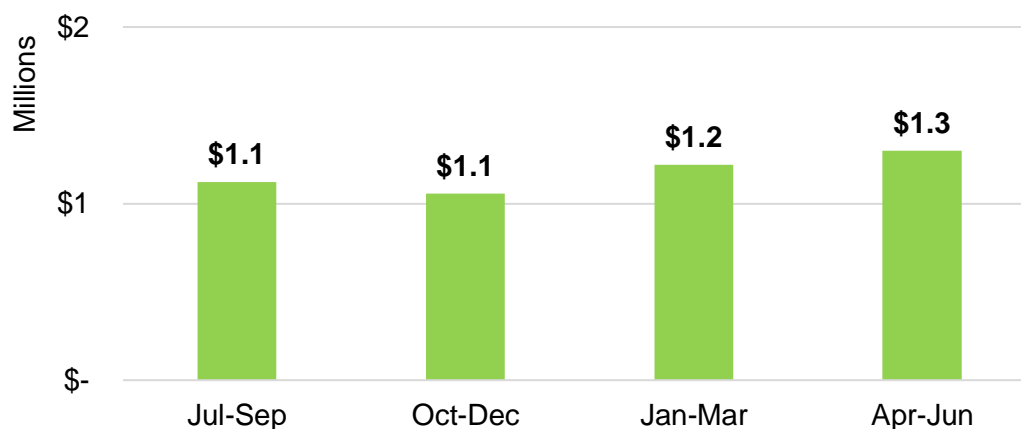


Host Fee Payments and Host Fee Reimbursement

Per the Glendale Municipal Code Section 8.56.030 Scholl Canyon Landfill,

“Whenever a qualified user disposes of solid waste or refuse at the Scholl Canyon landfill, such qualified user shall pay a host fee equal to a charge of twenty-five (25) percent in excess of the prevailing schedule of fees charged for the disposal of solid waste at Scholl Canyon landfill. There is specifically exempted from the imposition of this host fee all solid waste disposed of by collection vehicles owned and operated by the city.”

- **Host Fee Payments:** The District collects Host Fees on behalf of the City and remits the receipts to the City on a quarterly basis; this revenue transmission is termed Host Fee Payment in this report. In FY 2021-22, the District transmitted \$4.7M to the City in four quarterly Host Fee Payments, see chart below.

Chart 2: Host Fee Payments FY 2021-22

- **Host Fee Reimbursement:** Although Glendale owned and operated vehicles disposing solid waste are exempt per the Glendale Municipal Code of Host Fees, it is the practice of the District to apply the Host Fees on Glendale disposing weigh receipts at the landfill, and to subsequently, credit the Host Fee on a quarterly basis on the future invoices – this credit is termed as the Host Fee Reimbursement in this report.

D. Objective, Scope and Methodology

The objective of this audit is to determine whether the City is receiving the right share of revenues based on the JPA.

The scope of the audit focuses on the Host Fees and the Lease Payment.

To accomplish the audit objective, Internal Audit performed the following:

- Interviewed City and District personnel regarding contractual agreements related to the Host Fees and the Least Payment;
- Reviewed the Scholl Canyon Landfill Joint Powers Agreement for key terms related to revenue sharing between the District and City;
- Conducted detailed testing of the Lease Payment and the Host Fee Payment including the Host Fee Reimbursement for the period from April to June 2022;
- Conducted detailed reconciliation between City's weigh receipts from Scholl Canyon Landfill to the transactions invoiced by the District to the City for the period from June 1 to June 10, 2022;
- Conducted detailed testing of the \$3.3M Host Fee Reimbursement from District to the City for the period from April 2019 to June 2022.

As a result of these audit procedures performed, four observations were identified and are detailed in the Observations, Recommendations, and Management Responses Matrix beginning on the following page.

E. Observations, Recommendations, & Management Responses Matrix

Ref	Observation	Recommendation	Management Response
1.	Lease Payment		
Priority 1	<p>The City receives a quarterly Lease Payment that is based on 40% of Gross Receipts. However, the Gross Receipts, per the JPA, do not include revenues received from diverted materials, such as green waste. Upon review of the April to June 2022 Lease Payment, the following were noted:</p> <ul style="list-style-type: none"> a. It is unclear how certain diverted materials were categorized as diversion. b. Certain diverted materials were deducted twice. The total impact of this over-deduction on Glendale’s share of the Lease Payment is being reviewed by the District. c. The City has not been able to thoroughly review the Lease Payments for accuracy because the Lease Payment statement transmitted by the District is not transparent enough to allow for accuracy review without a detailed transaction report. 	<p>PWD and Finance management perform the following:</p> <ul style="list-style-type: none"> a. Work with the District to clarify diverted materials that should be excluded from Gross Receipts. b. Work with the District to ensure the over-deduction is appropriately corrected and any underpaid Lease Payment is remitted to the City. c. Establish policies and procedures for reviewing the Lease Payments on a periodic basis by Public Works and Finance staff to ensure that the Lease Payments are accurate and per contractual obligations. d. Work with the District to ensure that the City is provided with sufficient supporting data to appropriately review the Lease Payment calculation. 	<p>Agree and will implement by June 30, 2023.</p>

Ref	Observation	Recommendation	Management Response
2.	Host Fees		
Priority 2	<p>Per the Glendale Municipal Code, Glendale is exempt from Host Fees at the landfill. Upon review of the April to June 2022 Host Fees, the following were noted:</p> <ul style="list-style-type: none"> a. The District’s current monthly invoicing practice does not follow the Municipal Code, since Host Fees are being applied to Glendale’s monthly invoices, and are credited back quarterly. b. Host Fee Payment was understated and Host Fee Reimbursement was overstated by the amount of Host Fees incorrectly applied to Glendale Dirt. Although no net fiscal impact, this practice impacts City funds since Host Fee Reimbursements are credited to the Refuse or Water/Electric Funds (overstated), but the Host Fee Payments are deposited into the General Fund (understated). c. There is no documented support for the Host Fee exemption on Dirt. Per PWD, it is based on a verbal agreement between the City and District. 	<p>PWD and Finance management perform the following:</p> <ul style="list-style-type: none"> a. Work with the District to follow the Glendale Municipal Code and not charge Host Fees to the City, or credit the Host Fees on the same weigh receipts or invoices. b. Work with the District to ensure that the Host Fee Payment and the Host Fee Reimbursement exclude Glendale Dirt, which will address Fund balance issues. c. Work with the District to re-evaluate whether Host Fees should apply to Dirt and document the decision. d. Obtain detailed support for reviewing the Host Fee Payment and the Host Fee Reimbursement (if Dirt continues to be excluded from Host Fees) to ensure accuracy. 	<p>Agree and will implement by September 30, 2023.</p>

Ref	Observation	Recommendation	Management Response
3. Invoicing			
Priority 2	<p>Based on review of the April to June invoices from the District to the City, Internal Audit noted that:</p> <ul style="list-style-type: none"> a. The monthly invoices lack clarity on the charges because they only provide the total amount charged without a breakdown of any fees, such as the Host Fee. This creates difficulties for City staff to review and determine whether contractual terms are being followed. b. Additionally, the City recently received Host Fee Reimbursement from the District for April 2019 to June 2022 in the amount of \$3.3 million. These should have been credited to the City's invoices, however, the District missed applying these credits. 	<p>PWD management perform the following:</p> <ul style="list-style-type: none"> a. Request that the District update the City invoices to show details in addition to the total amount and tonnage charged, such as the transaction rate, any fees and taxes. If the District must charge the Host Fee to all customers including Glendale, the charge and then the credit should be presented as two separate line items on the Glendale invoices. b. Ensure that all City departments that are invoiced by the District monitor invoices for the Host Fee Reimbursement, unless the District discontinues the current invoicing practice. 	<p>Agree and will implement by September 30, 2023.</p>

Ref	Observation	Recommendation	Management Response
4. Rounding Practice			
Priority 2	<p>Based on review of 52,973 transactions from April to June 2022 at the Scholl Canyon Landfill for all customers, the following were noted:</p> <ul style="list-style-type: none"> a. There were 20,303 (or 38%) cash transactions that were rounded up or down to the nearest dollar. Per the District staff, cash transactions are rounded to the nearest dollar due to coin shortage. However, there is no note to customers related to rounding of cash transactions on the sampled weigh receipts. b. There were also 357 transactions (or 0.7%) that were credit or check transactions, that were also rounded up or down to the nearest dollar. The District has confirmed that these transactions were rounded, due to a system issue, and is working to resolve it. 	<p>PWD management work with the District to ensure that customer weigh receipts note any rounding to transactions, and system issue is resolved.</p>	<p>Agree and will implement by September 30, 2023.</p>

Appendix 1: Definitions of Priority Rankings and Value-Added Categories

Definitions of Priority Rankings

The priority rankings are assigned by internal auditors based on their professional judgment. They are also agreed to by management based on their evaluation of the alignment with the strategic goals, priorities, and available resources. A timeline has been established based on each priority ranking:

- a. **PRIORITY 1** - Critical control weakness that exposes the City to a high degree of combined risks. Priority 1 recommendations should be implemented within **3 months** from the first day of the month following report issuance or sooner if so directed.
- b. **PRIORITY 2** - Less than critical control weakness that exposes the City to a moderate degree of combined risks. Priority 2 recommendations should be implemented within **6 months** from the first day of the month following the report issuance or sooner if so directed.
- c. **PRIORITY 3** - Opportunity for good or better practice for improved efficiency or reduce exposure to combined risks. Priority 3 recommendations should be implemented within **9 months** from the first day of the month following the report issuance or sooner if so directed.

Definitions of Value-Added Categories

The four value-added impact categories are defined based on their impact from the audit recommendations:

- a. **COMPLIANCE** - adherence to laws, regulations, policies, procedures, contracts, or other requirements.
- b. **COST SAVING** - lower the costs related to conducting City business.
- c. **EFFICIENCY** - ability to avoid wasting resources (money or time) in achieving goals.
- d. **RISK REDUCTION** - lower the risks related to strategic, financial, operations and compliance.