

FINAL REPORT
RethinkWaste (SBWMA)

**Annual Report and Financial Systems
Audits**

Submitted electronically on June 9, 2021



June 9, 2021

Mr. John Mangini, Senior Finance Manager
South Bayside Waste Management Authority
610 Elm Street, #202, San Carlos, CA 94070
submitted via email: jmangini@rethinkwaste.org

Subject: FINAL Report 2020 Annual Audits of Recology and South Bay Recycling

Dear Mr. Mangini,

R3 Consulting Group, Inc. (R3) is pleased to submit the attached FINAL report for the Collection Services and Facility Operations Reports, Tonnage, Data and Customer Service Systems Audit and Financial Systems Audit of Recology San Mateo (Recology) and South Bay Recycling (SBR).

The objectives of the project were to:

- » Verify the accuracy of Recology and SBR's annual reports to the SBWMA;
- » Verify the accuracy of financial systems data tracking, including Recology's Revenue Reconciliation and SBR's payments due to or from SBWMA.

The attached FINAL Report contains our findings and recommendations.

* * * * *

We appreciate the opportunity to be of service to the SBWMA. Should you have any questions regarding our report or need any additional information, please don't hesitate to reach out directly.

Sincerely,



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TABLE OF CONTENTS

1. Introduction
page 1



2. Annual Report Audit of Recology
page 5



3. Financial Systems Audit of Recology
page 21



4. Annual Report Audit of SBR
page 31



5. Financial Systems Audit of SBR
page 38



Attachments

**A. Recology Quarterly & Annual Report
Completeness Checklists**

**B. SBR Quarterly & Annual Report
Completeness Checklists**

1. INTRODUCTION AND SUMMARY OF FINDINGS

1.1 Background

The South Bayside Waste Management Authority (SBWMA / RethinkWaste) is a joint powers authority of eleven Member Agencies (Belmont, Burlingame, East Palo Alto, Foster City, Hillsborough, Menlo Park, Redwood City, San Carlos, San Mateo, the County of San Mateo, and the West Bay Sanitary District) in San Mateo County. The Town of Atherton withdrew from the SBWMA effective January 1, 2021, and as such, Atherton is included in the 2020 audits (with the exception of the Revenue Reconciliation, discussed in the following pages).

The eleven SBWMA Member Agencies have exclusive franchise agreements with Recology San Mateo County (Recology) for the collection of solid waste, recyclable materials, and organic materials. Recology submits an annual Revenue Reconciliation (Reconciliation) report to SBWMA that identifies net revenues retained by Recology, as compared to the annual compensation owed to Recology by each Member Agency, which is approved annually by the SBWMA Board of Directors.

SBWMA owns and manages the Shoreway Environmental Center which is operated by South Bay Recycling (SBR). The Shoreway Environmental Center receives the recyclables, organics and garbage collected by Recology under its franchise agreements with each of SBWMA's Member Agencies, as well as other self-haul and non-franchised material delivered to that facility. SBR reports on and makes monthly payments to SBWMA, covering revenues from sales of recyclable commodities and revenues from public self-haul customers at Shoreway.

Recology and SBR are required to track, compile and report various data related to their performance and develop various reports per the franchise agreements with SBWMA Member Agencies and SBR's operating agreement with SBWMA. The primary nature of the quantitative data presented in the reports is self-reported. The goal of the Collection Services and Facility Operations Reports, Tonnage, Data and Customer Service Systems Audit (Annual Report Audit) is to determine the accuracy of the information contained in those reports. The Annual Report Audit is presented in Sections 2 and 4 of this report.

The Financial Systems Audit is designed to confirm the accuracy of financial information provided by Recology and SBR as well as the accuracy of each Member Agency's revenue surplus/shortfall for its franchised services and that SBR accurately tracks and remits revenues and payments to/from SBWMA. The Financial Systems Audit is presented in Sections 3 and 5 of this report.

1.2 Work Scope

Annual Report Audit

Overall, SBWMA retained R3 to review, test and verify the accuracy of the information contained in Recology's Annual Report as well as SBR's annual tonnage and commodity revenue report, and provide any recommendations for improvement.

Our scope included, but was not limited to, the following tasks for the audit of Recology:

- » Verify the completeness, mathematical accuracy, and back-up documentation for the Annual Reports, including the allocation of tons between Member Agencies;
- » Interview the contractors to determine the sources of the reported data;

- » Verify the accuracy of the tonnage data reported monthly;
- » Verify the accuracy of reported customer service metrics, call statistics, and accuracy of customer service ticket coding; and
- » Verify the mathematical accuracy and back-up documentation where applicable for reported:
 - Liquidated damages, which includes customer complaints, accurate and prompt reporting, and other important collections service requirements of the agreement; and
 - Incentive and disincentive payments, which includes diversion requirements as well as customer complaints and other call center requirements.

Our scope included, but was not limited to, the following tasks for the audit of SBR:

- » Verify the completeness of SBR's annual tonnage and commodity revenue report;
- » Verify the consistency of reported Inbound tonnage data between the two contractors;
- » Verify the mathematical accuracy and back-up documentation of SBR's reported Inbound and Outbound tonnage data; and
- » Check the accuracy of SBR's reported liquidated damages, where applicable.

Our verifications were limited to selected samples for both Recology and SBR verifications, where R3 selected specific months or dates of review, and the contractors provided back-up documentation for their reports as requested. We did not verify every month of each report, or each data point.

Additional information about work scope and documentation reviewed can be found in the associated sections of this report.

Financial Systems Audit

SBWMA retained R3 to review, test, and verify:

- » The mathematical accuracy, consistency in reporting, and back-up documentation for information contained in Recology's annual Revenue Reconciliation, including:
 - Gross Revenue Billed against accounting records;
 - Adjustments to Gross Revenue Billed, with back-up provided for each adjustment;
 - Pass-Through Costs, including disposal and processing costs, Member Agency fees against documentation of correspondence with Member Agencies, the mathematical accuracy and consistency of the calculation of late fees;
 - Mathematical accuracy of calculation of Net Revenue and Recology's compensation;
 - Revenues associated with unscheduled and intermittent services per Attachment Q to Recology's franchise agreement(s) against accounting records of billed revenues;
 - Fees for additional carts against procedures for retaining revenue which are Member Agency-specific;
 - Proper accrual of backyard services revenue; and
 - The mathematical accuracy of the Surplus/Shortfall calculation.
- » The accuracy of SBR's financial systems for tracking, calculating, and reporting payments due to or from SBWMA for:
 - Public gate revenue against scales reports and accounting records;

- Commodity Revenue against scales reports and accounting records; and
 - Accuracy of reporting for payments of California Redemption Value.
- » Additional information about work scope and documentation reviewed can be found in the associated sections of this report.

Due to the closure of the Buyback Center, no analysis was required nor performed for such activities.

R3's work, and this report, constitute a review of Recology's and SBR's financial systems and the accuracy of the financial reports Recology and SBR provide to SBWMA. This audit is not audit of financial statements, nor does it represent a complete review of finance and accounting systems.

As in prior years, while this audit does not assess conformance with standard accounting practices (including generally accepted accounting principles, GAAP) it does independently verify the mathematical accuracy of financial information provided by Recology and SBR in keeping with solid waste industry operational standards, and general compliance with agreements SBWMA has with both entities.

1.3 Summary of Findings

Annual Report Audit

In completing the Annual Report Audit of Recology, R3 found that:

- » Recology correctly calculated and reported tonnages for each Member Agency;
- » Recology correctly reported liquidated damages, except for one complaint about unacceptable employee behavior (increasing liquidated damages by \$250 in total); and
- » Recology correctly calculated Performance Incentive/Disincentives.

In completing the Annual Report Audit of SBR, R3 found that:

- » SBR correctly calculated and reported tonnages; and
- » SBR correctly calculated and reported liquidated damages and other required reporting elements.

Financial Systems Audit

In completing the Financial Systems Audit of Recology, R3 found that:

- » Gross revenues reported in the Revenue Reconciliation by Member Agency and in total tie to accounting records;
- » Pass-through costs including disposal and processing costs and Member Agency fees are accurately calculated by Member Agency;
- » Net revenues and adjustments are supported and accurately calculated;
- » Recology's annual compensation ties to SBWMA's approved compensation for each Member Agency;
- » Compensation for unscheduled and intermittent services retained by Recology is accurately calculated;
- » Recology appropriately credited back to each agency revenue on an allowed 20% of residential customers subscribing to backyard service; and

Introduction and Summary of Findings

» Surplus/shortfall calculations are accurately calculated.

It should be noted for this Financial Systems review, the Town of Atherton data was not reviewed. Article 11.03 of Atherton's Franchise Agreement states a revenue reconciliation process will not be conducted in the last Rate Year (2020). As such, Atherton data was not provided to R3 and is not included in the 2020 Financial Systems Audit of Recology.

In completing the Financial Systems Audit of SBR, R3 found that:

- » SBR correctly calculated and remitted payment for public self-haul revenue;
- » SBR correctly calculated and remitted payment for commodities revenue; and
- » SBR correctly calculated and remitted payment for CRV revenue.

2. ANNUAL REPORT AUDIT OF RECOLOGY

2.1 Completeness of Report

The objectives of this task were to determine if the Quarterly and Annual Reports submitted by Recology are:

- » Complete and contain the reporting requirements specified in Article 9.06 (Quarterly Reports) and 9.07 (Annual Reports) of Recology's franchise agreements; and
- » Mathematically accurate and logically consistent (that the columns and rows add correctly and tie to supporting schedules within the report).

To assess the accuracy of Recology's Annual Report, R3 compared the contents of that report to the requirements of Section 9.07 (Annual Reports) of Recology's franchise agreement.

2.2 Review of Tonnage Data

The objectives of this task were to verify the accuracy of the:

- » Tonnage data reported by Recology; and
- » The allocation of tonnages among each of the Member Agencies.

Recology's Monthly Reports include a Monthly Tonnage Report (M1. Tonnage Summary of the supporting Excel workbook) that allocates franchised tonnages among each of the Member Agencies for the following categories:

- » Residential;
- » Multi-Family Dwelling (MFD);
- » Commercial; and
- » Roll-Off.

The Monthly Tonnage Report figures are electronically linked to the data reported in the following supporting workbook spreadsheets, which contain hard coded inputs based upon PDF exports from the contractor's scale software (i.e., are not electronically linked to the supporting data source):

- » M1a. Solid Waste;
- » M1b. Targeted Recycled Tonnage; and
- » M1c. Organic Materials Tonnage.

Each of the above spreadsheets reports tonnages for the following categories:

- » Single-Family (categorized as Residential);
- » Multi-Family (categorized as MFD);
- » Commercial (categorized as Commercial);
- » Agency Facilities (categorized as Commercial);
- » Drop Box (categorized as Commercial);

- » Venues and Events (categorized as Commercial);
- » On-Call Single-Family (categorized as Residential);
- » On-Call Multi-Family (categorized as MFD);
- » On-Call Agency Facilities (categorized as Commercial); and
- » On-Call Agency Facilities (categorized as Commercial).

Recology reported that the methodology for allocation of tonnages has not changed since the beginning of Recology's collections contracts with the SBWMA Member Agencies. The methods used by Recology to allocate tons to the above categories for each Member Agency are as follows:

- » Single-Family, Multi-Family and Commercial – Recology allocates the tonnage collected from single-family, multi-family and commercial regularly scheduled cart and bin customers based on subscribed service volume. For each route, the customers serviced are identified by Member Agency and assigned a unique rate code. Services for Member Agency facilities are also assigned a unique rate code.

Using this data, the percentage of the total service volume (cubic yards) of each load collected within each Member Agency, which is assumed to represent the percentage of the total tons of each daily route assigned to each Member Agency, is calculated quarterly and reported in Recology's Split Table Listing.¹ Recology uses a program (AS 400) to generate the splits for the entire quarter. This data is then applied to the load weights of the applicable routes to allocate that tonnage among the Member Agencies.

- » Agency Facilities – Recology uses the same methodology to allocate scheduled collections from Member Agency facilities as it does to allocate single-family, multi-family and commercial tonnages as described above. Each Member Agency account is assigned a unique code that is included in the quarterly Split Table Listing and used to allocate those tons to the appropriate Member Agency.
- » Drop Box – Drop box and compactor loads are specific to a single location; therefore, 100% of the tons for each drop box and compactor load is directly assigned to the associated Member Agency.
- » Bulky Item On-Call Collections & Abandoned Waste/Illegal Dumping – Recology runs up to three on-call bulky item routes with one truck for solid waste and one for recyclables. The bulky-item solid waste route also collects abandoned waste/illegal dumping tonnages. Recology maintains a log of reported abandoned waste, by Member Agency, that includes estimated weight. This estimated abandoned waste tonnage is subtracted from the total weight of tonnage of the on-call collections, as the on-call collections are weighed together with the abandoned waste collected. Recology tracks the requests for bulky item/on-call collections by Member Agency and allocates the total on-call collection tonnage to each Member Agency in proportion to the percentage of total collections for each load by Member Agency.

¹ *The Split Table Listing provides an accounting of the percentage of subscribed service levels by Member Agency for each route, each day of the week, and for the two scales used by routes.*

- » Venues and Events – With the exception of roll-off bins from venues and events, which are weighed, tracked, and recorded in SBR’s PC Scales system, material from individual venues and events are collected by dedicated vehicles (i.e., Cart and Bin Delivery/Exchange Flatbed Truck) and delivered to Recology’s maintenance facility where they are consolidated in bins. Those bins are then weighed and recorded in SBR’s PC Scales system as Recology Maintenance Box Tons. The tonnages for each venue and event are specifically tracked and those figures manually assigned to the associated Member Agency on the “Events” workbook of each monthly query Excel file.²

Review of Member Agency Tonnage Allocations

Based on the above stated methods Recology uses to allocate tons among the Member Agencies, R3 gathered applicable supporting documentation to test the calculation of and application of Recology’s tonnage allocation methodology. That review included a detailed review of each Member Agency for the selected audit month of October.

Single-Family, Multi-Family and Commercial / Agency Facilities – To test the allocation of regularly scheduled cart and bin customers, R3 selected a sample of routes and calculated the Member Agency allocation percentages associated with Recology’s allocated Member Agency tonnages that were generated from Recology’s monthly tonnage queries. Those allocated tonnage percentages were then compared to the quarterly split table percentages for each applicable Member Agency to determine the accuracy of Recology’s tonnage allocations.

Drop Box – R3 tied the reported Drop-Box tons on Recology’s Annual Report for samples covering each Member Agency to the supporting data generated by Recology’s monthly queries.

Bulky Item On-Call Collections – R3 tied Recology’s on-call bulky item solid waste collection tonnages reported on its Monthly Tonnage Report to supporting documentation for the sample month of October, covering the Member Agencies.

Additionally, R3 tied Recology’s on-call bulky item recyclables tonnage as reported in Recology’s Annual Report to bulky item calculations provided by Recology.

Abandoned Waste/Illegal Dumping – R3 tied Recology’s abandoned waste/illegal dumping tonnages reported on its Annual Report to the supporting documentation for the sample month of October, covering the Member Agencies.

Venues and Events – R3 tied Recology’s venues and events tonnages reported on its Monthly Tonnage Report to the supporting documentation for a sample covering various Member Agencies.

Batteries, Cell Phones, Oil, Oil Filters – R3 tied reported tonnages of batteries, cell phones, oil, and oil filters to supporting documentation that demonstrated the basis of the allocation by Member Agency according to the number of single-family residential accounts. We did not audit

² Recology’s “monthly query files” provide a download of its internal tonnage data base that allocates tonnages to each Member Agency based on the Split Table Listings and other supporting documentation.

the reported total tonnages of these materials this year by requesting additional source documentation but suggest that this may be a useful focus area for next year's audit.

2.3 Review Customer Service Data

The objectives of this task were to:

- » Test two separate months (May and October) of the reported customer service data for each Member Agency and verify they tie to the supporting documents;
- » Test the accuracy of customer service representative (CSR) reported statistics; and
- » Test the accuracy of CSR's coding calls.

Review of Reported Customer Service Data

In Section D of the Quarterly and Annual Reports, Recology reports customer service data (i.e., "Inquiry, Service Request and Complaint Data") in the following categories:

- » Single-Family Missed Pick-Up Initial Complaints
- » Single-Family Missed Pick-Up Collection Events*
- » Excessive Noise*
- » Discourteous Behavior*
- » Property Damage*
- » Spills*
- » On-Call Bulky Item Collection
- » Extra/Overage Requests
- » Recycling Tote-Bag Requests
- » Information Requests
- » Billing Concerns

** The accuracy of these reporting items has been reviewed as part of R3's Review of Recology Liquidated Damages/Performance Incentive and Disincentive Payments*

For customer service items above with associated Liquidated Damages and/or Performance Incentives and Disincentives, R3 tested Recology's reported number of "occurrences" for May and October 2020. The results of that review are provided in the Section 5 of this report titled "Review of Recology Liquidated Damages / Performance Incentive and Disincentive Payments."

For the remaining items above with no associated Liquidated Damages or Performance Incentives and Disincentives, R3 also tested two months of data for each Member Agency (May and October) to verify that the reported number of "occurrences" ties to the supporting documents.

To facilitate accuracy and align reporting methodologies, R3 has been coordinating with Recology on categories of reporting for each ticket code. Over time, this effort has improved the

alignment of Recology's self-reported customer service statistics with R3's customer service reporting summaries. This year, Recology provided a detailed pre-audit report with information related to nearly every reportable category, facilitating a complete review and agreement with Recology's reported statistics.

Some customer calls are indeed customer complaints, but if the customer is determined to be at fault or the claim is inaccurate, Recology does not report the customer complaint.

Review of Reported CSR Statistics

On a quarterly and annual basis, Recology reports customer service representatives (CSR) statistics which are based on data generated by Recology's Shoretel phone system. Statistics generated by the phone system include:

- » Number of calls received;
- » Number of calls answered;
- » Number of calls answered within 15, 30, 45, 60, and 90 seconds; and
- » Cumulative wait time before answered. (The average wait/hold time (i.e., average speed of answer) is calculated based on the cumulative wait time and the total number of calls answered.)

The phone statistics for each month are inputted into Section E ("Call Center Data and Quality Assurance Calls Made") of the Quarterly and Annual Reports, and are also used for the Incentive/Disincentive forms for "Ninety Second Hold Time" and "Average Speed of Answer." Recology also reports the total number of quality assurance calls made during each month in Section E.

Review of CSR Coding Calls

To test the accuracy of CSR's coding calls, R3 randomly sampled 200 CSR tickets from May and October 2020.

2.4 Review of Recology Liquidated Damages and Performance Incentives/Disincentive Payments

The objectives of this task were to:

- » Verify the liquidated damages, incentive, and disincentive payments reported by Recology have been properly calculated and tie to the events reported; and
- » Verify and explain Recology's procedures to identify and report events which would trigger liquidated damages and performance incentives/disincentives.

Provisions for Liquidated Damages and Performance Incentives/Disincentives are provided in Attachment J and Attachment I³ of Recology's franchise agreements, respectively. Calculations of each Liquidated Damage and Performance Incentive/Disincentive item are provided as part

³ As amended per the administrative changes and amendments.

of Recology's Quarterly and Annual Reports, with the exception of the Incentive/Disincentive for diversion, which is only calculated as part of the Annual Report.

R3 requested and reviewed Recology's source documentation for Liquidated Damages and Incentives/Disincentives occurrences for 2020. Tables 3 and 4 provide listings of Liquidated Damage and Incentive/Disincentive items, respectively, as well as the source documentation for each item as identified during our review. Many of these items represent customer complaints, which are tracked through Recology's internal ticketing software ("TQR4 Reports").

The adjustments noted in Tables 3 and 4 reflect R3's review of the accuracy of the reported quantities of occurrences (i.e., number of complaints in each category) as compared to Recology's source documentation (i.e., TQR4 Reports).

The adjustments shown in Tables 3 and 4 do not account for whether the reported complaints have been properly coded by the customer service representative (CSR). A separate review of CSR call coding accuracy, as well as separate recommended adjustments based on that review, may be found in Section 4.3 of this report under the subsection titled "Review of CSR Coding Calls."

Incentives/Disincentives and Liquidated Damage payments are included as an adjustment to Recology's approved Base Compensation, reducing (for disincentives and liquidated damages) or increasing (for incentives) the Total Contractor's Compensation provided in the SBWMA Final Report Reviewing Recology's Compensation Application.

Incentives/Disincentives and Liquidated Damages are applied in the subsequent year's compensation application, which represents compensation to be paid to Recology in the following year. Therefore, the 2022 Contractor's Compensation Application will include the Incentives/Disincentives and Liquidated Damages from 2020.

Review of Liquidated Damages Payments

Attachment J (Liquidated Damages) of Recology's franchise agreement lists the events that constitute breaches of the agreement's standard of performance warranting the imposition of liquidated damages; the acceptable performance level; the definition of the complaint, incident or event; the method by which occurrences will be principally tracked; and the number of liquidated damages for failure to meet the contractually required standard of performance. Recology is required to maintain records of customer complaints which show for each complaint: date and time received; name, address and telephone number of the caller; nature of complaint (e.g., missed pick-up, excessive noise, property damage, etc.); name of employee receiving complaint; action taken by Recology to respond to complaint; and date complaint was resolved.

Recology is to submit to the Member Agencies a Liquidated Damages report with its Quarterly Report that summarizes the number of complaints in each category and computes the amount (if any) of liquidated damages accrued by month during the preceding quarter.

Liquidated Damages, specified in Attachment J of the Agreement, are as follows:

Collection Quality

- 1.A Unauthorized Collection Hours (monthly allowance of 30 for 1.A, 1.B, and 1.C, combined)

- 1.B Damage to Private Property
- 1.C Failure to Resolve Property Damage Claim
- 2. Failure to Provide New Service or Initiate Change in Service (monthly allowance of 60)
- 3. Improper Container Placement (monthly allowance of 500)
- 4. Failure to Effectively Distribute Non-Collection Notices (no monthly allowance)
- 5. Excessive Noise Complaints (monthly allowance of 60)
- 6. Unacceptable Employee Behavior (no monthly allowance)
- 7.A A Complaints of Spills of Discarded Materials (monthly allowance of 120 for 7.A and 7.B)
- 7.B Complaints of Failure to Clean Up Spills of Discarded Materials
- 8. Spills of Vehicle Fluids (no monthly allowance)

Customer Service Quality

- 1. Untimely Resolution of Complaints and Inquires (no monthly allowance)

Reporting

- 1. Late Submittal or Reports (no monthly allowance)
- 2. Submittal of Inaccurate Reports, etc. (no monthly allowance)
- 3. Failure to Perform and Report on Billing Review (no monthly allowance)

Other

- 1. Disposal of Diversion Program Materials (no monthly allowance)
- 2. Use of Unauthorized Facilities (no monthly allowance)

Liquidated Damages Procedures

In general, Recology tracks and reports “occurrences” related to the franchise agreement’s specified Liquidated Damage items, and Liquidated Damage payments are assessed on any occurrences in excess of the occurrence limits specified by the franchise agreement. Many of the Liquidated Damage items are related to customer complaints, with additional Liquidated Damages related to late submittal of reports, and proper processing and delivery of collected material types.

Collection Quality Tracking and Reporting Procedures

Complaints are received by phone through Recology’s call center, and may also be submitted by customers online via Recology’s website. When a complaint is received through the call center, the responding customer service representative (CSR) creates a complaint ticket with a “Reason Code” that describes the nature of the complaint. Each ticket is maintained in Recology’s internal software and is shown as a line-item entry on Recology’s internal monthly TQR4 Report.

It is important that each incoming complaint be assigned the correct Reason Code, because Recology determines monthly Liquidated Damage occurrence amounts, as well as other

information, using the quantity of Reason Codes shown on the TQR4 Report for each complaint type. In other words, if a complaint is entered into the system with an incorrect Reason Code, the associated Liquidated Damage quantity for that month will not account for the complaint.

All complaints submitted via Recology website produce a ticket with a generic “Complaint” Reason Code that is not specific to the type of complaint received. Recology reported that each generic complaint submitted through the website, if handled properly, should be accompanied by a follow-up complaint ticket with a more specific Reason Code corresponding to the associated Liquidated Damage item. During our review of CS call coding, R3 observed several website “Complaint” tickets and checked that follow-up complaint tickets with more specific Reason Codes were created for complaints submitted via the website.

Customer Service Quality Tracking and Reporting Procedures

Recology tracks occurrences of the one Liquidated Damage item related to Customer Service Quality (“Resolution or remedy of complaints or inquiries beyond 10 business days of receipt of the complaint or inquiry”) using a specific Reason Code in the same manner as those items in the “Collection Quality” category above. Recology determines monthly Liquidated Damage occurrence amounts for this item using the quantity of Reason Codes shown in the TQR4 Report for this item.

Reporting Procedures

For the “Reporting” category of Liquidated Damages, report submittal dates are recorded by the email transmittal and proof of delivery receipts are received by Recology. No Liquidated Damages for lateness have ever been reported by Recology or SBWMA.

Other Tracking and Reporting Procedures

For the “Other” subcategory of Liquidated Damages, Recology stated that collected materials are delivered to the SBR facility on Shoreway Road (i.e., “the designated transfer and processing facility”).

Review of Incentives/Disincentives Payments

Attachment I (Performance Incentives and Disincentives) of Recology's franchise agreement specifies that the Member Agencies shall provide incentive payment to Recology for exceeding the following three (3) performance standards:

1. Overall Diversion Level, calculated on the basis of % exceedance of prior year's diversion level; and
3. Average Speed of Answer.*

Disincentive payments are to be assessed from not meeting the following eleven (11) performance standards:

1. Minimum Single-Family Diversion Level, assessed if 2014 diversion level on single-family is not met;
2. Minimum Commercial Diversion Level, assessed if 2014 diversion level on commercial is not met;
4. Single-Family Missed Pick-Up Collection Events;
5. Average Speed of Answer;* and
6. Ninety (90) Second Maximum Hold Time.

** Items for which there is both an Incentive and Disincentive Payment*

Per Resolution 2018-13, which was approved by the SBWMA Board of Directors on March 22, 2018, contamination surveys, which were biannual, are now to be completed on an as-needed basis. The following disincentives are affected by this change:

7. Maximum Contamination Level – Single-Family Targeted Recyclable Materials;
8. Maximum Contamination Level – Single-Family Organic Materials;
9. Maximum Contamination Level – Commercial Source Separated and Targeted Recyclable Materials;
10. Maximum Contamination Level – Commercial Organic Materials; and
11. Maximum Contamination Level – MFD and Commercial Plant Materials.

Performance Incentives/Disincentives Tracking and Reporting Procedures

Single-Family Missed Pick-Up Collection Events

Recology calculates the total number of "Single-Family Missed Pick-Up Collection Events" for each month by determining which instances of "Single-Family Missed Pick-Up Complaints" (i.e., TQR4 Report Reason Code 32014) are not resolved by the end of the next business day. Single-Family Missed Pick-Up Complaints are received at the call center in the same manner as described in the "Collection Quality" subsection above.

Average Speed of Answer at Customer Service Center & Ninety (90) Second Maximum Hold Time

The calculated Incentive/Disincentive amounts for “Average Speed of Answer at Customer Service Center” and “Ninety (90) Second Maximum Hold Time” are based on phone statistics generated by Recology’s Shoretel phone system. As discussed previously, statistics generated by the system include:

- » Number of calls received;
- » Number of calls answered;
- » Number of calls answered within 15, 30, 45, 60, and 90 seconds; and
- » Cumulative wait time before answered. (The average wait/hold time (i.e., average speed of answer) is calculated based on the cumulative wait time and the total number of calls answered.)

The Shoretel phone statistics from each month are input into the applicable Incentive/Disincentive forms that are provided in reports to SBWMA.

This year, Recology correctly self-reported that their Ninety Second Maximum Hold Time exceeded the 5% maximum of quarterly calls received in the third and fourth quarters, but not in any other quarter.

Per the 2014 Amendment to the Agreement between Recology and SBWMA Member Agencies, Exhibit A:

The maximum Hold Time shall be ninety (90) seconds and this disincentive payment shall apply if the quarterly average of calls exceeding this ninety (90) second threshold exceeds five-percent (5%) of the calls received in any given Rate Year quarter (e.g., January, February, and March). If Contractor fails to achieve this performance standard for any quarter, the Agency shall assess a disincentive payment for that quarter and the subsequent quarters of this Rate Year only (e.g., if the threshold is exceeded in the third quarter the disincentive is applied to the third and fourth quarter only that year and not the first and second quarters).

Maximum Contamination Levels

Recology’s contamination levels as measured by a contamination study conducted by a third party would be used in quarterly Incentive/Disincentive forms in the Quarterly Reports that are provided to SBWMA, if any had been conducted in 2020. None were conducted in 2020.

Minimum Diversion Levels

For purposes of calculating the Performance Incentive / Disincentive, annual diversion levels are set equal to the overall annual diversion levels after accounting for contamination, as provided on sheet M1d of Recology’s Annual Report source documentation provided to SBWMA and available to the Member Agencies upon request.

In September 2018, the SBWMA Board approved the methodology for calculating the diversion level using the 3-year average contamination level per material type (at 7.65% for recycling, 2.18% for single-family organics, 4.92% for multi-family and commercial organics, and 1.08% for plant materials). This methodology was used for the 2019 and 2020 annual audits, thus setting the target diversion levels accordingly for the 2020 incentive/disincentives.

2.5 Findings

Completeness of Reports

Appendix A includes the findings of our review of Recology's 2020 Annual Report. As shown, the report satisfies the reporting requirements of Article 9.07 with the exception of the following requirements that were not included:

- » **Equipment Inventory** (Section 9.07.A.5); and
- » **Customer Account Information** (Section 9.07.B)

These items were also identified as part of the prior years' reviews. Recology has stated that these items are provided as a source file to SBWMA, which was agreed upon at the onset of the contract.

Review of Tonnage Allocations

R3 found Recology's tonnage allocation methodology to be logical, reasonable, and consistently applied to each Member Agency. R3 confirmed that the monthly allocations of single-family, multi-family and commercial and Agency facilities were consistent with the sampled quarterly split table percentages for the sampled month of October. R3 also traced the data reported on Recology's Tonnage Report (M1) to the supporting spreadsheets (M1a, M1b and M1c) without exception.

Additionally, R3 traced the data reported on Recology's supporting spreadsheets (M1a, M1b and M1c) to the supporting monthly queries and other supporting documentation for the sampled month of October. That testing documented that the allocations of tons by Member Agency align with the quarterly Split Table allocations. **No adjustments are necessary.**

Review of Customer Service Data

This year, Recology provided a data export that included separate tabulation of the non-Liquidated Damages-related customer service data, facilitating our review and resulting in 100% agreement with Recology's reported values. R3 checked our prior categorization of each reportable category against Recology's reporting categories and agreed with Recology's methodology. **Table 1**, on the following page, shows the results of our tests for recent audit years. Table 1 is based upon the codes that R3 identified as reportable. Some codes in Recology's source documentation are used for internal communication only and are not reportable.

Table 1: Data Point Tests

Assessment of Accuracy	2015	2016	2017	2018	2019	2020
Equal to the source documentation	68%	64%	66%	47%	37%	100%
Varied from the source documentation by less than 10%	24%	29%	14%	33%	47%	0%
Varied from the source documentation by greater than 10%	8%	8%	20%	19%	17%	0%

Review of Reported CSR Statistics

R3 verified that the phone statistics provided in Recology’s 2020 Annual Report matched the phone statistics generated by the Shoretel phone system for May and October of 2020.

Review of CSR Coding Calls

Of the 200 tickets sampled this year, none were identified as mis-coded tickets. It should be noted that this year’s sampling showed a continued trend of improvement in correct coding from prior years’ audits. Liquidated damages are triggered only if the number of complaints exceeds the allowed threshold. **No adjustments are necessary.**

Review of Liquidated Damages

Table 3 provides a full list of Liquidated Damages payments as reported by Recology and as calculated by R3. As shown in the table, R3 has calculated the same liquidated damages as Recology. More detail is given in the dedicated section following Table 3.

R3’s findings specific to each Liquidated Damage category are discussed in additional detail following Table 3.

Table 3: 2020 Liquidated Damages

Item Description		Total Liquidated Damages Payments		
		Company Reported	R3 Calculated	Recommended Adjustment
Collection Quality				
1	Complaints regarding unauthorized collection hours, inadequate care of or damage to private property, and failure to resolve property damage claims within 30 days	\$150	\$150	\$0
2	Complaints regarding failure to provide new service or change existing service level within five (5) business days	\$0	\$0	\$0
3	Complaints regarding improper container placement	\$0	\$0	\$0
4	Distribution of less than 50% of required non-collection notices	\$0	\$0	\$0
5	Excessive noise complaints	\$0	\$0	\$0
6	Complaints regarding unacceptable employee behavior	\$3,000	\$3,250	\$250
7	Complaints regarding spills of discarded materials and failure to clean up those spills	\$0	\$0	\$0
8	Complaints regarding unreasonable leaks or spills of vehicle fluids	\$26,500	\$26,500	\$0
Customer Service Quality				
1	Resolution or remedy of complaints or inquiries beyond 10 business days of receipt of the complaint or inquiry	\$2,700	\$2,700	\$0
Reporting				
1	Late submittal of reports, applications, proposals, or other submittals	\$0	\$0	\$0
2	Accuracy of submittals: corrections or restatements submitted more than two (2) business after notification	\$0	\$0	\$0
3	Late submittal of billing review report	\$0	\$0	\$0
Other				
1	Disposal of recyclable materials without written approval	\$0	\$0	\$0
	Disposal of organic materials without written approval	\$0	\$0	\$0
2	Recyclable materials not delivered to the designated transfer and processing facility	\$0	\$0	\$0
	Solid waste or organic materials not delivered to the designated transfer and processing facility	\$0	\$0	\$0
		\$29,650	\$29,900	\$250

Collection Quality

As shown in Table 4, Recology reports on several Liquidated Damages items related to Collection Quality. R3 checked the number of occurrences for each Liquidated Damage item for May and October 2020 against the source documentation (TQR4 Reports) provided by Recology and made adjustments as appropriate.

The determination on whether a ticket should be invalidated or not is often based on a judgement call; in several cases, R3 has determined that Recology's review of the invalidated ticket was sufficient and reasonable, but that there could be room for an alternative judgement given the information presented. In most cases, R3 concurred with Recology's invalidation of the given ticket.

Most of these liquidated damages categories have a monthly allowance which differs by Member Agency, over which liquidated damages would be applied. Complaints for those categories did not exceed the monthly allowance for those complaints that have allowances. "Complaints regarding unacceptable employee behavior" and "Complaints regarding unreasonable leaks or spills of vehicle fluids" have no allowance; any complaint is subject to a liquidated damage.

This year, we identified one complaint about unacceptable employee behavior that was not reported (it also lacked a resolution code), resulting in a Liquidated Damages increase of \$250.

Customer Service Quality

The one Liquidated Damage item related to Customer Service Quality is "Resolution or remedy of complaints or inquiries beyond 10 business days of receipt of the complaint or inquiry." Recology has begun tracking these resolutions in a new process starting in 2020, and we are working with Recology to evaluate this new system. **Results of this review are pending.**

Reporting

For the Reporting category of Liquidated Damages, report submittal dates are recorded by the email message, but no Liquidated Damages for lateness are assessed unless Recology is notified of lateness by SBWMA and the Member Agencies. R3 did not assess lateness of monthly, quarterly, or Annual Reports as a part of this review.

Other

Regarding the "Other" subcategory of Liquidated Damages listed in Table 4 above, Recology has stated that collected materials are delivered to the SBR facility on Shoreway Road, as required by the franchise agreements (i.e., "the designated transfer and processing facility"). **No adjustments are necessary.**

Review of Performance Incentive/Disincentive Payments

Table 4, on the following page, provides a full list of 2020 Performance Incentive/Disincentive payments as reported by Recology and as calculated by R3.

Table 4: Performance Incentive/Disincentive Payments

Item Description	Total 2020 Incentive/Disincentive Payments		
	Company Reported	R3 Calculated	Recommended Adjustment
Single-Family Missed Pick-Up Initial Complaints	<i>Incentive/Disincentive has been eliminated.</i>		
Single-Family Missed Pick-Up Collection Events	(\$2,450)	(\$2,450)	\$0
Average Speed of Answer at Customer Service Center	(\$7,935)	(\$7,935)	\$0
Ninety (90) Second Maximum Hold Time	(\$36,975)	(\$36,975)	\$0
Maximum Contamination Levels	<i>Incentive/Disincentive has been eliminated.</i>		
Minimum Diversion Levels	\$97,868	\$97,868	\$0
Total Incentive/Disincentive Payments Due to / (from) Recology	\$50,508	\$50,508	\$0

Single-Family Missed Pick-Up Collection Events

R3 checked the number of Single-Family Missed Pick-Up Collection Events for May and October 2020 against the source documentation (TQR4 Reports) provided by Recology. This involved reviewing Recology’s notes regarding the quantity of Single-Family Missed Pick-Up Complaints which were not resolved by the end of the next business day (per Section 8.02.B.2 of the Agreement). This year, R3 concurs with Recology’s identification of missed pick-up events, and **no adjustment is necessary.**

Average Speed of Answer at Customer Service Center

R3 checked that the phone statistics provided in Recology’s 2020 Quarterly and Annual Reports against the phone statistics generated by the Shoretel phone system for May and October 2020.

Recology receives an Incentive payment for a calculated average speed of answer below 15 seconds, and a Disincentive payment for a calculated average speed of answer greater than 30 seconds. In 2020, Recology calculated no Incentive Payments; and Disincentive Payments to SBWMA Member Agencies of \$7,935 which were driven by an average answer speed of 30 seconds or more. **No adjustment is necessary.**

Ninety (90) Second Maximum Hold Time

R3 verified that the phone statistics provided in Recology's 2020 Quarterly and Annual Reports matched the phone statistics generated by the Shoretel phone system for May and October 2020. Specifically, Recology is assessed a Disincentive payment of \$5.00 per call when the number of calls exceeding the 90-second threshold exceeds 5% of incoming calls in the quarter. The number of calls exceeding the 90-second threshold did exceed 5% in the third and fourth quarters of 2020, and per the 2014 Amendment. This resulted in a total calculated Disincentive payment of \$36,975 for 2020, which R3 finds was reported & calculated correctly. **No adjustments are necessary.**

Maximum Contamination Levels

Attachment I⁴ of the franchise agreement establishes Maximum Contamination Levels. Compliance with these levels requires periodic evaluation of contamination levels. Per Resolution 2018-13, which was approved by the SBWMA Board of Directors on March 22, 2018, contamination surveys, which were biannual, are now to be completed on an as-needed basis. As there were no contamination surveys completed in 2020, it is not possible to calculate the incentive / disincentive payments between SBWMA and Recology for this year. **No adjustments are necessary.**

Minimum Diversion Levels

Recology self-reported an incentive payment amount of \$97,868 for 2020. The 2019 incentive payment was \$176,578 (similar in magnitude to 2016 and 2017 incentive payments), and the 2018 incentive payment was about \$60,000. R3 has confirmed that the calculations are accurate. **No adjustments are necessary.**

⁴ As amended per the administrative changes and amendments.

3. FINANCIAL SYSTEMS AUDIT OF RECOLOGY

The primary objective of R3’s audit of Recology’s financial systems was to determine whether Recology’s 2020 Revenue Reconciliation is complete, logically consistent, and mathematically accurate. This section details specific objectives for auditing each component of the Revenue Reconciliation and our analysis and findings relative to each.

It should be noted for this Financial Systems review, the Town of Atherton data was not reviewed. Article 11.03 of Atherton’s Franchise Agreement states a revenue reconciliation process will not be conducted in the last Rate Year (2020). As such, Atherton data was not provided to R3 and is not included in the 2020 Financial Systems Audit of Recology.

3.1 Gross Revenue Billed

Objective: Confirm that calendar year 2020 residential and commercial revenue amounts reported as billed (by Member Agency) ties to the accounting records.

Verifying Gross Billed Revenue as reported in the annual Reconciliation is the first step in calculating each Member Agency’s surplus/shortfall balance owed to/from Recology. Recology bills and collects payment for solid waste services from residential, commercial, and industrial accounts for most SBWMA Member Agencies. East Palo Alto, Redwood City, Hillsborough, and North Fair Oaks directly bill for services (or have at least some billing on the property tax role) and then remit collected revenues to Recology.

All revenue is recorded in Recology’s general ledger (GL); some revenue is retained by Recology and not credited to the Member Agencies, such as late fees. The billed revenue in the GL that Recology shared with R3 did not (appropriately) include late fees and other revenue. The total billed revenue reported by Recology in the 2020 Reconciliation is \$109,393,699.

In order to verify the accuracy of gross revenues billed in the Reconciliation, R3 reviewed revenues from residential and commercial customers reported in the Reconciliation to Recology’s system-generated GL report which details revenues for each Member Agency, as well as adjustments to the GL revenue, which are included in the revenue reconciliation for the purpose of tying their booked revenues (for internal Recology accounting purposes) to billed revenues, on which the surplus/shortfall calculations are based.

Table 5, on the following page, shows the results of our review.

Table 5: Verification of Gross Revenues Billed

Member Agency	Billed Revenues per GL Records	Booked Revenue Accounting Adjustments	R3-Verified Gross Billed Revenues	Gross Billed Revenues per Reconciliation
Belmont	\$7,237,108	\$276,529	\$7,513,637	\$7,513,637
Burlingame	\$10,864,868	-\$64,860	\$10,800,008	\$10,800,008
East Palo Alto	\$5,463,645	\$49,471	\$5,513,116	\$5,513,116
Foster City	\$6,110,292	\$168,739	\$6,279,031	\$6,279,031
Hillsborough	\$3,455,663	-\$192,754	\$3,262,909	\$3,262,909
Menlo Park	\$12,409,706	-\$893,518	\$11,516,188	\$11,516,188
Fair Oaks	\$2,900,914	\$264,940	\$3,165,854	\$3,165,854
Redwood City	\$19,941,229	\$1,255,190	\$21,196,419	\$21,196,419
San Carlos	\$9,046,519	\$285,676	\$9,332,195	\$9,332,195
San Mateo	\$24,660,722	\$736,261	\$25,396,983	\$25,396,983
West Bay Sanitary	\$1,662,645	\$141,026	\$1,803,671	\$1,803,671
Unincorporated San Mateo County	\$3,562,086	\$51,602	\$3,613,688	\$3,613,688
Total	\$107,315,397	\$2,078,302	\$109,393,699	\$109,393,699

3.2 Adjustments

Objective: Review, validate and explain adjustments in the Reconciliation.

Recology has included a number of adjustments in the Revenue Reconciliation. Many of these adjustments are standard annual adjustments, and a few are one-time adjustments for special circumstances. In the course of verifying the Reconciliation, R3 reviewed adjustments that affect calculations of Gross Billed Revenue in the Reconciliation, including:

- » Rate stabilization fees for Belmont (\$75,229), West Bay Sanitary (\$17,016), and San Mateo (\$1,000,000) are billed by Recology but not booked to revenue and are cancelled out as Pass-Through Costs. In 2019, Belmont added an additional rate stabilization fee called the Transitional Rate Stabilization Fund in the amount of \$207,152 for 2020. Burlingame discontinued its rate stabilization in 2018;
- » Revenue adjustments, which represent the difference between amounts billed and booked as revenues in an amount equal to the following adjustments, and which are shown simply for the purpose of establishing the linkage between billed revenues (which can be verified via the billing register) and booked revenues (which are recorded in Recology's GL);⁵
 - 2020 revenue adjustments, which represent the timing difference between the quarterly amounts billed by Recology, and the actual services provided for the calendar year;
 - Adjustments to 2019 incentive/disincentive payments owed to/from Recology as approved by SBWMA in 2020;
 - Payment to/from Recology for the SBWMA-approved 2018 surplus/shortfall and interest on applicable shortfalls; and
 - Adjustments to the booked surplus/shortfall amounts for 2018 due to timing differences.

3.3 Pass-Through Costs

Objective: Verify the calculation of net revenue retained by Recology in total and by Member Agency.

Gross revenues billed by Recology include fees set by each Member Agency (i.e., franchise and other fees) and revenues to cover disposal and processing expenses charged to Recology by SBWMA. Member Agency fees and disposal and processing expenses are treated as pass-through costs in the Reconciliation and reduce the revenue retained by Recology as compensation for service.

Disposal and Processing Expenses

R3 reviewed Recology's annual disposal calculation report in order to ensure proper calculations were used to derive the correct disposal and processing expense. Using tonnage and rate information submitted by Recology in its Annual Report to SBWMA, R3 reviewed annual disposal and processing costs by Member Agency and compared the results to the Reconciliation. This included reviewing calculations for disposal and processing of garbage and organics based on disposal and processing costs reported by Recology as being paid to SBWMA. R3 also checked the disposal expenses reported as paid by Recology against the invoices sent by SBWMA.

⁵ Note that while these adjustments are listed in the Reconciliation, they do not affect the total Gross Revenue Billed. Recology includes them as a means of recognizing how the amount of operating revenues booked differ from the amount of Gross Revenues Billed; however, Gross Revenues Billed is the figure of concern in the Reconciliation because Recology's compensation is calculated based on gross billings.

Member Agency Fees

In order to ensure that Recology properly calculated and paid Member Agency fees, R3 requested documentation from Recology to confirm the type and amount of each Member Agency fee.

Recology provided a summary schedule of the various fees charged by each Member Agency in 2020, backup documentation for any changes in Member Agency fees between 2019 and 2020, and a table of calculations detailing the basis for payment of Member Agency fees in 2020. R3 checked this table against the Member Agency fees summary schedule from 2020 and confirmed that the fees were assessed accordingly.

R3 analyzed the information provided by Recology to verify that Recology properly calculated each Member Agency fee included in the Pass-Through Costs. This included comparing the amount of gross (or net, as applicable) revenue on which Member Agency fees were paid against the amount of Gross Billed Revenue listed in the Reconciliation. Member Agency Fees represented in the Reconciliation rely on gross revenue figures that, in many cases, do not directly match gross revenues reported in the Reconciliation. This is primarily the result of late fees being included in the revenues on which Member Agencies are paid, but not in the Reconciliation.⁶ Put another way, Member Agency fees are calculated on the basis of gross revenue inclusive of late fees, and Recology retains late fees collected.

Recology identified variances between the Gross Billed Revenue figures included in the Reconciliation and the revenue figures used as the basis for Recology's calculations of fees for most Member Agencies, and provided an explanation of these variances that R3 found to be adequate.

The amounts by which revenues used for the purpose of calculating Member Agency Fees have been adjusted compared to Gross Billed Revenues as stated in the Reconciliation are shown in **Table 6**, on the following page. A positive number indicates higher revenues used for the purposes of calculating Member Agency fees, while a negative number indicates the opposite.

⁶ *In the 2014 and other prior reconciliations, Recology listed the late fees as adjustments to Gross Billed Revenue; however, late fees were not addressed in the 2015, 2016, 2017, or 2018 Reconciliations. Though the net result is that late fees do not count towards Gross Billed Revenue, we recommend that Recology remain consistent in its treatment of late fees.*

Table 6: Member Agency Fee Calculations vs. Gross Billed Revenues in Reconciliation

Member Agency	Late Fees	Amount of Other Discrepancy	Total	Type of Other Discrepancy(ies)
Belmont	\$9,227.88	\$0.00	\$9,227.88	Late Fee
Burlingame	\$10,534.22	\$0.00	\$10,534.22	Late Fee
County of San Mateo	\$5,840.49	\$0.00	\$5,840.49	Late Fee
East Palo Alto	\$1,959.11	\$0.00	\$1,959.11	Late Fee
Foster City	\$0.00	\$0.00	\$0.00	
Hillsborough	\$2,629.52	\$0.00	\$2,629.52	Late Fee
Menlo Park	\$17,828.60	\$0.00	\$17,828.60	Late Fee
North Fair Oaks	\$413.59	\$0.00	\$413.59	Late Fee
Redwood City	\$0.00	\$3,815.83	\$3,815.83	AR True Up
San Mateo	\$0.00	\$0.00	\$0.00	
San Carlos	\$10,199.13	-\$25,577.91	-\$15,378.78	Holly Street Traffic Mitigation and Late Fee
West Bay Sanitary	\$0.00	\$0.00	\$0.00	

3.4 Net Revenue Calculation

Objective: Verify the calculation of net revenue retained by Recology in total, and by Member Agency.

Net billed revenues in the Revenue Reconciliation, which serve as the basis for calculating annual surplus/shortfall balance owed to or from Recology by Member Agency, are calculated as the difference of gross revenues billed less pass-through costs, less the compensation for unscheduled and intermittent services retained by Recology (per Attachment Q). R3 verified the calculation of net billed revenue retained by Recology by recalculating these values and comparing them to the Reconciliation.

3.5 Recology's Compensation

Objective: Verify that Recology's compensation ties to their approved compensation by Member Agency.

In September 2019, the SBWMA Board approved Recology's 2020 compensation totaling \$57,929,235 (figure adjusted to remove Atherton). To verify the accuracy of compensation values listed in the Reconciliation, R3 compared total compensation by Member Agency as listed in the Reconciliation to the Board-approved compensation.

3.6 Attachment Q Billings

Objective: Confirm that the amount of Attachment Q revenue reported as billed by Member Agency ties to the records for each different type of charge.

Recology's fees for unscheduled and intermittent services listed in Attachment Q are subtracted from Recology's Gross Billed Revenues. Fees for unscheduled services reported in the Reconciliation totaled to \$1,873,981.

To verify whether the amount of Attachment Q revenues reported by Member Agency in the Reconciliation is correct, R3 reviewed Recology GL data regarding Attachment Q services, Member Agency additional cart fees, and Member Agency fees on Attachment Q revenues. R3 compared provided GL data to the information listed in the Reconciliation, and recalculated the Member Agency Fees on Attachment Q revenues to verify the amounts reported by Recology.

3.7 Additional Cart Fees

Objective: Explain how the additional cart fees charged by some Member Agencies (e.g., Atherton, Hillsborough, and the County) are reported in the revenue and excluded from Recology's compensation, accruing to the benefit of these Member Agencies.

Fees for additional carts in Atherton, Hillsborough, North Fair Oaks, and San Mateo County accrue to Gross Revenues, but do not count towards Recology's compensation. Revenues for these services have been included in the reported Gross Billed Revenues, and not Recology's overall compensation; these fees therefore accrue to the benefit of the Member Agencies noted above. However, Attachment Q revenues are paid to Recology to provide these services and therefore this revenue is deducted from Gross Billed Revenues in the Reconciliation.

Recology tracks additional cart fees in the same manner it tracks Attachment Q services, but only retains the revenue in some cities. Prior to calculating Attachment Q revenue deductions in the Reconciliation, Recology ensures that additional cart fees are not counted in Attachment Q revenues for these cities.

- » Hillsborough, North Fair Oaks, and San Mateo County are paid the full additional cart fees, as the fees are considered already included in the rates.
- » In Belmont, Burlingame, East Palo Alto, Foster City, San Mateo, Menlo Park, Redwood City, and San Carlos, Recology retains the full amount of additional cart fees.

3.8 Backyard Services

Objective: Verify that the credit for the first 20% of residential backyard service customers is accurately credited to each agency.

In order to verify that the credit for the first 20% of residential backyard service customers is accurately reported in the Revenue Reconciliation, R3 reviewed Recology's GL documentation of the total number of transactions and revenues associated with backyard service, as well as the total number of residential customers in each Member Agency.

Resolution No. 6178 amended the Recology franchise agreement to state that: "Each Agency shall retain the revenue for the first twenty (20) percent of Backyard Service Customers that subscribe to this service." In accordance with the Member Agency franchise agreements, Recology only retains backyard service revenues once the total number of residential accounts subscribing to backyard service exceeds 20% of residential customers within each Member Agency.

3.9 Surplus/Shortfall Calculations

Objective: Verify that the net surplus or shortfall balance owed to or from Recology by Member Agency is accurate.

The surplus (or shortfall) is the difference between the amounts owed to Recology per the approved 2020 compensation application and what was billed by Recology, less pass-through costs. In accordance with each Member Agency's franchise agreement, each year's surplus (or shortfall) as calculated in the annual Revenue Reconciliation will be added to, or subtracted from, Recology's compensation in subsequent rate cycles.

In the Reconciliation, the surplus (amount owed to Member Agencies by Recology) or shortfall (amount owed to Recology by Member Agencies) is calculated as described below.

- » Net revenue billed, which is the result of:
 - Gross Billed Revenues reported by Recology; less
 - Pass through costs, including disposal and processing expenses and Member Agency fees; less
 - Unscheduled and intermittent services (Attachment Q) revenues (discussed above);
- » Less the total compensation due to Recology for rate year 2020, which is equal to:
 - Recology's approved 2020 compensation; plus
 - 2018 surplus/shortfall values by Member Agency; plus
 - Interest on the shortfall amounts calculated via an agreed upon methodology between Recology and SBWMA; less the 2018 shortfall paid to Recology by Burlingame.⁷

⁷ Note that surplus/shortfalls from a given year are applied to Recology's Compensation two (2) years after the year in which the surplus/shortfall occurred, which is why the 2018 surplus/shortfall amounts are considered in developing the 2020 Reconciliation.

Financial Systems Audit of Recology

R3 checked each of the values listed above against the approved compensation and 2018 surplus/shortfalls as listed in Recology's 2020 Compensation as approved by the SBWMA Board. We also recalculated the interest using the provided explanation for interest calculation and found that interest was calculated according to the agreed-upon methodology.

R3 verified Recology's calculations of 2020 surplus/shortfall values in the Reconciliation by recalculating them and comparing the result to the Reconciliation. Calculations of 2020 Net Revenues are shown in **Table 7**, below, followed by calculations of the 2020 surplus/shortfall in **Table 8**, on the following page.

Table 7: Calculation of 2020 Net Revenues (as provided by Recology)

Member Agency	2020 Gross Billed Revenues per Reconciliation	2020 Pass-Through Costs	2020 Attachment Q Revenues	2020 Net Revenues Billed
Belmont	\$7,513,637	\$3,888,084	\$94,466	\$3,531,087
Burlingame	\$10,800,008	\$4,948,494	\$176,792	\$5,674,722
East Palo Alto	\$5,513,116	\$2,803,269	\$146,423	\$2,563,424
Foster City	\$6,279,031	\$2,386,927	\$44,223	\$3,847,881
Hillsborough	\$3,262,909	\$1,362,589	\$34,260	\$1,866,060
Menlo Park	\$11,516,188	\$5,447,924	\$177,268	\$5,890,996
North Fair Oaks	\$3,165,854	\$1,190,638	\$40,555	\$1,934,661
Redwood City	\$21,196,419	\$9,169,000	\$387,564	\$11,639,855
San Carlos	\$9,332,195	\$3,710,963	\$152,722	\$5,468,510
San Mateo	\$25,396,983	\$11,930,867	\$572,817	\$12,893,299
West Bay Sanitary	\$1,803,671	\$627,768	\$22,128	\$1,153,775
Unincorporated County	\$3,613,688	\$1,226,787	\$24,763	\$2,362,138
Total	\$109,393,699	\$48,693,310	\$1,873,981	\$58,826,408

Table 8: Calculation of 2020 Surplus/Shortfall

Member Agency	2020 Net Revenues	2020 Approved Recology Compensation	Adjustments	2020 Surplus (Shortfall)
Belmont ⁸	\$3,531,087	-\$3,531,087	\$0	\$0
Burlingame	\$5,674,722	-\$5,742,257	\$0	-\$67,535
East Palo Alto	\$2,563,424	-\$2,602,716	\$118,513	\$79,221
Foster City	\$3,847,881	-\$3,671,314	\$188,516	\$365,083
Hillsborough	\$1,866,060	-\$2,102,591	\$512,679	\$276,148
Menlo Park	\$5,890,996	-\$6,293,486	\$317,600	-\$84,890
North Fair Oaks	\$1,934,661	-\$1,690,610	\$170,430	\$414,481
Redwood City	\$11,639,855	-\$10,523,847	-\$68,556	\$1,047,452
San Carlos	\$5,468,510	-\$5,219,461	\$489,857	\$738,906
San Mateo	\$12,893,299	-\$13,212,194	\$10,639	-\$308,256
West Bay Sanitary	\$1,153,775	-\$1,028,762	\$86,117	\$211,130
Unincorporated County	\$2,362,138	-\$2,310,910	\$17,576	\$68,804
Total	\$58,826,408	-\$57,929,235	\$1,843,371	\$2,740,544

3.10 Findings

Gross Revenue Billed

R3 has verified that Total Operating Revenues and Gross Billed Revenues reported by Recology in the 2020 Reconciliation tie to accounting records provided by Recology (including adjustments for rate stabilization accounts for Belmont, West Bay Sanitary, and San Mateo (which began in 2020), and Belmont’s Transitional Rate Stabilization Fund. **No adjustments are necessary.**

Adjustments

Recology provided, and R3 reviewed and verified, documentation for the rate stabilization adjustments for Belmont, West Bay Sanitary, and San Mateo (which began in 2020), as well as the Transitional Rate Stabilization Fund for Belmont noted above. Overall, adjustments to revenues are logical and documented, and the sum of revenues and adjustments ties directly to gross revenues billed in the Reconciliation. **No adjustments are necessary.**

⁸ It should be noted that Belmont has a unique Franchise Agreement with Recology with a different compensation formula.

Pass-Through Costs

R3 reviewed supporting documentation for noted discrepancies for Member Agency fees. Based on Recology's explanations and supporting documentation, R3 finds that the calculations are accurate. **No adjustments are necessary.**

Net Revenue Calculation

R3 found no mathematical errors in Recology's calculation of net revenue. **No adjustments are necessary.**

Recology's Compensation

R3 verified that Recology's compensation figures listed by Member Agency in the 2020 Reconciliation directly ties to the approved compensation set by SBWMA for reviewed Member Agencies except for Belmont. In the 2020 Recology Compensation, the approved contractor's compensation was calculated to be \$3,814,813, by applying the same calculation methodology as the other ten Member Agencies. However, Belmont has a unique franchise agreement that uses a different compensation adjustment methodology. The correct 2020 contractor compensation for Belmont, as listed in 2020 Reconciliation, is \$3,531,087. **No adjustments are necessary.**

Attachment Q Billings

R3 analysis found that figures and values in the Reconciliation were correct and verified as accurate. **No adjustments are necessary.**

Additional Cart Fees

R3 reviewed Recology's methodology and calculations for including these additional cart fees as revenues for base services and verified the accuracy of the calculations. **No adjustments are necessary.**

Backyard Services

R3 compared the total number of transactions to the 20% threshold in each Member Agency and found that the number of backyard services customers does not exceed the threshold. R3 verified that the credit for the first 20% of residential backyard service customers is accurately reported in Recology's 2020 Revenue Reconciliation. Furthermore, R3 confirmed that the revenues for these services are included in gross revenues billed for each Member Agency, but not retained by Recology as compensation. **No adjustments are necessary.**

Surplus/Shortfall Calculations

R3 calculated the surplus or shortfall amounts for each member agency. R3 then verified Recology's calculations of 2020 surplus/shortfall values in the Reconciliation by recalculating them and comparing the result to the Reconciliation. **No adjustments are necessary.**

4. ANNUAL REPORT AUDIT OF SBR

4.1 Completeness of Report

The objectives of this task were to determine if the Annual Report submitted by SBR is:

- » Complete and contains the reporting requirements specified in Article 9.06 (Annual Reporting Requirements) of SBR's operating agreement; and
- » Mathematically accurate and logically consistent (that the columns and rows add correctly and tie to supporting schedules within the report).

To assess the accuracy of SBR's Annual Report, R3 compared the contents of that report to the requirements of Section 9.06 (Annual Reporting Requirements) of SBR's operating agreement.

4.2 Review of Inbound and Outbound Tonnage Data

The objectives of this task were to verify:

- » Accuracy of SBR's reported In-Bound Tonnage Data;
- » SBR's reported tonnage data (from franchised services) is consistent with Recology's reports; and
- » All other SBR tonnage is also accurate.

All incoming franchised vehicles (Recology) and Member Agency Vehicles, as well as self-haul C&D/Inert loads are weighed on SBR's scales when those loads enter the facility. Other self-haul loads are not weighed and are charged based on estimated volume and material type.

Comparison of Recology Tons to SBR Tons

Recology drivers enter information about each load into SBR's PC Scales system through the driver automated attendant (DAT) terminal located at the scales. Each driver receives a hard copy of each ticket. SBR reviews Recology's weight tickets on a daily basis for discrepancies such as duplicate loads and zero-weight loads and any inaccuracies to identify any potential errors and electronically uploads data to Recology on a daily basis. At the end of each month SBR submits a monthly aggregate data upload to Recology.

To determine if SBR's reported data for Recology's franchised service is consistent with that data reported by Recology, R3 compared SBR's monthly data from franchise services, as reported in their 2020 December Report (Tab 2; Inbound Summary Report) to the monthly data reported by Recology in its monthly tonnage reports as reported in its Tonnage Summary and Cumulative Comparison worksheets of its Quarterly Reports.

Tracking Inbound Tonnage Data

SBR tracks the following seven (7) major categories of Inbound Tons as reported in the Inbound Summary Report of their Monthly, Quarterly and Annual Reports:

1. Franchised Inbound Tons (Recology);
2. Member Agency Vehicles Inbound Tons;
3. Recology Maintenance Box Trucks;
4. Self-Haul Tons;

5. Buyback & Drop-Off Tons;
6. South Bay Internal Tons; and
7. Non-Franchised Tons.

Non-Self-Haul Tons

With the exception of self-haul tons (other than self-haul C&D and inerts) which are not weighed, SBR's reported line-item tonnages for each of the above major categories of Inbound Tons are weighed and recorded in the monthly PC Scales data input sheet (December Monthly Report; Tab AA PC Scale Data Entry) that supports SBR's Monthly Inbound Tons Report. The line-item tonnages listed in the Monthly Inbound Reports are electronically linked to Tab AA. The data in Tab AA is manually inputted largely from reports generated from the PC Scales data base.

Self-Haul Tons

Inbound self-haul tons are calculated by subtracting the Total MSW Inbound Tons from the Total MSW Outbound Tons (December Monthly Report; Tab AB).

Self-haul PC Scale recorded volumes (cubic yards) for self-haul material are then converted into tons by:

- » Calculating the percentage of the total volume of self-haul solid waste associated with each Member Agency; and
- » Multiplying that percentage by the total calculated self-haul tonnage.

4.3 Review of Inbound Member Agency Tonnage Data

Member Agency Vehicles

Tonnages for inbound Member Agency vehicles are reported on SBR's Inbound Tons Report for the following five (5) categories:

1. Municipal Solid Waste;
2. MRF Recycling Materials;
3. Green Waste/Organics;
4. Inerts/C&D; and
5. Other Recyclables.

Transfer Station & Third-Party Tonnages

SBR also reports Transfer Station & Third-Party Tonnages for tonnages by Member Agency for the following sources in the December Monthly Report; Tab 9 "Member Agency Tonnage Report":

- » Self-Haul Solid Waste;
- » MRF Residue;
- » Transfer Station & Other Recycling;

- » Self-Haul Green Waste; and
- » Self-Haul Inert/C&D.

Inert/Self-Haul Solid Waste

As discussed above, inbound self-haul tons are calculated by subtracting the Total MSW Inbound Tons from the Total MSW Outbound Tons found in the December Monthly Report; Tab AB “MSW Origin Information”.

MRF Residue

MRF residue ties to Tab AD “Data Entry Residual Allocation by Origin” of the December Monthly Report supporting Excel file, which shows an allocation based on recycling collected by service sector and member agency.

Transfer Station & Other Recycling

This category is comprised of Appliances, Mattresses, Refrigerators and Tires. Transfer Station & Other Recycling is calculated in a manner similar to MSW above, in the December Monthly Report; Tab AC “Recycling Origin Information”, which ties directly to PC Scales volume inputs.

Self-Haul Green Waste

Self-Haul Green Waste is calculated in a manner similar to MSW above on December Monthly Report; Tab AC (Self Haul and Yardage Allocation by Origin).

Self-Haul Inert/C&D

Self-Haul Inert/C&D is calculated in a manner similar to MSW above on December Monthly Report; Tab AC (Self Haul and Yardage Allocation by Origin), which ties directly to PC Scales volume inputs.

Outbound Tonnages

Outbound tonnages are reported and tie directly to PC Scales tonnage reports. R3 tied the yearly tonnage totals for outbound materials and commodities to PC Scales tonnage reports provided by SBR, and tied the monthly tons for one sample month to the PC Scales reports provided by SBR.

4.4 Review of SBR Liquidated Damages

The objectives of this task were to:

- » Verify Liquidated Damages payments have been properly calculated in accordance with the Operating Agreement and tie to the reported events; and
- » Verify and explain SBR’s procedures to identify and report events which would trigger Liquidated Damages.

Review of Liquidated Damages Payments

Attachment 10 of SBR’s operating agreement specifies the following Liquidated Damage events:

- » Failure to meet Vehicle Turnaround Guarantee;

- » Failure to receive vehicles during Operating Hours;
- » Failure to remedy a litter complaint within 5 hours of notification;
- » Failure to provide excellent customer service;
- » Timeliness of submission of reports to RethinkWaste;
- » Failure to make records available upon request; and
- » Failure to notify SBWMA of intent to use subcontractors.

SBR's 2020 Monthly Reports (7 LIQUIDATED DAMAGES REPORT) included no reported instance of service issues that would trigger the payment of Liquidated Damages.

Review of Liquidated Damage Reporting Procedures

In past audits, R3 met with SBR management staff and SBWMA's Facility Operations Contract Manager. SBR reported among other things that, while it has the capabilities to track various data related to Liquidated Damages (e.g., Vehicle Turnaround Guarantee), that data is not actively tracked. SBWMA's Facilities Operations Contract Manager reported that SBWMA was aware of the fact that the data was not actively being tracked but also reported that SBWMA is not aware of any issues related to those items for which Liquidated Damages apply. The Facility Operations Contract Manager also reported that should SBWMA become aware of any potential issues in the future, it would require SBR to actively track any associated data for the purpose of assessing compliance.

4.5 Findings

Annual Report

Appendix B includes the findings of our review of the completeness of SBR's 2020 Annual Report. This report satisfies the reporting requirements of Section 9.05 except for the following section which was not included in the Annual Report:

- » **Hazardous Spills Reporting** (Section 9.05.E.7) – The 2020 Annual Report does not list any instances in which hazardous spills were reported. There were no hazardous spills listed in the past four annual reports, either.

Review of Inbound Tonnage Data

To verify the accuracy of the reported input tonnages, R3 tied the data reported on Tab AA for two sample scale reports (March, August, and Annual) to the supporting PC Scales generated reports and other supporting documents, without exception. R3 confirmed the accuracy of the calculated self-haul tonnage. **No adjustments are necessary.**

Review of Inbound Member Agency Tonnage Data

Member Agency Vehicles

For the two scale reports, R3 tied the overall Member Agency reported tonnages for each of the above categories to the PC Scales Data Entry Form in the Monthly Report, Tab AA. We also tied the tonnage on the PC Scales Data Entry Form to the JPA Material Summary Tonnage Report data download from the PC Scales data base, without exception. **No adjustments are necessary.**

Transfer Station & Third-Party Tonnages

For the sample month and annual ton totals, R3 tied the tonnages reported by Member Agency to the Recycling Origin information for each of the five categories. **No adjustments are necessary.**

Inert/Self-Haul Solid Waste

R3 tied the reported MSW tonnage reporting for self-haul waste in Tab AB to tonnage allocations and confirmed the accuracy of the associated conversion of yardage to tons without exception. **No adjustments are necessary.**

MRF Residue

We tied the total reported MRF Residue tonnage for a test sample to the supporting PC Scales data base. **No adjustments are necessary.**

We confirmed the basis of the recycling residual allocation by Member Agency that appears in the SBR monthly reporting.

Transfer Station & Other Recycling

We tied the reported Transfer Station & Other Recycling tonnage for the sample month and the annual total to the supporting PC Scales data base. **No adjustments are necessary.**

Self-Haul Green Waste

We tied the reported Self-Haul Green Waste tonnage for the sample month and the annual total to the supporting PC Scales data base without exception. **No adjustments are necessary.**

Self-Haul Inert/C&D

We tied the reported Self-Haul Inert/C&D tonnage for the sample month and the annual total to the supporting PC Scales data base without exception. **No adjustments are necessary.**

Outbound Tonnages

R3 tied the sample scale report tonnage totals for outbound materials and commodities to PC Scales tonnage reports provided by SBR, and tied the monthly tons for one sample month to the PC Scales reports provided by SBR. **No adjustments are necessary.**

Net Balance of Inbound and Outbound Tonnages

Table 9, below, provides a comparison of the total tons diverted and disposed as reported by Recology to those reported by SBR. As shown, there are some minor discrepancies in both the reported diversion and disposal data. Relative discrepancies from 2013-2019 Annual Report Reviews are also shown.

Table 9: Comparison of Recology and SBR Monthly Tonnages

Annual Report Audit of SBR

Month	Tons Disposed				Tons Diverted			
	Recology Report (1)	SBR Report (2)	Variance (Recology vs. SBR)		Recology Report (1)	SBR Report (2)	Variance (Recology vs. SBR)	
			Tons	%			Tons	%
January	14,934.23	14,930.53	3.70	0.02%	16,140.74	16,144.44	(3.71)	-0.02%
February	13,243.09	13,242.97	0.12	0.00%	13,449.28	13,449.05	0.23	0.00%
March	13,526.26	13,526.26	0.00	0.00%	13,789.41	13,789.41	0.00	0.00%
April	12,075.31	12,072.37	2.94	0.02%	13,814.18	13,817.12	(2.94)	-0.02%
May	12,687.46	12,687.46	0.00	0.00%	14,740.18	14,740.18	0.00	0.00%
June	13,958.52	13,961.22	(2.70)	-0.02%	14,954.66	14,951.96	2.70	0.02%
July	14,418.94	14,418.94	0.00	0.00%	15,076.99	15,076.99	0.00	0.00%
August	13,513.90	13,513.90	0.00	0.00%	13,997.04	13,997.04	0.00	0.00%
September	13,684.86	13,684.80	0.06	0.00%	14,402.02	14,401.96	0.06	0.00%
October	13,777.21	13,777.21	0.00	0.00%	14,372.88	14,372.88	0.00	0.00%
November	13,450.99	13,451.00	(0.00)	0.00%	14,715.81	14,715.48	0.34	0.00%
December	14,414.21	14,414.22	(0.00)	0.00%	17,035.64	17,035.51	0.14	0.00%
2020 Total	163,684.98	163,680.86	4.12	0.00%	176,488.83	176,492.02	(3.19)	0.00%
Prior Years Data								
2019 Total	178,934.57	179,075.26	(140.69)	-0.08%	189,874.11	189,709.63	164.48	0.09%
2018 Total	181,188.19	181,028.63	159.56	0.09%	187,224.86	187,333.12	(108.26)	-0.06%
2017 Total	182,430.37	182,440.61	(10.24)	-0.01%	186,569.49	186,597.95	(28.46)	-0.02%
2016 Total	180,854.34	180,857.83	(3.49)	0.00%	180,999.40	181,026.90	(27.50)	-0.02%
2015 Total	177,591.01	177,585.62	5.39	0.00%	171,735.83	171,761.96	(26.13)	-0.02%
2014 Total	177,106.09	177,098.36	7.73	0.00%	169,503.18	169,527.89	(24.71)	-0.01%
2013 Total	177,001.51	176,979.89	21.62	0.01%	168,930.40	168,929.28	1.12	0.00%

Source: Annual Report Tonnage Report supporting detail: (4) RSMC Annual Reports 2020 / M1. Tonnage Summary

Source: SBR's 2020 December Report; Attachment A; Shoreway Center Inbound Detail Report

Review of SBR Liquidated Damages

We verified that SBR includes in its report (Tab 7 of the SBR December Monthly Report) the reportable damages per its Operating Agreement (Attachment 10).

In addition, while SBR reported no Liquidated Damages associated with several of its Liquidated Damages categories, including “Failure to Meet Vehicle Turnaround Guarantees” and “Litter Complaints,” SBR has not actively tracked the data that would support that finding (see Review of Liquidated Damage Reporting Procedures on the following page). ***No adjustments are necessary.***

5. FINANCIAL SYSTEMS AUDIT OF SBR

The Shoreway Environmental Center (Shoreway), which is owned by SBWMA and operated by SBR, is a cutting-edge recycling and transfer station facility located in San Carlos. In addition to operating the facility, SBR also provides a free drop-off site for scrap metal, batteries, used motor oil, latex paint, and other materials.

To verify SBR's financial tracking and reporting systems, R3 coordinated with SBR to request source documentation and confirm the data tracking process for each reporting category. This included verification of reported 2020 self-haul revenues, commodity revenues, Shoreway buyback center payments against SBR's "PC Scales" tracking system, bank statements, and other supporting documentation. Mathematical accuracy and logical consistency of the company's reported values were also reviewed.

5.1 Public Self-Haul Revenue

Objective: Verify that the 2020 public revenue transferred monthly to SBWMA ties to the accounting records.

Revenue collected from the public by SBR at the Shoreway scale house for loads of self-haul material is remitted by SBR to SBWMA each month. To verify the accuracy of 2020 self-haul revenue transferred to SBWMA, R3 compared SBR's "Customer/Material" PC Scales reports for "Third Party Customers Only" with SBR's monthly remittance statement to SBWMA, verified amounts sent to SBWMA in SBR's 2020 bank statements detailing the electronic funds transfers (EFTs) for self-haul revenue, as well as with SBWMA's tracking of wire payments received.

The bank statements provided by SBR allow R3 to compare figures against another source of documentation.

5.2 Commodity Revenue

Objective: Verify that the gross 2020 commodity revenue as reported on SBR's 2020 December monthly report ties to accounting records.

Recyclable materials brought to SBR are marketed and sold to commodity buyers, and SBR logs and tracks each transaction in PC Scales. SBR strategically markets the recyclables to ensure competitive pricing of commodities sold and pays SBWMA its share of the commodity revenues. Commodity price assurance is performed by tracking market indices against material sales on a monthly basis to benchmark SBR's performance.

To verify SBR's 2020 commodity revenue, R3 reviewed PC Scales reports detailing outbound recyclable materials to compare the recorded tonnage and revenue to the corresponding amounts in the December 2020 monthly report.

5.3 Shoreway Buyback Center Payments

Objective: Verify that payments made by SBR to Shoreway's Buyback Center customers, and reimbursed by SBWMA, tie to accounting records.

SBR used to be reimbursed by SBWMA for the payments it makes to Buyback Center customers, which includes CRV for certain materials and agreed-upon scrap values for

cardboard and metals. However, in August of 2019, the Buyback Center was closed by SBR and SBWMA. As such, in 2020 SBWMA had no reimbursements to SBR, as the only a few tons of OCC are listed as being received, with no associated charge.

5.4 CRV Payments

Objective: Verify that payments to SBWMA for CRV are being properly calculated.

R3 assessed CRV payments received by SBR from CalRecycle to ensure that they are properly calculated, with the correct amounts being remitted as payment to SBWMA for its CRV materials.

R3's review included a comparison of CalRecycle's posted information for January, May, and October 2020 CRV payments values against SBR's records. SBR confirmed that there have been no changes to its methodology for CRV tonnage allocation and CRV payments to SBWMA from prior years.

5.5 Findings

Public Self-Haul Revenue

SBR's PC Scales (in the form of SEC Gate Revenue Reports) reported values directly tied to GL records of wire transfers to SBWMA. R3 also confirmed that SBR's EFTs for self-haul revenue shown on bank statements matched the amounts in PC Scales and SBWMA's tracking of wire payments received. **No adjustments are necessary.**

Commodity Revenue

The 2020 commodity tonnage as reported in SBR's 2020 December monthly report matches monthly PC Scales "Outbound Recyclables Material Summary" reports. **No adjustments are necessary.**

Shoreway Buyback Center Payments

SBR did not make any Buyback Center payments in 2020 due to the closure of the Buyback Center. **No adjustments are necessary.**

CRV Payments

The difference between SBR's estimates of CRV payments and the number of payments actually received from CalRecycle are due to:

- » SBR not always using the most up-to-date processing payment rates in its estimates (which does not affect the amount of payment actually received); and
- » CalRecycle's independent calculation of CRV payment based on SBR's tonnage amounts submitted via its "DORIIS" payment reporting and calculation system. This *does* affect the amount of CRV payment received by SBR, and accounts for some of the difference between SBR's estimates and the actual amounts received. For example, CalRecycle may apply a different "shrinkage value" for glass than SBR, and/or make other adjustments in calculating the CRV payment amount to be issued. CalRecycle does not provide explanations of its calculations in its correspondence with SBR.

To claim CRV payment, SBR first enters the weight of CRV materials in the DORIIS system. This enables the creation of a processor invoice, in which the system calculates the payment amount due based on the weights entered for each material type. CalRecycle's independent calculation can result in actual payments above or below SBR's estimated CRV payment.

SBR correctly reported CRV payments, which tie back to CalRecycle data and bank statements.

No adjustments are necessary.