



RECOLOGY SAN MATEO COUNTY (RSMC) AND SOUTH BAY RECYCLING (SBR) ANNUAL REPORT AND FINANCIAL SYSTEMS AUDIT

Final Report

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TABLE OF CONTENTS

Table of Contents	i
Executive Summary	1
Background	1
Annual Report Audit	2
Financial Systems Audit.....	2
Summary of Findings	3
Recology Financial Systems Audit.....	3
Annual Report Audit of SBR	4
SBR Financial Systems Audit.....	4
Conclusion	5
Recommendations.....	5
Annual Report of Recology REview	6
Completeness of Recology’s Annual Report.....	6
Review of Tonnage Allocations	6
Review of Reported Customer Service Data	7
Review of Reported CSR Statistics.....	8
Review of CSR Coding Calls.....	8
Review of Liquidated Damages.....	8
Review of Performance Incentive/Disincentive Payments	10
Findings Summary	13
FINANCIAL SYSTEMS AUDIT OF RECOLOGY	14
Gross Revenue Billed.....	14
Recology’s Compensation	17
Additional Cart Fees.....	18
Annual Report Audit of SBR	21
Review of Inbound and Outbound Tonnage Data.....	21
Inbound Member Agency Tonnage	24
Outbound Tonnages.....	24
Review of SBR Liquidated Damages	26
Completeness of Report.....	26

FINANCIAL SYSTEMS AUDIT OF SBR	27
Public Self-Haul Revenue.....	27
Commodity Revenue.....	27
Shoreway Buyback Center Payments	28
CRV Payments.....	28
Appendix A: Recology Annual Reports (Article 9.07).....	29
Appendix B: SBR Quarterly Reports (Article 9.05)	33

EXECUTIVE SUMMARY

RRS has been contracted by South Bay Waste Management Authority (SBWMA / RethinkWaste) to provide annual report and financial system audit of the SBWMA's collection services contractor and facility operations contractor. For the Operations Audit, RRS reviewed, tested, and verified the accuracy of the information contained in Recology San Mateo County (RSMC) Annual Report as well as South Bay Recycling, LLC (SBR) Annual Report as well as SBR's annual tonnage and commodity revenue report, and provide any recommendations for improvement. For the Financial Systems Audit, RRS verified the mathematical accuracy, consistency in reporting, and back-up documentation for information contained in RSMC's annual Revenue Reconciliation, and the accuracy of SBR's financial systems for tracking, calculating, and reporting payments due to or from SBWMA.

The work constituted a review of Recology's and SBR's financial systems and the accuracy of the financial reports Recology and SBR provide to SBWMA. It did not audit financial statements, nor did it represent a complete review of finance and accounting systems. The purpose of the audit was to 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.

Background

The SBWMA 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.

For the Operations Audit, RRS was contracted to review, test and verify the accuracy of the information contained in the Recology San Mateo County (RSMC) Annual Report as well as South Bay Recycling, LLC (SBR) annual tonnage and commodity revenue report and provide any recommendations for improvement. RRS is contracted to verify the mathematical accuracy, consistency in reporting, and back-up documentation for information contained in RSMC's annual Revenue Reconciliation, and the accuracy of SBR's financial systems for tracking, calculating, and reporting payments due to or from SBWMA. 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 work consists of a review of Recology's and SBR's financial systems and the accuracy of the financial reports Recology and SBR provide to SBWMA and is not an audit financial statements, nor will it represent a complete review of finance and accounting systems. The audit does not need to assess conformance with standard accounting practices (including generally accepted accounting principles, GAAP), but it does need to 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.

Annual Report Audit

Reporting requirements are specified in Article 9 (Record Keeping and Reporting) of Recology's franchise agreements and Article 9 (Contractor Records/Reports) of SBR's operating agreement.

The RRS Scope of Work includes:

- Confirming quarterly and annual reports submitted by the contractors contain complete information (broken down by month) for each of the reporting categories required in accordance with Article 9.06 of the Recology Franchise Agreement(s) and Article 9.5 of the SBR Operating Agreement; and
- Verifying the mathematical accuracy of the calculations contained in the reports:
- Verifying the accuracy of quarterly tonnage data reported by Recology for 2021. Recology's quarterly tonnage data is based on Monthly Tonnage Reports that allocate franchised tonnages among each of the member agencies for the following categories:
 - Commercial,
 - Multi-Family Dwelling (MFD),
 - Roll-Off, and
 - Residential.
- Verifying accuracy of tonnage allocation for each Member Agency – monthly, quarterly and annual totals
- Verifying the accuracy of customer service data reported by Recology for 2021. In Section D of their quarterly and annual reports,
- Verifying the accuracy of Recology's calculated liquidated damages, incentive and disincentive payments and that liquidated damages, incentive, and disincentive payments have been properly calculated and tie to the events reported,
- Verifying SBR's reported data (from franchised services) is consistent with Recology's reports,
- Verifying all other SBR tonnage is also accurate,
- Verifying liquidated damages payments have been properly calculated in accordance with the Operating Agreement and tie to the reported events,
- Verifying and explaining SBR's procedures to identify and report events which would trigger liquidated damages.

Financial Systems Audit

The RRS Scope of Work includes an audit of Recology's annual Revenue Reconciliation for 2021, submitted in accordance with Section 11.03 and Attachment K of Recology's Franchise Agreement for Collection Services with San Mateo County. This audit will include:

- Determining if Recology has accurately calculated each Member Agency's revenue surplus/shortfall for its franchised services;
- Confirming that Recology's billings are consistent with the approved rate schedules and that reported revenues tie to accounting records;
- Verifying net revenue calculations and adjustments;
- Verifying that Contractor's Compensation ties to each Member Agency's approved compensation; and

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

The RRS Scope of Work includes a financial audit of South Bay Recycling (SBR), RethinkWaste's Facility Operations Contractor. This audit will include:

- Determining how 2021 public revenues, commodity revenues, and weight ticket information (including route number and material types) are recorded using SBR's "PC Scales" tracking system, and
- Verifying the mathematical accuracy and logical consistency of the company's reported values.
- Verifying Public Self-Haul Revenue
- Verifying Commodity Revenue
- Verifying Scale House Operations

Summary of Findings

1. RRS review and verification of the data and information presented in the RSMC Annual Report Audit found no significant discrepancies that require any adjustments to the report. The report was complete and fulfilled all the reporting requirements of the Franchise Agreements.
2. RRS was then able to verify that the tonnages from splitting the route tonnages and aggregating by Franchise Agency were correct and accurate and correspond to the data provided in the annual report.
3. RRS verified the accuracy of customer service data reported by Recology for 2021 and is currently validating a small subset of data with RSMC.
4. RRS was able to verify that the liquidated damages from the RSMC annual report for are accurate.
5. RRS verified that RSMC's annual report accurately shows a cumulative disincentive payment of \$138,305 based on the stipulated procedures for calculating diversion level in the Franchise Agreements.

Recology Financial Systems Audit

6. RRS verified revenues from residential and commercial customers reported in the Reconciliation to Recology's system-generated GL report which details revenues for each Member Agency. RRS reviewed and validated adjustments that affect calculations of Gross Billed Revenue in the Reconciliation.
7. RRS verified the calculation of net revenue retained by Recology in total and by Member Agency and verified the calculations are accurate based on Recology's explanations and supporting documentation.
8. RRS reviewed and validated adjustments that affect calculations of Gross Billed Revenue in the Reconciliation.

9. The calculation of net revenue retained by Recology were verified in total and by Member Agency. No mathematical errors in Recology's calculation of net revenue were identified.
10. Recology's net compensation figures listed by Member Agency in the 2021 Reconciliation were verified for all Agencies and directly tie to the approved compensation set by SBWMA for reviewed Member Agencies.
11. The fees and values for unscheduled and intermittent services listed in Attachment Q in the Reconciliation were correct and verified as accurate.
12. The revenues for backyard service included in gross revenues billed for each Member Agency but are deducted from the gross revenues as additional services when Recology calculates the Approved Contractor's Compensation and were verified and are accurate.

Annual Report Audit of SBR

13. RRS verified that the inbound MSW reported by SBR was equal to the RSMC data after deducting the weight of the batteries that were reported.
14. RRS verified that the SBR reported tonnage and the RSMC reported tonnage were equal.
15. RRS verified the yearly tonnage totals for outbound materials and commodities to PC Scales tonnage reports provided by SBR and verified the monthly tons for one sample month (June) to the PC Scales reports provided by SBR.
16. SBR's 2021 Liquidated Damages Report included no reported instance of service issues that would trigger the payment of Liquidated Damages.

SBR Financial Systems Audit

17. SBR's "Customer/Material" PC Scales reports for "Third Party Customers Only" were compared with SBR's monthly remittance statement to SBWMA to verify the accuracy of 2021 self-haul revenue transferred to SBWMA were verified.
18. RRS verified that the gross 2021 commodity revenue as reported on SBR's 2021 December monthly report ties to accounting records.
19. SBR did not make any Buyback Center payments in 2021 due to the closure of the Buyback Center. SBR correctly reported CRV payments, which tie back to CalRecycle data. No adjustments are necessary.



Conclusion

Overall, RRS verified the information submitted in the RSMC and the SBR Annual and Financial Reports and did not discover any discrepancies that would require any changes to the Annual and Financial Reports.

Recommendations

1. There are several supporting documents that are necessary for the review for both the RSMC and the SBR Annual Reports and Financial Audit that should be included with the Annual report submission.
2. RRS recommends that a random annual (or semi-annual) route audit be conducted to verify the split table allocation for tonnage on routes that service multiple Member Agency collection routes.

ANNUAL REPORT OF RECOLOGY REVIEW

Completeness of Recology's Annual Report

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

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

RRS compared the contents of Recology's Annual report to the requirements of Section 9.07 (Annual Reports) of Recology's franchise agreement.

Appendix A includes the findings of the review of Recology's 2021 Annual Report. The report satisfies the reporting requirements of Article 9.07 with the exception of the following requirements that were not included:

1. Equipment Inventory (Section 9.07.A.5); and
2. Customer Account Information (Section 9.07.B)

These items were 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

For Single-Family, Multi-Family, Commercial, and Agency tonnages Recology allocates tons to each Agency based on the available volume (e.g., cart gallons, dumpster cubic yards, etc.) of each Agency on each route. This allocation is further split by material type (MSW, Recycling, Organics) based on route coding. This results in an allocation that is to the agency, service sector, and material type level. Recology's internal database, which contains customer information (address, container type, etc.), generates split tables for each route so that the total tonnage for that route is properly allocated as described above. RRS task was to verify that the tannage information accurately flows from the weight scales through the split table allocation and into the annual report. This is accomplished by tying the route weight ticket spit to the corresponding spit table and then confirming that the aggregated tonnages from this exercise match the tonnages in the annual report.

The Split Tables are developed using the following process. The tonnage of each load is allocated to the Member Agencies based on subscribed volume, by route, by day. The split table percentages are calculated by the volume of the container, in gallons, multiplied by the number of containers in service. The total gallons are summed by Agency for that route and divided by the total gallons for that route to determine the allocated percentage to each Agency. The percentages are calculated and applied to each load, in the automated system. The split table percentages are updated quarterly for usual and customary service changes and for substantive route changes as they occur.

Drop Box, Venues and Events, Abandoned Waste, and On-Call events are all directly allocated to each Agency. RRS confirmed that this done accurately and aligns with the annual report.

RRS selected the month of June 2021 and requested all the weight tickets and split tables for that month. RRS was able to verify that the weight tickets were spit according to the provided split tables. Direct verification of the customer data that fed into each split table was not performed but RRS has confidence in the Recology procedure and considers the split tables provided to be accurate. RRS was then able to verify that the resulting tonnages from splitting the route tannages and aggregating, correctly correspond to the data provided in the annual report.

Review of Reported Customer Service Data

To facilitate accuracy and align reporting methodologies, Recology provided a detailed pre-audit report data export for June and October with information related to nearly every reportable category, facilitating a complete review and agreement with Recology's reported statistics a included separate tabulation of the non-Liquidated Damages-related customer service data. 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. RRS reviewed the categorization of each reportable category against Recology's reporting categories and agreed with Recology's methodology.

RRS verified the accuracy of customer service data reported by Recology for 2021. In Section D of their quarterly and annual reports, Recology reports customer service data (i.e., "Inquiry, Service Request and Complaint Data") in the following categories:

- Single Family Initial Missed Pick-Up;
- 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; and
- Billing Concerns.

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

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 "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. RRS verified that the phone statistics provided in Recology's 2021 Annual Report matched the phone statistics for June and October of 2021.

Review of CSR Coding Calls

To test the accuracy of CSR's coding calls, RRS randomly sampled 2380 CSR tickets from June and October 2021. Of the 2380 tickets sampled this year, 22 were originally identified as a ticket error, 6 were duplicate tickets and 2 were coded incorrectly. RSMC reviews these tickets and identified and corrected all the miscoded entries. Liquidated damages are triggered only if the number of miscoded complaints exceeds the allowed threshold in the contract. No adjustments are necessary.

Review of Liquidated Damages

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.

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

Collection quality contains the following events of non-performance.

1. Collection Quality Complaint
 - A. Unauthorized Collection Hours
 - B. Inadequate Care of or Damage to Private Property
 - C. Failure to Resolve Property Damage Claims
2. Failure to Provide New Service or Initiate Change in Service
3. Improper Container Placement Complaints
4. Failure to Effectively Distribute Non-Collection Notices
5. Excessive Noise Complaints
6. Unacceptable Employee Behavior
7. Spills of Discarded Materials
 - A. Complaints of Spills of Discarded Materials
 - B. Complaints of Failure to Clean Up Spills of Discarded Materials
8. Spills of Vehicle Fluids
9. Untimely Scheduling of Bulky Item Collections
10. Abandoned Waste

Complaints are received through Recology's call center or 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. For verification of the liquidated damages reported by Recology in their annual report, RRS analyzed one month of the complaint tickets from Recology's internal software to confirm that the internal information aligns with the annual report. RRS selected the month of June 2021 and requested all the complaint tickets for that month for Recology. RRS then analyzed the raw internal complaint ticket information and checked the results against the annual report. RRS was able to verify that the liquidated damages from Recology's annual report for June 2021 are accurate.

Customer Service Quality

Customer service quality has one event of non-performance, Untimely Resolution of Complaints and Inquiries. Each failure to resolve or remedy a Complaint or Inquiry within ten (10) Business Days of receipt of Complaint or Inquiry pursuant to Section 7.02.D, with the exception of missed pick-ups which are addressed in Attachment I or other service related events that have Liquidated Damages associated with them.

RRS selected the month of June 2021 and requested all the complaint tickets for that month for Recology. RRS then analyzed the raw internal complaint ticket information and checked the results against the annual report. RRS was able to verify that the liquidated damages from Recology's annual report for June 2021 are accurate.

Reporting

Attachment J of Recology's franchise agreement states the following.

Contractor shall submit monthly reports within fifteen (15) Days after the end of the reporting month, quarterly reports within thirty (30) Days after the end of the reporting quarter, and annual reports within forty five (45) Days after the end of the reporting year. Contractor shall submit (via e-mail) all reports to the person(s) designated by SBWMA and Agency. Each quarterly report shall be in lieu of the monthly report for the third month of the quarter; thus, Contractor shall submit a total of thirteen (13) periodic reports per year: eight (8) monthly reports, four (4) quarterly reports, and one (1) annual report.

RRS reviewed the submittal date on then annual report and verified that the submission followed the above deadlines.

Other

The Other section of Attachment J contains the following events of non-performance.

1. Disposal of Diversion Program Materials
2. Use of Unauthorized Facilities

These liquidated damages are tracked via incident reports that are then investigated by each agency. RRS will confirm the annual report by asking Recology if any incidents were reported and verified as accurate. Recology stated that no incidents were reported and verified as accurate. This aligns with the annual report.

Review of Performance Incentive/Disincentive Payments

Attachment I of Recology's Franchise Agreements list the Performance Incentives/Disincentives, payment thresholds and payment amounts.

Single-Family Missed Pick-Up Collection Events

Recology's franchise agreement defines a Missed Pick-Up Collection Event as follows.

"Missed Pick-Up Collection Event" means events whereby Contractor failed to Collect Solid Waste, Targeted Recyclable Materials, and Organic Materials on or before the Business Day following Contractor's receipt of the Missed Pick-Up Initial Complaint. The only exceptions to this definition include: Missed Pick-Up Initial Complaints for which Contractor: (i) documented in its Customer service system the Customer's failure to properly set out Container or that the Containers were blocked for Collection based on the route driver's report; and, (ii) coded the call for a recollection request or courtesy pick-up prior to receiving a Missed Pick-Up Initial Complaint.

RRS selected the month of June 2021 and requested all the complaint tickets for that month for Recology. RRS then analyzed the raw internal complaint ticket information and checked the results against the

annual report. RRS was able to verify that the Single-Family Missed Pick-Up Collection Events from Recology's annual report for June 2021 are accurate.

Average Speed of Answer at Customer Service Center

Attachment I of Recology's franchise agreement states the following.

Contractor shall be assessed a disincentive payment if the Average Speed of Answer is greater than or equal to thirty (30) seconds each month. The disincentive payment for Rate Year Eleven (2021) shall equal five hundred dollars (\$500.00) per second for each second greater than or equal to the Average Speed of Answer Standard. In subsequent Rate Years, the disincentive payment amount shall be adjusted by the Annual Index Change in the CPI-U, which is described in Attachment K. If Contractor fails to achieve the maximum Average Speed of Answer, the Agency shall assess a disincentive payment based on the following example:

*Actual Average Speed of Answer = 47 seconds
Average Speed of Answer Standard = 30 seconds
Disincentive payment is required if the Actual Average > 30 seconds
Example disincentive payment calculation: 47 - 30 = 17 seconds x \$500.00 = \$8,500*

If the actual Average Speed of Answer is equal to or greater than fifteen (15) seconds and less than thirty (30) seconds each month, neither incentives or disincentives shall be applied.

RRS selected the month of June 2021 and requested all the phone statistics for that month for Recology. RRS then analyzed the raw phone statistics and checked the results against the annual report. RRS was able to verify that the Average Speed of Answer at Customer Service Center from Recology's annual report for June 2021 is accurate.

Ninety (90) Second Maximum Hold Time

Attachment I of Recology's franchise agreement states the following.

The maximum Hold Time shall be ninety (90) seconds. A disincentive payment shall apply if the percentage of calls exceeding this ninety (90) second threshold in a given quarter exceeds five percent (5%) of the calls received in that quarter. Quarters shall be calendar quarters (e.g., the first quarter of the Rate Year includes January, February, and March). The disincentive payment for Rate Year Eleven (2021) shall equal five dollars (\$5.00) per call above the ninety (90) second Hold Time in a given quarter that exceeds five percent (5%) of the calls received in that quarter. In subsequent Rate Years, the disincentive payment amount shall be adjusted by the Annual Index Change in the CPI-U, which is described in Attachment K. If Contractor fails to achieve this performance standard, the Agency shall assess a disincentive payment based on the following example:

Total number of calls received in quarter = 19,380

5% of total number of calls received in quarter = $19,380 \times 0.05 = 969$
Actual number of calls in quarter exceeding 90 second Hold Time = 1,281
Number of calls exceeding 90 second Hold Time in excess of 5% threshold = $1,281 - 969 = 312$
Example disincentive payment calculation: $312 \times \$5.00 = \$1,560$

RRS selected the month of June 2021 and requested all the phone statistics for that month for Recology. RRS then analyzed the raw phone statistics and checked the results against the annual report. RRS was able to verify that the instances of Ninety (90) Second Hold Times from Recology's annual report for June 2021 are accurate.

Minimum Diversion Levels

Attachment I of Recology's franchise agreement states the following.

Contractor shall receive an Incentive payment if the calculated Overall Diversion Level achieved by Contractor in any given Rate Year exceeds the arithmetic average of the calculated Overall Diversion Levels for the five (5) Rate Years prior to the Rate Year under consideration.

Contractor shall be assessed a Disincentive Payment if the calculated Single-Family Diversion Level in any given Rate Year is less than the arithmetic average of the calculated Single-Family Diversion Levels for the five (5) Rate Years prior to the Rate Year under consideration.

Contractor shall be assessed a Disincentive Payment if the calculated Commercial Diversion Level in any given Rate Year is less than the arithmetic average of the calculated Commercial Diversion Levels for the five (5) Rate Years prior to the Rate Year under consideration.

RRS verified that Recology's annual report accurately shows a cumulative disincentive payment of \$138,305 based on the above procedures for calculating diversion level.

The surplus or shortfall amounts for each member agency were recalculated and compared the result to the Reconciliation. Recology's calculations of 2021 surplus/shortfall values in the Reconciliation were verified.

Findings Summary

Table 1: Summary of Findings

Recology Annual Report Verification Categories	Verified	Adjustment Required
Completeness of Reports	X	None
Review of Tonnage Allocations	X	None
Review of Tonnage Allocations	X	None
Review of Reported Customer Service Data	X	None
Review of Reported CSR Statistics	X	None
Review of CSR Coding Calls	X	None
Review of Liquidated Damages		
<ul style="list-style-type: none"> Collection Quality 	X	None
<ul style="list-style-type: none"> Customer Service Quality 	X	None
<ul style="list-style-type: none"> Reporting 	X	None
<ul style="list-style-type: none"> Other 	X	None
Review of Performance Incentive/Disincentive Payments		
<ul style="list-style-type: none"> Single-Family Missed Pick-Up Collection Events 	X	None
<ul style="list-style-type: none"> Average Speed of Answer at Customer Service Center 	X	None
<ul style="list-style-type: none"> Ninety (90) Second Maximum Hold Time 	X	None
<ul style="list-style-type: none"> Minimum Diversion Levels 	X	None

FINANCIAL SYSTEMS AUDIT OF RECOLOGY

The primary objective of the audit of Recology's financial systems was to determine whether Recology's 2021 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. This audit will include:

- Determining if Recology has accurately calculated each Member Agency's revenue surplus/shortfall for its franchised services;
- Confirming that Recology's billings are consistent with the approved rate schedules and that reported revenues tie to accounting records;
- Verifying net revenue calculations and adjustments; and
- Verifying that Contractor's Compensation ties to each Member Agency's approved compensation.

Gross Revenue Billed

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. Redwood City directly bill for residential and commercial services 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 did not (appropriately) include late fees and other revenue. The total billed revenue reported by Recology in the 2021 Reconciliation is \$113,661,935.

RRS verified revenues from residential and commercial customers reported in the Reconciliation to Recology's system-generated GL report which details revenues for each Member Agency. Adjustments to the GL revenue are included in the revenue reconciliation for the purpose of tying booked revenues (for internal Recology accounting purposes) to billed revenues, on which the surplus/shortfall calculations are based. Table 2, on the following page, shows the results of our review.

Table 2: Verification of Gross Revenues Billed

Member Agency	Total Operating Revenues per GL Records	Accounting Adjustments Charges	Total Billings per Reconciliation
Belmont	7,476,362	185,519	7,661,881
Burlingame	11,764,435	(348,960)	11,415,475
East Palo Alto	5,717,777	(25,932)	5,691,845
Foster City	6,580,888	(173,075)	6,407,813
Hillsborough	3,703,638	(240,003)	3,463,635
Menlo Park	13,295,254	(1,012,826)	12,282,428
Fair Oaks	3,322,680	3,315	3,325,995
Redwood City	21,414,327	461,283	21,875,610
San Carlos	10,008,298	(237,667)	9,770,631
San Mateo	27,520,305	(1,643,254)	25,877,051
West Bay Sanitary	1,805,242	61,275	1,866,517
Unincorporated County	3,734,964	(68,460)	3,666,504
Total	116,344,170	(3,038,785)	113,661,935

The Total Operating Revenues are the combination of Recology Operating charges and Agency billings for services for residential, commercial and multifamily dwellings, Debris Box, and Hauling revenue adjustments. RRS has verified that Total Operating Revenues and Gross Billed Revenues reported by Recology in the 2021 Reconciliation tie to accounting records provided by Recology (including adjustments for rate stabilization accounts for Belmont, West Bay Sanitary, and San Mateo).

Adjustments

Recology has several adjustments in the Revenue Reconciliation. Many of these adjustments are standard annual adjustments, and a few are one-time adjustments for special circumstances. While verifying the Reconciliation, RRS reviewed and validated adjustments that affect calculations of Gross Billed Revenue in the Reconciliation, including:

- Rate stabilization fees for Belmont (\$76,699), West Bay Sanitary (\$17,609), and San Mateo (\$1,000,000) are billed by Recology but not booked to revenue and are cancelled out as Pass-Through Costs.
- 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);
 - 2021 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 2020 incentive/disincentive payments owed to/from Recology as approved by SBWMA in 2021;
 - Payment to/from Recology for the SBWMA-approved 2019 surplus/shortfall and interest on applicable shortfalls due to timing differences; and

- Adjustments to the booked surplus/shortfall amounts for 2020.

Pass-Through Costs

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. RRS verified the calculation of net revenue retained by Recology in total and by Member Agency. Supporting documentation was reviewed for noted discrepancies for Member Agency fees. The calculations are accurate based on Recology's explanations and supporting documentation. **No adjustments are necessary.**

Member Agency Franchise and Other Fees (Attachment Q)

Recology provided a summary schedule of the various fees charged by each Member Agency in 2021, backup documentation for any changes in Member Agency fees between 2020 and 2021, and a table of calculations detailing the basis for payment of Member Agency fees in 2021. This table was verified against the Member Agency fees summary schedule from 2021 and confirmed that the fees were assessed accordingly as defined in each Member Agency contract in Attachment M: Franchise Fees. Each Member Agency has different fees in their schedule and different rates for fees that are calculated based on a percentage of gross revenue. These Member Agency Franchise and Other Fees include:

1. Franchise Fee
2. Street Sweeping Fee
3. Management Fee
4. AB939 Fee
5. Administration Fee
6. Landfill Closure Fee
7. Rate Stabilization Fee
8. Collection Vehicle Fee
9. Litter Control Fee
10. NDPEs Litter Impact Fee
11. Steam Cleaning Fee
12. MRP Capital Improvements Fee
13. City Manager Fee
14. MRP Compliance Fee

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. Put another way, Member Agency fees are calculated based on gross revenue inclusive of late fees, and Recology retains late fees collected.

RRS verified 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.

The amounts by which revenues used for the purpose of calculating Member Agency Franchise Fees based in Gross Billed Revenues have variances compared to the Reconciliation Total Billings are shown in Table 3. A positive number indicates higher revenues used for the purposes of calculating Member Agency fees, while a negative number indicates the opposite. Recology made corrective adjustments to rectify these discrepancies.

Table 3: Member Variance of Agency Reconciliation Total Billings vs. Annual Report Gross Billed Revenues Amounts

Member Agency	Reconciliation Total Billings	M5 Monthly Gross Revenue	Variance
Belmont	7,661,881	7,669,915	(8,034)
Burlingame	11,415,475	11,427,897	(12,422)
East Palo Alto	5,691,845	5,692,905	(1,060)
Foster City	6,407,813	6,407,814	(1)
Hillsborough	3,463,635	3,465,565	(1,930)
Menlo Park	12,282,428	12,299,513	(17,085)
Fair Oaks	3,325,995	3,285,898	40,097
Redwood City*	21,875,610	2,039,091	19,836,519
San Carlos	9,770,631	9,766,737	3,894
San Mateo	25,877,051	25,877,051	0
West Bay Sanitary	1,866,517	1,866,517	0
Unincorporated San	3,666,504	3,641,422	25,082
Total	113,305,385	93,440,325	19,865,060

*The City of Redwood City bills residential and commercial customers. The Gross Revenue Billed for Redwood City in the Revenue Reconciliation includes the amounts billed by both Recology and the City of Redwood City. Recology bills compactor customers and additional services, which is what is shown in the Gross Revenue and Fees tab for the monthly Gross revenue.

Net Revenue Calculation

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). The calculation of net revenue retained by Recology were verified in total and by Member Agency. The billed revenue values retained by Recology was recalculated and compared them to the Reconciliation. No mathematical errors in Recology's calculation of net revenue. No adjustments are necessary.

Recology's Compensation

In September 2020, the SBWMA Board approved Recology's 2021 compensation totaling \$63,746,726. To verify the accuracy of compensation values listed in the Reconciliation, the total compensation by Member Agency as listed in the Reconciliation was compared to the Board-approved compensation.

Net revenue billed, which is the result of:

1. Gross Billed Revenues reported by Recology;

2. Less Pass-through costs, including disposal and processing expenses and Member Agency fees;
3. Less Unscheduled and intermittent services (Attachment Q) revenues (discussed above);
4. Less the total compensation due to Recology for rate year 2020, which is equal to 2019 surplus/shortfall values by Member Agency;
5. Plus Interest on the shortfall amounts calculated via an agreed upon methodology between Recology and SBWMA;
6. Less the 2020 shortfall paid to Recology by Burlingame.¹

Attachment Q Billings

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 \$1,929,925. Recology GL data regarding Attachment Q services, including Backyard Charges, Additional Cart Fees, Key and Other Charges, Push Out Charges and Member Agency fees on Attachment Q revenues, were compared to the information listed in the Reconciliation and the Member Agency Fees on Attachment Q revenues were recalculated to verify the amounts reported by Recology. The fees for unscheduled and intermittent services listed in Attachment Q and values in the Reconciliation were correct and verified as accurate. No adjustments are necessary.

Additional Cart Fees

Tracking and calculating fees for additional carts is part of the revenue reconciliation process as defined in Attachment: Contractor's Compensation and Rate Setting Process.

Backyard Services - Long Distance Service.

Under the new contracts for years 2021-2035 For Rate Years Eleven (2021) through the remaining Rate Years in the Term, the Maximum Rates for additional services specified in Attachment Q shall be adjusted annually. The Maximum Rates for additional services for Rate Year Ten (2020) shall be the Maximum Rates for Rate Year Ten (2020) as determined under the 2009 Franchise Agreement. These amounts will be adjusted to determine the Maximum Rates for Rate Year Eleven (2021).

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 was reviewed in order to verify that the credit for the first 20% of residential backyard service customers is accurately reported in the Revenue Reconciliation. The total number of transactions to the 20% threshold in each Member Agency does not exceed the 20% threshold for the number of backyard services customers.

For wheeled Containers that are more than fifty (50) feet from the curb or edge of roadway Recology provides Long Distance Service. Long Distance Service is an additional service Recology provides that involves Contractor's route personal manually pushing, pulling, or otherwise moving the Container more than fifty (50) feet to a serviceable location and returning the Container to its storage location after Collection. The Long Distance Service is a regularly scheduled service that is performed each day

¹ 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.

Collection service are provided. Recology charges the Customer for Long Distance Service at no more than the Agency-approved Maximum Rate specified in Attachment Q of the contract.

The credit for the first 20% of residential backyard service customers is accurately reported in Recology's 2021 Revenue Reconciliation. The revenues for backyard service included in gross revenues billed for each Member Agency but are deducted from the gross revenues as additional services when Recology calculates the Approved Contractor's Compensation and were verified and are accurate. No adjustments are necessary.

Surplus/Shortfall Calculations

The surplus (or shortfall) is the difference between the amounts owed to Recology per the approved 2021 compensation application and what was billed by Recology, less pass-through costs. The approved compensation and 2019 surplus/shortfalls as listed in Recology's 2021 Compensation as approved by the SBWMA Board were checked against each of the values listed above. RRS verified Recology's calculations of 2021 surplus/shortfall values in the Reconciliation by recalculating them and comparing the result to the Reconciliation. Calculations of 2021 Net Revenues are shown in Table 4, below, followed by calculations of the 2021 surplus/shortfall.

Recology's net compensation figures listed by Member Agency in the 2021 Reconciliation directly ties to the approved compensation set by SBWMA for reviewed Member Agencies. No adjustments are necessary.

The 2021 Surplus/(Shortfall) is the difference between the Net Revenues Billed and the Approved Contractors Compensation plus the 2019 Adjusted (Surplus)/Shortfall included in the Rate Year 2021 Compensation Application but are not billed under current year payments. 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).

Calculations of 2021 Net Revenues are shown in Table 4 followed by calculations of the 2021 surplus/shortfall in Table 5, on the following page.

Table 4: Calculation of 2021 Net Revenues

Member Agency	2021 Gross Billed Revenues per Reconciliation	2021 Pass-Through Costs	2021 Attachment Q Revenues	2021 Net Revenues Billed	Approved Contractor's Compensation
Belmont	7,661,881	3,765,730	94,369	3,801,782	3,801,782
Burlingame	11,415,475	5,155,779	213,880	6,045,816	6,417,246
East Palo Alto	5,691,845	2,919,079	131,581	2,641,185	2,782,697
Foster City	6,407,813	2,532,806	40,753	3,834,254	3,961,352
Hillsborough	3,463,635	1,475,697	35,883	1,952,055	2,049,577
Menlo Park	12,282,428	5,714,386	183,052	6,384,990	6,894,201
North Fair Oaks	3,325,995	1,243,330	45,370	2,037,295	2,023,225
Redwood City	21,875,610	9,665,388	356,838	11,853,384	11,701,064
San Carlos	9,770,631	3,962,203	165,209	5,643,219	5,906,082
San Mateo	25,877,051	12,488,389	614,523	12,774,139	14,629,993
West Bay Sanitary	1,866,517	666,566	23,623	1,176,328	1,107,810
Unincorporated County	3,666,504	1,282,064	24,844	2,359,596	2,471,697
Total	113,305,385	50,871,417	1,929,925	60,504,043	63,746,726

Table 5: Calculation of 2021 Shortfall

Member Agency	2021 Net Revenues	2021 Approved Recology Compensation	Adjustments	2021 Surplus (Shortfall)
Belmont ^a	\$3,801,782	(\$3,801,782)	\$0	\$0
Burlingame	\$6,045,816	(\$6,417,246)	\$0	(\$371,430)
East Palo Alto	\$2,641,185	(\$2,782,697)	(\$57,124)	(\$84,388)
Foster City	\$3,834,254	(\$3,961,352)	(\$148,378)	\$21,280
Hillsborough	\$1,952,055	(\$2,049,577)	(\$307,175)	\$209,653
Menlo Park	\$6,384,990	(\$6,894,201)	(\$309,418)	(\$199,793)
North Fair Oaks	\$2,037,295	(\$2,023,225)	(\$186,576)	\$200,646
Redwood City	\$11,853,384	(\$11,701,064)	(\$117,943)	\$270,263
San Carlos	\$5,643,219	(\$5,906,082)	(\$163,382)	(\$99,481)
San Mateo	\$12,774,139	(\$14,629,993)	(\$1,382,278)	(\$473,576)
West Bay Sanitary	\$1,176,328	(\$1,107,810)	(\$136,383)	\$204,901
Unincorporated County	\$2,359,596	(\$2,471,697)	(\$421,171)	\$309,070
Total	\$60,504,043	(\$63,746,726)	(\$3,229,828)	(\$12,855)

*The 2021 Surplus/(Shortfall) is the difference between the Net Revenues Billed and the Approved Contractors Compensation plus the 2019 Adjusted (Surplus)/Shortfall included in the Rate Year 2021 Compensation Application but not billed under current year.

ANNUAL REPORT AUDIT OF SBR

Review of Inbound and Outbound Tonnage Data

The objectives of this task were to verify:

- Verifying SBR's reported data (from franchised services) is consistent with Recology's reports.
- Verifying all other SBR tonnage is also accurate.
- Sampling various tons reported for each Member Agency and verify the amounts tie to the supporting documents.
- Verifying liquidated damages payments have been properly calculated in accordance with the Operating Agreement and tie to the reported events:
- Requesting explanations for any discrepancies.
- Verifying and explaining SBR's procedures to identify and report events which would trigger liquidated damages.

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. SBR further tracks inbound tonnages for several subcategories of materials in separate tabs of the Inbound Summary Report within the Member Agency data.

1. Franchised Inbound (Recology)
2. Member Agency
 - 2.1. Vehicles for
 - a. Municipal Solid Waste
 - b. MRF Recycling Materials
 - c. Green Waste/Organics
 - d. Inerts/C&D
 - e. Other Recyclables.
 - 2.2. Transfer Station & Third-Party
 - a. Self-Haul Solid Waste
 - b. MRF Residue
 - c. Transfer Station & Other Recycling
 - d. Self-Haul Green Waste
 - e. Self-Haul Inert/C&D.
3. Recology Maintenance Box Trucks
4. Self-Haul Tons (SBR Shop Box)
5. Buyback & Drop-Off
6. South Bay Internal (SBR MRF Residue)
7. Non-Franchised.

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. The exception is that self-haul tons (other than self-haul C&D and inerts), are not weighed and are charged based on estimated volume and

material type. Customers on account are charged by the ton. 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.

Inbound Inert/Self-Haul Solid Waste 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”.

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

This incoming vehicle data is tracked in SBR’s PC Scale Data entry system. 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 (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.

Comparison of Recology Tons to SBR Tons

RRS compared SBR’s monthly data from franchise services, as reported in SBR’s June 2021 (Tab 2; Inbound Summary Report and Annual Report) to the monthly data reported by Recology in its monthly tonnage reports as reported in its Tonnage Summary and Cumulative Comparison worksheets, including the supporting data sheets contained in RSMC Annual Reports for 2021 part 1. The detail sheets included in the detail sheets for Solid Waste, Targeted Recyclables and Organic Materials. RRS verified the data in SBRs Monthly Inbound Summary Report was derived from the Tab AA PC Scale Data Entry for all categories that SBR tracks for the major categories of Inbound Tons and the Inbound Detail Report.

RRS verified that the inbound MSW reported by SBR was equal to the RSMC data after deducting the weight of the batteries that were reported. The tonnage for the batteries was transferred to the inbound recyclable tonnage.

The SBR reported recyclable tonnage includes single stream recyclables, clean OCC, Bulky Items, other scrap, Appliances, Mattress C/D, Concrete, Tires, and Dirt. RRS verified that the SBR reported tonnage and the RSMC reported tonnage were equal.

The final category for comparison is for the collected Organics. The SBR Monthly Inbound Summary Report includes curbside defined organics, wood, food waste and other green waste. Most food waste reported by RSMA is included in the organic curbside material whereas SBR breaks out the foodwaste. The RSMC data was adjusted to correct a discrepancy resulting from a duplicate ticket for green waste resulting a reduction of 5.85 tons for a final total of 27,460.5 tons. RRS verified that the SBR reported tonnage and the RSMC reported tonnage were equal.

Table 6: Adjusted Totals (June 2021)

	BIC	DIRT	FOOD	GREEN	Tires	MSW	ORG	WOOD	OCC	REC	APP, C&D	SCRAP	Total
RSMC	22.5	209.9	159.1	325.4	2.5	13,863	7072.1	6.57	89.7	5,705	3.3	3.8	27,460.5
SBR	22.5	209.9	1,034.2	325.4	2.5	13,863	6194.0	6.57	89.7	5,705	3.3	3.8	27,460.5
Diff	0.00	0.00	(878.1)	0.0	0.0	0.0	878.1	0.0	0.0	0.0	0.0	0.0	0.0

The following table summarizes the quantity of material for both SBR and RSMC for June 2021.

Table 7: Quantity of Material for both SBR and RSMC

	MSW	Organics	Recyclable	Totals
RSMC Reported Data	13,863.04	7,566.06	6,037.27	27,466.37
Adjust - MSW Battery tonnage reclass to REC	(3.93)		3.93	
Adjust - Organics Void duplicate ticket		(5.85)	0.00	(5.85)
TOTAL	13,859.11	7,560.21	6,041.20	27,460.52

RRS used this same methodology to compare the Annual Data Summaries. RRS verified that the SBR reported tonnage and the RSMC reported tonnage were equal.

Table 8: Recology Reported Data Compared to the SBR Tab 2 Inbound Summary Report of the SBR Monthly Report

Categories of Inbound Tons	Verified	Adjustment Required
1. Franchised Inbound Tons (Recology)	X	None
2. Member Agency	X	None
2.1. Vehicles Tons for:	X	None
a. Municipal Solid Waste	X	None
b. MRF Recycling Materials	X	None
c. Green Waste/Organics	X	None
d. Inerts/C&D	X	None
e. Other Recyclables.	X	None
2.2. Transfer Station & Third-Party Tonnages	X	None
a. Self-Haul Solid Waste	X	None
b. MRF Residue	X	None
c. Transfer Station & Other Recycling	X	None
d. Self-Haul Green Waste	X	None
e. Self-Haul Inert/C&D.	X	None
3. Recology Maintenance Box Trucks	X	None
4. Self-Haul Tons (SBR Shop Box)	X	None
5. Buyback & Drop-Off Tons	X	None

Inbound Member Agency Tonnage

For the scale reports, RRS verified the overall Member Agency reported tonnages for each of the following categories to the PC Scales Data Entry Form in the Monthly Report, Tab AA. We did not find any discrepancies that required adjustments.

Table 9: Verified Findings

Categories of Inbound Tons	Verified	Adjustment Required
Franchised Inbound Tons (Recology)	X	None
Member Agency Tons	X	None
Transfer Station & Third-Party Tonnages	X	None
Self-Haul Solid Waste	X	None
MRF Residue	X	None
Transfer Station & Other Recycling	X	None
Self-Haul Green Waste	X	None
Self-Haul Inert/C&D.	X	None
Outbound Tonnages	X	None

Outbound Tonnages

RRS verified the yearly tonnage totals for outbound materials and commodities to PC Scales tonnage reports provided by SBR and verified the monthly tons for one sample month (June) to the PC Scales reports provided by SBR. No adjustments are necessary.

Net Balance of Inbound and Outbound Tonnages

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 10, below, provides a comparison of the total tons diverted and disposed as reported by Recology to those reported by SBR.

Table 10: 2021 Comparison of Recology and SBR Monthly Tonnages

Month	Tons Disposed (MSW - Self Haul)				Tons Diverted			
	Recology Report	SBR Report	Variance		Recology Report	SBR Report	Variance	
			(Recology vs. SBR)				(Recology vs. SBR)	
			Tons	%			Tons	%
January	12,699.22	12,700.47	-1.25	-0.01%	13,547.78	13,553.65	-5.87	-0.04%
February	12,412.50	12,412.50	0.00	0.00%	12,160.37	12,160.37	0.00	0.00%
March	13,988.05	13,988.05	0.00	0.00%	13,731.80	13,731.80	0.00	0.00%
April	13,363.43	13,363.43	0.00	0.00%	13,350.63	13,350.63	0.00	0.00%
May	13,163.79	13,166.19	-2.40	-0.02%	13,220.69	13,220.69	0.00	0.00%
June	13,859.11	13,859.11	0.00	0.00%	13,601.41	13,601.41	0.00	0.00%
July	13,600.56	13,600.67	-0.11	0.00%	13,014.86	13,013.93	0.93	0.01%
August	13,730.58	13,730.14	0.44	0.00%	13,193.32	13,193.06	0.26	0.00%
September	13,478.92	13,477.99	0.93	0.01%	13,019.37	13,018.79	0.58	0.00%
October	13,307.73	13,307.73	0.00	0.00%	13,635.54	13,635.54	0.00	0.00%
November	14,334.20	14,334.20	0.00	0.00%	15,284.64	15,284.37	0.27	0.00%
December	15,000.87	15,004.50	-3.63	-0.02%	16,100.87	16,096.62	4.25	0.03%
2021 Total	162,938.96	162,944.98	-6.02	0.00%	163,861.28	163,860.86	0.42	0.00%
Prior Years Data as reported in previous Audit Reports by R3								
2020 Total	163,684.98	163,680.86	4.12	0.00%	176,488.83	176,492.02	-3.19	0.00%
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	-27.5	-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 2021 / M1. Tonnage Summary
 Source: SBR's 2021 December Report; Attachment A; Shoreway Center Inbound Detail Report

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.

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 2021 Monthly Reports (Tab 7: Liquidated Damages Report) included no reported instance of service issues that would trigger the payment of Liquidated Damages. RRS verified that SBR includes the reportable damages (Tab 7 of the SBR December Monthly Report per its Operating Agreement (Attachment 10).

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.

Completeness of Report

Appendix B includes the findings of our review of the completeness of SBR's 2021 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:

- 1) 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 annual reports.

FINANCIAL SYSTEMS AUDIT OF SBR

The Shoreway Environmental Center (Shoreway), which is owned by SBWMA and operated by South Bay Recycling, LLC (SBR), is a cutting-edge recycling and transfer station facility located in San Carlos. SBR was selected as the facility operator in 2009 and is paid on a fee per ton basis for three services: processing materials at the Transfer Station (TS), processing materials at the Materials Recovery Facility (MRF) and transporting materials to the disposal and processing facilities. SBR also provides a free drop-off site for scrap metal, batteries, used motor oil, latex paint, and other materials.

The Annual Report is reviewed for completeness, accuracy. RRS reviewed the data and verified the reported 2021 self-haul revenues, commodity revenues, Shoreway buyback center payments against SBR's "PC Scales" tracking system, and other supporting documentation. Mathematical accuracy and logical consistency of the company's reported values were also reviewed.

Public Self-Haul Revenue

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. SBR's PC Scales (in the form of SEC Gate Revenue Reports) reported values directly tied to GL records of wire transfers to SBWMA. RRS did not confirmed that SBR's EFTs for self-haul revenue matched the amounts in PC Scales and SBWMA's tracking of wire payments received. SBR's "Customer/Material" PC Scales reports for "Third Party Customers Only" were compared with SBR's monthly remittance statement to SBWMA to verify the accuracy of 2021 self-haul revenue transferred to SBWMA were verified. No adjustments are necessary.

Commodity Revenue

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 monthly material sales basis to benchmark SBR's performance.

RRS reviewed PC Scales reports detailing outbound recyclable materials minus losses from contamination, to compare the recorded tonnage and revenue to the corresponding amounts in the December 2021 monthly report. RRS verified that the gross 2021 commodity revenue as reported on SBR's 2021 December monthly report ties to accounting records.

The 2021 commodity tonnage as reported in SBR's 2021 December monthly report matches monthly PC Scales "Outbound Recyclables Material Summary" reports. No adjustments are necessary.

Shoreway Buyback Center Payments

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. In addition there were small quantities of drop off materials received which were deducted from the inbound totals used in the Commodity Revenue Report. As such, in 2021 SBWMA had no reimbursements to SBR, as the only a few tons of OCC are listed as being received in Sept., Nov, and December totaling 18.6 tons with no associated charge.

SBR did not make any Buyback Center payments in 2021 due to the closure of the Buyback Center. No adjustments are necessary.

CRV Payments

The review and verification that the payments to SBWMA for CRV are being properly calculated included a comparison of CalRecycle's posted information for January, May, and October 2021 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.

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.

The difference between SBR's estimates of CRV payments and the number of payments 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.

SBR correctly reported CRV payments tie back to CalRecycle data. No adjustments are necessary.

APPENDIX A: RECOLOGY ANNUAL REPORTS (ARTICLE 9.07)

Report Requirements	Submitted in Reports
9.07 Annual reports shall present the information described in this Section in addition to the information required for quarterly reports pursuant to Section 9.05.	
9.07.A Operational Information	
9.07.A.1 Routes by Service Sector	
9.07.A.1.a Number of routes per day	Yes
APPENDIX B	Yes
9.07.A.1.c Crew size per route	Yes
9.07.A.1.e Number of full-time equivalent routes	Yes
9.07.A.1.f Number of accounts per route	Yes
9.07.A.1.g Total hours per Service Sector per Day and per year	Yes
9.07.A.1.h Average cost per route	Yes
9.07.A.1.i Route sheets and maps	Yes
9.07.A.2 Personnel	see subsections below
9.07.A.2.a Organizational chart	Yes
9.07.A.2.b Job classifications and number of full-time equivalent positions for each (e.g. administrative, customer service representatives, drivers, supervisors, educational staff, etc.)	Yes
9.07.A.2.c Annual wages by job classification including benefits	Yes
9.07.A.3 Productivity Statistics	see subsections below
9.07.A.3.a Number of accounts per Service Sector	Yes
9.07.A.3.b Number of set-outs per Service Sector	Yes
9.07.A.3.c Tons per route per Day by Service Sector	Yes

Report Requirements	Submitted in Reports
9.07.A.4 Operational Changes	see subsections below
9.07.A.4.a Number of routes	Yes
9.07.A.4.b Staffing	Yes
9.07.A.4.c Supervision	Yes
9.07.A.4.d Collection Services	Yes
9.07.A.5 Equipment - An inventory of equipment in accordance with Section 8.04.D.	No
9.07.A.6 Billing - Billing review report in accordance with Section 7.01.F.	Yes
9.07.B Customer Account Information. As part of the annual reporting requirement, Contractor shall make available to Agency detailed Customer account information in tabular format and in electronic format (in computer software format that is compatible with the Agency's) including the following information for each Customer: account number; service address; assessor parcel number for Accounts agreed to by Contractor and Agency; Customer's name, address, and phone number; Billing contact name, Billing address, and phone number; Solid Waste, Targeted Recyclable Materials, and Organic Materials Collection service level (i.e., number of Containers, size of Containers, frequency of Collection, and Day(s) of Collection), and Rate charged. For Multi-Family Customers, the Customer account information shall also include the number of dwelling units at each Multi-Family Residential Complex.	No
9.07.C Customer Service Operations. Contractor shall annually prepare and submit, to Agency and SBWMA, a Customer Service Operations Plan that shall include, at a minimum, the following sections:	see subsections below
9.07.C.1 Customer Service Call Center	see subsections below
9.07.C.1.a Provide the number of CSR supervisory staff and describe their responsibilities.	Yes
9.07.C.1.b Contractor must describe its training strategy for CSR's and CSR supervisory staff.	Yes
9.07.C.1.c Contractor must describe its strategy and overall approach to attracting and retaining a high quality CSR staff.	Yes
Recology Annual Reports (Article 9.07)	

Report Requirements	Submitted in Reports
9.07.C.2 Website	see subsections below
9.07.C.2.a Number of on-line payments made	Yes
9.07.C.2.b Number of On-Call Collection Services scheduled	Yes
9.07.C.2.c Number of On-Call Bulky Goods Collections scheduled	Yes
9.07.C.2.d Number of extra Solid Waste pick-ups scheduled	Yes
9.07.C.2.e Number of service changes requested	Yes
9.07.C.2.f Number of Complaints documented and resolved	Yes
9.07.C.3 Customer Information System	see subsections below
9.07.C.3.a Status of any changes or upgrades made to system software	Yes
9.07.C.3.b Description of proposed changes to system software	Yes
9.07.C.3.c Explanation and schedule of training activities	Yes
9.07.C.4 Staffing	Yes
9.07.C.5 Commercial customer service	Yes
9.07.D Related Party Entities. Contractor agrees that all financial transactions with all Related Party Entities shall be approved in advance in writing and disclosed annually (coinciding with Contractor's annual audited financial statements referred to in this Section 9.07) to the Agency in a separate disclosure letter to the Agency. This letter shall include the following information: a general description of the nature of each transaction, or type of (for many similar) transaction, as applicable. Such description shall include for each (or similar) transaction, amounts, specific Related Party Entity, basis of amount (how amount was determined), and description of the allocation methodology used to allocate any common costs. Amounts shall be reconciled to the Related Party Entity disclosures made in Contractor's annual audited financial statements referred to in this Section. At the Agency's request, Contractor shall provide the Agency with copies of working papers or other documentation deemed relevant by the Agency relating to information shown in the annual disclosure letter. The annual disclosure letter shall be provided to the Agency within sixty (60) Business Days of Contractor's Fiscal Year end.	Yes
9.07.E Contractor's Review of Billings. Pursuant to the requirements described in Section 7.01.F, Contractor shall submit a report on its review of Billings.	Yes

Report Requirements	Submitted in Reports
<p>9.07.F Determination and Payment of Liquidated Damages. In accordance with the requirements of subsections 14.07 and 11.07.D, Contractor shall provide with its annual report, a report that identifies any non-compliance with performance standards listed in Attachment J and includes calculation of the Liquidated Damages due. This report shall be accompanied by supporting documentation identifying Contractor's compliance or non-compliance with the specified performance standards. The report submittal shall be accompanied by a check from Contractor in the amount of the Liquidated Damages due (per Contractor's calculation and self-reporting) for the reporting period.</p>	Yes
<p>9.07.G Determination and Payment of Performance Incentives and Disincentives. In accordance with the requirements of subsection 11.07, Contractor shall provide with its annual report, a report that identifies compliance with the performance standards listed in Attachment I and includes calculation of the Performance Incentive payments and disincentive assessments due. Performance incentives (in the form of increased compensation to Contractor) will be awarded by Agency for excellent performance on aspects of Solid Waste diversion, Collection service delivery and customer service as specified in Attachment I. Performance disincentives will be assessed by Agency for substandard performance on aspects of Solid Waste diversion, Collection service delivery and customer service specified in Attachment I.</p> <p>Payment related to Performance Incentives and Disincentives, other than those related to Contamination, are to be included in Contractor's annual Rate Application and Contractor's Compensation for the next Rate Year will be increased or decreased by the net amount of Performance Incentive payments and Disincentive assessments calculated. Performance Incentives and Disincentives shall be calculated as specified in Section 9.06.P.</p>	Yes

APPENDIX B: SBR QUARTERLY REPORTS (ARTICLE 9.05)

Report Requirements	Submitted in Reports
9.05 The information listed below and in Attachment 15 shall be the minimum reported for each service. The report format will be developed jointly by Contractor and Authority and include the following:	
9.05.A Member Agency Tons. Weight and volume of all materials (by material type) entering the Shoreway Center from Member Agencies;	Yes
9.05.B Inbound Tonnage. Weight and volume of Solid Waste, Organic Materials, and Recyclable Materials (by material type) entering the Shoreway Center by the hauler type (Collection Contractor(s), commercial haulers, self haul, public, and other) (by	Yes
9.05.C Outbound Tonnage. Weight and volume of all Solid Waste, Organics Materials, Recyclable Materials (by material type) leaving the Shoreway Center;	Yes
9.05.D On-Site Tonnage. Weight and volume of all materials moving between the buildings and operations on the Shoreway Center site (e.g. between the MRF building, Transfer Station building and Buyback center) (by material type);	Yes
9.05.E Mass Balance. Mass balance accounting of all materials that enter and leave the Shoreway Center so that all inbound tons equal outbound / shipped materials less inventory (by material type);	Yes
9.05.E.1 Diversion and Residue. The percentage of materials diverted by material type, category (Residential, Commercial, Self haul) and operation (MRF, Transfer Station, Bunker Program, Buyback/drop off center and other), and residual from MRF	Yes
9.05.E.2 Destination Facilities. Location to which all Solid Waste, Organics Materials, and Recyclable Materials, received by the Facilities was delivered for transfer, processing, sale, ultimate use or disposal;	Yes
9.05.E.3 Commodity Values. Recyclable Materials commodity sales value (by material type);	Yes
9.05.E.4 Changes. Changes to facilities, equipment and personnel used;	Partial
9.05.E.5 Operational Changes. Changes to facilities and equipment operations, maintenance and repair;	
9.05.E.6 Accident Reporting. Reporting incidence of accidents involving either employees or customers of the facilities;	Yes
9.05.E.7 Hazardous Spills Reporting. Documentation of hazardous spills and removals shipment, and ship manifesting;	No
9.05.E.8 Other information or reports that the Authority may reasonably request or require.	

<p>9.05.F Determination and Payment of Liquidated Damages. Contractor shall provide a report that identifies any non-compliance with performance measures listed in Attachment 10 (except for compliance with standards which shall be reported as part of the Contractor's annual report) and include calculation of the Liquidated Damages due. This report shall be accompanied by supporting documentation identifying either compliance with or level of non-compliance with the performance measures. The report submittal shall be accompanied by a check from the Contractor in the amount of the Liquidated Damages due (per Contractor's calculation and self</p>	<p>Yes</p>
<p>9.05.G Programs. For each program, provide activity-related and narrative reports on goals, milestones, and accomplishments. Contractor shall describe problems encountered, actions taken and any recommendations to facilitate progress.</p>	<p>Partial</p>
<p>9.05.H Summary Assessment. Contractor shall provide a summary assessment of the overall materials handling systems from Contractor's perspective relative to financial and physical status of the Shoreway Center. Contractor shall assess how well the program is operating in terms of efficiency, economy and effectiveness relative to meeting all the goals and objectives of this Agreement. Contractor shall provide recommendations and plans to improve operations, which highlight significant accomplishments and problems. Contractor shall document changes on a monthly basis and include monthly documentation in the quarterly reporting.</p>	<p>Partial</p>
<p>9.05.I Meet and Confer with Authority. Beginning on the Commencement Date, and on a quarterly basis thereafter, Contractor shall meet with the Authority to describe the services performed at the Shoreway Center and the progress of each active Diversion Program. Contractor shall document the results of the programs on a monthly basis, including the tonnage diverted by material type, the end use or processor of the diverted materials and the cost per ton for transporting and processing each type of material and other such information requested by the Authority necessary to</p>	
<p>9.05.J Addition and Changes to Programs. The Authority shall have the right to terminate a program if in its sole discretion the Contractor is not cost effectively achieving the program's goals and objectives. Prior to such termination, the Authority shall meet and confer with Contractor for a period of up to 90 days to resolve the Authority's concerns. Thereafter, the Authority may utilize a third party to perform these services if the Authority reasonably believes the third party can improve on Contractor's performance and/or cost. Notwithstanding these changes, Contractor shall continue the program during the meet and confer period and, thereafter, until</p>	

Report Requirements	Submitted in Reports?
<p>9.06 Annual Report. The Annual Report shall be in the form of the Quarterly Reports and shall provide the same type of information as required pursuant to Section 9.05 summarized for the preceding four quarters. The Annual Report shall also include a complete inventory of equipment used to provide all services, and a list of Contractor's personnel used to operate the Shoreway Center.</p>	<p>Yes</p>