

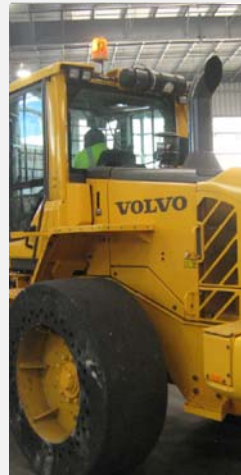


CONSULTING GROUP, INC.

RESOURCES. RESPECT. RESPONSIBILITY.

FINAL REPORT FOR:

2014 Financial Systems Review



SUBMITTED TO:

SBWMA/RethinkWaste

Revised June 10, 2015

Final Report Submitted Digitally



Table of Contents

Table of Contents

Section 1: Introduction 1

Background..... 1

Work Scope 1

Section 2: Recology Financial Systems Review 2

Review of 2014 Revenue Reconciliation..... 2

Attachment Q Revenues..... 9

Section 3: SBR Financial Systems Review 12

Verification of Public Revenue 12

Verification of Commodity Revenue 13

Verification of SEC Buyback Center Payments..... 13

Review of Scale House Procedures..... 13

Test of Weight Tickets..... 17

Section 4: Status of 2013 Recommendations 19

Evaluate Accuracy of Recology Data (HF&H Section 2, Page 3)..... 19

Evaluate SBR Financial Reporting (HF&H Section 3, Page 11) 19

Vehicle Tare Weights: Recology & SBR Trucks (HFH Section 4, Page 18)..... 20

Section 5: New Recommendations 21

Tables

1 **Verification of Gross Billed Revenue by Member Agency**..... 4

2 **Verification of Surplus (Shortfall) Calculations** 9

3 **2014 Attachment Q, Backyard Services and Additional Cart Revenues** 10

R3

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Table of
Contents

R3

TOC - ii

Introduction

Background

The South Bayside Waste Management Authority (RethinkWaste) is a joint powers authority of twelve Member Agencies (Atherton, Belmont, Burlingame, East Palo Alto, Foster City, Hillsborough, Menlo Park, Redwood City, San Carlos, San Mateo, unincorporated sections of the County of San Mateo and the West Bay Sanitary District) in San Mateo County.

The twelve RethinkWaste Member Agencies have exclusive franchise agreements with Recology San Mateo County (Recology) for the collection of solid waste, recyclable materials and organic materials. Recology provides collection services to approximately 93,000 households and 9,000 businesses in the RethinkWaste service area. Recology submits an annual Revenue Reconciliation report to RethinkWaste 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 RethinkWaste.

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

RethinkWaste annually contracts with independent parties to confirm the legitimacy and accuracy of financial information provided by Recology and SBR.

Work Scope

RethinkWaste retained R3 Consulting Group (R3) to review, test and verify:

- The accuracy of the information contained in Recology's annual Revenue Reconciliation, including revenues associated with unscheduled and intermittent services per Attachment Q to Recology's franchise agreement(s); and
- The accuracy of SBR's financial systems for tracking, calculating, and reporting payments due to or from RethinkWaste.

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 RethinkWaste. This work did not include an audit of financial statements, nor does it represent a thorough review of finance and accounting systems.

The logo for R3 Consulting Group, consisting of the letters 'R3' in a large, blue, stylized font.

Section 2

Recology
Financial
Systems
Review

Recology Financial Systems Review

The objective of this task was to determine if (1) the annual Revenue Reconciliation and (2) revenues for unscheduled and intermittent services (Attachment Q) are complete, logically consistent, mathematically accurate, and validated via supporting documentation.

Review of 2014 Revenue Reconciliation

The objective of this sub-task was to determine whether Recology had accurately calculated each Member Agency's revenue surplus/shortfall for its franchised services as represented in the 2014 Revenue Reconciliation.

In completing this task, R3 verified that:

- **Verification of Gross Revenue Billed** – Gross revenues reported in the Revenue Reconciliation by Member Agency and in total tie to accounting records;
- **Verification of Rates by Member Agency** – Recology's billings are consistent with the approved rate schedules;
- **Verification of Pass-Through Costs** – Pass-through costs including disposal and processing costs and Member Agency fees are accurately calculated by Member Agency;
- **Verification of Net Revenue Calculation** – Net revenues and adjustments are supported and accurately calculated;
- **Verification of Contractor's Compensation** – Recology's annual compensation ties to RethinkWaste's approved compensation for each Member Agency; and
- **Verification of Surplus (Shortfall) Calculations** – Surplus (shortfall) calculations are accurately calculated.

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 Revenue Reconciliation, R3 reviewed and validated all adjustments in the Reconciliation (to the extent feasible given available information). Each set of adjustments is described and explained as appropriate in the sections below.

Verification of Gross Revenue Billed

Verifying gross billed revenue as reported in the annual Revenue Reconciliation is the first element in calculating each Member Agency's surplus/shortfall balance owed to/from Recology. Recology bills and collects payment for services from residential, commercial and industrial accounts for most RethinkWaste Member Agencies; East Palo Alto and Redwood City directly bill for 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. Total billed revenue reported for 2014 was \$99,833,513.

In order to verify the accuracy of gross revenues billed in the Revenue Reconciliation, R3 reviewed revenues from residential and commercial customers reported in the Revenue Reconciliation to Recology's system-generated GL report detailing revenues for each Member Agency. R3 also tested Recology's reports of total billings to ensure that revenue and gross billing tied to Recology's accounting records. R3 then reviewed and confirmed the values of Recology's adjustments to revenues including:

- Revenue adjustments, which represent reductions to Recology's gross billed revenues in an amount equal to the following adjustments:
 - 2014 revenue adjustments, which represent the timing difference between the quarterly amounts billed by Recology and the actual services provided for the calendar year;
 - 2013 incentive/disincentive payments owed to/from Recology as approved by RethinkWaste in 2014¹; and
 - Payment to/from Recology for the RethinkWaste approved 2012 surplus (shortfall).
- Reduction for all late fees, which are not Member Agency revenue but are retained by Recology;
- Additions to Member Agency revenue for rate stabilization fees for Belmont (\$70,892), Burlingame (\$177,411) and West Bay (\$14,224) which are billed by Recology but not booked to revenue;
- An increase to East Palo Alto's billed revenue to account for tax roll billing that was not booked as revenue by Recology (\$40,646);
- A reconciliation item for the difference between what Recology booked as Hillsborough's 2011 shortfall (\$557,071) and what was actually billed to make up for that shortfall in 2012 and 2013 (\$653,767). Billings for this shortfall exceed the actual shortfall by \$96,696 and this amount was recorded as booked revenue in 2014; this amount is treated as a reconciling item because it was billed in 2013²; and
- An increase to San Carlos's revenue to account for compactor revenue that was not booked as revenue by Recology (\$3,776).

Applying these adjustments to the revenues by Member Agency as reported in the GL yields gross billed revenue as demonstrated in Table 1, on the following page.

¹ R3 also reviewed timeline records of when incentives/disincentives are calculated and earned vs. when they are added to/deducted from Recology's compensation, and found the methodology to be appropriate and sound. The incentives/disincentives are booked by Recology in the year following when they are earned (e.g., 2015 for the 2014 incentives/disincentives). Then they are added to/deducted from Recology's compensation in the year after they are booked (e.g. 2016 for the 2014 incentives/disincentives).

² In the Revenue Reconciliation Recology calculates billed revenues as a function of booked revenues; because booked revenues *include* the \$96,696 in additional shortfall revenues from Hillsborough, this amount is backed out of the billings figures because it was not billed in 2014.

R3

Section 2

Recology
Financial
Systems
Review

Table 1 Verification of Gross Billed Revenue by Member Agency				
Member Agency	2014 Booked Revenue per GL	Total Adjustments	Gross Billed Revenue Per Accounting Records	Gross Billed Revenues per Revenue Reconciliation
Atherton	3,171,510	-	3,171,510	3,171,510
Belmont	7,018,258	64,451	7,082,709	7,082,709
Burlingame	10,675,441	167,898	10,843,339	10,843,338
East Palo Alto	4,670,448	38,785	4,709,232	4,709,232
Foster City	5,098,546	-	5,098,546	5,098,547
Hillsborough	3,306,913	(98,528)	3,208,385	3,208,385
Menlo Park	10,275,425	(41,366)	10,234,059	10,234,059
North Fair Oaks	2,683,277	(233)	2,683,044	2,683,045
Redwood City	18,105,130	-	18,105,130	18,105,131
San Carlos	8,238,309	(8,230)	8,230,079	8,230,079
San Mateo	21,740,841	-	21,740,841	21,740,840
West Bay	1,504,676	14,224	1,518,900	1,518,900
Unincorp. County	3,211,422	(3,682)	3,207,739	3,207,739
Total	99,700,195	133,318	99,833,514	99,833,514

Findings:

Revenues stated in the Revenue Reconciliation tie directly to Recology's accounting records. It should be noted that the GL accounting records included corrections to booked revenues in the amounts of \$225 from Atherton to Burlingame, \$18,250 from Hillsborough to Redwood City, and \$97 from Menlo Park to the County. For Atherton/Burlingame and Menlo Park/County, these adjustments were due to a few accounts that were inadvertently booked to the wrong Member Agency, and for Hillsborough/Redwood City, it was a GL batch that was initially coded to the wrong Member Agency. **No adjustment is necessary.**

All adjustments to revenues are logical and documented, and the sum of revenues and all adjustments ties directly to gross revenues billed in the Revenue Reconciliation, with the exception that the Revenue reconciliation lists Hillsborough's 2011 timing adjustment as -\$96,691 while Recology's supporting documentation shows it as -\$96,696 (\$5 less than the Revenue Reconciliation). Because of the miniscule scale of this difference, R3 finds that **no adjustment is necessary.**

Verification of Rates by Member Agency

To verify Recology properly billed customers in accordance with the approved rate schedules by Member Agency, R3 randomly selected 40 customers (two each from

R3

commercial and residential for each Member Agency that Recology bills). These residential and commercial account listings provided by Recology did not include Redwood City and East Palo Alto because they each perform their own billing, but they did include at least two from the additional Member Agencies. R3 compared these randomly selected accounts to the approved rate schedules also provided by Recology.

Findings:

All reviewed rates were consistent with the approved rate schedules. **No adjustment is necessary.**

Verification of Pass-Through Costs

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

Disposal and Processing Expenses:

R3 reviewed the annual Revenue Reconciliation 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 RethinkWaste, R3 calculated annual disposal and processing costs by Member Agency and compared the results to the Revenue Reconciliation. This included verifying calculations for disposal and processing of municipal solid waste (MSW), organics processing, minor adjustments to tonnage allocations and costs, and disposal and processing rates per ton.

Member Agency Fees:

In order to ensure that Recology properly calculated and paid Member Agency fees, R3 requested documentation 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, calculations detailing the basis for payment of all Member Agency fees in 2014, and supporting documentation from each Member Agency regarding 2014 fees.

R3 analyzed the information provided by Recology to verify that Recology properly calculated each Member Agency fee. This included recalculating all fees based on revenue information included in the Revenue Reconciliation. R3 also requested a sampling of Member Agency fee remittances to Member Agencies to ensure that Recology is paying the properly calculated fees to Member Agencies.

R3 identified small variances between the revenue figures included in the Revenue Reconciliation and the revenue figures used as the basis for Recology's calculations of fees for most Member Agencies. The variances, and the corresponding variance to Member Agency fees, are as follows:

- Belmont – \$8 variance in revenues and \$2 variance in fees;
- Burlingame – \$39 variance in revenues and \$5 variance in fees;
- Hillsborough – \$9 variance in revenues and \$1 variance in fees;

Section 2

Recology
Financial
Systems
Review

- Menlo Park – \$390 variance in revenues and \$51 variance in fees;
- San Mateo – \$262 variance in revenues and \$10 variance in fees;
- West Bay – \$48 variance in revenues and \$3 variance in fees; and
- Unincorporated County – \$68 variance in revenues and \$3 variance in fees.

Upon investigation with Recology, R3 determined that these variances are the result of Member Agency fees being calculated and paid monthly, whereas the Revenue Reconciliation is completed at the end of the year. Recology researches the cause of these variances annually; after some effort, small difference that cannot be identified remain as variances.

R3 also identified larger variances in the gross revenue figures used to calculate Member Agency fees for the East Palo Alto and Redwood City, as compared to the Revenue Reconciliation. These are the two member agencies that conduct their own billing, and the variances in gross revenue figures used for calculating the Member Agency fees are particular to each city, and are discussed in the findings below.

Finally, R3 also identified that Recology made adjustments to Member Agency fees for the following cities:

- Belmont – decrease in booked Member Agency fees of \$75,915;
- East Palo Alto – increase in Member Agency fees of \$1,696; and
- Redwood City – decrease in Member Agency fees of \$20,005.

Findings:

Disposal and processing expenses represented as pass-through costs in the Revenue Reconciliation by Member Agency are accurate and calculated properly. **No adjustment is necessary.**

Member Agency fees represented in the Revenue Reconciliation rely on gross revenue figures that, in some cases, do not match gross revenues reported in the Revenue Reconciliation as a result of Member Agency fees being calculated and paid monthly and the Revenue Reconciliation being calculated annually. Except for East Palo Alto and Redwood City, these variances are negligible as they represent less than 0.003% of Member Agency Fee revenues. **No adjustment is necessary.**

For East Palo Alto, the Revenue Reconciliation shows \$18,288 less in residential revenues and \$18,288 more in commercial revenues than Recology used to calculate East Palo Alto's fees. R3 discussed these differences with Recology, and determined that the difference was the result of commercial billing adjustments that were booked to residential revenues in the GL, thereby incorrectly stating the amount of residential and commercial revenues. Recology correctly calculated East Palo Alto's fees based on billed revenues and **no adjustment is necessary.**

For Redwood City, the Revenue Reconciliation shows \$13,538 more in gross billings than Recology used to calculate Redwood City's fees. This is a result of a true-up process to account for unbilled revenue with the City. Recology provided documentation supporting this variance, and upon review R3 has determined that **no adjustment is necessary.**

R3

Recology provided supporting documentation for adjustments to fees for Belmont, East Palo Alto and Redwood City.

Belmont's -\$75,915 adjustment is part of a four-year true-up of \$303,660 that Recology booked as Belmont fee expenses in 2011, as per Recology's agreement with Belmont. R3's understanding is that, per the Recology-Belmont agreement (which was not subject to this review) Recology is decreasing booked Belmont fee expenses by \$75,915 per year from 2012 to 2015 in order account for \$303,660 in Belmont fees that were booked as expenses in 2011. Per Recology, the \$75,915 adjustment is only to booked Belmont fee expenses; actual fees paid to Belmont should be based on amounts billed, which per information provided by Recology during this review should have totaled \$1,906,003 in 2014 (including HHW fees paid to RethinkWaste and Belmont's rate stabilization fee). **R3 recommends that Belmont confirm the accuracy and appropriateness of this adjustment with Recology.**

East Palo Alto's \$1,696 adjustment is a true up of franchise fees due to understated debris box revenue in August 2013. Redwood City's total -\$20,005 adjustment is the result of billing adjustments made by the City (which does its own billing).

R3 reviewed Recology's documentation for these three adjustments and has determined that **no adjustment is necessary.**

Verification of Net Revenue Calculation

Net revenues in Recology's 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 revenue retained by Recology by recalculating these values and comparing them to Recology's Reconciliation, as summarized in Table 2 on page 9.

Findings:

R3 found no mathematical errors in Recology's calculation of net revenue. These impacts have been included in the Verification of Surplus (Shortfall) section, below. **No adjustment is necessary.**

Verification of Contractor's Compensation

In September 2013, the RethinkWaste Board approved Recology's 2014 compensation totaling \$57,600,916. Recology properly adjusted net compensation for Hillsborough, Menlo Park and San Carlos as a result of separately negotiated changes between Recology and each of these Member Agencies, including:

- Increase of \$23,919 in compensation from Menlo Park, to provide billing services;
- Decrease of \$6,303 in compensation from San Carlos for kitchen pails; and
- Decrease of \$32,502 in compensation from Hillsborough for used residential organic material containers.

Section 2

Recology
Financial
Systems
Review

The total value of these adjustments in 2014 was a net \$14,886 decrease in compensation owed to Recology. To verify the accuracy of compensation values listed in the Revenue Reconciliation, R3 compared those values to the Board-approved compensation values as adopted in 2013, less the adjustments noted above.

Findings:

R3 verified that the contractor's compensation figures listed by Member Agency in the 2014 Revenue Reconciliation directly ties to the approved compensation set by RethinkWaste. **No adjustment is necessary.**

Verification of Surplus (Shortfall) Calculations

The surplus (or shortfall) is the difference between the amounts owed to Recology per the approved 2014 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 determined via the annual Revenue Reconciliation will be added to or subtracted from Recology's compensation in subsequent rate cycles. In the Revenue Reconciliation, the surplus (amount owed to Member Agencies by Recology) or shortfall (amount owed to Recology by Member Agencies) is calculated as:

- 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.
- Less the total due to Recology for rate year 2014, which is the result of:
 - Recology's approved 2014 compensation; plus
 - Agency specific contract changes; plus
 - 2012 surplus (shortfall) values by Member Agency; plus
 - Interest on the surplus (shortfall) amounts calculated via an agreed upon methodology between Recology and RethinkWaste.

R3 verified Recology's calculations of surplus (shortfall) values in the Reconciliation by recalculating them and comparing the result to the Reconciliation, as summarized in Table 2, on the following page.

R3

Table 2 Verification of Surplus (Shortfall) Calculations						
Member Agency	Gross Billed Revenues from 2014 Revenue Reconciliation	Less 2014 Pass-Through Costs	Less 2014 Attachment Q Revenues	2014 Net Revenues	Total Due to Recology for 2014	2014 Surplus (Shortfall)
Atherton	3,171,510	(1,276,596)	(28,355)	1,866,559	970,623	895,936
Belmont	7,082,709	(3,152,451)	(76,581)	3,853,677	4,306,482	(452,805)
Burlingame	10,843,338	(4,863,078)	(96,060)	5,884,200	4,660,449	1,223,751
East Palo Alto	4,709,232	(2,295,616)	(57,139)	2,356,477	2,275,396	81,081
Foster City	5,098,547	(1,852,457)	(18,566)	3,227,524	3,383,394	(155,870)
Hillsborough	3,208,385	(1,008,214)	(9,784)	2,190,387	1,742,281	448,106
Menlo Park	10,230,283	(4,399,382)	(129,546)	5,701,355	5,877,794	(176,439)
North Fair Oaks	2,683,045	(905,524)	(32,404)	1,745,117	1,661,806	83,311
Redwood City	18,105,131	(7,460,839)	(112,591)	10,531,701	9,236,794	1,294,907
San Carlos	8,233,855	(2,817,730)	(95,039)	5,321,086	4,992,305	328,781
San Mateo	21,740,840	(8,442,520)	(331,476)	12,966,844	13,322,193	(355,349)
West Bay	1,518,900	(481,996)	(16,000)	1,020,904	988,359	32,545
Unincorp. County	3,207,739	(950,849)	(19,047)	2,237,843	2,381,445	(143,602)
Total	99,833,514	(39,907,252)	(1,022,588)	58,903,674	55,799,321	3,104,353

Findings:

R3 verified that Recology accurately calculated each Member Agency’s net surplus (or shortfall) for the franchised services provided by Recology in 2014. **No adjustment is necessary.**

Attachment Q Revenues

Section 11.03 of the Franchise Agreement provides for Recology to bill customers for unscheduled/intermittent services (outlined in Attachment Q of the Franchise Agreement). Recology does not charge Member Agencies for an allowed 20% of residential customers subscribing to backyard service.

The objectives of this sub-task:

- **Verification of Attachment Q Billings** – Determine if Recology charged appropriate rates for Attachment Q services, that the revenue reported for the Attachment Q services is accurate;
- **Explanation of Additional Cart Fees** – Explain how the additional cart fees charged by some agencies are reported; and

R3

Section 2

Recology
Financial
Systems
Review

- **Verification of Backyard Service Credit** – Verify that the credit for the first 20% of residential backyard service customers is accurately reported.

Verification of Attachment Q Billings

As described in Table 2 on page 6 above, Recology’s gross billed revenues are reduced by Recology’s cost to provide unscheduled and intermittent services per Attachment Q, for a total of \$1,022,588 reported in the Revenue Reconciliation.

To verify that the amount of Attachment Q reported revenues as billed by Member Agency in the Reconciliation is correct, R3 requested that Recology provide GL data pertaining to the Attachment Q services, Member Agency additional cart fees, residential backyard service fees and Member Agency fees on Attachment Q revenues. R3 reviewed the GL data and compared it to the information listed in the Revenue Reconciliation, as shown in Table 3 below:

Table 3 2014 Attachment Q, Backyard Services and Additional Cart Revenues					
Member Agency	Total Unscheduled Revenues Collected	Less Member Agency Extra Cart Fees	Less Residential Backyard Services	Less Agency Fees on Att. Q Revenues	Total Revenue Retained by Recology
Atherton	301,239	(241,014)	(29,035)	(2,836)	28,355
Belmont	106,883	-	(3,395)	(26,907)	76,581
Burlingame	117,277	-	(4,887)	(16,330)	96,059
E Palo Alto	57,236	-	-	(97)	57,139
Foster City	18,566	-	-	-	18,566
Hillsborough	180,017	(135,922)	(33,333)	(978)	9,784
Menlo Park	148,904	-	-	(19,358)	129,547
North Fair Oaks	39,957	(7,184)	(369)	-	32,404
Redwood City	112,591	-	-	-	112,591
San Carlos	108,065	-	(3,522)	(9,504)	95,040
San Mateo	351,724	-	(6,989)	(13,259)	331,475
West Bay	20,149	-	(4,149)	-	16,001
Unincorp. County	47,051	(24,670)	(3,335)	-	19,047
Total	1,609,659	(408,789)	(89,013)	(89,268)	1,022,589

Findings:

R3 confirmed that the amount of Attachment Q revenue reported as billed by each Member Agency ties to the accounting records for each different type of charge. R3 has identified no issues and has no concerns regarding how Attachment Q services are



calculated and reported by Recology for both the revenue calculation and the cost calculation. **No adjustment is necessary.**

Explanation of Additional Cart Fees

Fees for additional carts charged by Atherton, Hillsborough, and San Mateo County accrue to Gross Revenues. Revenues for these services are properly included in the reported gross billed revenues; these fees therefore accrue to the benefit of those Member Agencies. Attachment Q revenues, on the other hand, are paid to Recology to provide these services and therefore this revenue is deducted from gross billed revenues in the Revenue Reconciliation. Recology tracks additional cart fees in the same manner it tracks Attachment Q services. Prior to calculating Attachment Q revenue deductions in the Revenue Reconciliation, Recology ensures that additional cart fees are not counted in Attachment Q revenues.

Findings:

R3 verified Recology's methodology and calculations for including these additional cart fees as revenues for base services. **No adjustment is necessary.**

Verification of Backyard Service Credit

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 all residential customers within each Member Agency.³

In order to verify that the credit for the first 20% of residential backyard service customers is accurately reported in the Revenue Reconciliation, R3 requested and Recology provided 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. R3 compared the total number of transactions to the 20% threshold in each Member Agency, and also verified that the total revenues for backyard services were not included in the calculation of Attachment Q revenues in the Revenue Reconciliation.

Findings:

R3 verified that the credit for the first 20% of residential backyard service customers is accurately reported in Recology's 2014 Revenue Reconciliation; the revenues for these services are included in gross revenues billed for each Member Agency, but not retained by Recology as compensation. **No adjustment is necessary.**

³ 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."

Section 3

SBR
Financial
Systems
Review

SBR Financial Systems Review

SBR operates the Shoreway Environmental Center (Shoreway), which is a state-of-the-art recycling and transfer station facility owned by RethinkWaste. In addition to these services, SBR pays public customers for California Redemption Value (CRV) materials and cardboard and has a free drop-off for varying material such as scrap metal, batteries, used motor oil and latex paint.

For this task, R3 reviewed SBR's financial tracking and reporting systems. This included determining how 2014 public revenues, commodity revenues, Shoreway buyback center payments, and weight ticket information (including route number and material types) are recorded using SBR's PC Scales tracking system, and then verifying the mathematical accuracy and logical consistency of the reported values.

The objective of this task was to determine if SBR had accurately accounted for and remitted all gate revenue collected from self-haul customers to RethinkWaste and accurately accounted for all recyclable material commodity revenue.

This task included:

- **Verification of Public Revenue** – Public revenue (\$6,105,000) transferred to RethinkWaste ties to accounting records;
- **Verification of Commodity Revenue** – Reported gross commodity revenue (\$11,153,000 to SBWMA) ties to accounting records;
- **Verification of Shoreway Buyback Center Payments** – Payment by SBR to Shoreway Buyback Center customers, and associated reimbursements by RethinkWaste, ties to accounting records and other related supporting documentation;
- **Review of Scale House Procedures;** and
- **Test of Weight Tickets.**

Verification of Public Revenue

Revenue collected from the public by SBR at the Shoreway scale house is remitted in full by SBR to RethinkWaste on a monthly basis. In order to verify the accuracy of the 2014 public revenue transferred monthly to RethinkWaste, R3 reviewed SBR's general ledger (GL) and two reports pulled from the PC Scales system (Tonnage and Revenue Report and Non-Franchise Tonnage Materials Report), and compared them to RethinkWaste's tracking of wire payments received.

Findings:

R3 confirmed that SBR's PC Scales reports directly tied to GL records of wire transfers to RethinkWaste. R3 identified three slight mathematical discrepancies between RethinkWaste's summary of wire payments from SBR and SBR's accounting records. In coordination with RethinkWaste staff, R3 identified minor errors in RethinkWaste's entries of SBR's wire payments that accounted for the apparent discrepancies. After these were corrected, all review documentation directly tied without exception. **No adjustment is necessary.**



Verification of Commodity Revenue

All recyclable materials brought to SBR are sold to third-party vendors at market prices. After logging and tracking each transaction into PC Scales, SBR pays RethinkWaste its share of commodity revenues. In order to verify that the gross 2014 commodity revenue as reported in SBR's December 2014 monthly report matches accounting records, R3 reviewed applicable PC Scales reports provided by SBR and compared the tonnage and revenue information included in the PC Scales reports to the corresponding information in the December 2014 monthly commodities report.

Findings:

In reviewing SBR's Commodity Revenue Report and verifying the accuracy of that data, R3 identified a variance of \$3,597 between the Commodity Revenue Report and monthly PC Scales Outbound Materials Report occurring between January and July 2014. Upon investigation, R3 determined that the discrepancy occurred as a result of scrap metal from the Public Recycling Center (PRC) being allocated as metal from the transfer station (the revenue which SBR keeps as an incentive to divert materials from the transfer station floor) instead of metal from the PRC (the revenue which SBR remits to RethinkWaste with other commodity revenues).

SBR had identified this error prior to R3's review and had corrected for it in the December monthly commodity report. **No adjustment is necessary.**

Verification of Shoreway Buyback Center Payments

RethinkWaste reimburses SBR for payments it makes to Buyback Center customers, including CRV for applicable materials as well as agreed upon scrap values for cardboard and metals. In 2014, RethinkWaste reimbursed SBR for the pass-through expenses from the buyback program in a total amount of \$890,461.

In order to verify that payments to Shoreway Buyback Center customers by SBR and reimbursed by RethinkWaste ties to accounting records, R3 reviewed SBR's monthly invoices to RethinkWaste, PC Scales reports corresponding to Buyback Center materials, as well as the GL.

Findings:

R3's review confirmed that the details in SBR monthly invoices directly tied to the GL and applicable PC Scales report for each month in 2014. There were no discrepancies found and **no adjustment is necessary.**

Review of Scale House Procedures

The Shoreway transfer station is a newly remodeled facility where residents, businesses, contractors and individuals bring trash, C&D material, green waste, appliances, tires, scrap metal and assorted other materials.

R3 reviewed the procedures at the scale house to ensure all public revenue is being properly accounted for and all franchised volume is being properly recorded. R3 also intended to verify that training methods for personnel are reviewed, procedures for the measurement of loads are in place and followed, and scale house security measures are in place, but was not able to do so, as discussed on the following page.

R3

Section 3

SBR
Financial
Systems
Review

R3 conducted an on-site visit on May 5, 2015. During this visit, R3 held staff interviews with scale house staff, as well as with the spotter at the transfer station tipping floor, the transfer station supervisor, and the General Manager to verify whether the scale house is being operated in accordance with RethinkWaste's contract as it relates to the data that is required to be included in SBR's monthly, quarterly, and annual reports.

Scale House Operations

Despite the fact that three previous years' financial systems audit reports indicated the existence of an SBR Facility Procedure Manual, SBR reported they could not locate a copy of this manual for this 2014 review. SBR's inability to produce the Procedure Manual, or training records for scale house personnel, appears to be the result of recent staff turnover, including the supervisor with responsibility for overseeing scale house personnel, as well as the accountant responsible for SBR's financial oversight.

In lieu of the SBR Facility Procedure Manual, R3 utilized the Agreement for Operation of the Shoreway Recycling and Disposal Center (Agreement) dated July 2009 to review the scale house procedures.

Recommendation #1 – SBR should (re)develop an SBR Facility Procedure Manual. Once developed, it should be widely integrated within the Shoreway facility whereas all necessary staff be given a hard copy and a digital copy be stored on an internal server/drive as well. This will ensure the sustainability of the Manual despite any staff turnover and will also ensure staff are informed of any procedures helping to remove any risk brought on by uninformed staff.

Even though current staff is not utilizing an updated written procedure manual, the scale house is adhering to the Agreement in nearly all areas. The various full-time scale house attendants have been working in the scale house for 18-30 years with the newest part-time/on-call worker employed for 3.5 years. This longevity and lack of staff turnover seems to offer consistent handling of procedures within the Agreement as well as a responsive and positive rapport with the public. Through the interviewing process, R3 learned there is a 4-6 week training program for new staff that includes an informal phone call support system that is actively used by staff on a regular basis.⁴

R3 observed staff operating the PC Scales system, handling cash and credit transactions, interacting with various customers and staff during the course of their job duties, and through the interview process, was informed of SBR's current procedures for validating tare weights.

⁴ For example, Shoreway began a contract with Pacifica and the part-time/on-call Staff was not aware of this contractual agreement. The part-time/on-call staff utilized the informal phone call support system and immediately learned how to appropriately handle this situation.

Additionally, per Attachment 3 of the Agreement⁵ (General Operating Standards and Procedures), SBR is required to provide the following:

- SBR must provide continuous staffing of the scale house during receiving hours. According to the SBR website and gate information, current hours are Monday through Friday, 6:00am-6:00pm; Saturday and Sunday, 8:00am-5:00pm. Through the interview process, R3 learned the scale house has a fully trained on-call attendant who is readily available to fill in any gaps in staffing as they arise. R3 interviewed this attendant as well as the transfer house supervisor who also verified through interview that there is a supervisor on-site during these receiving hours.
- SBR must ensure that security cameras record all scale house transactions, customer traffic, and vehicle unloading. R3 observed the scale house's three installed security cameras. One facing the door where the attendants interact with the public, the second facing the two computers and cash drawer, while the third is directed towards the closed off cubicle where employees state they complete their end-of-shift procedures. Through the interview process, R3 found that security camera footage is automatically saved for two weeks and is reviewed only if there are reported shortages at the end of each shift or to verify any complaints.⁶
- SBR must ensure staff is trained in the use of PC Scales, customer service, and Shoreway capabilities. R3 observed each scale house staff efficiently and effectively using PC Scales and providing friendly, courteous and knowledgeable customer service. Through the interview process, R3 found that each scale house attendant has their own PC Scales log in credentials. R3 verified that each attendant has their credentials on each weight ticket they process. R3 did not observe this log-in process, however, as the staff reportedly log in at the beginning of each shift. R3 also observed multiple staff utilizing the same computer without re-logging in with their individual credentials. If this observation is accurate, staff accountability diminishes because the individual credentials may be listed on a ticket they did not process. If a difference arose in verifying accuracy of tickets, the staff would not be protected.
- SBR must ensure all scale house attendants are providing accurate measurements of self-haul customer loads by:
 - Training in the proper volumetric measurement of inbound loads;
 - Monitoring the accuracy of volumetric measurements and calculations on a weekly basis through periodic spot checks; and
 - Documenting and recording the monitoring and spot-checks in a Scale Load Audit binder available for inspection by RethinkWaste.

⁵ Section 2, pages 7-8.

⁶ An example of when footage was reviewed was when a customer complained they saw some vehicles not being charged payment. The security camera footage was reviewed and it was determined that all customers were, indeed, being charged.

R3

Section 3

SBR
Financial
Systems
Review

R3 observed each scale house staff volumetrically measuring all inbound loads; however, R3 was unable to verify that weekly spot checks are occurring or are being documented in a Scale Load Audit binder as required. Through R3's interview process, this did not appear to be occurring.

- SBR must ensure staff inspects all inbound self-haul loads. R3 observed the scale house staff inspecting each inbound self-haul load and directing or redirecting loads to the necessary Shoreway location. During this inspection, it was noted by R3 that scale house staff were aware of the procedures on which materials are volumetrically measured versus which materials are required to be weighed (dirt, concrete, stucco, roofing, or loads that appeared heavy). R3 observed multiple instances where this procedure was verified. In one case, after inspecting the inbound self-haul load, staff noticed the vehicle was supposed to go to another part of the facility and was directed to do so. In another instance, staff noticed a load of dirt that was covered by a layer of sheetrock. Staff directed this vehicle to the weighing scales as dirt is a material that should be weighed and not volumetrically measured.
- SBR must determine City of origin and acceptability of all self-haul loads. R3 observed the acceptability and determination of city of origin for each self-haul load. It was also observed by R3 when certain material could not be accepted and how scale house staff ensured the proper handling of the unacceptable material.
- SBR must volumetrically measure all self-haul loads and ensure proper weighing of franchise loads. R3 observed the volumetric measurement of inbound self-haul loads occurring through both questioning the customer and visually inspecting small cars or closed-off vehicles as well as physical inspection of vehicles on all loads. R3 observed the consistent weighing of franchise loads, including those from the Member Agencies vehicles, Recology, Pacifica and Santa Clara.
- SBR must issue appropriate paperwork and receipts for self-haul customers. R3 observed the issuing of tickets to each customer and verified that receipts were given to self-haul customers. Also observed was the usage of PC Scales to track contractor account vehicles while providing them with proper paperwork to set up their initial account.
- SBR must weigh materials from Member Agencies, collection contractors and others as appropriate. R3 observed the process of weighing in Member Agencies, collection contractors, and Member Agency vehicles as well as the process of entering first-time municipal vehicles into PC Scales.
- SBR must issue appropriate paperwork and receipts for Franchised Customers. R3 observed the issuing of applicable paperwork to franchised customers as well as the entering of vehicles not yet registered in the PC Scales system.
- SBR must weigh each loaded vehicle carrying recyclables from the MRF prior to shipment. R3 observed several interactions where loaded vehicles carrying recyclables from the MRF were weighed and one instance where a vehicle was not allowed to pass and was sent back for additional bales of recyclables prior to shipment.

R3

Findings:

R3 verified the known procedures being used at the scale house to ensure all public revenue is being properly accounted for and all franchised volume is being properly recorded. R3 was able to verify scale house security measures are in place. However, without a training binder to verify records, R3 was unable to confirm that training methods for personnel are reviewed, that procedures for the measurement of loads are in place and followed, or that weekly spot checks are occurring or are being documented in a Scale Load Audit binder.

Recommendation #2 – SBR should monitor the accuracy of volumetric measurements and calculations on a weekly basis through periodic spot checks.

Recommendation #3 – SBR should document and record the monitoring and spot-checks in a Scale Load Audit binder available for inspection by RethinkWaste.

Recommendation #4 – SBR should develop training procedures and a training manual. Proper training of new personnel and annual training of current personnel will ensure the scale house functions as congruently as possible and will assure processes and procedures are accessible and utilized by each staff member. This will help reduce any unintended risk on individual staff members and the organization as a whole.

Recommendation #5 – It is recommended that non-scale house staff retrieve cash and tickets to reconcile against PCS records on a daily basis.

Test of Weight Tickets

R3 selected weight tickets and measured public tickets to verify the stated procedures are being followed. Testing included:

- Verification that the collection route stated on the weight ticket ties to the information from Recology's daily dispatch log; and
- Verification that the type of material listed on the weight ticket ties to the information from Recology's daily dispatch log, which will state the assigned route and material type (i.e., is the assigned vehicle collecting solid waste, recyclable materials, or organic materials?).

R3 selected to corroborate 166 weight tickets with the date of July 11, 2014. These tickets were each reviewed to ensure that each had necessary data in the Ticket Number, Date, Customer, Carrier, Truck Number, Type, Trailer Number, Route, Materials and Origin categories. R3 verified that Recology's daily dispatch log matched the collection route as well as the material listed on every weight ticket.

R3

Section 3

SBR
Financial
Systems
Review

Findings:

R3 utilized Recology's daily dispatch log to ensure accuracy with the varying weight tickets distributed at the scale house. R3 verified that the details, including the collection route and material, on each weight ticket match Recology's daily dispatch log. **No adjustments are necessary.**

R3

Status of 2013 Recommendations

This section includes R3's assessment of the status of recommendations presented in HF&H Consultants' June 19, 2014 Final Report: *South Bayside Waste Management RethinkWaste: 2013 Financial Systems Audit of Collection Services and Facility Operations Contractors*.

Evaluate Accuracy of Recology Data (HF&H Section 2)

Controls – HF&H recommended Recology create controls within its system to “flag” instances when a front load truck (which primarily serves commercial customers) has a residential route attached to its daily activity.

Findings:

R3's review of weight tickets did not identify any discrepancies that would indicate an ongoing problem in this area.

Evaluate SBR Financial Reporting (HF&H Section 3)

Ticket Control – HF&H recommended that a duplicate ticket report be printed and reviewed daily to spot any abnormally excessive use of the duplicate ticket printing feature and potential cash handling irregularities.

Findings:

Scale house staff indicated that there is no process for the review of daily duplicate ticket printing. However, upon interviewing the accounting staff, it was realized that each ticket printed beyond the original states “reprinted ticket” at the top of each ticket. SBR scale house staff confirmed that there are procedures for splitting transactions consistent with the recommendation in the 2013 report.

Recommendation #6 – SBR should implement additional duplicate ticket controls to minimize the chance of fraudulently utilizing the ticket system to collect payment from customers.

Cash Handling – HF&H noted that each scale house attendant had their own cash drawer and that random cash counts are performed by SBR office staff at least twice a year. HF&H recommends that surprise cash audits be conducted at least quarterly by SBR office staff and documentation signed by the person conducting the audit and that scale house attendance be retained as evidence of audit.

Findings:

Scale house staff indicated that there had been a surprise cash audit within 3-4 months of the on-site review; it appears through staff interviews that this recommendation has been addressed. R3 did confirm through interview and observation that only one cash drawer is used. After further investigation, it was found that one main reason for not using two cash drawers was because of the need of an additional computer system and limited space. Because of this, each attendant reconciles their cash at the end of their

R3

Section 4

Status of
2013
Recommendations

shift and the entire drawer is emptied and reconciled each day. Because of the limited number of staff having access to the cash drawers, the reconciliation of cash at the end of each shift and each day, and the security camera system, R3 concludes that no change is necessary at this time.

Spotter on the tipping floor – HF&H noted that the Spotter on the tipping floor verifies that each customer has a ticket for the material they are dumping. The customer is handed a copy of the ticket at the scale house and they then proceed to the tipping floor where a second employee verifies they have paid and that the material on the ticket matches that of the load. HF&H recommended tip floor employees receive ongoing training.

Findings:

R3 observed Spotter checking/reporting procedures and found that that the Spotter checked each ticket for loads into the transfer station, directed customers to the appropriate material bunkers, and logged all ticket numbers and material types on a tracking list that is filed weekly.

Vehicle Tare Weights: Recology & SBR Trucks (H&FH Section 4)

Inbound Loads – Recology Route Vehicles – HF&H recommended (1) Recology and SBR ensure all Recology vehicles are re-weighed quarterly and the tare weight updated in SBR's scale system; (2) Recology ensures trucks undergoing repairs that add to weight also be re-weighed; and, (3) SBR creates a report that summarizes Recology's truck tare weights and the date the tare weight was changed and provides the report to the RethinkWaste for its review on an annual basis.

Findings:

R3 was able to verify that Recology and SBR ensured all Recology vehicles are re-weighed bi-annually (not quarterly), as well as when repairs have been made that would increase/decrease the weight of a vehicle, and that tare weights are updated in PC Scales. **Recology should update tare weights quarterly as agreed upon with the SBWMA.**

Outbound Loads – SBR Transfer Vehicles – HF&H recommended (1) SBR re-tare their trucks annually or after significant repairs have been done to the vehicles as a base line to compare the tare weights at the disposal sites; (2) The RethinkWaste and SBR set up a process to request the disposal/processing facilities to update the tare weights on an annual basis and after significant repairs have been done to the vehicles; (3) SBR maintains, and provides upon request, supporting documentation of its spot checking of vehicles tare weights (at a minimum of one load per month of each material); and, (4) RethinkWaste and SBR request written reports from the facilities confirming the annual update has been completed, compare the weights to SBR internal tare weights, and resolve significant variances.

Findings:

R3 confirmed that SBR re-tares the trucks annually as well as when repairs have been made that would increase/decrease the weight of a vehicle, and that tare weights are updated in PC Scales.

R3

New Recommendations

This section includes a consolidated list of the recommendations included throughout this report. All new recommendations pertain to SBR.

New Recommendations

Recommendation #1 – SBR should (re)develop an SBR Facility Procedure Manual. Once developed, it should be widely integrated within the Shoreway facility whereas all necessary staff be given a hard copy and a digital copy be stored on an internal server/drive as well. This will ensure the sustainability of the Manual despite any staff turnover and will also ensure staff are informed of any procedures helping to remove any risk brought on by uninformed staff.

Recommendation #2 – SBR should monitor the accuracy of volumetric measurements and calculations on a weekly basis through periodic spot checks.

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Recommendation #5 – It is recommended that a non-scale house staff retrieve cash and tickets to reconcile against PCS records on a daily basis.

Recommendation #6 – SBR should implement additional duplicate ticket controls to minimize the chance of fraudulently utilizing the ticket system to collect payment from customers. (Note: This recommendation was given in the previous years' audit).

R3

Section 5

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New
Recommend-
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R3