

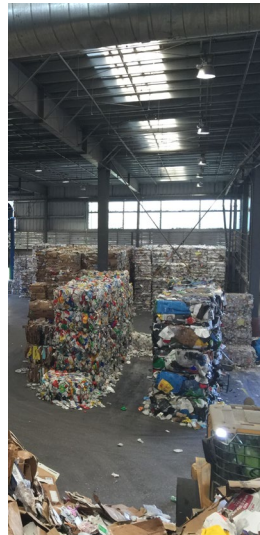


CONSULTING GROUP, INC.

RESOURCES • RESPECT • RESPONSIBILITY

**FINAL REPORT**

**Collection Services and Facility Operations  
Reports, Tonnage, Data and Customer Service  
Systems Audit and Financial Systems Audit**



**SUBMITTED TO:**

**RethinkWaste (SBWMA)**

June 19, 2019

Report Submitted Digitally



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# Table of Contents

Table of Contents

- Section 1. Introduction ..... 1
  - 1.1 Background ..... 1
  - 1.2 Work Scope ..... 1
  - 1.3 Summary of Findings..... 3
- Section 2. Annual Report Audit of Recology..... 7
  - 2.1 Completeness of Reports..... 7
  - 2.2 Review of Tonnage Data ..... 7
  - 2.3 Review Customer Service Data ..... 10
  - 2.4 Review of Recology Liquidated Damages and Performance Incentives/Disincentive Payments..... 11
  - 2.5 Findings ..... 16
- Section 3. Financial Systems Audit of Recology..... 27
  - 3.1 Gross Revenue Billed ..... 27
  - 3.2 Adjustments ..... 29
  - 3.3 Pass-Through Costs..... 29
  - 3.4 Net Revenue Calculation..... 32
  - 3.5 Recology’s Compensation ..... 32
  - 3.6 Attachment Q Billings ..... 32
  - 3.7 Additional Cart Fees..... 32
  - 3.8 Backyard Services..... 33
  - 3.9 Surplus/Shortfall Calculations..... 33
  - 3.10 Findings ..... 36
- Section 4. Annual Report Audit of SBR ..... 39
  - 4.1 Completeness of Reports..... 39
  - 4.2 Review of Inbound and Outbound Tonnage Data ..... 39
  - 4.3 Review of Inbound Member Agency Tonnage Data ..... 40
  - 4.4 Review of SBR Liquidated Damages..... 42
  - 4.5 Findings ..... 43
- Section 5. Financial Systems Audit of SBR ..... 47
  - 5.1 Public Self-Haul Revenue ..... 47
  - 5.2 Commodity Revenue..... 47

R3

Table of Contents

5.3 Shoreway Buyback Center Payments ..... 47

5.4 CRV Payments ..... 48

5.5 Scale House Procedures..... 48

5.6 Findings ..... 49

Tables

Table 1: Data Point Tests ..... 17

Table 2: Variation of Data Point Tests ..... 17

Table 3: CSR Coding Call Errors ..... 18

Table 4: 2017 Liquidated Damages Payments ..... 20

Table 5: Invalid Ticket Reporting Categories..... 21

Table 6: 2017 Performance Incentive/Disincentive Payments..... 24

Table 7: Verification of Gross Revenues Billed ..... 28

Table 8: Member Agency Fee Calculations vs. Gross Billed Revenues in Reconciliation..... 31

Table 9: Calculation of 2017 Net Revenues (as provided by Recology)..... 34

Table 10: Calculation of 2017 Surplus/Shortfall ..... 35

Table 11: Comparison of Recology and SBR Monthly Tonnages ..... 45

Table 12: Buyback Revenue Totals..... 50

Appendices

- A Recology Quarterly and Annual Report Completeness Checklists
- B SBR Quarterly and Annual Report Completeness Checklists



# Section 1. Introduction

## 1.1 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, 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 (Reconciliation) report to SBWMA that identifies net revenues retained by Recology as compared to the annual compensation owed to Recology by each Member Agency, which is approved annually by the SBWMA Board of Directors.

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

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

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

## 1.2 Work Scope

### Annual Report Audit

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

The logo for R3, consisting of the letters 'R' and '3' in a stylized, blue, handwritten font.

## Section 1

## Introduction

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

- Verify the completeness, mathematical accuracy, and back-up documentation for the Annual Reports, including the allocation of tons between Member Agencies for all categories reported;
- Interview the contractors to determine the sources of the reported data;
- Verify the accuracy of the tonnage data reported monthly;
- Verify the accuracy of reported customer service metrics, call statistics, and accuracy of customer service ticket coding;
- Verify the mathematical accuracy and back-up documentation where applicable for reported:
  - Liquidated damages, which includes customer complaints, accurate and prompt reporting, and other important collections service requirements of the agreement; and
  - Incentive and disincentive payments, which includes diversion requirements as well as customer complaints and other call center requirements.

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

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

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

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

### Financial Systems Audit

SBWMA retained R3 to review, test, and verify:

- The mathematical accuracy, consistency in reporting, and back-up documentation for information contained in Recology's annual Revenue Reconciliation, including:
  - Gross Revenue Billed against accounting records;
  - Adjustments to Gross Revenue Billed, with back-up provided for each adjustment;



- Pass-Through Costs, including disposal and processing costs, Member Agency fees against documentation of correspondence with Member Agencies, the mathematical accuracy and consistency of the calculation of late fees;
- Mathematical accuracy of calculation of Net Revenue and Recology’s compensation;
- Revenues associated with unscheduled and intermittent services per Attachment Q to Recology’s franchise agreement(s) against accounting records of billed revenues;
- Fees for additional carts against procedures for retaining revenue which are Member Agency-specific;
- Proper accrual of backyard services revenue;
- The mathematical accuracy of the Surplus/Shortfall calculation; and
- The accuracy of SBR’s financial systems for tracking, calculating, and reporting payments due to or from SBWMA for:
  - Public gate revenue against scales reports and accounting records;
  - Commodity Revenue against scales reports and accounting records;
  - Buyback Center payments against scales reports and accounting records; and
  - Accuracy of reporting for payments of California Redemption Value.
- Additional information about work scope and documentation reviewed can be found in the associated sections of the following report.

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

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

## 1.3 Summary of Findings

### Annual Report Audit

In completing the Annual Report Audit of Recology, R3 has identified the following items which require adjustment:

- Disincentive payment of \$500 for Speed of Answer (\$60 less than in Recology’s annual report) to SBWMA from Recology, to be applied to the Gross Revenue Billed Reconciliations for 2018, due to rounding; and
- This year, R3 requested back-up information for a selection of invalid or cancelled tickets, mainly related to collection quality complaints. Based on the information

## Section 1

## Introduction

provided by Recology, R3 believes that some of the customer service tickets that were marked as invalid are actually events that should be subject to liquidated damages. R3 recommends that SBWMA:

- Assess \$1,250 additional liquidated damages on Recology for the four complaints that were identified as being incorrectly invalidated in this year's audit; and
- Direct R3 to conduct, during the 2019 audit next year, a detailed review with a sampling methodology agreed upon by SBWMA and Recology and agreed-upon extrapolations for liquidated damages that exceed monthly allowances.

In completing the Annual Report Audit of SBR, R3 has identified the following mis-reported tonnages which may require adjustment:

- 108 re-coded tons, mostly Bulky Item Collections coded by SBR as recycling and coded by Recology as MSW; and some key-in errors on the SBR report related to cardboard mis-coded as mixed rigid plastics (28 tons) and organics tons sent to Newby Island (73 tons).

R3 has also compiled procedural recommendations for SBR and Recology. These recommendations are given below. More detail is provided in the text of the report.

**Operational Recommendation** – R3 recommends that Member Agencies and Recology discuss the matter of potential service stops for non-payment if not allowed by Agreement. Eight Member Agencies' agreements do not allow for service stops for delinquency. Detail on page 18 of this report.

**Reporting Recommendation** – R3 recommends that Recology adjust customer service coding for specific reporting categories in future reports, including "Distribution of less than 50% of required non-collection notices," "Resolution or remedy of complaints or inquiries beyond 10 business days of receipt of the complaint or inquiry," and "Complaints regarding failure to provide new service or change existing service level within five (5) business days." (more information on specific reporting adjustments on page 20 of this report).

**Liquidated Damages and Audit Recommendation** – R3 recommends that SBWMA:

1. Assess \$1,250 additional liquidated damages on Recology for four complaints that were identified as being incorrectly invalidated in this year's audit; and
2. Direct R3 to conduct, during the 2019 audit next year, a detailed review with a sampling methodology agreed upon by SBWMA and Recology and agreed-upon extrapolations for liquidated damages that exceed monthly allowances.

More detail is provided starting on page 22 of this report.

**Reporting Recommendation** – R3 recommends that SBR allocates residual by Member Agency by tons of recycling collected, rather than tons of solid waste collected. Detail on page 43 of this report.



## Financial Systems Audit

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

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

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

- SBR correctly calculated and remitted payment for public self-haul and commodities revenue;
- SBR calculated CRV revenue using a CalRecycle-approved methodology; and
- SBR correctly calculated and invoiced SBWMA for reimbursement of Shoreway buyback center payments made to customers.

R3

Section 1

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Introduction

## Section 2. Annual Report Audit of Recology

### 2.1 Completeness of Reports

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

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

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

### 2.2 Review of Tonnage Data

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

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

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

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

The Monthly Tonnage Report figures are electronically linked to the data reported in the following supporting workbook spreadsheets, all of which contain hard coded inputs (i.e., are not electronically linked to the supporting data source):

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

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

- Single-Family (categorized as Residential);
- Multi-Family (categorized as MFD);

## Section 2

Annual  
Report Audit  
of Recology

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

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

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

Using this data, the percentage of the total service volume (cubic yards) of each load collected within each Member Agency, which is assumed to represent the percentage of the total tons of each daily route assigned to each Member Agency, is calculated quarterly and reported in Recology's Split Table Listing.<sup>1</sup> Recology uses a program (AS 400) to generate the splits for the entire quarter.

This data is then applied to the load weights of the applicable routes to allocate that tonnage among the Member Agencies.

Agency Facilities – Recology uses the same methodology to allocate scheduled collections from Member Agency facilities as it does to allocate single-family, multi-family and commercial tonnages as described above. Each Member Agency account is assigned a unique code that is included in the quarterly Split Table Listing and used to allocate those tons to the appropriate Member Agency.

Drop Box – Drop box and compactor loads are specific to a single location; therefore, 100% of the tons for each drop box and compactor load is directly assigned to the associated Member Agency.

Bulky Item On-Call Collections & Abandoned Waste/Illegal Dumping – Recology runs up to three on-call bulky item routes with one truck for solid waste and one for recyclables. The bulky-item solid waste route also collects abandoned waste/illegal dumping tonnages. Recology maintains a log of reported abandoned waste, by Member Agency, that includes estimated weight. This estimated abandoned waste tonnage is subtracted from the total

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<sup>2</sup> The Split Table Listing provides an accounting of the percentage of subscribed service levels by Member Agency for each route, each day of the week, and for the two scales used by routes.

weight of tonnage of the on-call collections, as the on-call collections are weighed together with the abandoned waste collected. Recology tracks the requests for bulky item/on-call collections by Member Agency and allocates the total on-call collection tonnage to each Member Agency in proportion to the percentage of total collections for each load by Member Agency.

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

### **Review of Member Agency Tonnage Allocations**

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

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

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

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

Additionally, R3 tied Recology’s on-call bulky item recyclables tonnage as reported in Recology’s Annual Report to bulky item calculations provided by Recology. Further investigation of the basis of some bulky item collection allocations is suggested for the audit of 2018 data.

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

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

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<sup>3</sup> Recology’s “monthly query files” provide a download of its internal tonnage data base that allocates tonnages to each Member Agency based on the Split Table Listings and other supporting documentation.

## Section 2

Annual  
Report Audit  
of Recology

Batteries, Cell Phones, Oil, Oil Filters – R3 tied reported tonnages of batteries, cell phones, oil, and oil filters to supporting documentation that demonstrated the basis of the allocation by Member Agency according to the number of single-family residential accounts. We did not audit the reported total tonnages of these materials this year by requesting additional source documentation but suggest that this may be a useful focus area for next year’s audit.

## 2.3 Review Customer Service Data

**Objectives:** The objectives of this task were to:

- Test two separate months (May and December) of the reported customer service data for each Member Agency and verify it ties to the supporting documents;
- Test the accuracy of customer service representative (CSR) reported statistics; and
- Test the accuracy of CSR’s coding calls.

### Review of Reported Customer Service Data

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

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

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

For all customer service items above with associated Liquidated Damages and/or Performance Incentives and Disincentives, R3 tested Recology’s reported number of “occurrences” for May and December of 2018. The results of that review are provided in the Section 5 of this report titled “Review of Recology Liquidated Damages / Performance Incentive and Disincentive Payments.” For the remaining items above with no associated Liquidated Damages or Performance Incentives and Disincentives, R3 also tested two months of data for each Member Agency (May and December) 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 Section E ("Call Center Data and Quality Assurance Calls Made") of the Quarterly and Annual Reports, and are also used for the Incentive/Disincentive forms for "Ninety Second Hold Time" and "Average Speed of Answer". Recology also reports the total number of quality assurance calls made during each month in Section E.

### Review of CSR Coding Calls

To test the accuracy of CSR's coding calls, R3 randomly sampled 400 CSR tickets created in both May and December of 2018.

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

**Objectives:** The objectives of this task were to:

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

Provisions for Liquidated Damages and Performance Incentives/Disincentives are provided in Attachment J and Attachment I<sup>3</sup> of Recology's franchise agreements, respectively. Calculations of each Liquidated Damage and Performance Incentive/Disincentive item are provided as part of Recology's Quarterly and Annual Reports, with the exception of the Incentive/Disincentive for diversion, which is only calculated as part of the Annual Report.

R3 requested and reviewed Recology's source documentation for Liquidated Damages and Incentives/Disincentives occurrences for 2018. Tables 4 and 5 (Pages 20 and 22) provide listings of Liquidated Damage and Incentive/Disincentive items, respectively, as well as the source documentation for each item as identified during our review. As shown, many of these items represent customer complaints, which are tracked through Recology's internal ticketing software ("TQR4 Reports").

<sup>3</sup> As amended per the administrative changes and amendments.

## Section 2

Annual  
Report Audit  
of Recology

The adjustments noted in Tables 4 and 5 reflect R3's review of the accuracy of the reported quantities of occurrences (i.e., number of complaints in each category) as compared to Recology's source documentation (i.e., TQR4 Reports).

The adjustments shown in Tables 4 and 5 do not account for whether the reported complaints have been properly coded by the customer service representative (CSR). A separate review of CSR call coding accuracy, as well as separate recommended adjustments based on that review, may be found in Section 4.3 of this report under the subsection titled "Review of CSR Coding Calls".

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

Incentives/Disincentives and Liquidated Damages are applied in the subsequent year's compensation application, which represents compensation to be paid to Recology in the following year. Therefore, the 2019 Contractor's Compensation Application will include the Incentives/Disincentives and Liquidated Damages from 2018.

### Review of Liquidated Damages Payments

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

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

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

#### Collection Quality

- 1.A Unauthorized Collection Hours (monthly allowance of 30 for 1.A, 1.B, and 1.C, combined)
- 1.B Damage to Private Property
- 1.C Failure to Resolve Property Damage Claim
2. Failure to Provide New Service or Initiate Change in Service (monthly allowance of 60)
3. Improper Container Placement (monthly allowance of 500)
4. Failure to Effectively Distribute Non-Collection Notices (no monthly allowance)



5. Excessive Noise Complaints (monthly allowance of 60)
6. Unacceptable Employee Behavior (no monthly allowance)
7. A Complaints of Spills of Discarded Materials (monthly allowance of 120 for 7.A and 7.B)
- 7.B Complaints of Failure to Clean Up Spills of Discarded Materials
8. Spills of Vehicle Fluids (no monthly allowance)

Customer Service Quality

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

Reporting

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

Other

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

**Liquidated Damages Procedures**

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

Collection Quality Tracking and Reporting Procedures

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

It is important that each incoming complaint be assigned the correct Reason Code, because Recology determines monthly Liquidated Damage occurrence amounts, as well as other information, using the quantity of Reason Codes shown on the TQR4 Report for each complaint type. In other words, if a complaint is entered into the system with an incorrect Reason Code, the associated Liquidated Damage quantity for that month will not account for the complaint.

All complaints submitted via Recology website produce a ticket with a generic “Complaint” Reason Code that is not specific to the type of complaint received. Recology reported that each generic complaint submitted through the website, if handled properly, should be accompanied by a follow-up complaint ticket with a more specific Reason Code corresponding to the

R3

## Section 2

Annual  
Report Audit  
of Recology

associated Liquidated Damage item. During our review of CS call coding, R3 observed several website “Complaint” tickets and checked that follow-up complaint tickets with more specific Reason Codes were created for complaints submitted via the website.

#### Customer Service Quality Tracking and Reporting Procedures

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

#### Reporting Procedures

For the “Reporting” category of Liquidated Damages, report submittal dates are recorded by the email transmittal, but no Liquidated Damages for lateness are assessed unless Recology is notified of the late submittal by RethinkWaste.

#### Other Tracking and Reporting Procedures

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

### **Review of Incentives/Disincentives Payments**

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

1. Overall Diversion Level, calculated on the basis of % exceedance of prior year’s diversion level;
2. Single-Family Missed Pick-Up Initial Complaints;\* and
3. Average Speed of Answer.\*

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

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

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

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

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

### **Performance Incentives/Disincentives Tracking and Reporting Procedures**

#### Single-Family Missed Pick-Up Initial Complaints

The Incentive/Disincentive for “Single-Family Missed Pick-Up Initial Complaints” was eliminated and is no longer included in Recology’s reports.<sup>4</sup>

#### Single-Family Missed Pick-Up Collection Events

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

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

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

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

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

#### Maximum Contamination Levels

Recology’s contamination levels as measured by a contamination study conducted by a third party would be used in quarterly Incentive/Disincentive forms in the Quarterly Reports that

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<sup>4</sup> As amended per the administrative changes and amendments.

## Section 2

Annual  
Report Audit  
of Recology

are provided to RethinkWaste, if any had been conducted in 2018. None were conducted in 2018.

#### Minimum Diversion Levels

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

R3 was not able to audit the diversion level calculations in 2018, as SBWMA and Recology staff were determining how to calculate diversion without the biannual contamination study results. In September 2018, the SBWMA Board approved the methodology for calculating the diversion level using the 3-year average contamination level per material type (at 7.65% for recycling, 2.18% for single-family organics, 4.92% for multi-family and commercial organics, and 1.08% for plant materials). SBWMA staff reviewed the calculation setting the average contamination level, and therefore the calculated diversion level of 48.17% for 2017.

## 2.5 Findings

### **Completeness of Reports**

Appendix A includes the findings of our review of Recology's 2018 Annual Report. As shown, the report satisfies the reporting requirements of Article 9.07 with the exception of the following requirements that were not included:

- **Equipment Inventory** (Section 9.07.A.5) – Recology has stated that it provided the inventory of equipment used to perform services in a separate report to SBWMA in a format consistent with what was agreed upon at the onset of the contract; and
- **Customer Account Information** (Section 9.07.B) – This detailed information is not included in the Annual Report but is included in the source files provided to RethinkWaste. The "MSW Accounts by Service Sector" table of the Operational Information section of the Annual Report does, however, provide the number of single-family, multi-family and commercial and Member Agency Facilities accounts in each Member Agency. Additional account summary information by Member Agency is also provided in the Annual Report supporting Excel spreadsheets and Recology reported that the required detailed information is available upon request. Recology also reported that the report format is consistent with what was agreed upon at the onset of the contract.

These items were also identified as part of the prior years' reviews.

### **Review of Tonnage Allocations**

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

monthly queries for the sampled months of May and December, and other supporting documentation. That testing documented that the allocations of tons by Member Agency align with the quarterly Split Table allocations. **No adjustments are necessary.**

**Review of Customer Service Data**

Our review identified some instances where the reported occurrences of non-Liquidated Damages-related customer service data varied from the source documentation. Table 1, below, shows the results of our tests for recent audit years. In each month, we tested 64 reported figures from Recology against our calculated values.

**Table 1: Data Point Tests**

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

Table 2, below, shows the results of our tests for selected audit months.

**Table 2: Variation of Data Point Tests Between Two Audit Months**

Audit Month	Accuracy
May 2018	51%
December 2018	38%

R3 has determined that Recology is stopping service due to customer non-payment (delinquency) during our audit of the 2018 customer service data. Attachment H, “Delinquent Payment Policy,” differs among Member Agencies. Four Member Agencies allow for service stops for delinquency. R3 has separately analyzed the service stops for this year’s audit and observed that customers from every Member Agency are experiencing some service stops due to account delinquency. Please note that many service stops appear to be one-time stops for a particular week of service and not permanent service stops.

The following eight Member Agencies do not allow service stops per Attachment H of their Franchise Agreements, and instead require monthly late fees to be assessed:

- Belmont
- Burlingame
- County of San Mateo (no service stops for single-family or multifamily residential; service stops allowed for commercial)
- East Palo Alto
- Hillsborough
- Menlo Park
- San Carlos



Section 2

Annual Report Audit of Recology

- San Mateo

Future audits will include continued monitoring of account closure for delinquency by Member Agency.

**Operational Recommendation** – R3 recommends that Member Agencies and Recology discuss the matter of potential service stops for non-payment if not allowed by Agreement.

It should be noted that Recology added approximately 60 new reason codes, making a total of over 450 reason codes in Recology’s customer service system. R3 individually examined and categorized each of these new codes to ensure that we are able to verify Recology’s self-reported figures for the CSR audit months.

**Review of Reported CSR Statistics**

Without exception, R3 verified that the phone statistics provided in Recology’s 2018 Annual Report matched the phone statistics generated by the Shoretel phone system for May and December of 2018. **No adjustments are necessary.**

**Review of CSR Coding Calls**

Of the 800 tickets sampled, we found that just one was not associated with additional tickets that represented the correct coding (the missed pick-up complaints). Table 3 (next page) provides a summary of the incorrect coding for 2018. It should be noted that this year’s sampling showed one error out of 800 samples - a considerable improvement in correct coding from prior years’ audits.

**Table 3: CSR Coding Call Errors**

Actual Ticket Type	Incorrect Samples Identified			Total Annual Allowance	Liquidated Damages per Occurrence	Additional Liquidated Damages Due to SBWMA <sup>1</sup>
	May 2018	December 2018	Total			
Complaints Regarding Improper Container Placement	0	1	0	105	\$50	<i>None; did not exceed allowance.</i>
<b>Total</b>	<b>0</b>	<b>1</b>	<b>0</b>			<b>\$0</b>

<sup>1</sup> Additional Liquidated Damages are due to SBWMA only in cases where the annual "allowance" has been exceeded.

The complaint identified during our ticket sampling was associated with ticket code “Attention Operations”, and R3 did not find any associated tickets with the correct ticket code that would have allowed those tickets to have been reported under the liquidated damage category. **No adjustments are necessary**, as liquidated damages are triggered only if the number of complaints exceeds the allowed threshold, which they did not.

**Review of Liquidated Damages**

Table 4 on the following page provides a full list of 2018 Liquidated Damages payments as reported by Recology and as calculated by R3. As shown in the table, R3 has calculated the



same liquidated damages as Recology. More detail is given in the dedicated section following Table 4.

Three CSR codes were identified by R3 as being underreported under the current reporting methodology:

- “Distribution of less than 50% of required non-collection notices,” defined as, “a Container set-out that contains contamination but was not provided a non-collection notice” (reason codes Z3CNN and O3CNN). Recology stated, “Reporting is based on customer notification to Recology that a non-collection notice was not distributed.” Recology’s contamination monitoring and reporting system may need to be improved to comply with future statewide reporting requirements on contamination monitoring and tagging. **R3 recommends** that Recology consider alternative reporting for this category.
- “Resolution or remedy of complaints or inquiries beyond 10 business days of receipt of the complaint or inquiry.” Recology has made R3 aware that there is a reason code associated with this type of complaint, but the code has not been used in any audit months so far.
- “Complaints regarding failure to provide new service or change existing service level within five (5) business days.” Recology has made R3 aware that there is a reason code associated with this type of complaint, but the code has not been used in any audit months so far.

R3’s findings specific to each Liquidated Damage category are discussed in additional detail following Table 4.

**Reporting Recommendation** – R3 recommends that Recology adjust customer service coding for specific reporting categories in future reports, including “Distribution of less than 50% of required non-collection notices,” “Resolution or remedy of complaints or inquiries beyond 10 business days of receipt of the complaint or inquiry,” and “Complaints regarding failure to provide new service or change existing service level within five (5) business days.”

## Section 2

### Annual Report Audit of Recology

R3

Section 2

Annual Report Audit of Recology

**Table 4: 2018 Liquidated Damages**

Item Description	Total 2018 Liquidated Damages Payments			
	Company Reported	R3 Calculated	Recommended Adjustment	
<b>Collection Quality</b>				
1	Complaints regarding unauthorized collection hours, inadequate care of or damage to private property, and failure to resolve property damage claims within 30 days	\$900	\$900	\$0
2	Complaints regarding failure to provide new service or change existing service level within five (5) business days	\$0	\$0	\$0
3	Complaints regarding improper container placement	\$0	\$0	\$0
4	Distribution of less than 50% of required non-collection notices	\$0	\$0	\$0
5	Excessive noise complaints	\$0	\$0	\$0
6	Complaints regarding unacceptable employee behavior	\$3,500	\$4,250	\$750
7	Complaints regarding spills of discarded materials and failure to clean up those spills	\$0	\$0	\$0
8	Complaints regarding unreasonable leaks or spills of vehicle fluids	\$15,000	\$15,500	\$500
<b>Customer Service Quality</b>				
1	Resolution or remedy of complaints or inquiries beyond 10 business days of receipt of the complaint or inquiry	\$0	\$0	\$0
<b>Reporting</b>				
1	Late submittal of reports, applications, proposals or other submittals	\$0	\$0	\$0
2	Accuracy of submittals: corrections or restatements submitted more than two (2) business after notification	\$0	\$0	\$0
3	Late submittal of billing review report	\$0	\$0	\$0
<b>Other</b>				
1	Disposal of recyclable materials without written approval	\$0	\$0	\$0
2	Disposal of organic materials without written approval	\$0	\$0	\$0
3	Recyclable materials not delivered to the designated transfer and processing facility	\$0	\$0	\$0
4	Solid waste or organic materials not delivered to the designated transfer and processing facility	\$0	\$0	\$0
		<b>\$19,400</b>	<b>\$20,650</b>	<b>\$1,250</b>





Collection Quality

As shown in Table 4, Recology reports on several Liquidated Damages items related to Collection Quality. R3 checked the number of occurrences for each Liquidated Damage item for May and December of 2018 against the source documentation (TQR4 Reports) provided by Recology and made adjustments as appropriate. During the review of customer service tickets, R3 determined that Recology under-reported one event.

A separate review was conducted of invalid tickets this year. R3 requested back-up information for a selection of invalid or cancelled tickets, mainly related to collection quality complaints. The selection was 23 tickets out of a total of 92 tickets in the two audit months. Of the 23 tickets sampled, 13 tickets were identified by R3 as being incorrectly invalidated (R3 has not received back-up information for one ticket from Recology at this time).

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

The incorrectly invalidated tickets are associated with customer complaints under the following Liquidated Damages categories (table below):

**Table 5: Invalid Ticket Reporting Categories**

Table Number	Short Description	Attachment J Language
M12 - 1.A, 1.B, 1.C	Complaints regarding unauthorized collection hours, inadequate care of or damage to private property, and failure to resolve property damage claims within 30 days	(A) Each Complaint that Contractor has performed Collection services outside of hours authorized in Section 8.01.A. (B) Each Complaint that Contractor has not closed a Customer's gate, has crossed planted areas, or has damaged private property (including damage of private vehicles) pursuant to Section 8.02.H. (C) Each Complaint of Contractor's failure to resolve claims of damage to property within thirty (30) calendar days of the date the Complaint of damage was reported pursuant to Section 8.02.H.
M12 - 3	Complaints regarding improper container placement	Each Complaint of Contractor's failure to return empty Containers to original location (or alternate location if original location was not safe with regard to pedestrian and vehicular traffic), and each Complaint of failure to place Containers in an upright position with lids closed pursuant to Section 8.02.8.1, provided that Contractor shall not be responsible for placement of Containers that are moved due to wind, rain or other inclement weather conditions, third parties or other factors outside Contractor's reasonable control.
M12 - 6	Complaints regarding unacceptable employee behavior	Each Complaint of <u>reportedly</u> discourteous, rude, or inappropriate behavior by Collection vehicle personnel, Customer service personnel, or other employees of Contractor pursuant to Section 8.06.H.

R3

Section 2

Annual Report Audit of Recology

Table Number	Short Description	Attachment J Language
M12 - 7	Complaints regarding spills of discarded materials and failure to clean up those spills	(A) Each Complaint of litter, or spills of Solid Waste, Recyclable Materials, or Organic Materials near Containers or on public streets and Contractor's failure to pick up or clean up such material immediately pursuant to Section 8.02.1. (B) Each Complaint of Contractor failing to clean up Solid Waste, Recyclable Materials, or Organic Materials that were littered on public property pursuant to Section 8.02.1.
M12 - 8	Complaints regarding unreasonable leaks or spills of vehicle fluids	Each Complaint of unreasonable leaks or spills of hydraulic fluids, fuel, motor oil, and other motor vehicle, fluids and liquids from the Collection vehicle on public streets pursuant to Section 8.02.1.

Most of these liquidated damages categories have a monthly allowance which differs by Member Agency, over which liquidated damages would be applied. Complaints for those categories did not exceed the monthly allowance for those complaints that have allowances. "Complaints regarding unacceptable employee behavior" and "Complaints regarding unreasonable leaks or spills of vehicle fluids" have no allowance; any complaint is subject to a liquidated damage. Over the two months and the 23 tickets R3 reviewed, four complaints were made and incorrectly invalidated, three under "unacceptable employee behavior" and one under "leaks or spills of vehicle fluids," at damages of \$250 and \$500, respectively. Extrapolating that occurrence level to the entire year would result in approximately 72 and 24 complaints per category, and total liquidated damages of \$30,000.

**Liquidated Damages and Audit Recommendation – R3 recommends that SBWMA:**

1. Assess \$1,250 additional liquidated damages on Recology for four complaints that were identified as being incorrectly invalidated in this year’s audit; and
2. Direct R3 to conduct, during the 2019 audit next year, a detailed review with a sampling methodology agreed upon by SBWMA and Recology and agreed-upon extrapolations for liquidated damages that exceed monthly allowances.

Customer calls that are complaints should be subject to the liquidated damages described in Attachment J. Recology has not been reporting some complaints for the following reasons, which R3 does not concur with:

- Customer complaints disputed by driver(s);
- Drivers were instructed to cease the activity that was described by the customer; or
- Customer corrected the cause of the complaint without Recology staff’s intervention (such as in the case of spilled material cleared by customer before supervisor arrives).

Complaints may be invalidated and not reported as subject to liquidated damages if the complaint was investigated, photos taken, and a determination made that the subject of the complaint did not occur, only if a customer complaint is made but the customer states that they did not witness the actual event (such in the case of property damage).



### Customer Service Quality

The one Liquidated Damage item related to Customer Service Quality is “Resolution or remedy of complaints or inquiries beyond 10 business days of receipt of the complaint or inquiry.” R3 recommends that Recology begin tracking this type of customer complaint via a dedicated code. ***R3 did not identify any adjustments to current LDs reported by Recology during this audit.***

### Reporting

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

### Other

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

### **Review of Performance Incentive/Disincentive Payments**

Table 5 on the following page provides a full list of 2018 Performance Incentive/Disincentive payments as reported by Recology and as calculated by R3. As shown, R3’s calculations for the 2018 Incentive/Disincentive payments do not match those reported by Recology. Minor adjustments were necessary. Findings specific to each Incentive/Disincentive category are discussed below.

Section 2

**Table 6: 2018 Performance Incentive/Disincentive Payments**

PERFORMANCE INCENTIVES/DISINCENTIVES				
Item Description	Company Source Documentation	Total 2018 Incentive/Disincentive Payments		
		Company Reported	R3 Calculated	Recommended Adjustment
Single-Family Missed Pick-Up Initial Complaints	RSMC Annual Reports (Tab M2)	<i>Incentive/Disincentive has been eliminated.</i>		
Single-Family Missed Pick-Up Collection Events	RSMC Annual Reports (Tab M2)	(\$2,100)	(\$2,100)	\$0
Average Speed of Answer at Customer Service Center	RSMC Annual Reports (Tab M3)	(\$560)	(\$500)	\$60
Ninety (90) Second Maximum Hold Time	RSMC Annual Reports (Tab M3 Supporting Documentation)	(\$30,695)	(\$30,695)	\$0
Maximum Contamination Levels	N/A	<i>Incentive/Disincentive has been eliminated.</i>		
Minimum Diversion Levels	N/A	\$59,830	\$59,830	\$0
<b>Total Incentive/Disincentive Payments Due to / (from) Recology</b>		<b>\$26,475</b>	<b>\$26,535</b>	<b>\$60</b>

Single-Family Missed Pick-Up Initial Complaints

Recology stated in its reports that the Incentive/Disincentive for “Single-Family Missed Pick-Up Initial Complaints” was eliminated. This has been confirmed with RethinkWaste, and we recommend no further action.

Single-Family Missed Pick-Up Collection Events

R3 checked the number of Single-Family Missed Pick-Up Collection Events for May and December 2018 against the source documentation (TQR4 Reports) provided by Recology. This involved reviewing Recology’s notes regarding the quantity of Single-Family Missed Pick-Up Complaints which were not resolved by the end of the next business day (per Section 8.02.B.2 of the Agreement). This year, R3 concurs with Recology’s identification of missed pick-up events, and no adjustment is necessary.

Average Speed of Answer at Customer Service Center

R3 verified that the phone statistics provided in Recology’s 2018 Quarterly and Annual Reports matched the phone statistics generated by the Shoretel phone system for May and December of 2018.

Recology receives an Incentive payment for a calculated average speed of answer below 15 seconds, and a Disincentive payment for a calculated average speed of answer greater than 30 seconds. In 2018, Recology calculated Incentive Payments totaling \$8,650, which were driven by an average answer speed of 15 seconds or less; and Disincentive Payments totaling \$9,210 for 2018, which were driven primarily by average answer speeds of over 30 seconds.



Annual Report Audit of Recology

***R3's verification of incentive and disincentive payment calculations found a \$60 error in Recology's favor.***

**Recommended Adjustment** – Disincentive payment of \$500 for Speed of Answer (\$60 less than in Recology's annual report) to SBWMA from Recology, to be applied to the Gross Revenue Billed Reconciliations for 2018.

#### Ninety (90) Second Maximum Hold Time

R3 verified that the phone statistics provided in Recology's 2018 Quarterly and Annual Reports matched the phone statistics generated by the Shoretel phone system for May and December of 2018. Specifically, Recology is assessed a Disincentive payment of \$5.00 per call when the number of calls exceeding the 90-second threshold exceeds 5% of all incoming calls in the quarter. The number of calls exceeding the 90-second threshold did exceed 5% in the fourth quarter of 2018. This resulted in a total calculated Disincentive payment of \$30,695 for 2018.

***No adjustments are necessary.***

#### Maximum Contamination Levels

Attachment I<sup>5</sup> of the franchise agreement establishes Maximum Contamination Levels. Compliance with these levels requires periodic evaluation of contamination levels. Per Resolution 2018-13, which was approved by the SBWMA Board of Directors on March 22, 2018, contamination surveys, which were biannual, are now to be completed on an as-needed basis. As there were no contamination surveys completed in 2018, it is not possible to calculate the incentive / disincentive payments between SBWMA and Recology for this year. ***No adjustments are necessary.***

#### Minimum Diversion Levels

Recology included a self-reported incentive payment amount of \$59,572 for 2018 on the basis of the same contamination levels applied to the 2017 diversion calculation. This is a significant reduction from prior years' incentive payments (the past two years' incentive payments were \$175,789 in 2016 and \$155,755 in 2018). R3 has confirmed that the calculations are accurate. ***No adjustments are necessary.***

<sup>5</sup> As amended per the administrative changes and amendments.

Section 2

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Annual  
Report Audit  
of Recology



## Section 3. Financial Systems Audit of Recology

The primary objective of R3's audit of Recology's financial systems was to determine whether Recology's 2018 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.

### 3.1 Gross Revenue Billed

**Objective:** Confirm that calendar year 2018 residential and commercial revenue amounts reported as billed (by Member Agency) ties to the accounting records, including any unbilled and deferred revenue adjustments.

Verifying Gross Billed Revenue as reported in the annual Reconciliation is the first step in calculating each Member Agency's surplus/shortfall balance owed to/from Recology.

Recology bills and collects payment for solid waste services from residential, commercial and industrial accounts for most SBWMA Member Agencies. East Palo Alto, Redwood City, Hillsborough, and North Fair Oaks directly bill for services (or have at least some billing on the property tax role) and then remit collected revenues to Recology. All revenue is recorded in Recology's general ledger (GL); some revenue is retained by Recology and not credited to the Member Agencies, such as late fees. The revenue in the GL sent to R3 did not include late fees, escheat (amounts due to the state), and other revenue. The total billed revenue reported by Recology in the 2018 Reconciliation is \$106,775,802, after adjustments.

In order to verify the accuracy of gross revenues billed in the Reconciliation, R3 reviewed revenues from residential and commercial customers reported in the Reconciliation to Recology's system-generated GL report which details revenues for each Member Agency, as well as any adjustments to the GL revenue.

## Section 3

Financial  
Systems Audit  
of Recology

Table 7: Verification of Gross Revenues Billed

Member Agency	Billed Revenues per GL Records	Adjustments	Subtotal	Gross Billed Revenues per Reconciliation
Atherton	\$2,848,173	\$223,845	\$3,072,018	\$3,072,018
Belmont	\$6,749,501	\$70,129	\$6,819,630	\$6,819,630
Burlingame	\$11,432,909	\$ (272,184)	\$11,160,725	\$11,160,725
East Palo Alto	\$4,949,961	\$134,640	\$5,084,601	\$5,084,601
Foster City	\$5,702,474	\$165,514	\$5,867,988	\$5,867,988
Hillsborough	\$3,164,501	\$ (112,572)	\$3,051,929	\$3,051,929
Menlo Park	\$11,406,397	\$1,125,137	\$12,531,534	\$12,531,534
Fair Oaks	\$2,836,921	\$61,566	\$2,898,487	\$2,898,487
Redwood City	\$19,627,464	\$ (486,079)	\$19,141,385	\$19,141,385
San Carlos	\$8,733,757	\$ (36,718)	\$8,697,039	\$8,697,039
San Mateo	\$23,374,502	\$85,345	\$23,459,847	\$23,459,847
West Bay Sanitary	\$1,524,306	\$127,284	\$1,651,590	\$1,651,590
Unincorporated San Mateo County	\$3,295,421	\$43,608	\$3,339,029	\$3,339,029
<b>TOTAL</b>	<b>\$105,646,287</b>	<b>\$1,129,515</b>	<b>\$106,775,802</b>	<b>\$106,775,802</b>



## 3.2 Adjustments

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

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

- Rate stabilization fees for Belmont (\$68,292) and West Bay Sanitary (\$15,592) are billed by Recology but not booked to revenue and cancelled out as Pass-Through Costs. Burlingame has discontinued its rate stabilization for the entirety of 2018;
- A small adjustment to Menlo Park compactor revenue (\$181);
- A minor adjustment to 2018 San Carlos Debris Box revenue (\$1,079);
- A small (\$7) adjustment to 2018 County Franchised Area residential billing; and
- Revenue adjustments, which represent the difference between amounts billed and booked as revenues in an amount equal to the following adjustments:<sup>6</sup>
  - 2018 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 2017 incentive/disincentive payments owed to/from Recology as approved by SBWMA in 2018;
  - Payment to/from Recology for the SBWMA-approved 2016 surplus/shortfall and interest on applicable shortfalls; and
  - Adjustments to the booked surplus/shortfall amounts for 2016 due to timing differences.

## 3.3 Pass-Through Costs

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

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

<sup>6</sup> Note that while these adjustments are listed in the Reconciliation, they do not affect the total Gross Revenue Billed. Recology includes them as a means of recognizing how the amount of operating revenues booked difference from the amount of Gross Revenues Billed; however, Gross Revenues Billed is the figure of concern in the Reconciliation because Recology's compensation is calculated based on gross billings.

## Section 3

Financial  
Systems Audit  
of Recology**Disposal and Processing Expenses**

R3 reviewed the annual 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 SBWMA, R3 reviewed annual disposal and processing costs by Member Agency and compared the results to the Reconciliation. This included reviewing calculations for disposal and processing of garbage and organics based on disposal and processing costs reported by Recology as being paid to SBWMA. R3 also checked the disposal expenses reported as paid by Recology against the invoices sent by SBWMA; the disposal expense on the revenue reconciliation ties to the amount billed to Recology by SBWMA plus \$398 unexplained over charge which is immaterial.

**Member Agency Fees**

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

Recology provided a summary schedule of the various fees charged by each Member Agency in 2018, backup documentation for any changes in Member Agency fees between 2017 and 2018, and a table of calculations detailing the basis for payment of Member Agency fees in 2018. R3 checked this table against the Member Agency fees summary schedule from 2018 and confirmed that the fees were assessed accordingly.

R3 analyzed the information provided by Recology to verify that Recology properly calculated each Member Agency fee included in the Pass-Through Costs. This included comparing the amount of gross (or net, as applicable) revenue on which Member Agency fees were paid against the amount of Gross Billed Revenue listed in the Reconciliation. Member Agency Fees represented in the Reconciliation rely on gross revenue figures that, in many cases, do not 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.<sup>7</sup> Put another way, Member Agency fees are calculated on the basis of gross revenue inclusive of late fees, and Recology retains late fees collected.

No escheat was reported for 2018.

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

The amounts by which revenues used for the purpose of calculating Member Agency Fees have been adjusted compared to Gross Billed Revenues as stated in the Reconciliation are shown in Table 7 on the next page. A positive number indicates higher revenues used for the purposes of calculating Member Agency fees, while a negative number indicates the opposite.

<sup>7</sup> In the 2014 and other prior reconciliations, Recology listed the late fees as adjustments to Gross Billed Revenue; however, late fees were not addressed in the 2015, 2016 or 2017 Reconciliations. Though the net result is that late fees do not count towards Gross Billed Revenue, we recommend that Recology remain consistent in its treatment of late fees.

**Table 8: Member Agency Fee Calculations vs. Gross Billed Revenues in Reconciliation**

Member Agency	Late Fees	Escheat	Type of Other Discrepancy(ies)	Amount of Other Discrepancy	Total
Atherton	\$0.00	\$0.00	NA	\$0.00	<b>\$0.00</b>
Belmont	\$4,319.42	\$0.00	2017 Rate Stabilization	\$5,232.44	<b>\$9,551.86</b>
Burlingame	\$4,518.01	\$0.00	2017 Rate Stabilization	\$7,238.69	<b>\$11,756.70</b>
County of San Mateo	\$2,282.46	\$0.00	NA	\$0.00	<b>\$2,282.46</b>
East Palo Alto	\$327.93	\$0.00	NA	\$0.00	<b>\$327.93</b>
Foster City	\$0.00	\$0.00	NA	\$0.00	<b>\$0.00</b>
Hillsborough	\$1,041.03	\$0.00	FY 16-17 tax roll adj. Amount booked but not paid to Recology.	\$300.00	<b>\$1,341.03</b>
Menlo Park	\$10,448.83	\$0.00	NA	\$0.00	<b>\$10,448.83</b>
North Fair Oaks	\$178.83	\$0.00	NA	\$0.00	<b>\$178.83</b>
Redwood City	\$0.00	\$0.00	Unbilled AR True-up. Write-off amount included in franchise fee calculation.	-\$30,064.36	<b>-\$30,064.36</b>
San Mateo	\$0.00	\$0.00	Write-off amount included in franchise fee calculation	-\$241.42	<b>-\$241.42</b>
San Carlos	\$3,210.93	\$0.00	Waste Rate Reduction Holly St. Traffic Mitigation Write-off amount included in franchise fee calculation	-\$14,490.21	<b>-\$11,279.28</b>
West Bay Sanitary	\$0.00	\$0.00	2017 Rate Stabilization	\$1,173.41	<b>\$1,173.41</b>
<b>TOTAL</b>	<b>\$26,327.44</b>	<b>\$0.00</b>		<b>-\$30,851.45</b>	<b>-\$4,524.01</b>

## Section 3

Financial  
Systems Audit  
of Recology

## 3.4 Net Revenue Calculation

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

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

## 3.5 Recology's Compensation

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

In September 2017, the SBWMA Board approved Recology's 2018 compensation totaling \$56,906,852. To verify the accuracy of compensation values listed in the Reconciliation, R3 compared total compensation by Member Agency as listed in the Reconciliation to the Board-approved compensation.

## 3.6 Attachment Q Billings

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

Recology's fees for unscheduled and intermittent services listed in Attachment Q are subtracted from Recology's Gross Billed Revenues. Fees for unscheduled services reported in the Reconciliation totaled to \$1,750,411.

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

## 3.7 Additional Cart Fees

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

Fees for additional carts in Atherton, Hillsborough, North Fair Oaks, and San Mateo County accrue to Gross Revenues, but do not count towards Recology's compensation. Revenues for these services have been included in the reported Gross Billed Revenues, and not Recology's overall compensation; these fees therefore accrue to the benefit of the Member Agencies noted above.

However, Attachment Q revenues are paid to Recology to provide these services and therefore this revenue is deducted from Gross Billed Revenues in the Reconciliation.

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

- Recology retained \$1.05 out of each residential organics additional cart fee for the City of Atherton. This amount is adjusted yearly by the Consumer Price Index. The City of Atherton is paid the remaining balance of the additional cart fees.
- Hillsborough, North Fair Oaks, and San Mateo County are paid the full additional cart fees, as the fees are considered already included in the rates.
- In Belmont, Burlingame, East Palo Alto, Foster City, San Mateo, Menlo Park, Redwood City, and San Carlos, Recology retains the full amount of additional cart fees.

### 3.8 Backyard Services

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

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

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

### 3.9 Surplus/Shortfall Calculations

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

The surplus (or shortfall) is the difference between the amounts owed to Recology per the approved 2018 compensation application and what was billed by Recology, less pass-through costs. In accordance with each Member Agency's franchise agreement, each year's surplus (or shortfall) as calculated in the annual Revenue Reconciliation will be added to, or subtracted from, Recology's compensation in subsequent rate cycles.

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

- Net revenue billed, which is the result of:
  - Gross Billed Revenues reported by Recology; less

Section 3

Financial Systems Audit of Recology

- Pass through costs, including disposal and processing expenses and Member Agency fees; less
- Unscheduled and intermittent services (Attachment Q) revenues (discussed above);
- Less the total compensation due to Recology for rate year 2018, which is equal to:
  - Recology’s approved 2018 compensation; plus
  - 2016 surplus/shortfall values by Member Agency; plus
  - Interest on the shortfall amounts calculated via an agreed upon methodology between Recology and SBWMA; plus
  - The 2016 surplus paid by Recology to Member Agencies (Atherton); less
  - The 2016 shortfall paid to Recology by Burlingame.<sup>8</sup>

R3 checked each of the values listed above against the approved compensation and 2016 surplus/shortfalls as listed in Recology’s 2018 Compensation as approved by the SBWMA Board. We also recalculated the interest using the provided explanation for interest calculation and found that interest was calculated according to the agreed-upon methodology.

R3 verified Recology’s calculations of 2018 surplus/shortfall values in the Reconciliation by recalculating them and comparing the result to the Reconciliation. Calculations of 2018 Net Revenues are shown in Table 8 followed by calculations of the 2018 surplus/shortfall in Table 9 on the following page.

**Table 9: Calculation of 2018 Net Revenues (as provided by Recology)**

Member Agency	2018 Gross Billed Revenues per Reconciliation	2018 Pass-Through Costs	2018 Attachment Q Revenues	2018 Net Revenues Billed
Atherton	\$3,072,018	(\$1,464,045)	(\$39,488)	\$1,568,485
Belmont	\$6,819,630	(\$3,350,600)	(\$84,803)	\$3,384,227
Burlingame	\$11,160,725	(\$5,539,362)	(\$126,608)	\$5,494,755
East Palo Alto	\$5,084,601	(\$2,450,132)	(\$70,329)	\$2,564,140
Foster City	\$5,867,988	(\$2,213,821)	(\$41,890)	\$3,612,277
Hillsborough	\$3,051,929	(\$1,164,145)	(\$21,732)	\$1,866,052
Menlo Park	\$12,531,534	(\$5,954,444)	(\$176,905)	\$6,400,185
North Fair Oaks	\$2,898,487	(\$1,065,035)	(\$40,267)	\$1,793,185
Redwood City	\$19,141,385	(\$8,717,267)	(\$383,682)	\$10,040,436

<sup>8</sup> 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 2016 surplus/shortfall amounts are considered in developing the 2018 Reconciliation.



Member Agency	2018 Gross Billed Revenues per Reconciliation	2018 Pass-Through Costs	2018 Attachment Q Revenues	2018 Net Revenues Billed
San Carlos	\$8,697,039	(\$3,398,348)	(\$113,992)	\$5,184,699
San Mateo	\$23,459,847	(\$10,230,094)	(\$496,768)	\$12,732,985
West Bay Sanitary	\$1,651,590	(\$556,197)	(\$19,505)	\$1,075,888
Unincorporated County	\$3,339,029	(\$1,085,144)	(\$23,003)	\$2,230,882
<b>TOTAL</b>	<b>\$106,775,802</b>	<b>(\$47,188,634)</b>	<b>(\$1,638,972)</b>	<b>\$57,948,196</b>

Table 10: Calculation of 2018 Surplus/Shortfall

Member Agency	2018 Net Revenues	2018 Approved Recology Compensation	Adjustments	2018 Surplus (Shortfall)
Atherton	\$1,568,485	(\$1,356,594)	\$0	\$211,891
Belmont <sup>9</sup>	\$3,384,227	(\$3,607,764)	(\$722,423)	(\$945,960)
Burlingame	\$5,494,755	(\$5,727,633)	\$0	(\$232,878)
East Palo Alto	\$2,564,140	(\$2,327,694)	(\$117,933)	\$118,513
Foster City	\$3,612,277	(\$3,443,040)	\$19,279	\$188,516
Hillsborough	\$1,866,052	(\$1,945,283)	\$591,910	\$512,679
Menlo Park	\$6,400,185	(\$5,720,090)	(\$362,495)	\$317,600
North Fair Oaks	\$1,793,185	(\$1,698,894)	\$76,139	\$170,430
Redwood City	\$10,040,436	(\$10,197,274)	\$88,282	(\$68,556)
San Carlos	\$5,184,699	(\$5,171,300)	\$476,458	\$489,857
San Mateo	\$12,732,985	(\$12,556,375)	(\$165,971)	\$10,639
West Bay Sanitary	\$1,075,888	(\$975,092)	(\$14,679)	\$86,117
Unincorporated County	\$2,230,882	(\$2,179,819)	(\$33,487)	\$17,576
<b>TOTAL</b>	<b>\$57,948,196</b>	<b>(\$56,906,852)</b>	<b>(\$164,920)</b>	<b>\$876,424</b>

<sup>9</sup> It should be noted that Belmont has a unique Franchise Agreement with Recology with a different compensation formula. Thus the shortfall balance shown above for Belmont does not represent the actual balance owed by Belmont based on their unique formula.



## Section 3

Financial  
Systems Audit  
of Recology

## 3.10 Findings

**Gross Revenue Billed**

R3 has verified that Total Operating Revenues and Gross Billed Revenues reported by Recology in the 2018 Reconciliation tie to accounting records provided by Recology (including adjustments for rate stabilization accounts for Belmont and West Bay Sanitary, Menlo Park compactor revenue, reversals of 2018 items regarding San Carlos debris box revenue and County Franchised Area residential billing). These results are detailed in Table 6, on page 26.

***No adjustments are necessary.***

**Adjustments**

Recology provided, and R3 reviewed and verified, documentation for the rate stabilization adjustments for Belmont and West Bay Sanitary noted above, as well as the small adjustments for Menlo Park, San Carlos and County Franchised Area.

Overall, adjustments to revenues are logical and documented, and the sum of revenues and adjustments ties directly to gross revenues billed in the Reconciliation. ***No adjustments are necessary.***

**Pass-Through Costs**

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

**Net Revenue Calculation**

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

**Recology's Compensation**

R3 verified that Recology's compensation figures listed by Member Agency in the 2018 Reconciliation directly ties to the approved compensation set by SBWMA. ***No adjustments are necessary.***

**Attachment Q Billings**

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

**Additional Cart Fees**

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



### Backyard Services

R3 compared the total number of transactions to the 20% threshold in each Member Agency and found that the number of backyard services customers does not exceed the threshold. R3 verified that the credit for the first 20% of residential backyard service customers is accurately reported in Recology's 2018 Revenue Reconciliation. Furthermore, R3 confirmed that the revenues for these services are included in gross revenues billed for each Member Agency, but not retained by Recology as compensation. ***No adjustments are necessary.***

### Surplus/Shortfall Calculations

***No adjustments are necessary.***

R3

Section 3

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Financial  
Systems Audit  
of Recology

R3

## Section 4. Annual Report Audit of SBR

### 4.1 Completeness of Reports

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

- Complete and contain all of the reporting requirements specified in Article 9.05 (Quarterly Reporting Requirements) and 9.06 (Annual Reporting Requirements) of SBR’s operating agreement; and
- Mathematically accurate and logically consistent (that the columns and rows add correctly and tie to supporting schedules within the report).

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

SBR’s 2018 Annual Report was compared against the Quarterly Reporting requirements of Section 9.05 of the SBR Operating Agreement<sup>10</sup>. R3 then compared the contents of the 2018 Annual Report to the contents of SBR’s preceding 2018 quarterly totals to determine if the contents and calculations were consistent.

### 4.2 Review of Inbound and Outbound Tonnage Data

**Objectives:** The objectives of this task were to verify:

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

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

#### Comparison of Recology Tons to SBR Tons

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

<sup>1</sup> Section 9.06 for Annual Reporting requirements include all of the quarterly requirements as listed in Section 9.05.

## Section 4

Annual  
Report Audit  
of SBR

To determine if SBR's reported data for Recology's franchised service is consistent with that data reported by Recology, R3 compared SBR's monthly data from franchise services, as reported in their 2018 December Report (Tab 2; Inbound Summary Report) to the monthly data reported by Recology in its monthly tonnage reports as reported in its Tonnage Summary and Cumulative Comparison worksheets of its Quarterly Reports.

### Tracking Inbound Tonnage Data

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

1. Franchised Inbound Tons (Recology);
2. Member Agency Vehicles Inbound Tons;
3. Recology Maintenance Box Trucks;
4. Self-Haul Tons;
5. Buyback & Drop-Off Tons;
6. South Bay Internal Tons; and
7. Non-Franchised Tons.

#### Non-Self-Haul Tons

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

#### **Self-Haul Tons**

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

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

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

## 4.3 Review of Inbound Member Agency Tonnage Data

### **Member Agency Vehicles**

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

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

**Transfer Station & Third Party Tonnages**

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

- Self-Haul Solid Waste;
- MRF Residue;
- Transfer Station & Other Recycling;
- Self-Haul Green Waste; and
- Self-Haul Inert/C&D.

**Inert/Self-Haul Solid Waste**

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

**MRF Residue<sup>11</sup>**

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

**Transfer Station & Other Recycling**

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

**Self-Haul Green Waste**

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

**Self-Haul Inert/C&D**

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

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<sup>11</sup> MRF residue from the sort line that goes over the Thayer Belt Scale that is calibrated every shift.

R3

## Section 4

Annual  
Report Audit  
of SBR**Outbound Tonnages**

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

**4.4 Review of SBR Liquidated Damages**

Objectives: The objectives of this task were to:

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

**Review of Liquidated Damages Payments**

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

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

SBR's 2018 Monthly Reports (7 LIQUIDATED DAMAGES REPORT) included no reported instance of service issues that would trigger the payment of Liquidated Damages.

**Review of Liquidated Damage Reporting Procedures**

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

## 4.5 Findings

### Annual Report

Appendix B includes the findings of our review of the completeness of SBR's 2018 Annual Report. This report satisfies all the reporting requirements of Section 9.05 except for the following section which was not included in the Annual Report:

- Hazardous Spills Reporting (Section 9.05.E.7) – The 2018 Annual Report does not list any instances in which hazardous spills were reported. There were no hazardous spills listed in the past two annual reports, either.

### Review of Inbound Tonnage Data

To verify the accuracy of the reported input tonnages, R3 tied the data reported on Tab AA for two sample months (February and December) to the supporting PC Scales generated reports and other supporting documents, without exception.

R3 confirmed the accuracy of the calculated self-haul tonnage. **No adjustments are necessary.**

### Review of Inbound Member Agency Tonnage Data

#### Member Agency Vehicles

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

#### Transfer Station & Third Party Tonnages

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

#### Inert/Self-Haul Solid Waste

R3 tied the reported MSW yards by Member Agency in Tab AB for a sample month to the supporting PC Scales data base and confirmed the accuracy of the associated conversion of yardage to tons without exception. **No adjustments are necessary.**

#### MRF Residue

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

We requested the basis of the recycling residual allocation by Member Agency that appears in the SBR monthly reporting. The operator indicated that allocations are made according to tons of solid waste collected. **R3 recommends that the allocations instead be based on the tons of recycling collected by Member Agency for future reporting.**

**Reporting Recommendation** – R3 recommends that SBR allocate residual by Member Agency by tons of recycling collected, rather than tons of solid waste collected.

## Section 4

Annual  
Report Audit  
of SBRTransfer Station & Other Recycling

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

Self-Haul Green Waste

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

Self-Haul Inert/C&D

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

Outbound Tonnages

R3 tied the yearly tonnage totals for all outbound materials and commodities to PC Scales tonnage reports provided by SBR, and tied the monthly tons for one sample month to the PC Scales reports provided by SBR. A few discrepancies were identified. SBR's explanation for each discrepancy is provided below:

- 28.43 tons were reported in March as mixed rigid plastics from transfer station, and should have been reported as Shop Box Cardboard, due to a key-in error;
- 73.04 organic tons were underreported sent to Newby Island in April due to a month-end correction that was not migrated into the submitted annual report. SBR has represented that these tons were correct in the version of the report used for payment to Newby Island.

The tonnage discrepancies associated with these errors are minor; **R3 recommends that no adjustments to tonnage reporting be requested of SBR.**

Net Balance of Inbound and Outbound Tonnages

Table 10 provides a comparison of the total tons diverted and disposed as reported by Recology to those reported by SBR. As, shown there are some discrepancies in both the reported diversion and disposal data. Relative discrepancies from our 2013, 2014, 2015, and 2016 Annual Report Reviews are also shown. This year's tonnage discrepancy is higher than any other year that has been audited. Recology provided the following response to our question on this tonnage discrepancy:

For January 2019, 11.37 organics tonnage rather than MSW

For May 2019, Bulky Item Collection MSW (53.60) and Rte 988 (11.14) rather than Recycling plus events MSW 0.15

For June 2019, Bulky Item Collection MSW (79.87) rather than Recycling plus events MSW 0.15

For July 2019, Bulky Item Collection MSW (29.01) rather than Recycling, net Roll Off adjustment (-5.47) plus events MSW 0.52

The explanation indicates that Recology re-coded a few weight tickets. In all months but January, the weight tickets were re-coded to MSW that had been coded by SBR as recycling. In January, tons were re-coded as organics that were coded by SBR as MSW. R3 finds this



explanation acceptable, but can conduct a further investigation of the individual weight tickets at SBWMA’s option. **SBWMA has informed R3 that it accepts the reports as is due to the minor changes noted.**

**Table 11: Comparison of Recology and SBR Monthly Tonnages**

Month	Tons Disposed				Tons Diverted			
	Recology Report (1)	SBR Report (2)	Variance (Recology vs. SBR)		Recology Report (1)	SBR Report (2)	Variance (Recology vs. SBR)	
			Tons	%			Tons	%
January	15,637.78	15,649.15	-11.37	-0.07%	16,901.61	16,888.92	12.69	0.08%
February	13,511.01	13,511.01	0	0.00%	13,209.18	13,202.75	6.43	0.05%
March	15,110.87	15,110.65	0.22	0.00%	15,050.74	15,049.08	1.66	0.01%
April	14,617.30	14,616.75	0.55	0.00%	15,727.03	15,725.81	1.22	0.01%
May	15,746.95	15,682.06	64.89	0.41%	16,402.47	16,464.30	-61.83	-0.38%
June	15,023.22	14,943.20	80.02	0.53%	15,126.31	15,204.08	-77.77	-0.51%
July	15,566.55	15,542.49	24.06	0.15%	15,268.22	15,295.39	-27.17	-0.18%
August	16,070.94	16,070.72	0.22	0.00%	15,963.24	15,957.25	5.99	0.04%
September	13,756.49	13,755.95	0.54	0.00%	13,801.02	13,792.50	8.52	0.06%
October	15,702.42	15,702.08	0.34	0.00%	16,294.86	16,286.03	8.83	0.05%
November	15,130.58	15,130.58	0	0.00%	15,874.97	15,869.06	5.91	0.04%
December	15,314.08	15,313.99	0.09	0.00%	17,605.21	17,597.95	7.26	0.04%
<b>2018 Total</b>	<b>181,188.19</b>	<b>181,028.63</b>	<b>159.56</b>	<b>0.09%</b>	<b>187,224.86</b>	<b>187,333.12</b>	<b>-108.26</b>	<b>-0.06%</b>

**Prior Years Data**

<b>2017 Total</b>	<b>182,430.37</b>	<b>182,440.61</b>	<b>-10.24</b>	<b>-0.01%</b>	<b>186,569.49</b>	<b>186,597.95</b>	<b>-28.46</b>	<b>-0.02%</b>
<b>2016 Total</b>	<b>180,854.34</b>	<b>180,857.83</b>	<b>-3.49</b>	<b>0.00%</b>	<b>180,999.40</b>	<b>181,026.90</b>	<b>-27.5</b>	<b>-0.02%</b>
<b>2015 Total</b>	<b>177,591.01</b>	<b>177,585.62</b>	<b>5.39</b>	<b>0.00%</b>	<b>171,735.83</b>	<b>171,761.96</b>	<b>-26.13</b>	<b>-0.02%</b>
<b>2014 Total</b>	<b>177,106.09</b>	<b>177,098.36</b>	<b>7.73</b>	<b>0.00%</b>	<b>169,503.18</b>	<b>169,527.89</b>	<b>-24.71</b>	<b>-0.01%</b>
<b>2013 Total</b>	<b>177,001.51</b>	<b>176,979.89</b>	<b>21.62</b>	<b>0.01%</b>	<b>168,930.40</b>	<b>168,929.28</b>	<b>1.12</b>	<b>0.00%</b>

1 Source: Annual Report Tonnage Report supporting detail: (4) RSMC Annual Reports 2016 part 1 / M1. Rolling 13 Month

2 Source: SBR's 2016 December Report; Attachment A; Shoreway Center Inbound Detail Report

**Review of SBR Liquidated Damages**

We verified that the Liquidated Damages itemized in Tab 7 of the SBR December Monthly Report are the same damages as those listed in Attachment 10 of its Operating Agreement.

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

R3

Section 4

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Annual  
Report Audit  
of SBR

R3

## Section 5. Financial Systems Audit of SBR

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

To verify SBR's financial tracking and reporting systems, R3 coordinated with SBR to request source documentation and confirm the data tracking process for each reporting category. This included verification of reported 2018 self-haul revenues, commodity revenues, Shoreway buyback center payments against SBR's "PC Scales" tracking system, bank statements, and other supporting documentation. Mathematical accuracy and logical consistency of the company's reported values were also reviewed.

### 5.1 Public Self-Haul Revenue

**Objective:** Verify that the 2018 public revenue transferred monthly to SBWMA ties to the accounting records.

Revenue collected from the public by SBR at the Shoreway scale house for loads of self-haul material is remitted by SBR to SBWMA each month. To verify the accuracy of 2018 self-haul revenue transferred to SBWMA, R3 compared SBR's "Customer/Material" PC Scales reports for "Third Party Customers Only" with SBR's monthly remittance statement to SBWMA, verified amounts sent to SBWMA in SBR's 2018 bank statements detailing the electronic funds transfers (EFTs) for self-haul revenue, as well as with SBWMA's tracking of wire payments received. The bank statements provided by SBR are a new piece of source documentation that allowed R3 to compare figures against another source of documentation for this 2018 audit.

### 5.2 Commodity Revenue

**Objective:** Verify that the gross 2018 commodity revenue as reported on SBR's 2018 December monthly report ties to accounting records.

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

To verify SBR's 2018 commodity revenue, R3 reviewed PC Scales reports detailing outbound recyclable materials to compare the recorded tonnage and revenue to the corresponding amounts in the December 2018 monthly report.

### 5.3 Shoreway Buyback Center Payments

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

R3

## Section 5

Financial  
Systems Audit  
of SBR

SBR is 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 2018, SBWMA reimbursed SBR for a total of \$864,809.

R3 compared SBR's monthly invoices to SBWMA accounting records and SBR PC Scales reports corresponding to Buyback Center materials in order to verify that payments to Buyback Center customers made by SBR, and reimbursed by SBWMA, tie to SBR's accounting records. R3 also compared the totals of actual cash and checks received/given at the Buyback Center as recorded in the SBR monthly invoices.

## 5.4 CRV Payments

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

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

RethinkWaste staff have expressed concerns that SBR's monthly estimates of the amount of CRV payment expected (as reported in their monthly reports) were often not in alignment with (and often higher than) the amount of CRV revenue that was ultimately paid by SBR to RethinkWaste. R3 investigated the cause of these discrepancies, and also:

- Reviewed SBR's methodology for allocating CRV tonnages to RethinkWaste to ensure that they were logical, consistent, and mathematically accurate;
- Verified that the correct CRV tonnages were reported to CalRecycle for payment; and
- Verified that RethinkWaste was paid its CRV revenues based on the CRV tonnages described above.

Our review included a comparison of CalRecycle's posted information for 2018 CRV payments values against SBR's records. SBR confirmed that there has been no changes to its methodology for CRV tonnage allocation and CRV payments to RethinkWaste from prior years.

## 5.5 Scale House Procedures

**Objective:** Review the procedures at the scale house to help ensure public revenue is being properly accounted for and franchised volume is being properly recorded.

The Shoreway transfer station accepts garbage, green waste, C&D material, appliances, tires, scrap metal and assorted other materials self-hauled by residents, businesses, contractors and other individuals. The scale house is responsible for interfacing with the public and properly recording materials brought to the facility.

## 5.6 Findings

### Public Self-Haul Revenue

SBR's PC Scales reported values directly tied to GL records of wire transfers to SBWMA. R3 also confirmed that SBR's EFTs for self-haul revenue shown on bank statements matched the amounts in PC Scales and SBWMA's tracking of wire payments received.

The bank statements were not provided by SBR for review of self-haul revenue for the second half of December, however, these amounts were verified by R3 using PC Scales data and SBWMA tracking records. Payments are made bi-monthly. **No adjustments are necessary.**

### Commodity Revenue

The 2018 commodity revenue and tonnage as reported in SBR's 2018 December monthly report matches monthly PC Scales "Outbound Recyclables Material Summary" reports. **No adjustments are necessary.**

### Shoreway Buyback Center Payments

R3 verified that the amount of payments to Buyback Center customers made by SBR and reimbursed by SBWMA does tie to SBR's accounting records. Previously, the buyback revenue listed in the SBR monthly invoices tied directly to the applicable PC Scales report. Starting in May 2017 however, SBR changed this methodology to a sum of all cash dispensed and checks written to customers at the Buyback Center for the month. This is a more accurate method of accounting than the previous methodology because it is the actual cost of goods sold by month instead of the PC Scales Report which does not always capture all accounting variances. This methodology was consistent for the entire 2018 year. R3 confirmed the intent and reasoning behind this new methodology and are satisfied with the result.

As a result of this new methodology, the variance between PC Scales and the actual cash and checks amount resulted in a \$2,729 difference in the favor of the cash and checks as shown in Table 11 on the next page. However, at the end of 2017, there was a variance of \$2,851 in favor of PC Scales. SBR has stated that around the end of the month in December, there delays in reporting during the holidays and where numbers are may be attributed to 2017 or 2018 depending on when the report is generated. Regardless, these variances show the apparent leveling out of those numbers. **No adjustments are necessary.**

R3

## Section 5

Financial  
Systems Audit  
of SBR

Table 12: Buyback Revenue Totals

Month	#4 PC Scales Report	SBR Invoice Monthly Report	SBWMA Actuals	Variance between PC Scales and Monthly Reports
January	\$61,443.11	\$64,172.36	\$64,172.36	-\$2,729.25
February	\$62,616.58	\$62,621.86	\$62,621.86	-\$5.28
March	\$66,281.90	\$66,256.84	\$66,256.84	\$25.06
April	\$68,792.78	\$68,732.23	\$68,732.23	\$60.55
May	\$73,692.70	\$73,683.82	\$73,683.82	\$8.88
June	\$80,477.75	\$80,693.45	\$80,693.45	-\$215.70
July	\$81,233.01	\$81,252.61	\$81,252.61	-\$19.60
August	\$83,924.93	\$83,929.30	\$83,929.30	-\$4.37
September	\$76,474.90	\$72,489.82	\$72,489.82	\$3,985.08
October	\$72,107.43	\$75,958.41	\$75,958.41	-\$3,850.98
November	\$67,829.38	\$67,795.02	\$67,795.02	\$34.36
December	\$67,220.44	\$67,222.96	\$67,222.96	-\$2.52
<b>TOTAL</b>	<b>\$862,094.91</b>	<b>\$864,808.68</b>	<b>\$864,808.68</b>	<b>-\$2,713.77</b>

**CRV Payments**

The difference between SBR's estimates of CRV payments and the amount of payments actually received by 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.

Overall, SBR has implemented a CalRecycle approved CRV tonnage allocation methodology for attributing tons and CRV payments to RethinkWaste. A waste characterization is conducted at the MRF for each Member Agency to determine the percentage of each commodity in samples taken. SBR tracks CRV tons in its system for each Member Agency, the Buyback Center, and third party tonnages. CalRecycle approved SBR's allocation methodology in 2010, a waste characterization was conducted in 2011, and in 2013 SBR was required to resubmit its allocation methodology due to the addition of third party CRV. In 2016, CalRecycle required SBR to undergo a processing audit and resubmit the allocation methodology for approval.

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.

***No adjustments are necessary.***

### Scale House Procedures

On May 15, 2019, R3 monitored scale house activities to verify whether scale house is being operated in accordance with SBR's agreement with RethinkWaste (Agreement). During this visit, R3 held 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 that scale house operations are in compliance with contractual requirements for data reporting.

The scale house is adhering to the Agreement in most ways. R3 found that the various full-time scale house attendants have been working in the scale house for 20 to 30 years. This longevity and lack of staff turnover provides for consistent handling of procedures within the Agreement as well as a responsive and positive rapport with the public.

R3 observed staff operating the PC Scales system, handling cash and credit transactions and interacting with various customers and staff during the course of their job duties. Through the interview process, R3 was informed of SBR's current procedures for validating tare weights. Per Attachment 3 of the Agreement (General Operating Standards and Procedures), SBR is required to:

- Provide continuous staffing of the scale house during receiving hours;
- Ensure that security cameras record scale house transactions, customer traffic, and vehicle unloading – camera upgrades were recently completed, with more video coverage of the facility and the ability to read license plates;
- Ensure staff is trained in the use of PC Scales, customer service, and Shoreway capabilities – PC Scales was recently updated, with new staff training conducted, including direct entry of license plate numbers into PC Scales for all self-haul loads;
- Ensure scale house attendants are providing accurate measurements of self-haul customer loads. Accurate measurements of self-haul customer loads are intended to be achieved 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;
  - Documenting and recording the monitoring and spot-checks in a Scale Load Audit binder available for inspection by RethinkWaste;
- Ensure staff inspects inbound self-haul loads;
- Determine City of origin and acceptability of self-haul loads;
- Volumetrically measure self-haul loads and ensure proper weighing of franchise loads;
- Issue appropriate paperwork and receipts for self-haul customers;

Section 5

Financial  
Systems Audit  
of SBR

- Weigh materials from Member Agencies, collection contractors and others as appropriate; and
- Weigh each loaded vehicle carrying recyclables from the MRF prior to shipment.

R3 verified the known procedures being used at the scale house to ensure public revenue is being properly accounted for and franchised volume is being properly recorded. R3 was able to verify scale house security measures are in place and found that SBR has a Scale Attendant-Scale Operations and Cash Procedure document that clearly sets forth scale house processes and procedures for staff. Recent updates reported by SBR staff include tighter controls on cashier reconciliation processes, individual credit card readers for each cashier, and manual input of materials by type and jurisdiction or origin. ***No action is necessary.***

R3