

FINAL REPORT

2016 Financial Systems Audit



SUBMITTED TO:

**South Bayside Waste Management Authority
(SBWMA)**

June 20, 2017

Report Submitted Digitally

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June 20, 2017

Joseph La Mariana, Executive Director
SBWMA (South Bayside Solid Waste Management Authority)
610 Elm Street, Suite 202
San Carlos, CA 94070

Subject: 2016 Financial Systems Audit of Recology and South Bay Recycling

Dear Mr. La Mariana:

R3 Consulting Group, Inc. (R3) is pleased to submit the attached Final Report of the 2016 Financial Systems Audit (Audit) of SBWMA's collections services contractor (Recology) and facility operations contractor (South Bay Recycling or SBR).

Both contractors maintain complex financial systems that handle and allocate millions of dollars each year. Annually ensuring that these systems are functioning as intended remains an important means of protecting the interests of SBWMA, its Member Agencies and ratepayers. This Audit determines whether Recology continues to maintain logical, consistent, and mathematically accurate financial systems relative to the annual Revenue Reconciliation submitted to SBWMA. In addition, the Audit investigates whether South Bay Recycling continues to maintain logical, consistent and mathematically accurate financial systems relative to its self-haul payments, buyback payments, and commodities revenue payments to or from SBWMA (as applicable).

Prior to issuance of this Final Report, R3 prepared a Draft Report and provided the initial findings included in that report to both contractors. After discussion of initial findings with Recology and SBR, and after review of supporting documentation provided in response to our questions, R3 made adjustments to the Draft Report to produce this Final Report.

To achieve cost savings, the 2016 Audit was reduced in scale compared to prior years. As such, it should be noted that a number of tasks completed in prior years were not conducted this year, including the review of SBR's scale house procedures and verification of weight tags and tonnages for Recology route trucks. Although these items don't necessarily need to be audited annually, we recommend that they be included periodically in future annual audits as they remain important elements of financial reporting from both contractors.

Sincerely,

R3 CONSULTING GROUP



Garth Schultz | Principal

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1 Executive Summary

1.1 Background

The South Bayside Waste Management Authority (SBWMA) 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, County of San Mateo and West Bay Sanitary District) in San Mateo County.

The twelve SBWMA Member Agencies have exclusive franchise agreements with Recology San Mateo County (Recology) for the collection of garbage, recyclable materials and organic materials. Recology provides collection services to approximately 93,000 households and 9,000 businesses in the SBWMA 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 SBWMA.

SBWMA owns and manages the Shoreway Environmental Center (Shoreway) which is operated by South Bay Recycling (SBR). Shoreway receives all recyclables, organics and garbage collected by Recology under its franchise agreements with each of SBWMA’s Member Agencies, as well as other self-haul and non-franchised material delivered to that facility. SBR reports 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.

SBWMA annually contracts with independent parties to audit and confirm the legitimacy and accuracy of financial information provided by Recology and SBR. These audits 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.

1.2 Scope of Work

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

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

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



Section 1

Executive
Summary

keeping with solid waste industry operational standards, and general compliance with agreements SBWMA has with both entities.

1.3 Summary of Findings

Recology

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

- Gross revenues reported in the 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;
- Surplus/shortfall calculations are accurately calculated;
- Compensation for unscheduled and intermittent services retained by Recology is accurately calculated, with the exception of Attachment Q Revenues for Atherton, which were incorrectly stated in the Reconciliation at 63,114;
 - ***The corrected value provided by Recology is 62,937, which, after a corresponding reduction of \$16 in Member Agency fees due to Atherton, results in a net reduction of \$161 for Atherton in "Unscheduled and Intermittent Services", and a corresponding net \$161 increase in Atherton's 2016 Surplus, from \$340,576 to \$340,737.***
- Recology appropriately did not retain compensation for an allowed 20% of residential customers subscribing to backyard service.

SBR

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

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

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2 Recology

The main objective of the audit of Recology’s financial systems was to determine whether Recology’s 2016 Reconciliation is complete, logically consistent, and mathematically accurate, with supporting documentation for information included in the Reconciliation. This section details specific objectives for auditing each component of the Reconciliation and our analysis and findings relative to each.

2.1 Gross Revenue Billed

Objective

Confirm that the residential and commercial revenue amounts reported as billed (by Member Agency) for calendar year 2016 ties to the accounting records, including unbilled and deferred revenue adjustments.

Analysis

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 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 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, and other revenue. The total billed revenue reported by Recology in the 2016 Reconciliation is \$100,483,697, 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.

Findings

R3 has verified that Total Operating Revenues and Gross Billed Revenues reported by Recology in the 2016 Reconciliation tie to accounting records provided by Recology (including adjustments for rate stabilization accounts for Belmont, Burlingame and West Bay Sanitary and for San Carlos compactor billing). These results are detailed in Table 1, on the following page.

No adjustments are necessary.

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Section 2

Recology

TABLE 1: Verification of Gross Revenues Billed

Member Agency	Billed Revenues per GL Records	Adjustments	Subtotal	Gross Billed Revenues per Reconciliation
Atherton	2,746,909	395,371	\$3,142,280	\$3,142,280
Belmont	6,314,016	296,665	\$6,610,681	\$6,610,681
Burlingame	10,902,673	(14,698)	\$10,887,975	\$10,887,975
East Palo Alto	4,774,119	(147,034)	\$4,627,085	\$4,627,085
Foster City	5,365,575	183,035	\$5,548,610	\$5,548,610
Hillsborough	3,137,709	24,976	\$3,162,685	\$3,162,685
Menlo Park	10,779,157	(337,065)	\$10,442,092	\$10,442,092
Fair Oaks	2,739,004	(7,162)	\$2,731,842	\$2,731,842
Redwood City	18,333,606	112,925	\$18,446,531	\$18,446,531
San Carlos	8,204,292	138,557	\$8,342,849	\$8,342,849
San Mateo	21,607,569	188,243	\$21,795,812	\$21,795,812
West Bay Sanitary	1,335,255	170,387	\$1,505,642	\$1,505,642
Unincorporated San Mateo County	3,296,389	(56,776)	\$3,239,613	\$3,239,613
TOTAL	99,536,273	947,424	\$100,483,697	\$100,483,697

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2.2 Adjustments

Section 2

Recology

Objective

Review, validate and explain adjustments in the Reconciliation.

Analysis

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 (\$66,123), Burlingame (\$178,011) and West Bay Sanitary (\$14,085) are billed by Recology but not booked to revenue, and cancelled out as Pass-Through Costs;
- A small (\$7) adjustment to Atherton residential billing
- A decrease to revenue to account for San Mateo compactor revenue that was booked but not billed in 2016 (\$3,487); and
- Revenue adjustments, which represent the difference between amounts billed and booked as revenues in an amount equal to the following adjustments:¹
 - 2016 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 2014 and 2015 incentive/disincentive payments owed to/from Recology as approved by SBWMA in 2016;
 - Payment to/from Recology for the SBWMA-approved 2014 surplus/shortfall and interest on applicable shortfalls; and
 - Adjustments to the booked surplus/shortfall amounts for 2014 due to timing differences.

Findings

Recology provided, and R3 reviewed and verified, documentation for the rate stabilization adjustments for Belmont, Burlingame, and West Bay Sanitary noted above, as well as the small adjustments for Atherton and San Mateo.

The revenue adjustments listed in the final four sub-bullets above are calculated by Recology which, together with the other figures noted above, represent the difference between billed and booked revenues for 2016. These figures sum to a “hauling revenue adjustment” that

¹ 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.

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Recology

Recology uses in calculating its annual booked revenue, which is less than the total billings used to calculate the surplus or shortfall owed to or from Member Agencies. R3 verified the total billings figures as compared to Recology's 2016 Audited Financial Statement, as well as GL reports. 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.**

2.3 Pass-Through Costs

Objective

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

Analysis

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

Disposal and Processing Expenses

R3 reviewed 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. As in prior years, R3 did not check the disposal expenses reported as paid by Recology against the invoices sent by SBWMA; we suggest that SBWMA review the disposal and processing costs by Member Agency to ensure consistency with SBWMA billings.

Member Agency Fees

In order to ensure that Recology properly calculated and paid Member Agency fees, R3 requested documentation to confirm the type and amount of each Member Agency fee. Recology provided a summary schedule of the various fees charged by each Member Agency in 2015, backup documentation for any changes in Member Agency fees between 2015 and 2016, and a table of calculations detailing the basis for payment of Member Agency fees in 2016. R3 checked this table against the Member Agency fees summary schedule from 2015 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.² Escheat (amounts due to the state) have also been accounted for differently this year. Recology has also stated that “*escheat amounts should not have been included for purposes of the Agency fees calculation in 2015. These amounts are adjusted (reversed) in 2016.*”

This year, 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. Upon receiving explanation from Recology, R3 verified that the variances are accurate, with no adjustments necessary.

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 2, below. A positive number indicates higher revenues used for the purposes of calculating Member Agency fees, while a negative number indicates the opposite.

TABLE 2: Member Agency Fee Calculations vs. Gross Billed Revenues in Reconciliation

Member Agency	Late Fees	Escheat	Type of Other Discrepancy	Amount of Other Discrepancy
Atherton	\$0.00	-\$75.07	Adjust Residential Billing	\$6.75
Belmont	\$2,585.42	-\$680.43	Escheat Refunds 2015	-\$243.99
Burlingame	\$2,839.26	-\$457.21	Customer Refund	\$100.00
County of San Mateo	\$2,078.68	-\$175.05	NA	\$0.00
East Palo Alto	\$766.55	-\$5,174.49	NA	\$0.00
Foster City	\$0.00	-\$1,128.74	Escheat Refunds 2015	-\$358.23
Hillsborough	\$1,033.71	-\$362.53	NA	\$0.00
Menlo Park	\$11,743.83	-\$1,344.41	NA	\$0.00
North Fair Oaks	\$206.72	\$0.00	NA	\$0.00
Redwood City	\$0.00	\$0.00	Unbilled AR True-Up, Bad Debt Write-Off	-\$10,372.45
San Mateo	\$0.00	-\$2,027.29	EOW Pilot Program, Compactor Revenue, Escheat Refund 2015m Adjustment to Q fees	-\$4,290.04
San Carlos	\$3,128.60	-\$611.99	Waste Rate Reduction, Holly St. Traffic Mitigation	-\$4,961.72
West Bay Sanitary	\$0.00	-\$107.14	NA	\$0.00

² 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 or 2016 Reconciliation. 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.



Section 2

Recology

Findings

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.**

2.4 Net Revenue Calculation

Objective

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

Analysis

Net revenues in the 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.

Findings

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

2.5 Recology's Compensation

Objective

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

Analysis

In September 2015, the SBWMA Board approved Recology's 2016 compensation totaling \$57,344,842. 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 values as adopted in 2015.

Also as part of this Task 2.5 this year, R3 verified the costs of the Split-Body Collection Vehicle Pilot Program against the approved compensation for 2016. These costs were deducted from Contractor's Compensation, resulting in lower amounts due to Recology via Member Agency rate setting.

Findings

R3 verified that Recology's compensation figures listed by Member Agency in the 2016 Reconciliation directly ties to the approved compensation set by SBWMA. **No adjustments are necessary.**

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2.6 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.

Analysis

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 \$1,278,696.

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.

Findings

Initial analysis found that all figures and values in the Reconciliation tied to supporting documentation, with the exception of the \$37,755 in Total Unscheduled Services for Atherton. After requesting additional documentation from Recology, a revised figure for Atherton was provided, at \$37,578, \$177 less than the original number reported by Recology.

After accounting for Atherton Member Agency fees on these values (\$16), **Atherton's "Unscheduled and Intermittent Services" need to be adjusted to reflect a decrease of \$161, from \$34,514 to the new value of \$34,353.** All other "Unscheduled and Intermittent Services" for the remaining Member Agencies were accurate.

2.7 Additional Cart Fees

Objective

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

Analysis

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.

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Section 2

Recology

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 retains \$1.03 out of each residential organics additional cart fee for the City of Atherton, 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.

Findings

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.**

2.8 Backyard Services

Objective

Verify that the credit for the first 20% of residential backyard service customers is accurately reported.

Analysis

In order to verify that the credit for the first 20% of residential backyard service customers is accurately reported in the 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.

Findings

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 2016 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.**



2.9 Surplus/Shortfall Calculations

Section 2

Recology

Objective

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

Analysis

The surplus (or shortfall) is the difference between the amounts owed to Recology per the approved 2016 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 Reconciliation will be added to, or subtracted from, Recology's compensation in subsequent rate cycles.

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

- Net revenue billed, which is the result of:
 - Gross billed revenues reported by Recology; less
 - Pass through costs, including disposal and processing expenses and Member Agency fees; less
 - Unscheduled and intermittent services (Attachment Q) revenues (discussed above)
- Less the total due to Recology for rate year 2016, which is equal to:
 - Recology's approved 2016 compensation; plus
 - 2014 surplus/shortfall values by Member Agency; plus
 - Interest on the surplus/shortfall amounts calculated via an agreed upon methodology between Recology and SBWMA; plus
 - The 2014 surplus paid by Recology to Member Agencies (Atherton, Burlingame, Redwood City and West Bay Sanitary); minus
 - The 2014 shortfall paid to Recology by Menlo Park.³

R3 checked each of the values listed above against the approved compensation and surplus/shortfalls as listed in Recology's 2016 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 surplus/shortfall values in the Reconciliation by recalculating them and comparing the result to the Reconciliation. Calculations of 2016 Net Revenues are shown in Table 3 on the next page, followed by calculations of the 2016 surplus/shortfall in Table 4 on page 13.

³ 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 2014 surplus/shortfall amounts are considered in developing the 2016 Reconciliation.

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Section 2

Recology

TABLE 3: Calculation of 2016 Net Revenues (as provided by Recology)

Member Agency	2016 Gross Billed Revenues per Reconciliation	2016 Pass-Through Costs	2016 Attachment Q Revenues	2016 Net Revenues Billed
Atherton ⁴	3,142,280	(1,314,800)	<i>(34,353)</i>	<i>1,793,127</i>
Belmont	6,610,681	(3,078,923)	(75,928)	3,455,830
Burlingame	10,887,975	(5,173,935)	(110,666)	5,603,374
East Palo Alto	4,627,085	(2,369,457)	(59,489)	2,198,139
Foster City	5,548,610	(1,971,958)	(23,913)	3,552,739
Hillsborough	3,162,685	(1,046,947)	(14,613)	2,101,125
Menlo Park	10,442,092	(4,670,001)	(144,677)	5,627,414
North Fair Oaks	2,731,842	(956,593)	(37,118)	1,738,131
Redwood City	18,446,531	(7,971,933)	(172,998)	10,301,600
San Carlos	8,342,849	(3,076,558)	(103,681)	5,162,610
San Mateo	21,795,812	(8,652,038)	(365,493)	12,778,281
West Bay Sanitary	1,505,642	(491,475)	(17,333)	996,834
Unincorporated County	3,239,613	(974,171)	(20,889)	2,244,553
TOTAL	100,483,697	(41,748,789)	(1,181,312)	57,553,596

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⁴ Atherton's 2016 Attachment Q Revenues and 2016 Net Revenues Billed (shown in red and italics) have been adjusted in Table 3 in accordance with the adjustments identified in Section 2.6.

TABLE 4: Calculation of 2016 Surplus/Shortfall

Member Agency	2016 Net Revenues	2016 Approved Recology Compensation	Adjustments	2016 Surplus (Shortfall)
Atherton ⁵	1,793,127	(1,453,796)	1,406	340,737
Belmont	3,455,830	(3,700,159)	(478,094)	(722,423)
Burlingame	5,603,374	(5,786,195)	5,591	(177,230)
East Palo Alto	2,198,139	(2,392,396)	83,392	(110,865)
Foster City	3,552,739	(3,370,911)	(162,549)	19,279
Hillsborough	2,101,125	(1,959,215)	450,000	591,910
Menlo Park	5,627,414	(5,973,959)	5,774	(340,771)
North Fair Oaks	1,738,131	(1,746,991)	84,999	76,139
Redwood City	10,301,600	(10,223,197)	9,879	88,282
San Carlos	5,162,610	(5,019,785)	333,633	476,458
San Mateo	12,778,281	(12,578,406)	(365,846)	(165,971)
West Bay Sanitary	996,834	(1,012,492)	979	(14,679)
Unincorporated County	2,244,553	(2,127,340)	(150,700)	(33,487)
TOTAL	57,553,596	(57,344,842)	(181,536)	27,379

Findings

As explained in Section 2.6 of this Report, **R3 recommends an adjustment of \$161 to the surplus calculation for Atherton**, yielding a revised 2016 surplus for Atherton of \$340,737. R3 has reviewed this finding with Recology, who agrees to this adjustment being necessary.

⁵ Atherton's 2016 Surplus is adjusted from Recology's Reconciliation, at a net increase of \$161, to account for the adjustments noted in Section 2.6. The Total Surplus amount has also been increased by \$161 to account for the new total Surplus/Shortfall, which was originally listed in the Reconciliation at \$27,218.

Section 3

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South Bay
Recycling

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3 South Bay Recycling

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 cardboard, 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 2016 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.

3.1 Public Self-Haul Revenue

Objective

Verify that the 2016 public revenue transferred monthly to SBWMA ties to the accounting records.

Analysis

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 2016 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 2016 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 2016 Audit.

Findings

SBR’s PC Scales 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. Bank statements were not provided by SBR for review of self-haul revenue for the second half of January 2016, the first half of February 2016, and December 2016, however, these amounts were verified by R3 using PC Scales data and SBWMA tracking records. Payments are made bi-monthly, with the exception of May 2016 self-haul revenue which was remitted as a lump sum EFT in June 2016. **No adjustments are necessary.**

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3.2 Commodity Revenue

Objective

Verify that the gross 2016 commodity revenue as reported on SBR’s 2016 December monthly report ties to accounting records.

Analysis

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.

The fire at the Shoreway that occurred in September 2016 had a significant impact on commodity revenues. After the fire, SBR shut down recyclables processing operations for the remainder of the year and materials were shipped to third party operators (Newby Island, Green Waste Recovery, and California Waste Solutions) for processing. Only clean glass was sold in the following months through December 2016; SBR was not able to market other commodities during that time.

To verify SBR’s 2016 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 2016 monthly report.

Findings

With the exception of a small, negligible difference in September 2016 revenues reported (\$0.21), the 2016 commodity revenue and tonnage as reported in SBR’s 2016 December monthly report matches monthly PC Scales “Outbound Recyclables Material Summary” reports. **No adjustments are necessary.**⁶

TABLE 5: 2016 Commodity Revenue and Tonnage

Source	Commodities Sold	Commodity Revenue
2016 December Report	63,161.85 tons	\$4,988,864.88
PC Scales Report	63,161.85 tons	\$4,988,865.09



⁶ The Shoreway fire that occurred in September 2016 resulted in SBR generating two outbound recyclables material summary reports for the month, one before and one after the fire. Due to the negligible amount involved, R3 recommends that no action is necessary by either SBWMA or SBR.

3.3 Shoreway Buyback Center Payments

Objective

Verify that payments made by SBR to SEC Buyback Center customers, and reimbursed by SBWMA, tie to accounting records.

Analysis

SBR is reimbursed for the payments it makes to Buyback Center customers, which includes CRV for certain materials and agreed-upon scrap values for cardboard and metals, and buyback program expenses are treated as a pass-through. In 2016 SBWMA reimbursed SBR for a total of \$845,969.60.

R3 compared SBR's monthly invoices to SBWMA budget reports 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 accounting records.

Findings

R3 verified that the amount of payments to Buyback Center customers made by SBR and reimbursed by SBWMA ties to accounting records. The review confirmed that the details in SBR monthly invoices directly tied to the applicable PC Scales report for each month in 2016. There were no discrepancies found and ***no adjustments are necessary.***

3.4 Status of 2015 Recommendations

As this is a cost saving year, R3 did not review the status of recommendations for SBR systems that were presented in our June 10, 2016 Final Report for the 2015 Financial Systems Audit. In support of ensuring full contract compliance and the adoption of best practices, we recommend that these be assessed during the next financial audit.

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