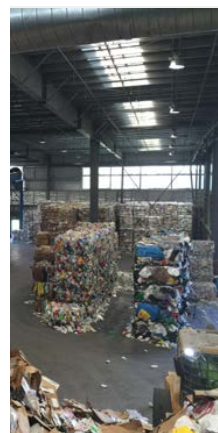


**FINAL REPORT**

**2015 Financial Systems Audit**



**SUBMITTED TO:**

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

June 10, 2016

Report Submitted Digitally as PDF

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June 10, 2016

Farouk Fakira, Finance Manager  
RethinkWaste (South Bayside Solid Waste Management Authority)  
610 Elm Street, Suite 202  
San Carlos, CA 94070

**Subject: 2015 Financial Systems Audit of Recology and South Bay Recycling**

Dear Mr. Fakira:

R3 Consulting Group, Inc. (R3) is pleased to submit the attached Final Report of the 2015 Financial Systems Audit (Audit) of RethinkWaste's collections services contractor (Recology) and facility operations contractor (South Bay Recycling). Our Audit found that Recology continues to maintain logical, consistent, and mathematically accurate financial systems relative to the annual Revenue Reconciliation submitted to RethinkWaste. As a result, no areas requiring adjustment were identified during the course of this Audit. In future years we suggest that RethinkWaste consider directing these audits to more thoroughly review key areas of Recology's Reconciliation rather than broadly reviewing all Reconciliation elements.

Our Audit also found that South Bay Recycling continues to maintain logical, consistent and mathematically accurate financial systems relative to its operations of the Shoreway Environmental Center scale house, self-haul payments, buy-back payments, and commodities revenue payments to or from RethinkWaste (as applicable). For SBR, no areas requiring adjustment were identified during the course of this Audit, though we did identify a few minor operational areas for which we have provided recommendations. In future years, we suggest that RethinkWaste follow up with SBR regarding our recommendations.

We have reviewed the findings of this Report with both contractors, each of whom agreed with our assessment. Though no adjustments are necessary, both contractors maintain complex financial systems that handle and allocate millions of dollars each year. These systems are currently functioning well, but their accuracy depends on the institutional experience of the individuals maintaining those systems. As a result, the potential for human error is significant. Annually ensuring that these systems are functioning as intended remains an important means of protecting the interests of RethinkWaste, its member agencies and ratepayers.

Sincerely,

**R3 CONSULTING GROUP**



Garth Schultz | Principal

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**A 2015 Recology Revenue Reconciliation**

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# 1 Executive Summary

## 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, County of San Mateo and 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 garbage, 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 RethinkWaste that identifies net revenues retained by Recology as compared to the annual compensation owed to Recology by each Member Agency, which is approved annually by RethinkWaste.

RethinkWaste owns and manages the Shoreway Environmental Center (Shoreway) which is operated by South Bay Recycling (SBR). Shoreway receives all of the recyclables, organics and 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 and makes monthly payments to RethinkWaste, covering revenues from sales of recyclable commodities and revenues from public self-haul customers at Shoreway. RethinkWaste also reimburses SBR for payments made through the Shoreway public recycling Buyback Center.

RethinkWaste annually contracts with independent parties to 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

RethinkWaste 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 RethinkWaste.

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

The logo for R3 Consulting Group, featuring the letters 'R3' in a stylized, blue, handwritten font.

## 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;
- Recology's customer billings are consistent with the approved rate schedules;
- 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 RethinkWaste'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; and
- 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;
- SBR correctly calculated and invoiced RethinkWaste for reimbursement of Shoreway buy-back center payments made to customers;
- SBR has made improvements to procedures at the scale house to help ensure public revenue is being properly accounted for and franchised volume is being properly recorded (with some opportunities for additional improvement); and
- Other aspects of SBR's reporting of CRV payments, materials tracking, credit card fee reimbursement, and revenue reporting to RethinkWaste are logical, consistent, and mathematically accurate.

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## 2 Recology

The main objective of the audit of Recology’s financial systems was to determine whether Recology’s 2015 Reconciliation (Appendix A) 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 2015 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 RethinkWaste Member Agencies; East Palo Alto and Redwood City directly bill for services and then remit collected revenues to Recology. All revenue is recorded in Recology’s general ledger (GL); some revenue is retained by Recology and not credited to the Member Agencies, such as late fees. The total billed revenue reported by Recology in the 2015 Reconciliation is \$100,308,540.

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.

#### Findings

Total Operating Revenues and Gross Billed Revenues reported by Recology in the 2015 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) with the exception of small \$1 rounding differences in the spreadsheets used by Recology for these calculations. 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	3,188,740	—	3,188,740	3,188,740
Belmont	6,493,075	65,696	6,558,771	6,558,771
Burlingame	10,515,519	174,671	10,690,190	10,690,190
East Palo Alto	4,594,914	—	4,594,914	4,594,914
Foster City	5,778,606	—	5,778,606	5,778,606
Hillsborough	3,151,168	—	3,151,168	3,151,168
Menlo Park	10,321,736	—	10,321,736	10,321,736
Fair Oaks	2,695,770	—	2,695,770	2,695,770
Redwood City	18,466,567	—	18,466,567	18,466,567
San Carlos	8,232,544	(3,776)	8,228,768	8,228,769
San Mateo	21,929,464	—	21,929,464	21,929,464
West Bay Sanitary	1,490,392	14,079	1,504,471	1,504,471
Unincorporated San Mateo County	3,199,374	—	3,199,374	3,199,374
<b>TOTAL</b>	<b>100,057,869</b>	<b>250,670</b>	<b>100,308,539</b>	<b>100,308,540</b>

## 2.2 Adjustments

### Objective

Review, validate and explain adjustments in the Reconciliation.

## Analysis

Recology has included a number of adjustments in the 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 and validated adjustments that affect calculations of Gross Billed Revenue in the Reconciliation, including:

- Revenue adjustments, which represent the difference between amounts billed and booked as revenues in an amount equal to the following adjustments:<sup>1</sup>
  - 2015 revenue adjustments, which represent the timing difference between the quarterly amounts billed by Recology and the actual services provided for the calendar year;
  - 2014 incentive/disincentive payments owed to/from Recology as approved by RethinkWaste in 2015;
  - Payment to/from Recology for the RethinkWaste approved 2013 surplus/shortfall and interest on applicable shortfalls; and
  - Adjustments to the booked surplus/shortfall amounts for 2013 due to timing differences.
- Additions to Member Agency revenue for rate stabilization fees for Belmont (\$65,696), Burlingame (\$174,671) and West Bay Sanitary (\$14,079) which are billed by Recology but not booked to revenue; and
- A decrease to revenue to account for compactor revenue that was booked but not billed in 2015 (\$3,776).

## Findings

Recology provided, and R3 reviewed, documentation for the specific Belmont, Burlingame, and West Bay Sanitary adjustments noted above. R3 also verified that the amounts listed for the 2013 surplus/shortfall, associated interest charges, and 2014 incentive/disincentive payments were listed and calculated correctly. The 2015 revenue adjustments and adjustments to booked 2013 surplus/shortfall are figures calculated by Recology which, together with the other figures noted above, represent the difference between billed and booked revenues, and have no bearing on the calculation of Gross Billed Revenues because they are negated by other adjustments included in the Reconciliation.

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.**

<sup>1</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 2

Recology

## 2.3 Rates by Member Agency

### Objective

Review and perform tests to verify that the rates billed to residential and commercial customers tie to approved rate schedules for each Member Agency.

### Analysis

To verify Recology properly billed customers in accordance with the approved rate schedules by Member Agency, R3 randomly selected 2-10 residential and commercial accounts from each Member Agency and confirmed whether the rates billed match the approved rates for that Member Agency.

Any billing inaccuracies were noted, and results were documented in a spreadsheet by Member Agency and by sector (residential vs. commercial). A comparison was also made between paper billings and “e-billings” to determine if there was a significant difference in billing accuracy between the two.

Table 2, below, shows the results, compared by sector and also by billing type. There was no significant difference in billing accuracy between “e-bills” and regular bills, or between sectors.

**TABLE 2: Test of Rates by Sector and Billing Type**

	Residential	Commercial	E-Billing	Paper Billing	Overall
# of Accounts Billed	453	163	324	616	955
Sample Size	37	19	27	56	83
% Incorrect	0%	0%	0%	0%	0%

### Findings

Initially, billing inaccuracies were initially thought to have been found in Atherton, Belmont, East Palo Alto, and San Mateo. However, upon further explanation by Recology, those billings were found to be consistent with adopted rates. As a result, our test of rates found that customer billings are consistent with the approved rates within the RethinkWaste service area.

**No adjustments are necessary.**

## 2.4 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 RethinkWaste. 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 RethinkWaste, 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, minor adjustments to tonnage allocations and costs, and disposal and processing rates per ton.

### Member Agency Fees

In order to ensure that Recology properly calculated and paid Member Agency fees, R3 requested documentation to confirm the type and amount of each Member Agency fee. Recology provided a summary schedule of the various fees charged by each Member Agency, calculations detailing the basis for payment of Member Agency fees in 2015, and supporting documentation from each Member Agency regarding 2015 fees.

R3 analyzed the information provided by Recology to verify that Recology properly calculated each Member Agency fee. 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.

R3 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. These are shown in Table 3, on the following page. In prior years, these variances were determined to be the result of Member Agency fees being calculated and paid monthly, whereas the Reconciliation is completed at the end of the year. Recology researches the cause of these variances annually; after some effort, small difference that cannot be identified remain as variances.

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## Section 2

## Recology

**TABLE 3: Member Agency Fee Calculations vs. Gross Billed Revenues in Reconciliation**

Member Agency	Gross Billed Revenue Discrepancy*	Late Fees	Escheat (Paid to State)	Balance	Explanation
Atherton	(74)	0	75	(1)	
Belmont	(10,792)	7,554	680	<b>2,557</b>	Adjustments to unbilled "Attachment Q" rates
Burlingame	(8,585)	8,128	457	<b>1</b>	
County of San Mateo	(4,699)	4,524	175	<b>1</b>	
East Palo Alto	(7,046)	1,871	5,174	(1)	
Foster City	(1,128)	0	1,128	<b>1</b>	
Hillsborough	18,002	1,559	362	<b>19,924</b>	Billing true-up necessitated by booking funds meant for Redwood City to the Hillsborough account in 2014, and a billing adjustment on Franchise Fees in 2013
Menlo Park	(83,239)	81,919	1,344	<b>24</b>	
North Fair Oaks	(378)	378	0	<b>0</b>	
Redwood City	(57,385)	0	0	<b>57,384</b>	Unbilled revenue true-up and bad debt write-off
San Mateo	(2,051)	0	2,027	(24)	
San Carlos	(10,206)	9,594	611	<b>0</b>	
West Bay Sanitary	(108)	0	107	(1)	

\* Gross Revenues as listed in Revenue Reconciliation less those listed in Recology's Member Agency Fees Calculation

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>2</sup> Another primary reason for the discrepancies has to do with the fact that Member Agency fees are calculated and paid to Member Agencies monthly, using

<sup>2</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 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.

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available information for gross billed revenues. These amounts may be adjusted prior to listing the annual totals in the Reconciliation, as noted in Table 3.

### Findings

R3 reviewed supporting documentation for noted discrepancies, and based on the documentation received from Recology, found that ***no adjustments to the amounts paid to member agencies are necessary.***

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

## 2.5 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.***

## 2.6 Recology's Compensation

### Objective

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

### Analysis

In September 2014, the RethinkWaste Board approved Recology's 2015 compensation totaling \$57,723,502. To verify the accuracy of compensation values listed in the Reconciliation, R3 compared those values to the Board-approved compensation values as adopted in 2014.

### Findings

R3 verified that the Recology's compensation figures listed by Member Agency in the 2015 Reconciliation directly ties to the approved compensation set by RethinkWaste, with the exception of small \$1 rounding differences. ***No adjustments are necessary.***

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## Section 2

## Recology

## 2.7 Surplus/Shortfall Calculations

### 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 2015 compensation application and what was billed by Recology, less pass-through costs. In accordance with each Member Agency's franchise agreement, each year's surplus (or shortfall) as determined via the annual 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.
- Less the total due to Recology for rate year 2015, which is equal to:
  - Recology's approved 2015 compensation; plus
  - 2013 surplus/shortfall values by Member Agency; plus
  - Interest on the surplus/shortfall amounts calculated via an agreed upon methodology between Recology and RethinkWaste.

R3 verified Recology's calculations of surplus/shortfall values in the Reconciliation by recalculating them and comparing the result to the Reconciliation. Calculations of 2015 Net Revenues are shown in Table 4 on the next page, followed by calculations of the 2015 surplus/shortfall in Table 5.





**TABLE 4: Calculation of 2015 Net Revenues**

Member Agency	2015 Gross Billed Revenues per Reconciliation	2015 Pass-Through Costs	2015 Attachment Q Revenues	2015 Net Revenues
Atherton	3,188,740	(1,270,963)	(32,077)	<b>1,885,700</b>
Belmont	6,558,771	(3,006,707)	(68,608)	<b>3,483,456</b>
Burlingame	10,690,190	(4,904,632)	(102,721)	<b>5,682,837</b>
East Palo Alto	4,594,914	(2,273,475)	(49,392)	<b>2,272,047</b>
Foster City	5,778,606	(1,866,311)	(22,262)	<b>3,890,033</b>
Hillsborough	3,151,168	(1,021,325)	(13,388)	<b>2,116,455</b>
Menlo Park	10,321,736	(4,460,191)	(134,731)	<b>5,726,814</b>
North Fair Oaks	2,695,770	(917,445)	(35,560)	<b>1,742,765</b>
Redwood City	18,466,567	(7,691,062)	(141,917)	<b>10,633,588</b>
San Carlos	8,228,769	(2,841,181)	(98,767)	<b>5,288,821</b>
San Mateo	21,929,464	(8,427,327)	(355,012)	<b>13,147,125</b>
West Bay Sanitary	1,504,471	(471,104)	(16,972)	<b>1,016,395</b>
Unincorporated San Mateo County	3,199,374	(939,541)	(19,146)	<b>2,240,687</b>
<b>TOTAL</b>	<b>100,308,540</b>	<b>(40,091,264)</b>	<b>(1,090,553)</b>	<b>59,126,723</b>

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## Section 2

## Recology

TABLE 5: Calculation of 2015 Surplus/Shortfall

Member Agency	2015 Net Revenues	2015 Approved Recology Compensation	2013 Surplus/(Shortfall)	Interest on 2013 Shortfall	2015 Surplus/(Shortfall)
Atherton	1,885,700	(1,461,074)	(136,721)	(8,716)	279,189
Belmont	3,483,456	(3,620,978)	(883,732)	(56,338)	(1,077,592)
Burlingame	5,682,837	(5,729,318)	41,259	0	(5,222)
East Palo Alto	2,272,047	(2,410,949)	134,974	0	(3,928)
Foster City	3,890,033	(3,466,353)	(333,499)	0	90,181
Hillsborough	2,116,455	(1,967,587)	356,908	0	505,776
Menlo Park	5,726,814	(5,838,582)	(150,422)	(9,589)	(271,779)
North Fair Oaks	1,742,765	(1,770,658)	17,634	0	(10,259)
Redwood City	10,633,588	(10,561,173)	144,629	0	217,044
San Carlos	5,288,821	(5,090,254)	(91,362)	(5,824)	101,381
San Mateo	13,147,125	(12,662,789)	(433,685)	0	50,651
West Bay Sanitary	1,016,395	(996,526)	14,775	942	35,586
Unincorporated San Mateo County	2,240,687	(2,147,262)	117,433	0	210,858
<b>TOTAL</b>	<b>59,126,723</b>	<b>(57,723,503)</b>	<b>(1,201,809)</b>	<b>(79,525)</b>	<b>121,886</b>

**Findings**

Recology's calculations of 2015 Net Revenues are free of errors and are mathematically accurate. **No adjustments are necessary.**

**2.8 Attachment Q Billings****Objective**

Determine whether the revenue reported for Attachment Q services is accurate, and that it was retained by Recology for appropriate services.

**Analysis**

Recology's fees for unscheduled and intermittent services listed in Attachment Q are subtracted from Recology's gross billed revenues. Fees reported in the Reconciliation totaled to \$1,090,553.

To verify whether the amount of Attachment Q reported revenues reported by Member Agency in the Reconciliation is correct, R3 requested that Recology provide GL data pertaining

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to the Attachment Q services, Member Agency additional cart fees, and Member Agency fees on Attachment Q revenues. R3 reviewed the GL data and compared it to the information listed in the Reconciliation, and recalculated the Member Agency Fees on Attachment Q revenues, as shown in Table 6 below.

**TABLE 6: 2015 Attachment Q, Backyard Services and Additional Cart Revenues**

Member Agency	Total Unscheduled Revenues Collected	Less Member Agency Extra Cart Fees	Less Agency Fees on Q Revenues	Less Residential Backyard Services	Total Revenue Retained by Recology
Atherton	314,482	251,977	3,052	27,377	<b>32,077</b>
Belmont	95,744	-	24,106	3,030	<b>68,608</b>
Burlingame	125,411	-	16,998	5,692	<b>102,721</b>
East Palo Alto	49,483	-	91	-	<b>49,392</b>
Foster City	22,262	-	-	-	<b>22,262</b>
Hillsborough	188,592	140,361	1,262	33,581	<b>13,388</b>
Menlo Park	154,635	-	20,103	-	<b>134,731</b>
North Fair Oaks	41,808	5,624	-	624	<b>35,560</b>
Redwood City	141,918	-	-	-	<b>141,917</b>
San Carlos	112,112	-	9,877	3,468	<b>98,767</b>
San Mateo	377,400	-	14,200	8,188	<b>355,012</b>
West Bay Sanitary	21,504	-	-	4,532	<b>16,972</b>
Unincorporated San Mateo County	44,920	21,884	-	3,891	<b>19,146</b>
<b>Total</b>	<b>1,690,271</b>	<b>419,845</b>	<b>89,688</b>	<b>90,383</b>	<b>1,090,553</b>

### Findings

R3 confirmed that the amount of Attachment Q revenue reported as billed by each Member Agency ties to the accounting records for each different type of charge. The Attachment Q revenues, Member Agency Extra Cart Fees, and Residential Backyard Services reported by Recology tie to GL records, and ***no adjustments are necessary.***

Using the same formulas provided by Recology for the 2014 Financial Systems Audit, R3 recalculated the Member Agency Fees on Attachment Q revenues. We identified discrepancies for Atherton, Burlingame, Hillsborough, and Menlo Park in the Member Agency Fee calculations for Attachment Q revenues. These were caused by an adjustment to the total unscheduled services amount for unbilled revenues, which are not subject to the Member Agency fees. There was also a discrepancy for East Palo Alto, which was caused by the fact that

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the Member Agency fees are only applied to Attachment Q revenues associated with residential accounts.

Upon review of the supporting documentation provided by Recology, all reported amounts were found to be supported, logical, consistent and mathematically accurate. **No adjustments are necessary.**

## 2.9 Additional Cart Fees

### Objective

Verify the fees charged by Recology for additional carts and determine whether these fees were properly accounted for in the Attachment Q calculations for each Member Agency.

### 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.

Attachment Q revenues, on the other hand, are paid to Recology to provide these services and therefore this revenue is deducted from gross billed revenues in the 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 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 review 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.**

## 2.10 Backyard Services

### Objective

Confirm that fees charged for backyard services do not exceed the 20% customer threshold, and that they are not retained by Recology.

### Analysis

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.

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

### 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 2015 Reconciliation; 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.***

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

For this task, R3 reviewed SBR’s financial tracking and reporting systems. R3 coordinated with SBR to determine the source documentation and data tracking process for each reporting category, which included determining how 2015 public revenues, commodity revenues, Shoreway buyback center payments, and weight ticket information (including route number and material types) are recorded using SBR’s “PC Scales” tracking system, and then verifying the mathematical accuracy and logical consistency of the company’s reported values. In addition, R3 conducted a review of scale house procedures, and tested weight tickets to verify that SBR’s procedures are effective and accurate.

At RethinkWaste’s request, R3 also reviewed CRV payments, glass residue allocation, credit card documentation, and materials accounting/carry forward.

### 3.1 Public Self-Haul Revenue

#### Objective

Confirm that public self-haul revenue as declared by SBR in wire transfer documentation matches the PC Scales reports, and that the annual sum is accurate.

#### Analysis

Revenue collected from the public by SBR at the Shoreway scale house is remitted in full by SBR to RethinkWaste on a monthly basis. In order to verify the accuracy of the 2015 public revenue transferred monthly to RethinkWaste, R3 compared the PC Scales report “Consumer/Material Report for Public Self Haul Loads” with SBR’s monthly remittance statement to RethinkWaste, as well as with RethinkWaste’s tracking of wire payments received.

#### Findings

R3 confirmed that SBR’s PC Scales reports directly tied to GL records of wire transfers to RethinkWaste. After examining an apparent discrepancy in SBR’s wire transfer remittance statement for March 2015, it was determined that the wire transfer amount was correct, and **no adjustments are necessary**. SBR has also issued a corrected version of the March 2015 remittance.

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## 3.2 Commodity Revenue

### Objective

Verify that the commodity revenue declared by SBR matches the PC Scales reports.

### Analysis

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

### Findings

Except for clear rounding differences, the 2015 commodity revenue and tonnage as reported on the Commodity Revenue Report matches monthly PC Scales report "Outbound Recyclables Material Summary." **No adjustments are necessary.**

## 3.3 Shoreway Buyback Center Payments

### Objective

Verify that the amount of payments to Shoreway Buyback Center customers by SBR, and reimbursed by RethinkWaste, ties to accounting records.

### Analysis

RethinkWaste reimburses SBR for payments it makes to Buyback Center customers, including CRV for applicable materials as well as agreed-upon scrap values for cardboard and metals. In 2015, RethinkWaste reimbursed SBR for the pass-through expenses from the buyback program in a total amount of \$846,172.60.

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

### Findings

R3 verified that the amount of payments to Shoreway Buyback Center customers by SBR and reimbursed by RethinkWaste 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 2015. There were no discrepancies found and **no adjustments are necessary.**

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## 3.4 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.

### Analysis

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.

In preparation for on-site observation, R3 assessed SBR's documented procedures (e.g., Scale Attendant Scale Operations and Cash Procedures) in order to verify that processes are being communicated to and followed by staff. R3 also reviewed the procedures for validating and making changes to tare weights, training methods for scale house personnel, procedures for measurement of public loads, and scale house security measures.

### On-Site Scale House Review

On April 20, 2016 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 19 to 30 years with the newest part-time/on-call worker employed for 4.5 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. Through the interview process, R3 learned there is a 4 to 6 week training program for new staff that includes an informal phone call support system that is actively used by staff on a regular basis.

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 the information described in the sections below.

### SBR must provide continuous staffing of the scale house during receiving hours.

According to the SBR website and gate information, current hours are Monday through Friday, 6:00am-6:00pm; Saturday and Sunday, 8:00am-5:00pm. Through the interview process, R3 learned the scale house has a fully trained on-call attendant, in addition to the regular scale house staff, who is readily available to fill in any gaps in staffing as they arise. As such, staffing coverage at the scale house is continuous. R3 interviewed this attendant as well as the transfer house supervisor who also verified that there is a supervisor on-site during these receiving hours, who could also serve as a backup to the scale house staff if necessary.

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RecyclingSBR must ensure that security cameras record scale house transactions, customer traffic, and vehicle unloading.

R3 observed the scale house's three security cameras. One facing the door where the attendants interact with the public, the second facing the two computers and cash drawer, while the third is directed towards the closed off cubicle where employees state they complete their end-of-shift procedures. Through the interview process, R3 found that security camera footage is automatically saved for two weeks and is reviewed only if there are reported shortages at the end of each shift or to investigate complaints.

SBR must ensure staff is trained in the use of PC Scales, customer service, and Shoreway capabilities.

R3 observed each scale house staff efficiently and effectively using PC Scales and providing friendly, courteous and knowledgeable customer service. Through the interview process, R3 found that each scale house attendant has their own PC Scales log-in credentials. R3 did not observe this log-in process, however, as the staff reportedly log in at the beginning of each shift. R3 verified that each attendant has their credentials on each weight ticket they process.

SBR must ensure scale house attendants are providing accurate measurements of self-haul customer loads.

Accurate measurements of self-haul customer loads is 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; and
- Documenting and recording the monitoring and spot-checks in a Scale Load Audit binder available for inspection by RethinkWaste.

R3 observed each scale house staff volumetrically measuring inbound loads; however, R3 was unable to verify that weekly spot checks of public loads are occurring or are being documented in a Scale Load Audit binder. Staff did show R3 documentation of weekly checks of Recology trucks when asked about the Scale Load Audit binder, but it appears that the documentation collected for that effort is not what was intended by the Agreement, which states that SBR will "monitor the accuracy of volumetric measurements and calculations on a weekly basis through periodic spot checks" and "document and record monitoring and spot-checks in a Scale Load Audit binder available for inspection".

SBR must ensure staff inspects inbound self-haul loads.

R3 observed the scale house staff inspecting each inbound self-haul load and directing or redirecting loads to the necessary Shoreway location. During this inspection, it was noted by R3 that scale house staff were aware of the procedures on which materials are volumetrically measured versus which materials are required to be weighed (dirt, concrete, stucco, roofing, or loads that appeared heavy). R3 observed multiple instances wherein loads were redirected according to proper procedure.

R3 observed two occurrences in which a customer self-hauling a load of clean cardboard requested that he be charged as if the material were garbage, paid and was allowed to dump at the transfer station tipping floor. Though this customer should have been directed to the

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recyclables material recovery facility (MRF) or Buyback Center, SBR does have dedicated sorted in the public tipping area at the transfer station that can and do sort recoverable materials such as these from the incoming loads of waste.

SBR must determine City of origin and acceptability of self-haul loads.

R3 observed the acceptability and determination of city of origin for each self-haul load. However, as with any facility accepting public loads, it should be noted that how staff ask customers for the City of origin can be ambiguous (i.e. from jobsite vs. contractor headquarters vs driver's home city), potentially resulting in inaccurate tonnage allocations. R3 also observed scale house staff turning away non-allowable materials and ensuring the proper handling of those materials.

SBR must volumetrically measure self-haul loads and ensure proper weighing of franchise loads.

R3 observed the volumetric measurement of inbound self-haul loads occurring through both questioning the customer and visually inspecting small cars or closed-off vehicles as well as physical inspection of vehicles. R3 observed the consistent weighing of franchise loads, including those from the Member Agency vehicles, Recology, Pacifica and Santa Clara.

SBR must issue appropriate paperwork and receipts for self-haul customers.

R3 observed the issuing of tickets to each customer and verified that receipts were given to self-haul customers.

SBR must weigh materials from Member Agencies, collection contractors and others as appropriate.

R3 observed the process of weighing in Member Agencies, collection contractors, and Member Agency vehicles.

SBR must weigh each loaded vehicle carrying recyclables from the MRF prior to shipment.

R3 observed several interactions where loaded vehicles carrying recyclables from the MRF were weighed, photographed for verification of materials, and sealed according to proper procedure.

**Findings**

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.

However, R3 could not verify that weekly spot checks were being conducted to monitor the accuracy of volumetric measurements and calculations. ***SBR should ensure that its Scale Load Audit process (and documentation) apply to confirming the volumetric measurement of inbound public self-haul loads, as required by the Agreement.***

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## 3.5 Weight Ticket Tests

### Objective

Review weight tickets and measured public tickets to verify that stated procedures are being followed.

### Analysis

R3 reviewed a random sample of 25 weight tickets and measured public tickets to verify the stated procedures are being followed. Review of sample tickets included the following:

- Verification that the collection route stated on the weight ticket ties to the information from Recology's daily dispatch log; and
- Verification that the type of material listed on the weight ticket ties to the information from Recology's daily dispatch log, which states the assigned route and material type (i.e. whether the assigned vehicle collected garbage, recyclable materials, or organics).

### Findings

R3 reviewed each ticket to ensure that it had necessary data in the Ticket Number, Date, Customers, Carrier, Truck Number, Type, Route, Materials and Origin categories. Tare weights for Recology vehicles match the tare weight printed on tickets. R3 verified that Recology's daily dispatch log matched the collection route as well as the material listed on every weight ticket.

***No adjustments are necessary.***

R3 also reviewed sample ticket information against the PC Scale summary report to verify the consistency and accuracy of internal systems. There were no discrepancies found.

## 3.6 CRV Payments

### Objective

Verify that CRV payments are being properly calculated and attributed to RethinkWaste.

### Analysis

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 initially 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 2015 CRV payments values against SBR's records.

### Findings

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 accurate processing payment rates in its estimates (which does not affect the amount of payment actually received). For example, the 2015 processing payment amounts set by CalRecycle changed twice in 2015, with new payment amounts per pound and per ton effective July 1 and October 1. SBR's total estimated CRV payment for 2015 was \$4,247,711, and the actual CRV payment due to RethinkWaste was \$4,217,365, a difference of \$30,346. SBR's estimates were likely high due using incorrect payment values in its estimates.
- 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, and the percentage distribution of CRV tons between Member Agencies is defined. 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 has 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. R3 reviewed the full CRV documentation for one month each quarter of 2015 to verify the payment amount due to RethinkWaste, and found that tonnages uploaded to CalRecycle's system were accurate. ***No adjustments are necessary.***

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### 3.7 Glass Residue Allocation

#### Objective

Explain how SBR sets the amount of residue from glass sorting operations that are attributed to RethinkWaste vs. third parties in its 2016 monthly reports.

#### Analysis

R3 reviewed the methodology for SBR's allocation of glass residue in the February 2016 report from SBR. The allocation percentage attributable to the RethinkWaste is based on the proportion of monthly incoming tons of glass (as measured by the RethinkWaste characterization applied to inbound tons of waste from RethinkWaste), divided by the total tons of outbound glass.

#### Findings

Overall, R3 finds this to be a logical and consistent methodology for assigning the glass residue allocation. **No adjustments are necessary.**

### 3.8 Credit Card Fee Documentation

#### Objective

Verify the total amount of 2015 credit card fees paid by SBR and invoiced to RethinkWaste.

#### Analysis

R3 reviewed the "Global Payments Credit Card Merchant Statement" provided by SBR to verify the pass-through cost of processing payments by credit card at the Shoreway. This pass-through cost, in the amount of \$144,758, is listed on SBR's January 2016 monthly invoice and covers facility credit card transactions from April 1, 2015 to January 1, 2016.

#### Findings

R3 verified that the amounts paid by SBR and invoiced to RethinkWaste match. **No adjustments are necessary.**

### 3.9 RethinkWaste Commodity Revenues Accounting

#### Objective

Explain how commodity revenues are calculated and paid to RethinkWaste, and to explain how differences between amounts owed to RethinkWaste and amounts collected on shipped commodities are tracked and reported.

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**Analysis**

Per SBR staff, SBR pays RethinkWaste its share of commodities revenue based on a 2011 characterization of the inbound RethinkWaste recyclables stream. Based on the characterization, RethinkWaste is guaranteed revenues on processed materials (e.g. newspaper, cardboard, mixed paper, etc.) based on the number of tons delivered to SBR by Recology, and subsequently sold by SBR, each month.<sup>3</sup>

For example, in November 2015, there were 5,812 inbound tons of recyclables. Per the waste characterization, 28.56% of that material (1,660 tons) should be newspaper, and as such, SBR is obligated to pay RethinkWaste for its revenue on shipping 1,660 tons of newspaper to markets. Under normal circumstances, because the Shoreway also accepts inbound recyclables from other parties, SBR will ship more of each type of commodity each month than the amount that results from the calculation described above. Most of the time, in fact, SBR ships more of each commodity than is calculated by the application of the waste characterization to inbound loads of RethinkWaste recyclables.

Sometimes, however, whether as a result of uncharacteristic changes in the inbound recycling stream, a surplus of un-shipped materials, or other reasons, SBR does not ship commodities in amounts greater than those resulting from the aforementioned waste characterization calculation. In these cases, any difference in the amount that should have been paid to RethinkWaste and the amount actually shipped is carried over to the following month.

Under this methodology, RethinkWaste will ultimately be made whole by SBR for monthly payments of commodities revenues owed to RethinkWaste as calculated via the characterization (assuming that SBR's overall material shipments during the course of the year are greater than or equal to the amount defined by the characterization). Usually, any owed amount will be made up within the following month or two, as the conditions which caused the initial shortage will normalize. However, if the waste characterization itself over-projects for materials (as SBR reports it may for newspaper) then the shortage can persist month-over-month, yielding a persistent amount owed by SBR to RethinkWaste.

Additionally, in the event that SBR fails to produce materials as required by the Agreement, SBR pays RethinkWaste for the difference between what it should have produced (as per the characterization) and what is actually ships. This occurred in December 2015, when waste characterization yielded 1,906 tons of newspaper, but SBR only shipped 1,517 tons. In this case, SBR did not produce as much newspaper because it instead baled some of that material with mixed paper, due to staffing challenges during its night shifts at the Shoreway. Because the failure to produce newspaper in this case was the result of staffing challenges (and not external conditions) SBR paid RethinkWaste on the amount of newspaper it *should* have shipped, which was over the amount calculated by the characterization.

<sup>3</sup> From the SBR Agreement, Article 8.05 REVENUE FROM SALE OF RECYCLABLE MATERIALS. Contractor will pay to the Authority (by wire transfer or otherwise as Authority may direct) all Revenue earned from third parties for the sale of Recyclable Materials delivered to or recovered at the Shoreway Center until the annual Revenue Guarantee, or the Prorated Revenue Guarantee for 2011 as determined by Section 7.07.B, has been remitted. Thereafter, Contractor shall pay to Authority seventy five percent (75%) of such Revenue, unless otherwise adjusted by Section 7.07.D.3. *Such payments will be made on or before the fifteenth (15th) day of each month based on sales during the immediately preceding month.*

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The methodology for tracking and paying RethinkWaste its calculated share of commodities appears to be logical and consistent. However, persistent under-shipment of specific material categories (e.g., newspaper) over several months could result in SBR owing RethinkWaste commodity revenues that were not received by SBR. In 2016, SBR revised its Commodity Revenue Report to include a “Cumulative Balance Carryover” which shows actual shipments versus shipments based on material characterization.

**3.10 Status of 2014 Recommendations**

This section includes R3’s assessment of the status of recommendations for SBR financial systems that were presented in our June 10, 2015 Final Report for the 2014 Financial Systems Audit.

**Recommendation #1**

SBR should (re)develop an SBR Facility Procedure Manual. Once developed, it should be widely integrated within the Shoreway facility with necessary staff be given a hard copy and a digital copy be stored on an internal server/drive as well. This will ensure the sustainability of the Manual despite any staff turnover and will also ensure that staff are fully informed of procedures.

Findings

R3 has determined that the SBR Facility Procedure Manual referenced in prior audits must have been in reference to the SBR Agreement to operate the Shoreway. Through interviews, it has become clear that a specific Procedure Manual did not exist separate from the Agreement, and that the Agreement is sufficiently specific regarding procedures for operating the Shoreway. ***No further action is necessary.***

**Recommendations #2 and #3**

SBR should monitor the accuracy of volumetric measurements and calculations on a weekly basis through periodic spot checks, and should document and record monitoring and spot-check activities in a Scale Load Audit binder available for inspection by RethinkWaste.

Findings

R3 could not verify that weekly spot checks were being conducted to monitor the accuracy of volumetric measurements and calculations for public loads. While spot checks should be done periodically as best practice, the potential problem of under-measurement is offset by the terms of the contract RethinkWaste has with SBR. If SBR collects less gate fee revenue than the calculated expected gate fee revenue for a given year, SBR must pay the difference to the RethinkWaste, which incentivizes SBR to accurately measure loads.

R3 was able to locate a binder of load audits while on-site to observe scale house operations. However, the binder did not appear to demonstrate periodic spot checks of public loads as previously recommended. Instead, the binder appeared to document regular spot checks of franchised loads brought to the facility, and is thus not the required Scale Load Audit Binder.

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R3 has discussed these requirements with SBR staff, who now understand the requirement. ***Implementation of the Scale Load Audit process should be verified during the next Audit.***

#### **Recommendation #4**

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

#### Findings

SBR has a Scale Attendant-Scale Operations and Cash Procedure document that clearly sets forth scale house processes and procedures for staff. This document fulfills the recommendation that SBR develop training procedures and a training manual for scale house staff. ***No further action is necessary.***

#### **Recommendation #5**

It is recommended that non-scale house staff retrieve cash and tickets to reconcile against PC Scales records on a daily basis.

#### Findings

Following Shoreway scale closing procedure, authorized administrative staff retrieve the scale house's documentation and cash to reconcile against PC Scales records on a daily basis. Procedure is well documented in the Scale Attendant-Scale Operations and Cash Procedure document, which R3 reviewed and found to be satisfactory. ***No further action is necessary.***

#### **Recommendation #6**

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

#### Findings

As in the 2014 report, scale house staff indicated that there is no process for the review of daily duplicate ticket printing. However, it is noted that each ticket printed beyond the original states "reprinted ticket" at the top of each ticket. SBR scale house staff confirmed that there are procedures for splitting transactions consistent with the recommendation in the 2013 report. ***No further action is necessary.***

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