



DATE: September 14, 2017

TO: Alameda County Source Reduction and Recycling Board

FROM: Tom Padia, Deputy Executive Director

SUBJECT: Recycling Board "Five Year Audit" - Recommendation to Accept Five Year Financial & Compliance Audit Report – FY 2011/12 – 2015/16

SUMMARY

Subsection 64.040 (C) of Measure D requires a comprehensive financial, statistical and programmatic audit and analysis to be performed within four years of the effective date of the Act and every five years thereafter. At the September 14 Recycling Board meeting, staff will present the FY 2011/12 – 2015/16 report for Board acceptance.

BACKGROUND

The last "Five Year Audit" covered Fiscal Years 2006/07 through 2010/11 and, based upon recommendations from prior audits, the Financial & Compliance Audit was separated from the Programmatic Evaluation and was split into two phases covering a three year phase and a two year phase so as to make the reviews of financial records more timely and less onerous for the member agencies.

The current Five Year Financial and Compliance Audit covers Fiscal Years 2011/12 through FY 2015/16 and is broken into Phase I (FY 11/12, 12/13 and 13/14) and Phase II (FY 14/15 and 15/16). A competitive RFP process in the summer of 2014 resulted in award of the contract to the firm of Crowe Horwath LLP in November 2014 for a total not-to-exceed amount of \$179,800, per their proposal to the Board. Phase I work was completed and presented to the Board at the August 2015 meeting. Phase II review is now complete and the findings and recommendations of both phases have been combined in the final report.

Compared to the Programmatic Overview and Evaluation, the Financial and Compliance Reviews have tended to be quite succinct and straightforward. There have been no serious "red flags" in any reports regarding misallocation or misuse of any Recycling Fund monies, nor of noncompliance with any County Charter mandates. Past Financial & Compliance Reports have contained recommendations regarding development of Board fiscal policies, procedures and requirements aimed at easier and smoother audit reviews in the future.

The Five Year Financial and Compliance Audit for the Alameda County Source Reduction and Recycling Board may be viewed and downloaded at: [Five-Year-Financial-Audit-Final-Report-09-05-17.pdf](#)

Hard copies of the report will be available to Board members at the September 14 meeting. Mendi Julien and Erik Nylund of Crowe Horwath LLP will attend the meeting to present the findings and recommendations to the Board.

As noted in the Executive Summary, the auditors "...found no significant Measure D compliance issues after examining the finances of the Recycling Board, member agencies, and grant recipients." In terms of the recommendations summarized in Exhibit ES-2, staff is supportive of the recommendations with the following qualifications:

Recommendation RB-2a: Require consistent sign offs verifying quality control checks of Measure D tonnage reports submitted by landfill companies.

Staff Response: Finance will ensure that a secondary review of the data to be uploaded to the CalRecycle's electronic Disposal Reporting System (eDRS) will be documented each quarter.

Recommendation RB-2b: Tie Measure D tonnage captured in disposal reporting system to Measure D revenues in MUNIS system.

Staff Response: The Disposal Reporting System (DRS) must capture type of material, jurisdiction of origin, use within the landfill (e.g. disposal, Alternative Daily Cover, erosion control, temporary road building, etc.) and route of delivery (i.e. through a transfer station or direct haul). A primary function of the DRS is to supply member agencies with accurate disposal data that are used to determine compliance with CalRecycle diversion requirements. These data needs are separate and apart from the criteria used in calculating fee applicability (with some overlap).

The Agency has been using an internally developed Disposal Tracking System using Quick Base since 2016 to report quarterly tonnages to the Member Agencies. During calendar 2018, we will investigate adding monthly revenue tracking and reporting functionality that will supplement the primary revenue tracking processed through MUNIS.

Recommendation RB-2c: Audit Measure D tonnage reports and test validity of transactions to company weight tickets.

Staff Response: Finance and Facility Fee Enforcement compared the detail ticket data from Vasco Road for FY15/16 disposal tons and found a very insignificant difference of 0.34 tons on a base of 245,523.90 total tons (36,402 transactions).

Recommendation RB-4: Develop list of allowable Measure D categories and expenses that provides interpretations of Measure D expense applicability.

Staff Response: Will implement. Due to the immense range of potentially eligible expenses that may be funded with Measure D revenues (i.e. anything related to the continuation and expansion of municipal recycling programs, broadly defined) and the very specific nature of many questions, in the past staff has resisted enumerating specific guidelines out of concern that it could quickly become a phone book-sized document and still be inadequate to answer the next question. Agency staff have often relied on the “reasonable person” criteria – i.e. Would you (member agency staff person) be comfortable standing before the Recycling Board and defending this proposed expenditure as reasonably related to waste reduction/recycling/market development? That said, there have been common themes and policies that have emerged through the years and staff turnover at the member agencies often results in going over the same ground time and again with new employees. StopWaste staff had intended to implement this process by now, but shifting staff roles and workloads have postponed the initiation of this task. After an iterative process working with the member agency Technical Advisory Committee (TAC), staff will return to the Board within the next year with proposed policies, guidelines and specific examples of expenditures that are allowable and not allowable for use of Recycling Funds, and with a proposed process for making future determinations.

Recommendation RB-5a: Develop method for member agencies to electronically submit Measure D Expense reports online.

Staff Response: Will implement. An online reporting system has been recently developed in-house and was presented to the member agency Technical Advisory Committee (TAC) at their September, 2017 meeting. Annual financial and solid waste/recycling service reports for FY 16/17 will be submitted online and refinements to the system will be made as needed.

Recommendation RB-5b: Provide supporting documentation for Measure D expenditures upon submission of Measure D reports using electronic reporting.

Staff Response: Will implement (see recommendation RB-5a response). The new online reporting system has the ability for member agency staff to upload and attach supporting documentation.

Recommendation RB-5c: Reduce field visits of member agencies during the Five Year Audit.

Staff Response: Will implement. This will be the result of implementing recommendations 5a and 5b. Impact will be seen in the next Five Year Audit for FY 16/17 – 20/21 and beyond. Review of electronic submittals will allow future auditors to schedule site visits only where there are questions or where the data indicates.

Recommendation MA-1: (For Member Agencies) Track labor costs based on actual time reporting where possible, or provide current data supporting labor allocations to Measure D activities.

Staff Response: This is the third Five Year Audit in a row where the consultant has recommended or stated a preference for member agency staff to track on time cards the hours

spent on Measure D-related tasks and billed to Recycling Fund revenues. Some agencies already do this, but some do not. StopWaste staff has wanted to avoid adopting a requirement that involves changes to the payroll systems of member agencies, and have tried to find “middle ground” alternatives to tracking every hour. With this recommendation, the consultant again states a preference for actual time tracking, but as a backup position proposes that alternative methods of labor cost allocation be supported by current (i.e. within the last year, at a minimum) real data. Will implement the alternative recommendation.

Recommendation GR-1: Develop capability to electronically prompt grant managers when contracts are nearing end dates.

Staff Response: In the process of implementing. The MUNIS accounting software has this capability, but some programming is required to auto generate emails to contract managers at specified intervals.

RECOMMENDATION

It is recommended that the Recycling Board accept the Five Year Financial and Compliance Audit by Crowe Horwath LLP and approve the recommendations therein, subject to the qualifications enumerated above.

Attachment A: Executive Summary, Five Year Financial & Compliance Audit, Crowe Horwath LLP



Five Year Financial & Compliance Audit

Fiscal Years 2011/12 – 2015/16



September 5, 2017

Submitted to:

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Executive Summary



Executive Summary

Crowe Horwath LLP (Crowe) conducted this Five Year Financial and Compliance Audit of funds raised through the Alameda County Waste Reduction and Recycling Initiative Charter Amendment (“Measure D”). This Five Year Audit was conducted in two (2) phases. The Phase I audit covered the three (3) fiscal years of 2011/12, 2012/13, 2013/14. The Phase II audit covered the two (2) fiscal years of 2014/15 and 2015/16.

For Phases I and II, we found no significant Measure D compliance issues after examining the finances of the Recycling Board, member agencies, and grant recipients. Our work included on-site reviews of the Recycling Board, each of the sixteen (16) member agencies, and a total of twenty-seven (27) grant recipients. We conducted our Phase I field work between November, 2014, and May, 2015; and the Phase II field work between January, 2017, and June, 2017.

In Section 1 of this report, we provide an introduction and background of the audit. In Section 2 of this report, we identify the flow of Measure D monies, from collection by the Recycling Board from landfill operators, to distribution of Measure D monies for programs managed by the Recycling Board, and to the member agencies.

In Section 3 of this report, we provide our financial and compliance assessment results. For each financial and compliance provision of Measure D, we identify whether the applicable entity met the requirement and, if so, how the entity met the requirement (in Exhibit 3-1 and 3-2). We found Alameda County and the Recycling Board in compliance with nine (9) Measure D compliance areas.

We found the member agencies in compliance with seven (7) Measure D compliance areas, with some minor exceptions. We found some minor variations between expenditure amounts reported by member agencies on their Annual Measure D Programs report and expenditure amounts we identified through our audit. These differences were not considered material. **Exhibit ES-1** summarizes our financial and compliance findings. We provided some recommendations for the Recycling Board to consider regarding member agency guidance and reporting tools related to expense reporting.

In Section 4 of this report, we provide our review of Recycling Board waste diversion results for the audit period. We observed that the Recycling Board is using a range of methods to track changes in waste diversion levels, and the Recycling Board’s use of the percentage of divertable materials within the refuse container continues to represent a progressive and focused approach for measuring and targeting reductions in curbside disposal volumes.

We found that during the Phase I period it was likely that reductions in per capita disposal rates were related to economic factors (not program enhancements or increasing curbside recycling or organics participation levels). In Phase II, we found that Measure D per capital disposal rates leveled. We found the Recycling Board in compliance with AB 939 goals, and at 73 percent diversion Countywide in 2015 (on a weighted average basis across the sixteen member agencies), about two (2) percent short of the aggressive 75 percent diversion goal set for 2010. We provided some recommendations for the Recycling Board to consider with disposal and diversion related reporting to member agencies.

In Section 5 of this report, we provide our recommendations from the audit. **Exhibit ES-2** provides a summary of our recommendations. We provide these recommendations in the spirit of simplifying the Measure D reporting and auditing process and clarifying Measure D expense applicability. To note, the Board implemented, or is in the process of implementing, a number of these recommendations, originally provided in 2015 Phase I results.

There are seven (7) appendices to this report. These appendices provide such information as the Measure D text; related Recycling Board resolutions and memoranda; member agency background; supporting details for our compliance testing; and a summary of grant recipients reviewed.

**Exhibit ES-1
Five Year Financial and Compliance Audit
Summary of Findings**

Entity	Findings
Recycling Board	<ul style="list-style-type: none"> • RB-1 – Alameda County and the Recycling Board Met Measure D Compliance Requirements • RB-2 – The Recycling Board Collected Measure D Monies From Landfill Operators in Accordance with Measure D Requirements, and Could Add Benefit from Three Additional Internal Control Procedures • RB-3 – The Recycling Board Allocated Measure D Monies to Member Agencies, and Required Programs, Consistent with Measure D Requirements • RB 4 – The Recycling Board Does Not Have Written Guidance on Measure D Applicability • RB 5 – Annual Measure D Programs Reporting and Associated Five-Year Audit Processes Should Be Streamlined
Member Agencies	<ul style="list-style-type: none"> • MA-1 – Member Agencies Met the Compliance Requirements of Measure D • MA-2 – Member Agencies Spent Measure D Funds on Legitimate Measure D Expenses • MA-3 – Member Agencies Correctly Reported Interest on Measure D Fund Balances
Grant Recipients	<ul style="list-style-type: none"> • G-1 – Grant Recipients Complied with Terms and Conditions of the Grants and With Measure D Requirements

Exhibit ES-2
Five Year Financial and Compliance Audit
Summary of Recommendations

Page 1 of 2

Entity	Recommendation	Summary of Recommendation
Recycling Board	<ul style="list-style-type: none"> Recommendation RB-2a – Require Consistent Sign Offs Verifying Quality Control Checks of Measure D Tonnage Reports Submitted by Landfill Companies 	<ul style="list-style-type: none"> Develop a separate sign off page on each Measure D tonnage report to allow Board staff to sign off once tonnage data is entered into the Disposal Reporting System. At least one staff member that performs the quality control review of data entered into the Disposal Reporting System should sign and date the sign off page to confirm this quality assurance/quality control (QA/QC) function.
	<ul style="list-style-type: none"> Recommendation RB-2b – Tie Measure D Tonnage Captured in Disposal Reporting System to Measure D Revenues in MUNIS System 	<ul style="list-style-type: none"> Add the capability within the Disposal Reporting System (potentially as a separate module) to tie Measure D tonnage data from the Disposal Reporting System to the revenues that the Board receives from landfill companies. Provide the Board with a link from the Measure D landfill tonnage identified in the Disposal Reporting System to the Measure D revenues received by the Board and reported in MUNIS.
	<ul style="list-style-type: none"> Recommendation RB-2c – Audit Measure D Tonnage Reports and Test Validity of Transactions to Company Weight Tickets 	<ul style="list-style-type: none"> Select a sample of tonnage data provided in the Measure D monthly reports and request landfill operators to furnish weight tickets in support of the tonnage data. Weight tickets would provide the Recycling Board real-time confirmation that landfill operators are capturing and reporting correct Measure D tonnage data.
	<ul style="list-style-type: none"> Recommendation RB-4 – Develop List of Allowable Measure D Categories and Expenses that Provides Interpretations of Measure D Expense Applicability 	<ul style="list-style-type: none"> With the wide variety of potential Measure D related expenses, and the constantly evolving nature of recycling programs and other related conservation programs (e.g., water recycling and management), the Board should develop and maintain a detailed list of “allowable” expenses for reference. Identify those expenses that are considered “not allowable.” Augment this list as new expenditures are evaluated. The Board staff can evaluate each new expense on a case by case basis, prior to updating the list.
	<ul style="list-style-type: none"> Recommendation RB-5a – Develop Method for Member Agencies to Electronically Submit Measure D Expense Reports Online 	<ul style="list-style-type: none"> Develop a method for member agencies to submit Measure D reports electronically to StopWaste through a web-based interface. Enhance the ability for StopWaste to perform expenditure and balance checks and for auditors to audit member agency Measure D reporting. Provide easy checks for mathematical accuracy, and error checks, built into the Measure D online reporting form.
	<ul style="list-style-type: none"> Recommendation RB-5b – Provide Supporting Documentation for Measure D Expenditures upon Submission of Measure D Reports using Electronic Reporting 	<ul style="list-style-type: none"> Require member agencies to furnish supporting documentation for expenditures in excess of a certain threshold (e.g., \$1,000) at the time the member agency submits its Measure D report.¹ Assist Board staff and auditors’ in reviewing Measure D reports, assessing transaction applicability, and prioritizing transactions as part of Five-Year audit planning. Perform Five-Year audit work more efficiently in the future. Minimize member agencies having to locate several year-old documentation as part of the Five-Year audit process.

¹ With the exception of support for labor costs.

Exhibit ES-2
Five Year Financial and Compliance Audit
Summary of Recommendations *(continued)*

Entity	Recommendation	Summary of Recommendation
Recycling Board <i>(continued)</i>	<ul style="list-style-type: none"> Recommendation RB-5c – Reduce Field Visits of Member Agencies During the Five-Year Audit 	<ul style="list-style-type: none"> Allow some mixture of “desk audits” (conducted from the auditor’s offices) and “field audits” (conducted at the member agencies location). For example, the Board might scope the audit to include desk audits for half (8) of the member agencies during each phase, reducing the number of onsite visits in half from the current protocol and reducing overall audit costs. Use field visits for just the riskiest or largest member agencies. Recognize the majority of review activities can be performed offsite (through desk audit).
Member Agencies	<ul style="list-style-type: none"> MA-1 – Track Labor Costs Based on Actual Time Reporting Where Possible, or Provide Current Data Supporting Labor Allocations to Measure D Activities 	<ul style="list-style-type: none"> Request that where possible, for Measure D labor costs, member agencies capture the actual time that employees spend on Measure D related activities in time reporting systems. Discourage member agencies from budgeting a percentage of each staff member’s time and then “plugging” that budgeted percentage amount into the staff member’s timesheet. If a member agency does not have the capability to record employee time by project/task, that member agency should provide evidence supporting current Measure D labor costs and/or cost allocations. Types of documentation supporting labor allocations could include: <ol style="list-style-type: none"> formal agency-wide cost allocation studies, supporting documentation for cost allocation methods used to allocate shared labor costs to the Measure D program for a recent representative period, records of time worked on Measure D activities captured by employees, outside of time reporting systems, for a recent representative period. Require cost allocation methods to be reviewed and verified by the member agency, at a minimum, on an annual basis.
Grant Recipients	<ul style="list-style-type: none"> Recommendation GR-1 – Develop Capability to Electronically Prompt Grant Managers when Contracts are Nearing End Dates 	<ul style="list-style-type: none"> Set up a “tickler” system to remind staff in advance of contract end dates. Set up system within the MUNIS system at the point the contract is signed, with targeted reminders at pre-set points in time (3 months, 1 month remaining).