DATE: January 14, 2021

TO: Alameda County Source Reduction and Recycling Board

FROM: Meri Soll, Senior Program Manager

SUBJECT: Recycling Board "Five Year Audit" - Recommendation to Accept Phase I of the Five Year Financial & Compliance Audit Report – FY 2016-17 – FY 2018-19

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 January Recycling Board meeting, staff will present Phase I of the Five Year Financial & Compliance Audit Report – FY 2016-17 through FY 2018-19 for Board acceptance.

BACKGROUND

The current Five Year Financial and Compliance Audit covers Fiscal Years FY 2016-17 – FY 20-21 and is broken into Phase I (FY 16-17 to 18-19) and Phase II (FY 19-20 and 20-21). A competitive RFP process in the fall of 2019 resulted in award of the contract to the firm of Crowe Horwath LLP for a total not-to-exceed amount of $188,432, per their proposal to the Board. Phase I work is complete and a synopsis of the findings and recommendations can be found in the attached Executive Summary. The full report is available here. At the January 14, 2021 Recycling Board meeting, Mendi Julien and Jason Chan of Crowe Horwath LLP will 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." 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. Recommendations for the recently completed Phase I are summarized in Exhibit ES-2. Staff is supportive of the recommendations with the following qualifications:

Recommendation RB-2a: Automatically Link and Transfer Measure D Tonnage Data Captured in Disposal Reporting System (DRS) to Measure D Revenues in MUNIS System.

Staff Response: Will implement. Finance staff will incorporate the capability within the DRS (potentially as a separate module) to automate the linkage and transfer of Measure D tonnage data from the DRS to the revenues that the Board receives from landfill companies. Current internal

capacity to create this linkage is limited; proposed timeframe for recommendation implementation is late FY 21-22.

Recommendation RB-2b: Perform More Frequent and Regular Audits of Measure D Tonnage Reports to Test Validity of Transactions to Company Weight Tickets.

Staff Response: Will implement. Finance staff, in coordination with Code Enforcement staff, will request data from landfills on an annual basis. Data from landfills will be audited against the data found in the Agency Financial Management System.

Recommendation RB-4a: Further Refine and Maintain Written Guidance on Measure D Expense Applicability and Indicate Preferences for Expenses.

Staff Response: Will implement with modifications. Staff will continue to refine and maintain written guidance relating to Measure D allowable expenses, including updating and revising a comprehensive list of both allowable/non allowable expenses, implement version control for the guidance document(s) as well as add start/end date for allowable expenditures. In lieu of creating expense preference indicators for member agencies to follow, staff will increase dialogue with TAC and key member agency staff to better disseminate Measure D goals and funding approaches.

Recommendation RB-4b: Develop a Comprehensive Measure D Guidance Document and Submission Checklist for Member Agencies.

Staff Response: Will implement. Staff continues to update and refine current Measure D guidance documents and will utilize audit recommendations to further amend documents and checklists to improve member agency submittal data to align with Measure D/agency requirements.

Recommendation RB-5a: Refine Measure D Electronic Reporting Process to Reduce Inconsistencies and Missing Information.

Staff Response: Will implement. Per previous audit recommendation, staff developed and implemented a reporting Measure D Portal that allows member agencies to electronically submit Measure D expenses, reports and tonnage data online. This was the first audit that relied solely on Portal data due to COVID restrictions for any on-site meetings (as conducted in past audits). The Portal continues to evolve based on member agency feedback and use; staff will implement recommended refinements such as pre-populating starting fund balances, automatic mathematical summations, and upon submission, prompt the user about missing required fields.

Recommendation RB-5b: Add Prompts to Measure D Electronic Reporting Process for Invoices of Expenses Over $2,000 and Require Revenue and Expenditure Accounting Reports.

Staff Response: Will implement (see recommendation RB-5a response regarding Portal). Staff will make prompts in the Measure D Portal more prominent when inputted expenses are over $2,000, notifying the member agency to upload the supporting invoices or provide an explanation if individual expenses are less than $2,000. In addition, a dedicated field will be added to the Measure

D portal to require member agencies to upload their Measure D revenue and expenditure accounting reports (or an equivalent spreadsheet) to support all reported payments and expenses.

Recommendation MA-1: (For Member Agencies) Further Track Labor Costs Based on Actual Time Reporting Where Possible, or Provide Current Data Supporting Labor Allocations to Measure D Activities.

Staff Response: Currently implemented, will add review for adequate labor documentation. Several past audits have included this recommendation/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, as the recommendation may involve changes to their payroll systems. The auditor again states a preference for actual time tracking, but proposes that alternative methods of labor cost allocation be supported by current (i.e. within the last year, at a minimum) real data. Staff has created two sample *Staff Hours Synopsis* reports for member agencies to utilize as part of reporting requirements, which utilizes actual hours tracked for a short period relating to Measure D activities. Per auditor's recommendation, prior to approving the annual report, staff will confirm the member agency provided adequate labor support, as applicable, and work with the member agency staff to obtain a satisfactory submission or develop a plan to achieve adequate tracking going forward.

Recommendation MA-1b: Withhold Funds and Increase Monitoring and Tracking Once a Member Agency's Second Expenditure Plan Extension has been approved.

Staff Response: Staff to review and develop policy recommendations for the Recycling Board to discuss at a future board meeting. Policy recommendations will address the need to revise current requirements set forth in Resolution 2006-12, which is the policy for accumulated Measure D fund balances. Recommendations will include additional controls to help member agencies follow through with their expenditure plans, requirement of quarterly progress reports to assess compliance, parameters for withholding future member agency Measure D funds, as well as a limitation to the number ofannual extensions to an agency's expenditure plan.

Recommendation G-2a: Standardize Use of a Centralized Electronic Grant Storage and Filing System.
Recommendation G-2b: Utilize a Grant Management Tracking Tool.

Staff Response: In the process of implementation. Staff is currently working on new software and online tools to improve grant reporting, filing and tracking systems.

RECOMMENDATION
That the Recycling Board accept Phase I of 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

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Executive Summary

Crowe LLP (Crow) conducted this first phase of the 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 will be conducted in two (2) phases. The Phase I portion of the audit covered the three (3) fiscal years of 2016/17, 2017/18, 2018/19. The Phase II audit will cover the two (2) fiscal years of 2019/20 and 2020/21.

For Phase I, we found no significant Measure D compliance issues after examining the finances of the Recycling Board, member agencies, and grant recipients. Our work included reviews of the Recycling Board, each of the sixteen (16) member agencies, and a total of twenty-four (24) grants.
We conducted our Phase I outreach between March 2020, and October 2020.

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 full 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,** following this page, summarizes our financial and compliance findings.

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 while Recycling Board's use of the percentage of divertable materials within the refuse container concluded in 2017, the multi-year effort represented a progressive and focused approach for measuring and targeting reductions in curbside disposal volumes.

We found that it is likely that recent reductions in per capita disposal rates are related to economic factors (not program enhancements or increasing curbside recycling or organics participation levels). We found the Recycling Board in full compliance with AB 939 goals, and at 67 percent diversion Countywide in 2018 (on a weighted average basis across the sixteen member agencies), about eight (8) percent short of the aggressive 75 percent diversion goal set for 2010. The Recycling Board fully recognizes that diversion rates have leveled out over the past decade and has approved a plan in December 2020 titled *Beyond 75% Diversion: A Plan for Landfill Obsolescence*, which sets a goal for landfill obsolescence by 2045. This new strategy shifts focus away from diversion rates towards systematic improvements involving production, consumption, and disposal. By making fundamental enhancements, Alameda County aspires to win the battle against recycling market pressures and other related challenges, which will result in a natural rise in diversion rates over time.

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, clarifying Measure D expense applicability, mitigating risks, and to continue to improve overall use of Measure D funds towards goals.

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
(Phase I: Fiscal Years 2016/17, 2017/18, and 2018/19)

Entity	Findings
Recycling Board	• 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 Benefit from Two Additional 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's Written Guidance on Measure D Expense Applicability and Supporting Documentation Requirements Could be Further Refined • RB 5 – Annual Measure D Programs Reporting and Associated Measure D Audit Processes Could be Further Streamlined and Enhanced
Member Agencies	• 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	• G-1 – Grant Recipients Complied with Terms and Conditions of the Grants and With Measure D Requirements • G-2 – Grant Information Storage and Organization Could be Improved

Exhibit ES-2
Five Year Financial and Compliance Audit
Summary of Recommendations
(Phase I: Fiscal Years 2016/17, 2017/18, and 2018/19)   *Page 1 of 4*

Entity	Recommendation	Summary of Recommendation
Recycling Board	• Recommendation RB-2a – Automatically Link and Transfer Measure D Tonnage Data Captured in Disposal Reporting System to Measure D Revenues in MUNIS System	• Add the capability within the Disposal Reporting System (potentially as a separate module) to automate the linkage and transfer of Measure D tonnage data from the Disposal Reporting System to the revenues that the Board receives from landfill companies.
	• Recommendation RB-2b – Perform More Frequent and Regular Audits of Measure D Tonnage Reports to Test Validity of Transactions to Company Weight Tickets	• 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, performed quarterly or annually. • Weight tickets would provide the Recycling Board real-time confirmation that landfill operators are capturing and reporting correct Measure D tonnage data. • Given the direct and significant impact Measure D tonnage have on the Board's revenue, perform more frequent and regular audits, such as annually or quarterly.

	• Recommendation RB-4a – Further Refine and Maintain Written Guidance on Measure D Expense Applicability and Indicate Preferences for Expenses	• Implement version control for the guidance document(s).
		• Include a start or end date for expenses, especially those that move to the non-allowable list.
		• Continue refining the list, as necessary. 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) necessitates an evolving list.
		• Indicate preferences for expenses that offers the most benefit and impact to the Board's goals, two examples include:
		   o Expense preference indicators: Can be as simple as a single asterisk next to each preferred item, or as complex as multiple asterisks indicating a hierarchy of preference (e.g. scale of 0 to 3 asterisks, 3 being most preferred)
		   o Board staff check ins: Increased dialogue with TAC and key member agency staff (e.g., City Manager, Public Works Director) to better disseminate Measure D goals and funding approaches.

Exhibit ES-2
Five Year Financial and Compliance Audit
Summary of Recommendations
(Phase I: Fiscal Years 2016/17, 2017/18, and 2018/19) *(continued)*　　　*Page 2 of 4*

Entity	Recommendation	Summary of Recommendation
Recycling Board *(continued)*	• Recommendation RB-4b – Develop a Comprehensive Measure D Guidance Document and Submission Checklist for Member Agencies	• Develop and maintain a comprehensive Measure D guidance document for member agencies. Current Measure D guidance can be consolidated and expanded to cover all aspects of the mandatory Measure D tracking and annual report and data submission for member agencies. We envision a structured, coherent, and thorough guidance document, or handbook, that member agencies can easily reference as their "source of truth" for Measure D financial and programmatic compliance and guidance. The packet (collection of documents) should have, at the minimum, the following elements: ○ Measure D overview, as it applies to member agencies ○ Compliance requirements ○ Measure D portal submission requirements (including optional versus mandatory fields/submission elements) ○ Supporting expense documentation requirements ○ Example good and bad (to avoid) submission and/or submission elements (e.g., quick tips, screenshots, Q&A, troubleshooting). • Included or as a supplemental document, provide a one-page summary of Five-Year audit, associated activities, and what to generally expect. • Develop and maintain a Measure D compliance traceability matrix, where it matches compliance areas to specific documents. • Develop and maintain a Measure D reporting submission checklist to include everything required for a proper Measure D report submission, tying directly to the online portal. • Establish a packet update and version control methodology. This process would include establishing frequency of document component reviews and a communication/distribution strategy. The Board should track changes by creating new versions and inventorying changes for each update. • To keep member agencies apprised, member agencies should receive notifications with updated versions along with a summary of changes.
	• Recommendation RB-5a – Refine Measure D Electronic Reporting Process to Reduce Inconsistencies and Missing Information	• Refine the electronic submission process for Measure D financial reports to reduce common errors. We recommend making a few modifications, such as auto- or pre-populating the beginning fund balance using the prior year's ending fund balance, automatic mathematical summations, and upon submission, prompt the user about missing required fields or reports and either prevent submission or require an explanation if the field truly cannot be filled. Additionally, the process may also benefit from a confirmation step prior to submission such as an auto-generated a pre-submission summary checklist that provides an overview and potential issues with the contents of the report. • Further, should the data from the online reporting populate a database, additional validation, or automation, would be possible such as prompting the need to report interest or provide an expenditure plan if member agencies hit the appropriate thresholds.

Exhibit ES-2
Five Year Financial and Compliance Audit
Summary of Recommendations
(Phase I: Fiscal Years 2016/17, 2017/18, and 2018/19) *(continued)*   *Page 3 of 4*

Entity	Recommendation	Summary of Recommendation
Recycling Board *(continued)*	• Recommendation RB-5b – Add Prompts to Measure D Electronic Reporting Process for Invoices of Expenses Over $2,000 and Require Revenue and Expenditure Accounting Reports	• Add prompts to the Measure D portal when inputted expenses are over $2,000, asking the member agency to upload the supporting invoices or provide an explanation if individual expenses are less than $2,000. • Add dedicated field/elements to the Measure D portal to require member agencies to upload their Measure D revenue and expenditure accounting reports (or an equivalent spreadsheet) to support all reported payments and expenses.
Member Agencies	• Recommendation MA-1a – Further Track Labor Costs Based on Actual Time Reporting Where Possible, or Provide Current Data Supporting Labor Allocations to Measure D Activities	• Reinforce guidance for member agencies to capture the actual time that employees spend on Measure D related activities in time reporting systems. • Continue to 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: (1) supporting documentation for cost allocation methods used to allocate shared labor costs to the Measure D program for a recent representative period, (2) records of time worked on Measure D activities captured by employees, outside of time reporting systems, for a recent representative period. • Encourage more member agencies, for employees less than 100 percent dedicated to Measure D in particular, to work towards providing actual records of time worked on Measure D captured by employees (described as number two above). • Prior to approving the annual report, confirm the member agency provided adequate labor support, as applicable. Board staff should work with the member agency to obtain a satisfactory submission or work with the member agency to develop a plan to achieve adequate tracking going forward. The plan may include a check-in with the member agency midway through the subsequent fiscal year to ensure follow through. The Recycling Board should refine this process over time.

Exhibit ES-2
Five Year Financial and Compliance Audit
Summary of Recommendations
(Phase I: Fiscal Years 2016/17, 2017/18, and 2018/19) *(continued)*   *Page 4 of 4*

Entity	Recommendation	Summary of Recommendation
Member Agencies *(continued)*	• Recommendation MA-1b – Withhold Funds and Increase Monitoring and Tracking Once a Member Agency's Second Expenditure Plan Extension has been Approved	• Further revise Resolution 2006-12, which is the policy for accumulated Measure D fund balances, to add additional controls to help ensure member agencies follow through with their expenditure plans. • Allow no more than two (2) annual extensions to a member agency's expenditure plan. After two extensions, future quarterly disbursements for the member agency should be held within a Board maintained interest bearing account. o Require member agencies to submit quarterly status reports during quarterly check-ins with the Board, and allow plan modifications with Board staff approval. • Further expand on this recommendation by specifying at what point, and how, the member agency would receive withheld funds. For example, the Board may consider a minimum percentage reduction (e.g. 50 percent) of the member agency's fund balance before releasing funds up to the member agency's threshold. Then, continuing to monitor balances through quarterly reporting and check-ins.
Grant Recipients	• Recommendation G-2a – Standardize Use of a Centralized Electronic Grant Storage and Filing System	• Standardize the process to use an electronic storage and filing system to store and organize grant documentation such as: o Grant application, executed contract, amended contracts, proof of insurance, W-9, approved invoices, special allowances/waivers, and supporting documentation for all grant deliverables. • The Board should develop, or refine, procedures that include centralized document storage tasks, including which documents to store (examples above), standard file and document naming practices, and checklist sign-off of file completion upon closure of a contract. • Reconciliation of grant files should occur at least during contract closure.

Grant Recipients	• Recommendation G-2b – Utilize a Grant Management Tracking Tool	• Utilize a grant management tracking tool to centralize and track grants, that could include the following elements:
		  o A repository that centralizes and tracks key grant information such as start and end dates, deliverable due dates, grant activity schedule, deliverables, exceptions made, amendments, specific grantee requirements (licenses, certifications, insurance, etc.), and expiration dates.
		  o Provide triggers based on key dates such as end dates, deliverable due dates, or follow up by dates.
		  o Track status of deliverables to include deliverable submissions, number of days until due/past due, and review and acceptance statuses. Lastly, this tool could be integrated with, or provide, the grant storage and filing system.