

CITY OF PICO RIVERA
REPORT ON AGREED-UPON PROCEDURES
REVIEW OF CALMET SERVICES, INC.
FOR THE CALENDAR YEARS 2004, 2005 AND 2006

PRELIMINARY DISCUSSION DRAFT-
SUBJECT TO REVISIONS

May 22, 2007

Mr. Robert S. Ridley, CPA
Director of Finance/City Treasurer
City of Pico Rivera
6615 Passons Boulevard
Pico Rivera, CA 90660-1016

Dear Mr. Ridley:

We have completed our agreed-upon procedures review of CalMet Services, Inc. for the calendar years 2004, 2005 and 2006. Our independent accountants' report on the review is included herein on page 2. A summary of our procedures and findings are included on pages 3 through 7.

We thank the City of Pico Rivera for retaining our firm for this engagement. Please contact me if you have any questions regarding the procedures, findings or recommendations herein.

Very truly yours,

Diehl, Evans & Company, LLP

DRAFT

By: _____
William S. Morgan, CPA
Director of Consulting Services

PRELIMINARY DISCUSSION DRAFT

May 22, 2007

**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES**

City Council
City of Pico Rivera
Pico Rivera, California

We have performed the procedures enumerated on Schedule A, which were agreed to by the management of the City of Pico Rivera (the City), solely to assist the City in verifying compliance by CalMet Services, Inc. ("CalMet") regarding the payment of solid waste franchise fees to the City for the calendar years 2004, 2005 and 2006. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the management of the City of Pico Rivera. Consequently, we make no representation regarding the sufficiency of the procedures described herein, either for the purpose for which this report has been requested or for any other purpose.

Our procedures, findings and recommendations are presented on Schedule A.

We were not engaged to, and did not conduct, an examination of CalMet Services, Inc. regarding the payment of solid waste franchise fees for the calendar years 2004, 2005 and 2006. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to the City.

This report is intended solely for the information and use of the City, and is not intended to be and should not be used by anyone other than the City.

SCHEDULE A

In connection with this engagement, we performed the procedures noted below, which were agreed to by management of the City of Pico Rivera. Our findings (and recommendations where applicable) are noted after each procedure.

1. Review of Franchise Agreements and Solid Waste Ordinance:

Procedure

We reviewed "Agreement No. 79-86" dated July 2, 1979, hereinafter referred to in this report as the "Original Agreement". We also reviewed Supplemental Agreements No. 1 through No. 17, referred to collectively in this report as the "Supplemental Agreements". We also reviewed the City's Solid Waste Ordinance No. 601, dated May 21, 1979.

Based on our review, we identified the following sections of the Original Agreement that could affect the computation, reporting or payment of solid taxes to the City:

Art. IV

Sec. 1 Refuse taxes are to be collected from "every person, firm or corporation, owner or householder from whom or from which place or premises, garbage... is collected."

Sec. 6 Contractor agrees to pay a "business license tax" equal to 5% of "gross receipts". The tax is to be paid within 15 days after the end of the billing period.

Also, we identified the following provision of Supplemental Agreement No. 6 that affects the current reporting of solid waste franchise fees from residential services billed and collected on behalf of the City by the Office of the County Auditor-Controller: The "business license tax" is a "sum of money equal to 9.5% of residential collection fees so billed, less any refunds...". The payment of the business license tax "shall be accomplished by monthly payment by City to Contractor of 1/12 of 90.50% (7.54%) of the residential collection fees. The balance of said fees represents the business license tax....".

Findings and Recommendations

Pursuant to Article IV, Section 1, refuse taxes are to be collected from "every person, firm or corporation". CalMet collects gross receipts from the El Rancho Unified School District, but does not report such collections to the City.

Also, the Original Agreement and the Supplemental Agreements refer to the funds collected from CalMet as "business license taxes". The funds collected from CalMet appear to be more in the nature of "franchise fees" rather than "business license taxes". Also, the City has a separate "Business License Tax" Ordinance which does not appear to apply to the operating arrangement between the City and CalMet. Accordingly, when the City and CalMet negotiate the next Supplemental Agreement, we recommend that the funds paid by CalMet be characterized as "franchise fees" rather than "business license taxes".

SCHEDULE A (CONTINUED)

2. Compliance Questionnaire:

Procedure

In connection with this engagement, we prepared and forwarded a Compliance Questionnaire to the management of CalMet, in order to identify potential issues related to the payment of franchise fees. The Compliance Questionnaire was completed and signed by CalMet's Chief Financial Officer and the company's Controller. These officials provided written representation that, to the best of their knowledge and belief, all solid waste gross receipts and related taxes were properly reported to the City for calendar years 2004, 2005 and 2006. A copy of the completed Compliance Questionnaire is included with this report at Attachment 1.

Findings and Recommendations

- a. On page 3 of the Compliance Questionnaire, CalMet officials represented that they do not report any residential, commercial or industrial recycling revenues to the City of Pico Rivera. The Original Agreement and the Supplemental Agreements do not specifically mention "recycling receipts". The Original Agreement merely refers to "gross receipts", without a further definition. In our view, the general phrase "gross receipts" is broad enough to encompass any gross receipts related to recycling revenues generated within, or associated with, the City of Pico Rivera. Accordingly, we recommend that City officials discuss with CalMet officials the following possible options regarding the reporting of recycling revenues:
- Recycling revenues were not intended to be included in the definition of "gross receipts", and all parties agree that recycling revenues are not reportable to the City
 - Recycling revenues should be included in the definition of "gross receipts"; CalMet officials should calculate and report recycling receipts for the calendar years 2004, 2005 and 2006 and on a going-forward basis
 - Recycling revenues should be included in the definition of "gross receipts", but only on a going-forward basis.
- b. On page 4 of the Compliance Questionnaire, CalMet officials have represented that they do not remit taxes to the City within 15 days of the end of the billing period, as required by Section 6 of the Original Agreement. Rather, the taxes are remitted within 30 (or 31) days from the end of the billing period. We recommend that City and CalMet officials clarify in writing an agreed-upon reporting date.

SCHEDULE A (CONTINUED)

3. Review of Internal Controls:

Procedure

We reviewed and documented the CalMet's internal control systems and procedures with respect to the billing, collection and reporting of "gross receipts" from solid waste services.

Findings and Recommendations

We noted that there was generally an adequate segregation of duties in the various functions affecting solid waste receipts, including the following duties:

- Approval and set up of new residential and commercial customer accounts
- Billings of commercial accounts
- Cash collections on commercial accounts
- Posting of the billing modules

We did note that the Senior Accountant has certain conflicting duties, including the preparation of bank reconciliations, the posting of journal entries to the General Ledger and the preparation of reports to the City. However, the Controller receives the bank statements unopened, and reviews the bank statements for unusual items. The Controller also reviews and approves the bank reconciliation. Also, the Senior Accountant is not a check signer. Finally, the company uses "positive pay" to monitor cash activity on a daily basis. These controls help to offset the conflicting duties of the Senior Accountant. We have no suggested changes in internal controls.

4. Review of Trash Rate Price Schedule:

Procedure

In connection with our field work, we reviewed the current Trash Rate Price List for the City of Pico Rivera. We questioned company officials regarding each item on the Price List, as to whether each category of revenue had been reported to the City. We noted that the following types of revenues have been excluded from reports to the City:

- Additional Trash Cart Fees
- Trash Cart Delivery Fees
- Residential Manure Cart Fees
- Replacement Trash Cart Fees
- Extra Dump Fees
- Compactor Rental Fees
- Late Payment Fees
- Miscellaneous fees

The total amount of under reported gross receipts for the calendar years 2004, 2005 and 2006 are compiled at Attachment 2. These amounts were provided by CalMet officials (except for Late Payment Fees, which we estimated.) We have not performed any procedures to verify the accuracy of these amounts. Also, CalMet officials have represented that the taxes due to the City related to these revenues should be computed at 5%, rather than 9.5%.

SCHEDULE A (CONTINUED)

5. Testing of Monthly Reports Received from CalMet:

Procedure

City officials provided our firm with copies of the Monthly Reports received from CalMet for the months of July 2005 through December 2006. For one month at random (December 2006), we traced amounts reported to the company's billing reports. Also, we recomputed the mathematical accuracy of all Monthly Reports from July 2005 through December 2006.

Findings

We had no exceptions as a result of this procedure.

ATTACHMENT 1

CITY OF PICO RIVERA

COMPLIANCE QUESTIONNAIRE RELATED
TO GROSS RECEIPTS REPORTED TO THE
CITY BY CALMET SERVICES, INC.

FOR THE THREE CALENDAR YEARS ENDED DECEMBER 31, 2006

Name of Solid Waste Hauler: CalMet Services, Inc.

Contact Person: Harry Gruhn

Title: Chief Financial Officer

Address: 7202 Petterson Lane, Paramount CA 90723

Telephone
Number: (562) 259-1239

Fax Number: (562) 529-7688

E-Mail Address: hgruhn@calmetservices.com

Website: www.calmetservices.com

Name of Person Completing this Questionnaire: Harry Gruhn

Title of Person Completing this Questionnaire: Chief Financial Officer

Date of Response: March 13, 2007

**PLEASE PROVIDE DETAILED RESPONSES TO THE FOLLOWING QUESTIONS. IF
ADDITIONAL SPACE IS REQUIRED, PLEASE ATTACH SUPPORTING NARRATIVES OR
SCHEDULES TO THIS DOCUMENT**

1. Please answer the following questions regarding the Company's internal control policies and procedures related to accounting for and reporting to the City of Pico Rivera, gross receipts from residential, commercial and roll-off trash collections during the three calendar years ended December 31, 2006:

a. Was there a segregation of duties, whereby a separate employee performed only the following function:

- | | | |
|--|----------------|---------------|
| • Approval/set up of new residential/commercial accounts | Yes <u>X</u> | No <u> </u> |
| • Billings of commercial accounts | Yes <u>X</u> | No <u> </u> |
| • Cash collections on commercial accounts | Yes <u>X</u> | No <u> </u> |
| • Posting of company's general ledger | Yes <u>X</u> | No <u> </u> |
| • Preparation and recording of adjusting journal entries | Yes <u> </u> | No <u>X</u> |
| • Bank reconciliations | Yes <u> </u> | No <u>X</u> |
| • Preparation of Franchise Fee Reports for the City of Pico Rivera | Yes <u> </u> | No <u>X</u> |

2. Continued:

- e. Did the company, or any affiliate, "barter" or "trade" for residential or commercial trash service during three calendar years ended December 31, 2006? Yes ___ No X

If yes, was the value of such services included in gross receipts reported to the City of Pico Rivera? Yes ___ No ___

- f. During the three calendar years ended December 31, 2006, were reported gross receipts reduced by any costs or expenses, such as disposal fees, subcontractor costs, etc. Yes ___ No X

If yes, please attach a schedule indicating what costs or expenses were netted against gross receipts.

- g. Did the Company itemize the City's franchise fee on its bills to customers during the three calendar years ended December 31, 2006? Yes ___ No X

If Yes, please attach a sample copy of a customer bill issued during 2006.

- h. If the answer to g. is Yes, did the Company deduct the franchise fee from gross receipts reported to the City? Yes ___ No ___

- i. Were all gross receipts from the following recyclable materials included in revenues reported to the City of Pico Rivera, without the netting of any processing or other costs?

Residential Recyclables:

Paper, glass, cardboard, plastic, ferrous metal, aluminum, compostable yard waste (e.g., tree trimmings, grass clippings, and other vegetative matter), tin and bi-metal cans and other segregated materials, etc.

Yes ___ No X

Commercial Recyclables:

Office paper, corrugated cardboard, newspaper, plastic beverage bottles, glass jars and bottles, white goods (appliances), aluminum, tin and bi-metal cans, etc.

Yes ___ No X

Industrial Recyclables:

Industrial/construction waste, including dirt, asphalt, sand, land clearing brush, concrete and rock, etc.

Yes ___ No X

2. Continued:

j. Please attach a brief narrative describing the controls in place to assure that all new residential customers:

- 1) get billed by CalMet before the customer is added to the tax rolls of the Auditor-Tax Collector, and
- 2) get added to the tax rolls of the County Auditor-Tax Collector on a timely basis.

3. Questions Regarding Timeliness of Reporting:

During the three calendar years ended December 31, 2006, were all reports filed with the City within 15 days after the end of each reporting period?

Yes ___ No X

Written Representation By Company Management

To the best of our knowledge and belief, the information reported to the City of Pico Rivera for the three calendar years ended December 31, 2006, as well as the answers provided in this questionnaire, accurately and fairly represent gross receipts from solid waste hauling and recycling operations within the City of Pico Rivera.

Chief Financial Officer

Name: Mary Galt

Title: Chief Financial Officer

Date: 3/20/07

Other Corporate Officer

Name: [Signature]

Title: PRESIDENT

Date: 3-30-07

CITY OF PICO RIVERA

Supplement to Compliance Questionnaire

Listing of Affiliated Entities

Mottra Corporation (parent company)
Paramount Resource Recycling (common management and control)
Tierra Verde Industries (common management and control)
E-Recycling of California (common management and control)
Big Bear Disposal (common management and control)
Green Waste Management LLC (common management and control)
Grubble Products, LLC (common management and control)

ATTACMENT 2

CITY OF PICO RIVERA

**SCHEDULE OF UNDER REPORTED GROSS RECEIPTS
FROM CALMET SERVICES, INC.**

FOR THE CALENDAR YEARS 2004, 2005 AND 2006

<u>Under Reported Gross Receipts</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Total</u>
Additional Trash Cart Fees	\$ 37,682	\$ 43,173	\$ 50,320	\$ 131,175
Trash Cart Delivery Fees	1,545	3,645	3,090	8,280
Residential Manure Cart Fees	116	240	266	622
Replacement Trash Cart Fees	50	-	130	180
Extra Dump Fees	256	392	473	1,121
Miscellaneous Fees	50	-	40	90
Compactor Rental Fees	2,525	3,600	3,600	9,725
Estimated Late Payment Fees	5,000	5,000	5,000	15,000
Gross Receipts from El Rancho Unified School District	<u>100,919</u>	<u>101,970</u>	<u>64,890</u>	<u>267,779</u>
Total Under Reported Gross Receipts	<u>\$ 148,143</u>	<u>\$ 158,020</u>	<u>\$ 127,809</u>	<u>\$ 433,972</u>

PRELIMINARY DISCUSSION DRAFT - SUBJECT TO REVISION