



March 25, 2009

Mr. Mark Leary, Executive Director
California Integrated Waste Management Board
1001 I Street, MS 25A
P.O. Box 4025
Sacramento, CA 95812-4025

Dear Mr. Leary:

Final Report—City of Carson, California Integrated Waste Management Board Grant Agreements UBG8-02-8024, UBG9-03-0072, and UBG10-04-0003

The Department of Finance, Office of State Audits and Evaluations (Finance), conducted audits of the following City of Carson (City) grants:

- Used Oil Block Grant UBG8-02-8024 for the period July 1, 2002 through June 30, 2005
- Used Oil Block Grant UBG9-03-0072 for the period July 1, 2003 through June 30, 2006
- Used Oil Block Grant UBG10-04-0003 for the period July 1, 2004 through June 30, 2007

The enclosed report is for your information and use. The City's response to the report findings and our evaluation of the response are incorporated into this final report. In accordance with Finance's policy of increased transparency, this report will be placed on our website.

We appreciate the assistance and cooperation of the City's staff. If you have any questions regarding this report, please contact Kimberly Tarvin, Manager, or Beliz Chappuie, Supervisor, at (916) 322-2985.

Sincerely,

Original Signed By:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Mr. Denny Bacon, Program Administrator, Department of Public Works, City of Carson
Ms. Susan Villa, Branch Manager, Administration and Finance Division, California
Integrated Waste Management Board
Ms. Shirley Willd-Wagner, Manager, Financial Assistance Division, California Integrated
Waste Management Board
Ms. Corky Mau, Branch Manager, Financial Assistance Division, California Integrated Waste
Management Board
Mr. George Mendoza, Audit Manager, Audit and Evaluation Unit, California Integrated
Waste Management Board
Mr. Don Peri, Grant Manager, Used Oil and Household Hazardous Waste Unit, California
Integrated Waste Management Board
Mr. Uli Fe'esago, Superintendent, Department of Public Works, City of Carson

GRANT AUDITS

City of Carson
Grant Agreements
UBG8-02-8024,
UBG9-03-0072,
and UBG10-04-0003

Prepared By:
Office of State Audits and Evaluations
Department of Finance

MEMBERS OF THE AUDIT TEAM

Kimberly Tarvin, CPA
Manager

Beliz Chappuie, CPA
Supervisor

Staff
Lawana Welch
Charles White

Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814
(916) 322-2985

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BACKGROUND, SCOPE, AND METHODOLOGY

Background

As the state's recycling and waste reduction authority, the California Integrated Waste Management Board (Board) implements programs to reduce waste generation, divert materials from landfills, recover resources, remediate illegal sites, and ensure compliance with applicable state standards. The Board's used oil recycling grant program provides funding for efforts to reduce the amount of illegally disposed used oil and establish sustainable used oil recycling programs. The Board offers two main types of grants under this program: non-competitive and competitive grants. The Used Oil Block Grants (UBG) awarded to City of Carson (City) are the non-competitive grants that are awarded annually to local governments to support local used oil and oil filter collection programs. The funding for the UBG grants is determined on a per capita basis using the Department of Finance's population statistics and the funds are appropriated to the program for the fiscal year.

The City expended \$43,529 on grant agreement UBG8-02-8024, \$29,538 on grant agreement UBG9-03-0072, and \$22,998 on grant agreement UBG10-04-0003. The differences between the awarded and expended amounts are from interest revenue earned on the advanced funds. The UBG grant funds were advanced to the grantees under the tenth cycle which allowed the grantees to earn interest on the funds and use the interest as additional revenue for the grants. Consequently, the additional expenditures for UBG8-02-8024 and UBG9-03-0072 grants were funded by the interest revenue earned on the funds. For grant revenues and expenditures, see Appendix A.

Scope

In accordance with an interagency agreement, the Department of Finance, Office of State Audits and Evaluations (Finance), conducted audits of the following grants:

- Used Oil Block Grant UBG8-02-8024 for the period July 1, 2002 through June 30, 2005
- Used Oil Block Grant UBG9-03-0072 for the period July 1, 2003 through June 30, 2006
- Used Oil Block Grant UBG10-04-0003 for the period July 1, 2004 through June 30, 2007

The objective of the audits was to determine whether the City's grant revenues and expenditures were in compliance with applicable laws, regulations, and grant requirements. In order to design adequate procedures to evaluate the fiscal compliance, we obtained an understanding of the related internal controls. We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The City is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations and grant requirements. We did not assess the efficiency or effectiveness of program operations. The Board is responsible for evaluating the efficiency and effectiveness of the program operations.

Methodology

To determine whether grant revenues and expenditures were in compliance with applicable laws, regulations, and the grant requirements, we performed the following procedures:

- Interviewed key personnel.
- Obtained an understanding of the grant related internal controls.
- Examined the grant files.
- Reviewed grantee's accounting records.
- Determined whether a sample of expenditures were:
 - Allowable
 - Grant related
 - Incurred within the grant period
 - Supported by accounting records
 - Properly recorded

The results of our audit are based upon our review of documentation and other information made available to us. The audit was conducted during the period June through November 2008.

The Department of Finance, Office of State Audits and Evaluations, completed audits of grant agreements UBG8-02-8024, UBG9-03-0072, and UBG10-04-0003. The results of each audit are presented below and in Appendix A.

FINDING 1: The UBG Grants Were Not Accounted for Separately and the Expenditure Itemization Summary (EIS) Forms Did Not Accurately Reflect the Grant Activities

Based on the audit, the City inaccurately reported the following grant activities:

- Grant revenues and expenditures for the three grants were recorded in one fund along with revenues and expenditures from prior grants dating back to 2001. Furthermore, the advanced funds for UBG8-02-8024 and UBG9-03-0072 were deposited into one interest bearing account instead of separate accounts. The grant agreement, Exhibit B, requires that the Used Oil Recycling Block grant funds be tracked and accounted for separately.
- The interest revenue reported for UBG8-02-8024 and UBG9-03-0072 was approximately half of the interest that should have been recorded as earned on these funds. Specifically, it is estimated that the interest was understated for the UBG8 and UBG9 by \$913 and \$740, respectively. The estimated interest was calculated based on the balance of the advanced funds of each grant for the period prior to when the funds were expended.
- The City reported consulting costs in the Personnel/Other category on the EIS form instead of reporting the costs in the related expenditure category. As a result, the expenditures recorded exceeded the allowable budget for the Personnel/Other category and the costs were underreported in the other expenditure categories. The grant agreement budget establishes the allowable costs for each budget category to ensure that the grant objectives are met.

Inaccurate EIS forms reduce the California Integrated Waste Management Board (Board) and the City of Carson's (City) ability to monitor whether the grant funds are expended as intended per the grant agreement. Additionally, when the EIS form is inaccurately completed, payment by the Board could be disallowed or delayed if it appears that the City has expended funds for an unauthorized purpose. We were

unable to determine whether any costs should be questioned due to exceeding the budgeted amounts without reconstructing the grant expenditures by each individual expenditure category. As a result, the resolution of the inaccurately recorded items on the EIS will require additional state resources to resolve the misreported expenditures and all the grant expenditures were in accordance with the budgeted amounts and whether any funds should be returned to the Board.

Recommendation: For future grants, the City should develop and implement procedures to ensure that the accounting records for each grant are maintained separately and that the EIS form is completed in accordance with the grant requirements. The city should contact the Board to determine whether revised EIS reports will be required.

**Budgeted and Claimed
Grant Revenues and Expenditures**

Grant Number UBG8-02-8024 For the Period July 1, 2002 through June 30, 2005			
<u>Description</u>	<u>Budgeted</u>	<u>Claimed</u>	<u>Variance Over/(Under)¹</u>
Revenues:			
State Grant	\$42,529	\$42,529	\$ 0
Interest ²	<u>0</u>	<u>1,000</u>	<u>1,000</u>
Total Revenues	42,529	43,529	1,000
Expenditures:			
Permanent Collection Facility	7,200	0	7,200
Temporary/Mobile Collection	18,227	1,700	16,527
Residential Collection	0	0	0
Publicity and Education	15,102	1,279	13,823
Personnel/Other	<u>2,000</u>	<u>40,550</u>	<u>(38,550)</u>
Total Expenditures	<u>\$42,529</u>	<u>\$43,529</u>	<u>\$ 1,000</u>

Grant Number UBG9-03-0072 For the Period July 1, 2003 through June 30, 2006			
<u>Description</u>	<u>Budgeted</u>	<u>Claimed</u>	<u>Variance Over/(Under)¹</u>
Revenues:			
State Grant	\$28,728	\$28,728	\$ 0
Interest ²	<u>0</u>	<u>810</u>	<u>810</u>
Total Revenues	28,728	29,538	810
Expenditures:			
Permanent Collection Facility	2,650	0	(2,650)
Temporary/Mobile Collection	6,800	0	(6,800)
Residential Collection	0	0	0
Publicity and Education	19,278	1,738	(17,540)
Personnel/Other	<u>0</u>	<u>27,800</u>	<u>27,800</u>
Total Expenditures	<u>\$28,278</u>	<u>\$29,538</u>	<u>\$ 810</u>

¹ Because the expenditures were not reported in the correct categories, we were unable to determine whether any costs should be questioned due to exceeding the budgeted amounts.

² Interest earned on grant funds is available for other eligible grant expenditures

**Budgeted and Claimed
Grant Revenues and Expenditures**

Grant Number UBG10-04-0003 For the Period July 1, 2004 through June 30, 2007			
<u>Description</u>	<u>Budgeted</u>	<u>Claimed</u>	<u>Variance Over/(Under)¹</u>
Revenues:			
State Grant	<u>\$25,537</u>	<u>\$22,998</u>	<u>(\$2,539)</u>
Total Revenues	25,537	22,998	(2,539)
Expenditures:			
Permanent Collection Facility	2,554	0	(2,554)
Temporary/Mobile Collection	5,107	0	(5,107)
Residential Collection	0	0	0
Publicity and Education	14,045	1,738	(12,307)
Personnel/Other	<u>3,831</u>	<u>21,260</u>	<u>17,429</u>
Total Expenditures	<u>\$25,537</u>	<u>\$22,998</u>	<u>(\$2,539)</u>

¹ Because the expenditures were not reported in the correct categories, we were unable to determine whether any costs should be questioned due to exceeding the budgeted amounts.



CITY OF CARSON

January 21, 2009

Mr. David Botelho, Chief
Office of State Audits and Evaluations
Department of Finance
300 Capitol Mall, Suite 801
Sacramento, CA 95814

Dear Mr. Botelho:

This is in response to your findings noted in your letter of December 18, 2008, regarding the CIWMB Grant Agreements UOBG8-02-8024, UOBG9-03-0072 and UOBG10-04-0003.

Finding 1: The UBG grants were not accounted for separately and the Expenditure Itemization Summary (EIS) Forms did not accurately reflect the grant activities.

▪ **Issue:**

Grant revenues and expenditures for the three grants were recorded in one fund along with revenues and expenditures from prior grants dating back to 2001. Furthermore, the advanced funds for UOBG8-02-8024 and UOBG9-03-0072 were deposited into one interest bearing account instead of separate accounts. The grant agreement, Exhibit B, requires that the Used Oil Recycling Block grant funds be tracked and accounted for separately.

▪ **Response/Corrective Action:**

The finding implies that a separate fund is needed to track each grant cycle. However, the grant agreement only requires that the grant cycle is tracked and accounted for separately. The City maintains one fund entitled "Fund 24 - Used Oil State Grant" specifically designated to account for the revenues and expenditures pertaining to the UOBG over the life time of the grant.

Please be informed that our automated accounting system has limitations in so far as creating different account numbers or funds are concerned; hence, we have to resort to some other means to enable tracking for each grant award. This is accomplished via an excel spreadsheet which has been created and is being maintained to track and monitor the revenues and expenditures for each grant award separately. This excel data file reports if the grant funds for a particular funding cycle have been fully spent. As an added corrective action, the city will create different job ledger codes/subsidiary codes in our current accounting system to account for each grant cycle in the future so that receipts and expenditures for each grant cycle are clearly tracked.

With regards to the interest bearing account, all interest earned for each grant cycle was posted to the account in the fiscal year that the interest for any given grant award is earned. Again, this is tracked separately in the excel spreadsheet mentioned above.

▪ **Issue:**

The interest revenue reported for UOBG8-02-8024 and UOBG9-03-0072 was approximately half of the interest that should have been recorded as earned on these funds. Specifically, it is estimated that the interest was understated for the UOBG8 and UOBG9 by \$913 and \$740, respectively. The estimated interest was calculated based on the balance of the advanced funds of each grant for the period prior to when the funds were expended.

▪ **Response/Corrective Action:**

The interest revenue was calculated based upon the average monthly cash balance multiplied by the monthly LAIF rate. The timing difference between the 90% advanced and 10% retention grant receipts may have impacted the reporting of the interest revenue for each grant cycle at the end of the fiscal period; however, the interest revenue has not been understated.

Since the UOBG grant will be available through reimbursement effective the 10th cycle on, this problem will be eliminated.

• **Issue:**

The City reported consulting costs in the Personnel/Other category on the EIS form instead of reporting the costs in the related expenditure category. As a result, the expenditures recorded exceeded the allowable budget for the Personnel/Other category and the costs were underreported in the other expenditure categories. The grant agreement budget establishes the allowable costs for each budget category to ensure that the grant objectives are met.

▪ **Response /Corrective Action**

The City admits to this deficiency. Please let us know if submission of revised reports to more accurately reflect cost information will be required.

If you require additional information regarding this letter, please contact Ms. Kim Sao, Accounting Manager at (310) 952-1785.

Sincerely,

Original Signed By:

JACQUELYN ACOSTA
Administrative Services General Manager

TC:KS:PN:p

cc: Trini H. Catbagan, Finance Officer
Kim Sao, Accounting Manager
Phat Nguyen, Accountant
Uli Fe'esago, Public Works Superintendent
Denny Bacon, PW Program Administrator

EVALUATION OF RESPONSE

We received City of Carson's (City) response to our audit of the Used Oil Block grants: UBG8-02-8024, UBG9-03-0072, and UBG10-04-0003. The following is the Department of Finance, Office of State Audits and Evaluations (Finance), evaluation of the response:

FINDING 1: The UBG Grants Were Not Accounted for Separately and the Expenditure Itemization Summary (EIS) Forms Did Not Accurately Reflect the Grant Activities

The City provided the following information:

- The City stated that different job ledger codes/subsidiary codes will be created in the current accounting system to account for each grant cycle, so the receipts and expenditures for each grant cycle are tracked separately.

We appreciate the City's commitment to take action and adjust its current accounting system to account for each Used Oil Recycling Block grant cycle separately as required by the grant agreement.

- The City stated that the calculation of the interest revenue could be impacted due to timing differences between the 90 percent advanced and 10 percent retention of grant receipts.

We calculated the estimated interest revenue on the advance amounts received by the City for the period after the funds were received and before any expenditures were incurred. For the UBG8-02-8024 grant cycle, the advance funds were received on November 07, 2002 and expenditures were not incurred before January 2005. Similarly, for UBG9-003-0072, the advance funds were received on November 10, 2003 and expenditures were not incurred before January 2006. Consequently, the issue remains as originally stated in the report.

- The City agrees with the reporting deficiency of the consulting costs in the Personnel/Other category on the EIS form. The City also inquired whether submission of revised reports would be required.

The City should contact the California Integrated Waste Management Board to determine whether revised EIS reports will be required to reflect accurate cost information.