



June 17, 2008

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

Dear Mr. Leary:

Final Audit Report: City of Sacramento, Grant Agreements UBG7-01-5938, UBG8-02-7938, and UBG9-03-0217

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed the audits of the City of Sacramento's (City) Used Oil Recycling Block grant agreements. Finance performed these audits under an interagency agreement with the California Integrated Waste Management Board (Board). These audits included a review of revenue, expenditures, internal control, and compliance with certain grant agreement provisions. Specifically, Finance audited the following grant agreements:

<u>Grant Agreement</u>	<u>Audit Period</u>
UBG7-01-5938	July 1, 2001 through June 30, 2004
UBG8-02-7938	July 1, 2002 through June 30, 2005
UBG9-03-0217	July 1, 2003 through June 30, 2006

The enclosed report is for your information and use. In accordance with Finance's policy of increased transparency, the final report will be placed on our website.

If you have any questions regarding this report, please contact Frances Parmelee, Manager, or Jennifer Whitaker, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Janet I. Rosman, Assistant Chief
Office of State Audits and Evaluations

Enclosure

cc: On following page

GRANT AUDITS

City of Sacramento
Used Oil Block Grants
UBG7-01-5938, UBG8-02-7938,
and UBG9-03-0217

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

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PREFACE

The Department of Finance, Office of State Audits and Evaluations, performed these audits under an interagency agreement with the California Integrated Waste Management Board (Board).

The Board awarded three grants to the City of Sacramento (City), for the City to participate in the Used Oil Block Grant Program. The following grant agreements were funded by the Used Oil Recycling Fund.

<u>Grant Agreement</u>	<u>Audit Period</u>	<u>Amount</u>
UBG7-01-5938	July 1, 2001 through June 30, 2004	\$167,502
UBG8-02-7938	July 1, 2002 through June 30, 2005	\$244,441
UBG9-03-0217	July 1, 2003 through June 30, 2006	\$170,119

The objective of these audits was to determine the City's fiscal compliance with the aforementioned grant agreements. These audits also assessed the City's compliance with applicable laws, regulations, and grant agreement requirements and a review of internal control. We did not assess the efficiency or effectiveness of program operations; this responsibility lies with the Board. The responsibility for financial reporting and compliance rests with the City.

This report is intended for the information and use of the Board and City management. However, the report is a matter of public record and its distribution is not limited.

STAFF:

Frances Parmelee, CPA
Manager

Jennifer Whitaker
Supervisor

Michael Barr
Arloa Singhsnaeh



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying City of Sacramento's (City) *Statements of Revenue and Expenditures* (Statements) for the following:

Grant Agreement

UBG7-01-5938

UBG8-02-7938

UBG9-03-0217

Audit Period

July 1, 2001 through June 30, 2004

July 1, 2002 through June 30, 2005

July 1, 2003 through June 30, 2006

The grant agreements were executed between the City and the California Integrated Waste Management Board (Board). These Statements were prepared from the City's records and are the responsibility of City management. Our responsibility is to express an opinion on the Statements based on our audits.

We conducted our audits in accordance with *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to provide reasonable assurance as to whether the Statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statements. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audits provide a reasonable basis for our opinion.

The accompanying Statements were prepared, as described in Note 4, for the purpose of determining the City's fiscal compliance with the aforementioned grant agreements. The Statements are not intended to be a presentation of the City's total revenue and expenditures.

As discussed in the accompanying schedule of *Finding and Recommendations*, we identified ineligible expenditures totaling \$15,971 for grant agreements UBG7-01-6043 and UBG8-02-7938.

In our opinion, except for the matter described above, the Statements referred to above present fairly, in all material respects, the claimed and audited revenue and expenditures for grant agreements UBG7-01-5938, UBG8-02-7938, and UBG9-03-0217, for the periods stated above in conformity with accounting principles generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the Statements are free of material misstatements, we performed tests of the City's compliance with certain provisions of laws, regulations, and the grant agreements, noncompliance with which could have a direct and material effect on the determination of Statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Generally Accepted Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as described below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in the accompanying schedule of *Finding and Recommendations* to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

This report is intended solely for the information and use of the Board and City management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Janet I. Rosman, CPA
Assistant Chief, Office of State Audits and Evaluations
(916) 322-2985

STATEMENT OF REVENUE AND
EXPENDITURES

**City of Sacramento
Used Oil Block Grant Agreement UBG7-01-5938
For the Period July 1, 2001 through June 30, 2004**

	<u>Claimed</u>	<u>Audited</u>	<u>Questioned</u>
Revenue:			
State Grant	\$ 167,502	\$ 167,502	\$ 0
Interest	<u>2,876</u>	<u>2,876</u>	<u>0</u>
Total Revenue	170,378	170,378	0
Expenditures:			
Permanent Collection Facility	5,718	3,091	2,627
Residential Collection	5,326	5,326	0
Publicity and Education	156,372	143,523	12,849
Personnel/Other	<u>2,962</u>	<u>2,962</u>	<u>0</u>
Total Expenditures	<u>170,378</u>	<u>154,902</u>	<u>15,476</u>
Excess of Revenue over Expenditures	<u><u>\$ 0</u></u>	<u><u>\$ 15,476</u></u>	<u><u>\$ 15,476</u></u>

The accompanying notes are an integral part of this statement.

STATEMENT OF REVENUE AND
EXPENDITURES

**City of Sacramento
Used Oil Block Grant Agreement UBG8-02-7938
For the Period July 1, 2002 through June 30, 2005**

	<u>Claimed</u>	<u>Audited</u>	<u>Questioned</u>
Revenue:			
State Grant	\$ 244,441	\$ 244,441	\$ 0
Interest	<u>5,433</u>	<u>5,433</u>	<u>0</u>
Total Revenue	249,874	249,874	0
Expenditures:			
Permanent Collection Facility	7,141	7,141	0
Residential Collection	291	291	0
Publicity and Education	228,435	227,940	495
Personnel/Other	<u>14,007</u>	<u>14,007</u>	<u>0</u>
Total Expenditures	<u>249,874</u>	<u>249,379</u>	<u>495</u>
Excess of Revenue over Expenditures	<u><u>\$ 0</u></u>	<u><u>\$ 495</u></u>	<u><u>\$ 495</u></u>

The accompanying notes are an integral part of this statement.

STATEMENT OF REVENUE AND
EXPENDITURES

**City of Sacramento
Used Oil Block Grant Agreement UBG9-03-0217
For the Period July 1, 2003 through June 30, 2006**

	<u>Claimed</u>	<u>Audited</u>	<u>Questioned</u>
Revenue:			
State Grant	\$ 170,119	\$ 170,119	\$ 0
Interest	<u>3,155</u>	<u>3,155</u>	<u>0</u>
Total Revenue	173,274	173,274	0
Expenditures:			
Publicity and Education	169,869	169,869	0
Personnel/Other	<u>3,405</u>	<u>3,405</u>	<u>0</u>
Total Expenditures	<u>173,274</u>	<u>173,274</u>	<u>0</u>
Excess of Revenue over Expenditures	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of this statement.

NOTES TO THE STATEMENTS OF REVENUE AND EXPENDITURES

City of Sacramento Used Oil Block Grant Agreements UBG7-01-5938, UBG8-02-7938, and UBG9-03-0217

NOTE 1 Description of the Reporting Entity

The City of Sacramento was incorporated in 1849 and is located within the County of Sacramento. Sacramento is a charter city and operates under a City Council—City Manager form of government. The City's Utilities Department, Solid Waste Division has general responsibility for the Used Oil Recycling Block Grants. The Solid Waste Division provides residents with full range of solid waste management including collection, recycling, planning, and education.

NOTE 2 Program Information

The California Integrated Waste Management Board (Board) administers the California Oil Recycling Enhancement Act, which includes the disbursement of Used Oil Block Grants (UBG) from the Used Oil Recycling Fund. The block grant is noncompetitive and provides funds to establish and maintain used oil and filter collection programs including education and publicity components.

In 1991 the Legislature enacted the California Oil Recycling Enhancement Act (Public Resources Code Sections 48600 through 48691) to reduce the illegal disposal of used oil, and to recycle and reclaim used oil to the greatest extent possible. A portion of the account is to be issued as grants to local government and agencies directly responsible for solid waste management. The intent of the grant funds is to encourage local governments to expand, implement, and/or improve their used oil collection opportunities.

NOTE 3 Description of Used Oil Block Grants

These grant agreements require all expenditures be directly related to the establishment, maintenance, or enhancement of local or regional used oil collection programs. The City's used oil program spending projections for the grant agreements provide funding for: (1) the City's permanent collection facility, (2) residential collection, (3) publicity and education, and (4) personnel and other.

The Board advanced the City grant funds for all three grants. The grant funds were deposited into an account maintained by the City's Finance Department. Interest accrued by the City's Finance Department for all available funds was allocated and recorded. All interest calculated and reported for each grant was used for reported expenditures related to the grant agreement.

NOTE 4 Summary of Significant Accounting Policies

A. Basis of Presentation

The Statements presented in this report were prepared from the City's accounts and financial transactions. The Statements summarize revenue and expenditures recorded by the City during the grant reporting periods.

The Statements summarize the City's transactions pertaining to grant agreements UBG7-01-5938, UBG8-02-7938, and UBG9-03-0217 only, and are not intended to represent all of the City's financial activities.

B. Basis of Accounting

The City's accounts are maintained on the modified accrual basis and in accordance with the principles of fund accounting. Under the modified accrual basis, revenue is recognized as it becomes measurable and available, and expenditures are recorded at the time the liabilities are incurred.

FINDING AND RECOMMENDATIONS

The audits of grant agreements UBG7-01-5938, UBG8-02-7938, and UBG9-03-0217 identified a significant deficiency in fiscal controls over grant funds requiring corrective action. This significant deficiency, if left uncorrected, increases the risk of material errors or irregularities that may not be prevented, and could occur and remain undetected. Implementing these recommendations will strengthen the internal controls for future grant agreements.

FINDING 1 Inadequate Record Keeping and Unsupported Expenditures

Condition: The City received advanced payment of its grant funds, but did not maintain separate accounts to track these funds. Specifically, the funds were not maintained in a separate general ledger within the City's centralized accounting system. While the City established separate job numbers to record expenditures for each grant, the job numbers were not consistently used to provide a complete subsidiary ledger of expenditures and revenues. Consequently, the City was unable to determine if they used all grant funds received for eligible expenditures. Such practices increase the risk of duplicate billing, misstatement of revenue and expenditures, and disallowed expenditures by the Board. Because of the City's inadequate record keeping for this grant, additional audit time was required before all outstanding issues were resolved, and this audit report could be issued.

As a result of the weaknesses in record keeping, the following unsupported costs were noted during the audits:

UBG7-01-5938

- Original invoices totaling \$12,712 were not provided for expenditures reported on the Expenditure Itemization Summary (EIS).
- For two invoices, the amounts reported on the EIS exceeded the amount paid by \$137.
- Salaries and benefits totaling \$2,627 were not supported by timesheets or payroll records.

UBG8-02-7938

- An expenditure totaling \$495 was included on the EIS but was not supported by a vendor invoice.

This is a recurring finding. Refer to our July 2004 audit report of the sixth cycle, UBG6-00-3938.

Criteria:

Used Oil Recycling Block Grants, Seventh, Eighth, and Ninth Cycles, Procedures and Requirements, Exhibit 4 Reporting Requirements state each Block Grant Cycle must be tracked and accounted for separately. This separation process includes recording of grant expenditure transactions into the entity's centralized accounting system.

Used Oil Recycling Block Grants, Seventh, Eighth, and Ninth Cycles, Procedures and Requirements, Audit Requirements state grantees are responsible for maintaining all grant-related expenditure documentation at the local level, including all original receipts, invoices, cancelled checks, payroll register, timesheets, or Personnel Expenditure Summary Form.

Recommendations:

Record grant expenditures in a separate general ledger account and maintain by adequate supporting documentation. A unique general ledger account should be established for each grant.

Reconcile the general ledger to the itemized grant expenditures prior to submittal to the Board.

Remit \$15,971 to the Board for unsupported expenditures and ensure all future claimed expenditures are properly supported. The Board will make the final determination and resolution of the questioned expenditures.



DEPARTMENT OF
UTILITIES

CITY OF SACRAMENTO
CALIFORNIA

2812 Meadowview Road
Sacramento, CA 95832

SOLID WASTE DIVISION

Phone: 916-808-4900
Fax: 916-808-4999

May 20, 2008

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

Ref: Response to Draft Audit Report: City of Sacramento, Grant Agreements UBG7-01-6043, UBG8-02-7938, and UBG9-03-0217

Dear Mr. Botelho:

Please accept this letter as the City's response to the Used Oil Grant Audit cited above.

The City of Sacramento has reviewed the draft audit findings and submits the response to the individual finds as listed below.

1. The salary and benefits totaling \$2,627 is related to labor expenses paid to a contractor. We labeled the amount as salary and benefits because it is listed as "Hourly Wage Plus Benefits @10%" on the EIS. The City provided documents to support the contractors were paid, but the documents did not list the hours worked or tasks performed related to the grant. Also, the City did not provide supporting documents to show they paid for the services.

The above salary and benefits was paid consistent with Agreement 98-131 between the City of Sacramento and BLT Enterprises of Sacramento (Sacramento Recycling and Transfer Station), the operator of the City's permanent household hazardous waste facility. Exhibit 7.01 of the agreement reads:

"BLT Enterprises (Contractor) shall, under and in accordance with the provisions of this Exhibit 7.01, provide the labor to operate a city-permitted, permanent Household Hazardous Waste Facility (HHWF). The City of Sacramento (City) will, under and in accordance with the provisions of this Exhibit 7.01,



CITY OF SACRAMENTO
DEPARTMENT
OF UTILITIES

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exercise management control over facility operations. Contractor will charge the cost of operating the facility to City, plus 10% of the cost of labor and benefits for personnel assigned to the HHWF operation."

The City of Sacramento, Solid Waste Services receives a monthly invoice from BLT Enterprises for the cost of receiving, processing and properly disposing of the materials received at the facility. The monthly invoice includes labor and benefits for BLT Enterprises labor assigned to the facility. The disputed amount of \$2,627 is the cost of labor for receiving, processing and recycling the used oil received at the facility for the time period in question.

Attached is the summary table, Attachment 1, submitted for the 7th Cycle report showing the employees, the salary paid, hours per month dedicated toward the Oil Recycling Grant and the total amount of \$2,627.02.

2. The \$495 included on UBG 8 EIS #1 details are as follows.

Below is the chain of custody showing the invoice from the vendor, Ross Campbell and the date payment received from the City to the vendor.

5/30/03 \$495.50 Design cost for trash and recycling service
brochure used oil and filter appointment recycling program.

Payment received 7/9/03. Invoice # 02-2096-3. PO # 1314904309

3. Invoice #01-1973-3- Ross Campbell totaling \$5,637.50

The following chain of custody shows the expenses billed by Ross Campbell and paid by the City to Ross Campbell.

2/04/03 \$1,487.50 50% of the design cost for Trash and Recycling
Service

Payment received 3/4/03. Invoice # 02-2079-3 PO# 1314904309
5/30/03 \$ 495.50 Design cost for trash and recycling service
brochure used oil and filter appointment recycling program.

Payment received 7/9/03. Invoice # 02-2096-3. PO # 1314904309
2/04/03 \$ 177.43 Screw Drivers Art Work

Payment received 3/4/03. Invoice # 02-2078-3. PO# 1314904309
1/31/03 \$2,998.57 Screw Drivers

This was paid to Rio Media. Payment received on 4/2/03.

4. Invoice 46992 for the Sacramento Bee was part of the City of Sacramento's share in the Regional Used Recycle Oil Campaign. The total share for the City was \$20,000. This is documented by Ross Campbell, the lead consultant for the campaign and payments were made to M2 Media.

Sincerely,

Original signed by:

Edison Hicks
Integrated Waste General Manager

cc: Doug Huston, Waste Reduction Coordinator, Solid Waste Services, City of Sacramento
Marty Strauss, IWPS, Solid Waste Services, City of Sacramento
Ed Otte, Department of Utilities, City of Sacramento
Sharina Bali, Accounting, City of Sacramento
Rubia Packard, Assistant Director, Executive Office, CIWMB Management Board
Tom Estes, Deputy Director, Administration and Finance Division, CIWMB
Shirley Wild-Wagner, Division Chief, CIWMB
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Frances Parmelee, CPA, Manager, Dept of Finance, Office of State Audits and Evaluations
Jennifer Whitaker, Supervisor, Dept of Finance, Office of State Audits and Evaluations

INTEREST FROM SEVENTH CYCLE GRANT FUNDS

Attachment A contains a spreadsheet detailing the interest earned on all 7th Cycle Used Oil Recycling grant funds. The advanced payment was deposited into an interest bearing account managed by the City of Sacramento's Treasurer on 12/10/1. Interest earned on the advance payment of \$150,751.80 during the period of 12/10/01 through 12/31/01 was \$370.36. During the time period 7/1/01 through 12/31/01, the City expended \$46,548.13. A total of \$104,203.67 in grant funds remains in the interest bearing account as of 1/1/02. During the period of 1/1/02 through 6/30/02, the City earned \$2,064.33 in the interest bearing account, which brings the total interest earned with 7th Cycle grant funds to \$2,434.69. During this time, the City expended \$88,692.69. There is \$15,519.97 in grant funds remaining in the interest bearing account.

Interest from Seventh Cycle Grant Funds			
Date	Funds	Interest	Expenditures
7/1/01 through 12/1/02	\$150,751.80	\$370.36	\$46,548.13
1/1/02 through 6/30/01	\$104,203.67	\$2,064.33	\$88,692.69

PERMANENT COLLECTION FACILITY

Labor for Used Oil Recycling at the Permanent HHW Facility			
Employee	Hours per Month	Hourly Wage Plus Benefits @ 10%	Total 1/1/02 through 6/30/02
Sam Iverson	8.19	\$27.72	\$1,362.16
Jacque Grimmett	8.19	\$25.74	\$1,264.86
Total	16.38		\$2,627.02

Contract Services: Waste Oil Recycling at the Permanent HHW Facility

Contractor	Date	Cost	Task
Safety Kleen 1301 Gervasis Street, Suite 300 Columbia, South Carolina 29201	1/22/02	\$239.85	Test, drain, and transport 677 gallons of waste oil to processor. Job # 36004
Total		\$239.85	Test, drain, and transport 677 gallons of waste oil to processor

Oil Filter Recycling

Contractor	Date	Amount	Task
No data was received			
Totals			0 Drums

EVALUATION OF RESPONSE

We reviewed the City's response of May 20, 2008. Although the City's response documented the chain of custody of the vendor invoices, additional supporting documentation was not submitted for our analysis. As such, our position remains unchanged.