



Transmitted via e-mail

January 18, 2011

Ms. Margo Reid Brown, Director
Department of Resources Recycling and Recovery
801 K Street, MS 1901
Sacramento, CA 95814

Dear Ms. Reid Brown:

Final Report—Agreed-Upon Procedures, County of Los Angeles Waste Tire Enforcement Grants

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its agreed-upon procedures review of the County of Los Angeles's (County) Waste Tire Enforcement Act (TEA) grants noted below:

<u>Grant Agreements</u>	<u>Audit Period</u>	<u>Awarded</u>
TEA 12-05-19	June 30, 2006 through June 30, 2007	\$300,000
TEA 14-06-8	June 30, 2007 through June 30, 2008	\$300,000

The enclosed report is for your information and use. The County'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. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov/> within five working days of this transmittal.

We appreciate the assistance and cooperation of the County. If you have any questions regarding this report, please contact Kimberly Tarvin, Manager, or Alma Ramirez, 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. Angelo Bellomo, Director, Environmental Health Services, Department of Public Health, County of Los Angeles
Ms. Cindy Chen, Chief of Solid Waste Program, Environmental Health Services, Department of Public Health, County of Los Angeles
Ms. Belinda Snugnon, Grant Manager, Financial Management Division, Department of Public Health, County of Los Angeles
Mr. Herbert Sowe, Registered Environmental Health Specialist, Department of Environmental Health, County of Los Angeles
Mr. Raymond Low, Chief, Audits and Investigation Division, Department of Public Health, County of Los Angeles
Mr. Tom Estes, Deputy Director, Administration, Finance and Information Technology Division, Department of Resources Recycling and Recovery
Ms. Susan Villa, Branch Chief, Fiscal Services Branch, Department of Resources Recycling and Recovery
Ms. Shirley Willd-Wagner, Branch Chief, Financial Resources Management Branch, Department of Resources Recycling and Recovery
Mr. Jason Marshall, Deputy Director, Audits and Data Analysis Division, Department of Resources Recycling and Recovery
Mr. Brian Kono, Acting Audit Manager, Audits Branch, Department of Resources Recycling and Recovery
Ms. Phanessa Fong, Grant Manager, Financial Resources Management Branch, Department of Resources Recycling and Recovery

AGREED-UPON PROCEDURES

County of Los Angeles
Grant Agreements
TEA 12-05-19
and TEA 14-06-8

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

MEMBERS OF THE TEAM

Kimberly Tarvin, CPA
Manager

Alma Ramirez, CPA
Supervisor

Staff
Alice Yip

This report is also available on our website at <http://www.dof.ca.gov>

You can contact our office at:

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Mr. Angelo Bellomo, Director
Environmental Health Services
Department of Public Health
County of Los Angeles
5050 Commerce Drive, Room 201
Baldwin Park, CA 91706

The Department of Finance, Office of State Audits and Evaluations (Finance), performed the procedures enumerated below, which were agreed to by the California Integrated Waste Management Board. On January 1, 2010, the Board was abolished and its duties were transferred to the new Department of Resources Recycling and Recovery (CalRecycle).

The objective of the agreed-upon procedures is to assist CalRecycle in evaluating the County of Los Angeles' (County) compliance with the Waste Tire Enforcement grants. We applied the agreed-upon procedures to the following grant agreements:

<u>Grant Agreements</u>	<u>Audit Period</u>	<u>Awarded</u>
TEA 12-05-19	June 30, 2006 through June 30, 2007	\$300,000
TEA 14-06-8	June 30, 2007 through June 30, 2008	\$300,000

This agreed-upon procedures engagement was conducted in accordance with the *Statements on Standards for Attestation Engagements* published by the American Institute of Certified Public Accountants. These standards require that we report all findings identified during the application of the agreed-upon procedures, unless the specified users agree to the definition of materiality. Finance and CalRecycle agreed to materiality guidelines of 5 percent or \$1,000 of grant funds claimed, whichever is less, for reporting findings with questioned costs, errors, or omissions. The sufficiency of these procedures is solely the responsibility of CalRecycle. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

BACKGROUND

As the state's recycling and waste reduction authority, CalRecycle implements programs to reduce waste generation, divert materials from landfills, recover resources, remediate illegal sites, and ensure compliance with applicable state standards. In 1989, the Legislature enacted the California Tire Recycling Act (Act). The Act created the tire recycling program for the promotion and development of alternatives to the landfill disposal of tires. The County received grant funding to implement a local waste tire inspection and compliance program to protect public health, safety, and the environment.

PROCEDURES AND RESULTS

The agreed-upon procedures pertained to the County's compliance with the Waste Tire Enforcement Grants. The results of the procedures are presented below:

Procedure 1:

Prepare a Schedule of Claimed, Audited, and Questioned costs for each grant.

Results:

Schedules of Claimed, Audited, and Questioned Costs for each grant are presented below:

Table 1: Schedules of Claimed, Audited, and Questioned Costs

Grant Agreement TEA 12-05-19 June 30, 2006 through June 30, 2007			
Expenditure Category	Claimed Expenditures¹	Audited Expenditures	Questioned Costs
Inspections	\$140,317	\$135,070	\$ 5,247
Surveillance/Enforcement	48,247	44,907	3,340
Report Preparation	27,570	27,570	0
Training	8,431	8,431	0
Equipment	2,693	2,693	0
Transportation	25,000	0	25,000
Indirect Cost	25,226	21,867	3,359
Total	\$277,484	\$240,538	\$ 36,946

Grant Agreement TEA 14-06-8 June 30, 2007 through June 30, 2008			
Expenditure Category	Claimed Expenditures²	Audited Expenditures	Questioned Costs³
Inspections	\$159,495	\$159,495	0
Surveillance/Enforcement	45,852	45,852	See Finding 3
Training	6,284	6,284	0
Report Preparation	30,709	30,709	0
Equipment	1,491	1,491	0
Transportation	0	0	0
Indirect Cost	24,383	24,383	See Finding 3
Total	\$268,214	\$268,214	See Finding 3

¹ For grant agreement TEA 12-05-19, the County claimed only \$277,484 of the \$300,000 awarded.

² For grant agreement TEA 14-06-8, the County claimed only \$268,214 of the \$300,000 awarded.

³ We verified the costs claimed were expended. However, we cannot determine whether the Surveillance/Enforcement costs exceeded the budget as discussed in Finding 3.

Procedure 2:

Based on a review of the County's Independent Auditor's Reports for the grant period, assess the audit risk and adjust the sample sizes selected for procedures 3 and 4 accordingly. If the report includes findings that are also present in the current grants, include the findings in this report.

Results:

Based on a review of the County's fiscal year 2006-07 and 2007-08 single audit reports, the audit risk was assessed and the sample sizes selected for procedures 3 and 4 were adjusted accordingly. The single audit reports indicated that the payroll transactions were not adequately supported. As noted in Finding 3, the personnel expenditures were not adequately supported for the Waste Tire Enforcement grants.

Procedure 3:

To verify that costs claimed were allowable, perform the following procedures:

- A. Verify that the County's Grant Transaction Detail Report or similar document agrees with the County's Grant Payment Requests for claims submitted for reimbursement.
- B. For a sample of expenditure transactions, trace operational and administrative costs reported on the Grant Payment Requests to source documentation. Determine whether the costs are allowable and verify that the costs were not double billed to the grants reviewed.

Results:

- A. A sample of personnel expenditures claimed agreed with personnel expenditures recorded in the Payroll Register. Additionally, a sample of purchases claimed agreed to the Expenditure Detail Reports.
- B. Based on the procedures performed, the majority of operational and administrative costs were allowable, supported by invoices, and not double billed between the two grants under review. However, the following costs claimed were not allowable or the supporting documentation was not adequately maintained. See the Findings and Recommendations section of this report for additional details.
 - On grant TEA 12-05-19, the County claimed \$27,500 for a vehicle acquired in October 2007 and paid for in November 2007, after the grant end date of June 30, 2007. This amount includes the related indirect costs claimed.
 - The County claimed \$9,446 in ineligible costs for TEA 12-05-19 due to exceeding the Budget for inspections and surveillance/enforcement activities.
 - Conflicting Budget documents were provided for TEA 14-06-8. As a result, it could not be determined whether the County exceeded the Budget for surveillance/enforcement activities.
 - Personnel costs were not supported by activity reports documenting the actual time staff worked on grant activities. As an alternative procedure, other evidence including the number of inspections and surveillance activities and related reporting tasks were evaluated to determine whether the claimed personnel costs were reasonable. Based on the alternative procedures performed, the personnel expenditures up to the amount authorized by the Budget were reasonable.

Procedure 4:

Determine whether progress reports were filed timely.

Results:

Progress Reports were filed timely for both grants.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on compliance with CalRecycle's grant provisions. 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 you.

This report is intended solely for the information and use of CalRecycle 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.

Original signed by:

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

November 4, 2010

FINDINGS AND RECOMMENDATIONS

The agreed-upon procedures performed identified the following findings and recommendations. The recommendations, if implemented, will improve the County's grant management and reduce the risk of claiming ineligible costs for future grants.

FINDING 1: Ineligible Vehicle and Indirect Costs of \$27,500

The County claimed \$25,000 for a vehicle acquired in October 2007 and paid for in November 2007, after the grant end date of June 30, 2007. Additionally, the County claimed \$2,500 for related indirect costs. Grant Agreement, Exhibit B, Procedures and Requirements, states only costs incurred during the grant period are eligible for reimbursement. The Budget allows indirect costs of up to 10 percent of eligible costs.

Recommendations:

- A. The County should remit \$27,500 to CalRecycle. CalRecycle will make the final determination regarding disposition of the questioned costs.
- B. For future grants, the County should ensure all expenditures claimed are incurred during the grant period.

FINDING 2: Ineligible Costs of \$9,446 Claimed in Excess of the Budget

The County claimed \$8,587 in excess of the Budget for inspections/referrals (Task 1) and surveillance/enforcement (Task 2) activities for grant agreement TEA 12-05-19. In addition, the County claimed \$859 for related indirect costs.

Grant Agreement, Exhibit A, Terms and Conditions, indicates the maximum amount of allowable costs for each of the tasks identified in the Work Plan is stated in the Budget. Furthermore, the grantee shall obtain the Grant Manager's written approval of any changes or modifications to the Budget prior to incurring the changed cost. Additionally, the Budget allows indirect costs of up to 10 percent of eligible costs.

Recommendations:

- A. The County should remit \$9,446 to CalRecycle. CalRecycle will make the final determination regarding disposition of the questioned costs.
- B. For future grants, the County should ensure it obtains written state approval for budget modifications prior to incurring the additional cost.

FINDING 3: Final Budget for Grant Agreement TEA 14-06-8 Could Not Be Determined

CalRecycle and the County presented the same TEA 14-06-8 grant agreement cover sheet showing the grant amount of \$300,000 and term of June 30, 2007 through June 30, 2008. However, each provided a different version of the grant agreement Exhibit C, Proposed Budget and Expenditure Spreadsheet (Budget). Neither document has a signature or approval date. Therefore, it is not evident which document represents the official Budget agreed to by CalRecycle and the County.

Based on our audit, the costs claimed were incurred. However, without evidence regarding which document represents the official Budget, it cannot be determined whether the expenditures for Surveillance/Enforcement exceeded the Budget. For the other cost categories, the expenditures claimed were less than either CalRecycle's or the County's budgeted amount, and/or the variances were insignificant. See below for a summary of both Budgets provided and actual costs claimed.

Grant Agreement TEA 14-06-8 June 30, 2007 through June 30, 2008			
Expenditure Category	Budget Provided by CalRecycle	Budget Provided by the County	Claimed Expenditures
Inspections	\$164,149	\$159,391	\$159,495
Surveillance/Enforcement	22,469	46,015	45,852
Community/Industry Education	13,739	860	0
Grantee Training	31,734	30,845	6,284
Report Preparation	30,413	30,709	30,709
Equipment	7,500	4,906	1,491
Transportation	2,723	0	0
Indirect Cost	27,273	27,273	24,383
Total	\$300,000	\$299,999	\$268,214

Grant agreement, Exhibit A, Terms and Conditions, indicates the maximum amount of allowable costs for each of the tasks identified in the Work Plan is stated in the Budget. Furthermore, the grantee shall obtain the Grant Manager's written approval of any changes or modifications to the Budget prior to incurring the changed cost. Additionally, the Budget allows indirect costs of up to 10 percent of eligible costs.

Recommendations:

- A. CalRecycle should determine which document represents the official Budget and whether the County exceeded the Budget for Surveillance/Enforcement activities.
- B. If it is determined the County exceeded the official Budget for Surveillance/Enforcement activities, CalRecycle should require the County to remit the amount claimed over the official Budgeted amount. CalRecycle will make the final determination regarding disposition of any questioned costs.
- C. CalRecycle should revise the Budget form to include approval signatures. If a Budget is revised, CalRecycle should include a notation on the revised Budget that indicates it is a revision and the revision date.

FINDING 4: Unsupported Personnel Costs

Personnel costs were not supported by activity reports documenting the actual time staff worked on the grant project. As a result, alternative procedures were performed to determine the reasonableness of the expenditures claimed. However, the County risks unreimbursed costs and the loss of future grant funding by not maintaining records of the actual tasks performed.

Grant Agreement, Exhibit B, Terms and Conditions, state any personnel expenditure to be reimbursed with grant funds must be computed based on actual time spent on grant-related activities.

Recommendation: Ensure the actual time staff worked on grant activities is documented and retained for audit.



JONATHAN E. FIELDING, M.D., M.P.H.
Director and Health Officer

JONATHAN E. FREEDMAN
Chief Deputy Director

Miles D. Yokota
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November 19, 2010

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

**LOS ANGELES COUNTY DEPARTMENT OF PUBLIC HEALTH (DPH),
ENVIRONMENTAL HEALTH SERVICES WASTE TIRE ENFORCEMENT GRANTS
AUDIT (Grant Agreements TEA 12-05-19 & TEA 14-06-8)**

We have attached our response to your audit report findings and recommendations. Overall, we agree with your report except for your recommendations to repay grant funds used for purchasing a vehicle and for exceeding two line item budgets. We included our reasoning in the response.

We thank you for the opportunity to review your report. If you have any questions or need additional information, please contact Raymond Low, at (323) 869-8920.

Sincerely,

Original signed by:

Miles D. Yokota
Administrative Deputy

c: Jonathan E. Freedman
Raymond Low
Angelo Bellomo

**DEPARTMENT OF PUBLIC HEALTH WASTE TIRE ENFORCEMENT GRANTS
(TEA 12-05-19 & TEA 14-06-8) AUDIT RESPONSE**

Finding 1: Ineligible Vehicle and Indirect Costs of \$27,500

The County claimed \$25,000 for a vehicle acquired in October 2007 and paid for in November 2007, after the grant end date of June 30, 2007. Additionally, the County claimed \$2,500 for related indirect costs.

Recommendations:

- A. The County should remit \$27,500 to CalRecycle. CalRecycle will make the final determination regarding disposition of the questioned costs.

DPH Response: We disagree.

We agree with the finding that the delivery and payment for the vehicle occurred after the grant period. However, the County should not have to remit payment for the vehicle cost since the vehicle was purchased to facilitate waste tire enforcement activities over a multi-year period through subsequent grants.

This vehicle is used exclusively for waste tire enforcement activities and supports the current waste tire program. As such, we disagree with repaying the funds for the vehicle purchase.

- B. For future grants, the County should ensure all expenditures claimed are incurred during the grant period.

DPH Response: We agree.

Finding 2: Ineligible Costs of \$9,446 Claimed in Excess of the Budget

The County claimed \$8,587 in excess of the Budget for inspections/referrals (Task 1) and surveillance/enforcement (Task 2) activities for grant agreement TEA 12-05-19. In addition, the County claimed \$859 for related indirect costs.

Recommendations:

- A. The County should remit \$9,446 to CalRecycle. CalRecycle will make the final determination regarding disposition of the questioned costs.

DPH Response: We disagree.

DPH agrees that we exceeded the Task 1 and Task 2 line item budgets. We are requesting relief from payment since the overall grant expenditures (\$277,484) were less than the total grant award (\$300,000).

- B. For future grants, the County should ensure it obtains written State approval for budget modifications prior to incurring the additional cost.

DPH Response: We agree.

Finding 3: Final Budget for Grant Agreement TEA 14-06-8 Could Not Be Determined

CalRecycle and the County presented the same TEA 14-06-8 grant agreement cover sheet showing the grant amount of \$300,000 and term of June 30, 2007 through June 30, 2008. However, each provided a different version of the grant agreement. Neither document has a signature or approval date, therefore, it is not evident which document represents the official budget agreed to by CalRecycle and the County.

Recommendations:

- A. CalRecycle should determine which document represents the official Budget and whether the County exceeded the Budget for Surveillance/Enforcement activities.

DPH Response: None.

- B. If it is determined the County exceeded the official Budget for Surveillance/Enforcement activities, CalRecycle should require the County to remit the amount claimed over the official Budgeted amount. CalRecycle will make the final determination regarding disposition of any questioned costs.

DPH Response: None.

- C. CalRecycle should revise the Budget form to include approval signatures. If a Budget is revised, CalRecycle should include a notation on the revised Budget that indicates it is a revision and the revision date.

DPH Response: None.

Finding 4: Unsupported Personnel Costs

Personnel costs were not supported by activity reports documenting the actual time staff worked on the grant project. As a result, alternative procedures were performed to determine the reasonableness of the expenditures claimed.

Recommendation: Ensure the actual time staff worked on grant activities is documented and retained for audit.

DPH response: We agree.

We now require staff to record CalRecycle grant activities in a separate report. This should facilitate identification of staff time and cost spent on grant activities.

EVALUATION OF RESPONSE

The Department of Finance, Office of State Audits and Evaluations, reviewed the County of Los Angeles's (County) response to the draft report. Our evaluation of the response follows:

FINDING 1: Ineligible Vehicle and Indirect Costs of \$27,500

The County agrees that the delivery and payment of the vehicle occurred after the grant period. However, the County does not agree to return the funds to CalRecycle and asserts the vehicle is used exclusively for waste tire enforcement activities. Because the County did not provide evidence of CalRecycle's approval of a time extension amendment to the grant agreement, the finding remains as originally stated in the audit report. CalRecycle will make the final determination regarding disposition of the questioned costs.

FINDING 2: Ineligible Costs of \$9,446 Claimed in Excess of the Budget

The County agrees that inspections/referrals (Task 1), and surveillance/enforcement (Task 2) budgets were exceeded. However, the County does not agree to return the funds to CalRecycle and requests relief from payment. Because the County did not provide evidence of CalRecycle's approval to increase the related tasks budgets, the finding remains as originally stated in the audit report. CalRecycle will make the final determination regarding disposition of the questioned costs.

FINDING 3: Final Budget for Grant Agreement TEA 14-06-8 Could Not Be Determined

The County has no response on this finding.

FINDING 4: Unsupported Personnel Costs

The County concurs with the finding and states it has taken corrective action by requiring staff to record CalRecycle grant activities in a separate report.