

117



**CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER**

**Ed Harrington
Controller**

**Monique Zmuda
Deputy Controller**

MEMORANDUM

DATE: March 24, 2006
TO: Jared Blumenfeld, Director, Department of the Environment
FROM: Ed Harrington, Controller *Ed Harrington*
SUBJECT: Refuse Collection and Disposal Rates – Impound Account Expenditures by Department of the Environment.

This memorandum provides the results of our review of Department of the Environment's (DOE) expenditures from the Solid Waste Impound Account (impound account). The impound account funds waste collection, disposal and diversion programs for San Francisco and is funded from a portion of garbage fees paid by both commercial and residential ratepayers.

Our review found that funds were used from the impound account in fiscal year 2004-05 and fiscal year 2005-06 for grants that may not be appropriately related to the impound account's purposes of diverting material from the waste stream. The amount at issue ranges from \$214,000 to \$594,000 out of grant budgets of \$3.9 million. We recommend that DOE strengthen its grant processes in a number of ways. However, the program areas and funding allocations proposed for the impound account from fiscal years 2006-07 through 2010-11, as presented in the current garbage rate-setting process, are appropriate and we do not find that changes in those plans are indicated.

Background

The Office of the Controller-City Services Auditor (CSA) is currently conducting a performance audit of DOE, as requested by the Board of Supervisors. Because the City's Refuse Collection and Disposal hearings that will set the funding levels for the impound account for the period 2006-07 through 2010-11 are also underway at this time, we are providing preliminary findings related to DOE's use of funds from the impound account now. A full audit report will be issued later this spring.

The 1932 Refuse Collection and Disposal Ordinance (Refuse Ordinance) grants the City authority to set rates for refuse collection ratepayers, establishes the process by which refuse collection rates are set, and defines other processes and requirements related to solid

06/07

waste disposal. An October 11, 2001 memorandum from the City Attorney, as well as other guidance, serves as the basis of the City's established policies and practices regarding funding of, and expenditure from, the impound account. The City Attorney memorandum states that refuse rate proceeds may properly be used for costs related to refuse collection and disposal, including the costs of operation and administration of the City's solid waste management programs, which are designed to reduce the amount of solid waste generated in San Francisco. These programs include recycling and public outreach and education, among others.

DOE has relied to a large extent on the October 11, 2001 City Attorney memorandum to develop its policies and practices regarding the use of impound account funds, including guidelines for the maximum percentages of its programs that it may fund from the impound account. Over the years, DOE program activities that have been funded, in whole or in part, from the impound account include recycling, solid waste, toxics reduction, outreach and education, green building, and environmental justice, and administrative costs allocated to these programs.

Impound Account Budget Amounts

The Staff Report submitted for the current refuse rate process proposes funding from the impound account for the following activities:

Proposed 2006-07 Impound Account Expenditures¹

Item	Amount
Department of Public Works	\$1,099,061
DOE	
• Personnel	\$3,126,835
• Grants	848,000
• Other Expenses	<u>2,509,132</u>
Other Expenses ²	<u>3,957,743</u>
Total	\$11,540,771

¹ From fiscal year 2006-07 through fiscal year 2010-11, the impound account proposed expenditure increases each year by factors ranging from 2.7% to 5.96%, with an average of 4.3%.

² Including Fees for Altamont Landfill Disposal and Waste Management Authority of Alameda County, and business tax license fees.

For a sense of scale, the current maximum charge for refuse collection service for a single family residential address in San Francisco is approximately \$19.08 per month, of which the impound account charge is approximately \$0.76, or 4%.

Review of DOE's Expenditures

For the purposes of this interim report, audit staff examined DOE's personnel costs for fiscal year 2005-06, and grants made to community based organizations for fiscal year 2004-05 and fiscal year 2005-06. According to DOE staff, personnel costs will account for 48% of DOE's impound account funding in its fiscal year 2006-07 proposed budget, and grants will account for 13%. The remaining 39% of fiscal year 2006-07 proposed costs include rent and other overhead, professional services, long term planning, and other expenses. CSA staff did not review the Department's non-personnel costs for the purposes of this memorandum; however, these costs will be included in the full audit work and audit report to be issued later.

Personnel Costs

For fiscal year 2005-06, DOE based the allocation of program staff costs on their assigned job duties and on the budgeted proportions of funding for its programs. Allocation of administrative staff costs was based on the overall proportion of program staff paid from the impound account. These methodologies resulted in cost allocations to the impound account ranging from 2% to 100% for program FTEs, and a cost allocation for most administrative FTEs of 57% to the impound account.

CSA staff reviewed these methodologies for allocating personnel costs to the impound account and conclude that they are reasonable overall. However, the auditors note that DOE lacks documentation to support the allocations, such as timesheets detailing time spent by program. The Department's management concurs with these concerns, and states that more precise allocations, based on more detailed analyses of specific work to be done by each individual staff member, was used to determine proposed allocations in the fiscal year 2006-07 budget. CSA staff reviewed DOE's documentation for the new methodology, and concluded the approach to be reasonable. However, the auditors recommend that DOE implement a process to evaluate the accuracy of DOE's projections in this area at appropriate intervals, such as requiring its personnel to complete program-specific timesheets for two or more sample months each year.

Grants

CSA staff examined fiscal year 2004-05 and fiscal year 2005-06 grants made to community based organizations to determine compliance with the purposes of the impound account. Based on our review, DOE's grant programs could be significantly improved to ensure that there is greater compliance with the intent of the impound account.

Grant plans and budgets for each grant were examined to determine the extent of the grant's compliance with the impound account's purposes. Each grant was assigned a ranking between one and four for the estimated percentage of the grant activity that appeared to comply with the intent of the impound account. Grants for which each item in the grant plan was an appropriate activity for impound account funding were ranked four

and scored as 100% of the dollar amount chargeable to the impound account, grants with a rank of three scored 50% to 100% chargeable to the impound account, twos scored 0% to 50% and a score of one would be grants not at all appropriate for the impound account. The table below shows the resulting dollar value range of grant amounts that may not be appropriate for the impound account.

In this analysis, some grants and portions of grants were determined to be inappropriately funded from the impound account, or only weakly related to the purposes of the impound account. For example, grants were made to various organizations to support the United Nations World Environment Day events in San Francisco, some parts of which did not appear to have any waste diversion purpose. DOE management states that World Environment Day 2005 was itself organized to be a zero waste event and that it also focused on issues of recycling and toxics reduction. In another example, a small grant to Compumentor provided for installation and set up of computer hardware and software provided by their partner, the Computer Recycling Center. However, according to the grant plan in the Compumentor grant agreement, DOE also provided a portion of that grant's funding to help provide training to recipients of computers. Audit staff did not find a direct correlation with the intent of the impound account in this use of the grant funds.

The table below summarizes, by program area, the grants made, the estimated funding from the impound account, and the estimated amounts inappropriately funded from the impound account, as determined by CSA staff. The Grant Amount column shows amounts granted, rather than amounts encumbered or spent. As shown below, the audit analysis is that between \$214,146 and \$594,108 out of grant budgets of \$3.9 million may not be related or was only weakly related to the purposes of the impound account.

**Review of Grant Funding by Department of the Environment
 Fiscal Years 2004-05 and 2005-06**

Program Area	Grant Amount	Estimated Funding from Impound Account ¹	Estimated Amounts for Activities That May Fall Outside Intent of Impound Account ¹
Recycling	\$2,049,284	\$2,049,284	\$198,296 to \$562,408
Toxic Waste	175,900	31,700	\$15,850 to \$31,700
Environmental Justice	972,495	0	0
Clean Air	710,000	0	0
Total	\$3,907,679	\$2,080,984	\$214,146 to \$594,108

¹ Since some of the grants are still open, this column also includes future amounts due to be funded from the impound account.

This is primarily an historical analysis and does not represent the types and quality of grants that will be awarded in the future. However, it does demonstrate the need for additional scrutiny of grants that DOE intends to fund wholly or partially with impound account funds in the upcoming five-year period affected by the rate-setting process now underway.

Further review of the actual activities funded by DOE's grants will be done during the remainder of the Controller's performance audit process and may change the analysis of the appropriateness of funding from the impound account.

Conclusions

- In fiscal year 2004-05 and in fiscal year 2005-06, impound account funds were designated for portions of grants in two of DOE's program areas, Recycling and Toxic Waste, that may not be sufficiently related to the purposes and goals of diverting material from the waste stream.
- Individual grants included both activities appropriately funded from the impound account, and activities not appropriately funded from the impound account.
- While we did not evaluate the DOE's Request for Proposals or other grant-making processes for this interim report, we note that the World Environment Day grants represent at least one case in which there was no appropriate scoring or evaluation during the grant-making process to insure that the grant was relevant to waste diversion or other purposes of the impound account.
- These conclusions do not mean that the program areas and funding allocations proposed for fiscal year 2006-2007 through fiscal year 2010-2011, as presented in the documentation for the current garbage rate-setting process, are inappropriate. DOE can address the weaknesses identified here by improving its internal controls and its administration of grant funds as outlined below. The plans submitted for the current process are already improved in that impound account funded projects specify the services and the waste reduction benefits to be provided.

Recommendations

DOE should take the following steps to ensure the appropriateness of amounts charged to the Solid Waste Impound Account:

- Prepare and publish an annual plan for the use of all impound account funds in advance of the budget process, including sufficient details regarding all proposed costs and anticipated grants. This plan should be subject to public hearings before approval by the Commission on the Environment.

- Develop a grant solicitation and scoring procedure that includes impound account relevance and other factors, that provides for a competitive and fair process, and that is reviewed and approved by the Commission on the Environment.
- Implement a process to evaluate the appropriateness of allocations of personnel costs to the impound account at appropriate intervals, such as requiring personnel to complete program-specific timesheets for two or more representative sample months each year. This would allow DOE to make adjustments to allocations based on actual, measured staff activities.
- Develop other funding sources that would allow the Department to make grants in this area that would benefit the City's environment but cannot be funded from the impound account under current policies.

cc: Supervisor Tom Ammiano, Chair, Government Audits and Oversight Committee
Supervisor Fiona Ma
Noelle Simmons, Mayor's Budget Office
Robert Beck, Department of Public Works
Ed Lee, Chief Administrative Officer
Rona Sadler, City Attorney's Office