

DEPARTMENT OF THE ENVIRONMENT:

Improve Business Practices
to Advance Environmental
Programs



January 22, 2007
05052



City and County of San Francisco

Office of the Controller – City Services Auditor

Department of the Environment:
Improve Business Practices to Advance Environmental Programs

Audit No. 05052
January 22, 2007

Purpose of the Audit

This audit was conducted in accordance with the Controller's City Services Auditor Division's approved 2005-06 Audit Plan, in response to a request by the Board of Supervisors. We assessed whether the Department was properly using Solid Waste Impound Account funds, and whether grant and contracting practices are effectively directed towards achieving the goals of the Department's programs.

Highlights

In fiscal year 2005-06, the Department charged almost \$3 million (45 percent of its Solid Waste Impound Account budget), to the impound account based only on estimates of activities properly fundable by the impound account. This is a reasonable methodology for budgeting purposes. However, the Department did not adjust its estimates to reflect actual costs and it does not maintain documentation, such as timesheets detailing time spent by program, to make such adjustments. This process does not ensure that impound account funds are used only for their intended purposes, which include waste collection and disposal, in addition to waste diversion efforts aimed at diverting solid waste from the Altamont Landfill.

FY 2004-05 and 2005-06 grants funded with impound account monies included an estimated \$213,965 to \$585,058 for activities that were not fully appropriate to the purposes of the impound account. In general, grants awarded by the Department do not all have a strong correlation to applicable program goals and funding mandates, primarily because the grant scoring criteria does not sufficiently emphasize program goals. For example, although waste diversion is the primary emphasis of the recycling program, only one of the ten criteria used to evaluate recycling program grant applications is related to waste diversion, and it is given the same 10-point weight as all of the other criteria.

The Department entered a grant agreement in 2001 with the nonprofit, Literacy for Environmental Justice, for the design and construction of an educational "living" classroom facility in the Bayview-Hunters Point district. Despite the passage of five years and the expenditure of \$479,219, the building is not yet built. Although there have been various causes for the problems associated with this project, improvements in grant practices, particularly with regard to grant monitoring, would assist the Department in avoiding future problematic grants and projects.

Some grant agreements and contracts did not clearly define the required work, billable costs, and reporting requirements, which prevented the Department from adequately monitoring grantees' and contractors' performance. Fifty-five percent of the grant agreements we reviewed did not adequately specify targets and measurements of performance.

Recommendations

The audit report includes 21 recommendations for the Department to use the impound account more effectively, and to advance program goals by improving grant and contract practices. Specifically, the Department of the Environment should:

- Adjust impound account funding to actual, impound account-related costs, based on accurate timekeeping.
- Commission periodic audits of the impound account.
- Obtain assistance with the living classroom project by, at a minimum, requesting the Port or DPW to review the proposed contract between Literacy for Environmental Justice and the selected general contractor.
- Write better grants and contracts and require better grantee reporting.

Copies of the full report may be obtained at:

Controller's Office • City Hall, Room 316 • 1 Dr. Carlton B. Goodlett Place • San Francisco, CA 94102 • 415.554.7500
or on the Internet at <http://www.sfgov.org/Controller>



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ed Harrington
Controller

Monique Zmuda
Deputy Controller

January 22, 2007

Audit Number 05052

Jared Blumenfeld, Director
Department of the Environment
City and County of San Francisco
11 Grove Street
San Francisco, CA 94102

Dear Mr. Blumenfeld:

The Controller's Office, City Services Auditor, presents its audit report on the Department of the Environment (Department). The audit objectives were to assess whether the Department fulfills the responsibilities assigned to it by the San Francisco Charter and Environment Code, determine if the Department properly uses Solid Waste Impound Account (impound account) funds, and assess whether grant and contracting practices are effectively directed towards achieving the goals of the Department's programs.

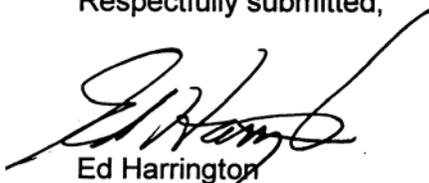
We concluded that the Department fulfills most of the responsibilities assigned to it by the Charter and Environment Code. However, we also concluded that the Department needs to take steps to ensure that impound account funds are properly spent by adopting more specific guidelines for using these funds and by improving its practices for tracking and recording costs. The Department also needs to take steps to ensure that construction of the educational "living" classroom facility in the Bayview-Hunters Point District proceeds without undue delay and further cost overruns, and needs to improve its grant and contracting practices to ensure that funds are spent effectively to advance the City's environmental programs.

The audit includes 21 recommendations for the Department to improve its accounting for impound account expenditures, increase impound account oversight, and improve grant and contracting practices. The recommendations pertaining to grants and contracts focus primarily on writing better agreements, more closely monitoring grantees, and making other changes to business practices.

The Department's response to the audit is attached as Appendix C. The Department concurred with all audit recommendations and agreed to implement them.

We appreciate the assistance and cooperation that Department staff provided to us during the audit.

Respectfully submitted,



Ed Harrington
Controller

cc: Mayor
Board of Supervisors
Civil Grand Jury
Budget Analyst
Public Library

TABLE OF CONTENTS

Introduction	1
Audit Results	5
Finding 1. The Department Met Its Charter and Environment Code Mandates Except for Two Reporting Requirements	5
Finding 2. Track Actual Costs and Increase Oversight to Ensure Propriety of Impound Account Expenditures	6
Finding 3. Grants Should Be Awarded Only for Work That Meets Department Goals	10
Finding 4. Obtain Construction Management Assistance for the Living Classroom Project	18
Finding 5. Contracts Need to Be Clearly Written and Properly Monitored	20
Appendix A – Interim Report on the Department of the Environment	A-1
Appendix B – Review of Grants for Compliance with Impound Account Intent	B-1
Appendix C – Department Response to the Audit	C-1

INTRODUCTION

BACKGROUND

Department of the Environment and the Environment Code

The Department of the Environment (Department) was established in 1996-1997, under the provisions of Section 4.132 of the Charter of the City and County of San Francisco (City). Section 4.118 of the Charter created the Commission on the Environment (Commission) and provided it the authority to review and make recommendations on any proposed City policy involving conformity with long-term plans for environmental sustainability, except for those regarding building and land use. Section 4.118 requires the Department to manage the environmental programs, duties, and functions assigned to it under Section 4.132 or by ordinance, pursuant to the Commission's policies and directives. The San Francisco Environment Code was adopted in July 2003 to consolidate the City's ordinances governing protection of the environment, natural resources, and sustainability that were previously scattered throughout the Administrative Code.

Programs and Organization

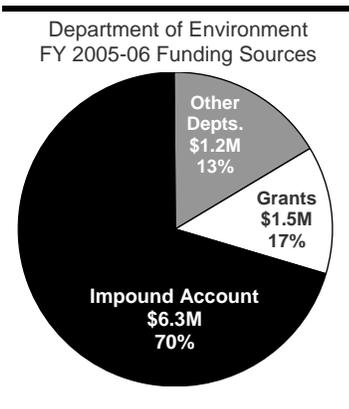
The Environment Code assigns duties to the Department in several program areas. These responsibilities range from broad, information-providing duties to very specific roles in various City processes. For example, the Department is required to produce, maintain, and post on its website a list of all City ordinances and resolutions that relate to the environment. It also has the authority to grant exemptions from the City's pesticide bans.

The Department's waste diversion efforts, which are concentrated in its recycling program, represent a primary focus of its activities. These efforts are largely devoted to meeting state and city mandated targets to divert solid waste from the Altamont Landfill. The California Integrated Waste Management Act of 1989 required a 50 percent diversion rate by January 1, 2000, through source reduction, recycling, and composting activities. The Board of Supervisors (Board) adopted more stringent long-term goals in 2002 of 75 percent waste diversion by 2010 and zero waste by 2020. The Department's short-term goals for waste diversion in

fiscal year (FY) 2005-06 and FY 2006-07 are 67 percent and 68 percent, respectively.

In addition to the recycling program, the Department's six principal programs include: public information/outreach, energy/clean air, toxics reduction/green building, environmental justice, and urban forestry. The Department's budget included 52 full-time equivalent (FTE) positions in FY 2005-06.

The Solid Waste Impound Account

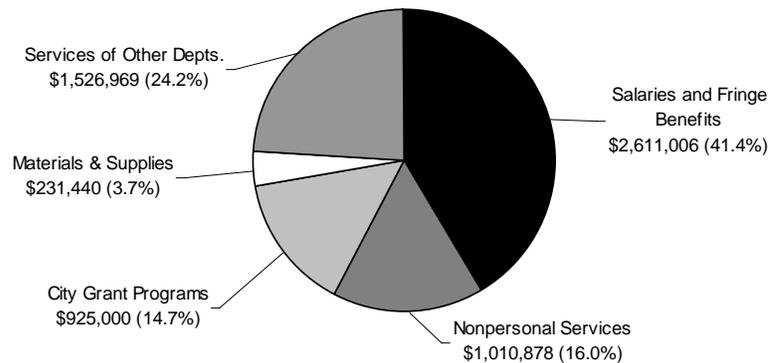


The Board originally funded the Solid Waste Solid Waste Impound Account (impound account) in 1979. The Department of the Environment acquired responsibility for part of the account from the City Administrator in 2001. The impound account is the Department's primary funding source, representing 70 percent (\$6.3 million) of its \$9.0 million budget in FY 2005-06, and 49 percent (\$6.0 million) of its \$12.3 million budget in FY 2006-07.¹ The balance of the Department's budget comes from grants and other departments (17 percent and 13 percent, respectively, in FY 2005-06).

The generation and use of impound account funding have their roots in the 1932 Refuse Collection and Disposal Ordinance, which grants the City authority to set rates for refuse collection, establishes the process for setting refuse collection rates, and defines other processes and requirements related to solid waste disposal. Accordingly, the impound account is funded from a portion of refuse collection fees paid by both commercial and residential ratepayers, with funding levels for the impound account determined during the refuse collection rate-setting process conducted by DPW, which sets rates for Norcal Waste Systems, Inc. (Norcal), the City's waste collection contractor.

City guidelines state that impound account funds may 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. In FY 2005-06, the Department used these guidelines to allocate personnel and other costs of its recycling and public outreach and education programs, among others, to the impound account as follows:

¹ Budget figures do not include amounts carried over from prior years.



Source: FY 2005-06 Annual Appropriations Ordinance

OBJECTIVES

This audit was conducted in accordance with the Controller's City Services Auditor Division's approved FY 2005-06 audit plan, in response to a request by the Board. The objectives were to determine whether:

- The Department is fulfilling the responsibilities assigned to it under the San Francisco Charter and Environment Code.
- Impound account expenditures by the Department are appropriate to the intent of the impound account, which is to divert and reduce solid waste from landfill sites.
- Impound account expenditures address the reduction of solid waste and pollution, and outcomes can be measured.
- The Department is using the best alternatives to divert solid waste from landfills.
- The Department's grant and contracting practices are consistent with City requirements and are effectively directed towards achieving the goals of the Department's programs.

SCOPE AND METHODOLOGY

The audit included a review of financial and performance information, including the Department's budget and expenditures for FY 2005-06; FY 2004-05 and 2005-06 grants made to community based organizations; and contracts in effect during FYs 2004-05 and 2005-06. We:

- Interviewed Department and other City personnel, stakeholders, and other outside parties.
- Reviewed the San Francisco Charter, Environment Code, and other code provisions and legal requirements.
- Reviewed Department reports, policies, procedures, correspondence, and other documents, including information maintained on the Department's website.
- Reviewed the Department's budget and supporting worksheets, in addition to actual expenditures recorded in the Controller's Financial Accounting and Management Information System (FAMIS).
- Reviewed requests for proposals (RFPs), grant and contract documents, invoices, and status reports.
- Judgmentally selected a sample of grant and contract payments and reviewed them for compliance with grant and contract provisions.

Our scope did not include a performance audit of all Department functions. In addition, our review of impound account expenditures was limited to amounts for which the Department was responsible.

We issued an interim report on March 24, 2006, summarizing the results of our initial review of Department personnel costs and grants funded by the impound account. The interim report is included as Appendix A to this report.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards. We believe that we adequately planned and performed the audit to achieve the audit objectives, and that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives, as required by these standards. The standards require that the audit organization be free both in fact and in appearance from organizational impairments to independence. The Auditor-Controller is a voting member of the Refuse Collection and Disposal Rate Board which grants or denies rate applications in whole or in part. We are disclosing this relationship because the Auditor-Controller's role on the Rate Board may be perceived as a potential impairment to our independence since the Rate Board considered the results of our interim report during the five-year rate-setting process in 2006.

Audit Staff: Robert Tarsia, Audit Manager
John Haskell
Catherine McGuire

AUDIT RESULTS

The Department met its Charter and Environment Code mandates except for two reporting requirements. However, the Solid Waste Impound Account is the Department's primary funding source, and additional oversight and controls over the Department's \$6.0 million in annual impound account expenditures are needed to protect the interests of refuse collection ratepayers whose garbage fees fund the account. In FY 2005-06, the Department charged almost \$3 million to the impound account based on estimates, and FY 2004-05 and 2005-06 grants funded with impound account monies included an estimated \$213,965 to \$585,058 for activities that may not be fully appropriate to the purposes of the account.

The Department's grant and contracting practices require improvement to ensure that all funds are spent effectively to advance program goals. The Department entered a grant agreement in 2001 with the nonprofit, Literacy for Environmental Justice, for the design and construction of an educational "living" classroom facility in the Bayview-Hunters Point District. Despite the passage of five years and the expenditure of \$479,219, the building is not yet built. Although there have been various causes for the problems associated with this project, improvements in grant practices, particularly with regard to grant monitoring, would assist the Department in avoiding future problematic grants and projects. The Department also needs to write better grant agreements and contracts that clearly define the required work, billable costs, and reporting requirements.

Finding 1. The Department Met Its Charter and Environment Code Mandates Except for Two Reporting Requirements

The Department fulfills the responsibilities assigned to it by the San Francisco Charter and Environment Code with two exceptions regarding reporting requirements under Environment Code Chapters 4 and 13:

- The Department did not develop a comprehensive list of vendors who supply motor vehicles and motorized equipment that comply with Code requirements, as required by

Section 406 of the Environment Code. The list is intended for City departments to use in making purchasing or leasing decisions. The Department also did not submit an annual report to the Mayor and the Board identifying the motor vehicles and motorized equipment purchased or leased by City departments and the projected annual maintenance and fueling costs of these vehicles and equipment. Department management stated that they did not perform these functions due to funding and staffing constraints, but that they were in the process of compiling a list of motor vehicles purchased since 1997, and intended to ask the Board for relief from the requirement for the annual maintenance and fuel report.

- The Department prepared but did not submit to the Board a report on the progress of the programs and mandates directed by Chapter 13 of the Environment Code, Arsenic-Treated Wood, as required by Section 1307. The report was required to be submitted no later than June 30, 2005, and the Department submitted it to the Board by e-mail on September 26, 2006, after recognizing the oversight.

Recommendation:

1. The Department should either comply with the Environment Code mandates to develop vendor lists and submit the required annual report, or draft and submit to the Board an ordinance to change the Environment Code requirements.

Finding 2. Track Actual Costs and Increase Oversight to Ensure Propriety of Impound Account Expenditures

There is not enough assurance that costs charged to the impound account are consistent with the account's intended purpose because:

- The Department charges almost half of its annual impound account costs of \$6.0 million to the account based on budget estimates, but does not adjust the estimates to reflect actual costs.
- There is insufficient oversight regarding compliance with applicable guidelines for use of impound account funds. The City's annual budget process does not include a detailed review of the Department's proposed budget for the impound account, and the oversight provided through the refuse

collection rate-setting process does not occur on a fixed schedule.²

- Current information and reporting methods regarding waste diversion activities do not ensure that grants funded by the impound account are used effectively to meet waste diversion targets.

During the audit, the Department developed, and the Commission approved, a supplement to guidelines it developed in 2003 regarding what activities can properly be funded from the impound account, based on recommendations in our interim report (see Appendix A). The supplemental guidelines largely address the interim report recommendations to make the guidelines more specific, especially with regard to grant activities.

Track Actual Costs to Ensure Consistency with Impound Account's Purpose

In FY 2005-06, the Department charged almost \$3 million (45 percent of its impound account budget) of its costs to the impound account based on the following estimates:

- \$2 million of program staff salary costs based on their assigned job duties and on the budgeted proportions of funding for its programs.
- \$601,000 of administrative staff costs based on the budgeted proportion of program staff paid from the impound account.
- \$350,000 of costs for space rental, copy machine, data processing, office supplies, and other expenses based on the methodology used for most administrative FTEs.

Charges to the impound account were based on budget estimates that were not subsequently adjusted to reflect actual costs.

This methodology resulted in allocations ranging from 2 to 100 percent for program FTEs and 57 percent for most administrative FTEs. The methodology provided a reasonable basis for budgeting purposes. However, the Department did not adjust these estimates to reflect actual costs properly fundable with impound account monies, and it does not maintain documentation, such as timesheets detailing time spent by program, to make such adjustments. In addition to ensuring that costs charged to the impound account are consistent with the account's purpose, adjusting the estimates to reflect actual costs would enable the Department to develop more accurate budget estimates in each subsequent year.

² The 2000 rate-setting process and the recently completed process both established rates for a five-year period.

Department's Refined Allocation Methodology for FY 2006-07 Budget Should Be an Annual Process

Department management performed a more detailed analysis of specific work to be done by each employee to determine allocations for its FY 2006-07 impound account budget. However, because these allocations were based on projections of employee activities properly fundable by the impound account, adjusting these estimates to reflect actual costs associated with impound account functions, and documentation such as timesheets to support the adjustments, would still be required to ensure the propriety of amounts funded from the account.

Our interim report included a recommendation that the Department 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. We also recommended subjecting the plan to public hearings before approval by the Commission on the Environment. These procedures would supplement the limited oversight provided through the City's annual budget process and the refuse collection rate-setting process.

Conduct Periodic Audits to Provide Additional Oversight

Periodic audits would protect the interests of ratepayers, whose garbage fees fund the account.

Additional oversight could be provided by procuring periodic financial audits of the Department's impound account usage. The objectives of these audits would be to evaluate the Department's internal controls related to the handling and recording of fund disbursements, and to determine its compliance with applicable guidelines for fund usage. These audits would help protect the interests of refuse collection ratepayers, whose garbage fees fund the account, and otherwise serve to address the concerns of interested members of the public.

Improve Measurement of Waste Diversion Activities

Additional waste diversion measurement is needed to determine the effectiveness of specific expenditures.

Available information and reporting do not provide sufficient details to demonstrate the impact of specific Department efforts, such as its recycling grant program, on the amount of waste diverted from the waste stream. Given the purposes of the impound account, it is necessary for the Department to be able to demonstrate that funding is going for the purpose of diverting waste or reducing the cost of collecting waste.

The Department measures and tracks waste diversion in several ways. It:

- Measures citywide diversion and reports it to the state of California annually.
- Conducts a comprehensive waste disposal study every five years to determine what is still in the waste stream.
- Uses data on collected curbside and commercial tonnage, compiled by Norcal, to track the success of outreach measures and Department campaigns, which is possible with campaigns that target specific Norcal disposal routes.
- Analyzes quarterly aggregate diversion reports provided by Norcal.

However, these methods do not provide sufficient details on the direct impact of the recycling grant program and other Department efforts, which are necessary to guide spending decisions. For example, an annual analysis of the recycling grant program, including details regarding waste diversion reported by grantees, the amount of the reported diversion that was independently verified, and the cost per ton diverted, would help the Department direct grant funds to diversion efforts and methods that are most effective and efficient.

Recommendations:

2. Develop and implement procedures to track costs properly fundable by the impound account, including regular, full-time timekeeping for administrative staff and exception basis timekeeping for program staff, at a minimum.
3. Adjust impound account funding for personnel and administrative costs to actual, impound account-related costs on a quarterly or other periodic basis, based on the results of the recommended timekeeping.
4. Implement impound account guidelines that provide more complete and specific guidance regarding what activities can properly be funded from the impound account.
5. Continue to implement our interim report recommendation to 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.

6. Procure accounting services to conduct periodic audits of the Department's impound account usage. Request assistance from the Controller's office to determine a cost-effective audit scope and frequency.
7. Devise and implement cost-effective ways to measure and independently verify the waste diversion impact of specific activities, such as the Recycling grant program, including reporting on the cost per ton diverted.

Finding 3. Grants Should Be Awarded Only for Work That Meets Department Goals

The Department awarded grants for work that potentially had a weak relationship with Department and program goals or that was not completed as required by the grant agreement because the Department:

- Evaluated grant applications using scoring criteria that did not sufficiently emphasize program goals and funding mandates.
- Did not use independent staff to evaluate grant proposals.
- Used different procedures for issuing and evaluating grant Request for Proposals (RFPs) among its programs.
- Did not include detailed or clearly written work plans and budgets or specify performance targets in the grant agreements.
- Did not routinely monitor and evaluate grantee performance to ensure that it paid only for work that was done and that met the minimum performance requirements of each grant agreement.

Emphasize Program Goals in Grant Scoring Criteria

The Department uses scoring criteria that differ among programs and that do not sufficiently emphasize program goals and funding mandates. For example:

- Although waste diversion is the primary emphasis of the recycling program and its impound account funding, only one of the 10 criteria used to evaluate recycling program grant applications is related to waste diversion, and it is given the same 10-point weight as all of the other criteria. The number of criteria and weight given to each could result in grant

The scoring criteria for recycling grants awarded only 10 percent of the total points to waste diversion although that is the primary goal of the recycling program.

awards based on well-written grant applications with little emphasis on waste diversion.

- The Environmental Justice program uses a scoring system that includes no criteria that are specific to the program’s goals. Although the criterion, *project description*, appears most likely to include consideration of benefits to the Environmental Justice program, its definition cites only “benefits to City.”

Without a clear evaluation and ranking process that sufficiently considers relevance to program goals, grantees may receive money for work that had a weak relationship with those goals. Our March 24, 2006, interim report (Appendix A) addressed the issue of grants that were not fully appropriate to the purposes of the impound account. The results suggested a clear need to improve scoring of recycling grant applications to ensure that grants are appropriate to the intent of the impound account.

Our additional work in this area resulted in a slightly revised estimate of the amount of impound account funds that may have been used inappropriately for grants in the recycling program. Exhibit 2 summarizes the revised estimates (see Appendix B for the grant-level detail supporting these figures).

EXHIBIT 2 Grant Funding Compliance with Impound Account Intent, Fiscal Years 2004-05 and 2005-06

Program Area	Grant Amount	Estimated Impound Account Funding ¹	Estimated Amounts for Activities That May Fall Outside Intent of Impound Account ¹	
Recycling	\$2,049,284	\$2,031,184	\$198,115 to	\$553,358 ²
Toxic Waste	175,900	31,700	15,850 to	\$31,700
Environmental Justice	972,495	0	0	0
Clean Air	710,000	0	0	0
Total	\$3,907,679	\$2,062,884	\$213,965	\$585,058

¹ Since some of the grants were still open at the time of review, this column also includes estimated additional amounts due to be funded from the impound account.

² Minor differences from interim report figures are due to adjustments based on subsequent input from the Department. The figures cited in the interim report were \$198,296 to \$562,408.

Source: Audit staff review of Department documentation

Use Independent and Knowledgeable Staff on Grant Evaluation Panels

Each program area convenes evaluation panels for scoring grant applications that consist only of Department staff. Because these

employees are the same staff who monitor grants by conducting site visits and approving grantee reports after awards are made, they may have worked with specific organizations over several years and, therefore, be more likely to have preconceived notions about them. In addition, the panels are usually limited to two or three people and do not routinely include subject matter experts. Evaluation panels that consist of grants managers and other staff from all programs would be more robust and independent, and including staff from other City departments and outside organizations would provide specialized expertise in activities with which the Department may have less experience.

Use Uniform Grant Award Practices Among Program Areas

Using uniform procedures for issuing grant RFPs and scoring applications across its programs would make the Department's grant award process more efficient, particularly because there is potential for multiple funding sources for individual grants in each of its programs. Preparing and adopting written policies and procedures would formalize these processes, provide more complete and consistent guidance to staff regarding the expectations for awarding and monitoring grants, and ensure that all staff are aware of the requirements. For example:

Developing a set of scoring criteria that are related to overall departmental goals and additional criteria that reflect program goals would provide consistency and fairness.

- Distributing all RFPs simultaneously to the same lists, regardless of program, could improve each program area's applicant pool and the variety of proposals received.
- Using uniform RFP and scoring procedures across its programs would make the Department's grant award process more efficient and help ensure that work performed under the grants meets both Department and program goals.
- Developing a set of grant application scoring criteria that are related to overall departmental goals and additional criteria that reflect program goals for each program would provide consistency and fairness in evaluating and awarding grants.
- Establishing internal controls to ensure that the procedures are followed would reduce the opportunity for the procedures to be overridden.

The Department currently awards grants in most of its programs, including the outreach, recycling, clean air, toxics reduction, and environmental justice programs, but uses different procedures among the programs. For example, the toxics reduction program has not traditionally had a competitive process for grants because program funding has generally been for specific purposes and grantees, but the recycling program distributes RFPs to a list, and

the environmental justice program receives applications from any organization that is interested in applying for State Public Utilities Commission funds.

The Department uses different numbers of grant evaluation criteria and assigns different weights to similar criteria across its programs. For example, the recycling program uses ten scoring criteria after the initial qualification review of the application, but the environmental justice program uses only five, which all differ in definition from any used in the recycling program. The recycling program assigns a weight of 10 percent to evaluation of a grant proposal's budget, but the environmental justice program weighs evaluation of the budget twice as heavily by assigning a weight of 20 percent.

The Department has overridden its procedures for awarding grants in the past.

In addition, the Department has overridden its procedures because there were no controls to ensure compliance. For example, the recycling and toxics reduction programs gave grants to the Neighborhood Assemblies Network to conduct work for the 2005 United Nations World Environment Day meeting hosted by the City without going through a competitive process. During the audit, the Department agreed to submit to the Commission, in advance of the annual budget process, an impound account plan with details regarding all anticipated grants. The Commission's annual review process will help prevent the procedures from being overridden and ensure that exceptions to procedures are subjected to a high level of scrutiny and approval.

Written policies and procedures, which the Department should develop in conjunction with implementing other grant improvements, should clearly assign responsibilities and should cover grant applicant solicitation, scoring and evaluation of proposals, award, grantee reporting and monitoring, and preparation of grant agreements.

Consider Awarding Fewer, but Larger Grants

Awarding fewer but larger grants would provide more funds for activities with the highest waste diversion impact.

The recycling program allocates and spends all money budgeted for grants in a given year by working down the list of scored applications from highest score to lowest, until all budgeted amounts are exhausted. By spending all money budgeted for grants in this manner, the recycling program could, in any given year, fund some grants with limited potential for achieving waste diversion goals instead of reserving the funds for grant activities with a greater impact on diversion and, perhaps, larger diversion projects. Instead of funding lower ranked and potentially less

effective grants, the recycling program should consider awarding fewer but larger grants so that more funds are available to fund grant activities with the highest waste diversion impact. To ensure that the grantees are able to effectively manage the grant funds in any single year, the Department should consider awarding the larger grants over a multi-year period. The efficacy of this approach could be evaluated by conducting an annual analysis of the recycling grant program, as discussed in a previous section of this report.

Grant Agreements Should Facilitate Monitoring and Grantee Compliance

Many of the 20 grant agreements that we judgmentally selected (from a total of approximately 50 grants) and reviewed did not include detailed or clearly written work plans and budgets or specify performance targets for grantees:

- Approximately 40 percent included work plans and budgets that were not clearly written and/or sufficiently detailed. Insufficient work plans and budgets make it less likely that grantees will achieve desired outcomes, and provide a poor basis for Department staff to monitor grantee performance and review and approve grant invoices prior to payment.
- Fifty-five percent of the grant agreements did not specify either targets or measurements of performance, or both, which makes it difficult to monitor grantee performance or to determine if funds are being spent effectively to achieve Department and program goals. Although the recycling grants included targets of performance, some did not include sufficient measures of performance.

Eighty percent of the grants reviewed did not meet one or more of the criteria evaluated.

Exhibit 3 summarizes the results of our review of 20 grant agreements. It is significant that 16 (80 percent) of the grants did not meet one or more of the criteria evaluated. This high figure demonstrates the need for improvements in the way grant agreements are developed and written.

EXHIBIT 3**Grant Agreement Weaknesses**

Evaluation Criteria	%
Grants that do not specify performance targets and how performance is measured or have incomplete performance targets and measures	55%
Work plans/grant budgets that are not clearly written and sufficiently detailed	45%
Work plans/budgets that are not sufficiently consistent with each other	40%
Agreements that are not sufficiently consistent with applicable program	15%
Grants that do not specify frequency and format of required reporting	10%
Grant agreements that did not meet one or more audit criteria	80%

Source: Staff interviews and review of Department documentation

Monitor and Evaluate Grantee Performance More Thoroughly

The Department does not sufficiently monitor and evaluate grantee performance to ensure that it pays only for work that has been performed and that meets the minimum performance requirements of each grant agreement. Specifically,

- Grantee reporting is not consistently required and complete, and the Department does not document its review and approval of the reports. Our review of 20 grants showed that:
 - Eight (40 percent) of the grantees did not meet reporting requirements, typically consisting of quarterly reporting.
 - Ten (50 percent) of the grantees did not address all items in the grant work plan in their reports.
- Site visits are not well documented. Although grant managers in each program indicated that they conduct annual site visits and attend and participate in grantee events, they usually kept no record of the visits.
- None of the Department's programs conduct final evaluations of the completed work to determine that the grantee satisfied all grant requirements and what types of grants have been successful at furthering departmental and program goals, or to obtain information on grantee performance for use in future grant decisions.

The Department has paid for work that was not completed due to inadequate monitoring of grantee performance.

We identified situations where the Department paid for work required by the grant that was not completed due to inadequate monitoring and grantee reporting. In one example, Community Toolbox was granted \$273,590 to establish a mini-grant program for businesses to increase their recycling capacity and for work related to United Nations World Environment Day. Both the grant

agreement and its subsequent amendment expired after the grantee had spent approximately \$250,000 but completed no work on the mini-grant program. In this case, the grant managers had no information to determine that the mini-grant work had not been done because the grantee did not provide any periodic reports on the work completed.

In another example, Charity Cultural Services was granted \$120,052 to increase waste diversion participation in Chinatown. Although the grantee submitted quarterly reports, the reports did not address all items in the grant work plan, and the organization was paid the full grant amount. Without complete reporting, the Department had no way of knowing whether funding was spent as intended or that it had the desired impact on recycling.

Although the Department hired a consultant to evaluate the Environmental Justice grant program, the consultant did not evaluate individual grantees. Using a consultant may be useful for assessing the effectiveness of an entire grant program, but the Department must also be able to measure the efficacy of each individual grantee. Department management stated that the staff who monitor grants are program staff who do not have expertise in grant management, and that hiring someone with such experience would improve the Department's ability to monitor grantees.

Recommendations:

Department of Environment management should:

8. Develop a set of grant application scoring criteria that are related to overall departmental goals and additional criteria that reflect program goals for each program. Assign weights to the departmental criteria that are appropriate in relation to the rest of the scoring system and that are applicable across every program area. The departmental scoring criteria should include factors such as:
 - Grantee qualifications.
 - Completeness of the applications.
 - Level of detail in the proposed grant work plans and budgets.
9. Convene a single evaluation panel for all programs' grant applications which includes grant managers, staff who are independent from the Department's grant management processes, and staff from other City Departments or outside

organizations who have specialized expertise related to the purposes of the grants.

10. Write and adopt a grant procedures manual or set of detailed policies and procedures covering grant applicant solicitation, scoring and evaluation of proposals, award, grantee reporting and monitoring, the preparation of grant agreements, and related areas.
11. Streamline both the process of issuing RFPs and the scoring of grant applications by issuing RFPs to the same lists and scoring applications for different programs at the same time.
12. Implement internal controls, such as a review process for all grants, to ensure that grant procedures are not overridden.
13. Develop a process for awarding fewer but larger grants that span multiple years in lieu of spending through the grant budget if the applicant pool is not sufficiently robust or able to fulfill the goals of the program for a given year.
14. Write clear grants with work plans and budgets that are consistent with each another, and that clearly detail the work to be completed by the grantee.
15. Require all grantees to submit regular, periodic reports according to grant agreement terms. Review the reports to ensure they adequately address all items in grant work plans, and document the review and approval of all reports.
16. Link grantee performance monitoring to payments by establishing thresholds for performance reporting that must be met before grant invoices are approved for payment, and consider withholding a portion of grants until the final reports are submitted and approved.
17. Develop standardized site visit documentation and establish minimum thresholds for required site visit (and grantee event) observations and results that must be met before grant invoices are approved for payment. Conduct final reviews to evaluate grantee performance and the relative effectiveness of funded grant activities in achieving program goals.
18. Hire a grant coordinator who would be responsible for establishing and overseeing a monitoring process for the Department's grant programs.

Finding 4. Obtain Construction Management Assistance for the Living Classroom Project

The first living classroom grant expired with insufficient progress on the major grant tasks, despite City expenditures of \$378,456.

We reviewed grants to the nonprofit, Literacy for Environmental Justice, for the design and construction of an educational living classroom facility on Port of San Francisco (Port) property at Heron's Head Park in the Bayview-Hunters Point District. The Department entered the grant for \$897,941, including \$557,894 designated for construction costs, in August 2001. The scheduled completion date was December 2003, which the Department later extended through May 2005. That grant expired with insufficient progress on the major grant tasks or deliverables, despite City expenditures of \$378,456 (42 percent of the grant amount).

The living classroom was conceived as an environmental education and community center, with classroom space for school and youth environmental programs and meeting facilities for community groups and events. Planned building features included solar energy power, self-contained wastewater treatment capabilities, water recycling, and other green design features. The funding for this grant came from \$13 million appropriated by the state of California in 1998 to mitigate effects on the community from the sale of the Potrero Power Plant by Pacific Gas and Electric and the closure of the Hunters Point Power Plant.

In December 2005, six months after the grant expired, the Department entered a new agreement with Literacy for Environmental Justice to complete the project. The revised budget was \$919,407, including \$519,494 in grant funding from the Department and \$399,913 from the California Coastal Conservancy. A grant amendment increased the City's share of the project to \$541,985, with a new budgeted cost of \$941,896. Exhibit 4 summarizes the major grant activities and funding amounts for the living classroom project.

EXHIBIT 4 Summary of Living Classroom Project Grant Activities, August 2001 – October 2006

Major Deliverables	Deliverable Met	Effective Dates	\$ Expended	Balance
Grant 1				\$897,941
Original Design/Build Development	No	August 2001 – May 2005	\$378,456	519,485
Grant 2 ¹				\$519,494
New Design and Port Lease	Yes	January – June 2006		\$541,994 ²
General Contractor Selected	Yes	October 2006	100,763	441,231
All Building Permits/Regulatory Approvals	Pending ³	November 2006		
Final Construction Drawings	Pending ³	November 2006		
Construction Contract with Budget and Schedule	Pending ³	November 2006		
Construction Completed	Pending ³	December 2007		
Total			\$479,219	\$441,231

¹ There was no grant agreement in effect between June 1, 2005, and December 5, 2005.

² \$22,500 for additional services was added to the grant by amendment.

³ Pending as of the end of audit field work in November 2006.

Source: Staff interviews and review of Department documentation

There have been several problems with this project:

- The original design of the building was abandoned because it was determined that the wetland soil at the proposed building site would not support the building's weight.
- There was an unsuccessful effort to relocate the project, after which it was determined that soil conditions at Heron's Head Park were suitable for a new, lighter building design, and Literacy for Environmental Justice and the Port entered a lease agreement for the building site in September 2005.
- There were delays and changes in the Port's planned participation in the project, which originally was to include assistance with project design and management, help in obtaining necessary permits, and funding for a project manager to oversee design and construction.

These problems were exacerbated by a lack of Department expertise and monitoring procedures appropriate for overseeing a construction project. For example, the progress reporting from Literacy for Environmental Justice was not of the type and complexity required for construction projects. Effective management of construction projects requires detailed cost and scheduling reporting that provides timely information on progress against approved schedules and budgets, and assists in the early

identification of problem areas. This type of reporting was not provided.

We discussed this project with Department management and provided input regarding possible steps to help ensure that the remaining grant funds for this project are prudently spent. We:

- Advised the Department that it was critical that the nonprofit meet its grant agreement commitment to engage a qualified general contractor/construction manager, especially since neither the Department nor Literacy for Environmental Justice has construction management experience.
- Suggested that the Department obtain input or advice from the Port or Department of Public Works (DPW), two City departments with engineering and construction capabilities.
- Recommended that the Department ask the Port or DPW to review the proposed contract between the nonprofit and the selected general contractor, including the cost and schedule components of the contract.

The nonprofit subsequently selected a general contractor, and Department management agreed to ask the Port or DPW to review the proposed contract.

Recommendations:

Department of Environment management should:

19. Request the Port or DPW to review the proposed contract between Literacy for Environmental Justice and the selected general contractor, including the cost and schedule components of the contract.

Finding 5: Contracts Need to Be Clearly Written and Properly Monitored

The Department's professional services contracts were not all written clearly to ensure that the Department could properly monitor and control the costs of the work. This is largely due to the Department not having a clearly written and comprehensive set of contract administration policies and procedures. For example, the Department could not properly administer two of the six professional services contracts that we reviewed from FYs 2004-05 and 2005-06 because:

- The Department's contract with M. Cubed, Inc., with total expenditures of almost \$1.5 million, did not clearly define billable costs and amounts, and therefore could not be properly monitored and controlled.
- The Department added two subcontractors to the \$392,000 contract with Thomas Barron through an e-mail agreement. The agreement did not provide the appropriate level of departmental approval or sufficient details regarding the work that the subcontractors would perform or its cost. Also, the Department did not require this contractor to submit regular, periodic reports to assist staff in monitoring contractor activities.

The M. Cubed, Inc., Contract Did not Include Details Regarding Billable Costs

The Department paid almost \$1.5 million to M. Cubed, Inc., under a contract that did not adequately define billable costs.

The Department did not have sufficient criteria to review and approve invoices under its contract with M. Cubed, Inc., and therefore may have approved incorrect payments to the contractor. Although the contract included a section designed to outline both the services to be provided and the billable amounts, it listed general tasks to be performed and budgeted amounts for each task but no details regarding billable costs. For example, the contract did not:

- Identify specific types of positions to be billed or the salary and payroll burden rates for those positions.
- Include sufficient details regarding nonpersonnel costs, such as energy-efficient devices, rent, and printing that the contractor could bill, or the amounts or prices that the contractor could charge.

Under the original agreement, M. Cubed, Inc., was to establish an energy cooperative in the Bayview-Hunters Point and Potrero Hill neighborhoods to conserve energy, provide training and employment to low-income residents, and reduce air pollution associated with energy generation. The Department amended the agreement three times, and in the end it emphasized providing energy-efficient devices and rebates for energy-efficient appliances and equipment to residents and businesses. The Department paid almost \$1.5 million under the contract, which ended December 31, 2004.

Department staff indicated that the contract provided only budgeted amounts for various tasks and did not specify positions and billable salary rates because there was no clear

understanding at the inception of the agreement as to what types of employees would be hired. Although there were three contract amendments, the Department added little detail regarding allowable costs and rates. In situations in which it is not reasonable to specify positions and billable salary rates, it is still possible to contractually establish a mechanism for agreeing on and formally approving these key contract terms, but the Department did not do so.

Subcontractors Added to Thomas Barron Contract by E-mail; No Contractor Reports

The contract with Thomas Barron required monthly progress reports, but the Department did not require the contractor to submit them.

Two subcontractors were added to the Thomas Barron contract by agreement between the contractor and Department staff, but this agreement was documented by e-mail only. However, the contract included a provision requiring the City's advance approval in writing for the addition of subcontractors. The e-mail exchange used to approve the addition of the subcontractors was not sufficiently formal because it did not document the appropriate level of departmental approval, such as approval by the Department's Director or Deputy Director. It also did not include details regarding the subcontractors' scope of work, the justification for their services, and the rates and estimated total costs.

In addition, the contract required monthly progress reports to include the progress and status of work, difficulties and problems encountered during the period, schedule delay and action taken to address delay, and activities planned for the next quarter. However, because the contractor did not submit the monthly reports and the Department did not require them, the Department could not document the contractor's progress toward achieving the contract requirements.

Written Procedures Would Provide Consistent Guidance

Comprehensive contract administration procedures would help avoid recurrences of past problems by ensuring that all staff are aware of requirements.

These situations occurred because the Department does not have a comprehensive set of written policies and procedures to formalize their contract administration processes, provide consistent guidance to staff regarding the expectations for awarding and monitoring contracts, and ensure that all staff are aware of the requirements.

During the audit, Department staff prepared the following written procedures. Although these procedures are a good start, they do

not represent a comprehensive set of policies and procedures for the following reasons:

- *Creating a Professional Services Contract* - This document lists the tasks required to conduct an RFP process for a professional services contract, negotiate contract terms with the successful vendor, finalize contract documents, and others. Although the document outlines timeframes for each task and indicates the responsible staff, it would be more comprehensive and useful if it included sample documents, such as a model RFP package, together with sample Civil Service Commission, Human Rights Commission (HRC) and other forms, or links to those forms.
- *Authorizing Work Under New Professional Services Contracts* - This document specifies the steps and forms Department staff need to set up an encumbrance for a new contract or create a purchase order release from a blanket purchase order. The document also specifies the forms and procedures for processing an invoice from a vendor or contractor. Although the list of steps for approving an invoice appears to be complete, most steps do not include sufficient specific guidance. For example, one step instructs staff to verify that the invoice amount is consistent with the Calculation of Charges section of the contract and that the vendor has calculated the amounts correctly. However, it does not specify responsible staff, what needs to be verified (e.g., labor rates), what documentation is required (e.g., invoices for subcontractor and other third-party charges), or how the verification process should be documented.

The written policies and procedures should clearly assign responsibilities and be communicated to all Department staff involved in awarding or administering professional services contracts.

Recommendations:

Department management should:

20. Continue to develop a comprehensive set of policies and procedures for procurement and administration of professional services contracts. The policies and procedures should describe the specific tasks and forms required and include sample documents and should describe the requirements for:

- Issuing RFPs that adequately define the scope of work and billable costs.
- Selecting finalists and negotiating contract terms, including specific salary and payroll burden rates and specific types of nonpersonnel costs.
- Finalizing contract documents.
- Monitoring contractor performance, including requirements for contractors to routinely submit periodic reports with sufficient details to assist staff in monitoring contractor activities.
- Approving invoices and processing payments.

21. Write professional services contracts that clearly define the scope of work and billable costs, including specific salary and payroll burden rates and specific types of nonpersonnel costs and related prices.

APPENDIX A

INTERIM REPORT ON THE DEPARTMENT OF THE ENVIRONMENT



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 

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

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

APPENDIX B REVIEW OF GRANTS FOR COMPLIANCE WITH IMPOUND ACCOUNT INTENT

Methodology: These tables show the results of our review of Department grants funded in whole or in part by the impound account. The tables include the details supporting the findings presented in summary form in our March 24, 2006 interim report (Appendix A). Minor differences in some figures are due to adjustments made after the interim report was issued and were based on input from the Department. We rated each grant from 1 to 4 for the estimated percentage of the grant activity that appeared to comply with the intent of the impound account:

<u>Rating</u>	<u>Explanation</u>
4	Each item in the grant plan was appropriate for impound account funding; 100% of the dollar amount was chargeable to the impound account.
3	50% to 100% of the dollar amount was chargeable to the impound account.
2	0% to 50% of the dollar amount was chargeable to the impound account.
1	No items in the grant plan were appropriate for impound account funding; 0% of the dollar amount was chargeable to the impound account.

Using this methodology, the tables below show the resulting dollar value range of grant amounts that may not be appropriate for the impound account, calculated as 1 to 100 percent of the grant amount. Table B-1 lists the 18 grants evaluated as fours, indicating that each item in the grant plan was considered appropriate for impound account funding. Table B-2 lists the 13 grants evaluated as having some activity not appropriate for impound account funding.

**Table B-1
Grants Evaluated as 100% Appropriate for Impound Account Funding**

Organization	Grant Amount Funded from Impound Account	Grant Fiscal Year	Description of Grant
Children's Book Project	\$8,667	04/05	Redistribute used children's books to students, teachers, and families.
Children's Book Project	8,000	05/06	Same as above.
Computer Recycling Center	50,000	05/06	Install used computers and computer parts in homeless shelters and community centers.
Haight-Ashbury Food Program	20,000	04/05	Redistribute edible food in near zero-waste kitchen. Teach composting as part of chef training.
Haight-Ashbury Food Program	15,000	05/06	Redistribute edible food in near zero-waste kitchen. Teach composting as part of chef training.
Haight-Ashbury Neighborhood Council (HANC)	259,693	04/05	Operate HANC recycling drop-off center, zero-waste programs, and composting education.
Haight-Ashbury Neighborhood Council Recycling (HANC)	175,000	05/06	Same as above.
Matter of Trust	\$48,000	04/05	Improve and expand materials exchange website. Evaluate internet-based materials exchange models.
Matter of Trust	23,650	05/06	Same as above.
Northern California Recycling Association	5,000	04/05	Produce documentary film to stimulate discussion of sustainable markets and future of resource recovery.
Rebuilding Together	20,000	05/06	Divert used appliances, counters, cabinets, and carpets to be installed in the homes of the low-income, elderly, and disabled.
San Francisco State University	81,400	04/05	Provide technical assistance to hospitality industry on recycling, composting, reuse and waste prevention.
Self Help for the Elderly	95,000	04/05	Conduct bilingual phone banking to promote recycling and composting
SF Clean City Coalition	149,500	05/06	Provide recycling and composting service to special events and at community clean team events.
SF Community Recyclers	149,000	04/05	Improve and expand community recycling drop-off services and building materials reuse.
SF Community Recyclers	148,000	05/06	Same as above.
Theatre Bay Area	18,240	04/05	Recover and distribute theater materials through a database to over 300 participating theatres.
Under One Roof	40,000	04/05	Salvage reusable goods from trade shows and conferences; market to support non-profit groups.
Total	\$1,314,150		

**Table B-2
Grants Evaluated as Less Than 100% Appropriate for Impound Account Funding**

Organization	Grant Amount Funded from Impound Account	Grant Fiscal Year	Description of Grant	Auditor Score	Incorrectly Used Funds Low Estimate	Incorrectly Used Funds High Estimate
Bike Hut	\$ 20,000	05/06	Refurbish bikes salvaged from the dump and donated by the public. Train youth in bike repair.	3	\$200	\$10,000
Charity Cultural Services Center	105,052	04/05	Educate residents and businesses in Chinatown and throughout the City on recycling, composting and reuse.	3	1,051	52,526
Community Toolbox	183,270	04/05	Develop outreach to large waste generators to increase diversion from San Francisco waste stream; design and maintain web site for World Environment Day; process registrations for World Environment Day.	2	91,635	183,270
Community Toolbox	90,320	05/06	Design and maintain web site for World Environment Day; process registrations for World Environment Day.	2	45,160	90,320
Compumentor Project	20,000	05/06	Supply operating systems to computers owned by nonprofits to extend the life of the computer.	2	10,000	20,000
Friends of SCRAP	43,600	04/05	Recover useable art and school supplies; distribute to schools and teachers; teach reuse workshops.	2	21,800	43,600
Friends of SCRAP	26,000	05/06	Recover useable art and school supplies; distribute to schools and teachers; teach reuse workshops.	2	13,000	26,000
Grupo de la Comida (FI Beth Abrams Center)	16,292	04/05	Recover and redistribute edible food and provide composting information to low-income families.	2	8,146	16,292
Grupo de la Comida (FI Beth Abrams Center)	6,800	05/06	Recover and redistribute edible food and provide composting information to low-income families.	2	3,400	6,800
Neighborhood Assemblies Network	3,400	04/05	Planning, design, and implementation of the 3 day Urban Environmental Accords Mayoral Summit during World Environment Day.	2	1,700	3,400
Neighborhood Assemblies Network ¹ (Toxics Program Grant)	31,700	04/05	Moderate World Café session at the 2005 United Nations World Environment Week hosted by San Francisco.	2	15,850	31,700
SF Clean City Coalition	161,800	04/05	Provide recycling and composting service to special events and at community clean team events.	3	1,618	80,900
VIDA	40,500	05/06	Divert medical equipment and materials to Latin American countries in need.	3	405	20,250
Totals	\$748,734				\$213,965	\$585,058

¹ This grant was identified by Department staff as a toxics grant. All other grants were identified as recycling program grants.

APPENDIX C

DEPARTMENT OF THE ENVIRONMENT RESPONSE TO THE AUDIT



SF Environment
 Our home. Our city. Our planet.



GAVIN NEWSOM
 Mayor

JARED BLUMENFELD
 Director

January 16, 2007

Dear Ed Harrington and Audit Team:

The Department of the Environment ("Department") appreciates the time, effort and professionalism put into this audit by the Controller's Office staff. The Department believes that audits are a critical element of government accountability. Furthermore, the audit process allows us to engage in a constructive dialogue with independent experts who can help us develop pragmatic solutions to achieve our environmental goals in a more effective, transparent and fiscally responsible manner. The Department hopes that the Controller's Office's institutional knowledge and experience gained over the course of our fourteen-month audit will be available for future audits and for helping the Department implement the recommendations of this audit. *The Department concurs with all the recommendations made by the Controller.*

There are two methodological issues that the Department would like to clarify in the hopes that they can be taken into account during future audits.

The first issue relates to what is appropriate to include in the scope of a grantee's work plan. The Controller's Office determined that grant funds "may have been misspent" in certain grants, based on language in the scope of work. Had the performance of the Department's grantees been reviewed as part of this audit, as opposed to reviewing only the Department's performance in awarding grants, it would have shown that a number of the grantees on the list with potential "misspent funds" exceeded their diversion goals (see table below). The new guidelines that have been approved for the granting of Impound Funds will address this issue for the future, but we thought it important it be clarified in the context of the present audit.

Grantee	Fiscal Year	Grant amount	Tonnage Goal	Tonnage reported	% of Goal	\$/ton diversion
Friends of SCRAP	05	26,000	150	151.5	101%	\$ 171.62
Grupo de la Comida	04	16,292	264	270.5	102%	\$ 60.23
Grupo de la Comida	05	6,800	260	289	111%	\$ 23.53
VIDA	05	40,500	76.5	105	137%	\$ 385.71

Department of the Environment, City and County of San Francisco
 11 Grove Street, San Francisco, CA 94102
 Telephone: (415) 355-3700 • Fax: (415) 554-6393
 Email: environment@sfgov.org • www.sfenvironment.com



The second issue relates to the process of determining which of the Department's grant agreements should be audited. The present audit judgmentally selected a group of problem grants and reviewed only these agreements. For the future, the Department suggests that grants should either be selected at random or that *all* the grants should be reviewed.

Other than these two largely methodological issues, the Department concurs with the findings of the audit, and will work to implement the recommendations as expediently as possible.

Regards,

A handwritten signature in black ink, appearing to read "Jared Blumenfeld". The signature is fluid and cursive, with a large initial "J" and a long, sweeping underline.

Jared Blumenfeld
Director

**City Services Auditor Division
Audit Recommendation and Response Form**

Audit Subject: Department of the Environment: Improve Business Practices to Advance Environmental Programs

Please complete the form below, indicating the agency that is responsible and the organization's response to each recommendation. In your response, indicate whether you concur, do not concur, or partially concur with each recommendation. For each recommendation that you concur with, indicate the expected implementation date and the implementation plan. For each recommendation that you do not fully concur with, please include an explanation, as well as an alternate plan of action to address the identified issue.

Recommendation	Responsible Agency	Response
1. The Department should either comply with the Environment Code mandates to develop vendor lists and submit the required annual report, or draft and submit to the Board an ordinance to change the Environment Code requirements.	Department of the Environment	The Department concurs with this recommendation and is drafting an ordinance to change the Environment Code. The Department anticipates submitting the ordinance to the Board in April 2007.
2. Develop and implement procedures to track costs properly fundable by the impound account, including regular, full-time timekeeping for administrative staff and exception basis timekeeping for program staff, at a minimum.	Department of the Environment	The Department concurs with this recommendation based on the assumption that it will be possible to develop a cost-effective meaningful tracking system that will not significantly hurt productivity. To that end, we will be consulting with the Controller's Office on possible systems. Our goal would be to have the system in place before the beginning of the new fiscal year.
3. Adjust impound account funding for personnel and administrative costs to actual, impound account-related costs on a quarterly or other periodic basis, based on the results of the recommended timekeeping.	Department of the Environment	The Department concurs with this recommendation. Based on having a timekeeping system in place by July 1, 2007, the Department would be able to adjust charges to the impound account to reflect actual impound-related costs for the 2007-2008 fiscal year. However, since our budget and staffing is approved on an annual basis by the Mayor and Board of Supervisors, the Department will need to confer with the Controller's office as to the mechanics of making these adjustments and their frequency (i.e. quarterly, semiannually, or yearly).

Recommendation	Responsible Agency	Response
4. Implement impound account guidelines that provide more complete and specific guidance regarding what activities can properly be funded from the impound account.	Department of the Environment	The Department concurs with this recommendation and will have new Impound Account guidelines implemented prior to the beginning of the 2007-2008 fiscal year.
5. Continue to implement our interim report recommendation to 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.	Department of the Environment	The Department concurs with this recommendation. For the upcoming fiscal year, a detailed budget and plan will be presented at two public hearings in January 2007. Since our 2007-2008 grant selection process will not be completed this year until March 2007, there will be a separate public process on the anticipated grants (The 2007-2008 grant cycle announcement was issued in December 2006, applications are due in February 2007 and the grant selection process will be completed prior to the beginning of the 2007-2008 fiscal year). For fiscal 2008-2009 all three will be presented at public hearings simultaneously.
6. Procure accounting services to conduct periodic audits of the Department's impound account usage. Request assistance from the Controller's office to determine a cost-effective audit scope and frequency.	Department of the Environment	The Department concurs with this recommendation provided that this can be achieved on a cost-effective basis. The Department will work with the Controller's Office to implement this recommendation; it is anticipated that the first auditable year would be 07/08.
7. Devise and implement cost-effective ways to measure and independently verify the waste diversion impact of specific activities, such as the Recycling grant program, including reporting on the cost per ton diverted.	Department of the Environment	The Department concurs with this recommendation. The Department anticipates being able to implement this recommendation for the 2007-2008 grant cycle.

**City Services Auditor Division
Audit Recommendation and Response Form**

Recommendation	Responsible Agency	Response
<p>8. Develop a set of grant application scoring criteria that are related to overall departmental goals and additional criteria that reflect program goals for each program. Assign weights to the departmental criteria that are appropriate in relation to the rest of the scoring system and that are applicable across every program area. The departmental scoring criteria should include factors such as:</p> <ul style="list-style-type: none"> • Grantee qualifications. • Completeness of the applications. • Level of detail in the proposed grant work plans and budgets. 	Department of the Environment	The Department concurs with this recommendation, and has already started work on implementation. The scoring criteria are in place to evaluate the grant applications received for the 2007-2008 grant cycle.
<p>9. Convene a single evaluation panel for all programs' grant applications which includes grant managers, staff who are independent from the Department's grant management processes, and staff from other City Departments or outside organizations who have specialized expertise related to the purposes of the grants.</p>	Department of the Environment	The Department concurs with this recommendation, and has already started work on implementation. The single panel will be in place to evaluate the grant applications received in the 2007-2008 grant cycle.
<p>10. Write and adopt a grant procedures manual or set of detailed policies and procedures covering grant applicant solicitation, scoring and evaluation of proposals, award, grantee reporting and monitoring, the preparation of grant agreements, and related areas.</p>	Department of the Environment	The Department concurs with this recommendation, and has already started work on implementation. A complete manual will be available before the end of the current fiscal year (June 30, 2007). The Department believes it would also be helpful for departments to have a City wide grants procedure manual that could be used to help develop individual department manuals.

Recommendation	Responsible Agency	Response
11. Streamline both the process of issuing RFPs and the scoring of grant applications by issuing RFPs to the same lists and scoring applications for different programs at the same time.	Department of the Environment	The Department concurs with this recommendation, and has already implemented this recommendation for the 2007-2008 grant solicitation. The only exception to this process will be for grants that can only be issued at a different time than the regular grant solicitation process (for example, if we receive an outside grant mid year that requires us to re-grant a portion of the funding, it may not be possible to wait until the next grant cycle in order to award the grant).
12. Implement internal controls, such as a review process for all grants, to ensure that grant procedures are not overridden.	Department of the Environment	The Department concurs with this recommendation, and will implement a review process for the 2007-2008 grant cycle.
13. Develop a process for awarding fewer but larger grants that span multiple years in lieu of spending through the grant budget if the applicant pool is not sufficiently robust or able to fulfill the goals of the program for a given year.	Department of the Environment	The Department concurs with this recommendation, and will set minimum thresholds for grant awards so that all funds are not automatically awarded. The Department will explore options that would allow unspent funds to be put into a pool that could be carried forward and used for multi-year grants. This will potentially require accounting changes since our budget for the Impound Account is annual, and not continuing.
14. Write clear grants with work plans and budgets that are consistent with each another, and that clearly detail the work to be completed by the grantee.	Department of the Environment	The Department concurs with this recommendation, and will implement for the 2007-2008 grant cycle.
15. Require all grantees to submit regular, periodic reports according to grant agreement terms. Review the reports to ensure they adequately address all items in grant work plans, and document the review and approval of all reports.	Department of the Environment	The Department concurs with this recommendation, and will implement for the 2007-2008 grant cycle.

**City Services Auditor Division
Audit Recommendation and Response Form**

Recommendation	Responsible Agency	Response
16. Link grantee performance monitoring to payments by establishing thresholds for performance reporting that must be met before grant invoices are approved for payment, and consider withholding a portion of grants until the final reports are submitted and approved.	Department of the Environment	The Department concurs with this recommendation, and will implement with the 2007-2008 grant cycle.
17. Develop standardized site visit documentation and establish minimum thresholds for required site visit (and grantee event) observations and results that must be met before grant invoices are approved for payment. Conduct final reviews to evaluate grantee performance and the relative effectiveness of funded grant activities in achieving program goals.	Department of the Environment	The Department concurs with this recommendation, and will implement with the 2007-2008 grant cycle.
18. Hire a grant coordinator who would be responsible for establishing and overseeing a monitoring process for the Department's grant programs.	Department of the Environment	Although the department concurs that additional grant monitoring skills are required, the minimum cost for a new FTE at the appropriate classification would be \$140,000, which would significantly reduce the cost effectiveness of the grant program. The Department will re-organize existing staff responsibilities over the next twelve months to carry out the required monitoring. If this is not sufficient, the Department will add the position to the 2008-2009 budget, or make other appropriate changes to the program to meet the requirements.
19. Request the Port or DPW to review the proposed contract between Literacy for Environmental Justice and the selected general contractor, including the cost and schedule components of the contract.	Department of the Environment	The Department concurs with this recommendation, and will implement prior to the end of February 2007.

Recommendation	Responsible Agency	Response
<p>20. Continue to develop a comprehensive set of policies and procedures for procurement and administration of professional services contracts. The policies and procedures should describe the specific tasks and forms required and include sample documents and should describe the requirements for:</p> <ul style="list-style-type: none"> • Issuing RFPs that adequately define the scope of work and billable costs. • Selecting finalists and negotiating contract terms, including specific salary and payroll burden rates and specific types of nonpersonnel costs. • Finalizing contract documents. • Monitoring contractor performance, including requirements for contractors to routinely submit periodic reports with sufficient details to assist staff in monitoring contractor activities. • Approving invoices and processing payments. 	<p>Department of the Environment</p>	<p>The Department concurs with this recommendation, and will implement by July 1, 2007. The Department believes it would also be helpful for departments to have a City wide procedures manual that could be used to help develop individual department manuals.</p>
<p>21. Write professional services contracts that clearly define the scope of work and billable costs, including specific salary and payroll burden rates and specific types of nonpersonnel costs and related prices.</p>	<p>Department of the Environment</p>	<p>The Department concurs with this recommendation, and will implement by July 1, 2007. The Department believes it would also be helpful for departments to have a City wide manual that could be used to help develop individual department manuals.</p>

We want your feedback!

Please use the following web link – or fill out, detach and mail the attached card to let us know your thoughts on this report.

Option 1: Web

<http://www.sfgov.org/controller/feedback>

The feedback link is listed with the report.

Option 2: Mail

Just fill in the card below, fold this in half and mail!

Option 3: Phone

Call the Controller's Office at 415-554-7500 and we will take your feedback over the phone.

Thank you for your feedback!

Fold along the dotted line and mail!

Controller's Office Report Feedback

Report # 05052 – Dept of Environment

I am a:

- San Francisco Resident
- Media Reporter
- San Francisco Employee

- Resident of Another City: _____
- Other: _____

How do you rate this report?

	Very Good	Good	Neutral	Poor	Very Poor
Significance of topic	<input type="checkbox"/>				
Clear & concise	<input type="checkbox"/>				
Objective & fair	<input type="checkbox"/>				
Useful	<input type="checkbox"/>				
Overall Report Quality	<input type="checkbox"/>				

Comments:

For a complete list of our reports, visit our website at <http://www.sfgov.org/controller>

Thank you!