

**SACRAMENTO REGIONAL COUNTY SANITATION  
DISTRICT  
SACRAMENTO, CALIFORNIA**

**REPORT ON FEDERAL AWARDS  
IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

**FISCAL YEAR ENDED JUNE 30, 2012**

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT  
SACRAMENTO, CALIFORNIA**

**FISCAL YEAR ENDED JUNE 30, 2012**

**Table of Contents**

	<u>Page</u>
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	1
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program, Internal Control Over Compliance and the Schedule of Expenditures of Federal Awards in Accordance With <i>OMB Circular A-133</i>	3
Schedule of Expenditures of Federal Awards	5
Note to Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs	
I.    Summary of Auditors' Results	7
II.   Financial Statement Findings	8
III.  Federal Awards Findings and Questioned Costs	9
Summary Schedule of Prior Audit Findings	11



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Sacramento Regional County Sanitation District  
Sacramento, California

We have audited the financial statements of the Sacramento Regional County Sanitation District (the District) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected, and corrected on a timely basis.

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, Federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California  
November 6, 2012



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM,  
INTERNAL CONTROL OVER COMPLIANCE AND THE SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors  
Sacramento Regional County Sanitation District  
Sacramento, California

**Compliance**

We have audited the Sacramento Regional County Sanitation District's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2012. The District's major Federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-01.

**Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2012-01. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the District, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 6, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management, and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, Federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Vavrinik, Trine, Day & Co. LLP*

Sacramento, California  
November 6, 2012

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FISCAL YEAR ENDED JUNE 30, 2012**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through/ Entity Identifying Number</u>	<u>Federal Awards Expenditures</u>
<b>U.S. Department of Energy</b>			
Passed through Sacramento Municipal Utilities District (SMUD):			
ARRA - Renewable Energy Research and Development [1]	81.087	DE-EE0003070	<u>\$ 945,569</u>
Total U.S Department of Energy			<u>945,569</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 945,569</u></u>

[1] Major Program

See accompanying notes to the Schedule of Expenditures of Federal Awards

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FISCAL YEAR ENDED JUNE 30, 2012**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

**General** – The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal awards programs of Sacramento Regional County Sanitation District (the District). The District's reporting entity is defined in Note 1 to the District's basic financial statements. All Federal awards received directly from Federal agencies as well as Federal awards passed through other government agencies are included in the schedule.

**Basis of Accounting** – The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the District's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**Relationship to Basic Financial Statements** – The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agrees, in all material respects, to amounts reported within the District's financial statements. Federal award revenues are reported principally in the District's financial statements as non-operating revenue or capital contributions.

**Catalog of Federal Domestic Assistance (CFDA) Numbers** – The CFDA numbers included in this report were determined based on the program name, review of grant contract information, and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

**Pass-Through Entities' Identifying Number** – When Federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity.



**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2012**

**I. SUMMARY OF AUDITORS' RESULTS**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>Yes</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>

Any audit findings disclosed that are required to be reported in accordance with 510(a) of OMB Circular A-133? Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>81.087</u>	<u>ARRA - Renewable Energy Research and Development</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2012**

**II. FINANCIAL STATEMENT FINDINGS**

None reported.

# SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FISCAL YEAR ENDED JUNE 30, 2012

### III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance including questioned costs that are required to be reported by *OMB Circular A-133, section .510(a)*.

#### **Finding 2012-01**

**Program:** ARRA – Renewable Energy Research and Development

**CFDA No.:** 81.087

**Federal Grantor:** U.S. Department of Energy

**Passed-through:** Sacramento Municipal Utilities District (SMUD)

**Award Year:** FY 2011-2012

**Award No.:** DE-EE0003070

**Compliance Requirement:** Procurement and Suspension and Debarment

**Questioned Costs:** None

#### **Criteria or Specific Requirement:**

The June 2012, *Office of Budget and Management (OMB) OMB Circular A-133 Compliance Supplement* states that non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred, or whose principals are suspended and debarred. The non-Federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity.

#### **Condition Found:**

*Significant Deficiency, Instance of Non-Compliance* – During our procedures performed we noted the District could not provide evidence that the required suspension and debarment check for the covered transaction was performed. A subsequent suspension and debarment check was performed at the date of our audit with no exceptions noted.

#### **Context:**

The District is required to maintain evidence that the required suspension and debarment check was performed prior to entering into a covered transaction.

#### **Effect:**

As a result of the condition, the District did not have internal controls in place to ensure compliance with the requirements applicable to suspension and debarment.

#### **Cause:**

The District did not maintain procedures requiring verification of the suspended and debarred status of contracted vendors.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2012**

**III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, Continued**

**Recommendation:**

We recommend that the District implement procedures to ensure that procurements and subawards of federally funded projects are verified against the EPLS for suspension or debarment, or that a certification is collected from the vendor, or that a clause or condition is included in the contract with the vendor.

**Views of Responsible Officials and Corrective Action:**

Effective immediately when reviewing for EPLS, staff/management will screen print the page with the date of review and scan into DCS or CMS. Additionally, the EPLS screen print page will be scanned as a miscellaneous document into the DCS or CMS system using one of the fields that show up when viewing DCS/CMS documents (Sub Title or Project/Program Name). The contract will not be considered complete unless this page is in the final package.

**SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2012**

Summarized below is the current status of all audit findings reported in the prior year audit's schedule of findings and responses.

<b>Finding No.</b>	<b>Description</b>	<b>Status</b>
2011-01	Review of Board minutes related to significant agreements.	Implemented