

CITY OF LOS ANGELES

Audit Report

MUNICIPAL STORM WATER AND URBAN RUNOFF DISCHARGES PROGRAM

Los Angeles Regional Water Quality Control Board,
Order No. 01-182, Permit CAS004001, Part 4F5c3

July 1, 2002, through June 30, 2009



BETTY T. YEE
California State Controller

April 2017



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California State Controller

April 11, 2017

The Honorable Eric Garcetti, Mayor
City of Los Angeles
200 N. Spring Street
Los Angeles, CA 90012

Dear Mayor Garcetti:

The State Controller's Office audited the costs claimed by the City of Los Angeles for the legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program (Los Angeles Regional Water Quality Control Board, Order No. 01-182, Permit CAS004001, Part 4F5c3) for the period of July 1, 2002, through June 30, 2009.

The city claimed \$7,790,956 for the mandated program. Our audit found that the entire amount is unallowable because the city does not maintain the transit stop trash receptacles. The State made no payments to the city.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, by telephone at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/rg

cc: Richard H. Llewellyn, Jr., Interim City Administrative Officer
City Administrative Office, City of Los Angeles
Ron Galperin, Controller
Office of the Controller, City of Los Angeles
Chi Ming Gong, PE, Street Services General Superintendent
Department of Public Works, Bureau of Street Services
City of Los Angeles
Chris Hill, Principal Program Budget Analyst
Local Government Unit, California Department of Finance
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the City of Los Angeles for the legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program (Los Angeles Regional Water Quality Control Board, Order No. 01-182, Permit CAS004001, Part 4F5c3) for the period of July 1, 2002, through June 30, 2009.

The city claimed \$7,790,956 for the mandated program. Our audit found that the entire amount is unallowable because the city does not maintain the transit stop trash receptacles. The State made no payments to the city.

Background

The California Regional Water Quality Control Board, Los Angeles Region (Board), adopted a 2001 storm water permit (Permit CAS004001) that requires local jurisdictions to:

Place trash receptacles at all transit stops within its jurisdiction that have shelters no later than August 1, 2002, and at all other transit stops within its jurisdiction no later than February 3, 2003. All trash receptacles shall be maintained as necessary.

On July 31, 2009, the Commission on State Mandates (Commission) determined that part 4F5c3 of the permit imposes a state mandate reimbursable under Government Code section 17561 and adopted the Statement of Decision. The Commission further clarified that each local agency subject to the permit and not subject to a trash total maximum daily load (TMDL) is entitled to reimbursement.

The Commission also determined that the period of reimbursement for the mandated activities begins July 1, 2002, and continues until a new National Pollutant Discharge Elimination System (NPDES) permit issued by the Board is adopted. On November 8, 2012, the Board adopted a new NPDES permit, Order No. R4-2012-0175, which became effective on December 28, 2012.

The program's parameters and guidelines establish the state mandate and define the reimbursement criteria. The Commission adopted the parameters and guidelines on March 24, 2011. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies, school districts, and community college districts in claiming mandated program reimbursable costs.

Objectives, Scope, and Methodology

We conducted this performance audit to determine whether costs claimed represent increased costs resulting from the Municipal Storm Water and Urban Runoff Discharges Program for the period of July 1, 2002, through June 30, 2009.

The legal authority to conduct this audit is provided by Government Code sections 12410, 17558.5, and 17561. We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain

sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the city's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures. Our audit scope did not assess the efficiency or effectiveness of program operations. We did not audit the city's financial statements.

The objectives of our audit were to determine whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

To achieve our audit objectives, we:

- Reviewed the annual claims filed with the SCO to identify any mathematical errors and performed analytical procedures to determine any unusual or unexpected variances from year-to-year;
- Completed an internal control questionnaire and performed a walk-through of the claim preparation process to determine what information was used, who obtained it, and how it was obtained;
- Researched the city's location within the Los Angeles River Watershed, the Ballona Creek Watershed, and the Dominguez Channel Watershed and gained an understanding of the trash TMDL effective dates;
- Determined whether the city claimed reimbursement using the correct unit cost rate; and
- Reviewed the documentation provided to support the number of transit stops containing trash receptacles.

Conclusion

Our audit found that the city did not incur reimbursable program costs, as described in the accompanying Schedule (Summary of Program Costs) and in the Finding and Recommendation section of this report.

For the audit period, the City of Los Angeles claimed \$7,790,956 for costs of the Municipal Storm Water and Urban Runoff Discharges Program. Our audit found that the entire amount is unallowable. The State made no payments to the city.

Views of Responsible Officials

We received an email response on December 8, 2016, from Chi Ming Gong, Street Services General Superintendent, stating that the city has agreed to not contest the finding. On March 12, 2017, we issued a draft audit report. We did not receive a response from the city to the draft audit report.

Restricted Use

This report is solely for the information and use of the City of Los Angeles, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

April 11, 2017

Schedule—
Summary of Program Costs
July 1, 2002, through June 30, 2009

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2002, through June 30, 2003</u>			
Ongoing activities:			
August 28, 2002, through June 30, 2003:			
Unit cost rate	\$ 6.74	\$ -	\$ (6.74)
Number of transit receptacles	× 1,829	× -	× (1,829)
Annual number of trash collections	× 86	× -	× (86)
Total program costs	<u>\$ 1,060,162</u>	-	<u>\$ (1,060,162)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>	
<u>July 1, 2003, through June 30, 2004</u>			
Ongoing activities:			
Unit cost rate	\$ 6.74	\$ -	\$ (6.74)
Number of transit receptacles	× 1,829	× -	× (1,829)
Annual number of trash collections	× 104	× -	× (104)
Total program costs	<u>\$ 1,282,056</u>	-	<u>\$ (1,282,056)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>	
<u>July 1, 2004, through June 30, 2005</u>			
Ongoing activities:			
Unit cost rate	\$ 6.74	\$ -	\$ (6.74)
Number of transit receptacles	× 1,829	× -	× (1,829)
Annual number of trash collections	× 104	× -	× (104)
Total program costs	<u>\$ 1,282,056</u>	-	<u>\$ (1,282,056)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>	
<u>July 1, 2005, through June 30, 2006</u>			
Ongoing activities:			
Unit cost rate	\$ 6.74	\$ -	\$ (6.74)
Number of transit receptacles	× 1,829	× -	× (1,829)
Annual number of trash collections	× 104	× -	× (104)
Total program costs	<u>\$ 1,282,056</u>	-	<u>\$ (1,282,056)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2006, through June 30, 2007</u>			
Ongoing activities:			
Unit cost rate	\$ 6.74	\$ -	\$ (6.74)
Number of transit receptacles	× 1,829	× -	× (1,829)
Annual number of trash collections	× 104	× -	× (104)
Total program costs	<u>\$ 1,282,056</u>	-	<u>\$ (1,282,056)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>	
<u>July 1, 2007, through June 30, 2008</u>			
Ongoing activities:			
Unit cost rate	\$ 6.74	\$ -	\$ (6.74)
Number of transit receptacles	× 1,829	× -	× (1,829)
Annual number of trash collections	× 104	× -	× (104)
Total program costs	<u>\$ 1,282,056</u>	-	<u>\$ (1,282,056)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>	
<u>July 1, 2008, through June 30, 2009</u>			
Ongoing activities:			
July 1, 2008, through September 22, 2008:			
Unit cost rate	\$ 6.74	\$ -	\$ (6.74)
Number of transit receptacles	× 1,829	× -	× (1,829)
Annual number of trash collections	× 26	× -	× (26)
Total program costs	<u>\$ 320,514</u>	-	<u>\$ (320,514)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>	
<u>Summary: July 1, 2002, through June 30, 2009</u>			
Total program costs	<u>\$ 7,790,956</u>	\$ -	<u>\$ (7,790,956)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>	

¹ See the Finding and Recommendation section.

Finding and Recommendation

FINDING— Ongoing maintenance costs not incurred

The city claimed \$7,790,956 in ongoing maintenance costs for the audit period. We found that none of the costs claimed are allowable. The costs are unallowable because the city does not maintain the transit stop trash receptacles.

The city claimed reimbursement for the ongoing maintenance costs using the Commission-adopted reasonable reimbursement methodology (RRM). Under the RRM, the unit cost (which is \$6.74 during the period of July 1, 2002, through June 30, 2009) is multiplied by the number of city-wide transit stop trash receptacles and by the number of annual trash collections.

City does not perform ongoing maintenance of the transit stop trash receptacles

A memo to the Los Angeles City Council from the City Administrative Officer, dated June 27, 2011, states that “trash receptacles at bus stops are serviced by the Metropolitan Transit Authority and city-contracted bus stop franchises.”

- *Metropolitan Transportation Authority*

Metropolitan Transportation Authority is responsible for maintaining 7,860 transit bus stops and stations throughout the city. Transit stops include a route line number and curb markings, and some also include amenities such as shelters, benches, and lighting.

- *CBS Decaux, LLC*

The city entered into a 20-year franchise agreement with CBS Decaux, LLC, on December 21, 2001. In the agreement, the city granted CBS Decaux the exclusive right to install and maintain street furniture in exchange for the right to sell and display advertising. Through this agreement, the city is able to receive 2,500 transit shelters with matching trash receptacles. The city pays nothing for this program. All of the program costs, including capital costs for the fabrication and installation of all of the furniture, as well as their continual up-keep and maintenance for the 20-year duration, are paid for by CBS Decaux. Thus, the city did not incur any ongoing maintenance costs for the trash receptacles located in transit shelters during the audit period.

- *Norman Bench Advertising*

From January 2000 through January 2010, the city entered into an agreement with Norman Bench Advertising. Norman Bench Advertising was responsible for maintaining approximately 6,000 of its own bus benches in exchange for providing the city a percentage of the advertising revenue generated from the bus benches. Thus, the city did not incur any ongoing maintenance costs at any of the locations with advertising benches during the audit period.

City maintains an uncertain number of trash receptacles located near transit stops

The city claimed reimbursement for 1,829 trash receptacles at transit stops for each fiscal year in the audit period; however, the city is unable to provide documentation to support this amount.

On its website, the city's sanitation department states that it is responsible for "maintenance and service of over 1,000 waste receptacles located on city streets" and that "these cans are sometimes located near bus stops." Therefore, we believe that the waste receptacles maintained by city staff are at major intersections and crosswalks that generate a considerable amount of litter. However, there is no requirement for agencies to maintain trash receptacles at locations other than transit stops, as the permit requires agencies to only "place trash receptacles at all transit stops within its jurisdiction" and perform ongoing maintenance as necessary.

Reimbursement for mandated activities is limited to costs that the city incurs. As the city does not maintain the transit stop trash receptacles, the city did not incur any costs. The parameters and guidelines (section IV. Reimbursable Activities) state:

The claimant is only allowed to claim and be reimbursed for increased costs for reimbursable activities identified below. Increased cost is limited to the cost of an activity that the claimant is required to incur as a result of the mandate.

Recommendation

No recommendation is applicable for this finding, as the period of reimbursement expired on December 27, 2012, with the adoption of a new permit.

**State Controller's Office
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