

CITY OF PARAMOUNT

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, 2013



BETTY T. YEE
California State Controller

May 2017



BETTY T. YEE
California State Controller

May 18, 2017

The Honorable Peggy Lemons, Mayor
City of Paramount
16400 Colorado Avenue
Paramount, CA 90723

Dear Mayor Lemons:

The State Controller's Office audited the costs claimed by the City of Paramount 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, 2013.

The city claimed \$553,428 for the mandated program. Our audit found that \$191,754 is allowable and \$361,674 is unallowable. The costs are unallowable because the city overstated both the number of trash receptacles and weekly trash collections, and claimed reimbursement for costs not incurred. The State made no payments to the city. The State will pay \$191,754, contingent upon available appropriations.

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: Karina Lam Liu, Director of Finance
Finance Department, City of Paramount
Christopher Cash, Director of Public Works
Public Works Department, City of Paramount
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Contents

Audit Report

Summary	1
Background	1
Objectives, Scope, and Methodology	1
Conclusion	2
Views of Responsible Officials.....	3
Restricted Use	3
Schedule—Summary of Program Costs	4
Finding and Recommendation	8

Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the City of Paramount 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, 2013.

The city claimed \$553,428 for the mandated program. Our audit found that \$191,754 is allowable and \$361,674 is unallowable. The costs are unallowable because the city overstated both the number of trash receptacles and weekly trash collections, and claimed reimbursement for costs not incurred. The State made no payments to the city. The State will pay \$191,754, contingent upon available appropriations.

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 (GC) 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 GC 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, 2013.

The legal authority to conduct this audit is provided by GC sections 12410, 17558.5, and 17561. We did not audit the city's financial statements. 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.

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 claim preparation process to determine what information was used, who obtained it, and how it was obtained;
- Assessed whether computer-processed data provided by the city to support claimed costs was complete and accurate and could be relied upon;
- Researched the city's location within the Los Angeles River Watershed and gained an understanding of the trash TMDL effective date;
- Determined whether the city claimed reimbursement using the correct unit cost rate;
- Reviewed the documentation provided to support the number of transit stops containing trash receptacles. Corroborated the supporting documentation with physical inspections of a number of current transit stops;
- Reviewed the documentation provided to support the city's process in performing weekly transit stop trash collections; and
- Determined whether the city realized any revenue from the statutes that created the mandated program or reimbursements from any federal, state, or non-local source.

Conclusion

Our audit found an instance of noncompliance with the requirements outlined in the Objectives section. This instance is 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 claimed \$553,428 for costs of the Municipal Storm Water and Urban Runoff Discharges Program. Our audit found that \$191,754 is allowable and \$361,674 is unallowable. The State made no payments to the city. The State will pay \$191,754, contingent upon available appropriations.

**Views of
Responsible
Officials**

We discussed our audit results with the city's representative during an exit conducted on March 9, 2017. Karina Lam Liu, Director of Finance, agreed with the audit results. Ms. Liu declined a draft audit report and agreed we could issue this audit report as final.

Restricted Use

This report is solely for the information and use of the City of Paramount, 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

May 18, 2017

Schedule—
Summary of Program Costs
July 1, 2002, through June 30, 2013

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2002, through June 30, 2003</u>			
Ongoing activities:			
July 1, 2002, through August 27, 2002:			
Unit cost rate	\$ 6.74	\$ 6.74	
Number of transit receptacles	× 131	× 45	
Annual number of trash pickups	× 8	× 8	
Total, July 1, 2002, through August 27, 2002	<u>7,064</u>	<u>2,427</u>	\$ (4,637)
August 28, 2002, through June 30, 2003:			
Unit cost rate	6.74	6.74	
Number of transit receptacles	× 131	× 106	
Annual number of trash pickups	× 44	× 44	
Total, August 28, 2002, through June 30, 2003	<u>38,849</u>	<u>31,435</u>	(7,414)
Total program costs	<u>\$ 45,913</u>	33,862	<u>\$ (12,051)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 33,862</u>	
<u>July 1, 2003, through June 30, 2004</u>			
Ongoing activities:			
Unit cost rate	\$ 6.74	\$ 6.74	
Number of transit receptacles	× 131	× 106	
Annual number of trash pickups	× 52	× 52	
Total program costs	<u>\$ 45,913</u>	37,151	<u>\$ (8,762)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 37,151</u>	
<u>July 1, 2004, through June 30, 2005</u>			
Ongoing activities:			
Unit cost rate	\$ 6.74	\$ 6.74	
Number of transit receptacles	× 131	× 106	
Annual number of trash pickups	× 52	× 52	
Total program costs	<u>\$ 45,913</u>	37,151	<u>\$ (8,762)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 37,151</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2005, through June 30, 2006</u>			
Ongoing activities:			
Unit cost rate	\$ 6.74	\$ 6.74	
Number of transit receptacles	× 131	× 106	
Annual number of trash pickups	× 52	× 52	
Total program costs	<u>\$ 45,913</u>	37,151	<u>\$ (8,762)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 37,151</u>	
<u>July 1, 2006, through June 30, 2007</u>			
Ongoing activities:			
Unit cost rate	\$ 6.74	\$ 6.74	
Number of transit receptacles	× 131	× 106	
Annual number of trash pickups	× 52	× 52	
Total program costs	<u>\$ 45,913</u>	37,151	<u>\$ (8,762)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 37,151</u>	
<u>July 1, 2007, through June 30, 2008</u>			
Ongoing activities:			
July 1, 2007, through September 30, 2007:			
Unit cost rate	\$ 6.74	\$ 6.74	
Number of transit receptacles	× 131	× 106	
Annual number of trash pickups	× 26	× 13	
Total, July 1, 2007, through September 30, 2007	<u>22,957</u>	9,288	<u>\$ (13,669)</u>
October 1, 2007, through June 30, 2008:			
Unit cost rate	6.74	-	
Number of transit receptacles	× 131	× -	
Annual number of trash pickups	× 78	× -	
Total, October 1, 2007, through June 30, 2008	<u>68,869</u>	-	<u>(68,869)</u>
Total program costs	<u>\$ 91,826</u>	9,288	<u>\$ (82,538)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 9,288</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2008, through June 30, 2009</u>			
Ongoing activities:			
July 1, 2008, through September 22, 2008:			
Unit cost rate	\$ 6.74	\$ -	
Number of transit receptacles	× 131	× -	
Annual number of trash pickups	× 24	× -	
Total, July 1, 2008, through September 22, 2008	<u>21,191</u>	<u>-</u>	<u>\$ (21,191)</u>
September 23, 2008, through June 30, 2009			
Unit cost rate	6.74	-	
Number of transit receptacles	× 63	× -	
Annual number of trash pickups	× 80	× -	
Total, September 23, 2008, through June 30, 2009	<u>33,969</u>	<u>-</u>	<u>(33,969)</u>
Total program costs	<u>\$ 55,160</u>	<u>-</u>	<u>\$ (55,160)</u>
Less amount paid by the State		<u>-</u>	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>	
<u>July 1, 2009, through June 30, 2010</u>			
Ongoing activities:			
Unit cost rate	\$ 6.78	\$ -	
Number of transit receptacles	× 63	× -	
Annual number of trash pickups	× 104	× -	
Total program costs	<u>\$ 44,423</u>	<u>-</u>	<u>\$ (44,423)</u>
Less amount paid by the State		<u>-</u>	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>	
<u>July 1, 2010, through June 30, 2011</u>			
Ongoing activities:			
Unit cost rate	\$ 6.80	\$ -	
Number of transit receptacles	× 63	× -	
Annual number of trash pickups	× 104	× -	
Total program costs	<u>\$ 44,554</u>	<u>-</u>	<u>\$ (44,554)</u>
Less amount paid by the State		<u>-</u>	
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, 2011, through June 30, 2012</u>			
Ongoing activities:			
Unit cost rate	\$ 7.15	\$ -	
Number of transit receptacles	× 63	× -	
Annual number of trash pickups	× 104	× -	
Total program costs	<u>\$ 46,847</u>	-	<u>\$ (46,847)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>	
<u>July 1, 2012, through June 30, 2013</u>			
Ongoing activities:			
Unit cost rate	\$ 7.31	\$ -	
Number of transit receptacles	× 54	× -	
Annual number of trash pickups	× 104	× -	
Total program costs	<u>\$ 41,053</u>	-	<u>\$ (41,053)</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, 2013</u>			
Total program costs	<u>\$ 553,428</u>	\$ 191,754	<u>\$ (361,674)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 191,754</u>	

¹ See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Overstated ongoing
maintenance costs**

The city claimed \$553,428 for ongoing maintenance of the transit stop trash receptacles for the audit period. We found that \$191,754 is allowable and \$361,674 is unallowable. The costs are unallowable because the city overstated both the number of trash receptacles and weekly trash collections, and claimed reimbursement for costs not incurred.

Reimbursement for ongoing maintenance costs were claimed by the city using the Commission-adopted reasonable reimbursement methodology (RRM). Under the RRM, the unit cost rate (which is \$6.74 during the period of July 1, 2002, through June 30, 2009, and is adjusted annually, thereafter, by the implicit price deflator) is multiplied by the number of citywide transit stop trash receptacles and by the number of annual trash collections.

Overstated number of trash receptacles

For the period of July 1, 2002, through September 30, 2007, the city claimed reimbursement for ongoing maintenance of 131 transit stop trash receptacles. We found that the city overstated the number of transit stop trash receptacles, resulting in an audit adjustment of \$49,290.

A summary of the audit adjustment is as follows:

Dates	No. of Trash Receptacles			No. of Trash Collections	Unit Cost Rate	Audit Adjustment
	Claimed	Allowable	Difference			
July 1, 2002, through August 27, 2002	131	45	(86)	8	\$ 6.74	\$ (4,637)
August 28, 2002, through September 30, 2007	131	106	(25)	265	6.74	(44,653)
						<u>\$ (49,290)</u>

July 1, 2002, through August 27, 2002

The city claimed reimbursement for 131 transit receptacles for the period of July 1, 2002, through August 27, 2002. We found that 45 transit receptacles located within the city limits are allowable, as they are not subject to the Los Angeles River trash TMDL. The remaining 86 transit receptacles located within the Los Angeles River trash TMDL were subject to the federal trash TMDL, and are not eligible for reimbursement until the state trash TMDL took effect on August 28, 2002.

The parameters and guidelines (section II. Eligible Claimants) state:

From August 28, 2002, until September 22, 2008, the following local agency permittees that are subject to the Los Angeles River trash TMDL are eligible to claim reimbursement for mandated activities....

August 28, 2002, through September 30, 2007

The city claimed 131 transit receptacles for the period of August 28, 2002, through September 30, 2007. We found that 106 transit receptacles are allowable.

To support the costs claimed, the city provided a trash receptacle listing that identified 136 trash receptacles. The documentation provided disclosed that 29 of the trash receptacles were not located at transit stops and one was installed after the audit period. As a result, we found that the city maintained 106 transit stop trash receptacles for the period of August 28, 2002, through September 30, 2007.

Overstated number of trash collections

For the period of July 1, 2007, through September 30, 2007, the city claimed reimbursement for two weekly trash collections, totaling 26 weekly collections. We found that one weekly collection, totaling 13 weekly collections, is allowable, resulting in an audit adjustment of \$11,478.

A summary of the audit adjustment is as follows:

Dates	No. of Trash Collections			No. of Receptacles Claimed	Unit Cost Rate	Audit Adjustment
	Claimed	Allowable	Difference			
July 1, 2007, through September 30, 2007	26	13	(13)	131	\$ 6.74	<u>\$ (11,478)</u>

For the period of July 1, 2002, through November 30, 2006, city employees maintained the transit stop trash receptacles once per week. Beginning on December 1, 2006, the city entered into a verbal agreement with TruGreen Landcare (TruGreen) to continue with the trash receptacle maintenance schedule previously performed by city employees, i.e. once per week. The city informed us that its contract with TrueGreen was for landscaping services, and did not reflect the additional transit receptacle maintenance provided. As such, the city did not support two weekly trash collection activities for the period of July 1, 2007, through September 30, 2007.

The parameters and guidelines (section VII. Records Retention) state:

Local agencies must retain documentation which supports reimbursement of the maintenance costs identified in Section IV.B. of these parameters and guidelines during the period subject to audit, including documentation showing the number of trash receptacles in the jurisdiction and the number of trash collections or pickups.

Reimbursement claimed for costs not incurred

For the period of October 1, 2007, through June 30, 2013, the city claimed reimbursement of \$300,906 for ongoing maintenance of the transit stop trash receptacles. We found that all of the costs claimed are unallowable, as the waste hauler maintained the receptacles “at no cost to the city.”

A summary of the audit adjustment is as follows:

Dates	Number of Trash Receptacles	Number of Trash Collections	Unit Cost Rate	Audit Adjustment
October 1, 2007, through September 22, 2008	131	102	\$ 6.74	\$ (90,060)
September 23, 2008, through June 30, 2009	63	80	6.74	(33,969)
July 1, 2009, through June 30, 2010	63	104	6.78	(44,423)
July 1, 2010, through June 30, 2011	63	104	6.80	(44,554)
July 1, 2011, through June 30, 2012	63	104	7.15	(46,847)
July 1, 2012, through June 30, 2013	54	104	7.31	(41,053)
				\$ (300,906)

On October 1, 2007, the city entered into an agreement with CalMet Services, Inc. (CalMet), formally known as Metropolitan Waste Disposal, Inc., for the collection, removal, and disposal of garbage, waste, refuse, rubbish, trimmings and other refuse matters. The agreement (Resolution No. 07:026) states:

6. Sidewalk and Bus Stop Refuse Containers. Contractor shall collect and dispose of the contents of all sidewalk and *bus stop refuse containers* located throughout the CITY. The number of refuse containers and frequency of collection and disposal shall be determined by the CITY's Public Works Director. CONTRACTOR shall perform this service, including any materials or equipment necessary to complete this service, *at no cost to the city.* [Emphasis added]

Based on this agreement provision, the city did not incur an increased cost for the ongoing maintenance of the transit stop trash receptacles for the period of October 1, 2007, through June 30, 2013.

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
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>