

CITY OF HAWAIIAN GARDENS

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, 2012



BETTY T. YEE
California State Controller

August 2018



BETTY T. YEE
California State Controller

August 9, 2018

The Honorable Reynaldo Rodriguez, Mayor
City of Hawaiian Gardens
21815 Pioneer Boulevard
Hawaiian Gardens, CA 90716

Dear Mayor Rodriguez:

The State Controller's Office (SCO) audited the costs claimed by the City of Hawaiian Gardens for the legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program for the period of July 1, 2002, through June 30, 2012.

The city claimed \$169,503 for the mandated program. Our audit found that \$84,754 is allowable and \$84,749 is unallowable because the city overstated the number of transit-stop trash collections for each fiscal year in the audit period. The State made no payments to the city. The State will pay \$84,754, contingent upon available appropriations. Following issuance of this report, the SCO's Local Government Programs and Services Division will notify the city of the adjustments via a system-generated letter for each fiscal year in the audit period.

If you have any questions, please contact Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at (916) 327-3138.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/lis

cc: Linda Hollinsworth, Finance Director
City of Hawaiian Gardens
Chris Hill, Principal Program Budget Analyst
Local Government Unit
California Department of Finance
Steven Pavlov, Finance Budget Analyst
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the City of Hawaiian Gardens for the legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program for the period of July 1, 2002, through June 30, 2012.

The city claimed \$169,503 for the mandated program. Our audit found that \$84,754 is allowable and \$84,749 is unallowable because the city overstated the number of transit-stop trash collections for each fiscal year in the audit period. The State made no payments to the city. The State will pay \$84,754, 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. As such, the reimbursement period for the legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program ended on December 27, 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 in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

The objective of our audit was to determine whether costs claimed represent increased costs resulting from the legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program. Specifically, we conducted this audit to determine whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

The audit period was from July 1, 2002, through June 30, 2012.

To achieve our audit objective, we:

- Reviewed the annual mandated cost claims filed by the city for the audit period and identified that the material cost components of each claim are the unit cost rate, the number of transit-stop trash receptacles, and the annual number of trash collections. Determined whether there were any unusual or unexpected variances from year to year, and whether the claims adhered to the SCO's claiming instructions and the program's parameters and guidelines;
- Completed an internal control questionnaire by interviewing key city staff, and discussed the claim preparation process with city staff to determine what information was obtained, who obtained it, and how it was used;
- Researched the city's location within the San Gabriel Watershed to determine the city's eligibility;
- Traced the unit cost rate claimed for each fiscal year in the audit period to the SCO's claiming instructions to ensure proper application of the rate;
- Traced all the transit-stop trash receptacles claimed for each fiscal year in the audit period to source documentation;
- Requested source documents to support the 104 annual trash collections claimed for each fiscal year in the audit period. The city did not provide source documentation for any fiscal year in the audit period (as noted in the Finding); and
- Traced the mandated costs claimed to employee payroll reports and the Comprehensive Annual Financial Report for fiscal year (FY) 2003-04 through FY 2011-12 to determine whether costs claimed were funded by another source. As no issues were noted for FY 2003-04 through FY 2011-12, we did not review source documents for FY 2002-03.

The legal authority to conduct this audit is provided by GC sections 12410, 17558.5, and 17561. We conducted this performance 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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.

Conclusion

Our audit found an instance of noncompliance with the requirements outlined in the Objective, Scope, and Methodology section. This instance is quantified in the accompanying Schedule (Summary of Program Costs) and described in the Finding and Recommendation section of this report.

For the audit period, the City of Hawaiian Gardens claimed \$169,503 for costs of the legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program. Our audit found that \$84,754 is allowable and \$84,749 is unallowable. The State made no payments to the city. The State will pay \$84,754, contingent upon available appropriations.

Following issuance of this report, the SCO's Local Government Programs and Services Division will notify the city of the adjustments via a system-generated letter for each fiscal year in the audit period.

Follow-up on Prior Audit Findings

We issued a letter on March 22, 2016, informing the city that the costs claimed for FY 2012-13 and FY 2013-14, that were incurred after December 27, 2012 for the legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program, are ineligible because the period of reimbursement expired on December 27, 2012, with the adoption of a new NPDES permit. This prior finding is unrelated to the current finding.

Views of Responsible Officials

We issued a draft audit report on June 27, 2018. Linda Hollinsworth, Finance Director, responded by letter dated July 9, 2018 (Attachment), acknowledging that the audit finding is accurate. This final audit report includes the city's response.

Restricted Use

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

August 9, 2018

Schedule—
Summary of Program Costs
July 1, 2002, through June 30, 2012

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2002, through June 30, 2003</u>			
Ongoing activities:			
Unit cost rate	\$ 6.74	\$ 6.74	
Number of transit-stop trash receptacles	× 24	× 24	
Annual number of trash pickups	× 104	× 52	
Total program costs	<u>\$ 16,823</u>	8,412	<u>\$ (8,411)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 8,412</u>	
<u>July 1, 2003, through June 30, 2004</u>			
Ongoing activities:			
Unit cost rate	\$ 6.74	\$ 6.74	
Number of transit-stop trash receptacles	× 24	× 24	
Annual number of trash pickups	× 104	× 52	
Total program costs	<u>\$ 16,823</u>	8,412	<u>\$ (8,411)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 8,412</u>	
<u>July 1, 2004, through June 30, 2005</u>			
Ongoing activities:			
Unit cost rate	\$ 6.74	\$ 6.74	
Number of transit-stop trash receptacles	× 24	× 24	
Annual number of trash pickups	× 104	× 52	
Total program costs	<u>\$ 16,823</u>	8,412	<u>\$ (8,411)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 8,412</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-stop trash receptacles	× 24	× 24	
Annual number of trash pickups	× 104	× 52	
Total program costs	<u>\$ 16,823</u>	8,412	<u>\$ (8,411)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 8,412</u>	
<u>July 1, 2006, through June 30, 2007</u>			
Ongoing activities:			
Unit cost rate	\$ 6.74	\$ 6.74	
Number of transit-stop trash receptacles	× 24	× 24	
Annual number of trash pickups	× 104	× 52	
Total program costs	<u>\$ 16,823</u>	8,412	<u>\$ (8,411)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 8,412</u>	
<u>July 1, 2007, through June 30, 2008</u>			
Ongoing activities:			
Unit cost rate	\$ 6.74	\$ 6.74	
Number of transit-stop trash receptacles	× 24	× 24	
Annual number of trash pickups	× 104	× 52	
Total program costs	<u>\$ 16,823</u>	8,412	<u>\$ (8,411)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 8,412</u>	
<u>July 1, 2008, through June 30, 2009</u>			
Ongoing activities:			
Unit cost rate	\$ 6.74	\$ 6.74	
Number of transit-stop trash receptacles	× 24	× 24	
Annual number of trash pickups	× 104	× 52	
Total program costs	<u>\$ 16,823</u>	8,412	<u>\$ (8,411)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 8,412</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2009, through June 30, 2010</u>			
Ongoing activities:			
Unit cost rate	\$ 6.78	\$ 6.78	
Number of transit-stop trash receptacles	× 24	× 24	
Annual number of trash pickups	× 104	× 52	
Total program costs	<u>\$ 16,923</u>	8,461	<u>\$ (8,462)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 8,461</u>	
<u>July 1, 2010, through June 30, 2011</u>			
Ongoing activities:			
Unit cost rate	\$ 6.80	\$ 6.80	
Number of transit-stop trash receptacles	× 24	× 24	
Annual number of trash pickups	× 104	× 52	
Total program costs	<u>\$ 16,973</u>	8,486	<u>\$ (8,487)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 8,486</u>	
<u>July 1, 2011, through June 30, 2012</u>			
Ongoing activities:			
Unit cost rate	\$ 7.15	\$ 7.15	
Number of transit-stop trash receptacles	× 24	× 24	
Annual number of trash pickups	× 104	× 52	
Total program costs	<u>\$ 17,846</u>	8,923	<u>\$ (8,923)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 8,923</u>	
<u>Summary: July 1, 2002, through June 30, 2012</u>			
Total program costs	<u>\$ 169,503</u>	\$ 84,754	<u>\$ (84,749)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 84,754</u>	

¹ See the Finding and Recommendation section.

² Payment amount current as of June 8, 2018.

Finding and Recommendation

FINDING— Overstated number of trash collections

The city claimed \$169,503 in costs related to the legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program. We found that \$84,754 is allowable and \$84,749 is unallowable. The costs are unallowable because the city overstated the number of transit-stop trash collections for each fiscal year in the audit period.

The city claimed reimbursement for ongoing maintenance costs 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.

The following table summarizes the claimed, allowable, and audit adjustment amounts for each fiscal year in the audit period:

Fiscal Year	Amount Claimed				Amount Allowable				Audit Adjustment
	No. of Transit Receptacles	Annual No. of Trash Collections	Unit Cost Rate	Total Claimed	No. of Transit Receptacles	Annual No. of Trash Collections	Unit Cost Rate	Total Allowable	
2002-03	24	104	\$ 6.74	\$ 16,823	24	52	\$ 6.74	\$ 8,412	\$ (8,411)
2003-04	24	104	6.74	16,823	24	52	6.74	8,412	(8,411)
2004-05	24	104	6.74	16,823	24	52	6.74	8,412	(8,411)
2005-06	24	104	6.74	16,823	24	52	6.74	8,412	(8,411)
2006-07	24	104	6.74	16,823	24	52	6.74	8,412	(8,411)
2007-08	24	104	6.74	16,823	24	52	6.74	8,412	(8,411)
2008-09	24	104	6.74	16,823	24	52	6.74	8,412	(8,411)
2009-10	24	104	6.78	16,923	24	52	6.78	8,461	(8,462)
2010-11	24	104	6.80	16,973	24	52	6.80	8,486	(8,487)
2011-12	24	104	7.15	17,846	24	52	7.15	8,923	(8,923)
Total				<u>\$169,503</u>				<u>\$ 84,754</u>	<u>\$ (84,749)</u>

Overstated number of trash collections

The city claimed two transit-stop trash collections per week, totaling 104 annual collections. We found that one transit-stop trash collection per week, totaling 52 annual collections, is allowable.

During audit fieldwork, the city provided a bus stop list (date generated unknown) indicating that the transit-stop trash receptacles were maintained twice a week by city employees. The city also provided a letter addressed to its consultant, dated December 17, 2014, stating that the transit-stop trash receptacles are maintained twice a week. While the bus stop list and letter are corroborating documents, they are not contemporaneous source documents and cannot be substituted for source documents.

We requested that the city provide us with source documents maintained during the audit period, such as policy and procedural manuals regarding transit-stop trash collection activities, duty statements of the employees performing weekly trash collections activities, and/or trash collection route maps. The city stated that it does not keep these types of records.

As the documentation provided was not contemporaneous and was not created during the audit period, we found that the city did not provide sufficient source documentation to support two weekly trash collection activities, totaling 104 annual collections. However, during audit fieldwork, we physically observed the ongoing maintenance of the transit-stop trash receptacles located throughout the city. Absent source documentation to support two weekly collections, we determined that one weekly collection, totaling 52 annual collections, is allowable.

Section VII. (Records Retention) of the parameters and guidelines states, in part:

Local agencies must retain documentation which supports the 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.

Recommendation

No recommendation is applicable for this finding, as the period of reimbursement expired on December 27, 2012, with the adoption of a new NPDES permit. When claiming reimbursement for other mandated programs, we recommend that the city:

- Follow the mandated program's claiming instructions and parameters and guidelines when filing its reimbursement claims; and
- Ensure that claimed costs include only actual costs that are supported by contemporaneous source documentation.

City's Response

The City acknowledges that the findings presented in the audit report are accurate. While staff did perform those pickups twice a week, the City was unable to provide the documented support for these. The work was performed by our Public Works staff as part of their regular duties and they did not have a requirement to document this time as a separate listing on their time sheets. The time period covered was 2002-2012 but as noted in your document, the instructions for claiming these mandated reimbursable costs did not get adopted until 2011 and the City was unable to change their requirements for recording these pickups for the earlier years. The City could not locate other requested items for the audit time period such as duty statements or route maps. If these items had been maintained in the years being audited, the retention period for those would have passed.

**Attachment—
City's Response to Draft Audit Report**

City of Hawaiian Gardens

July 9, 2018

Lisa Kurokawa
Compliance Audits Bureau
State Controller's Office, Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

Re: Audit Findings Municipal Storm Water and Urban Runoff Discharges Program

Dear Ms. Kurokawa,

The City has received your draft audit report on the claim submitted by the City for the State mandated Municipal Storm Water and Urban Runoff Discharges Program. The City claimed costs for two transit-stop trash pickups each week at the transit bus stops. You have allowed costs for one pickup each week.

The City acknowledges that the findings presented in the audit report are accurate. While staff did perform those pickups twice a week, the City was unable to provide the documented support for these. The work was performed by our Public Works staff as part of their regular duties and they did not have a requirement to document this time as a separate listing on their time sheets. The time period covered was 2002-2012 but as noted in your document, the instructions for claiming these mandated reimbursable costs did not get adopted until 2011 and the City was unable to change their requirements for recording these pickups for the earlier years. The City could not locate other requested items for the audit time period such as duty statements or route maps. If these items had been maintained in the years being audited, the retention period for those would have passed.

If you need any additional information please contact me.

Sincerely,



Linda Hollinsworth
Finance Director

**State Controller's Office
Division of Audits
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<http://www.sco.ca.gov>