

CITY OF SOUTH GATE

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;
and July 1, 2012, through June 30, 2013*



BETTY T. YEE
California State Controller

October 2017



BETTY T. YEE
California State Controller

October 27, 2017

The Honorable Maria Davila, Mayor
City of South Gate
8650 California Avenue
South Gate, CA 90280

Dear Mayor Davila:

The State Controller's Office (SCO) audited the costs claimed by the City of South Gate 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; and July 1, 2012, through June 30, 2013. The city did not claim reimbursement for any program costs for the period of July 1, 2009, through June 30, 2012.

The city claimed \$1,474,534 for the mandated program. Our audit found that \$59,398 is allowable and \$1,415,136 is unallowable. The costs are unallowable primarily because the city overstated the number of transit stop trash receptacles and did not report offsetting revenues. The State made no payments to the city. The SCO's Local Government Programs and Services Division will send the city a separate notification letter to resolve unpaid allowable costs. The letter will be sent within 30 days from the issuance date of this report.

If you have any questions, please contact Jim L. Spano, CPA, Assistant Division Chief, by telephone at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/lis

cc: Jacquelyn Acosta, Director of Administrative Services
City of South Gate
Kim Sao, Deputy Director of Administrative Services/Finance
City of South Gate
Gladis Deras, Associate Engineer
City of South Gate
Chris Hill, Principal Program Budget Analyst
Local Government Unit, California Department of Finance
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Local Government Programs and Services Division
State Controller's Office

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the City of South Gate 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; and July 1, 2012, through June 30, 2013. The city did not claim reimbursement for any program costs for the period of July 1, 2009, through June 30, 2012.

The city claimed \$1,474,534 for the mandated program. Our audit found that \$59,398 is allowable and \$1,415,136 is unallowable. The costs are unallowable primarily because the city overstated the number of transit stop trash receptacles and did not report offsetting revenues. The State made no payments to the city. The SCO's Local Government Programs and Services Division will send the city a separate notification letter to resolve unpaid allowable costs. The letter will be sent within 30 days from the issuance date of this report.

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.

Objective, Scope, and Methodology

The objective of our audit was to determine whether costs claimed represent increased costs resulting from the 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, 2009; and July 1, 2012, through June 30, 2013.

To achieve our audit objective, we:

- Reviewed the annual mandated cost claims filed by the city for the audit period to identify the material cost components of each claim and to determine whether there were any errors or any unusual or unexpected variances from year to year. In addition, we reviewed the activities claimed to determine their adherence to the SCO's claiming instructions and the program's parameters and guidelines;
- Completed an internal control questionnaire by interviewing key city staff, and performed a walk-through of the claim preparation process to determine what information was obtained, who obtained it, and how it was used;
- Researched the city's location within the Los Angeles River Watershed to gain an understanding of the trash TMDL effective date, in order 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;
- Requested source documents to support the number of trash receptacles claimed for each fiscal year in the audit period. The city provided documentation to support 82 of 196 trash receptacles claimed for each fiscal year;
- Traced all trash collections claimed for each fiscal year in the audit period to source documentation; and
- Requested expenditure reports for all fiscal years in the audit period to determine whether costs claimed were funded by another source. Traced mandated costs claimed to the expenditure reports for FY 2006-07, FY 2007-08, FY 2008-09, and FY 2012-13, as these were the only years for which the city was able to provide documentation.

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 objectives. 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 instances of noncompliance with the requirements outlined in the Objective section. These instances are described in the accompanying Schedule (Summary of Program Costs) and in the Findings and Recommendations section of this report.

For the audit period, the city claimed \$1,474,534 for costs of the Municipal Storm Water and Urban Runoff Discharges Program. Our audit found that \$59,398 is allowable and \$1,415,136 is unallowable. The State made no payments to the city. The SCO's Local Government Programs and Services Division will send the city a separate notification letter to resolve unpaid allowable costs. The letter will be sent within 30 days from the issuance date of this report.

**Views of
Responsible
Officials**

We issued a draft audit report on August 17, 2017. Jacquelyn Acosta, Director of Administrative Services, responded by letter dated September 8, 2017 (Attachment), accepting the findings. This final audit report includes the city's response letter.

Restricted Use

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

October 27, 2017

Schedule—
Summary of Program Costs
July 1, 2002, through June 30, 2009;
and July 1, 2012, through June 30, 2013

Cost Elements	Amount Claimed	Allowable per Audit	Audit Adjustment	Reference 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	× 196	× 82		
Annual number of trash pickups	× 131	× 131		
Total ongoing costs	173,056	72,401	\$ (100,655)	Finding 1
Less offsetting revenues and reimbursements	-	(72,401)	(72,401)	Finding 2
Total program costs	<u>\$ 173,056</u>	-	<u>\$ (173,056)</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	× 196	× 82		
Annual number of trash pickups	× 156	× 156		
Total ongoing costs	206,082	86,218	\$ (119,864)	Finding 1
Less offsetting revenues and reimbursements	-	(86,218)	(86,218)	Finding 2
Total program costs	<u>\$ 206,082</u>	-	<u>\$ (206,082)</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	× 196	× 82		
Annual number of trash pickups	× 156	× 156		
Total ongoing costs	206,082	86,218	\$ (119,864)	Finding 1
Less offsetting revenues and reimbursements	-	(86,218)	(86,218)	Finding 2
Total program costs	<u>\$ 206,082</u>	-	<u>\$ (206,082)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		

Schedule (continued)

Cost Elements	Amount Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2005, through June 30, 2006</u>				
Ongoing activities:				
Unit cost rate	\$ 6.74	\$ 6.74		
Number of transit receptacles	× 196	× 82		
Annual number of trash pickups	× 156	× 156		
Total ongoing costs	206,082	86,218	\$ (119,864)	Finding 1
Less offsetting revenues and reimbursements	-	(86,218)	(86,218)	Finding 2
Total program costs	<u>\$ 206,082</u>	-	<u>\$ (206,082)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		
<u>July 1, 2006, through June 30, 2007</u>				
Ongoing activities:				
Unit cost rate	\$ 6.74	\$ 6.74		
Number of transit receptacles	× 196	× 82		
Annual number of trash pickups	× 156	× 156		
Total ongoing costs	206,082	86,218	\$ (119,864)	Finding 1
Less offsetting revenues and reimbursements	-	(55,104)	(55,104)	Finding 2
Total program costs	<u>\$ 206,082</u>	31,114	<u>\$ (174,968)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 31,114</u>		
<u>July 1, 2007, through June 30, 2008</u>				
Ongoing activities:				
Unit cost rate	\$ 6.74	\$ 6.74		
Number of transit receptacles	× 196	× 82		
Annual number of trash pickups	× 156	× 156		
Total ongoing costs	206,082	86,218	\$ (119,864)	Finding 1
Less offsetting revenues and reimbursements	-	(57,934)	(57,934)	Finding 2
Total program costs	<u>\$ 206,082</u>	28,284	<u>\$ (177,798)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 28,284</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	× 196	× 82		
Annual number of trash pickups	× 36	× 36		
Total ongoing costs	47,557	19,896	\$ (27,661)	Finding 1
Less offsetting revenues and reimbursements	-	(19,896)	(19,896)	Finding 2
Total program costs	<u>\$ 47,557</u>	-	<u>\$ (47,557)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		

Schedule (continued)

Cost Elements	Amount Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2012, through June 30, 2013</u>				
Ongoing activities:				
Unit cost rate	\$ 7.31	\$ 7.31		
Number of transit receptacles	× 196	× -		
Annual number of trash pickups	× 156	× -		
Total ongoing costs	223,511	-	\$ (223,511)	Finding 1
Less offsetting revenues and reimbursements	-	-	-	
Total program costs	<u>\$ 223,511</u>	-	<u>\$ (223,511)</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; and July 1, 2012, through June 30, 2013</u>				
Total ongoing costs	\$ 1,474,534	\$ 523,387	\$ (951,147)	Finding 1
Less offsetting revenues and reimbursements	-	(463,989)	(463,989)	Finding 2
Total program costs	<u>\$ 1,474,534</u>	59,398	<u>\$ (1,415,136)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 59,398</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Overstated ongoing maintenance costs

The city claimed \$1,474,534 for the ongoing maintenance of transit stop trash receptacles for the audit period. We found that \$523,387 is allowable and \$951,147 is unallowable. The costs are unallowable because the city overstated the number of transit stop trash receptacles and is ineligible to claim reimbursement after September 22, 2008.

Reimbursement for ongoing maintenance costs were claimed using the Commission-adopted reasonable reimbursement methodology (RRM). Under the RRM, the unit cost rate (\$6.74 during the period of July 1, 2002, through June 30, 2009, and annually adjusted, 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 audit adjustment by fiscal year:

Fiscal Year	Amount Claimed				Amount Allowable			Amount Allowable	Audit Adjustment
	No. of Transit Receptacles	Annual No. of Trash Collections	Unit Cost Rate	Amount Claimed	No. of Transit Receptacles	Annual No. of Trash Collections	Unit Cost Rate		
2002-03	196	131	\$ 6.74	\$ 173,056	82	131 ¹	\$6.74	\$ 72,401	\$ (100,655)
2003-04	196	156	6.74	206,082	82	156	6.74	86,218	(119,864)
2004-05	196	156	6.74	206,082	82	156	6.74	86,218	(119,864)
2005-06	196	156	6.74	206,082	82	156	6.74	86,218	(119,864)
2006-07	196	156	6.74	206,082	82	156	6.74	86,218	(119,864)
2007-08	196	156	6.74	206,082	82	156	6.74	86,218	(119,864)
2008-09	196	36	6.74	47,557	82	36 ²	6.74	19,896	(27,661)
2012-13	196	156	7.31	223,511	-	-	6.74	-	(223,511)
				<u>\$ 1,474,534</u>				<u>\$523,387</u>	<u>\$ (951,147)</u>

¹ The reimbursement period for fiscal year (FY) 2002-03 is from August 28, 2002, through June 30, 2003.

² The reimbursement period for FY 2008-09 is from July 1, 2002, through September 22, 2008.

Overstated number of transit stop trash receptacles

For each fiscal year in the audit period, the city claimed reimbursement for 196 transit stop trash receptacles. During audit fieldwork, we reviewed the Geographic Information System map and the city's contract with TrueGreen Landscape and confirmed that the city operates 82 transit stops. For the period of July 1, 2002, through September 22, 2008, the amount of \$727,636, representing costs for 114 more trash receptacles than are actually present at the city's transit stops, is unallowable.

Section IV. (Reimbursable Activities) of the parameters and guidelines states:

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 result of the mandate.

City ineligible to claim reimbursement after September 22, 2008

The city is located entirely within the Los Angeles River Watershed, which has a September 23, 2008 trash TMDL effective date. The city is no longer eligible to claim reimbursement for the ongoing maintenance of the 82 transit stop trash receptacles after September 22, 2008, because all of its transit stops are subject to the Los Angeles River trash TMDL. Therefore, the entire FY 2012-13 amount claimed, totaling \$223,511, is unallowable.

Section II. (Eligible Claimants) of the parameters and guidelines states:

Beginning September 23, 2008, the following local agency permittees that are subject to the Los Angeles River trash TMDL are eligible to claim reimbursement for the mandated activities only to the extent they have transit stops located in areas not covered by the Los Angeles River trash TMDL requirements:

Alhambra, Arcadia, Bell, Bell Gardens, Bradbury, Burbank, Calabasas, Carson, Commerce, Compton, Cudahy, Downey, Duarte, El Monte, Glendale, Hidden Hills, Huntington Park, Irwindale, La Canada Flintridge, Los Angeles (City), Los Angeles County, Lynwood, Maywood, Monrovia, Montebello, Monterey Park, Paramount, Pasadena, Pico Rivera, Rosemead, San Fernando, San Gabriel, San Marino, Santa Clarita, Sierra Madre, Signal Hill, Simi Valley, South El Monte, **South Gate**, South Pasadena, Temple City, and Vernon. [Emphasis added].

Recommendation

No recommendation is applicable for this finding, as the period of reimbursement expired on December 27, 2012.

City's Response

The audit found that of the \$1,474,534 that the city claimed, only \$523,387 was allowable after deducting the amount for the overstated number of trash receptacles and ineligible claims (Finding No. 1). Due to lack of information, the City cannot substantiate the reason for the overstatement and therefore accepts the finding as is.

FINDING 2— Unreported offsetting revenues and reimbursements

The city did not offset any revenues or reimbursements on its claim forms for the audit period. We found that the city should have offset \$463,989 in Proposition C funds that were used to pay for ongoing maintenance of the trash receptacles at transit stops during the audit period.

The following table summarizes the unreported offsetting revenue adjustment by fiscal year:

Fiscal Year	Amount Allowable from Finding 1	Unreported Offsetting Revenues	Net Amount Allowable
2002-03	\$ 72,401	\$ (72,401)	\$ -
2003-04	86,218	(86,218)	-
2004-05	86,218	(86,218)	-
2005-06	86,218	(86,218)	-
2006-07	86,218	(55,104)	31,114
2007-08	86,218	(57,934)	28,284
2008-09	19,896	(19,896)	-
2012-13	-	-	-
Total	<u>\$ 523,387</u>	<u>\$ (463,989)</u>	<u>\$ 59,398</u>

As stated in Finding 1, we found that \$523,387 in ongoing maintenance of the transit stop trash receptacles is allowable. During audit fieldwork, we requested expenditure detail reports for all fiscal years in the audit period to determine whether costs claimed were funded by another source. Due to the city's documentation retention policy, it was only able to provide expenditure detail reports for FY 2006-07, FY 2007-08, FY 2008-09, and FY 2012-13.

In reviewing the expenditure detail reports provided, we found that the ongoing maintenance costs of the transit stop trash receptacles were posted to the Proposition C Local Return fund (Fund No. 222), a Special Revenue fund. Special Revenue funds are legally restricted to expenditures for specified purposes. Since the ongoing maintenance costs claimed were paid for with Proposition C funds, we determined that all costs claimed for FY 2006-07 through FY 2012-13 should have been offset on the city's claim forms. Also, since the city's process to utilize Proposition C funds to pay for the mandated costs did not change between FY 2006-07 and FY 2012-13, we concluded that all ongoing maintenance costs claimed for FY 2002-03 through FY 2005-06 were also paid for with restricted Proposition C funds that should also have been offset on the city's annual mandated cost claims.

Proposition C is a half-cent sales tax measure approved by Los Angeles County voters in 1990 to finance transit programs. Twenty percent of the Proposition C tax is designated for the Local Return Program to be used by cities in developing and/or improving public transit and the related transportation infrastructure. Local Return funds are distributed monthly to cities based on a "per capita" basis.

The Proposition A and Proposition C Local Return Guidelines, section II. Project Eligibility, identify reimbursement for ongoing trash receptacle maintenance as follows:

2. BUS STOP IMPROVEMENTS AND MAINTENANCE (Codes 150, 160, & 170)

Examples of eligible Bus Stop Improvement and Maintenance projects include installation/replacement and/or maintenance of:

- Concrete landings – in street for buses and at sidewalk for passengers
- Bus turn-outs
- Benches
- Shelters
- Trash receptacles
- Curb cuts
- Concrete of electrical work directly associated with the above items

Section VIII. (Offsetting Revenues and Reimbursements) of the parameters and guidelines states:

Any offsetting revenue the claimant experiences in the same program as a result of the same statutes or executive orders found to contain the mandate shall be deducted for the costs claimed. In addition, reimbursement for this mandate received from any federal, state or non-local source shall be identified and deducted from this claim.

Recommendation

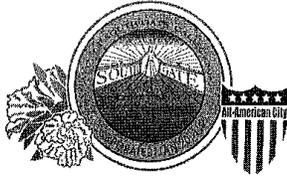
No recommendation is applicable for this finding, as the period of reimbursement expired on December 27, 2012.

City's Response

Furthermore, the audit found that the City did not offset \$463,989 in Prop C monies used to pay for the maintenance of the trash receptacles (Finding No. 2). It has been the City's goal to utilize grant funds first to pay for eligible activities before using its limited discretionary funds such as General Fund money. In addition, without the State's guarantee to reimburse these mandated costs in a timely manner, the City could only depend on its other sources, such as Prop C, to fund the mandated activities. The City was also unaware that utilizing Prop C monies would require an offset to the reimbursement claim, and therefore, did not take that into consideration when submitting the claims.

The City accepts the remaining balance of \$59,398 allowable claim.

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



City of South Gate

Administrative Services Department

September 8, 2017

Jim L. Spano, CPA, Assistant Division Chief
State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Spano,

This is in response to the August 17, 2017, draft report for the Municipal Storm Water and Urban Runoff Discharges Program audit for the period July 1, 2002 through June 30, 2009 and July 1, 2012 through June 30, 2013.

The audit found that of the \$1,474,534 that the city claimed, only \$523,387 was allowable after deducting the amount for the overstated number of trash receptacles and ineligible claims (Finding No. 1). Due to lack of information, the City cannot substantiate the reason for the overstatement and therefore accepts the finding as is.

Furthermore, the audit found that the City did not offset \$463,989 in Prop C monies used to pay for the maintenance of the trash receptacles (Finding No. 2). It has been the City's goal to utilize grant funds first to pay for eligible activities before using its limited discretionary funds such as General Fund money. In addition, without the State's guarantee to reimburse these mandated costs in a timely manner, the City could only depend on its other sources, such as Prop C, to fund the mandated activities. The City was also unaware that utilizing Prop C monies would require an offset to the reimbursement claim, and therefore, did not take that into consideration when submitting the claims.

The City accepts the remaining balance of \$59,398 allowable claim. Please provide us an estimated date on which the City should expect to receive this reimbursement.

Sincerely,

Jackie Acosta
Director of Administrative Services

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

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