

CITY OF LAKEWOOD

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

November 2017



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California State Controller

November 27, 2017

The Honorable Diane DuBois, Mayor
City of Lakewood
5050 Clark Avenue
Lakewood, CA 90712

Dear Mayor DuBois:

The State Controller's Office (SCO) audited the costs claimed by the City of Lakewood 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 \$1,661,278 for the mandated program. Our audit found that \$740,995 is allowable and \$920,283 is unallowable. The costs are unallowable primarily because the city did not provide sufficient documentation to support the annual number of trash collections performed by city employees, claimed ineligible costs, and did not offset the restricted revenues used to fund the mandated activities. 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.

This final audit report contains an adjustment to costs claimed by the city. If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on the State Mandates (Commission). Pursuant to Section 1185, subdivision (c), of the Commission's regulations (*California Code of Regulations*, Title 3), an IRC challenging this adjustment must be filed with the Commission no later than three years following the date of this report, regardless of whether this report is subsequently supplemented, superseded, or otherwise amended. You may obtain IRC information on the Commission's website at www.csm.ca.gov/forms/IRCFORM.pdf.

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/as

cc: Diane Perkin, Director of Administrative Services
City of Lakewood
Lisa Litzinger, Director of Recreation and Community Services
City of Lakewood
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the City of Lakewood 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 \$1,661,278 for the mandated program. Our audit found that \$740,995 is allowable and \$920,283 is unallowable. The costs are unallowable primarily because the city did not provide sufficient documentation to support the annual number of trash collections performed by city employees, claimed ineligible costs, and did not offset the restricted revenues used to fund the mandated activities. 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, 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 NPDES Permit, Order No. R4-2012-0175, to gain an understanding of the effective date in order to determine the city's eligibility;
- 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 all trash receptacles claimed for fiscal year (FY) 2002-03 through FY 2008-09 and provided documentation to support 233 of 237 trash receptacles claimed for FY 2009-10 through FY 2011-12;
- Requested source documentation to support the number of trash collections claimed for each fiscal year in the audit period. We determined that the city was unable to provide sufficient source documentation for any fiscal year in audit period; and
- Traced mandated costs claimed to expenditure reports and accounting records for all fiscal years in the audit period to determine whether costs claimed were funded by another source.

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 \$1,661,278 for costs of the Municipal Storm Water and Urban Runoff Discharges Program. Our audit found that \$740,995 is allowable and \$920,283 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 24, 2017. Diane Perkin, Director of Administrative Services, responded by letter dated September 6, 2017 (Attachment), disagreeing with the audit results. This final audit report includes the city's response.

Restricted Use

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

November 27, 2017

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

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003</u>				
Ongoing activities:				
Unit cost rate	\$ 6.74	\$ 6.74		
Number of transit receptacles	× 150	× 150		
Annual number of trash collections	× 104	× 52		
Total program costs	<u>\$ 105,144</u>	52,572	<u>\$ (52,572)</u>	Finding 1
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 52,572</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Ongoing activities:				
Unit cost rate	\$ 6.74	\$ 6.74		
Number of transit receptacles	× 150	× 150		
Annual number of trash collections	× 104	× 52		
Total program costs	<u>\$ 105,144</u>	52,572	<u>\$ (52,572)</u>	Finding 1
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 52,572</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Ongoing activities:				
Unit cost rate	\$ 6.74	\$ 6.74		
Number of transit receptacles	× 195	× 195		
Annual number of trash collections	× 104	× 52		
Total program costs	<u>\$ 136,687</u>	68,344	<u>\$ (68,343)</u>	Finding 1
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 68,344</u>		
<u>July 1, 2005, through June 30, 2006</u>				
One-time activities:				
Salaries	\$ 145	\$ 145		
Materials and supplies	+ 25,276	+ 25,276		
Indirect costs	+ 15	+ 15		
Total one-time costs	<u>25,436</u>	<u>25,436</u>	\$ -	
Ongoing activities:				
Unit cost rate	6.74	6.74		
Number of transit receptacles	× 195	× 195		
Annual number of trash collections	× 104	× 52		
Total ongoing costs	<u>136,687</u>	<u>68,344</u>	<u>(68,343)</u>	Finding 1
Total one-time costs and ongoing costs	162,123	93,780	(68,343)	
Less offsetting revenues and reimbursements	-	(25,276)	(25,276)	Finding 2
Total program costs	<u>\$ 162,123</u>	68,504	<u>\$ (93,619)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 68,504</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2006, through June 30, 2007</u>				
Ongoing activities:				
Unit cost rate	\$ 6.74	\$ 6.74		
Number of transit receptacles	× 195	× 195		
Annual number of trash collections	× 104	× 52		
Total program costs	<u>\$ 136,687</u>	68,344	<u>\$ (68,343)</u>	Finding 1
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 68,344</u>		
<u>July 1, 2007, through June 30, 2008</u>				
Ongoing activities:				
Unit cost rate	\$ 6.74	\$ 6.74		
Number of transit receptacles	× 195	× 195		
Annual number of trash collections	× 104	× 52		
Total program costs	<u>\$ 136,687</u>	68,344	<u>\$ (68,343)</u>	Finding 1
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 68,344</u>		
<u>July 1, 2008, through June 30, 2009</u>				
One-time activities:				
Salaries	\$ 1,366	\$ 1,366		
Materials and supplies	+ 48,684	+ 48,684		
Indirect costs	+ 136	+ 136		
Total one-time costs	<u>50,186</u>	<u>50,186</u>	\$ -	
Ongoing activities:				
Unit cost rate	\$ 6.74	\$ 6.74		
Number of transit receptacles	× 195	× 195		
Annual number of trash collections	× 104	× 52		
Total ongoing costs	<u>136,687</u>	<u>68,344</u>	<u>(68,343)</u>	Finding 1
Total one-time costs and ongoing costs	186,873	118,530	(68,343)	
Less offsetting revenues and reimbursements	-	(48,664)	(48,664)	Finding 2
Total program costs	<u>\$ 186,873</u>	69,866	<u>\$ (117,007)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 69,866</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2009, through June 30, 2010</u>				
One-time activities:				
Salaries	\$ 705	\$ 705		
Materials and supplies	+ 28	+ 28		
Indirect costs	+ 71	+ 71		
Total one-time costs	<u>804</u>	<u>804</u>	\$ -	
Ongoing activities:				
Unit cost rate	\$ 6.78	\$ 6.78		
Number of transit receptacles	× 237	× 230		
Annual number of trash collections	× 104	× 52		
Total ongoing costs	<u>167,113</u>	<u>81,089</u>	<u>(86,024)</u>	Finding 1
Total program costs	<u>\$ 167,917</u>	<u>81,893</u>	<u>\$ (86,024)</u>	
Less amount paid by the State		<u>-</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 81,893</u>		
<u>July 1, 2010, through June 30, 2011</u>				
Ongoing activities:				
Unit cost rate	\$ 6.80	\$ 6.80		
Number of transit receptacles	× 237	× 230		
Annual number of trash collections	× 104	× 52		
Total program costs	<u>\$ 167,606</u>	<u>81,328</u>	<u>\$ (86,278)</u>	Finding 1
Less amount paid by the State		<u>-</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 81,328</u>		
<u>July 1, 2011, through June 30, 2012</u>				
Ongoing activities:				
Unit cost rate	\$ 7.15	\$ 7.15		
Number of transit receptacles	× 237	× 230		
Annual number of trash collections	× 104	× 52		
Total program costs	<u>\$ 176,233</u>	<u>85,514</u>	<u>\$ (90,719)</u>	Finding 1
Less amount paid by the State		<u>-</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 85,514</u>		
<u>July 1, 2012, through June 30, 2013</u>				
Ongoing activities:				
July 1, 2012, through December 27, 2012:				
Unit cost rate	\$ 7.31	\$ 7.31		
Number of transit receptacles	× 237	× 230		
Annual number of trash collections	× 104	× 26		
Total program costs	<u>\$ 180,177</u>	<u>43,714</u>	<u>\$ (136,463)</u>	Finding 1
Less amount paid by the State		<u>-</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 43,714</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 2002, through June 30, 2013</u>				
Total one-time costs	\$ 76,426	\$ 76,426	\$ -	
Total ongoing costs	<u>1,584,852</u>	<u>738,509</u>	<u>(846,343)</u>	
Total one-time costs and ongoing costs	1,661,278	814,935	(846,343)	
Less offsetting revenues and reimbursements	<u>-</u>	<u>(73,940)</u>	<u>(73,940)</u>	
Total program costs	<u>\$ 1,661,278</u>	740,995	<u>\$ (920,283)</u>	
Less amount paid by the State		<u>-</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 740,995</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Overstated ongoing maintenance costs

The city claimed reimbursement of \$1,584,852 for ongoing maintenance of the transit stop trash receptacles for the audit period. We found that \$738,509 is allowable and \$846,343 is unallowable. The costs are unallowable because the city overstated the number of trash receptacles, did not provide sufficient documentation to support the annual number of trash collections performed by city employees, and claimed ineligible costs.

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, and is adjusted annually thereafter by the implicit price deflator) is multiplied by the number of city-wide transit stop trash receptacles and by the number of annual trash collections.

A summary of the claimed, allowable, and audit adjustment amounts is as follows:

Fiscal Year	Amount Claimed				Amount Allowable				Audit Adjustment
	Number of Trash Receptacles	No. of Annual Trash Collections	Unit Cost Rate	Total	Number of Trash Receptacles	No. of Annual Trash Collections	Unit Cost Rate	Total	
2002-03	150	104	\$ 6.74	\$ 105,144	150	52	\$ 6.74	\$ 52,572	\$ (52,572)
2003-04	150	104	6.74	105,144	150	52	6.74	52,572	(52,572)
2004-05	195	104	6.74	136,687	195	52	6.74	68,344	(68,343)
2005-06	195	104	6.74	136,687	195	52	6.74	68,344	(68,343)
2006-07	195	104	6.74	136,687	195	52	6.74	68,344	(68,343)
2007-08	195	104	6.74	136,687	195	52	6.74	68,344	(68,343)
2008-09	195	104	6.74	136,687	195	52	6.74	68,344	(68,343)
2009-10	237	104	6.78	167,113	230	52	6.78	81,089	(86,024)
2010-11	237	104	6.80	167,606	230	52	6.80	81,328	(86,278)
2011-12	237	104	7.15	176,233	230	52	7.15	85,514	(90,719)
2012-13	237	104	7.31	180,177	230	26	7.31	43,714	(136,463)
Total ongoing costs				<u>\$ 1,584,852</u>				<u>\$ 738,509</u>	<u>\$ (846,343)</u>

Overstated number of trash receptacles

For the period of July 1, 2009, through June 30, 2013, the city claimed annual reimbursement for 237 trash receptacles. We found that 230 trash receptacles are allowable.

The city’s Environmental Programs Manager provided us with a survey that details all bus stops within the city in 2011. The survey shows the location of each bus stop and whether each stop has a trash receptacle, among other information. This survey shows 233 total receptacles. Of these 233 receptacles, three are located within the Los Angeles River trash TMDL. Therefore, 230 receptacles are eligible for reimbursement.

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

Beginning September 23, 2008...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 that they have transit stops located in areas not covered by the Los Angeles River trash TMDL requirements.

Overstated number of trash collections

For the period of July 1, 2002, through June 30, 2013, the city claimed two collections per trash receptacle per week, totaling 104 annual collections. We found that one collection per trash receptacle per week, totaling 52 annual collections, is allowable.

To support the costs incurred, the city provided email excerpts from the Parks Superintendent, dated August 2011, stating that city staff collect the transit stop trash receptacles two times a week, typically on Mondays and Fridays, or Mondays and Thursdays during short weeks. In addition, the city provided a statement under penalty of perjury from the Director of Recreation and Community Services, dated May 2017, certifying that city employees maintained the transit stop trash receptacles twice weekly during the audit period. While the email excerpts and statement are corroborating documents, they are not contemporaneous source documents and cannot be substituted for source documents.

The city also provided us with the names of the Park Maintenance Worker classification and the Maintenance Trainee classification who performed the transit stop trash collection activities during the audit period. The city was unable to provide duty statements or policy and procedural manuals for either classification during the audit period; therefore, we reviewed the job flyers, dated Spring 2016, for both the Park Maintenance Worker and the Maintenance Trainee, and found that neither of the duty examples listed include maintenance at transit stops.

To demonstrate that employees are able to perform trash receptacle inspection and trash collection at all transit stop trash receptacles in a single day, the city provided documents supporting a simulated trash pickup route. The simulated trash pickup route took place over a two-day period (July 4, 2016, and July 8, 2016). The documentation is not a source document because the two-day simulated trash pickup route was not representative of the prior 14-year period, and was not completed at or near the same time the actual costs were incurred.

We requested that the city provide us with source documents maintained during the audit period, such as policy and procedural manuals regarding trash collection activities, duty statements of the employees performing weekly trash collection 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 a number of the transit trash receptacles located throughout the city and confirmed that the city is currently performing trash collection activities. Absent contemporaneous documentation to support more than one weekly collection, 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.

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

Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual costs were incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

...Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise reported in compliance with local, state, and federal government requirements. However, corroborating documents cannot be substituted for source documents.

Expired period of reimbursement

For the period of December 28, 2012, through June 30, 2013, the city claimed reimbursement for two trash collections per week. We found that none of these collections are reimbursable.

The city is a permittee identified in the Board's NPDES Permit (Order No. 01-182), and as such, is eligible to claim reimbursement for activities mandated by this permit. However, the Board adopted a new NPDES permit, Order No. R4-2012-0175, which has an effective date of December 28, 2012. As such, reimbursement for activities mandated by the expired permit ended on December 27, 2012.

Section III. (Period of Reimbursement) of the parameters and guidelines states, in part:

The filing dates of these test claims establish eligibility for reimbursement beginning July 1, 2002, pursuant to Government Code section 17557, subdivision (e), and continues until a new NPDES permit issued by the Regional Water Quality Control Board for Los Angeles is adopted.

Recommendation

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

City's Response

Ongoing maintenance cost of transit bus stop receptacles claimed by the City was calculated by taking the approximately 230 stops, multiplying 2 pickups per week performed by City staff, and multiplying by the Unit costs allowed in the claim. SCO allowed only one pick up per location because they said City could not adequately "prove" that pickups occurred twice weekly.

The City of Lakewood disagrees with FINDING 1 for the following reason:

The City of Lakewood staff performed the eligible activity of maintaining transit trash receptacles for the entire mandated period. Public Works staff performed this activity twice weekly for the entire time period eligible under the mandate. The City did not maintain records requested by SCO during the audit but provided three forms of documentation:

- 1) Contemporaneous correspondence showing trash collection activities and frequency.

SCO states on page 9 of their Draft Audit Report that "We requested that the city provide us with source documents maintained during the audit period, such as policy and procedures manuals regarding trash collections activities, duty statements of the employees performing weekly trash collection activities, and/or trash collection route maps.

The City provided 2011 email records of discussions between City staff, Phillip Lopez, Parks Superintendent and Kerry Musgrove, Environmental Resources Supervisor, stating that trash cans were emptied on the first and last day of the week.

This documentation WAS a source document AND a contemporaneous document as it was produced by the city during the actual time the activities were taking place and during the eligible reimbursable time frame. It shows what SCO requested: a source document maintained during the audit period...regarding trash collection activities.

- 2) Signed statements (under the Penalty of Perjury) by Lisa Litzinger, Director of Recreation and Community Services, and Phillip Lopez, Parks Superintendent, the direct supervisor of staff performing this duty, that the City did indeed empty the transit trash receptacles at least twice weekly since 2002-03. Also, the City Administrative Services Director, Diane Perkin, signed each claim form certifying that claims submitted were "true and correct".
- 3) The City performed a survey/study of trash collection routes to prove that employees did collect trash from transit receptacles twice weekly. The study was not intended to be a time study per se – since the claim allows a unit cost and time spent per location is irrelevant. The purpose was to demonstrate collection routes and frequency of pickups. City corrected issues noted by SCO in its Narrative after Exit Conference.

The SCO did not accept any of these sources, but asked for copies of policy and procedure manuals regarding trash collection schedules, duty statements of the employees performing (sic) the trash collection activities, and/or GPS trash collection route maps to prove cleaning schedules during the 2002-2011 time periods. None of these types of

documentation were maintained by the City; however we believe that the records we did provide supports our costs claimed (twice weekly trash pickups).

The mandated program was passed and first made available for reimbursement to cities in May, 2011. Claiming instructions do not list/require these types of documents SCO is requiring as a condition to obtain full reimbursement. Asking local agencies to provide documentation that is not commonly maintained by cities, then using this as a reason to deny costs is arbitrary and capricious.

Now that we are aware what types of documentation the State is requiring, we can comply. However, to ask for documents that were not enumerated in the claiming instructions and not commonly produced by local agencies is unfair to local agencies.

During a July 2016 Status Meeting, City mentioned that “The type of documentation being requested does not exist and we believe that the level of documentation is not reasonable.” SCO responded that they disagreed stating, “We are aware from other neighboring cities, that cities are keeping these records and are able to support costs claimed.”

The SCO however did not provide any specific examples of which cities in similar circumstances (those that maintained trash receptacles in-house) were able to support their costs and provide the information SCO was requesting. Nor did they share what types of documentation they had provided to support the more than weekly pickups.

When we reviewed the results for the other 32 audits for this program that were posted on the website as of May 23, 2017, we found that NO other agency that did their own waste collections in-house and claimed more than once weekly pickups were able to support their costs to the SCO’s satisfaction. ALL agencies that did their own waste pickups had their costs reduced to once per week pickups despite their statements that they did indeed empty the receptacles more than once a week. Those agencies were:

City of Alhambra – claimed 3 times a week trash pickups – but only once a week was allowed because they were not able to provide the type of documentation begin (sic) requested by the SCO.

City of Carson – claimed 2 times a week trash pickups – during audit Carson agreed they only did once a week pickups.

City of San Fernando – claimed 3 times a week trash pickups – they did their own pickups as well, but had their claim reduced similarly to once a week because they also were not able to provide the type of documentation requested by SCO.

The fact that we found no example of any city able to satisfy SCO documentation requirements where more than once weekly maintenance was claimed by an agency doing the work themselves in-house, reinforces our conclusion that the SCO’s requirements are unreasonable and deny agencies actual costs incurred to comply with this State Mandated program by requesting types of documentation that are unreasonable and do not exist.

The following is a list of cities that also claimed more than once weekly pickups, but had an outside contractor do the work at no charge. In these instances, the contract spelled out the services schedule/frequency, so documentation as to frequency was not the issue. ALL costs were denied because they did not use General Funds to pay for these services.

City of Los Angeles – claimed multiple trash pickups- SCO Denied all costs because MTA was found to do pickups at their cost – no costs to city.

City of Manhattan Beach – claimed multiple trash pickups- SCO Denied all costs because Contract provider, USA Waste, was found to do all pickups at their cost – no costs to city.

City of Monterrey (sic) Park – claimed multiple trash pickups- SCO Denied all costs because Contract provider, California Integrated Waste Management, was found to do all pickups at their costs – no costs to city.

City of Torrance – claimed multiple trash pickups- SCO Denied all costs because Contract provider, Viacom Inc., was found to do all pickups at their cost – no costs to city.

City of West Covina – claimed multiple trash pickups- SCO Denied all costs because Contract provider, Athens Services, was found to do all pickups at their cost – no costs to city.

The following is a list of cities that also claimed more than once weekly pickups, but they did not use General Funds to pay for the services or were not eligible to file the claim.

City of Palmdale – claimed multiple trash pickups per week – ALL costs disallowed – not in eligible claimant in correct TMDL area.

City of Pasadena – claimed multiple trash pickups- SCO Denied all costs because City used a special fund.

City of Santa Monica – claimed multiple trash pickups- SCO Denied almost all costs because City used a special fund.

Located approximately 23 miles southeast of Los Angeles, Lakewood is a large city with a population of about 80,000 residents and has numerous restaurants, retail, and commercial land uses including a regional mall. The transit locations are busy and generate large amounts of trash that requires frequent service.

The City's request for twice weekly pickups is reasonable given its demographics and the actual costs claimed under penalty of perjury. The City requests that its actual costs (twice weekly trash pickups) be reimbursed.

SCO's Comments

The city states that the 2011 email documentation "WAS a source document AND a contemporaneous document..." We disagree. Section IV. (Reimbursable Activities) of the parameters and guidelines define a source document as "a document created at or near the same time the actual costs were incurred for the event or activity

in question.” The audit period began in 2002, and the email discussing trash collection activities was dated nine years later. As such, we determined that this 2011 email is not a source document that was “created at or near the same time” that the activities occurred. We provided the city with examples of source documents it may have had during the audit period (such as policy and procedural manuals regarding trash collection activities, duty statements for employees performing weekly trash collection activities, and/or route maps city employees followed when collecting the transit stop trash receptacles) that would meet the criteria outlined in the parameters and guidelines. The city acknowledged that “none of these types of documentation were maintained...” Therefore, absent source documentation to support two weekly trash collections, we found that one weekly trash collection is allowable.

We did not accept the signed statement from either the Parks Superintendent or the Director of Recreation and Community Services certifying that the transit trash receptacles were collected twice weekly during the audit period because these declarations are corroborating documents that “cannot be substituted for source documents” (Section IV. Reimbursable Activities). Further, these declarations were signed in 2016 and 2017, which is more than 15 years following the beginning of the audit period.

The city states that it “performed a survey/study of trash routes to prove that the employees did collect trash from transit receptacles twice weekly.” We did not accept this survey/study of trash routes as it does not “prove” that employees collecting transit receptacles twice weekly in 2016 also did so during the audit period from FY 2002-03 through FY 2012-13.

The city states that the SCO is arbitrary and capricious to ask “local agencies to provide documentation that is not commonly maintained by cities, then using this as a reason to deny costs...” We disagree. We do not believe that policy and procedural manuals regarding trash collection activities, duty statements for the employees performing weekly trash collection activities, and route maps is information “not commonly maintained by cities.” The city states that the SCO did not “share what types of documentation they (other cities) had provided to support the more than weekly pickups.” It is not the SCO’s responsibility to provide the City of Lakewood with examples of documentation that neighboring cities maintained for the mandated program.

The city goes on to reference other audits for the Municipal Storm Water and Urban Runoff Discharges program that were posted on the SCO website and states that the SCO’s documentation requirements are “unreasonable” and “deny agencies actual costs incurred to comply with this State Mandated program...” To clarify, the documentation requirements are established by the Commission on State Mandates, not the SCO. It is the SCO’s responsibility to audit to the criteria outlined in the program’s parameters and guidelines. Further, the SCO’s audits of other local agency reimbursement claims are not relevant to the current audit. Every audit stands alone and is

dependent upon documentation and evidence provided by the claimant to support increased costs mandated by the State.

**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 \$73,940 for the audit period.

For FY 2005-06, the city claimed \$25,276 for the purchase of 26 trash receptacles (\$24,656 for the purchase of 25 trash receptacles and \$620 for the purchase of an additional trash receptacle). The city confirmed that it paid for the purchase of the 25 trash receptacles with Proposition A funds; however, the city was unable to provide documentation to support the funding of the remaining trash receptacle. Nevertheless, as this one-time cost was similar in nature to those paid for with Proposition A funds, we concluded that the city likely paid for the remaining trash receptacle with Proposition A funds as well.

For FY 2008-09, the city claimed \$48,664 for the purchase of 84 trash receptacles. The city confirmed that it used both Proposition A funds and a federal grant to pay for these trash receptacles.

Proposition A is a one-half cent sales tax approved by Los Angeles County voters in 1980. As a condition of voter approval, the sales tax revenues must be used to benefit public transit. The federal grant the city received in FY 2008-09 was designated for use in pedestrian, bikeway, and handicapped accessibility projects.

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 from 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

SCO states that the City did not offset any revenues on its claim forms for the audit period, finding that the City should have reported \$73,940 for the audit period as offsetting revenues or reimbursements and is therefore not entitled to the State mandate reimbursement for the costs that are otherwise compliant with the State Mandated Program. SCO is specifically referring to the use of restricted funds from Proposition A.

The City of Lakewood partially disagrees with FINDING 2 for the following reason:

First, there were no revenues generated or experienced by the City from the State Mandate Stormwater Program requiring the installation and maintenance of trash receptacles.

Second, the City did not receive any reimbursement for THIS MANDATE that required offset from the costs incurred and claimed. Claiming instructions state “reimbursement **for this mandate** received from any federal, State, or non-local sources shall be identified and deducted from this claim.” The City did not receive any monies for this specific program. The funding sources city by the SCO were general in nature and the City did not have to use them for this specific purpose.

City agrees that \$4,114.16 received from the Federal Grant should have been reduced; however, not the \$44,549.84 from Proposition A funding source.

The costs were among a long list of items that the City could have paid for. However, because of the State’s mandated requirements and the lack of City funding in General Fund, the City was forced to look to any other sources of revenue available to fund the State mandated activities.

Prop A transportation funds are essentially local funds generated from County sales tax which could have been used for various transportation City priorities we had such as filling pot holes, fixing curbs, and supplementing our transit program. Trash receptacle purchase would not have been required had the State not mandated it. Each of these funding sources could have been used by the City (and can still be used, if the State pays the City for the mandated costs incurred) to fund CITY priorities and not STATE Mandated projects.

We believe that prior Commission decision regarding the use of specific versus general funding from other sources was addressed in a prior State Mandated program, Two-Way Traffic Control Signal Communications. (CSM-4504). Similarly, the State mandated the purchase of new signal controllers that had specific software capabilities allowing for inter jurisdictional communication capacity.

Those units could have also been purchased from a variety of sources, such as gas tax, federal grants, etc.

The Commission found in its March 27, 1998 Statement of Decision (pages 15-17) that there was a difference between dedicated versus discretionary funds received. If the local agency had the *discretion* of choosing between multiple types of projects, those funds received did not have to have been used solely to offset the cost of mandated program activities. “The local agency has the *discretion* to prioritize the projects to be funded within the above categories.”

On page 17 of the Statement of Decision, its states, “there is no mandate requiring local agencies to use gas tax funds specifically for the two-way communications program. Rather, local agencies have the discretion to prioritize the projects to be funded.”

“The Commission disagreed with Caltrans’ assertion that the funds received by local agencies from the gas tax increase fully fund and must be used toward the...” State Mandated program (Footnote 17) on page 17.

Saying an agency “chose” and has the discretion to “prioritize” is really not a choice when they are out of General Fund money. Agencies that did not have General Funds available to pay for State Mandated program should not be punished for using other funds (that could have been used to pay for real CITY PRIORITIES, rather than State Mandates). The stated purpose of Article XIII B, section 6, is to preclude the State from shifting financial responsibility for carrying out governmental functions to local agencies, which are ‘ill quipped’ to assume increased financial responsibility because of the taxing and spending limitations that articles XIII A and XIII B impose.” County of San Diego v. State of California (1991) 15 Cal. 4th 68, 81.

Shifting financial responsibility to those most vulnerable and “ill equipped” agencies is exactly what is happening in this case.

Further, Prop A and Prop C are also “proceeds of taxes”, subject to the taxing and spending limitations.

The City has the legal authority to repay and transfer monies received from State Mandate payments back to those original funding sources. Then those funds can be used to pay for true local agency (not State Mandated) priorities such as repairing deteriorating streets and sidewalks.

The California Constitution and Government Codes require that the State pay local agencies for costs mandated by the State. The costs and (sic) claimed by the City were directly related to the City’s efforts to comply with the State Mandates.

Punishing the most vulnerable cities that had scarce General Funds to pay for these required multi-million dollar State Mandated expenditures violates the intent of the law.

We request restoration of \$916,169 costs cut relating to “Offsetting Reimbursements” reductions.

SCO’s Comments

Both the Commission’s parameters and guidelines and the SCO’s claiming instructions require the identification and reporting of offsetting revenues and reimbursements. Section VIII. of the parameters and guidelines states that reimbursement from federal, state, and non-local sources shall be identified and deducted from the claim. We believe that the Proposition A Local Return funds the city used to pay for the purchase of the transit receptacles are restricted funds that should be reported and offset against claimed costs.

We disagree with the city’s comment that “the funding sources cited by the SCO were general in nature and the city did not have to use them for this specific purpose.” The Proposition A Local Return funds are restricted solely for the development and/or improvement of public transit services, which is not “general in nature.”

The city states that there is a difference between dedicated and discretionary funding, as determined by the Commission in the Two-Way Traffic Control Signal Communications mandated program. The city references the Commission’s statement that says, “There is no mandate

requiring local agencies to use gas tax funds specifically for the two-way communications program. Rather, local agencies have the discretion to prioritize the projects to be funded.” However, the city fails to reference the following paragraph, in which the Commission concludes that:

The funds received by local agencies from the gas tax *may* be used to fund the cost of obtaining the standard two-way traffic signal communications software. Accordingly, reimbursement is not required to the extent local agencies use their gas tax proceeds to fund the test claim legislation.

The same principle applies to the Municipal Storm Water and Urban Runoff Discharges Program. The city chose, at its discretion, to use the Proposition A Local Return funds to pay for the purchase of the transit trash receptacles. As such, reimbursement for mandated costs is not required to the extent that the city used its Proposition A Local Return funds to fund mandated activities.

The city states that it has the “legal authority to repay and transfer monies received from State Mandates payments back to the original funding sources.” We disagree. The Proposition A Local Return program guidelines do not allow for the advancement of Local Return funds pending reimbursement from the State for mandated costs.

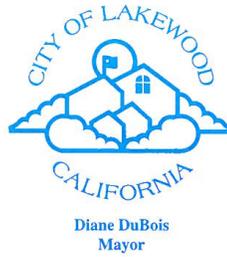
The city states that Proposition A funds are “‘proceeds of taxes’, subject to the taxing and spending limitations.” The city has not provided documentation to support that the Proposition A Local Return funds have been included in the city’s appropriations subject to the limit. Further, in regards to the “proceeds of taxes,” Proposition A Local Return funds are a special supplementary sales tax approved by Los Angeles County voters in 1980 and are restricted solely for the development and or improvement of public transit services. A special supplementary sales tax is not the same as unrestricted general sales tax, which can be spent for any general governmental purposes, including public employee salaries and benefits.

The city concludes that the SCO is punishing “the most vulnerable cities that had scarce General Funds to pay for these required multi-million dollar State Mandated expenditures....” To the contrary, the city had Proposition A Local Return funds available to fund the mandated program and did not have to rely on the use of its “scarce” general funds.

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

Steve Croft
Vice Mayor

Ron Piazza
Council Member



Jeff Wood
Council Member

Todd Rogers
Council Member

September 6, 2017

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

Dear Mr. Spano,

Please accept the City of Lakewood's response to the State Controller's Office (SCO) August 24, 2017 Draft Audit Report of the Municipal Stormwater & Urban Discharges Program for the period of July 1, 2002 through June 30, 2013.

Please see the attached document for our detailed responses to your findings.

We believe the responses submitted were prepared in accordance with the claiming instruction, Statement of Decision, and the Parameters and Guidelines adopted by the Commission. We are willing to provide additional documentation upon request.

Please contact me at (562) 866-9771 or our consultant Annette Chinn at (916) 939-7901 with any questions.

Sincerely,

 FOR D.P.
Ms. Diane Perkin
Administrative Services Director

cc: Annette S. Chinn, Cost Recovery System, Inc.

FINDING 1 - Overstated ongoing maintenance costs:

Ongoing maintenance cost of transit bus stop receptacles claimed by the City was calculated by taking the approximately 230 stop, multiplying by 2 pickups per week performed by City staff, and multiplying by the Unit costs allowed in the claim. SCO allowed only one pick up per location because they said City could not adequately "prove" that pickups occurred twice weekly.

The City of Lakewood disagrees with FINDING 1 for the following reason:

The City of Lakewood staff performed the eligible activity of maintaining transit trash receptacles for the entire mandated period. Public Works staff performed this activity twice weekly for the entire time period eligible under the mandate. The City did not maintain records requested by SCO during the audit but provided three forms of documentation:

- 1) Contemporaneous correspondence showing trash collection activities and frequency.

SCO states on page 9 of their Draft Audit Report that "We requested that the city provide us with source documents maintained during the audit period, such as policy and procedures manuals regarding trash collection activities, duty statements of the employees performing weekly trash collections activities, and /or trash collection route maps.

The City provided 2011 email records of discussions between City staff, Philip Lopez, Parks Superintendent and Kerry Musgrove, Environmental Resources Supervisor, stating that trash cans were emptied on the first and last day of the week.

This documentation WAS a source document AND a contemporaneous document as it was produced by the city during the actual time the activities were taking place and during the eligible reimbursable time frame . It shows what SCO requested: a source document maintained during the audit period...regarding trash collection activities.

- 2) Signed statements (under the Penalty of Perjury) by Lisa Litzinger, Director of Recreation and Community Services, and Philip Lopez, Parks Superintendent, the direct supervisor of staff performing this duty, that the City did indeed empty the transit trash receptacles at least twice weekly since 2002-03. Also, the City Administrative Services Director, Diane Perkin, signed each claim form certifying that claims submitted were "true and correct".
- 3) The City performed a survey/study of trash collection routes to prove that employees did collect trash from transit receptacles twice weekly. The study was not intended to be a time study per se – since the claim allows a unit cost and time spent per location is irrelevant. The purpose was to demonstrate collection routes and frequency of pickups. City corrected issues noted by SCO in its Narrative after Exit Conference

The SCO did not accept any of these sources, but asked for copies of policy and procedure manuals regarding trash collection schedules, duty statements of the employees performing the trash collection activities, and/or GPS trash collection route maps to prove cleaning schedules during the 2002-2011 time periods. None of these types of documentation were maintained by the City; however we believe that the records we did provide supports our costs claimed (twice weekly trash pickups).

The mandated program was passed and first made available for reimbursement to cities in May, 2011. Claiming Instructions do not list/require these types of documents SCO is requiring as a condition to obtain full reimbursement. Asking local agencies to provide documentation that is not commonly maintained by cities, then using this as a reason to deny costs is arbitrary and capricious.

Now that we are aware what types of documentation the State is requiring, we can comply. However, to ask for documents that were not enumerated in the claiming instructions and not commonly produced by local agencies is unfair to local agencies.

During a July 2016 Status Meeting, City mentioned that "The type of documentation being requested does not exist and we believe that the level of documentation requested is not reasonable." SCO responded that they disagreed stating, "We are aware from other neighboring cities, that cities are keeping these records and are able to support costs claimed."

The SCO however did not provide any specific examples of which cities in similar circumstances (those that maintained trash receptacles in-house) were able to support their cost and provide the information SCO was requesting. Nor did they share what types of documentation they had provided to support the more than weekly pickups.

When we reviewed the results for the other 32 audits for this program that were posted on the website as of May 23, 2017, we found that NO other agency that did their own waste collections in-house and claimed more than once weekly pickups were able to support their costs to the SCO's satisfaction. ALL agencies that did their own waste pickups had their costs reduced to once per week pickups despite their statements that they did indeed empty the receptacles more than once a week. Those agencies were:

City of Alhambra – claimed 3 times a week trash pickups – but only once a week was allowed because they also were not able to provide the type of documentation begin requested by the SCO.

City of Carson – claimed 2 times a week trash pickups – during audit Carson agreed they only did once a week pickups.

City of San Fernando – claimed 3 times a week trash pickups – they did their own pickups as well, but had their claim reduced similarly to once a week because they also were not able to provide the type of documentation requested by SCO.

The fact that we found no example of any city able to satisfy SCO documentation requirements where more than once weekly maintenance was claimed by an agency doing the work themselves in-house, reinforces our conclusion that the SCO's requirements are unreasonable and deny agencies actual costs

incurred to comply with this State Mandated program by requesting types of documentation that are unreasonable and do not exist.

The following is a list of cities that also claimed more than once weekly pickups, but had an outside contractor do the work at no charge. In these instances, the contract spelled out the service schedule/frequency, so documentation as to frequency was not the issue. ALL costs were denied because they did not use General Funds to pay for the services.

City of Los Angeles – claimed multiple trash pickups- SCO Denied all costs because MTA was found to do all pickups at their cost – no costs to city.

City of Manhattan Beach – claimed multiple trash pickups- SCO Denied all costs because Contract provider, USA Waste, was found to do all pickups at their cost – no costs to city.

City of Monterey Park – claimed multiple trash pickups- SCO Denied all costs because Contract provider, California Integrated Waste Management, was found to do all pickups at their cost – no costs to city.

City of Torrance – claimed multiple trash pickups- SCO Denied all costs because Contract provider, Viacom Inc., was found to do all pickups at their cost – no costs to city.

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City of Santa Monica– claimed multiple trash pickups- SCO Denied almost all costs because City used a special fund.

Located approximately 23 miles southeast of Los Angeles, Lakewood is a large city with a population of about 80,000 residents and has numerous restaurants, retail, and commercial land uses including a regional mall. The transit locations are busy and generate large amounts of trash that requires frequent service.

The City's request for twice weekly pickups is reasonable given its demographics and the actual costs claimed under penalty of perjury. The City requests that its actual costs (twice weekly trash pickups) be reimbursed.

FINDING 2 – Unreported offsetting revenues:

SCO states that the City did not offset any revenues on its claim forms for the audit period, finding that the City should have reported \$73,940 for the audit period as offsetting revenues or reimbursements and is therefore not entitled to the State mandate reimbursement for the costs that are otherwise compliant with the State Mandated Program. SCO is specifically referring to the use of restricted funds from Proposition A.

The City of Lakewood partially disagrees with FINDING 2 for the following reason:

First, there were no revenues generated or experienced by the City from the State Mandate Stormwater Program requiring the installation and maintenance of trash receptacles.

Second, the City did not receive any reimbursement for THIS MANDATE that required offset from the costs incurred and claimed. Claiming instructions state “reimbursement for this mandate received from any federal, State, or non-local sources shall be identified and deducted from this claim.” The City did not receive any monies for this specific program. The funding sources cited by the SCO were general in nature and the City did not have to use them for this specific purpose.

City agrees that \$4,114.16 received from the Federal Grant should have been reduced; however, not the \$44,549.84 from Proposition A funding source.

The costs were among a long list of items that the City could have paid for. However, because of the State’s mandated requirements and the lack of City funding in General Fund, the City was forced to look to any other sources of revenue available to fund the State mandated activities.

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We believe that prior Commission decision regarding the use of specific versus general funding from other sources was addressed in a prior State Mandated program, Two-Way Traffic Control Signal Communications. (CSM-4504). Similarly, the State mandated the purchase of new signal controllers that had specific software capabilities allowing for inter jurisdictional communication capacity.

Those units could have also been purchased from a variety of sources, such as gas tax, federal grants, etc.

The Commission found in its March 27, 1998 Statement of Decision (pages 15-17) that there was a difference between dedicated versus discretionary funds received. If the local agency had the *discretion* of choosing between multiple types of projects, those funds received did not have to have been used

solely to offset the cost of mandated program activities. "The local agency has the *discretion* to prioritize the projects to be funded within the above categories."

On page 17 of the Statement of Decision, it states, "there is no mandate requiring local agencies to use the gas tax funds specifically for the two-way communications program. Rather, local agencies have the discretion to prioritize the projects to be funded."

"The Commission disagreed with Caltrans' assertion that the funds received by local agencies from the gas tax increase fully fund and must be used toward the..." State Mandated program (Footnote 17) on page 17.

Saying an agency "chose" and has the discretion to "prioritize" is really not a choice when they are out of General Fund money. Agencies that did not have General Funds available to pay for State Mandated program should not be punished for using other funds (that could have been used to pay for real CITY PRIORITIES, rather than State Mandates). The stated purpose of Article XIII B, section 6, is to preclude the State from shifting financial responsibility for carrying out governmental functions to local agencies, which are 'ill quipped' to assume increased financial responsibility because of the taxing and spending limitations that articles XIII A and XIII B impose." County of San Diego v. State of California (1991) 15 Cal. 4th 68, 81.

Shifting financial responsibility to those most vulnerable and "ill equipped" agencies is exactly what is happening in this case.

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The City also has the legal authority to repay and transfer monies received from State Mandate payments back to those original funding sources. Then those funds can be used to pay for true local agency (not State Mandated) priorities such as repairing deteriorating streets and sidewalks.

The California Constitution and Government Codes require that the State pay local agencies for costs mandated by the State. The costs and claimed by the City were directly related to the City's efforts to comply with the State Mandates.

Punishing the most vulnerable cities that had scarce General Funds to pay for these required multi-million dollar State Mandated expenditures violates the intent of the law.

We request restoration of \$916,169 costs cut relating to the "Offsetting Reimbursements" reductions.

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

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