

CITY OF LYNWOOD

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, 2008



BETTY T. YEE
California State Controller

June 2017



BETTY T. YEE
California State Controller

June 16, 2017

The Honorable Maria T. Santillan-Beas, Mayor
City of Lynwood
11330 Bullis Road
Lynwood, CA 90262

Dear Mayor Santillan-Beas:

The State Controller's Office audited the costs claimed by the City of Lynwood 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, 2008.

The city claimed \$439,320 for the mandated program. Our audit found that \$111,656 is allowable and \$327,664 is unallowable. The costs are unallowable because the city did not provide sufficient documentation to support the annual number of trash collections and did not offset the revenues used to fund the mandated activities. The State made no payments to the city. The State will pay \$111,656, contingent upon available appropriations.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Alma Martinez, City Manager
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the City of Lynwood 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, 2008.

The city claimed \$439,320 for the mandated program. Our audit found that \$111,656 is allowable and \$327,664 is unallowable. The costs are unallowable because the city did not provide sufficient documentation to support the annual number of trash collections and did not offset the revenues used to fund the mandated activities. The State made no payments to the city. The State will pay \$111,656, contingent upon available appropriations.

Background

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

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

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

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

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

Objectives, Scope, and Methodology

We conducted this performance audit to determine whether costs claimed represent increased costs resulting from the Municipal Storm Water and Urban Runoff Discharges Program for the period of July 1, 2002, through June 30, 2008.

The legal authority to conduct this audit is provided by GC sections 12410, 17558.5, and 17561. We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

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

To achieve our audit objectives, we:

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

Conclusion

Our audit found instances of noncompliance with the requirements identified in the Objectives section of this report. 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 \$439,320 for costs of the Municipal Storm Water and Urban Runoff Discharges Program. Our audit found that \$111,656 is allowable and \$327,664 is unallowable. The State made no payments to the city. The State will pay \$111,656, contingent upon available appropriations.

**Views of
Responsible
Officials**

We issued a draft audit report on May 12, 2017. Jose Ometeotl, Director of Finance, responded by email on May 30, 2017, stating that the city has undertaken measures to correct the deficiencies noted. Specifically, in response to Finding 1, Mr. Ometeotl states that the city has developed a form for maintenance staff to record the location and date of the trash receptacle maintenance; and in response to Finding 2, the city has enhanced its policies and procedures to require additional verification of allowable expenses prior to payment or transfer of funds.

Restricted Use

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

June 16, 2017

Schedule—
Summary of Program Costs
July 1, 2002, through June 30, 2008

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	× 66	× 66		
Annual number of trash pickups	× 156	× 43		
Total program costs	<u>\$ 69,395</u>	19,128	<u>\$ (50,267)</u>	Finding 1
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 19,128</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Ongoing activities:				
Unit cost rate	\$ 6.74	\$ 6.74		
Number of transit receptacles	× 66	× 66		
Annual number of trash pickups	× 156	× 52		
Total program costs	<u>\$ 69,395</u>	23,132	<u>\$ (46,263)</u>	Finding 1
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 23,132</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Ongoing activities:				
Unit cost rate	\$ 6.74	\$ 6.74		
Number of transit receptacles	× 66	× 66		
Annual number of trash pickups	× 156	× 52		
Total program costs	<u>\$ 69,395</u>	23,132	<u>\$ (46,263)</u>	Finding 1
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 23,132</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Ongoing activities:				
Unit cost rate	\$ 6.74	\$ 6.74		
Number of transit receptacles	× 66	× 66		
Annual number of trash pickups	× 156	× 52		
Total program costs	<u>\$ 69,395</u>	23,132	<u>\$ (46,263)</u>	Finding 1
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 23,132</u>		

Schedule (continued)

Cost Elements	Amount 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	× 66	× 66		
Annual number of trash pickups	× 156	× 52		
Total ongoing costs	69,395	23,132	\$ (46,263)	Finding 1
Less offsetting revenues and reimbursements	-	(23,132)	(23,132)	Finding 2
Total program costs	<u>\$ 69,395</u>	-	<u>\$ (69,395)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		
<u>July 1, 2007, through June 30, 2008</u>				
One-time activities:				
Materials and supplies	\$ 20,240	\$ 20,240	\$ -	
Total one-time costs	<u>20,240</u>	<u>20,240</u>	<u>-</u>	
Ongoing activities:				
Unit cost rate	6.74	6.74		
Number of transit receptacles	× 68,577	× 66		
Annual number of trash pickups	× 156	× 52		
Total ongoing costs	<u>72,105</u>	23,132	<u>(48,973)</u>	Finding 1
Total one-time costs and ongoing costs	92,345	43,372	(48,973)	
Less offsetting revenues and reimbursements	<u>-</u>	<u>(20,240)</u>	<u>(20,240)</u>	Finding 2
Total program costs	<u>\$ 92,345</u>	23,132	<u>\$ (69,213)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 23,132</u>		
<u>Summary: July 1, 2002, through June 30, 2008</u>				
Total one-time costs	\$ 20,240	\$ 20,240	\$ -	
Total ongoing costs	<u>419,080</u>	<u>134,788</u>	<u>(284,292)</u>	Finding 1
Total one-time costs and ongoing costs	439,320	155,028	(284,292)	
Less offsetting revenues and reimbursements	<u>-</u>	<u>(43,372)</u>	<u>(43,372)</u>	Finding 2
Total program costs	<u>\$ 439,320</u>	111,656	<u>\$ (327,664)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 111,656</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unsupported ongoing maintenance costs

The city claimed reimbursement of \$419,080 for ongoing maintenance of the transit stop trash receptacles for the audit period. We found that \$134,788 is allowable and \$284,292 is unallowable. The costs are unallowable because the city did not provide sufficient documentation to support the annual number of trash collections.

The city claimed reimbursement for ongoing maintenance costs using the Commission-adopted reasonable reimbursement methodology (RRM). Under the RRM, the unit cost (which is \$6.74 during the audit period) is multiplied by the number of city-wide 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				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	Amount Allowable	
2002-03	66	156	\$ 6.74	\$ 69,395	66	43 ¹	\$ 6.74	\$ 19,128	\$ (50,267)
2003-04	66	156	6.74	69,395	66	52	6.74	23,132	(46,263)
2004-05	66	156	6.74	69,395	66	52	6.74	23,132	(46,263)
2005-06	66	156	6.74	69,395	66	52	6.74	23,132	(46,263)
2006-07	66	156	6.74	69,395	66	52	6.74	23,132	(46,263)
2007-08	68.577	156	6.74	72,105	66	52	6.74	23,132	(48,973)
				<u>\$ 419,080</u>				<u>\$ 134,788</u>	<u>\$ (284,292)</u>

¹ For fiscal year 2002-03, reimbursement is allowable for 43 weeks from August 28, 2002, through June 30, 2003.

Unsupported number of annual transit stop trash collections

For each fiscal year in the audit period, the city claimed reimbursement for the maximum of three weekly collections per transit stop trash receptacle, totaling 156 collections annually. As the city did not provide sufficient documentation to support the three weekly collections, we found that one weekly collection, totaling 52 collections annually, is allowable.

To support the number of annual collections claimed, the city provided “Street Maintenance Attendance Assignment” forms from random days between June 2005 and August 2006. The forms included a list of all employees, their assigned area of responsibility, and their current work status (e.g. absent, present, sick, or on vacation). Based on our review of these forms, we concluded that they are insufficient to support three weekly trash collections for the following reasons:

- The forms did not include complete work weeks;
- The forms are not representative of the entire six-year audit period;
- The forms do not identify the location of any of the transit stop trash receptacles that were collected; and

- The forms do not support the mandated activities claimed, as the assigned areas included both “trash cans”—which are not necessarily located at bus shelters—and “trash cans (bus shelters).”

Nonetheless, during audit fieldwork, we physically observed a number of the transit stop trash receptacles located throughout the city and confirmed that the city is currently performing trash collection activities. Absent documentation to support more than one weekly collection, we determined that one weekly collection, totaling 52 collections annually, is allowable.

The parameters and guidelines, section VII. Records Retention, state:

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 permit.

City’s Response

The City of Lynwood Public Works Department is developing a form for all maintenance staff to utilize that identifies the location of transit stop trash receptacles. Staff will also certify what receptacle was emptied by date. The forms will be logged daily and compiled on a weekly basis.

**FINDING 2—
Unreported offsetting
revenues**

The city did not offset any revenues on its claim forms for the audit period. We found that the city should have offset \$43,372 in revenues that were used to fund mandated activities.

The following table summarizes the audit adjustment by fiscal year:

<u>Fiscal Year</u>	<u>Mandated Activity</u>	<u>Amount Offset</u>
2006-07	Ongoing maintenance costs	\$(23,132)
2007-08	One-time costs	(20,240)
Total		<u>\$(43,372)</u>

The parameters and guidelines, section VIII. Offsetting Revenues and Reimbursements, state:

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.

Ongoing maintenance costs

As stated in Finding 1, we found that \$134,788 is allowable for ongoing maintenance of the transit stop trash receptacles. However, for FY 2006-07, we found that the city should have offset \$23,132 in revenues that were used to fund the ongoing maintenance costs.

During audit fieldwork, we confirmed that the costs for the city employees to maintain the transit stop trash receptacles was recorded in the Traffic Safety Fund (Fund 03), a Special Revenue fund type. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

With the exception of FY 2006-07, for each fiscal year in the audit period, the city transferred General Funds into the Traffic Safety Fund to pay for excess expenditures. Therefore, as no General Fund transfer was made for FY 2006-07, the city did not have to rely on the use of discretionary general funds to pay for mandated activities.

One-time costs

For FY 2007-08, the city claimed \$20,240 for the purchase and installation of 23 trash receptacles. During audit fieldwork, we confirmed that the purchase and installation of the transit stop trash receptacles was funded with Proposition A funds. 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 revenue must be used to benefit public transit. Therefore, because the city used the Proposition A funds to pay for the mandated activities, the city has demonstrated that it did not need to rely on the use of discretionary general funds to pay for mandated activities.

Recommendation

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

City's Response

The City Finance Department has enhanced its policies and procedures that require verification of allowable expenses by Department Head prior to payment or transfer of funds. Multiple signature verification and inclusion of supporting documentation with payment request is required.

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