

CITY OF ALHAMBRA

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



BETTY T. YEE
California State Controller

July 2016



BETTY T. YEE
California State Controller

July 13, 2016

The Honorable Barbara Messina
Mayor of the City of Alhambra
111 South First Street
Alhambra, CA 91801

Dear Mayor Messina:

The State Controller's Office audited the costs claimed by the City of Alhambra 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.

The city claimed \$1,114,628 for the mandated program. Our audit found that none of the costs claimed are allowable because the city did not provide documentation to support the annual number of trash collections claimed and did not offset the assessment revenues used to fund the mandated activities. The State made no payments to the city.

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than three years following the date of this report, regardless of whether this report is subsequently supplemented, superseded, or otherwise amended.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/IRCFForm.pdf.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/rg

cc: Paul Espinoza, Director of Finance
Finance Department, City of Alhambra
Mary Chavez, Director of Public Works
Public Works Department, City of Alhambra
Dean Johnson, Assistant Director of Finance
Finance Department, City of Alhambra
Mary Halterman, Principal Program Budget Analyst
Local Government Unit, California Department of Finance
Danielle Brandon, Staff Finance Budget Analyst
Local Government Unit, California Department of Finance
Jay Lal, Manager
Division of Accounting and Reporting
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 Alhambra 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.

The city claimed \$1,114,628 for the mandated program. Our audit found that none of the costs claimed are allowable because the city did not provide documentation to support the annual number of trash collections claimed and did not offset the assessment revenues used to fund the mandated activities. The State made no payments to the city.

Background

The California Regional Water Quality Control Board, Los Angeles Region (LARWQCB), 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 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 permit, issued by the LARWQCB, is adopted. On November 8, 2012, the LARWQCB adopted a new 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 Government Code 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, 2009.

The legal authority to conduct this audit is provided by Government Code sections 12410, 17558.5, and 17561. We did not audit the city's financial statements. We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- 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 dates.
- 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.
- Interviewed city staff to gain an understanding of the city's process in performing weekly transit stop trash collections.
- Inquired whether the city realized any revenue from the statutes which created the mandated program or reimbursements from any federal, state or non-local source.

Conclusion

Our audit found instances of noncompliance with the requirements outlined above. 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 of Alhambra claimed \$1,114,628 for costs of the Municipal Storm Water and Urban Runoff Discharges Program. Our audit found that none of the costs claimed are allowable. The State made no payments to the city.

**Views of
Responsible
Officials**

We issued a draft audit report on June 7, 2016. Dean Johnson, Assistant Finance Director, responded by email on June 17, 2016 stating that the city will not provide a formal response to the findings; however, he did comment that in regards to Finding 1, the “need to maintain records was not known at the time of collection.”

Restricted Use

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

July 13, 2016

Schedule— Summary of Program Costs July 1, 2002, through June 30, 2009

Cost Elements	Actual Costs 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:				
Reasonable reimbursement methodology factor	\$ 6.74	\$ 6.74	\$ 6.74	
Number of transit trash receptacles	× 175	× 175	× 175	
Annual number of trash collections	× 129	× 43	× (86)	
Total ongoing costs	152,156	50,719	(101,437)	Finding 1
Less offsetting revenues and reimbursements	-	(50,719)	(50,719)	Finding 2
Total program costs	<u>\$ 152,156</u>	-	<u>\$ (152,156)</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:				
Reasonable reimbursement methodology factor	\$ 6.74	\$ 6.74	\$ 6.74	
Number of transit trash receptacles	× 175	× 175	× 175	
Annual number of trash collections	× 156	× 52	× (104)	
Total ongoing costs	184,002	61,334	(122,668)	Finding 1
Less offsetting revenues and reimbursements	-	(61,334)	(61,334)	Finding 2
Total program costs	<u>\$ 184,002</u>	-	<u>\$ (184,002)</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:				
Reasonable reimbursement methodology factor	\$ 6.74	\$ 6.74	\$ 6.74	
Number of transit trash receptacles	× 175	× 175	× 175	
Annual number of trash collections	× 156	× 52	× (104)	
Total ongoing costs	184,002	61,334	(122,668)	Finding 1
Less offsetting revenues and reimbursements	-	(61,334)	(61,334)	Finding 2
Total program costs	<u>\$ 184,002</u>	-	<u>\$ (184,002)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Ongoing activities:				
Reasonable reimbursement methodology factor	\$ 6.74	\$ 6.74	\$ 6.74	
Number of transit trash receptacles	× 175	× 175	× 175	
Annual number of trash collections	× 156	× 52	× (104)	
Total ongoing costs	184,002	61,334	(122,668)	Finding 1
Less offsetting revenues and reimbursements	-	(61,334)	(61,334)	Finding 2
Total program costs	<u>\$ 184,002</u>	-	<u>\$ (184,002)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</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:				
Reasonable reimbursement methodology factor	\$ 6.74	\$ 6.74	\$ 6.74	
Number of transit trash receptacles	× 175	× 175	× 175	
Annual number of trash collections	× 156	× 52	× (104)	
Total ongoing costs	184,002	61,334	(122,668)	Finding 1
Less offsetting revenues and reimbursements	-	(61,334)	(61,334)	Finding 2
Total program costs	<u>\$ 184,002</u>	-	<u>\$ (184,002)</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>				
Ongoing activities:				
Reasonable reimbursement methodology factor	\$ 6.74	\$ 6.74	\$ 6.74	
Number of transit trash receptacles	× 175	× 175	× 175	
Annual number of trash collections	× 156	× 52	× (104)	
Total ongoing costs	184,002	61,334	(122,668)	Finding 1
Less offsetting revenues and reimbursements	-	(61,334)	(61,334)	Finding 2
Total program costs	<u>\$ 184,002</u>	-	<u>\$ (184,002)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Ongoing activities:				
July 1, 2008, through September 22, 2008:				
Reasonable reimbursement methodology factor	\$ 6.74	\$ 6.74	\$ 6.74	
Number of transit trash receptacles	× 175	× 175	× 175	
Annual number of trash collections	× 36	× 12	× (24)	
Total ongoing costs	42,462	14,154	(28,308)	Finding 1
Less offsetting revenues and reimbursements	-	(14,154)	(14,154)	Finding 2
Total program costs	<u>\$ 42,462</u>	-	<u>\$ (42,462)</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</u>				
Total ongoing costs	\$ 1,114,628	\$ 371,543	\$ (743,085)	
Less offsetting revenues and reimbursements	-	(371,543)	(371,543)	
Total program costs	<u>\$ 1,114,628</u>	-	<u>\$ (1,114,628)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unsupported number of annual trash collections

The city claimed \$1,114,628 for the ongoing maintenance of transit-stop trash receptacles for the audit period. We found that \$371,543 is allowable and \$743,085 is unallowable. The costs are unallowable because the city did not provide documentation to support the number of annual trash collections claimed.

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) is multiplied by the number of city-wide transit stop trash receptacles and by the number of annual trash collections. The number of annual trash collections is limited to no more than three collections each week.

The city claimed reimbursement for the maximum of three weekly collections per trash receptacle, totaling 156 annual collections. We found that one weekly collection per trash receptacle, totaling 52 collections annually, is allowable.

City representatives informed us that throughout the audit period, city employees collected trash seven days a week from 175 transit stops located throughout the city. The city did not provide documentation to support these activities. Nonetheless, 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 documentation to support more than one weekly collection, we determined that one weekly collection, totaling 52 collections annually, is allowable.

We discussed with city representatives the option of conducting a time study to support three weekly collections per trash receptacles. The city was willing to conduct a time study; however, as discussed in Finding 2, these costs would ultimately not be allowable, so the city determined the time study to be unnecessary.

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.

**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 \$371,543 for the audit period.

As stated in Finding 1, city employees reportedly collected trash seven days a week from 175 transit stops located throughout the city for each fiscal year in the audit period. The cost for employees to perform this mandated activity is recorded in the Sanitation Fund (Account No. 55-670), an Enterprise Fund type. An Enterprise Fund type is used to account for activities for which a fee is charged to external users for goods or services. The city informed us that 35% of the revenues collected from the Zone B Lighting and Landscape Assessment District are deposited into the Sanitation Fund to offset related costs. These funds are restricted for maintenance and operation of street furniture, including trash containers, as one of several funded activities. We confirmed that the assessment revenue was sufficient to cover the cost of the mandated activities.

Government Code section 17556, subdivision d, states:

The commission shall not find costs mandated by the state, as defined in Section 17514, in any claim submitted by a local agency or school district, if, after a hearing the commission finds that:

- d. The local agency or school district has the authority to levy service charges, fees, or assessments sufficient to pay for the mandated program or increased level of service.

Recommendation

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

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

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