

CITY OF TORRANCE

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, 2004, through June 30, 2012



BETTY T. YEE
California State Controller

August 2016



BETTY T. YEE
California State Controller

August 3, 2016

The Honorable Patrick J. Furey
Mayor of the City of Torrance
3031 Torrance Boulevard
Torrance, CA 90503

Dear Mayor Furey:

The State Controller's Office audited the costs claimed by the City of Torrance 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, 2004, through June 30, 2012.

The city claimed \$1,486,419 for the mandated program. Our audit found that \$1,037 is allowable and \$1,485,382 is unallowable. The costs are unallowable because the city overstated ongoing costs and did not offset the restricted revenues used to fund the mandated activities. The State made no payments to the city. The State will pay \$1,037, contingent upon available appropriations.

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than three years following the date of this report, regardless of whether this report is subsequently supplemented, superseded, or otherwise amended.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, 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: Kim Turner, Transit Director
Transit Department, City of Torrance
Eric Tsao, Finance Director
Finance Department, City of Torrance
Kenneth Flewellyn, Assistant Finance Director
Finance Department, City of Torrance
Joyce Reyes, Accounting Manager
Finance Department, City of Torrance
John Dettle, P.E., Engineering Manager
Public Works Department, City of Torrance
James Lee, Administrative Analyst
Transit Department, City of Torrance
Brenda Sum, Accountant
Finance Department, City of Torrance
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 Torrance 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, 2004, through June 30, 2012.

The city claimed \$1,486,419 for the mandated program. Our audit found that \$1,037 is allowable and \$1,485,382 is unallowable. The costs are unallowable because the city overstated ongoing costs and did not offset the restricted revenues used to fund the mandated activities. The State made no payments to the city. The State will pay \$1,037, 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 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 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 Board is adopted. On November 8, 2012, the Board 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, 2004, through June 30, 2012.

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 Dominguez Channel Watershed and gained an understanding of the Machado Lake trash total maximum daily load (TMDL) effective date.
- 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 waste hauler's process in performing weekly transit stop trash collections.
- 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 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 Torrance claimed \$1,486,419 for costs of the Municipal Storm Water and Urban Runoff Discharges Program. Our audit found that \$1,037 is allowable and \$1,485,382 is unallowable. The State made no payments to the city. The State will pay \$1,037, contingent upon available appropriations.

**Views of
Responsible
Officials**

We issued a draft audit report on July 8, 2016. Kim Turner, Transit Director, responded by letter dated July 11, 2016 (Attachment) accepting the findings. This final report includes the city's response.

Restricted Use

This report is solely for the information and use of the City of Torrance, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

August 3, 2016

Schedule—
Summary of Program Costs
July 1, 2004, through June 30, 2012

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005</u>				
One-time activities:				
Contract services	\$ 42,552	\$ 42,552	\$ -	
Total one-time costs	42,552	42,552	-	
Ongoing activities:				
July 1, 2004, through December 31, 2005:				
Reasonable reimbursement methodology factor	6.74	-	(6.74)	
Number of transit receptacles	× 342	× -	× (342)	
Number of trash collections	× 26	× -	× (26)	
Total, July 1, 2004, through December 31, 2005	59,932	-	(59,932)	
January 1, 2005, through April 30, 2005:				
Reasonable reimbursement methodology factor	6.74	6.74	(6.74)	
Number of transit receptacles	× 342	× 170	× (172)	
Number of trash collections	× 17	× 17	× (17)	
Total, January 1, 2005, through April 30, 2005	39,186	19,479	(19,707)	
May 1, 2005, through June 30, 2005:				
Reasonable reimbursement methodology factor	6.74	6.74	(6.74)	
Number of transit receptacles	× 342	× 268	× (74)	
Number of trash collections	× 9	× 9	× (9)	
Total, May 1, 2005, through June 30, 2005	20,746	16,257	(4,489)	
Total ongoing costs	119,864	35,736	(84,128)	
Total one-time costs and ongoing costs	162,416	78,288	(84,128)	Finding 1
Less offsetting revenues and reimbursements	-	(78,288)	(78,288)	Finding 2
Total program costs	\$ 162,416	-	\$ (162,416)	
Less amount paid by the State			-	
Allowable costs claimed in excess of (less than) amount paid		\$ -		
<u>July 1, 2005, through June 30, 2006</u>				
Ongoing activities:				
Reasonable reimbursement methodology factor	\$ 6.74	\$ 6.74	\$ (6.74)	
Number of transit receptacles	× 342	× 268	× (74)	
Annual number of trash collections	× 52	× 52	× (52)	
Total ongoing costs	119,864	93,929	(25,935)	Finding 1
Less offsetting revenues and reimbursements	-	(93,929)	(93,929)	Finding 2
Total program costs	\$ 119,864	-	\$ (119,864)	
Less amount paid by the State			-	
Allowable costs claimed in excess of (less than) amount paid		\$ -		

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 receptacles	× 342	× 268	× (74)	
Annual number of trash collections	× 52	× 52	× (52)	
Total ongoing costs	119,864	93,929	(25,935)	Finding 1
Less offsetting revenues and reimbursements	-	(93,929)	(93,929)	Finding 2
Total program costs	<u>\$ 119,864</u>	-	<u>\$ (119,864)</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:				
July 1, 2007, through March 5, 2008:				
Reasonable reimbursement methodology factor	\$ 6.74	\$ 6.74	\$ (6.74)	
Number of transit receptacles	× 342	× 268	× (74)	
Number of trash collections	× 36	× 36	× (36)	
Total, July 1, 2007, through March 5, 2008	82,983	65,028	(17,955)	
March 6, 2008, through June 30, 2008:				
Reasonable reimbursement methodology factor	6.74	6.74	(6.74)	
Number of transit receptacles	× 342	× 201	× (141)	
Number of trash collections	× 16	× 16	× (16)	
Total, March 6, 2008, through June 30, 2008	36,881	21,676	(15,205)	
Total ongoing costs	119,864	86,704	(33,160)	Finding 1
Less offsetting revenues and reimbursements	-	(85,667)	(85,667)	Finding 2
Total program costs	<u>\$ 119,864</u>	1,037	<u>\$ (118,827)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,037</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Ongoing activities:				
Reasonable reimbursement methodology factor	\$ 6.74	\$ 6.74	\$ (6.74)	
Number of transit receptacles	× 342	× 201	× (141)	
Annual number of trash collections	× 104	× 104	× (104)	
Total ongoing costs	239,728	140,893	(98,835)	Finding 1
Less offsetting revenues and reimbursements	-	(140,893)	(140,893)	Finding 2
Total program costs	<u>\$ 239,728</u>	-	<u>\$ (239,728)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Ongoing activities:				
Reasonable reimbursement methodology factor	\$ 6.78	\$ 6.78	\$ (6.78)	
Number of transit receptacles	× 342	× 201	× (141)	
Annual number of trash collections	× 104	× 104	× (104)	
Total ongoing costs	241,151	141,729	(99,422)	Finding 1
Less offsetting revenues and reimbursements	-	(141,729)	(141,729)	Finding 2
Total program costs	<u>\$ 241,151</u>	-	<u>\$ (241,151)</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, 2010, through June 30, 2011</u>				
Ongoing activities:				
Reasonable reimbursement methodology factor	\$ 6.80	\$ 6.80	\$ (6.80)	
Number of transit receptacles	× 342	× 201	× (141)	
Annual number of trash collections	× 104	× 104	× (104)	
Total ongoing costs	241,862	142,147	(99,715)	Finding 1
Less offsetting revenues and reimbursements	-	(142,147)	(142,147)	Finding 2
Total program costs	<u>\$ 241,862</u>	-	<u>\$ (241,862)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		
<u>July 1, 2011, through June 30, 2012</u>				
Ongoing activities:				
Reasonable reimbursement methodology factor	\$ 7.15	\$ 7.15	\$ (7.15)	
Number of transit receptacles	× 325	× 201	× (124)	
Annual number of trash collections	× 104	× 104	× (104)	
Total ongoing costs	241,670	149,464	(92,206)	Finding 1
Less offsetting revenues and reimbursements	-	(149,464)	(149,464)	Finding 2
Total program costs	<u>\$ 241,670</u>	-	<u>\$ (241,670)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		
<u>Summary: July 1, 2004, through June 30, 2012</u>				
One-time costs	\$ 42,552	\$ 42,552	\$ -	
Ongoing costs	<u>1,443,867</u>	<u>884,531</u>	<u>(559,336)</u>	
Total one-time costs and ongoing costs	1,486,419	927,083	(559,336)	
Less offsetting revenues and reimbursements	-	(926,046)	(926,046)	
Total program costs	<u>\$ 1,486,419</u>	1,037	<u>\$ (1,485,382)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,037</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Overstated ongoing maintenance costs

The city claimed \$1,443,867 for ongoing maintenance of transit stop trash receptacles for the audit period. We found that \$884,531 is allowable and \$559,336 is unallowable. The costs are unallowable because the city claimed reimbursement for costs not incurred and overstated the number of trash receptacles.

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 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.

Costs not incurred

For the period of July 1, 2004, through December 31, 2004, the city claimed \$59,932 for ongoing maintenance of transit stop trash receptacles. We found that none of costs claimed are allowable.

On January 1, 2005, the city entered into an agreement with Graffiti Protective Coatings, Inc. (GPC) for trash receptacle maintenance at bus stops. The city did not provide documentation to support ongoing maintenance costs incurred prior to January 1, 2005.

Overstated number of trash receptacles

For the period of January 1, 2005, through June 30, 2012, the city claimed \$1,383,935 for ongoing maintenance of transit stop trash receptacles. We found that \$884,531 is allowable and \$499,404 is unallowable. The costs are unallowable because the city overstated the number of transit stop trash receptacles, as follows:

- **Unsupported trash receptacles:** For the period of January 1, 2005, through April 30, 2005, the city claimed reimbursement for the ongoing maintenance of 342 trash receptacles. The city provided invoices from GPC supporting the ongoing maintenance of 170 trash receptacles for this period. As such, the difference of 172 trash receptacles, totaling \$19,707, is unallowable.
- **Trash receptacles at bus shelters:** For the period of May 1, 2005, through June 30, 2012, the city claimed reimbursement for the ongoing maintenance of 57 trash receptacles located at bus shelters. As the bus shelters were maintained by Viacom at no cost to the city, the amount claimed, totaling \$226,231, is unallowable.
- **Trash receptacles maintained on behalf of neighboring cities:** For the period of May 1, 2005, through June 30, 2011, the city claimed reimbursement for the ongoing maintenance of 17 trash receptacles located in neighboring cities. As reimbursement is limited to the ongoing maintenance of trash receptacles located within its jurisdiction, the amount claimed, totaling \$54,830, is unallowable.

- Trash receptacles subject to a trash TMDL: Effective March 6, 2008, the Machado Lake Watershed became a trash TMDL. As such, the city is no longer eligible to claim reimbursement for the ongoing maintenance of 67 trash receptacles located within the trash TMDL. Therefore, the amount claimed, totaling \$198,636, is unallowable.

Part 4F5c3 of the California Regional Water Quality Control Board, Los Angeles Region, 2001 storm water permit (Permit CAS004001) 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.

The parameters and guidelines, section II. Eligible Claimants, state:

Local agency permittees identified in the Los Angeles Regional Water Quality Control Board Order No. 01-182, Permit CAS004001 that are *not* subject to a trash TMDL are eligible to claim reimbursement for the 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.

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 \$926,046 for the audit period.

One-time activities

We found that the city should have offset \$42,552 in Proposition C Municipal Operator Service Improvement Program (MOSIP) funds used to purchase and install trash receptacles.

For FY 2004-05, the city claimed reimbursement of \$42,552 for the purchase of 503 transit receptacles and installation of 342 transit receptacles. Total project costs amounted to \$212,757, yet the city claimed reimbursement for only \$42,552 (or 20%), as the difference was paid for with a Federal Transit Administration Grant. However, after reviewing the November 9, 2004 council meeting notes, we confirmed that the \$42,552 claimed was paid with Proposition C MOSIP funds.

Proposition C is a one-half percent sales tax approved by Los Angeles County voters in 1990 for public transit purposes. In 2001, the Los Angeles County Metropolitan Transportation Authority approved the creation of an ongoing municipal operator service improvement program to improve services for the transit-dependent in Los Angeles County. The use of Proposition C MOSIP Return funds is restricted to benefit the transit program. As the city used the Proposition C MOSIP funds authorized to be used on the mandated activities, it did not have to rely on discretionary general funds to pay for the mandated activities.

Ongoing activities

We found that the city should have offset \$883,494 in Proposition A and Proposition C Local Return funds used to pay for the ongoing maintenance of transit stop trash receptacles during the audit period.

As stated in Finding 1, we found that \$884,531 in ongoing maintenance of transit stop trash receptacles is allowable. The ongoing maintenance costs are recorded in the Transit System Fund, 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. We confirmed that the revenue recorded in the Transit System Fund includes passenger cash fares, Proposition A Local Return funds, and Proposition C Local Return funds.

Proposition A is a one-half percent cent sales tax approved by Los Angeles County voters in 1980 and Proposition C, as noted above, is a one-half percent cent sales tax approved by Los Angeles County voters in 1990. As a condition of voter approval, the sales tax revenue is restricted to benefiting public transit.

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

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

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

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

We confirmed that only one general fund transfer was made into the Transit System Fund during the audit period, which was in FY 2007-08, in an amount totaling \$1,037. As the city used Proposition A and Proposition C Local Return funds authorized to be used on the mandated activities, totaling \$883,494, it did not have to rely on discretionary general funds to pay for the mandated activities.

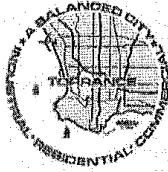
The parameters and guidelines, section VIII. Offsetting Revenues and Reimbursements, state:

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

Recommendation

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

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



CITY OF TORRANCE

TRANSIT DEPARTMENT
Operations Division

Kim Turner
Transit Director

James Lee
Administrative Analyst
310-781-6924
jameslee@torrnet.com

July 11, 2016

State Controller's Office
Division of Audits
PO Box 942850
Sacramento, California
Attention: Jim L. Spano, Audit Bureau Chief

RE: City of Torrance, Legislatively Mandated Municipal Storm Water and
Urban Runoff Discharge Program (Draft Final Report)

Dear Mr. Spano,

As you know, the Municipal Storm Water and Urban Runoff Discharges Program was a legislatively required program that the City undertook back in Fiscal Year (FY) 2004 in order to meet the County-wide mandate. The City's Transit Department was tasked with undertaking the necessary measures to meet the mandated requirements. At the time, the City's objective was to assure that its Transit department was in compliance with the mandate and as such used funds (primarily Proposition A) that was pledged for other transit-related activities to satisfy the mandate. Unbeknownst to the City, in FY2012, the City learned that under SB 90, these expenditures were eligible for reimbursement under this program, and following the guidelines established, the City submitted an application request for reimbursement. It is unfortunate that the County's mandated program was less effective in informing agencies that the mandated expenditures under this program was eligible under SB 90 for reimbursement. Had the City known that these expenditures were reimbursable, the City would have been able to use other funds to accomplish the goals of the mandate while using Proposition A funds for much needed transit-related activities.

On June 6, 2016, an Exit Conference was conducted between representatives from your office and City staff. The City was informed that because it had used transit-related Proposition A funds and not the City's General Funds, the request for reimbursement would primarily be denied. As an Enterprise Fund, the Transit department normally does not utilize City General Funds for projects of this nature. Although we are disappointed to learn that our reimbursement was essentially declined due to the use of non-City General funds, we accept your findings.

Sincerely,

Kim Turner
Transit Director

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

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