

CITY OF INGLEWOOD

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, 2003, through June 30, 2011



BETTY T. YEE
California State Controller

September 2016



BETTY T. YEE
California State Controller

September 8, 2016

The Honorable James T. Butts
Mayor of the City of Inglewood
One Manchester Boulevard
Inglewood, CA 90301

Dear Mayor Butts:

The State Controller's Office audited the costs claimed by the City of Inglewood 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, 2003, through June 30, 2011.

The city claimed \$1,305,991 for the mandated program. Our audit found that none of the costs claimed are allowable because the city claimed unsupported and ineligible costs, claimed reimbursement for costs not incurred, and did not offset the service charges 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than three years following the date of this report, regardless of whether this report is subsequently supplemented, superseded, or otherwise amended.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/IRCFrm.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/as

cc: David L. Esparza, Chief Financial Officer
Finance Department, City of Inglewood
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Contents

Audit Report

Summary	1
Background	1
Objectives, Scope, and Methodology	1
Conclusion	3
Views of Responsible Officials.....	3
Restricted Use	3
Schedule 1—Summary of Program Costs	4
Schedule 2—Summary of Ongoing Costs	6
Findings and Recommendations.....	8

Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the City of Inglewood 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, 2003, through June 30, 2011.

The city claimed \$1,305,991 for the mandated program. Our audit found that none of the costs claimed are allowable because the city claimed unsupported and ineligible costs, claimed reimbursement for costs not incurred, and did not offset the service charges 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 (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 (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 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, 2003, through June 30, 2011.

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 the 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 Ballona Creek Watershed and gained an understanding of the trash TMDL effective date.
- Tested 100% of the contract service costs claimed for one-time activities. Traced the costs claimed to actual cost documentation and assessed the validity of such costs and their relationship to the mandated program.
- Reviewed the city's contract with its waste haulers to gain an understanding of the ongoing costs incurred and assessed the validity of such costs and their relationship to the mandated program.
- 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 program requirements. These instances are described in the accompanying Schedule 1 (Summary of Program Costs), Schedule 2 (Summary of Ongoing Costs), and in the Findings and Recommendations section of this report.

For the audit period, the City of Inglewood claimed \$1,305,991 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 July 29, 2016. On August 12, 2016, we left a voicemail message with Sharon Koike, Assistant Finance Director, inquiring about the city's response to the draft audit findings. The city did not return our phone call.

Restricted Use

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

September 8, 2016

Schedule 1— Summary of Program Costs July 1, 2003, through June 30, 2011

Cost Elements	Actual Costs Claimed	Amount Allowable	Audit Adjustment	Reference ¹
<u>July 1, 2003, through June 30, 2004</u>				
One-time costs:				
Salaries and benefits	\$ 1,263	\$ 1,263	\$ -	
Contract services	128,668	70,252	(58,416)	
Total one-time costs	129,931	71,515	(58,416)	Finding 1
Less: offsetting revenues and reimbursements	-	(71,515)	(71,515)	Finding 3
Total program costs	<u>\$ 129,931</u>	-	<u>\$ (129,931)</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>				
One-time costs:				
Contract services	\$ -	\$ 1,323	\$ 1,323	Finding 1
Total one-time costs	-	1,323	1,323	
Ongoing costs ²	118,462	-	(118,462)	Finding 2
Total one-time and ongoing costs	118,462	1,323	(117,139)	
Less: offsetting revenues and reimbursements	-	(1,323)	(1,323)	Finding 3
Total program costs	<u>\$ 118,462</u>	-	<u>\$ (118,462)</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 costs ²	\$ 118,462	\$ -	\$ (118,462)	Finding 2
Total program costs	<u>\$ 118,462</u>	-	<u>\$ (118,462)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		
<u>July 1, 2006, through June 30, 2007</u>				
One-time costs:				
Salaries and benefits	\$ 912	\$ 912	\$ -	
Contract services	90,876	-	(90,876)	
Total one-time costs	91,788	912	(90,876)	Finding 1
Ongoing costs ²	118,462	-	(118,462)	Finding 2
Total one-time and ongoing costs	210,250	912	(209,338)	
Less: offsetting revenues and reimbursements	-	(912)	(912)	Finding 3
Total program costs	<u>\$ 210,250</u>	-	<u>\$ (210,250)</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 costs ²	\$ 181,548	\$ -	\$ (181,548)	Finding 2
Total program costs	<u>\$ 181,548</u>	-	<u>\$ (181,548)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Amount Allowable	Audit Adjustment	Reference ¹
<u>July 1, 2008, through June 30, 2009</u>				
Ongoing costs ²	\$ 181,548	\$ -	\$ (181,548)	Finding 2
Total program costs	<u>\$ 181,548</u>	-	<u>\$ (181,548)</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 costs ²	\$ 182,626	\$ -	\$ (182,626)	Finding 2
Total program costs	<u>\$ 182,626</u>	-	<u>\$ (182,626)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		
<u>July 1, 2010, through June 30, 2011</u>				
Ongoing costs ²	\$ 183,164	\$ -	\$ (183,164)	Finding 2
Total program costs	<u>\$ 183,164</u>	-	<u>\$ (183,164)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		
<u>Summary: July 1, 2003, through June 30, 2011</u>				
One-time costs	\$ 221,719	\$ 73,750	\$ (147,969)	Finding 1
Ongoing costs ²	<u>1,084,272</u>	-	<u>(1,084,272)</u>	Finding 2
Total one-time and ongoing costs	1,305,991	73,750	(1,232,241)	
Less: offsetting revenues and reimbursements	-	<u>(73,750)</u>	<u>(73,750)</u>	Finding 3
Total program costs	<u>\$ 1,305,991</u>	-	<u>\$ (1,305,991)</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.

² See Schedule 2, Summary of Ongoing Costs.

**Schedule 2—
Summary of Ongoing Costs
July 1, 2004, through June 30, 2011**

Cost Elements	Actual Costs Claimed	Amount Allowable	Audit Adjustment ¹
<u>July 1, 2004, through June 30, 2005</u>			
Ongoing activities:			
Reasonable reimbursement methodology factor	\$ 6.74	\$ -	\$ (6.74)
Number of transit receptacles	× 169	× -	× (169)
Annual number of trash pick-ups	× 104	× -	× (104)
Total ongoing costs	<u>\$ 118,462</u>	<u>\$ -</u>	<u>\$ (118,462)</u>
<u>July 1, 2005, through June 30, 2006</u>			
Ongoing activities:			
Reasonable reimbursement methodology factor	\$ 6.74	\$ -	\$ (6.74)
Number of transit receptacles	× 169	× -	× (169)
Annual number of trash pick-ups	× 104	× -	× (104)
Total ongoing costs	<u>\$ 118,462</u>	<u>\$ -</u>	<u>\$ (118,462)</u>
<u>July 1, 2006, through June 30, 2007</u>			
Ongoing activities:			
Reasonable reimbursement methodology factor	\$ 6.74	\$ -	\$ (6.74)
Number of transit receptacles	× 169	× -	× (169)
Annual number of trash pick-ups	× 104	× -	× (104)
Total ongoing costs	<u>\$ 118,462</u>	<u>\$ -</u>	<u>\$ (118,462)</u>
<u>July 1, 2007, through June 30, 2008</u>			
Ongoing activities:			
Reasonable reimbursement methodology factor	\$ 6.74	\$ -	\$ (6.74)
Number of transit receptacles	× 259	× -	× (259)
Annual number of trash pick-ups	× 104	× -	× (104)
Total ongoing costs ²	<u>\$ 181,548</u>	<u>\$ -</u>	<u>\$ (181,548)</u>
<u>July 1, 2008, through June 30, 2009</u>			
Ongoing activities:			
Reasonable reimbursement methodology factor	\$ 6.74	\$ -	\$ (6.74)
Number of transit receptacles	× 259	× -	× (259)
Annual number of trash pick-ups	× 104	× -	× (104)
Total ongoing costs ²	<u>\$ 181,548</u>	<u>\$ -</u>	<u>\$ (181,548)</u>

Schedule 2 (continued)

Cost Elements	Actual Costs Claimed	Amount Allowable	Audit Adjustment ¹
<u>July 1, 2009, through June 30, 2010</u>			
Ongoing activities:			
Reasonable reimbursement methodology factor	\$ 6.78	\$ -	\$ (6.78)
Number of transit receptacles	× 259	× -	× (259)
Annual number of trash pick-ups	× 104	× -	× (104)
Total ongoing costs	<u>\$ 182,626</u>	<u>\$ -</u>	<u>\$ (182,626)</u>
<u>July 1, 2010, through June 30, 2011</u>			
Ongoing activities:			
Reasonable reimbursement methodology factor	\$ 6.80	\$ -	\$ (6.80)
Number of transit receptacles	× 259	× -	× (259)
Annual number of trash pick-ups	× 104	× -	× (104)
Total ongoing costs ²	<u>\$ 183,164</u>	<u>\$ -</u>	<u>\$ (183,164)</u>
<u>Summary: July 1, 2004, through June 30, 2011</u>	<u>\$ 1,084,272</u>	<u>\$ -</u>	<u>\$ (1,084,272)</u>

¹ See Finding 2, Overstated ongoing maintenance costs.

² Calculation differences due to rounding.

Findings and Recommendations

**FINDING 1—
Overstated one-time costs**

The city claimed \$221,719 in one-time costs for the audit period. We found that \$73,750 is allowable and \$147,969 is unallowable. The costs are unallowable because the city claimed reimbursement for unsupported and ineligible costs.

A summary of the claimed, allowable, and audit adjustment amounts for the one-time costs are as follows:

Object Account	Amount Claimed	Amount Supported		%	Amount Allowable		Audit Adjustment
		Trash Receptacles	Total Cost		Trash Receptacles	Total Cost	
<u>FY 2003-04:</u>							
Salaries and benefits	\$ 1,263		\$ 1,263			\$ 1,263	\$ -
Contract services	128,668	169	104,853	67%	113	70,252	(58,416)
Total, FY 2003-04	129,931	169	106,116		113	71,515	(58,416)
<u>FY 2004-05:</u>							
Contract services	-	36	23,815	-	2	1,323	1,323
Total, FY 2004-05	-	36	23,815		2	1,323	1,323
<u>FY 2006-07:</u>							
Salaries and benefits	912		912			912	-
Contract services	90,876	90	67,021	-	-	-	(90,876)
Total, FY 2006-07	91,788	90	67,933		-	912	(90,876)
Total	\$221,719	295	\$197,864		115	\$73,750	\$(147,969)
<u>Recap, by Object Account:</u>							
Salaries and benefits	\$ 2,175		\$ 2,175			\$ 2,175	\$ -
Contract services	219,544	295	195,689	-	115	71,575	(147,969)
Total	\$221,719	295	\$197,864		115	\$73,750	\$(147,969)

The parameters and guidelines (Section II. Eligible Claimants) state:

The following local agency permittees that are subject to the Ballona Creek trash TMDL are eligible to claim reimbursement for the mandated activities only to the extent they have transit stops located in areas not covered by the Ballona Creek trash TMDL requirements:

Beverly Hills, Culver City, Inglewood, Los Angeles (City), Los Angeles County, Santa Monica, and West Hollywood

The parameters and guidelines (Section IV. Reimbursable Activities) state:

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed for the one-time activities in section IV.A. below....

Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable to and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the mandated 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, and receipts.

The parameters and guidelines (Section IV.A. Reimbursable Activities) state:

For each eligible local agency, the following activities are reimbursable:

- A. Install Trash Receptacles (one-time per transit stop, reimbursed using actual costs):
 - 4. Purchase or construct receptacles and pads and install receptacles and pads.

Contract Services

The city claimed \$219,544 in contract service costs for the audit period. We found that \$71,575 is allowable and \$147,969 is unallowable. The costs are unallowable because the city claimed reimbursement for unsupported and ineligible costs.

Fiscal year 2003-04 purchase and installation of 169 trash receptacles

For fiscal year (FY) 2003-04, the city claimed \$128,668 for the purchase and installation of 169 steel trash receptacles. We found that \$70,252 is allowable and \$58,416 is unallowable. The costs are unallowable because the city did not provide documentation to support all of the costs claimed and claimed reimbursement for trash receptacles installed in the Ballona Creek trash TMDL.

The city entered into an agreement (Agreement No. 03-152) with Seating Component Manufacturing, Inc. for the purchase and installation of 169 trash receptacles. The agreement was for \$128,668; however, the city provided invoices and payments vouchers to support only \$104,853 in costs incurred.

Of the 169 trash receptacles purchased, we confirmed that 56 trash receptacles (or 33%) were installed in the Ballona Creek trash TMDL. As the parameters and guidelines allow reimbursement for transit receptacles that are not subject to a trash TMDL, we found that reimbursement was limited to the remaining 113 trash receptacles (or 67%) installed outside of the Ballona Creek trash TMDL.

To determine the amount allowable, we multiplied the amount supported by 67%, and found that \$70,252 is allowable ($\$104,853 \times 67\%$).

FY 2004-05 purchase and installation of 36 trash receptacles

For FY 2004-05, the city did not claim reimbursement for any one-time costs. We found that \$1,323 is allowable.

During audit fieldwork, the city provided us with a February 25, 2005 invoice, totaling \$23,815, for the purchase and installation of 36 steel trash receptacles (\$661.52 per trash receptacle). Attached to the invoice was a listing of the 36 trash receptacle locations. We reviewed these locations and found that 34 of the 36 trash receptacles are not allowable for the following reasons:

- 23 trash receptacles were installed at the same locations identified as allowable from the FY 2003-04 invoices. Costs for this activity are not allowable because the purchase of trash receptacles is allowable one-time per transit stop;
- 9 trash receptacles were installed at the city hall sub-basement parking structure, which is an ineligible location; and
- 2 trash receptacles were installed at intersections located within the Ballona Creek trash TMDL, which is an ineligible location.

To calculate the allowable costs of the remaining two trash receptacles, we used a unit-cost method and found that \$1,323 is allowable ($\$661.52 \text{ per trash receptacle} \times 2 \text{ allowable receptacles}$).

FY 2006-07 purchase and installation of 90 trash receptacles

For FY 2006-07, the city claimed \$90,876 for the purchase and installation of 90 steel trash receptacles. We found that none of the costs claimed are allowable. The costs are unallowable because the city did not provide documentation to support all the costs claimed and claimed reimbursement to replace receptacles installed at existing transit stops.

The city entered into an agreement (Agreement No. 06-041) with Seating Component Manufacturing, Inc. for the purchase and installation of 90 trash receptacles. The agreement was for \$90,876; however, the city provided an invoice to support only \$67,021 in costs incurred. The invoice specified that the city purchased and installed 51 steel trash receptacles and delivered 39 steel trash receptacles to the city's storage yard for future use. Through discussions with city staff, we learned that the 51 trash receptacles were installed as replacements for damaged and/or missing trash receptacles at existing transit locations.

The parameters and guidelines specify that the purchase of trash receptacles is allowable one-time per transit stop. The parameters and guidelines allow reimbursement to replace individual damaged or missing receptacles; however, reimbursement is only allowable as an ongoing cost using the reasonable reimbursement methodology. As such, the cost to purchase the 51 trash receptacles is not allowable. In addition, the city did not provide documentation to support that the 39 steel trash receptacles delivered to the city's storage yard were ever installed at new transit stops within the city.

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—
Overstated ongoing
maintenance costs**

The city claimed \$1,084,272 in ongoing costs for the audit period. We found that none of the costs claimed are allowable because the city claimed reimbursement for costs not incurred.

The parameters and guidelines (Section IV. Reimbursable Activities) state:

The claimant is only allowed to claim and be reimbursed for increased costs for reimbursable activities identified below. Increased cost is limited to the cost of an activity that the claimant is required to incur as a result of the mandate.

Bus stops

The city entered into an agreement (Agreement No. 04-142) with USA Waste of California, Inc., dba. Waste Management of Los Angeles (Company), for the collection, transportation, recycling, processing, and disposal of solid waste. The contract term is for seven years, from December 1, 2004, through November 30, 2011.

Article 4.4.3. Bus Stop Litter Container Collections states:

Company shall service all Containers placed at bus stops, including both currently distributed Containers and those distributed throughout the term of this Agreement. Company shall provide plastic liners for Containers. Containers shall be emptied as often as necessary to prevent overflow. *These services shall be provided at no additional cost.* (Emphasis added).

Based on this agreement provision, the city did not incur any increased costs for the ongoing maintenance of the trash receptacles at bus stops.

Bus shelters

Additionally, the city entered into an agreement (Agreement 99-455) on October 19, 1999 with Outdoor System Advertising (Contractor). The city granted the contractor exclusive rights to construct, erect, install, repair, and maintain advertising bus shelters, and associated waste containers throughout the city. The agreement was in place through October 31, 2005, with the possibility of a four-year extension.

Article 9. Costs of Improvements, states:

In addition to any other amounts set out in this Agreement, *Contractor shall pay all costs and expenses for:*

- (a) The design, construction, installation, cleaning, *maintenance*, insuring, and removal of the shelters . . . (Emphasis added)

Article 11. Repair and Maintenance of Shelters, states:

Contractor shall regularly maintain, repair, clean, and service the shelters . . . *All such work shall be performed at the sole expense of contractor.* . . . Each shelter, and the immediate area around each shelter, shall be inspected, cleaned, spray washed, and trash receptacles emptied not less than two (2) times per week (Emphasis added)

Based on these two agreement provisions, the city did not incur any increased costs for the ongoing maintenance of trash receptacles at bus shelters.

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 3—
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 \$73,750 for the audit period.

As stated in Finding 1, for FY 2003-04 and FY 2004-05, the city incurred \$73,750 for the purchase and installation of trash receptacles. The cost for this activity is recorded in the Sewer Fund (Fund 090), a Special Revenue Fund Type. Special Revenue Funds are used to account for the proceeds specific revenue sources that are legally restricted to expenditures for specified purposes. The city confirmed that non-obligated sewer charges were used to pay for 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.

The statement of decision for the Municipal Storm Water and Urban Runoff Discharges Program states:

The constitutionality of Government Code section 17556, subdivision (d), was upheld by the California Supreme Court in *County of Fresno v. State of California*, in which the court held that the term “costs” in article XIII B, section 6, excludes expenses recoverable from sources other than taxes. The court stated:

...Thus, although its language broadly declares that the “state shall provide a subvention of funds to reimburse...local governments for the costs [of a state-mandated new] program or higher level of service,” read in its textual and historical context section 6 of article XIII B requires the subvention of funds only when the costs in question can be recovered *solely from tax revenues*.

As the one-time costs claimed by the city were not paid for with discretionary general funds, such costs are not required to be reimbursed.

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
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Sacramento, CA 94250-5874**

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