

CITY OF COMMERCE

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

September 2018



BETTY T. YEE
California State Controller

September 12, 2018

Hugo A. Argumedo, Mayor
City of Commerce
2535 Commerce Way
Commerce, CA 90040

Dear Mayor Argumedo:

The State Controller's Office (SCO) audited the costs claimed by the City of Commerce for the legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program for the period of July 1, 2002, through June 30, 2008.

The city claimed \$201,876 for the mandated program. Our audit found that \$128,659 is allowable and \$73,217 is unallowable because the city overstated the number of transit-stop trash receptacles and trash collections for each fiscal year in the audit period. The State made no payments to the city. The State will pay \$128,659, contingent upon available appropriations. Following issuance of this audit report, the SCO's Local Government Programs and Services Division will notify the city of the adjustment to its claims via a system-generated letter for each fiscal year in the audit period.

If you have any questions, please contact Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at (916) 327-3138.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/lis

cc: Vilko Domic, Director of Finance
City of Commerce
Josh Brooks, Assistant Finance Director
City of Commerce
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City of Commerce
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the City of Commerce for the legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program for the period of July 1, 2002, through June 30, 2008.

The city claimed \$201,876 for the mandated program. Our audit found that \$128,659 is allowable and \$73,217 is unallowable because the city overstated the number of transit-stop trash receptacles and trash collections for each fiscal year in the audit period. The State made no payments to the city. The State will pay \$128,659, 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. Therefore, the reimbursement period for this mandated program ended on December 27, 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 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 legislatively mandated 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, 2008.

To achieve our audit objective, we:

- Reviewed the annual mandated cost claims filed by the city for the audit period and identified the material cost components of each claim as the unit cost rate, the number of transit-stop trash receptacles, and the annual number of trash collections. Determined whether there were any mathematical errors or any unusual or unexpected variances from year to year, and whether the claims adhered to the SCO's claiming instructions and the program's parameters and guidelines;
- Completed an internal control questionnaire by interviewing key city staff, and discussed the claim preparation process with city staff to determine what information was obtained, who obtained it, and how it was used;
- Researched the city's location within the Los Angeles River Watershed to gain an understanding of the trash TMDL effective date 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;
- Traced all transit-stop trash receptacles claimed for each fiscal year in the audit period to documentation supporting the 63 trash receptacles claimed. Performed a physical inspection of a number of the city's current transit stops;
- Traced the calculation of the annual number of trash collections claimed for each fiscal year in the audit period to the city's worksheets. Re-calculated the annual number of trash collections for each fiscal year in the audit period based on the documentation provided (see Finding); and
- Reviewed the operating budget for all years of the audit period to determine whether costs claimed were funded by revenues raised outside of the city's appropriations limit.

GC sections 12410, 17558.5, and 17561 provide the legal authority to conduct this audit. 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 objective. 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 an instance of noncompliance with the requirements outlined in the Objective, Scope, and Methodology section. This instance is quantified in the accompanying Schedule (Summary of Program Costs) and described in the Finding and Recommendation section of this audit report.

For the audit period, the City of Commerce claimed \$201,876 for costs of the legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program. Our audit found that \$128,659 is allowable and \$73,217 is unallowable. The State made no payments to the city. The State will pay \$128,659, contingent upon available appropriations.

Following issuance of this audit report, the SCO's Local Government Programs and Services Division will notify the city of the adjustment to its claims via a system-generated letter for each fiscal year in the audit period.

**Follow-up on
Prior Audit
Findings**

We have not previously conducted an audit of the city's legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program.

**Views of
Responsible
Officials**

We discussed our audit results with the city's representative during an exit conference conducted on August 2, 2018. Josh Brooks, Assistant Finance Director, neither agreed nor disagreed with the audit results. Mr. Brooks declined a draft report and agreed that we could issue the audit report as final.

Restricted Use

This report is solely for the information and use of the City of Commerce, 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 audit report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

September 12, 2018

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

Cost Elements	Amount Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2002, through June 30, 2003</u>			
Ongoing activities:			
Unit cost rate	\$ 6.74	\$ 6.74	
Annual number of trash collections ²	× 4,992	× 2,709	
Total program costs	<u>\$ 33,646</u>	18,259	<u>\$ (15,387)</u>
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		<u>\$ 18,259</u>	
<u>July 1, 2003, through June 30, 2004</u>			
Ongoing activities:			
Unit cost rate	\$ 6.74	\$ 6.74	
Annual number of trash collections ²	× 4,992	× 3,276	
Total program costs	<u>\$ 33,646</u>	22,080	<u>\$ (11,566)</u>
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		<u>\$ 22,080</u>	
<u>July 1, 2004, through June 30, 2005</u>			
Ongoing activities:			
Unit cost rate	\$ 6.74	\$ 6.74	
Annual number of trash collections ²	× 4,992	× 3,276	
Total program costs	<u>\$ 33,646</u>	22,080	<u>\$ (11,566)</u>
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		<u>\$ 22,080</u>	
<u>July 1, 2005, through June 30, 2006</u>			
Ongoing activities:			
Unit cost rate	\$ 6.74	\$ 6.74	
Annual number of trash collections ²	× 4,992	× 3,276	
Total program costs	<u>\$ 33,646</u>	22,080	<u>\$ (11,566)</u>
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		<u>\$ 22,080</u>	

Schedule (continued)

Cost Elements	Amount Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2006, through June 30, 2007</u>			
Ongoing activities:			
Unit cost rate	\$ 6.74	\$ 6.74	
Annual number of trash collections ²	× 4,992	× 3,276	
Total program costs	<u>\$ 33,646</u>	22,080	<u>\$ (11,566)</u>
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		<u>\$ 22,080</u>	
<u>July 1, 2007, through June 30, 2008</u>			
Ongoing activities:			
Unit cost rate	\$ 6.74	\$ 6.74	
Annual number of trash collections ²	× 4,992	× 3,276	
Total program costs	<u>\$ 33,646</u>	22,080	<u>\$ (11,566)</u>
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		<u>\$ 22,080</u>	
<u>Summary: July 1, 2002, through June 30, 2008</u>			
Ongoing activities	<u>\$ 201,876</u>	<u>\$ 128,659</u>	<u>\$ (73,217)</u>
Total program costs	<u>\$ 201,876</u>	128,659	<u>\$ (73,217)</u>
Less amount paid by the State ³		-	
Allowable costs claimed in excess of amount paid		<u>\$ 128,659</u>	

¹ See the Finding and Recommendation section.

² The annual number of trash collections is the number of city-wide transit-stop trash receptacles multiplied by the number of annual trash collections for each receptacle.

³ Payment amount current as of July 24, 2018.

Finding and Recommendation

FINDING— Overstated ongoing maintenance costs

The city claimed \$201,876 for the ongoing maintenance of transit-stop trash receptacles during the audit period. We found that \$128,659 is allowable and \$73,217 is unallowable. The costs are unallowable because the city overstated the number of transit-stop trash receptacles and trash collections for each fiscal year in the audit period.

The city claimed reimbursement for ongoing maintenance costs using the Commission-adopted reasonable reimbursement methodology (RRM). Under the RRM, the unit cost rate (which is \$6.74 for the period of July 1, 2002, through June 30, 2008) is multiplied by the number of city-wide transit-stop trash receptacles and by the number of annual trash collections for each receptacle.

The following table summarizes the audit adjustment by fiscal year:

Fiscal Year	Annual No. of Trash Collections ¹			Unit Cost Rate	Audit Adjustment
	Claimed	Allowable	Difference		
2002-03	4,992	2,709 ²	(2,283)	\$ 6.74	\$ (15,387)
2003-04	4,992	3,276	(1,716)	6.74	(11,566)
2004-05	4,992	3,276	(1,716)	6.74	(11,566)
2005-06	4,992	3,276	(1,716)	6.74	(11,566)
2006-07	4,992	3,276	(1,716)	6.74	(11,566)
2007-08	4,992	3,276	(1,716)	6.74	(11,566)
Total	29,952	19,089	(10,863)		\$ (73,217)

¹ The annual number of trash collections is the number of city-wide transit-stop trash receptacles multiplied by the number of annual trash collections for each receptacle.

² For fiscal year (FY) 2002-03, reimbursement is allowable for 43 weeks (from August 28, 2002, through June 30, 2003).

The city misinterpreted the program's parameters and guidelines requirement that it retain documentation to support its calculation of the annual number of trash collections. Section VII. (Records Retention) of the parameters and guidelines states:

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.

Overstated number of trash receptacles

For the audit period, the city claimed annual reimbursement for 76 trash receptacles. We found that 63 trash receptacles are eligible for reimbursement.

The city's Deputy Director of Public Works Operations provided a list of bus stops existing within the city during 2015. The city's list shows the location of each bus stop and whether each stop has a trash receptacle or other amenity. The list identifies 78 bus stops with trash receptacles. To corroborate the list, the city provided a City Council agenda report from April of 2015, which states that "The City of Commerce has over eighty (80) bus shelters, bus stop signs, bus benches and trash receptacles placed throughout the City for awaiting transit passengers." However, as the city created this documentation seven years after the audit period ended, it is not contemporaneous documentation and it does not support claimed costs.

The city completed a unit cost survey in FY 2009-10, which it provided to the Commission to assist in developing the program's RRM. The city also provided us with a copy of this survey. The survey identifies 63 transit-stop trash receptacles for FY 2002-03 through FY 2007-08, which increased to 80 transit-stop trash receptacles in FY 2008-09. During the audit, the city provided copies of internal email exchanges that occurred during FY 2009-10, stating that the city had "about 80 cans out at bus stops" and also that 17 "new wrought iron containers" were added to new bus stops. We requested supporting documentation that showed when the 17 transit-stops with trash receptacles were added. However, the city did not provide any documentation to support additional transit-stop trash receptacles for the audit period beyond the 63 identified in its unit cost survey.

Overstated annual number of trash collections

The city claimed 29,952 annual trash collections for the audit period. We found that 19,089 are allowable and 10,863 are unallowable.

The city calculated its claimed annual transit-stop trash collections for each fiscal year of the audit period as follows:

Total Annual Trash Collections Claimed		
Annual No. of Pickups (A)	No. of Receptacles (B)	Total Annual Trash Collections (C = A × B)
104	20	2,080
52	56	2,912
		<u>4,992</u>

The city provided emails from the Director of Parks and Recreation, Street and Tree Supervisor, and Environmental Services Manager during November and December of 2009 confirming the weekly trash collections to support the costs incurred. The Deputy Director of Public Works Operations confirmed that the city collected transit-stop trash throughout the city once per week, and only on occasion were the 20 transit-stop trash receptacles emptied a second time. However, the city did not provide any supporting documentation that indicated how often the additional trash collections occurred. While the email excerpts and statement are corroborating documents, they are not contemporaneous source documents and cannot be substituted for source documents.

The city provided duty statements for the employee classifications of Street Maintenance Helper and Park Maintenance Worker. These were the employee classifications that performed the reimbursable activities during the audit period. We found that neither of the duty statements included maintenance at transit stops.

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 contemporaneous documentation to support more than one weekly collection, we determined that one weekly collection, totaling 52 annual collections, is allowable.

We determined the number of allowable trash collections, as follows:

Total Annual Trash Collections Allowable		
Annual No. of Pickups	No. of Receptacles	Total Annual Trash Collections
(A)	(B)	(C = A × B)
52	63	3,276

Recommendation

No recommendation is applicable for this finding, as the period of reimbursement expired on December 27, 2012, with the adoption of a new NPDES permit. When claiming reimbursement for other mandated programs, we recommend that the city:

- Follow the mandated program's claiming instructions and parameters and guidelines when preparing its mandated cost claims; and
- Ensure that claimed costs include only actual costs that are eligible for reimbursement.

**State Controller's Office
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