

CITY OF SOUTH PASADENA

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

September 2018



BETTY T. YEE
California State Controller

September 28, 2018

The Honorable Richard D. Schneider, M.D., Mayor
City of South Pasadena
1414 Mission Street
South Pasadena, CA 91030

Dear Mayor Schneider:

The State Controller's Office (SCO) audited the costs claimed by the City of South Pasadena for the legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program for the period of July 1, 2002, through June 30, 2009.

The city claimed \$273,881 for the mandated program. Our audit found that \$199,985 is allowable and \$73,896 is unallowable because the city overstated the number of annual trash collections and did not offset the Proposition A Local Return funds used to pay for the mandated activities. The State made no payments to the city. The State will pay \$199,985, 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/as

The Honorable Richard D. Schneider,
M.D., Mayor

-2-

September 28, 2018

cc: Craig Koehler, Finance Director
City of South Pasadena
Mariam Lee Ko, Human Resources Manager
City of South Pasadena
Chris Hill, Principal Program Budget Analyst
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the City of South Pasadena for the legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program for the period of July 1, 2002, through June 30, 2009.

The city claimed \$273,881 for the mandated program. Our audit found that \$199,985 is allowable and \$73,896 is unallowable because the city overstated the number of annual trash collections and did not offset the Proposition A Local Return funds used to pay for the mandated activities. The State made no payments to the city. The State will pay \$199,985, 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. R4-2014-0175, which became effective on December 28, 2012. As such, the reimbursement period for the legislatively mandated Municipal Storm Water and Urban Runoff Discharges 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 July 1, 2002, through June 30, 2009.

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 annual number of trash collections and the unit cost rates:
 - Determined whether there were any errors or any unusual or unexpected variances from year to year; and
 - Reviewed the claimed activities to determine whether they 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 with the Los Angeles River Watershed and gained 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;
- Reviewed the city's contract with its waste hauler to support the calculation of the annual number of trash collections claimed for each fiscal year in the audit period (see Finding 1); and
- Traced the ongoing maintenance costs claimed to source documentation for FY 2003-04 through FY 2008-09 to determine whether costs claimed were funded by another source. Errors noted were applied to FY 2002-03, as the city was unable to provide source documentation for this fiscal year (see Finding 2).

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 instances of noncompliance with the requirements outlined in the Objective, Scope, and Methodology section. These instances are quantified in the accompanying Schedule (Summary of Program Costs) and described in the Findings and Recommendations section of this report.

For the audit period, the City of South Pasadena claimed \$273,881 for costs of the legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program. Our audit found that \$199,985 is allowable and \$73,896 is unallowable. The State made no payments to the city. The State will pay \$199,985, 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 issued a draft audit report on August 8, 2018. We contacted Mariam Lee Ko, Human Resources Manager, by email on August 23, 2018. We did not receive a response from the city regarding the draft audit report findings.

Restricted Use

This report is solely for the information and use of the City of South Pasadena, 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 28, 2018

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:				
Unit cost rate	\$ 6.74	\$ 6.74		
Annual number of trash collections ²	× 5,547	× 4,988		
Total ongoing activities	37,387	33,619	\$ (3,768)	Finding 1
Less offsetting revenues and reimbursements	-	(12,380)	(12,380)	Finding 2
Total program costs	<u>\$ 37,387</u>	21,239	<u>\$ (16,148)</u>	
Less amount paid by the State ³		-		
Allowable costs claimed in excess of amount paid		<u>\$ 21,239</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	× 6,708	× 6,032		
Total ongoing activities	45,212	40,656	\$ (4,556)	Finding 1
Less offsetting revenues and reimbursements	-	(15,398)	(15,398)	Finding 2
Total program costs	<u>\$ 45,212</u>	25,258	<u>\$ (19,954)</u>	
Less amount paid by the State ³		-		
Allowable costs claimed in excess of amount paid		<u>\$ 25,258</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	× 6,708	× 6,032		
Total ongoing activities	45,212	40,656	\$ (4,556)	Finding 1
Less offsetting revenues and reimbursements	-	(15,837)	(15,837)	Finding 2
Total program costs	<u>\$ 45,212</u>	24,819	<u>\$ (20,393)</u>	
Less amount paid by the State ³		-		
Allowable costs claimed in excess of amount paid		<u>\$ 24,819</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2005, through June 30, 2006</u>				
Ongoing activities:				
Unit cost rate	\$ 6.74	\$ 6.74		
Annual number of trash collections ²	× 6,708	× 6,032		
Total ongoing activities	45,212	40,656	\$ (4,556)	Finding 1
Less offsetting revenues and reimbursements	-	(2,681)	(2,681)	Finding 2
Total program costs	<u>\$ 45,212</u>	37,975	<u>\$ (7,237)</u>	
Less amount paid by the State ³		-		
Allowable costs claimed in excess of amount paid		<u>\$ 37,975</u>		
<u>July 1, 2006, through June 30, 2007</u>				
Ongoing activities:				
Unit cost rate	\$ 6.74	\$ 6.74		
Annual number of trash collections ²	× 6,708	× 6,032		
Total ongoing activities	45,212	40,656	\$ (4,556)	Finding 1
Less offsetting revenues and reimbursements	-	-	-	
Total program costs	<u>\$ 45,212</u>	40,656	<u>\$ (4,556)</u>	
Less amount paid by the State ³		-		
Allowable costs claimed in excess of amount paid		<u>\$ 40,656</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	× 6,708	× 6,032		
Total ongoing activities	45,212	40,656	\$ (4,556)	Finding 1
Less offsetting revenues and reimbursements	-	-	-	
Total program costs	<u>\$ 45,212</u>	40,656	<u>\$ (4,556)</u>	
Less amount paid by the State ³		-		
Allowable costs claimed in excess of amount paid		<u>\$ 40,656</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2008, through June 30, 2009</u>				
Ongoing activities:				
Unit cost rate	\$ 6.74	\$ 6.74		
Annual number of trash collections ²	× 1,548	× 1,392		
Total ongoing activities	10,434	9,382	\$ (1,052)	Finding 1
Less offsetting revenues and reimbursements	-	-	-	
Total program costs	<u>\$ 10,434</u>	9,382	<u>\$ (1,052)</u>	
Less amount paid by the State ³		-		
Allowable costs claimed in excess of amount paid		<u>\$ 9,382</u>		
<u>Summary: July 1, 2002, through June 30, 2009</u>				
Ongoing activities	\$ 273,881	\$ 246,281	\$ (27,600)	Finding 1
Less offsetting revenues and reimbursements	-	(46,296)	(46,296)	Finding 2
Total program costs	<u>\$ 273,881</u>	199,985	<u>\$ (73,896)</u>	
Less amount paid by the State ³		-		
Allowable costs claimed in excess of amount paid		<u>\$ 199,985</u>		

¹ See the Findings and Recommendations 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 information current as of September 11, 2018.

Findings and Recommendations

**FINDING 1—
Overstated ongoing
maintenance costs**

The city claimed \$273,881 for the ongoing maintenance of transit stop trash receptacles during the audit period. During testing, we found that \$246,281 is allowable and \$27,600 is unallowable. The costs are unallowable because the city overstated the annual number of transit-stop trash collections.

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 during the period of July 1, 2002, through June 30, 2009) is multiplied by the number of city-wide transit-stop trash receptacles and the number of annual trash collections for each receptacle.

The following table summarizes the audit adjustment by fiscal year:

Fiscal Year	Annual Number of Trash Collections ¹			Unit Cost Rate	Audit Adjustment
	Amount Claimed	Amount Allowable	Difference		
2002-03	5,547	4,988	(559)	\$ 6.74	\$ (3,768)
2003-04	6,708	6,032	(676)	6.74	(4,556)
2004-05	6,708	6,032	(676)	6.74	(4,556)
2005-06	6,708	6,032	(676)	6.74	(4,556)
2006-07	6,708	6,032	(676)	6.74	(4,556)
2007-08	6,708	6,032	(676)	6.74	(4,556)
2008-09	1,548	1,392	(156)	6.74	(1,052)
Total	40,635	36,540	(4,095)		\$ (27,600)

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.

Overstated annual number of trash collections

The city claimed 40,635 annual trash collections for the audit period. We found that 36,450 collections are allowable and 4,095 are unallowable.

On December 18, 1997, the city entered into an agreement with Avalon Building Maintenance (Contractor) for janitorial services and bus stop maintenance, including bus bench cleaning and trash removal.

The city provided maps of four trash collection routes. Based on these maps, we found that the 13 trash receptacles located on Huntington Drive were maintained once per week; however, the city claimed that these receptacles were maintained twice per week.

Section 3. (Trash Removal) of the Technical Specifications portion of the contract with the Contractor states:

3.) Trash Removal

...Trash shall be removed according to the following schedule:

- (a.) Twice per week – All RTD Bus Stops located along Mission Street and Fair Oaks Avenue in the downtown business district. Mission Street between Milan Avenue and Palm Avenue; Fair Oaks Avenue between Mound Avenue and Bank Street.
- (b.) Once per Week – All remaining RTD Bus Stops.

The following table summarizes the over-stated annual trash collections along Huntington Drive by fiscal year:

Fiscal Year	Huntington Drive			Overstated Annual No. of Trash Collections
	No. of Trash Receptacles	Overstated No. of Weekly Trash Collections	Number of Reimbursable Weeks in the Fiscal Year	
2002-03	13	1	43 ¹	(559)
2003-04	13	1	52	(676)
2004-05	13	1	52	(676)
2005-06	13	1	52	(676)
2006-07	13	1	52	(676)
2007-08	13	1	52	(676)
2008-09	13	1	12 ²	(156)
Total				<u>(4,095)</u>

¹ The reimbursement period for FY 2002-03 is 43 weeks from August 28, 2002, through June 30, 2003.

² The reimbursement period for FY 2008-09 is 12 weeks from July 1, 2008, through September 22, 2008.

Section IV. (Reimbursable Activities) of the parameters and guidelines states, in part:

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.

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.

**FINDING 2—
Unreported offsetting
revenues**

The city did not offset any revenues or reimbursements on its claim forms for the audit period. During testing, we found that the city should have offset \$46,296 in Proposition A Local Return funds that were used to pay for ongoing maintenance activities of the transit-stop trash receptacles.

The following table summarizes the unreported offsetting revenues for the audit period:

Fiscal Year	Offset Reported	Unreported Offset	Audit Adjustment
2002-03	\$ -	\$ (12,380)	\$ (12,380)
2003-04	-	(15,398)	(15,398)
2004-05	-	(15,837)	(15,837)
2005-06	-	(2,681)	(2,681)
2006-07	-	-	-
2007-08	-	-	-
2008-09	-	-	-
Total	\$ -	\$ (46,296)	\$ (46,296)

We reviewed the city’s Accounts Payable Report for FY 2003-04 through FY 2008-09, and determined that the city funded \$33,916 (\$15,398 in FY 2003-04; \$15,837 in FY 2004-05; and \$2,681 in FY 2005-06) of its bus stop maintenance expenditures from the Proposition A Fund (Fund 205). Fund 205 is a special revenue fund type, where proceeds of specific revenue sources are legally restricted to expenditures for specified purposes.

Proposition A Local Return Program

Proposition A is a half-cent sales tax measure approved by Los Angeles County voters in 1980 to finance transit programs. Twenty-five percent of the sales tax revenues is dedicated to the Local Return Program to be used by cities for developing and/or improving public transit and related transportation infrastructure.

Section II. (Project Eligibility) of the Proposition A and Proposition C Local Return Guidelines identifies 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

As the city used Proposition A Local Return funds to pay for the mandated activities, it did not have to rely on the use of discretionary funds to pay for the mandated activities. Moreover, when a local agency raises revenues outside its appropriation limit to cover the cost of mandated activities, funds thus expended are not reimbursable.

The city was unable to provide the Accounts Payable Report for FY 2002-03; therefore, we assumed that the city also used Proposition A Local Return funds to pay for the ongoing maintenance of the transit-stop trash receptacles in FY 2002-03, as it did for FY 2003-04 through FY 2005-06. To calculate the offset, we determined that the Proposition A Local Return funds increased by 2.851% from FY 2003-04 to FY 2004-05. We deflated this rate to FY 2002-03 and pro-rated the result to 43 reimbursable weeks, which yielded an offset of \$12,380 $([(\$15,398 \div 1.02851) \div 52] \times 43)$.

Section VIII. (Offsetting Revenues and Reimbursements) of the parameters and guidelines states:

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.

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 it offsets all revenues raised outside its appropriation limit that are used to fund mandated activities.

**State Controller's Office
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