

CITY OF SANTA FE SPRINGS

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, 2013



BETTY T. YEE
California State Controller

October 2018



BETTY T. YEE
California State Controller

October 4, 2018

The Honorable Jay Sumo, Mayor
City of Santa Fe Springs
11710 East Telegraph Road
Santa Fe Springs, CA 90670

Dear Mayor Sumo:

The State Controller's Office (SCO) audited the costs claimed by the City of Santa Fe Springs for the legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program for the period of July 1, 2002, through June 30, 2013.

The city claimed \$366,513 for the mandated program. Our audit found that the entire amount is unallowable because the city did not offset revenues raised outside its appropriation limit that were used to fund the mandated activities. The State made no payments to the city. 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.

This audit report contains an adjustment to costs claimed by the city. If you disagree with the audit finding, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (Commission). Pursuant to the Commission's regulations, outlined in Title 2, *California Code of Regulations*, section 1185.1, subdivision (c), 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than three years following the date of this report, regardless of whether this report is subsequently supplemented, superseded, or otherwise amended.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 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

cc: Travis Hickey, Director of Finance and Administrative Services
City of Santa Fe Springs
Noe Negrete, P.E., Director of Public Works, City Engineer
City of Santa Fe Springs
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the City of Santa Fe Springs for the legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program for the period of July 1, 2002, through June 30, 2013.

The city claimed \$366,513 for the mandated program. Our audit found that the entire amount is unallowable because the city did not offset revenues raised outside its appropriation limit that were 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 (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. As a result, this 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, 2013.

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 number of trash collections per week. 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 107 trash receptacles claimed at the city's transit stop locations;
- Traced the once-per-week trash collections claimed for each fiscal year in the audit period to supporting documentation; and
- Traced the mandated costs claimed to payroll and accounting system records 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 that all costs claimed were funded with revenues raised outside of the city's appropriation limit. Therefore, all costs claimed are unallowable, as quantified in the accompanying Schedule (Summary of Program Costs) and described in the Finding and Recommendation section of this report.

For the audit period, the City of Santa Fe Springs claimed \$366,513 for costs of the legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program. Our audit found that the entire amount is unallowable. The State made no payments to the city.

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 10, 2018. Travis Hickey, Director of Finance and Administrative Services, responded by email dated August 20, 2018 (Attachment), disagreeing with the audit results. This final audit report includes the city's response.

Restricted Use

This audit report is solely for the information and use of the City of Santa Fe Springs, 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

October 4, 2018

Schedule—
Summary of Program Costs
July 1, 2002, through June 30, 2013

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2002, through June 30, 2003</u>			
Total ongoing activities	\$ 17,174	\$ 17,174	\$ -
Less offsetting revenues and reimbursements	-	(17,174)	(17,174)
Total program costs	<u>\$ 17,174</u>	-	<u>\$ (17,174)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ -</u>	
<u>July 1, 2003, through June 30, 2004</u>			
Total one-time activities	\$ 6,177	\$ 6,177	\$ -
Total ongoing activities	29,090	29,090	-
Total one-time costs and ongoing costs	35,267	35,267	-
Less offsetting revenues and reimbursements	-	(35,267)	(35,267)
Total program costs	<u>\$ 35,267</u>	-	<u>\$ (35,267)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ -</u>	
<u>July 1, 2004, through June 30, 2005</u>			
Total ongoing activities	\$ 33,646	\$ 33,646	\$ -
Less offsetting revenues and reimbursements	-	(33,646)	(33,646)
Total program costs	<u>\$ 33,646</u>	-	<u>\$ (33,646)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ -</u>	
<u>July 1, 2005, through June 30, 2006</u>			
Total ongoing activities	\$ 37,501	\$ 37,501	\$ -
Less offsetting revenues and reimbursements	-	(37,501)	(37,501)
Total program costs	<u>\$ 37,501</u>	-	<u>\$ (37,501)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ -</u>	
<u>July 1, 2006, through June 30, 2007</u>			
Total ongoing activities	\$ 37,501	\$ 37,501	\$ -
Less offsetting revenues and reimbursements	-	(37,501)	(37,501)
Total program costs	<u>\$ 37,501</u>	-	<u>\$ (37,501)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ -</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2007, through June 30, 2008</u>			
Total ongoing activities	\$ 32,244	\$ 32,244	\$ -
Less offsetting revenues and reimbursements	-	(32,244)	(32,244)
Total program costs	<u>\$ 32,244</u>	-	<u>\$ (32,244)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ -</u>	
<u>July 1, 2008, through June 30, 2009</u>			
Total ongoing activities	\$ 37,501	\$ 37,501	\$ -
Less offsetting revenues and reimbursements	-	(37,501)	(37,501)
Total program costs	<u>\$ 37,501</u>	-	<u>\$ (37,501)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ -</u>	
<u>July 1, 2009, through June 30, 2010</u>			
Total ongoing activities	\$ 37,724	\$ 37,724	\$ -
Less offsetting revenues and reimbursements	-	(37,724)	(37,724)
Total program costs	<u>\$ 37,724</u>	-	<u>\$ (37,724)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ -</u>	
<u>July 1, 2010, through June 30, 2011</u>			
Total ongoing activities	\$ 37,835	\$ 37,835	\$ -
Less offsetting revenues and reimbursements	-	(37,835)	(37,835)
Total program costs	<u>\$ 37,835</u>	-	<u>\$ (37,835)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ -</u>	
<u>July 1, 2011, through June 30, 2012</u>			
Total ongoing activities	\$ 39,783	\$ 39,783	\$ -
Less offsetting revenues and reimbursements	-	(39,783)	(39,783)
Total program costs	<u>\$ 39,783</u>	-	<u>\$ (39,783)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ -</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2012, through June 30, 2013</u>			
Total ongoing activities	\$ 20,337	\$ 20,337	\$ -
Less offsetting revenues and reimbursements	-	(20,337)	(20,337)
Total program costs	<u>\$ 20,337</u>	-	<u>\$ (20,337)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ -</u>	
<u>Summary: July 1, 2002, through June 30, 2013</u>			
One-time costs	\$ 6,177	\$ 6,177	\$ -
Ongoing costs	<u>360,336</u>	<u>360,336</u>	-
Total one-time costs and ongoing costs	366,513	366,513	-
Less offsetting revenues and reimbursements	-	(366,513)	(366,513)
Total program costs	<u>\$ 366,513</u>	-	<u>\$ (366,513)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ -</u>	

¹ See the Finding and Recommendation section.

² Payment amount current as of September 10, 2018.

Finding and Recommendation

FINDING— Unreported offsetting revenues

The city did not offset any revenues or reimbursements on its claim forms for the Municipal Storm Water and Urban Runoff Discharges Program for the audit period. During testing, we found that the city should have offset the total amount claimed, totaling \$366,513.

The city provided an assignment sheet for city employees dated August 5, 2004, that includes removing trash from receptacles at bus stop locations and replacing the trash liner. The city also provided information concerning the Public Works Aide who performed this activity from August 2007 through the end of the audit period. Prior to August 2007, the city did not provide supporting documentation that identified the employee(s) responsible for the mandated activities. We reviewed the city's Labor Distribution Report for fiscal year (FY) 2007-08 through FY 2012-13, supporting that the city posted the employee's salary expenditures to activity 4360 – Waste Management Street Sweeping within the General Fund. For audit purposes, we assumed that from July 2002 through August 2007, one city employee also maintained trash receptacles at the city's transit stops.

Waste Management Surcharge Fee Revenues

Based on documents that the city provided and statements made by city representatives, the primary source of revenue for activity 4360 is waste management surcharge fee revenue from the Integrated Waste Management Fund (Fund 270). The fee constitutes a rubbish surcharge that the city's trash haulers pay for all residential, commercial, and recycling services provided. We found that the city received \$8,468,620 in such surcharge fees during the audit period. City representatives explained that this revenue is discretionary and can be used for a variety of uses.

We found that the city did not include the waste management surcharge fee revenues in its appropriations limit calculation for any fiscal year during the audit period. We concur that the city has the option to use this funding source in any way that it chooses; however, to the extent that the city used revenue from outside of its appropriations limit to fund mandated activities, it is considered offsetting revenue.

Section VII. (Records Retention) of the parameters and guidelines states, in part:

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.

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.

The Commission adopted its Statement of Decision for the Municipal Storm Water and Urban Runoff Discharges Program on July 31, 2009. The Commission noted that GC section 17556, Subdivision (d) precludes costs mandated by the State if the local agency has the authority to levy service charges, fees, or assessments sufficient to pay for the mandated program or higher level of service. The Commission also stated:

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 reference to article XIII B, section 6 refers to the State Constitution. In its Statement of Decision, the Commission also included this statement from the court concerning article XIII B, section 6 from the case cited above:

Thus, although its language broadly declares that the “state shall provide a subvention of funds to reimburse...local government 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 subvention only when the costs in question can be recovered *solely from tax revenues*.

Recommendation

No recommendation is applicable for this finding, as the period of reimbursement expired on December 27, 2012. When claiming reimbursement for other mandated programs, we recommend that the city offset all revenues and reimbursements raised outside of its appropriation limit that are used to fund the mandated activities.

City’s Response

The City does not dispute the finding that revenues other than taxes were used to fund the mandated costs imposed by this Program. However, the City is deeply disappointed that the State holds the view that only those costs that are funded solely by taxes are eligible for reimbursement. Time after time, new requirements are imposed on local governments. Then local governments have to work, for years in many cases, to have the new requirements recognized as reimbursable mandated costs. Meanwhile, local governments have to find ways to pay for these mandates. In this case, the City’s Waste Management Surcharge was used to pay for the required costs. This was not a new revenue source or one raised to deal with the new costs of the mandate. Programs of the City’s choosing that would otherwise have been funded with this revenue were foregone. The General Fund,

supported primarily by taxes, could not be used to fund this program as the burdens on the fund are already extensive. It is a deeply troubling system where State mandates create significant burdens on local governments to comply and then technicalities result in the City's loss of reimbursement for the costs of compliance.

SCO Comment

Our finding and recommendation remain unchanged.

Both the Commission's parameters and guidelines, and the SCO's claiming instructions, require the identification and reporting of offsetting revenues and reimbursements. We concluded that the city had raised sufficient waste management surcharge fee revenue outside of its appropriations limit to pay for the mandated activities and did not need to rely on its proceeds from local taxes. Accordingly, such revenues should have been reported and offset against claimed costs.

In its response, the city uses the term "technicalities" to describe the basis for our audit finding. We disagree. During an audit, the SCO is compelled to follow guidance provided by the Commission to determine whether the city's mandated expenditures are funded by a revenue source other than taxes. As noted in the finding, the Statement of Decision for this mandated program, dated July 31, 2009, specifically mentions language from *County of Fresno v. State of California* on page 52 that the term "costs" excludes expenses recoverable from sources other than taxes.

There are other examples of Commission rulings related to offsetting revenues for other mandated cost programs. For example, in the Statement of Decision for the Behavioral Intervention Plans Program (CSM-4464, page 54), the Commission states that:

In turn, by applying the identified potentially offsetting revenues to the mandate, an eligible claimant shows the actual expenditure of funds other than its local tax revenues on the program, thus demonstrating that it is not in need of the protection offered by Article XIII B, section 6, to the extent of the revenues thus applied. When funds other than local proceeds of taxes are thus applied, the Controller may reduce reimbursement accordingly.

In the Revised Proposed Decision for the Incorrect Reduction Claim filed by the City of Los Angeles for the Animal Adoption Program (IRC 13-9811-I-02), the Commission stated on page 74 that:

Moreover, where a local agency has raised revenues outside its appropriations limit to cover the cost of mandated activities, funds thus expended are not reimbursable, based on the history and purpose of article XIII B, section 6, and case law interpreting it.

The audit process included determining whether the city had received revenues to cover the cost of its mandated activities. During the audit, we determined that the city had received such revenues, which qualify as offsetting revenues. Therefore, the city should have identified, reported, and deducted these revenues from the costs claimed.

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

From: [Travis Hickey](#)
To: [Kurokawa, Lisa](#); [Orozco, Veronica](#); [Venneman, Jim](#)
Cc: [Noe Negrete](#)
Subject: Response to Draft Audit Report
Date: Monday, August 20, 2018 6:34:37 PM

Hello Lisa –

Please see below.

Managements Response:

The City does not dispute the finding that revenues other than taxes were used to fund the mandated costs imposed by this Program. However, the City is deeply disappointed that the State holds the view that only those costs that are funded solely by taxes are eligible for reimbursement. Time after time, new requirements are imposed on local governments. Then local governments have to work, for years in many cases, to have the new requirements recognized as reimbursable mandated costs. Meanwhile, local governments have to find ways to pay for these mandates. In this case, the City's Waste Management Surcharge was used to pay for the required costs. This was not a new revenue source or one raised to deal with the new costs of the mandate. Programs of the City's choosing that would otherwise have been funded with this revenue were foregone. The General Fund, supported primarily by taxes, could not be used to fund this program as the burdens on the fund are already extensive. It is a deeply troubling system where State mandates create significant burdens on local governments to comply and then technicalities result in the City's loss of reimbursement for the costs of compliance.

Please let me know if you have any questions or would like to discuss further.

Thank you,

Travis Hickey | Director of Finance & Administrative Services
City of Santa Fe Springs | Finance & Administrative Services
11710 Telegraph Road | Santa Fe Springs, CA 90670

www.santafesprings.org

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