

***Construction & Demolition Recycling Program
Performance Audit: \$9.2 Million Identified as
Revenue Immediately Available for Spending on
Environmental Sustainability Efforts***



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June 2024

Laura L. Doud
City Auditor



Construction & Demolition Recycling Program Performance Audit



June 2024

Why This Audit Is Important

The Construction & Demolition (C&D) Recycling Program in the Community Development Department was created in 2007 to meet state mandated waste diversion goals and promote sustainability. The program's objective is to encourage permit applicants to recycle C&D building materials through a refundable deposit, which is either refunded to the applicant for meeting program requirements or forfeited to the City.

In accordance with the City's C&D Ordinance, forfeited deposits are to be spent on sustainability projects that advance environmental stewardship, thereby enhancing residents' well-being and protecting wildlife.

What We Recommend

Recognize \$9.2 Million In Revenue for Environmental Projects



\$9.2 million in one-time funds, comprised of \$1.2 million in deposits incorrectly recorded and \$8 million in deposits that are no longer eligible for refund, should be recognized as revenue and available for spending on environmental efforts that would otherwise use the City's General Fund or other funds



Perform Annual Reconciliation

Ensures the C&D account accurately reflects deposits for active C&D projects



Update C&D Ordinance

Ensures alignment with the program timelines and processes

What Happens Next

The Community Development Department agreed to all seven audit recommendations to strengthen the process around monitoring the C&D deposit account and to streamline the refund request process.



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LAURA DOUD

Construction & Demolition Recycling Program Performance Audit: \$9.2 Million Identified as Revenue Immediately Available for Spending on Environmental Sustainability Efforts

June 2024

Report Summary

Why This Audit Is Important

We performed an audit of the City of Long Beach’s (City’s) Construction & Demolition (C&D) Recycling Program within the Community Development Department (Community Development) in response to a notable increase in the C&D deposit account (C&D account).

The C&D Recycling Program (program) focuses on the recycling and reuse of materials to reduce overall waste and environmental impact. The program’s primary objective is to encourage permit applicants to recycle C&D materials through a refundable performance deposit (deposit), which may either be refunded to the applicant or forfeited to the City.

Forfeited C&D deposits are eligible to be spent on City environmental sustainability projects. These projects advance environmental stewardship and contribute to creating a more livable and resilient Long Beach.

Audit Objective

Our audit evaluated the City’s C&D Recycling Program operations and reviewed the status of deposits in the C&D account.

Acknowledgement

We thank management and staff in Community Development for their collaboration, assistance, and cooperation during this audit.

What We Found

We found that an account reconciliation between the City’s financial and permit systems for the C&D account has not been performed since the program’s inception in 2007.

We reconciled the C&D account from 2007 to 2024 and identified \$9.2 million should be recorded as revenue and is available to be spent on environmental sustainability efforts. This amount is comprised of \$1.2 million in forfeited C&D deposits that were not recorded as revenue at the time the deposits were forfeited and \$8 million in deposits that are no longer eligible for refund.

While Community Development’s C&D processes have assisted applicants in meeting diversion requirements and achieving the program’s objective, we found that they did not align with the City’s C&D Municipal Code (Ordinance).

What We Recommend

We recommend that \$9.2 million be immediately recognized as revenue in the Development Services Fund to be spent on environmental sustainability efforts including park and recreational space improvements, ecological enhancements, and other sustainability projects.

Furthermore, we recommend Community Development reconcile the C&D account between the financial and permit systems at least annually to accurately reflect deposits for active C&D projects. Community Development should also review its policies and procedures and update the C&D Ordinance to align with the program processes.



I. Background

The City of Long Beach created the Construction & Demolition Recycling Program to meet state mandated waste diversion goals and promote sustainability.

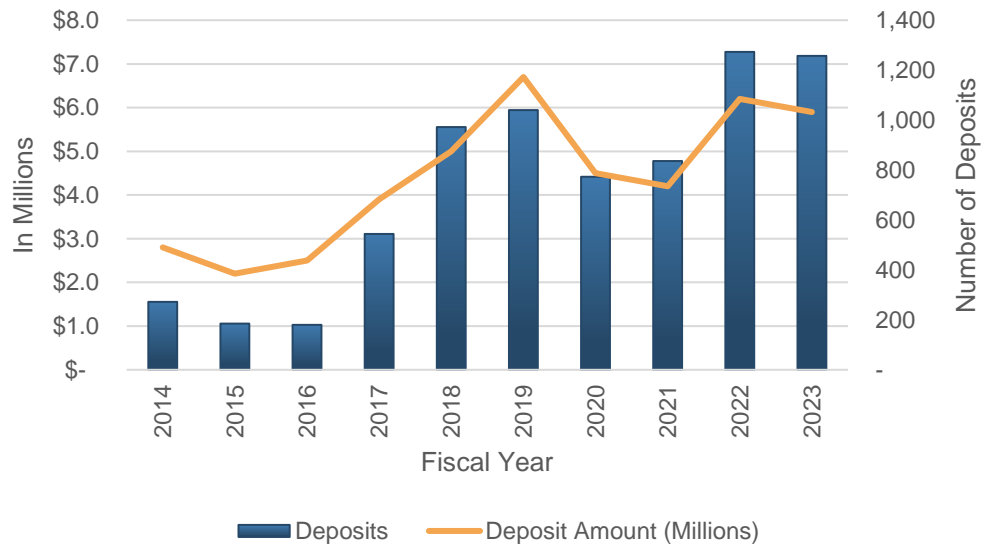
The California Integrated Waste Management Act of 1989 requires that all California cities, counties, and regional solid waste management agencies divert at least 50% of waste stream away from landfills. Every jurisdiction, including the City of Long Beach (City), could face fines up to \$10,000 a day for not meeting the mandated goal.

The C&D Recycling Program encourages waste diversion through a refundable performance deposit.

As part of the City’s commitment to meet state mandated goals and promote sustainability, the City created the Construction & Demolition (C&D) Recycling Program (program) which took effect in November 2007. The program encourages applicants of certain construction and/or demolition projects to divert at least 65% of waste, exceeding the state mandated goal by 15%, through a refundable performance deposit (deposit).

Over the last ten years, 7,332 deposits totaling \$43.9 million were submitted to the Community Development Department (Community Development), averaging \$4.4 million annually. Overall, the number of C&D deposits submitted and amounts have increased over the last ten years.

Figure 1.
The Construction & Demolition deposits increased over the last ten years from \$2.8 million in 2014 to \$5.9 million in 2023.



An applicant's refundable performance deposit will either be refunded or forfeited contingent upon meeting the Construction & Demolition Recycling Program requirements.

Under the City's C&D Municipal Code (Ordinance) 18.67, the program requires a deposit for the following projects:

- All newly constructed building or structures
- Residential building or structure additions or alterations where the project increases the building's or structure's conditioned area, volume, or size
- Nonresidential building or structure additions and alterations requiring a permit
- All demolition projects of any valuation

Prior to project permit issuance, C&D applicants are required to pay the deposit which is calculated as 3% of the project valuation estimated using the City's permit system. The deposit ranges from a minimum of \$1,605 to a maximum of \$53,425. Applicants receive documentation of the deposit amount, project description, and estimated weight of materials to be diverted on the Construction & Demolition Management Plan (CDMP). By signing the CDMP, applicants acknowledge their understanding of the program requirements.

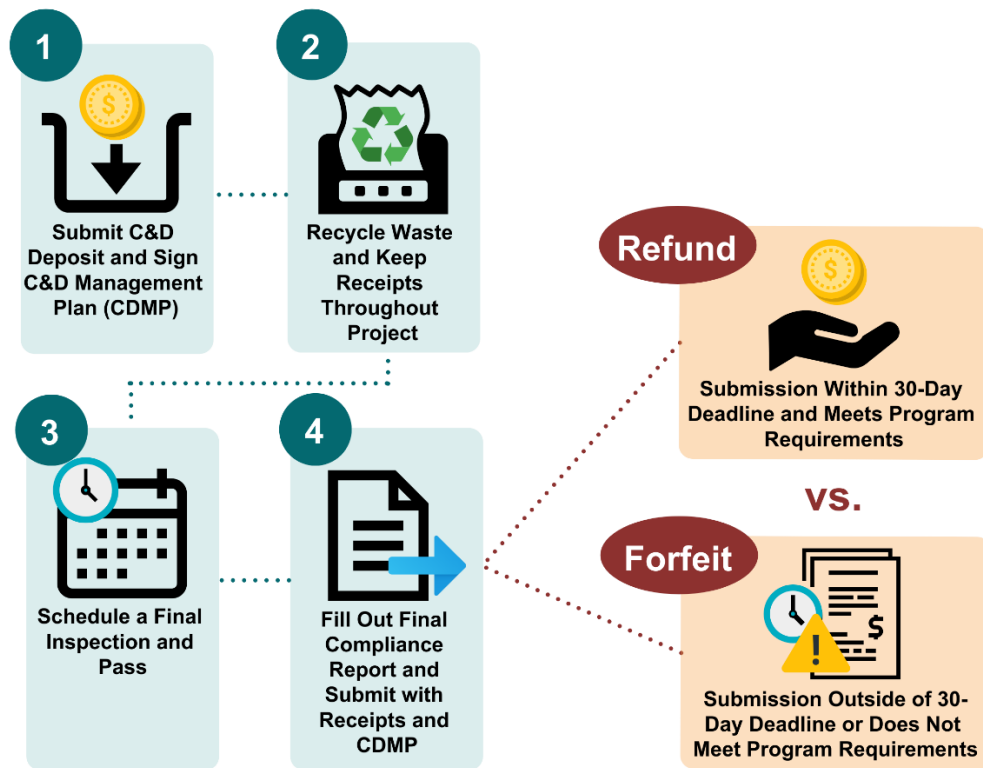
The C&D deposit amount is based on 3% of the project valuation, with a minimum of \$1,605 and a maximum of \$53,425.

The deposit is returned to the applicant upon project completion and proof of recycling. Applicants must submit a refund request to Community Development within 30 days after a project receives final inspection. The documents required for a refund request include:

- The completed and signed CDMP
- Final Compliance Report detailing the recycled amounts
- Recycling receipts serving as proof of proper recycling of C&D materials

If the applicant does not submit a refund request within 30 days after the final inspection or does not meet the recycling requirements, then the applicant forfeits their deposit.

Figure 2.
Return of applicant's C&D deposit is contingent upon meeting program requirements.



All forfeited deposits from the Construction & Demolition Recycling Program are to be spent on environmental sustainability projects.

C&D forfeited funds spent on sustainability efforts have included the Climate Action and Adaptation Plan, Lincoln Park, and Wrigley Greenbelt Project.

In accordance with the C&D Ordinance, all forfeited deposits should be used to further environmental sustainability efforts within the City. Since the program's inception, over \$5.7 million in forfeited funds have been utilized to support sustainability projects and initiatives throughout the City. These include projects such as Lincoln Park, Wrigley Greenbelt, Wardlow Land Acquisition, and funding for the Office of Sustainability and the Long Beach Climate Action and Adaptation Plan. These funds have been instrumental in supporting the City's sustainability goals and efforts, thereby enhancing the well-being of the City's residents.

Figure 3.
\$5.7 million of Construction & Demolition forfeited funds have supported environmental sustainability projects.

Projects Funded by C&D Forfeited Deposits	Amount
Lincoln Park	\$ 1,657,669
Wrigley Greenbelt	1,194,397
Wardlow Land Acquisition	999,134
Other Sustainability Projects	820,809
Office of Sustainability Support	426,518
Climate Action Adaptation Plan	460,069
Harvey Milk Project	184,000
Total	\$ 5,742,597

Lincoln Park Project

Designed as a landmark regional park in the heart of Long Beach, Lincoln Park aims to mirror and enhance the City’s distinct history, community, and cultural identity. The park features a range of eco-friendly amenities such as drought-resistant landscaping, artificial turf field, fitness equipment, an accessible playground, and athletic recreational facilities.



Image of Lincoln Park playground.

Wardlow Land Acquisition Project

Located in West Long Beach, the Wardlow Land acquired was developed into a park, featuring a playground, picnic area, benches, walking trails, and a half-court basketball court. It serves as a valuable recreational space where the community can enjoy the natural setting and children can play on the playground equipment.

Wrigley Greenbelt Project

The Wrigley Greenbelt project applied best practices in tree removal by planting three new trees for each one removed resulting in an increase of at least 165 trees on the project site. Furthermore, in consideration of the well-being of local birds and wildlife, the project was committed to ecological stewardship and enhancements.



Image of Wrigley Greenbelt walking path.

II. Findings & Recommendations

Finding #1: *\$9.2 million from Construction & Demolition Recycling Program deposits should be immediately recognized as revenue in the Development Services Fund to be spent on environmental sustainability efforts.*

A. \$1.2 million of Construction & Demolition Recycling Program deposit forfeits are incorrectly recorded and not recognized as revenue.

C&D deposits paid by applicants are recorded in the C&D account, a liability account, in the Development Services Fund. The deposits are held and recorded as a liability until they are either refunded or forfeited. When deposits are forfeited, Community Development records these amounts into another separate liability account. This separate liability account tracks the total amount available to the City for spending on environmental sustainability efforts. Only after the City spends these forfeited funds are the funds then recognized as revenue in the City's financial system. While this allows the City to easily track the funds available for spending, this is improper accounting for recording forfeited deposits.

\$1.2 million of forfeited C&D deposits were incorrectly recorded.

According to the Government Accounting Standards Board (GASB) revenue recognition standard, forfeited deposits that are used for a specific purpose should be recorded as revenue at the time a deposit is forfeited rather than when the funds are spent. As of March 31, 2024, there was \$1.2 million of forfeited deposits incorrectly recorded in the separate liability account.

Recommendation

- 1.1 Record the \$1.2 million of forfeited deposits in the separate liability account as revenue in the Development Services Fund.**
- 1.2 Record all future forfeited deposits as revenue at the time the deposits are forfeited.**

B. Our account reconciliation identified \$8 million in revenue from Construction & Demolition deposits that can be forfeited.

Our account reconciliation identified \$8 million of C&D deposits that should be recorded as revenue.

Our account reconciliation between the financial and permit systems identified \$8 million of C&D deposits that are no longer eligible for refund. These deposits identified were not forfeited timely. This amount is a one-time cleanup of the C&D account which includes old deposits with the oldest dating back to 2008 and immaterial errors that have accumulated since program inception.

Figure 4.
A total of \$8 million in Construction & Demolition deposits should be forfeited and recorded as revenue.

Fiscal Year	Number of Deposits	Total Amount (In Millions)
2018 & Older	3,828	\$ 2.1
2019	1,033	1.5
2020	756	0.7
2021	803	1.2
2022	1,050	1.4
2023	480	0.7
2024*	8	0.1
Adjustments**	-	0.3
Total	7,958	\$ 8.0

* October 1, 2023 – March 31, 2024

**Difference due to immaterial errors and adjustments in forfeits and refunds

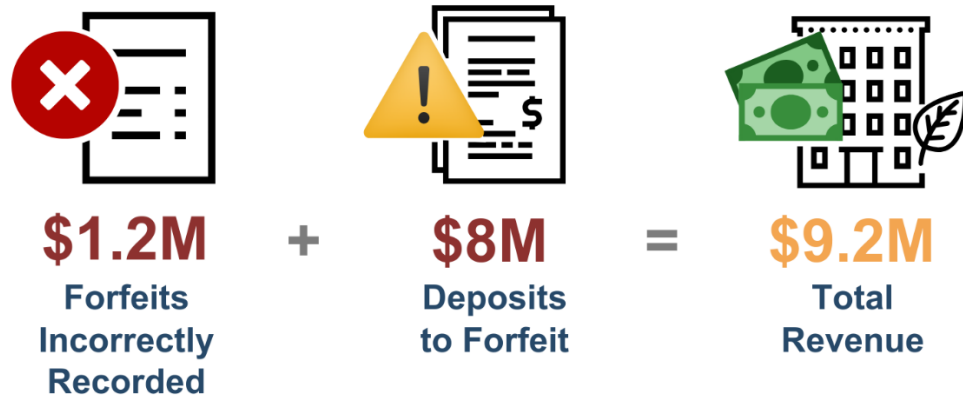
We reconciled the C&D account from November 1, 2007 to March 31, 2024, compared the financial and permit system data, and examined all financial transactions recorded. We reviewed deposits received in both the financial and permit systems and matched deposit refunds against the original deposit amounts. We also reviewed for any data anomalies, accounting discrepancies, and duplicate payments.

The Government Finance Officers Association (GFOA) recommends timely and periodic reconciliations to ensure accounts are complete and accurate. Community Development has not reconciled the City’s financial and permit systems for the C&D account. Current policies and procedures do not include this account reconciliation process to ensure only deposits eligible for refund are held in the C&D account.

As of March 31, 2024, the C&D account balance was \$18.1 million. Given the \$8 million in deposits to be forfeited, the C&D account will have a remaining balance of \$10.1 million. This amount reflects deposits held for all current and active C&D projects that will be either refunded or forfeited at a future date.

In total we determined \$9.2 million in revenue is available for spending which is comprised of \$1.2 million in deposits incorrectly recorded and \$8 million in deposits identified in our account reconciliation that are no longer eligible for refund.

Figure 5.
The City of Long Beach has \$9.2 million available for spending on environmental sustainability efforts.



Recommendation

- 1.3 Update policies and procedures to include, at a minimum, an annual account reconciliation of the total C&D balance between the financial and permit system.
- 1.4 Forfeit and record revenue for the \$8 million of the deposits not eligible for refund in the C&D account.

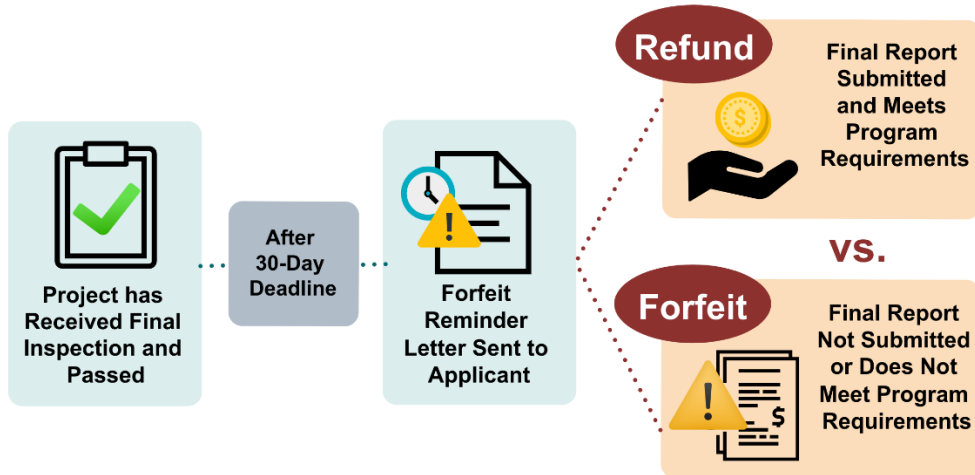
Finding #2: *Not all Construction & Demolition deposit refund requests comply with the City of Long Beach's Construction & Demolition Municipal Code 30-day deadline.*

A. Community Development's current refund request process contradicts the Construction & Demolition Municipal Code.

Community Development sends a Forfeit Reminder Letter to applicants who have not submitted a refund request within 30 days after the final inspection. This letter provides applicants with a 30-day extension and serves as a final opportunity for applicants to submit their refund request. However, per the C&D Ordinance, applicants forfeit their C&D deposits if they fail to request a refund within 30 days after completion of the C&D project. Despite this, Community Development prioritizes processing refund requests and provides applicants with additional time to submit their requests beyond the 30-day timeframe.

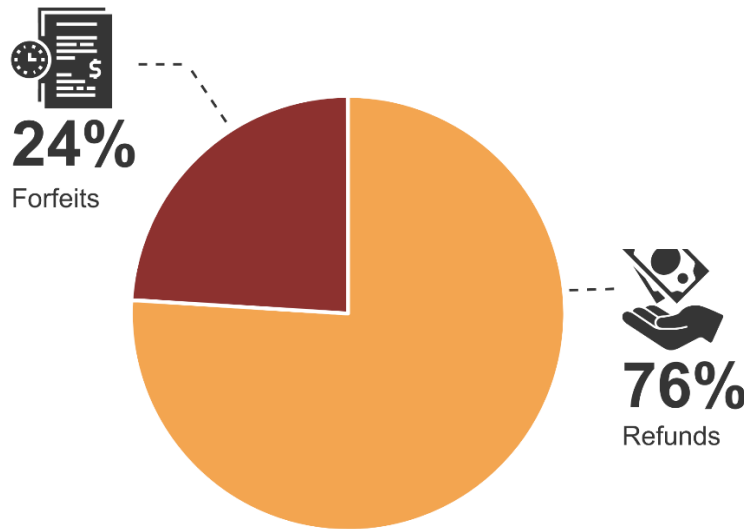
Current processes allow applicants additional time to submit C&D refund requests.

Figure 6.
Community Development sends a 30-day Forfeit Reminder Letter after the initial deadline.



Over the last ten years, Community Development has processed more refunds (76%) than forfeits (24%). The program stipulates a 30-day deadline, however, we found on average, applicants submit a C&D refund request within 90 days after final inspection. While this extended timeframe has enabled Community Development to process additional refund requests and verify that diversion requirements have been met, it has inadvertently contradicted the C&D Ordinance.

Figure 7.
Community Development has processed more refunds than forfeits over the last ten years.



The California Department of Resources Recycling and Recovery (CalRecycle), a state agency that oversees recycling and waste management programs, policies, and initiatives, created an informational guideline for developing a C&D diversion ordinance. The guidelines encourage local jurisdictions to adjust their C&D Ordinance to meet local needs and conditions. Since the program's inception, the C&D Ordinance has remained unchanged.

Recommendations

- 2.1 Determine the appropriate submission deadline for C&D refund requests based on the City's needs and conditions.**
- 2.2 Update the City's Municipal Code with the City Attorney's Office to reflect the C&D refund request submission deadline.**
- 2.3 Review and update policies and procedures to align with the City's Municipal Code.**

III. Objective, Scope, and Methodology

The objective of this audit was to evaluate the City's C&D Recycling Program operations and review the status of deposits in the C&D account. The scope of the audit includes all deposits, refunds, and forfeits recorded in the C&D account from November 1, 2007 to March 31, 2024.

To achieve this objective, we performed the following procedures:

- Reviewed the City's C&D Ordinance, program guidelines, applications, policies and procedures and financial system reports as they relate to the C&D Recycling Program.
- Conducted interviews with key personnel in the Community Development Department within the Administrative & Financial Services Bureau and Building and Safety Bureau for their involvement in the C&D Recycling Program process.
- Obtained an understanding of internal controls over the C&D Recycling Program processes.
- Reviewed and determined if C&D projects are active or should be forfeited.
- Reviewed the C&D account balance to identify proper recording of account transactions.
- Reviewed financial system data to identify errors and assess data quality issues.
- Reviewed refunds against original deposit amounts to assess the refund request process.
- Reviewed the spending of forfeited funds to determine if amounts were properly spent.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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 the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

IV. Management Response

Date: June 14, 2024

To: Laura Doud, City Auditor

From: Thomas B. Modica, City Manager 

Subject: **Department Response – Construction & Demolition Recycling Program
Performance Audit**

The Community Development Department (Department) has thoroughly reviewed the City Auditor's May 2024 report and recommendations related to the Construction & Demolition Recycling Program (Program). The Department appreciates the time and effort the City Auditor has given to identify areas for improvement within the Program. The audit did not identify fraud or misuse in the collection or application of Program funds; however, it has provided clarity and recommendations that will strengthen the Department's accounting processes and identified one-time funds that can be used for projects and programs that further the City's efforts to improve sustainability. Furthermore, the Department understands the concerns outlined by the City Auditor's Office and generally concurs with the recommendations within the audit report.

Attached please find the formal Management Response and Action Plan for the Construction & Demolition Recycling Program Performance Audit, which includes the specific actions that will be taken to implement the recommendations.

If you have any questions about the response, please contact April Apodaca, Financial Services Officer, at (562) 570-6611.

ATTACHMENT A - MANAGEMENT RESPONSE AND ACTION PLAN

MANAGEMENT RESPONSE AND ACTION PLAN

Community Development

Construction Demolition Recycling Program Performance Audit

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
1.1	Record the \$1.2 million of forfeited deposits in the separate liability account as revenue in the Development Services Fund.	H	8	Agree	Community Development - Administrative & Financial Services Bureau Financial Management - Accounting Bureau	As a result of the audit, the Community Development Department recognizes that forfeited deposits should be recorded as revenue rather than as a balance sheet liability. The Community Development Department will coordinate with the Financial Management Department to establish new GL Accounts to assist with tracking these revenues and then initiate the appropriate financial transaction to reflect the forfeit deposit balance appropriately.	July 30, 2024
1.2	Record all future forfeited deposits as revenue at the time the deposits are forfeited.	H	8	Agree	Community Development - Administrative & Financial Services Bureau	All future forfeited deposits will be recorded immediately as revenue following the procedures outlined in 1.1.	July 30, 2024
1.3	Update policies and procedures to include, at a minimum, an annual account reconciliation of the total C&D balance between the financial and permit system.	H	10	Agree	Community Development - Administrative & Financial Services Bureau	The Community Development Department has reconciled the C&D fund annually using data housed within the City's financial system to ensure that deposits and forfeitures were properly accounted for as part of the C&D program itself. Due to prior limitations in how data was recorded in multiple systems, the reconciliation of aged deposits did not include a formal reconciliation to the Infor Land Management System. The audit results have provided clarity, which will improve the Community Development Department's ability to strengthen the annual reconciliation by comparing the balance to the Infor Land Management System as part of year-end close. The Department's policies and procedures will be updated to require an annual reconciliation within 90 days of the prior fiscal year end.	December 31, 2024
1.4	Forfeit and record revenue for the \$8 million of the deposits not eligible for refund in the C&D account.	H	10	Agree	Community Development - Administrative & Financial Services Bureau	Due to prior limitations in how data was recorded, the reconciliation of aged deposits was difficult. The audit provides a detailed analysis of the true balance of the account and the Community Development Department will use this information to record the identified amounts as revenue similar to 1.1 and 1.2.	July 30, 2024

MANAGEMENT RESPONSE AND ACTION PLAN

Community Development

Construction Demolition Recycling Program Performance Audit

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
2.1	Determine the appropriate submission deadline for C&D refund requests based on the City's needs and conditions.	M	12	Agree	Community Development - Building & Safety Bureau and Administrative & Financial Services Bureau	The Community Development Department will examine the submission deadlines and determine a more appropriate deadline that ensures customers are held accountable for submitting documentation, but that sufficient time is available to ensure that the City receives the information needed to show compliance with the California Integrated Waste Management Act of 1989.	December 31, 2024
2.2	Update the City's Municipal Code with the City Attorney's Office to reflect the C&D refund request submission deadline.	M	12	Agree	Community Development - Building & Safety Bureau and Administrative & Financial Services Bureau	Once research related to implementation of 2.1 is complete, the Community Development Department will coordinate with the City Attorney's Office to request City Council approval of an Ordinance to amend Long Beach Municipal Code 18.67 to update required submission deadlines.	June 30, 2025
2.3	Review and update policies and procedures to align with the City's Municipal Code.	M	12	Agree	Community Development - Building & Safety Bureau	Following updates resulting from the action plan for 2.2, the Community Development Department will amend the internal policies and procedures to reflect approved updates.	December 31, 2025

Priority

H – High Priority - The recommendation pertains to a serious or materially significant audit finding or control weakness. Due to the seriousness or significance of the matter, immediate management attention and appropriate corrective action is warranted.

M – Medium Priority - The recommendation pertains to a moderately significant or potentially serious audit finding or control weakness. Reasonably prompt corrective action should be taken by management to address the matter. Recommendation should be implemented no later than six months.

L – Low Priority - The recommendation pertains to an audit finding or control weakness of relatively minor significance or concern. The timing of any corrective action is left to management's discretion.

Yellow areas - to be completed by the department



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