

NEWS

Audit finds \$9.2 million in unclaimed recycling refunds sitting unused in city account



by **Melissa Evans**
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Construction crews work on a residential development at Anaheim Street and Walnut Avenue in the heart of Cambodia Town Friday, June 24, 2022. Photo by Brandon Richardson.

A recent audit discovered the city has \$9.2 million that it should have been spending on environmental improvements as part of a requirement that contractors make refundable deposits to encourage recycling.

The Community Development Department hasn't reconciled financial accounts for the Construction & Demolition Recycling Program since the program's inception in 2007, City Auditor Laura Doud found in [a recent review](#).

The auditor found \$1.2 million in deposits that had not been recorded as revenue due to accounting errors, and another \$8 million in old deposits sitting in the account that were no longer eligible for a refund.

Any unclaimed deposits should be marked as one-time revenue to be used for projects that improve the environment.

"The City needs to ensure all City accounts are being monitored and funds are being used appropriately," Doud said in a statement.

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The recycling program began in response to a state requirement that all California cities, counties and agencies divert at least 50% of waste away from landfills, with fines up to \$10,000 per day if they do not comply.

The city created the program to address debris and trash associated with construction, a significant source of waste. Deposits are required for construction of residential or commercial structures and all demolition projects requiring a permit.

The deposit is 3% of the total cost of the work, with a minimum deposit of \$1,605 and a maximum of \$53,425. Contractors have 30 days after completion of the work to claim the money after showing proof that at least 65% of the materials were recycled.

Over the last decade, contractors have made 7,332 deposits worth \$43.9 million. The majority of those funds have been claimed, and some of the unclaimed funds have been spent on their intended purpose.

The city has used \$5.7 million in forfeited funds for work to improve Lincoln Park and the Wrigley Greenbelt, and in compiling its Climate Action Plan.

But, due to lax accounting, the city didn't know it had millions more to spend, the majority of which had been sitting in the Construction & Demolition account that holds the funds until deposits are claimed.

Auditors found deposits as far back as 2008 that had never been recorded as revenue and other errors that affected the balance of funds.

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

At the end of March, the Construction & Demolition account had a balance of \$18.1 million. But \$8 million of that balance should have been designated as revenue.

The audit also found inconsistencies in the way the 30-day deadline for contractors has been enforced, with staff giving contractors an average of 90 days to claim the funds.

Doud recommended the city change the ordinance if a longer period is more reasonable.

A higher priority, however, is to begin reconciling the account at least annually, she said.

The Community Development Department agreed with the findings and has pledged to make the recommended changes, according to a response included in the document.

City Manager Tom Modica noted in a memo that the audit didn't find fraud or misuse of funds, but 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."