

**MEASURE R INDEPENDENT TAXPAYERS OVERSIGHT COMMITTEE
OF METRO
DRAFT ANNUAL REPORT ON FY11 MEASURE R AUDITS**

INTRODUCTION

On November 4, 2008, Los Angeles County voters approved Measure R that imposed an additional half-cent transactions and use tax to fund transportation improvements in the County. Measure R, also known as the Traffic Relief and Rail Expansion Ordinance establishes an Independent Taxpayers Oversight Committee and an oversight process to ensure that the Los Angeles County Metropolitan Transportation Authority (Metro) complies with the terms of the Ordinance. The oversight process requires that an annual audit be conducted within six months after the end of the fiscal year to determine compliance with the provisions of the Ordinance related to the receipt and expenditure of sales tax revenues during the fiscal year. The audits must be provided to the Oversight Committee so that it can determine whether Metro and local subrecipients have complied with the Measure R requirements (see Exhibit 1). In compliance with the Ordinance, Metro contracted with Thompson, Cobb, Bazilio and Associates (TCBA) to perform the independent audit of the Measure R Special Revenue Fund. This year, for efficiency and effectiveness, Metro contracted with two firms to conduct the audits of Measure R sales tax revenues used by 87 cities (Cities) as well as the County of Los Angeles (County). The report performed by Vasquez & Company covers the audits of 49 of the Cities and the report performed by Simpson & Simpson covers the audits of 38 of the Cities as well as the County. (These Audits are attached as Exhibits 2, 3, and 4.)

THE AUDITS

The Measure R audit found that Metro complied, in all material respects, with the requirements that are applicable to the Measure R revenues and expenditures for the year ended June 30, 2011. The audits of compliance with the Local Return Guidelines by the 87 cities and the County of Los Angeles found 39 instances of noncompliance, 36 of which were deemed non-material.

MEASURE R OVERSIGHT COMMITTEE REVIEW

The Measure R Oversight Committee received the three audit reports in early February 2012. Each member of the Committee reviewed the reports, and the Committee met on February 21, 2012. At that meeting, the Committee received a formal presentation from each of the three auditors on their audit reports. The Committee asked questions and received satisfactory answers to questions regarding the design of each audit engagement, the auditor selection process, and the audit procedures each auditor used in conducting their audits. The Committee expressed concern that many of the instances of non-compliance by the cities were procedural in nature, and received explanation from Metro's Chief Auditor, Ruthe Holden, that this was due to some extent to this being a relatively new program. The Committee recommended education and training to help reduce non-compliance in the future. The Committee also inquired into the procedure for settlements from the cities where a city did not comply or disagrees with the Audit finding. The Committee requested a status update regarding these settlements at a future meeting. The Committee also received a presentation from its Advisory Panel Public Finance Expert, Lori Raineri of Government Financial Strategies,

and a presentation on the status of major Measure R transit and highway projects from Metro's Project Management Oversight and Highway Project Delivery Departments.

MEASURE R OVERSIGHT COMMITTEE FINDINGS

The Committee finds the auditing procedures and audits acceptable for determining compliance with Measure R, and further finds that education and training is needed to improve compliance at the local level.

**RESOLUTION OF THE INDEPENDENT TAXPAYERS OVERSIGHT COMMITTEE
MAKING FINDINGS REGARDING THE ANNUAL AUDIT PURSUANT TO THE
MEASURE R ORDINANCE**

WHEREAS, On November 4, 2008, Los Angeles County voters approved Measure R that imposed an additional half-cent transactions and use tax to fund transportation improvements in the County; and

WHEREAS, Measure R, also known as the Traffic Relief and Rail Expansion Ordinance establishes an Independent Taxpayers Oversight Committee and an oversight process to ensure that the Los Angeles County Metropolitan Transportation Authority (Metro) complies with the terms of the Ordinance; and

WHEREAS, the oversight process requires that an annual audit be conducted within six months after the end of the fiscal year to determine compliance with the provisions of the Ordinance related to the receipt and expenditure of sales tax revenues during the fiscal year; and

WHEREAS, the audits must be provided to the Oversight Committee so that the Oversight Committee can determine whether Metro and local subrecipients have complied with the Measure R requirements; and

WHEREAS, under contract with Metro, Thompson, Cobb, Bazilio and Associates (TCBA) performed the independent audit of the Measure R Special Revenue Fund, and Vasquez & Company, LLP and Simpson & Simpson audited the compliance of the 87 cities (Cities) and the County of Los Angeles (County); and

NOW, THEREFORE, the Measure R Independent Taxpayers Oversight Committee of Metro finds that:

The audits were performed in accordance with the Ordinance that the voters approved in 2008;

Metro complied, in all material respects, with the requirements applicable to the Measure R revenues and expenditures for the year ended June 30, 2011; and

The audits of Measure R sales tax revenues used by the 87 cities and the County of Los Angeles found 39 instances of noncompliance with requirements applicable to the Measure R Local Return program for the year ended June 30, 2011, 36 of which were deemed non-material.

Education and training should be implemented to improve compliance in the coming year.

Adopted this _____ day of _____, 2012.