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Item 7

**MEASURE R INDEPENDENT TAXPAYERS
OVERSIGHT COMMITTEE**

MARCH 7, 2014

SUBJECT: FY 2012-13 AUDIT - MEASURE R COMPLIANCE STATUS

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file the attached FY 2012-13 Audit Measure R Compliance Status table, with updates, for the Cities of Los Angeles County and Los Angeles County Unincorporated. If there is no finding for FY13 Measure R Local Return funds, the city is not listed in this table.

ISSUE

There were a total of 29 Local Jurisdictions with compliance issues, with some cities experiencing multiple issues (no more than three) for a total of 36 findings. All findings have been addressed and are resolved, or in the process of being resolved.

Regarding audit issues and resolutions to the issues, letters were sent on February 3 and 5, 2014, to each jurisdiction. LACMTA has been monitoring the submittal dates and is contacting cities with late submittals to reaffirm the importance of on-time submittals.

DISCUSSION

- 1.) Findings of not having submitted their form on time total 12.
- 2.) One city went over the 20% administration cap and one city had issues with interest income allowances.
- 3.) Cities that had issues with salaries, record keeping and unsupported documentation related to such charges equal 11.
- 4.) Cities that failed to obtain approval before expenditures, list at 11.

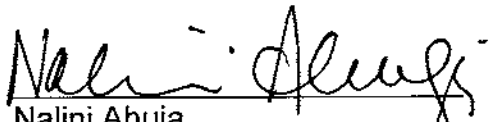
NEXT STEPS

LACMTA will continue to monitor each city's progress and note any finding that is repetitive or of a more serious nature.

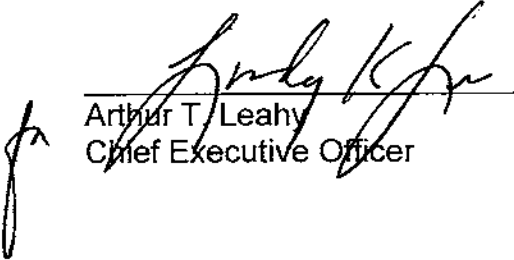
ATTACHMENT

A. FY 2012-13 AUDIT - MEASURE R COMPLIANCE STATUS UPDATE

Prepared by: Susan Richan, Program Manager, Local Programming



Nalini Ahuja
Executive Director, Finance and Budget



Arthur T. Leahy
Chief Executive Officer

Local Jurisdiction	FY13 Compliance Area (auditor)	Questioned Costs (unsolved)	Status (Updates are in Bold)
Artesia	Form One was not submitted on time	\$0	The City will ensure that the form is submitted by the required timeline. This was submitted on time in FY14.
Azusa	Form One was not submitted on time	\$0	City has been advised on the importance of filing a Form One timely. This was submitted a few days late in FY13, however in FY14, this was submitted on time.
Bell	The City expended funds prior to LACMTA's approval. City incurred expenditures for Administration in the amount of \$35,225.	\$0	The City has been going through changes and is committed in improving the process including the internal controls needed. Administration was subsequently approved by LACMTA on Dec. 26, 2013.
Bell	Form One was not submitted on time	\$0	The City has been going through changes and is committed in improving the process including the internal controls needed
Bell	The City hired an outside company, NBS, to perform a cost allocation study on the City-side of overhead costs. The allocations in a total amount of \$27,778 could not be traceable or supported by the study performed.	\$27,778	Auditors recommend that the City reimburse their account by \$27,778. The City has been going through changes and is committed in improving the process including the internal controls needed
Commerce	Form One was not submitted on time	\$0	The City will establish procedures that will ensure staff is aware of and can meet all deadlines. This was submitted two days late in FY13, however in FY14, this was submitted on time.
Commerce	The City uses its best estimate of percentage of its project employees' salaries to determine its project payroll charges. Lack of supporting documentation to substantiate the charges for project expenditures could result in disallowed costs.	\$0	The City will implement record keeping procedures that will provide adequate documentation to support the salary and benefit charges.
Compton	Form Two was not submitted on time	\$0	The City Controller's Office has implemented cross-training procedures to prevent this issue from occurring. This was submitted on time for FY14.
Cudahy	The City did not comply with its policy of the cancelation of paid vendor invoices to prevent double payment of invoices. Non-cancelation of paid invoices can result in duplicate payment on the same invoice and therefore, can lead to weak internal controls.	\$0	Auditors recommend the City implement internal controls that will strictly enforce compliance with its policy to help prevent double payment on invoices. The City agrees with the finding. It is the City's policy to only pay original invoices and only the current amount of the invoice.

Local Jurisdiction	FY13 Compliance Area (auditor)	Questioned Costs (unsolved)	Status (Updates are in Bold)
Culver City	The expenditures for the Measure R Transportation Services project in the amount of \$181,000 were incurred prior to the approval from LACMTA.	\$0	The City was not aware that the project approval letter from LACMTA was not received and that the project was not approved. LACMTA subsequently approved the project on Oct. 14, 2013.
Diamond Bar	The City claimed expenditures for Diamond Bar Blvd. at Clear Creek Canyon project totaling \$1,200 with no prior approval from LACMTA.	\$0	The City was not aware that a new Form One needs to be submitted for each new project prior to implementation. LACMTA gave retroactive approval of this project.
Duarte	The salaries and benefits claimed of \$20,000 under a Measure R project was unsupported by timesheets or similar time and effort documentation to demonstrate that the salaries charged were expended on approved projects	\$0	The City has instituted a project to accumulate the cost charged to the General Fund in support of the Duarte Transit.
El Monte	The expenditures of \$44,337 for Valley Blvd and Santa Anita Ave Traffic Signal Improvement Project were incurred without LACMTA's project approval	\$0	This was caused due to an oversight by City personnel. The City provided Guidelines to staff outlining that all Measure R projects must be approved by LACMTA in advance before expending the funds. This was given subsequent approval by LACMTA.
El Monte	The City's administrative expenditures exceeded more than 20% of its total annual expenditure in the amount of \$21,903.	\$21,903	The City management has committed to a mid-year budget review process which should lessen the impact and/or rectify this issue.
El Monte	The City's Form Two was not submitted timely	\$0	The City will ensure that the form is submitted by the required timeline. This was submitted on time in FY14.
El Segundo	Form One was not submitted on time	\$0	Due to shortage of staff in 2012 the City was not able to compile the Form on time. This was submitted on time in FY14.
Hawaiian Gardens	The City claimed expenditure for the Annual Pavement Rehabilitation project totaling \$147,365 with no prior approval from LACMTA.	\$0	A copy of the completed form was found in the file and on that basis the City believed the form was filed. Unfortunately, the City does not have evidence that the form was actually received by LACMTA. For FY14 the City submitted their Form One with the Overlay project which was approved by LACMTA.
Hawthorne	The costs for administrative positions were incorrectly charged though the city payroll system. This could result in over-or-under reported approved project costs.	\$0	The City will review all administrative positions to guarantee that they are coded correctly for existing and future projects.

Local Jurisdiction	FY13 Compliance Area (auditor)	Questioned Costs (unsolved)	Status (Updates are in Bold)
Hermosa Beach	The City claimed expenditures for Protective Bollards at Pier Plaza (\$23,225) and Hermosa View School (\$28042) projects. These projects, totaling \$51,267, were previously approved in FY12.	\$0	City staff shall ensure project approvals have been granted by LACMTA prior to commencing any funded projects. LACMTA subsequently approved the projects.
Hidden Hills	Form One was not submitted on time	\$0	City concurs with the finding and will establish procedures to ensure timely submission of all forms required by the Guidelines.
Huntington Park	Form One was not submitted on time	\$0	The City will make adjustments to submit all required reports on a timely basis. This was a finding in both FY12 and FY13, however in FY14 this form was submitted on time.
Inglewood	The accruals for FY13 were not recorded due to the untimely invoice receipt and payment submittals by the Public Works Department. Accruals in a total amount of \$74,677 that were not recorded led to a significant audit adjustment.	\$0	Public Works Department invoice payment process now requires timely receipt and processing of invoices for capital project work. Invoices are to be received no later than 30 days after the completion of the work and payment of invoices will be no later than 45 days after completion of work. Also the Accounting Department staff will ensure that the trial balance related to the audit will be prepared and accruals will be posted to the trial balance schedule.
La Verne	Form One was not submitted on time	\$0	The City concurs with the findings and plans to submit all required reports on a timely basis in the future.
Lancaster	The City claimed expenditures totaling \$1,151,022 without prior approval from LACMTA, and therefore, the City did not comply with the Guidelines.	\$0	The City is of the opinion that the Form One was submitted by email on July 27, 2012. City was unable to provide backup documentation as the city email retention policy is 120 days. In the future City will maintain email documentation. LACMTA granted retroactive approval of the projects on Oct. 14, 2013.
Lawndale	Positions partially funded by Measure R were not supported with verifiable data. Lack of supporting documentation to substantiate the charges for project expenditures could result in disallowed cost claimed.	\$0	Auditors recommend that the City implement a timekeeping system to ensure salaries and related fringe benefits to be supported by adequate documentation. The City will follow the auditor's recommendation.

Local Jurisdiction	FY13 Compliance Area (auditor)	Questioned Costs (unsolved)	Status (Updates are in Bold)
Lawndale	Payroll expenditures charged for administrative positions were included in the various project codes rather than in the Direct Administrative project code "08"	\$0	The City has submitted a revised Expenditure Plan for FY13, both budget and actual to LACMTA separating the administration cost from planning and engineering cost subsequent to the audit. The City will ensure that future plans reflect the correct project codes.
Lynwood	The City expended funds on two projects that were not included on the City's Form One and therefore were not approved by LACMTA	\$0	This was due to a management's oversight. Going forward, we will ensure that projects are properly included on the Form One and approved by LACMTA. LACMTA has subsequently approved these two projects.
Maywood	Form One was not submitted on time	\$0	The City concurs with the finding and plans to submit all required reports on a timely basis in the future.
Maywood	Form Two was not submitted on time	\$0	The City concurs with the finding and plans to submit all required reports on a timely basis in the future.
Monterey Park	The City uses its best estimate of percentage of its project and administrative employees' salaries to determine its project and administrative payroll charges to Measure R. Lack of supporting documentation to substantiate the charge for project expenditures could result in disallowed cost claimed.	\$0	Auditors recommend that the City implement a timekeeping system to ensure salaries and related fringe benefits be supported by adequate documentation. The City departments can certainly implement a timekeeping log system in addition to utilizing their existing practices to support the allocations as per the audit recommended requirements.
Palmdale	The City claimed expenditures totaling \$600,800 without prior approval from LACMTA.	\$0	The City has put in place regular monitoring of all grant projects through bi-monthly meeting with project managers to get updated on current expenditures. LACMTA granted retroactive approval of the project expenditures on Nov. 7, 2013.
Pomona	Administrative costs were allocated to Measure R in the amount of \$103,554 with no documentation to support the allocations.	\$103,554	The finding for Measure R is the result of a 20% administrative service charge that is charged to many city funds. This charge was discussed directly with LACMTA and the City was advised that this expense is allowable. If LACMTA would like the City to conduct a cost allocation study for this charge, the City will conduct a study if it would be considered an allowable cost to the Measure R program.

Local Jurisdiction	FY13 Compliance Area (auditor)	Questioned Costs (unsolved)	Status (Updates are in Bold)
Rosemead	The City uses its best estimate of percentage of its project employees' salaries to determine its project payroll charges to Measure R. Actual timesheets filled out by employees may or may not equal the estimates used by the City's payroll system to automatically charge the funds. Insufficient supporting documentation to substantiate the charge for project expenditures could result in disallowed cost claimed.	\$0	Auditors recommend that the City implement a timekeeping system that tracks the hours spent on the local return fund to ensure salaries and related fringe benefits are supported by adequate documentation. The City will monitor the charges that are made to Measure R funds on a continued basis to ensure that proper timekeeping and documentation is adhered to each pay period.
Sierra Madre	The Measure R fund shows \$0 interest income in FY13 although the average cash balance was \$650,000. We estimate the interest due to the funds to be \$1,996 based on average annual year of 0.307% published in the California State Treasurer website.	\$0	Auditors recommend that the City review its current interest allocation policy. The City has adopted an Interest Allocation Policy in 2010. Per section 4(b) of the adopted Investment Policy, interest allocation is net of bank fees. This policy has been approved by the City Council and in place for almost five years. The City would have liked to have reported a financial gain in interest this year, but the market is not in their favor. Until either the cash balance rebound for the City or LAIF experiences higher interest earnings, this will continue to be the trend in Sierra Madre. IF LACMTA requires us in writing, we will adopt the audit recommendation to future periods, and not retrospectively as this had been the approved method for five consecutive years.
Signal Hill	The City claimed expenditures totaling \$94,500 without prior approval from LACMTA.	\$0	City has taken corrective action by establishing a procedure by which the expenditure plan is submitted before the deadline. LACMTA granted a retroactive approval of the said project on Aug. 7, 2013.
Whittier	The City claimed expenditures totaling \$307,045, without prior approval from LACMTA.	\$0	The City submitted the form to LACMTA on May 8, 2012, however the City will monitor to ensure approvals are received in advance through written documentation in the future. LACMTA granted retroactive approval of projects Dec. 27, 2013.