



Metro

Los Angeles County
Metropolitan Transportation Authority

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Item 13

**MEASURE R INDEPENDENT TAXPAYERS
OVERSIGHT COMMITTEE
FEBRUARY 9, 2015**

**SUBJECT: MEASURE R INDEPENDENT TAXPAYERS OVERSIGHT COMMITTEE
ANNUAL REPORT**

ACTION: APPROVE DRAFT ANNUAL AUDIT REPORT ON MEASURE R AUDITS

RECOMMENDATION

Adopt the Draft Annual Audit Report on Measure R Audits (Attachment A).

ISSUE

Section 8(d) of the Measure R Ordinance requires that the Oversight Committee “prepare an annual report to the Metro Board of Directors presenting the results of the annual audit process and any findings made.” Staff has prepared a draft report for the Committee’s review, discussion and revision (contained in Attachment A).

DISCUSSION

In addition to requiring that the annual audit report be prepared by the Committee, the Ordinance states that the “report shall include an assessment of the consistency of the expenditures of Sales Tax Revenues with this Ordinance, including Attachment A [the Expenditure Plan].” Three audits have been prepared on FY14 Measure R expenditures and will be presented to the Committee at its February 9, 2015 meeting. Staff based the attached Draft Annual Report on these three independent audits. The report describes the audit results and makes several findings. The Ordinance also requires a summary of the Annual Report be included in the Public Hearing notice and that the Report will be distributed to public libraries in Los Angeles County for public review.

FINANCIAL IMPACTS

There are no financial impacts related to this action.

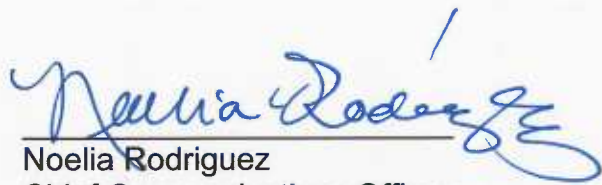
NEXT STEPS

Staff will distribute the Annual Report with the three independent audits to LA County public libraries. Any public comments received in writing or during the public hearing will be added to the report before submission to Metro.

ATTACHMENTS

- A. Measure R Independent Taxpayers Oversight Committee of Metro Draft Annual Report on FY14 Measure R Audits

Prepared by: Ann Kerman, Interim Deputy Executive Officer, Community Relations
(213) 922-7671

A handwritten signature in blue ink that reads "Noelia Rodriguez". The signature is written in a cursive style with a large, sweeping flourish at the end.

Noelia Rodriguez
Chief Communications Officer

A handwritten signature in blue ink that reads "Arthur T. Leahy". The signature is written in a cursive style with a large, sweeping flourish at the end.

Arthur T. Leahy
Chief Executive Officer

**MEASURE R INDEPENDENT TAXPAYERS OVERSIGHT COMMITTEE
OF METRO
DRAFT ANNUAL REPORT ON FY14 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 BCA Watson Rice, LLP (BCA) to perform the independent audit of the Measure R Special Revenue Fund. Metro also 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 Independent Auditor's report on the Measure R Special Revenue Fund 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, 2014.

The audits of compliance with the Local Return Guidelines found that the 87 cities and the County of Los Angeles complied with the requirements in the Measure R Ordinance that are applicable to the Measure R Local Return program for the year ended June 30, 2014. However, they found 32 deficiencies in internal control over compliance, none of which were deemed material. Of those findings, six were deemed to have material weaknesses and six were found to have significant deficiencies.

MEASURE R OVERSIGHT COMMITTEE REVIEW

The Measure R Oversight Committee received the three audit reports in January 2015. Each member of the Committee reviewed the reports, and the Committee met on February 9, 2015. 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 Committee recommended ... The Committee also received a comparative analysis report on audit findings over the last four years from Metro's Chief Auditor, a status update on Measure R Local Return Compliance Status from Metro's Local Programming Department, and a

presentation from the Committee's Advisory Panel Public Finance Expert, Lori Raineri of Government Financial Strategies.

MEASURE R OVERSIGHT COMMITTEE FINDINGS

The Committee finds that: 1) the audits were performed in accordance with the Ordinance that the voters approved in 2008; 2) Metro complied, in all material respects, with the requirements applicable to the Measure R revenues and expenditures for the year ended June 30, 2014; and 3) the cities and the County complied with the requirements in the Measure R Ordinance that are applicable to the Measure R Local Return program for the year ended June 30, 2014; however, the audits found 32 deficiencies in internal control over compliance, none of which were deemed material. Of those findings, six were deemed to have material weaknesses and six were found to have significant deficiencies.

**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, BCA Watson Rice, LLP (BCA) 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, 2014;

The cities and the County complied with the Ordinance requirements that are applicable to the Measure R Local Return program for the year ended June 30, 2014, however, the audits found 32 deficiencies in internal control over compliance, Of those findings, six were deemed to have material weaknesses and six were found to have significant deficiencies; and

More timely follow-up and technical assistance with Local Return recipients is needed to resolve prior audit findings.

Adopted this _____ day of _____, 2015.