

**Board Report**

File #: 2019-0385, **File Type:** Informational Report**Agenda Number:** 16.

**FINANCE, BUDGET AND AUDIT COMMITTEE
JULY 17, 2019****SUBJECT: CONSOLIDATED AUDIT FOR FISCAL YEAR 2018****ACTION: RECEIVE AND FILE****RECOMMENDATION**

RECEIVE AND FILE the Consolidated Audit financial and compliance audit reports completed by Vasquez and Company (Vasquez) and Simpson and Simpson, CPA's (Simpson & Simpson) for the Fiscal Year ending June 30, 2018.

ISSUE

As the Regional Transportation Planner for Los Angeles County, we are responsible for planning, programming and allocating transportation funding to Los Angeles County jurisdictions, transit operators and other transportation programs. We have the fiduciary responsibility to provide assurance that recipients of funds included in the Consolidated Audit are adhering to the statutes, program guidelines, and/or agreements of each applicable funding source and that operations data used to allocate funds is fair and in accordance with Federal Transit Administration (FTA) guidelines.

BACKGROUND

The Consolidated Audit process includes financial and compliance audits of the following programs:

- Local Funding Program to 88 cities and Unincorporated Los Angeles County
 - Proposition A Local Return
 - Proposition C Local Return
 - Measure R Local Return
 - Measure M Local Return
 - Transit Development Act (TDA) Article 3 and Article 8 Programs
 - Proposition A Discretionary Incentive Program
- Transit System Funds to Commerce, Redondo Beach, and Torrance
 - Transit Development Act (TDA) Article 4
 - State Transit Assistance (STA)
 - Proposition A 95% of 40% Discretionary
 - Proposition C 5% Security
 - Proposition C 40% Discretionary

- Proposition 1B Funds
- Measure R 20% Bus Operations and Clean Fuel Bus Funds
- Measure M 20% Bus Transit Operation Fund
- Proposition A 40% Discretionary - Growth Over Inflation (GOI) Fund to Burbank, Glendale, LADOT and Pasadena Transit System Operators
- Fare Subsidies Programs
 - Immediate Needs Transportation Program (INTP)
 - Rider Relief Transportation Program (RRTP)
 - Support for Homeless Re-Entry (SHORE) Program
- Metrolink Program
- EZ Transit Pass Program
- Access Services
- LADOT Operating Data (Proposition A Incentive Programs)

We allocate over \$575 million annually to these programs and distribute them to 88 cities in Los Angeles County, the County of Los Angeles and other agencies. Audits of these programs are needed to ensure that the agencies comply with the applicable rules, regulations, policies, guidelines and executed Memorandums of Understanding (MOU). The audits also serve as a program management tool for effectively managing and administering these programs.

Vasquez and Simpson & Simpson performed the financial and compliance audits to provide reasonable assurance to management whether recipients of subsidies included in the Consolidated Audit are adhering to the statutes of each applicable funding source. The audits were conducted in accordance with generally accepted government auditing standards and the American Institute of Certified Public Accountants' Standards.

DISCUSSION

Local Return

Proposition A and C

Vasquez and Simpson & Simpson found that the Cities and County, with the exception of the City of Compton, complied in all material respects, with the Guidelines and Requirements referred to above that could have a direct and material effect on the Local Return Programs for the year ended June 30, 2018.

The auditors found 48 instances of non-compliance for Proposition A and C. Questioned costs totaling \$1.1 million and \$1.7 million for Proposition A and Proposition C, respectively represent approximately 1% of each total fund reviewed. The Local Return Program Manager is working with the cities to resolve the findings. The respective auditors will validate the resolution of the findings identified in these audits in the following years' audits.

Measure R

Vasquez and Simpson & Simpson found that the County and Cities, with the exception of City of Compton, complied in all material respects, with the Guidelines and Requirements referred to above that could have a direct and material effect on the Local Return Programs for the year ended June 30, 2018. The Measure R Local Return audit results were presented to the Measure R Independent

Taxpayers Oversight Committee (MRITOC) on March 6, 2019. A Public Hearing for MRITOC was also conducted to receive public input on June 5, 2019.

The auditors found 28 instances of non-compliance for Measure R. Questioned costs totaling \$4 million for Measure R represent approximately 3% of the total amount reviewed. The Local Return Program Manager is working with the cities to resolve the findings. The respective auditors will validate the resolution of the findings identified in these audits in the following years' audits.

Measure M

Vasquez and Simpson & Simpson found that the Cities and County complied in all material respects, with the Guidelines and Requirements referred to above that could have a direct and material effect on the Local Return Programs for the year ended June 30, 2018. The Measure M Local Return audit results were presented to the Measure M Independent Taxpayer Oversight Committee (MMITOC) on March 6, 2019.

The auditors found 14 instances of non-compliance for Measure M. Questioned costs totaling \$700 thousand for Measure M represent less than 1% of the total amount reviewed. The Local Return Program Manager is working with the cities to resolve the findings. The respective auditors will validate the resolution of the findings identified in these audits in the following years' audits.

Non-Local Return

The auditors found that schedules/financial statements for the various programs included in the Consolidated Audit present fairly, in all material respects. They also found that the entities complied, in all material respects, with the compliance requirements of their respective guidelines. However, the auditors noted several compliance findings; two findings for Metrolink program, nine findings for the TDA Article 3 program and three for the EZ Transit Pass Program. Fourteen compliance findings were also identified for the Immediate Needs Transportation Program (INTP) (9), and Rider Relief Transportation Program (RRTP) (5) programs. Metro Program Managers are working with the funds recipients to resolve the findings. The respective auditors will validate the resolution of the findings identified in these audits in the following years' audits.

Due to the considerable size of the documents, we have attached the Report on Compliance with Requirements Applicable to Proposition A and C and Measure R and M Ordinances and Proposition A and C and Measure R and M Local Return Guidelines by each of the firms (Attachment A through F). As a savings measure the remaining Consolidated Audit reports can be accessed online.

For the audit reports issued by Vasquez, please visit:

http://libraryarchives.metro.net/DB_Attachments/Vasquez%20Final%20Reports%20FY18/

For the audit reports issued by Simpson & Simpson, please visit:

http://libraryarchives.metro.net/DB_Attachments/Simpson%20Final%20Reports%20FY18/

FINANCIAL IMPACT

This is an informational report and does not have a direct financial impact on Metro.

Impact to Budget

This is an informational report and does not impact the FY 2019 budget.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Approval of this item supports Metro Vision 2028 Goal #5: Provide responsive, accountable, and trustworthy governance within the Metro organization. However, the projects/programs developed with these funds directly or indirectly support all five Vision 2028 goals identified in Metro's Strategic Plan.

ATTACHMENTS

Attachment A - Report on Compliance with Requirements Applicable to Proposition A and Proposition C Ordinances and Proposition A and Proposition C Local Return Guidelines (Vasquez)

Attachment B - Report on Compliance with Requirements Applicable to Proposition A and Proposition C Ordinances and Proposition A and Proposition C Local Return Guidelines (Simpson & Simpson)

Attachment C - Report on Compliance with Requirements Applicable to Measure R Ordinance and Measure R Local Return Guidelines (Vasquez)

Attachment D - Report on Compliance with Requirements Applicable to Measure R Ordinance and Measure R Local Return Guidelines (Simpson & Simpson)

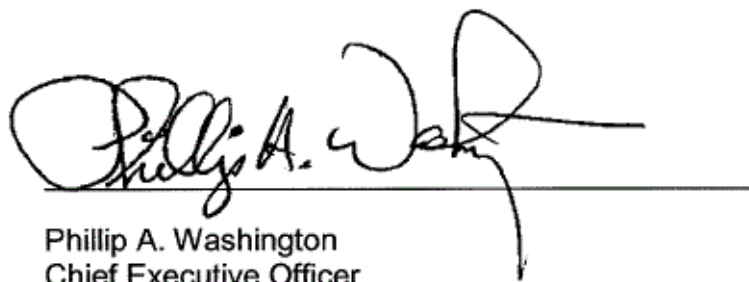
Attachment E - Report on Compliance with Requirements Applicable to Measure M Ordinance and Measure M Local Return Guidelines (Vasquez)

Attachment F - Report on Compliance with Requirements Applicable to Measure M Ordinance and Measure M Local Return Guidelines (Simpson & Simpson)

Prepared by: Lauren Choi, Sr. Manager, Audit, (213) 922-3926

Monica Del Toro, Audit Support Manager, (213) 922-7494

Reviewed by: Diana Estrada, Chief Auditor, (213) 922-2161



Phillip A. Washington
Chief Executive Officer

Attachment A

http://libraryarchives.metro.net/DB_Attachments/2019-0385_Attachment_A_Prop_A_C_Vasquez.pdf

Attachment B

http://libraryarchives.metro.net/DB_Attachments/2019-0385_Attachment_B_Prop_A_C_Simpson.pdf

Attachment C

http://libraryarchives.metro.net/DB_Attachments/2019-0385_Attachment_C_Measure_R_Vasquez.pdf

Attachment D

http://libraryarchives.metro.net/DB_Attachments/2019-0385_Attachment_D_Measure_R_Simpson.pdf

Attachment E

http://libraryarchives.metro.net/DB_Attachments/2019-0385_Attachment_E_Measure_M_Vasquez.pdf

Attachment F

http://libraryarchives.metro.net/DB_Attachments/2019-0385_Attachment_F_Measure_M_Simpson.pdf