



Board Report

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Agenda Number: 17.

FINANCE, BUDGET AND AUDIT COMMITTEE SEPTEMBER 15, 2021

SUBJECT: CONSOLIDATED AUDIT FOR FISCAL YEAR 2020

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the Consolidated Audit Financial and Compliance Reports completed by Vasquez and Company (Vasquez) and Simpson and Simpson (Simpson), certified public accountants, for the Fiscal Year ending June 30, 2020.

ISSUE

As the Regional Transportation Planner for Los Angeles County, the Los Angeles County Metropolitan Transportation Authority (Metro) is responsible for planning, programming and allocating transportation funding to Los Angeles County jurisdictions, transit operators and other transportation programs. Metro has the fiduciary responsibility to provide assurance that recipients of funds included in the Consolidated Audit and Compliance Reports (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
 - Low Income Fare is Easy (LIFE)
 - Support for Homeless Re-Entry (SHORE) Program
- Metrolink Program
- EZ Transit Pass Program
- Access Services
- LADOT Operating Data (Proposition A Incentive Programs).

Metro allocates over \$650 million annually to the stated programs and distribution to the County of Los Angeles (County), the 88 cities in Los Angeles County (Cities), and other agencies. Annual audits of the programs 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 the programs.

Management Audit Services (MAS) contracted with the certified public accountant firms of Vasquez and Simpson to perform the financial and compliance audits and 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 the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and the program guidelines.

The auditors concluded that the County, Cities, transit operators, and other agencies complied, in all material respects, with the guidelines and requirements that could have a direct and material effect on the Local Return and other applicable programs for the Fiscal Year ending June 30, 2020.

DISCUSSION

The consolidated audit process includes financial and compliance audits of Local Return programs. Following is a summary of consolidated audit results:

Proposition A and C

Vasquez and Simpson found that the County and Cities complied, in all material respects, with the guidelines and requirements that could have a direct and material effect on the Local Return programs for the year ended June 30, 2020.

The auditors found 50 instances of non-compliance for Proposition A and C, which consisted of 36 minor findings, including the untimely submittal of forms. Fourteen (14) findings were identified with questioned costs totaling approximately \$900 thousand for Proposition A and \$ 1.8 million for Proposition C, representing approximately 1% of each total fund reviewed. The Local Return program manager is working with the respective cities to resolve the findings. The auditors will validate the resolution of the findings within next year's annual Consolidated Audit process.

Measure R

Vasquez and Simpson found that the County and Cities complied, in all material respects, with the guidelines and requirements that could have a direct and material effect on the Local Return programs for the year ended June 30, 2020.

The auditors found 21 instances of non-compliance for Measure R, which consisted of 11 minor findings, including the untimely submittal of forms. Ten (10) findings were identified with questioned costs totaling \$2.1 million for Measure R represents approximately 1% of the total amount reviewed. The Local Return program manager is working with the respective cities to resolve the findings. The auditors will validate the resolution of the findings within next year's annual Consolidated Audit process.

Measure M

Vasquez and Simpson found that the County and Cities complied, in all material respects, with the guidelines and requirements that could have a direct and material effect on the Local Return programs for the year ended June 30, 2020.

The auditors found 21 instances of non-compliance for Measure M, consisting of 11 minor findings, including the untimely submittal of forms. Ten (10) findings were identified with questioned costs totaling \$1.5 million for Measure M represents approximately 1% of the total amount reviewed. The Local Return program manager is working with the respective cities to resolve the findings. The auditors will validate the resolution of the findings within next year's annual Consolidated Audit process.

The consolidated audit process includes financial and compliance audits of Non- Local Return programs. Following is a summary of consolidated audit results:

The auditors found that schedules/financial statements for the various programs stated above present fairly, in all material respects. The auditors also found that the entities complied, in all material respects, with the compliance requirements of the respective guidelines. The auditors noted several compliance findings, including:

- 12 findings for the TDA Article 3 program;
- 2 findings for the Metrolink program;
- 1 for the EZ Pass Program; and
- 1 for the LIFE program.

Metro program managers are working with the respective funds' recipients to resolve the findings.

The auditors will validate the resolution of the findings within next year's annual Consolidated Audit process.

Due to the considerable size of the documents, the Reports on Compliance with Requirements Applicable to Proposition A and C; including Measure R and M Ordinances; and Local Return Guidelines are provided as Attachment A through F. The additional Consolidated Audit reports are accessible online.

The comprehensive financial and compliance audit reports issued by Vasquez are accessible online at:

http://libraryarchives.metro.net/DB_Attachments/FY20%20Consolidated%20Audits/210804_Vasquez%20Package%20A/

The comprehensive financial and compliance audit reports issued by Simpson are accessible online at :

http://libraryarchives.metro.net/DB_Attachments/FY20%20Consolidated%20Audits/210804_Simpson%20Package%20B/

FINANCIAL IMPACT

This is an informational report and does not have a direct financial impact on Metro as the auditors concluded that the County, Cities, transit operators, and other agencies complied, in all material respects, with the guidelines and requirements that could have a direct and material effect on the Local Return and other applicable programs for the Fiscal Year ending June 30, 2020; and Metro program managers are working with the respective funds recipients to resolve the stated findings.

Impact to Budget

This is an informational report and does not impact the FY 2022 budget.

EQUITY PLATFORM

In applying an equity lens to the audit work performed in the FY 2020 Consolidated Audit Report staff performed an analysis of the 88 cities that were audited to determine if they contain Equity Focused Communities (EFCs). Utilizing Metro's ArcGIS Mapping Tool, it was noted that 50 percent of the cities audited have designated EFC's within the cities. Staff will continue to consider and identify any potential equity impacts in our future reports.

Metro defines areas with the greatest mobility needs as Equity Focused Communities (EFCs). EFCs are defined as areas in which at least 40 percent of residents are low-income (earning \$35,000 or less per year), and 80 percent of residents are people of color, or 10 percent of the households do not have a car.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

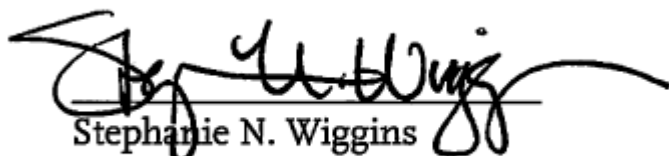
Approval of this item supports Metro Vision 2028 Goal #5: Provide responsive, accountable, and trustworthy governance within the Metro organization. The projects/programs developed with these funds directly or indirectly support all five Vision 2028 goals identified in Metro's Strategic Plan.

ATTACHMENTS

- A. Report on Compliance with Requirements Applicable to Proposition A and Proposition C Ordinances and Proposition A and Proposition C Local Return Guidelines (Vasquez)
- B. Report on Compliance with Requirements Applicable to Proposition A and Proposition C Ordinances and Proposition A and Proposition C Local Return Guidelines (Simpson)
- C. Report on Compliance with Requirements Applicable to Measure R Ordinance and Measure R Local Return Guidelines (Vasquez)
- D. Report on Compliance with Requirements Applicable to Measure R Ordinance and Measure R Local Return Guidelines (Simpson)
- E. Report on Compliance with Requirements Applicable to Measure M Ordinance and Measure M Local Return Guidelines (Vasquez)
- F. Report on Compliance with Requirements Applicable to Measure M Ordinance and Measure M Local Return Guidelines (Simpson)

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