



Board Report

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FINANCE, BUDGET AND AUDIT COMMITTEE AUGUST 17, 2022

SUBJECT: CONSOLIDATED AUDIT FOR FISCAL YEAR 2021

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, 2021.

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
 - Transportation Development Act (TDA) Article 3, Article 4 and Article 8 Programs
 - Proposition A Discretionary Incentive Program
- Prop A Discretionary Incentive Grant
 - Antelope Valley Transit Authority

- Pomona Valley Transportation Authority
- Transit System Operators of Commerce, Redondo Beach, Torrance
 - Transit System Funds
 - Measure M 20%
 - Measure R 20%
- Proposition A Growth Over Inflation (GOI) Fund to Burbank, Glendale, LADOT and Pasadena
- Fare Subsidies Programs
 - Support for Homeless Re-Entry (SHORE) Program
 - Low-Income Fare is Easy (LIFE) Program
- Metrolink Program
- EZ Transit Pass Program
- Access Services
- LADOT.

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, 2021.

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, 2021.

The auditors found 29 instances of non-compliance for Proposition A and C which consisted of 5 minor findings related to the untimely submittal of forms. Fourteen (14) findings were identified with questioned costs totaling approximately \$1.3 million for Proposition A and \$ 1.4 million for Proposition C which represent less than 1% of each total fund reviewed.

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, 2021.

The auditors found 10 instances of non-compliance for Measure R which consisted of 2 minor findings including the untimely submittal of forms. Seven (7) findings were identified with questioned costs totaling \$129 thousand for Measure R represents less than 1% of the total amount reviewed.

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, 2021.

The auditors found 9 instances of non-compliance for Measure M, consisting of 2 minor findings including the untimely submittal of forms. Six (6) findings were identified with questioned costs totaling \$1.1 million for Measure M represents less than 1% of the total amount reviewed.

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 10 findings for the LIFE program and 8 findings for the TDA Article 3 program.

In response to the independent auditor findings for Metro's LIFE program, Metro management addressed the findings with the contracted LIFE program administrators. Management will continue to provide oversight of the contractor's accounting and payroll processes as the recommended controls are implemented. In addition, Metro management addressed the finding related to the questioned funds as identified in the audit, and the funds were returned to Metro in May 2022.

In response to the independent audit findings for TDA 3, Metro management has reviewed the findings and will continue to work with the respective fund recipients to resolve the findings. Management noted that Cities are required to spend funds within four (4) years, and due to extenuating circumstances such as the COVID-19 pandemic and delayed projects, Cities may not expend all of the funds. In the event of such instances and findings, Metro program managers will continue to work with the Cities to resolve the findings.

The independent auditors will validate the resolution of the findings within next year's annual Consolidated Audit Financial and Compliance Report process.

Due to the considerable size of the documents, the Reports on Compliance with Requirements Applicable to Propositions A and C and Measures 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/Vasquez%202022/>](http://libraryarchives.metro.net/DB_Attachments/Vasquez%202022/)

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

http://libraryarchives.metro.net/DB_Attachments/Simpson%202022/
[<https://gcc02.safelinks.protection.outlook.com/?url=http%3A%2F%2Flibraryarchives.metro.net%2FDB_Attachments%2FSimpson%25202022%2F&data=05%7C01%7CDELTOROM%40metro.net%7C31a8c7e713ad43bd93e308da561c2c9b%7Cab57129bdbfd4caciaa77fc74c40364af%7C1%7C0%7C637916976252160772%7CUnknown%7CTWFpbGZsb3d8eyJWljojMC4wLjAwMDAiLCJQIjoiV2luMzliLCJBTiI6IjEhaWwiLCJXVCi6Mn0%3D%7C3000%7C%7C%7C&sdata=Ye36Vfh9D7sB3kl7BozNIbb%2Bm6vvtpsSIh0KraitU48%3D&reserved=0>](https://gcc02.safelinks.protection.outlook.com/?url=http%3A%2F%2Flibraryarchives.metro.net%2FDB_Attachments%2FSimpson%25202022%2F&data=05%7C01%7CDELTOROM%40metro.net%7C31a8c7e713ad43bd93e308da561c2c9b%7Cab57129bdbfd4caciaa77fc74c40364af%7C1%7C0%7C637916976252160772%7CUnknown%7CTWFpbGZsb3d8eyJWljojMC4wLjAwMDAiLCJQIjoiV2luMzliLCJBTiI6IjEhaWwiLCJXVCi6Mn0%3D%7C3000%7C%7C%7C&sdata=Ye36Vfh9D7sB3kl7BozNIbb%2Bm6vvtpsSIh0KraitU48%3D&reserved=0)

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, 2021; 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 2023 budget.

EQUITY PLATFORM

There is no equity impact with this action.

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.

NEXT STEPS

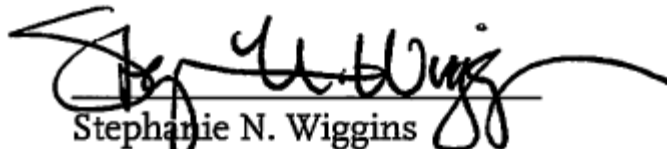
The Local Return program manager will continue to work with the respective cities to resolve the findings. As many of the findings are related to late form submittals and process updates, the auditors will validate the resolution of the findings within next year's annual Consolidated Audit process. Findings that were not resolved will be identified as repeat findings and will escalate in materiality.

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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