



## Board Report

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### FINANCE, BUDGET AND AUDIT COMMITTEE JULY 18, 2024

**SUBJECT: CONSOLIDATED AUDIT FOR FISCAL YEARS 2022 AND 2023**

**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 years ended June 30, 2022 (FY22), and June 30, 2023 (FY23).

#### **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.

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
- Low-Income Fare is Easy (LIFE) Program
- Metrolink Program
- EZ Transit Pass Program
- Access Services
- LADOT.

## **BACKGROUND**

Metro allocates over \$1.2 billion 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.

## **DISCUSSION**

The Board is receiving the results of the FY22 and FY23 audits simultaneously as the Measure R Independent Taxpayers Oversight Committee (MRITOC) did not receive the results of the FY22 audit until calendar year 2024. This was due to ongoing efforts to reestablish the MRITOC composition to meet Brown Act requirements for quorum. Both the Measure M Independent Taxpayer Oversight Committee (MMITOC) and the Independent Citizens Advisory and Oversight Committee (ICAOC) reviewed the FY22 audits in a timely manner during their March 2023 Meetings.

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 FY22 and FY23.

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

## **FY22 Results**

### Proposition A and C

Vasquez and Simpson found that the County and Cities complied, in all material respects, with the Ordinances and Guidelines requirements applicable to the Proposition A and Proposition C Local Return programs for FY22.

The auditors found 48 instances of non-compliance, consisting of 28 findings not resulting in questioned costs. Twenty (20) findings with questioned costs totaling \$1.6 million for Proposition A and \$1.6 million for Proposition C represent less than 1% of each total fund reviewed. There were 13 repeat findings from the prior fiscal year's audit.

As required by the Los Angeles County Metropolitan Transportation Authority (LACMTA) Reform and Accountability Act of 1998, the Proposition A and Proposition C Local Return audit results were presented to the ICAOC on March 13, 2023. A Public Hearing was also conducted to receive public input on May 16, 2023.

The Reports on Compliance with Requirements Applicable to Proposition A and Proposition C Ordinances and Proposition A and Proposition C Local Return Guidelines for FY22 are included as Attachment A-B.

### Measure R

Vasquez and Simpson found that the County and Cities complied, in all material respects, with the requirements in the Ordinance and Guidelines that are applicable to the Measure R Local Return program for FY22.

The auditors found 18 instances of non-compliance for Measure R, consisting of 11 findings not resulting in questioned costs. Seven (7) findings with questioned costs totaling \$1.3 million for Measure R represent approximately less than 1% of the total amount reviewed. There were five (5) repeat findings from the prior fiscal year's audit.

As required by the Ordinance, the Measure R Local Return audit results were presented to the MRITOC on March 7, 2024. A Public Hearing for MRITOC was also conducted to receive public input on June 5, 2024. The Ordinance also requires that the MRITOC prepare an annual report to the Metro Board of Directors presenting the results of the annual audit process and any findings made (Attachment E).

### Measure M

Vasquez and Simpson found that the County and Cities complied, in all material respects, with the requirements in the Ordinance and Guidelines that are applicable to the Measure M Local Return program for FY22.

The auditors found 18 instances of non-compliance for Measure M, consisting of 11 findings not resulting in questioned costs. Seven (7) findings with questioned costs totaling \$1.8 million for

Measure M represent 1% of the total amount reviewed. There were four (4) repeat findings from the prior fiscal year's audit.

As required by the Ordinance, the Measure M Local Return audit results were presented to the MMITOC on March 1, 2023. A Public Hearing was also conducted to receive public input on June 7, 2023. The Ordinance also requires that the MMITOC prepare an annual report to the Metro Board of Directors presenting the results of the annual audit process and any findings made (Attachment F).

#### Non-Local Return

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 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; sixteen (16) findings for the TDA Article 3 program, five (5) findings for the LIFE program, and one (1) finding for the EZ Pass program. There were four (4) repeat findings for the TDA program from the prior fiscal year's audit.

#### **FY23 Results**

##### Proposition A and C

Vasquez and Simpson found that the County and Cities complied, in all material respects, with the Ordinances and Guidelines requirements applicable to the Proposition A and Proposition C Local Return programs for FY23.

The auditors found 43 instances of non-compliance for Proposition A and C, consisting of 26 findings not resulting in questioned costs. Seventeen (17) findings with questioned costs totaling \$2.1 million for Proposition A and \$1.2 million for Proposition C represent less than 1% of each total fund reviewed. There were 18 repeat findings from the prior fiscal year's audit.

As required by the Los Angeles County Metropolitan Transportation Authority (LACMTA) Reform and Accountability Act of 1998, the Proposition A and Proposition C Local Return audit results were presented to the Independent Citizens' Advisory and Oversight Committee (ICAOC) on March 6, 2024. A Public Hearing was also conducted to receive public input on June 5, 2024.

The Reports on Compliance with Requirements Applicable to Proposition A and Proposition C Ordinances and Proposition A and Proposition C Local Return Guidelines for FY22 are included as Attachment C-D.

##### Measure R

Vasquez and Simpson found that the County and Cities complied, in all material respects, with the requirements in the Ordinance and Guidelines that are applicable to the Measure R Local Return program for FY23.

The auditors found 14 instances of non-compliance for Measure R, consisting of 10 findings not resulting in questioned costs. Four (4) findings with questioned costs totaling \$442 thousand for Measure R represent less than 1% of the total amount reviewed. There were four (4) repeat findings from the prior fiscal year's audit.

As required by the Ordinance, the Measure R Local Return audit results were presented to the MRITOC on March 7, 2024. A Public Hearing for MRITOC was also conducted to receive public input on June 5, 2024. The Ordinance also requires that the MRITOC prepare an annual report to the Metro Board of Directors presenting the results of the annual audit process and any findings made (Attachment E).

### Measure M

Vasquez and Simpson found that the County and Cities complied, in all material respects, with the requirements in the Ordinance and Guidelines that are applicable to the Measure M Local Return program for FY23.

The auditors found 11 instances of non-compliance for Measure M, consisting of 9 findings not resulting in questioned costs. Two (2) findings with questioned costs totaling \$17 thousand for Measure M represent less than 1% of the total amount reviewed. There were four (4) repeat findings from the prior fiscal year's audit.

As required by the Ordinance, the Measure M Local Return audit results were presented to the Measure M Independent Taxpayer Oversight Committee (MMITOC) on March 6, 2024. A Public Hearing was also conducted to receive public input on June 5, 2024. The Ordinance also requires that the MMITOC prepare an annual report to the Metro Board of Directors presenting the results of the annual audit process and any findings made (Attachment G).

### Non-Local Return

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 included in the Consolidated Audit present fairly, in all material respects, except for the City of Huntington Park. 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; nine (9) findings for the TDA Article 3 program, one (1) finding for the TDA Article 8 program, and two (2) findings for the LIFE program. There were two repeat findings for the TDA program from the prior fiscal year's audit.

Although all findings containing questioned costs have been resolved, Metro Program Managers are working with the fund recipients to resolve all the findings. In addition, the ICAOC requested a report back for the City of Huntington Park. Local Programming staff and City representatives provided a status update on completion of the City's annual financial reports at the Public Hearing held in June 2024. The independent auditors will validate the resolution of all findings within next year's annual

Consolidated Audit Financial and Compliance Report process.

Due to the considerable size of the documents, additional Consolidated Audit reports are accessible online.

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

FY22 - [https://libraryarchives.metro.net/DB\\_Attachments/Vasquez%20FY22/](https://libraryarchives.metro.net/DB_Attachments/Vasquez%20FY22/)

FY23 - [https://libraryarchives.metro.net/DB\\_Attachments/Vasquez%20FY23/](https://libraryarchives.metro.net/DB_Attachments/Vasquez%20FY23/)

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

FY22 - [https://libraryarchives.metro.net/DB\\_Attachments/Simpson%20FY22/](https://libraryarchives.metro.net/DB_Attachments/Simpson%20FY22/)

FY23 - [https://libraryarchives.metro.net/DB\\_Attachments/Simpson%20FY23/](https://libraryarchives.metro.net/DB_Attachments/Simpson%20FY23/)

### **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 FY22 and FY23; 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 2025 budget.

### **EQUITY PLATFORM**

The Consolidated Audit Financial and Compliance Reports in this report support compliance with the applicable ordinances and guidelines, as well as assist program managers in effectively managing and administering the programs that serve all communities throughout the County. There are no known equity impacts or concerns from audit services conducted to complete the Annual Financial Comprehensive Report.

### **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**

Staff 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**

Attachment A - FY22 Reports on Compliance with Requirements Applicable to Proposition A and Proposition C Ordinances and Local Return Guidelines (Vasquez)

Attachment B - FY22 Reports on Compliance with Requirements Applicable to Proposition A and Proposition C Ordinances and C Local Return Guidelines (Simpson)

Attachment C - FY23 Reports on Compliance with Requirements Applicable to Proposition A and Proposition C Ordinances and Local Return Guidelines (Vasquez)

Attachment D - FY23 Reports on Compliance with Requirements Applicable to Proposition A and Proposition C Ordinances and C Local Return Guidelines (Simpson)

Attachment E - FY22 and FY23 Measure R Annual Report

Attachment F - FY22 Measure M Annual Report

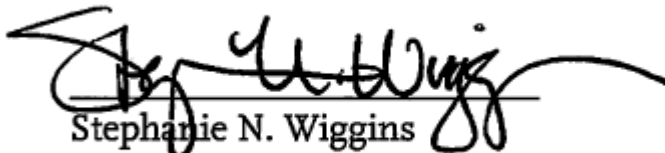
Attachment G - FY23 Measure M Annual Report

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